

Unaudited Interim Financial Results
for the six months ended 31 March 2020

Residual Debt Services Limited (under curatorship)



Including:
Results H1 2020
Operational update H1 2020

18 June 2020

These interim financial results are for Residual Debt Services Limited (RDS), which was placed into curatorship on 10 August 2014, is still in curatorship at this presentation date (18 June 2020) and will remain in curatorship for the foreseeable future. The old African Bank Limited was successfully restructured on 4 April 2016 by means of a transfer of certain assets and restructured liabilities into a new entity with the same name.

The RDS balance sheet therefore consists of the remaining assets, and the remaining liabilities which are known as ‘the stub instruments’.

This presentation and the unaudited interim financial statements can be accessed at www.residualdebtservices.co.za.

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1. Financial Statements

Residual Debt Services Limited
(under curatorship)

Summary statement of financial position

R millions

Assets	Mar 20	Sep 19	Liabilities/Equity	Mar 20	Sep 19
Cash (1)	3 761	3 814	Other liabilities	51	49
Net advances	319	398	Stub instruments	9 454	9 438
Gross advances (2)	1 163	1 420	Senior unsecured	3 620	3 934
Provisions	(844)	(1 022)	Subordinated unsecured	5 834	5 504
Other assets	2	5	Total liabilities	9 505	9 487
Current tax asset	4	4	Equity	(5 419)	(5 266)
Total on balance sheet	4 086	4 221	Total on balance sheet	4 086	4 221
Fair value adjustments	1 180	1 256			
Net advances	180	256	Excess of fair value over net advances values		
Written off book (3)	1 000	1 000	Fair value of written off book		
Fair value of balance sheet	5 266	5 477			

Notes

- 1) Cash comprises the indemnity reserve of R3 billion, operating float of R500 million and surplus cash
- 2) Gross value of the written off book amounts to R9.33 billion (FY2019: R9.98 billion)
- 3) The fair value adjustment of R1.180 billion (FY2019: R1.256 billion) includes an estimated fair value of the written off book of R1.0 billion (FY2019: R1.0 billion). Fair value of Net Advances is R1.499 billion (FY2019: R1.654 billion)

1. Financial Statements

Condensed income statement

R millions	H1 2020	H1 2019	H2 2019	FY 2019	H1 2018	H2 2018	FY 2018
Interest income on advances (1)	1	16	10	26	38	49	87
Credit impairment reversal (2)	393	477	630	1 107	604	589	1 193
Risk adjusted income from operations	394	493	640	1 133	642	638	1 280
Interest income on cash (3)	141	153	150	303	152	156	308
Other income	4	13	4	17	6	9	15
Interest expense and similar charges	(516)	(533)	(531)	(1 064)	(530)	(529)	(1 059)
Operating costs (4)	(162)	(221)	(199)	(420)	(311)	(273)	(584)
Indirect taxation: VAT	(14)	(21)	(16)	(37)	(35)	(22)	(57)
Loss from operations	(153)	(116)	48	(68)	(76)	(21)	(97)
Capital items (5)	-	-	-	-	49	50	99
Profit/(Loss) before taxation	(153)	(116)	48	(68)	(27)	29	2
Direct taxation: current and deferred	-	-	-	-	-	2	2
Profit/(Loss) for the period	(153)	(116)	48	(68)	(27)	31	4

Notes

- 1) Lower interest income on advances as a result of decreasing book size and fewer performing loans
- 2) Credit impairment reversal from recoveries on written off and provided amounts
- 3) Significant cash balances generating interest income. Yields earned decreasing slightly as benchmark rates lowered
- 4) Reducing collections resulting in lower collections fees paid, as book runs down
- 5) Distributions received from Ellerine Holdings Limited during FY2018

1. Financial Statements

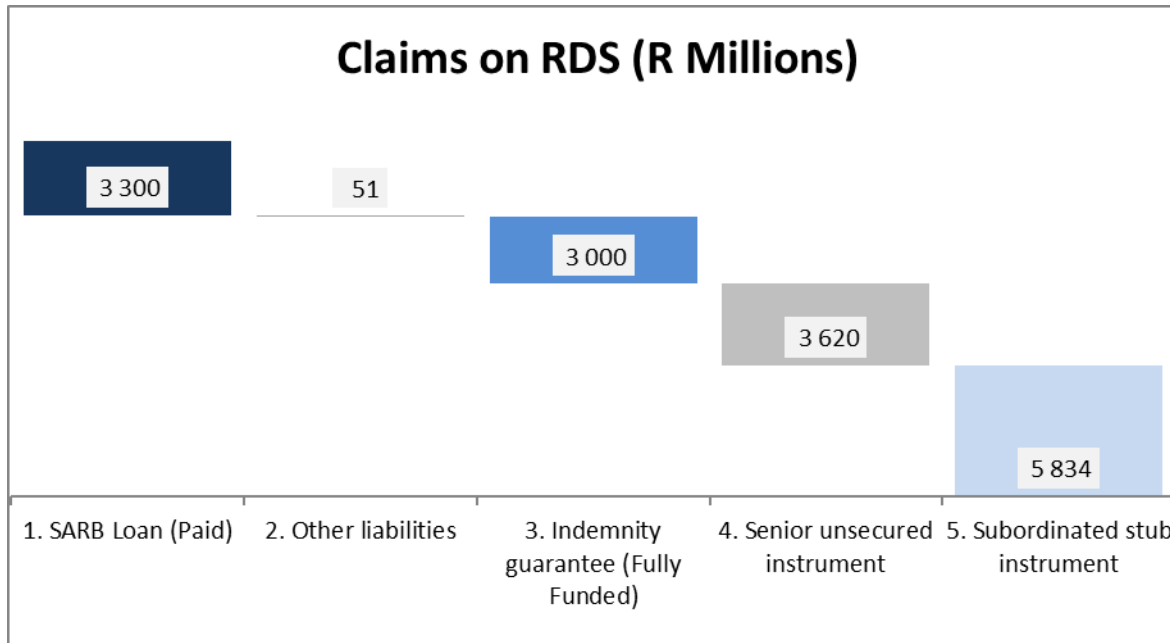
Net Advances overview

R millions

	Mar 20	Sep 19
Gross advances	1 163	1 420
Impairment provision	(844)	(1 022)
Net advances	319	398
Provision coverage	73%	72%

- Reduction in gross advances as a result of book paying down and write offs
- Actual collections slightly ahead of expectations also contributed to book decrease
- Overall provision coverage of 73% (R844 million/R1 163 million) is in line with FY2019 which was 72%
- Fair value of advances: R1.499 billion (Mar 20) versus R1.654 billion (Sep 19)
- No Covid-19 adjustments have been made, refer to note 3 to the Interim Financial Statements

Claims waterfall



In order of decreasing seniority

1. SARB loan - R3.3 billion (fully repaid in Sep 2016)
2. Other liabilities incl. payables and accruals of R51 million at 31 March 2020
3. Indemnity guarantee - R3 billion (remains fully funded at 31 March 2020)
4. Senior unsecured stub instrument - R3.620 billion at 31 March 2020
5. Subordinated stub instrument - R5.834 billion at 31 March 2020
6. Shareholders of RDS - no value at present

Fair value of stub instruments

R millions

Stub instruments fair value	Claim against indemnity reserve	
	Full claim (R3 billion)	No claim
Senior unsecured stub instrument	2,013	3,567
Subordinated stub instrument	Nil	1,254

- The fair value is assessed as a discounted cash flow of forecast future receipts and payments for 60 months from the advances book
- All cash flows discounted at WACC of 14% NACM, except for R3.5bn cash float and indemnity reserve in “No claim” scenario, which amounts are discounted at the 4 year risk free rate of 6.230% NACQ
- The “Full claim” scenario (with a senior unsecured stub instrument fair value of R2 013 million) assumes that the indemnity reserve will be called in full (R3 billion) and spread evenly over a three year period
- The “No claim” scenario (with a senior unsecured stub instrument fair value of R3 567 million, and a subordinated stub fair value of R1 254 million) assumes that the indemnity reserve will not be called at all
 - R3.5 billion is assumed to be paid to the holders of senior unsecured stub instrument at the end of indemnity period (being 4 April 2024), with an additional portion being paid to the holders of the subordinated stub instrument
- Any surplus arising after covering the indemnity reserve and operating float of R500 million is released to creditors every six months thereafter based on their ranking as detailed on the previous slide
- An amount of R2.9 billion has been paid to senior unsecured stub instrument holders to date
- No Covid-19 adjustments have been made, refer to note 3 to the Interim Financial Statements
- Further details regarding assumptions are provided in the Notes to the Interim Financial Statements

1. Financial Statements

Fair values of stub instruments - WACC sensitivities

Fair value sensitivities: “Full claim” against the indemnity reserve

R millions	31 March 2020			30 September 2019		
Stub instrument	Fair value @ 14.0% NACM	Fair value @ 15.0% NACM	Fair value @ 13.0% NACM	Fair value @ 14.0% NACM	Fair value @ 15.0% NACM	Fair value @ 13.0% NACM
Senior unsecured	2,013	1,974	2,052	2,271	2,230	2,314
Subordinated unsecured	Nil	Nil	Nil	Nil	Nil	Nil
Contractual carrying values of stub instruments						
Senior unsecured	3,620			3,934		
Subordinated unsecured	5,834			5,504		

1. Financial Statements

Fair values of stub instruments - WACC sensitivities

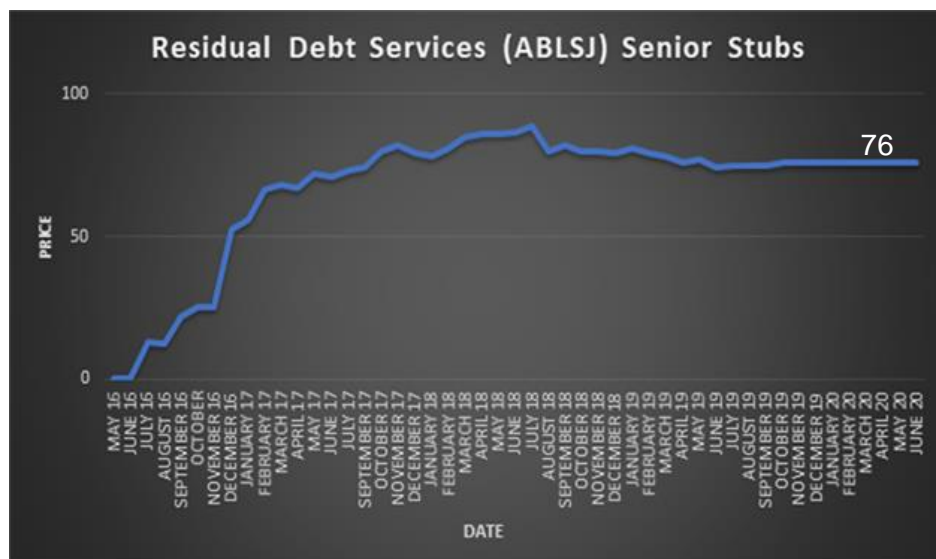
Fair value sensitivities: “No claim” against the indemnity reserve

R millions	31 March 2020			30 September 2019		
Stub instrument	Fair value @ 14.0% NACM	Fair value @ 15.0% NACM	Fair value @ 13.0% NACM	Fair value @ 14.0% NACM	Fair value @ 15.0% NACM	Fair value @ 13.0% NACM
Senior unsecured	3,567	3,532	3,603	3,896	3,851	3,943
Subordinated unsecured	1,254	1,248	1,261	1,092	1,088	1,096
Contractual carrying values of stub instruments						
Senior unsecured	3,620			3,934		
Subordinated unsecured	5,834			5,504		

1. Financial Statements

Pricing analysis of stub instruments

Market price of RDS senior unsecured stub*



R millions	Claim on indemnity reserve	
	Base (R3 billion)	No claim
Stub instruments fair value		
Senior (31 March 2020)	2 013	3 567
Subordinated (31 March 2020)	Nil	1 254
Fair value/principal value (%)		
Senior	56,5%	100,2%
Subordinated	0,0%	34,6%
Principal value of stub instrument		
Senior (29 January 2020#)	3 561	3 561
Subordinated (4 April 2016)	3 621	3 621
Fair value/carrying value (%)		
Senior (31 March 2020)	55,6%	98,5%
Subordinated (31 March 2020)	0,0%	21,5%
Carrying value of stub Instrument		
Senior (31 March 2020)	3 620	3 620
Subordinated (31 March 2020)	5 834	5 834

Increase in fair value of subordinated stub under “No claim” scenario

- Lower discount rate (risk free rate) applied to discounting of expected release of indemnity reserve than previous period (31 March 2020: 6.23% NACQ; 30 September 2019: 6.96% NACQ)
- Additional 6 months of collections are forecasted to be received

Original principal value on issue reduced due to recent senior stub payments consisting of part interest and part return of original capital

* Source RMB Global markets

1. Financial Statements

Fair values - COVID sensitivity

- Overlays are held for the uncertainties relating to DebiCheck (cash flow impact is expected from the planned implementation date of 1 October 2021) and the National Credit Amendment Bill (cash flow impact expected after a period of 6 months)
- Given uncertainties relating to the COVID-19 pandemic (although to date minimal impact on original forecasts for April 2020 and May 2020 collections), it is not possible to estimate the impact on the fair value of net advances and the stub instruments, therefore no adjustments have been made. Assuming a 10% reduction on future collections, fair values reduce as follows:

R millions

Net advances

Fair value - IFS	1,499
Fair value - 10% cashflows	1,349
10% sensitivity	<u>(150)</u>

R millions

Stub instruments fair value

Senior	Claim on indemnity reserve (R3 billion)
Fair value - IFS	2,013
Fair value - 10% cashflows	1,875
10% sensitivity	<u>(138)</u>

Subordinated

No claim on indemnity reserve

Fair value - IFS	1,254
Fair value - 10% cashflows	1,087
10% sensitivity	<u>(167)</u>

Other matters

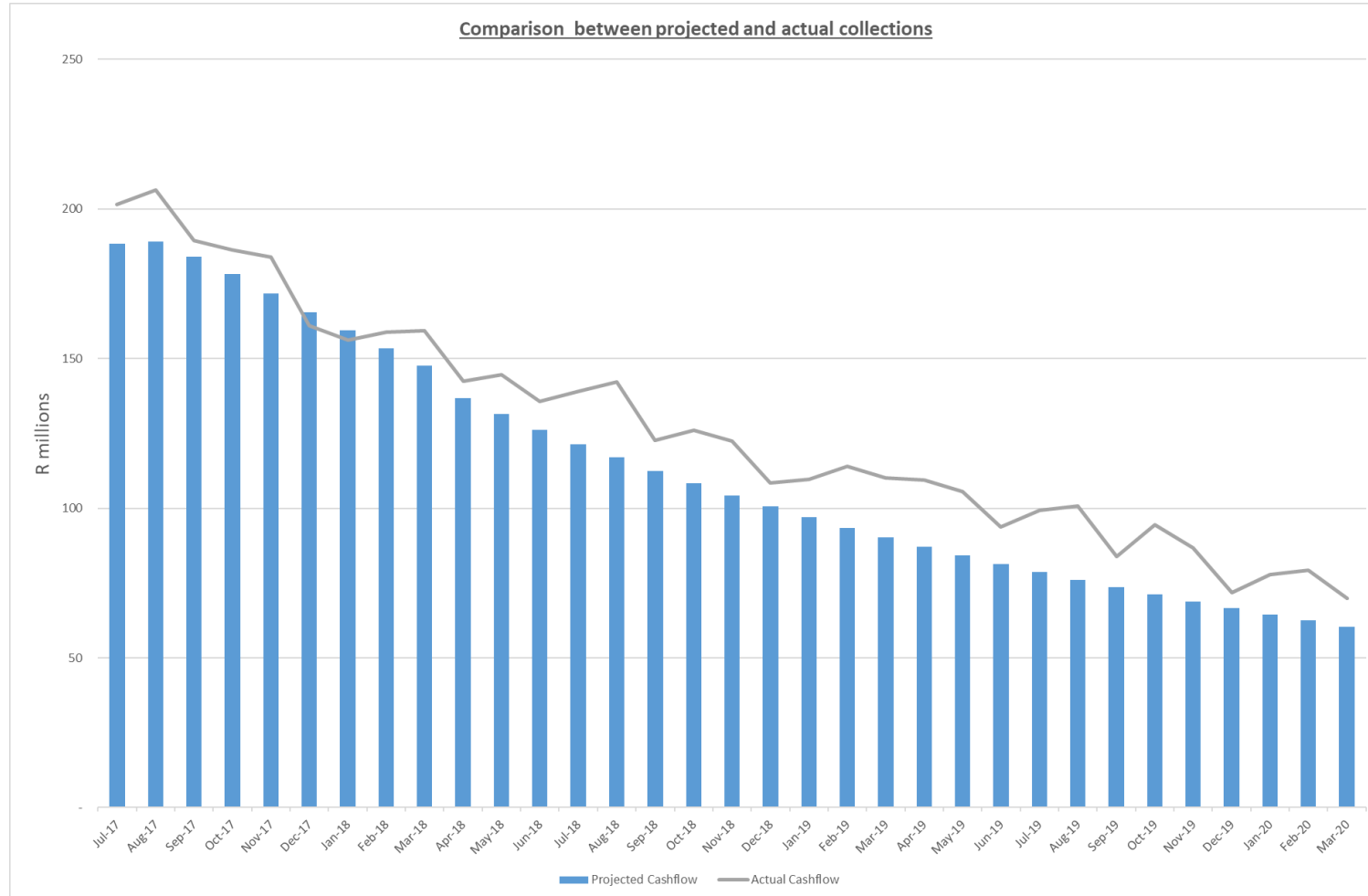
- **SARB indemnity guarantee**
 - RDS provided a R3 billion indemnity to African Bank
 - In respect of assets transferred to African Bank
 - Expires on 8th anniversary of restructuring transaction (4 April 2024)
 - As at 31 March 2020 the indemnity guarantee reserve remains fully funded to the amount of R3 billion and there have been no claims
- **SARS - taxation**
 - RDS has open tax matters with SARS primarily related to deductibility of impairment provisions in prior years
 - Due to current uncertainty in this matter no deferred tax asset or liability has been raised
- **GEMS contingent liability**
 - Resultant from a 2004 court order
 - Remaining contingent liability of R20 million

Other matters (*cont'd*)

- **Legal proceedings**
 - RDS has a dispute with Company Unique Finance (Pty) Ltd ("CUF") which is proceeding to arbitration. The matter is in relation to a transaction concluded in 2003 between RDS (Old African Bank Limited) and CUF ("the parties") whereby the ring-fenced business was transferred to CUF
 - RDS will, inter alia, seek an award by the Arbitrator declaring that the ring-fenced business acquired by CUF comprised all and any business conducted before 5 January 1999 and all and any business conducted after 5 January 1999 thereafter by the managers of the ring-fenced business, which was in effect for the entire mortgage and asset-based lending business conducted within RDS (Old African Bank Limited)
 - The financial impact to RDS cannot be reliably determined at this stage and is also dependent on the outcome of the arbitration process
 - To the extent that a liability arises, such would rank *pari passu* with the senior unsecured stub instrument
 - There are currently no other material ongoing legal proceedings

2. Operational Update

Collections



Split Electronic vs Specialised	H1 2018	H2 2018	H1 2019	H2 2019	H1 2020
Specialised	81%	84%	87%	91%	93%
Electronic	19%	16%	13%	9%	7%

- A successful 6 months for RDS, with a continued focus on late stage collections as electronic collections decrease
- Collection of book continues to run smoothly, albeit with reduced expectations for future collections as the book is in “run down”. Covid-19 pandemic likely to affect collections going forward
- Indemnity fund of R3 billion and operating float of R500 million remain fully funded, with no claims against RDS under the indemnity
- Payment of between R400 million and R450 million to senior unsecured stub instrument holders anticipated in July 2020, will bring total payments to between R3.3 billion and R3.35 billion
- Expected that the annual financial statements for the year ended 30 September 2020, and further operational and creditors updates will be provided in November 2020
- Applicable documentation published at www.residualdebt services.co.za

Financial media

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Financial information

Information for the six months ended 31 March 2020

Published at www.residualdebt services.co.za

- Results presentation for the six months ended 31 March 2020
- Interim Financial Statements for the six months ended 31 March 2020
- Financial media release on the interim results for the six months ended 31 March 2020

Questions?

