

**Unaudited Interim Financial Results
for the six months ended 31 March 2021**

Residual Debt Services Limited (under curatorship)



**Including:
Interim Results H1 2021
Operational update H1 2021**

3 June 2021

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 (3 June 2021) 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. Interim Financial Statements

Residual Debt Services Limited
(under curatorship)

Summary statement of financial position

R millions

Assets	Mar 21	Sep 20	Liabilities/Equity	Mar 21	Sep 20
Cash and financial instruments (1)	3,708	3,787	Other liabilities	69	75
Net advances	222	277	Stub instruments	9,447	9,481
Gross advances (2)	776	949	Senior unsecured	3,060	3,356
Impairment provisions	(554)	(672)	Subordinated unsecured	6,387	6,125
Other assets	0	3	Total liabilities	9,516	9,556
Total on balance sheet	3,930	4,067	Equity	(5,586)	(5,489)
Fair value adjustments	819	902	Total on balance sheet	3,930	4,067
Net advances	65	83	Excess of fair value over net advances values		
Written off book (3)	754	819	Fair value of written off book		
Fair value of balance sheet	4,749	4,969			

Notes

- 1) Cash comprises the indemnity reserve of R3 billion, operating float of R500 million and surplus cash held in current accounts and money market funds
- 2) Gross value of the written off book amounts to R7.990 billion (FY2020: R8.690 billion)
- 3) The fair value adjustment of R819 million (FY2020: R902 million) includes an estimated fair value of the written off book of R754 million (FY2020: R819 million). Fair value of Net Advances is R1.041 billion (FY2020: R1.179 billion)

1. Interim Financial Statements

Residual Debt Services Limited
(under curatorship)

Condensed income statement

R millions	H1 2021	H1 2020	H2 2020	FY 2020	H1 2019	H2 2019	FY 2019
Interest income on advances (1)	0	1	1	2	16	10	26
Credit impairment reversal (2)	332	393	377	770	477	630	1,107
Risk adjusted income from operations	332	394	378	772	493	640	1,133
Interest income on cash (3)	79	141	73	214	153	150	303
Other income	-	4	38	42	13	4	17
Interest expense and similar charges	(366)	(516)	(427)	(943)	(533)	(531)	(1,064)
Operating costs (4)	(133)	(162)	(151)	(313)	(221)	(199)	(420)
Indirect taxation: VAT	(9)	(14)	19	5	(21)	(16)	(37)
Loss from operations	(97)	(153)	(70)	(223)	(116)	48	(68)
Capital items	-	-	-	-	-	-	-
Profit/(Loss) before taxation	(97)	(153)	(70)	(223)	(116)	48	(68)
Direct taxation: current and deferred	-	-	-	-	-	-	-
Profit/(Loss) for the period	(97)	(153)	(70)	(223)	(116)	48	(68)

Notes

- 1) No 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 as benchmark rates lowered
- 4) Reducing collections resulting in lower collections fees paid, as book runs down

1. Interim Financial Statements

Residual Debt Services Limited
(under curatorship)

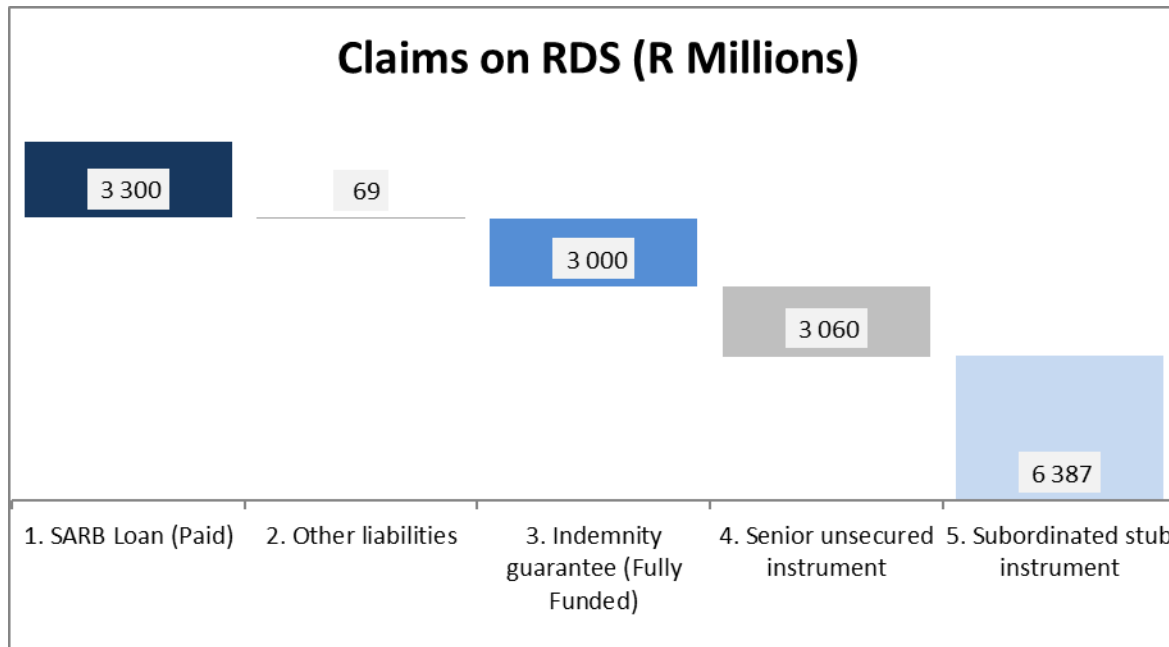
Net Advances overview

R millions

	Mar 21	Sep 20
Gross advances	776	949
Impairment provisions	(554)	(672)
Net advances	222	277
Provision coverage	71%	71%

- 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 71% (R554 million/R776 million) in line with FY2020 which was 71%
- Fair value of advances: R1.041 billion (Mar 21) versus R1.179 billion (Sep 20)
- Covid-19 sensitivity (10% reduction in collections) results in the fair value decrease by R104 million from R1.041 billion to R937 million

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 R69 million at 31 March 2021
3. Indemnity guarantee - R3 billion (remains fully funded at 31 March 2021)
4. Senior unsecured stub instrument - R3.060 billion at 31 March 2021
5. Subordinated stub instrument - R6.387 billion at 31 March 2021
6. Shareholders of RDS - no value at present

1. Interim Financial Statements

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	1 442	3 094
Subordinated stub instrument	Nil	1 132

- 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 3.0 year risk free rate of 4.97% NACQ
- The “Full claim” scenario (with a senior unsecured stub instrument fair value of R1.442 billion) 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 R3.094 billion, and a subordinated stub fair value of R1.132 billion) assumes that the indemnity reserve will not be called at all
 - R3.2 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 R3.7 billion has been paid to senior unsecured stub instrument holders to date
- Covid-19 adjustments have not been made, see Covid-19 sensitivity slide later
- Further details regarding assumptions are provided in the Notes to the Interim Financial Statements

1. Interim Financial Statements

Fair values and sensitivities overview

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

R millions	31 March 2021			30 September 2020		
	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	1 442	1 415	1 469	1 582	1 553	1 612
Subordinated unsecured	Nil	Nil	Nil	Nil	Nil	Nil
Contractual carrying values of stub instruments						
Senior unsecured	3 060			3 356		
Subordinated unsecured	6 387			6 125		

1. Interim Financial Statements

Fair values and sensitivities overview

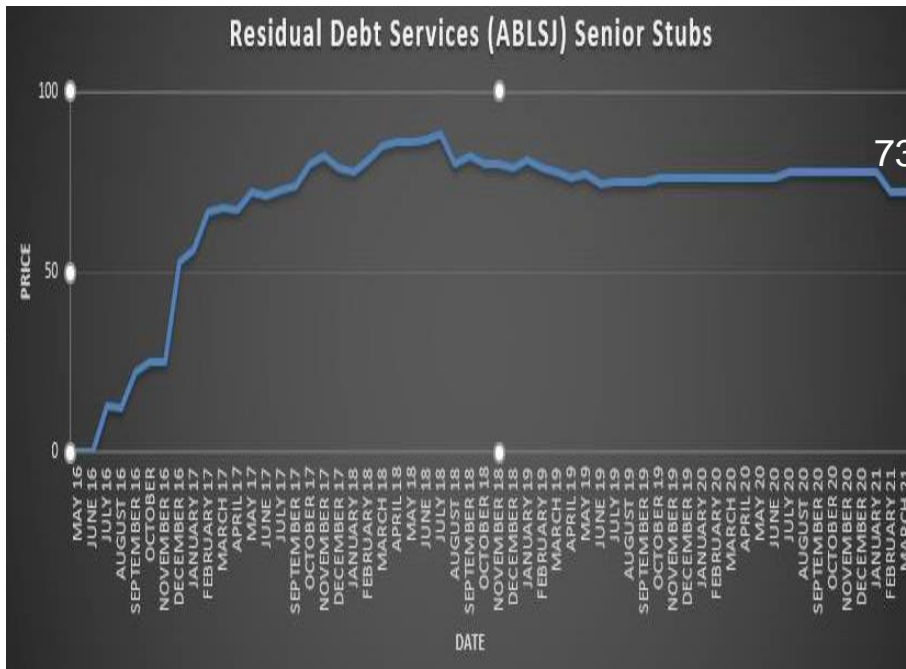
Fair value sensitivities: “No claim” against the indemnity reserve

R millions	31 March 2021			30 September 2020		
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	3 094	3 077	3 110	3 373	3 353	3 394
Subordinated unsecured	1 132	1 124	1 140	1 021	1 015	1 029
Contractual carrying values of stub instruments						
Senior unsecured	3 060			3 356		
Subordinated unsecured	6 387			6 125		

1. Interim Financial Statements

Pricing analysis of stub instruments

Market price of RDS senior unsecured stub*



R millions	Claim on indemnity reserve	
Stub instruments fair value	Base (R3 billion)	No claim
Senior (31 March 2021)	1 442	3 094
Subordinated (31 March 2021)	Nil	1 132
Fair value/principal value (%)		
Senior	47,7%	102,3%
Subordinated	0,0%	31,3%
Principal value of stub instrument		
Senior (27 Jan 2021#)	3 025	3 025
Subordinated (4 April 2016)	3 621	3 621
Fair value/carrying value (%)		
Senior (31 March 2021)	47,1%	101,1%
Subordinated (31 March 2021)	0,0%	17,7%
Carrying value of stub Instrument		
Senior (31 March 2021)	3 060	3 060
Subordinated (31 March 2021)	6 387	6 387

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. Interim 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 31 October 2021) and the National Credit Amendment Bill (cash flow impact expected after a period of 6 months)
- COVID-19 has had a minimal impact on collections, therefore it is not possible to estimate the impact on the fair value of net advances and the stub instruments. No adjustments have been made - we however include a sensitivity assuming a 10% reduction on future collections:

R millions

Net advances

Fair value - IFS	1,041
Fair value - 10% cashflows	937
10% sensitivity	<u>(104)</u>

R millions

Stub instruments fair value

Senior	Claim on indemnity reserve (R3 billion)
Fair value - AFS	1 442
Fair value - 10% cashflows	1 353
10% sensitivity	<u>(89)</u>

Subordinated	No claim on indemnity reserve
Fair value - AFS	1 132
Fair value - 10% cashflows	1 028
10% sensitivity	<u>(104)</u>

1. Interim Financial Statements

Fair values - Closure costs sensitivity

- Final closure costs increased and decreased by R50 million based on a 14% WACC:

R millions

Stub instruments fair value

Senior	Claim on indemnity reserve (R3 billion)	Change
Fair value - AFS (R200m)	1 442	
R50m reduction in costs	1 474	32
R50m increase in costs	1 410	(32)

Subordinated	No claim on indemnity reserve	Change
Fair value - AFS (R200m)	1 132	
R50m reduction in costs	1 164	32
R50m increase in costs	1 100	(32)

Under the no claim on indemnity reserve scenario there is no effect on the fair value of the senior unsecured stub instrument

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 2021 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, matter has advanced to an appeal stage at the courts
- **GEMS contingent liability**
 - Resultant from a 2004 court order (prescription period of 30 years)
 - Remaining contingent liability of R20 million

Other matters (*cont'd*)

- **Legal proceedings**

- RDS has a dispute and is in arbitration with Company Unique Finance (Pty) Ltd ("CUF"). 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' position is that the entire mortgage loan and asset-based lending business was disposed of and that all the related security which remain registered in RDS' name should have been transferred into the name of CUF.
- An arbitration hearing took place in September 2020, with the arbitrator granting an award predominantly in favour of CUF. RDS has appealed the arbitration award and in December 2020 the appeal was awarded in the favour of RDS and ruled that the entirety of the mortgage loan and asset-based lending business (referred to as the ring-fenced business) was sold to CUF in October 2004.

Other matters (*cont'd*)

- **Legal proceedings (continued)**

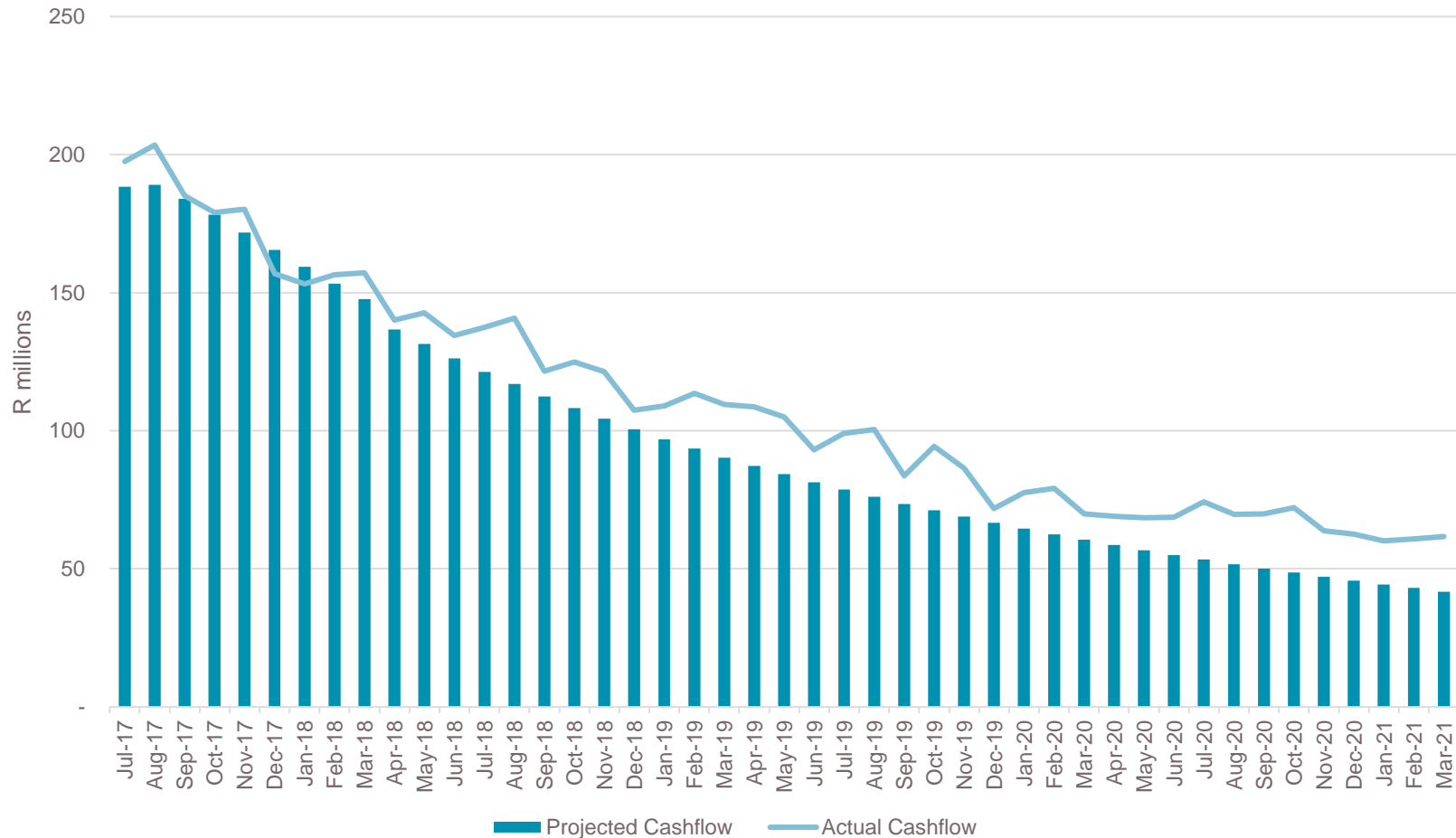
- The ring-fenced business included loan claims against borrowers which were secured by mortgage bonds, and properties taken into possession pursuant to defaults on those loans. As some of these mortgage bonds and properties in possession remain registered in RDS' name, RDS also sought an award directing that CUF take transfer, at its cost (which would include settling amounts due to local municipal authorities or third parties), of all properties and securities that formed part of the ring-fenced business that are still registered in the name of RDS.
- RDS also sought an order directing that CUF take transfer of all properties and securities that formed part of the ring-fenced business that are still registered in the name of RDS. RDS is, together with its legal advisors, in discussions on the way forward and ways of implementing the order. The dispute between RDS and CUF is ongoing.
- 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



Comparison between projected and actual collections



Split Electronic vs Specialised	H1 2018	H2 2018	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021
Specialised	81%	84%	87%	91%	93%	96%	96%
Electronic	19%	16%	13%	9%	7%	4%	4%

- Another successful six months for RDS, with 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 has not affected the collections to date
- 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 R300 million and R350 million to senior unsecured stub instrument holders anticipated in July 2021, will bring total payments to between R4.0 billion and R4.05 billion
- Expected that the annual financial statements for the year ended 30 September 2021, and further operational and creditors updates will be provided in November 2021
- Applicable documentation published at www.residualdebtservices.co.za

Financial media

Louise Brugman
louise@vestor.co.za

Funders

curator@residualdebt services.co.za

Financial information

Information for the 6 months ended 31 March 2021

Published at www.residualdebt services.co.za

- Interim results presentation for the 6 months ended 31 March 2021
- Interim Financial Statements for the 6 months ended 31 March 2021
- Financial media release on the interim results for the 6 months ended 31 March 2021

Questions?

