Residual Debt Services Limited (under curatorship)

Unaudited Condensed Interim Financial Statements
31 March 2021

These financial statements were prepared under the supervision of G Raubenheimer CA (SA)

Registration number: 1975/002526/06

NCR Registration number NCRCP5

An Authorised Financial Services and Registered Credit Provider

Residual Debt Services Limited (under curatorship)

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Annexures to the condensed interim financial statements

STATEMENT OF RESPONSIBILITY BY THE CURATOR

The curator is responsible for the preparation and fair presentation of the condensed interim financial statements, comprising the statement of financial position as at 31 March 2021, the condensed statement of comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the period then ended, the selected notes to the condensed interim financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with the Framework as stipulated in the Accounting Policies of these Condensed Financial Statements and in the manner required by the Companies Act 71 of 2008 of South Africa.

The curator's responsibilities include:

- the management of the Company as vested in the curator (subject to the supervision of the Registrar of Banks, subsequently the Prudential Authority) from 1 April 2018, and the management of any other person vested with the management of the affairs of the Company as was divested thereof from 10 August 2014; and
- the obligation to recover and take possession of all the assets of the Company.

The curator shall:

- subject to the supervision of the Prudential Authority ("PA"), conduct the management of the Company in such a manner as the Prudential Authority may deem to best promote the interests of the creditors of the Company and of the banking sector as a whole;
- comply with any direction of the Prudential Authority;
- keep such accounting records and prepare such annual financial statements, interim reports and provisional annual financial statements as the Company or its directors would have been obliged to keep or prepare if the Company had not been placed under curatorship;
- convene the annual general meeting or any other meeting of the Company provided for in the Companies Act, and, in that regard, comply with all the requirements with which the directors of the Company would in terms of the Companies Act have been obliged to comply if the Company had not been placed under curatorship; and
- have the power to bring or defend in the name and on behalf of the Company any action or other legal proceedings of a civil nature and, subject to the provisions of any law relating to criminal proceedings, any criminal proceedings.

Due to the nature of the curatorship, the financial statements are not presented on a going concern basis; rather the financial statements have been presented using the Framework as stipulated in Addendum A to these Financial Statements. The purpose of the Company during curatorship is to collect the outstanding advances retained by the Company, build the required indemnity cash reserves as required by the PA, and where excess cash is collected, to make payment to stub note holders.

Approval of the condensed interim financial statements

The condensed interim financial statements found on pages 3 to 25 were approved by the curator on 26 May 2021.

C Du Plessis
Curator

Midrand

A signed copy of the condensed interim financial statements is available for inspection at the registered office.

Residual Debt Services Limited (under curatorship)

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CONDENSED STATEMENT OF FINANCIAL POSITION

as at 31 March 2021

R million	Notes	Unaudited March 2021	Audited September 2020
Assets			
Cash and cash equivalents		**3,708**	243
Financial investments		**-**	3,544
Net advances	4	**222**	277
Other assets		**-**	3
Total assets		**3,930**	4,067
Liabilities and equity			
Other liabilities		**69**	75
Stub instruments	5	**9,447**	9,481
Total liabilities		**9,516**	9,556
Ordinary share capital		**121**	121
Ordinary share premium		**14,283**	14,283
Reserves and accumulated losses		**(19,990)**	(19,893)
Total equity (capital and reserves)		**(5,586)**	(5,489)
Total liabilities and equity		**3,930**	4,067

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 March 2021

R million	Unaudited 6 months ended 31 March 2021	Unaudited 6 months ended 31 March 2020
Interest income on advances	**-**	1
Credit impairment reversal	**332**	393
Risk adjusted income from operations	**332**	394
Other interest income	**79**	141
Other income	**-**	4
Interest expense and similar charges	**(366)**	(516)
Operating costs	**(133)**	(162)
Indirect taxation: VAT	**(9)**	(14)
Loss from operations	**(97)**	(153)
Loss before taxation	**(97)**	(153)
Direct taxation: current and deferred	**-**	-
Total comprehensive loss for the period	**(97)**	(153)

CONDENSED STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 March 2021

R million	Ordinary share capital	Ordinary share premium	Accumulated losses	Total
Balance at 30 September 2019	**121**	**14,283**	**(19,670)**	**(5,266)**
Total comprehensive loss for the period	-	-	(153)	(153)
Balance at 31 March 2020	**121**	**14,283**	**(19,823)**	**(5,419)**
Total comprehensive loss for the period	-	-	(70)	(70)
Balance at 30 September 2020	**121**	**14,283**	**(19,893)**	**(5,489)**
Total comprehensive loss for the period	-	-	(97)	(97)
Balance at 31 March 2021	**121**	**14,283**	**(19,990)**	**(5,586)**

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CONDENSED STATEMENT OF CASH FLOWS

for the six months ended 31 March 2021

R million	Unaudited 6 months to 31 March 2021	Unaudited 6 months to 31 March 2020
Cash generated from operations	**247**	318
Cash received from collection activities	**-**	9
Recoveries on advances previously written off	**258**	287
Collections from gross advances	**128**	177
Cash paid to suppliers	**(139)**	(155)
Interest received on cash reserves	**53**	143
Indirect and direct taxation paid	**(5)**	(14)
Cash inflow from operating activities	**295**	447
Cash flows from investing activities	**3,570**	-
Placement in financial investment	**(86)**	-
Withdrawal from financial investments	**3,656**	-
Cash flows from financing activities	**(400)**	(500)
Interest paid to senior unsecured stub instrument holders	**(366)**	(500)
Principal paid to senior unsecured stub instrument holders	**(34)**	-
Increase/(Decrease) in cash and cash equivalents	**3,465**	(53)
Cash and cash equivalents at the beginning of the period	**243**	3,814
Cash and cash equivalents at the end of the period	**3,708**	3,761

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. General information

Residual Debt Services Limited (under curatorship) (“RDS”) is a public company incorporated in the Republic of South Africa. The Company’s shares are held by Weonit Projects (Pty) Ltd (“Weonit”). Weonit acquired the shares of RDS from African Phoenix Investments Limited (the new registered name for African Bank Investments Limited (“ABIL”)) on 04 December 2019.

RDS (previously African Bank) was placed under curatorship on 10 August 2014 in terms of section 69 of the Banks Act by the South African Reserve Bank (“SARB”). The SARB’s decision followed a period of growing uncertainty surrounding the Company, after a series of financial losses were announced by the Company’s then holding company ABIL. Furthermore, Ellerine Furnishers Proprietary Limited and Ellerine Holdings Limited, were placed under business rescue on 7 August 2014 and 22 August 2014 respectively.

2. Basis of preparation

The Company financial statements have been prepared on a “run-down” basis. Due to the “run-down” business model, the Company as a legal entity is no longer regarded as a going concern. The financial statements have been presented using the Framework as stipulated in the Company’s accounting policies (disclosed in Addendum A to these financial statements).

The purpose of the Company during curatorship is to collect all outstanding advances retained by the Company following the restructure, repay the R3.3 billion transaction loan received from the SARB with interest, build the required indemnity cash reserves of R3 billion as required by the SARB and where excess cash is collected over and above the R3 billion referred to, and the operating float of R500 million, to make payments to stub note holders in accordance with the Distribution Waterfall.

These condensed interim financial statements should be read in conjunction with the 30 September 2020 annual financial statements; which were prepared on a “run-down” basis due to the implementation of the restructure described in the Curator's report for the financial period ended 30 September 2020.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

3. Significant accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the curator is required to make judgements, estimates and assumptions about income, expenses and the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on the historical experience and other factors that are considered to be relevant. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates, judgements and assumptions.

In preparing these condensed interim financial statements, the significant judgements made by the curator in applying the Company's accounting policies and key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 30 September 2020.

Other events, for which an amount is included in the impairment allowance and increased the impairment on advances, include the introduction of DebiCheck and the Credit Amendment Bill. DebiCheck will have an impact on the collection of the cashflows on advances with accounts that move primary bank accounts and change debit order dates. Should the account holder fail to electronically confirm the updated debit order, the Company could fail to collect the agreed upon instalment on the agreed upon date. The expected implementation date for DebiCheck is 31 October 2021.

The Credit Amendment Bill will allow a client who earns less than R7 500 per month and has total unsecured debt outstanding of R50 000 to apply for debt relief through the administration channels not yet fully clarified by the bill. This will impact the Company's collection of cashflows from clients who meet these criteria.

The assumptions underlying this judgement are highly subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in light of differences between loss estimates and actual loss experience.

The Company is a single segment collection entity operating within the South African economic environment. The business is widely distributed with no reliance on any major customers. The Company's primary business is to collect the remaining advances book and there are no clients that account for more than 10% of revenue.

4. Advances and credit quality

The impairment provisions for gross advances are classified into three categories i.e. specific impairment, portfolio specific impairment, and incurred but not reported (IBNR) provisions. The specific impairment provision of R554 million (September 2020: R669 million) is in respect of the non-performing (on balance sheet) loan book. The portfolio specific impairment provision of Rnil million (September 2020: R1 million) and the IBNR provision of Rnil million (September 2020: R2 million) is in respect of the performing loan book.

As disclosed in the 30 September 2020 financial statements, the Company also exercises judgement in determining event driven management impairment overlays. The events, for which an amount was included in the impairment allowance, include the introduction of DebiCheck and the Credit Amendment Bill. The addition to the impairment allowance from both the above events is R10 million; most of which relates to DebiCheck.

	March 2021		
R million	**Loan**	**Credit card**	**Total**
Financial assets that are neither past due nor specifically impaired			
CD 0	**2**	**-**	**2**
Financial assets that are past due and specifically impaired			
CD 1 to 3	**-**	**1**	**1**
CD 4 and higher	**746**	**27**	**773**
Total credit exposure	**748**	**28**	**776**
Total impairments	**(537)**	**(17)**	**(554)**
Incurred but not yet reported (IBNR)	-	-	-
Portfolio specific impairment	-	-	-
Specific impairment	**(537)**	**(17)**	**(554)**
Net advances	**211**	**11**	**222**

The gross value of the written off book at 31 March 2021 was R7.99 billion (30 September 2020: R8.69 billion).

	September 2020		
R million	**Loan**	**Credit card**	**Total**
Financial assets that are neither past due nor specifically impaired			
CD 0	4	-	4
Financial assets that are past due and specifically impaired			
CD 1 to 3	1	1	2
CD 4 and higher	907	36	943
Total credit exposure	912	37	949
Total impairments	(646)	(26)	(672)
Incurred but not yet reported (IBNR)	(2)	-	(2)
Portfolio specific impairment	(1)	-	(1)
Specific impairment	(643)	(26)	(669)
Net advances	266	11	277

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

5. Stub instruments

R million	Unaudited March 2021	Audited September 2020
Senior unsecured stub instrument	**(3,060)**	(3,356)
Subordinated unsecured stub instrument	**(6,387)**	(6,125)
	(9,447)	(9,481)

Stub instruments:

- are unsecured unlisted claims against the Company;
- the senior unsecured stub instrument is subordinated in favour of SARB and shall only be repayable once all operational and run-off expenses have been paid or provided for in full, and the Indemnity Reserve has been established or released and will rank pari passu with the other unsecured unsubordinated creditors of the Company, and has no fixed maturity or interest payment date; and
- the subordinated unsecured stub instrument is subordinated in favour of all of the above, including the senior unsecured stub instrument.

6. Fair value of stub instruments

As part of the restructure and exchange offer, the Company extinguished its existing funding liabilities and simultaneously recognised a new funding liability – namely the stub instruments.

In line with the Company's accounting policy the stub instruments were initially recognised at their face value and subsequently measured at amortised cost of the contractual cashflows.

In estimating fair value of liabilities, the Company made a number of assumptions that gave rise to a range of projected outcomes. In practice, it is possible that a combination of outcomes would materialise and that these potential outcomes may fall anywhere within the ranges projected.

The expected future cash flows have been modelled based on the various possible outcomes mentioned above. A discounted cash flow valuation technique has been applied to estimate the projected outcome under each of these outcomes.

The projected outcomes under each of the scenarios described have been classified as level 3.

Given that there is no active or directly observable market for the stub instruments on which a fair value, using level 1 or level 2 inputs could be derived, the fair value of the new stub instruments as at 31 March 2021 would require a level 3 input valuation technique to be performed in order to arrive at an appropriate fair value at the period end.

An appropriate valuation technique includes a discounted cash flow valuation using expected cash flows.

The key assumptions the Company has taken in deriving the aforementioned expected cash flows are as follows:

- The expected cash flows derived from the Residual Book for a 60 months period;
- Using the expected cash flows derived from the Residual Book, application of the Distribution Waterfall requirements are applied to the free cash flows;
- The Indemnity Reserve has been built up, and it is assumed that 100% (R3 billion) will be called upon by African Bank Limited and hence paid out over a three year period;
- As the cash of R3 billion has built up to satisfy any potential indemnity reserve claim as detailed above, it is assumed that all surplus cash in excess of the R500 million operational float is then paid to senior unsecured stub instrument holders (every 6 months). The next payment to senior stub holders is forecasted to take place again in July 2021 and so on until the end of the 60 months period mentioned above;
- The model assumes that subordinated unsecured stub instrument holders will not receive any cash as the senior unsecured stub instrument holders are not repaid in full;
- An additional judgemental cash outflow totalling R200 million has been incorporated for potential future closure and associated costs;
- The discount rate used to present value the expected future cash flows is 14.0%, which represents a modified WACC for the Company;
- Overlays are held for the uncertainties relating to DebiCheck (where the cash flow impact is expected from the planned implementation date of 31 October 2021) and the National Credit Amendment Bill (where the cash flow impact is only expected after a period of 6 months); and
- No COVID-19 adjustments are made as collections had remained relatively stable.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

Fair value of stub instruments continued...

The below scenarios and (sensitivities as applicable) reflect the consequent values should either no claim or a claim equal to the full indemnity amount be submitted.

Scenario 1 - a claim on the indemnity reserve

Sensitivity - change in WACC

In determining the fair value of the stub instruments, if the discount rate was increased and decreased by 1% the fair value as at 31 March 2021 would change as detailed below:

Based on the assumption that there will be a claim on the indemnity reserve.

R million	Fair value – using 13.0%	Fair value – using 14.0%	Fair value – using 15.0%
31 March 2021			
Senior unsecured stub instrument	**(1,469)**	**(1,442)**	**(1,415)**
Subordinated unsecured stub instrument	-	-	-
30 September 2020			
Senior unsecured stub instrument	(1,612)	(1,582)	(1,553)
Subordinated unsecured stub instrument	-	-	-

Scenario 2 - no claim on the indemnity reserve

Under this scenario, it is assumed that none of the indemnity reserve is claimed for the duration of the indemnity period, and thus the full R3 billion is paid to senior unsecured stub instrument holders at the end of the indemnity period, being April 2024.

In addition, the discount rate used to present value the expected future cash flows is 14.0% (which represents a modified weighted average cost of capital (WACC) for the Company). However, the R3.5 billion cash flow mentioned above is not discounted using the WACC of 14.0%, but is discounted using the 3 year risk free rate as at 31 March 2021 of 4.97% (30 September 2020: 3.5 year risk free rate of 4.27%) NACQ. This is considered more appropriate since the full R3 billion has been collected to date and held in low risk money market funds with major financial institutions. In addition, the timing and size of the cashflows are known with certainty thus making the use of a risk free discount rate appropriate.

Indemnity - change in WACC

The table below illustrates the stub instruments' fair values under this scenario as at 31 March 2021, together with the sensitivity if the discount rate increased and decreased by an additional 1%.

Based on the assumption that there will be no claim on the indemnity reserve.

R million	Fair value – using 13.0%	Fair value – using 14.0%	Fair value – using 15.0%
31 March 2021			
Senior unsecured stub instrument	**(3,110)**	**(3,094)**	**(3,077)**
Subordinated unsecured stub instrument*	**(1,140)**	**(1,132)**	**(1,124)**
30 September 2020			
Senior unsecured stub instrument	(3,394)	(3,373)	(3,353)
Subordinated unsecured stub instrument*	(1,029)	(1,021)	(1,015)

*The subordinated unsecured stub instrument's value is derived from the expected cashflow release resulting from the R3.5 billion cashflow mentioned above, and is therefore not discounted using the WACC of 14% but the 3 year risk free rate as at 31 March 2021 of 4.97% (30 September 2020: 3.5 year risk free rate of 4.27%) NACQ. Cashflows subsequent to release of the indemnity of R3 billion are discounted at the respective WACC.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

Sensitivity - change in assumptions due to change in the final closure costs by increasing and decreasing the closure costs by R50m.

The sensitivity in the changing of final closure costs is applied to where:
1. There is no claim on the indemnity reserve; and
2. The 14% WACC scenario.

R million	Decrease in PV of future costs by R50 million	Base assumption – using R200 million (present value)	Increase in PV of future costs by R50 million
31 March 2021			
Senior unsecured stub instrument	**(3,094)**	**(3,094)**	**(3,094)**
Subordinated unsecured stub instrument	**(1,164)**	**(1,132)**	**(1,100)**
30 September 2020			
Senior unsecured stub instrument	(3,373)	(3,373)	(3,373)
Subordinated unsecured stub instrument	(1,052)	(1,021)	(991)

The sensitivity in the changing of final closure costs is applied to where:
1. There is a claim on the indemnity reserve; and
2. The 14% WACC scenario.

R million	Decrease in PV of future costs by R50 million	Base assumption – using R200 million (present value)	Increase in PV of future costs by R50 million
31 March 2021			
Senior unsecured stub instrument	**(1,474)**	**(1,442)**	**(1,410)**
Subordinated unsecured stub instrument	-	-	-
30 September 2020			
Senior unsecured stub instrument	(1,613)	(1,582)	(1,551)
Subordinated unsecured stub instrument	-	-	-

Sensitivity - change in assumptions due to COVID-19

Given the uncertainties pertaining to the COVID-19 pandemic, it is not possible to accurately estimate the impact on the valuation of the stub instruments and therefore no adjustments have been made. This judgement has been made by the curator on the back of the collections of the Company having had not been impacted by COVID-19; as recent observations prior to the period end collections had remained relatively stable. Assuming that the impact results in a 10% reduction on the future cash flows collected from advances to customers, the fair value of the subordinated unsecured stub instrument will decrease by R104 million from R1 132 million to R1 028 million (using a WACC of 14%) in scenario 2 where the indemnity reserve is not claimed. In scenario 1 where the indemnity reserve is claimed in full, a 10% reduction on the future cash flows collected from advances to customers, the fair value of the senior unsecured stub instrument will decrease by R89 million from R1 442 million to R1 353 million.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

7. Financial results

The table below demonstrates changes in the financial performance of the Company for the current reporting period and for comparative reporting periods:

R million	Unaudited Six months ended 31 March 2021	Unaudited Six months ended 30 September 2020	Unaudited Six months ended 31 March 2020	Audited For the year ended 30 September 2020
Interest income on advances	-	1	1	2
Credit impairment reversal	**332**	377	393	770
Risk adjusted income from operations	**332**	378	394	772
Other interest income	**79**	73	141	214
Other income	-	38	4	42
Interest expense and similar charges	**(366)**	(427)	(516)	(943)
Operating costs	**(133)**	(151)	(162)	(313)
Indirect taxation: VAT	**(9)**	19	(14)	5
Loss from operations	**(97)**	(70)	(153)	(223)
Loss before taxation	**(97)**	(70)	(153)	(223)
Direct taxation: current and deferred	-	-	-	-
Loss for the period	**(97)**	(70)	(153)	(223)

8. Post balance sheet events

There were no matters or circumstances arising since the end of the period, including any impact of the COVID-19 pandemic, not otherwise dealt with in the Company's condensed interim financial statements, which significantly affects the financial position at 31 March 2021, or the results of its operations or cash flows for the period then ended.

9. Fair value disclosures

Valuation models

The fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Company determines fair values using other valuation techniques.

The Company measures fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1 fair value measurements are those derived from quoted market prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk free and benchmark interest rates, credit spreads and other premia used in estimating discounting rates, foreign currency exchange rates, bond and equity prices, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive to a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The Company uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over- the- counter derivatives such as swaps.

Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Fair value estimates obtained from models reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Company and the counterparty where appropriate.

Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions and experiences. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair values, and management judgement is required to select the most appropriate point in the range.

Valuation framework

The Company has an established control framework with respect to the measurement of fair values. This framework includes formalised policies and the approval and review process.

When third party information is used to measure fair value, the following procedures are performed in order to ensure that valuations meet the requirements of the Framework:

- verifying that the third party is approved for use in pricing the relevant type of financial instrument; and
- understanding how the fair value has been arrived at and the extent to which it represents actual market transactions.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

Fair value disclosures continued...

Fair value measurements recognised in the statement of financial position

The Company did not measure any of its assets and liabilities, in the statement of financial position, at fair value at the end of the period 31 March 2021.

Recurring fair value measurements recognised in the statement of financial position

Other than the financial investment measured at fair value through profit and loss in the prior year, the Company did not measure any other of its assets and liabilities on the statement of financial position at fair value at the end of the period 31 March 2021.

Valuation techniques, significant observable inputs and sensitivity of level 2 financial instruments measured at fair value

The table below indicates the valuation techniques and main assumptions used in the determination of the fair value at which the financial investments are measured, which fair value is derived from observable inputs (level 2):

R million	Valuation basis / techniques	Main assumptions
30 September 2020		
Financial assets		
Financial investments	Net asset value	Discount rates, unit prices

Assets and liabilities for which fair value is disclosed

R million	Level 1	Level 2	Level 3	Total
31 March 2021				
Financial assets				
Net advances*	-	-	1,041	1,041
Total	**-**	**-**	**1,041**	**1,041**
Financial liabilities				
Stub instruments	-	-	**	-
Total	**-**	**-**	**-**	**-**
30 September 2020				
Financial assets				
Net advances*	-	-	1,179	1,179
Total	**-**	**-**	**1,179**	**1,179**
Financial liabilities				
Stub instruments	-	-	**	-
Total	**-**	**-**	**-**	**-**

*Included in the net advances fair value is the fair value of the written off book of R754 million (2020: R819 million).

** Please refer to note 6 for additional disclosure on the fair value of funding liabilities.

Fair value disclosures continued...

Sensitivity - change in assumption due to COVID-19

A sensitivity analysis of the valuation of the net advances to a change in the future cash flows resulting from the COVID-19 pandemic developments has been performed.

Given the uncertainties pertaining to COVID-19, it is not possible to accurately estimate the impact on the valuation of the net advances and therefore no adjustments have been made to the fair value of the net advances. This judgement has been made by the curator on the back of the collections of the Company having had not been impacted by COVID-19; as recent observations prior to the period end collections had remained relatively stable. Assuming that the impact results in a 10% reduction on the future cash flows collected from advances to customers, the fair value of the net advances will decrease by R104 million from R1 041 million to R937 million.

10. Other matters

10.1 Current Tax Asset

The Company has open tax matters with the South African Revenue Services (SARS) relating to the deductibility of impairment provisions on the Company's advances book and the application of SARS's directive regarding the treatment of doubtful debts by banks.

The Company is of the view that a tax asset cannot be recognised because of the uncertainty around the resolution of this matter as negotiations with SARS remain ongoing and have advanced to an appeal stage with the courts. This dispute is with respect to amounts already paid to SARS.

The Company continues to pursue this matter, however, the ultimate conclusion of this matter could vary as it is dependentupon the outcome of the negotiations with SARS. In the 2018 financial year, during this dispute process, SARS reduced its initial assessment issued by the penalties and interest. The receivable was recognised as it was not dependent on the outcome of the court case. Aside from legal costs payable to legal advisors, there are no payments expected to be made to SARS by the Company.

Due to the losses in the prior financial years and the expectation that these losses will persist for the near future, the Company deemed it improbable that sufficient taxable profits will be available against which the deferred tax asset will be recoverable. Therefore, the Company has not recognised a deferred tax asset because of the losses incurred during the current and previous financial periods. Following assessment of the income tax return for the financial year ended 2020 the cumulative assessed loss for periods then ended amounted to R11 053 million (30 September 2019: R10 408 million).

Given the uncertainty for the basis on which to claim an allowance for doubtful debt and the fact that this basis will only be determined by the outcome of the engagement with SARS, the IT14 income tax returns for the years of assessment 2014, 2015, 2017 and 2018 that had not been submitted, were submitted in the 2019 financial year. The return for the year of assessment 2016 was submitted during the 2020 financial year. The returns thereafter for 2019 and 2020 were submitted timeously. All provisional IRP6 income tax returns due have all been submitted, notifying SARS of the taxable loss position. The late submission of the IT14 income tax returns (2014 to 2018) may give rise to penalties and or interest to be raised by SARS, however SARS have not raised such penalties or interest at the date of these annual financial statements.

10.2 SARB Indemnity Guarantee

As at 31 March 2021, the indemnity reserve fund of R3 billion remains fully funded, as well as the additional R500 million operational float. The curator has been making 6-monthly distributions of the surplus funds collected by the Company to the holders of the stub instruments in accordance with the terms of such instruments.

Other matters continued...

10.3 GEMS

The Company has a contingent liability to clients, as a result of a court order issued in 2004, to pay reparations to clients who might have been prejudiced by actions of Gilt Edged Management Services Pty Limited ("GEMS"), a related party of the old African Bank Limited, between 1999 and 2002. The terms of the court order require each client to sign an acceptance and waiver form before the settlement can be made. In terms of the court order the maximum amount of potential reparations was R60.1 million, of which in excess of R40.0 million was paid by the end of September 2006. Subsequent to September 2006, a marginal amount of R0.2 million of reparations was paid to GEMS clients. The Company has a remaining contingent liability of R20 million (2020: R20 million) for these reparations; which prescription period of 30 years remains applicable.

10.4 Company Unique Finance matter

RDS agreed to an arbitration process with Company Unique Finance (Pty) Limited ("CUF") regarding the extent of the mortgage loan and asset-based lending business that was sold to CUF in October 2004. The arbitration took place in September 2020 and a judgement against RDS was received in October 2020. RDS appealed the award and in December 2020 the arbitration appeal panel determined in 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.

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. In this regard, the arbitrators found that this would be an order for specific performance of the contract and entailed the enforcement of a debt which prescribed 3 years after the debt became due (i.e. it prescribed during 2007).

Notwithstanding the finding on prescription, RDS' counsel persuasively suggested to the appeal arbitrators (who did not decide this point, but were persuaded of the possibility) that RDS "could persuade the Registrar of Deeds to endorse the title deeds in issue, thus achieving, without registration, what it has sought all along, namely that CUF take responsibility for what it agreed to undertake" in the relevant agreement. RDS is, together with its legal advisors, in discussions on the way forward regarding ways of implementing the award. The dispute between RDS and CUF is therefore ongoing.

The appeal arbitrators awarded certain costs of the appeal to RDS but ruled that each party pay its own costs related to the initial arbitration. In April 2021 RDS received R520 000 from CUF in respect of its appeal costs.

As previously disclosed, RDS is not in possession of information in relation to the ring-fenced business as this information was also transferred to CUF in 2004. Accordingly, RDS is not in a position to quantify the financial impact of procuring the disposal or cancellation of the properties in possession and mortgage bonds remaining registered in its name. In line with IAS 37, as the outcome of the legal action is not reasonably possible to determine at this stage a reliable estimate cannot be made of the amount of any obligation, no provision has been raised. Should any liability arise, such would rank pari passu with the senior unsecured stub instruments.

ADDENDUM A

Significant accounting policies

1. Financial instruments

The Company recognises financial assets and liabilities when it becomes a party to the terms of the contract, which is the trade date or the settlement date.

The Company has financial assets classified into the following categories:
- loans and receivables; and
- financial assets at fair value profit or loss.

The Company has financial liabilities classified at amortised cost.

The classification of financial assets and financial liabilities depends on the nature and purpose of the financial instrument and is determined at the time of initial recognition.

1.1 Initial measurement

All financial instruments are measured initially at fair value plus transaction costs, except for stub instruments. Financial liabilities arising from the issue of stub instruments are recognised at their face value upon initial recognition.

1.2 Subsequent measurement

Subsequent to initial measurement, financial instruments are measured either at amortised cost or fair value through profit and loss.

- Loans and receivables

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's advances are included in the loans and receivable category.

  These advances arose when the Company provided money, goods or services directly to a debtor with no intention to trade the receivable.

  Advances are classified as loans and receivables and are measured at amortised cost using the effective interest rate method, less any impairment losses through the use of an allowance account whereby the amount of the losses are recognised in profit or loss. Origination fees and monthly service fees that are integral to the effective interest rate are capitalised to the value of the loan and amortised to profit or loss over the contractual life of the loan using the effective interest rate method.

- Financial assets at fair value profit or loss

  A financial asset is classified at fair value through profit or loss when it does not meet the requirements to be classified as Loans and receivables or available for sale. This category includes instruments that are classified as held for trading. Currently only core income funds (included in the financial investments line) are classified as financial assets measured at fair value through profit and loss.

- Financial liabilities

  All financial liabilities are measured at amortised cost using the effective interest rate method.

ADDENDUM A

1.3 Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees that form an integral part of the effective interest rate) through the expected life of the financial asset or liability or, where appropriate, a shorter period; to the net carrying amount of the financial asset or liability. For the stub instruments however, the discounting is to the face value of the instruments at initial recognition. Where a change in estimation of expected future cash flows occurs on fixed rate instruments, the change in estimate calculated is recognised as part of interest income/expense. Future credit losses are not considered when calculating the effective interest rate.

1.4 Impairment of financial instruments

1.4.1 Assets carried at amortised cost

The Company assesses at each reporting date whether there is objective evidence that an asset or group of assets is impaired.

The Company reviews the carrying amounts of its loans and advances to determine whether there is any indication that those loans and advances have become impaired using objective evidence at a loan level. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event(s) has an adverse impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognised.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

- a breach of contract, such as a default or delinquency in the payment of interest or principal;
- the lender, for economic or legal reasons relating to the borrower’s financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- indication that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
    - adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments or an increased number of credit card borrowers who have reached their limit and are paying less than the minimum monthly amount); or
    - if there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financial assets’ carrying amount and the recoverable amount.

The recoverable amount is the sum of the estimated future cash flows, discounted to their present value using a discount rate that reflects the portfolio of advances’ original effective interest rate. The effective interest method is a method of calculating the amortised cost and of allocating interest income over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including loan origination fees and monthly service fees) through the expected life of the loan, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

The carrying amount of the financial asset due to the impairment calculated is reduced through the use of an allowance account and the amount of the loss or reversal is recognised in the credit impairment charge/reversal line of the statement of profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the advance is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the advance in prior years. A reversal of an impairment loss is immediately recognised in profit or loss in the credit impairment reversal line.

The Company estimates the recoverable amount on a portfolio basis using portfolio statistics derived from past performance of similar financial assets, taking into account any changes to collection procedures and projected future market conditions.

ADDENDUM A

For portfolio (collective) assessment of impairment, financial assets are grouped on the basis of similar credit characteristics which indicate the borrower's ability to pay in accordance with the contractually agreed terms. For the purposes of portfolio impairment assessment, the impairment provisioning is divided into the following categories:

- Provision for IBNR (incurred but not yet reported);
- Portfolio specific impairments;
- Specific impairments; and
- Written off portfolio.

Provision for IBNR

In order to provide for the latent losses in a group of loans that have not yet been identified as specifically impaired, an impairment for incurred but not yet reported ("IBNR") losses is recognised on historical loss patterns and estimated emergence periods. Loans and receivables that are neither past due nor impaired are collectively assessed for the IBNR impairment provision. Neither past due nor impaired is defined by the Company as loans and receivables that are contractually up to date with all payments due.

Portfolio specific impairments

Loans and receivables that have missed up to 3 payments contractually are assessed collectively for portfolio specific impairment provisioning. These loans are still considered to be part of the performing loan portfolio.

Specific impairments

Loans and receivables that have missed 4 or more instalments are assessed for specific impairments. These loans form the non-performing loan portfolio.

Written off portfolio

A write off is effected against the allowance account (effectively derecognised) when the debtor is deemed to be impaired and not recoverable. Any cash subsequently recovered from the debtor is recorded as bad debt recovered and included in the credit impairment charge in the statement of total comprehensive income.

1.5 Derecognition of financial instruments

1.5.1 Financial assets

The Company derecognises a financial asset (or group of financial assets) or a part of a financial asset (or part of a group of financial assets) when the contractual rights to the cash flows arising from the financial asset have expired or the Company transfers the financial asset and the transfer qualifies for de-recognition.

A transfer of the financial assets requires that the Company either transfers the contractual rights to receive the cash flows of the financial asset or retains the contractual rights to receive the cash flows of the financial asset, but assumes a corresponding contractual obligation to pay the cash flows to one or more recipients, and consequently transfers substantially all the risks and benefits associated with the asset.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

ADDENDUM A

On derecognition of a financial asset other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

1.5.2 Financial liabilities

The Company derecognises a financial liability when the obligation specified in the contract is discharged, cancelled or expired. A substantial modification to the terms and conditions of an existing financial liability or part of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. A substantial modification to the terms occurs where the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability.

Where the Company purchases its own debt, the debt is derecognised from the statement of financial position and any difference between the carrying amount of the liability and the consideration paid is included in gains or losses on bond buy backs in the statement of total comprehensive income.

1.6 Offsetting

Financial assets and liabilities are offset and the net amount reported only when a legally enforceable right to set off the recognised amount exists and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expense items are offset only to the extent that their related instruments have been offset in the statement of financial position.

2. Cash and cash equivalents

Short-term deposits and cash comprise fixed and notice deposits, and call and current accounts . Cash and cash equivalents are held with financial institutions and have a maturity of less than three months from date of acquisition. Cash and cash equivalents are measured at amortised cost.

For the purposes of the statement of cash flows, cash and cash equivalents comprise short-term deposits and cash, net of bank overdrafts.

3. Provisions

Provisions represent liabilities of uncertain timing or amount and are measured at the expenditure or cash outflow required to settle the present obligation.

Provisions are recognised when the Company has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation.

4. Equity

Equity is the residual interest in the assets of the Company after deducting all liabilities of the Company.

All transactions relating to the acquisition and sale or issue of shares in the Company, together with their associated costs, are accounted for in equity.

ADDENDUM A

4.1 Share capital and share premium

Shares issued by the Company are recorded at the value of the proceeds received less the external costs directly attributable to the issue of the shares.

4.2 Dividends

Dividends to equity holders are recognised as a liability in the period in which they are declared and are accounted for as a movement in reserves in the statement of changes in equity. Dividends declared after the statement of financial position date are not recognised.

5. Revenue

Revenue comprises of interest income and non-interest income.

5.1 Interest income

Interest income is accrued on a yield to maturity basis by reference to the principal outstanding and the interest rate applicable.

- Origination fees on loans granted

Origination fees on loans granted are charged upfront and capitalised into the loan. These fees are primarily based on the cost of granting the loan to the individual. These origination fees are considered an integral part of the loan agreement and are therefore recognised as an integral part of the effective interest rate and are accounted for over the shorter of the original contractual term and the actual term of the loan using the effective interest rate method. The deferred portion of the fees is recorded in the statement of financial position as a provision for deferred administration fees against advances. The deferred portion has been released and the Company no longer accrues for origination fees.

- Monthly service fee

Monthly service fees are the fees which form an integral part of the effective interest rate and are charged to the customers on a monthly basis. These fees are recognised as part of the effective interest rate over the shorter of the original contractual term and the actual term of the loans and receivables. Beyond the original contractual term of the loan, the fee is recognised in profit or loss as it is charged to the customer on a monthly basis.

5.2 Non-interest income

- Other income

Other income consists primarily of administration fees on loans and advances, commission charged as well as any other sundry income. Other income is recognised as the performance obligation of the related service is performed.

6. Taxation

6.1 Indirect taxation

Indirect taxation in the form of non-claimable value-added tax (VAT) on expenses is disclosed as indirect taxation in profit or loss and not as part of the taxation charge. The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of the receivables or payables in the statement of financial position.

ADDENDUM A

6.2 Direct taxation

Direct taxation in profit or loss consists of South African jurisdiction corporate income tax, inclusive of capital gains tax (CGT) (currently payable, prior year adjustments and deferred).

6.2.1 Current taxation

Current taxation is the expected taxation payable based on the taxable income, inclusive of capital gains tax, for the year, using taxation rates enacted or substantially enacted at the statement of financial position date, and any adjustment to taxation payable in respect of previous years. Taxable income is determined by adjusting the profit before taxation for items which are non-taxable or disallowed in terms of tax legislation.

Current tax is charged or credited to profit or loss, except to the extent that it relates to items charged or credited directly to the statement of changes in equity, in which case the tax is also dealt with in equity.

6.2.2 Deferred taxation

Deferred taxation is provided on temporary differences using the balance sheet liability method. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their taxation base. However, deferred taxation is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting profit or loss nor taxable income. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxation is charged or credited in profit or loss, except to the extent that it relates to items charged or credited directly to the statement of changes in equity, in which case the deferred taxation is also dealt with in equity.

The effect on deferred taxation of any changes in taxation rates is recognised in profit or loss, except to the extent that it relates to items previously charged or credited directly to equity.

Deferred tax assets are recognised on the tax effects of income tax losses available for carry-forward, if the Company considers it probable that future taxable income will be available against which the unused tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

6.2.3 Uncertain tax positions

Judgement is required in determining the provision for income taxes due to the complexity of legislation in which the Company operates. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Uncertain tax positions are provided for in accordance with the criteria defined within IAS 12 Income Taxes and IFRIC 23.

ADDENDUM A

7. Contingent liabilities and commitments

7.1 Contingent liabilities

A contingent liability is disclosed when:

- a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the control of the Company; or
- the Company has a present obligation that arises from past events but it is not recognised because it is not probable that an outflow of resources will be required to settle such obligation or the amount of the obligation cannot be measured with sufficient reliability.

7.2 Commitments

Items are classified as commitments where the Company has committed itself at the reporting date to future significant transactions or the acquisition of assets for material amounts.

8. Comparative figures

Where necessary, comparative figures within notes have been reclassified to conform to changes in presentation in the current period and to enhance disclosure of certain items.

9. Forthcoming accounting standards

To achieve fair presentation as envisaged in the Framework, the curator has considered and assessed the application of accounting standards that have or will be adopted in the industry in the future to the financial reporting of Residual Debt Services Limited (under curatorship).

ADDENDUM B

Corporate information

Company Secretary
Maliga Chetty

Residual Debt Services Limited
Incorporated in the Republic of South Africa
Registration number 1975/002526/06
NCR Registration number: NCRCP5
Residual Debt Services Limited (under curatorship) is an Authorised Financial Services and Registered Credit Provider

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