

**Audited Annual Financial Results  
for the year ended 30 September 2021**

**Residual Debt Services Limited** (under curatorship)



**Including:  
Annual Results FY 2021  
Operational update FY 2021**

**2 December 2021**

These annual 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 (2 December 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 audited annual financial statements can be accessed at [www.residualdebtservices.co.za](http://www.residualdebtservices.co.za).

## Presentation contents

1. Annual Financial Statements
2. Operational Update
3. Conclusion

# 1. Annual Financial Statements

Residual Debt Services Limited  
(under curatorship)

## Summary statement of financial position

R millions

<b>Assets</b>	<b>Sep 21</b>	<b>Sep 20</b>	<b>Liabilities/Equity</b>	<b>Sep 21</b>	<b>Sep 20</b>
Cash and financial instruments (1)	3 670	3 787	Other liabilities	64	75
Net advances	184	277	Stub instruments	9 477	9 481
Gross advances (2)	641	949	Senior unsecured	2 809	3 356
Impairment provisions	(457)	(672)	Subordinated unsecured	6 668	6 125
Other assets	0	3	<b>Total liabilities</b>	<b>9 541</b>	<b>9 556</b>
<b>Total on balance sheet</b>	<b>3 854</b>	<b>4 067</b>	Equity	(5 687)	(5 489)
<b>Fair value adjustments</b>	795	902	<b>Total on balance sheet</b>	<b>3 854</b>	<b>4 067</b>
Net advances	51	83	Excess of fair value over net advances values		
Written off book (3)	744	819	Fair value of written off book		
<b>Fair value of balance sheet</b>	<b>4 649</b>	<b>4 969</b>			

### 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 R7.31 billion (FY2020: R8.69 billion)
- 3) The fair value adjustment of R795 million (FY2020: R902 million) includes an estimated fair value of the written off book of R744 million (FY2020: R819 million). Fair value of Net Advances is R979 million (FY2020: R1 179 million)

# 1. Annual Financial Statements

## Condensed Income Statement

Residual Debt Services Limited  
(under curatorship)



R millions	H1 2021	H2 2021	FY 2021	H1 2020	H2 2020	FY 2020
<b>Interest income on advances (1)</b>	-	-	-	1	1	2
<b>Credit impairment reversal (2)</b>	<b>332</b>	<b>305</b>	<b>637</b>	<b>393</b>	<b>377</b>	<b>770</b>
Risk adjusted income from operations	332	305	637	394	378	772
<b>Interest income on cash (3)</b>	79	50	129	141	73	214
Other income	-	-	26	4	38	42
Interest expense and similar charges	(366)	(381)	(747)	(516)	(427)	(943)
<b>Operating costs (4)</b>	<b>(133)</b>	<b>(121)</b>	<b>(254)</b>	<b>(162)</b>	<b>(151)</b>	<b>(313)</b>
Indirect taxation: VAT	(9)	20	11	(14)	19	5
Loss from operations	(97)	(101)	(198)	(153)	(70)	(223)
<b>Capital items</b>	-	-	-	-	-	-
Profit/(Loss) before taxation	(97)	(101)	(198)	(153)	(70)	(223)
Direct taxation: current and deferred	-	-	-	-	-	-
<b>Profit/(Loss) for the period</b>	<b>(97)</b>	<b>(101)</b>	<b>(198)</b>	<b>(153)</b>	<b>(70)</b>	<b>(223)</b>

### 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 were lower for the year
- 4) Reducing collections (as the book continues to run down) resulting in lower collections fees paid

# 1. Annual Financial Statements

Residual Debt Services Limited  
(under curatorship)

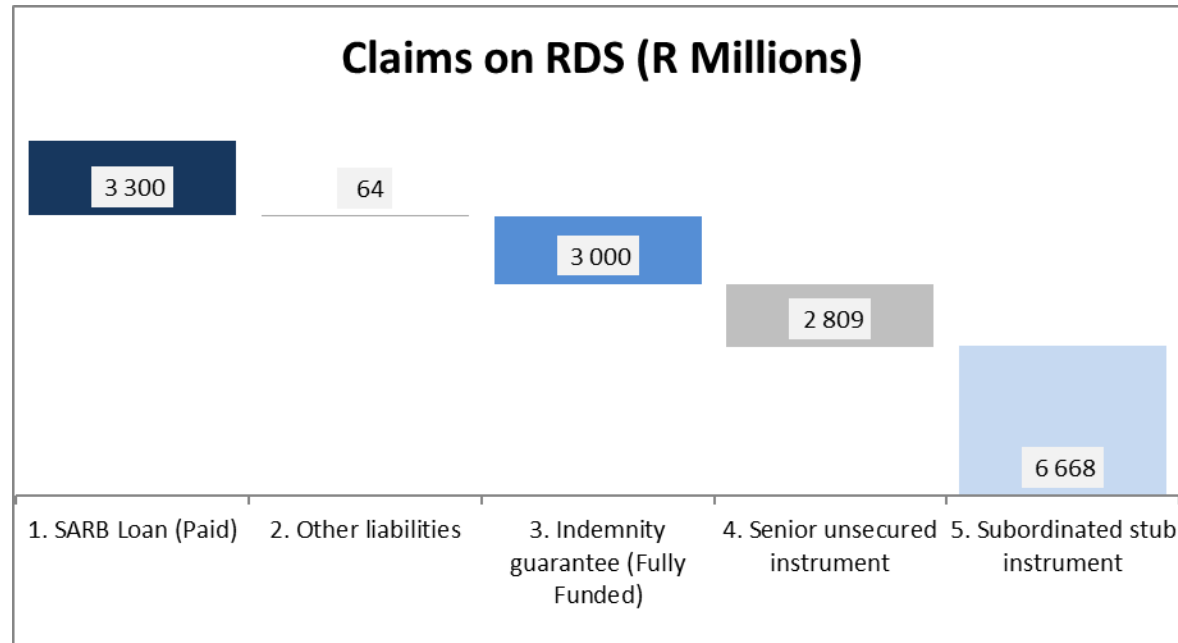
## Net Advances overview

R millions

	Sep 21	Sep 20
Gross advances	641	949
Impairment provisions	(457)	(672)
Net advances	184	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% (R457 million/R641 million) in line with FY2020 which was 71%
- Fair value of advances: R979 million (FY2021) versus R1 179 million (FY2020)

## 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 R64 million at 30 September 2021
3. Indemnity guarantee - R3 billion (fully funded since September 2017)
4. Senior unsecured stub instrument - R2.809 billion at 30 September 2021
5. Subordinated stub instrument - R6.668 billion at 30 September 2021
6. Shareholders of RDS - no value at present

# 1. Annual 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	1 495	2 833
Subordinated stub instrument	Nil	1 478

- 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 the “No claim” scenario, which amounts are discounted at the 2.5 year risk free rate of 5.21% NACQ
- The “Full claim” scenario (with a senior unsecured stub instrument fair value of R1.495 billion) assumes that the indemnity reserve will be called in full (R3 billion) and spread evenly over a two and a half year period
- The “No claim” scenario (with a senior unsecured stub instrument fair value of R2.833 billion, and a subordinated stub fair value of R1.478 billion) assumes that the indemnity reserve will not be called at all
  - R3.2 billion is assumed to be paid to the holders of the 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

# 1. Annual Financial Statements

## Fair value of stub instruments (continued)

- 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 R4.05 billion has been paid to senior unsecured stub instrument holders to date
- Overlays are held for the uncertainties relating to DebiCheck (cash flow impact is expected from the 31 October 2021 implementation date) 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 therefore been made
- Further details regarding assumptions are provided in the Notes to the Annual Financial Statements



# 1. Annual Financial Statements

## Fair values and sensitivities overview

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

R millions	30 September 2021			30 September 2020		
Stub instrument	Fair value @ 13.0% NACM	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
Senior unsecured	1,524	1,495	1,467	1,612	1,582	1,553
Subordinated unsecured	Nil	Nil	Nil	Nil	Nil	Nil
<b>Contractual carrying values of stub instruments</b>						
Senior unsecured	2,809			3,356		
Subordinated unsecured	6,668			6,125		

# 1. Annual Financial Statements

## Fair values and sensitivities overview (continued)

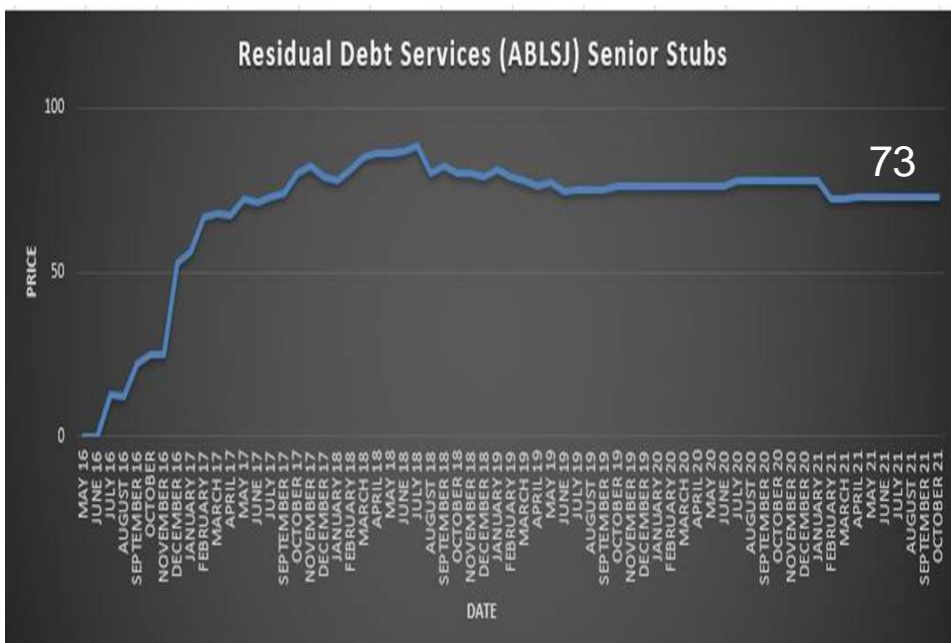
Fair value sensitivities: “No claim” against the indemnity reserve

R millions	30 September 2021			30 September 2020		
Stub instrument	Fair value @ 13.0% NACM	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
Senior unsecured	2,846	2,833	2,820	3,394	3,373	3,353
Subordinated unsecured	1,491	1,478	1,466	1,029	1,021	1,015
<b>Contractual carrying values of stub instruments</b>						
Senior unsecured	2,809			3,356		
Subordinated unsecured	6,668			6,125		

# 1. Annual 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
<b>Stub instruments fair value</b>		
Senior (30 September 2021)	1,495	2,833
Subordinated (30 September 2021)	Nil	1,478
<b>Fair value/principal value (%)</b>		
Senior	53.9%	102.1%
Subordinated	0.0%	40.8%
<b>Principal value of stub instrument</b>		
Senior (28 Jul 2021#)	2,776	2,776
Subordinated (4 April 2016)	3,621	3,621
<b>Fair value/carrying value (%)</b>		
Senior (30 September 2021)	53.2%	100.9%
Subordinated (30 September 2021)	0.0%	22.2%
<b>Carrying value of stub Instrument</b>		
Senior (30 September 2021)	2,809	2,809
Subordinated (30 September 2021)	6,668	6,668

# 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. Annual 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)	1 495	
R50m reduction in costs	1 527	32
R50m increase in costs	1 463	(32)

Subordinated	No claim on indemnity reserve	Change
Fair value - AFS (R200m)	1 478	
R50m reduction in costs	1 510	32
R50m increase in costs	1 446	(32)

*Under the no claim on indemnity reserve scenario there is no effect on the fair value of the senior unsecured stub instrument (fair value of R2.833 billion)*

## Other matters

- **SARB indemnity guarantee**

- RDS provided a R3 billion indemnity to African Bank
  - In respect of assets transferred to African Bank
  - Expires on 8<sup>th</sup> anniversary of restructuring transaction (4 April 2024)
- As at 30 September 2021 the indemnity guarantee reserve remains fully funded to the amount of R3 billion and there have been no claims
- RDS is in discussion with SARB and ABL to reduce the indemnity reserve, which has in principle been agreed between the parties, subject to the necessary Board and Committee approvals. Noteholders are therefore advised to exercise caution when dealing in the instruments until a further announcement is made

- **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 and the 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
  
- **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

- **Legal proceedings (continued)**

- 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
- 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

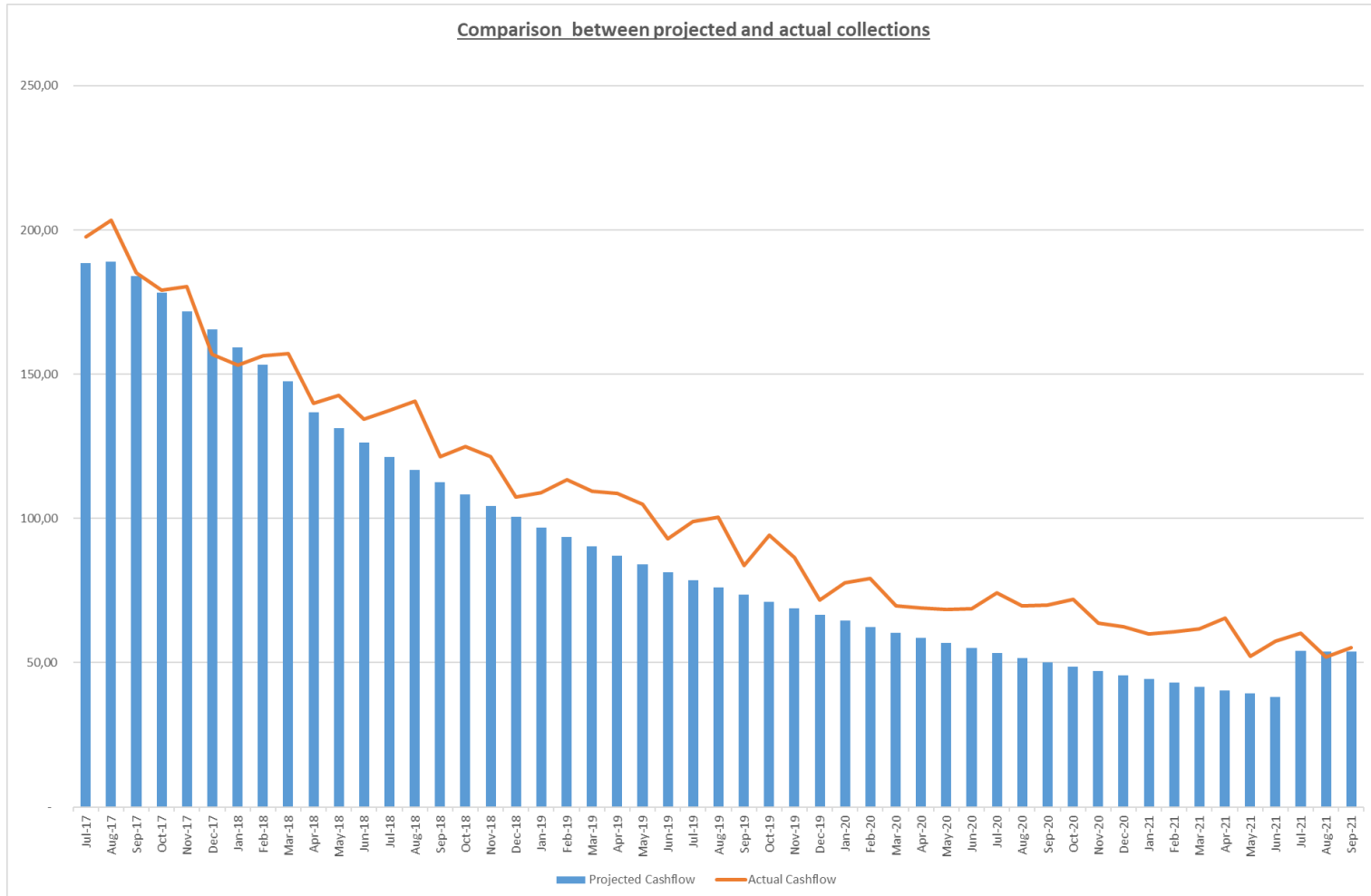
- **Legal proceedings (continued)**

- RDS has subsequently lodged a high court application seeking an order directing the Chief Registrar of Deeds to cause the title deeds of the relevant immovable properties to be endorsed in the respective Deeds Registries to reflect that the right, title and interest of RDS in the mortgage bonds and properties possession were transferred to CUF in October 2004 in terms of section 54 of the Banks Act 94 of 1990. CUF has opposed this application, all pleadings and heads of argument have been filed by both parties. The dispute between RDS and CUF is therefore 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 expected cash flow remodelled in July 2021



Split Electronic vs Specialised	H1 2018	H2 2018	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021
<b>Specialised</b>	81%	84%	87%	91%	93%	96%	96%	97%
<b>Electronic</b>	19%	16%	13%	9%	7%	4%	4%	3%

- Another successful year 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. RDS is in discussion with SARB and ABL to reduce the indemnity reserve, which has in principle been agreed between the parties, subject to the necessary Board and Committee approvals. As previously mentioned, noteholders are therefore advised to exercise caution when dealing in the instruments until a further announcement is made
- A payment of between R250 million and R300 million to senior unsecured stub instrument holders is anticipated to be made in January 2022, which will bring total payments to between R4.3 billion and R4.35 billion
- It is expected that the interim financial statements for the six months ended 31 March 2022, and further operational and creditors updates will be provided in June 2022
- Applicable documentation published at [www.residualdebtservices.co.za](http://www.residualdebtservices.co.za)

## Financial media

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## Funders

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## Financial information

Information for the year ended 30 September 2021

Published at [www.residualdebtservices.co.za](http://www.residualdebtservices.co.za)

- Annual results presentation for the year ended 30 September 2021
- Annual Financial Statements for the year ended 30 September 2021
- Financial media release on the annual results for the year ended 30 September 2021

# Questions?

