

**Audited Annual Financial Results
for the year ended 30 September 2023**

Residual Debt Services Limited (under curatorship)



**Including:
Annual Results FY 2023
Operational update FY 2023**

5 December 2023

These 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 (5 December 2023) and will remain in curatorship for the foreseeable future. The old African Bank Limited (“ABL”) 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.

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1. Annual Financial Statements

Summary statement of financial position

Residual Debt Services Limited
(under curatorship)

R millions

Assets	Sep 23	Sep 22	Liabilities/Equity	Sep 23	Sep 22
Cash and financial instruments (1)	901	3 700	Other liabilities	44	91
Other assets	9	2	Stub instruments	7 606	9 753
Net advances	75	110	Senior unsecured	0	2 447
Gross advances (2)	311	451	Subordinated unsecured	7 606	7 306
Impairment provisions	(236)	(341)			
Total on balance sheet	985	3 812	Total liabilities	7 650	9 844
			Equity	(6 665)	(6 032)
Fair value adjustments	565	669	Total on balance sheet	985	3 812
Net advances	30	37	Excess of fair value over net advances values		
Written off book (3)	535	632	Fair value of written off book		
Fair value of balance sheet	1 550	4 481			

Notes

- 1) Cash comprises the indemnity reserve of R500 million, operating float of R300 million and surplus cash held in current accounts and money market funds
- 2) Gross value of the written off book amounts to R5.21 billion (FY2022: R6.11 billion)
- 3) The fair value adjustment of R565 million (FY2022: R669 million) includes an estimated fair value of the written off book of R535 million (FY2022: R632 million). Fair value of Net Advances is R640 million (FY2022: R779 million)

1. Annual Financial Statements Condensed Income Statement

Residual Debt Services Limited
(under curatorship)

R millions	H1 2023	H2 2023	FY 2023	H1 2022	H2 2022	FY 2022
Interest income on advances	1	(1)	-	-	-	-
Credit impairment reversal (1)	188	168	356	267	229	496
Risk adjusted income from operations	189	167	356	267	229	496
Interest income on cash (2)	71	42	113	81	102	183
Interest expense and similar charges	(465)	(488)	(953)	(388)	(437)	(825)
Operating costs (3)	(71)	(64)	(135)	(99)	(87)	(186)
Indirect taxation: VAT	(5)	(9)	(14)	(7)	(6)	(13)
Loss for the period	(281)	(352)	(633)	(146)	(199)	(345)

Notes

- 1) Credit impairment reversal from recoveries on written off and provided amounts
- 2) Reduced cash balances continued to generate interest income. Yields earned increased as benchmark rates continued to move upwards
- 3) Reducing collections (as the book continues to run down) resulting in lower collections fees paid

1. Annual Financial Statements

Net Advances Overview

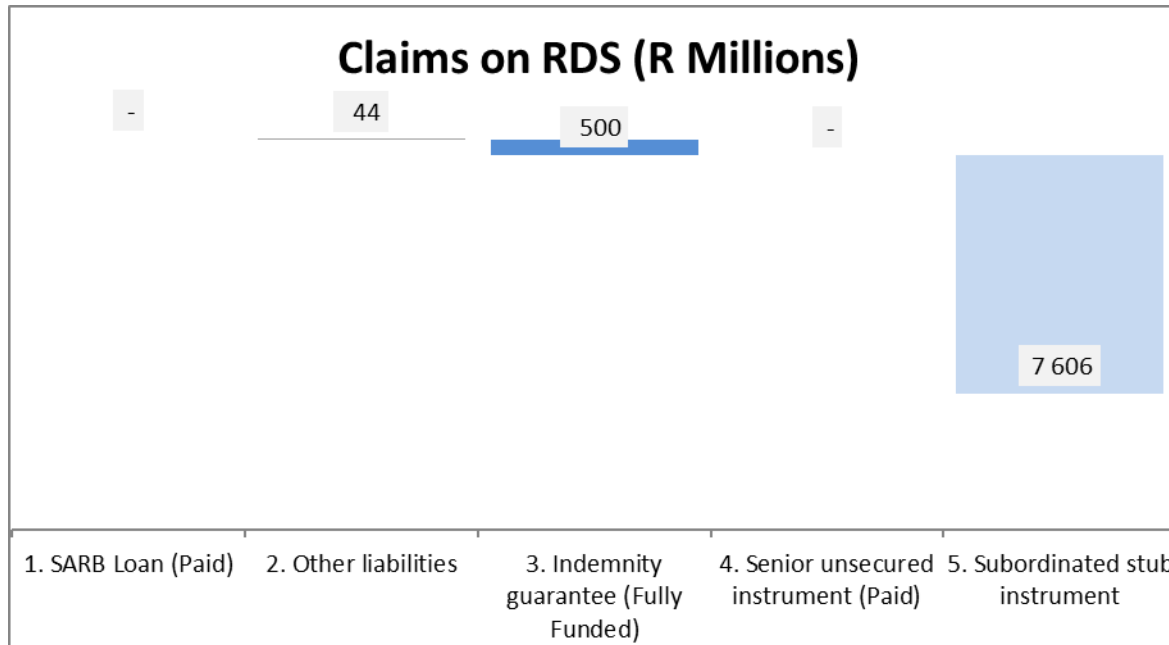
R millions

	Sep 23	Sep 22
Gross advances	311	451
Impairment provisions	(236)	(341)
Net advances	75	110
Provision coverage	76%	76%

- Reduction in gross advances as a result of book paying down and write offs
- Overall provision coverage of 76% for the year ended September 2023 (R236 million/R311 million) is in line with FY2022 due to the aging of the book and collections models being conservatively recalibrated
- Fair value of advances: R640 million (FY 2023) versus R779 million (FY2022)

1. Annual 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 R44 million at 30 September 2023
3. Indemnity guarantee - R500 million (reduced in December 2022, fully funded since September 2017)
4. Senior unsecured stub instrument - fully repaid on 6 December 2022
5. Subordinated stub instrument - R7.606 billion at 30 September 2023
6. Shareholders of RDS - no value at present

1. Annual Financial Statements

Fair value of stub instruments

R millions

	Claim against indemnity reserve	
Stub instruments fair value	Full claim (R500 million)	No claim
Subordinated stub instrument	723	1 207

- The fair value is assessed as a discounted cash flow of forecast future receipts and payments for 60 months from the advances book
- In December 2022 in the indemnity reserve reduced from R3 billion to R500 million and the operating float reduced from R500 million to R300 million
- R2.7 billion was paid to stub holders on 6 December 2022 (c. R2.486 billion to senior stub holders as full and final settlement, and c. R214 million to subordinated stub holders)
- A second and third payment totalling R400 million to subordinated stub holders was made in January 2023 and July 2023
- All cash flows are discounted at a WACC of 14% NACM, except for the remaining indemnity reserve balance (at a 6 month risk free rate of 8.5% NACQ)
- The “Full claim” scenario assumes that the remaining R500 million indemnity reserve will be called in full and spread evenly over a 6-month period
- The “No claim” scenario assumes that the indemnity reserve will not be called at all

1. Annual Financial Statements

Fair value of stub instruments (continued)

- Any surplus arising after covering the indemnity reserve of R500 million and operating float of R300 million is released to subordinated stub instrument holders every six months in January and July of each year
- An amount of R7.7 billion has been paid to stub instrument holders to date (which includes the extraordinary payment of R2.7 billion on 6 December 2022)
- Further details regarding assumptions are provided in the Notes to the Annual Financial Statements for the year ended 30 September 2023

1. Annual Financial Statements

Fair values and sensitivities overview

FY22 Subordinated Unsecured Stub Instrument Fair value adjustment

During FY22 the fair value of the Subordinated Stub Instruments disclosed, included the interest accrual on the cash balances which were calculated using the average duration until maturity, determining the relevant swap rate and adding a spread of 70bps which was an interest rate of 9.18 % per annum until maturity on a simple compounding basis.

The calculation of interest accrual was updated in FY23 to calculate interest accrual using forward interest rate curves. This methodology was applied retrospectively, and the interest accrual was recalculated for FY22 using a 3m JIBAR forward curve, which impacted the fair value of the Subordinated Stub Instruments for FY22 as detailed below:

Estimated impact of update to interest methodology

Client Balances for Subordinated Stubs R millions	Fair Value (Prior to updating the methodology)	Fair Value (After updating the methodology)	Absolute impact
No claim	1,620	1,644	24
Full claim	1,164	1,188	24

The Senior Stubs were repaid in December 2022, and the impact on the Senior Stubs were negligible.

1. Annual Financial Statements

Fair values and sensitivities overview (continued)

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

R millions	30 September 2023			30 September 2022 Restated		
	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	Nil	Nil	Nil	2,458	2,458	2,458
Subordinated unsecured	737	723	710	1,204	1,188	1,172
Contractual carrying values of stub instruments						
Senior unsecured	Nil			2,447		
Subordinated unsecured	7,606			7,306		

Note: The fair value of the senior unsecured stub instruments is nil at 30 September 2023 as they were fully settled on 6 December 2022

1. Annual Financial Statements

Fair values and sensitivities overview (continued)

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

R millions	30 September 2023			30 September 2022		
				Restated		
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	Nil	Nil	Nil	2,458	2,458	2,458
Subordinated unsecured	1,220	1,207	1,194	1,660	1,644	1,629
Contractual carrying values of stub instruments						
Senior unsecured	Nil			2,447		
Subordinated unsecured	7,606			7,306		

***Note:** The fair value of the senior unsecured stub instruments is nil at 30 September 2023 as they were fully settled on 6 December 2022*

1. Annual Financial Statements

Fair value analysis of stub instruments

R millions	Claim on indemnity reserve	
	Base (R500 million)	No claim
Stub instruments fair value		
Subordinated (30 September 2023)	723	1 207
Fair value/principal value (%)		
<i>Subordinated</i>	<i>20,0%</i>	<i>33,3%</i>
Principal value of stub instrument		
Subordinated (4 April 2016)	3 621	3 621
Fair value/carrying value (%)		
Subordinated (30 September 2023)	<i>9,5%</i>	<i>15,9%</i>
Carrying value of stub Instrument		
Subordinated (30 September 2023)	7 606	7 606

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

Subordinated	Claim on indemnity reserve (R500 million)	Change
Fair value - AFS (R200m)	723	
R50m reduction in costs	762	39
R50m increase in costs	684	(39)

Subordinated	No claim on indemnity reserve	Change
Fair value - AFS (R200m)	1 207	
R50m reduction in costs	1 246	39
R50m increase in costs	1 168	(39)

- **SARB indemnity**
 - RDS originally 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)
 - RDS and ABL entered into an agreement on or about 21 November 2022 whereby the indemnity and indemnity reserve was reduced from R3 billion to R500 million. Furthermore, RDS reduced the operational float from R500 million to R300 million, resulting in surplus cash of R2.7 billion that was paid out to stub holders on 6 December 2022
 - As at 30 September 2023, the indemnity reserve remains fully funded to the amount of R500 million and there have been no claims
 - The indemnity expires on 4 April 2024 and any amount remaining after any claims will be paid to Subordinated stub instrument holders during April 2024

1. Annual Financial Statements

Other matters (continued)

- **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 with Company Unique Finance (Pty) Ltd ("CUF") in relation to a transaction concluded in 2004 between RDS (Old African Bank Limited) and CUF ("the parties") whereby the ring-fenced business was transferred to CUF



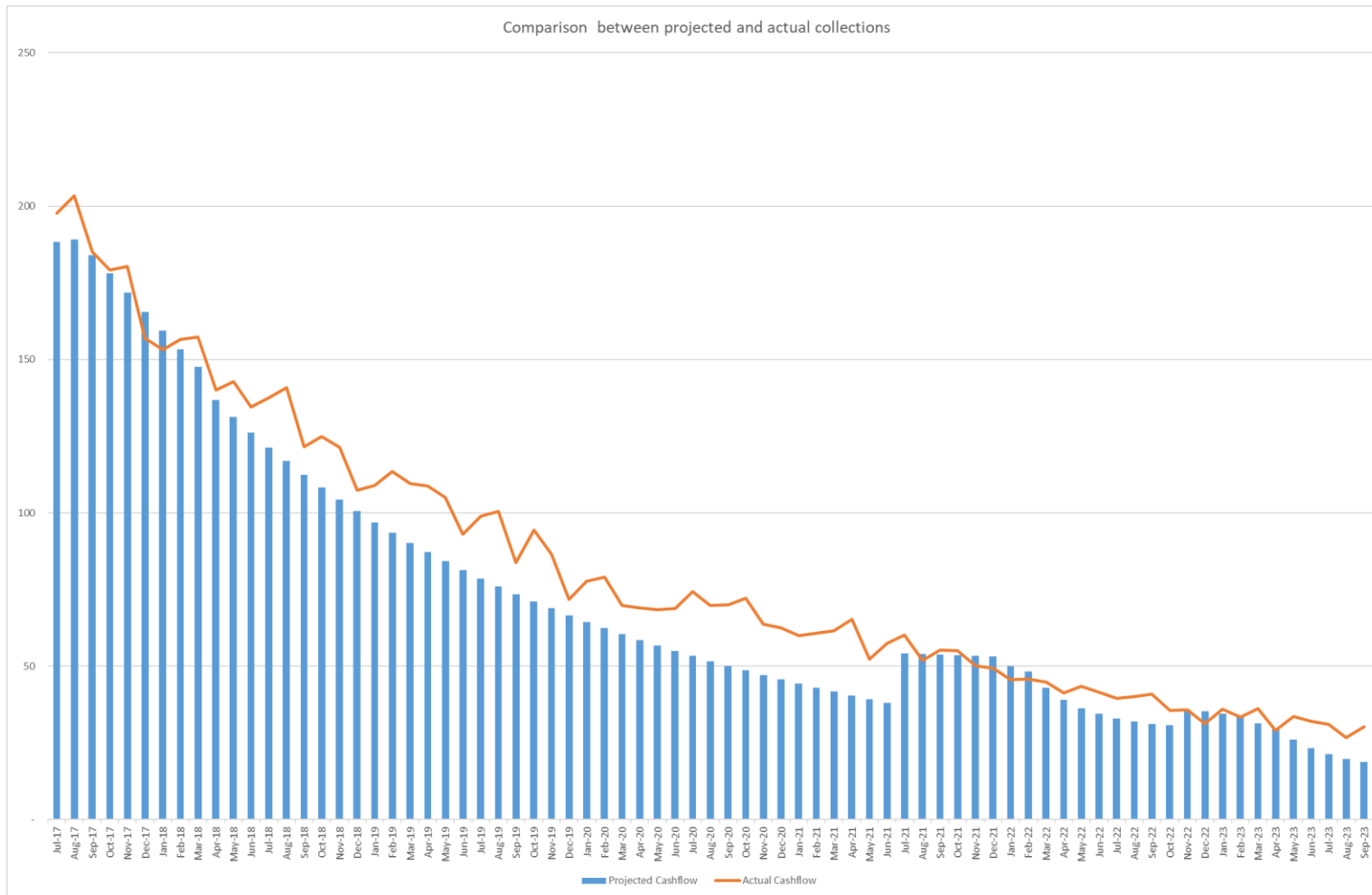
- **Legal proceedings (continued)**

- 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 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 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 opposed this application, and the matter was heard in the Gauteng High court on 19 and 20 April 2022
- Judgement in favour of RDS was awarded in December 2022, and on 16 February 2023 RDS received CUF's Notice of Appeal to the Supreme Court of Appeal
- The application for leave to appeal was heard on 20 September 2023 and judgement has been reserved. The legal process therefore remains ongoing
- To the extent that a liability arises, such would rank *pari passu* with senior unsecured creditors. There are currently no other material ongoing legal proceedings

2. Operational Update



Split Electronic vs Specialised	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021	H1 2022	H2 2022	H1 2023	H2 2023
Specialised	87%	91%	93%	96%	96%	97%	98%	98%	98%	99%
Electronic	13%	9%	7%	4%	4%	3%	2%	2%	2%	1%

3. Conclusion

- Another successful reporting period for RDS, with continued focus on late stage collections as electronic collections decrease
- Collection of the book continues to run smoothly, albeit with reduced expectations for future collections as the book is in “run down”
- Successfully negotiated with African Bank to reduce the indemnity reserve from R3 billion to R500 million. This, together with the reduction of the operating float from R500 million to R300 million had facilitated the extraordinary payment distribution of R2.7 billion to stub instrument holders on 6 December 2022. The senior stub instrument holders have been fully settled (c. R2.486 billion) and the subordinate stub instrument holders received their first part payment of c. R214 million, followed by a second payment of R200 million in January 2023 and a third payment of R200 million in July 2023
- A fourth payment of between R150 million to R200 million to subordinated stub instrument holders is anticipated to be made in January 2024 which will be followed by a fifth payment during April 2024 of any balance in the indemnity reserve given that the indemnity will be expiring on 4 April 2024
- It is expected that the interim financial statements for the half year ended 31 March 2024, and further operational and creditors updates will be provided in June 2024

Contact details and information

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Financial information

Information for the year ended 30 September 2023

Published at www.residualdebtservices.co.za

- Annual results presentation for the year ended 30 September 2023
- Annual Financial Statements for year ended 30 September 2023
- Financial media release on the audited annual results for the year ended 30 September 2023

Questions?

