

**Audited Annual Financial Results
for the year ended 30 September 2022**

Residual Debt Services Limited (under curatorship)



**Including:
Annual Results FY 2022
Operational update FY 2022**

6 December 2022

Contents

Annual Financial Results for the year ended
30 September 2022

Residual Debt Services Limited
(under curatorship)

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 (6 December 2022) 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.residualdebt services.co.za.

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

1. Annual Financial Statements

Summary statement of financial position

R millions

Assets	Sep 22	Sep 21	Liabilities/Equity	Sep 22	Sep 21
Cash and financial instruments (1)	3,700	3,670	Other liabilities	91	64
Other assets	2	-	Stub instruments	9,753	9,477
Net advances	110	184	Senior unsecured	2,447	2,809
Gross advances (2)	451	641	Subordinated unsecured	7,306	6,668
Impairment provisions	(341)	(457)			
Total on balance sheet	3,812	3,854	Total liabilities	9,844	9,541
			Equity	(6,032)	(5,687)
Fair value adjustments	669	795	Total on balance sheet	3,812	3,854
Net advances	37	51	Excess of fair value over net advances values		
Written off book (3)	632	744	Fair value of written off book		
Fair value of balance sheet	4,481	4,649			

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 R6.11 billion (FY2021: R7.31 billion)
- 3) The fair value adjustment of R669 million (FY2021: R795 million) includes an estimated fair value of the written off book of R632 million (FY2021: R744 million). Fair value of Net Advances is R779 million (FY2021: R979 million)

1. Annual Financial Statements

Condensed Income Statement

Residual Debt Services Limited
(under curatorship)

R millions	H1 2022	H2 2022	FY 2022	H1 2021	H2 2021	FY 2021
Credit impairment reversal (1)	267	229	496	332	305	637
Risk adjusted income from operations	267	229	496	332	305	637
Interest income on cash (2)	81	102	183	79	50	129
Other income	0	0	0	0	26	26
Interest expense and similar charges	(388)	(437)	(825)	(366)	(381)	(747)
Operating costs (3)	(99)	(87)	(186)	(133)	(121)	(254)
Indirect taxation: VAT	(7)	(6)	(13)	(9)	20	11
Loss before taxation	(146)	(199)	(345)	(97)	(101)	(198)
Direct taxation: current and deferred	-	-	-	-	-	-
Loss for the period	(146)	(199)	(345)	(97)	(101)	(198)

Notes

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

1. Annual Financial Statements

Net Advances Overview

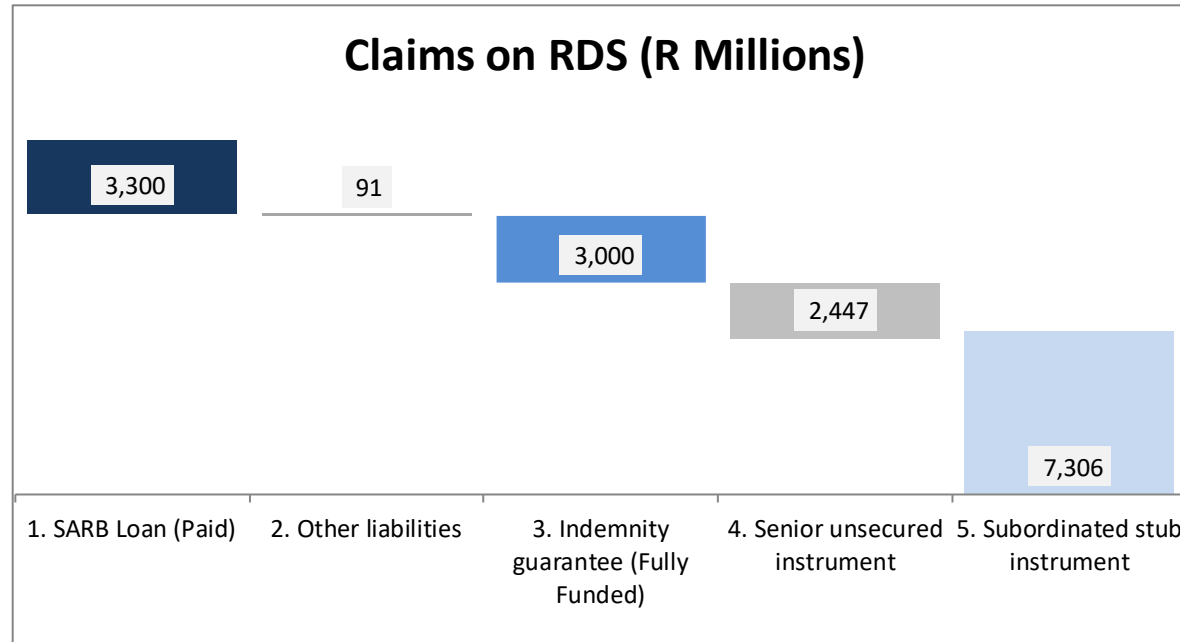
Residual Debt Services Limited
(under curatorship)

R millions

	Sep 22	Sep 21
Gross advances	451	641
Impairment provisions	(341)	(457)
Net advances	110	184
Provision coverage	76%	71%

- Reduction in gross advances as a result of book paying down and write offs
- Overall provision coverage of 76% for the year ended September 2022 (R341 million/R451 million) is higher than FY2021 (which was 71%) due to the aging of the book and collections models being conservatively recalibrated
- Fair value of advances: R779 million (FY 2022) versus R979 million (FY2021)

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 R91 million at 30 September 2022
3. Indemnity guarantee - R3 billion (fully funded since September 2017)
4. Senior unsecured stub instrument - R2.447 billion at 30 September 2022
5. Subordinated stub instrument - R7.306 billion at 30 September 2022
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 (R3 billion)	No claim
Senior unsecured stub instrument	2 458	2 458
Subordinated stub instrument	1 164	1 620

- The fair value is assessed as a discounted cash flow of forecast future receipts and payments for 60 months from the advances book
- The Indemnity Reserve has been reduced from R3 billion to R500 million, and with the operating float reduction from R500 million to R300 million. R2.7 billion is paid to stub holders on 6 December 2022 (c. R2.486 billion to senior stub holders and c. R214 million to subordinated stub holders)
- The senior unsecured stub instrument is settled in full on 6 December 2022 (c. R2.486 billion), with an additional portion of surplus cash being paid to the holders of the subordinated stub instrument (c. R214 million)
- All cash flows discounted at WACC of 14% NACM, except for the 6 December 2022 payment of R2.7bn (2.5 month risk free rate of 6.36% NACQ) and the remaining indemnity reserve balance (1.5 year risk free rate of 8.0% NACQ)
- The “Full claim” scenario assumes that the remaining R500 million indemnity reserve will be called in full and spread evenly over a one and half year 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 reduced indemnity reserve 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 R7.3 billion has been paid to stub instrument holders to date (which includes the extraordinary payment of R2.7 billion on 6 December 2022)
- The overlay held for the uncertainties relating to DebiCheck was released in the current reporting period as the observed collections performance in relation thereto has been incorporated into the base model
- The overlay relating to the Credit Amendment Bill was released in March 2022 due to the uncertainty on the implementation date of the Credit Amendment Act
- Further details regarding assumptions are provided in the Notes to the Audited Annual Financial Statements for the year ended 30 September 2022

1. Annual Financial Statements

Fair values and sensitivities overview

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

R millions	30 September 2022			30 September 2021		
	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	2 458	2 458	2 458	1 524	1 495	1 467
Subordinated unsecured	1 180	1 164	1 149	Nil	Nil	Nil
Contractual carrying values of stub instruments						
Senior unsecured	2 447			2 809		
Subordinated unsecured	7 306			6 668		

Note: The fair value of the senior unsecured stub instruments remains at R2.458 billion at 30 September 2022 as they are 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 2022			30 September 2021		
	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	2 458	2 458	2 458	2 846	2 833	2 820
Subordinated unsecured	1 635	1 620	1 605	1 491	1 478	1 466
Contractual carrying values of stub instruments						
Senior unsecured	2 447			2 809		
Subordinated unsecured	7 306			6 668		

Note: The fair value of the senior unsecured stub instruments remains at R2.458 billion at 30 September 2022 as they are fully settled on 6 December 2022

1. Annual Financial Statements

Pricing analysis of stub instruments

R millions	Claim on indemnity reserve	
	Base (R3 billion)	No claim
Stub instruments fair value		
Senior (30 September 2022)	2 458	2 458
Subordinated (30 September 2022)	1 164	1 620
Fair value/principal value (%)		
<i>Senior</i>	102,0%	102,0%
<i>Subordinated</i>	32,1%	44,7%
Principal value of stub instrument		
Senior (27 July 2022#)	2 409	2 409
Subordinated (4 April 2016)	3 621	3 621
Fair value/carrying value (%)		
Senior (30 September 2022)	100,4%	100,4%
Subordinated (30 September 2022)	15,9%	22,2%
Carrying value of stub Instrument		
Senior (30 September 2022)	2 447	2 447
Subordinated (30 September 2022)	7 306	7 306

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 (R3 billion)	Change
Fair value - AFS (R200m)	1,164	
R50m reduction in costs	1,202	38
R50m increase in costs	1,126	(38)

Subordinated	No claim on indemnity reserve	Change
Fair value - AFS (R200m)	1,620	
R50m reduction in costs	1,658	38
R50m increase in costs	1,581	(39)

Under both the claim and no claim on the indemnity reserve scenario, there is no effect on the fair value of the senior unsecured stub instrument (fair value of R2.458 billion) as this instrument is fully settled on 6 December 2022



- **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 30 September 2022, the indemnity guarantee reserve remains fully funded to the amount of R3 billion and there have been no claims
- RDS and ABL entered into an agreement on or about 21 November 2022 whereby the indemnity reserve was reduced from R3 billion to R500 million. Furthermore, RDS reduced the operational float from R500 million to R300 million, resulting in a surplus cash of R2.7 billion that is paid out to stub holders on 6 December 2022
- The remaining indemnity reserve of R500 million is assumed to be called upon by African Bank Limited and hence paid out over the next one and a half years.

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 and is in arbitration with Company Unique Finance (Pty) Ltd ("CUF"). The matter is 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

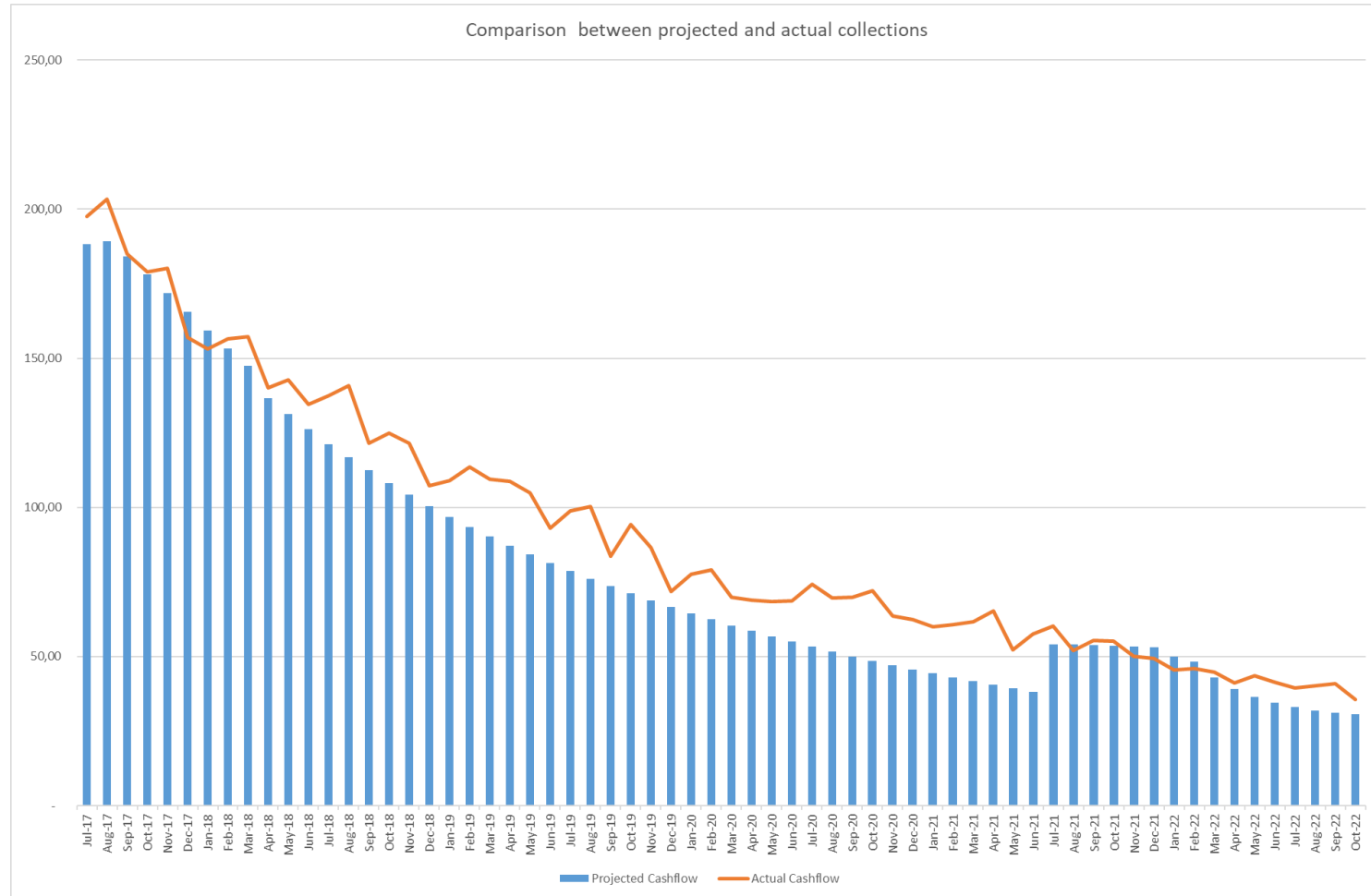
- **Legal proceedings (continued)**

- 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.

- **Legal proceedings (continued)**

- 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 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 and judgement has been reserved. 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



Split Electronic vs Specialised	H1 2018	H2 2018	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021	H1 2022	H2 2022
Specialised	81%	84%	87%	91%	93%	96%	96%	97%	98%	98%
Electronic	19%	16%	13%	9%	7%	4%	4%	3%	2%	2%

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 has 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
- A payment of between R200 million and R250 million to subordinated stub instrument holders is anticipated to be made in January 2023
- It is expected that the interim financial statements for the six months ended 31 March 2023, and further operational and creditors updates will be provided in June 2023
- Applicable documentation published at www.residualdebtservices.co.za

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Financial information

Information for the year ended 30 September 2022

Published at www.residualdebtservices.co.za

- Annual results presentation for the year ended 30 September 2022
- Audited Annual Financial Statements for year ended 30 September 2022
- Financial media release on the audited annual results for the year ended 30 September 2022

Questions?

