

**Unaudited Interim Financial Results  
for the six months ended 31 March 2023**

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



**Including:  
Interim Results H1 2023  
Operational update H1 2023**

**27 June 2023**

# Contents

## Unaudited Condensed Interim Financial Results for the six months ended 31 March 2023

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 (27 June 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 Unaudited Interim Financial Statements can be accessed at [www.residualdebtservices.co.za](http://www.residualdebtservices.co.za).

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# 1. Unaudited Condensed Interim Financial Statements

## Summary statement of financial position

Residual Debt Services Limited  
(under curatorship)

R millions

<b>Assets</b>	<b>Mar 23</b>	<b>Sep 22</b>	<b>Liabilities/Equity</b>	<b>Mar 23</b>	<b>Sep 22</b>
Cash and financial instruments (1)	970	3,700	Other liabilities	67	91
Other assets	11	2	Stub instruments	7,317	9,753
Net advances	90	110	Senior unsecured	0	2,447
Gross advances (2)	389	451	Subordinated unsecured	7,317	7,306
Impairment provisions	(299)	(341)			
<b>Total on balance sheet</b>	<b>1,071</b>	<b>3,812</b>	<b>Total liabilities</b>	<b>7,384</b>	<b>9,844</b>
			Equity	(6,313)	(6,032)
<b>Fair value adjustments</b>	614	669	<b>Total on balance sheet</b>	<b>1,071</b>	<b>3,812</b>
Net advances	32	37	Excess of fair value over net advances values		
Written off book (3)	582	632	Fair value of written off book		
<b>Fair value of balance sheet</b>	<b>1,685</b>	<b>4,481</b>			

### 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 R5.58 billion (FY2022: R6.11 billion)
- 3) The fair value adjustment of R614 million (FY2022: R669 million) includes an estimated fair value of the written off book of R582 million (FY2022: R632 million). Fair value of Net Advances is R704 million (FY2022: R779 million)

# 1. Unaudited Condensed Interim Financial Statements

## Condensed Income Statement

Residual Debt Services Limited  
(under curatorship)

R millions	H1 2023	H1 2022	H2 2022	FY 2022	H1 2021	H2 2021	FY 2021
<b>Interest income on advances</b>	<b>1</b>	-	-	-	-	-	-
<b>Credit impairment reversal (1)</b>	<b>188</b>	<b>267</b>	<b>229</b>	<b>496</b>	<b>332</b>	<b>305</b>	<b>637</b>
Risk adjusted income from operations	189	267	229	496	332	305	637
<b>Interest income on cash (2)</b>	<b>71</b>	<b>81</b>	<b>102</b>	<b>183</b>	<b>79</b>	<b>50</b>	<b>129</b>
Other income	0	0	0	0	0	26	26
Interest expense and similar charges	(465)	(388)	(437)	(825)	(366)	(381)	(747)
<b>Operating costs (3)</b>	<b>(71)</b>	<b>(99)</b>	<b>(87)</b>	<b>(186)</b>	<b>(133)</b>	<b>(121)</b>	<b>(254)</b>
Indirect taxation: VAT	(5)	(7)	(6)	(13)	(9)	20	11
Loss before taxation	(281)	(146)	(199)	(345)	(97)	(101)	(198)
Direct taxation: current and deferred	-	-	-	-	-	-	-
<b>Loss for the period</b>	<b>(281)</b>	<b>(146)</b>	<b>(199)</b>	<b>(345)</b>	<b>(97)</b>	<b>(101)</b>	<b>(198)</b>

### 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. Unaudited Condensed Interim Financial Statements

## Net Advances Overview

Residual Debt Services Limited  
(under curatorship)

R millions

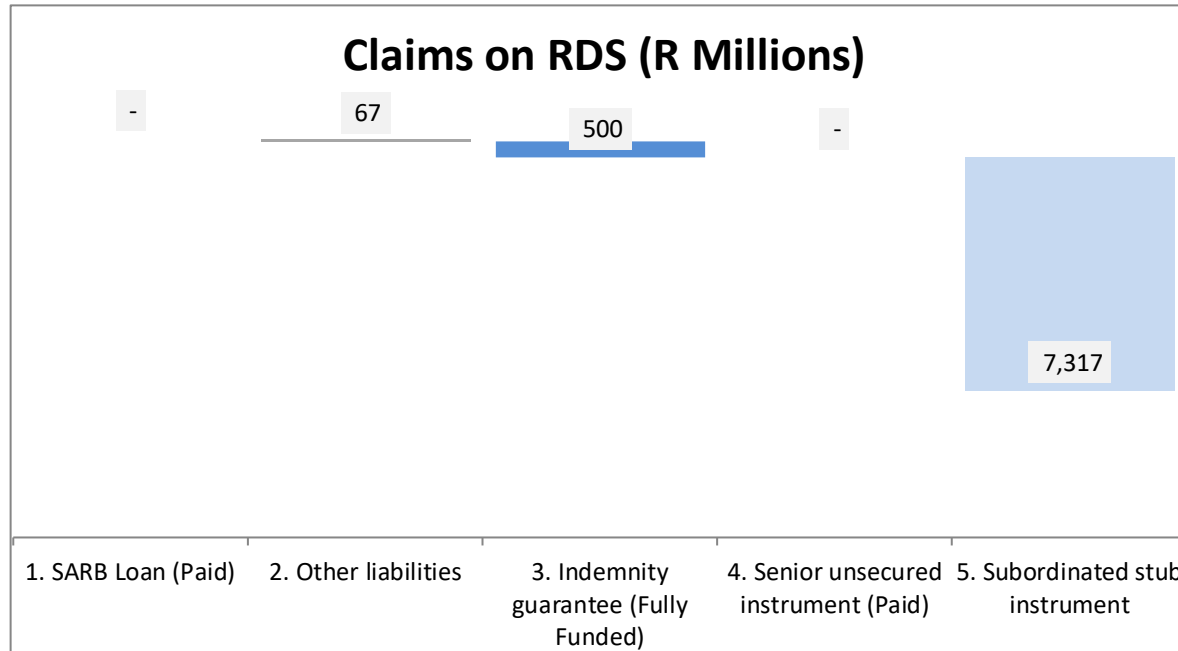
	Mar 23	Sep 22
Gross advances	389	451
Impairment provisions	(299)	(341)
Net advances	90	110
Provision coverage	77%	76%

- Reduction in gross advances as a result of book paying down and write offs
- Overall provision coverage of 77% for the six month period ended March 2023 (R299 million/R389 million) is slightly higher than FY2022 (which was 76%) due to the aging of the book and collections models being conservatively recalibrated
- Fair value of advances: R704 million (H1 2023) versus R779 million (FY2022)

# 1. Unaudited Condensed Interim Financial Statements

## Claims Waterfall

Residual Debt Services Limited  
(under curatorship)



### In order of decreasing seniority

1. SARB loan - R3.3 billion (fully repaid in Sep 2016)
2. Other liabilities incl. payables and accruals of R67 million at 31 March 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 - R7.317 billion at 31 March 2023
6. Shareholders of RDS - no value at present

# 1. Unaudited Condensed Interim Financial Statements

## Fair value of stub instruments

Residual Debt Services Limited  
(under curatorship)

R millions

Stub instruments fair value	Claim against indemnity reserve	
	Full claim (R500 million)	No claim
Subordinated stub instrument	841	1 312

- The fair value is assessed as a discounted cash flow of forecast future receipts and payments for 60 months from the advances book
- There has been a reduction in the indemnity reserve from R3 billion to R500 million and the operating float 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 payment of R200 million to subordinated stub holders was made on 31 January 2023
- All cash flows are discounted at a WACC of 14% NACM, except for the remaining indemnity reserve balance (1 year risk free rate of 8.1% NACQ)
- The “Full claim” scenario assumes that the remaining R500 million indemnity reserve will be called in full and spread evenly over a one year period
- The “No claim” scenario assumes that the indemnity reserve will not be called at all

# 1. Unaudited Condensed Interim Financial Statements

## Fair value of stub instruments (continued)

Residual Debt Services Limited  
(under curatorship)



- 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 R7.5 billion has been paid to stub instrument holders to date (which includes the extraordinary payment of R2.7 billion on 6 December 2022 and the payment of R200 million to subordinated stub instrument holders on 31 January 2023)
- Further details regarding assumptions are provided in the Notes to the Unaudited Condensed Interim Financial Statements for the six month ended 31 March 2023



# 1. Unaudited Condensed Interim Financial Statements

## Fair values and sensitivities overview

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

R millions	31 March 2023			30 September 2022		
	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	856	841	827	1,180	1,164	1,149
<b>Contractual carrying values of stub instruments</b>						
Senior unsecured	Nil			2,447		
Subordinated unsecured	7,317			7,306		

**Note:** The fair value of the senior unsecured stub instruments is nil at 31 March 2023 as they were fully settled on 6 December 2022

# 1. Unaudited Condensed Interim Financial Statements

## Fair values and sensitivities overview (continued)

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

R millions	31 March 2023			30 September 2022		
	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	1,327	1,312	1,298	1,635	1,620	1,605
<b>Contractual carrying values of stub instruments</b>						
Senior unsecured	Nil			2,447		
Subordinated unsecured	7,317			7,306		

**Note:** The fair value of the senior unsecured stub instruments is nil at 31 March 2023 as they were fully settled on 6 December 2022

# 1. Unaudited Condensed Interim Financial Statements

## Fair value analysis of stub instruments

R millions	Claim on indemnity reserve	
	Base (R500 million)	No claim
<b>Stub instruments fair value</b>		
Subordinated (31 March 2023)	841	1,312
<b>Fair value/principal value (%)</b>		
<i>Subordinated</i>	23.2%	36.2%
<b>Principal value of stub instrument</b>		
Subordinated (4 April 2016)	3,621	3,621
<b>Fair value/carrying value (%)</b>		
Subordinated (31 March 2023)	11.5%	17.9%
<b>Carrying value of stub Instrument</b>		
Subordinated (31 March 2023)	7,317	7,317

# 1. Unaudited Condensed Interim Financial Statements

## Fair values - Closure costs sensitivity

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

R millions

### Stub instruments fair value

Subordinated	Claim on indemnity reserve (R500 million)	Change
Fair value - AFS (R200m)	841	
R50m reduction in costs	879	38
R50m increase in costs	804	(37)

Subordinated	No claim on indemnity reserve	Change
Fair value - AFS (R200m)	1 312	
R50m reduction in costs	1 350	38
R50m increase in costs	1 275	(37)



- **SARB indemnity guarantee**

- RDS originally 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)
- 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 was paid out to stub holders on 6 December 2022
- As at 31 March 2022, the indemnity guarantee reserve remains fully funded to the amount of R500 million and there have been no claims
- 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 year

# 1. Unaudited Condensed Interim 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

# 1. Unaudited Condensed Interim Financial Statements

## Other matters (continued)



- **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

# 1. Unaudited Condensed Interim Financial Statements

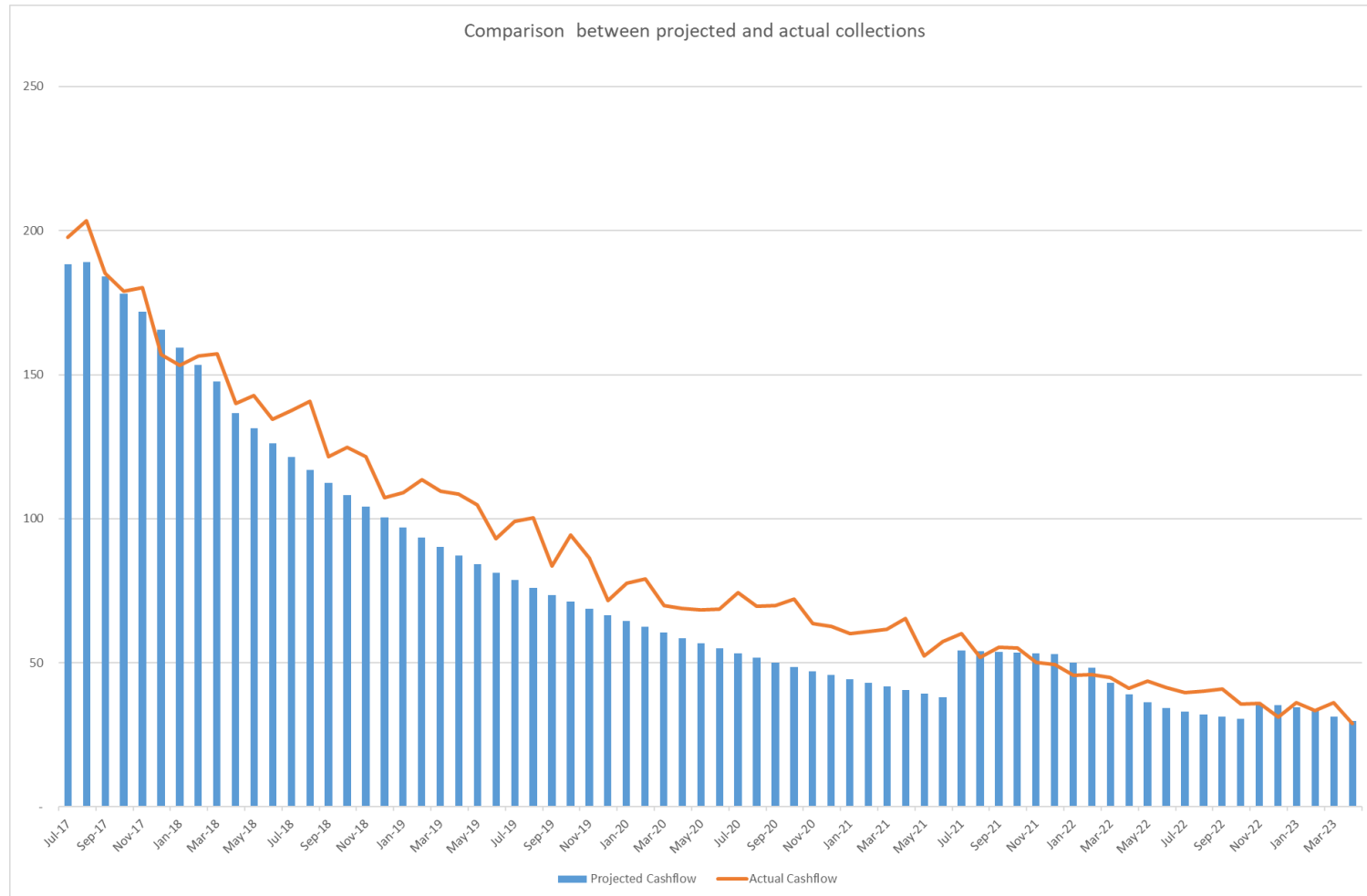
## Other matters (continued)

- **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 and the arbitration appeal award was made an order of court. CUF lodged a Notice of Application for Leave to Appeal to the Supreme Court of Appeal which will be heard on 20 September 2023. The dispute between RDS and CUF is therefore 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
<b>Specialised</b>	87%	91%	93%	96%	96%	97%	98%	98%	98%
<b>Electronic</b>	13%	9%	7%	4%	4%	3%	2%	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 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
- A second payment of R200 million to subordinated stub instrument holders was made on 31 January 2023, and a third payment of R200 million to subordinated stub instrument holders is anticipated to be made in July 2023
- It is expected that the annual financial statements for the year ended 30 September 2023, and further operational and creditors updates will be provided in November 2023
- Applicable documentation published at [www.residualdebt services.co.za](http://www.residualdebt services.co.za)

# Contact details and information

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## Financial information

Information for the six months ended 31 March 2023

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

- Unaudited Condensed Interim results presentation for the six months ended 31 March 2023
- Unaudited Condensed Interim Financial Statements for six months ended 31 March 2023
- Financial media release on the Unaudited Condensed Interim results for the six months ended 31 March 2023

# Questions?

