FINBOND GROUP LIMITED

(Incorporated in the Republic of South Africa)
(Registration number: 2001/015761/06)
Share code: “FGL”
ISIN: ZAE000138095
(“Finbond” or “the Company” or “the Group")

UNAUDITED CONSOLIDATED INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 AUGUST 2020

EXECUTIVE OVERVIEW

During these unprecedented six months under review, Finbond’s results were adversely affected by the COVID-19 pandemic. The value of loans advanced decreased by 33% to R1.93 billion, interest revenue decreased by 29% to R731.2 million, total revenue (turnover) decreased by 28% to R934.7 million and earnings before interest, depreciation and amortisation (EBITDA) decreased by 66% to R116.8 million.

Global lockdowns caused by the COVID-19 pandemic have – and continue to – have a significant and adverse impact on the world economy, as well as the Group’s results. Although the recovery has begun, the further relaxation of lockdown restrictions enabling increased business activity is essential to facilitate economic recovery.

During the period under review:

- The value of loans advanced decreased by 33% to R1.93 billion (August 2019: R2.87 billion).
- Accordingly, net unsecured loans and advances decreased by 28% to R656.9 million (August 2019: R913.3 million). The significant drop in loans advanced (sales volumes) due to COVID-19 has resulted in less capital being granted, but with collections holding firm, this has led to an increase in surplus cash as unsecured loans and advances are essentially being converted into cash. We are starting to see this trend reverse slowly as sales volumes increase as the COVID-19 recovery progresses.
- As a result, cash, cash equivalents & liquid assets increased by 69% to R1.64 billion (August 2019: R970 million).
- Total assets increased by 13% to R4.77 billion (August 2019: R4.20 billion).
- Commercial paper increased by 73% to R1.24 billion (August 2019: R716 million).
- Turnover decreased by 28% to R935 million (August 2019: R1.29 billion).
- EBITDA decreased by 66% to R116.8 million (August 2019: R340.5 million).
- Following several cost savings initiatives and restructurings, operational expenses decreased by 8% to R709.9 million (R772.0 million).

COVID-19

While we cannot yet predict the full impact on the full year ending 28 February 2021, it is expected that the government ordered lockdowns and COVID-19 related restrictions on economic activity in Finbond’s various countries of operations will continue to have a significant adverse impact on results. The recovery is underway, although it is highly uncertain how long it will take for consumer spending and credit markets to return to more "normal" or "new normal" levels. That said, April 2020 represented the monthly low point in terms of loans advanced at R236.4 million, which represented a 47% reduction to that of April 2019. Volumes have been recovering since, albeit inconsistently, to the point where for the 6-month interim period under review, we find ourselves 33% down from the corresponding prior year interim period.

We continue to monitor this extremely fluid situation daily and adjust our response accordingly.

Stress testing (updated and monitored monthly) continues to show that we remain sufficiently capitalised with appropriate liquidity levels in both mild and severe stress scenarios. We remain confident that the benefits of our geographically diversified business, strong balance sheet relative to the size and scope of operations, as well as cash generating ability will continue to stand us in good stead. Finbond will continue to invest in its businesses to position them for the continued recovery period and growth beyond.

Importantly, Finbond believes that it faces this challenging period from a position of relative financial strength, with sufficient liquidity to both navigate the changing environment and seek out new opportunities.

PROFIT AND PROFITABILITY

Due to global operations being affected by the COVID-19 lockdowns, Finbond achieved a turnover of R 935 million, a decrease of 28% over the corresponding 2019 interim period. Interest revenue decreased by 29% from R1.03 billion to R731 million.

Accordingly, net loss/profit after tax attributable to ordinary shareholders decreased to a loss of R139.9 million from a profit of R45.8 million in the corresponding 2019 interim period. Basic loss/earnings per share decreased to a loss of 16.0 cents from a profit of 5.0 cents in the corresponding 2019 interim period.

Following several cost savings initiatives and restructurings, operational expenses decreased by 8% to R709.9 million. Despite these considerable efforts, the total operating cost to income ratio weakened to 84% from 62% in the corresponding 2019 interim period, again, effected by significantly suppressed revenues due to COVID-19 lockdowns.

Turnover of R607 million (65% of total turnover) was generated in North America (NA), while R328 million (35% of total turnover) was generated in South Africa (SA). The NA:SA geographical segment turnover split of 65:35 was very much in line with the split in the corresponding 2019 interim period.

HEALTHY CAPITAL POSITION

Finbond follows a conservative approach to capital management and holds a level of capital which supports its business, while also growing its capital base ahead of business requirements. Finbond's capital position remains strong.

Equity attributable to owners decreased by 9% to R1.38 billion (Aug 2019: R1.51 billion) due to COVID-19 related losses suffered in the reporting period, modest share buy-back activity, offset by a weaker rand propping up forex reserves. Total equity decreased accordingly by 3% to R1.65 billion (Aug 2019: R1.70 billion).

Finbond Mutual Bank (FMB), a South African subsidiary, comfortably exceeded its minimum regulatory capital requirement in August 2020, reflecting an excess of R42.7 million over and above the required qualifying regulatory capital per Basel III. Although FMB, as a mutual bank is not subject to the Basel III requirements, the bank complies with, and significantly exceeds, internally measured Basel III requirements set for 2020. As at August 2020, FMB's:

- Capital adequacy ratio was 32.6% (22.6% more than required under Basel III), and 7.6% above the minimum prudential limit required by the Prudential Authority;
- Liquidity coverage ratio was 472% (372% more than required);
- Net stable funding ratio was 837% (737% more than required).

CONSERVATIVE UPFRONT CREDIT SCORING PRACTICES

Detailed affordability calculations are performed prior to extending any loans in order to determine whether clients can in fact afford the loan repayments. In line with our conservative approach, additional expense buffers were again included in all affordability assessments. Due to Finbond's short term loan tenures (average of 3 to 4 months), the necessary adjustments made to our credit scoring and affordability criteria heading into the COVID-19 pandemic in early March 2020 had an almost immediate effect on the portfolio. This is evidenced by our satisfactory impairment numbers (which are discussed in more detail below). We will rather have cash and cash equivalents unutilized than to extend loans to customers that cannot afford to repay their loans.

Finbond continued to apply strict upfront credit scoring and affordability criteria throughout the period under review. The credit scores on the various products are monitored on a monthly basis and are continually adjusted to reduce credit risk and further improve the quality of assets held.

The capital distribution of new loans compared to historic loans shows a shift in distribution when considering the exposure that each approved application presents. Finbond is granting larger loans to clients with higher credit scores or alternatively smaller loans to clients with lower credit scores. This is a crucial element of Finbond's **credit risk management methodology** that is designed to increase/decrease the size of the risk (loan) as the probability of default decreases/increases.

RELATIVE TO THE SIZE OF OUR BUSINESS WE HAVE SIGNIFICANT CASH RESERVES

Cash, cash equivalents & liquid assets increased by 69% to R1.64 billion (August 2019: R970 million).

Our business generates substantial positive cash-flows. We collected R3.04 billion in cash from customers over the past six months. Cash Received as a percentage of Cash Granted for the period under review increased by 23% to an average of 163% (Aug 2019: 133%). As described above, the significant drop in sales volumes due to COVID-19 has resulted in less capital being granted, but with collections holding firm, this has led to an increase in surplus cash as unsecured loans and advances are essentially being converted into cash. We are starting to see this trend reverse slowly as sales volumes increase as the COVID-19 recovery progresses.

By the end of August 2020 the FMB retail deposit and FGL commercial paper (CP) portfolio in South Africa amounted to R2.45 billion (Aug 2019: R1.71 billion). The average deposit size was; FMB retail R403k, FGL CP R1.58 million, the average term; FMB retail 19.3 months, FGL CP 60 months, and the average interest rate; FMB retail 9.56%, FGL CP 11.3%. Finbond is not exposed to the uncertainty that accompanies the use of corporate call deposits as a funding mechanism since we only accept 6 to 72 month fixed and indefinite term deposits and 60 month commercial paper investments.

Given the long term nature of Finbond's liabilities (fixed term retail deposits with an average term of 19.3 months and commercial paper with an average term of 60 months) and the short term nature of its assets (short term micro loans with average terms of between 3 and 4 months), Finbond possesses a low risk liquidity structure. Given the short-term nature of Finbond's products, the loan portfolio is cash flow generative and a good source of internally generated liquidity. The entire loan portfolio turns three times per annum on average.

NORTH AMERICAN SHORT-TERM LENDING

Finbond's North American business' main focus is on short-term unsecured loans being offered through 236 branches in North America operating in the following states: Florida, Missouri, Michigan, Mississippi, Alabama, South Carolina, Illinois, Indiana, Wisconsin, California, Oklahoma, Tennessee and Louisiana. In addition to the US, Finbond also has a presence in Ontario, Canada.

Additionally, unsecured instalment loans are offered online in Illinois, Missouri, Nevada, New Mexico, Utah and Wisconsin through CreditBox, our online platform.

Total revenue from Finbond's North American short-term lending activities, made up of interest and fees decreased by 29% to R607.1 million (Aug 2019: R853.7 million) for the period under review as result of the lockdowns.

Accordingly, the short-term loan book decreased by 36% to R422.8 million (Aug 2019: R658.0 million). New contracts granted decreased by 46% to 221,655 (Aug 2019: 411,574), partly offset by average principal granted which increased by 25% to R6,348 (Aug 2019: R5,101).

First strike collection rates in North America improved by 1.4% to an impressive average rate of 100%, from 98.6% in the corresponding period. This is indicative again of Finbond's conservative credit granting, rigorous underwriting policies and swift response to the COVID-19 pandemic. Net impairment on loans and advances as a percentage of total revenue strengthened by 51% to 9.6% (Aug 2019: 19.7%) based on strong underlying fundamentals in the North American economy, as well as significant government subsidies and stimulus in response to lower economic activity, allowing our customers to settle their loans. Provisions to gross loans and advances coverage however increased marginally to 29% (Aug 2019: 28%), as our ECL models make provision for consumer stress in the wake of the pandemic as subsidies come to an end.

We received cash payments of R2.21 billion from customers (16% below the corresponding interim period last year, due to lower sales volumes), while granting R1.41 billion in new loans (33% below last year). Accordingly, the ratio of cash received to cash granted increased to 160% (Aug 2019: 126%) as the book was effectively converted to cash.

SOUTH AFRICAN SHORT-TERM LENDING

Finbond's South African business' main focus remains on small short-term loans through its 341 branches. Total revenue from Finbond's lending activities made up of interest, fee and other micro finance related income decreased by 25% to R327.6 million (Aug 2019: R439.0 million). Again, the impact of the COVID-19 lockdowns has a significant impact on the comparability of South African interim results.

Consequently, the short-term loan book decreased by 8% to R234.1 million (Aug 2019: R255.3 million). New contracts granted decreased by 32% to 279,064 (Aug 2019: 411,435).

First strike collection rates in South Africa were in line with the corresponding interim period at an average rate of 88%. This is indicative again of Finbond's conservative credit granting, rigorous underwriting policies and swift response to the COVID-19 pandemic. Net impairment on loans and advances as a percentage of total revenue have however weakened to 26.7% (Aug 2019: 16.5%) given the additional consumer stress in South Africa. Provisions to gross loans and advances coverage has accordingly increased to 31% (Aug 2019: 24%), as our ECL models make provision for further anticipated consumer stress in the wake of the pandemic.

We received cash payments of R824.1 million from customers (28% down on the corresponding interim period last year, due to lower sales volumes), while granting R523.2 million in new loans (31% below last year). Thus, the ratio of cash received to cash granted increased to 184% (Aug 2019: 151%) as the book was effectively converted to cash.

SOUTH AFRICAN TRANSACTIONAL BANKING

We continued the evolution to turn Finbond Mutual Bank into a retail bank in South Africa. Although this is taking longer than expected, and is expensive to implement, we continue to move forward. Strategically, we support the cost of building a mass market retail bank on the back of our short term loans business in South Africa.

Our transactional banking customer base grew by 13% from 250,414 to 283,615 compared to the corresponding interim period. We continue working on growing the transactional banking customer base and getting these customers to use our accounts and cards for their daily banking needs. Our Platinum account has some of the lowest costs and pays the highest interest rate in South Africa.

As we build our retail market bank in South Africa, costs will continue to rise. We remain conservative in spending money and cautious in ensuring that the bank always has enough of it.

CHANGES TO THE BOARD

During the period under review, there were no changes to the board of directors.

INVESTMENT GRADE CREDIT RATING

In July 2020 Global Credit Ratings ("GCR") affirmed the national scale ratings assigned to Finbond of $BBB_{(ZA)}$ and $A3_{(ZA)}$ in the long term and short term respectively; with the outlook accorded as Negative. At the same time, Global Credit Ratings affirmed Finbond's international scale long term issuer rating at B, with a Negative outlook.

It should be noted that the rating action follows a reduction in the South African country and financial institutions sector risk assessments.

- On June 24, 2020, the South African Financial Institutions sector risk score was lowered to 7.5, from 8.0 previously.
- The South African country risk score was also lowered to 7.0, from 7.5 previously, in a market alert released on 27 May 2020.

Combined, the above country and sector risk scores comprise the operating environment score, which is a key input into GCR's ratings – yet Finbond's investment grade rating was affirmed.

According to GCR, the ratings are based on the following key assumptions:

- The ratings of Finbond balances the relative strengths and weaknesses of the North American and South African operations, strong earnings supporting adequate levels of capitalisation, stable funding structure, robust liquidity, weak risk position and a modest competitive position. The outlook on both international and national scale ratings reflects the heightened country and sector risk in the aftermath of COVID-19.

- Finbond's competitive position is a relative weakness to the rating. The group is primarily a lender of short-term unsecured consumer loans and has a relatively small retail franchise in comparison to big commercial banks. Albeit geographically diversified, the group's operations are significantly smaller, less diverse (by product and business lines) than banking sector peers in the relative markets. Positively, the group has a good track record of revenue stability and this has been bolstered in recent years on the back of growing international operations.

- Finbond's historically high turnover in top management, entrepreneurial owner management, historic downward fair value adjustments of investment properties and the brief breach of the regulatory capital adequacy ratio ('CAR') by Finbond Mutual Bank ('the bank') in 2019, are reflected in the slightly negative scoring for the management and governance assessment (noting that the bank currently exceeds the minimum required CAR).

- The group's capitalisation is moderately strong, reflected in the GCR leverage of c.11% as at FY20, although representing a slight dip from the prior year due to share buybacks during the year.

Capital is managed on a debt/equity basis and the group targets a range of 1-1.5x. The debt/equity ratio was 1.4x at 29 February 2020, which GCR considers to be strong, supported by strong earnings. The group's return on assets has been over 4% during the past two years, supported by very high interest margins. We expect the GCR leverage ratio to deteriorate slightly over the next 12-18 months, given moderated earnings caused by COVID-19. The group sales are down by between 40% and 50% due to low demand for loans during the various government imposed restrictions in response to COVID-19.

- The group's risk position is weak, reflected by high cost of risk of 32% at FY20. This is due to the nature of unsecured consumer lending characterised by higher Loss Given Default 'LGDs' and modest recoveries. Positively, reserving is good and has a conservative buffer over observed defaults through the cycle. Loan concentrations are also very low reflected by average loan size of below R1, 932 as of February 2020. Collections are good for both North America and South Africa, and with reduced disbursements, a significant portion of the loan book is expected to convert to cash.

- The group is predominantly funded by equity and term deposits, which GCR considers stable funding sources. Robust levels of liquidity are supported by the very short term loan book registering high collections (close to 100% inclusive of recoveries from bad debts). Given the high collection rates and lower sales due to COVID-19, the resultant reduction in the loan book is expected to be a conversion to cash. Accordingly, liquid assets are forecasted to be c.50% of balance sheet by end of FY21 (currently 30%).

LOOKING AHEAD

While we cannot yet predict the full impact on the full year ending 28 February 2021, it is expected that the government ordered lockdowns and COVID-19 related restrictions on economic activity in Finbond's various countries of operations will continue to have a significant adverse impact on results. The recovery is underway, although it is highly uncertain how long it will take for consumer spending and credit markets to return to more "normal" or "new normal" levels. That said, April 2020 represented the monthly low point in terms of loans advanced at R236.4 million, which represented a 47% reduction to that of April 2019. Volumes have been recovering since, albeit inconsistently, to the point where for the 6-month interim period under review, we find ourselves 33% down from the corresponding prior year interim period.

We continue to monitor this extremely fluid situation daily and adjust our response accordingly.

Stress testing (updated and monitored monthly) continues to show that we remain sufficiently capitalised with appropriate liquidity levels in both mild and severe stress scenarios. We remain confident that the benefits of our geographically diversified business, strong balance sheet relative to the size and scope of operations, as well as cash generating ability will continue to stand us in good stead. Finbond will continue to invest in its businesses to position them for the continued recovery period and growth beyond.

Importantly, Finbond believes that it faces this challenging period from a position of relative financial strength, with sufficient liquidity to both navigate the changing environment and seek out new opportunities.

We remain confident that we have the required resources and depth in management to efficaciously overcome these challenges and remain optimistic about our prospects for the future due to Finbond's: management expertise; strong cash flow; strong liquidity and surplus cash position; uniquely positioned 341 branch network in South Africa and 236 branches in North America; superior asset quality; access to funding and conservative risk management practices.

We believe that the evolution from a short term micro finance institution to a retail bank in South Africa and our continued expansion into the North American short term lending market in the implementation of our strategic action plan will ensure that we achieve good results in the medium and long term.

Our business is in a development and growth phase and, as with all growing businesses, real risks remain.

DIVIDEND

No interim dividend has been declared.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

R'000	**Interim unaudited 31 August 2020**	**Interim unaudited [1][2] 31 August 2019 (Restated)**	**% change**	**Full year audited [2] 29 February 2020**
ASSETS				
Cash and cash equivalents	1,270,976	701,959	81	1,055,871
Other financial assets	367,968	267,714	37	308,151
Unsecured loans and other advances to customers	656,859	913,289	(28)	938,351
Trade and other receivables	181,584	156,650	16	158,216
Other assets	3,036	15,684	(81)	10,602
Secured loans and other advances to customers	191,266	207,325	(8)	201,095
Derivative financial instrument	-	6,964	(100)	-
Property, plant and equipment	214,565	151,680	41	213,189
Right of use assets	482,474	500,410	(4)	481,834
Investment property	142,071	137,200	4	142,071
Deferred taxation	81,086	55,247	47	53,093
Goodwill	1,036,013	958,234	8	981,905
Intangible assets	137,160	126,811	8	129,149
Total Assets	**4,765,058**	**4,199,167**	**13**	**4,673,527**
Equity				
Share capital and premium	990,357	1,155,131	(14)	1,016,488
Reserves	245,392	124,526	97	153,895
Retained income	142,026	230,032	(38)	281,910
Equity attributable to owners of the Company	**1,377,775**	**1,509,689**	**(9)**	**1,452,293**
Non-controlling interest	276,667	190,221	45	247,461
Total Equity	**1,654,442**	**1,699,910**	**(3)**	**1,699,754**
Liabilities				
Bank overdraft	16,565	82,983	(80)	19,307
Trade and other payables	101,722	167,917	(39)	316,086
Other liabilities	22,693	34,889	(35)	34,654
Lease liabilities	510,936	451,745	13	507,175
Current tax payable	-	-	-	7,039
Loans from shareholders	105	49,438	(100)	48,251
Fixed and Notice deposits	1,211,751	995,913	22	1,095,116
Deferred tax	5,919	-	(100)	2,604
Commercial paper	1,240,925	716,372	148	943,541
Total Liabilities	**3,110,616**	**2,499,257**	**36**	**2,973,773**
Total Equity and Liabilities	**4,765,058**	**4,199,167**	**18**	**4,673,527**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

R'000	**Unaudited Six months 31 August 2020**	**Unaudited [2] Six months 31 August 2019**	**% Change**	**Audited [2] Year to 29 February 2020**
Interest income	731,200	1,030,487	(29)	2,095,820
Interest expense	(152,009)	(130,695)	16	(254,247)
Net interest income	**579,191**	**899,792**	**(36)**	**1,841,573**
Fee income	101,111	110,344	(8)	239,005
Management fee income	-	43	(100)	88
Other operating income	102,339	151,809	(33)	286,249
Fair value adjustments	(2,319)	5,718	(141)	8,547
Foreign exchange (loss)/gain	672	(4,421)	(115)	(4,750)
Net impairment charge on loans and advances	(145,407)	(240,251)	(39)	(461,450)
Operating expenses	(785,739)	(798,334)	(2)	(1,649,294)
Profit before taxation	**(150,152)**	**124,700**	**(220)**	**259,968**
Taxation charge	38,619	(23,004)	(268)	(45,368)
Profit for the period	**(111,533)**	**101,696**	**(210)**	**214,600**
Other comprehensive income Exchange differences on translation of foreign operations	134,300	146,310	(8)	206,499
Total comprehensive income for the period	**22,767**	**248,006**	**(91)**	**421,099**
Profit attributable to:				
Owners of the company	(139,884)	45,765	(406)	97,643
Non-controlling interest	28,351	55,931	(49)	116,957
Profit for the period	**(111,533)**	**101,696**	**(210)**	**214,600**
Total comprehensive income attributable to:				
Owners of the company	(49,049)	164,352	(130)	248,661
Non-controlling interest	71,816	83,654	(14)	172,438
Total comprehensive income	**22,767**	**248,006**	**(91)**	**421,099**
Total number of ordinary shares outstanding	859,125	924,958		877,255
Weighted average number of ordinary shares outstanding	875,914	923,921		924,411
Basic and diluted (loss)/earnings per share (cents)	(16.0)	5.0	(422)	10.6
Headline and diluted (loss)/earnings per share (cents)	(15.4)	5.0	(411)	10.3
Net profit attributable to owners of the company	**(139,884)**	**45,765**	**(406)**	**97,643**
Loss on disposal of property, plant and equipment	4,572	112	3,982	1,273
Fair value gain of investment properties	-	-	-	(3,780)
Headline earnings	**(135,312)**	**45,877**	**(395)**	**95,136**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

R'000	**Unaudited Six months 31 August 2020**	**Unaudited Six months 31 August 2019**	**% Change**	**Audited Year to 29 February 2020**
CASH FLOW FROM OPERATING ACTIVITIES				
Cash generated from operations	340,446	163,320	108	574,603
Taxation paid	7,106	(48,524)	(115)	(63,561)
Net cash flow from operating activities	**347,552**	**114,796**	**203**	**511,042**
CASH FLOW FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(23,106)	(12,009)	92	(50,207)
Purchase of other intangible assets	(13,388)	(12,427)	8	(23,609)
Purchase of financial assets	(62,135)	(30,949)	101	(66,464)
Change in control of minority interest	-	(10,115)	(100)	(10,115)
Acquisition of business assets, net of cash acquired	-	(4,056)	(100)	(4,930)
Net cash flow from investing activities	**(98,629)**	**(69,556)**	42	**(155,325)**
CASH FLOW FROM FINANCING ACTIVITIES				
Buy back of shares	(162,959)	-	-	(1,815)
Repayment of shareholders' loans	(56,810)	(44,075)	29	(50,831)
Proceeds from issue of commercial paper	297,384	280,876	6	508,045
Finance lease payments	(89,824)	(76,674)	17	(165,071)
Dividends paid	(42,610)	(48,280)	(12)	(79,824)
Net cash flow from financing activities	**(54,819)**	**111,847**	**(149)**	**210,504**
NET INCREASE/(DECREASE) IN CASH	**194,104**	**157,087**	**24**	**566,221**
Cash at the beginning of the period	1,036,564	441,809	135	441,809
Effect of movements in exchange rates on cash held	23,743	20,080	18	28,534
CASH AT THE END OF THE PERIOD	**1,254,411**	**618,976**	**103**	**1,036,564**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R'000	Unaudited 31 August 2020	Unaudited 31 August 2019	Audited 29 February 2020
Total equity at the beginning of the period as previously presented	**1,699,754**	**1,619,441**	**1,506,601**
Correction of error	-	(112,840)	-
Total restated equity at the beginning of the period	**1,699,754**	**1,506,601**	**1,506,601**
Change in share capital and premium			
Issue of shares	-	4,447	4,447
Treasury shares purchased	(26,131)	-	(1,815)
Share buy-back	-	-	(136,828)
Change in reserves			
Equity-settled share-based payment	662	3,698	636
Total comprehensive income for the period	(49,049)	164,352	248,661
Change in control	-	(945)	(945)
Dividends paid	-	(14,318)	(14,318)
Change in non-controlling interest			
Total comprehensive income for the period	71,816	83,654	172,438
Change in control	-	(9,170)	(9,170)
Dividends paid	(42,610)	(38,409)	(69,953)
Total equity at the end of the period	**1,654,442**	**1,699,910**	**1,699,754**

CONDENSED SEGMENTAL INFORMATION

OPERATING SEGMENTS

R'000	**Investment Products**	**Lending**	**Property Investment**	**Transactional Banking**	**Other**	**Total**
Six months ended 31 August 2020						
Interest Income	12,363	716,146	-	224	2,467	731,200
Interest expense	(119,705)	(31,226)	-	(546)	(532)	(152,009)
Net interest income	**(107,342)**	**684,920**	**-**	**(322)**	**1,935**	**579,191**
Fee income	-	83,797	-	17,314	-	101,111
Management fee income	-	-	-	-	-	-
Other operating income	187	99,076	-	-	3,076	102,339
Fair value adjustments	(2,119)	(200)	-	-	-	(2,319)
Foreign exchange loss	-	(39)	-	-	711	672
Net impairment charge on loans and advances	-	(144,705)	-	(702)	-	(145,407)
Operating expense	(2,457)	(682,000)	(1,228)	(32,336)	(67,718)	(785,739)
Profit/(Loss) before taxation	**(111,731)**	**40,849**	**(1,228)**	**(16,046)**	**(61,996)**	**(150,152)**
Taxation	25,244	1,890	277	3,625	7,583	38,619
(Loss)/profit for the period	**(86,487)**	**42,739**	**(951)**	**(12,421)**	**(54,413)**	**(111,533)**

Significant segment assets						
Cash and cash equivalents	628,313	492,777	-	33	149,853	1,270,976
Other Financial Assets	367,968	-	-	-	-	367,968
Unsecured loans and advances	-	656,859	-	-	-	656,859
Trade and other receivables	-	127,870	-	5,923	47,791	181,584
Other assets	-	523	-	2,513	-	3,036
Secured loans and advances	-	191,266	-	-	-	191,266
Property, Plant and Equipment	-	203,938	-	1,035	9,592	214,565
Right of use assets	-	480,349	-	690	1,435	482,474
Investment Property	-	-	142,071	-	-	142,071
Goodwill	-	1,036,013	-	-	-	1,036,013
Intangible assets	-	137,160	-	-	-	137,160
Significant segment liabilities						
Bank overdraft	-	9,177	-	-	7,388	16,565
Trade and other payables	7,878	63,480	-	11,149	19,215	101,722
Other liabilities	-	-	-	22,693	-	22,693
Lease liabilities	-	509,217	-	835	884	510,936
Loans from shareholders	-	-	-	-	105	105
Fixed and notice deposits	1,211,751	-	-	-	-	1,211,751
Commercial paper	1,240,925	-	-	-	-	1,240,925

Six months ended 31 August 2019 [1][2] (Restated)						
Interest income	13,445	1,015,294	-	-	1,748	1,030,487
Interest expense	(68,010)	(50,706)	-	(1,230)	(10,749)	(130,695)
Net Interest Income	**(54,565)**	**964,588**	**-**	**(1,230)**	**(9,001)**	**899,792**
Fee income	-	93,297	-	17,047	-	110,344
Management fee income	-	-	-	-	43	43
Other operating income	176	149,941	-	-	1,692	151,809
Fair value adjustments	1,446	-	-	-	4,272	5,718
Foreign exchange loss	-	-	-	-	(4,421)	(4,421)
Net impairment charge on loans and advances	-	(240,251)	-	-	-	(240,251)
Operating expense	(1,728)	(702,698)	(1,556)	(25,052)	(67,300)	(798,334)
Profit/(Loss) before taxation	**(54,671)**	**264,877**	**(1,556)**	**(9,235)**	**(74,715)**	**124,700**
Taxation	47,259	(146,033)	1,345	7,983	66,442	(23,004)
(Loss)/profit for the period	**(7,412)**	**118,844**	**(211)**	**(1,252)**	**(8,273)**	**101,696**

Significant segment assets						
Cash and cash equivalents	358,143	215,412	-	-	128,404	701,959
Other Financial Assets	267,714	-	-	-	-	267,714
Unsecured loans and advances	-	913,289	-	-	-	913,289
Trade and other receivables	-	102,282	-	1,210	53,158	156,650
Other assets	-	-	-	15,684	-	15,684
Secured loans and advances	-	207,325	-	-	-	207,325
Property, Plant and Equipment	-	132,842	-	4,181	14,657	151,680
Right of use assets	-	497,361	-	-	3,049	500,410
Investment Property	-	-	137,200	-	-	137,200
Goodwill	-	958,234	-	-	-	958,234
Intangible assets	-	126,811	-	-	-	126,811
Significant segment liabilities						-
Bank overdraft	-	12,340	-	-	70,643	82,983
Trade and other payables	9,651	108,715	-	13,659	35,892	167,917
Other liabilities	-	-	-	34,889	-	34,889
Lease liabilities	-	449,453	-	1,113	1,179	451,745
Loans from shareholders	-	-	-	-	49,438	49,438
Fixed and notice deposits	995,913	-	-	-	-	995,913
Commercial paper	716,372	-	-	-	-	716,372

Year ended 29 February 2020 [2]						
Interest income	23,337	2,062,769	-	-	9,714	2,095,820
Interest expense	(181,599)	(61,281)	-	(794)	(10,573)	(254,247)
Net Interest Income	**(158,262)**	**2,001,488**	**-**	**(794)**	**(859)**	**1,841,573**
Fee income	-	200,718	-	38,261	26	239,005
Management fee income	-	88	-	-	-	88
Other operating income	359	285,890	-	-	-	286,249
Fair value adjustments	9,133	(537)	4,871	-	(4,920)	8,547
Foreign exchange loss	-	(132)	-	-	(4,618)	(4,750)
Net impairment charge on loans and advances	-	(461,450)	-	-	-	(461,450)
Operating expense	(3,839)	(1,541,876)	(2,997)	(48,857)	(51,725)	(1,649,294)
Profit/(Loss) before taxation	**(152,609)**	**484,189**	**1,874**	**(11,390)**	**(62,096)**	**259,968**
Taxation	72,734	(152,300)	(895)	5,437	29,656	(45,368)
(Loss)/profit for the period	**(79,875)**	**331,889**	**979**	**(5,953)**	**(32,440)**	**214,600**

Significant segment assets						
Cash and cash equivalents	168,404	878,114	-	1,782	7,571	1,055,871
Other Financial Assets	308,151	-	-	-	-	308,151
Unsecured loans and advances	-	938,351	-	-	-	938,351
Trade and other receivables	-	105,409	-	99	52,708	158,216
Other assets	-	-	-	10,602	-	10,602
Secured loans and advances	-	201,095	-	-	-	201,095
Property, Plant and Equipment	-	212,556	-	633	-	213,189
Right of use assets	-	478,508	-	866	2,460	481,834
Investment Property	-	-	142,071	-	-	142,071
Goodwill	-	981,905	-	-	-	981,905
Intangible assets	-	129,149	-	-	-	129,149
Significant segment liabilities						
Bank overdraft	-	10,174	-	-	9,133	19,307
Trade and other payables	999	161,687	-	2,286	151,114	316,086
Other liabilities	-	-	-	34,654	-	34,654
Lease liabilities	-	504,485	-	953	1,737	507,175
Loans from shareholder	-	-	-	-	48,251	48,251
Fixed and notice deposi	1,095,116	-	-	-	-	1,095,116
Commercial paper	943,541	-	-	-	-	943,541

GEOGRAPHICAL SEGMENTS

R'000	Six months ended 31 August 2020 South Africa	North America	Total	Six months ended 31 August 2019 [1][2] (Restated) South Africa	North America	Total
Interest Income	158,680	572,520	731,200	211,355	819,132	1,030,487
Interest expense	(127,641)	(24,368)	(152,009)	(101,254)	(29,441)	(130,695)
Net interest income	**31,039**	**548,152**	**579,191**	**110,101**	**789,691**	**899,792**
Fee income	77,761	23,350	101,111	88,247	22,097	110,344
Management fee income	400	(400)	-	-	43	43
Other operating income	90,711	11,628	102,339	139,400	12,409	151,809
Fair value adjustments	(2,119)	(200)	(2,319)	3,490	2,228	5,718
Foreign exchange loss	712	(40)	672	(4,294)	(127)	(4,421)
Net impairment charge on loans and advances	(87,405)	(58,002)	(145,407)	(72,430)	(167,821)	(240,251)
Operating expense	(264,427)	(521,312)	(785,739)	(257,104)	(541,230)	(798,334)
Profit/(Loss) before taxation	**(153,328)**	**3,176**	**(150,152)**	**7,410**	**117,290**	**124,700**
Taxation	27,993	10,626	38,619	(6,403)	(16,601)	(23,004)
(Loss)/profit for the period	**(125,335)**	**13,802**	**(111,533)**	**1,007**	**100,689**	**101,696**

Significant segment assets						
Cash and cash equivalents	678,441	592,535	1,270,976	516,771	185,188	701,959
Other Financial Assets	367,968	-	367,968	267,714	-	267,714
Unsecured loans and advances	234,072	422,787	656,859	255,310	657,979	913,289
Trade and other receivables	68,239	113,345	181,584	78,253	78,397	156,650
Other assets	3,036	-	3,036	15,684	-	15,684
Secured loans and advances	174,028	17,238	191,266	181,402	25,923	207,325
Property, Plant and Equipment	41,356	173,209	214,565	77,779	73,901	151,680
Right of use assets	94,472	388,002	482,474	128,192	372,218	500,410
Investment Property	142,071	-	142,071	137,200	-	137,200
Goodwill	196,787	839,226	1,036,013	196,787	761,447	958,234
Intangible assets	171	136,989	137,160	171	126,640	126,811
Significant segment liabilities						
Bank overdraft	7,388	9,177	16,565	70,643	12,340	82,983
Trade and other payables	51,892	49,830	101,722	74,736	93,181	167,917
Other liabilities	22,693	-	22,693	34,889	-	34,889
Lease liabilities	105,922	405,014	510,936	141,235	310,510	451,745
Loans from shareholders	105	-	105	49,438	-	49,438
Fixed and notice deposits	1,211,751	-	1,211,751	995,913	-	995,913
Commercial paper	1,240,925	-	1,240,925	716,372	-	716,372

	Year ended 29 February 2020 [2]		
	South Africa	**North America**	**Total**
Interest Income	398,282	1,697,538	2,095,820
Interest expense	(210,751)	(43,496)	(254,247)
Net interest income	**187,531**	**1,654,042**	**1,841,573**
Fee income	175,471	63,534	239,005
Management fee income	894	(806)	88
Other operating income	281,368	4,881	286,249
Fair value adjustments	9,039	(492)	8,547
Foreign exchange gain	(4,618)	(132)	(4,750)
Net impairment charge on loans and advances	(104,993)	(356,457)	(461,450)
Operating expenses	(552,760)	(1,096,534)	(1,649,294)
Profit before taxation	**(8,068)**	**268,036**	**259,968**
Taxation	(13,785)	(31,583)	(45,368)
Profit for the period	**(21,853)**	**236,453**	**214,600**

Significant segment assets			
Cash and cash equivalents	716,980	338,891	1,055,871
Other Financial Assets	308,151	-	308,151
Unsecured loans and advances	288,994	649,357	938,351
Trade and other receivables	83,009	75,207	158,216
Other assets	10,602	-	10,602
Secured loans and advances	179,540	21,555	201,095
Property, Plant and Equipment	53,601	159,588	213,189
Right of use assets	123,433	358,401	481,834
Investment Property	142,071	-	142,071
Goodwill	196,787	785,118	981,905
Intangible assets	171	128,978	129,149
Significant segment liabilities			
Bank overdraft	9,133	10,174	19,307
Trade and other payables	215,751	100,335	316,086
Other liabilities	34,654	-	34,654
Lease liabilities	137,021	370,154	507,175
Loans from shareholders	-	48,251	48,251
Fixed and notice deposits	1,095,116	-	1,095,116
Commercial paper	943,541	-	943,541

[1] Results have been restated for the unaudited interim period ended 31 August 2019, in line with correction of prior period error disclosures in the audited year ended 29 February 2020 annual financial statements, as applicable. See also additional information later.

[2] Loan initiation fees have been reclassified from fee income to interest income. Comparative information has also been reclassified to this effect. Loan initiation fees have been appropriately accounted for over the years, but these were presented and disclosed as fee income in the statement of comprehensive income previously, instead of being presented and disclosed as part of interest income. The reclassification resulted in an increase in interest income of R70.3 million (31 August 2019: R92.6 million, 29 February 2020: R191.9 million) and a corresponding decrease in fee income of R70.3 million (31 August 2019: R92.6 million, 29 February 2020: R191.6 million) and consequently did not have any impact on the statement of financial position or net profit or loss whatsoever.

Notes to the condensed consolidated financial statements

Finbond Group Limited is a company domiciled in South Africa. The condensed consolidated financial statements of the Company as at and for the six months ended 31 August 2020 comprise the Company and its subsidiaries (together referred to as the "Group").

Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with JSE Limited Listings Requirements and the requirements of the Companies Act of South Africa. The condensed consolidated financial statements have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS") IAS 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and financial pronouncements as issued by the Financial Reporting Standards Council, IAS 34 Interim Financial Reporting, the Companies Act and the JSE Listings Requirements. It does not include all the information required for full annual financial statements and should be read in conjunction with the audited consolidated annual financial statements of the Group as at and for the year ended 29 February 2020.

The accounting policies applied by the Group in these condensed consolidated financial statements are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements.

Use of judgements and estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated financial statements the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated annual financial statements as at and for the year ended 29 February 2020.

Impairment losses on financial assets
The Group uses a quantitatively estimated coverage ratio to calculate expected credit losses (ECLs) for both unsecured and secured loans and advances to customers. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e. by geography and product type).

The coverage ratio is initially based on the Group's historical observed default rates. The Group will calibrate the ratio to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed. All information available up to 31 August 2020 was considered in determining the economic scenarios applied to estimate the impact of COVID-19.

The assessment of the correlation between historical observed default rates, forecasted economic conditions and ECLs is however a significant management estimate. The amount of ECLs is sensitive to changes in circumstances and of forecasted economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Impairment of goodwill and intangible assets
The Group's performance for the full year ending 28 February 2021 may have a knock-on effect on expected future cash flows used to determine the value-in-use of goodwill and intangible assets.

Management's interim assessment however indicated that the current abnormal COVID-19 operating losses experienced in the six months ended 31 August 2020, when aggregated with budgeted amounts and cash flows for the future, would not have a significant effect on the valuation of goodwill and intangible assets.

A significant amount of judgement is required in this assessment and it is currently not possible to precisely estimate the full financial effect for the year ahead and accordingly, the potential effect on expected future cash flows. A significant management assumption utilised in our assessment is that sales volumes will be back to – or very close to – pre-COVID-19 levels by February 2021. Significant uncertainty exists around the timing of the COVID-19 recovery, and indeed of the "new normal", and it should be noted that this assumption could materially change as the recovery progresses.

Loans and other advances to customers

The following tables contain an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised.

	Stage 1	Stage 2	Stage 3	Total
Unsecured loans and other advances to customers				
31 August 2020				
Gross loans and advances before impairment	547,927	131,083	256,203	935,213
Allowance for ECL/Impairment losses	(65,785)	(69,158)	(143,411)	(278,354)
Net loans and advances	**482,142**	**61,926**	**112,791**	**656,859**
ECL coverage (%)	12%	53%	56%	30%
31 August 2019				
Gross loans and advances before impairment	801,326	273,084	177,360	1,251,770
Allowance for ECL/Impairment losses	(99,851)	(159,989)	(78,641)	(338,481)
Net loans and advances	**701,475**	**113,096**	**98,719**	**913,289**
ECL coverage (%)	12%	59%	44%	27%
29 February 2020				
Gross loans and advances before impairment	796,373	272,060	213,477	1,281,910
Allowance for ECL/Impairment losses	(71,737)	(144,729)	(127,093)	(343,559)
Net loans and advances	**724,636**	**127,331**	**86,384**	**938,351**
ECL coverage (%)	9%	53%	60%	27%
Secured loans and other advances to customers				
31 August 2020				
Gross loans and advances before impairment	112,241	16,262	96,630	225,133
Allowance for ECL/Impairment losses	(2,897)	(3,120)	(27,849)	(33,867)
Net loans and advances	**109,344**	**13,142**	**68,781**	**191,266**
ECL coverage (%)	3%	19%	29%	15%
31 August 2019				
Gross loans and advances before impairment	110,002	34,398	95,921	240,321
Allowance for ECL/Impairment losses	(2,674)	(4,561)	(25,762)	(32,997)
Net loans and advances	**107,328**	**29,837**	**70,160**	**207,325**
ECL coverage (%)	2%	13%	27%	14%
29 February 2020				
Gross loans and advances before impairment	115,511	20,737	94,372	230,620
Allowance for ECL/Impairment losses	(2,419)	(2,360)	(24,746)	(29,525)
Net loans and advances	**113,092**	**18,377**	**69,626**	**201,095**
ECL coverage (%)	2%	11%	26%	13%

Fair value measurement

Fair value hierarchy of instruments measured at fair value

The fair value hierarchy reflects the significance of the inputs used in making fair value measurements. The level within which the fair value measurement is categorised in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The different levels have been defined as follows:

Level 1: Fair value is based on quoted unadjusted prices in active markets for identical assets or liabilities that the group can access at measurement date.
Level 2: Fair value is determined through valuation techniques based on observable inputs, either directly, such as quoted prices, or indirectly, such as derived from quoted prices. This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly observable from market data.
Level 3: Fair value is determined through valuation techniques using significant unobservable inputs. This category includes all assets and liabilities where the valuation technique includes inputs not based on observable data, and the unobservable inputs, have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required, to reflect differences between the instruments.

	Amortised cost	**FVTPL**	**Total**	**Fair value**	**Hierarchy of valuation technique**
Financial assets					
Cash and cash equivalents	1,270,976	-	1,270,976	1,270,976	#
Other financial assets	359,268	8,700	367,968	367,968	Level 2
Unsecured loans and advances	656,859	-	656,859	656,859	Level 2
Secured loans and advances	191,266	-	191,266	191,266	Level 2
Trade and other receivables	73,887	-	73,887	73,887	#
Financial liabilities					
Bank Overdraft	16,565	-	16,565	16,565	#
Trade and other payables	99,666	-	99,666	99,666	#
Fixed and notice deposits	1,211,751	-	1,211,751	1,211,751	Level 2
Commercial paper	1,240,925	-	1,240,925	1,267,207	Level 2
Loans from shareholders	105	-	105	105	Level 2
Other liabilities	22,693	-	22,693	22,693	#
Lease liabilities	510,936	-	510,936	510,936	Level 2

The fair value closely approximates their carrying amount due to their short-term nature or on-demand repayment terms.

Valuation techniques used to derive level 2 and 3 fair values

Level 2 fair values of other financial assets have been derived by using the rate as available in active markets. The IBNR provision is managed from industry data accumulated on the Alexander Forbes Risk and Insurance Services claim system and is classified as a Level 3.

Level 3 fair values of investment properties have been generally derived using the market value, the comparable sales method of valuation, and the residual land valuation method, as applicable to each property.

The fair value is determined by external, independent, expert property valuers, having appropriate, recognised professional qualifications and recent experience in the location and category of the properties being valued. Independent external valuations are performed at a minimum of every 3 years, unless management's annual fair value assessment indicates material changes to the property market and/ or underlying assumptions and inputs into current valuation models.

Reconciliation of assets and liabilities measured at level 3

R'000	**Opening balance**	**Additions**	**Gains recognised in profit or loss**	**Closing balance**
Assets				
Investment property	142,071	-	-	142,071

No transfers of assets and liabilities within levels of fair value hierarchy occurred during the current financial year.

Cash and cash equivalents are not fair valued and the carrying amount is presumed to equal fair value.

Short-term receivables and short-term payables are measured at amortised cost and approximate fair value, due to the short-term nature of these instruments. These instruments are not included in the fair value hierarchy.

Correction of prior period errors

After the previous year's interim period the Group discovered two prior period errors which impacted only the statement of financial position as at 31 August 2019.

The first related to a detailed reconciliation of all North American loan management systems. We found everything to be in order, apart from at Flexicash and Metro (two small North American subsidiaries), where we discovered a legal book that was brought on balance sheet at acquisition, which should have been written off with the previously written off legal book on transition to IFRS9, the previous financial year. This resulted in a bad debt write-off of R10.1 million as at, or before 28 February 2019. The cumulative effect of the above, along with the prior period error at Cash Shop (another small North American subsidiary) identified and reported in the 31 August 2019 interim period, in turn resulted in an impairment to goodwill allocated to the Midwest Small Entities Cash Generating Unit (MWSE CGU) of R96.6 million.

The second related to a settlement of R12.4 million reached with a previous shareholder of Mzansi Property Finance due to a dispute over the purchase price paid, and subsequent issue of FGL shares, in terms of the sale of share agreement entered into with Mzansi Property Finance signed in February 2007.

Both these errors were corrected in the 29 February 2020 Integrated Annual Report as disclosed in note 42, and no further restatement is necessary.

The following table summarises the impact on the Group's condensed consolidated financial statements for the interim period ended 31 August 2019:

	Impact of correction of error		
R'000	**As previously reported**	**Adjustments**	**As restated**
Consolidated statement of financial position			
Unsecured loans and other advances to customers	923,345	(10,056)	913,289
Trade and other receivables	150,524	6,126	156,650
Goodwill	1,054,793	(96,559)	958,234
Other asset items	2,170,994	-	2,170,994
Total assets	**4,299,656**	**(100,489)**	**4,199,167**
Trade and other payables	155,566	12,351	167,917
Other liability items	2,331,340	-	2,331,340
Total liabilities	**2,486,906**	**12,351**	**2,499,257**
Retained income	341,980	(111,948)	230,032
Reserves	125,418	(892)	124,526
Other equity items	1,345,352	-	1,345,352
Total equity	**1,812,750**	**(112,840)**	**1,699,910**

Going concern

The Financial Statements have been prepared on the going concern basis. The basis presumes that management neither intends to cease trading nor has reason to believe that the foreseeable future of the Company is in doubt.

Please also refer to additional COVID-19 liquidity stress testing and commentary under the executive overview above.

References to future financial performance included anywhere in this announcement have not been reviewed or reported on by the Group's external auditors.

For and on behalf of the Board

Dr Malesela Motlatla   Dr Willem van Aardt

23 October 2020