GCR GLOBAL CREDIT RATING CO.
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# Finbond Group Limited

**South Africa Microfinance Institution Analysis** **October 2014**

| Security class | Rating scale | Rating | Rating outlook | Review date |
|---|---|---|---|---|
| Long term | National | BBB-(ZA) | Stable | 10/2015 |
| Short term | National | A3(ZA) | | |
| Long term | International | BB | Stable | 10/2015 |

## Financial data:

(US$'000 Comparative)

| | 29/02/13 | 28/02/14 |
|---|---|---|
| R/US$ (avg.) | 8.37 | 9.98 |
| R/US$ (close) | 8.84 | 10.80 |
| Total assets | 63.4 | 100.5 |
| Total capital‡ | 34.5 | 30.5 |
| Borrowings | 21.2 | 64.4 |
| Net advances | 13.8 | 19.5 |
| Liquid assets | 7.1 | 8.0 |
| Operating income | 21.0 | 23.7 |
| Profit after tax | 2.4 | 3.7 |
| Market cap. † | R1,748m/US$160m | |
| Market share* | 1.6% | |
| Market penetration[a] | 12-13% | |

*‡ Refers to common shareholders equity.*
*† As at 24 October 2014 (R/US$ 10.93).*
**As at % of total unsecured credit outstanding at 30 June 2014.*
*[a] Market share based on direct peer (short-term credit market) origination in 2Q 2014.*

## Rating history:

**Initial rating (October 2011)**
Long term: BB(ZA)
Rating outlook: Stable

**Last rating (July 2014)**
Long term rating: BB+(ZA)
Short term rating: A3(ZA)
Rating outlook: Stable
Long term (International): BB
Rating outlook: Negative

## Related methodologies/research:

Banking Criteria (updated April 2014)
Microfinance Institution Criteria (updated April 2014)
Finbond Rating Reports (up to 2013)

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## Summary rating rationale

The ratings are based on the following key factors:

- Finbond Group Limited's ("Finbond", "the group") growing franchise as a leading player in mutual banking and short-term microfinance, providing short- and medium-term credit, insurance and savings products through its 281 branches.
- Adequate capital, conservative credit/risk management, and improving profitability/earnings diversification (despite regulatory risk) support the rating, which excludes the prospect of systemic support, given its low likelihood. The rating outlooks consider Finbond's prospects/strategic direction, within the context of the negative consumer health, debt affordability, and credit trends.
- High liquidity levels (46% of assets) and adequate capitalisation (Finbond Mutual Bank's capital adequacy ratio ("CAR") was 34% at 1H F15) support the moderate credit appetite. The loan/deposit ratio fell from 65.2% (FYE14) to 30.3% (1H F15).
- Asset quality stability was noted, despite F14 advances growth of 69.7% (1H F15: 23.5%). As c.80% of loans issued are short-term, traditional asset quality measures may overstate bad debt experience. Gross/net impairment ratios (impairments – instalments in arrears) declined to 20.1%/12.1% at 1H F15 (FYE13: 23.9%/15.6%). Net impairments vs. instalments due (management's key measure) fell from 6.3% (FYE14) to 5.8% (1H F15). Over the same period, collection rates remained strong, loan rejection rates rose, and arrears levels/roll-rates were stable. Provisioning appeared adequate, but close monitoring is required given the challenging market conditions.
- In F14, operating income rose by 34.3% to R236.1m (net income – 80.3% to R36.9m). Despite 21.9% cost growth in F14 driven by loan volumes and risk systems/infrastructure enhancement, the cost/income ratio declined to 69.6% (F13: 76.7%). Impairment costs grew 25.8% in F14 and 90.0% in 1H F15, highlighting a lagged effect of loan book size and term extension.
- The group's prospects are subject to forecast risk given negative market trends. The focus on short-term loans reduces dependency on advances growth as a business driver, but the potential for regulatory caps could crimp future microlending margins. Revenue diversification strategies, including transactional banking, while positively viewed, are in a nascent phase, and may raise costs. Finbond appears well placed to develop its business profitably and conservatively, despite the challenging operating environment.

## Factors that could trigger a rating action may include:

**Positive movement/s:** A sustained improvement in business profile, asset quality, capital and earnings would be positively considered.

**Negative movement/s:** The ratings would be sensitive to weakening in asset quality indicators or long-term earnings prospects (affected by uncertain economic/regulatory environments), and a material decline in capital from current levels.



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## Corporate profile

### Business summary[1]

*History*

Finbond commenced trading in 2003, listed on the Johannesburg Securities Exchange ("JSE") in 2007, and was awarded a Mutual Banking licence from the Registrar of Banks in July 2012, after complying with the relevant South African Reserve Bank ("SARB") requirements. In F14, Finbond transferred its listing to the main board of the JSE, following a sector reclassification from "consumer finance" to "banks".

*Business profile*

The group operates two divisions, providing:

- Investment and saving products (mainly fixed term and indefinite term products); and
- Micro Credit and Insurance products.

The holding company (Finbond Group Limited) is the entity through which insurance products are provided, while its wholly-owned subsidiary, Finbond Mutual Bank ("FMB"), provides the savings and loan products through its SARB-regulated infrastructure.

Finbond's mandate is to provide investment/savings products, personal cash loans, and selected short-term insurance products (credit life, retrenchment cover and funeral insurance) to South Africa's under-banked but employed population. Clients in the lower-to-middle income brackets (Living Standards Measure ("LSM") bands 1-7) are targeted, and reached through the extensive branch network, growing employee base, and understandable product offering/ loan repayment platform.

| Channel | National coverage | Staff complement | Payment platform |
|---|---|---|---|
| Own branches | 281 (FYE14: 200) | 866 (FYE14: 627) | Direct debit order |

Source: Finbond (data as at 31 August 2014).

While many microfinance providers are lending-only organisations, the FMB banking license enables the group to meet borrowing/saving/risk management (insurance) needs of clients, but remains primarily a specialist microfinance institution ("MFI"). The long-term strategy, which includes the provision of a broader range of banking and financial services to individuals and SMEs, requires Finbond to convert its Mutual Banking license to a Commercial Banking license. This conversion, which is expected to take place in 2015, is supported by the SARB and is unlikely to require substantial alterations to the existing operational/regulatory structure, as FMB is already subject to the minimum capital requirements, reporting and regulatory oversight required for a commercial bank.

Finbond has grown its assets and loans by compound annual growth rates ("CAGRs") of 31.1% and 4.8%, respectively, in the period under review. However, loans have increased 1.3x in the last two years, following the granting of the banking licence. Finbond has a modest (1.6%) share of South African unsecured loans outstanding (per estimates based on National Credit Regulator ("NCR") data at 30 June 2014). However, considering the short-term nature of the group's loans, its market share rises to 12-13% of this segment of unsecured lending.

### Ownership structure

Table 1 provides a breakdown of the group's shareholder structure at 28 February 2014.

| Table 1: Effective shareholding | % |
|---|---|
| Public shareholders | 27.9% |
| Private shareholders | 72.1% |
| *With the latter split between:* | |
| Statutory directors† | 44.7% |
| Institutional entities | 25.9% |
| Other‡ | 1.5% |

† Ultimately held by a trust, of which the group CEO is the beneficiary.
‡ Shares bought OTC by Finbond and those held by group employees.
Source: Finbond.

### Governance structure[2]

Table 2 summarises the composition of the board of directors ("Board") and adherence to aspects of the King III Code of Corporate Governance ("King III").

| Table 2: Corporate governance summary | |
|---|---|
| Number of directors | 9 |
| -Independent non-executives | 6 |
| -Non-independent non-executives | 1 |
| -Executives | 2 |
| Separation of the chairman | Yes |
| Frequency of meetings | At least quarterly. 4 Board meetings were held in F14 |
| Board committees* | Audit; Remuneration – all non-exec.<br>Risk, Social and Ethics – majority non-exec.<br>Executive – majority exec. |
| External auditors | KPMG Inc. |
| Internal control and compliance | Internal audit reports to Audit Committee |

Source: Finbond.

There were no changes to the Board in F14/1H F15, nor were assessments of the functioning of the Board conducted. The group applied King III principles, and regulatory compliance appears adequate. The SARB is Finbond's primary regulator. The group is also subject to the National Credit Act, NCR codes, provisions of the Companies' Act, and JSE rules.

### Control structure

The group's operations are segregated into functional areas (Operations, Risk, Internal audit, Compliance, Human Capital Development, Finance, Business Development and Information Technology), which feed through to the group's Executive Committee ("EXCO") sub-committees (Asset and Liability, Credit, Operational, Bank Information Technology

[1] For a detailed review of the group's history, organisational structure and individual business operations, refer to previous GCR reports.

[2] Given the intricacies associated with good corporate governance, GCR recommends an independent assessment to test true compliance.

and Finance and Tax Committees). As such, operations are subject to several layers of internal oversight and external control (including the Internal Audit and Compliance functions). Expansion of selected oversight functions has been undertaken in order to effectively implement FMB's Risk Management Framework. The bulk of the increased expenses during F14 relate to increasing capacity/improving risk management functions/ processes within FMB.

The bank and group have extensive operational and reporting policies in place, and high-level monitoring is supported by extensive and detailed management and risk reporting, which is produced on a regular and timely basis.

**Reporting structure and access to information**
Finbond's financial accounts are prepared in accordance with International Financial Reporting Standards ("IFRS"). The annual and interim financial reports are detailed, transparent and timely. KPMG Inc, the group's external auditors, issued an unqualified audit opinion on the F14 financial statements of the bank and the group. Performance data, changes in risk appetite and other relevant information are regularly updated and disseminated on the Stock Exchange News Service ("SENS").

## Operating environment

*General overview*
From the beginning of 2010 to mid-2012, unsecured credit granted grew at an average annual rate of 54%, leading to concerns that a bubble was forming in the unsecured lending space. Recent negative credit experience in lenders' unsecured books indicates that from at least 4Q 2012, unsecured credit was being granted to increasingly high risk customers, at a time when the macroeconomic environment was becoming more challenging for consumers, particularly in lower LSM bands which comprise the traditional unsecured lending market. In assessing MFIs' operating environment, three aspects need to be considered:

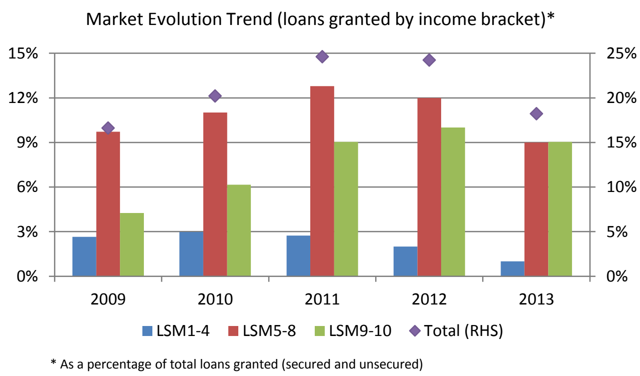
(1) The impact of recent macroeconomic trends on consumers' ability to service and repay debt;
(2) Evolution of growth and borrower composition in the unsecured credit market; and
(3) Trends in quality and risk metrics of unsecured credit, pre- and post-book.

*Macroeconomic environment*
Real gross domestic product ("GDP") growth weakened to 1.9% in 2013 (2012: 2.5%), and showed minimal (0.6%) annualised growth in 2Q 2014, after contracting 0.6% (annualised) in 1Q 2014. Poor GDP growth in 1H 2014 was driven by several factors, including instability in the labour market (including prolonged strike action), infrastructure backlogs and continued weakness in key trading partners. Moreover, rising inflationary pressures, particularly from necessities such as food and petrol, and administered costs such as electricity and rates, has seen growth in disposable income and consumption expenditure slow. In addition, while official data showed a slight reduction in Statistics South Africa's official unemployment rate in 2013, the private sector continues to shed jobs, and widespread labour unrest has placed financial strain on many employed borrowers. Unemployment continued to rise in 2Q 2014. Thus, while consumer confidence was strong during 2012 and in 1H 2013, in 2H 2013 it fell to lower levels than during the 2008 financial crisis.

This has been amplified by severe Rand depreciation, which has added substantially to inflationary pressures. In response, the SARB raised the repo rate by 50 basis points ("bps") to 5.5% in January 2014, and by a further 25bps in July 2014, citing rising inflation. Slower income growth, low confidence and expected monetary tightening have reduced sales volumes on durable/semi-durable goods including furniture/appliances, vehicles and technology. In 1H 2014, spending on consumer durables and semi-durables continued to decelerate and spending on non-durable goods such as food and fuel recorded a rare contraction in 1Q 2014, most likely related to income disruption arising from industrial action, and rising prices of these goods. In light of the worsening consumer environment, credit demand has reduced while negative trends in non-performing loan ("NPL") data has crimped supply. Consequently, debt to disposable income levels (a proxy for debt affordability) are downward (to 73.5% in 2Q 2014), after ticking up in 2012 and 1H 2013, implying slight improvement in consumer debt capacity.

Constrained economic growth is coupled with evidence that consumers are reducing their living levels (postponing purchasing/financing of durable goods), but some commentators note that consumer expenditure is still being prioritised over debt servicing, which is of particular concern to MFIs.

*Evolution of growth and borrower composition in the unsecured credit market*
The balance of unsecured credit outstanding increased fourfold between 4Q 2007 and 4Q 2013. Over the same period, unsecured lending's share of consumer credit increased from 8% to 18%.

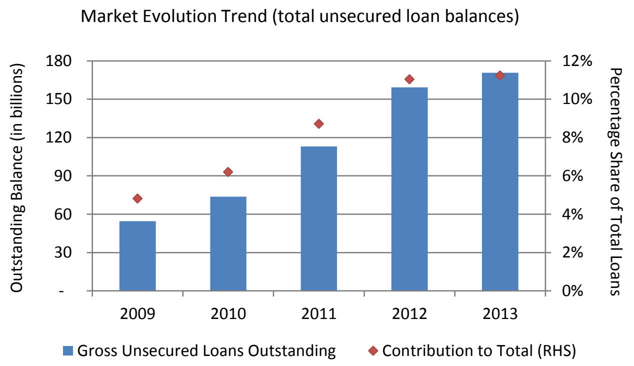



Source: NCR.

Not all unsecured credit is microfinance (higher income earners also have access to unsecured personal loans), but it is the best reported proxy for the microfinance market segment. In part, unsecured lending growth can be explained by improved access to credit for middle-income earners (the traditional recipients of unsecured loans), and the increasing size of the middle class. Data from the South African Audience Research Foundation shows that many consumers have migrated from the lowest income groups (LSM 1-4) to middle income groups (LSM 5-8). LSM 5-8 increased from 37% of the population (2001) to 60% (2012).

A number of other factors have also contributed to the unsecured lending boom, and the distribution of unsecured credit, including:

- Substitution of secured for unsecured credit in upper-middle income clients, given banks' desires to enhance lending yields, and customers seeking alternatives given restrictions/low approval rates for secured loans. Increasing proportions of unsecured credit granted were granted to LSM 9-10 from 2009 to 2013, with some stabilisation evident in 1H 2014;
- Increased competition in LSM bands 5-8 as deposit banks increased their supply of unsecured lending, forcing traditional MFIs to offer longer tenors and larger loans (while keeping consumers' debt servicing costs constant); and
- Increased lending to higher risk customers (primarily in 2011 and 2012) in the hope of boosting margins.



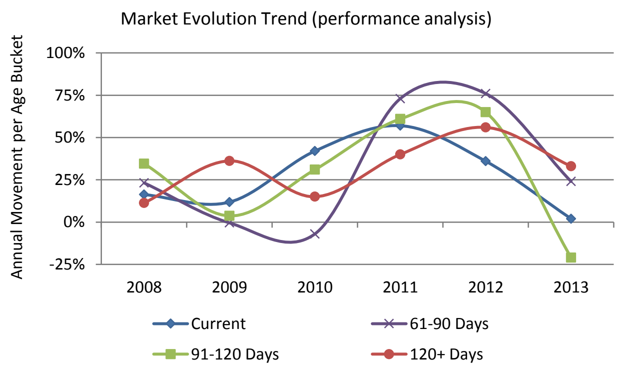

Source: NCR.

The SARB and NCR have, in the past few years, raised concerns over the pace of growth in unsecured lending and the ability of lower-middle income consumers to cope with their indebtedness levels, warning of an impending rise in NPLs and bad debt in this credit segment. Early 2013 appears to have been an inflexion point at which banks/MFIs began to heed these warnings (or see the effects in their books), and credit granting has dropped sharply from y/y growth in excess of 50% in 2010 and 2011 to becoming broadly negative from 2Q 2013. In addition, balances of unsecured loans outstanding are starting to stabilise on a market-wise basis, both in Rand terms and as a proportion of consumer credit (unsecured credit outstanding posted 2% y/y growth in 2Q 2014, and q/q growth averaged 0.9% for the year ended 2Q 2014).

*Trends in unsecured credit quality and risk metrics*

NCR data indicates that the pullback in unsecured credit has been driven by demand-side and supply-side factors, and is beginning to affect the structure of unsecured credit books. Key trends include:

- Diminishing credit demand in higher LSMs – illustrated by lower y/y growth in consumer credit application rates (these turned negative in 2Q 2013);
- Contraction in credit supply – evidenced by declining credit approval rates from 56% in 2Q 2011 to 43% in 4Q 2013 and 42% in 2Q2014). Concomitantly, unsecured loans as a proportion of total consumer loans granted (by number) has fallen from 49% to 46% over the past six quarters, implying that approval rates on unsecured credit have fallen more than for consumer credit overall;
- Increasing average loan sizes – mid-size loans (R3,000-R15,000) declined from 30% to 15% of unsecured loans granted between 2010 and Q2 2014, while loans >R15,000 have increased from 68% to 82% of unsecured lending over the same period;
- Extended loan tenor – the proportion of loans with 7-36 month tenors granted, declined between 2010 and 1Q 2014, while 61+ month loans rose from 5% to 15% of total loans granted between 4Q 2010 and 2Q 2014;
- Negative trends in aging – since 2011, current loans have fallen from 79% to 70% and delinquent (90+ day overdue loans) have risen from 14% to 20% between 4Q 2011 and 2Q 2014; and




Source: NCR.

- Rising NPLs and impairment requirements – since 3Q 2012, growth in non-current loan balances and NPLs have substantially exceeded unsecured loan book growth. In 2Q 2014, unsecured loan books grew 2% y/y, non-current loans rose 15% y/y and delinquent loans rose 21% y/y (with the highest growth being recorded in 120+ days), supporting anecdotal evidence that unsecured loan book performance is deteriorating rapidly and provision levels will need to rise. In addition, rising NPLs are amplified by the slowdown in book growth.

Although current actions should mitigate the excesses of the past, the deteriorating consumer environment is expected to constrain growth and profitability of lending.

*Focus – short-term credit*

While the preceding discussion is relevant to all MFIs and other participants in unsecured lending, trends in the the specific loan tenor to which Finbond is primarily exposed (1-6 months) warrant additional commentary. Based on NCR data for 2Q 2014, arrears experience is better than for broader unsecured lending. 75% of short-term loans are current, with 13% in arrears >90 days (vs. 20% for unsecured). It should be noted, however, that for short-term credit, balances outstanding at the end of the quarter are lower than quarterly short-term credit granted, highlighting the turnover in such portfolios, and the need for a tailored approach to the assessment of short-term credit vs. standard unsecured lending.

### Competitive landscape

Finbond's main competitors in the short-term credit market are c.1,750 independent cash lenders, companies/groups with less than 10 branches (approximately 1,750 branches in total) and Capitec Bank (647 branches). As increasing regulation and unfavourable market conditions place strain on smaller MFIs, Finbond's competitive environment is easing, and existing branch network/client bases are regularly available to purchase. Finbond added 81 branches to its network during 1H F15, primarily by purchasing several existing short-term lending franchises.

Finbond also benchmarks itself against a selection of larger, broader-based MFIs/unsecured credit providers. In the past 1-2 years, several MFIs/ unsecured credit providers of significant size have either scaled back their general short-term lending products (Real People), or entered a period of severe financial stress (African Bank, Blue Financial Services) creating further opportunities for Finbond to grow its market share. As such, relevant financial comparatives are scarce. The group's focus on shorter term loans and ability to disburse cash over the counter differentiates the group from longer term lenders such as Capitec Bank, Real People, Blue Financial Services and RCS. Capitec Bank – which is c.12 years ahead of Finbond in its journey from niche microlender to retail bank – has recently emerged as the new leader in the unsecured credit space, and at 31 August 2014 had 647 branches, R38.3bn in deposits and R31.3bn in unsecured loans.

## Financial profile

### Likelihood of support

Finbond's last capital contribution (in 2008) was backed by investment property. High capitalisation levels combined with earnings retention have negated the need for subsequent equity raising. While there is no recent track-record of shareholder support, buoyant performance in Finbond's share price in the past 2-3 years has led to existing investors showing significant interest in increasing their equity holdings. While a mix of strategic and institutional shareholders is viewed as positive, the large stake of the founder/CEO implies that shareholder support, should it be forthcoming, is most likely to come from institutional or new shareholders. Finbond's rating does not reflect substantial support in times of financial stress, given its low likelihood.

### Funding structure

Finbond's funding structure has continued to focus on retail term deposit funding as its primary source, and the deposit base grew c.272% to R697.2m at FYE14, and c.19% to R830.7m at 1H F15.

| Table 3: Funding base | F13 | | F14 | |
|---|---|---|---|---|
| | R'm | % | R'm | % |
| Long-term funding | 111.4 | 59.4 | 485.4 | 69.6 |
| *Term facilities†* | *12.7* | *6.8* | *-* | *-* |
| *Customer deposits* | *98.5* | *52.5* | *484.1* | *69.4* |
| *Other* | *0.2* | *0.1* | *1.3* | *< 0.1* |
| Short-term funding† | 76.1 | 40.6 | 211.8 | 30.4 |
| *Bank overdraft* | *10.5* | *5.6* | *-* | *-* |
| *Customer deposits* | *65.6* | *35.0* | *211.8* | *30.4* |
| **Total** | **187.5** | **100.0** | **697.2** | **100.0** |

† With most of the underlying facilities provided on a secured basis.
Source: Finbond.

Management has indicated that Finbond has the capacity to raise deposits at a faster pace than in 1H F15, but has chosen to reduce marketing efforts given current limited opportunities for profitable funding deployment, Finbond's conservative credit appetite, and the risk of negative carry associated with excess interest-bearing liabilities. Salient features of the key savings and investment products follow:

| Product | Tenor (months) | Interest (%) | Minimum deposit | F14 (R'm) |
|---|---|---|---|---|
| **Savings – Fixed term** | | | | |
| Fixed period | 6-72 | 7.5-10.0 | R100 000 | 612.1 |
| **Investments – Mutual Bank shares** | | | | |
| Indefinite period paid up | 18-notice | 9.5 | R100 000 | 55.8 |
| Fixed period paid up | 60 | 9.8 | R100 000 | 29.3 |
| Permanent interest bearing | * | 11.0 | R100 000 | - |

* Permanent, but transferable after 72 months

Finbond's savings/investment products are mainly taken up by retirees in the LSM 8-10 bracket, who are looking for low-risk, high yield investments. Funding of this nature has a number of advantages:

- Low concentration risk – at 1H F15, there were 2,489 deposits, with the top 10 comprising 7.3% of the deposit book.
- Funding stability – given the typically long terms of the products. Reinvestment rates on maturity have ranged from 67–78% over the 12 months to 31 August 2014.
- Asset/liability matching – the ability to encourage uptake of deposits of various tenors enables the group to better match its asset/liability profile.

- Lower funding cost – despite a total 75bp increase in the repo rate in 2014 thus far, Finbond's funding cost has been on a downward trajectory, falling to 9.11% at 1H F15 (1H F14: 9.44%).

These have been achieved in an environment of constant/stable funding risk, as illustrated by:

- Increase in long-term funding at FYE14 to 69.6% of interest bearing liabilities (FYE13: 59.4%).
- Stability in average deposit term (26–29% over the 12 months to 31 August 2014) and a 6.5% increase in average deposit size to c.328,000 over the same period.

*Liquidity*

As Finbond's weighted average deposit term at 1H F15 is c.28 months, and weighted average loan term is c.5 months, the contractual asset/liability mismatch is positive in the critical "0-6 month" bucket. The ratio of cash and liquid funds to total assets was 8.0% at FYE14 (11.3% FYE13), but as loan growth has lagged deposit growth from F14 onwards, substantial excess funds (FYE14: R413.7m) have been invested in highly-rated money-market and income funds. As a result, Finbond's ratio of cash, liquid funds and financial investments to total assets is 41.5% (FYE13: 46.1%) – indicating substantial excess liquidity levels.

In addition, Finbond already complies with the stringent liquidity and funding ratios, which will be introduced step-wise, as part of the move towards full Basel III implementation (which began from 1 January 2013). Per these rules, banks will be required to comply with two key liquidity measures:

- Liquidity Coverage Ratio ("LCR") – this is a 30-day stress test which requires sufficient high-quality liquid assets to cover envisaged net outflows. Ultimately, Basel III requires an LCR of at least 100% by 2019 (60% by 2015); and
- Net Stable Funding Ratio ("NSFR") – this requires long-term asset cash flows to exceed long-term funding cash flows. Basel III requires an NSFR of at least 100% by 2018.

At FYE14 and 1H F15, Finbond's actual LCR and NSFR ratios well exceeded regulatory requirements. While positively viewed from a solvency perspective, the high allocation of the balance sheet to liquid assets results in negative carry, as rates on deposit funding typically exceed investments yields in money market funds.

*Interest rate risk*

As loans and deposits are all at fixed-rates, an element of natural hedge exists in the book. However, excess liquid balances are exposed to some interest rate and basis risk, which is not hedged. Per the Risk Management Framework, the management of liquidity risk takes precedence over the optimization of interest rate risk.

## Capital structure

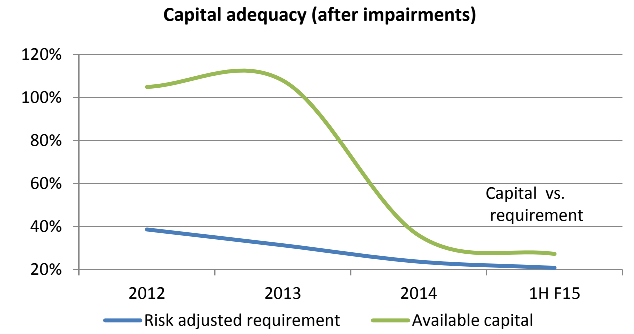
*Group level*

Table 4 represents a comparative snapshot of the group's equity (vs. combined assets). The group's capital to unweighted assets ratio (20.3% at 1H F15), remains adequate to support Finbond's current business structure, whilst providing some capital cushion for loss absorption. In addition, c.R32m in eligible, but not yet approved Tier II capital was available at 1H F15. Note that the SARB requires a minimum of R50m in eligible capital to be available before an application for approval can be made.

| Table 4: Capitalisation | F13<br>R'm | F14<br>R'm | 1H F15<br>R'm |
|---|---|---|---|
| **Total reported capital** | **302.4** | **339.3** | **312.5** |
| *Paid up common shares* | *239.7* | *239.7* | *205.2* |
| *Retained earnings* | *62.7* | *99.6* | *107.2* |
| Add: Qualifying reserves | 3.1 | 4.0 | 5.4 |
| Add: Approved Tier II capital | - | - | 42.0 |
| Less: Goodwill | (61.3) | (62.6) | (115.3) |
| **Eligible capital** | **244.2** | **280.7** | **244.6** |
| **Total balance sheet assets†** | **496.2** | **1 023.3** | **1 204.6** |
| **Selected ratios:** | | | |
| Adjusted capital : Total assets | 49.2% | 27.4% | 20.3% |

† Asset exposures not risk-weighted. Source: Finbond.

Stress tests conducted on the group's capital revealed that while capital cover has declined substantially given strong growth in the loan book and other assets, Finbond has adequate reserves in a moderate-stress scenario, assuming limited advances growth.




*Finbond Mutual Bank level*

The previous analysis covers group capital (which is lower than that of FMB, as part of the group's capital is funded by an intercompany loan from FMB). FMB is the SARB-regulated entity in which regulatory capital is measured, has a substantially higher capital base than the group (R448.0m vs. R329.6m at FYE14) and a CAR of 36.1% at FYE14 (1H F15: 34.7%). FMB's capitalisation is seen as adequate given business risk levels, management CAR targets, and the 25% regulatory minimum.

From a capital adequacy perspective, loan growth is expected to be supported by earnings retention, and increasing qualifying Tier II capital levels linked to the issue of certain long-term deposit products.

## Operational profile

*Strategic focus*

Finbond is committed to its five-year strategic plan, for which detailed annual action plans/financial targets are available. The group strategy includes:

- Growing the distribution network, client base and market share, partly by pursuing "micro-acquisitions" of competitors in the short-term loan market and larger acquisitions to diversifying income and enhance brand profile;
- Converting to a commercial bank;
- Introducing new products (including debit cards, transactional banking, mortgage, SME and vehicle finance) at a rate of approximately one per year;
- Accessing the capital markets and diversifying the capital base; and
- The sale of investment properties.
- Increasing support of social initiatives.

Evidence indicates that attainment of key strategic objectives is on track. During F14, Finbond became eligible to participate in key national payments/ clearing/settlement systems, was granted a principal Mastercard License, and was granted permission to join the Society for Worldwide Interbank Financial Telecommunication (SWIFT). In 1H F15, several small (branch) acquisitions were concluded, and the acquisition of insurer African Unity Holdings (principally a client acquisition initiative) is well advanced, pending regulatory approval. Debit card systems are in place and the product is in a pilot phase, with the public launch expected in early 2015.

*Operational focus*

From an operational point of view, Finbond's key business propositions include the provision of micro-credit (target clients, LSM 1–5), and investment/ savings products (deposit-taking). At FYE14, 19.4% of the group's balance sheet is allocated to lending, 46% to liquidity management, and 22% to investment property. Deposit-taking and liquidity management elements have been covered in the previous section. The properties are legacy capital contributions. What follows in an assessment of the lending business, and associated performance and risks.

*Risk focus*

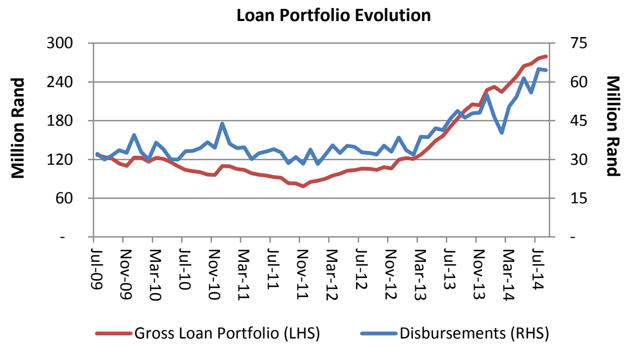
Key risks inherent in Finbond's business are credit risk, liquidity risk and operational risk. These risks are constantly monitored at executive management and Board level, supported by rigorous reporting and periodic review of processes.

## Micro-finance operations

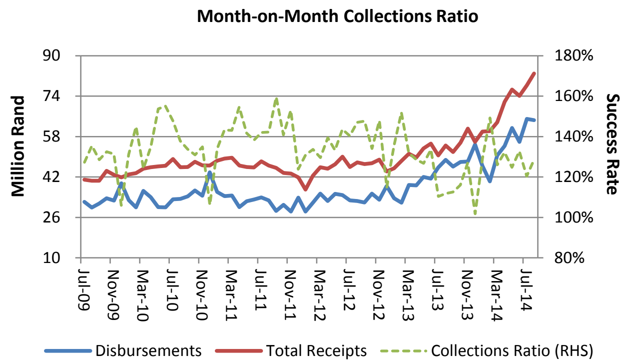
### Portfolio evolution

At FYE13, the group offered loans with a maximum 6-month tenor, and the average loan term of the book was 2.6 months (implying an annual book turn of c.4.6 times). In contrast, 12- 18- and 24-month loan products were introduced during F14 (mainly available to existing clients and important for client retention), and at FYE14 and 1H F15, 20% of the loan book was allocated to these "medium-term" loans. It should be noted that medium term loans remain in the portfolio for longer, explaining their substantial portion of outstanding balances. c.93% of monthly sales still comprise loans with tenors of 6 months and less. Average loan tenor increased to c.3.5 months at 1H F15, with whole loan turn reducing to c.3.5 times.

The effect of the introduction of longer-term loan products is evident in accelerating net loan portfolio growth (94.8% in F14 relative to 16.8% in F13, and a further c.19% in 1H F15), which is outstripping growth in disbursements, as loan turnover in the portfolio has slowed.

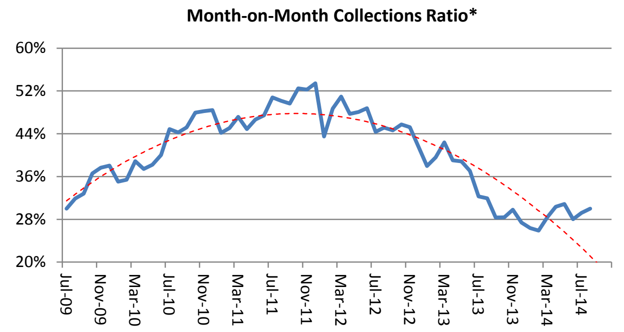



The cash collections rate has continued to be volatile/ seasonal, and Finbond's loan portfolio has remained highly cash generative in F14 and 1H F15, with receipts outstripping disbursements by at least 20% in most months. This is evidence that short-term loans continue to be the group's primary offering, and loan growth and performance should be viewed in the context of the short-term nature of the book.




The m/m collections ratio has declined over time as longer-term loan products introduced are beginning to season, but some stability is evident over the 12 months to 31 August 2014.

Despite collections rates declining from previous levels, this has not placed pressure on liquidity, as the traction gained in Finbond's long-term deposit products has put the group into an excess liquidity position since early/mid F14. Maintenance of strict credit underwriting standards has resulted in loan growth lagging deposit attraction.

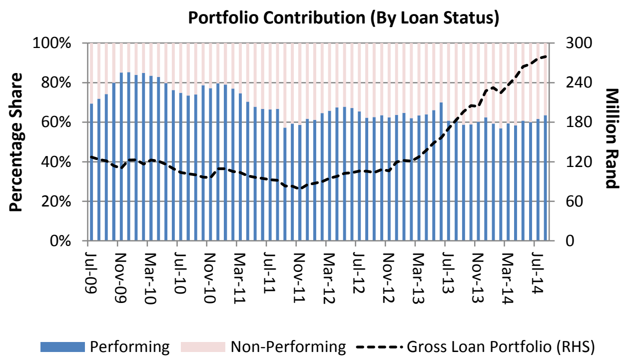



* With 2 period polynomial linear trendline

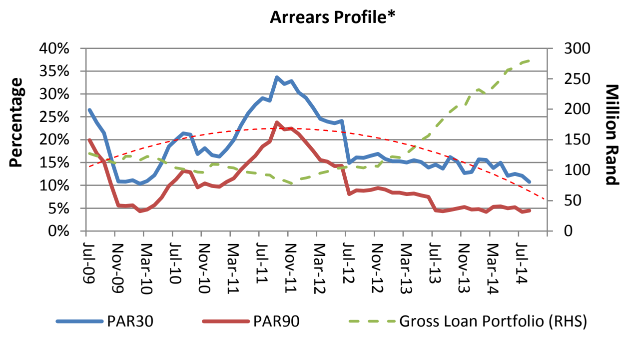
Apart from the challenge of managing the negative profitability implications of excess funding, this is not a situation which management is uncomfortable with.

**Portfolio quality**

Finbond has had success in pricing for risk, and maintaining consistently conservative credit scoring and rejection rates (94% on 24-month loans, 56% on 6-month loans, and 7–14% on 1-month loans at 1H F15 – with all increasing over the past 12 months).




However, the combination of a seasoning longer-term book and the overwhelmingly negative trends in consumer finances and broader unsecured lending have pushed non-performing loan ("NPL") balances higher over time. That said, the proportion of the portfolio in arrears is stable (note that the previous chart shows the loan balance for which one or more instalments are in arrears).




* With 2 period polynomial linear trendline

Considering the arrears profile (above) in which portfolio at risk ("PAR") is measured relative to instalments in arrears (not the whole related loan) shows declining PAR percentages, partly due to the extension of book term and rising book size from F14 onwards.

Statistics on the rate at which loan arrears transition through the ageing buckets after a failed payment/s have remained broadly stable over the past 30 months, where NPL formation rates of many MFIs have accelerated substantially.

| Loan behaviour statistics† | F13 | F14 | 1H F15 |
|---|---|---|---|
| Current to 30-days | 62.0% | 60.8% | 61.2% |
| 31-days to 60-days | 83.2% | 86.2% | 85.4% |
| 61-days to 90 days | 85.5% | 88.7% | 86.5% |

† Gross forward roll rates, based on days past contractual due date.

Table 5 illustrates the group's asset quality landscape. Instalment-basis metrics are used by Finbond's management to measure financial performance, and classify non-performing loans as instalments due and not paid (which is a fair measure given the short-term nature of the book).

| Table 5: Asset quality | F13<br>R'm | F14<br>R'm | 1H F15<br>R'm |
|---|---|---|---|
| **Gross advances** | **135.7** | **230.1** | **284.2** |
| *Total balance (per board pack)* | *166.4* | *298.7* | *372.8* |
| *Less: Deferred future income* | *(30.7)* | *(68.6)* | *(88.6)* |
| Performing | 103.3 | 181.3 | 226.9 |
| Non-performing | 32.4 | 48.8 | 57.2 |
| Less: Provisions | (13.3) | (19.1) | (23.0) |
| **Net advances** | **122.4** | **211.0** | **261.2** |
| ***Instalment basis metrics*** | | | |
| Gross impairment ratio | 23.9% | 21.2% | 20.1% |
| Net impairment ratio | 15.6% | 14.1% | 12.1% |
| Net impairment/Instalments due | 5.2% | 6.3% | 5.8% |
| ***Outstanding balance basis metrics*** | | | |
| Gross impairment ratio | n.a. | 43.1% | 36.4% |
| Net impairment ratio | n.a. | 38.0% | 30.8% |

Source: Finbond.

The outstanding balance basis metrics present NPLs on the assumption that the entire loan balance relating to an instalment not paid is non-performing (to enable direct comparison with typical NPL definitions in the market). Irrespective of the absolute measure used, the trends in NPL experience are encouraging on almost all measures, indicting broadly improving asset quality in the book, despite the negative operating environment.

Provisioning levels appear modest (1H F15: 97.7% of > 90-day arrears), but given that impaired loans are likely to stop performing, be provided for and be written off (either against provisions or directly) within a 1-year period, provisioning levels relative to outstanding balances provide little information by themselves. It is more important to consider whether cash flow and revenue is sufficiently generous to accommodate a high level of NPLs, which appears to be the case based on several portfolio views. We do, however, note that net impairment as a percentage of cash received has shown negative experience during 1H F15, illustrating some consumer strain.

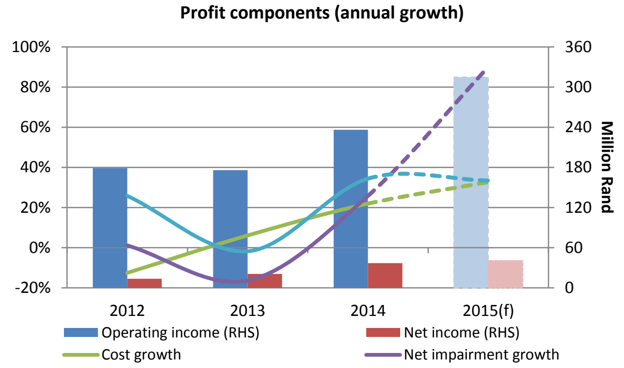
## Financial performance and prospects

A 5-year financial synopsis is shown at the back of this report, supplemented by the commentary below.

Gross advances growth was 69.7% in F14 (F13: 35.3%) and 23.5% in 1H F15, driving the increase in net interest income ("NII") and fee/commission income. In F14, operating income rose 34.3% to R236.1m (net income – 80.3% to R36.9m).

F14 operating income was generated as follows:

- 25% NII – 35% from microfinance, less 10% negative spread relating to excess deposits;
- 51% net fee/commission income (primarily loan origination and processing fees);
- 24% insurance-related (net premium income, claims management services and credit life).




2015(f) – represents 1H F15 figures, annualised

With reference to the chart above:

- Higher loan sales coupled with net interest margin expansion (F14: 20.2%, F13: 18.6%). resulted in NII rising 59.8% in F14 (F13: flat). Other income grew 28.3% in F14 (F13: 12.8%).
- Net income growth was supported by moderate (21.9%) cost growth in F14, relating to increased lending volumes, risk system bolstering, and infrastructure development. The cost/income ratio declined to 69.6% (F13: 76.7%). The high cost base reflects Finbond's early development stage, low-value high-volume proposition, retail client focus, and bricks-and-mortar distribution model.
- Of concern is the rising growth in impairments (provisions and bad debt write-offs). In F14, impairments rose 25.8% (vs. advances – 69.7%) and in 1H F15, impairments have risen 45% (vs. advances – 23.5%). While this partly illustrates Finbond's exposure to the beleaguered consumer, (the group tightened its lending criteria during F14 and 1H F15, but kept provisioning policies constant), it also highlights a lagged effect of loan book term extension (into higher risk-return products) which are beginning to season. This is further evidenced by the contrast between rising impairment charges (as a percentage of operating income (F14: 10.6%, 1H F15: 15.1%), but a decline in net write-offs (vs. average advances) from 10.4% (F13) to 7.7% (F14).
- Given Finbond's orientation to the short-term lending segment, traditional asset quality arguments may not accurately reflect bad debt experience. That said, in the negative operating environment, with some evidence of rising NPLs, close monitoring is required.

| Table 6: Interim result comparison | Actual August 13 R'm | Budget August 14 R'm | Actual August 14 R'm |
|---|---|---|---|
| Net interest income | 23.0 | 42.9 | 34.9 |
| Other income | 99.5 | 176.0 | 160.1 |
| **Total operating income** | **122.5** | **218.9** | **195.0** |
| Bad debt charge | (14.5) | (11.5) | (23.7) |
| Operating expenses | (87.4) | (178.4) | (139.3) |
| **Profit/ (loss) before tax** | **20.6** | **29.0** | **24.7** |

Source: Finbond.

The group's results vs. budget for 1H F15 illustrate below-budget operating income and higher than expected impairments, compensated for by strong cost control. While the group appears broadly on track to meet its full year net income targets, the lower revenue contribution and elevated impairment levels are of concern.

## Prospects and conclusion

The group's prospects are subject to moderate forecast risk given current negative trends in the macroeconomic/credit cycles, and may restrain loan growth in the next 18-24 months. In addition, the (as yet uncertain) introduction of regulatory caps on microlending fees/commissions and credit life policy premia could negatively impact the group's revenue generation capacity.

That said, Finbond's short-term loan focus reduces its dependency on advances expansion to grow business relative to other players – book turnover is probably an equally important measure. In addition, Finbond is in the process of expanding its product offering (a debit card trial is currently underway) and transactional banking is expected to be introduced early in 2015. This strategy should slowly diversify revenue streams to include transactional banking fees etc, and somewhat mitigate the risks associated with potential negative regulatory developments regarding loan and insurance charge caps on microlending business, which is a key risk for the group.

Funding is not a constraint, as deposit funding well exceeds advances in issue. Finbond's strong balance sheet (46% allocated to liquid assets), and acceptable capitalisation levels (total FMB CAR ratio of 34%) signal the health of this specialised microlender. Finbond appears well placed to develop its business profitably and conservatively, within the context of a more challenging macroeconomic environment.

# Finbond Group Limited

(South African Rand in millions except as noted)

| For the year ended 28 February | 2010 | 2011 | 2012* | 2013* | 2014 |
|---|---|---|---|---|---|
| **Income Statement** | | | | | |
| Interest income | 65.6 | 58.4 | 47.4 | 51.2 | 93.0 |
| Interest expense | (19.7) | (15.9) | (16.8) | (20.7) | (44.3) |
| **Net interest income** | **45.9** | **42.5** | **30.6** | **30.5** | **48.7** |
| Asset related gains / (losses)ⁿ | 142.5 | (19.4) | 22.4 | 3.1 | 5.0 |
| Other income | 89.9 | 119.2 | 126.0 | 142.2 | 182.4 |
| **Total operating income** | **278.3** | **142.3** | **179.0** | **175.7** | **236.1** |
| Net impairment charge | (27.7) | (23.5) | (23.7) | (19.8) | (24.9) |
| Operating expenditure | (189.3) | (145.3) | (127.0) | (134.7) | (164.3) |
| **Net profit/ (loss) before tax** | **61.3** | **(26.5)** | **28.2** | **21.2** | **46.9** |
| Tax | (3.2) | 6.1 | (14.8) | (0.7) | (9.9) |
| **Net profit/ (loss) after tax** | **58.2** | **(20.3)** | **13.4** | **20.5** | **36.9** |
| Other after-tax income / (expenses) | - | 0.3 | 0.1 | 0.3 | - |
| **Net attributable income/ (loss)** | **58.2** | **(20.0)** | **13.6** | **20.7** | **36.9** |
| | | | | | |
| **Balance Sheet** | | | | | |
| Ordinary share capital and reserves | 252.5 | 235.5 | 247.6 | 305.8 | 330.4 |
| Minority interest | 0.1 | (0.4) | (0.6) | (0.8) | (0.8) |
| **Total capital and reserves** | **252.6** | **235.1** | **247.1** | **304.9** | **329.6** |
| Long-term borrowings | 140.0 | 159.1 | 159.2 | 111.4 | 484.1 |
| Short-term borrowings | 38.0 | 19.4 | 35.2 | 76.1 | 211.8 |
| Other liabilities | 52.1 | 30.5 | 35.6 | 65.0 | 60.3 |
| **Total capital and liabilities** | **482.8** | **444.1** | **477.1** | **557.5** | **1,085.8** |
| | | | | | |
| Cash and liquid assets | 58.7 | 36.9 | 53.2 | 63.0 | 86.8 |
| Net customer loans | 95.6 | 95.6 | 89.5 | 122.3 | 211.0 |
| Other loans | 0.5 | 0.1 | 0.1 | 0.1 | - |
| Investments - Financial assets | 6.5 | 6.3 | 8.6 | 24.8 | 413.7 |
| Investments - Property | 207.0 | 207.0 | 229.6 | 233.0 | 242.6 |
| Other assets | 114.4 | 98.1 | 96.1 | 114.2 | 131.8 |
| **Total assets** | **482.8** | **444.1** | **477.1** | **557.5** | **1,085.8** |
| | | | | | |
| **Contingencies** | **33.7** | **33.8** | **26.6** | **31.2** | **32.8** |
| | | | | | |
| **Key ratios (%)** | | | | | |
| ***Financial management*** | | | | | |
| Interest expenses / Average gross advances | 16.0 | 15.2 | 16.3 | 15.3 | 19.2 |
| Interest expenses / Average funding liabilities | 11.9 | 8.9 | 9.0 | 11.0 | 6.4 |
| Interest bearing debt / Total capital (:1) | 0.7 | 0.8 | 0.8 | 0.6 | 2.1 |
| Total capital / Total assets | 52.3 | 52.9 | 51.8 | 54.7 | 30.4 |
| Internal capital generation | 12.1 | (4.6) | 2.8 | 3.7 | 3.4 |
| Loans / Deposits | 53.7 | 53.6 | 46.0 | 65.2 | 30.3 |
| Cash and liquid assets / Total assets | 12.2 | 8.3 | 11.2 | 11.3 | 8.0 |
| Cash, liquid funds and financial investments / Total assets | 13.5 | 9.7 | 13.0 | 15.8 | 46.1 |
| | | | | | |
| ***Asset quality*** | | | | | |
| Portfolio at risk‡ / Gross advances | 11.7 | 17.7 | 24.2 | 24.4 | 21.3 |
| Loan loss reserves / Average gross advances | 5.5 | 10.2 | 10.4 | 11.3 | 10.5 |
| Loan loss reserves / Portfolio at risk‡ | 56.6 | 56.8 | 44.4 | 40.2 | 39.1 |
| Net impairment charge / Average gross advances | 22.5 | 22.4 | 22.9 | 16.8 | 13.6 |
| Net inpairment charge / Total operating income | 9.9 | 16.5 | 13.3 | 11.3 | 10.6 |
| | | | | | |
| ***Efficiency and Productivity*** | | | | | |
| Operating expenses / Average gross advances | 153.9 | 138.8 | 122.9 | 99.3 | 71.4 |
| Cost per loan (Rand value) | 4.1 | 3.3 | 3.3 | 2.8 | 3.4 |
| Operating expenses / Operating income | 68.0 | 102.1 | 71.0 | 76.7 | 69.6 |
| | | | | | |
| ***Profitability*** | | | | | |
| Net interest margin | 25.5 | 29.6 | 22.2 | 18.6 | 20.2 |
| Net interest income / Average gross advances | 37.3 | 40.6 | 29.6 | 22.5 | 21.2 |
| Non interest income / Total operating income | 32.3 | 83.8 | 70.4 | 80.9 | 77.3 |
| Net profit margin | 22.0 | (18.6) | 15.8 | 12.0 | 19.8 |
| Portfolio yield | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 |
| ROaE | 25.0 | (8.2) | 5.6 | 7.5 | 11.6 |
| ROaA | 13.0 | (4.3) | 2.9 | 4.0 | 4.5 |
| | | | | | |
| ***Nominal growth indicators*** | | | | | |
| Total assets | 16.3 | (8.0) | 7.4 | 16.8 | 94.8 |
| Net customer loans | (19.2) | (0.1) | (6.4) | 36.7 | 72.5 |
| Shareholders equity | 30.3 | (6.7) | 5.1 | 23.5 | 8.1 |
| Attributable income | n.a. | (134.4) | (167.7) | 53.0 | 78.1 |

* Restated.
ⁿ Relates to revaluations, recognition of goodwill, net profit on sale/purchase and impairment losses on intangibles.
‡ Refers to loans past due for more than 30-days.

**GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S FINANCIAL INSTITUTIONS GLOSSARY**

| | |
|---|---|
| Asset Quality | The ability of a bank's assets, especially its loans, to continue to perform according to its terms and generate net interest income for the bank. |
| Bad Debt | All or portion of an account, loan, or note receivable considered to be uncollectible. |
| Balance Sheet | Basic financial statements, usually accompanied by appropriate disclosures that describe the basis of accounting used in its preparation and presentation of a specified date the entity's assets, liabilities and owners' equity. Also known as a statement of financial position. |
| Basel | Basel Committee on Banking Supervision housed at the Bank for International Settlements. |
| Basis Points | A basis point is 1/100th of a percentage. |
| Capital Adequacy | A measure of the adequacy of an entity's capital resources in relation to its current liabilities and also in relation to the risks associated with its assets. An appropriate level of capital adequacy ensures that the entity has sufficient capital to support its activities and that its net worth is sufficient to absorb adverse changes in the value of its assets without becoming insolvent. |
| Cash Flows | Net of cash receipts and cash disbursements relating to a particular activity during a specified accounting period. |
| Corporate Governance | The manner in which an entity is governed and decisions are undertaken. |
| Credit Rating Agency | A party that provides an opinion on the credit quality of assets, debt securities and companies. |
| Credit risk | Risk that a party to a contractual agreement or transaction will be unable to meet their obligations or will default on commitments. Credit risk can be associated with almost any transaction or instrument such as swaps, repos, CDs, foreign exchange transactions, etc. Specific types of credit risk include sovereign risk, country risk, legal or force. |
| Customer Deposits | Deposits other than interbank deposits. |
| Default | Failure to make loan payments on a timely basis or to comply with other terms/requirements as stipulated in the loan agreement. |
| Deferred | An action that has been postponed until a future date. |
| Depreciation | Expense allowance made for wear and tear on an asset over its estimated useful life. |
| Diversification | The principle that a portfolio in which assets are separated into different industry sectors, geographic regions and firms will embody less overall risk than one in which assets are concentrated into a few sectors, regions and firms. |
| Expenditure | Payment, either in cash, by assuming a liability, or by surrendering an asset. |
| Financial Institution | An entity that focuses on dealing with financial transactions, such as investments, loans and deposits. |
| Financial Statements | Presentation of financial data including balance sheets, income statements and statements of cash flow, or any supporting statement that is intended to communicate an entity's financial position at a point in time and its results of operations for a period then ended. |
| Franchise | Business or banking franchise; a bank's business. |
| Hedge | A risk management technique used to reduce the possibility of loss resulting from adverse movements in commodity prices, equity prices, interest rates or exchange rates arising from normal banking operations. Most often, the hedge involves the use of a financial instrument or derivative such as a forward, future, option or swap. |
| Impairment | An amount set aside for expected losses to be incurred by a creditor. |
| Income Statement | Summary of the effect of revenues and expenses over a period of time. |
| Interest Rate | The amount paid by a borrower to a lender in exchange for the use of the lender's money for a certain period of time. Interest is paid on loans or on debt instruments, such as notes or bonds, either at regular intervals or as part of a lump sum payment when the issue matures. |
| Interest Rate Risk | Interest rate risk in the banking book is the risk that earnings or economic value will decline as a result of changes in interest rates. |
| Interim Financial Statements | Financial Statements that report the operations of an entity/business for less than one year. |
| Internal Audit | Audit performed within an entity by its staff rather than an independent certified public accountant. |
| King III | The King Report on Governance for South Africa 2010. |
| Liquid Assets | Assets, generally of a short term, that can be converted into cash. |
| Liquidity Risk | Liquidity is the ability to fund increases in assets and meet obligations as they become due, without incurring unacceptable losses. |
| Net Interest Margin | Net interest margin is the net interest income divided by average interest earning assets. |
| Non-performing loan | When a borrower is overdue, typically 90 + days in arrears or as defined in the transaction documents. |
| Operational Risk | The risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This includes legal risk, but excludes strategic risk and reputational risk. |
| Rating Outlook | A rating outlook indicates the potential direction of a rating over the medium term, typically a 1-2 year period. |
| Regulatory Capital | The total of primary, secondary and tertiary capital. |
| Retained Earnings | The accumulation of an entity's profits less any dividends paid out. |
| Reputational Risk | The risk of impairment of an entity's image in the community or the long-term trust placed in it by its shareholders as a result of a variety of factors, such as performance, strategy execution, the ability to create shareholder value, or an activity, action or stance taken by the entity. |
| Risk Appetite | The quantum of risk the group is willing to accept in pursuit of its business strategy. Risk appetite is expressed quantitatively as risk measures such as economic capital and risk limits, and qualitatively in terms of policies and controls. |
| Risk Management | Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy. |
| Risk Management Framework | An outline for the management of a risk more fully developed or described elsewhere. |
| Risk Reporting | The communication of risk information in all phases of the risk management process, namely identification, measurement, management and monitoring. |
| Tier II Capital | Secondary capital is mainly made up of subordinated debt, portfolio impairment and 50% of any revaluation reserves and other specified regulatory deductions. |
| Secured Loan | A loan which is backed by a pledging of real or personal property (collateral) by the borrower to the lender. Unlike unsecured loans, which is backed by a mere promise by the borrower that he will repay the loan, in case of a secured loan, the lender can initiate legal action against the borrower to reclaim and sell the collateral (pledged property). |
| Sovereign Risk | The risk of default by the government of the country on its obligations. |
| Subordinated Debt | Refers to the status of the debt. In the event of the bankruptcy or liquidation of the debtor, subordinated debt only has a secondary claim on repayments, after other debt has been repaid. |
| Write-off | The total reduction in the value of an asset. |

**SALIENT FEATURES OF ACCORDED RATINGS**

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

The ratings above were solicited by, or on behalf of, Finbond Group Limited, and therefore, GCR has been compensated for the provision of the ratings.

Finbond Group Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit rating/s has been disclosed to Finbond Group Limited with no contestation of the rating.

The information received from Finbond Group Limited and other reliable third parties to accord the credit rating included the audited annual financial statements at 28 February 2014 (plus four years of comparative numbers), interim financial statements for the six months ended 31 August 2014, latest internal and/or external report to management, full year detailed budgeted financial statements, management accounts to 31 August 2014, corporate governance and enterprise risk framework, reserving methodologies, capital management policy, industry comparative data (including consumer lending information up to and including 2Q 2014 (as supplied by the NCR), and a breakdown of facilities available and related counterparties.