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 2018

EXECUTIVE OVERVIEW

The directors are pleased to present the financial results of the Finbond Group for the six months ended 31 August 2018.

During the period under review, Finbond delivered another set of solid results and made further progress with regards to the realisation of its vision “to be the leading mutual bank in South Africa, improving the quality of life of our clients through their participation in saving together, growing together and ownership of their own community bank”. This included a number of achievements and significant developments:

- Finbond Mutual Bank rated 2nd best bank in South Africa and 11th best bank in the world in the Lafferty Global 500 Benchmark Study
- Revenue from continuing operations increased by 12.7% to R1 250.8 million (Aug 2017: R1 110.1 million).
- Operating profit from continuing operations increased by 7.3% to R183.9 million (Aug 2017: R171.4 million).
- Earnings before interest, taxation, depreciation and amortisation (EBITDA) increased by 5.3% to R315.0 million (Aug 2017: R299.2 million).
- Earnings attributable to shareholders of R94.2 million, represented growth of 1.6% over the R92.8 million for the comparative period.
- Overall cash, cash equivalents and liquid investments increased by 29.7% to R772.3 million (Aug 2017: R595.3 million).
- Number of loans advanced remained constant year-on-year at 880,440 (Aug 2017: 880,387) while the value of loans advanced increased by 4.6% to R2 630.3 million (Aug 2017: R2 515.4 million).
- Cash received from customers increased by 10.9% to R3 665.4 million (Aug 2017: R3 304.0 million).
- Branch network increased by 12 branches, to 684 branches, from 28 February 2018.
- USD Revenue contributed 60.1% of Revenue (Aug 2017: 55.9%).

We remain focused on executing the Group’s five-year strategy and top business priorities; namely continued expansion into North America, optimal capital utilisation, earnings growth, conservative risk management, strict upfront credit scoring, good quality sales, effective collections, cost containment, diversifying bank product ranges, diversifying income streams to USD, consumer education and training, and development of staff members. This enabled us to achieve overall strong operational results despite the current difficult and challenging business environment.

SUSTAINABLE PROFITABILITY

Finbond increased revenue for the first six months of the financial year to R1 250.8 million, an increase of 12.7% over the comparative period.

The majority of profit for the period was derived from Finbond's main economic driver, small short-term unsecured loans in the South African and North American markets.

Revenue earned in USD contributed 60.1% of revenue (Aug 2017: 55.9%), while 52.9% (Aug 2017: 13.6%) of net profit attributable to owners of the company, was earned in USD.

The Group's return on equity saw a decrease to end at 7.2%, from the 9.7% achieved during the comparative 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.

The increase in capital is due to two shareholder loans that were converted into equity by way of a rights issue that was offered to all shareholders and concluded during April 2018. A total of 166.8 million shares were issued and the only shareholder loan that remains in place is that of Kings Reign International Ltd at $10 million.

Total assets increased by 15.3% to R3.8 billion (Aug 2017: R3.3 billion), while total liabilities decreased by 14.3% to R1.8 billion (Aug 2017: R2.1 billion). As at 28 February 2018 total assets at R3.3 billion and total liabilities at R2.1 billion were at similar levels to the comparative period.

LOW RISK LIQUIDITY STRUCTURE

Finbond's liquidity position at the end of August 2018 reflects R540.7 million cash in bank (Aug 2017: R402.7 million). Overall cash, cash equivalents and liquid investments increased by 29.7% to R772.3 million (Aug 2017: R595.3 million).

Cash received from loans and other advances to customers (consisting of capital repaid, fees and interest) as a percentage of cash granted (consisting of capital only) for the period from 1 March 2018 to 31 August 2018, averaged 139% (Aug 2017: 131%). This metric demonstrates that despite consumer pressure and a challenging business environment, Finbond's conservative credit granting and rigorous underwriting policies have actually led to improved collections.

The deposit book totalled R1 070.5 million, a 1.8% decrease from R1 090.1 million as at 31 August 2017 with; an average interest rate of 9.91% (up from 9.85% last year), an average term of 25.7 months (up from 25.4 months last year), and an average deposit size of R387,314 (up from R378,423 last year). The increase in deposit size speaks favourably to the customer experience that Finbond has delivered to deposit clientele since launching the product, as more and more depositors are choosing to increase their deposit size, trusting Finbond based on the positive results experienced with their initial deposit transactions.

Finbond is not exposed to the uncertainty that accompanies the use of corporate call deposits as a funding mechanism since Finbond accepts mainly 6 to 72 month fixed and indefinite term deposits. Given the long-term nature of Finbond's liabilities (fixed-term deposits with an average term of 25 months) and short-term nature of its assets (short-term micro loans with an average term less than four months) Finbond possesses an unusually low risk liquidity structure due to this positive liquidity mismatch.

SOUTH AFRICAN SHORT-TERM UNSECURED LENDING

Finbond's South African business' main focus remains on small short-term loans through its 427 branches. Total segment revenue from Finbond's lending activities made up of interest, fee and other micro finance related income increased by 2.1% to R500.0 million (Aug 2017: R489.4 million).

The short-term loan book declined from the comparative period, ending the six-month period at R366.0 million (Aug 2017: R451.2 million). Business volumes have been under severe pressure due to a large portion of Finbond's South African client base transitioning to the new "SASSA" card resulted in more than 50% reduction in our SASSA customer base. This card was launched by the SA Post Office and South African Social Security Agency (SASSA) on 3 May 2018, but does not avail the functionality to load EFT debits or stop orders, which limited our ability to extend credit to this segment of the market. Accordingly, the First Strike Collection rate in South Africa decreased by 6% to 85%. Finbond has taken appropriate actions to address this issue and manage through the SASSA transition.

During the period under review Finbond's average loan size was R1 572 (Aug 2017: R1 475) and the average tenure was 3.97 months (Aug 2017: 4.04 months). 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 whole loan portfolio turns more than three times per year.

For the period ended 31 August 2018 Finbond received cash payments of R1 269.8 million from customers, 8.5% greater than last year, while granting R723.8 million in new loans, a decrease of 7.0% period-on-period (Aug 2017: R1 169.8 million in cash received and R778.3 million in new loans granted). The ratio of cash received to cash granted increased to 175.4% (Aug 2017: 150.3%) for the period under review mainly due to the decrease in cash granted. The period-on-period movement in the portfolio includes decreases in numbers of both new clients serviced to 85,381 (32.5% less than in the six months ended August 2017: 126,515) and new contracts granted to 463,362 (12.1% less than in the six months ended August 2017: 527,171).

Finbond's average short-term loan period is significantly shorter than that of our larger competitors and our average short-term loan size, significantly smaller. Given this conservative approach Finbond does not have any exposure to the 25 to 84 month, R21,000 to R180,000 long-term unsecured lending market that continues to cause significantly increasing write-offs, bad debts and forced rescheduling of loans. Finbond's historic data and vintage curves and detailed analysis indicates that shorter term loans offer lower risk as consumers are more likely to pay them back as opposed to longer term loans.

Furthermore, Finbond's short-term loan portfolio is not exposed to any concentration risk and does not have any significant exposure to any specific geography, employer or industry other than SASSA.

FAVOURABLE JUDGMENT BY NATIONAL CONSUMER TRIBUNAL

The National Consumer Tribunal ("NCT"), handed down judgment in favour of Finbond´s subsidiary, Finbond Mutual Bank ("FMB"), in the matter between the National Credit Regulator ("NCR") and FMB as the First Respondent ("the Referral").

The Referral, which the NCR unilaterally initiated in 2015, primarily alleged that FMB's customers were required to pay unreasonable premiums for the provision of credit life insurance in contravention of Section 106 (2) of the National Credit Act ("NCA"), was unanimously dismissed by a full panel of the NCT.

In its unanimous judgment dismissing the Referral, the NCT *inter alia* also pointed out that:

- FMB was entitled to require its consumers to maintain credit life insurance; and
- No evidence was presented by the NCR which justifies the NCT to make a finding that the insurance offered by FMB to its customers is unreasonable.

On September 28, 2017, the National Credit Regulator appealed and the appeal was heard on June 19, 2018. Judgment was reserved. Our external counsel believes that there will again be a favourable outcome for FMB. The expected date of the judgment is not yet known.

NORTH AMERICAN UNSECURED LENDING

Finbond's North American business' main focus is on small short-term unsecured loans being offered through 257 branches in North America operating in the following states: Florida, Ohio, Missouri, Michigan, Mississippi, Alabama, South Carolina, Illinois, Indiana, Wisconsin, California, Oklahoma, Tennessee, Nevada, New Mexico, Utah and Louisiana. In addition to the US states, Finbond also has a presence in Ontario, Canada.

Additionally, small unsecured instalment loans are offered online in Illinois, Missouri, Nevada, New Mexico, Utah and Wisconsin through CreditBox, our online platform. We are currently pursuing licensing in Tennessee and Florida and have plans to expand to up to 10 additional states within the next 24 months.

First strike collection rates in North America remained at an impressive average rate of 96%, indicative again of Finbond's conservative credit granting and rigorous underwriting policies.

Total segment revenue from Finbond's North American short-term lending activities, made up of interest and fees increased by 21% to R751.1 million (Aug 2017: R620.7 million) for the period under review. The short-term loan book ended the six month period at R701.3 million, 24.3% up from 31 August 2017 of R564.3 million). For the period ended 31 August 2018 Finbond's average North American loan size was up by 1.7% to $352 (Aug 2017: $346) at an average term of 6.2 months (Aug 2017: 6.1 months).

CONSERVATIVE UPFRONT CREDIT SCORING

The current economic climate where the consumer remains under financial strain in South Africa places the consumer's ability to qualify for credit under adverse pressure. Finbond takes a conservative view when managing credit risk which begins at the credit granting stage based on credit score. The credit scores on all products are monitored on a monthly basis and the dynamic performance of the portfolio is regularly taken into account when considering potential tightening of scores.

Detailed affordability calculations continue to be performed prior to extending any loans in order to determine whether the client can in fact afford the loan repayments. Finbond's lending practices have been consistently conservative over the past number of years. Rejection rates stand at between 25% and 59% for the three to six-month product range, and they remain at 76% to 91% for the 12 to 24-month product range at the end of August 2018.

SUCCESSFUL IFRS 9 ADOPTION

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). IFRS 9 is the revised accounting standard for financial instruments, where the provision calculated under the IFRS 9 provision model and credit losses are recognised on default events projected over a 12-month horizon or over the lifetime of the asset. IFRS 9 provision models therefore address criticism of the provision

models previously used, which only recognised credit losses once incurred i.e. Expected Credit Loss (ECL) model under IFRS 9 vs Incurred Credit Loss models previously. Furthermore, the new standards promotes enhanced consistency across financial statements and disclosures made across credit providers.

Transition to IFRS 9 took place on 1 March 2018. For detailed information regarding the transitional impact, provisioning methodology and revised policies following the implementation of IFRS 9, please refer to “A. IFRS 9 Financial Instruments” included later in the notes to the summarised consolidated financial statements. In summary, the total impact on the Group’s retained earnings as at 1 March 2018 was R18.8 million. With the adjustments made to Loans and Other Advances to Customers being mostly driven by the change in the write-off definition and transition to expected life time losses. IFRS 9 requires that loans and advances only be written-off at the point that the company is expected not to collect any more. Accordingly, the increase to the Loans and Advances receivable balances relates to loans previous written-off, based on the previous write-off policy, being re-recognised in terms of IFRS 9. The increase in Allowance for Impairments to Loans and Advances relates to the change from 12 months losses to expected life time losses, as well as holding allowances on the previously written-off loans and advances being re-recognised. The written-off portfolio previously recognised at fair value is not permitted under IFRS 9 and thus the balance is being derecognised and re-recognised if the loan and advance falls within the redefined write-off definition as described above.

IMPROVING BAD DEBTS AND IMPAIRMENTS IMPLEMENTATION

Stable credit portfolio with prudent provisioning maintained

Finbond applied the conservative IFRS 9 impairment provisioning methodology effective 1 March 2018.

Overall impairment provisions increased by 22.1% to R1 454.6 million (Feb 2018: R1 191.1 million) compared to gross loans and advances growth of 15.1% to R2 688.5 million (Feb 2018: R2 335.5 million) during the year. The lower growth in gross loans and advances in comparison is predominantly due to maintaining a strict credit granting strategy during the current reporting period whilst applying a prudent provisioning methodology.

The impairment provisions for the core unsecured lending portfolios (which represents 91.8% of gross loans and advances) increased by 22.4% to R1 429.6 million (Feb 2018: R1 167.7 million) compared to gross loans and advances growth of 17.6% to R2 469.1 million (Feb 2018: R2 100.7 million) during the year. The remainder of the impairment provision increase is attributable to secured lending.

The overall coverage ratio increased marginally from 51.0% to 54.1%, which can be broken down to a coverage ratio of 9.6% for Stage 1, 48.7% for Stage 2 and 80.3% for Stage 3.

The 2.0% increase in coverage for Stage 1 from 7.6% to 9.6%, is mostly attributable to a slight increase in the North American portfolio Stage 1 coverage, amplified by exchange rate movements. The proportion of Stage 1 short term unsecured borrowers who transition to Stage 2 is very low. Therefore, the Stage 1 provisioning is seen as prudent for the risk inherent in the portfolio seeing that Stage 1 provisions does not necessarily reflect the likelihood of transitioning to Stage 2.

The coverage of total provision for Stage 3 (excluding expected recoveries receivables) and for Stage 2 (where there has been a significant increase in credit risk) increased from 74.2% at 1 March 2018 to 75.0% at 31 August 2018 and can largely be explained by the difficult South African environment, partially offset by robust collection strategies and positive forward looking economic expectations in the North American economy, resulting in higher recoveries and lower bad debts.

Due to the change in our write-off policy, comparatives figures are not possible, however given the prudent provisioning methodology, conservative lending practices and strict upfront credit scoring which is furthermore supported by robust collection strategies and processes the Group is comfortable that they have provided prudently for future losses on the portfolio.

FINBOND RATED 2nd IN SOUTH AFRICA AND 11th IN THE WORLD IN THE LAFERTY GLOBAL 500 BENCHMARK STUDY

The London based Lafferty Group just awarded Finbond with a 4-star quality award as a high quality bank in the Lafferty Banking 500 global benchmarking study.

Finbond is one of some 174 banks among 500 of the largest banks worldwide to achieve 4 or 5-star ratings. Two-thirds of the banks are rated 3-star or lower. The highest-quality banks are given 4 and 5-star ratings, while the lowest are rated as a 1-star or a 2-star.

Finbond is the second highest ranked bank in South Africa and has been named as one of the leading banks globally, ranking 11th in the world.

Institutions from 72 markets across all global regions are included in the survey, ranging from large global banks to small regional institutions. Lafferty Banking 500 is not one report but a vast database of 500 banks with 19 individual metrics for each of them. Lafferty's approach reveals a very different picture of world banking from that given by traditional ratings and rankings. It goes far beyond financial comparisons. Lafferty's proprietary methodology, which is entirely based on bank annual reports, takes account of multiple qualitative metrics such as strategy, culture, living the brand, digital advancement, management experience and customer satisfaction – as well as more traditional financial criteria such as capital, loan/deposit ratios and return on assets.

STRATEGIC INITIATIVES AND FUTURE PROSPECTS

Strategic initiatives underway include:

- Converting Finbond's mutual banking license to a commercial banking license;
- Application for a banking license in Malta;
- Expansion of the South African branch network in high growth areas;
- Acquiring a further 40 to 60 branches in the United States of America;
- Growing US dollar earnings of the group to approximately 70% to 80% of net earnings.

The challenging and difficult macro-economic environment as well as the adverse market conditions in the South African market within which Finbond operates are not expected to abate in the short and medium-term.

PROPOSED DEBT RELIEF BILL

The **proposed Debt Relief Bill** published in Government Gazette No 41274 of 24 November 2017 ("the Bill"), proposes amendments to the National Credit Act of 2005 ("the NCA"), the most important of which is that of Debt Intervention. The Bill is largely aimed at alleviating debt and protecting consumers and the main provisions of the Bill relate to a debt intervention process. The socio-economic impact of the Bill is that the cost of credit may be driven up and may limit the ability of low income earners to access credit. Should the Bill be passed in its current form the credit industry and consequently Finbond could be exposed to additional write-off. However, we remain confident that we have the required resources and depth in management to successfully confront and overcome these various related challenges.

FUTURE PROSPECTS

We remain positive about the Group's prospects for the future due to: Finbond's solid earnings and profitability despite difficult market conditions, improvement achieved in cash generated from operating activities, significant percentage of revenue now earned in USD (diversification), management expertise, strong cash flow, strong liquidity and surplus cash position, uniquely positioned 427 branch network in South Africa and 257 branches network in North America (with a number of branches in the process of being acquired), superior asset quality, access to funding, conservative risk management and growth potential.

We believe that our continued growth in South Africa, the expansion into the North American short-term lending market and the implementation of our strategic action plan will ensure that we achieve results in the medium and long-term.

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

DIVIDEND

No interim dividend has been declared.

SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

R'000	**Interim unaudited 31 August 2018**	**Interim unaudited 31 August 2017 ***	**% change**	**Full year audited 28 February 2018**
ASSETS				
Cash and cash equivalents	540 675	402 683	34	422 339
Other financial assets	231 655	192 593	20	216 856
Unsecured loans and other advances to customers	1 039 433	998 161	4	937 391
Trade and other receivables	168 245	151 521	11	158 177
Other assets	16 883	612	2 659	12 632
Secured loans and other advances to customers	209 514	202 706	3	210 977
Derivative financial instrument	16 820	-	100	-
Property, plant and equipment	182 482	136 779	33	131 816
Investment property	266 807	286 662	(7)	266 771
Deferred taxation	19 021	379	4,919	14 215
Goodwill	988 643	820 293	21	830 077
Intangible assets	132 072	113 525	16	108 035
Total Assets	**3 812 250**	**3 305 914**	15	**3 309 286**
Equity				
Share capital and premium	1 135 684	732 016	55	724 525
Reserves	63 305	(79 078)	180	(194 581)
Retained income	459 205	323 248	42	477 442
Equity attributable to owners of the Company	**1 658 194**	**976 186**	70	**1 007 386**
Non-controlling interest	306 499	212 129	44	163 346
Total Equity	**1 964 693**	**1 188 315**	65	**1 170 732**
Liabilities				
Bank overdraft	94 061	94 691	(1)	91 033
Trade and other payables	128 875	126 878	2	124 029
Other liabilities	20 047	9 688	107	11 757
Current tax payable	40 955	40 176	2	42 073
Derivative financial instrument	-	-	-	47 430
Loans from shareholders	161 920	503 021	(68)	470 586
Purchase consideration	-	139 075	(100)	-
Fixed and Notice deposits	1 070 511	1 090 137	(2)	1 027 114
Deferred tax	42 274	26 241	61	45 704
Commercial paper	288 914	87 692	229	278 828
Total Liabilities	**1 847 557**	**2 117 599**	(13)	**2 138 554**
Total Equity and Liabilities	**3 812 250**	**3 305 914**	15	**3 309 286**

SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

R'000	**Unaudited Six months 31 August 2018**	**Unaudited Six months 31 August 2017 ***	**% Change**	**Audited Year to 28 February 2018**
Interest income	814 867	645 961	26	1 541 716
Interest expense	(99 129)	(100 228)	(1)	(208 231)
Net interest income	**715 738**	**545 733**	**31**	**1 333 485**
Fee income	266 893	279 955	(5)	458 540
Management fee income	13 266	42 312	(69)	66 971
Other operating income	155 762	141 907	10	315 783
Fair value adjustments	62 442	-	100	(6 872)
Foreign exchange (loss)/gain	(61 645)	(3 274)	(1 783)	52 318
Net impairment charge on loans and advances	(270 220)	(228 766)	18	(484 238)
Operating expenses	(698 386)	(606 508)	15	(1 296 444)
Profit before taxation	**183 850**	**171 359**	**7**	**439 543**
Taxation charge	(41 918)	(38 519)	9	(104 582)
Profit for the period	**141 932**	**132 840**	**7**	**334 961**
Other comprehensive income Exchange differences on translation of foreign operations	365 677	(11 395)	3 309	(140 825)
Total comprehensive income for the period	**507 609**	**121 445**	**318**	**194 136**
Profit attributable to:				
Owners of the company	94 190	92 750	2	234 201
Non-controlling interest	47 742	40 090	19	100 760
Profit for the period	**141 932**	**132 840**	7	**334 961**
Total comprehensive income attributable to:				
Owners of the company	348 307	81 505	327	118 824
Non-controlling interest	159 302	39 940	299	75 312
Total comprehensive income	**507 609**	**121 445**	318	**194 136**
Total number of ordinary shares outstanding	923 727	750 567		748 547
Weighted average number of ordinary shares outstanding	866 410	747 149		748 570
Basic earnings per share (cents)	10.9	12.4	(12)	31.3
Diluted earnings per share (cents)	10.9	12.4	(12)	29.8
Headline earnings per share (cents)	10.9	12.4	(12)	33.7
Net profit attributable to owners of the company	94 190	92 750	2	234 201
Loss on disposal of property, plant and equipment	251	148	70	1,755
Fair value loss of investment properties	-	-	-	16,639
Headline earnings	**94 441**	**92 898**	2	**252 595**

SUMMARISED CONSOLIDATED STATEMENT OF CASH FLOW

R'000	Unaudited Six months 31 August 2018	Unaudited Six months 31 August 2017	% Change	Audited Year to 28 February 2018
CASH FLOW FROM OPERATING ACTIVITIES				
Cash generated from operations	360 753	16 357	2 105	71 004
Taxation paid	(46 413)	(73 450)	(37)	(105 872)
Net cash flow from operating activities	**314 340**	**(57 093)**	651	**(34 868)**
CASH FLOW FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(50 135)	(30 838)	63	(57 050)
Sale of property, plant and equipment	-	115	(100)	-
Purchase of investment property	-	(8 477)	(100)	(10 029)
Purchase of other intangible assets	(9 959)	(9 406)	6	-
Purchase of financial assets	(14 189)	-	(100)	(20 238)
Sale of financial assets	-	14 882	100	52 863
Acquisition of subsidiaries, net of cash acquired	-	(73 673)	(100)	(213 498)
Net cash flow from investing activities	**(74 283)**	**(107 397)**	(31)	**(247 952)**
CASH FLOW FROM FINANCING ACTIVITIES				
Issue of share capital	17 708	52 111	(66)	-
Share buy-back	-	(35 763)	(100)	(43 478)
(Repayment)/proceeds from shareholders' loans	(15 141)	36 549	(141)	(5 565)
Proceeds from issue of commercial paper	10 085	-	100	278 828
Finance lease payments	(1 416)	(72)	1 867	(2 525)
Dividends paid	(94 116)	(99 969)	(6)	(101 945)
Net cash flow from financing activities	**(82 880)**	**(47 144)**	76	**125 315**
NET INCREASE/(DECREASE) IN CASH	**157 177**	**(211 634)**	174	**(157 505)**
Cash at the beginning of the period	331 306	519 626	(36)	519 626
Effect on movements in exchange rates on cash held	(41 869)	-	100	(30 815)
CASH AT THE END OF THE PERIOD	**446 614**	**307 992**	45	**331 306**

SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R'000	Unaudited 31 August 2018	Unaudited 31 August 2017 *	Audited 28 February 2018
Total equity at the beginning of the period	1 170 732	1 137 408	1 161 917
Change in accounting policy	1 215	-	-
Restated balance as at 1 March	1 171 947	1 137 408	1 161 917
Change in share capital and premium			
Issue of shares	411 159	52 111	54 049
Purchase of treasury shares	-	(35 762)	(45 191)
Change in reserves			
Equity-settled share-based payment	3 769	(10 278)	(6 854)
Total comprehensive income for the period	348 307	81 505	118 824
Change in control	-	8 068	6 016

Dividends paid	(93 640)	(55 126)	(55 126)
Change in non-controlling interest			
Total comprehensive income for the period	159 302	39 940	75 312
Change in control	-	(8 068)	(15 008)
Dividends paid	(36 151)	(40 794)	(99 155)
Business combination	-	19 311	(24 052)
Total equity at the end of the period	**1 964 693**	**1 188 315**	**1 170 732**

SUMMARISED SEGMENTAL INFORMATION

OPERATING SEGMENTS

R'000	**Investment Products**	**Lending**	**Property Investment**	**Transactional Banking**	**Other**	**Total**
Six months ended 31 August 2018						
Interest Income	9 871	803 980	-	46	970	**814 867**
Interest expense	(53 361)	(6 853)	-	(171)	(38,744)	**(99 129)**
Net interest income	**(43 490)**	**797 127**	**-**	**(125)**	**(37 774)**	**715 738**
Fee income	-	274 351	-	(7 458)	-	**266 893**
Management fee income	-	-	-	-	13 266	**13 266**
Other operating income	78	151 623	-	-	4 061	**155 762**
Fair value adjustments	-	-	-	-	62 442	**62 442**
Foreign exchange loss	-	-	-	-	(61 645)	**(61 645)**
Net impairment charge on loans and advances	-	(270 220)	-	-	-	**(270 220)**
Operating expense	(1 135)	(672 060)	(1 031)	(7 665)	(16 495)	**(698 386)**
Profit/(loss) before taxation	**(44 547)**	**280 821**	**(1 031)**	**(15 248)**	**(36 145)**	**183 850**
Taxation	16 085	(76 933)	372	5 506	13 052	**(41 918)**
Profit/(loss) for the period	**(28 462)**	**203 888**	**(659)**	**(9 742)**	**(23 093)**	**141 932**
Significant segment assets						
Cash and cash equivalents	207 670	250 057	-	8 097	74 851	**540 675**
Other Financial Assets	231 655	-	-	-	-	**231 655**
Unsecured loans and other advances to customers	-	1 039 433	-	-	-	**1 039 433**
Secured loans and other advances to customers	-	209 514	-	-	-	**209 514**
Property, Plant and Equipment	-	164 196	-	1 401	16 884	**182 481**
Investment Property	-	-	266 807	-	-	**266 807**
Goodwill	-	988 643	-	-	-	**988 643**
Intangible assets	-	132 072	-	-	-	**132 072**

Significant segment liabilities						
Fixed and notice deposits	1 070 511	-	-	-	-	**1 070 511**
Commercial Paper	288 913	-	-	-	-	**288 913**
Loans from shareholders	-	-	-	-	161 920	**161 920**
Six months ended 31 August 2017 *						
Interest income	10 279	632 140	-	-	3 542	**645 961**
Interest expense	(42 356)	(51 496)	-	(86)	(6 290)	**(100 228)**
Net Interest Income	**(32 077)**	**580 644**	**-**	**(86)**	**(2 748)**	**545 733**
Fee income	-	271 162	-	8 793	-	**279 955**
Management fee income	-	(249)	-	-	42 561	**42 312**
Other operating income	(242)	142 149	-	-	-	**141 907**
Foreign exchange loss	-	-	-	-	(3 274)	**(3 274)**
Net impairment charge on loans and advances	-	(228 793)	-	27	-	**(228 766)**
Operating expense	(11)	(575 787)	(959)	(7 135)	(22 616)	**(606 508)**
Profit/(loss) before taxation	**(32 330)**	**189 126**	**(959)**	**1 599**	**13 923**	**171 359**
Taxation	8 860	(43 138)	263	(438)	(4 066)	**(38 519)**
Profit/(loss) for the period	**(23 470)**	**145 988**	**(696)**	**1 161**	**9 857**	**132 840**
Significant segment assets						
Cash and cash equivalents	117 037	236 158	-	5 702	43 786	**402 683**
Other Financial Assets	192 593	-	-	-	-	**192 593**
Unsecured loans and other advances to customers	-	998 161	-	-	-	**998 161**
Secured loans and other advances to customers	-	202 706	-	-	-	**202 706**
Property, Plant and Equipment	-	117 055	-	232	19 492	**136 779**
Investment Property	-	-	286 662	-	-	**286 662**
Goodwill	-	820 293	-	-	-	**820 293**
Intangible assets	-	113 525	-	-	-	**113 525**
Significant segment liabilities						
Fixed and notice deposits	1 090 137	-	-	-	-	**1 090 137**
Commercial Paper	87 692	-	-	-	-	**87 692**
Purchase consideration payable	-	139 075	-	-	-	**139 075**
Loans from shareholders	-	-	-	-	503 021	**503 021**

Year ended 28 February 2018

Interest income	19 560	1 516 473	-	1 517	4 166	**1 541 716**
Interest expense	(107 205)	(76 013)	-	(167)	(24 846)	**(208 231)**
Net Interest Income	**(87 645)**	**1 440 460**	**-**	**1 350**	**(20 680)**	**1 333 485**
Fee income	-	455 171	-	3 369	-	**458 540**
Management fee income	-	-	-	-	66 971	**66 971**
Other operating income	52	264 928	-	603	50 200	**315 783**
Fair value adjustments	-	62 086	(21 443)	-	(47 515)	**(6 872)**
Foreign exchange gain	-	-	-	-	52 318	**52 318**
Net impairment release /(charge) on loans and advances	-	(474 727)	-	27	(9 538)	**(484 238)**
Operating expenses	(2 271)	(1 230 178)	(1 999)	(2 306)	(59 690)	**(1 296 444)**
Profit/ (loss) before taxation	**(89 864)**	**517 740**	**(23 442)**	**3 043**	**32 066**	439 543
Taxation	32 668	(133 010)	8 522	(1 106)	(11 656)	**(104 582)**
Profit/(loss) for the period	**(57 196)**	**384 730**	**(14 920)**	**1 937**	**20 410**	334 961
Significant segment assets						
Cash and cash equivalents	153 096	231 733	-	6 937	30 573	**422 339**
Other financial assets	216 709	147	-	-	-	**216 856**
Unsecured loans and other advances to customers	-	937 391	-	-	-	**937 391**
Secured loans and other advances to customers	-	210 977	-	-	-	**210 977**
Trade and other receivables	-	97 922	-	-	60 255	**158 177**
Property, plant and equipment	-	111 264	-	2 441	18 111	**131 816**
Investment Property	-	-	266 771	-	-	**266 771**
Goodwill	-	830 077	-	-	-	**830 077**
Intangible assets	-	108 035	-	-	-	**108 035**
Significant segment liabilities						
Fixed and notice deposits	1 027 114	-	-	-	-	**1 027 114**
Commercial paper	278 828	-	-	-	-	**278 828**
Loans from shareholders	-	-	-	-	470 586	**470 586**

GEOGRAPHICAL SEGMENTS

	Six months ended 31 August 2018			**Six months ended 31 August 2017 ***		
R'000	**South Africa**	**North America**	**Total**	**South Africa**	**North America**	**Total**
Interest Income	128 950	685 917	814 867	120 271	525 690	645 961

Interest expense	(92 939)	(6 190)	(99 129)	(60 558)	(39 670)	(100 228)
Net interest income	**36 011**	**679 727**	**715 738**	**59 713**	**486 020**	**545 733**
Fee income	211 787	55 106	266 893	193 465	86 490	279 955
Management fee income	13 283	(17)	13 266	42 561	(249)	42 312
Other operating income	145 679	10 083	155 762	133 149	8 758	141 907
Fair value adjustments	60 873	1 569	62 442	-	-	-
Foreign exchange loss	(61 231)	(414)	(61 645)	(3 274)	-	(3 274)
Net impairment charge on loans and advances	(98 140)	(172 080)	(270 220)	(71 112)	(157 654)	(228 766)
Operating expenses	(238 816)	(459 570)	(698 386)	(244 005)	(362 503)	(606 508)
Profit before taxation	**69 446**	**114 404**	**183 850**	**110 497**	**60 862**	**171 359**
Taxation	(25 075)	(16 843)	(41 918)	(30 393)	(8 126)	(38 519)
Profit for the period	**44 371**	**97 561**	**141 932**	**80 104**	**52 736**	**132 840**
Significant segment assets						
Cash and cash equivalents	347 022	193 653	540 675	297 505	105 178	402 683
Other financial assets	231 655	-	231 655	192 593	-	192 593
Unsecured loans and other advances to customers	365 966	673 467	1 039 433	451 196	546 965	998 161
Secured loans and other advances to customers	181 721	27 793	209 514	185 355	17 351	202 706
Property, plant and equipment	69 567	112 915	182 482	67 297	69 482	136 779
Investment property	266 807	-	266 807	286 662	-	286 662
Goodwill	196 787	791 856	988 643	198 736	621 557	820 293
Intangibles	171	131 901	132 072	171	113 354	113 525
Significant segment liabilities						
Purchase consideration payable	-	-	-	-	139 075	139 075
Commercial paper	288 914	-	288 914	87,692	-	87,692
Fixed and Notice deposits	1 070 511	-	1 070 511	1 090 137	-	1 090 137
Loans from shareholders	161 920	-	161 920	503 021	-	503 021

	Year ended 28 February 2018		
	South Africa	**North America**	**Total**
Interest Income	237 757	1 303 959	1 541 716
Interest expense	(146 129)	(62 102)	(208 231)
Net interest income	**91 628**	**1 241 857**	**1 333 485**
Fee income	413 878	44 622	458 540
Management fee income	66 909	62	66 971
Other operating income	303 023	12 760	315 783
Fair value adjustments	(68 958)	62 086	(6 872)
Foreign exchange gain	52 355	(37)	52 318
Net impairment charge on loans and advances	(159 184)	(325 054)	(484 238)
Operating expenses	(506 570)	(789 874)	(1 296 444)

Profit before taxation	**193 081**	**246 462**	**439 543**
Taxation	(70 188)	(34 394)	(104 582)
Profit for the period	**122 893**	**212 068**	**334 961**
Significant segment assets			
Cash and cash equivalents	248 575	173 764	422 339
Other financial assets	216 709	147	216 856
Unsecured loans and other advances to customers	471 858	465 533	937 391
Secured loans and other advances to customers	185 389	25 588	210 977
Trade and other receivables	137 440	20 737	158 177
Property, plant and equipment	68 629	63 187	131 816
Investment property	266 771	-	266 771
Goodwill	196 787	633 290	830 077
Intangible assets	171	107 864	108 035
Significant segment liabilities			
Fixed and Notice deposits	1 027 114	-	1 027 114
Commercial paper	278 828	-	278 828
Loans from shareholders	470 586	-	470 586

* - For the 2017 interim period the results have been restated due a reclassification between Deferred tax liability and Non-controlling interest as well as between Interest income and Fee income. See additional information later.

Notes to the summarised consolidated financial statements

Finbond Group Limited is a company domiciled in South Africa. The summarised consolidated financial statements of the Company as at and for the six months ended 31 August 2018 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates and jointly controlled entities.

Basis of preparation

The summarised consolidated financial statements have been prepared in accordance with the requirements of the JSE Limited Listings Requirements and the requirements of the Companies Act of South Africa. The summarised 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 28 February 2018.

The accounting policies applied by the Group in these summarised consolidated financial statements are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements except for the estimation of income tax and the adoption of new and amended standards as set out below.

a) New and amended standards adopted by the Group

Several new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting the following standards:

- IFRS 9 Financial Instruments, and
- IFRS 15 Revenue from Contracts with Customers.

The impact of the adoption of these standards and the new accounting policies are disclosed below. The other standards did not have any impact on the Group's accounting policies.

b) Impact of standards issued but not yet applied by the Group

(i) IFRS 16 Leases

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

Use of judgements and estimates

The preparation of annual 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 summarised 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 28 February 2018 except where the implementation of IFRS 9 requires a different approach to the accounting previously applied, such as estimating the lifetime losses of short-term receivables for the purposes of IFRS 9's expected credit loss model.

Changes in significant accounting policies

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 28 February 2019.

The Group has initially adopted IFRS 9 Financial Instruments (see A below) from 1 March 2018. Several other new standards are effective from 1 January 2018, but they do not have a material effect on the Group's financial statements.

The adoption of IFRS 15 Revenue from Contracts with Customers has no impact on the Group's financial statements.

The effect of initially applying these standards is mainly attributed to an increase in impairment losses recognised on financial assets (see A(ii) below).

A. IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The following table summarises the impact, net of tax, of the transition to IFRS 9 on the opening balance of unsecured loans and other advances to customers, secured loans and other advances, reserves, retained earnings and NCI (for a description of the transition method, see (iii) below).

Consolidated statement of financial position

R'000		**28 February 2018 as presented**	**IFRS 9 transition adjustment**	**1 March 2018 restated**
Assets				
Cash and cash equivalents		422 339	-	422 339
Other financial assets		216 856	-	216 856
Unsecured loans and other advances to customers	[a]	937 391	(4 403)	932 988
Trade and other receivables		158 177	-	158 177
Other assets		12 632	-	12 632
Secured loans and other advances to customers	[a]	210 977	447	211 424
Property, plant and equipment		131 816	-	131 816
Investment property		266 771	-	266 771
Deferred taxation		14 215	-	14 215
Goodwill		830 077	-	830 077
Intangible assets		108 035	-	108 035
Total assets		**3 309 286**	**(3 956)**	**3 305 330**
Liabilities				
Bank overdraft		91 033	-	91 033
Trade and other payables		124 029	-	124 029
Other liabilities		11 757	-	11 757
Current tax payable		42 073	-	42 073
Derivative financial instrument		47 430	-	47 430
Loans from shareholders		470 586	-	470 586
Fixed and notice deposits		1 027 114	-	1 027 114
Deferred taxation	[b]	45 704	(5 170)	40 534
Commercial paper		278 828	-	278 828
Total liabilities		**2 138 554**	**(5 170)**	**2 133 384**
Equity				

Capital and reserves				
Share capital		724 525	-	724 525
Reserves (deficit)		(194 581)	-	(194 581)
Retained income	[b]	477 442	(18 788)	458 654
Share capital and reserves attributable to ordinary shareholders		**1 007 386**	**(18 788)**	**988 598**
Non-controlling interest	[c]	163 346	20 002	183 348
Total equity		**1 170 732**	**1 214**	**1 171 946**
Total equity and liabilities		**3 309 286**	**(3 956)**	**3 305 330**
Basic earnings per share (cents)			(2.5)	
Diluted earnings per share (cents)			(2.0)	

[a] The adjustments are further explained as per the table below.

R'000	**28 February 2018 as presented**	**IFRS 9 transition adjustment**	**1 March 2018 restated**
Unsecured Loans and advances before impairment	971 770	1 128 931	2 100 701
Allowances for impairment to loans and advances	(230 106)	(937 607)	(1 167 713)
Net loans and advances at amortized cost	741 664	191 324	932 988
Written-off portfolio at fair value	195 727	(195 727)	-
Unsecured loans and other advances to customers	**937 391**	**(4 403)**	**932 988**
Secured Loans and advances before impairment	234 832	-	234 832
Allowances for impairment to loans and advances	(23 855)	447	(23 408)
Secured loans and other advances to customers	**210 977**	**447**	**211 424**
Net movement in loans and other advances to customers	**1 359 345**	**(3 956)**	**1 355 389**

The above table represents the IFRS 9 adoption impact with the adjustments being mostly driven by the change in the write-off definition and life time losses. IFRS 9 requires that loans and advances only be written-off at the point that the company is expected not to collect any more. The increase in the loans and advances receivable balances relates to loans previous written-off, based on previous write-off policy, being re-recognised. The increase in allowance for impairments to loans and advances relates to the change from 12 months losses to expected life time losses, as well as holding allowances on the previously written-off loans and advances being re-recognised. The written-off portfolio previously recognised at Fair value is not permitted under IFRS9 and thus the balance has been derecognised and re-recognised if the loan and advance falls within the redefined write-off policy (as described above).

[b] The total impact on the Group's Retained earnings as at 1 March 2018 is as follows:

Closing retained earnings at 28 February 2018 as presented	477 442
Decrease in net loans and advances to customers at amortised cost	(23 958)
Deferred tax effect	5 170
Opening retained earnings 1 March 2018 restated	458 654

[c] The total impact on the Non-controlling interest as at 1 March 2018 is as follows:

Non-controlling interest at 28 February 2018 as presented	163 346
Increase in net loans and advances to customers at amortised cost	20 002
Deferred tax effect	-
Non-controlling interest at 1 March 2018 restated	183 348

Taxation is not accounted for on pass-through entities where less than 100% interest is held. These pass-through entities are taxed as partnerships and the taxation due on income attributable to minorities are not to be included in the Group's assets or liabilities.

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

(i) Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Group’s accounting policies related to financial liabilities. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost; Fair Value through Other Comprehensive Income (FVOCI) – debt investment; FVOCI – equity investment; or Fair Value through Profit and Loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising gains or losses on them on different bases.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. See (iii) below for derivatives designated as hedging instruments.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses (see (ii) below). Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 March 2018 relates solely to the new impairment requirements, as described further below.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 March 2018.

(a) Cash and cash equivalents that were classified as loans and receivables under IAS 39 are now

Financial Assets	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount (R '000)	New carrying amount (R '000)
Cash and cash equivalents (a)	Loans and receivables	Amortised cost	422 339	422 339
Other financial assets	Held to maturity	Amortised cost	105 566	105 566
Other financial assets	Designated at FVTPL	FVTPL	111 290	111 290
Unsecured loans and other advances to customers (b)	Loans and receivables	Amortised cost	937 391	932 988
Secured loans and other advances to customers	Loans and receivables	Amortised cost	210 977	211 424
Other receivables	Loans and receivables	Amortised cost	109 477	109 477
Total financial assets			**1 897 040**	**1 893 084**

classified at amortised cost. These amounts were previously stated at cost which approximates fair value due to the short-term nature and consequently no adjustment was recognised in opening retained earnings at 1 March 2018 on transition to IFRS 9.

(b) Unsecured loans that were classified as loans and receivables and the written-off portfolio that was classified as at fair value through profit and loss under IAS 39 are now classified at amortised cost. This resulted in an increase of R933.2 million in the gross carrying amounts and an increase of R937.6 million in the allowance for impairment over these receivables. Consequently, a reduction of R4.4 million was recognised in opening retained earnings at 1 March 2018 on transition to IFRS 9.

(ii) Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments.

The financial assets at amortised cost consist of unsecured loans, secured loans, trade receivables, cash and cash equivalents, and corporate debt securities.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The Group has elected to measure loss allowances for unsecured loans and secured loans at an amount equal to lifetime ECLs.

Significant increase in credit risk (SICR)

The Group considers reasonable and supportable information, mostly quantitative, based on historical experience, credit risk assessment and forward-looking information (including macro-economic factors) when determining whether the credit risk has increased significantly. The assessment of SICR is key in determining when to move from measuring to impairment provision based on a 12-month ECL to one that is based on a lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Presentation of impairment

For debt securities at FVOCI, the loss allowance is recognised in OCI, instead of reducing the carrying amount of the asset.

Impairment losses on other financial assets are presented under 'finance costs', similar to the presentation under IAS 39, and not presented separately in the statement of profit or loss and OCI due to materiality considerations.

Impact of the new impairment model

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of IFRS 9's impairment requirements at 1 March 2018 results in an additional impairment allowance as follows.

	Unsecured loans R'000	Secured loans R'000
Loss allowance at 28 February 2018 under IAS 39	230 106	23 855
Additional impairment recognised at 1 March 2018:	4 403	(447)
Additional impairment recognised at 1 March 2018 as a result of re-classification of written-off portfolio	933 204	-
Loss allowance at 1 March 2018 under IFRS 9	1 167 713	23 408

The following analysis provides further detail about the calculation of ECLs related to loans and advances on the adoption of IFRS 9. The Group considers the model and some of the assumptions used in calculating these ECLs as key sources of estimation uncertainty.

The ECLs were calculated based on historical actual credit loss experience as well as forward looking information. The Group performed the calculation of ECL rates separately at the portfolio and product level.

Exposures within each group were segmented based on common credit risk characteristics such as product, geographic region and delinquency status.

ECLs were then calculated using the derivation of term structured probability of default (PD), exposure at default (EAD) and loss given default (LGD) parameters as well as the effective rate of interest for discounting. The PDs and LGDs are calculated in accordance with the specific stage of allocation and discounting is done using the average effective interest rate which is incorporated into the LGDs.

The following table provides information about the exposure to credit risk and ECLs for unsecured and secured loans as at 1 March 2018.

R'000	**Weighted average loss rate**	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**
Current (not past due)		968 149	129 598	838 551
1-30 days past due	55%	79 076	43 582	35 494
31-60 days past due	57%	38 063	21 540	16 523
61 - 90 days past due	64%	80 993	52 165	28 828
more than 90 days past due	81%	1 169 253	944 236	225 017
		2 335 534	**1 191 121**	**1 144 413**
Unsecured loans and advances to customers		2 100 701	1 167 713	932 988
Secured loans and advances to customers		234 833	23 408	211 425
		2 335 534	**1 191 121**	**1 144 413**

There were no significant changes during the period to the Group's exposure to credit risk.

(iii) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- The Group has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 March 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.
- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

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 on the basis of 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.

Levels of fair value measurements

R'000	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets and liabilities measured at fair value:				
Other financial assets	-	231 297	358	231 655
Investment property	-	-	266 807	266 807
Derivative financial instrument	-	-	16 820	16 820
Total	**-**	**231 297**	**283 985**	**515 282**

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 property valuers, having appropriate, recognised professional qualifications and recent experience in the location and category of the properties being valued. The valuation company provides the fair value of the Group's investment portfolio every twelve months.

Reconciliation of assets and liabilities measured at level 3

R'000	Opening balance	Additions	Gains recognised in profit or loss	Closing balance
Investment property	266 771	36	-	266 807
Derivative financial instrument	(47 430)	-	64 250	16 820

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 error

During the previous year the Group discovered that taxation had been erroneously accounted for on the pass-through entities where less than 100% interest is held. These pass-through entities are taxed as partnerships and the taxation due on income attributable to minorities are not to be included in the consolidated Group assets and liabilities. As a consequence, deferred taxation was overstated and non-controlling interest understated in the prior year. The error has been corrected by restating each of the affected financial statement line items for the prior year. The Group also restated its statement of comprehensive income classification of certain fee income on loans advanced, to interest income due to it falling within the effective interest rate definition. Comparative amounts in the statement of comprehensive income were restated for consistency. Since the amounts are classifications within the operating activities in the statement of comprehensive income, the restatement did not have any effect on the Group's statement of financial position nor the statement of cash flows.

The following tables summarise the impact on the Group's consolidated financial statements for the period ended 31 August 2017:

	Impact of correction of error		
R'000	**As previously reported**	**Adjustments**	**As restated**
Consolidated statement of financial position			
Deferred taxation	-	379	379
Other asset items	3 305 535	-	3 305 535
Total assets	**3 305 535**	**379**	**3 305 914**
Deferred taxation	41 321	(15 080)	26 241
Other liability items	2 091 358	-	2 091 358

Total liabilities	**2 132 679**	**(15 080)**	**2 117 599**
Non-controlling interest	196 670	15 459	212 129
Other equity items	976 186	-	976 186
Total equity	**1 172 856**	**15 459**	**1 188 315**
Consolidated statement of comprehensive income			
Taxation	(54 128)	15 609	(38 519)
Others	171 359	-	171 359
Profit after taxation	**117 231**	**15 609**	**132 840**
Foreign currency translation difference for foreign operations	(11 245)	(150)	(11 395)
Total comprehensive income for the year	**105 986**	**15 459**	**121 445**
Profit attributable to:			
Owners of the company	92 750	-	92 750
Non-controlling interest	24 481	15 609	40 090
Profit for the period	117 231	15 609	132 840
Total comprehensive income attributable to:			
Owners of the company	81 505	-	81 505
Non-controlling interest	24 481	15 459	39 940
Other comprehensive income	105 986	15 459	121 445

	Impact of correction of error		
R'000	**As previously reported**	**Adjustments**	**As restated**
Consolidated statement of comprehensive income			
Interest income	244,132	401,829	645,961
Fee income	681,784	(401,829)	279,955

Events after the reporting period

There have been no subsequent events that require reporting.

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

7 November 2018

Directors

Chairman: Dr MDC Motlatla* (BA, DCom (Unisa)); **Chief Executive Officer**: Dr W van Aardt (BProc (Cum Laude), LLM (UP), LLD (PUCHE) Admitted Attorney of The High Court of South Africa, QLTT (England and Wales), Solicitor of the Supreme Court of England and Wales); HJ Wilken-Jonker* (BCom Hons (Unisa); **Chief Financial Officer:** CH Eksteen (CA(SA), CPA(USA)); D Brits* (BCom, MBA (PUCHE); HG Kotze* (CA(SA), HDip Tax, Certificate in Treasury Management); PA Naude* (BCom (Marketing), Gaining Competitive Advantage (Michigan), IEP (INSEAD)); **Chief Operating Officer:** C van Heerden (BCom (Risk), MBA).

Secretary: Ben Bredenkamp (BCom Acc, LLB (UP))

*Non-executive

Transfer secretaries: Link Market Services South Africa (Proprietary) Limited (Registration number 2000/007239/07) 11 Diagonal Street, Johannesburg, 2001 (PO Box 4844, Johannesburg, 2000)

Sponsor: Grindrod Bank Limited