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")

CONSOLIDATED RESULTS FOR THE YEAR ENDED 28 FEBRUARY 2019

During the 12 months under review, Finbond delivered lackluster results, with Interest revenue increasing by 17.4% to R1.81 billion; Revenue from continuing operations increasing by 8.2% to R2.58 billion, Income from operations increasing by 1.4% to R2.25 billion and EBITDA decreasing by 39.7%.

These substandard results were the consequence of a once off abnormal fair value adjustment and the transition of SASSA customers to the new Post-Office card and are not reflective of the Group’s efforts, initiatives or good overall business performance.

Our materially increased US$ revenue from our operations in the United States of America and Canada, strong cash flows and substantial cash and cash equivalent reserves helped us to weather the storm in South Africa.

During the period under review:

- Total Assets increased by 8.8% to R3.42 billion (Feb 2018*: R3.15 billion).

- Net Assets increased by 58.3% to R1.65 billion (Feb 2018*: R1.04 billion).

- Cash and Cash Equivalents increased by 19.8% to R765.520 million (Feb 2018: R639.195 million)

- Revenue from continuing operations increased by 8.2% to R2.58 billion (Feb 2018: R2.38 billion).

- US $ contribution to Revenue and Headline Earnings increased to 64.2% and 84.1% respectively.

- Earnings before interest, taxation, depreciation and amortisation (EBITDA) decreased by 39.7% to R420.8 million (Feb 2018*: R697.8 million).

- Number of loans advanced contracted by 9.6% to 1,700,255 (Feb 2018: 1,880,108)

- Value of loans advanced decreased by 3.8% to R5.21 billion (Feb 2018: R5.42 billion).

- Cash received from customers remained stable at R7.18 billion (Feb 2018: R7.19 billion).

- We expanded our overall branch network by 3.3% to 694 branches (Feb 2018: 672), of which 435 branches are in South Africa (Feb 2018: 415) and 259 are the United States of America (Feb 2018: 257).

Finbond continues to manage for the long term and to invest in people, training, information technology, banking systems, compliance systems as well as in enhanced collection strategies and systems, in order to build a sustainable business that creates long term economic value. The bulk of the increased expenses during the period under review relates to increasing capacity and improving risk management functions and processes within the Group.

We remain focused on executing the Group's strategy and top business priorities namely, optimal capital utilization, earnings growth, strict upfront credit scoring, good quality sales, effective collections, cost containment and training and development of staff members.

ABNORMAL ONCE-OFF FAIR VALUE ADJUSTMENTS and SASSA

Finbond's Performance for the period under review was adversely affected by external events and skewed by anomalous once-off fair value adjustments:

A. An abnormal downward fair value adjustment of R129.6 million relating to Finbond's Property Development Assets in Mpumalanga and Gauteng.

B. The transition of SASSA customers to the South African Post Office card as set out in more detail hereinafter.

A.) FAIR VALUE ADJUSTMENT OF INVESTMENT PROPERTIES

As part of the Boards annual valuation process Finbond obtained 4 Independent External Valuers (duly registered with the South African Institute of Valuers) to independently value Finbond's Zwartkoppies Property. This highly specialized property consists of the following value forming attributes:

- Mineable Land,
- Development rights for the development of a 6 star boutique hotel, golf estate, polo estate, fly fishing estate and a dairy estate (RoD development rights),
- Agricultural Land,
- Standing Timber.

Valuers valued the Farm Zwartkoppies as follows:

- R173 million (RoD Development Rights Only) – Mr. V.P. Mnguni (Professional Associated Valuer (South Africa)) of APG Valuations.

- R270 million (RoD Development Rights, Minable Land, Agricultural Land and Standing Timber)- Mr. F.P. Grobbelaar (NDip (Prop Val) MIV(SA)) of Gojemaso Enterprises.
- R240 million (RoD Development Rights, Minable Land, Agricultural Land and Standing Timber) – Mr. H.N. Hartman (NDip (Prop Val) MIV(SA)) of Hartman Professional Enterprises.
- R70 million (RoD Development Rights only). - Mr. D. Jendrzejewshi (Professional Valuer) of Alfa Valuations.

Given the economic headwinds in the South African Property Sector, policy uncertainty around land expropriation and low probability of successful development or sale in the current market resulted in the Finbond Board adopting a conservative position of R70 million for the Zwartkoppies property that lead to an abnormal downward fair value adjustment of R129.6 million relating to Finbond's Property Development Assets in Mpumalanga, as well as Gauteng.

B.) SOUTH AFRICAN SOCIAL SECURITY AGENCY (SASSA) SWITCH TO THE SOUTH AFRICAN POST OFFICE (SAPO)

A large portion of Finbond's South African SASSA client base transitioned to the new "SAPO" card resulting in a more than 68% reduction in our SASSA customer base. This card was launched by SAPO and SASSA on 3 May 2018, but did not avail the functionality to load EFT debits or stop orders, which limited our ability to effectively collect amounts due and payable from this segment of the market.

Consequently asset quality deteriorated with first strike collection rates in South Africa significantly decreasing by 9% from 90% to 81% at the end of September 2018 and average monthly write offs increasing from approximately R16 million to R30 million between August 2018 and February 2019.

We took John Maxwell's advice that "***The pessimist complains about the wind. The optimist expects it to change. The leader adjusts the sails"*** *and* took swift action by significantly increasing credit granting criteria and only lending to SASSA customers if they have active Finbond Mutual Bank accounts.

First strike collection rates has since stabilised at 87% at the end of April 2019 and the average monthly write off has recovered to a normal range of between R15 million and R18 million per month as at the end of April 2019.

PROFIT AND PROFITABILITY

Despite these adverse developments in South Africa, Finbond achieved a turnover of R2.58 billion, an increase of 8.2% over 2018. Interest revenue increased by 17.4% from R1.54 billion to R1.81 billion.

The majority of profit for the year was derived from unsecured personal loans.

The operating Cost to Income ratio increased to end the financial year at 62.7% (Feb 2018: 59.6%).

84.1% or R115.8 million of Headline earnings was generated in North America while 15.9% of Headline Earnings or R21.9 million was generated in South Africa.

* Results for the 2018 financial year have been restated. Please see additional information in the consolidated financial statements and notes thereto.

CONTINUED FOCUS ON SHORT TERM LOANS

Total segment revenue from Finbond's micro finance activities in both South Africa and North America, made up of interest, fee and insurance income (portfolio yield) increased by 8.4% to R2.55 billion (Feb 2018: R2.35 billion).

Despite continued strong competition in the short term loan market over the past 12 months our share of the 1 to 6 month short term unsecured market [loans below R8,000 with a tenure of between 30 days and 180 days] remains above 25%.

During the period under review, Finbond's average loan size in South Africa was R1,668 with an average tenure of 3.9 months. Given the short term nature of Finbond's products, Finbond's loan portfolio is cash flow generative and a good source of internally generated liquidity. For the twelve months ended February 2019 Finbond granted R1.43 billion worth of loans and received cash payments of R2.31 billion from customers in South Africa. The whole loan portfolio turns over 3 times a year.

Finbond's average loan period is substantially shorter than our larger competitors and our average loan size significantly smaller. Given this conservative approach, Finbond does not have any exposure to the 25 – 84 month market. Finbond's historic data and vintage curves indicate that shorter term loans offer lower risk as consumers are more likely to pay them back as opposed to longer term loans.

As at February 2019, 66% of sales were 0 to 1 month loans. The focus remains on high quality, small, short-term loans. This is supported with an average loan term of 3.9 months in South Africa and 6 months in North America and an average loan size across all loan type sales in North America being $348 and R1,656 in South Africa.

One of the key value drivers is the quality of new business. Without quality, new business growth is meaningless and not sustainable. An impressive average overall collection experience for the year of 97% and a minimum average individual business line collection experience of 84% reaffirms that high quality loans are added to the portfolio and furthermore that no individual business line is dragging on performance.

CONSERVATIVE UPFRONT CREDIT SCORING PRACTICES

Detailed affordability calculations are performed prior to extending any loans in order to determine whether clients can in fact afford the loan repayments. In line with our conservative approach, additional expense buffers were again included in all affordability assessments.

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

Finbond’s lending practices have been consistently conservative over the past number of years and our rejection or decline rates remain higher than that of our major competitors. Rejection rates in South Africa stood at between 76% and 91% for our 12-24 month product at the end February 2019.

High and stable Capital Weighted Scores (“CWS”) in our South African loan book data support the notion that Finbond is extending loans to clients of higher credit quality.

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

GROWTH IN TRANSACTIONAL BANKING CUSTOMERS

We continued the evolution to turn Finbond Mutual Bank into a retail bank in South Africa. Although this is taking longer than expected we continue to move forward.

The cost of running Finbond Mutual Bank increased further during the past financial year. Current expenditure increased by 11.9% to R339.5 million. Little of this was unexpected, as it is expensive to implement what we’re doing. Strategically, we support the cost of building a mass market retail bank on the back of our short term loans business in South Africa.

Our transactional banking customers grew from 82 606 to 224 127 during the year. Our savings accounts have some of the lowest cost and pay the highest interest rates in South Africa. An ATM withdrawal costs only R10.00, and we pay 6% interest on savings accounts with a maximum balance of R20 000. Our debit card is a full MasterCard, giving our customers access to all Saswitch ATMs and can be used for purchases at all linked shops. At Finbond Mutual Bank a debit order costs only R2.50. We have few products, but those we have are the simplest, best and most affordable of their kind in South Africa.

During 2019 we will be launching our Afrikaans focused online 24/7 bank offering ***“Finbond Platinum”.*** To be a serious player in the market for basic banking, we aim for one million customers. We still have a long way to go but remain on track to build something unique: a low-cost, full-service retail bank in South Africa with offerings to both the mass market and Afrikaans market through Finbond Mutual Bank and Finbond Platinum respectively.

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

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

Finbond's net cash, cash equivalents and liquid investments increased by 19.8% to R765.520 million (Feb 2018: R 639.195 million).

Our business generates substantial positive cash-flow. We collected R 7.18 billion cash from customers over the past year.

Cash Received as a percentage of Cash Granted for the period under review improved by 5% to an average of 138% (Feb 2018: 133%).

By the end of February 2019 the deposit and commercial paper portfolio in South Africa amounted to R1.43 billion [Feb 2018: R1.31 billion]. The average deposit size is R387,439, the average term 23.9 months and the average interest rate is 9.91%. The average commercial paper investment is R1 million the average term 5 years and the average interest rate 11%. Finbond is not exposed to the uncertainty that accompanies the use of corporate call deposits as a funding mechanism since Finbond only accepts 6 to 72 month fixed and indefinite term deposits and 60 months commercial paper investments.

Given the long term nature of Finbond's liabilities [fixed term deposits with an average term of 23.9 months and commercial paper with an average term of 60 months] and the short term nature of its assets (short term micro loans with an average term of 3.9 months in South Africa), Finbond possesses a low risk liquidity structure.

FINBOND MUTUAL BANK 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.

Due to the once off abnormal fair value write downs to the Investment Property Portfolio, as a result of a year-end adjustment, retroactively after year end, Finbond Mutual Bank's minimum regulatory capital requirement as at 28 February 2019 reflected a shortfall of R40.3 million to the R202.3 million (25% of Risk Weighted Assets) required by the Prudential Authority, and an excess of R81.0 million over and above the required qualifying regulatory capital per Basel III. Although Finbond as a Mutual Bank is not subject to the Basel III requirements, Finbond already complies with, and exceeds, all Basel III requirements. As at 28 February 2019, Finbond's:

- internally calculated liquidity coverage ratio was 290% (190% more than required);

- internally calculated net stable funding ratio was 805% (705% more than required); and

- capital adequacy ratio was 20.01% (10.01% more than required under Basel III), but 4.99% below the minimum prudential limit required by the Prudential Authority.

In order to immediately address and rectify the reduction in capital caused by the once off abnormal fair value adjustment to Investment Properties, Finbond Group Limited recapitalized Finbond Mutual Bank, in the amount of R 40 million, at the end of May 2019. Following the recapitalization, Finbond Mutual Bank's required qualifying regulatory capital (based on 30 April 2019 DI returns), reflected an excess of R28.3 million to the R194.0 million (25% of Risk Weighted Assets) required by the Prudential Authority, and an excess of R144.7 million over and above the required qualifying regulatory capital per Basel III. Following the May 2019 recapitalization (and based on 30 April 2019 DI returns), Finbond's:

- internally calculated liquidity coverage ratio was 168% (68% more than required);

- internally calculated net stable funding ratio was 647% (547% more than required); and

- capital adequacy ratio was 28.64% (18.64% more than required in terms of Basel III), and 3.64% above the minimum prudential limit required by the Prudential Authority.

INVESTMENT GRADE CREDIT RATING AFFIRMATION

In December 2018, Global Credit Ratings affirmed the Investment Grade long term national scale rating of Finbond Group Limited of BBB(ZA) and the short term national scale rating of A3(ZA); with the outlook accorded as Stable. Furthermore, Global Credit Ratings affirmed the long-term international scale local currency rating assigned to Finbond Group Limited of B+; with the outlook accorded as Stable.

FINBOND RATED SECOND BEST BANK IN SOUTH AFRICA AND ELEVENTH BEST BANK IN THE WORLD

In October 2018, the London based Lafferty Group 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.

SERIOUS INVESTMENT IN DISTRIBUTION AND PEOPLE

During the past financial year Finbond increased its overall branch network by a further 22 branches to 694 branches [March 2018: 672]

In South Africa Finbond increased its branch network by 20 branches to 435 branches in South-Africa of which 167 are located in Gauteng, North West, Limpopo and Mpumalanga, 67 in KwaZulu-Natal, 76 in the Western Cape, 60 in the Eastern Cape and 65 in the Free State and Northern Cape.

In the United States of America and Canada Finbond increased its branch network from 257 branches to 259 branches of which 29 are located in California, 53 are located in Louisiana, 61 are located in Illinois, 5 are located in Indiana, 2 are located in Florida, 1 is located in Utah, 15 are located in Missouri, 13 are located in Ontario (Canada), 5 are located in Michigan, 13 are located in Mississippi, 12 are located in Alabama, 9 are located in Wisconsin, 22 are located in Tennessee, 9 are located in Oklahoma, 8 are located in South Carolina, 1 is located in New Mexico and 1 is located in Nevada.

Finbond also has an online offering that offers instalment loans in the states of Illinois, Wisconsin, Missouri, New Mexico, Utah and Nevada via the Creditbox.com website.

Approximately 84% of Finbond's headline earnings are currently denominated in US$. The significantly higher percentage for the current year relates to the South African SASSA transition issue described earlier. The intention is to grow US$ earnings from a normalized 65% to approximately 80% of net headline earnings in 3 to 5 years.

Finbond North American sales are well diversified across the various states with limited exposure to concentration risk.

REGULATION AND COMPLIANCE

Finbond Group and Finbond Mutual Bank have a good, transparent and trusting relationship with its regulators which include the Prudential Authority, the National Credit Regulator, the Financial Sector Conduct Authority, the Johannesburg Stock Exchange and the Financial Intelligence Centre.

The increasingly more-stringent regulatory environment impacting the financial services sector constantly challenges banks to comply with regulatory requirements.

Finbond’s compliance universe consists of all the statutory and regulatory requirements of all relevant legislation, regulation codes applicable to the business activities of the Group and the Bank.

During the period under review the Compliance function focused on the following key areas:

- the identification of new regulatory requirements; employee awareness relating to regulatory requirements; and combating unethical behaviour;
- improved compliance risk monitoring;
- compliance training in all areas;
- continued high levels of compliance with the National Credit Act;
- continued high levels of compliance with the FAIS and FICA Acts.

Compliance risk is managed through internal policies and processes which include legal, regulatory and business-specific requirements. Regular training and advice is provided to ensure that all employees are familiar with their compliance obligations.

The Finbond Mutual Bank Contact with Regulators Policy provides a framework that guides *ad hoc* contact with any financial services regulatory authority relevant to the Group and the Bank, ensuring that communication with regulators is handled promptly and professionally. In terms of the policy the Compliance division is responsible for providing guidance to business before and during meetings with regulators, for maintaining a log of all commitments made to regulators and for monitoring the progress of commitments.

UNINTENDED CONSEQUENCES OF THE PROPOSED SOUTH AFRICAN DEBT RELIEF BILL

Over-indebtedness is a serious economic and social challenge in South Africa. The Banking Association South Africa (BASA) supports debt intervention to assist low-income consumers whose circumstances have changed for the worse, through no fault of their own, and when formal debt-counselling processes provide inadequate relief.

However, ***the National Credit Amendment Bill***, which has been provided to the president to sign into law, is not a sustainable debt-intervention measure and threatens the ability of banks to extend credit to low-income consumers – hindering efforts to offer inclusive financial services to all South Africans. This is a result of the bill failing to balance the rights of consumers and credit providers and limiting the ability of banks to safeguard the savings and salaries entrusted to them by South Africans. *Specifically: The National Consumer Tribunal and the courts are to be granted the power to make debt restructuring orders – which reduces the interest rate, fees and charges for credit agreements in debt intervention and debt review processes – to zero for a period of five years or longer. This effectively legislates for the granting of concessions to all consumers seeking debt intervention or who can enter the debt review process.*

It also means that secured credit agreements, such as mortgages, could be restructured to an interest rate of 0%, which is unsustainable for banks and consumers who hope to earn interest on their savings.

The unintended consequences of this provision is that access to credit for homes and movable assets, like vehicles – which can be sources of income and wealth creation – will become more difficult and the cost of credit is likely to

increase. Banks have a fiduciary duty to protect the deposits of their savers and investors, which are used to extend credit.

The scope of application of the proposed legislation is too broad. Those qualifying for debt intervention must have an average monthly gross income of under R7 500 and total outstanding unsecured debt of R50 000. Their debt can be extinguished after a period of up to 24 months, during which the levying of interest, fees and charges and the obligation to make payment towards the debt, will be suspended.

The powers given to the Minister to review and increase the income and unsecured debt thresholds are deemed to be an unlawful delegation of legislative power. They do not provide stakeholders with an opportunity to publicly participate in the process, making it procedurally unfair.

This creates uncertainty for credit providers who will not be able to accurately assess the risk of loans not being repaid. The consequences of the proposed broadened scope of the Bill for consumers, the economy and sectors such as banking, retail and micro-lending, have not been subjected to an in-depth social and economic impact assessment and engagement with relevant stakeholders.

BASA has urged the portfolio committee to act in the interests of all South Africans by addressing the unintended consequences of the Bill and helping to ensure that the credit market can continue to provide financial services to those in need, in a sustainable and fair manner.

LOOKING AHEAD

Although 60% of our revenue is generated in US$, South Africa still contributes a significant portion of total revenue. The challenging and difficult South African 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.

However, we remain confident that we have the required resources and depth in management to efficaciously overcome these challenges and remain optimistic about our prospects for the future due to Finbond's: management expertise; strong cash flow; strong liquidity and surplus cash position; uniquely positioned 435 branch network in South Africa and 259 branches in North America; superior asset quality; access to funding and conservative risk management practices in South Africa and North America.

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

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

DIVIDEND

The board has approved the declaration of a gross dividend from retained earnings of 1.55 cents per share ("Cash Dividend"). Shareholders will, however,

be entitled to elect to receive a capitalisation share issue alternative (“the Capitalisation Issue Alternative”). If no election is made, the Cash Dividend will be paid.

The declaration data announcement will be released on SENS and the circular relating to the Cash Dividend and Capitalisation Issue Alternative will be distributed to shareholders in due course.

The Cash Dividend will be payable in the currency of South Africa. The Cash Dividend is subject to a local dividend tax rate of 20%, resulting in a net Cash Dividend of 1.24 cents per share, unless the relevant shareholder is exempt from dividend tax or is entitled to a reduced rate in terms of the applicable double tax agreement. The company's income tax reference number is 9194313145. At the date of this announcement the company has 944,907,501 ordinary shares in issue.

If approved, the Capitalisation Issue Alternative will not be subject to dividend tax. However, there are possible tax implications of electing to receive shares under the Capitalisation Issue Alternative and shareholders are advised to obtain their own professional advice in this regard.

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at

R'000	**28 February 2019**	28 February 2018* (Restated)	Change	1 March 2017* (Restated)
Assets				
Cash and cash equivalents	532,429	422,339	26%	547,351
Other financial assets	233,091	216,856	7%	207,717
Unsecured loans and other advances to customers	804,533	741,664	8%	619,017
Trade and other receivables	131,246	158,177	(17%)	139,850
Other assets	19,288	12,632	53%	760
Derivative financial instrument	4,920	-	-	-
Secured loans and other advances to customers	208,903	210,977	(1%)	220,958
Property, plant and equipment	195,184	131,816	48%	113,800
Investment property	137,200	266,771	(49%)	278,185
Deferred taxation	50,720	14,215	257%	20,115
Goodwill	987,872	862,609	15%	782,301
Intangible assets	116,838	108,035	8%	115,064
Total assets	**3,422,224**	**3,146,091**	9%	**3,045,118**
Equity				
Capital and reserves				
Share capital	1,150,684	724,525	59%	715,667

Reserves	5,530	(193,715)	(103%)	(72,350)
Retained income	332,144	383,860	(13%)	205,529
Share capital and reserves attributable to ordinary shareholders	**1,488,358**	**914,670**	63%	**848,846**
Non-controlling interest	163,747	128,689	27%	194,807
Total equity	**1,652,105**	**1,043,359**	58%	**1,043,653**
Liabilities				
Bank overdraft	90,620	91,033	0%	27,725
Trade and other payables	121,744	124,029	(2%)	81,428
Other liabilities	10,668	11,757	(9%)	10,105
Current tax payable	22,235	42,073	(47%)	40,456
Derivative financial instrument	-	47,430	-	-
Loans from shareholders	84,970	470,586	(82%)	508,440
Purchase consideration payable	-	-	-	213,375
Fixed and notice deposits	998,604	1,027,114	(3%)	1,098,609
Deferred taxation	5,782	9,882	(41%)	21,327
Commercial paper	435,496	278,828	56%	-
Total liabilities	**1,770,119**	**2,102,732**	(16%)	**2,001,465**
Total equity and liabilities	**3,422,224**	**3,146,091**	9%	**3,045,118**

AUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended

R'000	**28 February 2019**	28 February 2018* (Restated)	Change
Interest income	1,809,953	1,541,716	17%
Interest expense	(193,876)	(208,231)	(7%)
Net interest income	**1,616,077**	**1,333,485**	21%
Fee income	466,407	458,540	2%
Management fee income	467	66,971	(99%)
Other operating income	301,470	315,783	(5%)
Fair value adjustments	(74,513)	(6,872)	984%
Foreign exchange gain/(loss)	(57,902)	52,318	(211%)
Net impairment charge on loans and advances	(593,694)	(500,416)	19%
Operating expenses	(1,495,503)	(1,296,444)	15%
Profit before taxation	**162,809**	**423,365**	(62%)

Taxation	(9,821)	(102,164)	(90%)
Profit after taxation	**152,988**	**321,201**	(52%)
Other comprehensive income to be reclassified to profit or loss			
Foreign currency translation difference for foreign operations	260,318	(136,174)	(291%)
Total comprehensive income for the year	**413,306**	**185,027**	123%
Profit attributable to:			
Owners of the company	36,909	227,441	(84%)
Non-controlling interest	116,079	93,760	24%
Profit for the period	**152,988**	**321,901**	(52%)
Total comprehensive income attributable to:			
Owners of the company	230,367	112,930	104%
Non-controlling interest	182,939	72,097	154%
Total comprehensive income	**413,306**	**185,027**	123%
Earnings per share			
Earnings per share (cents)			
Basic	4.1	30.4	(86%)
Diluted	4.1	29.1	(86%)
Headline earnings per share (cents)			
Basic	15.4	32.8	(53%)
Diluted	15.4	31.0	(50%)
Total number of ordinary shares outstanding	923,727	748,547	23%
Weighted average number of ordinary shares outstanding	895,886	748,570	20%
Effect on conversion of shareholders loans into equity	54,435	204,131	(73%)
Weighted average number of ordinary shares (diluted) at 28 February	950,321	952,701	(0%)
Profit attributable to owners of the Company	36,909	227,441	(84%)
Adjusted for:			
Interest on shareholders loans	14,374	49,284	(71%)
Fair value adjustment on foreign exchange derivative	(7,085)	34,150	(121%)
Foreign exchange gain on loans from shareholders	7,085	(34,044)	(121%)
Diluted earnings	**51,283**	**276,831**	(81%)

Net profit attributable to ordinary equity holders of the parent	36,909	227,441	(84%)
Adjusted for:			
Loss on disposal of property, plant and equipment	226	1,755	(87%)
Fair value changes of investment properties	100,575	16,639	504%
Headline earnings	**137,710**	**245,835**	(44%)
Adjusted for:			
Interest on shareholders loans	14,374	49,284	(71%)
Fair value adjustment on foreign exchange derivative	(7,085)	34,150	(121%)
Foreign exchange gain on loans from shareholders	7,085	(34,044)	(121%)
Diluted headline earnings	**152,084**	**295,225**	(48%)

AUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended

R'000	**28 February 2019**	28 February 2018* (Restated)	Change
Cash flows from operating activities			
Cash generated from operations	341,850	71,004	381%
Taxation paid	(67,085)	(105,872)	(37%)
Net cash from operating activities	**274,765**	**(34,868)**	(888%)
Cash flows from investing activities			
Purchase of property, plant and equipment	(89,559)	(57,050)	57%
Capital expenditure of investment property	(36)	(10,029)	(100%)
Purchase of other intangible assets	(12,903)	-	-
Purchase of financial assets	(13,469)	(20,238)	(33%)
Sale of financial assets	-	52,863	-
Acquisition of subsidiaries net of cash acquired	-	(213,498)	-
Net cash from investing activities	**(115,967)**	**(247,952)**	(53%)
Cash flows from financing activities			
Buy back of shares	-	(43,478)	-
Issue of share capital	32,708	-	-
Repayment of shareholders loan	(69,730)	(5,565)	1,153%
Proceeds from commercial paper	156,668	278,828	(44%)
Finance lease payments	(2,867)	(2,525)	14%

Dividends paid	(197,012)	(101,945)	93%
Net cash from financing activities	**(80,233)**	**125,315**	(164%)
Total cash movement for the year	78,565	(157,505)	(150%)
Cash at the beginning of the year	331,306	519,626	(36%)
Effect of movements in exchange rates on cash held	31,938	(30,815)	(204%)
Total cash at end of the year	**441,809**	**331,306**	33%

AUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended

R'000	**28 February 2019**	28 February 2018* (Restated)
Total equity at the beginning of the year as previously presented	**1,043,359**	1,161,917
Correction of error	-	(118,264)
Total restated equity as at the beginning of the year	**1,043,359**	1,043,653
Change in accounting policy - IFRS 9	(3,818)	-
Restated total equity as at 1 March	**1,039,541**	1,043,653
Change in share capital		
Issue of shares	426,159	54,049
Buy-back of shares	-	(45,191)
Change in reserves		
Total comprehensive income for the year	230,367	112,930
Equity settled share based payment	5,787	(6,854)
Change in control	15,191	-
Dividends paid	(93,640)	(154,281)
Change in non-controlling interest		
Total comprehensive income for the year	182,939	72,097
Change in control	(15,191)	(8,992)
Business combination	-	(24,052)
Dividends paid	(139,048)	-
Total equity at the end of the year	**1,652,105**	1,043,359

AUDITED CONSOLIDATED SEGMENTAL INFORMATION
OPERATING SEGMENTS

R'000

28 February 2019	**Investment Products**	**Lending**	**Property Investment**	**Transactional Banking**	**Other**	**Total**

Interest income	21,751	1,784,341	-	-	3,861	1,809,953
Interest expense	(139,713)	(34,603)	-	(437)	(19,123)	(193,876)
Net interest income	**(117,962)**	**1,749,738**	**-**	**(437)**	**(15,262)**	**1,616,077**
Fee income	-	450,521	-	15,883	3	466,407
Management fee income	-	-	-	-	467	467
Other operating income	185	294,711	-	-	6,574	301,470
Fair Value adjustments	-	2,744	(129,607)	-	52,350	(74,513)
Foreign exchange gain	-	-	-	-	(57,902)	(57,902)
Net impairment charge on loans and advances	-	(585,260)	-	(310)	(8,124)	(593,694)
Operating expenses	(3,726)	(1,363,771)	(2,251)	(26,901)	(98,854)	(1,495,503)
Profit/(loss) before taxation	**(121,503)**	**548,683**	**(131,858)**	**(11,765)**	**(120,748)**	**162,809**
Taxation	15,252	(58,259)	16,552	1,477	15,157	(9,821)
Profit/(loss) after taxation	**(106,251)**	**490,424**	**(115,306)**	**(10,288)**	**(105,591)**	**152,988**
Significant segment assets						
Cash and cash equivalents	192,027	298,068	-	8,949	33,385	**532,429**
Other financial assets	233,091	-	-	-	-	**233,091**
Unsecured Loans and other advances to customers	-	804,533	-	-	-	**804,533**
Secured Loans and other advances to customers	-	208,903	-	-	-	**208,903**
Trade and other receivables	-	66,985	-	-	64,261	**131,246**
Property, plant and equipment	-	177,094	-	751	17,339	**195,184**

Investment property	-		137,200	-	-	**137,200**
Goodwill	-	987,872	-	-	-	**987,872**
Intangible assets	-	116,838	-	-	-	**116,838**
Significant segment liabilities						
Fixed and notice deposits	998,604		-	-	-	**998,604**
Commercial Paper	435,496		-	-	-	**435,496**
Loans from shareholders	-	-	-	-	84,970	**84,970**

28 February 2018* (Restated)	**Investment Products**	**Lending**	**Property Investment**	**Transactional Banking**	**Other**	**Total**
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 adjustment	-	62,086	(21,443)	-	(47,515)	(6,872)
Foreign exchange gain					52,318	52,318
Net impairment charge on loans and advances	-	(490,905)	-	27	(9,538)	(500,416)
Operating expenses	(2,271)	(1,230,178)	(1,999)	(2,306)	(59,690)	(1,296,444)
Profit/(loss) before taxation	**(89,864)**	**501,562**	**(23,442)**	**3,043**	**32,066**	**423,365**
Taxation	32,668	(130,591)	8,522	(1,106)	(11,656)	(102,163)
Profit/(loss) after taxation	**(57,196)**	**370,971**	**(14,920)**	**1,937**	**20,410**	**321,202**
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	-	741,664	-	-	-	**741,664**
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	-	862,609	-	-	-	**862,609**
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

28 February 2019

R'000	South Africa	North America	Total
Interest Income	236,105	1,573,848	1,809,953
Interest expense	(160,539)	(33,337)	(193,876)
Net interest income	**75,566**	**1,540,511**	**1,616,077**
Fee income	403,761	62,646	466,407
Management fee income	376	91	467
Other operating income	282,957	18,513	301,470
Fair value adjustment	(75,029)	516	(74,513)

Foreign exchange gain/(loss)	(57,443)	(459)	(57,902)
Net Impairment charge on loans and advances	(227,274)	(366,420)	(593,694)
Operating expenses	(493,030)	(1,002,473)	(1,495,503)
Profit before taxation	**(90,116)**	**252,925**	**162,809**
Taxation	11,313	(21,134)	(9,821)
Profit for the year	**(78,803)**	**231,791**	**152,988**
Significant segment assets			
Cash and cash equivalents	280,489	251,940	532,429
Other financial assets	233,091	-	233,091
Unsecured loans and other advances to customers	267,269	537,264	804,533
Secured loans and other advances to customers	181,633	27,270	208,903
Trade and other receivables	86,476	44,770	131,246
Property, plant and equipment	64,375	130,809	195,184
Investment property	137,200	-	137,200
Goodwill	196,787	791,085	987,872
Intangible assets	171	116,667	116,838
Significant segment liabilities			
Fixed and notice deposits	998,604	-	998,604
Commercial Paper	435,496	-	435,496
Loans from shareholders	84,970	-	84,970

28 February 2018* (Restated)

R'000	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	44,662	458,540
Management fee income	66,909	62	66,971

Other operating income	271,565	44,218	315,783
Fair value adjustment	(68,958)	62,086	(6,872)
Foreign exchange gain/(loss)	52,355	(37)	52,318
Net Impairment charge on loans and advances	(158,077)	(342,339)	(500,416)
Operating expenses	(475,112)	(821,332)	(1,296,444)
Profit before taxation	**194,188**	**229,177**	**423,365**
Taxation	(70,498)	(31,666)	(102,164)
Profit for the year	**123,690**	**197,511**	**321,201**
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	354,768	386,896	741,664
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	665,822	862,609
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

* Results for the 2018 financial year have been restated due to an error in the fair value measurement of the previously written-off portfolio affecting; Unsecured loans and advances to customers, Deferred taxation, Goodwill, Non-controlling interest and Retained income. Please see additional information in the notes to the consolidated financial statements to follow.

Notes to the audited consolidated financial statements

Finbond Group Limited is a company domiciled in South Africa. The audited consolidated financial statements of the Company as at and for the twelve months ended 28 February 2019 comprise the Company and its subsidiaries (together referred to as the "Group").

Basis of preparation

The audited 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 audited consolidated financial statements have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS").

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

The consolidated financial statements were prepared under the supervision of Mr GW Labuschagne CA, CPA, in his capacity as chief financial officer.

Financial information and notes in this announcement are extracted from the Group's audited financial statements and are not themselves audited. The directors take full responsibility that the financial information and notes as presented have been correctly extracted from the Group's audited financial statements.

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

IFRS 16 Leases

IFRS 16 will replace IAS 17 Leases and three related Interpretations. It completes the IASB's long running project to overhaul lease accounting. Leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease liability. There are two important reliefs provided by IFRS 16 for assets of low value and short-term leases of less than 12 months.

Management is in the process of assessing the full impact of the Standard. The Group believes that the most significant impact will be the recognition of a right of use asset and a lease liability for the office and production buildings currently treated as operating leases and concludes that there will not be a significant impact to the finance leases currently held on the statement of financial position.

At 28 February 2019 the future minimum lease payments amounted to R118,8 million. The nature of the expense of the above cost will change from being an operating lease expense to depreciation and interest expense.

The Group adopted IFRS 16 on 1 March 2019 using the Standard's modified retrospective transition method approach. Under this approach the cumulative effect of initially applying IFRS 16 is recognised as an adjustment to equity at the date of initial application. Comparative information is not restated.

The Group has elected to present right-of-use assets separately and lease liabilities will be included in finance liabilities in the statement of financial position.

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 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 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) and IFRS 15 Revenue from Contracts with Customers from 1 March 2018. A number of 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 had 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	741,664	(2,874)	738,790
Trade and other receivables	158,177	-	158,177
Other assets	12,632	-	12,632
Secured loans and other advances to customers	210,977	(5,109)	205,868
Property, plant and equipment	131,816	-	131,816
Investment property	266,771	-	266,771
Deferred taxation	14,215	-	14,215
Goodwill	862,609	-	862,609
Intangible assets	108,035	-	108,035
Total assets	**3,146,091**	**(7,983)**	**3,138,108**
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	9,882	(4,165)	5,717
Commercial paper	278,828	-	278,828
Total liabilities	**2,102,732**	**(4,165)**	**2,098,567**
Equity			
Capital and reserves			
Share capital	724,525	-	724,525
Reserves (deficit)	(193,715)	-	(193,715)
Retained income	383,860	(10,176)	373,684
Share capital and reserves attributable to ordinary shareholders	**914,670**	**(10,176)**	**904,494**
Non-controlling interest	128,689	6,358	135,047
Total equity	**1,043,359**	**(3,818)**	**1,039,541**
Total equity and liabilities	**3,146,091**	**(7,983)**	**3,138,108**
Basic earnings per share (cents)		(1.1)	

Diluted earnings per share (cents)	(1.1)

The adjustments to loans and other advances to customers could further be 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	-	971,770
Allowances for impairment to loans and advances	(230,106)	(2,874)	(232,980)
Unsecured loans and other advances to customers	**741,664**	**(2,874)**	**738,790**
Secured Loans and advances before impairment	234,832	-	234,832
Allowances for impairment to loans and advances	(23,855)	(5,109)	(28,964)
Secured loans and other advances to customers	**210,977**	**(5,109)**	**205,868**

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

	R'000
Closing retained earnings at 28 February 2018 as presented	**383,860**
Increase in allowances for impairment for debt investments at amortised cost	(7,983)
Decrease in deferred tax liability relating to impairment	4,165
Non-controlling interest	(6,358)
Opening retained earnings 1 March 2018 restated	**373,684**

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.

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 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.

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.
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.

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.

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	741,664	738,790
Secured loans and other advances to customers	Loans and receivables	Amortised cost	210,977	205,868
Other receivables	Loans and receivables	Amortised cost	109,477	109,477
Total financial assets			**1,701,313**	**1,693,330**

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

(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, secured loans, trade receivables and contract assets at an amount equal to lifetime ECLs.

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 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

Loss allowances for financial assets measured at amortised cost are deducted from the gross amount of the assets. Impairment losses related to loans and advances are presented separately in the statement of profit or loss.

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 impairment requirements at 1 March 2018 results in an additional impairment allowance as follows.

	Unsecured loans	**Secured loans**
	R'000	R'000
Loss allowance at 28 February 2018 under IAS 39	230,106	23,855
Additional impairment recognised at 1 March 2018:	2,874	5,109
Loss allowance at 1 March 2018 under IFRS 9	232,980	28,964

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 calculated in line with the stage as driven by the delinquency status of the financial asset. There are three stages:

- Stage 1 includes financial instruments where no significant increase in risk (SICR) is prevalent. A 12-month ECL assessment is implemented.
- Stage 2 includes financial instruments where SICR is prevalent; a lifetime ECL assessment is implemented.
- Stage 3 includes credit-impaired financial instruments where a lifetime ECL assessment is implemented.

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**
Stage 1	10%	828,255	79,641
Stage 2	45%	259,405	116,880
Stage 3	55%	118,942	65,423
		1,206,602	**261,944**

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 2018 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
- 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: Recurring				
Other financial assets	-	121,031	358	121,389
Investment property	-	-	137,200	137,200
Foreign exchange derivative on loans from shareholders	-	-	(4,920)	(4,920)
	-	**121,031**	**132,638**	**253,669**

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.

R’000	**Opening Balance**	**Gains recognized in profit or loss**	**Capitalised expenditure**	**Closing balance**
Assets				
Investment properties	266,771	(129,607)	36	137,200
Liabilities				
Derivative financial instrument	(47,430)	52,350	-	4,920

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 year error

Under IAS 39 and in accordance with the policies and procedures governing the Group, overdue loans and advances were written off and fully derecognised. This written off portfolio was managed as a group and actively and constantly evaluated in line with Group risk management strategy.

Management estimated future recoveries in reviewing the carrying value of the written-off portfolio to be recognised in loans and advances based on historic trends. Management used the Discounted Cash Flow methodology to value the written-off portfolio by:

- Estimating future cash flows expected from collection efforts on the written-off portfolio;
- Estimating an appropriate discount rate based on the cost of equity; and

- Determining the net present value by discounting the expected future cash flows using an appropriate discount rate.

Under IAS 39, upon initial recognition, the written-off portfolio was designated at fair value through profit or loss. The Group applied this policy consistently between 2009 and 2018 on a fair value basis in accordance with a documented risk management strategy. Information about the group was provided internally on that basis to the entity's key management personnel.

IFRS 13 however requires selecting a valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs. The reliability of a fair value measurement derived from a valuation technique is dependent on both the reliability of the valuation technique and the reliability of the inputs used.

- When applying the fair value measurement, Finbond applied a discounted cash flow valuation technique to estimated cash flows that were no longer linked to the original counterparties to whom loans were advanced. The cash flows were estimated and not supported by the underlying contractual cash flows, hence estimates of possible collections based on past experience rather than known amounts and counterparties.
- The valuation technique did not take into account appropriate risk adjusted inputs reflecting the nature of the counterparties and the significant measurement uncertainties relating to the cash flows.

This constitutes an error as a result of non-compliance with IFRS 13. The full amount was considered an error because of insufficient data and impracticability to quantify the amount relating to the error and the amount that would have been transitioned to IFRS 9.

Finbond, as part of its earnings enhancing growth strategy, acquired a number of short-term lending businesses in North America through business combinations during the 2017 and 2018 financial years. American Cash Advance (100% interest at acquisition), Cashbak LLC (56.13% interest at acquisition), AmeriCash Holding LLC (50% interest at acquisition) and America's Financial Choice LLC (100% interest at acquisition) included a written-off portfolio as a separately identifiable asset on acquisition. Given the restatement, the net asset value on acquisition of these entities decreased, resulting in an increase in goodwill and a decrease in the non-controlling interest upon initial recognition.

The following tables summarise the impact on the Group's consolidated financial statements for the years ended 28 February 2017 and 28 February 2018:

2017	**Impact of correction of error**		
R'000	**As previously reported**	**Adjustments**	**As restated**
Consolidated statement of financial position			

Unsecured loans and other advances to customers	800,599	(181,582)	619,017
Goodwill	752,699	29,602	782,301
Other asset items	1,643,800	-	1,643,800
Total assets	**3,197,098**	**(151,980)**	**3,045,118**
Deferred taxation	55,043	(33,716)	21,327
Other liability items	1,980,138	-	1,980,138
Total liabilities	**2,035,181**	**(33,716)**	**2,001,465**
Retained income	292,351	(86,822)	205,529
Non-controlling interest	226,249	(31,442)	194,807
Other equity items	643,317	-	643,317
Total equity	**1,161,917**	**(118,264)**	**1,043,653**

2018	**Impact of correction of error**		
R'000	**As previously reported**	**Adjustments**	**As restated**
Consolidated statement of financial position			
Unsecured loans and other advances to customers	937,391	(195,727)	741,664
Goodwill	830,077	32,532	862,609
Other asset items	1,541,818	-	1,541,818
Total assets	**3,309,286**	**(163,195)**	**3,146,091**
Deferred taxation	45,704	(35,822)	9,882
Other liability items	2,092,850	-	2,092,850
Total liabilities	**2,138,554**	**(35,822)**	**2,102,732**
Retained income	477,442	(93,582)	383,860
Reserves	(194,581)	866	(193,715)
Non-controlling interest	163,346	(34,657)	128,689
Other equity items	724,525	-	724,525
Total equity	**1,170,732**	**(127,373)**	**1,043,359**
Consolidated statement of comprehensive income			
Net impairment charge on loans and advances	(484,238)	(16,178)	(500,416)
Taxation	(104,582)	2,419	(102,163)
Others	923,781	-	923,781
Profit after taxation	**334,961**	**(13,759)**	**321,202**

Foreign currency translation difference for foreign operations	(140,825)	4,650	(136,175)
Total comprehensive income for the year	**194,136**	**(9,109)**	**185,027**
Profit attributable to :			
Owners of the company	234,201	(6,759)	227,442
Non-controlling interest	100,760	(7,000)	93,760
	334,961	**(13,759)**	**321,202**
Total comprehensive income attributable to :			
Owners of the company	118,824	(5,894)	112,930
Non-controlling interest	75,312	(3,215)	72,097
	194,136	**(9,109)**	**185,027**

Events after the reporting period

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.

Due to the once off abnormal fair value write downs to the Investment Property Portfolio, as a result of a year-end adjustment, retroactively after year end, Finbond Mutual Bank's minimum regulatory capital requirement as at 28 February 2019 reflected a shortfall of R40.3 million to the R202.3 million (25% of Risk Weighted Assets) required by the Prudential Authority, and an excess of R81.0 million over and above the required qualifying regulatory capital per Basel III. Although Finbond as a Mutual Bank is not subject to the Basel III requirements, Finbond already complies with, and exceeds, all Basel III requirements. As at 28 February 2019, Finbond's:

- internally calculated liquidity coverage ratio was 290% (190% more than required);
- internally calculated net stable funding ratio was 805% (705% more than required); and
- capital adequacy ratio was 20.01% (10.01% more than required under Basel III), but 4.99% below the minimum prudential limit required by the Prudential Authority.

In order to immediately address and rectify the reduction in capital caused by the once off abnormal fair value adjustment to Investment Properties, Finbond Group Limited recapitalized Finbond Mutual Bank, in the amount of R 40 million, at the end of May 2019. Following the recapitalization, Finbond Mutual Bank's required qualifying regulatory capital (based on 30 April 2019 DI returns), reflected an excess of R28.3 million to the R194.0 million (25% of Risk Weighted Assets) required by the Prudential Authority, and an excess of R144.7 million over and above the required qualifying regulatory capital per Basel III.

Following the May 2019 recapitalization (and based on 30 April 2019 DI returns), Finbond's:

• internally calculated liquidity coverage ratio was 168% (68% more than required);

• internally calculated net stable funding ratio was 647% (547% more than required); and

• capital adequacy ratio was 28.64% (18.64% more than required in terms of Basel III), and 3.64% above the minimum prudential limit required by the Prudential Authority.

Independent auditor's opinion

The Group's consolidated financial statements have been audited by the Company's auditors, SNG Grant Thornton, who have expressed an unmodified opinion. The audited Group consolidated financial statements, as well as unmodified audit opinion, are available for inspection at the Company's registered office.

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**

31 May 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* *(BComHons (Unisa);* **Chief Financial Officer:** GW Labuschagne *(CPA (CA), CA (SA), BCom (Hons Acc), BCom (Fin Acc)(cum laude));* PA Naudé**(BCom (Marketing), Gaining Competitive Advantage (Michigan), IEP (INSEAD))*; Adv. N Melville* (B Law, LLB (Natal) LLM (Cum Laude)(Natal) SEP (Harvard); RN Xaba* (CA)(SA) BCompt, BCompt (Hons) (Unisa); DJ Brits* (B Com, MBA) (NW); HG Kotze* (BCom (Acc)(Hons), HDip Tax, Certificate in Treasury Management);* ***Chief Operating Officer:*** *C van Heerden (MBA).*

Secretary: *Ben Bredenkamp (B Com Accounting, LLB (UP), MBA (Edinburgh))*

**Non-executive*

Transfer secretaries

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