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# Finbond Group Limited

**South Africa Bank Analysis** **October 2017**

| Rating class | Rating scale | Rating | Rating outlook | Review date |
|---|---|---|---|---|
| Long-term | National | BBB$_{(ZA)}$ | Stable | October 2018 |
| Short-term | National | A3$_{(ZA)}$ | | |
| Long-term | International LC | B+ | Negative | October 2018 |

**Financial data:**

(USDm comparative)

| | 28/02/16 | 28/02/17 |
|---|---|---|
| R/USD (avg.) | 13.09 | 14.28 |
| R/USD (close) | 16.03 | 13.03 |
| Total assets | 89.3 | 243.9 |
| Total capital | 24.2 | 87.3 |
| Total borrowings | 59.8 | 156.6 |
| Net advances | 27.4 | 78.4 |
| Liquid assets | 23.0 | 57.9 |
| Operating income | 35.8 | 100.6 |
| Profit after tax | 4.4 | 12.6 |

Market cap.‡ R2.6bn/USD190m

‡ Finbond's JSE listing on 23 October 2017 (R/USD 13.68).

**Ratings history:**

**Initial rating (October 2011)**
Long-term: BB$_{(ZA)}$
Rating outlook: Stable

**Initial rating (October 2013)**
Long-term (International LC): BB-
Rating outlook: Stable

**Last rating (May 2017)**
Long-term: BBB-$_{(ZA)}$
Short-term: A3$_{(ZA)}$
Rating outlook: Stable
Long-term (International LC): B+
Rating outlook: Negative

**Related methodologies/research:**

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2017
Finbond rating reports (2011-16)

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**Summary rating rationale**

- The upgrade of Finbond Group Limited's ("Finbond", "the group") long term rating stems from notably improved earnings diversification, following business acquisitions undertaken during FY17. Further rating support is derived from the group's very strong capitalisation, low risk liquidity structure, as well as strong competitive position in a niche market of short term unsecured lending.
- Finbond reflects notably improved earnings diversification, following the successful execution of the initial phase of its five year strategic plan, targeting local and offshore businesses with product ranges and customer bases in sync with the group's existing core competencies. In terms of the latter, the group acquired eight short term and instalment lending companies operating in the United States of America ("USA") and Canada in FY17. Finbond is expected to derive diversification benefits from the comparatively favourable risk profiles of the acquired credit portfolios, while enhanced geographic exposure is also viewed to diversify the group's earnings base. Enhanced diversification is expected through the continued unfolding of the group's medium term strategic expansion, supported by availability of resources and operational/technological innovation. Furthermore, the group remained committed to strengthening its local branch network, acquiring loan books of an additional 35 branches during FY17.
- In FY17, pre-tax profit rose 194% to R279m on the strength of the growth-intensive USA businesses. The majority of profit was derived from Finbond's growing microfinance transactional lines income. The cost/income ratio declined to 61.1% (FY16: 64.7%) in FY17, as efficiencies were obtained from economies of scale following the North American acquisitions. Overall, ROaE and ROaA strengthened to 18.2% and 4.4% respectively at FY17. Execution risk in maintaining the new portfolios' profitability is viewed to be mitigated by the favourable historic performance of these books.
- The group cemented a strong capital position in FY17. Finbond's capital/assets ratio increased to 37.3% (FY16: 27.8%), supported by injection of share capital and Tier 2 qualifying subordinated shareholder loans. The group's banking subsidiary Finbond Mutual Bank's ("FMB") had a capital adequacy ratio was 34.1% (FY16: 36.5%) at FY17, remaining above the regulatory minima of 25%.
- Finbond's credit portfolio expanded by 204% in FY17, while asset quality also improved on the strength of enhanced credit granting and collection criteria, coupled with the incorporation of the new portfolios into the group's loan book. The group registered an improvement in its collection rates to 94% (FY16: 86%). The North American portfolio had an average collection rate of 96%. The arrears ratio (past due loans/gross advances) remained somewhat stable at 15.8% (FY16: 15.6%) at FY17, with the coverage ratio increasing to 58.4% (FY16: 49.1%) at FY17.
- Finbond possesses a low risk liquidity structure due to positive asset/liability mismatches. The term structure of fixed deposits ranges between 6-72 months and indefinite term, while loans are cash-intensive with an average term of 3.7 months. Although Finbond as a mutual bank is not subject to Basel III requirements, FMB registered a net stable funding ratio of 488% in FY17, far exceeding the 100% required from 2018.

**Factors that could trigger a rating action may include**

**Positive change:** The recent positive rating action likely limits further upside rating potential over the short term. Medium term positive rating action may stem from continued enhancement of earnings and profit potential, while maintenance of strengthened asset quality and capital metrics may be positively considered.

**Negative change:** Negative rating action would likely follow a significant deterioration in asset quality, earnings, capital, funding and/or liquidity profiles.

## Organisational profile

### Business overview

Finbond operates as a specialist consumer finance provider, offering credit, savings, insurance and transactional banking solutions tailored around depositor and borrower requirements, in South Africa, as well as short-term lending in North America.

Finbond was established in 2003 as a debt consolidation, bridging finance and second-bond origination company, and listed on the AltX sector of the JSE in 2007[1]. Following the global sub-prime crisis in 2007/08, which heavily impacted the mortgage origination market in South Africa, Finbond diversified its business to microfinance by acquiring various micro lenders. The group introduced micro insurance through its own insurance cell captives in 2009 (which was subsequently sold off at the end of February 2015. In 2012, Finbond established/registered FMB. The group's head office is located in Pretoria, South Africa. Finbond's staff complement grew to 1,803 employees at FY17 (FY16: 1,104).

### Strategy and operations

Finbond's evolving business focus and composition are a product of its strategy, which is focussed on delivering its value proposition to the 'underserved and underbanked market'. That said, the group aspires to be recognised as a leading short-term unsecured lending and 30-day microfinance company in its target geographies. The 'hedgehog concept'[2] and a strict compliance culture form the framework within which the group expects to achieve its strategic objectives. Finbond's five year strategic plan include:

- Growing its market share through increased sales of short- and medium-term loans (up to a maturity of 6 months);
- Refining, developing and improving information technology systems and processes;
- Converting its mutual banking license to a commercial banking license; and
- Expanding its South African and North American branch network through additional strategic acquisitions in the South African and North American short-term lending markets.
- Acquiring a US bank that takes and mobilises deposits to fund the group's US debtors book.
- Acquiring an online lender or a bank in Europe.

[1] Finbond transferred its listing to the main board of the JSE in 2014, following a sector reclassification from 'consumer finance' to 'banks'.

[2] Finbond will only launch new ancillary products if they do not shift the focus of management away from the group's core strength and profit driver, that is short-term cash generative unsecured lending (hedgehog concept).

External acquisitions are a key growth strategy for the group. During FY17, the group, through Finbond Group International Limited, acquired eight North American short term and instalment lenders which operate through 171 branches in the USA and Canada. By leveraging its capabilities, Finbond targets businesses similar to its core offering ensuring that their product ranges and customer base are in sync with the group's core competencies. The group's rationale for its penetration of the North American short term and instalment market includes:

- Enhancing earnings growth;
- Teaming up with owner-managers with vast experience of short term and instalment lending business in North America;
- Diversifying country and political risks;
- Providing a Rand hedge; and
- Increasing economies of scale.

Finbond has a long track record of high growth and successful acquisitions in South Africa, supported by an Investment Committee, Risk Committee, and the Board, composed of talented executives. The group has an investment policy that explicitly states that for an acquisition to be considered, the following should apply:

- Return on investment must be at least 15% from year one;
- Start-ups, greenfield or non-related businesses will not be considered;
- A financial track record of at least three years with positive growth;
- No loss making businesses will be considered; and
- Cash granted vs cash received ratio of at least 120%.

The North American acquisitions met all investment criteria and delivered solid results in FY17 that exceeded the terms specified in the profit warranties under the acquisition deals. Furthermore, significant revenue growth and improved efficiencies are expected for the next five years.

Finbond continued to expand its local footprint by acquiring the loan books of an additional 35 branches in FY17, bringing the branch network to 379. These books had low price/earnings ratios (suggesting high earnings yield).

### Products

Finbond primarily focuses on providing short-term personal cash loans (tenures of four months or less; average loan amounts of R1,426 in South Africa and R4,514 (USD316) in North America). The group also provides insurance, secured lending, savings / investment and transactional banking products / services in South Africa.

*Short-term unsecured lending*
Short-term micro credit products are offered to South Africa's underbanked and underserved population. Clients in the lower-to-middle income brackets (Living Standards Measure ("LSM") bands 1-7) are targeted, and reached through Finbond's extensive branch network, growing employee base, and understandable product offering/loan repayment platform. Finbond's US clientele are generally middle income earners seeking short-term advances.

*Savings and investments*
Finbond offers fixed/indefinite term savings / investment solutions to investors (who comprise mostly retired individuals) at above average yield. Such products provide funding for the group's short-term unsecured lending products.

*Insurance*
To manage its exposure to credit risk, as well as attract clients, Finbond offers credit life, retrenchment cover and funeral insurance to its lending customer base.

*Transactional banking*
Finbond launched numerous transactional banking products during FY16, including bank and savings accounts, mobile and internet banking, and a MasterCard debit card.

*Secured lending- home and auto title loans*
The predominant focus of the home loan product range is consolidation mortgages, where a client already has an existing home loan, and would like to consolidate their debt by refinancing the existing loan using the equity in the property as collateral. Alternatively, Finbond provides bridging finance and home loans to first-time owners. The home loan product range consists of prime-linked mortgages with terms ranging between 10 and 20 years. Finbond's North American operations also offer auto title loans. An auto title loan is a secured instalment loan where the borrower provides their car title as collateral. Finbond's North American average auto title loan is USD3,278 with a repayment term 6 and 36 months.

While many consumer finance providers are lending-only organisations, the FMB banking license enables the group to meet borrowing/saving/risk management (insurance) needs of clients, but remains primarily a short-term unsecured lender. Finbond is in the process of converting its Mutual Banking license to a Commercial Banking license. This conversion requires enhancements to the group's risk management systems, given the more onerous capital (adequacy), governance, risk management and regulatory reporting requirements under Basel III, compared to less demanding requirements under the Mutual Banks Act.

## Organisational structure

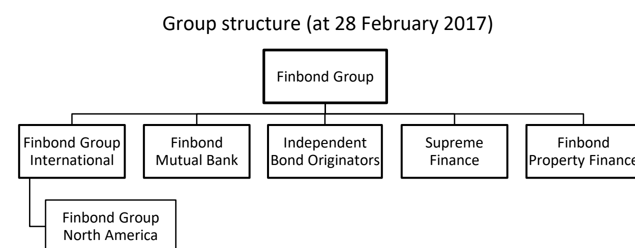
*Ownership structure*
Finbond's Chief Executive Officer, Dr Willem van Aardt, holds 24% of the issued shares in the group through Kings Reign Investments. The remaining shares in Finbond are held by various institutional shareholders, the most significant being Pershing LLC and Net 1 Finance Holdings (with a combined shareholding of 58.5%), as well as numerous private shareholders and other directors of the group. Pershing LLC increased its shareholding to 32.6% while Kings Reign Investments ("KRI") reduced its stake to 24%, the rationale being to broaden the institutional shareholder base, and provide liquidity to diversify and rebalance KRI's investment portfolio.

| Table 1: Effective shareholding (%) | FY16 | FY17 |
|---|---|---|
| Pershing LLC | 18.8 | 32.6 |
| Net 1 Finance Holdings | 25.9 | 25.9 |
| Kings Reign Investments | 33.7 | 24.0 |
| Investec Bank Limited Private Placements | 2.4 | 1.9 |
| Midbrook Lane | 1.9 | 1.9 |
| Finbond Group Limited | 2.3 | 1.9 |
| Snowball Wealth | 2.3 | 1.8 |
| Constantia Insurance Company | 1.2 | 1.4 |
| Other (with less than 1% shareholding) | 11.5 | 8.6 |

Source: Finbond.

*Group structure*
Finbond acts as a holding company (as well as the entity through which insurance products are provided), while its lending, savings and transactional banking operations are carried out by its wholly-owned operating subsidiaries, the most significant being FMB. The bank provides savings products, unsecured and home loan products, and transactional banking products/services through its South Africa Reserve Bank ("SARB")-regulated infrastructure. Home loan bridging finance is provided by Finbond Property Finance Pty Ltd. Malta based Finbond Group International Ltd, which owns 100% of the group's North America subsidiary (Finbond Group North America LLC), are independent of South African regulations.

Group structure (at 28 February 2017)




All shareholdings in the ordinary share capital of the subsidiaries are 100%.
Source: Finbond Annual Report 2017.

*Governance and control structures*
The ultimate management, oversight and governance structures of the group are robust and led by Finbond's board ("the board"), which sets strategy, risk parameters and ethics/governance direction,

approves financial results and budgets, and monitors performance. At FY17, the board comprised eight non-executive directors (six being independent) and three executive directors. The board's composition reflects local business/governance requirements, and relevant bank statutes. The board exercises oversight through several board committees, including: audit, remuneration, social and ethics, risk, and investment committees, and the executive committee, which oversees a number of sub-committees where executive directors and senior management are members. Audit and compliance functions report directly to the audit committee and typically on a monthly basis to the SARB.

**Legal/compliance matters**
Finbond is a registered Financial Services Provider, and is regulated by the SARB and National Credit Regulator ("NCR"). The group is required to comply with the National Credit Act ("NCA"), Companies' Act and JSE listing requirements, amongst others.

On 10 June 2015, the NCR applied to the South African National Consumer Tribunal ("the Tribunal") to *inter alia* order Finbond to:

- Refund five consumers whom the NCR believes Finbond overcharged in respect of credit life insurance;
- Perform an audit to determine how many other customers have been charged more than the industry average since commencement of the credit life business, and to refund those customers; and
- Pay an administrative fine of R1m.

The matter was heard on 19 July 2017 and the Tribunal dismissed the NCR's case in August 2017, citing it did not present sufficient evidence that would allow the Tribunal to rule that Finbond was forcing customers to buy insurance at unreasonable cost.

**Reporting structure and access to information**
The bank/group has extensive operational and reporting policies in place, which involve producing detailed management and risk reporting on a monthly basis. Investor communications are timely and disseminated by the group as appropriate.

Finbond's financial statements are prepared in accordance with IFRS and relevant local statutes. The annual and interim financial reports are detailed, transparent and timely. KPMG Inc., Finbond's external auditor, issued an unqualified audit report on the group's FY17 financial statements.

## Operating environment

Finbond is directly exposed to lower-income customers through credit linked financial products provided. Consequently, consumer confidence, employment rates, indebtedness levels, consumer lending trends and related considerations, impact potential business growth, asset quality and profitability.

**Economic overview**
*South Africa*
While South Africa narrowly avoided a recession in 2016, the economy remains fragile, with weak growth exposing widening structural fissures and further polarising the socio-political discourse. At just 0.3%, growth in GDP fell below significantly revised expectations of 0.5% (2015: 1.3%). The year 2016 was the weakest since the last recession, following two years of low growth. Specific shocks, like the platinum belt strike and acute electricity shortages, sharp contraction in oil prices and the ripple effects of a faltering global economy are just a few among other constraints that have seen economic gains experienced since recovery from the 2007/08 global financial crisis dissipate.

Despite the decline in commodity prices, the Rand volatility and food pricing pressures pushed headline CPI beyond the South African Reserve Bank's ("SARB") upper target band to 6.4% in 2016, from just 4.6% previously. The SARB effected a 75bps repo rate increase in 2016, following the cumulative 125 bps hike in the previous two years. In July 2017, however, the SARB cut the repo rate to 6.75% from 7% citing an improved inflation outlook and deteriorating growth, though risks to the inflation outlook remain. National Treasury forecasts GDP growth of 0.6% for 2017 and 1.2% for 2018.

The Rand regained some of the ground lost against major currencies in the prior year, closing 2016 at R13.86/USD, from R14.03/USD at 31 December 2015. That said, emerging market currencies remain susceptible to a shift in capital flows towards US markets, which could be driven by the upward trajectory in US interest rates.

South Africa's sovereign rating was recently down-graded to non-investment grade. This action is expected to result in an increase in the cost of debt financing (local and international) and the country's debt service burden, as well as currency depreciation. However, firmer developed market GDP growth expectations and fundamentals which are supportive of higher commodity prices may provide impetus to the domestic market, but cautious business confidence, together with negative sentiment linked to persistent political and social imbalances, continue to weigh on South Africa's economic growth prospects.

*USA*
The growth forecast in the US has been revised down from 2.3% to 2.1% in 2017 from 2.5% to 2.1% in 2018. While the markdown in the 2017 forecast reflects in part the weak growth outturn in the first quarter of the year, the major factor behind the growth revision, especially for 2018, is the

assumption that fiscal policy will be less expansionary than previously assumed, given the uncertainty about the timing and nature of U.S. fiscal policy changes. Market expectations of fiscal stimulus have also receded.

The U.S. Federal Reserve ("the Fed") raised short-term interest rates in June, but markets still expect a very gradual path of U.S. monetary policy normalization. The Fed kept the fed funds rate at 1.25% in September 2017 and expect this to rise to 1.5% by end-2017. Interest rates are expected to normalise at 2.0% in 2018. Unemployment rate is expected to drop to 4.3% and 4.1% in 2017 and 2018 respectively, the Fed target of 6.7%. Inflation is projected to be 1.6% and 1.9% in 2017 and 2018 respectively.

**Industry overview**

***South Africa***

The 2007 promulgation of the National Credit Act ("NCA") began a process of structural change in the consumer lending industry's composition, while also providing statistics from non-bank credit providers, which have increased their share of consumer loan issuance from 16% (2007) to 25% (2016), per NCR statistics.

*Regulatory developments*

In recent years, consumer finance (NCR) regulation has been aimed at balancing control of consumer over-indebtedness with promoting financial inclusion. In this regard, 2015-16 saw several regulatory and legislative changes. The National Credit Amendment Act (2015), introduced credit affordability assessment guidelines (impacting consumer credit providers), and debt collection activities were affected by revised rules on debt prescription. Other legislative changes included the introduction of caps on fees/interest rates which may be charged on consumer loans (The Prescribed Rate of Interest Act); data use and protection (The Protection of Personal Information Act – POPI); the use of Emolument Attachment Orders ("EAOs"); and the release of draft credit insurance regulation.

The abovementioned regulatory changes affect most registered credit providers lending to consumers or small/micro businesses, and also impact the collections environment.

Affordability assessment regulation (a key revision to the NCR implemented in September 2015), aimed at tightening affordability assessment criteria by requiring credit providers to calculate discretionary income more strictly (ie, including existing debt and maintenance obligations).

The Department of Trade and Industry ("DTI") published regulations for interest rate limits and fees for credit agreements (effective May 2016). Profitability for lenders and pricing for borrowers has been most impacted in the unsecured (especially short -term) credit segment, where lending is often priced close to regulatory upper limits. These regulations changed calculation formulas for maximum prescribed interest rates, and initiation and servicing fees which may be charged on various types of consumer credit agreements.

Where Finbond's interest rates for unsecured credit transactions (loans with a term of more than six months) were above the limits, the group has had to adjust accordingly. Finbond confirmed there was no material impact on interest income as a result.

Furthermore, on 13 November 2015, the DTI released draft regulations regarding the capping of costs on credit life and retrenchment insurance. The credit life rates proposed for unsecured/short-term credit transactions of R4.50 per R1,000 of the deferred amount (excluding the cost of credit) may, if implemented, have some impact (albeit negligible) on the group's insurance revenues.

The collections environment has continued to experience a number of challenges aligned to those impacting consumer lending. Macroeconomic factors, together with myriad regulatory changes[3], has increased the effort and cost of collection, but may encourage clients to increase servicer outsourcing, potentially boosting outsourced collection business volumes.

The Payments Association of South Africa ("PASA"), under the auspices of SARB, is in the process of replacing the current non-authenticated early debit order system ("NAEDO") utilised by most mass market financial product providers with a mechanism that requires more direct customer authentication of the payment mechanism (ie, Authenticated Collections). SARB has approved an extended trial and implementation period with the final implementation date, if successful, set for 2019. Finbond's primary payment platform is in the form of an authenticated direct debit order. Finbond uses internal and external collection centres for early stage/remedial collections. Late stage/legal collections are handed over to specialist collection agents, who are responsible for tracing the debtors, facilitating payment arrangement and, if deemed necessary, take legal action (in the form of obtaining EAOs).

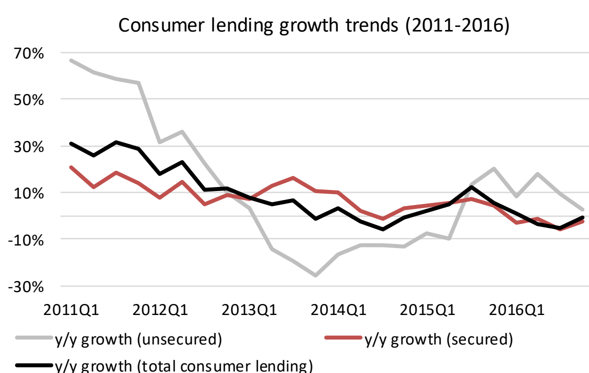
A major change for banks as a result of Basel III is the introduction of minimum liquidity and funding standards. The liquidity coverage ratio ("LCR") is

[3] The complexity, compliance requirements and attention to detail required in servicing operations continues to increase, potentially leading to a contraction in retail credit granting. A further significant (but currently unquantifiable) risk to the collections environment is the expected change from a non-authenticated debit order ("NAEDO") system currently in place, to customer authenticated collections ("AC").

designed to ensure that banks can withstand an acute stress scenario, requiring banks to hold stocks of high quality liquid assets to cover net outflows over a 30-day period. Banks are required to maintain a minimum LCR of 100% by 1 January 2019. Finbond had a LCR of 219% for the financial period ending 2017. The net stable funding ratio ("NSFR"), which comes into effect (at a level of 100%) on 1 January 2018, requires banks to utilise a minimum quantum of stable sources of funding relative to the liquidity profile of assets and off-balance sheet commitments. Finbond recorded NSFR of 488% for the financial period ending 2017.

While regulations are intended to enhance financial stability, and support consumer protection, credit affordability, and consumer lending asset quality, they are also likely to suppress household credit supply.

*Consumer lending trends*
Challenging macro-economic conditions and an evolving regulatory landscape have largely shaped trends in consumer credit supply/demand in recent years. Lending to individuals is still subdued relative to 2011-13 levels. Higher delinquency on loans issued during this period has constrained credit supply, while a deterioration in consumer confidence, labour market instability, and stagnant disposable income levels have had negative credit supply and demand implications. In the past three years, credit issuance growth has been broadly flat, with moderate recovery in the issuance of unsecured loans from mid-2015, after a sustained period of negative growth.



Source: NCR statistics

Intensifying economic pressure has reduced vehicle and housing loan demand, while tighter regulations constricted supply. NCR data indicates that credit extension to consumers contracted by 1% in 2016, with the most pronounced change seen in lending from banks (-22% YoY) and other credit providers. Total retail credit provision, in contrast, is showing a slight recovery. Banks continue to dominate lending, accounting for over 76% of credit granted.

Credit application rejection rates have remained relatively flat, while the absolute number of credit applications continues to decline (7% YoY in 2016). While some banks still actively market unsecured loans to clients with sound credit profiles to make up for the decline in volumes resulting from more restrictive lending criteria, GCR continues to view the outlook for consumer lending growth as neutral to negative, given the prevailing economic and regulatory environment. That said, the desired positive impact of lower credit supply on asset quality is beginning to show up in the NCR statistics, with NPL formation broadly tracking or lagging credit origination rates.

While these broad trends highlight the direct and/or indirect challenges market participants face, their specific areas of focus and lending practices are typically key determinants of each credit provider's actual experience. Consequently, while the industry overview provides historical and aggregate context, performances reflect companies' strategic choices and risk appetites.

***USA***
The regulatory burden for short term and instalment lenders in the USA is less than for South African short term lenders. Each state in the US has its own rules and regulations for short term and instalment lending. The Consumer Financial Protection Bureau ("CFPB") is the federal watchdog charged with protecting Americans from financial exploitation. The CFPB is proposing new regulations that impact affordability assessments by alternative non-bank institutions. If the new regulation is passed, loan volumes for the short term and instalment lending market could be significantly reduced negatively impacting profitability.

**Competitive positioning**
***USA***
Finbond's competitive landscape has broadened as a result of its expansion into North America. The group acquired eight short term and instalment lending companies operating a total of 171 branches located in the states of Alabama, California, Florida, Illinois, Indiana, Louisiana, Mississippi, Missouri, Nevada, New Mexico, Oklahoma, South Carolina, Utah, and Wisconsin, as well as six in Ontario, Canada. The USA short term and instalment lending market is estimated to be USD46bn per year, offering opportunity for Finbond to expand in the market.

Finbond's competitive position has been strengthened by these acquisitions driven by revenue and cost synergies obtained from increased scale. The group benefits from the significant intangible assets in the form of trademarks, brand, and computer that were acquired from the North American companies. Furthermore, some of these North American businesses have dominant market position in their respective states and communities, and significant leveraging opportunity on their Fintec offering exists.

### *South Africa*

Finbond continues to offer solutions tailored around borrower and lender requirements thus creating itself a niche market The South African microfinance market consists of a large number of players, from small unsophisticated 'mom and pop' shops to larger well-funded companies and banks.

Finbond has an estimated 30% market share of the <12 months unsecured loans. Management believes that with the average term of loans standing at 3.9 months, Finbond dominates the short term unsecured lending market. Further strengthening its competitive edge, Finbond goes against industry norm of offering longer term unsecured products, instead focusing on low value shorter term solutions that optimise annualised loan margins. The group reckons that the probability of default increases with high value, longer term products.

As increasing regulation and unfavourable market conditions place strain on smaller loan providers, opportunities for Finbond to acquire existing branches/clients are often presented. During FY17, the group added 35 branches in FY17 by acquiring loan books of Credicor, Orange, and Aid Africa. These books had low price/earnings ratios at acquisition, reflecting a high yield expected to be generated in the future. Post FY17, Finbond has added 30 more branches, expanding its branch network to 409 at August-end 2017.

## Financial profile

### Likelihood of support

Shareholders continued to demonstrate support for the group, following a successful rights issue and a provision of a short term loan facility during FY17. Therefore, availability of shareholder support having been tested in the past, is seen as a viable emergency avenue. Given Finbond's lack of systemic importance, the probability of regulatory/government support is considered remote.

### Funding structure

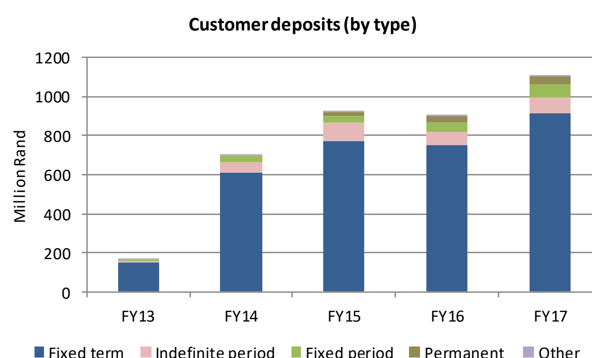
Finbond maintains a conservative capital structure (debt/equity ratio) that finances its loan book and business acquisition activities. Table 2 sets out Finbond's funding structure at FY17.

| Table 2: Funding profile | FY16 | | FY17 | |
|---|---|---|---|---|
| | Rm | % | Rm | % |
| Customer deposits | 910.9 | 67.7 | 1 105.2 | 42.9 |
| *Fixed/notice deposits* | *907.7* | *67.4* | *1 098.6* | *42.6* |
| *Transactional deposits* | *3.2* | *0.3* | *6.6* | *0.3* |
| Bank overdraft* | 29.6 | 2.2 | 27.7 | 1.1 |
| Shareholder loans | 18.0 | 1.3 | 508.4 | 19.7 |
| Equity | 388.0 | 28.8 | 935.7 | 36.3 |
| **Total** | **1 346.5** | **100.0** | **2 577.0** | **100.0** |

* R40m overdraft facility from Absa Bank for working capital purposes.
Source: Finbond Annual Report 2017.

During FY17, equity funding grew 141.2% to R936m, on the strength of capital raised from shareholders through a rights issue. The capital injection, supplemented by shareholder loans, was necessitated by acquisitions of North American companies under Finbond's five year strategic plan. The group's access to debt funding has improved as a result of its penetration of the USA short term and instalment lending market. The deposit portfolio, which funds Finbond's loan book, increased by R191m (21% growth) to R1.1bn at FY17, cementing a great relationship between Finbond and its customers. Nonetheless, Finbond somewhat curbed deposit growth, in effort to minimise the cost of surplus funding.

The term structure of fixed deposits (comprised of 6-72 months and indefinite term deposits) renders Finbond less susceptible to a volatile funding base. However, average term of deposits slightly reduced to 26 months (FY16: 28 months) while average deposit yield increased to 9.8% (FY16: 9.6%) at FY17. Overall, Finbond's balance sheet structure largely comprising short term loans funded by long term deposits, enables the group to comfortably meet regulatory funding and liquidity targets. That said, Finbond registered a NSFR of 488% (FY16: 664%) far exceeding the regulatory minima of 100%. The NSFR decreased significantly in FY17 largely due to YoY increase in long term assets.




Source: Finbond Annual Report.

Finbond's deposit base is granular, implying a fairly low concentration risk. At FY17, the single and twenty largest deposits accounted for 2.8% and 17.2% of deposits respectively.

### *Liquidity*

Finbond's business model which focuses on short-term micro loans (average term of 3.7 months) funded by long term deposits (average term of 26 months) possesses a low risk liquidity structure. The group's liquidity position strengthened with the North American acquisitions, largely attributable to an increasing liquidity supply against a stable liquidity demand. Furthermore, the contractual asset/liability mismatch in the <1 year bucket increased substantially to R1.1bn in FY17 from R0.3bn in FY16. Liquid assets comprising cash, cash equivalents, and other liquid investments registered 115% growth to R727m at FY17. However, the liquidity ratio fell to 219% at FY17 (FY16: 271%),

albeit exceeding the regulatory minima of 100% required from 2019, due to the maturity spread of deposits falling.

## Capital structure

Finbond's paid up capital increased by R516m in FY17 through a rights issue (fully subscribed) that raised R525m net of rights issue costs of R9m. The capital raise was necessitated by the ongoing expansion into the North America short term and instalment lending market.

| Table 3: Capitalisation | FY16 Rm | FY17 Rm |
|---|---|---|
| **Total reported capital** | **418.7** | **1 048.3** |
| *Paid up common shares* | *239.7* | *756.0* |
| *Retained earnings* | *179.0* | *292.3* |
| Add: Qualifying reserves | 5.7 | - |
| Add: Approved Tier 2 capital* | 83.4 | 608.2 |
| Less: Goodwill | (153.0) | (752.7) |
| **Eligible capital** | **354.8** | **903.8** |
| **Total balance sheet assets (excl. goodwill) †** | **1 278.5** | **2 424.9** |
| **Selected ratios:** | | |
| Adjusted capital: Total assets | 27.8% | 37.3% |

* Includes subordinated shareholder loans of R545m at FY17. Shareholder loans are to be converted to equity at a future date.
† Asset exposures not risk-weighted.
Source: Finbond.

The capital/total assets ratio increased to 37.3% at FY17 (FY16: 27.7%), supported by injection capital and Tier 2 qualifying subordinated shareholder loans, offset by huge premiums paid on North American acquisitions (that justify expected synergies). Americash, one of the North American acquisitions, was funded via shareholder loans which are to be converted to equity.

*FMB*

FMB, the SARB-regulated entity in which regulatory capital is measured, maintained a healthy capital position albeit CAR decreasing to 34.1% at FY17 from 36.5% at FY16. The decrease is attributable to earnings which have not officially been appropriated to capital, and should earnings be appropriated the CAR is revised to 37.6%. FMB's capitalisation is considered adequate given the change in the group's risk profile, management CAR targets, and the 25% regulatory minimum.

# Operational profile

## Risk management

Finbond's risk management framework and oversight structures place emphasis on financial risks which have been identified as most significant, namely: credit, liquidity, capital, currency and interest rate risks. Operational (people), transformation, and compliance risk are also high on the risk management agenda.

Finbond's loan book, the largest asset class on the balance sheet, is now more diversified following the group's expansion into North America short term lending market. Introduction of auto title loans (a new secured instalment lending product) albeit still in its infancy, improves diversification of the group's loan book by product. Furthermore, the group has a presence throughout the country, with a higher concentration of branches/clients in the main economic hubs/more populated areas.

## Asset composition

Finbond's total on-balance sheet assets expanded 122% (FY16: 6.1%) to R3.2bn in FY17. Cash and cash equivalents and liquid investments increased 115% to R723m in FY17, as the group kept funds available to make final payments for the four legal entities acquired in North America. Part of the loan portfolio includes a written-off portfolio (R181.6m) discounted at shareholders' required return of 19.2%. The portfolio is ceded to collection agencies. Other financial assets include treasury bills (R76.8m) which carry a yield of 7.6% and additional surplus funds invested in a portfolio of income funds with an average yield of 10.2%. Acquired as part of the North America businesses' net asset values are intangible assets in the form of trademarks, brand name, and computer software, which represent 3.6% of the balance sheet at FY17.

## Credit risk

Finbond continues 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.

*Micro lending portfolio*

The unsecured lending portfolio (excluding unearned finance revenue) reflected another year of positive growth totalling 162%, ending FY17 at R975m (FY16: R372m). Growth of the portfolio is largely attributable to acquisitions of short term and instalment lending businesses in the USA and Canada. These acquisitions have a combined unsecured loan portfolio value of R342m (42.7% of the group's total unsecured loan book). The YoY movement in the portfolio also includes increases in new clients serviced to 271,900 (97% up from 138,039 at FY16), and 1,484,973 new contracts granted (155% more than at FY16: 583,265).

Growth in the portfolio was most heavily concentrated in the mid-term products (loans of between 2 and 6 months in duration), and constituted 81.5% (FY16: 71.7%) of gross loans and advances at FY17. Finbond's average loan size decreased to R1,426 (FY16: R1,515) with an average tenure of 3.7 months (FY16: 3.8 months) in FY17, reflective of the group's conservative credit risk management. Finbond's loan portfolio is cash flow generative due

to the short term nature of products, representing a good source of internally generated liquidity.

*Mortgage Finance*
The gross secured home loans portfolio continued to gain traction in FY17, increasing 141% to R228m. The portfolio is secured by property mortgages with a minimum loan-to-value ("LTV") of 80%.

*Asset quality*
Finbond's credit quality metrics continued to improve in FY17, supported by conservative lending practices and rigorous credit vetting. The addition of North America short term and instalment lending to the group's portfolio improves its credit profile, diversifying risk associated with South Africa's weak economic environment.

| Table 4: Asset quality | FY16<br>Rm | FY17<br>Rm |
|---|---|---|
| Gross loans and advances | 335.9 | 1 021.7 |
| *Not past due* | *277.9* | *860.2* |
| *Past due (>30 days)* | *58.0* | *161.5* |
| Less: Provisions | (28.5) | (181.7) |
| Net loans and advances at amortised cost | **307.4** | **840.0** |
| Written-off portfolio at fair value | 131.1 | 181.6 |
| **Net loans and advances** | **438.5** | **1 021.6** |
| Arrears ratio | 15.6% | 15.8% |
| Arrears coverage ratio | 49.1% | 58.4% |
| Recoveries/write-offs index | 29.0% | 27.0% |

Source: Finbond Annual Report 2017.

The arrears portfolio grew 178.4% to R161.5m in FY17, largely as a result of the acquired North America portfolio (R90m). The arrears ratio (past due loans/gross loans and advances) remained somewhat stable at 15.8% (FY16: 15.6%) at FY17, supported by robust collection strategies. Accordingly, collections improved to 94% (FY16: 86%) of expected receipts in FY17. The proportion of revenue from bad debts recovered is relatively high, as 29% of bad debts written off in FY17 were recovered in the same period (FY16: 27%).

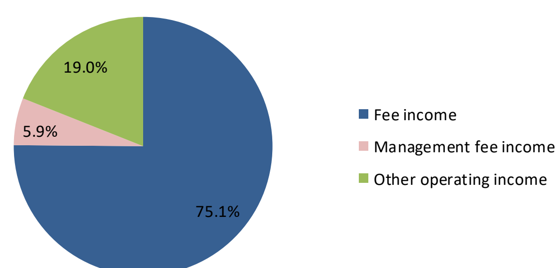
The group's stringent write-off policy requires loan instalments that have reached 150 days in arrears and have reflected no payment for at least 90 days are written off in the South African portfolio and any loan that has not had any instalments for 60 days in the North American portfolio, regardless of the fact that these customers are often still able to service their loans. Write-off vintages per product continue to reflect higher impairments in the longer term loans. Mitigating credit risk, the three longest term loans (12, 18, and 24-month products) have the highest rejection rates and make up a relatively small portion of the overall loan portfolio (1.6% at FY17).

## Financial performance

A five year financial synopsis is shown on page 10 of this report, supplemented by the commentary below.

Finbond delivered significant growth in earnings, with pre-tax profit increasing 194.4% to R279m in FY17. The strong growth in profitability is reflective of the group's expansion into North America.
Net interest income grew 472.5% in FY17. The short term nature of Finbond's lending products and high interest rates amplifies annualised loan margins. Accordingly, net interest margin expanded to 36% (FY16: 13.2%) in FY17. Non-funded income rose 155% to R1bn in FY17, mainly attributable to the growing microfinance transactional lines income. That said, non-funded income remains the largest contributor of revenue, representing 70.5% of total operating income at FY17.

Breakdown of non-interest income for FY17




Source: Finbond Annual Report 2017.

In FY17, credit loss provisions increased by 315.4% to R296.2m, with additions through business combinations amounting to R130.3. Operating expenses grew 182.8% to R861m, reflecting the growing scale of the business. The group's operational efficiencies improved in FY17, illustrated by the cost/income ratio which declined to 61.1% from 64.7% in FY16. The group expects further strengthening of efficiencies through economies of scale following the North American acquisitions.

After-tax earnings grew 215.2% to R180.4m in FY17. Tax burden decreased to 35.4% (FY16: 39.7%) of pre-tax profit at FY17, strengthening bottom line metrics. The group expects to realise tax benefits within rules of transfer pricing through its office in Malta. Overall, ROaE and ROaA rose to 18.2% and 4.4% at FY17 respectively.

## Prospects

The drivers of Finbond's returns are founded on its competitive edge in the short term unsecured lending market. Current returns appear to be acceptable to investors, given Finbond's risk averse stance. Due to the geographical expansion of the business, Finbond's risk profile improved, enhancing risk-adjusted returns to shareholders. Earnings are more diversified minimising Rand exposure.

Finbond's expansion of its short term lending business in North America enhances its earnings flexibility, while maintaining strong liquidity levels that provides comfort to depositors and/or debt investors.

# Finbond Group Limited

(South African Rands in millions except as noted)^

| Year end: February | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| **Income Statement** | | | | | |
| Interest income | 51.2 | 93.0 | 145.5 | 161.4 | 568.1 |
| Interest expense | (20.7) | (44.3) | (76.1) | (87.5) | (144.9) |
| **Net interest income** | **30.5** | **48.7** | **69.3** | **73.9** | **423.1** |
| Asset related gains† | 3.1 | 5.0 | 1.8 | - | - |
| Other income | 142.2 | 182.4 | 304.8 | 396.7 | 1 013.5 |
| **Total operating income** | **175.7** | **236.1** | **375.9** | **470.7** | **1 436.6** |
| Net impairment charge | (19.8) | (24.9) | (60.1) | (71.3) | (296.2) |
| Operating expenditure | (134.7) | (164.3) | (242.4) | (304.4) | (861.0) |
| **Net profit before tax** | **21.2** | **46.9** | **73.4** | **94.9** | **279.4** |
| Tax | (0.7) | (9.9) | (22.5) | (37.7) | (99.0) |
| **Net profit after tax** | **20.5** | **36.9** | **50.9** | **57.3** | **180.4** |
| Other after-tax income | 0.3 | - | - | - | (41.7) |
| **Net attributable income** | **20.7** | **36.9** | **50.9** | **57.3** | **138.7** |
| | | | | | |
| **Balance Sheet** | | | | | |
| Ordinary share capital and reserves | 305.8 | 330.4 | 346.7 | 388.8 | 935.7 |
| Minority interest | (0.8) | (0.8) | (0.8) | (0.8) | 201.7 |
| **Total capital and reserves** | **304.9** | **329.6** | **345.9** | **388.0** | **1 137.4** |
| Long-term borrowings | 111.4 | 484.1 | 654.6 | 641.8 | 757.2 |
| Short-term borrowings | 76.1 | 211.8 | 282.4 | 316.8 | 1 283.0 |
| Other liabilities | 65.0 | 60.3 | 66.3 | 84.9 | - |
| **Total capital and liabilities** | **557.5** | **1 085.8** | **1 349.3** | **1 431.4** | **3 177.6** |
| | | | | | |
| Cash and bank balances | 63.0 | 86.8 | 197.5 | 136.0 | 547.4 |
| Unsecured customer loans | 122.3 | 211.0 | 290.7 | 343.7 | 800.6 |
| Secured customer loans | 0.1 | - | - | 94.8 | 221.0 |
| Investments - Financial assets | 24.8 | 413.7 | 372.8 | 231.9 | 207.7 |
| Investments - Property | 233.0 | 242.6 | 248.8 | 269.5 | 278.2 |
| Other assets | 114.2 | 131.8 | 239.4 | 355.4 | 1 122.8 |
| **Total assets** | **557.5** | **1 085.8** | **1 349.3** | **1 431.4** | **3 177.6** |
| | | | | | |
| **Contingencies** | **31.2** | **32.8** | **49.0** | **79.1** | **197.2** |
| | | | | | |
| **Key ratios (%)** | | | | | |
| ***Financial management*** | | | | | |
| Interest expense / Average gross advances | 15.3 | 19.2 | 24.0 | 18.7 | 12.0 |
| Interest expense / Average funding liabilities | 11.0 | 6.4 | 8.1 | 9.1 | 8.8 |
| Interest bearing debt / Total capital (:1) | 0.6 | 2.1 | 2.7 | 2.5 | 1.8 |
| Total capital / Total assets | 54.7 | 30.4 | 25.6 | 27.8 | 37.3 |
| Internal capital generation | 3.7 | 3.4 | 3.8 | 4.0 | 5.7 |
| Loans / Deposits | 65.2 | 30.3 | 31.0 | 35.9 | 39.2 |
| Cash and liquid assets / Total assets | 11.3 | 8.0 | 14.6 | 9.5 | 17.2 |
| Cash, liquid funds and financial investments / Total assets | 15.8 | 46.1 | 42.3 | 25.7 | 23.8 |
| | | | | | |
| ***Asset quality*** | | | | | |
| Portfolio at risk‡ / Gross advances | 24.4 | 21.3 | 19.4 | 12.4 | 4.8 |
| Loan loss reserves / Average gross advances | 11.3 | 10.5 | 9.8 | 7.3 | 20.9 |
| Loan loss reserves / Portfolio at risk‡ | 40.2 | 39.1 | 43.6 | 49.1 | 58.4 |
| Net impairment charge / Average gross advances | 16.8 | 13.6 | 22.0 | 18.2 | 35.5 |
| Net inpairment charge / Total operating income | 11.3 | 10.6 | 16.0 | 15.2 | 20.6 |
| | | | | | |
| ***Efficiency and Productivity*** | | | | | |
| Operating expenses / Average gross advances | 99.3 | 71.4 | 76.3 | 65.2 | 71.6 |
| Operating expenses / Operating income | 76.7 | 69.6 | 64.5 | 64.7 | 61.1 |
| | | | | | |
| ***Profitability*** | | | | | |
| Net interest margin | 18.6 | 20.2 | 17.6 | 13.2 | 36.0 |
| Non interest income / Total operating income | 82.7 | 79.4 | 81.6 | 84.3 | 70.5 |
| ROaE | 7.5 | 11.6 | 15.1 | 15.6 | 18.2 |
| ROaA | 4.0 | 4.5 | 4.2 | 4.1 | 4.4 |
| | | | | | |
| ***Nominal growth indicators*** | | | | | |
| Total assets | 16.8 | 94.8 | 24.3 | 6.1 | 122.0 |
| Net customer loans | 36.7 | 72.3 | 37.8 | 50.8 | 133.0 |
| Shareholders equity | 23.5 | 8.1 | 4.9 | 12.1 | 140.6 |
| Attributable income | 53.0 | 78.1 | 37.8 | 12.6 | 142.3 |

^ Differences may occur due to rounding.
† Relates to revaluations, recognition of goodwill, net profit on sale/purchase and impairment losses on intangibles.
‡ Refers to loans past due for more than 30 days.

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

| | |
|---|---|
| Arrears | An overdue debt, liability or obligation. An account is said to be 'in arrears' if one or more payments have been missed in transactions where regular payments are contractually required. |
| Asset | A resource with economic value that a company owns or controls with the expectation that it will provide future benefit. |
| Asset Quality | Refers primarily to the credit quality of a bank's earning assets, the bulk of which comprises its loan portfolio, but will also include its investment portfolio as well as off balance sheet items. Quality in this context means the degree to which the loans that the bank has extended are performing (ie, being paid back in accordance with their terms) and the likelihood that they will continue to perform. |
| Basel | Basel Committee on Banking Supervision housed at the Bank for International Settlements. |
| Bond | A long-term debt instrument issued by either: a company, institution or the government to raise funds. |
| Capital | The sum of money that is invested to generate proceeds. |
| Capital Adequacy | A measure of the adequacy of an entity's capital resources in relation to its current liabilities and also in relation to the risks associated with its assets. An appropriate level of capital adequacy ensures that the entity has sufficient capital to support its activities and that its net worth is sufficient to absorb adverse changes in the value of its assets without becoming insolvent. |
| Cash | Funds that can be readily spent or used to meet current obligations. |
| Collateral | Asset provided to a creditor as security for a loan. |
| Credit Risk | The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and/or interest when due. |
| Debt | An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period. |
| Default | Failure to meet the payment obligation of either interest or principal on a debt or bond. Technically, a borrower does not default, the initiative comes from the lender who declares that the borrower is in default. |
| Diversification | Spreading risk by constructing a portfolio that contains different investments, whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in. |
| Dividend | The portion of a company's after-tax earnings that is distributed to shareholders. |
| Downgrade | The assignment of a lower credit rating to a company or sovereign borrower's debt by a credit rating agency. Opposite of upgrade. |
| Equity | Equity (or shareholders' funds) is the holding or stake that shareholders have in a company. |
| Exposure | Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. |
| Fixed Deposit | Where funds are deposited in a savings account for a pre-determined period of time. |
| Gearing | With regard to corporate analysis, gearing (or leverage) refers to the extent to which a company is funded by debt. |
| Impairment | Reduction in the value of an asset because the asset is no longer expected to generate the same benefits (periodically assessed). |
| Interest Rate | The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. |
| Interest Rate Risk | Interest rate risk in the banking book is the risk that earnings or economic value will decline as a result of changes in interest rates. The sources of interest rate risk in the banking book are repricing/mismatch, basis and yield curve risk. |
| International Scale Rating LC | International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled. Therefore, the rating does not take into account the possibility that it will not be able to convert local currency into foreign currency or make transfers between sovereign jurisdictions. |
| Leverage | With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt. |
| Liquid Assets | Assets, generally of a short-term, that can be converted into cash. |
| Liquidity Risk | The risk that a company may not be able to meet its financial obligations or other operational cash requirements due to an inability to timeously realise cash from its assets. |
| Long-Term | Not current; ordinarily more than one year. |
| Long-Term Rating | Reflects an issuer's ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation's current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations. |
| Maturity | The length of time between the issue of a bond or other security and the date on which it becomes payable in full. |
| Net Interest Margin | Net interest income divided by average interest earning assets. Measures a bank's margin after paying funding sources and how successful a bank's interest-related operations are. |
| Off Balance Sheet | Off balance sheet items are assets or liabilities that are not shown on a company's balance sheet. They are usually referred to in the notes to a company's accounts. |
| Operational Risk | The risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This includes legal risk, but excludes strategic risk and reputational risk. |
| Portfolio | A collection of investments held by an individual investor or financial institution. |
| Prepayment | Any unscheduled or early repayment of the principal of a mortgage/loan. |
| Provision | The amount set aside or deducted from operating income to cover expected or identified loan losses. |
| Regulatory Capital | The total of primary, secondary and tertiary capital. |
| Risk | The chance of future uncertainty (ie, deviation from expected earnings/an expected outcome) that will have an impact on objectives. |
| Risk Management | Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy. |
| Securitisation | A process of repackaging portfolios of cash-flow producing financial instruments into securities for sale to third parties. |
| Security | An asset deposited or pledged as a guarantee of the fulfilment of an undertaking/repayment of a loan, forfeited in case of default. |
| Settlement | Full repayment of an obligation. |
| Shareholder | An individual, entity or financial institution that holds shares or stock in an organisation or company. |
| Short-Term | Current; ordinarily less than one year. |
| Short-Term Rating | An opinion of an issuer's ability to meet all financial obligations over the upcoming 12 month period, including interest payments and debt redemptions. |
| Sovereign Debt | A bond issued by a government or a government-backed agency. |
| Stock Exchange | A market with a trading-floor or a screen-based system where members buy and sell securities. |
| Subordinated Debt | Debt that in the event of a default is repaid only after senior obligations have been repaid. It is higher risk than senior debt. |
| Tenor | The time from the value date until the expiry date of a financial instrument. |
| Tier 1 Capital | Primary capital consists of issued ordinary share capital, hybrid debt capital, perpetual preference share capital, retained earnings and reserves. This amount is reduced by the portion of capital that is allocated to trading activities and other regulatory deductions. |
| Tier 2 Capital | Secondary capital is mainly made up of subordinated debt, portfolio impairment and 50% of any revaluation reserves and other specified regulatory deductions. |

For a detailed glossary of terms please click here

**SALIENT FEATURES OF ACCORDED RATINGS**

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

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

The credit ratings have been disclosed to Finbond Group Limited with no contestation of the rating.

The information received from Finbond Group Limited and other reliable third parties to accord the credit rating(s) included:

- Audited financial results of the bank at 29 February 2017 (plus four years of comparative numbers);
- Latest internal/external audit report to management;
- Corporate governance and enterprise risk framework;
- Reserving methodologies and capital management policy;
- Industry comparative data and regulatory framework; and
- A breakdown of facilities available and related counterparties.

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

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