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")

GCR AFFIRMS FINBOND GROUP LIMITED'S RATING OF BBB(ZA); OUTLOOK STABLE

Shareholders are advised that Global Credit Ratings has affirmed the national scale ratings assigned to Finbond Group Limited of $BBB_{(ZA)}$ and $A3_{(ZA)}$ in the long term and short term respectively; with the outlook accorded as Stable. At the same time, Global Credit Ratings has affirmed the long-term international scale local currency rating assigned to Finbond Group Limited of B+; with the outlook accorded as Stable.

SUMMARY RATING RATIONALE

Global Credit Ratings ("GCR") has accorded the above credit ratings to Finbond Group Limited ("Finbond" or "the group") based on the following key assumptions:

- The ratings on Finbond reflect its monoline market segment, good geographic diversification, strong capitalisation supported by good internal capital generation, weak risk position, stable funding and robust liquidity.

- The company profile is a negative rating factor balancing the predominant focus of unsecured lending, small market share, good geographic diversity relative to peers. While the secured lending product is being rundown, the monoline strategy of unsecured lending exposes the group to increased risk from credit events and regulation just to mention a few. On the other hand, the geographical expansion of the group into North America has strengthened its competitive position. In addition, better earnings diversification is also viewed positively, with c.63% of the group's earnings currently generated by international businesses, with the expectation to grow this to c. 70-80% in 3 to 5 years.

- Finbond's capitalisation is strong and is one of the key factors supporting its rating. The equity/total assets ratio registered within strong range (48.2% at 1H19). Conversion of shareholder loans (R365m) to Tier 1 equity during 1H19 has also helped capitalisation which we view to be stronger as a result. The group's banking subsidiary Finbond Mutual Bank had a capital adequacy ratio of 34.8%, reflecting a good headroom above the regulatory minimum. Over the next two years, we expect capitalisation to range around 35-40%, supported by internal capital generation which in part benefits from the favourable profiles of acquired short term lenders as required by the group's investment criteria. But also, annualised margins are high given the short term nature of assets while financing is long term.

- The group's funding is stable, which lessens the risk of this entity defaulting. Equity, term deposits, and shareholder loans are the major funding sources. Liquidity is robust, supported by high collections on short term loans averaging 94% during the year. Basel III liquidity coverage ratio of 168% vs regulatory minimum of 90% supports this liquidity assessment.

- Risk position is weak, demonstrated by the high write offs. Adoption of IFRS 9 resulted in the group changing the write off policy from a delinquency approach (1AS 39) to a staging approach based on expected recoveries. Because of Finbond's quick write off cycle under IAS 39, off balance sheet bad debts were brought back on balance sheet as the group still expect collections on these accounts. This escalates the arrears ratio to 66.2%, however with no material impact on earnings expected given a loan loss reserve coverage of 85.1%. In addition, the group recovers on average 28.9% of bad debts written off within the same year. Collections from the USA portfolio continued to be higher relative to South Africa, although the group's average declined to 83% at 1H19.

- The upside rating movement is sensitive to increased contribution to earnings by the international business, sustained capital and liquidity positions, diversification of business to more of transactional banking, and material improvement in asset quality. While downside pressure may stem from capitalisation reducing materially, worsening asset quality and reserving, coupled with unstable funding structure.

Pretoria
24 December 2018

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