FINBOND GROUP LIMITED

(Incorporated in the Republic of South Africa)

(Registration number: 2001/015761/06)

Share code: "FGL" ISIN: ZAE000138095

GCR AFFIRMS FINBOND GROUP LIMITED'S INVESTMENT GRADE RATING OF BBB(ZA); OUTLOOK NEGATIVE

Shareholders are advised that Global Credit Ratings ("GCR") has affirmed the national scale ratings assigned to Finbond Group Limited ("Finbond" or "the group") of $BBB_{(ZA)}$ and $A3_{(ZA)}$ in the long term and short term respectively; with the outlook accorded as Negative. At the same time, Global Credit Ratings has affirmed Finbond's international scale long term issuer rating at B, with a Negative outlook.

The rating action follows a reduction in the South African country and financial institutions sector risk assessments. On 24 June 2020, the South African Financial Institutions sector risk score was lowered to 7.5, from 8.0 previously. The South African country risk score was also lowered to 7.0, from 7.5 previously, in a market alert released on 27 May 2020.

SUMMARY RATING RATIONALE

GCR has accorded the above credit ratings to Finbond based on *inter alia* the following assumptions:

- *The ratings on Finbond balances the relative strengths and weaknesses of the North American and South African operations, strong earnings supporting adequate levels of capitalisation, stable funding structure, robust liquidity, weak risk position and a modest competitive position. The outlook on both international and national scale ratings reflects the heightened country and sector risk in the aftermath of COVID-19.*

- *Finbond's competitive position is a relative weakness to the rating. The group is primarily a lender of short-term unsecured consumer loans and has a relatively small retail franchise in comparison to big commercial banks. Albeit geographically diversified, the group's operations are significantly smaller, less diverse (by product and business lines) than banking sector peers in the relative markets. Positively, the group has good track record of revenue stability and this has been bolstered in recent years on the back of growing international operations.*

- *The group's capitalisation is moderately strong, reflected in the GCR leverage of c.11% as at FY20, although representing a slight dip from the prior year due to share buybacks during the year. Capital is managed on a debt/equity basis and the group targets a range of 1-1.5x. The debt/equity ratio was 1.4x at 29 February 2020, which GCR considers to be strong, supported by strong earnings. The group's return on assets has been over 4% during the past two years, supported by very high interest margins. We expect the GCR leverage ratio to deteriorate slightly over the next 12-18 months, given moderated earnings caused by COVID-19. The group sales are down by* *between 40% and 50% due to low demand for loans during the various government imposed restrictions in response to COVID-19.*

- *The group's risk position is weak, reflected by high cost of risk of 32% at FY20. This is due to the nature of unsecured consumer lending characterised by higher Loss Given Default 'LGDs' and modest recoveries. Positively, reserving is good and has a conservative buffer over observed defaults through the cycle. Loan concentrations are also very low reflected by average loan size of below R1, 932 as of February 2020. Collections are good for both North America and South Africa, and with reduced disbursements, a significant portion of the loan book is expected to convert to cash.*

- *The group is predominantly funded by equity and term deposits, which GCR considers stable funding sources. Robust levels of liquidity is supported by the very short term loan book registering high collections (close to 100% inclusive of recoveries from bad debts). Given the high collection rates and lower sales due to COVID-19, the resultant reduction in the loan book is expected to be a conversion to cash. Accordingly, liquid assets are forecasted to be c.50% of balance sheet by end of FY21 (currently 30%).*

SUMMARY RATING OUTLOOK

- The group entered the COVID-19 crisis with robust levels of liquidity and we view this to sustain throughout the rating horizon. However, the outlook is negative reflecting the potential impact from the strained operating environment, in the aftermath of COVID-19, on other rating factors. In particular, earnings are likely to come under pressure and the GCR leverage ratio is expected to deteriorate as a result.

Detailed Rating Report available at www.finbondlimited.co.za

For and on behalf of the Board

Dr Malesela Motlatla **Dr Willem van Aardt**

21 July 2020