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Finbond Group Limited

South Africa Bank Analysis **November 2018**

Rating class	Rating scale	Rating	Rating outlook	Review date
Long-term	National	BBB(ZA)	Stable	October 2019
Short-term	National	A3(ZA)		
Long-term	International LC	B+	Stable	October 2019

Financial data:

(USDm comparative)

	28/02/17	28/02/18
R/USD (avg.)	14.28	13.09
R/USD (close)	13.03	11.75
Total assets	243.9	281.6
Total capital	87.3	99.6
Total borrowings	41.1	47.8
Net advances	78.4	97.7
Liquid assets	57.9	54.4
Operating income	100.6	169.6
Profit after tax	12.6	25.6
Market cap.‡	R3.5bn/USD251m	

‡ Finbond's JSE listing on 28 November 2018 (R/USD 13.93).

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 (October 2017)
Long-term: BBB(ZA)
Short-term: A3(ZA)
Rating outlook: Stable

Last rating (June 2018)
Long-term (International LC): B+
Rating outlook: Stable

Related methodologies/research:

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2017
Finbond rating reports (2011-17)

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Summary rating rationale

- The ratings on Finbond Group Limited ("Finbond", "the group") 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 ("FMB") 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 ("LCR") 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.

Factors that could trigger a rating action may include

Positive change: 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.

Negative change: Capitalisation reduces materially, worsening asset quality and reserving, coupled with unstable funding structure.

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Company profile

Finbond Group Limited is the non-operating holding company atop the Finbond Group. The group predominantly acts as a short-term lender through a mutual bank and unsecured non-bank lender in South Africa and a consolidated group of micro-lenders operating in North America. Consequently, whilst a monoline operation in terms of product, the group is geographically well diversified in comparison to financial service peers in South Africa. As of 31 August 2018, the international businesses provided the majority of revenues (c63.5%), although post minority interest distributions they still a smaller amount of profit after tax than the South African business lines.

International

We expect the international business to be the clear driver of revenues over the next few years, providing up to 80% of total operating income by 2021. This is because external acquisitions are a key growth strategy for the group. 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.

In our opinion, Finbond's competitive position has been strengthened by the North America acquisition strategy. We expect improved revenue and cost synergies obtained from increasing scale of the operations going forward.

There is no prudential regulatory oversight in the international business, but each State/ Province has its own conduct style regulation. The Consumer Financial Protection Bureau ("CFPB") is the primary regulator of consumer lending in US.

South Africa

FMB is the South Africa lending arm of the group and is regulated by South Africa Reserve Bank ("SARB"). FMB provides savings products, unsecured loan products, and transactional banking products/services. 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.

Competitive positioning

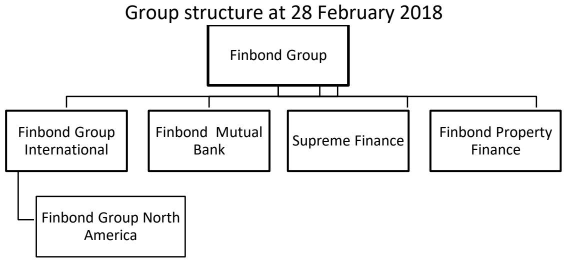
Finbond has an estimated 30% market share of the <12 months unsecured loans. To avoid the overcrowding and risk, Finbond goes against industry norm of offering longer term unsecured products, instead focusing on low value shorter term solutions that optimise annualised loan margins.

Ownership and Group Structure

Finbond is an owner managed company, with management holding 24% of the issued shares in the group through Kings Reign Investments.

Table 1: Effective shareholding (%)	FY17	FY18
Pershing LLC	32.6	33.6
Net 1 Finance Holdings	25.9	26.4
Kings Reign Investments	24.0	24.0
Investec Bank Limited Private Placements	1.9	0.0
Midbrook Lane	1.9	1.9
Finbond Property Finance (Pty) Limited	1.9	3.8
Snowball Wealth	1.8	1.8
Constantia Insurance Company	1.4	2.3
Other (with less than 1% shareholding)	8.6	6.2

Group structure at 28 February 2018



All shareholdings in the ordinary share capital of the subsidiaries are 100%.

Management and Governance

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

Table 2: Corporate governance summary at 28 February 2018	
Number of directors	10
- Independent NEDs	5
- Non-independent NEDs	2
- Executives	3
Separation of the chairman	Yes
Frequency of board meetings	Quarterly or more frequently if required. 4 meetings held in FY18.
Board committees	Executive Committee "EXCO"; Remuneration Committee; Audit Committee; Social & Ethics Committee; Risk Committee; and Investment Committee. EXCO is made up of Assets & Liabilities Committee; Credit Committee; Operations Committee amongst other four committees.
External auditors, rotation policy	BDO. New auditor to be announced upon SARB approval.ARC confirmation, annually, 5-year partner rotation.

NEDs – Non-executive directors.

Good strategy execution demonstrated through the continued unfolding of the group's medium-term strategic expansion underpins management's track record of successful acquisitions. Execution risk is managed by an adequate board and its sub-committees, and a well-disciplined investment criterion that stipulates;

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

Acquired lenders meet investment criteria as reflected in the group's performance which yielded high ROE of 28.7%.

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 FY18 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.

South Africa

With GDP per capita of USD5,275 as of 2018, South Africa is an economically diverse, median wealth country, with a wide gini-coefficient, which dominates the political and social agenda. Domestic challenges that have dragged on domestic growth for the past 3-5years. This include long term issues, such as the infrastructure bottle-necks and skills shortages but also severe short-term challenges of low domestic confidence and political mismanagement. GCR is expecting economic growth to improve in 2018 and 2019, but still to sub-optimal levels of between 1% and 1.5%.

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.

Regulation

The National Credit Regulator ("NCR") is the primary government agency responsible for regulating consumer lending in South Africa. Compliance requirements are stipulated in the National Credit Act ("NCA") which includes consumer financial protection, caps on maximum allowable interest rates, affordability criteria etc. These requirements are directly relevant to the group as it charges maximum rate on loans, thus sensitive to regulatory action.

Financial profile

Funding and Liquidity

Funding model remains equity focused, supporting a stable funding structure.

Table 2: Funding structure	FY18		1H19	
	Rm	%	Rm	%
Customer deposits	1 033.8	34.0	1 079.5	30.2
Fixed/notice deposits	*1 027.1*	*33.7*	*1 070.5*	*30.0*
Transactional deposits	*6.7*	*0.3*	*9.0*	*0.2*
Bank overdraft*	91.0	3.0	94.1	2.6
Commercial paper	278.8	9.1	288.9	8.1
Shareholder loans	470.6	15.5	161.9	4.1
Equity	1 170.7	38.4	1 964.7	55.0
Total	**3 044.9**	**100.0**	**3 589.1**	**100.0**

* Overdraft facility from Absa Bank for working capital purposes.

A commercial paper programme of R290m was issued during FY18 in the SA debt market, to support the acquisitions of short-term instalment lenders in North America under its five-year strategic plan. The deposit book, 30% of total funds, are largely term deposits. Selective growth of this book is managed to minimise the cost of surplus funding.

The structure of funds and the short-term nature of loans creates a low risk liquidity structure. Fixed term deposits have an average outstanding term of 25.7 months vs 3.3 months for loans at 1H19. Liquidity is supported by high collections on short term loans, averaging 94% during the year. Basel III LCR of 168% vs regulatory minimum of 90% supports this liquidity assessment.

Capital and Earnings

Capitalisation is maintained at strong levels, supported by capital injections and healthy retention of earnings. Conversion of shareholder loans to equity has helped capitalisation which we view to be stronger as a result. During 1H19, shareholder loans to the amount of R365m were converted to equity. Capital ratio registered 48.2% as result. At the same time, the GCR financial leverage ratio also increased to 22.0% from 5.7% at FY18.

Table 3: Capitalisation	FY18 Rm	1H19 Rm
Total reported capital	**1 170.7**	**1 964.7**
Paid up common shares	*724.5*	*1 135.7*
Retained earnings	*477.4*	*459.2*
Other reserves	*(194.6)*	*63.30*
Non-controlling interest	*163.4*	*306.5*
Less: Haircut on investment property	(139.1)	(133.4)
Eligible capital	**1 031.6**	**1 831.3**
Total balance sheet assets†	**3 309.3**	**3 797.7**
Selected ratios:		
Equity: Total assets	31.2	48.2%
GCR financial leverage	5.7%	22.0%

* Consist of convertible shareholder loans only. The majority of shareholder loans were to converted to equity in April 2018.
† Asset exposures not risk-weighted.

We also think internal capital generation is benefiting from the favourable profiles of acquired short term lenders. In part this is because of the strict investment criteria we noted earlier. But also, dominant market position of some of these lenders supports revenue stability. Profit for the year was up 61.6% in FY18. Finbond's focus on low value short term products boosts profitability, as reflected in 1H19 performance which continues to trend positively strong. This is because annualised loan margins are high given that loans are short term. For example, a loan can be turned 3-4 times in a year funded by long term money. Credit losses were up 63.5% at FY18, however majority was acquired through business combinations. IFRS 9 adoption increased impairment provision by R3.4m, translating to a 30bps write down of gross debtors.

FMB maintained a healthy capital position of 34.8% at 1H19, registering a significant headroom above the minimum required from 2019. Capital position is expected to increase to 35.4% over the rating horizon, supported by sustained healthy earnings capacity.

Risk Position

Asset quality remains weak, demonstrated by the high write offs. The arrears ratio escalated to 66.2% at 1H19. 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. Loan loss reserve coverage of 85.1% is sufficient nonetheless. This is in addition to recoveries from bad debts averaging 28.9% within the same year.

Table 4: Asset quality	FY17 Rm	FY18 Rm	1H19 Rm
Gross loans and advances	1 021.7	1 206.6	2 539.6
Not past due	*860.2*	*916.9*	*858.7*
Past due (>30 days)	*161.5*	*289.7*	*1 680.9*
Less: Provisions	(181.7)	(253.9)	(1 430.0)
Net loans and advances	**840.0**	**952.7**	**1 109.6**
Written-off portfolio at fair value	181.6	195.7	-
Total loans and advances	**1 021.6**	**1 148.4**	**1 109.6**
Key ratios			
Arrears ratio	15.8	24.0	66.2
Arrears coverage ratio	58.4	61.4	85.1
Recoveries/write-offs	25.6	28.9	n.a

Collections rate averaged 94% for FY18, although declining to 83% by 1H19. This was because of lower collections from the SA portfolio, owing to credit extended to the SASSA sector.

Single obligor concentration is very low given the granularity of the loan book. In addition, improved geographical diversification of the book is viewed positively.

Market risk is limited to the asset side of the balance sheet. This is because funding is largely equity and shareholder loans which have no repricing risk. Deposits have fixed rates in line with the regulator's requirements. Market risk is limited also because c. 63.5% of the group's earnings are currently denominated in stable US dollar currency, with the expectation to grow this to c. 70-80% in 3 to 5 years.

Finbond Group Limited

(South African Rands in millions except as noted)^

Year end: February	2014	2015	2016	2017	2018
Income Statement					
Interest income	93.0	145.5	161.4	978.6	1 541.7
Interest expense	(44.3)	(76.1)	(87.5)	(144.9)	(208.2)
Net interest income	**48.7**	**69.3**	**73.9**	**833.6**	**1 333.5**
Asset related gains†	5.0	1.8	-	-	(6.9)
Other income	182.4	304.8	396.7	603.0	893.6
Total operating income	**236.1**	**375.9**	**470.7**	**1 436.6**	**2 220.2**
Net impairment charge	(24.9)	(60.1)	(71.3)	(296.2)	(484.2)
Operating expenditure	(164.3)	(242.4)	(304.4)	(861.0)	(1 296.4)
Net profit before tax	**46.9**	**73.4**	**94.9**	**279.4**	**439.5**
Tax	(9.9)	(22.5)	(37.7)	(72.2)	(104.6)
Net profit after tax	**36.9**	**50.9**	**57.3**	**207.3**	**335.0**
Attributable to non-controlling interest	-	-	-	(68.6)	(100.8)
Net attributable income	**36.9**	**50.9**	**57.3**	**138.7**	**234.2**
Balance Sheet					
Ordinary share capital and reserves	330.4	346.7	388.8	935.7	1 007.4
Minority interest	(0.8)	(0.8)	(0.8)	226.3	163.3
Total capital and reserves	**329.6**	**345.9**	**388.0**	**1 161.9**	**1 170.7**
Long-term borrowings	484.1	654.6	641.8	757.2	928.8
Short-term borrowings	211.8	282.4	316.8	877.6	938.7
Other liabilities	60.3	66.3	84.9	400.4	271.0
Total capital and liabilities	**1 085.8**	**1 349.3**	**1 431.4**	**3 197.1**	**3 309.3**
Cash and bank balances	86.8	197.5	136.0	547.4	422.3
Unsecured customer loans	211.0	290.7	343.7	800.6	937.4
Secured customer loans	-	-	94.8	221.0	211.0
Investments - Financial assets	413.7	372.8	231.9	207.7	216.9
Investments - Property	242.6	248.8	269.5	278.2	266.8
Other assets	131.8	239.4	355.4	1 142.3	1 255.0
Total assets	**1 085.8**	**1 349.3**	**1 431.4**	**3 197.1**	**3 309.3**
Contingencies	**32.8**	**49.0**	**79.1**	**197.2**	**212.4**
Key ratios (%)					
Financial management					
Interest expense / Average gross advances	19.2	24.0	18.7	14.2	17.3
Interest expense / Average funding liabilities	6.4	8.1	9.1	8.9	11.1
Interest bearing debt / Total capital (:1)	2.1	2.7	2.5	1.4	1.6
Total capital / Total assets	30.4	25.6	27.1	36.3	35.4
Internal capital generation	3.4	3.8	4.0	6.5	10.1
Loans / Deposits	30.3	31.0	35.9	49.0	50.2
Cash and liquid assets / Total assets	8.0	14.6	9.5	17.1	12.8
Cash, liquid funds and financial investments / Total assets	46.1	42.3	25.7	23.6	19.3
Asset quality					
Portfolio at risk‡ / Gross advances	21.3	19.4	12.4	5.6	4.7
Loan loss reserves / Average gross advances	10.5	9.8	7.3	23.4	20.7
Loan loss reserves / Portfolio at risk‡	39.1	43.6	48.7	297.8	393.4
Net impairment charge / Average gross advances	13.6	22.0	18.2	39.8	43.5
Net inpairment charge / Total operating income	10.6	16.0	15.2	20.6	21.8
Efficiency and Productivity					
Operating expenses / Average gross advances	71.4	76.3	65.2	84.3	107.4
Operating expenses / Operating income	69.6	64.5	64.7	59.9	58.4
Profitability					
Net interest margin	20.2	17.6	13.2	70.8	77.6
Non interest income / Total operating income	79.4	81.6	84.3	42.0	39.9
ROaE	11.6	15.1	15.6	17.9	20.1
ROaA	4.5	4.2	4.1	6.0	7.2
Nominal growth indicators					
Total assets	94.8	24.3	6.1	123.4	3.5
Net customer loans	72.3	37.8	50.8	133.0	12.4
Shareholders equity	8.1	4.9	12.1	140.6	7.7
Attributable income	78.1	37.8	12.6	142.3	68.8

^ 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.

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 2018 (plus four years of comparative numbers);
- Latest internal/external audit report to management;
- Corporate governance and enterprise risk framework;
- 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.