Finbond Group Limited

(Incorporated in the Republic of South Africa)
(Registration number: 2001/015761/06)
Share code: FGL ISIN: ZAE00013895
(“Finbond” or “the Company” or “the Group”)

TRADING UPDATE

In terms of the Listings Requirements of the JSE Limited, companies are required to publish a trading statement as soon as they become reasonably certain that the financial results for the next period to be reported on will differ by more than 20% from that of the previous corresponding period.

A review of the financial results for the six-month interim period ended 31 August 2022 by the directors of the company has indicated the following:

- Headline Earnings per share (HEPS) will decrease to a loss of between 7.6 cents and 8.8 cents per share, representing a percentage decrease of between 25.9% and 45.9% compared to the loss of 6.0 cents per share reported in the prior corresponding six-month interim period; and

- Earnings per share (BEPS) will decrease to a loss of between 10.2 cents and 11.5 cents per share, representing a percentage decrease of between 63.4% and 83.4% compared to the loss of 6.3 cents per share reported in the prior corresponding six-month interim period.

Revenue and earnings are affected by various IFRS items as discussed below. Shareholders are however informed that:

- Cash payments received of R4.13 billion were 48.9% ahead of the corresponding period last year.

- Loans advanced increased by 67.4% to R3.36 billion from R2.01 billion for the corresponding period last year.

Performance

The strategic recovery and growth initiatives to improve loan sales affected by COVID and regulatory changes in the state of Illinois are showing good progress. Finbond and its subsidiaries remain cautious in credit granting despite significant available capital. SAIL secured $50 million (R854 million) in external funding, with potential access to a further $50 million (R854 million), to support the significant growth of the new 36% rate cap business in Illinois. At the end of the reporting period the SAIL net loan book amounted to $29.3 million (R500 million).

Sales volumes increased in both South Africa and North America and are significantly ahead of the corresponding six-month reporting period, as well as pre-COVID and Illinois regulatory change volumes. This is due to our exciting new Illinois product (SAIL), additional new volumes outside of Illinois, and our investment in C1H in May 2021 (which continues to produce outstanding results). However, US consumer stimulus continues to delay the COVID recovery in our traditional US business, as temporarily fewer loans were required by our US customer base. This government sponsored stimulus is dissipating, which should restore volumes across the US in the near term. The traditional

US volume recovery is expected to be aided by persistent high inflation, which may deplete consumer savings, leading to anticipated higher demand for our credit products.

In South Africa, Finbond Mutual Bank and Supreme Finance have exceeded their base pre-COVID 2020 comparative year and are well ahead of budget.

Profits, however, will take more time to recover. This is due to two factors. Firstly, the slower COVID recovery in our traditional US business, as already discussed. Secondly, a profitability lag effect created by our new Illinois product (SAIL). SAIL will experience a significant revenue lag effect as its book grows. Most SAIL loans are 24-month products, with interest earned over this period. It will therefore take 24 months (2 years) before one “cycle” is complete and we reach the point where monthly interest recognised represents a full 24-month cycle of loans advanced. This is in contrast to last year’s revenue number, which included interest revenue from a full cycle of Illinois’ old 6-month portfolio (predominantly from our Americash subsidiary). Americash results were thus only partially affected by the regulatory change in March 2021 (as revenue was still earned as this book began to run down over the following 6 months). Additionally, we are required by IFRS9 to account for the expected credit loss (ECL) on the full 24-month loan product balance in month one. Although the Probability of Default is low at this point, a low percentage of a larger 24-month loan balance quickly outweighs interest earned in one month. Finally, new products are characterised by necessary upfront infrastructure costs. SAIL is no exception and although variable costs are added as volumes grow, fixed costs such as the branch network and infrastructure, IT systems, head office and support staff, etc. are already in place.

Accounting Adjustments

The further decrease in the BEPS number was as result of a goodwill impairment at Americash. Management’s required assessment at the end of the current reporting period was that an indicator of impairment existed. The required quantified impairment testing performed on Americash resulted in a R22.2 million goodwill impairment. There were no indicators of impairment at any of FGL’s other Cash Generating Units at the end of the current six-month reporting period.

Finbond's unaudited results for the six-month interim period ended 31 August 2022 are expected to be released on SENS on or before 31 October 2022.

Pretoria
7 October 2022

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