FINBOND GROUP LIMITED

FINBOND MUTUAL BANK

INTEGRATED ANNUAL REPORT
FOR THE YEAR ENDED
29 FEBRUARY 2016

THE VICTOR

IF YOU THINK YOU ARE BEATEN, YOU ARE.
IF YOU THINK YOU DARE NOT, YOU DON'T.
IF YOU LIKE TO WIN BUT THINK YOU CAN'T,
IT'S ALMOST A CINCH YOU WON'T.
IF YOU THINK YOU'LL LOSE, YOU'RE LOST.
FOR OUT IN THE WORLD WE FIND
SUCCESS BEGINS WITH A FELLOW'S WILL.
IT'S ALL IN THE STATE OF MIND.
IF YOU THINK YOU ARE OUTCLASSED, YOU ARE.
YOU'VE GOT TO THINK HIGH TO RISE.
YOU'VE GOT TO BE SURE OF YOURSELF BEFORE
YOU CAN EVER WIN THE PRIZE.
LIFE'S BATTLES DON'T ALWAYS GO
TO THE STRONGER OR FASTER MAN.
BUT SOONER OR LATER, THE MAN WHO WINS
IS THE MAN WHO THINKS HE CAN.

- C. W. Longenecker -

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SCOPE AND BOUNDARY

Finbond proudly presents its 2016 Integrated Annual Report, as recommended in the **King Code of Governance principles for South Africa 2009 (King III)**.

The objective of the 2016 Integrated Report is to provide stakeholders with insight into the performances of the Group, to focus on the strategy and the Group's ability to create long-term sustainable value. Finbond has an essential role to assist in the development of the society in which it operates. The combined successes of its customers and stakeholders alike contribute to the foundation of the commercial sustainability of the Group.

This Integrated Annual Report covers all relevant aspects of the activities of Finbond Group Limited, including all subsidiaries, for the period 1 March 2015 to 19 April 2016. The Integrated Report discusses the operations in South Africa, the only geographical region in which the Group operated in the financial year, and further highlights the Group's expansion into North America, effective from 1 March 2016.

The Annual Financial Statements have been prepared in accordance with **International Financial Reporting Standards (IFRS)**. The audited Annual Financial Statements include the consolidated data incorporating the Company and all entities controlled by Finbond Group Limited as a single economic entity, Finbond Group Limited (the Company), and the separate Financial Statements for Finbond Mutual Bank (the Bank). The audited Financial Statements were approved by the Board of Directors on 19 April 2016.

In addition to IFRS, the **King Code of Governance principles for South Africa 2009 (King III)** and the **Global Reporting Initiative Index (G4)**, Finbond also utilises the **Sustainability Data Transparency Index (SDTI)** designed by **Integrated Reporting and Assurance Services (IRAS)** as a framework for reporting.

References to the specific provisions of the **Global Reporting Initiative Index**, which are detailed in full from page 159 of this report, are included in blue rectangular graphics at the bottom of the relevant pages in the Annual Report (commencing at the bottom of this page).

The integrated reporting function is viewed not merely as a summary of the performances and governance aspects of the Group, but rather as a process to provide meaningful information to its users.

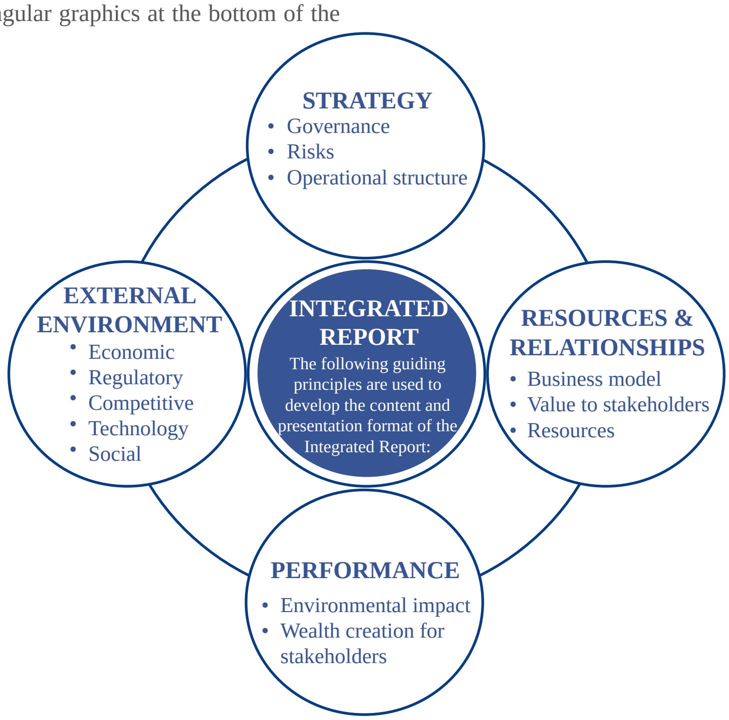
Materiality, defined as an item that affects the Group's ability to remain economically viable and socially relevant, was applied in selecting the content and extent of disclosure in the Integrated Annual Report.

A combined approach to the contents of the report was utilised to ensure both the appropriate application of integrated reporting principles and the integrity of data disclosed.

Financial information contained in the report was extracted from the audited Annual Financial Statements. External assurances obtained in the current period included the KPMG audit opinion on the Annual Financial Statements, professional valuers' reports on the value of investment properties and expert analysis of the significant areas of judgement contained within the Annual Financial Statements.

The responsibility to ensure the integrity and fair presentation of the material issues and integrated performances of the Group is acknowledged by management. The content was reviewed and approved by the Executive Directors and key management. The compliance of this report to the guidelines provided by the **Global Reporting Initiative Index** was reviewed by Ms I Wilken-Jonker, a Non-Executive Director, who is also a member of the Group's Social and Ethics Committee.

Figures presented in tabular formats are stated throughout this report in thousands with a note (R'000) to that effect, unless otherwise stated, whereas figures presented as part of narrative paragraphs are stated to the nearest single digit unless otherwise stated.



GRI4 Reference: 5/17/18/19

“I DO NOT THINK THAT THERE IS ANY OTHER QUALITY
SO ESSENTIAL TO SUCCESS OF ANY KIND
AS THE QUALITY OF PERSEVERANCE.
IT OVERCOMES ALMOST EVERYTHING, EVEN NATURE.”

- John D Rockefeller -

FINBOND IN FOCUS

HISTORY AND DEVELOPMENT

1998	Dr Willie van Aardt co-founds Thuthukani Group Limited, which lists on the **Johannesburg Stock Exchange (JSE)** during 1999. At the time of its listing, Thuthukani had 70 microlending branches and 120 debt collection branches.
2000	Dr Willie van Aardt resigns and sells his shares in Thuthukani to Saambou Bank, which eventually proceeds to acquire the entire share capital in Thuthukani. When Saambou Bank was liquidated in 2002, the various divisions of Thuthukani were sold. All of Thuthukani's various businesses remain profitable and in operation.
2003	Dr Willie van Aardt establishes Finbond as a debt consolidation, bridging finance and second-bond origination company in January 2003. Finbond commences the year with four employees. Initially, due to small origination volumes, Finbond is forced to submit all its origination via other origination companies. In 2004 Finbond negotiates its own direct origination contracts with ABSA and First National Bank (FNB), together with lead originator agreements with Bondmaster for Nedbank and Standard Bank Business.
2007	In order to position itself as a significant South African mortgage originator and non-bank lender, Finbond, at the beginning of 2007, acquires Independant Bond Originators (IBO), Dimension Home Loans and Bondmaster. Following the acquisitions, Finbond employs 110 people. Finbond lists on the AltX sector of the **JSE** as the fourth largest Mortgage Originator in South Africa originating mortgages amounting to R1 billion per month to the four major banks. Finbond acquires Bond Excel and increases mortgage origination volumes to R1.5 billion per month. In the fourth quarter of 2007, following the worldwide sub-prime crisis and collapse of various large retail and investment banks in the United States and Europe, the South African mortgage origination market declines rapidly as the four major banks lose their appetite for mortgages. Mortgage origination volumes decline by more than 80% in a six-month period, and Finbond makes the strategic decision to diversify its business to microfinance by acquiring 50% of Blue Chip Finance No. 1 (formerly part of Thuthukani) with 57 branches and 100% of Blue Chip Finance Western Cape (also formerly part of Thuthukani) with its seventeen branches and a number of small microlenders.
2008	Finbond obtains offshore funding from the Dutch Development Finance Corporation (FMO) and Standard Chartered Bank to fund and expand its microfinance operations. Finbond expands its microfinance branch network by opening and acquiring a number of branches in the Eastern and Western Cape, Mpumalanga, Limpopo, Gauteng and North West.
2009	Finbond acquires 60 Moneyline Financial Services Microfinance branches from NET 1 UEPS Technologies in order to gain a microfinance footprint in the KwaZulu-Natal region. Finbond agrees with the other 50% shareholders in Blue Chip Finance No. 1 to evenly divide the branches in order for Finbond to directly own and manage 100% of 28 Blue Chip No. 1 branches, as opposed to indirectly owning 50% of 57 branches. Finbond rebrands all microfinance branches to Finbond Micro Finance. Finbond expands its business to also offer customers Micro Insurance (Credit Life, Retrenchment and Funeral Insurance) through its own insurance cell captives.
2010	Finbond applies to the **South African Reserve Bank** to establish and register a mutual bank in terms of the **Mutual Banks Act No. 124 of 1993** in order to provide clients with a full range of low-cost banking services through its existing branch infrastructure.
2011	Facing various maturing debt obligations and an extremely difficult and a hostile fundraising environment, Finbond raises R40 million from the South African debt capital markets, thereby refinancing a portion of existing maturing debt. In addition to this, Finbond raises R20 million in equity from its two largest shareholders, Dr Willie van Aardt (Kings Reign) and Net 1, through a rights offer. The rights offer process is finalised in February 2012, with Dr Willie van Aardt (Kings Reign) and Net 1 taking up 120 000 000 and 80 000 000 Finbond shares respectively. At this time, Finbond's share price was R0.07.
2012	During July 2012, Finbond receives formal consent from the Registrar of Banks in terms of **section 11(1) and section 13(1) of the Mutual Banks Act** to establish and register a mutual bank, namely Finbond Mutual Bank, in the Republic of South Africa. Finbond formally starts operating as a mutual bank during September 2012 and receives its first deposit from 85-year-old Mr Lambert Petrus van Sittert.
2016	Finbond raises R525 million from shareholders and expands operations to North America and Canada through the acquisition of 91 short-term lending branches, of which 41 are American Cash Advance branches in Louisiana, 36 are Cash Back branches in California, 6 are Cash in a Flash branches in Indiana and 8 are Cash Shop branches in Toronto. Finbond now employs 1 104 staff members in South Africa. Finbond's share price increased 4 686% since 2011 and is now trading at R3.35.

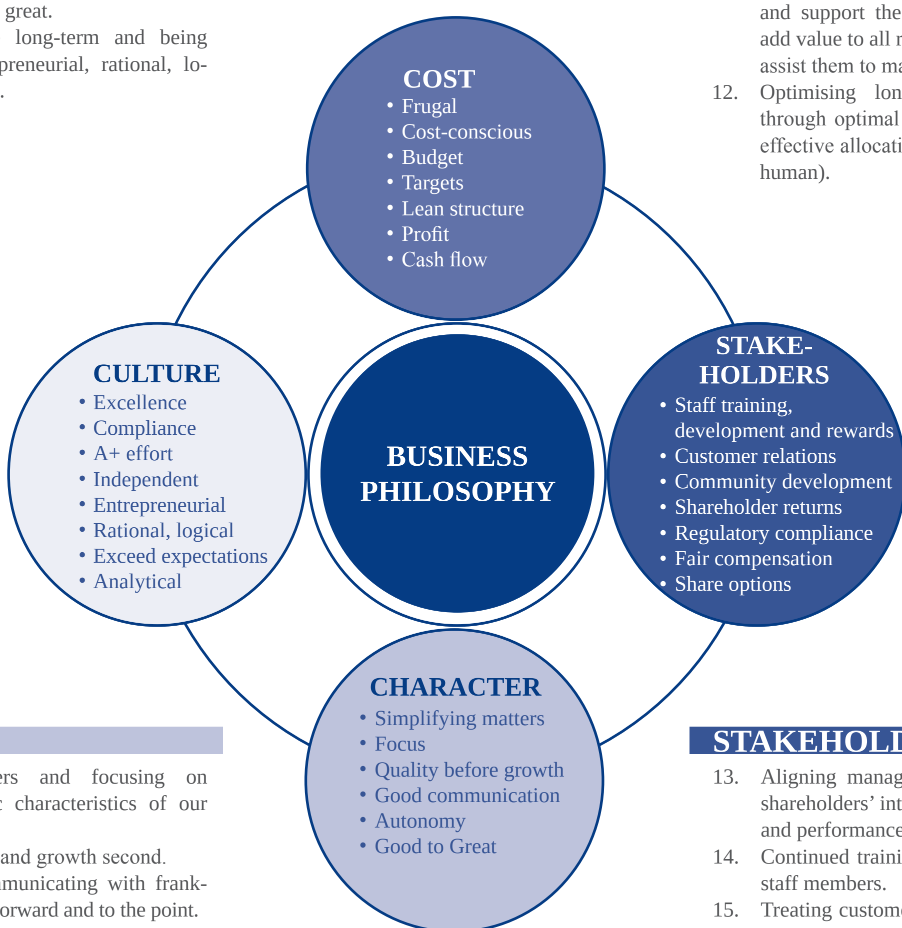
BUSINESS PHILOSOPHY

CULTURE

1. Having a high performance culture of excellence, producing sustained results, and continuously meeting and exceeding expectations.
2. A strong culture of strict compliance with all laws, regulations and directives from regulatory stakeholders.
3. A+ effort, a fierce resolve and relentless pursuit to do whatever needs to be done to make the Company great.
4. Managing for the long-term and being independent, entrepreneurial, rational, logical and analytical.

COST

10. Being frugal, cost-conscious, and expecting all to remain within their expense budgets and to meet and exceed targets.
11. Keeping the Head Office structure lean (wafer-thin) and cost-effective. The purpose of all Head Office divisions, which includes Finance, Information Technology, Risk and Analysis, Human Capital Development, Compliance and Internal Audit, is to serve and support the regions and branches, to add value to all regions and branches and to assist them to maximise profitability.
12. Optimising long-term value per share through optimal use of free cash flow and effective allocation of capital (financial and human).



CHARACTER

5. Simplifying matters and focusing on the core economic characteristics of our business.
6. Quality comes first and growth second.
7. Being candid, communicating with frankness, being straightforward and to the point.
8. Managing all areas, regions, divisions and subsidiaries on a decentralised basis by following a rigorous budgeting process each year, with extreme autonomy to the various managers. As long as managers meet and exceed profit targets (for which they are severely accountable) and remain within all laws and regulations, they will be left alone to do their jobs.
9. All senior managers complying with and adhering to Finbond's Senior Management Expectations, Management Dimensions and the Good to Great Management Principles.

STAKEHOLDERS

13. Aligning management compensation with shareholders' interest through share options and performance-based compensation.
14. Continued training and development of all staff members.
15. Treating customers fairly and adding value to our clients' lives and livelihood.
16. Making a meaningful social contribution in the communities we operate in and particularly to the most vulnerable in those communities.

GRI4 Reference: 56

VISION, MISSION AND CORE VALUES

VISION

To be the leading short-term lender in South Africa and North America, improving the quality of life of our clients by offering them access to unique value and solution-based products which, tailored around their unique requirements, empower, develop and uplift them.

MISSION

To consistently satisfy the needs of our target market by offering innovative, superior, inclusive investment, saving and credit solutions and better service, adding value to our clients' lives by empowering them and contributing towards their financial growth, independence and freedom.

OUR PURPOSE

We exist to improve and transform the lives and livelihoods of our clients by offering them modern, inclusive financial services and products that benefit and empower them.

KEY PERFORMANCE INDICATORS

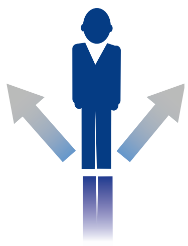
Finbond is not focused on making quick and short-term profits but sets out to build critical market momentum that will secure long-term rewards and sustainable benefits for all stakeholders. Our business strategy is to exceed the expectations of our clients, shareholders, business partners and regulatory stakeholders and, in doing so, sustain the organic growth of Finbond.

"THE ENTREPRENEUR ALWAYS SEARCHES FOR CHANGE, RESPONDS TO IT AND EXHIBITS IT AS AN OPPORTUNITY."

- Peter Drucker -

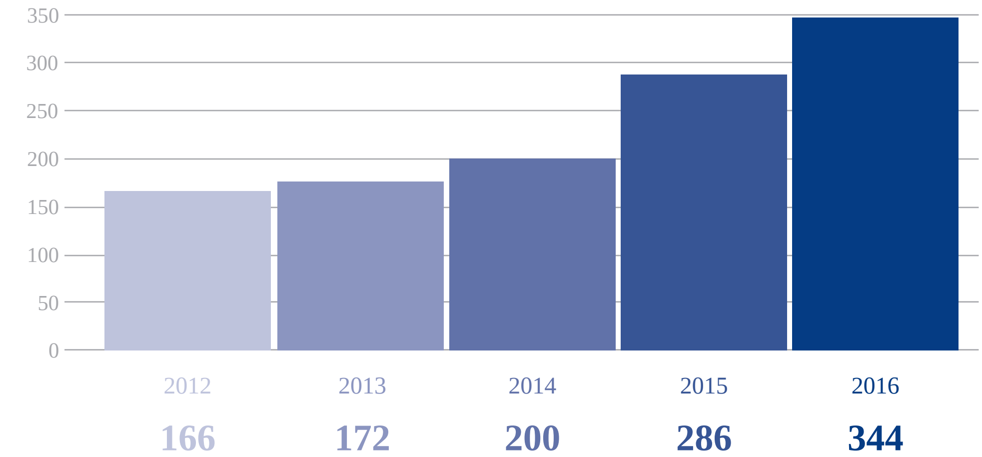
BRANCH NETWORK, NUMBER OF EMPLOYEES AND ACTIVE CLIENTS

NUMBER OF BRANCHES



344

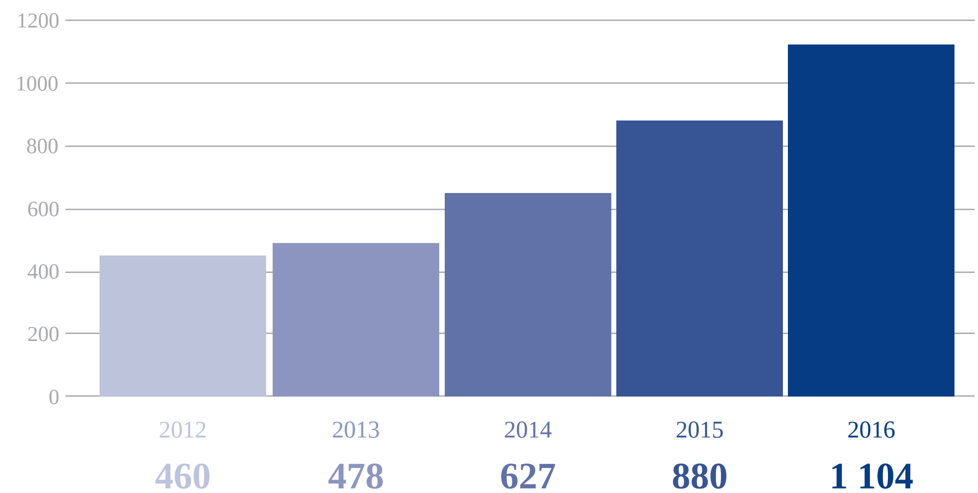
Number of branches



NUMBER OF EMPLOYEES

1 104

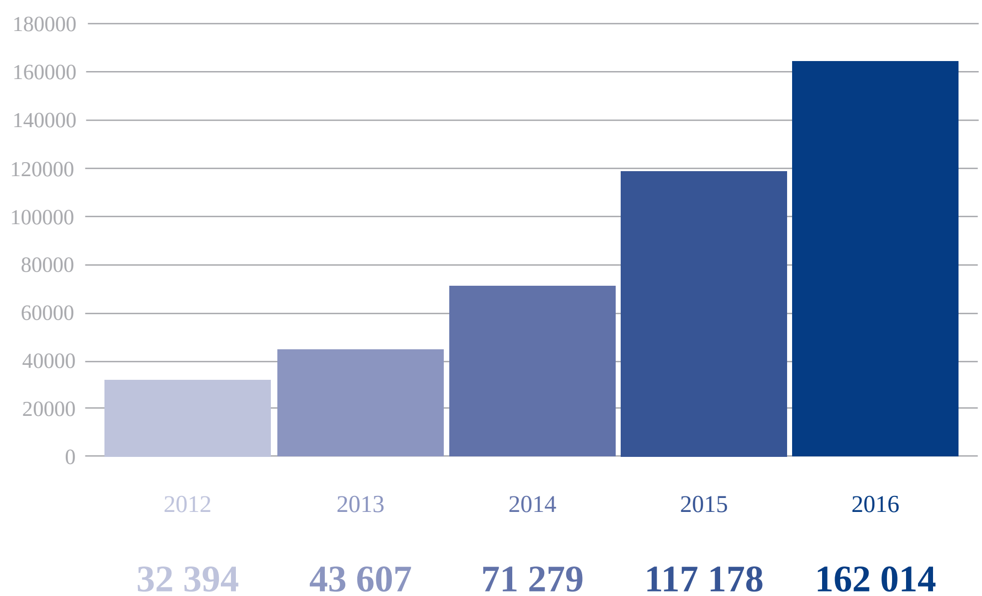
Number of employees



NUMBER OF ACTIVE CLIENTS

162 014

Number of active short-term loan clients



PRODUCTS

Finbond specialises in the design and delivery of unique value- and solution-based credit, savings, insurance and transactional banking solutions tailored around depositor and borrower requirements, rather than institutionalised policies and practices. We focus on our core strength and economic driver that is short-term cash generative cash lending (tenures of three months and less and average loan amounts of R1 700 (SA) and US$400 (US)) both in South Africa and in the US (Finbond's **hedgehog concept**).

We believe we can be the best in the world at short-term unsecured lending, which drives our economic engine. We are deeply passionate about being the best short-term lending company in South Africa and the US.

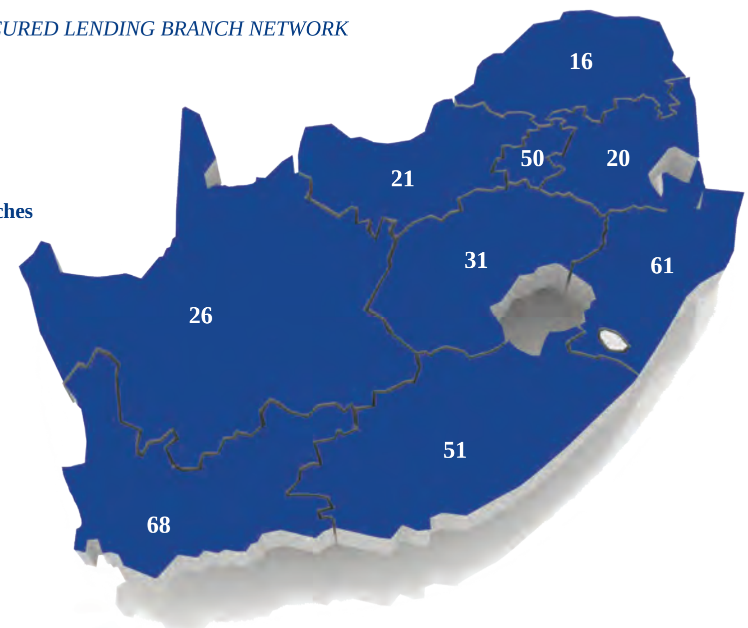
SHORT-TERM UNSECURED LENDING

Short-term Microcredit Products are offered to the underbanked and underserved market actively seeking credit solutions, but remaining largely unattended and underserviced due to the traditional banks' concentration on the higher income brackets of the population. Finbond's South African Microcredit division currently operates through 344 branches, (of which 253 are Finbond Mutual Bank branches and 91 are Supreme Finance branches) and has 1 104 employees. Finbond's North American Microcredit division currently operates through 91 branches, of which 41 are American Cash Advance branches in Louisiana, 36 are Cash Back branches in California, 6 are Cash in a Flash branches in Indiana and 8 are Cash Shop branches in Ontario, Canada.

SHORT-TERM UNSECURED LENDING BRANCH NETWORK

South Africa

344 **branches**



United States of America

85 **branches***

Canada

6 **branches***

* Effective 1 March 2016

The remainder of the product range serves Finbond's **hedgehog concept**. Finbond will not launch new ancillary products unless they serve the **hedgehog concept**, are sufficiently profitable and in no way shift the focus of management away from short-term cash generative unsecured lending (the **hedgehog concept**).

TRANSACTIONAL BANKING

The Finbond Finsave Light Account, which was launched early in 2016, actively encourages customers to save by paying higher interest on low balances. The Finbond Finsave Light Account is the cheapest account in South Africa, at only R4 per month.

Product rules and features of the Finbond FinSave Light Account include:

- 6% p.a. interest paid on balances up to R20 000, thereafter 4.75% p.a.;
- Cash withdrawals at any ATM or cash back at accredited POS devices;
- Free cellphone banking;
- Free internet banking;
- EFT payments and receipts; and
- Debit order functionality.

Transactional banking enhances Finbond's **hedgehog concept** by improving collections and expanding the product range available to unsecured lending customers.

SAVINGS & INVESTMENTS

Savings and investment products, which offer a superior above average rate of return, are offered nationally to investors and pensioners looking for guaranteed higher fixed income in the current environment of depressed yields. Finbond's strategy is to stimulate savings by offering superior investment and savings solutions, and providing client shareholders with better interest rates, better products and better service.

Savings and investment products serve the **hedgehog concept** by providing funding for our short-term unsecured lending products.

INSURANCE

Finbond's combined Credit Life and Retrenchment Cover product, which is underwritten by PSG subsidiary African Unity Insurance, provides insurance cover tailored for Finbond's target market.

In the current unstable labour environment, our comprehensive insurance cover provides customers with insurance, not only for Credit Life Risk, but also for:

- The risk of retrenchment;
- The loss of income;
- The risk of permanent disability;
- The risk of temporary disability; and
- The risk of the loss of income due to industrial action;

in one combined product.

Customers can elect to procure their own insurance, or make use of the comprehensive insurance facility arranged by Finbond.

Insurance products serve Finbond's **hedgehog concept** by managing the exposure to credit risk and expanding the product range offered to the short-term unsecured lending customer base.

SECURED LENDING

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. This product replaces expensive credit card debt with inexpensive long-term financing at competitive interest rates, thus reducing our clients' financial burden. In addition, Finbond provides home loans to first-time owners.

The home loan product range consists of prime-linked mortgages with any of the following terms:

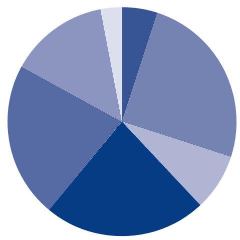
- 10 years;
- 15 years; or
- 20 years.

The home loan division further offers a bridging finance service. While refinancing allows our customers the opportunity to make use of the accumulated equity tied up in their properties, the bridging finance service allows our customers to gain access to the equity at an earlier stage than the conveyancing process would usually allow.

Secured lending serves the **hedgehog concept** by expanding value-adding services to the same market segment to which our savings and investment products are marketed, which, in turn, provides funding for our short-term unsecured lending products.

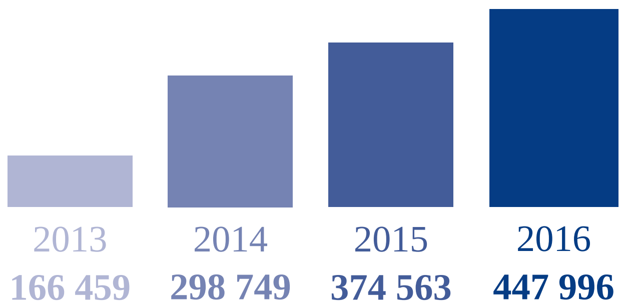
PRODUCTS

Microcredit Product Mix

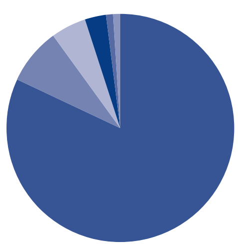


Products*	Rand value of loans
FIN500	5.3%
FIN1	25.2%
FIN2	7.8%
FIN3	23.1%
FIN4	21.6%
FIN6	13.6%
FIN12-24	3.4%

Growth in Microcredit Loans (R'000)



Savings and Investment Product Mix

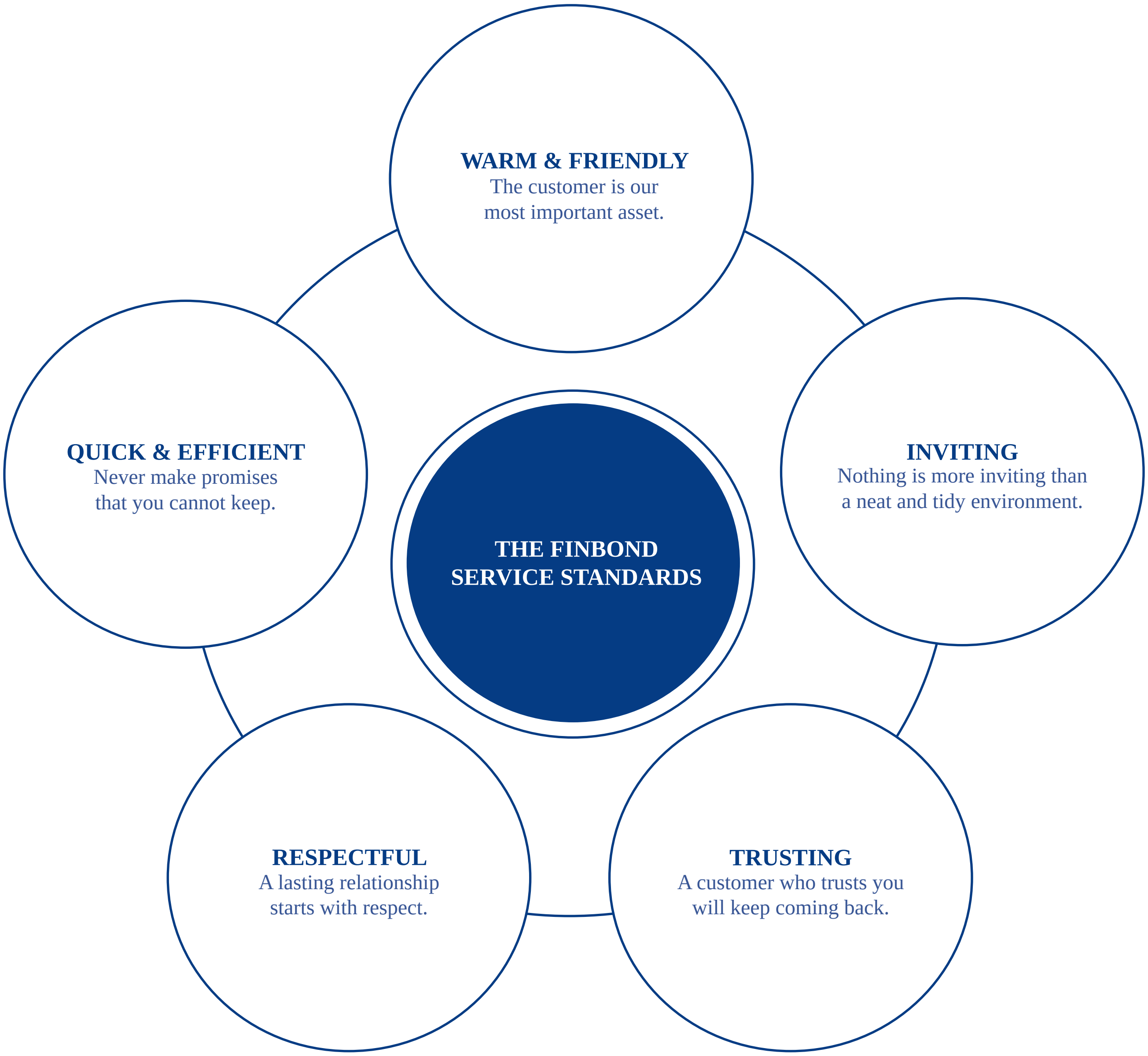


Products**	
Fixed-Term Deposits	82.6%
Indefinite Period Shares	7.7%
Fixed-Period Shares	4.9%
Permanent Interest-Bearing Shares	3.6%
7-Day Notice Investment Deposits	0.1%
32-Day Notice Investment Deposits	1.1%

*Explanation of product names: FIN500 refers to loans of R500 and less, for the rest of the product range the number in the name refers to the number of months each loan product is granted for: FIN1 refers to one-month loans, FIN2 refers to two-month loans and so on.

**Fixed-term and Notice Deposit products earn interest at the contracted fixed rate up to the expiry of the relevant product maturity. Finbond offers maturity terms of 7-days and 30-days on Notice Deposits and Fixed-term maturities range from 6- to 72-months. All clients investing in a Fixed Term Deposit will also be issued with one Class C Share for every R1 000 invested. These Class C shares are redeemable and expire at the maturity date of the Guaranteed Fixed Term Deposit and grant the holder thereof the right to vote at Finbond Mutual Bank shareholders' and members' meetings. Indefinite Period Shares' minimum investment period is 18 months. Clients of Finbond Mutual Bank who acquire Indefinite Period Paid Up Shares will become shareholders of Class D shares in the Bank, and each Class D shareholder will have one vote irrespective of the number of shares he holds. Fixed Period Paid Up Shares have an investment period of 66 months with guaranteed fixed dividend rates. Clients of Finbond Mutual Bank who acquire such shares will become Class B shareholders of the Bank. Each shareholder will have one vote irrespective of the number of shares he or she holds. Permanent Interest Bearing Shares earn interest at a fixed contracted rate. All clients investing in Permanent Interest Bearing shares will be issued with one Class E Share for every R100 invested. These Class E shares are non-redeemable but are transferable after the expiry of a 72-month period. The share grants the holder thereof the right to vote at Finbond Mutual Bank shareholders' and members' meetings.

SERVICE STANDARDS



"THE MOST IMPORTANT SINGLE INGREDIENT TO THE FORMULA OF SUCCESS IS KNOWING HOW TO GET ALONG WITH PEOPLE."

- Theodore Roosevelt -

FINANCIAL HIGHLIGHTS AND INDICATORS

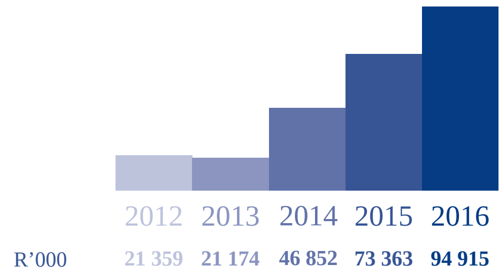
		Actual 2016	Actual 2015
Profitability and performance			
Interest income	R'000	161 435	145 457
Interest paid	R'000	87 525	76 137
Income from operations	R'000	468 318	375 918
Revenue from continuing operations (turnover)	R'000	561 211	455 438
Microfinance revenue	R'000	475 375	370 320
Operating income before taxation (profit from continuing operations)	R'000	94 915	73 363
Profit for the period attributable to owners of the Company	R'000	57 254	50 867
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	R'000	195 261	156 671
Shareholders' equity (net asset value)	R'000	388 813	346 728
Liquidity and equity indicators			
Share price	cents	335	321
Weighted average number of shares in issue	shares	588 070 838	593 308 162
Earnings per share	cents	9.7	8.6
Normalised earnings per share	cents	11.0	8.6
Headline earnings per share	cents	10.6	8.6
Return on ordinary shareholders' equity	%	15.6%	15.0%
Total assets	R'000	1 431 428	1 349 255
Return on assets	%	4.0%	3.8%
Loan-to-deposit ratio	%	41.3%	34.4%
Unsecured portfolio quality			
Gross loans & advances	R'000	447 996	374 563
Gross loans & advances excluding unearned revenue	R'000	372 245	317 602
Net loan impairment expense	R'000	71 314	60 137
Total arrears to gross loans and advances	%	15.6%	16.5%
Loans past due	R'000	58 006	61 554
Non-performing loans (90 days +)	%	6.1%	7.0%
Provision for doubtful debts	R'000	28 496	26 887
Risk coverage ratio (90 days +)	%	114.5%	102.7%
Loans past due after impairment provision	%	7.9%	10.9%
Provision to gross loans and advances	%	7.7%	8.5%
Arrears coverage ratio	%	49.1%	43.7%
Loan revenue	R'000	529 037	393 375
Loan revenue to average gross loans and advances	%	153.4%	143.6%
Net loan impairment expense to loan revenue	%	13.5%	15.3%
Net loan impairment expense to average gross loans and advances	%	20.6%	22.0%
Retro collections rate (collection as a percentage of expected receipts)	%	86.0%	82.0%
Sales and operations			
Value of loans advanced	R'000	883 871	765 695
Number of loans advanced		583 265	474 109
Average loan amount	R	1 515	1 615
Aggregate annual cash receipts	R'000	1 264 431	1 074 478
Ratio of cash receipts to loans advanced		143%	140%
Cost-to-income ratio		64.5%	64.5%
Number of branches		344	286
Number of active loans		160 316	117 714
Employees		1 104	880

Refer to the Chief Financial Officer's Review for context and further detail behind the ratios above.

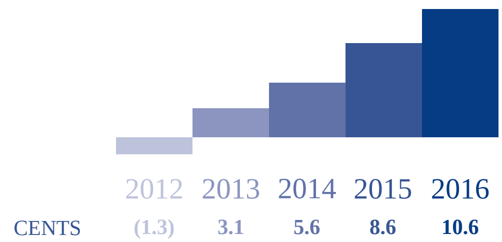
GRI4 Reference: 9/10/13/EC1

Actual 2014	Actual 2013	Actual 2012	% Change 2015/2016
93 018	52 451	47 383	11.0%
44 286	20 842	16 802	15.0%
236 087	189 387	178 990	24.5%
283 854	198 996	179 230	23.2%
262 125	194 007	174 768	28.4%
46 852	21 174	21 359	29.4%
36 918	20 733	13 552	12.5%
104 342	53 923	50 196	24.6%
330 427	305 756	247 638	11.9%
306	139	7	4.4%
605 025 250	581 504 702	382 025 250	(0.9%)
6.1	3.6	3.5	12.8%
6.1	3.6	3.5	27.8%
5.6	3.1	(1.3)	23.3%
11.6%	7.5%	5.6%	3.9%
1 085 847	557 467	477 123	6.1%
3.4%	3.7%	2.8%	5.3%
33.1%	82.7%	0.0%	20.2%
298 749	166 459	122 631	20.4%
230 124	135 734	100 343	18.1%
24 941	19 826	23 719	18.6%
16.3%	19.5%	27.9%	(20.2%)
48 799	32 395	34 221	(5.8%)
6.2%	8.4%	10.0%	(12.8%)
19 135	13 300	10 794	6.0%
102.5%	95.6%	88.2%	11.5%
12.9%	14.1%	23.3%	(28.0%)
8.3%	9.8%	10.8%	(10.3%)
39.2%	41.1%	31.5%	12.5%
237 345	204 944	172 001	34.4%
129.7%	173.6%	166.4%	6.3%
10.5%	9.7%	13.8%	(11.8%)
13.6%	15.8%	47.3%	(6.3%)
80.0%	81.0%	83.0%	4.9%
539 264	407 852	378 664	15.4%
311 430	260 303	265 885	23.0%
1 732	1 567	1 424	(6.2%)
709 546	563 223	536 337	17.7%
132%	138%	142%	1.9%
69.6%	76.7%	71.0%	0.5%
200	172	166	20.3%
76 678	48 380	38 392	36.2%
627	487	461	25.5%

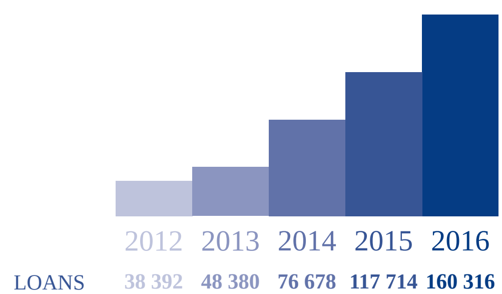
OPERATING PROFIT **29.4%**



HEADLINE EARNINGS PER SHARE **23.3%**



NUMBER OF ACTIVE LOANS **36.2%**



CHAIRMAN'S REVIEW

Dear Shareholders, Board Members and Employees,

Finbond is pleased to present the Integrated Annual Report for the financial year ending 29 February 2016. The aim of this Integrated Annual Report is to present stakeholders with a comprehensive overview of the sustainability of the Finbond Group over the short, medium and long term. This Integrated Annual Report has also been prepared in line with the **King Code of Governance Principles for South Africa 2009 (King III)**.

RESULTS

The 2016 financial year was a challenging one, with the South African Reserve Bank raising its benchmark repo rate by 25bps to 7% on 17 March 2016, its third straight hike, as policymakers voiced concern about growing inflation pressure and a worsening growth outlook.

In spite of the challenging market conditions, Finbond reached a number of achievements and significant developments, including:

- Loan revenue increased by 35% to R529 million;
- Gross loans and advances increased by 20% to R448 million;
- Profit before tax increased by 29% to R95 million;
- Headline earnings per share increased by 23% to 10.6 cents; and
- Loans advanced increased by 23% to 583 265.

In line with our strategy, we ensure that everything we do reflects good corporate governance and sound environmental management practices. We also recognise that the needs of our customers can best be satisfied by a diversified workforce and we therefore regard empowerment not only as an obligation, but also as solid business practice.

Our good results confirm the continuing success of our strategy to transform Finbond's South African operations from a microfinance institution to a viable banking option, and our conservative approach to risk management, which sets us apart from our competitors, has again provided stability over the past year of turmoil in the short-term unsecured lending environment.

During the twelve months under review, Finbond again made progress towards the realisation of our vision. In particular, the following achievements during the financial year and immediately following financial year end, stand out:

Finbond:

- Successfully rolled out our transactional banking, internet banking, cellphone banking and home loan products;
- Further expanded our branch network to 344 branches in South Africa;
- Successfully raised R525 million in capital to fund the acquisition of 91 short-term lending branches in North America;
- Increased capacity at Board level by appointing Mr Carel van Heerden, our Chief Operating Officer, and Mr Herman Kotze, to the Board of Directors; and
- Improved our Employment Equity score to become a Level 4 BBBEE contributor.

Our mission ***"to consistently satisfy the needs of our target market by offering innovative, superior, inclusive investment, saving and credit solutions and better service that add value to our clients' lives by empowering them and contributing towards their financial growth, independence and freedom"*** remains intact.

Dr Malesela Motlatla

CAPITAL AND LIQUIDITY

Finbond's capital position remains strong and continues to be supported by increasing retained earnings. At 29 February 2016, Finbond Mutual Bank comfortably exceeded the minimum regulatory capital requirements as prescribed by the Registrar of Banks.

Although Finbond as a mutual bank is not subject to the **Basel III requirements**, Finbond already complies with, and significantly exceeds, all **Basel III requirements** set for 2018 and 2019.

DIVIDENDS

The Group's liquidity positions are constantly monitored with care. With the planned growth path in mind, the Board has elected to pay a dividend of 3.4 cents per share during the current financial year.

BUSINESS OVERVIEW

Finbond also continued the improvement and refinement of management structures, management information, policies and processes. Despite the good progress that has been made, numerous significant challenges remain in the short and medium term, not only in respect of the prevailing adverse market conditions, but also relating to the ongoing process of improving the overall effectiveness of the Group, to enable it to compete aggressively in the South African and North American microfinance markets.

In the year ahead there will be a specific focus on further improving the quality of our loan portfolio, strict lending criteria, decreasing arrears rates, accessing long-term funding, optimal capital utilisation, reducing operational cost, tighter liquidity management, and improved operational efficiency.

CLIENTS, BRANCH NETWORK AND STAFF NUMBERS

The number of loans advanced grew by 23% to 583 265 at year-end, compared to 474 109 at the end of the previous year. Finbond's branch network has also expanded, with the opening/acquiring of 58 new branches during the same period. The total number of employees followed the same pattern, with total staff numbers increasing from 880 a year ago to 1 104 at present.

Finbond plans to continue this trend by acquiring even more new branches during the next twelve months, both locally and abroad, in line with the **Finbond Five-Year Strategic Plan of Action**.

CONSUMER EDUCATION

We will continue our efforts to make financial resources and expertise available in order to assist our customers to become financially educated and reliable participants in the mainstream economy.

RESPONSIBLE SHORT-TERM UNSECURED LENDING AND INCLUSIVE FINANCIAL SERVICES

Responsible short-term unsecured lending fulfils the important role in South Africa of including the vulnerable and previously excluded, and giving them access to credit. This will continue to grow rather than diminish in importance.

A significant portion of the adult population in South Africa is still actively seeking banking and credit solutions, but remains largely unattended and underserviced. These unbanked and underserviced do not fall outside the banking sector by choice. An important reason for their predicament is that banks do not offer products tailored to their specific needs. Many of these consumers are also in rural areas where the traditional banks do not have a footprint, or are leaving due to the fact that they cannot operate profitably in the small towns and rural areas in South Africa due to their high cost structures.

Achieving sustainable and inclusive development in the banking sector goes hand-in-hand with improving access to financial services, particularly for the poor and vulnerable. Over the past 20 years, unsecured lending has become a permanent feature of the South African credit landscape, providing credit solutions and access to funding to the previously disadvantaged, underserviced and unbanked.

There is a need among Finbond's current customer base and target market for a bank that specifically caters for them with regard to, *inter alia*, the following banking products and needs:

- Branch network in rural areas;
- Low monthly bank charges and no cash deposit or cash handling fees;
- Innovative and modern cash deposits, transfers and drawings;
- Unsecured loans with credit guarantee insurance;
- Basic financial education;
- Savings accounts that earn interest on small amounts;
- No minimum operating balance; and
- Higher interest on small savings deposits, which actively encourages saving.

Finbond is well positioned and able to provide much-needed inclusive banking services and products to the vulnerable, unbanked, underserviced and previously disadvantaged. This is in step with the principles set out in **Treasury's National Policy Document**, *"A safer financial sector to serve South Africa better"*, with regard to financial inclusion and promoting access to financial services.

CAN-DO BUSINESS PHILOSOPHY AND CULTURE

In managing and growing Finbond, we will continue to apply the following general principles:

- We adhere to our core values and core competencies;
- We manage and think long-term, 5–10 years ahead;
- We are disciplined to grow conservatively;
- We continue to hire the best people, as the calibre of our people will determine our success in the long term;
- We put quality first and growth second;
- We are persistent and unwilling to quit until the end result is achieved;
- We use adversity to invent, reinvent and recreate;
- We aim to "win when others lose";
- We continue to go forward and continue to act - we do not stand still or do nothing;
- We are positive and confidently believe that by God's grace we will be successful and that we will prevail; and
- We face the brutal facts squarely - we are realistic.

GOING FORWARD

Finbond will continue to strive to be a leading player in South Africa and North America's financial services industries. For 2016/2017 in particular, Finbond's aims are to:

- Further increase the South African branch network;
- Finalise a number of small micro-acquisitions in the 30-day short-term unsecured lending market in South Africa to add further volume and mass to the microlending business;
- Further increase transactional banking clients;
- Conservative organic growth of the core product range, which will be limited to a strong focus on Unsecured Short-Term Loans, Debit Cards and Secured Home Loans;
- Increase our international branch network by finalising the acquisition of further lending branches in the United States of America and Canada; and
- Increase our charitable contributions in line with our profit growth by supporting two more children's homes.

We remain confident that we have the required resources and depth in management to successfully confront the various challenges facing Finbond.

APPRECIATION

I would like to take this opportunity to congratulate and thank Dr Willie van Aardt and his team for the contribution they have made during the period under review, and for the results Finbond has managed to achieve under such difficult trading circumstances. These are the result of the commitment, determination and consistent application of Finbond's core values by both management and staff.

I would also like to thank our shareholders, funders, customers and other stakeholders for their continued support and their relationship with Finbond.

Thirdly, I would like to thank my colleagues on the Board for their well-considered counsel and support through this challenging period. Their contribution to our deliberations has been of great value and is much appreciated.

Lastly, my special thanks to God for His continued grace, and for continuing to bless us all with the opportunity and ability to move forward and reach new heights.

Dr Malesela Motlatla
Chairman

19 April 2016

CHIEF EXECUTIVE OFFICER'S REVIEW


Dr Willie van Aardt

Dear fellow Shareholders,

During the twelve months under review, Finbond delivered another set of solid results, increasing headline earnings per share by 23.3%, income from operations by 24.6%, operating profit from continuing operations by 29.3% and EBITDA by 24.6%.

These results were achieved despite an extremely difficult and challenging operating environment and significantly increased competition in the short-term unsecured lending market in South Africa. Conservative lending practices, strict upfront credit scoring procedures, effective collections, an increased distribution footprint and a strong focus on client service helped us weather this storm.

We made further good progress towards the realisation of our evolving vision ***"to be the leading short-term lender in South Africa and North America, improving the quality of life of our clients by offering them access to unique value and solution-based products tailored around their unique requirements and that empower, develop and uplift them."*** This included a number of achievements and significant developments for Finbond:

- Headline earnings per share increased by 23.3% to 10.6 cents (Feb 2015: 8.6 cents);
- Operating profit from continuing operations increased by 29.3% to R94.9 million (Feb 2015: R73.4 million);
- Earnings before interest, taxation, depreciation and amortisation (EBITDA) increased by 24.6% to R195.3 million (Feb 2015: R156.7 million);
- Revenue from continuing operations increased by 23.2% to R561.2 million (Feb 2015: R455.4 million);
- Number of loans advanced grew by 23% to 583 265 (Feb 2015: 474 109);
- Cash received from customers increased by 18.2% to R1.3 billion (Feb 2015: R1.1 billion);
- Value of loans advanced increased by 15.4% to R883.9 million (Feb 2015: R765.7 million);
- We expanded our branch network by 20% to 344 branches in South Africa;
- We entered the North American short-term lending market with the acquisition of 91 Payday Lending Stores in the United States of America and Canada; and
- We won the 2015 Sustainability Data Transparency Index awards for the Integrated Annual Report, achieving the highest score in the sector: "Financials – Other", and the most improved score, awarded by Integrated Reporting and Assurance Services (IRAS), coming seventh overall.

Managing an efficient business requires stringent risk, compliance and corporate governance systems. During the period under review, we further expanded our Bank Product capabilities, Compliance, Internal Audit, Bank Systems and Information Technology, Human Capital Development and Risk and Analysis departments in order to effectively manage Finbond Mutual Bank's Risk Management Framework.

Finbond continues to manage for the long-term and invests in people, training, information technology, banking systems, compliance systems as well as in enhanced collection strategies and systems in order to build a sustainable business that creates long-term economic value. The bulk of the increased expenses during the period under review relates to increasing capacity and improving risk management functions and processes within Finbond Mutual Bank.

We remain focused on executing the Group's strategy and top business priorities, namely optimal capital utilisation, earnings growth, strict upfront credit scoring, good quality sales, effective collections, cost containment and training and development of staff members. This enabled us to achieve satisfactory results despite the current difficult business environment.

CHALLENGING EXTERNAL ENVIRONMENT

During the period under review important changes occurred in the external environment, posing interesting challenges and opportunities:

- The South African economy continues to perform below its potential. ABSA economic research shows that seasonally adjusted, annualised growth of a marginal 0.7% in real gross domestic product (GDP) was recorded in the third quarter of 2015, after a contraction of 1.3% in the second quarter. Real economic growth in South Africa is forecast to slow down further to a much subdued 0.7% in 2016, from an estimated 1.3% in 2015. Factors such as low commodity prices and exports in view of global economic conditions, a weakening currency, "Nenegate" and drought conditions, which are causing upward pressure on inflation and interest rates, low levels of confidence and tight fiscal conditions, are weighing on South Africa's economic growth.
- Headline consumer price inflation averaged 4.6% year-on-year in 2015, largely driven by factors such as food prices and domestic fuel prices determined by international oil price and $/R exchange rate movements. The rand exchange rate has depreciated significantly against most major international currencies over the past twelve months.
- ABSA economic research further shows that growth in the value of outstanding household credit balances [R1 475.3 billion at end-December and comprising instalment sales credit, leasing finance, mortgage loans, credit card debt, overdrafts and general loans and advances (mainly personal loans and microfinance)],

measured 4.5% year-on-year at the end of last year. The value of outstanding household secured credit balances, which amounted to R1 114.2 billion at end-December and consisting of instalment sales credit, leasing finance and mortgage loans, showed growth of 3.8% year-on-year in the 12-month period. Growth in the value of outstanding household unsecured credit balances (R361.1 billion at end-December and consisting of credit card debt, overdrafts and general loans and advances) was 6.7% year-on-year in 2015. Factors such as the National Credit Act (NCA), banks' risk appetites and lending criteria, consumers' credit-risk profiles and consumer confidence affected the availability of and demand for credit by households.

- ABSA economic research further shows that the household sector continued to experience increased levels of financial strain throughout 2015 and in the early stages of 2016. Economic growth and employment levels remained low, while inflationary pressures caused interest rates to be hiked further, eroding consumers' spending power even more. Household savings remained at a critically low level, while the debt-to-income ratio stayed above the 78% level. Credit-active consumers' risk profiles remained a constraint to the accessibility of credit. The household sector is forecast to continue to experience financial strain over the short to medium term, due to factors such as low economic and employment growth, rising inflation, higher interest rates and subdued disposable income growth. These adverse developments will have a deleterious effect on consumers' spending power and will prevent a major improvement in savings, with a concurrently adverse impact on households' ability to service debt and take up further credit. Consumers' credit-risk profiles will stay under pressure, which will remain a key factor in the accessibility of and growth in household credit. These factors will continue to put a damper on the already low level of consumer confidence.
- According to data published by the National Credit Regulator, the following trends were evident in consumer credit-risk profiles in the third quarter of 2015:
  - 23.45 million consumers were credit-active;
  - 13.53 million (57.7%) credit-active consumers were in good standing;
  - 9.91 million credit-active consumers (42.3%) had impaired credit records; and
  - 80.6 million consumer credit accounts were active, of which 60.37 million (74.9%) were in good standing and 20.24 million (25.1%) were impaired.
- According to Statistics South Africa's Quarterly Labour Force Survey, 15 828 000 people were employed in the formal and informal sectors of the economy in the third quarter of 2015. A total of 171 000, or 1.1%, more people were employed by the third quarter of the year compared to the second quarter. The unemployment rate was 25.5% in the third quarter, with a total of 5 418 000 people being unemployed in that quarter. This implies that the number of unemployed people increased by 181 000 quarter-on-quarter and 267 000 year-on-year in the third quarter of the year.
- Consumer confidence, as measured by the Bureau for Economic Research (BER), declined further to -14 index points in the fourth quarter of 2015. An annual average of -9.5 index points was recorded in the consumer confidence index in 2015, which was its lowest annual figure since 1993. Consumer confidence in South Africa averaged 1.57 from 1982 until 2015, reaching an all-time high of 23 in the first quarter of 2007.
- Consumer financial vulnerability, as measured by the Bureau of Market Research (BMR), deteriorated further in 2015. At an overall Consumer Financial Vulnerability Index (CFVI) reading of 50.8 in the second quarter (52.7 in the preceding quarter), consumers remained financially mildly exposed. The sub-components of the CFVI were measured as follows in the second quarter of 2015:
  - Income vulnerability: At 52.1 index points, consumers were mildly exposed;
  - Expenditure vulnerability: At 52.5 index points, consumers were mildly exposed;
  - Savings vulnerability: At 51.5 index points, consumers were mildly exposed; and
  - Debt service vulnerability: At 47.0 index points, consumers were very exposed.

  An overall and/or sub-index reading of 40─49.9 in consumer financial vulnerability indicates that consumers are financially very exposed, with an index reading of 50─59.9 indicating that consumers are financially mildly exposed, whereas an index reading of 60─79.9 indicates that consumers are financially secure.

INCREASING PROFIT AND PROFITABILITY

For the fifth consecutive year, our attributable earnings increased by more than 20%.

Finbond increased turnover to R561.2 million, an increase of 23.2% over 2015. The majority of profit for the year was derived from small unsecured personal loans. Finbond's attributable earnings increased by 12.1%. The operating cost-to-income ratio remained unchanged this year to end the financial year at 64.5% (Feb 2015: 64.5%).

STRONG FOCUS ON SHORT-TERM LOANS

Finbond's focus remains on its main economic driver which is small, cash generative short-term loans. Despite significantly increased competition in the short-term loan market over the past twelve months (that grew 1.88 times year-on-year as many unsecured lenders that previously focused on longer term loans changed their focus and now also target the short-term market) we still have a 30% market share of all 2- and 3-month loans in South Africa.

Finbond's consistent conservative approach has ensured sustainable growth in the microcredit portfolio that is not driven by advancing larger loans or increasing the term of loans. We prefer quality above quantity.

Total segment revenue from Finbond's microfinance activities, made up of interest, fee and insurance income (portfolio yield), increased by 28.6% to R476.5 million (Feb 2015: R370.3 million).

During the period under review, Finbond's average loan size was R1 515 with an average tenure of 3.8 months. Given the short-term nature of Finbond's products, Finbond's loan portfolio is cash flow generative and a good source of internally generated liquidity.

For the twelve months ended February 2016, Finbond granted R883.9 million worth of loans and received cash payments of R1.3 billion from customers. The whole loan portfolio turns over three times a year.

Finbond's average loan period is significantly shorter than that of our larger competitors and our average loan size is significantly smaller. Given this conservative approach, Finbond does not have any exposure to the 25- to 84-month, R21 000 – R180 000 long-term unsecured lending market that continues to cause significantly increased write-offs, bad debts and forced rescheduling of loans. Finbond does not reschedule loans. Finbond's historic data and vintage curves indicate that shorter term loans offer lower risk as consumers are more likely to pay them back as opposed to longer term loans.

Finbond's microcredit portfolio is further not exposed to any concentration risk either and does not have any significant exposure to any specific employer or industry.

CONSERVATIVE UPFRONT CREDIT SCORING PRACTICES

While the size of the loan book has increased, the risk profile of the book has, at the same time, again been adjusted to take into account the increased financial pressure on the South African consumer.

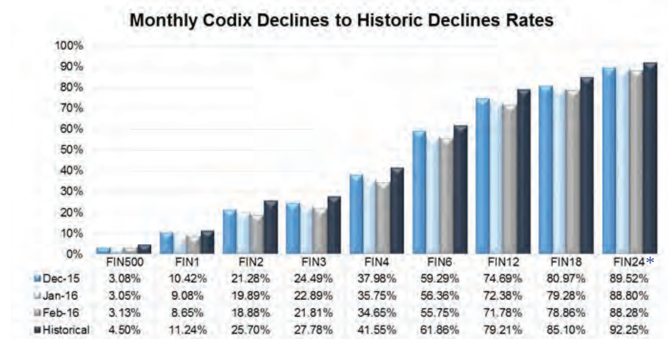
During the period under review, the asset quality of our loan book improved further and the average credit scores of customers saw a year-on-year improvement. One of the key value drivers is the quality of new business. Without quality, new business growth is meaningless and not sustainable.

Detailed affordability calculations are also performed prior to extending any loans in order to determine whether clients can in fact afford the loan repayments. In line with our conservative approach, additional expense buffers were again included in all affordability assessments.

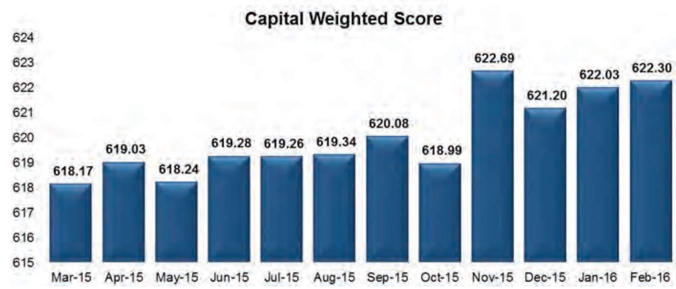
Finbond continued to apply strict upfront credit scoring and affordability criteria. The credit scores on the various products are monitored on a monthly basis and are continually adjusted to reduce credit risk and further improve the quality of assets held.

We made our affordability criteria even more stringent during the past twelve months, which led to subdued growth in the loan portfolio. We understand that our conservative approach led to reduced profitability but would rather err on the side of being overly cautious in the current economic climate. Finbond's lending practices have been consistently conservative over the past number of years and our rejection or decline rates remain higher than that of our major competitors.

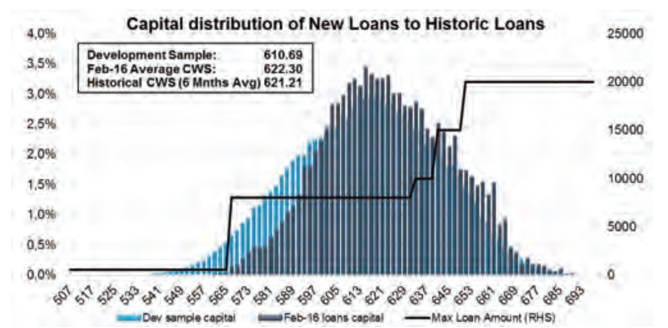
Rejection rates stood at between 79%–92% for our 12- to 24-month product at end February 2016.



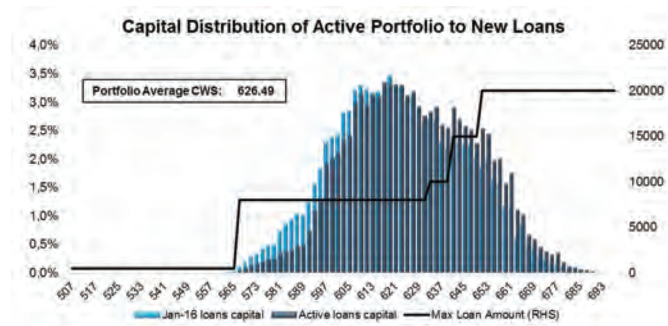
Higher Capital Weighted Scores ("CWS") support the notion that Finbond is extending loans to clients of higher credit quality.



The capital distribution of new loans compared to historic loans shows a shift in distribution when considering the exposure that each approved application presents. The graph below graphically illustrates that Finbond is granting larger loans to clients with higher credit scores or alternatively smaller loans to clients with lower credit scores. This is a crucial element of Finbond's credit risk management methodology, which is designed to increase/decrease the size of the risk (loan) as the probability of default decreases/increases.



The graph below shows the distribution of scores for the active portfolio and the distribution of scores for February 2016 sales. The drift towards the right for the active loans indicates a portfolio of high quality clients.



*Explanation of product names: FIN500 refers to loans of R500 and less, for the rest of the product range the number in the name refers to the number of months each loan product is granted for: FIN1 refers to one-month loans, FIN2 refers to two-month loans and so on.

WE MANAGE LIQUIDITY CAUTIOUSLY

The growth in the surplus funding was curbed during the financial year in an effort to reduce the interest expense of excess surplus cash. Finbond's liquidity position at the end of February 2016 reflects R338.2 million in cash, cash equivalents and liquid investments. (Feb 2015: R570.2 million).

Cash Received as a percentage of Cash Granted for the period of March 2015 to February 2016 averaged 143%.

By the end of February 2016, the deposit portfolio amounted to R907.7 million. The average deposit size is R351 982, the average term, 28.3 months and the average interest rate is 9.6%. Finbond is not exposed to the uncertainty that accompanies the use of corporate call deposits as a funding mechanism since Finbond mainly accepts 6- to 72-month fixed and indefinite-term deposits. Given the long-term nature of Finbond's liabilities (fixed-term deposits with average term of 28.3 months) and short-term nature of its assets (short-term microloans with an average term just more than 3.8 months), Finbond possesses a low-risk liquidity structure.

SERIOUS INVESTMENT IN DISTRIBUTION AND PEOPLE

During the past financial year, Finbond increased its branch network by 58 branches to 344 branches in South Africa, of which 107 are located in Gauteng, Limpopo and Mpumalanga, 61 in KwaZulu-Natal, 68 in the Western Cape, 51 in the Eastern Cape and 57 in the Free State and North West. As part of our client-centric focus, we ensured that our distribution channels reflect the demographics of our clients.

During the past year, we also expanded our capacity at existing branches by increasing the number of consultant work stations. Across the Group we created an additional 224 jobs. We are creating an action and results-oriented, customer-focused culture. Face-to-face communication and excellent customer service are an integral part of our business model. We want to be more like a retailer than a bank.

We invest heavily in our people: on average our branch employees attended 6.5 training courses during the year. This is expensive and disruptive because our branches are spread throughout the country, but it is necessary to enable our people to move from microlending to banking.

John D Rockerfeller said that *"the ability to deal with people is a purchasable commodity and I will pay more for that ability than for any other under the sun".* Finbond's succession planning and leadership programmes within the various departments aim to identify high-growth individuals, train them and feed the pipelines with new talent. The purpose of the programmes is to ensure replacements for key job incumbents in executive, management, technical and professional positions in the organisation. The desired results of the succession planning programme are to:

i) Identify high-potential employees capable of rapid advancement to positions of higher responsibility than those they presently occupy.
ii) Ensure the systematic and long-term development of individuals to replace key job incumbents as the need arises due to deaths, disabilities, retirements, and other unexpected losses.
iii) Provide a continuous flow of talented people to meet the Bank's management needs.
iv) Meet the Group's need to exercise social responsibility by providing for the advancement of previously disadvantaged groups inside the organisation.

Building a mass market bank is expensive, and operating cost during the year increased by R59 million (24.6%) to R302.1 million, which was 100% funded by our core microlending business. The running cost of a bank branch is approximately 20% higher than the cost of running the same outlet as a microlending branch. In the coming year, costs will again rise as gaining bank customers will require significant expenditure on marketing.

We intend to open 40 branches in South Africa in the new financial year and thereafter approximately 40 branches per year for the next four years.

GROWTH IN TRANSACTIONAL BANKING CUSTOMERS

We continued the evolution to turn Finbond Mutual Bank into a mass-market retail bank in South Africa.

The cost of running Finbond Mutual Bank skyrocketed during the past financial year. Current expenditure increased by 24.6% to R302.1 million. Little of this was unexpected, as it is expensive to implement what we are doing. Strategically, we support the cost of building a mass market retail bank on the back of our short-term loans business in South Africa.

During the year, we achieved the strategic objectives of rolling out:

- Finbond Mutual Bank transactional bank accounts and savings accounts;
- A Cellular Phone Banking Product and Application;
- An Internet Banking Product and Application;
- The Finbond MasterCard Debit Card product; and
- The Finbond Home Loan Product.

Our transactional banking customers grew from a zero base to 51 303 during the year. Our savings accounts have the lowest cost in the industry with a monthly fee of only R4,00, and pay the highest interest rates in South Africa. An ATM withdrawal costs only R4,00, and we pay up to 6% interest on savings accounts with a maximum balance of R20 000. Our debit card is a full MasterCard, giving our customers access to all Saswitch ATMs and can be used for purchases at all linked shops. At Finbond Mutual Bank, a debit order costs between R3,42 and R4,00.

We have only a few products, but those we have are the simplest, best and most affordable of their kind in South Africa.

In the new financial year, we will be launching a campaign to significantly increase the number of clients who deposit their salaries with us. A mobile sales force has been set up to visit employers and enroll clients at their place of employment.

To be a serious player in the market for basic banking, we aim for one million customers. We still have a long way to go but remain on track to building something unique: a low-cost, full-service mass market bank in South Africa that remains focused on the lower end of the market.

FIVE-YEAR STRATEGIC PLAN AND STRATEGIC INITIATIVES

Peter Drucker defines Strategic Planning as *"the continuous process of making present entrepreneurial (risk-taking) decisions systematically and with the greatest knowledge of their futurity; organising systematically the efforts needed to carry out these decisions; and measuring the results of these decisions against the expectations through organised, systematic feedback"*. The Board-approved **Five-Year Strategic Plan of Action** very clearly sets out Finbond's vision and strategic objectives.

Strategic Planning is an organisational management activity used to set priorities, focus energy and resources, strengthen operations, ensure that employees and other stakeholders are working toward common goals, establish agreement around intended outcomes/results, and assess and adjust the organisation's direction in response to a changing environment. It is a disciplined effort that produces fundamental decisions and actions that shape and guide what an organisation is, who it serves, what it does, and why it does it, with a focus on the future. Effective strategic planning articulates not only where an organisation is going and the actions needed to make progress, but also how it will know if it is successful. Simply put, strategic planning determines where an organisation is going over the next year or more, how it's going to get there and how it will know if it got there or not.

The Finbond Board annually reviews and updates the **Finbond Five-Year Strategic Plan of Action**.

During the period under review, we achieved the following strategic objectives:

- Investment Grade Rating from Global Credit Ratings was confirmed;
- Managed more than R900 000 000 in fixed term retail deposits;
- Increased profitability;
- Improved asset quality and collection rates;
- Further expanded and strengthened our Finance, Compliance, Internal Audit, Information Technology and Human Capital Development and Risk and Analysis departments in order to effectively manage Finbond Mutual Bank's Risk Management Framework;
- Significantly improved training to all staff members;
- Was certified as a level 4 BBBEE contributor;
- Successfully rolled out a debit card and transactional banking product;
- Successfully rolled out internet banking and cellphone banking; and
- Succesfully rolled out the Finbond Home Loan product.

Strategic initiatives underway include:

- Growing market share through the increased sale of short- and medium-term products, specifically the 30-days, 90-days and 6-months products;
- Further refining, developing and improving all bank information technology systems and processes;
- Converting Finbond's mutual banking licence to a commercial banking licence;
- Expansion of the South African branch network by 40 branches in high growth areas;
- Bedding down the 91 payday lending branches that we acquired in North America; and
- Selective strategic acquisitions in the North American market.

In planning for and eventually achieving Finbond's strategic objectives, the key is to understand what Finbond can be the best in the world at, and equally importantly, at what we cannot be the best at. This **hedgehog concept** is not a goal, strategy or intention, it is an understanding.

- At what can Finbond be the best in the world? Payday lending and short-term loans.
- What are we deeply passionate about? To be the best pay day lending and short-term loan company in South Africa and North America.
- What drives Finbond's economic engine? Payday lending and short-term loans.

We will follow the Good to Great Jim Collins mantra: *"Anything that does not fit the* ***hedgehog concept****, we will not do. We will not launch an unrelated business. We will not make unrelated acquisitions. We will not do unrelated joint ventures. If it does not fit, we don't do it. Period."*

Ancillary products such as transactional banking, internet banking, cellphone banking and debit cards have been launched with the specific understanding that:

- They serve the **hedgehog concept** (in terms of increased sales or improved collections); and
- They are sufficiently profitable and they in no way take management and staff's focus away from our **hedgehog concept**.

NORTH AMERICAN EXPANSION

Finbond has embarked on an earnings-enhancing growth strategy of establishing a business presence in the North American payday lending (short-term lending) market through acquisitions and the subsequent organic growth of a number of payday lenders in North America that specialise in the advancement of short-term credit.

The initial phase of this strategy was through the acquisition of four North American payday lending businesses in the United States of America and Canada, which gives Finbond a branch network of 91 branches in North America and Canada of which 85 are in the United States of America ("USA") and 6 in Canada. Following these acquisitions, approximately 40%–50% of Finbond's Net Earnings will be denominated in USD within twelve months of the effective date and the intention is to grow USD earnings to approximately 70%–80% of net earnings in 3 to 5 years.

The rationale for the North American acquisitions, *inter alia*, includes:

- Earnings enhancing growth;
- Significant growth and consolidation opportunity in the North American payday lending industry;
- An organic growth in Finbond's core "30-day" or "payday lending" competency;
- Attractive, unsophisticated "lending practices" in first-world markets;
- Diversification of Country and Political Risk;
- Effective ZAR hedge. Approximately 40%–50% of earnings will be in hard currency twelve months after the North American acquisitions;
- Economies of scale;
- Teaming up with existing owners/managers with 10–30 years' experience in operating payday lending businesses in North America; and
- Unique opportunity to enter the USA's $46 billion a year alternative financial services market.

There are various similarities between the South African microcredit industry and the US payday lending industry.

Over the past ten years, Finbond has learned some valuable lessons in the difficult South African unsecured lending environment with regard to effective credit risk management, liquidity risk management and adapting to a changing market and to increasingly hostile regulatory conditions. We survived and remained profitable in South Africa while many of our larger and smaller peers did not. We believe we will be able to apply this experience profitably in the North American payday lending market.

CONSERVATIVE RISK MANAGEMENT PRACTICES

Rigorous focus on the fundamentals of risk management is critical for the success of any financial institution. Those who get it right succeed, and those who do not, falter or fail. Risk management is a fundamental strength of Finbond. We established a deeply embedded risk culture that stresses accountability and includes the full involvement of the Board of Directors and the Senior Executive Officers. The tone comes from the top, but the culture is embedded throughout the organisation.

Finbond's approach to risk management is based on well established governance processes and relies on both individual responsibility and collective oversight, supported by comprehensive reporting. This approach balances strong corporate oversight at executive management level, beginning with proactive participation by the Chief Executive Officer, the Executive Committee and the independent Risk Committee in all significant risk matters, with risk management structures, supporting policies, procedures and processes within all regional and divisional business units enabling risk assessment in a controlled environment. Risk management is seen as the responsibility of each and every employee.

Finbond's Risk Management Framework is detailed on pages 40 to 48. This also describes in some detail the nature of the organisational structure put in place to direct, manage and control the activities of the Group and the Bank.

REGULATION

The regulatory landscape in the financial services industry is characterised by constant change, amendments to existing regulatory- and policy-related requirements and the introduction of new requirements.

Finbond uses regulatory alert software, *Lex Sentinel*, very successfully to keep abreast of regulatory changes and amendments on a daily basis. In order to understand and assess the impact of changes and amendments to the business and the way the Bank conducts business, Finbond also utilises the **Finbond Regulatory Compliance Model (FRCM)**.

Finbond pro-actively engages regulators in a co-operative way to gain insight into and implement any new regulations. We have a good, transparent and trusting relationship with our regulators, which include the **Bank Supervision Department of the South African Reserve Bank**, the **National Credit Regulator**, the **Financial Services Board**, the **Johannesburg Stock Exchange** and the **Financial Intelligence Centre**. The **Department of Trade and Industry (DTI)** published new regulations dealing with the assessment of affordability under the **National Credit Act** on 13 March 2015. Since publication of Amendments in March 2015:

- The Finbond Credit Policy was aligned with the new legislation;
- The credit agreement and quotation was amended to display the credit cost multiple and show the aggregate of fees;
- A new affordability assessment format was designed and implemented; and
- The **Form 21** (disclosure) was adjusted to more comprehensively indicate how the commission earned by the credit provider is calculated.

The regulations, which guide credit providers away from providing high-risk credit and protect consumers applying for credit at registered providers, came into effect on 13 September 2015.

We continue to support appropriate regulation that enhances sustainability of the credit industry and reduces the cost of credit for consumers. If this is done in a sustainable manner, a balance between affordability and access to credit is achieved. Interaction between industry players and regulators is of crucial importance in order to ensure that practical and regulatory efficiency are considered to the benefit of all stakeholders.

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

- Refund five consumers whom the NCR believes Finbond overcharged in respect of credit life insurance;
- Do an audit to determine how many other customers have been charged more than the industry average since commencing its credit life business, and to refund those customers; and
- Pay an administrative fine of R1 million.

The NCR alleges that Finbond Mutual Bank customers, when taking out a short-term unsecured loan, are required to pay unreasonable premiums for the provision of credit life insurance, in contravention of Section 106 (2) of the National Credit Act ("NCA") and that the commission charged for this insurance is not properly disclosed.

Finbond takes its obligations under the NCA seriously and respects the authority of the NCR. Finbond is, however, confident that it at all times complied with all relevant laws and regulations and that the NCR application does not have legal merit and will be dismissed. The insurance premium rates of the Credit Life Insurance Products that Finbond Mutual Bank sells to consumers are actuarially determined risk-based, product-specific, value-adding, fully justified and not unreasonable nor at an unreasonable cost to the consumer, and Finbond will demonstrate this to the Tribunal.

Finbond has investigated the allegations and has taken legal advice. Finbond believes the matter will be satisfactorily resolved in their favour through due legal process.

BLACK ECONOMIC EMPOWERMENT

We believe that BBBEE is an integral driver of economic and social transformation in South Africa and therefore an integral component of our business. We are committed to align our business in the workplace and in society, with the national transformation agenda. We are further committed to the creation and development of an enabling environment, for effective BBBEE within our organisation.

As a responsible corporate citizen, Finbond is committed to contributing to the improvement and development of the quality of life of the communities in which it operates, and to support sustainable community development initiatives.

Finbond also allocates resources, within reasonable means, to the pursuit and accomplishment of the aims and goals of BBBEE, in line with our vision, mission and strategic objectives, and, in doing so, ensuring that Finbond retains its character, business focus, values and performance standards.

Finbond Mutual Bank has been rated as a Level 4 contributor to BBBEE (2015: Level 7) and it is our aim to achieve Level 3 status by 2018.

BUSINESS PHILOSOPHY AND CULTURE

Our business philosophy will remain aligned to the Finbond "Good to Great" principles, which include:

- Having a high performance culture of excellence and producing sustained results, and continuously meeting and exceeding expectations;
- A strong culture of strict compliance with all laws and regulations and directives from regulatory stakeholders;
- A+ effort and a fierce resolve and relentless pursuit to do whatever is needed to be done to make the Company great;
- Managing for the long-term and being independent, entrepreneurial, rational, logical and analytical;
- Being frugal, and cost-conscious and expecting all to remain within their expense budgets and to meet and exceed targets;
- Keeping the Head Office structure lean (wafer-thin) and cost-effective. The purpose of all Head Office divisions, which includes Finance, Risk and Analysis, Human Capital Development, Compliance, IT and Internal Audit, is to serve and support the regions and branches, add value to all regions and branches and to assist them to make more profits;
- Optimising long-term value per share through optimal use of free cash flow and effective allocation of capital (financial and human);
- Simplifying matters and focusing on the core economic characteristics of our business;
- Quality comes first and growth second;
- Being candid, and communicating with frankness, straightforwardly and to the point;
- Managing all areas, regions, divisions and subsidiaries on a decentralised basis after following rigorous budgeting process each year, with extreme autonomy to the various managers. As long as managers meet and exceed profit targets (for which they are severely accountable) and remain within all laws and regulations, they will be left alone to do their jobs;
- Aligning management compensation with shareholders' interest through share options and performance-based compensation;
- All senior managers complying with and adhering to Finbond's Senior Management Expectations, Management Dimensions and the Good to Great Management Principles;
- Continued training and development of all staff members;
- Treating customers fairly and adding value to our clients' lives and livelihood; and
- Making a meaningful social contribution in the communities we operate in and particularly to the most vulnerable in those communities.

LOOKING AHEAD

The challenging and difficult macro-economic environment as well as the adverse market conditions in the markets within which Finbond operates are not expected to abate in the short and medium term.

However, we remain confident that we have the required resources and depth in management to successfully confront and overcome these various challenges.

We remain positive about our prospects for the future due to Finbond's:

- Improvement achieved in earnings and profitability despite the difficult market conditions;
- Improvement achieved in cash generated from operating activities;
- Management expertise;
- Strong cash flow;
- Strong liquidity and surplus cash position;
- Uniquely positioned 344 Branch Network in South Africa and 91 branches in North America;
- Superior asset quality; and
- Access to funding conservative risk management and growth potential in the microfinance and banking markets in the lower end of the market.

We believe that the evolution from a short-term Micro Finance Institution to a Bank in South Africa and our expansion into the North American Short-Term Lending market in the implementation of our strategic action plan will ensure that we achieve results in the medium and long-term.

We plan for a continued rise in revenue (fee income on our banking products will start contributing for the first time) and we are expecting the first year of inclusion of the North American acquisitions to result in healthy earnings growth for the Group, but our business is in a development and growth phase and, as with all growing businesses, real risks remain.

THANK YOU

Quality staff with enthusiasm are the driving force in creating success in the exciting and volatile environment in which we do business. I would like to thank each one of them for their individual valuable contributions.

Thank you to our Chairman, Dr Malesela Motlatla, and other Non-Executive Directors: Adv Jasper Noeth, Ms Rosetta Xaba, Mr Robert Emslie, Mr Danie Brits, Adv Neville Melville and Ms Ina Wilken-Jonker for their continued support, prudent guidance, input and advice.

I also wish to extend my personal thanks and appreciation to my colleagues - Mr Gary Sayers, Mr Carel van Heerden, Mr Marthinus Vermaak, Mr Hano Coetser, Mr Fabian Manuel, Mr Hannes Cloete and Mr Christo Quinn as well as our able regional operational management - Mr Louis Galand, Mr Deon Loots, Mr Floors van Heerden and Mr Dewald Vosloo, without whose excellent contributions and leadership Finbond would not be successful.

I would also like to express my appreciation to our clients and shareholders for recognising the value that we offer and for trusting us to deliver in line with their expectations.

Last but not least, I would like to thank our Lord Jesus Christ for blessing us with the ability to manage our business successfully through these difficult times. Without His goodness, mercy, kindness and abundant grace, it would not be possible to truly succeed in all aspects of life.

Dr Willie van Aardt
Chief Executive Officer

19 April 2016

"IF YOU ARE NOT WILLING TO RISK THE UNUSUAL YOU WILL HAVE TO SETTLE FOR THE ORDINARY."

- Jim Rohn -

CHIEF FINANCIAL OFFICER'S REVIEW

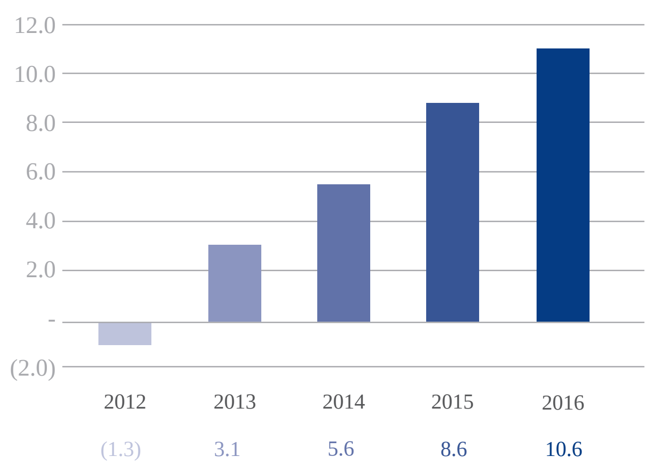
SUSTAINED GROWTH IN EARNINGS

Continued earnings growth in a challenging environment

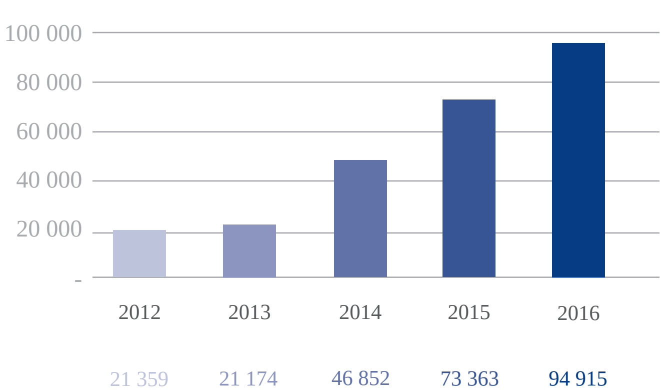
South Africa's economy grew by 1.3% in 2015, down from 1.5% in 2014 and 2.2% in 2013, according to preliminary estimates of real gross domestic product (GDP) published by Stats SA. Overall economic growth in 2015 was characterised by two of the main industry groups' shrinking in size, while the other eight experienced modest growth. A number of additional socio-economic and political factors combined to place further pressure on the economy in the latter stages of 2015, leading to an all-time low rand-dollar exchange rate of R16.85 during the month of January 2016.

Although the South African economy was constrained by these negative macro-economic factors, Finbond was able to record another year of solid growth in its financial results for the year ended February 2016, thereby continuing the established trend for a fifth consecutive year. Operating profit from continuing operations increased to R94.9 million from R73.3 million, reflecting 29.3% growth over the prior year. Headline earnings for the 2016 financial year amounts to R62.4 million, compared to R51.2 million recorded in 2015. Headline earnings per share increased to 10.6 cents, representing growth of 23.3% above the 8.6 cents at the end of the comparative reporting period.

HEADLINE EARNINGS PER SHARE (CENTS)



OPERATING INCOME (R'000)



Mr Gary Sayers

Underlying fundamentals sustaining growth

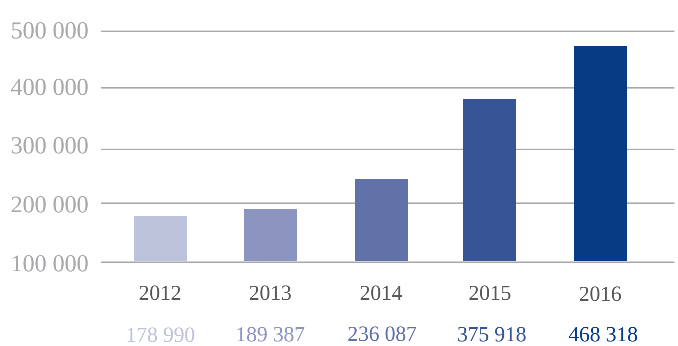
The Group continued expanding its short-term microlending business footprint during the 2016 financial year, opening/acquiring an additional 58 branches nationwide during the period, operating through 344 branches in South Africa by the end of the financial year.

On the Group's Balance Sheet, Total Assets grew to R1.43 billion from R1.35 billion in 2015, reflecting an increase of 6%. Deposits were carefully managed, reducing by 2% to close the year at R907.7 million (compared to R921.9 million), while the Group improved the loan-to-deposit ratio by 20.1% to 41.3% as a combined result of this movement and the growth in gross loans and advances (excluding unearned income), which increased by 17.2% to R372.2 million (from R317.6 million).

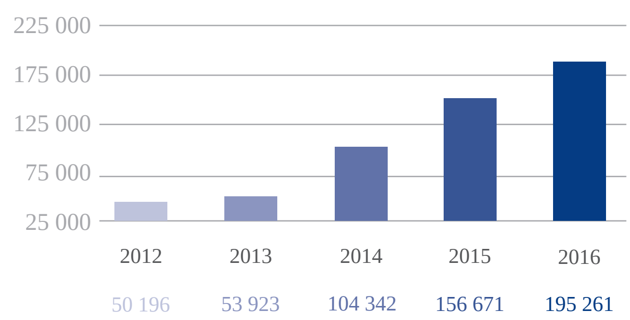
A new secured home loan product was launched during the year, which is still in the initial stages of the product lifecycle. Finbond granted total credit of R94.8 million in secured funding by the end of the financial year, with virtually no defaults having taken place. This conservative roll-out of the new line of credit is secured by property mortgages with a minimum of 80% loan to value. Of the 476 applications received since the launch, 241 were declined, giving a decline rate of just over 50% to date.

Income from operations increased by 24.5% to R468 million (Feb 2015: R376 million) in line with earnings before interest, taxation, depreciation and amortisation (EBITDA), which was also up by 24.6% to R195.3 million (Feb 2015: R156.7 million).

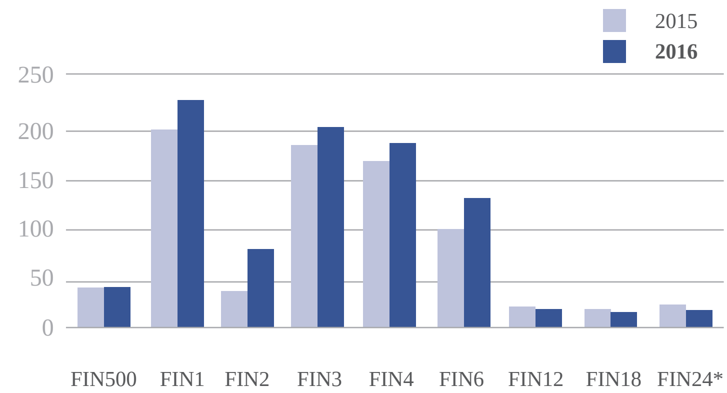
INCOME FROM OPERATIONS (R'000)



EBITDA (R'000)



LOANS AND ADVANCES PER PRODUCT (R MILLION)



Profit and profitability
Finbond increased turnover to R561.2 million, an increase of 23.2% over 2015. Finbond's profit margin decreased slightly from 11.2% of turnover in 2015 to 10.2% in 2016 after investing in costs that will continue to build capacity in the business.

The majority of profit for the year was again derived from Finbond's main economic driver, small personal loans. Finbond's attributable earnings increased by 12.6%.

Return on equity is 15.6%, which is better than last year's 15% and the year prior to that, which was 11.6%. However, it is important to note that Finbond Mutual Bank maintains conservative capital adequacy and liquidity positions (i.e. a 36.5% capital adequacy ratio which is well above the prudential limit of 25%), which negatively skews the ratio.

MICROLENDING PORTFOLIO

Loan volumes reflect positive recoveries and conservative credit risk management
For the year ended February 2016, Finbond received cash payments of R1.3 billion from customers, 18.2% greater than last year, while granting R883.9 million in new loans, an increase of 15.4% year on year, (Feb 2015: R1.1 billion in cash received and R765.7 million in new loans granted), thereby improving the ratio of cash received to cash granted to an average of 143% from 140% last year.

The year-on-year movement in the portfolio includes increases in numbers of both New Clients Serviced to 138 039 (31% more than in the year ended Feb 2015: 105 304), and New Contracts Granted to 583 265 (23% more than in the year ended Feb 2015: 474 109), setting new record monthly highs for the Group in both measures during the financial year.

Growth in loans advanced was most heavily concentrated in the mid-term products (loans of between 2 and 6 months in duration) as illustrated in the following breakdown of growth in the value of loans sold, by product, for 2016 compared to 2015.

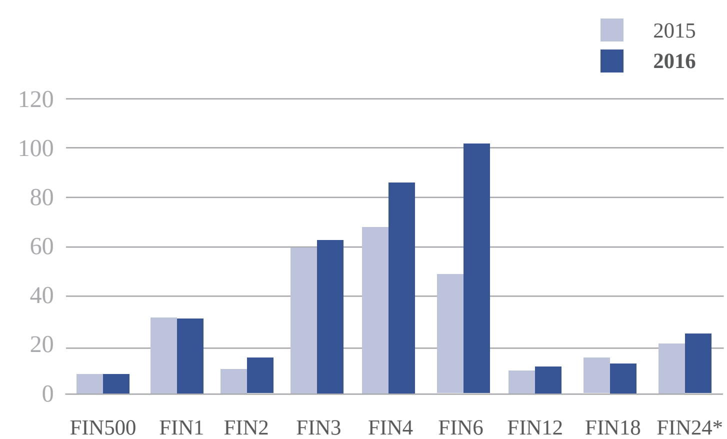
The highly competitive short-term segment of the South African credit market has seen high growth recently, according to the following relevant statistics released by the NCR:

NCR: SHORT-TERM MARKET	2014 Q3	2015 Q3	Y-O-Y GROWTH
<=1 month	1 121 887 000	2 554 758 000	128%
2-3 months	66 161 000	203 764 000	208%
4-6 months	227 366 000	1 310 816 000	477%
Total	1 415 414 000	4 069 338 000	188%

During the period under review, Finbond's loan product offering remained unchanged, consisting of 1-month to 24-month microloans ranging in amount from R100 to R20 000 with an average of R1 515. The overall gross loan book (excluding unearned finance revenue) reflected another year of positive growth totalling 17.2%, ending the 12-month period at R372.2 million (Feb 2015: R317.6 million).

Year-on-year loan balance growth, again by product, was also most prevalent in the mid-range terms, in line with loan volumes during the period, as depicted below:

LOAN BALANCE BY PRODUCT (R MILLION)



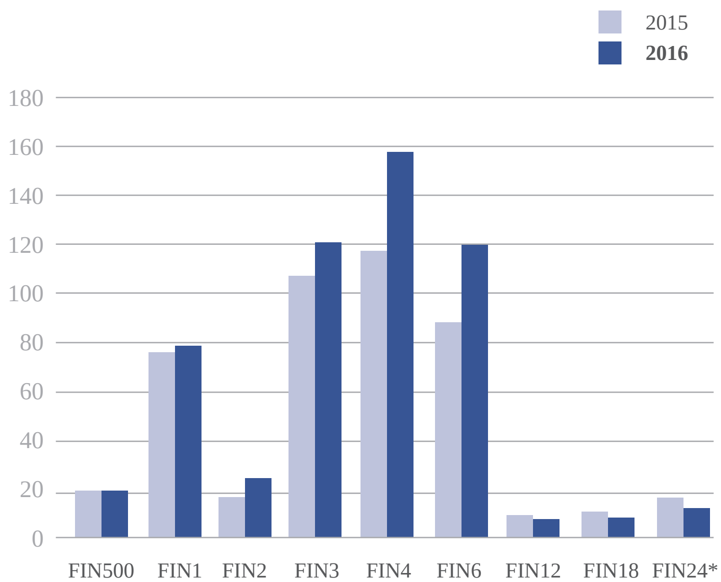
*Explanation of product names: FIN500 refers to loans of R500 and less, for the rest of the product range the number in the name refers to the number of months each loan product is granted for: FIN1 refers to one-month loans, FIN2 refers to two-month loans and so on.

The average loan size of R1 515 was smaller than last year (Feb 2015: R1 617), as the Group continued to manage credit risk conservatively through stricter affordability calculations, while the average tenure of 3.8 months reflects the slight shift to more mid-term products (Feb 2015: 3.6 months). Given the short-term nature of Finbond's products, Finbond's loan portfolio is cash flow generative and continues to represent a good source of internally generated liquidity.

Loan revenues increase 34.5%

Total revenue from unsecured lending in the year grew to R529 million from R393.4 million. Interest revenue on unsecured loans grew by 15%, reflecting the lower average loan value granted and greater volumes achieved during the period. The revenue split by product closely resembles the previously stated sales volumes and overall gross loan split by product.

LOAN REVENUE PER PRODUCT (R MILLION)



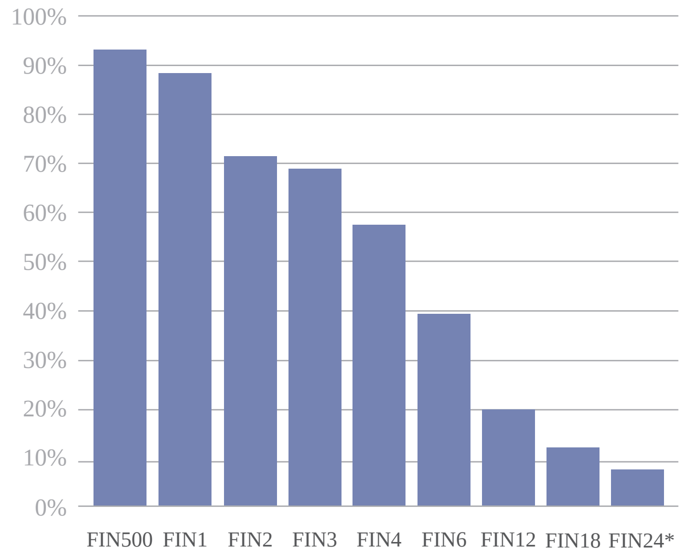
CREDIT SCORING PROCESS

Further tightening of credit policy

Finbond takes a conservative view when managing credit risk, which begins at the credit granting stage, prior to the advancement of any cash. Over the past twelve months, Finbond applied even stricter upfront credit scoring and affordability criteria than ever before. The credit scores on all products are monitored on a monthly basis and the dynamic performance of the portfolio is regularly taken into account when considering potential tightening of scores. Detailed affordability calculations continue to be performed prior to extending any loans in order to determine whether the client can in fact afford the loan repayments. It is testimony to the strictness of the built-in criteria used by Finbond that no tightening of these calculations was required when the **National Credit Amendment Act** became effective on 13 March 2015 because Finbond's existing credit granting process already complied with the newly updated affordability calculation requirements.

Finbond's lending practices have been consistently conservative over the past number of years. Rejection rates stand at between 32% and 60% for the 3- to 6-month product range, and they remain at 79%–92% for the 12- to 24-month product range at the end of February 2016.

% ACCEPTED PER PRODUCT



IMPAIRMENTS, PROVISIONS AND COLLECTIONS

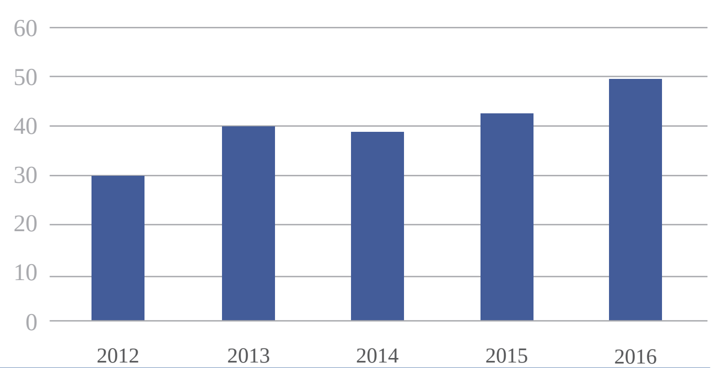
Provisions grow while arrears decline

Conservative lending practices and strict upfront credit scoring supported by robust collection strategies and processes were maintained rigorously and contributed to a 5.8% improvement in arrears during 2016. Finbond consistently applied the conservative impairment methodology that has been used in prior financial periods, which allowed for growth in impairment provisioning to provide even more prudently for future losses on the portfolio. Overall impairment provisions increased by 5.9% to R28.5 million (Feb 2015: R26.9 million) compared to gross loans and advances growth of 17.2% during the year.

Portfolio Quality Measures

		2016	2015	2014	2013	2012
Gross loans & advances	R'000	**372 245**	317 602	230 124	135 734	100 343
Loans past due	R'000	**58 006**	61 554	48 799	32 396	34 221
Total arrears to gross loans and advances	%	**15.6%**	19.4%	21.2%	23.9%	34.1%
Provision for doubtful debts	R'000	**28 496**	26 887	19 135	13 300	10 794
Loans past due after impairment provision	%	**7.9%**	10.9%	12.9%	14.1%	23 3%
Arrears coverage ratio	%	**49.1%**	43.7%	39.2%	41.1%	31.5%

COVERAGE RATIO %



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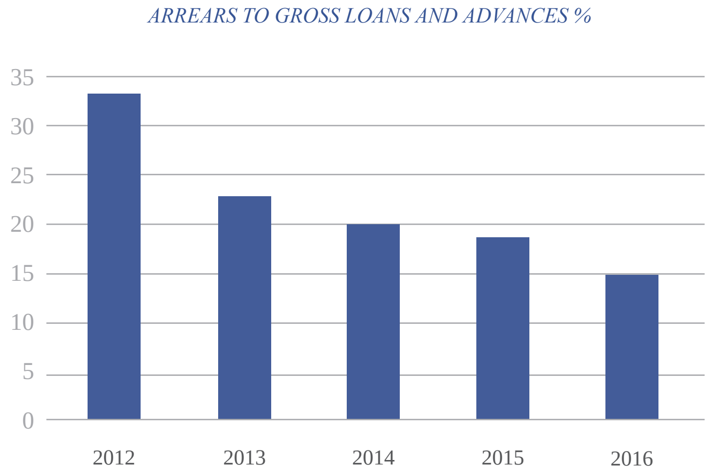


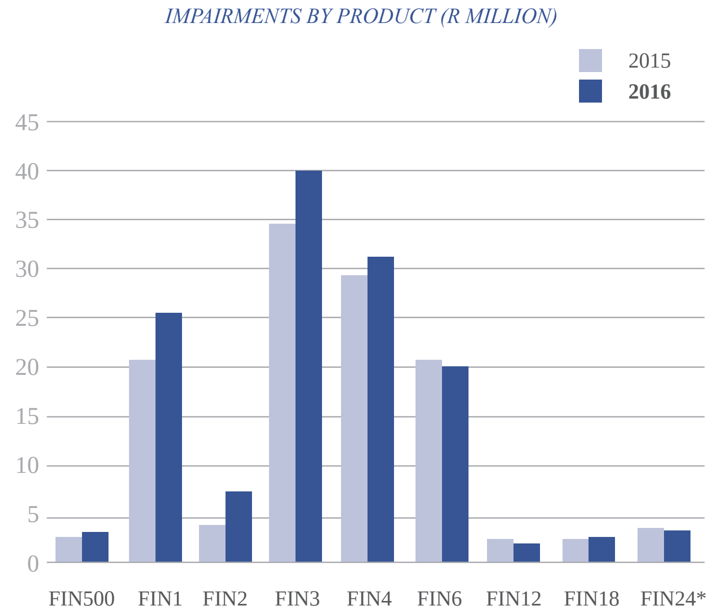
Coverage ratios improve year on year
As stated before, during the period, the Group further enhanced affordability calculations, thereby tightening credit granting criteria to even stricter levels than the already high levels previously set. The result is that notwithstanding an increase in impairments, the arrears coverage ratio has improved to 49.1% from 43.7% over the past year. The loan loss reserve, also referred to as risk-coverage ratio (impairment provision/Portfolio at risk: 90 days in arrears and longer), which is an indication of the microfinance institution's ability to cope with the estimated loan losses, has remained relatively unchanged at the end of the financial year at 102.5% (Feb 2015: 102.7%).

LOAN IMPAIRMENT EXPENSE

Finbond recorded an increase in the impairment expense of 18.6% from R60.1 million in 2015 to R71.3 million in the current financial year, which is directly in line with the increase in gross loans and advances.

Figures in Rand	**2016**	2015
Movement in impairment provision	(2 419 552)	(8 669 211)
Bad debts written off	(94 409 069)	(78 177 279)
Bad debts recovered	25 514 882	26 709 598
	(71 313 739)	(60 136 892)

The overall, unadjusted income statement Net Impairment Loss Ratio remained unchanged at 20.7% (Feb 2015: 20.7%), while Finbond's significantly lower, and much more accurate, adjusted loan loss ratios trended similarly unchanged during the year with Net Impairment as a percentage of expected instalments amounting to 7.1% (Feb 2015: 6.9%) and Net Impairment as a percentage of cash received (which is more conservative than instalments due) stood at 8.6% at the end of February 2016 (Feb 2015: 8.2%). These adjusted measures are a more appropriate reflection of the impairment cost related to a short-term, low rand value loan portfolio such as that held by Finbond, than traditional balance sheet ratios. The best measurement of arrears and impairments on the short-term products is against instalments due and not outstanding balances, because a large part of a short-term loan is repaid before month-end/year-end and is therefore not reflected on the balance sheet. Computations based on the outstanding balance therefore distort this ratio on short-term products.



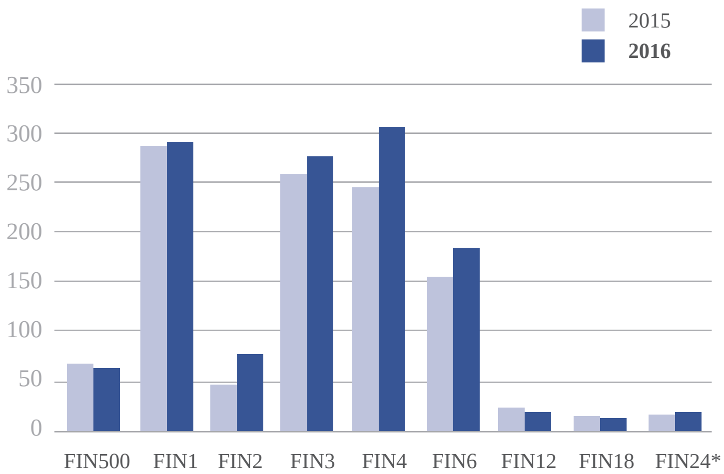
Overall collections rates improved
Aggregate loan collections for the year of R1.26 billion averaged 86% of anticipated receipts, showing improvement of 3% over the average of 83% achieved in the comparative financial year. Management remains focused on ensuring that growth is not obtained at the expense of asset quality.

The composition of collections is an important differentiator of Finbond from other market participants because the proportion of revenue that consists of bad debts recovered is much higher at Finbond when compared to other unsecured lenders. Also, Finbond does not reschedule loans at all and writes off all balances owed by any client who meets the Group's conservative write-off policy criteria. Under this stringent write-off policy, any loan instalments that have reached 150 days in arrears and have reflected no payment for at least 90 days are written off, regardless of the fact that these customers are often still in a position to service their loans. Any subsequent receipts are classified as bad debt recovered. Twenty-seven percent (27%) of the value of bad debts written off in 2016 were recovered in this way during the financial period (Feb 2015: 35%), however, recoveries are expected to increase further from this level in the coming financial year, following the expected receipt of clarity to be provided by the courts on the proper emoluments attachment process to be followed nationally. The administrative matter is now coming to a close, but has been the subject of some debate within the courts and has caused delays in the receipt of recoveries during 2016.

Bad debt collections continue to represent a significant source of profitability for the Finbond Group as a result of the interplay between customer behaviour and the conservative write-off policy.

*Explanation of product names: FIN500 refers to loans of R500 and less, for the rest of the product range, the number in the name refers to the number of months each loan product is granted for: FIN1 refers to one-month loans, FIN2 refers to two-month loans and so on.

COLLECTIONS PER PRODUCT (R MILLION)

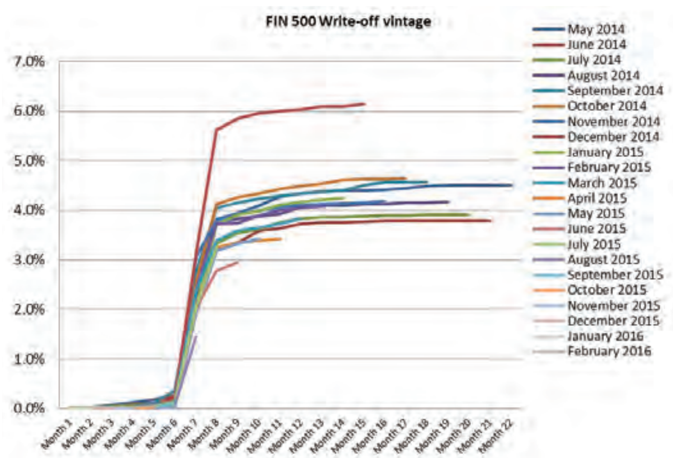


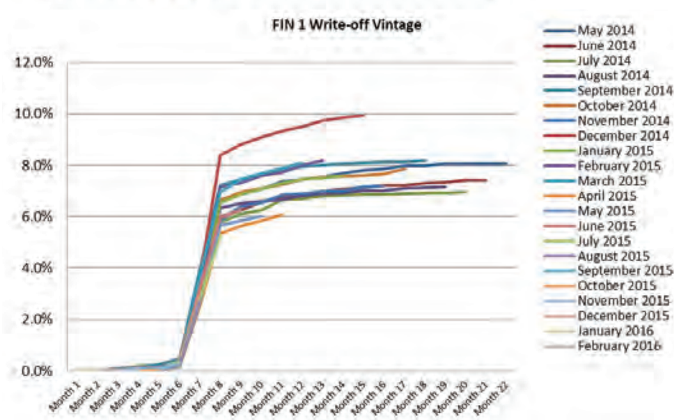
WRITE-OFF VINTAGES

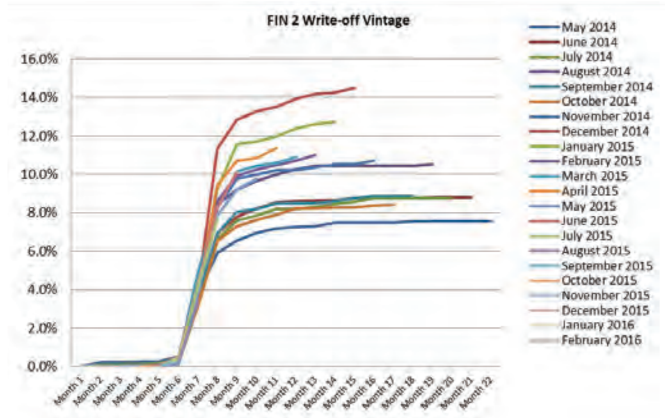
Individual write-off vintages per product continue to reflect higher write-offs in the longer term loan products.

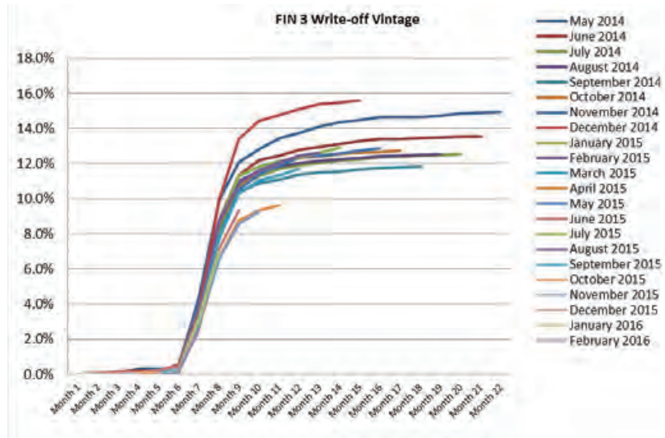
The three longest term loans, being the 12-, 18- and 24-month products, with by far the highest rejection rates, make up a relatively small portion of the overall loan portfolio, amounting to 13% thereof by value, and only 3% by volume of loans at financial year-end.

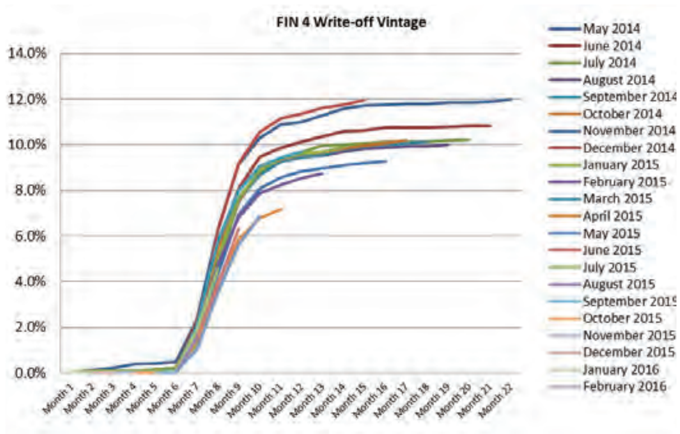
The write-off vintages for the more prevalent loan products are shown below*:

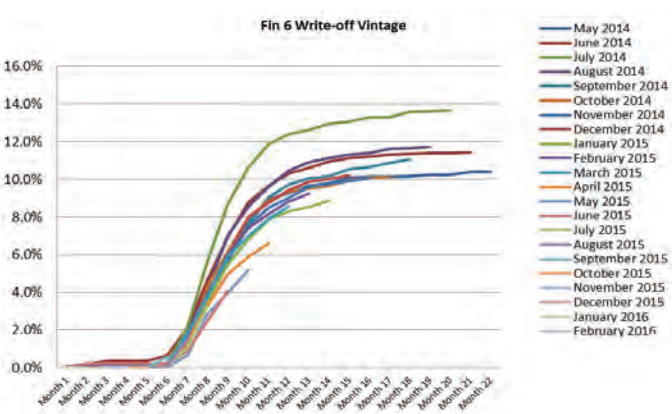












*Explanation of product names: FIN500 refers to loans of R500 and less, for the rest of the product range, the number in the name refers to the number of months each loan product is granted for: FIN1 refers to one-month loans, FIN2 refers to two-month loans and so on.

LIQUIDITY AND CAPITAL POSITION

Surplus cash managed to curtail excess

The gross loan-to-deposit ratio grew to 41.3% from 34%, reflecting the growth in lending combined with careful management of the pace at which the Group takes deposits. The growth in the surplus funding was curbed during the financial year in an effort to reduce the interest expense related to excess surplus cash.

Finbond's liquidity position at the end of February 2016 reflects R106 million cash in bank (Feb 2015: R197.5 million). Overall cash, cash equivalents and liquid investments, which include other financial assets of R231.9 million (Feb 2015: R372.8 million), declined by 40.7% to R338.2 million (Feb 2015: R570.2 million), as Finbond reduced the level of surplus funding while continuing to practise conservatism in the granting of credit.

Other financial assets include R56.9 million invested in Treasury Bills which carry an average interest rate of 6.67% and qualify as regulatory liquid capital.

Additional surplus funds amounting to R174.4 million are invested in a portfolio of income funds which attracted an overall weighted average interest rate of 8.1% per annum during the year, and which are available immediately on call.

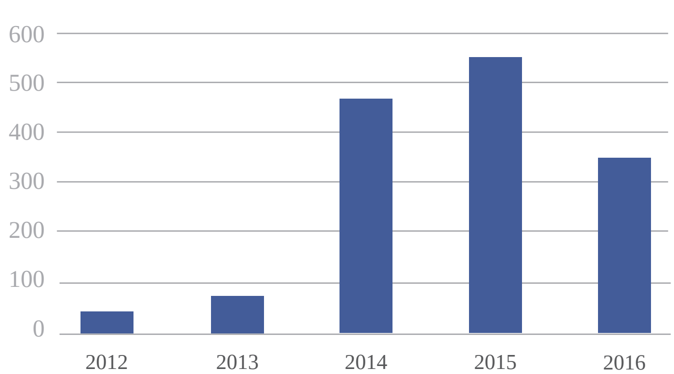
The Group has a conservative Debt:Equity ratio of 2.7:1 at 29 February 2016. Cash Received as a percentage of Cash Granted, for the period of March 2015 to February 2016, averaged 143%, reflecting an improved overall collections performance for the financial year over that of the comparative period when an average of 140% was achieved, further improving cash generation for the Group.

The deposit book totalled R907.7 million, 1.5% down from R921.9 million last year, with an average interest rate of 9.6% (up from 9.4% last year), an average term of 28.3 months (up from 26.6 months last year) and an average deposit size of R351 982 (up from R338 184 last year).

The increase in term and deposit size speaks favourably of the customer experience that Finbond has delivered to deposit clientele since launching the product, as more and more depositors are choosing to lengthen the terms of their deposits, reinvesting for longer when they mature and trusting Finbond based on the positive results experienced with their initial deposit transactions.

The movement in surplus funding is evident when overall cash, cash equivalents and liquid investments are viewed over a five-year period as follows:

CASH, CASH EQUIVALENTS AND LIQUID INVESTMENTS (R MILLION)



The Group publicly announced a Rights Issue immediately prior to the conclusion of the 2016 year-end and successfully raised an additional R525 million from the issue in March 2016. This funding will be used to expand Finbond's core short-term, unsecured lending operations to North America in accordance with the strategy approved by the Board of Directors. The support for the strategy demonstrated by shareholders adds to the strong capital position, significant surplus cash, robust liquidity and funding profile, and together with management's conservative approach to risk management, positions the business well in order to successfully execute the Group's strategy.

Strong capital position

Finbond follows a conservative approach to capital management and holds a level of capital which supports its business, while also growing its capital base ahead of business requirements. Finbond's capital position remains strong. Finbond Mutual Bank is positioned well above its minimum regulatory capital requirements, with an excess of R135 million over and above the R297.4 million required by the Registrar of Banks and an excess of R312 million over and above the normal DI 400 required minimum for mutual banks.

Although Finbond as a mutual bank is not subject to the Basel III requirements, Finbond already complies with and significantly exceeds all Basel III requirements set for 2018 and 2019.
As at 29 February 2016, Finbond's:

- Liquidity coverage ratio % was 271% (171% more than required from 2019);
- Net stable funding ratio % was 664% (564% more than required from 2018); and
- Capital adequacy ratio % was 36.5% (26.5% more than required from 2018).

INVESTMENT PROPERTIES

The overall proportion of investment properties as a percentage of total assets remains relatively unchanged at 18.8% (Feb 2015: 18.4%). An additional investment of R16.6 million in investment properties was made during the period, which is expected to further assist the Group to realise commercial profits from this portfolio in the medium to long-term.

Two independent valuations by professional valuers registered with the **South African Institute of Valuers** were again obtained as at 29 February 2016, as required by **International Accounting Standard 40 (IAS 40)** and the Group's accounting policy. The independent valuations revalued Finbond's property portfolio at R269.5 million (Feb 2015: R248.8 million).

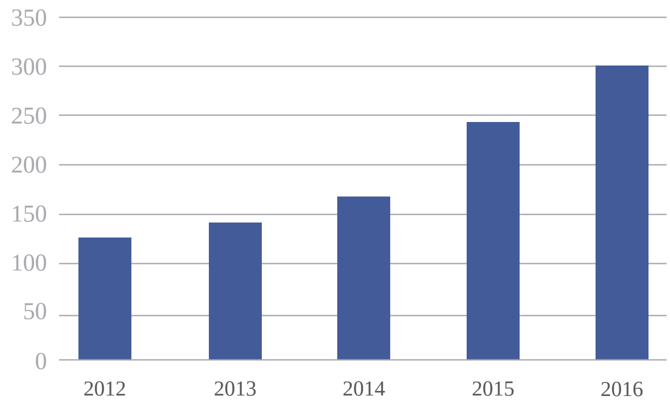
COST STRUCTURE

Operating cost increased by 24.6%

Operating costs increased by 24.6% from R242.4 million in 2015 to R302.1 million in 2016. The cost-to-income ratio remains unchanged at 64.5% in 2016. The two biggest reasons for the growth in expenses were the costs of building and running the banking platform and increases related to the acquisition of an additional 58 branches. Employment costs grew by R21 million, in line with the 25.5% year-on-year growth in employee numbers from 880 last year to 1 104, while the cost of premises grew by R7.7 million. Security and Bank IT costs also reflect significant increases of a further R15 million.

The Group's operating cost-to-income ratio remains relatively unchanged at 64.5% at the end of the financial year (Feb 2015: 64.5%). The infrastructure of a bank is expensive and, strategically, Finbond is supporting the building of a retail bank with the micro loans business. The impact of this strategy on costs is reflected in the below comparison of costs over the past five years:

OPERATING COSTS (R MILLION)



During the period under review, Finbond further expanded investments in Compliance Systems, Internal Audit, Information Technology and Systems, Banking Products, Security, Human Capital Development, Training, Collection Systems and Risk and Analysis departments in order to effectively manage Finbond Mutual Bank's Risk Management Framework. Approximately R45 million of the R59 million increase in expenses during the period under review relates to increasing capacity and improving risk management functions and processes within Finbond Mutual Bank. Were this investment to increase capacity excluded in the cost-to-income ratio calculation, the current period would reflect an improvement to 56.1% from last year's 64.5%.

Capital expenditure for the year amounted to R46.4 million (Feb 2015: R34.7 million).

INVESTMENT GRADE CREDIT RATING

During the 2016 financial year, Finbond was again awarded an Investment Grade rating by ratings agency Global Credit Ratings (GCR).

GCR re-affirmed Finbond's BB+(ZA) National Scale Long-Term Corporate Credit Rating with a Stable Outlook at BBB-(ZA), with the outlook accorded as Stable on 30 October 2015. GCR also affirmed Finbond's Short-Term Credit Rating of A3 with a Stable Outlook. Finbond's long-term international scale local currency rating was downgraded in December 2015 from BB to BB- (Stable Outlook) on the back of changes to the mapping table following a downgrade of South Africa's Issuer Default Rating. The rating action was as a result of a recalibration of the mapping tables used for issuers/companies rated in South Africa. The updated mapping tables follow a change in internal criteria, prompted by a revision of the Republic of South Africa's international long-term (LT) local currency Issuer Default Rating (from 'BBB+' with a Negative outlook to 'BBB' with a Stable outlook). Furthermore, the South African country ceiling has been lowered from 'A-' to 'BBB'.

According to GCR, the ratings are based on the following key factors:

- *"The ratings of Finbond Group Limited ('Finbond', 'the Group') reflect its growing reputation as a leading mutual bank and short-term credit provider in South Africa. Finbond offers short- and medium-term unsecured loans, insurance and savings products, and (since F15) transactional banking and mortgage finance products, through its 321 branches.*
- *Adequate capital, conservative credit/risk management, and improving profitability and earnings diversification (despite regulatory risk) support the ratings, which exclude the prospect of systemic support, given its low likelihood. The rating outlooks consider Finbond's prospects/strategic direction, within the context of challenging and uncertain economic and regulatory environments.*
- *High liquidity levels (42.3% of assets at FYE15) and adequate capitalisation (Finbond Mutual Bank's capital adequacy ratio ('CAR') was 35.1% at FYE15) support the group's moderate credit appetite. The loan/deposit ratio was maintained at c.31% at FYE15.*
- *Asset quality metrics broadly improved, despite the negative market trends. As c.90% of loans issued are short-term, traditional asset quality measures may overstate bad debt experience. Gross/net impairment ratios (impairments being defined as instalments in arrears) improved to 19.1%/11.5% at 1H F16 (FYE14: 21.2%/14.1%). However, net impairments vs instalments due (management's key asset quality measure) rose from 6.3% (FYE14) to 7.3% (1H F16). Over the same period, collection rates remained strong, and loan rejection rates as well as arrears levels/roll-rates were stable. Provisioning appeared adequate, but close monitoring is required given the challenging operating conditions.*
- *In F15, operating income rose by 59.2% to R375.9m (net income – 37.9% to R50.9m). Despite 47.5% cost growth in F15 (driven by the group's investment in infrastructure and internal controls) the cost/income ratio declined to 64.5% (F14: 69.6%). Of concern, impairment costs grew 141.4% in F15 and by 2.0x in 1H F16."*

The ratings were achieved in an environment which has been characterised by ratings downgrades of other banks and financial service institutions.

TAXATION

The future utilisation of deferred tax assets based on calculated tax losses has reduced from R8.7 million in 2015 to R1.6 million as at 29 February 2016 and is now insignificant. Finbond Group Limited have therefore utilised virtually all of the accumulated assessed losses that arose in past periods through the generation of taxable profits in the Group.

The effective tax rate of the Group was negatively impacted in 2016 by the increase in the capital gains tax inclusion rate to 80% of normal tax rates from 1 March 2016. This resulted in an increase in deferred taxation raised on unrealised gains on the valuation of investment properties to the value of R7.4 million and increased the effective tax rate to 40% for the year (2015: 31%), which has been excluded from headline and normalised earnings per share.

DIVIDENDS

Dividends maintained

The Board declared a gross ordinary dividend of 3.4 cents per share, inclusive of the recent rights issue shares, (2015: 3.4 cents) out of income reserves on 20 April 2016 in respect of the financial year ended 29 February 2016 and which is payable to ordinary shareholders in accordance with the timetable presented in the SENS announcement and the Annual Financial Statements.

The Board has consistently applied Finbond's dividend policy to declare a consistently predictable and stable dividend stream for shareholders annually. Dividends are declared in the currency of the Republic of South Africa. The Directors have confirmed that the Company will satisfy the liquidity and solvency requirements immediately after the payment of the dividend.

REGULATION

Regulatory considerations continue to dominate the South African operating environment. The impact of regulatory changes and possible external developments on the Group can be summarised as follows:

Regulator	Change/ Possible Development	Impact
SARB	Potential downgrading of South Africa's sovereign credit rating	Finbond provided comment on the impact to the regulator reflecting minimal impact on FGL.
PASA/ SARB	Implementation of Authenticated Collections to curb debit order abuse	Finbond participates in the project with PASA.
NCR/DTI	Potential capping of the costs of credit life insurance and retrenchment cover	Finbond provided comment to the DTI. Improvement in overall affordability of customers to access credit. Potential loss of insurance revenues.
NCR/DTI	Changes to fees and interest rates	Minimal impact on overall loan revenues and between revenue classifications.
NCR	Updated affordability regulations	Improvement in overall ability of customers to access credit. No impact on Finbond as existing processes already sub- stantially complied.
NCR	Correct process to obtain an Emolument Attachment Order was heard by the Constitutional Court	Clarity is expected to be provided by the Constitutional Court regarding the administrative process to be followed when obtaining emolument attachment orders.
NCR/DTI	National Credit Amendment Act	Improvement in written off recoveries expected. Minimal impact.
INSPECTORATE FOR SOCIAL ASSISTANCE	The Minister of Social Development called for comments on proposed amendments to the regulations to the Social Assistance Act	Finbond provided comment to the regulator. The amendments will have minimal impact on FGL revenues.

I thank my colleagues, my exceptional team and my outstanding peers within Finbond, my fellow Directors and the investors and regulators who have each made their own significant contributions to the development and growth of the Finbond Group in the past year.

Gary Sayers
Chief Financial Officer

19 April 2016

"I'M CONVINCED THAT ABOUT HALF OF WHAT SEPARATES THE SUCCESSFUL ENTREPRENEURS FROM THE NON-SUCCESSFUL ONES IS PURE PERSEVERANCE."

- Steve Jobs -

GROUP STRUCTURE

FINBOND GROUP LIMITED

	FINBOND MUTUAL BANK	SUPREME FINANCE	FINBOND PROPERTY FINANCE	FINBOND GROUP INTER-NATIONAL
SHORT-TERM UNSECURED LENDING & INSURANCE	●	●		●
TRANSACTIONAL BANKING	●			
INVESTMENT PRODUCTS & DEPOSITS	●			
SECURED LENDING	●		●	
PROPERTY INVESTMENT	●		●	

* Above structure excludes dormant and insignificant subsidiaries.

"SUCCESS IS ACHIEVED AND MAINTAINED BY THOSE WHO TRY AND KEEP TRYING."

\- W Clement Stone -

"WHAT IS THE DIFFERENCE BETWEEN AN OBSTACLE AND AN OPPORTUNITY?

OUR ATTITUDE TOWARD IT.

EVERY OPPORTUNITY HAS A DIFFICULTY, AND EVERY DIFFICULTY HAS AN OPPORTUNITY."

- J Sidlow Baxter -

"IT'S NO USE TO DECIDE WHAT'S GOING TO HAPPEN
UNLESS YOU HAVE THE COURAGE OF YOUR CONVICTIONS.
MANY A BRILLIANT IDEA HAS BEEN LOST
BECAUSE THE MAN WHO DREAMED IT
LACKED THE SPUNK OR THE SPINE TO PUT IT ACROSS.
IT DOESN'T MATTER IF YOU DON'T ALWAYS HIT THE EXACT BULLSEYE,
THE OTHER RINGS IN THE TARGETS SCORE POINTS TOO."

- AP Giannini: Founder, Bank of America -

RISK MANAGEMENT & CORPORATE GOVERNANCE

DIRECTORATE

DR MALESELA MOTLATLA

Independent Non-Executive Chairman

[BA (Unisa), Post-Graduate Diploma in Marketing (Unisa), D Com (Honoris Causa (Unisa)), Diploma in Business Management (Wharton School of Business) (Philadelphia)]

- Worked for South African Breweries (SAB) for more than 20 years, where his functions included marketing and sales management, research, business development and training, corporate affairs, management consultancy and employee relations.
- Established the first black business consortium in the Northern Cape region, Malesela Holdings (Pty) Limited, operating in the areas of logistics, health, power and energy and the cleaning industries.
- Serves on the boards of several JSE listed companies as Chair.
- Former Chair of Tshwane University of Technology (TUT).

DR WILLEM (WILLIE) VAN AARDT

Chief Executive Officer

[B Proc (Cum Laude), LLM (UP), LLD (PUCHE), Admitted Attorney of the High Court of South Africa, QLTT (England and Wales), Admitted Solicitor of the Supreme Court of England and Wales]

- Admitted as an Attorney of the High Court of South Africa in 1996.
- Founded Finbond in January 2003.
- Doctorate in Public Law through the University of Potchefstroom in 2005.
- Admitted as a Solicitor of the Supreme Court of England and Wales in 2008.
- Completed International Development Ireland's "Strategy in Management and Banking Programme" in Dublin in 2009.
- Previously Legal Consultant at Sanlam and Executive Director and co-founder of Thuthukani Group Limited.
- Nineteen years' experience in financial services and microlending sectors.

GARY SAYERS

Chief Financial Officer

[B Com (Hons)(UNP), B Comt (Hons) (Unisa), Chartered Accountant (SA)]

- Qualified as a Chartered Accountant in 1999.
- Previously Financial Manager of Nampak Tissue.
- Former Chief Financial Officer of Flight Centre South Africa.
- Former Group Chief Financial Officer of African Alliance based in Mauritius.
- Seventeen years' post-articles experience in Financial Management.
- Executive directorship of Finbond Group Limited and Finbond Mutual Bank.
- Experienced in IFRS financial reporting and throughout his career has gained valuable experience initiating and improving the regulatory reporting and effectiveness of teams and operations based in a number of Southern and East African countries.

CAREL VAN HEERDEN

Chief Operating Officer

[B Com (Risk) (Unisa), MBA (Stellenbosch)]

- Started his career at Finbond as Area Manager in 2008.
- Fulfilled various General Management roles within the Group at regional and national level since 2009.
- Serves as the Group's Chief Operating Officer, managing daily operations, since 2013.
- Received an MBA from the University of Stellenbosch Business School.
- Holds B Com degree with specialisation in Risk Management from Unisa.
- Executive directorship of Finbond Group Limited and Finbond Mutual Bank.

"BECOME THE KIND OF LEADER THAT PEOPLE FOLLOW VOLUNTARILY,

EVEN IF YOU HAD NO TITLE OR POSITION."

- Brian Tracy -

ADV JASPER NOETH

Independent Non-Executive Director

[Dip Iuris (Natal), B Iuris LLB (UNISA), Advocate of the High Court, (QC)]

- Successful career spanning more than 50 years at the Department of Justice and Debt Collectors Council.
- Served for ten years as Director-General of the Department of Justice also in the Nelson Mandela Government.
- During this time, he exercised control over a budget of R2.3 billion per annum.
- Chief researcher of the Hoexter Commission of Inquiry into the Structure and Functioning of the Courts.
- Chairman of the Implementation Committee for the creation of the Small Claims Courts in South Africa.
- Member of the Legal Aid Board, the Magistrate's Commission, the International Bar Association, the Australian Institute of Judicial Administration, the Canadian Criminal Justice Association, the Audit Committee of the Department of Justice and, subsequently, also of the National Prosecuting Authority.
- Former Chairperson of the Debt Collectors Council of South Africa.
- Currently acts as a consultant on various legal matters.

INA WILKEN-JONKER

Non-Executive Director

[B Com (Hons) (Unisa), Business Economics]

- Appointed at Santam Bank in 1967 and held positions at the Bank of the Orange Free State, Barclays Bank, First National Bank and the SA Consumer Council prior to joining Finbond in 2003.
- Former Chair of the Estate Agency Affairs Board and former Chair of the South African National Consumer Union (SANCU). Currently Vice-Chair: SANCU.
- Appointed to the Debt Collectors' Council by the Minister of Justice in 2007, to the Agricultural Research Council by the Minister of Agriculture in 2009, by the Minister of Trade and Industry to both the Estate Agency Affairs Board in 2010 and the FSB's FAIS Board.
- Vice-Chair of the Banking Ombudsman from 2000 – 2010 and the Vice-President of the Pretoria Chamber of Commerce, the President of International Training and Communication in Pretoria, and a Board Member of the SA Pharmaceutical Council.
- Involved in developing various publications dealing with the rights and responsibilities of the consumer.
- Forty six years' experience in the financial services, banking and consumer protection industries.
- Was Chief Compliance Officer at Finbond up to her retirement in 2013, whereafter she became Non-Executive Director.
- Acts as Consumer Consultant to Finbond Mutual Bank.

ADV NEVILLE MELVILLE

Independent Non-Executive Director

[BA Law, LLB (Natal) LLM (Cum Laude) (Natal), Post Graduate Diploma in Company Direction, Senior Executive Programme (Harvard Business School), AltX Company Directors' Induction (Wits Business School), Advocate of the High Court]

- Chief Executive Officer of the South African Ombudsman for Banking Services for seven years, working alongside various top-flight, experienced Directors of public companies.
- First Executive Director of the Independent Complaints Directorate and practised as an Advocate at the Durban Bar.
- Former office-bearer in various local and international voluntary associations, including Chairperson of the South African Ombudsman Association.
- Member of the Financial Services Ombuds Schemes Council and was the FSB/court-appointed Curator of PIT Group of Companies.
- Served as a founder Director of the Co-operative Banks Development Agency (CBDA).
- Honorary Research Fellow at the University of KwaZulu-Natal.
- Member of Chartered Institute of Arbitrators, London and Institute of Directors, South Africa.
- Currently the Chief Executive Officer of the Consumer Goods and Services Ombud of South Africa.

DANIE BRITS

Independent Non-Executive Director

[B Com, MBA (PUCHE)]

- Gained extensive experience in the Banking and Financial Sector over the past 40 years.
- Started his career in 1980 as a Manager at Volkskas Merchant Bank and was appointed in 1992 as Group Executive Risk and as Executive Director of ABSA Bank Limited in 1995.
- *Inter alia* served as: Executive Director and Board Member ABSA Bank Limited, ABSA Corporate and Merchant Bank and Bankfin; Member of the ABSA Group Limited Executive Committee; Head of ABSA Group Limited Executive Corporate and Merchant Bank Division.
- Currently also serves as: Board Member and Chairman of the Audit Committee Barclays Bank Mozambique and Board Member of the National Bank of Commerce, Tanzania.

ROBERT EMSLIE

Independent Non-Executive Director

[B Com Law, B Com (Hons Acc), Chartered Accountant (SA), Rand Afrikaans University]

- Completed articles at Brink Roos & Du Toit (now part of PWC) between 1980 and 1983.
- Lectured at the Rand Afrikaans University between 1984 and 1987.
- Joined ABSA, and between 1987 and 2008 had a very successful career during which time he, *inter alia*, served as: a Member of the ABSA Group Executive Committee (2004 to 2008), Head of ABSA Corporate and Business Bank (2005 to 2008), Head of ABSA Africa (2007 to 2008), Head of ABSA Corporate and Merchant Bank including offshore offices (now ABSA Capital) (2003 to 2005).
- Currently serves as Board Member and Chairman of Silverbridge Holdings Limited; Board Member of TUHF (Pty) Ltd (The Trust for Urban Housing Finance); Board Member of Ambit Properties; and Board Member of Paramount Property Fund Limited.

ROSETTA XABA

Independent Non-Executive Director

[B Comt (UNISA), B Comt (Hons)(UNISA), Chartered Accountant (SA)]

- Science and Mathematics teacher for four years.
- A Chartered Accountant and a registered auditor.
- Served her articles with KPMG and qualified as a Chartered Accountant in 2001 and worked up to manager level in internal and external auditing.
- Consultant with Deloitte Consulting, for the Business Process Outsourcing unit, which specialized in public sector entities from 2004 to 2007.
- Established Rossal No 98 (Pty) Ltd in 2007, a consulting, auditing and business advisory services company
- Currently provides auditing, accounting, business advisory services to the private and public sector, SMMEs and NGOs clients.
- Currently serves a non- executive director for Technology Innovation Hub, a public entity under the Department of Science and Technology; a Treasurer and past Chairman for the Little Eden Society for the Care of Persons with Mental Handicap; Board member and chair of Social and Ethics Committee for Conduit Capital Limited; Board member and chair of audit committee for the Constantia Insurance Group, a subsidiary of Conduit Capital.

“THOUGHT IS THE SCULPTOR THAT CAN CREATE THE PERSON YOU WANT TO BE.”

- HD Thoreaou -

INTERNAL AUDIT

The Internal Audit Function reports functionally to the Audit Committee and administratively to the Chief Executive Officer.

The primary objective of the Internal Audit Function is to ensure that adequate measures and procedures are in place for an adequate, effective, efficient and economic internal control environment. Internal Audit submits assessments to the Audit Committee on the system of internal controls. The Internal Audit function also fulfils the requirements of **Regulation 48 of the Banks Act** as enforced by the **South African Reserve Bank**. The Internal Audit Charter approved by the Audit Committee defines the purpose, authority and responsibility of the internal audit activity and is consistent with the standards of the **Institute of Internal Auditors** and **Regulation 48 of the Banks Act No. 94 of 1990**.

Chief among operational risks arising from the intrinsic, cash nature of the personal loans business is the risk that staff may succumb to the temptation to commit fraud and theft, i.e. corruption. The Internal Audit Department, supported by the Group's flat line-management structure, is structured in such way as to enable the review of 100% of the Group's business units and therefore all operational branches. In addition each of the Group's support areas was analysed for risks related to corruption, *inter alia*, during the year ended 29 February 2016.

Finbond is intolerant of dishonest or unlawful behaviour. The on-going review processes resulted in two notable cases being identified during the period, where five employees were found guilty of corruption and were summarily dismissed. A further ten individuals are under investigation for corruption, following their own voluntary resignation.

Due to the high-risk nature of the Group's product offering, being short-term unsecured loans to often unbanked individuals, non-adherence to the Group's credit policy is another crucial risk element measured closely by the Group's compliance staff. Credit policy transgressions are continuously monitored for the initiation of fair investigations and disciplinary actions, thereby enforcing this important internal control. The following table summarises transgressions of the credit policy that took place during the period ("Codix" is the short name for the compulsory credit checking process to be completed when processing all loan applications).

The chart below reflects a total rate of transgressions of 1.3%, pointing to a high level of compliance.

REGION	SUBTOTAL LOANS	ACCEP-TED	DE-CLINED	NO PROOF OF CODIX IN THE PAST 3 MONTHS	% APPRO-VED	% DECLI-NED	% NO CODIX
EC	107 553	106 675	248	630	99.18%	0.23%	0.59%
FS	114 386	112 695	834	857	98.52%	0.73%	0.75%
GP	136 575	134 353	646	1 576	98.38%	0.47%	1.15%
KZN	87 631	86 088	622	921	98.24%	0.71%	1.05%
OSC	783	756	4	23	96.55%	0.51%	2.94%
WC	130 787	129 648	283	856	99.13%	0.22%	0.65%
TOTALS	577 715	570 215	2 637	4 863	98.70%	0.46%	0.84%

ADHERENCE TO CODIX BY FINBOND STAFF

ROLE AND FUNCTION OF INTERNAL AUDIT

Internal Audit focuses on adding value to the operations of the Group as part of its combined assurance model, by examining and reviewing, amongst other things, the following:

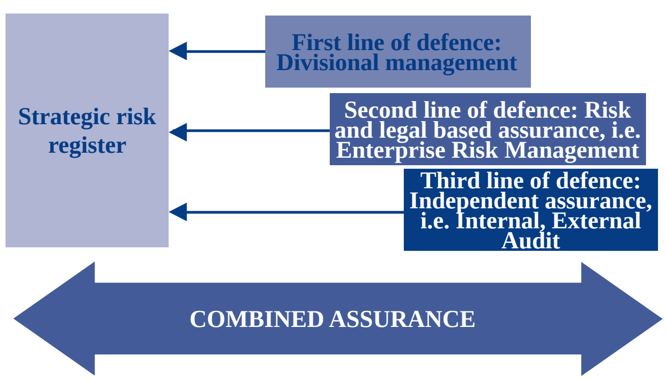
- Adequacy and effectiveness of the Group and Bank's internal control systems;
- The application and effectiveness of the Group and Bank's risk management procedures and risk assessment methodologies;
- The accuracy and reliability of the Group and Bank's accounting records and financial reports;
- The manner and means in terms of which the Group and Bank safeguard their assets;
- The systems and processes established by the Group and Bank in order to ensure compliance with any relevant legal and regulatory requirements, codes of conduct and the implementation of policies and procedures;
- The Group and Bank's compliance with policies and risk controls; and
- The reliability, integrity, accuracy, completeness and timeliness of financial and management information.

SCOPE OF INTERNAL AUDIT

The Internal Audit Department annually submits a coverage plan that encompasses the entire business of the organisation to the Audit Committee for approval.

During the risk-based reviews, emphasis is placed on the adequacy and effectiveness of the control environment as part of Internal Audit's assurance function. Control deficiencies that are detected are referred to management for corrective actions. The extent to which recommendations emanating from internal audit reviews have been implemented is measured continuously.

A high-level depiction of a combined assurance model is illustrated below:



FINBOND COMBINED ASSURANCE MODEL

COMPLIANCE

In establishing an effective compliance framework, the Finbond Group has a comprehensive set of policies, regularly updated in line with changes in legislation and business governance requirements, with which all group companies and employees are obliged to comply.

In line with **Regulation 49 of the Banks Act No. 94 of 1990 (the Banks Act)**, Finbond Mutual Bank has a well-integrated, dedicated and independent compliance function as part of its risk management framework and corporate governance structure managing the Bank's compliance risk.

Compliance risk is defined as the current and prospective risk of damage to the Group and Bank's business objectives, reputation and financial soundness arising from non-adherence to Legal or Regulatory requirements, Codes of Conduct and Standards of Good Practice applicable to its business.

The Compliance Universe of the Group and Bank comprises all the statutory and regulatory requirements of relevant legislation, regulations and industry codes applicable to Finbond's business and sound management of the Group and Bank. The compliance risk is managed through internal policies and processes, which include the aforementioned relevant legislation, regulations and business-specific requirements.

The three lines of defence, namely Compliance Monitoring Officers, Internal Audit and Area Managers independently monitor the business units and branches in the regions to ensure compliance with all policies and procedures. Regular training and advice are provided to employees to ensure adherence to all compliance obligations.

The Finbond Compliance Governance Structure is in line with the **Generally Accepted Compliance Practice (GACP)** framework of the Compliance Institute of South Africa. The GACP incorporates sound practices recommended, *inter alia*, by **the Basel Committee on Banking Supervision** and **the King III Report on Corporate Governance**.

This structure facilitates the achievement of the following key objectives:

- Top management's awareness of the regulatory requirements applicable to the organisation;
- Top management's understanding of the compliance framework;
- Top management's ability to assess and understand the status and level of compliance within the organisation;
- The effective reporting of the results of compliance monitoring;
- The quick and effective resolution of compliance issues;
- The ability of the Compliance Function to function independently in terms of **Regulation 49**;
- Enabling the Compliance Officer to have easy access to top management and all areas of the business;
- The promotion of the desired compliance culture;
- The avoidance of any conflict of interest; and
- Adherence to any specific relevant regulatory requirements.

The Board of Directors of the Group and Bank together with the Senior Management have ultimate responsibility for understanding and overseeing the management of compliance risk.

The primary role of the Compliance Function is to assist senior and executive management with effectively managing the compliance risks faced by the Group and the Bank. The Compliance Function works closely with operational units to ensure consistent management of compliance risk.

Through the Finbond ***"Code of Conduct and Policy Manual"***, ***"Training Manual"*** and monthly compliance articles in the Finbond "***Compass"*** newsletter, employees are made aware of the most pertinent compliance-related policies and behaviours expected of all employees.

In accordance with the prescriptions of **Regulation 49**, the Head of Compliance reports directly to the Audit Committee and Chief Executive Officer of the Bank. A **Regulation 49** Compliance Report is submitted to the Audit Committee, the Board of Directors and the **Bank Supervision Department of the South African Reserve Bank** on a quarterly basis. For the period under review, the Compliance Reports indicated a good level of compliance by the Group and the Bank to statutory and regulatory requirements, and the events of non-compliance listed were all non-material and either rectified effectively and timeously, or are in the process of being rectified.

"HAVE THE COURAGE TO SAY NO. HAVE THE COURAGE TO FACE THE TRUTH.

DO THE RIGHT THING BECAUSE IT IS RIGHT.

THESE ARE THE MAGIC KEYS TO LIVING YOUR LIFE WITH INTEGRITY."

- W Clement Stone -

REGULATION

Finbond has a good, transparent and trusting relationship with its regulators, which include the **Bank Supervision Department of the South African Reserve Bank**, the **National Credit Regulator**, the **Financial Services Board**, the **Johannesburg Stock Exchange** and the **Financial Intelligence Centre**.

To ensure that the Group and Bank maintain high levels of compliance, the Bank is a member of the **Banking Association of South Africa**. In order to ensure participation in the national payments system, the Bank is also a member of the **Payment Association of South Africa**.

In terms of Finbond's regulatory universe, the following primary legislation and regulations form the basis and main focus of the independent compliance function and management system activities of Finbond:

- The **Mutual Banks Act No. 124 of 1993** and its **Regulations**;
- The **Banks Amendment Act No. 94 of 1990** and its **Regulations**;
- The **National Credit Act No. 34 of 2005**;
- The **Basic Conditions of Employment Act No. 75 of 1997**;
- The **Labour Relations Act No. 66 of 1995**;
- The **Financial Advisory and Intermediary Services Act No. 37 of 2002**, together with the **Treating Customers Fairly Outcomes**;
- The **Protection of Constitutional Democracy Against Terrorist and Related Activities Act No. 33 of 2004**;
- The **Financial Intelligence Centre Act No. 38 of 2001**;
- The **Consumer Protection Act No. 68 of 2008**;
- The **Protection of Personal Information Act No. 4 of 2013**;
- The **Foreign Account Tax Compliance Act**;
- The **National Payments System Act No. 78 of 1998**;
- The **Occupational Health and Safety Act No. 85 of 1993**;
- The **Companies Act No.71 of 2008**;
- The **Income Tax Act No. 58 of 1962**;
- The **VAT Act No. 89 of 1991**; and
- The **JSE Listings Requirements**.

During the period under review, there were no sanctions or penalties issued against the Group or the Bank as a result of non-compliance.

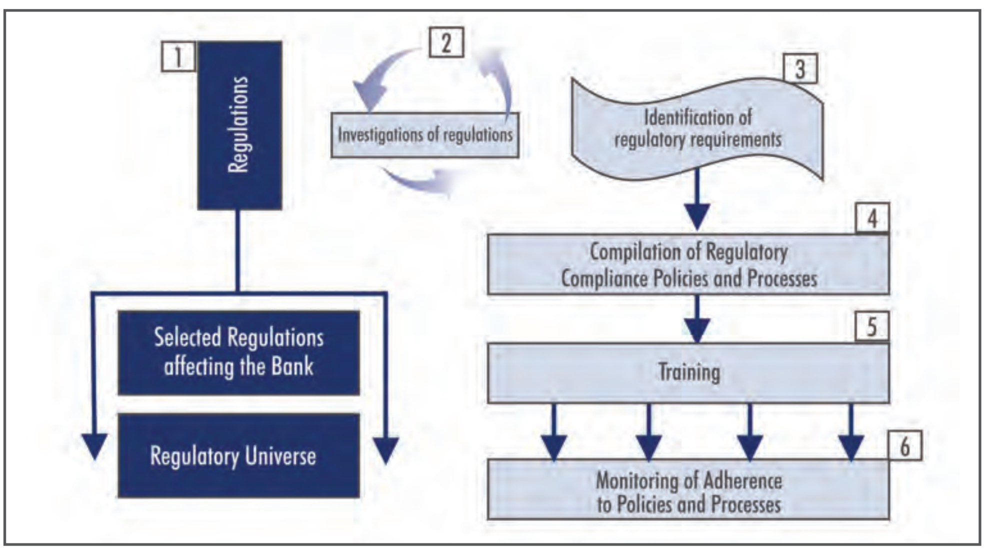
New legislation that will have an impact on the Bank includes, *inter alia*, **The Protection of Personal Information Act No. 4 of 2013**, the new **Financial Intelligence Centre Amendment Bill** and the **Treating Customers Fairly Outcomes**.

To understand and assess the impact of these changes and amendments on the business and the way the Bank conducts business, Finbond utilises the **Finbond Regulatory Compliance Model (FRCM)** as depicted below.

Responsibilities and obligations imposed by new legislation are assessed, based on all the identified risk components, and remediation-related controls are developed and implemented to mitigate the assessed risk.

Finbond recognises its accountability to all its stakeholders under the legal and regulatory requirements applicable to its business, and is committed to high standards, integrity and fair dealing in the conduct of its business.

Finbond is ultimately committed to complying with both the spirit and the letter of applicable legislation and requirements and to always act with due care, skill and diligence.



FINBOND REGULATORY COMPLIANCE MODEL (FRCM)

RISK MANAGEMENT FRAMEWORK

1 RISK MANAGEMENT FRAMEWORK

a) Approach

Finbond's approach to risk management is based on well established governance processes and relies on both individual responsibility and collective oversight, supported by comprehensive reporting.

This approach balances strong corporate oversight at executive management level, beginning with pro-active participation by the Chief Executive Officer and the Executive Committee in all significant risk matters, with risk management structures, supporting policies, procedures and processes within all regional and divisional business units enabling risk assessment in a controlled environment. Risk management is seen as the responsibility of each and every employee.

b) Governance Structure

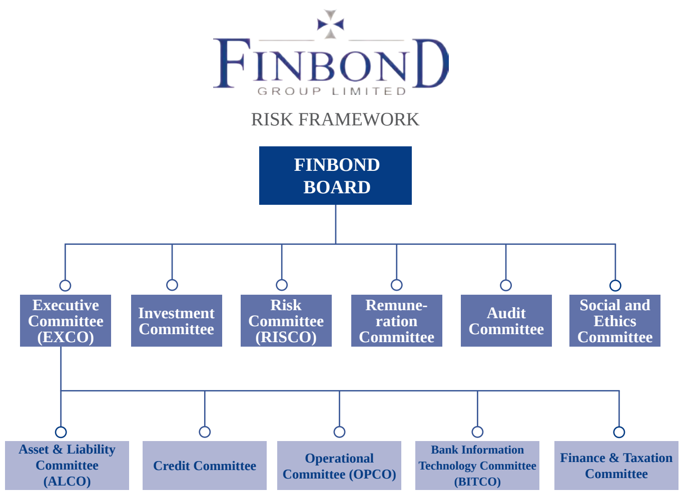


FIGURE 1. FINBOND GOVERNANCE

The various committees' areas of responsibility, objectives, members and meeting frequency are set out in the Committee Charters, as summarised in the Corporate Governance Section on pages 50 to 56.

The independent Risk and Analysis Department is responsible for the implementation and management of the Finbond Risk Management Framework which includes the identification, measurement, monitoring, reporting and mitigating of all risks. Findings are immediately communicated to the relevant business unit and escalated through the Chief Risk Officer's membership of the Risk Committee and Executive Committee and Executive subcommittees, the Credit Committee and the Asset and Liability Committee.

c) Risk Appetite

Risk appetite is the maximum level of residual risk that Finbond is prepared to accept to deliver its business objectives.

The Board establishes Finbond's parameters for risk appetite by:

- Providing strategic leadership and guidance;
- Reviewing and approving annual budgets and forecasts; and
- Regularly reviewing and monitoring the Group's risk performance through detailed monthly Management Information Packs, Monthly Risk Management Reports and Quarterly Board Reports.

The Board delegates the determination of risk appetite to the Executive and Risk Committees and ensures that risk appetite is in line with Group strategy and the Group's desired balance between risk and reward.

FIGURE 2. RISK APPETITE FRAMEWORK

d) Stress Testing

Stress tests are used in proactively managing the Group's risk profile, capital, liquidity, strategic business planning and setting of capital buffers. Stress testing is an integral component of Finbond's **Internal Capital Adequacy Assessment Process (ICAAP)**, and is used to assess and manage the adequacy of regulatory and economic capital.

Stress testing may reveal a reduction in surplus capital or a shortfall in capital under specific scenarios. This may then serve as a leading indicator to the Group to raise additional capital, reduce capital outflows, adjust the capital structure and/or reduce its risk appetite.

The outcomes of stress testing on earnings, liquidity and capital adequacy are considered in determining an appropriate risk appetite to ensure that these remain above the Group's minimum capital requirements.

Management further also reviews the outcome of stress tests and, where necessary, determines appropriate mitigating actions to minimise and manage the risks induced by potential stresses.

Examples of potential mitigating actions include reviewing and changing risk limits, increasing credit scores, limiting exposures to certain longer term product ranges and only selling 30- to 120-day products in certain branches.

The objective of stress testing is to support a number of value-added business processes, which include:

- Assessment of potential changes in the risk profile and monitoring of risk appetite;
- Strategic planning and budgeting;
- Capital planning and liquidity management, including setting capital buffers;
- Communication with internal and external stakeholders;
- The assessment of the impact of stresses on headline earnings; and
- *Ad hoc* assessment of the impact of changes in short-term macro-economic factors on the performance of the Bank.

On a bi-annual basis Finbond performs stress tests across all major risk types based on a number of scenarios, each with different levels of severity. The outcome of these stress tests serves as an indicator, as to whether or not Finbond remains within its risk tolerance levels under the various scenarios.

e) Bankers' Algorithm

The Finbond bankers' algorithm is used to pro-actively manage the Bank's risk profile, capital liquidity, strategic business planning and setting of capital buffers.

The Finbond bankers' algorithm is a resource allocation and deadlock avoidance algorithm that tests for safety by simulating the allocation of predetermined maximum possible amounts of all resources over a one- to five-year period, and then makes a "safe-state check" to test for possible deadlock conditions for all other pending activities, before deciding whether allocation should be allowed to continue.

The algorithm avoids deadlock by denying or postponing a resource request if it determines that accepting the request could put the Bank in an unsafe state (one where deadlock could occur).

2. RISK IDENTIFICATION, MEASUREMENT, MONITORING, REPORTING AND MITIGATION

FIGURE 3. RISK MANAGEMENT PROCESS

a) Risk Identification

Risk identification is the first step in the proactive risk management process. It provides the opportunities, indicators and information that allow the organisation to raise major risks before they adversely affect the Group or the Bank. The various risks that Finbond is exposed to are listed in the Finbond Risk Barometer (FRB) and Finbond Risk Register (FRR). The biggest risks reside in credit extension, liquidity and operations, and emphasis is therefore placed on these three areas.

b) Risk Measurement

In terms of the FRB, the various risks are allocated a risk colour at time of measurement:

Blue:	Extreme Low Risk
Green:	Low to Medium Risk that is manageable
Amber:	Medium to High Risk that is difficult to manage
Red:	High Risk that cannot be managed

The FRR monitors key risk variables against predetermined limits to assign a risk status (green, amber or red) to a specific risk category and risk subcategory.

Green:	Risk is within acceptable risk limit
Amber:	Risk is approaching breach of risk limit
Red:	Risk limit has been breached and requires action

c) Risk Monitoring

The various risks that Finbond is exposed to are continuously monitored and, on at least a monthly basis, considered by the Executive Committee and Risk Committee who updates the FRB and FRR. Detailed reports are generated as part of the monthly Management Information Pack (MIP) and monthly Risk Management Report (RMR) to enable monitoring of all risk levels.

The specific risk relating to the Asset and Liability Committee and the Credit Committee is also monitored at each of these meetings. Formal Risk Assessments and Stress Tests are conducted at least bi-annually.

d) Risk Reporting

The various risks that Finbond is exposed to are reported in the FRB and FRR included in the MIP and RMR. The MIP is distributed to all Executive Directors, Non-Executive Directors, the Internal Auditor, the External Auditors (KPMG Inc.), the Executive Committee, the Operational Committee, the Asset and Liability Committee and the Credit Committee ten business days after month end.

The independent Risk and Analysis Department immediately reports any adverse findings to senior management and the relevant business units or regions. The Risk and Analysis Department also produces a monthly RMR that is distributed to all the members of the Risk Committee, the Executive Committee, the Asset and Liability Committee and the Credit Committee.

e) Risk Mitigation

Risk management and reduction is at the core of the operating structure of the Group. The various risks that Finbond is exposed to are mitigated through various internal business processes and policies as set out in the Finbond Policy Manual (FPM). Existing controls and policies are assessed and, if necessary, adjusted and updated.

3. RISK CATEGORIES

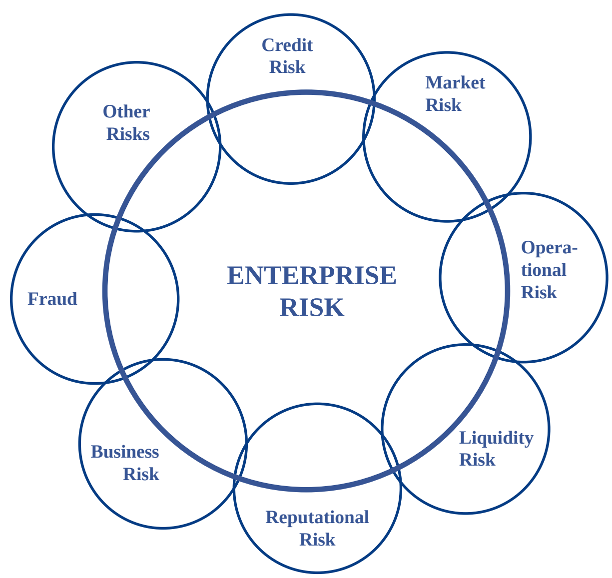


FIGURE 4. ENTERPRISE RISK TYPES

a) Credit Risk

Credit risk is the Bank's most material risk and can be defined as the risk of loss arising from the failure of a client or counter-party to fulfil its financial and/or contractual obligations to the Bank. The credit risk that the Bank faces arises mainly from consumer loans and advances. The adjacent graphs present decline rates from the credit scorecard.

Credit risk related to the investment of surplus cash with banks and Fixed Income funds is managed by the Asset and Liability Committee, which proposes a list of counterparties and related limits for approval by the Credit Committee.

Given that credit risk is the most material risk, considerable resources are dedicated to controlling credit risk effectively within the Finbond Credit Risk Control Framework. The Finbond Credit Policy sets out the principles under which the Group and the Bank are prepared to assume credit risk.

Credit risk management is overseen by the Credit Committee as a subcommittee of the Executive Committee. The Credit Committee meets at least monthly to evaluate the activities and operations of the credit division and operations, new business, results, arrears, provisioning, regulatory compliance and any potential amendment to the Credit Policy or Credit Scores.

i) *Credit risk appetite and credit policies*

Finbond's strategy does not entail the elimination of credit risk but rather takes on credit risk in a well-controlled, planned and targeted manner pursuant to its business objectives. Its approach to measuring credit risk is therefore designed to ensure that it can be assessed accurately, and that relevant, timely and accurate credit risk information is available at an operational and at a strategic level at all times.

At a strategic level, the Bank seeks to manage its credit risk profile within the constraints of its overall risk appetite and to structure its portfolio so that it provides optimal returns for the level of risk taken. Finbond seeks to achieve an appropriate balance between risk and reward, and continues to build and enhance credit risk management capabilities that assist in delivering growth in a controlled environment.

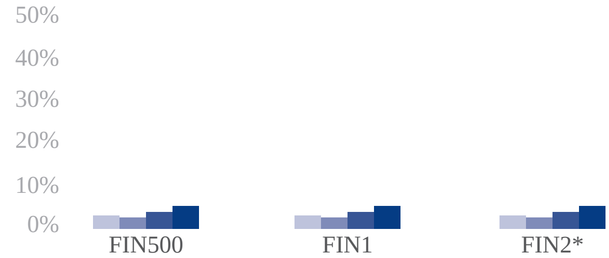
Finbond's credit risk appetite and Credit Risk Control Framework are defined by the Finbond Credit Policy and Finbond Upfront Credit Scoring Rules as approved by the Executive Committee and Credit Committee from time to time. Policy changes are recommended to the Credit Committee as and when required. The Credit Committee reviews the various policies at least quarterly. Finbond's Upfront Credit Scoring Rules and Credit Risk Management Model are continually adjusted to maintain and improve levels of arrears in a volatile and changing economic climate.

ii) *Sector and geographical exposures*

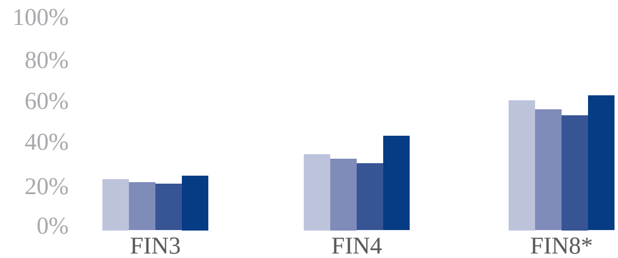
Finbond's Microcredit Portfolio is comprised of a large number of customers with small short-term unsecured loans, dispersed across different geographical areas, different sectors and different Living Standard Measure[1] (LSM) 1–7 groups.

Sector and geographical concentration risk is monitored on a monthly basis through Portfolio Analysis, Detailed Vintage Curves and Loan Spread per Sector Reports.

MONTHLY CODIX DECLINES TO HISTORIC DECLINE RATES



		FIN500	FIN1	FIN2
Dec-15		3.08%	10.42%	21.28%
Jan-16		3.05%	9.06%	18.69%
Feb-16		3.13%	8.65%	18.88%
Historical		4.50%	11.24%	25.70%



		FIN3	FIN4	FIN8
Dec-15		24.48%	37.98%	59.29%
Jan-16		22.89%	35.75%	56.38%
Feb-16		21.81%	34.65%	55.75%
Historical		27.78%	41.55%	61.88%

		FIN12	FIN18	FIN24
Dec-15		74.69%	80.97%	89.52%
Jan-16		72.38%	79.28%	88.80%
Feb-16		71.78%	78.86%	88.28%
Historical		79.21%	85.10%	92.25%

SCORE DECLINE RATES

[1]The SAARF LSM (Living Standards Measure) has become the most widely used marketing research tool in Southern Africa. It divides the population into 10 LSM groups, 10 (highest) to 1 (lowest). Previously, eight groups were used but this changed in 2001 when the new SAARF Universal LSM consisting of 10 groups was introduced. The SAARF LSM is a unique means of segmenting the South African market. It cuts across race and other outmoded techniques of categorising people, and instead groups people according to their living standards using criteria such as degree of urbanisation and ownership of cars and major appliances.

*Explanation of product names: FIN500 refers to loans of R500 and less, for the rest of the product range the number in the name refers to the number of months each loan product is granted for: FIN1 refers to one-month loans, FIN2 refers to two-month loans and so on.

iii) *Risk acceptance and monitoring of credit risk*

The Credit Risk Control Framework provides a structure within which credit risk is managed and for which compulsory credit policies are prescribed. These policies are approved by the Executive Committee and Credit Committee.

Finbond has implemented a robust Credit Scoring and approval process in line with Finbond's Credit Policy which makes use of *Compuscan's Compuscore* and *Codix Upfront Credit Scoring* as well as affordability assessments for each client.

The credit acceptance decision is based on the applicant's:

- <u>Behaviour (willingness to pay):</u>
  The willingness to pay is established externally by enquiries performed and credit bureau-related policy rules. This information is supplemented internally and fraud checks are included;
- <u>Ability to pay:</u>
  The ability to pay is assessed after authentication and capturing of income, expenditure and financial obligation information, as prescribed by the **National Credit Act**; and
- <u>Source of payment:</u>
  The source of payment is established from the salary slip details, bank statement, and again when confirming employment.

Credit Risk is actively monitored on a daily, weekly and monthly basis through, *inter alia*:

- Maximum exposure to credit risk reports;
- Revenue, asset and cash analysis;
- Loan balance analysis;
- Portfolio analysis;
- Vintage curves;
- Write-off and bad debt vintages;
- Net impairment loss ratios;
- Portfolio at risk (PAR 30 and PAR 90);
- Risk coverage ratios (RCR 30 and RCR 90);
- Roll rate analysis; and
- Arrears dashboards.

Arrears are actively monitored to ensure operational efficiency by identifying changes in trends and variances from tolerance levels. Arrears percentages are reported monthly and are evaluated on product, regional, operational (provincial) manager and national levels. Branch performance and targets include arrears targets, appropriately balanced with sales and profit targets.

iv) *Credit concentration risk*

Finbond employs an internal economic capital model[2] and stress tests to adequately measure concentration risk[3]. Concentration risk is managed on a centralised basis through the monitoring of exposures at Executive Committee, Asset and Liability Committee, Operational Committee and Credit Committee level.

The measurement methodology for concentration risk is also commensurate with the complexity/simplicity of the Bank's business and the environment in which we operate.

v) *Credit control and loss recovery*

With regard to Daily Collections and Early Stage Collections, Finbond primarily makes use of the Early Debit Order Platform in the form of Authenticated Early Debit Order (AEDO) facilitated by Altech Nupay. NuPay AEDO is a terminal-based solution, which enables a merchant to load future- dated, irreversible transactions on a third party's account.

The basic functionality of the NuPay system is to provide a facility whereby a credit provider can process an electronic transaction to transfer funds from a client's account to his own, similar to the process currently performed to effect credit and debit card transactions at retail outlets. The difference is that, unlike real-time transactions, these transactions will be processed at a later date.

The collections method involves client-authenticated debit order authorisation, through card and PIN verification of the client's account. A further advantage of the Early Debit Order Platform is a tracking facility which tracks the availability of funds in client accounts for a period of time determined by the user (for instance, start tracking from pay date to three days thereafter). Once the debit order is received via BankServ, the funds are transferred directly into a Finbond bank account.

In case of an initial default by the client, Finbond uses internal and external call centre based "soft collection centres" for remedial collections. This environment is governed by the Excalibur Collections Call Centre Management System as facilitated by Futuresoft.

Legal collections take the form of matters which are handed over to various External Debt Collection agents (EDCs), who are responsible for tracing the debtors, facilitating payment arrangement and, if deemed necessary, take legal action (in the form of obtaining emolument attachment orders). The EDCs are managed in terms of mandates and their performance is reviewed monthly. These agents, the handed-over-accounts database and recoveries are managed by the Finbond Collections Department.

vi) *Provisions and Impairments*

The Group reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there are any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans (known as loss events) before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, a breach of contract such as a default or delinquency in payment for an individual borrower, or local economic conditions that correlate with defaults on assets in that group.

Management uses estimates based on industry trends as well as historical loss experience for assets with similar credit risk characteristics for both identified impairment as well as incurred but unidentified impairment. The methodology and assumptions used for estimating both the amount and timing of future cash

[2]Economic Capital is the amount of risk capital, assessed on a realistic basis, which an enterprise requires to cover the risks that it is operating as a going concern, such as market risk, credit risk, and operational risk. It is the amount of money which is needed to secure survival in a worst case scenario. Typically, economic capital is calculated by determining the amount of capital that the firm needs to ensure that its realistic balance sheet stays solvent over a certain time period with a pre-specified probability.

[3]Credit concentration risk is the risk of loss to the Group as a result of excessive build-up of exposure to, among other things, a single counterparty or counterparty segment, an industry, a market, a product, a financial instrument or type of security, a country or geography, or a maturity. This concentration typically exists where a number of counterparties are engaged in similar activities and have similar characteristics, which could result in their ability to meet contractual obligations being similarly affected by changes in economic or other conditions.

flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

b) Liquidity Risk

Liquidity risk is the risk that Finbond is unable to meet its payment obligations when they fall due and to replace funds when they are withdrawn, the consequence of which may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

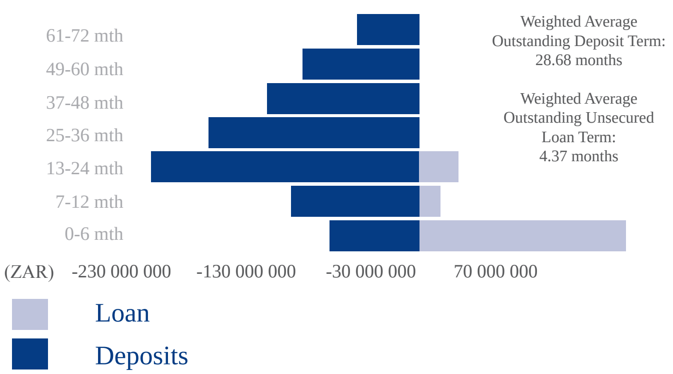
Liquidity risk refers to a bank's inability to continue operating as a going concern due to a lack of funding. This type of event may arise where counterparties who provide the bank with funding withdraw or do not roll over that funding, or as a result of a generalised disruption in asset markets, which results in normally liquid assets becoming illiquid.

The appropriate and efficient management of liquidity is of utmost importance to Finbond in ensuring the confidence of the financial markets and to support the Finbond business plan. The efficient management of liquidity risk is further essential in order to ensure that:

- All stakeholders in the Bank are protected; and
- Liquidity risk is managed in line with regulatory liquidity requirements.

Finbond operates an uncomplicated liquidity profile with a preference for long-term funding at interest rates aligned with the structure of the asset book. *The management of liquidity risk takes preference over the optimisation of interest rate risk.*

ASSET AND LIABILITY MATCHING (OUTSTANDING MATURITY)



Asset and liability matching (Outstanding Maturity of deposit and unsecured loan portfolio excl. secured loan portfolio)

i) Liquidity risk management, measurement and monitoring

The Assets and Liabilities Committee (ALCO) is responsible for the management of liquidity risk. ALCO meets monthly to consider the activities of the treasury desk, which operates in terms of an approved Asset and Liability Management (ALM) policy and in line with approved limits.

In managing liquidity risk, Finbond aims to maintain a balance between liquidity and profitability. In order to effectively manage liquidity risk, the Group and the Bank are required to:

- Maintain a sufficiently large liquidity buffer;
- Ensure a structurally sound statement of financial position;
- Manage short- and long-term cash flow;
- Preserve a diversified funding base;
- Undertake regular liquidity stress testing and scenario analysis; and
- Maintain adequate contingency funding.

In managing liquidity risk, cognisance is taken of business-as-usual liquidity conditions, stress liquidity scenarios, liquidity risk guidelines and limits. Liquidity risk is managed by maintaining sufficient liquid assets or assets that can be translated into liquid assets at short notice and without capital loss to meet cash flow requirements.

Asset Liability and Capital Management are monitored by the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Chief Operating Officer, EXCO and ALCO through:

- Daily cash balance analysis, weekly and monthly analysis and stress testing and cash monitoring as set out in the Finbond Cash Management page in the monthly MI Pack, setting out detail of cash and cash equivalents available, free cash for growth, cash collateral, working capital cash, cash stock, overdraft facilities, microcredit operational weekly cash sweepings and net microcredit operational cash flows;
- Monitoring non-operating cash flow specific to funding liabilities (both capital and interest) in cash flow statements that are updated monthly;
- Asset and liabilities matching through the maturity ladder;
- Treasury desk deposit book maturity analysis;
- Deposit concentration analysis;
- minimum liquid asset and reserve balance compliance reports;
- Progress on funding initiative reports;
- Stressed cash flow forecast; and
- The Finbond Bankers' algorithm.

Liquidity cover ratio (LCR)

The LCR builds on traditional liquidity "coverage ratio" methodologies used internally by banks to assess exposure to contingent liquidity events. The total net cash outflows for the scenario are to be calculated for 30 calendar days into the future. The standard requires that, absent a situation of financial stress, the value of the ratio be no lower than 100% on an ongoing basis because the stock of unencumbered HQLA is intended to serve as a defence against the potential onset of liquidity stress. The table below presents Finbond's LCR.

LCR	Liquid Assets (ZAR)	30 Days outflows (ZAR)	2019 Requirement	Multiple of Required Ratio
LCR: Liquidity Coverage Ratio	56 975 074	20 018 216	>100%	2.71

BASEL III LIQUIDITY MEASURES - LIQUIDITY COVERAGE RATIO

Net stable funding ratio (NSFR)

The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. This ratio should be equal to at least 100% on an ongoing basis. "Available stable funding" is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. Finbond's NSFR is presented in the following table.

NSFR	Stable Funding (ZAR)	Total Long-Term Assets (ZAR)	2018 Requirement	Multiple of Required Ratio
Net Stable Funding Ratio	1 437 789 070	216 606 219	>100%	6.64

BASEL III LIQUIDITY MEASURES - NET STABLE FUNDING RATIO *ii) Principal policies and products*

Given the long-term nature of liabilities versus the short-term nature of assets, Finbond possesses a low-risk liquidity structure. Finbond is not exposed to the uncertainty that accompanies the use of corporate call deposits as a funding mechanism and Finbond's deposit portfolio (liabilities) has a weighted average outstanding term to maturity of 28.68 months, while Finbond's asset structure (loan book) is short-term in nature with a weighted average outstanding term to maturity of 4.37 months. As at the end of the financial year, the home loans/secured lending portfolio did not have a significant impact on the liquidity profile of Finbond. The expected impact that the growth in the home loans/secured lending portfolio will have on the liquidity profile of Finbond will be carefully monitored.

The principal risk management policies governing the management of liquidity risk as set out in the ALM policy are as follows:

- Wholesale deposit funding consists of fixed-term contractual maturities ranging from 6 months to 72 months and shorter term notice deposits (7-day and 32-day);
- Surplus short-term retail funding is maintained in call accounts with AAA-rated South African Banks or Fixed Income Unit Trusts operated by large reputable South African Asset Managers, Treasury Bills issued by the South African Treasury and South African Reserve Bank debentures;
- Adequate liquid assets are maintained in terms of the **Mutual Banks Act Regulations** to fund the liquid asset requirement and reserve account and to maintain collateral for clearing balances on the South African Multi Settlement Option System (SAMOS) account; and
- Treasury's use of interbank facilities is restricted in line with specified EXCO and ALCO approved limits.

iii) Business-as-usual liquidity risk management

Business-as-usual liquidity management refers to the management of the Bank's inward and outward cash flows experienced in the ordinary course of conducting business.

The business-as-usual environment tends to result in fairly high probability, low severity liquidity events and requires the balancing of the Bank's day-to-day cash needs. Finbond's approach to managing business-as-usual liquidity needs focuses on a number of key areas, including:

- Forecasting daily cash requirements. This is achieved by forecasting liquidity commitments which are considered as day-to-day flows and those that relate to large singular obligations;
- Analysing and forecasting the growth in the loan book, inflows from settlements adjusted for expected default, as well as expected inflows and outflows in terms of Finbond's funding programme of retail fixed deposits and periodic commitments such as dividend or tax payments;
- The active daily management of the funding and liquidity profile, taking cognisance of historic cash flow patterns to determine business-as-usual cash flow requirements, including cash stress points in any given month. The modelling is adjusted for seasonal variations based on historical experience, adjusted for expectations around projected growth and current market dynamics;
- The maintenance of a portfolio of highly liquid assets that can easily be liquidated to meet unexpected variances in forecast requirements as protection against any unforeseen interruption to cash flow;
- Actively pursuing medium- and long-term funding opportunities to fund the budgeted growth opportunities of the Bank (in line with the preference for long-term fixed-term funding) in order to achieve an optimal funding profile and sound liquidity risk management;
- Offering retail fixed-term deposits with a term between 6 and 72 month appropriate for clients who want to benefit from the higher deposit rates offered; and
- The monitoring and managing of liquidity costs and average cost of funding.

iv) Liquidity stress testing and scenario analysis

The ALCO reviews liquidity scenario analyses and stress testing on a regular basis in order to assess the adequacy of the Bank's funding sources, liquidity buffers and contingency funding strategies to meet unexpected outflows arising from Finbond-specific, systemic and market stress events.

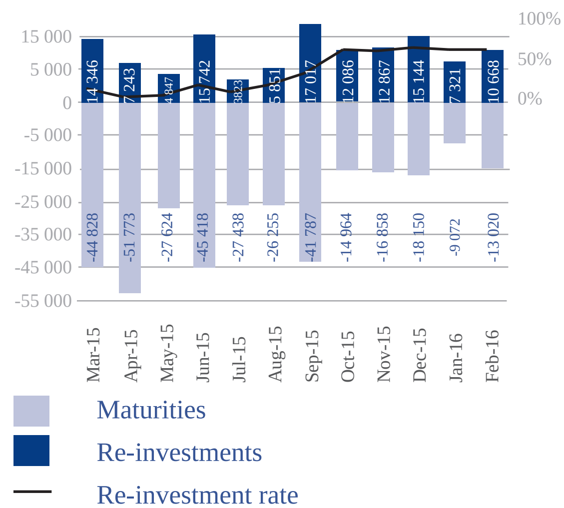
Concentration risk limits are used to ensure a wide diversification by provider, product and term. Limits are set internally to restrict single and top ten depositor exposures to below 10% for a single depositor and 20% for the top ten depositors of funding-related liabilities respectively.

v) Deposit management

Given that Finbond only has fixed-term funding of between 6 and 72 months, efforts are directed towards giving clients excellent service in order for new clients to continue investing and for old clients to re-invest with Finbond on maturity.

Given that Finbond is mainly funded through fixed-term retail deposits with different maturities, there is no significant rollover risk. Interest rates are reviewed monthly to ensure that deposit rates remain competitive and appropriate. Deposit rates are advertised nationally in the print media and on selected radio stations in order to attract deposits.

RE-INVESTMENT RATE (R'000)

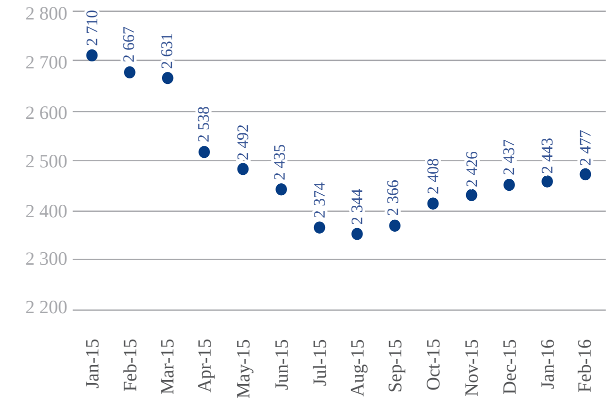


vi) Diversified funding base

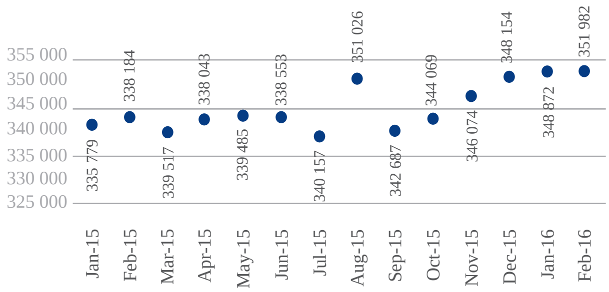
Although Finbond employs a diversified funding strategy, sourcing funding lines in the domestic and offshore markets, Finbond's main focus and source of funding is retail deposit funding that is limited to fixed-term contractual maturities of 6 months to 72 months.

As at the end of February 2016, the deposit portfolio consisted of 2 477 active depositors with an average deposit size of R351 982.

NUMBER OF ACTIVE DEPOSITS



Average Deposit Size



c) Operational Risk

Operational risk arises from the potential that inadequate management, information systems, operational problems, breaches of internal controls, fraud or unforeseen catastrophes will result in unexpected losses.

Operational risk is associated with human error, system failures and inadequate procedures and controls. Operational risk exists in all products and business activities. Operational risk event types that have the potential to result in substantial losses include internal fraud, external fraud, employment practices, workplace safety, clients, products and business practices, business disruption and system failures and damage to physical assets.

The objectives of operational risk management is to quantify the extent of Finbond's operational risk exposure; to understand what drives it; to mitigate the impact thereof; to allocate capital against it and to identify trends internally and externally that would help to mitigate it.

The Operational Committee (OPCO) has been established to oversee the operational risk profile of the Group and the Bank. The committee executes, recommends and monitors Finbond's day-to-day operations and practices. The Committee also reviews and implements risk management policies, processes and procedures and business strategies, taking into consideration internal as well as external conditions with regard to best practice, innovation and financial performance within the approved risk management framework.

The Committee is comprised of the Chief Executive Officer, the Chief Financial Officer, the Chief Risk Officer, the Chief Operating Officer and all Regional General Managers and Heads of Departments. The Heads of Internal Audit and Compliance provide independent monitoring and are invited to attend all OPCO meetings.

i) Day-to-day operational risk management

The management of operating risk is inherent in the day-to-day execution of duties by management and is the central element of all management processes within Finbond. Line management accepts accountability and responsibility for the identification, management, measurement, monitoring, reporting and mitigation of operational risks.

ii) Insurance programme

A comprehensive insurance programme is maintained to cover losses from loss of key personnel, professional liability claims, damage to physical assets and theft of certain assets. Cash losses in branches and opportunity costs of lost revenue are not insured.

iii) Fraud prevention

A zero tolerance approach is followed with respect to fraud, theft and dishonesty. Information regarding any irregularities received from employees, management or the independent fraud hotline is immediately investigated by internal audit and referred to the police's commercial crimes unit.

iv) Information technology systems

All banking systems, credit scoring systems and loan management systems (including mission critical systems) are outsourced to reputable external service providers.

These relationships are formalised by way of Service Delivery Agreements. All incidences of downtime are recorded.

The core banking systems of Finbond Mutual Bank are supplied by and contracted out to Emid (Pty) Ltd, a subsidiary of the EOH Group of Companies that has both the ISO 9001:2007 and ISAE 3402* (SAS70) accreditations.

The Emid (Pty) Ltd information technology principles and systems implemented by Finbond Mutual Bank are appropriate for the business activities of the Bank. Emid (Pty) Ltd currently provides systems and technology to, *inter alia*, the following banks and financial services groups in the SA banking regulatory environment:

- Bidvest Bank;
- First National Bank (Housing Finance);
- National Housing Finance Corporation (NHFC);
- Standard Chartered Bank;
- VBS Mutual Bank; and
- Ithala Limited.

v) Data aggregation and risk reporting process risk

This is the risk that the underlying data is not accurate or not delivered in a timely manner and that the models used within the risk management process (which includes reporting) are flawed or used incorrectly.

Finbond relies on accurate and timely risk reporting to effectively manage all risks the Bank is exposed to. All processes relating to the sourcing, aggregation and manipulation of data, as well as specific risk calculations, are designed to be robust, under normal and stress conditions, and are thoroughly tested before being implemented. Computer coding is standardised with adequate programming comment to enable the wider understanding of algorithms. Data aggregation and risk reporting processes are documented and controls are implemented to monitor the accuracy and completeness of data.

Risk reporting is frequently updated to provide for the needs of all stakeholders and to account for the growth of the Bank and the evolving nature of the business environment.

d) Other Risks

In addition to the aforementioned, various other risks are constantly monitored by the Executive Committee, Risk Committee and the Board in terms of Finbond's Risk Barometer and Risk Register, which is updated on a monthly basis.

These other risks include: market and securities price risk; cash flow and fair value interest rate risk; interest rate risk; investment risk, foreign currency risk, reputational risk, legal risk, financial crime risk, regulatory and compliance risk and insurance risk.

4. BASEL III AND REGULATORY CAPITAL

a) Basel III Compliance

The **Basel III framework** prescribes higher capital ratios, and introduces new liquidity measures that will be phased in from 2015 to 2019. Finbond Mutual Bank already complies with and significantly exceeds the **Basel III** rates.

As at 29 February 2016:

- Finbond Mutual Bank's liquidity coverage ratio was 271% (minimum of 100% required by 2019); and
- Finbond Mutual Bank's net stable funding ratio was 664% (minimum of 100% required by 2018).

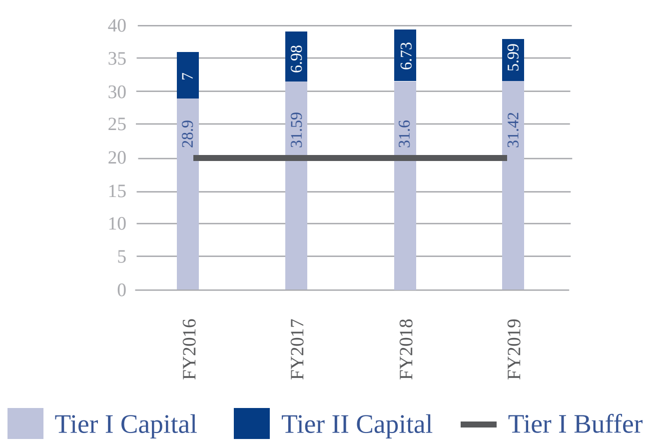
As a condition of establishment, the Registrar required Finbond Mutual Bank to hold minimum capital of R250 million or 25% of Risk Weighted Assets, whichever is the highest. According to **Basel III requirements** minimum Total Capital plus Pillar 2A Capital equal to 10.0% of Risk Weighted Assets needs to be held by South African Banks as of January 2014.

b) Regulatory Capital

The following measurements are included in the monthly and quarterly DI Returns provided to the South African Reserve Bank at 29 February 2016:

- Finbond Mutual Bank exceeded the **SARB's Regulatory Requirement for Qualifying Capital and Reserves** by R131.5 million or 43.7% (February 2015: by R121 million or 40.5%). Finbond Mutual Bank projected a positive liquidity mismatch of R229 million at 29 February 2016.
- Finbond Mutual Bank exceeded the DI400 calculated minimum share capital and unimpaired reserve funds by R312 million or 359% (February 2015: by R298 million or 247%). Finbond Mutual Bank exceeded the **SARB's Regulatory Requirement for Capital Adequacy** by 10.9% (February 2015: by 10.1%).

CAPITAL ADEQUACY FORECAST (%)



CAPITAL ADEQUACY RATIO

c) Economic Capital Report

Economic Capital (ECap) is the amount of capital needed by the Group to cover losses incurred as a result of unexpected or extraordinary events. ECap acts as a buffer for financial institutions to absorb large unexpected losses, thereby protecting depositors and other claim holders and providing confidence to external investors and rating agencies on the financial health of the Group and the Bank.

The responsibility of managing risk in the Group lies with the Risk Committee. This Committee meets frequently and its mandate is to provide oversight and advice in relation to Finbond's Risk Management Framework, current and potential future risk exposures of the Group and the Bank and future risk strategy, including determination of risk appetite and tolerance, as well as the Internal Capital Adequacy Assessment Process (ICAAP).

Economic Capital has been calculated for each of the following risk types:

- Operational Risk: Defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events;
- Market Risk and Interest Rate Risk: The risk arising from changes in market variables;
- Credit Risk: Arising from lending activities, namely borrowers who default on their loan obligations; and
- Liquidity Risk: The risk of being unable to raise funds to support the Bank's business activities.

As the Group grows and becomes exposed to other risk types, the model will be recalibrated accordingly to cover these new risk types.

The Economic Capital has not been disaggregated into lines of business or operating units due to the simple structure of the Group and its lines of business. Economic Capital for the Group as a whole for each risk type is estimated using a Monte Carlo simulation model that parameterises identified risks in each of the risk types, using a one-year window. The granularity of the model is deemed to be appropriate by Management.

The simulation explicitly captures the risk of potentially severe events in the tail of the distribution by using suitably skewed loss distributions. Distributions have not been truncated as this may result in an unwarranted reduction in the corresponding Economic Capital. For similar reasons it has been assumed that the major risk types are mutually independent.

The risk simulation parameters are based on historical data where available, external data, or estimates considered by management to be appropriately conservative. The dependence between identified risks is modelled using management estimates of inter-event correlations. The Economic Capital is evaluated at the 99.90% confidence level, based on 10 000 000 iterations of the Monte Carlo model.

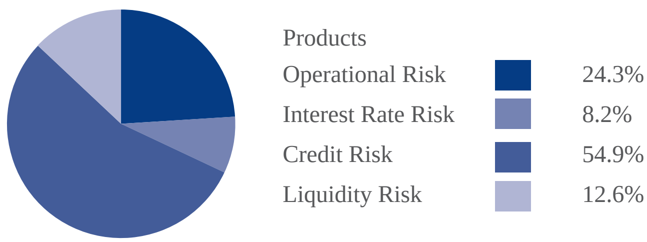
Credit Risk constitutes the greatest risk to the Group and correspondingly represents the greatest contribution to Economic Risk Capital. Fraud, both internal and external to the Bank, comprises the greatest contribution to operational risk. Liquidity Risk, being the potential losses the Bank will incur if unable to settle obligations timeously, is the predominant component of Liquidity Risk.

Total available financial resources (net qualifying capital and reserves) of 432 million cover the minimum economic capital requirement by a factor of 4.46.

RISK TYPE	Economic Capital Feb 2016 R'000	Proportion %	Economic Capital Feb 2015 R'000	Proportion %
Operational Risk	23 501	24.3	23 628	24.6
Interest Rate Risk	7 983	8.2	6 289	6.6
Credit Risk	53 159	54.9	53 810	56.1
Liquidity Risk	12 230	12.6	12 212	12.7
Overall	96 873	100.0	95 938	100.0
Available financial resources	432 434	-	418 853	-
Capital coverage ratio	4.46	-	4.36	-

TABLE 1: ECONOMIC CAPITAL BY RISK TYPE

ECONOMIC CAPITAL BY RISK TYPE 2016



"TRYING TO PREDICT THE FUTURE IS LIKE TRYING TO DRIVE DOWN A COUNTRY ROAD AT NIGHT WITH NO LIGHTS WHILE LOOKING OUT THE BACK WINDOW."

- Peter Drucker -

REGULATORY REPORT SUMMARY

The following measurements are included in the monthly and quarterly DI returns provided to the **South African Reserve Bank**.

ZAR '000	29 FEBRUARY 2016	28 FEBRUARY 2015
DI100 BALANCE SHEET		
Fixed and Notice Deposits	**896 301**	871 542
Qualifying capital and reserves	531 141	535 142
Less: Impairments (section 70(5) of the Act)	97 965	97 965
Net qualifying capital and reserves	**433 176**	437 177
DI200 INCOME STATEMENT		
Net interest turn	7 823	6 324
Retained Income at the end of the period	**28 829**	62 118
DI300 LIQUIDITY RISK MATURITY LADDER		
Anticipated future cash flows - inward	2 298 774	1 817 093
Anticipated future cash flows - outward	1 953 293	1 551 224
Anticipated liquidity mismatch per ALCO model	**345 481**	265 869
Retail deposits	896 301	871 542
Total funds supplied by 10 largest depositors	85 399	86 822
DI310 MIN. RESERVE BALANCE & LIQUID ASSETS		
Adjusted liabilities	911 014	848 312
Reduced liabilities	859 674	805 570
Minimum reserve balance held	**18 721**	15 280
Average daily minimum reserve balance to be held (2.5% of Reduced Liabilities)	16 797	16 090
Liquid assets held	**59 174**	52 483
Liquid assets required to be held at 5% of Adjusted Liabilities	45 551	42 416
Excess	**13 623**	10 068
DI400 CAPITAL ADEQUACY		
Net qualifying issued share capital and unimpaired reserve funds	433 176	437 177
Required issued share capital and unimpaired reserve funds calculated in last preceding return at 10%	120 210	116 709
Excess	312 965	320 468
Capital adequacy: risk asset ratio	36%	37%
DI500 CREDIT RISK		
Maturity analysis of overdue amounts in terms of bank policy		
Amount 0 to 3 months overdue	24 548	24 046
Amount 4 to 6 months overdue	24 235	25 325
Amount overdue > 6 months	-	-

CORPORATE GOVERNANCE

The Finbond Board of Directors ("the Board") sets the Group's overall policy, and provides guidance and input in areas relating to strategic direction, planning, acquisitions, performance measurement, resource allocation, key appointments, standards of conduct and communication with shareholders.

The Board's objectives are the development and sustainable growth of the Group's business in accordance with applicable regulatory requirements, for the benefit of all stakeholders. The achievement of these objectives is dependent on the adherence to good corporate governance throughout the organisation.

The Board fully supports and materially complies with the principles of effective corporate governance, and the need for integrity and high ethical standards in the conduct of its business. The Directors have implemented several key recommendations based on the principles outlined in the **King III Report on Corporate Governance**, namely:

- The role of the Chairman and the Chief Executive Officer are separated;
- A Non-Executive Director serves as Chairman; and
- The Board is made up principally of Non-Executive Directors.

Finbond complies with **King III** and the **Companies Act No. 71 of 2008** in all material respects.

ROLE OF THE BOARD

The Board is of the opinion that the corporate governance framework needs to be in line with the size of the Group, its complexity, its structure and the risks that have an influence on it, and should be a structure through which objectives are set and monitored.

Dr Willie van Aardt is the Chief Executive Officer of the Group and the Bank, and Dr Malesela Motlatla is the independent Non-Executive Chairman. The Remuneration, Risk and Audit Committees are chaired by Non-Executive Directors, neither of whom are also the Chairman of the Board of Directors.

CODE OF CONDUCT

The Directors acknowledge the importance of sound corporate governance and the guidelines set out in the **Principles of Good Corporate Governance** and the **Code of Best Practice** (the **"Combined Code"**). The Directors therefore embrace the **Combined Code** as far as is appropriate, with due regard to the size and nature of the various companies which make up the Group. The Board takes whatever measures necessary to comply with the **Combined Code** in every way practically possible.

All Directors and employees are required to maintain the highest ethical standards in order to ensure that the Group's business is conducted in a manner which is beyond reproach.

For the year under review, the Board is satisfied that its decision-making capability and the accuracy of its financial results have been maintained at a high level at all times, with appropriate reliance being placed on management, internal as well as external audit, and the Group Audit Committee to raise any issues of financial and risk concerns.

COMPOSITION OF THE BOARD

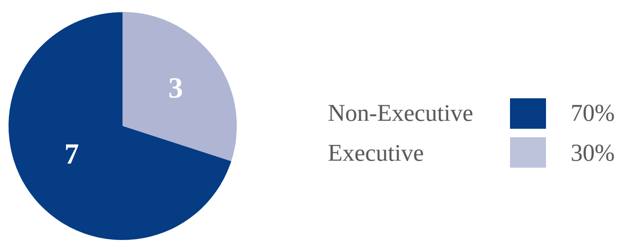
The Board is of the view that the number of members should be large enough to accommodate the necessary skills, but small enough to promote cohesion and effective participation. The composition of the Board is depicted in the table below:

The Board

Non-Executive	*Executive*
Dr Malesela Motlatla (Chair)*	Dr Willie van Aardt
Ms Ina Wilken-Jonker	Mr Gary Sayers
Adv Jasper Noeth	Mr Carel van Heerden
Mr Danie Brits	
Mr Robert Emslie	
Ms Rosetta Xaba*	
Adv Neville Melville	
Mr Herman Kotze**	

**Historically disadvantaged South African Directors in office until 19 April 2016 numbered two (20%).*
***Mr Kotze was appointed to the Board in the capacity of Non-Executive Director at the meeting of the Board held on 19 April 2016 subject to the completion of the administrative process to be followed at the CIPC, JSE and SARB.*

NUMBER OF DIRECTORS IN OFFICE UNTIL 19 APRIL 2016



The majority of Non-Executive Directors are fully independent of management, and free to make their own decisions and independent judgements. They enjoy no benefits for their service as Directors other than their fees. The Non-Executive Directors provide the Board with valuable, independent judgement based on their diverse range of skills and commercial experience.

Non-Executive Directors are selected only after completing a process which includes the identification of candidates with the requisite experience and standing in the banking and financial services environment in order to be able to provide genuine value to the Group; interviewing and vetting of potential candidates by the existing Board of Directors as well as the South African Reserve Bank; and a period of induction during which candidates are exposed to the Group's existing governance structures before making appointments final by approval at Board level.

The Non-Executive Directors are high-calibre professionals, and sufficient in number for their independent views to carry significant weight in the Board's deliberations and decisions, and the Board retains full and effective control over the Group.

Apart from the quarterly meetings, additional Board Meetings are arranged whenever necessary to review strategy, planning, operations, financial performance, risk and capital expenditure, human resources and environmental management.

The Board is also responsible for monitoring the activities of the executive management, and is balanced in such a way that no individual or small group is able to dominate decision-making.

INTERNAL CONTROL

The Board of Directors is responsible for the Group's system of internal control. The internal controls and systems are designed to provide reasonable assurance as to the integrity and reliability of the Financial Statements, and to adequately safeguard, verify and maintain accountability of the assets.

BOARD ASSESSMENTS

All Board members have individually completed the annual **King III assessment**, and have thereby indicated that Finbond's Board of Directors and respective Board Committees comply with all the material aspects of the **King Code of Governance Principles for South Africa, 2009**.

BOARD GENDER DIVERSITY

The Board has adopted a Gender Diversity Policy which sets out the approach to gender diversity on the Board of Directors of Finbond Group Limited.

The aim of the Policy is to outline the commitment held by Finbond to creating fair, equitable, respectful workplaces where both genders are supported in an inclusive environment, are given recognition based on individual merit and are considered for opportunities to advance and succeed regardless of their gender or term of employment. At the date of adoption of this policy, the Board's aim was to ensure that at least 15% of the Board would be made up of either gender.

BOARD COMMITTEES

Both the Executive and Independent Non-Executive Directors are members of the various Board committees, with Independent Non-Executive Directors being the sole members of the Audit and Remuneration committees.

The various committees' areas of responsibility, objectives, members and meeting frequency are set out in the Committee Charters. The following section outlines a summary of Board Committees that were in operation at 29 February 2016:

AUDIT COMMITTEE

The Audit Committee meets at least quarterly, and meetings are attended by the Chief Executive Officer, the Chief Financial Officer, the Group Financial Manager, the Head of Compliance, the Head of Internal Audit and a representative of the external auditors.

The Audit Committee is constituted as a Committee of the Board of Directors of Finbond Group Limited and Finbond Mutual Bank (Finbond). The duties and responsibilities of the members of the Committee are in addition to those as members of the Board. The role of the Committee is to provide independent assurance and assistance to the Board of Directors on control, governance and risk management. The Committee does not replace established management responsibilities and delegations. The Committee will provide the Board of Directors with prompt and constructive reports on its findings, especially when issues are identified that could present a material risk to Finbond Group Limited.

The Audit Committee has set out its role and responsibilities and the meetings held during the period, in its report, which is included in its own section of the Integrated Annual Report on pages 85 and 86.

The objective and role of the Audit Committee is set out in detail in the report of the Audit Committee included in the Annual Financial Statements on pages 85-86.

Audit Committee Members

Permanent	
Ms Rosetta Xaba (Chair)	Non-Executive Director
Mr Danie Brits	Non-Executive Director
Mr Robert Emslie	Non-Executive Director
By invitation	
Dr Willie van Aardt	Chief Executive Officer
Mr Gary Sayers	Chief Financial Officer
Mr Christo Quinn	Head of Internal Audit
Mr Hannes Cloete	Head of Compliance

REMUNERATION COMMITTEE

The Remuneration Committee is constituted as a committee of the Board of Directors of Finbond Group Limited and Finbond Mutual Bank. The duties and responsibilities of the members of the Committee are in addition to those as members of the Board.

The role of the Committee is to assist the Board to ensure that:

- Finbond remunerates Directors, Executives and staff members fairly and responsibly; and
- The disclosure of Directors and their remuneration is accurate, complete and transparent.

The Committee met on 30 April 2015 and 27 November 2015. All the members were present, and Dr Van Aardt attended part of both meetings as an invitee.

The Remuneration Committee undertook the role of a Nominations Committee and the selection and appointment of new Directors was agreed by the Remuneration Committee and recommended to the Board of Directors. The Chairman of the Board of Directors also assumes the role of the Chairman of the Nominations Committee, in line with the **JSE Listings Requirements** and **King III**.

The objectives and areas of responsibility of the Committee are to:

- Ensure that the remuneration policy is adhered to and implemented;
- Review the outcomes of the implementation of the remuneration policy for whether the set objectives are being achieved;
- Ensure that the mix of fixed and variable pay, in cash, shares and other elements, meets the company's needs and strategic objectives;
- Satisfy itself as to the accuracy of recorded performance measures that govern the vesting of incentives;
- Ensure that all benefits, including retirement benefits and other financial arrangements, are justified and correctly valued;
- Consider the results of the evaluation of the performance of the Chief Executive Officer and other Executive Directors, both as directors and as executives in determining remuneration;
- Select an appropriate comparative group when comparing remuneration levels;
- Review incentive schemes to ensure continued contribution to

- shareholder value and that these are administered in terms of the rules;
- Examine skills and characteristics needed in Board candidates;
- Identify suitable candidates for Director positions;
- Recommend the eligibility of prospective Directors;
- Review and update the Board Succession Planning Policy;
- Appoint suitable individuals to the Board of Directors when necessary;
- Overseeing induction and ongoing training of Directors; and
- To evaluate and keep under review the size, structure and composition of the Board and make recommendations to the Board on any proposed changes, taking into account the challenges and opportunities facing the Company and the skills, knowledge and experience required.

Remuneration Committee Members

Permanent	
Adv Jasper Noeth (Chair)	Non-Executive Director
Dr Malesela Motlatla	Non-Executive Director
Ms Rosetta Xaba	Non-Executive Director
By invitation	
Dr Willie van Aardt	Chief Executive Officer

SOCIAL AND ETHICS COMMITTEE

The Social and Ethics Committee is constituted as a committee of the Board of Directors of Finbond Group Limited and Finbond Mutual Bank.

Corporate ethics receives attention from the highest level of management and is communicated to staff and made available on the intranet. The Social and Ethics Committee's function, with its strong community and stakeholder focus, makes this the Board's best placed subcommittee to monitor the progress of the Group's strategic **Global Reporting Initiative** project to include transparent reporting on the sustainability of the business. The duties and responsibilities of the members of the Committee are in addition to those as members of the Board. The role of the Committee is to assist the Board to ensure that Finbond complies with **Regulation 43 of the Companies Act No. 71 of 2008**.

The Committee met on 27 August 2015 and 4 March 2016 and discharged its responsibilities to the Group as mandated by the Board of Directors.

The duties of the Committee shall be:

1. To monitor the company's activities, having regard to any relevant legislation, other legal requirements or prevailing codes of best practice, with regard to matters relating to:
   (i) social and economic development, including the company's standing in terms of the goals and purposes of:
      (aa) the ten principles set out in the **United Nations Global Compact Principles**; and
      (bb) the Organisation for Economic Cooperation and Development (OECD) recommendations regarding corruption;
      (cc) the **Employment Equity Act**; and
      (dd) the **Broad-Based Black Economic Empowerment Act**;
   (ii) good corporate citizenship, including the company's:
      (aa) promotion of equality, prevention of unfair discrimination, and reduction of corruption;
      (bb) contribution to development of the communities in which its activities are predominantly conducted or within which its products or services are predominantly marketed; and
      (cc) record of sponsorship, donations and charitable giving;
   (iii) the environment, health and public safety, including the impact of the company's activities and of its products or services;
   (iv) consumer relationships, including the company's advertising, public relations and compliance with consumer protection laws; and
   (v) labour and employment, including:
      (aa) the company's standing in terms of the **International Labour Organization Protocol** on decent work and working conditions; and
      (bb) the company's employment relationships, and its contribution toward the educational development of its employees; and
2. To draw matters within its mandate to the attention of the Board as occasion requires.

Social and Ethics Committee Members

Permanent	
Adv Jasper Noeth (Chair)	Non-Executive Director
Ms Ina Wilken-Jonker	Non-Executive Director
Dr Malesela Motlatla	Non-Executive Director
By invitation	
Mr Gary Sayers	Chief Financial Officer
Mr Gavin Davis	Head of Human Capital Development

RISK COMMITTEE

The Risk Committee met on 6 March 2015, 29 July 2015 and 13 October 2015. The Committee is responsible for providing oversight and advice in relation to Finbond's Risk Management Framework (including the significant policies, procedures and practices employed), current and potential future risk exposures of the Group and the Bank and future risk strategy, including determination of risk appetite and tolerance.

The Risk Committee implements risk management and measurement strategies across the Group and the procedures for monitoring the adequacy and effectiveness of those processes. The Committee also considers the Group's risk profile relative to current and future Group strategy and Group risk appetite and identifies any risk trends, concentrations or exposures and any requirements for policy change.

The Committee will consider and recommend the Group's risk appetite framework and tolerance for current and future strategy to the Board of Directors for approval, taking into account the Group's capital adequacy and external risk environment. Another function is to review, consider and update the Finbond Risk Barometer after receiving information relative to the Bank's risk.

Ensuring rigorous stress and scenario testing of the Group's business, receiving reports that explain the impact of crystallisation of identified risks and threats to the Group, and ensuring a sufficient level of risk mitigation is in place are also responsibilities of the Risk Committee. So is considering the adequacy and effectiveness of the technology infrastructure supporting the risk management framework.

The objectives and areas of responsibility of the Committee are to:

- Review the design and implement risk management and measurement strategies across the Group and the procedures for monitoring the adequacy and effectiveness of those processes;

- Consider the Group's risk profile relative to current and future Group strategy and Group risk appetite and identify any risk trends, concentrations or exposures and any requirement for policy change;
- Consider and recommend for approval by the Group and Bank Boards, the Group's risk appetite framework and tolerance for current and future strategy, taking into account the Group's capital adequacy and the external risk environment;
- Review, consider and update the Finbond Risk Barometer after receiving information relative to the bank's risk including:
  - Material regulatory or rating agency issues;
  - Material emerging risks to the banks aggregate risk profile as appropriate;
  - Key risk indicators and performance to established tolerance limits;
  - Other significant matters relating to liquidity, interest rate sensitivity, credit risk, market risk and operational risk; and
  - Capital adequacy and allocation of capital to business units, including the overall return on allocated business equity.
- Ensure rigorous stress and scenario testing of the Group's business and to receive reports that explain the impact of crystallisation of identified risks and threats to the Group and to ensure a sufficient level of risk mitigation is in place;
- Review and/or approve new or proposed products, services or businesses initiatives that may expose the Bank to new material types of risks or significantly alter the group's risk profile. The Risk Committee is mandated by the Board of Directors to review and approve new or proposed products, services or business initiatives that expose Finbond Mutual Bank or Finbond Group Limited to an amount equal to or lower than 25% of the total share capital. If the exposure is more than 25% of the share capital the Risk Committee will recommend a course of action to the Board for consideration; and
- Consider the adequacy and effectiveness of the technology infrastructure supporting the risk management framework.

Risk Committee Members

Permanent

Mr Robert Emslie (Chair)	Non-Executive Director
Mr Danie Brits	Non-Executive Director
Adv Jasper Noeth	Non-Executive Director
Adv Neville Melville	Non-Executive Director
By invitation	
Dr Willie van Aardt	Chief Executive Officer
Mr Gary Sayers	Chief Financial Officer
Mr Carel van Heerden	Chief Operating Officer
Mr Hano Coetser	Chief Risk Officer

INVESTMENT COMMITTEE

The Investment Committee (the Committee) is constituted as a subcommittee of the Board of Directors to establish investment guidelines (including the significant policies, procedures, and practices employed) and supervise investment activity in line with the investment mandate. The Committee is also responsible for providing oversight and advice in relation to Finbond's current and future investment initiatives and future investment strategy, including determination of risk appetite and tolerance.

The Committee shall have the following objectives and responsibilities with respect to Finbond's investment transactions, management, policies and guidelines:

- Consider projects, acquisitions and disposal of assets in line with the Group's overall strategy;
- Review and approve on a regular basis any loan or investment made by or on behalf of Finbond;
- Review and approve periodically policies and guidelines governing Finbond's investment portfolio and monitor compliance with those policies;
- Review and approve periodically policies and guidelines regarding Finbond's use of derivatives and monitor compliance with those policies;
- Review and approve periodically any investment benchmarks or other measurement devices employed by Finbond to monitor the performance of its investment portfolio;
- Monitor on an ongoing basis the performance of Finbond's investment advisers and retain and terminate such advisers as it deems appropriate;
- Perform such other responsibilities regarding Finbond's investment activities or policies or other matters as the Board may from time to time assign the Committee;
- Determine that investment constraints are consistently followed and that procedures are in place to ensure that the investment portfolio is managed in compliance with the investment mandate and applicable investment constraints;
- Delegate authority to management to execute individual investment transactions on behalf of Finbond within policies and limits approved by the Committee;
- Approve all external investment manager selections and funding;
- Make periodic reports to the Board;
- Annually review and reassess the adequacy of its Charter and recommend any proposed changes to the Board for approval;
- Have the authority to hire legal, accounting, financial or other advisors as the Committee may deem necessary in its judgment with due regard to cost, without the need to obtain the prior approval of any officer of Finbond; and
- Ensure that appropriate due diligence procedures are followed when acquiring or disposing of assets.

Investment Committee Members

Permanent

Mr Danie Brits (Chair)	Non-Executive Director
Mr Robert Emslie	Non-Executive Director
Adv Jasper Noeth	Non-Executive Director
By invitation	
Dr Willie van Aardt	Chief Executive Officer
Mr Gary Sayers	Chief Financial Officer
Mr Carel van Heerden	Chief Operating Officer
Mr Hano Coetser	Chief Risk Officer

EXECUTIVE COMMITTEE

The Executive Committee which meets monthly is responsible for the daily management of the Group and on a monthly basis reviews current operations in detail. The Executive Committee also implements the strategy and policy proposals approved by the Board of Directors.

The objectives and areas of responsibility of the Executive Committee are to:

- Formulate, review, communicate and manage the delivery of the Group's strategy;
- Agree and recommend the Group's Business Plan to the Board;
- Manage the delivery of the agreed Business Plan;
- Define and allocate overall budgets and resources (finance

and people) to ensure the organisation has the capabilities and resources to deliver or exceed the objectives in the Business Plan.
- Review and approve the Group's Human Resources strategy;
- Ensure there is an effective management structure and organisation within the Group which is consistent with the effective delivery of the Group's Business Plan;
- Ensure there is an effective succession management process which is designed to ensure effective succession for all critical roles;
- Review and approve all senior appointments as well as the terms of reference of the executive sub committees;
- Ensure that the Group maintains an effective internal risk control framework which is designed to enable the Group to respond appropriately to significant business, operational, financial, compliance and other risks to achieving the Group's strategic objectives;
- Help ensure the quality of internal and external reporting;
- Help ensure compliance with applicable laws and regulations and with the Group's Business Principles; and
- Maintain a Risk Barometer which is presented to the Board at each meeting.

Executive Committee Members
Permanent

Dr Willie van Aardt (Chair)	Chief Executive Officer
Mr Gary Sayers	Chief Financial Officer
Mr Carel van Heerden	Chief Operating Officer
Mr Hano Coetser	Chief Risk Officer
By invitation	
Mr Fabian Manuel	Chief Business Development Officer
Mr Christo Quinn	Head of Internal Audit
Mr Hannes Cloete	Head of Compliance

There are also a number of committees constituted as subcommittees of the Executive Committee of which Executive Directors and Senior Management are members. The various committees' areas of responsibility, objectives, members and meeting frequency are set out in the Committee Charters. The following Executive Committees were in operation at 29 February 2016:

ASSET AND LIABILITY COMMITTEE

The Asset and Liability Committee is constituted as a subcommittee of the Executive Committee. The Committee recommends and monitors Finbond's Asset and Liability Management Policy ("ALM Policy") and reviews the structure of our balance sheet and business strategies, taking into consideration market conditions, and maintains liquidity contingency plans.

The objectives and areas of responsibility of the Committee are to:
- Monitor the liquidity position of Finbond, and liquidity management activities undertaken by Finbond, including wholesale funding activities, contingency funding and any other relevant liquidity measurements the ALCO deems advisable or appropriate;
- Approve liquidity risk tolerances by reviewing how the Bank's inability to meet its obligations when they become due may affect the Bank's earnings, capital and operations;
- Monitor the management of interest rate risk activities and Finbond's overall interest rate risk profile, the sensitivity of Finbond's earnings under varying interest rate scenarios and potential changes in market interest rates;
- Monitor trends in the economy in general and interest rates in particular with a view to limiting any potential adverse impact on the Company's earnings;
- Approve interest rate risk tolerances by reviewing how movements in interest rates may adversely affect Finbond's earnings and capital using Finbond's projected earnings and capital as a benchmark;
- Monitor the capital position of Finbond and the capital management activities undertaken to ensure that capital levels are maintained in accordance with regulatory requirements and management directives;
- Review and approve payment of dividends from the Bank to the Holding Company and from the Holding Company to shareholders;
- Monitor management's investment activities such as purchase, sale, exchange and other disposition of the investments;
- Review the status of the securities and derivative portfolios, including performance, appreciation or depreciation, quality, maturity profile and any actions taken by management with respect thereto;
- Review and determine whether to approve the holdings of investment securities (including prudent investments) that are subject to the ALCO's authority under the ALM Policy or Board of Directors resolutions;
- Monitor management of the Bank's treasury functions, including its operations and funds management processes;
- Review ALM Policy limits relating to interest rate risk, liquidity and capital levels;
- Monitor compliance with both external regulations and the ALM Policy with respect to the asset and liability management processes of the Bank and the Company; and
- Delegate specific authority to the Bank's Chief Financial Officer or other appropriate members of management.

The Committee meets monthly and is comprised of the Chief Executive Officer, the Chief Financial Officer, the Chief Operations Officer and the Chief Risk Officer.

Asset and Liability Committee Members
Permanent

Dr Willie van Aardt (Chair)	Chief Executive Officer
Mr Gary Sayers	Chief Financial Officer
Mr Carel van Heerden	Chief Operating Officer
Mr Hano Coetser	Chief Risk Officer

CREDIT COMMITTEE

The Credit Committee is a subcommittee of the Executive Committee, established by resolution of the Executive Committee, to which the Executive Committee has delegated responsibility for exercising oversight of senior management's identification and management of the Group and Bank's credit exposures and the Group and Bank's responses to trends affecting those exposures, and oversight of senior management's actions to ensure the adequacy of the allowance for credit losses and credit-related policies.

The objectives of the Committee are to:
- Approve proposed changes in Lending Prudential Guidelines, major credit policies and credit scoring methodologies;
- Approve discretions and onward delegation guidelines for the next level of management;
- Consider and determine proposals exceeding management's discretions;

- Receive and review reports on credit quality, credit risk management and policy/procedure adherence;
- Oversee senior management's establishment of, and adherence to appropriate policies, procedures and guidelines that support measurement and control of credit risk, and to periodically review management's strategies, policies and procedures for managing credit risk, including credit quality administration, underwriting standards, and the establishment and testing of allowances for credit losses; and
- Oversee management's administration of the credit portfolio, including management's responses to trends in credit risk, credit concentration and asset quality, and to receive and review reports from senior management.

The Committee meets monthly and is comprised of the Chief Executive Officer, the Chief Financial Officer, the Chief Operations Officer and the Chief Risk Officer.

Credit Committee Members

Permanent

Dr Willie van Aardt (Chair)	Chief Executive Officer
Mr Gary Sayers	Chief Financial Officer
Mr Carel van Heerden	Chief Operating Officer
Mr Hano Coetser	Chief Risk Officer

OPERATIONAL COMMITTEE

The Committee is charged with the strategic management of the Group's operations, including collections and human capital development.

The Committee is constituted as a subcommittee of the Executive Committee, meeting quarterly. The members of the Operational Committee are the national manager, regional and general managers of the operations, the Chief Operations Officer, the Chief Financial Officer, the Financial Manager: Microcredit and the Head of Human Capital Development.

The objectives and areas of responsibility of the Committee are to:

- Direct, govern and co-ordinate operational risk management processes within the approved policy;
- Formulate, review, communicate and manage the implementation and delivery of the Group's strategy as determined by Exco;
- Discuss, review and implement the Group's business plan as approved by the Board on an operational level;
- Define and allocate regional operational budgets and resources (finance and people) to ensure the organisation has the capabilities and resources to deliver or exceed the objectives in the Business Plan;
- Review and implement the Group's Human Resources strategy;
- Determine, define, review and implement the Group's sales strategy;
- Review, comment on and implement the Group's credit strategy;
- Review, comment on and implement the Group's credit granting criteria;
- Ensure there is an effective succession management process which is designed to ensure effective succession for all critical roles in regional operations;
- Review, recommend and implement operational risk management processes, internal controls, policies and procedures on regional and national level;
- Review, recommend and implement the Group's information technology strategy, processes and procedures; and
- Review and ensure compliance with all operational risk management policies and procedures of the Group on all regional operational levels.

Operational Committee Members

Permanent

Mr Carel van Heerden (Chair)	Chief Operating Officer
Mr Gary Sayers	Chief Financial Officer
Mr Fabian Manuel	Chief Business Development Officer
Mr Marthinus Vermaak	General Manager
Mr Gavin Davis	Head of Human Capital Development
Mr Rudi Hinze	Head of Legal
Ms Juanita Caroto	Head of Finance: Microcredit
Mr Floors van Heerden	Regional Manager
Mr Louis Galand	Regional Manager
Mr Dewald Vosloo	Regional Manager
Mr Gerhard van Loggerenberg	Regional Manager
Mr Deon Loots	Regional Manager
Ms Imke du Plessis	National Collections Manager
By invitation	
Dr Willie van Aardt	Chief Executive Officer
Mr Christo Quinn	Head of Internal Audit
Mr Hannes Cloete	Head of Compliance
Mr Hano Coetser	Chief Risk Officer

BANK INFORMATION TECHNOLOGY COMMITTEE

The Bank Information Technology Committee is constituted as a sub-committee of the Executive Committee.

The Bank Information Technology Committee (BITCO) was established to, *inter alia*, manage, monitor, review, discuss and track the progress of the various Finbond Mutual Bank Information Technology development projects. The Committee is currently meeting monthly and comprises the Chief Operating Officer, Chief Risk Officer, Chief Financial Officer and Chief Business Development Officer.

The Committee's objectives are:

- To ensure that projects and information technology change requests are effectively managed;
- Appropriate governance is established;
- Change-, communication- and risk management is effectively planned and implemented; and
- Stakeholder communication is accurate, timely and effective.

Bank Information Technology Committee Members

Permanent

Mr Carel van Heerden (Chair)	Chief Operating Officer
Mr Gary Sayers	Chief Financial Officer
Mr Hano Coetser	Chief Risk Officer
Mr Fabian Manuel	Chief Business Development Officer
By invitation	
Dr Alewyn Burger	Management Consultant
Ms Izalda Schoombee	Project Manager
Mr Christo Quinn	Head of Internal Audit

FINANCE & TAXATION COMMITTEE

The Finance Committee is a subcommittee of the Executive Committee, established by resolution of the Executive Committee, to which the Executive Committee has delegated responsibility for exercising oversight of senior management's identification and management of the Bank's financial and reporting exposures and the Bank's responses to trends affecting those exposures.

The Finance Committee meets monthly and is comprised of, as a minimum, the Chief Financial Officer, the Group Financial Manager, Deposits and Investments Manager and the Financial Manager: Microcredit. The Taxation Committee acts as a subcommittee of the Finance Committee and meets quarterly.

The objectives and areas of responsibility of the Finance Committee are to:

- Effectively manage all financial regulatory and internal financial reporting of the results of the Group and Bank;
- Effectively manage all financial risks of the Group and Bank;
- Consider and determine proposals exceeding management's discretions;
- Oversee senior management's establishment of and adherence to appropriate policies, procedures and guidelines that support measurement and control of financial risks, and shall periodically review management's strategies, policies and procedures for managing financial risk, including safeguarding of the Group's assets;
- Monitor and eliminate, or as a minimum report on any forms of wastage within the Financial function or which may come to the attention of the Committee from any other source within the Group.

Finance Committee Members

Permanent

Mr Gary Sayers (Chair)	Chief Financial Officer
Mr Corne Eksteen	Group Financial Manager
Ms Juanita Caroto	Head of Finance: Microcredit
Mr Anton van Sittert	Deposits and Investments Manager

The objectives and areas of responsibility of the Taxation Committee are:

- Continuous assessment of tax assets held within the Group;
- Review of the status of all returns submitted;
- Consideration of all tax risks that companies within the Group may be exposed to;
- Consultation with industry through participation on BASA's Indirect and Direct Tax Committees;
- Consultation with tax experts, including the auditor on tax risks as well as opportunities available to the Group; and
- To report, through one of its members, to the Audit Committee at the Company's Annual General Meeting on the matters within its mandate.

Taxation Committee Members

Permanent

Mr Gary Sayers (Chair)	Chief Financial Officer
Mr Corne Eksteen	Group Financial Manager

COMPANY SECRETARY

All Directors have access to the Company Secretary, who is responsible for ensuring that the Board procedures are followed, and who plays an active role in the improvement and monitoring of corporate governance processes, especially in terms of the **Companies Act of 2008**, the **King Code on Corporate Governance** and the **JSE Listings Requirements**.

As required by the **JSE Listings Requirements**, the Board confirms that:

- The Company Secretary is competent and has the relevant qualifications and experience to be the Company Secretary;
- The Company Secretary is not a Director of the Company; and
- The Board has an arm's length relationship with the Company Secretary.

If appropriate, individual Directors are entitled to seek independent professional advice concerning the discharge of their responsibilities at Finbond's expense.

The Company Secretary attends all Board and Committee meetings.

The Company Secretary advises the Board, management and employees of closed periods when trading Finbond securities are prohibited.

Details of Directors' and the Company Secretary's dealings in Finbond securities are disclosed to the **JSE** through the Stock Exchange News Service (SENS).

The Company Secretary's certificate, confirming that all returns and notices have been filed and are true, correct and up-to-date, can be found on page 84 of this Annual Report.

The checklist confirming Finbond's compliance with the principles of the **King Code on Corporate Governance** has been completed and is available on the Company's website, www.finbondlimited.co.za.

"I MAKE PROGRESS (IN LIFE AND IN BUSINESS) BY HAVING PEOPLE AROUND ME WHO ARE SMARTER THAN I AM– AND LISTENING TO THEM; AND I ASSUME THAT EVERYONE IS SMARTER ABOUT SOMETHING THAN I AM."

- Henry Kaiser -

KING III MATERIAL PRINCIPLES

ITEM NUMBER	KING III REFERENCE	KING III PRINCIPLE	APPLICATION OF PRINCIPLE
	1	**Ethical Leadership and Corporate Citizenship**	
1	1.1	The Board should provide effective leadership based on an ethical foundation.	The Board directs the Group's activities with integrity, by the tone it sets through its actions, decisions, policies and codes, the culture it instils and the example of its Directors, thereby demonstrating transparency, accountability, fairness, honesty and responsiveness to stakeholders.
2	1.2	The Board should ensure that the Company is and is seen to be a responsible corporate citizen.	The Board ensures through its Social and Ethics Committee that the Group conducts its affairs in a manner that takes into account the realistic expectations of its stakeholders, and is sensitive to the Group's social, economic and environmental impacts, and ensures that it reports on its material initiatives in this regard in its Integrated Annual Report.
3	1.3	The Board should ensure that the Company's ethics are managed effectively.	The Board has endorsed the code of ethics, business philosophy, ethical values, codes of conduct and disciplinary policies developed by management, and monitors the application and effectiveness thereof through the Social and Ethics Committee.
	2	**Boards and Directors**	
4	2.1	The Board should act as the focal point for and custodian of Corporate Governance.	The Board's charter records the Board's responsibility for good Corporate Governance by the Group. The Board seeks to practise good Corporate Governance through its structures, actions and reporting, and the Board monitors governance policies and practices in the Group through the Social and Ethics Committee.
5	2.2	The Board should appreciate that strategy, risk, performance and sustainability are inseparable.	The Board understands and Executive Management appreciates that the Group's strategy, risk, performance and sustainability are interrelated, and ensures that the Group's activities are designed, managed and reported on in an integrated manner.
6	2.3	The Board should provide effective leadership based on an ethical foundation.	The Board directs the Group's activities with integrity, through its decisions, policies and codes and the example of its Directors, demonstrating transparency, accountability, fairness and honesty.
7	2.4	The Board should ensure that the Company is and is seen to be a responsible corporate citizen.	The Board ensures through its Social and Ethics Committee that the Group conducts its affairs in a manner that takes into account the realistic expectations of its stakeholders, and is sensitive to the Group's social and environmental impacts.
8	2.5	The Board should ensure that the Company's ethics are managed effectively.	The Board has endorsed the Code of Ethics and Business Philosophy developed by management, and monitors the application and effectiveness thereof through the Social and Ethics Committee.
9	2.6	The Board should ensure that the Company has an effective and independent Audit Committee.	The Board has in place an Audit Committee whose responsibilities are documented in a written charter, whose members are strongly financially literate and constitute Independent Non-Executive Directors, whose Chairman is not the Chairman of the Board and whose activities, observations and recommendations are reported to the Board.
10	2.7	The Board should be responsible for the governance of risk.	The Board's charter records that it is responsible for risk governance and the standard agenda items for its meetings, as well as those of the Audit Committee including the consideration of the report of the Chairman of the Risk Committee and any other risk status reports.

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ITEM NUMBER	KING III REFERENCE	KING III PRINCIPLE	APPLICATION OF PRINCIPLE
11	2.8	The Board should be responsible for information technology (IT) governance.	The Board's charter records that it is responsible for information technology governance, and the standard agenda items for meetings of the Audit Committee include the consideration of the reports of the Internal Audit Department, which monitor the Group's information technology governance. In addition the Risk Committee monitors the activities of the IT Department on a quarterly basis.
12	2.9	The Board should ensure that the Company complies with applicable laws and considers adherence to non-binding rules, codes and standards.	The Board is made aware of laws applicable to the Group, has tasked the Internal Audit and Compliance Departments to conduct assessments of the Group's compliance with such laws, encourages management to adopt non-binding rules and codes, and monitors Group performance in this regard.
13	2.10	The Board should ensure that there is an effective risk-based Internal Audit.	The Board, through its Audit Committee, promotes the standing and value of the Group's Internal Audit Department, assesses the adequacy of its resources and the effectiveness of its work and engages with management to ensure audit plans are risk-based.
14	2.11	The Board should appreciate that stakeholders' perceptions affect the Company's reputation.	The Board is sensitive to the fact that the Group's reputation is most important and encourages management to engage meaningfully and frequently with the Group's stakeholders, through a variety of forums and channels, to ensure that negative perceptions are identified and appropriate remedial action is taken.
15	2.12	The Board should ensure the integrity of the Company's Integrated Report.	The Board through its Audit Committee reviews the fairness and adequacy of the disclosures made in the Group's Integrated Annual Report and formally approves the report on the recommendation of that Committee.
16	2.13	The Board should report on the effectiveness of the Company's system of internal controls.	Based on assurance provided by the Internal Audit Department to the Audit Committee and reported to the Board, the Board reports in the Integrated Report on the effectiveness of the Group's systems of internal control.
17	2.14	The Board and its Directors should act in the best interests of the Company.	The Directors are aware of their fiduciary duties to act in the best interests of the Company and to avoid conflicts of interest and disclose to the Board their personal financial interests.
18	2.15	The Board should consider business rescue proceedings or other turnaround mechanisms as soon as the Company is financially distressed as defined in the **Companies Act (No. 71 of 2008, as amended)**.	To the extent that this may be necessary, the Board will consider such proceedings and mechanisms if and when appropriate.
19	2.16	The Board should elect a Chairman of the Board who is an Independent Non-Executive Director. The Chief Executive Officer of the Company should not also fulfil the role of Chairman of the Board.	The Board has since 2008 had a Chairman who is an Independent Non-Executive Director, and accordingly the Chief Executive Officer is not the Chairman of the Board.
20	2.17	The Board should appoint the Chief Executive Officer and establish a framework for the delegation of authority.	The Board has appointed the Chief Executive Officer and through the Remuneration Committee has communicated the levels of authority delegated to him.

ITEM NUMBER	KING III REFERENCE	KING III PRINCIPLE	APPLICATION OF PRINCIPLE
21	2.18	The Board should comprise a balance of power, with a majority of Non-Executive Directors. The majority of Non-Executive Directors should be independent.	The majority of the Board is Non-Executive, and majority of the Non-Executive Directors are independent.
22	2.19	Directors should be appointed through a formal process.	New Directors are appointed by the Board, based on the recommendations of the Nomination Committee, and their appointments are confirmed by shareholders at the Annual General Meeting.
23	2.20	The induction of and ongoing training and development of Directors should be conducted through formal processes.	New Directors undergo a formal induction programme structured with reference to their experience and requirements, and ongoing Director education and development takes place through presentations by management.
24	2.21	The Board should be assisted by a competent, suitably qualified and experienced Company Secretary.	The Board is assisted by a Company Secretary and according to the most recent assessment the Board is satisfied that he is suitably competent, qualified and experienced for the role.
25	2.22	The evaluation of the Board, its Committees and the individual Directors should be performed every year.	The formal evaluation of the Board and individual Directors, and the informal assessment of Board Committees take place annually and the results are disclosed in the Corporate Governance Report in the Integrated Annual Report.
26	2.23	The Board should delegate certain functions to well-structured Committees but without abdicating its own responsibilities.	The Board has established the Social and Ethics Committee, the Audit Committee, the Risk Committee, the Investment Committee, the Remuneration Committee and the Nomination Committee as Committees of the Board in terms of written charters and reporting obligations to the Board.
27	2.24	A Governance Framework should be agreed between the Group and its subsidiary Boards.	The Board takes cognisance of the respective responsibilities of the Board of the Group on the one hand and of the Board of its principal operating subsidiary, Finbond Mutual Bank, on the other, and certain governance structures such as the Audit, Remuneration and Social and Ethics Committees have a Group-wide mandate.
28	2.25	Companies should remunerate Directors and Executives fairly and responsibly.	The Board believes that the Group's remuneration policy and strategy are designed to ensure that Executives are appropriately remunerated, with an acceptable balance between guaranteed and performance-based elements, as well as between short and long-term incentives, and ensures that reward levels benchmark fairly against sector norms.
29	2.26	Companies should disclose the remuneration of each individual Director and certain Senior Executives.	The Company discloses in its Integrated Annual Report the remuneration of Directors and prescribed officers in accordance with the requirements of the **Companies Act (No. 71 of 2008, as amended)** and **the JSE Listings Requirements**.
30	2.27	Shareholders should approve the Company's Remuneration Policy.	The Group's Remuneration Policy is tabled at the Annual General Meeting of shareholders for consideration by way of a non-binding advisory vote, and has been suitably approved by shareholders at the most recent Annual General Meeting.

ITEM NUMBER	KING III REFERENCE	KING III PRINCIPLE	APPLICATION OF PRINCIPLE
	3	**Audit Committees**	
31	3.1	The Board should ensure that the Company has an effective and independent Audit Committee.	The Company's Audit Committee operates in terms of a written charter, performs the duties prescribed by the **Companies Act (No. 71 of 2008, as amended)**, meets four times annually, considers detailed reports from management, and reports and makes recommendations in writing to the Board.
32	3.2	Audit Committee members should be suitably skilled and experienced Independent Non-Executive Directors.	The Group's Audit Committee comprises financially literate, professionally qualified and commercially astute members and is constituted only by Independent Non-Executive Directors.
33	3.3	The Audit Committee should be chaired by an Independent Non-Executive Director.	The Audit Committee is chaired by an Independent Non-Executive Director.
34	3.4	The Audit Committee should oversee integrated reporting.	The Audit Committee does oversee the Group's integrated reporting process, and reviews the content of the Integrated Annual Report, recommending same for issue by the Board.
35	3.5	The Audit Committee should ensure that a combined assurance model is applied to provide a co-ordinated approach to all assurance activities.	The Audit Committee ensures that it obtains regular and comprehensive assurance from the external auditor, the Internal Audit Department and/or management in relation to matters such as financial reporting, legal compliance, adequacy of internal controls and veracity of risk management processes.
36	3.6	The Audit Committee should satisfy itself of the expertise, resources and experience of the Company's finance function.	The Audit Committee annually conducts an assessment to satisfy itself as to the expertise, resources and experience of the Company's finance function, and reports on the outcome of this assessment in the Integrated Annual Report.
37	3.7	The Audit Committee should be responsible for overseeing of Internal Audit.	The Audit Committee's mandate imposes an oversight role in regard to Internal Audit, and the Committee monitors internal audit resources, activities, findings and coverage plans via the comprehensive reports submitted by Internal Audit management to each Committee meeting.
38	3.8	The Audit Committee should be an integral component of the risk management process.	The Audit Committee receives reports of the Risk Committee and considers the effectiveness of the risk management process on the Group's financial reporting, while the Chairman of the Risk Committee, which has oversight responsibility over the Group's risk management programme, is a permanent member of the Audit Committee.
39	3.9	The Audit Committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process.	In terms of the Audit Committee's charter and its mode of operation, the Audit Committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process, including receiving reports on the external auditor's findings during the annual audit.
40	3.10	The Audit Committee should report to the Board and shareholders on how it has discharged its duties.	The Audit Committee reports in writing to each Board meeting, and reports to shareholders by way of the Audit Committee Report, which forms part of the Group's Annual Financial Statements, on its activities, findings and recommendations.

ITEM NUMBER	KING III REFERENCE	KING III PRINCIPLE	APPLICATION OF PRINCIPLE
	4	**The Governance of Risk**	
41	4.1	The Board should be responsible for the governance of risk.	The Board's charter reflects its responsibility for risk governance, and it discharges this responsibility by receiving reports from the Chairman of the Risk Committee at its quarterly meetings, and by making recommendations to management on its risk management programme.
42	4.2	The Board should determine the levels of risk tolerance.	The Board has adopted the levels of risk tolerance utilised by the Risk Committee and management in determining the Group's risk management framework and the methodology for rating risks in the Group's risk registers.
43	4.3	The Risk Committee or Audit Committee should assist the Board in carrying out its risk responsibilities.	The charters of both the Risk and Audit Committees require these committees to assist the Board in carrying out its risk governance responsibilities, and they provide this assistance by monitoring the Group's risk management activities.
44	4.4	The Board should delegate to management the responsibility to design, implement and monitor the risk management plan.	The Board has delegated to management the responsibility to design, implement and monitor the Group's risk management plan, and management has appointed the Chief Risk Officer to have line responsibility for this function, and has entrusted the Risk Committee to monitor said manager's activities and processes.
45	4.5	The Board should ensure that risk assessments are performed on a continual basis.	The Board receives assurance from the Risk Committee that risk assessments are carried out continually and that the Group's risk registers are updated at least annually by management.
46	4.6	The Board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks.	The Board receives assurance from the Risk Committee that the process of continual risk assessment by management takes into account emerging and unusual risks not typical of normal operating and environmental conditions.
47	4.7	The Board should ensure that management considers and implements appropriate risk responses.	The Board receives assurance from the Risk Committee and the Chief Risk Officer that management appropriately identifies, manages, transfers and mitigates risks facing the Group.
48	4.8	The Board should ensure continual risk monitoring by management.	The Board receives assurance from the Risk Committee that it and management continually monitor risks facing the Group.
49	4.9	The Board should receive assurance regarding the effective-ness of the risk management process.	The Board receives assurance from the Internal Audit Department and management, via the Audit Committee and from the Risk Committee, as to the adequacy of the risk management process.
50	4.10	The Board should ensure that there are processes in place enabling complete, timely, rele-vant, accurate and accessible risk disclosure to stakeholders.	The Board ensures that the Group's Integrated Annual Report, as well as its public announcements where necessary, appropriately disclose risk-related information of importance to stakeholders.

ITEM NUMBER	KING III REFERENCE	KING III PRINCIPLE	APPLICATION OF PRINCIPLE
	5	**The Governance of Information Technology**	
51	5.1	The Board should be responsible for information technology (IT) governance.	The written charter of the Board records its responsibility for IT governance, and it discharges this duty by monitoring reports on IT governance-related matters provided by the Audit and Risk Committees.
52	5.2	IT should be aligned with the performance and sustainability objectives of the Company.	The Group's IT strategy is designed to support the Group's business strategy and with the aim of ensuring that the Group will operate effectively and remain sustainable.
53	5.3	The Board should delegate to management the responsibility for the implementation of an IT governance framework.	The Board has delegated to management the responsibility to design, implement and monitor the Group's IT governance plan, and the Board has appointed the Chief Business Development Officer to have line responsibility for this function, and has entrusted the Risk Committee to monitor said Executive's activities.
54	5.4	The Board should monitor and evaluate significant IT investments and expenditure.	The Board monitors material IT investments through its consideration of the Group's capital expenditure budget, and evaluates the performance of such investments through reports made by management and the Chief Business Development Officer to the Risk Committee.
55	5.5	IT should form an integral part of the Company's risk management.	The risks associated with the Group's IT infrastructure, applications and networks are identified, managed and mitigated as a key element of the Group's risk management processes that are overseen by the Board of the Group and by the Chief Risk Officer.
56	5.6	The Board should ensure that information assets are managed effectively.	The Board receives assurance from management through the Risk Committee that the Group's IT assets are suitably safeguarded and effectively deployed, and that the Group has in place a business continuity plan.
57	5.7	A Risk Committee and Audit Committee should assist the Board in carrying out its IT responsibilities.	Both the Risk and Audit Committees assist the Board in carrying out its IT governance responsibilities, as required by their written charters.
	6	**Compliance with Laws, Rules, Codes and Standards**	
58	6.1	The Board should ensure that the Company complies with applicable laws and considers adherence to non-binding rules, codes and standards.	The Board has determined that compliance with laws is the minimum standard of conduct, is made aware of applicable laws and regulations and voluntary codes by the Compliance division, and monitors compliance/adherence through the Audit Committee which receives reports from the Internal Audit and Compliance Departments.
59	6.2	The Board and each individual Director should have a working understanding of the effect of the applicable laws, rules, codes and standards on the Company and its business.	The Board is made aware of applicable legislation and codes through the legislation updates and presentations made by the Compliance division and the Company Secretary, and through material on relevant topics that is distributed to Directors from time to time. Through presentations made by management at meetings of the Committees, Board the Directors are further exposed to the impact of key legislation on the Group's business.
60	6.3	Compliance risk should form an integral part of the Company's risk management process.	Compliance risk is a key area of focus of the Group's risk management programme, and business unit heads actively consider regulatory compliance when compiling and annually reviewing the risk registers for their business units.

ITEM NUMBER	KING III REFERENCE	KING III PRINCIPLE	APPLICATION OF PRINCIPLE
61	6.4	The Board should delegate to management the implementation of an effective compliance framework and process.	The Board has tasked management with the design and implementation of an effective compliance framework, key elements of which include the appointment and work of the Group's Compliance Officers, the establishment, activities and reporting of the Compliance Team, the establishment of project teams to ensure compliance with material new legislation and the work of the Company Secretary in making management aware of relevant legislation.
	7	**Internal Audit**	
62	7.1	The Board should ensure that there is an effective risk-based Internal Audit.	The Group has a well-established and appropriately resourced Internal Audit function that the Board considers to be effective and substantially risk based.
63	7.2	Internal Audit should follow a risk-based approach to its plan.	The Internal Audit Department's coverage plan is informed by the Group's risk registers, the audit plan of the external auditor and the requirements of top management.
64	7.3	Internal Audit should provide a written assessment of the effectiveness of the Company's system of internal controls and risk management.	The Internal Audit Department annually provides to the Audit Committee a written assessment of the effectiveness of the Group's system of internal controls and risk management programme.
65	7.4	The Audit Committee should be responsible for overseeing Internal Audit.	The Internal Audit Department reports on its work, findings and recommendations at each meeting of the Audit Committee, presents its coverage plan annually to the Audit Committee for approval, and the Head of Internal Audit periodically meets with the Chairman of the Audit Committee.
66	7.5	Internal Audit should be strategically positioned to achieve its objectives.	The stature of the Internal Audit Department within the Group, the appropriateness of its resources, its reporting line to the Chief Executive Officer and its regular reporting to the Audit Committee indicate that the Department is well positioned to fulfil its mandate.
	8	**Governing Stakeholder Relationships**	
67	8.1	The Board should appreciate that stakeholders' perceptions affect a Company's reputation.	The Board recognises that perceptions of its key stakeholders can impact on the Group's reputation and encourages management to engage meaningfully with such stakeholders with a view to upholding the Group's reputation.
68	8.2	The Board should delegate to management to proactively deal with stakeholder relationships.	The Board has tasked management with the responsibility of engaging with the Group's key stakeholders, being customers, shareholders and employees, as well as suppliers, regulators and community organisations, of devising suitable forums and communication channels for such interaction and of responding appropriately following such engagements, in the interests of the Group.
69	8.3	The Board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the Company.	The Board aims to ensure that the interests of the Group's different stakeholders are suitably considered and appropriately balanced, with a view to ensuring the Group's relevance and sustainability.

ITEM NUMBER	KING III REFERENCE	KING III PRINCIPLE	APPLICATION OF PRINCIPLE
70	8.4	Companies should ensure the equitable treatment of share-holders.	The Company has only one class of shares and ensures all shareholders are treated in a fair manner, through the public dissemination of price-sensitive information, its transparent financial reporting and announcements, its dividend policy and its encouragement of shareholder involvement at meetings.
71	8.5	Transparent and effective com-munication with stakeholders is essential for building and maintaining their trust and confidence.	The Board and management work to ensure that communication with the Group's stakeholders is frequent, substantive, transparent and credible, recognising that such communication leads to trust and mutual respect and helps to ensure the sustainability of the Group.
72	8.6	The Board should ensure that disputes are resolved as effectively, efficiently and expeditiously as possible.	The Board encourages management to resolve disputes with customers, suppliers, employees and regulators in an effective and reasonable manner and in appropriate forums including alternative dispute resolution mechanisms, having due regard for contractual and legislative obligations and the best interests of the Group.
	9	**Integrated Reporting and Disclosure**	
73	9.1	The Board should ensure the integrity of the Company's Integrated Report.	The Board ensures the integrity of the Group's Integrated Annual Report by requiring management to draft it in a fair, balanced and transparent manner, through requiring an initial review thereof by the Audit Committee and Non-Executive Directors.
74	9.2	Sustainability reporting and disclosure should be integrated with the Company's financial reporting.	The Group has reviewed its reporting to shareholders and produces an Integrated Annual Report that suitably combines reporting on material sustainability and risk issues, Annual Financial Statements and more detailed reports on corporate social responsibility and corporate governance.
75	9.3	Sustainability reporting and disclosure should be independently assured.	The Group is committed to ensuring sustainability reporting is independently assured over a period of time, and assurance on the reporting is currently provided by management and a specific Non-Executive Director.

"WE'RE HERE TO PUT A DENT IN THE UNIVERSE.

OTHERWISE WHY ELSE EVEN BE HERE?"

- Steve Jobs -

"DON'T EVER BE IMPRESSED WITH GOAL SETTING;
BE IMPRESSED WITH GOAL GETTING.
REACHING NEW GOALS AND MOVING TO A HIGHER LEVEL
OF PERFORMANCE ALWAYS REQUIRES CHANGE,
AND CHANGE FEELS AWKWARD.
BUT TAKE COMFORT IN THE KNOWLEDGE
THAT IF A CHANGE DOESN'T FEEL UNCOMFORTABLE,
THEN IT'S PROBABLY NOT REALLY A CHANGE."

- John C. Maxwell -

STAKEHOLDERS

ECONOMIC VALUE ADDED STATEMENT

Finbond contributed value to the local economy and created wealth for its stakeholders for the current and prior reporting periods as reflected below:

Figures in R'000	**2016**	2015
Direct economic value generated		
Interest income	161 435	145 457
Interest expense	(87 525)	(76 137)
Fee income	208 025	170 128
Management fee income	48 987	27 766
Other microfinance income	139 420	79 686
Operating profit from cell captive arrangement	(464)	30 612
Fair value adjustments	3 032	1 791
Net commission expense	(4 903)	(3 384)
Net impairment charge on loans and advances	(71 314)	(60 137)
	396 695	315 782
Economic value distributed	**333 472**	**257 557**
To suppliers in payment of operating expenses	39 710	28 265
To employees	110 634	87 243
To providers of funds	107 584	88 715
Ordinary dividends	20 059	12 555
Interest paid to providers of funding	5 185	461
Interest paid to savings and investment clients	82 340	75 699
Taxation	74 631	52 518
Normal tax	37 661	22 187
Value added taxation	15 886	13 695
PAYE	15 903	12 457
Unemployment insurance	1 633	1 303
Skills development levies	1 261	992
Property rates and taxes	2 287	1 884
To the community	913	816
Economic value retained for expansion and growth	63 223	58 225
Retained income	37 195	38 322
Depreciation	12 822	7 171
Deferred taxation	13 206	12 732

CUSTOMERS

CUSTOMER-CENTRICITY

Key to the success of Finbond has been our commitment to putting the needs of our customers first. Our customer-centric approach forms an integral part of our business philosophy and constitutes the foundation of our business model.

Finbond's customer-centric business model is focused on creating solutions that deliver value to our clients. We specialise in the design and delivery of unique value and solution-based savings and credit solutions tailored around depositor and borrower requirements, rather than institutionalised policies and practices.

Our:

- Microcredit, transactional and insurance solutions are offered to the unbanked and underserved emerging market actively seeking credit and banking solutions, but remaining largely unattended and underserviced due to the traditional banks' concentration on the higher income brackets of the population.
- Investment and savings products, which offer a superior above average rate of return, are offered nationally to investors and pensioners looking for guaranteed higher fixed income in the current environment of depressed low yields.

Key to customer-centricity is product innovation that addresses the needs of the client first. Product innovation alone does not create sustainable value. However, in combination with strong customer focus, consumer education and service excellence in line with Finbond's service standards of being warm and friendly, inviting, quick and efficient, trusting and respectful, product innovation becomes a powerful competitive advantage.

Customer-centricity is ingrained in Finbond's organisational culture and, unlike product design, it is not something that can easily be copied by competitors. It is this culture that helps Finbond to create sustainable value.

EMPOWERING AND EDUCATING OUR CUSTOMERS

We go the extra mile to provide simple and easy to understand financial education material such as our *"Budget and Save Wisely"* booklets that teach customers how to do a monthly budget and warn customers not to take out any unnecessary debt that they cannot afford.

Finbond is committed to educating consumers about the credit industry, their rights and their responsibilities when using credit facilities, and the role of the **National Credit Regulator**. For this reason, the Group distributes accessible and easy-to-read booklets and pamphlets to customers on a regular basis.

"Budget & Save Wisely", which was developed and written by Ms Ina Wilken-Jonker and is distributed nationally to clients through the Finbond branch network, serves as a guide to budgeting, personal financial planning, managing credit and achieving financial security. It also provides useful information on credit services, as outlined by the **National Credit Act and the Regulator**. It is aimed at fulfilling Finbond's customer education objectives, and building strong, lasting relationships with clients.

The Consumer Protection Act entrenches the consumer's right to fair value, good quality and safe products, while protecting them against defective or inferior goods.

To further advance consumer education, Finbond also nationally distributes a second booklet through the Finbond branch network written by Adv Neville Melville, entitled *"Know Your Customer Rights."* It is a pocket guide to the **Consumer Protection Act,** intended to assist consumers in understanding the **Consumer Protection Act**, knowing their rights and protecting themselves.

INCREASED BRANCH NETWORK

Face-to-face communication and excellent customer service are integral parts of our business model.

During the past financial year, Finbond increased its branch network by 58 branches to 344 branches in South Africa. As part of our client-centric focus, we ensured that our distribution channels reflect the demographics of our clients.

TREATING CUSTOMERS FAIRLY

A true client-centric approach also requires a firm commitment to treating clients fairly (TCF). Finbond therefore considers the TCF legislation good business practice and as a core part of our commercial and customer strategy. For this reason, a key focus area for Finbond is the successful implementation of TCF.

"THE PURPOSE OF A BUSINESS IS TO CREATE A CUSTOMER."

- Peter Drucker -

EMPLOYEES

HUMAN CAPITAL

Our employees are the backbone of our business. We have a servanthood mindset and a culture of excellence. It is expected of ALL employees to represent Finbond well and to adhere to the "Finbond Business Philosophy and Culture" and live according to our values and beliefs. EVERYONE, EVERYWHERE, EVERY DAY!

Jim Rohn said that: *"Success is nothing more than a few simple disciplines practised every day".*

Finbond's single biggest value driver consists of our people, who deliver on the commitments and promises we make. At the core of Finbond's business are the commitments to different stakeholders. A promise to:

- Provide excellent service;
- Treat customers with dignity and respect;
- Pay an insurance claim;
- Manage our depositors' money effectively;
- Create long-term value for shareholders; and
- Be a responsible corporate citizen.

These promises are only as good as the people making them – namely the Finbond staff.

The Finbond *"Senior Management Expectations and Management Dimensions"* that all managers commit to and sign at the beginning of each financial year provides all Finbond employees with 24 principles or enablers that are necessary to ensure our success. All Finbond employees are expected to apply the *"Finbond Senior Management Expectations and Management Dimensions"* principles in everything they do to ensure that we take Finbond from "Good to Great".

PERFORMANCE MANAGEMENT

What truly motivates employees is a sense of pride in their work. If work is not performed with a sense of pride, employees will never be motivated, only moved. An experience of success, responsibility and recognition for achievement are the three key factors that give employees a sense of pride in their work.

Finbond follows an integrated management approach based on the principles set out in Dr Arnold Mol's book *"Creating Winners in the Work Place"* which is based on the following key principles:

- Ownership;
- Pre-agreed performance areas and yard sticks;
- Confirming the target;
- Letting them prove themselves;
- Stimulating innovation;
- Keeping score of performance;
- Dealing with non-performance; and
- Providing rewards that motivate.

The Finbond Performance Management Framework allows us to measure the Key Performance Areas of our people on a monthly basis and provides us with the tools needed to motivate people to strive for excellence.

EMPOWERING EMPLOYEES

The Human Capital Development Department's main purpose is to build widespread commitment and capabilities amongst all employees to achieve the Finbond vision by developing the organisation into a community of shared purpose marked by high levels of connection, trust and respect.

In order to continuously improve two-way communication throughout the Company, employees are encouraged and empowered to raise their concerns through the following platforms:

- Anonymous surveys where employees can bring various matters that they want addressed, changed or improved, to senior management's attention;
- Anonymous Report Fraud internet and telephonic hotlines where suspicious or fraudulent actions by fellow employees can be reported;
- Line management where employees have an open invitation to discuss matters of concern with their line managers;
- The General Manager, Regional Managers, Area Managers, Training Managers, Internal Audit and Compliance regularly visit branches to interact with branch employees and to discuss matters of concern with them; and
- The Chief Executive Officer and Chief Operating Officer also visit the regions and branches to discuss matters of concern with branch and regional personnel directly.

Employees are also kept abreast of company-related issues through a monthly electronic magazine, *The Finbond Compass*.

Employee wellness is important to us and we encourage and promote wellness events such as charity days, blood donation, HIV/Aids testing and national Breast Cancer Awareness Day. In addition, employees who excel in sports are also sponsored for events such as the Iron Man and the Two Oceans.

TRAINING AND EDUCATION

The sustainable performance of our business is directly linked to and dependent on the performance of our people. Staff development and training are key priorities.

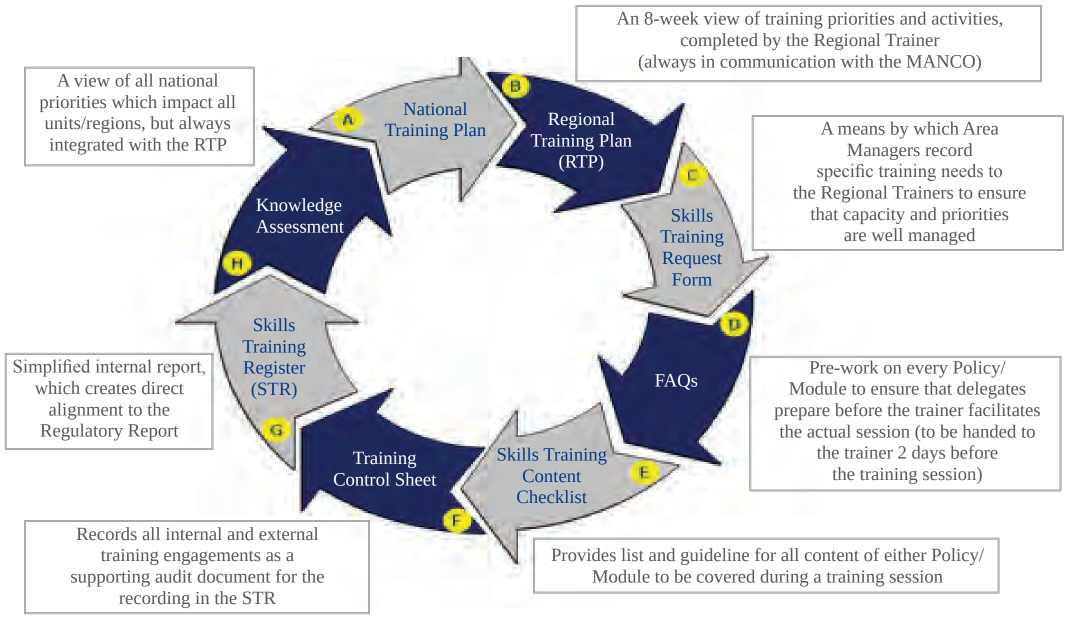
It takes skilled, committed, competent and motivated people to deliver on promises such as treating clients fairly, providing innovative and appropriate product solutions and providing excellent customer service to clients. Therefore, investing in people is one of the ways that Finbond nurtures this important value driver. In 2016, Finbond invested more than R3.8 million in the training and development of our people.

Finbond has a comprehensive Policy and Training Manual to guide managers and employees in best practice. Employees' performance is measured monthly and continuous feedback is provided to them.

All employees receive regular training on all policies and processes. Emphasis is placed on ensuring that employee competency levels are up to the required levels through training and development and that every employee has the correct skill set to be able to perform their work function at an exceptional level. Training and development of our staff remains a core focus area and one of our business priorities.

Management is dedicated to the development of staff as set out in Finbond's *Senior Management Expectations*. On-going training is provided to staff by regional training managers, who focus on compliance and enhancing staff capabilities, as well as through the distribution of a *Training and Compliance Manual* to all employees.

Finbond also has study loans and bursaries available to its employees to enable them to study further.



COMPENSATION PAID TO EMPLOYEES

Figures in R'000	
Rand Value of Net Profit per Employee	R52
Rand Value of Total Compensation Paid to Employees	R126 537
Contractors	R1 776
Rand Value of Total Compensation Paid to Employees including Contractors	R128 313
Average Compensation per Employee and Contractors (Rands) (R128 313/1 108)	R116
Ratio of Net Profit After Tax per Employee to Average Compensation per Employee	0.45

EMPLOYEE LEVELS	2016
Top management	12
Senior management	17
Middle management	64
Junior management	374
Semi-skilled	621
Unskilled	16
Total staff	**1 104**

Trade Unions and Freedom of Association

There is no representative trade union for Finbond, nor is the company aware of any employees who are part of a trade union. During the period under review, no work days were lost due to industrial action. Finbond, however, recognises the Constitutional rights of employees to freedom of association, collective bargaining and to be a member of a union.

"EXECUTIVES OWE IT TO THE ORGANISATION AND THEIR FELLOW WORKERS NOT TO TOLERATE NON PERFORMING INDIVIDUALS IN IMPORTANT JOBS."

- Peter Drucker -

COMMUNITY AND SOCIAL RESPONSIBILITY

Finbond aims to improve the quality of life of our customers and employees by empowering them and contributing towards their financial growth, independence and freedom. Microcredit has been made more accessible to communities, including those in rural areas, by opening 58 new branches during the year, in areas where South Africans work and live.

Investing in the communities in which we operate is something that has always been important to Finbond. Finbond is committed to the principles of socio-economic upliftment of the marginalised and previously disadvantaged in society.

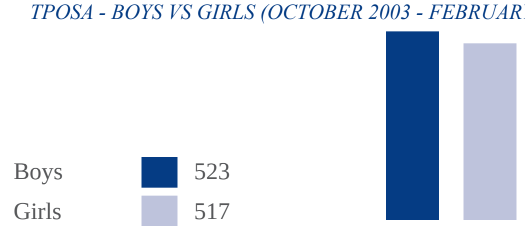
Finbond contributed more than R1.7 million to a number of charitable causes through cash donations during the financial year. These include: *Tshwane Place of Safety*, *Tshwane Haven*, *Girls & Boys Town, Christian Social Council North* and *Compass*, along with various other smaller donations.

Finbond contributes to and is proud to be associated with *Tshwane Place of Safety Association* ("TPOSA"), which focuses on providing orphaned and abandoned babies, as well as babies infected with HIV with good homes, frail care and shelter.

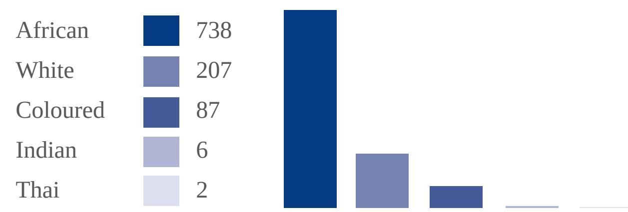
Since opening its doors in October 2003, TPOSA has saved and made a difference in the lives of more than 1 044 children. The racial breakdown of the children saved is: 738 Black African, 207 White, 87 Coloured, 6 Indian and 2 Thai. Of the children, 523 were boys and 517 were girls. Finbond continues to make its properties in Waterkloof Ridge and Queenswood available to TPOSA free of charge. The Waterkloof Ridge house is used as a haven to accommodate children with different kinds of medical problems, while the house in Queenswood is used for financial administration and the distribution of basic supplies. The two properties, when combined, are valued at R6.3 million and the provision of these resources to TPOSA saves the charity an estimated R670 000 p.a. The haven on average cares for up to 250 babies and children per month.

For further info see: www.placeofsafety.org.za.

TPOSA - BOYS VS GIRLS (OCTOBER 2003 - FEBRUARY 2016)



TPOSA - RACIAL BREAKDOWN OF CHILDREN ADMITTED



"CHARITY IS INJURIOUS UNLESS IT HELPS THE RECIPIENT BECOME INDEPENDENT OF IT."

- John D Rockefeller -

GRI4 Reference: LA1/EC1/EC7

Girls and Boys Town provides residential care to over 300 youths from all communities in ten nationally located residential centres. *Girls and Boys Town* has two alternative residential programme options: four Youth Development Centres and six Family "Group" Homes. This organisation is 58 years old and was founded by the late Bishop Reginald Orsmond in 1958. Historically, *Girls and Boys Town* has, made every effort to ensure that no young person is excluded from receiving care, based on religion, ethnicity or economic circumstances.

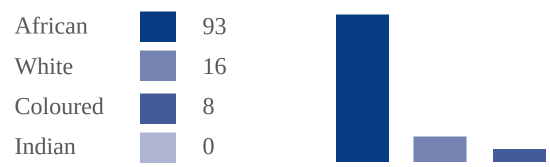
The vision of the *Christian Social Council North (CSC North)* is to give hope to individuals and families in despair, of which the majority consists of children. Many of these children live in poverty or had to be removed from parental care, due to physical and/or sexual abuse or neglect. Most of these children's lives have been a nightmare, but have been changed. The CSC's involvement will, hopefully, give them better lives.

One of the CSC's main goals and programmes is child protection. There has been a marked increase in cases requiring legal action, and rising pressures on society are believed to be the main cause of this increase. *The CSC North Child Centre* is one of the resources they have at their disposal to offer child protection services.

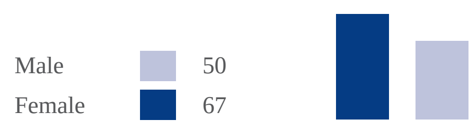
The services in this programme have been ongoing for more than twelve years. Services such as foster care, adoption and assessment and therapy, are rendered by specially trained senior social workers, as these kinds of services require specific expertise and knowledge.

Compass feeds, trains, educates and nurtures abused and abandoned women, children and families. They have developed a one-year programme that nurtures the people in their care, enabling their integration back into society as whole, independent and self-sufficient individuals. They are taught basic computer skills, go for training and get certificates in pre-school education as well as care-giving skills.

COMPASS - RACIAL BREAKDOWN OF CHILDREN ADMITTED IN 2016



COMPASS - MALE vs FEMALE



TOTAL CORPORATE SOCIAL INVESTMENT EXPENDITURE

Figures in R'000	
Consumer Education	140
Bursaries	36
Skills Development	120
Other Donations	1 198
Basic need and Social Development donations	530
TPOSA's right to use property	670
Arts, Sports and Culture	35
Total Spend	**2 729**

"FAITH KEEPS THE PERSON WHO KEEPS THE FAITH."

- Mother Teresa -

REGULATORS

Finbond engages Regulators which include the Bank Supervision Department of the **South African Reserve Bank**, the **National Credit Regulator**, the **Financial Services Board**, the **Johannesburg Stock Exchange** and the **Financial Intelligence Centre**, in a co-operative and proactive way in order to gain insight into and implement any new regulations.

Interaction between industry players and regulators is of crucial importance to ensure that practical and regulatory efficiency is considered to the benefit of all stakeholders.

Since the publishing of the **National Credit Act Amendments** in March 2015, the Finbond Credit Policy was revised in accordance with the amended legislation and credit agreements and lending processes were also aligned accordingly.

The Minister of Trade and Industry has published the regulations on the review of limitations of fees and interest rates to be charged under the **National Credit Act No.34 of 2005**, which came into effect on 6 May 2016 (i.e. six months from publication). Finbond implemented and applied the new fees from the effective date. The result was an increase in initiation fees and monthly service fees while interest rates were reduced. We performed a robust assessment of the impact of these new regulations and determined that there will be a very limited impact on Finbond, given Finbond's focus on short-term loans.

The Minister of Trade and Industry also published, for comment, draft **Credit Life Insurance Regulations**. Comments were invited by 6 January 2016 on proposed credit life insurance regulations in terms of **section 171(1)(d)(ii)** of the **National Credit Act**. The cost that a credit provider may charge a consumer in relation to credit life insurance, including the cost of any commission, fees or expenses in relation to that insurance, may not exceed certain maximum limits, which are calculated on the total of the consumer's outstanding obligations under the credit agreement.

Finbond prepared and submitted a response to the DTI's invitation for public comment and copied the **Bank Supervision Department of the South African Reserve Bank** in its response. Finbond currently charges consumers for credit life and retrenchment insurance benefits offered. Should the proposed changes to credit life insurance be accepted, in the currently proposed form, it will have a material adverse impact on the insurance revenues of Finbond. However, Finbond is confident that the loss in revenue can be replaced by refining and/or expanding the range of assistance insurance products that it offers to clients.

The **Financial Intelligence Centre Amendment Bill**, which is currently being deliberated by a Portfolio Committee, seeks to enhance South Africa's ability to combat financial crimes by proposing measures to address threats to the stability of South Africa's financial system posed by money laundering and terrorism financing. The Bill also addresses regulatory gaps identified from the **2009 Financial Action Task Force Mutual Evaluation on South Africa** and the **2014 IMF South Africa Financial Sector Assessment Programme Technical Note on Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT)**.

Once finalisation has been reached, together with further guidance from the Financial Intelligence Centre, Finbond will proceed to incorporate enhancements to ensure compliance to all new amendments (still to be determined and communicated to Accountable Institutions).

The Minister of Social Development called for comments on proposed amendments to the **Social Assistance Act**, as regulated by the Inspectorate for Social Assistance.

Finbond prepared and submitted a response on 16 March 2016, in terms of proposed amendments to **Regulation 26A** of the regulations made under the **Social Assistance Act No.13 of 2004**. If approved in their current draft form, the amendments are not expected to have a material impact on the revenues of Finbond.

BASEL COMMITTEE DISCLOSURE

Finbond Mutual Bank makes the disclosure overleaf of the revised Basel III Leverage Ratio Framework and related definitions and requirements as published by the **Basel Committee on Banking Supervision**.

"DISCIPLINE IS THE BRIDGE BETWEEN GOALS AND ACCOMPLISHMENT."

- Jim Rohn -

BASEL III LEVERAGE RATIO

Summary comparison of accounting assets vs leverage ratio exposure measure **Table 1**

Item		R'000
1	Total consolidated assets as per published Financial Statements	1 431 341
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	-
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposure)	
7	Other adjustments	-
8	Leverage ratio exposure	-
		1 431 341

Leverage ratio common disclosure template **Table 2**

Item		R'000
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	1 431 341
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(135 883)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	1 295 458
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	-
5	Add-on amounts for PFE associated with all derivatives transactions	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	Total derivative exposures (sum of lines 4 to 10)	-
12	Gross SFT *assets* (with no recognition of netting), after adjusting for sales accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-
15	Agent transactions exposures	-
16	Total securities financing transaction exposures (sum of lines 12 to 15)	-
17	Off-balance sheet exposure at gross notional amount	63 051
18	(Adjustments for conversion to credit equivalent amounts)	-
19	Off-balance sheet items (sum of lines 17 and 18)	63 051
20	Tier 1 capital	348 011
21	Total exposures (sum of lines 3, 11, 16 and 19)	1 358 509
22	Basel III leverage ratio	0.26%

ENVIRONMENT

Finbond is predominantly "office-based" and has a limited carbon footprint on the environment.

However, Finbond acknowledges the importance of the responsibility towards the environment to ensure that future generations can enjoy the environment that we are ultimately investing in.

As such, Finbond actively seeks to reduce its carbon footprint and CO_2 emissions and promote a healthy and sustainable environment for all our branches in our regions. We do this by complying with local and international legislation regarding the environment and recycling as far as possible all materials used.

The total number of Person Hours Worked (HW) for Finbond was calculated as 2 617 600 for the reporting period.

The following indicators calculated according to "per person hours worked" returned insignificant results and have therefore not been reported:

- Total electricity consumed per person hour worked (MWh/HW);
- Average volume of carbon emissions per person worked (Tons CO_2e/HW);
- Average volume of non-hazardous waste per person hour worked (Tons/HW); and
- Total Direct Energy consumed per person hour worked (MJ/HW).

The Group does not report a target for:

- Electricity consumption;
- Energy consumption;
- Carbon emissions; and
- Water consumption.

ENVIRONMENTAL IMPACT STATISTICS MEASURED

Total direct energy consumption (Gigajoules, GJ) - i.e. from fuels burned	29
Total electricity consumption (MWh)	573
Total energy consumption in Gigajoules - calculated (NEW)	2 093
Total carbon emissions (Tons of carbon dioxide equivalents, CO_2e) - calculated	240
Total water consumption (Kilolitres, or Kl)	44 198
Average quantity of water (Litres) consumed per person hours worked (l/HW)	17
Total quantity of non-hazardous waste disposed (Tons)	5.2
Total quantity of waste sent for recycling (Tons)	4.9
Percentage of waste disposed of that is sent for recycling	94%

"WHAT'S MEASURED IMPROVES."

- Peter F Drucker -

GRI4 Reference: EN3a)/EN5/EN3c)/EN3e)/EN15/EN16/EN17/EN18/EN19/EN8/EN23/EN25

SHAREHOLDERS

Finbond is an owner managed company, with the Chief Executive Officer holding 34% of the issued shares in the Group through Kings Reign Investments (Pty) Ltd at the end of the financial year.

Finbond's current institutional shareholders include:

- Net 1 UEPS Technologies (USA);
- Protea Asset Management LLC, Midbrook Lane (Pty) Ltd and Conduit Capital Ltd;
- Investec Bank Limited; and
- Snowball Wealth (Pty) Ltd.

Value creation must be consistent and sustainable over the long-term; short-term gains cannot be considered true value creation. Over the past four years the Finbond share price grew by 4 686% from R0.07 at the end of February 2012 to R3.35 per share at the end of February 2016. This means R100 000 invested in Finbond shares four years ago was worth R4.7 million as at 29 February 2016. This represents an average return of 363% per annum.

Finbond engages with shareholders and the investment community in order to provide timeous and relevant information on the strategy, financial performance and future prospects to enable shareholders and investors to make informed decisions with regard to their investment in Finbond.

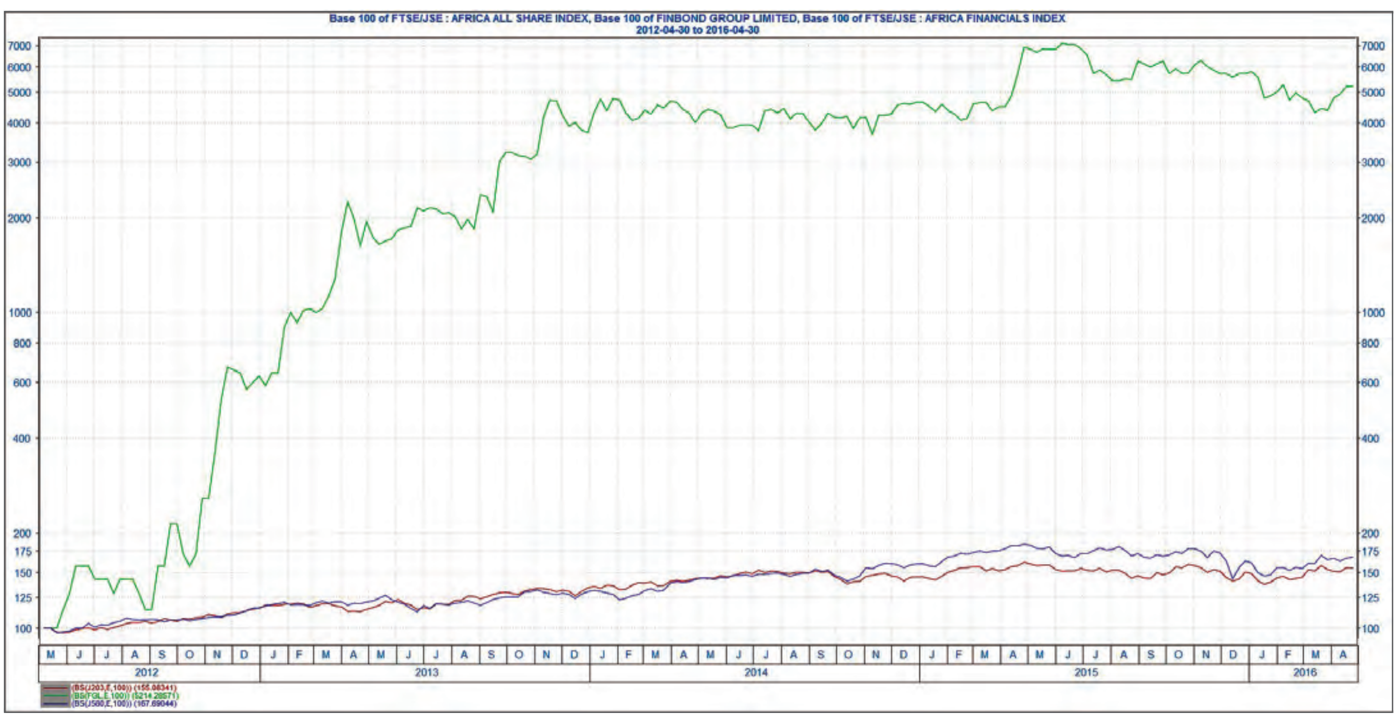
Finbond achieves this by engaging with them in the following ways:

- Johannesburg Stock Exchange News Service (SENS) Announcements;
- Integrated Annual Reports;
- Monthly capital adequacy reports to the South African Reserve Bank;
- Annual General Meeting;
- Updates on ratings received from ratings agencies;
- Group and Bank website;
- Press releases; and
- Media interviews.

Finbond's major shareholders at the end of February 2016 and following the rights issue completed by 24 March 2016, are listed in the following table:

SHARE REGISTER ANALYSIS

	At 29 February 2016		At 24 March 2016	
	Number of shares held	% of total issued shares	Number of shares held	% of total issued shares
Kings Reign Investments (Pty) Ltd	203 940 261	33.7%	226 395 351	29.7%
Net 1 UEPS Technologies (USA)	156 788 712	25.9%	197 522 435	25.9%
Protea Asset Management LLC, Midbrook Lane (Pty) Ltd and Conduit Capital Ltd	125 355 743	20.7%	212 055 740	24.5%
Investec Bank Limited	14 570 100	2.4%	14 570 100	1.9%
Finbond Group Limited	14 044 127	2.3%	14 044 127	1.8%
Snowball Wealth (Pty) Ltd	13 855 248	2.3%	13 855 248	1.8%
Citiclient Nominees	615 800	0.1%	23 212 836	3.0%



SHAREHOLDER SPREAD at 29 February 2016 (Financial year-end)

	Number of shares held	% of total shares issued	Number of shareholders	% of total shareholders
Public shareholders	115 517 963	19.1%	1 564	98.9%
Non-Public shareholders				
Directors	204 201 252	33.8%	2	0.1%
Associates of Directors	1 000	0.0%	1	0.1%
Shareholders not listed elsewhere with more than 10% share	270 608 256	44.7%	2	0.1%
Employees of the Group	634 652	0.1%	9	0.6%
	590 963 123	**97.7%**	**1 578**	**99.8%**
Subsidiaries	18 000	0.0%	1	0.1%
Finbond Group Limited	14 044 127	2.3%	1	0.1%
	14 062 127	**2.3%**	**2**	**0.2%**
	605 025 250	**100%**	**1 580**	**100%**

SHAREHOLDER SPREAD at 24 March 2016 (Post rights issue)

	Number of shares held	% of total shares issued	Number of shareholders	% of total shareholders
Public shareholders	150 974 423	19.8%	1 574	98.9%
Non-Public shareholders				
Directors	226 724 147	29.8%	2	0.1%
Associates of Directors	1 000	0.0%	1	0.1%
Shareholders not listed elsewhere with more than 10% share	369 811 964	48.5%	2	0.1%
Employees of the Group	637 218	0.1%	9	0.6%
	748 148 752	**98.2%**	**1 588**	**99.8%**
Subsidiaries	18 000	0.0%	1	0.1%
Finbond Group Limited	14 044 127	1.8%	1	0.1%
	14 062 127	**1.8%**	**2**	**0.2%**
	762 210 879	**100%**	**1 590**	**100%**

"SUCCESS IS NEITHER MAGICAL NOR MYSTERIOUS.

SUCCESS IS THE NATURAL CONSEQUENCE OF CONSISTENTLY APPLYING THE BASIC FUNDAMENTALS."

- Jim Rohn -

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for the preparation and fair presentation of the consolidated and separate Annual Financial Statements of Finbond Group Limited and the separate Financial Statements of Finbond Mutual Bank, comprising the statements of financial position at 29 February 2016, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the Financial Statements which include a summary of significant accounting policies and other explanatory notes, in accordance with **International Financial Reporting Standards** and the requirements of the **Companies Act of South Africa** for Finbond Group Limited and in accordance with **International Financial Reporting Standards** for Finbond Mutual Bank. In addition, the Directors are responsible for preparing the Directors' report.

The Directors are also responsible for such internal control as the Directors determine necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management, as well as the preparation of the supplementary schedules included in these Financial Statements. The Directors have made an assessment of the ability of the Company and its subsidiaries to continue as going concerns and have no reason to believe that the businesses will not be going concerns in the year ahead.

The auditor is responsible for reporting on whether the consolidated and separate Financial Statements are fairly presented in accordance with the applicable financial reporting framework.

APPROVAL OF CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

The consolidated and separate Annual Financial Statements of Finbond Group Limited, and separate Financial Statements of Finbond Mutual Bank as identified in the first paragraph, set out on pages 83 to 145, were approved by the Board of Directors on 19 April 2016 and signed by

Dr Malesela Motlatla
Chairman

Dr Willie van Aardt
Chief Executive Officer

"LEADERSHIP IS ABOUT TAKING RESPONSIBILITY, NOT MAKING EXCUSES."

- Mitt Romney -

REMUNERATION REPORT

REMUNERATION PHILOSOPHY

Being a financial services organisation, Finbond is dependent on its human resources for its success. Finbond recognises that its people are critical to enable it to meet its business goals and strategic objectives.

The Board determines the broad principles for the Group's remuneration philosophy, taking into consideration the Group's strategy and objectives. Finbond's remuneration philosophy is to employ the highest calibre individuals, who are characterised by integrity, intellect and innovation and who adhere and subscribe to our culture, values and philosophies. We strive to inspire entrepreneurship by providing a working environment that stimulates extraordinary performance, so that employees may be positive contributors to our clients, their communities and the Group.

In order to sustain this on a consistent basis, the organisation continuously:

- Develops and retains talent that is currently employed in the Group;
- Attracts the right people with the appropriate skills to meet the present and future demands; and
- Develops a high performance culture in an organisation which is focused on achieving results.

We have a strong entrepreneurial, merit and values-based culture, characterised by passion, energy, commitment and perseverance. The ability to live and perpetuate our values, culture and philosophies in the pursuit of excellence in a regulated industry and within an effective risk management environment is considered paramount in determining overall reward levels.

REMUNERATION PRINCIPLES

Our remuneration policy is consistent with the following overarching principles:

- Remuneration policies, procedures and practices are consistent with and promote sound and effective risk management, and do not encourage risk taking that exceeds the level of tolerated risk of Finbond;
- Our remuneration policy is in line with the business strategy, objectives, values and long-term interests of the Finbond Group; and
- The payment of variable remuneration does not limit Finbond's ability to maintain or strengthen its capital base.

REMUNERATION COMMITTEE (Remco)

Details of the Remco, its members and activities, are set out under the Corporate Governance Statement. The Committee assists the Board in formulating and monitoring the implementation of the Group's remuneration policy.

The role of the Committee is to assist the Board to ensure that:

- Finbond remunerates Directors, Executives and staff members fairly and responsibly; and that the disclosure of Director remuneration is accurate, complete and transparent.

The objectives and areas of responsibility of the Committee are to:

- Ensure that the remuneration policy is adhered to and implemented;
- Review the outcomes of the implementation of the remuneration policy for whether the set objectives are being achieved;
- Ensure that the mix of fixed and variable pay, in cash, shares and other elements, meets the Company's needs and strategic objectives;
- Satisfy itself as to the accuracy of recorded performance measures that govern the vesting of incentives;
- Ensure that all benefits, including retirement benefits and other financial arrangements, are justified and correctly valued;
- Consider the results of the evaluation of the performance of the Chief Executive Officer and other Executive Directors, both as Directors and as Executives in determining remuneration;
- Select an appropriate comparative group when comparing remuneration levels; and
- Review incentive schemes to ensure continued contribution to shareholder value and that these are administered in terms of the rules.

EXECUTIVE DIRECTORS' REMUNERATION

Executive Directors' remuneration consists of:

- Payment of an industry-competitive annual guaranteed package (base salary and benefits);
- An incentive bonus where rewards are determined against achievement of individual performance criteria and annual financial targets; and
- Ownership in the form of share incentive scheme participation.

Finbond considers the aggregate of the above as the overall remuneration package designed to attract, retain, incentivise and drive the behaviour of our executives over the short, medium and longer term in a risk conscious manner.

Remco has the authority to approve guaranteed packages that will attract and retain the correct calibre of talent. Guaranteed packages are recommended by the Chief Executive Officer after taking into account individual experience, current performance and contribution. These are then benchmarked against the market on an annual basis.

EMPLOYEE REMUNERATION

Salaries and benefits are reviewed annually and reflect the relative skills and experience of, and contribution made by, the individual. It is the Group's policy to set base salaries and benefits (together known as gross remuneration) at medium market levels when compared like-for-like with peer group companies.

The Human Capital Department provides guidelines to business units on recommended salary levels for all employees within the organisation to facilitate the review. These guidelines include a message on how to set salary levels that will aid Finbond in meeting its objectives while remaining true to corporate values and incorporating guidance on managing recommended salary levels to take account of change in the cost of living over the year to ensure that salary levels always allow employees to afford a reasonable standard of living and do not encourage a reliance on variable remuneration.

Overall rewards are considered as important as our core values of work content (greater responsibility, variety of work and high level of challenge) and work affiliation (entrepreneurial feel to the Company and unique culture) in the attraction, retention and motivation of employees.

Employees that exceed budgets and targets are rewarded with significant bonus payments.

GRI4 Reference: EC1/LA12/38/39

REMUNERATION REPORT - KEY STATISTICS

Total Rand (R'000) Value of Compensation Paid to Executive Directors - **Excluding** Gains on the Exercise of Share Options	16 375
Average Compensation (R'000) per Executive Director (Rands) - **Excluding** Gains on the Exercise of Share Options	5 458
Ratio of Average Compensation (R'000) paid to Executive Directors relative to Average Compensation Paid to Employees - **Excluding** 'Gains'	47.05
Total Rand (R'000) Value of **Gains** on the Exercise of Share Options - Executive Directors	-
Average Compensation (R'000) per Executive Director (Rands) - **Including** 'Gains on the exercise of share options'	5 458
Ratio: Average Compensation paid to Executive Directors relative to Average Compensation Paid to Employees - **Including** 'Gains'	47.05
Total Compensation (R'000) Paid to Prescribed Officers - **Excluding** Gains on the Exercise of Share Options	544
Average Compensation (R'000) per Executive Director & Prescribed Officers - **Excluding** Gains on the Exercise of Share Options	4 230
Ratio: Average Executive Directors & Prescribed Officers' Compensation relative to Average Employee Compensation - **Excluding** Gains	36.46
Total Rand (R'000) Value **Gains** on the Exercise of Share Options - Prescribed Officers	-
Average Compensation (R'000) per Executive Director & Prescribed Officers - **Including** 'Gains on share options exercised'	4 230
Number of Board Members	10
Number of Board Members who are Non-Executive	7
Percentage of Board Members who are Non-Executive	70%
Number of Board Members who are deemed 'Independent'	6
Percentage of Board Members who are deemed 'Independent'	60%
Number of Board Members who are deemed 'HDSA'	2
Percentage of Board Members who are deemed 'HDSA'	20%
Number of Board Members who are Women	2
Percentage of Board Members who are Women	20%
Average Length of Executive Director Service (in years)	5
Average Length of Non-Executive Director Service (in years)	5
Average Length of Director (full Board) Service (in years)	5
Average Age of Directors (in years)	58
Overall Board and Committee Meeting attendance	99%
Auditor Remuneration: % of Non-audit Fees	11.77%
Length of Current Auditor's service	7 years
Independence of Board Chairman	Yes
Number of Prescribed Officers	1

EXECUTIVE DIRECTORS' REMUNERATION FOR THE YEAR TO 29 FEBRUARY 2016 (Gross before deductions)

Figures in R'000	Salary	Bonus	Total Remuneration
Dr Willie van Aardt	6 565	4 212	10 777
Mr Gary Sayers	1 852	1 051	2 903
Mr Carel van Heerden	1 644	1 051	2 695

SERVICE CONTRACTS

Each of the Executive Directors and prescribed officers has a letter of appointment from the Company which is subject to a 30-day notice period.

Board Meeting attended	BOARD MEETINGS - Meetings attended				
	16 April 2015	22 June 2015	28 October 2015	15 January 2016	19 April 2016
Dr Malesela Motlatla (Chair)	o	o	o	o	o
Dr Willie van Aardt	o	o	o	o	o
Mr Gary Sayers	o	o	o	o	o
Mr Danie Brits	o	o	o	o	o
Mr Robert Emslie	o	o	o	o	o
Adv Neville Melville	o	o	o	o	o
Adv Jasper Noeth	o	o	o	o	o
Ms Ina Wilken-Jonker	o	o	o	o	o
Ms Rosetta Xaba	o	o	o	o	o
Mr Carel van Heerden (Director from 15th January 2016)				o	o

Audit Committee Meeting attended	AUDIT COMMITTEE MEETINGS - Meetings attended			
	10 April 2015	29 September 2015	26 November 2015	14 April 2015
Ms Rosetta Xaba (Chair)	o	o	o	o
Mr Danie Brits	o	o	o	o
Mr Robert Emslie	o	o	o	o
Dr Willie van Aardt (Invitee)	o	o	o	o
Mr Gary Sayers (Invitee)	o	o	o	o
Mr Hannes Cloete (Invitee)	o	o		o
Mr Christo Quinn (Invitee)	o	o	o	o

Risk Committee Meeting attended	RISK COMMITTEE MEETINGS - Meetings attended		
	15 March 2015	29 July 2015	13 October 2015
Mr Robert Emslie (Chair)	o	o	o
Mr Danie Brits	o	o	o
Adv Neville Melville	o	o	o
Adv Jasper Noeth	o	o	o
Dr Willie van Aardt (Invitee)	o	o	o
Mr Gary Sayers (Invitee)	o	o	o
Mr Carel van Heerden (Invitee)	o	o	o
Mr Hano Coetser (Invitee)	o	o	o

Social and Ethics Committee Meeting attended	SOCIAL AND ETHICAL COMMITTEE MEETINGS - Meetings attended	
	27 August 2015	4 March 2016
Adv Jasper Noeth (Chair)	o	o
Ms Ina Wilken-Jonker	o	o
Dr Malesela Motlatla	o	o
Mr Gary Sayers (Invitee)	o	
Mr Gavin Davis (Invitee)	o	o

Remuneration Committee Meeting attended	REMUNERATION COMMITTEE MEETINGS - Meetings attended	
	30 April 2015	27 November 2015
Adv Jasper Noeth (Chair)	o	o
Dr Malesela Motlatla	o	o
Ms Rosetta Xaba	o	o
Dr Willie van Aardt (Invitee)	o	o

Investment Committee Meeting attended	INVESTMENT COMMITTEE MEETINGS - Meetings attended		
	28 April 2015	8 July 2015	2 February 2016
Mr Danie Brits (Chair)	o	o	o
Mr Robert Emslie	o	o	o
Adv Jasper Noeth	o	o	o
Dr Willie van Aardt (Invitee)	o	o	o
Mr Gary Sayers (Invitee)	o	o	o
Mr Carel van Heerden (Invitee)			o
Mr Hano Coetser (Invitee)			o

SHARE PLANS

During the 2014 financial period, Finbond Group Limited implemented an employee share incentive scheme.

Currently, 13 senior employees are rewarded in terms of the rules of the scheme.

SHARE INCENTIVE SCHEME

The purpose of the scheme is to issue Finbond shares or options to acquire Finbond shares to certain key staff members of the Company. The ultimate aim is to:

- Recognise contributions made by Directors and selected employees;
- Provide an incentive for the continuing relationship with selected employees;
- Provide the selected employees with an incentive to advance the Group's interests; and
- Ensure that the Group attracts and retains the core competencies required for formulating and implementing the Group's business strategies.

The Share Incentive Scheme was initially approved at the Annual General Meeting held on 28 June 2013. Currently, thirteen senior employees are rewarded in terms of the rules of the scheme. Under the rules of the scheme, the awards are subject to the achievement of the Net Profit After Tax Performance Targets and the employees will only be entitled to the award on achievement of the following Net Profit After Tax Targets:

TARGETS

- Thirty three percent (33%) when Finbond Group Limited achieves a consolidated audited Net Profit After Tax of R100 000 000 (one hundred million rand);
- A further thirty three percent (33%) when Finbond Group Limited achieves a consolidated audited Net Profit After Tax of R200 000 000 (two hundred million rand); and
- The balance when Finbond Group Limited achieves a consolidated audited Net Profit After Tax of R300 000 000 (three hundred million rand).

The Conditionality Periods applicable to these tranches are equal to the amount of time it takes to reach the audited Net Profit After Tax targets. Only after the Audited Net Profit After Tax Performance Targets have been achieved will the awards become unconditional.

NON-EXECUTIVE DIRECTORS' REMUNERATION FOR THE YEAR TO 29 FEBRUARY 2016

Non-Executive Directors receive a fixed level of remuneration for their services based on their participation in Board meetings and other committees. In addition, two of Finbond's Board members also provide consultancy services to Finbond in light of their specialist knowledge and skills. The Non-Executive Directors do not participate in incentive bonus schemes, nor have they been granted share options. Their remuneration was approved at the previous Annual General Meeting of the Group.

Non-Executive Director 2016	NON-EXECUTIVE DIRECTORS' REMUNERATION FOR THE YEAR TO 29 FEBRUARY 2016			
Figures in R'000	Directors' fees	Committees fees	Consulting fees	Total
Dr Malesela Motlatla (Chair)	124	241	-	365
Mr Danie Brits	88	249	-	337
Mr Robert Emslie	88	233	121	442
Adv Neville Melville	88	137	-	225
Adv Jasper Noeth	88	237	-	325
Ms Ina Wilken-Jonker	88	127	817	1 032
Ms Rosetta Xaba	88	244	-	332
	652	**1 468**	**938**	**3 058**

“THE TWO MOST IMPORTANT REQUIREMENTS FOR MAJOR SUCCESS ARE:
FIRST, BEING IN THE RIGHT PLACE AT THE RIGHT TIME,
AND SECOND, DOING SOMETHING ABOUT IT.”

- Ray Kroc -

“WHATEVER THE MIND OF MAN CAN CONCEIVE AND BELIEVE, IT CAN ACHIEVE.”

- Napoleon Hill -

FINANCIAL STATEMENTS

COMPANY SECRETARY'S CERTIFICATE

TO THE MEMBERS OF FINBOND GROUP LIMITED AND FINBOND MUTUAL BANK:

In my capacity as Company Secretary, I hereby certify that for the year ended 29 February 2016, the Company has filed all such returns and notices as are required by the **Companies Act No. 71 of 2008** and that all such returns and notices appear to be true, correct and up-to-date.

Ben Bredenkamp
Company Secretary

19 April 2016

"IF YOU CAN IMAGINE IT, YOU CAN ACHIEVE IT.

IF YOU CAN DREAM IT, YOU CAN BECOME IT."

- William Arthur Ward -

REPORT OF THE AUDIT COMMITTEE

The Audit Committee ("the Committee") has pleasure in submitting its report for the year ended 29 February 2016, as required by **section 94 of the Companies Act No. 71 of 2008** (hereafter referred to as "the Companies Act").

The Committee is a statutory committee appointed by the Board of Directors, in terms of **section 94(2) of the Companies Act**, and whose duties were delegated to it by the Board during the financial year under review.

The Committee acknowledges its responsibilities assigned by the Board as well as its mandated tasks, which are outlined in the Audit Committee Charter which has been set up in accordance with the **King III guidelines** on best practice corporate governance. The Audit Committee Charter contains the terms of reference that govern the mandate and functional responsibilities of the Committee, which are reviewed periodically in order to ensure alignment with the latest corporate governance guidelines and principles. The Committee's roles and responsibilities include the statutory duties as required by the **Companies Act**, which include:

FINANCIAL STATEMENTS

- Review the appropriateness of accounting policies;
- Review the appropriateness of assumptions made by management in preparing the Financial Statements;
- Review the significant accounting and reporting issues, and understand their impact on the Financial Statements;
- Review the Annual Financial Statements, and consider whether they are complete, consistent with prescribed accounting methods and information known to Committee members;
- Obtain assurance from management with respect to the accuracy of the Financial Statements;
- Review with management and the external auditors the results of external audit, including any significant issues identified; and
- Review the Annual Report and related regulatory filings before release and consider the accuracy and completeness of the information.

RISK MANAGEMENT

- Review the risk management framework for identifying, assessing, monitoring and managing significant risks;
- Review the report of significant changes to Finbond's Risk Barometer;
- Liaise with management to ensure that there is a common understanding of the key risks to Finbond;
- Review whether risk management is carried out in a manner that really benefits Finbond;
- Assess and contribute to the audit planning processes relating to the risks of Finbond;
- Review and recommend disclosures on matters of risk in the Annual Financial Statements;
- Review and recommend disclosures on matters of risk and risk management in the Annual/Integrated Report;
- Provide regular feedback to the Board of Directors on the adequacy and effectiveness of risk management in Finbond, including recommendations for improvement; and
- Satisfy itself that it has appropriately addressed the following areas:
  - financial reporting risks, including the risk of fraud;
  - internal financial controls; and
  - information technology risks as they relate to financial reporting.

INTERNAL CONTROL

- Review the adequacy of the internal control system, including information technology security and control;
- Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses;
- Review whether relevant policies and procedures are in place and up-to-date, and whether they are complied with; and
- Review whether the financial internal controls are operating efficiently, effectively and economically.

INTERNAL AUDIT

- Review the Internal Audit Charter, budget, activities, staffing, skills and organisational structure of the Internal Audit;
- Review and approve the Internal Audit plan, its scope and any major changes to it, ensuring that it covers the key risks and that there is appropriate co-ordination with the External Auditor;
- Review and concur in the appointment, replacement or dismissal of the Audit Engagement Partner;
- Resolve any difficulties or unjustified restrictions or limitations on the scope of Internal Audit work;
- Resolve any significant disagreements between auditors and management;
- Review significant findings and recommendations by Internal Audit and management responses thereof;
- Review implementation of Internal Audit recommendations by management;
- Review the performance of the Audit Engagement Partner;
- Review the effectiveness of the Internal Audit function, including compliance with **The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing**; and
- Meet separately with the Audit Engagement Partner to discuss any issues that the Committee or Internal Audit believes should be discussed privately.

EXTERNAL AUDIT

- Review the External Auditors' proposed audit scope, approach and audit fees for the year;
- Review the findings and recommendations of the External Auditor and management responses thereto;
- Review implementation of External Auditor's recommendations by management;
- Review the performance of External Auditors;
- Ensure that there is proper co-ordination of audit efforts between Internal and External Auditors; and
- Meet separately with the External Auditors to discuss any matters that the Committee or External Auditors believe should be discussed privately.

COMPLIANCE

- Review whether management has considered legal and compliance risks as part of the Institution's risk assessments;
- Review the effectiveness of the system for monitoring compliance with laws and regulations;
- Review the findings of any examinations by regulatory agencies, and any auditor observations;
- Review the process for communicating the Code of Conduct to Finbond's personnel, and for monitoring compliance therewith; and
- Obtain regular updates from management on compliance matters.

REPORTING RESPONSIBILITIES

- Regularly report to the Board of Directors about Committee activities, issues, and related recommendations;
- Report annually to the Board of Directors, describing the Committee's composition, responsibilities and how they were discharged, and any other information required, including the approval of non-audit services;
- Submit a summary of its activities for inclusion in the Annual Report; and
- Review any other reports the Institution issues that relate to the Committee's responsibilities.

OTHER RESPONSIBILITIES

- Perform other activities related to its Charter as requested by the Board of Directors;
- Safeguard all the information supplied to it within the ambit of the law;
- Investigate matters within its powers as identified in its Charter; and
- Confirm annually that all responsibilities outlined in its Charter have been carried out.

MEMBERS OF THE AUDIT COMMITTEE AND ATTENDANCE AT MEETINGS

The Committee consists of the Non-Executive Directors listed in the table hereunder and meets a minimum of three times per annum. Committee members are re-appointed at the Annual General Meeting in terms of the **Companies Act**. During the period since 1 March 2015 to date, the following meetings were held:

AUDIT COMMITTEE MEETINGS - Meetings attended				
Director	10 April 2015	29 September 2015	26 November 2015	14 April 2016
Mr Danie Brits	o	o	o	o
Mr Robert Emslie	o	o	o	o
Ms Rosetta Xaba	o	o	o	o

All members were required to act independently, as described in the **Companies Act**, the **King III Code of Corporate Governance** and the **JSE Listings Requirements**.

The Internal and External Auditors in their capacity as assurance providers to the Group also attended and reported to the majority of meetings of the Committee. The Chief Executive Officer, Chief Financial Officer and Heads of both Internal Audit and Compliance are permanent invitees and are named on page 51 of the Integrated Annual Report for 2016.

INTERNAL AUDIT

The Committee fulfils an oversight function in respect of the Group's system of internal financial control.

The Committee is also responsible for ensuring that the Group's Internal Audit function remains independent and has the necessary resources, standing and authority within the organisation to enable it to discharge its duties. Furthermore, the Committee oversees the co-operation between the Internal and External Auditors as assurance providers, as well as serving as a link between the Board of Directors and these respective functions.

ROLES AND RESPONSIBILITIES OF THE AUDIT COMMITTEE

The Committee has discharged the functions outlined in its charter and ascribed to it in terms of the **Companies Act** as follows:

Reviewing the year-end Financial Statements, culminating in a recommendation to the Board for approval. In the course of its review, the Committee:

- Took the necessary steps to ensure that the Financial Statements are prepared in accordance with **International Financial Reporting Standards** (IFRS) and the requirements of the **Companies Act**;
- Considered and, where appropriate, made recommendations on internal financial controls;
- Ensured that a process is in place to be informed of any reportable irregularities (as per the **Auditing Professions Act, 2005**) identified and reported by the External Auditor;
- Received and dealt appropriately with any concerns or complaints, whether from within or outside the Company, or on its own initiative, relating to the accounting practices and internal audit of the Group, the content of the Financial Statements, the internal financial controls of the Company or any related matters. During the financial year under review, no such matters, concerns or complaints were raised;
- Reviewed the external audit reports of the Group's Annual Financial Statements;
- Nominated and verified the independence of the External Auditors, KPMG, as the auditors for the year under review, noting that Mr Jan Vliegenthart (accredited as such and on the JSE List of Auditors and registered in accordance with the **Auditing Professions Act, 2005**) was appointed as designated auditor for the financial year;
- Determined and approved the audit fees and the terms of engagement of the external auditors;
- Determined, subject to the provisions of the **Companies Act**, the nature and extent of allowable non-audit services to the Group and approved the contract terms thereof;
- Pre-approved any proposed agreement with the external auditors for proposed non-audit services to the Group;
- Confirmed and approved the Internal Audit Charter and Annual Internal Audit Plan;
- Ensured that risk management procedures are adequate and applicable;
- Reviewed the Internal Audit Reports and, where relevant, made recommendations to the Board concerning the Group's accounting policies, financial control, records and reporting;
- Evaluated the effectiveness of internal controls;
- Oversaw the integrated reporting process;
- Satisfied itself as to the appropriateness of management's assumption regarding going concern; and
- Satisfied itself as to the adequacy of the information technology controls.

The Committee considered the Group's information pertaining to its non-financial performance as disclosed in the Integrated Report and has assessed its consistency with operational and other information known to Committee members, and for consistency with the Annual Financial Statements. The Committee is satisfied that the sustainability information presented is reliable and consistent with the Financial Results.

EXPERTISE AND EXPERIENCE OF FINANCIAL OFFICER AND FUNCTION

As required by the **JSE Listings Requirement 3.84(h)**, as well as the recommended practice as per **King III**, the Committee has satisfied itself that the Chief Financial Officer has appropriate expertise and experience. In addition, the Committee also considered and has satisfied itself of the appropriateness of the expertise and adequacy of resources of the finance function and the experience of the senior members thereof.

INDEPENDENT AUDITOR’S REPORT

To the Shareholders of Finbond Group Limited and Finbond Mutual Bank

REPORT ON THE FINANCIAL STATEMENTS

We have audited the Consolidated Financial Statements and Financial Statements of Finbond Group Limited, and the Financial Statements of Finbond Mutual Bank, which comprise the Statements of Financial Position as at 29 February 2016, and the Statements of Comprehensive Income, Changes in Equity and Cash Flows for the year then ended, and the notes to the Financial Statements, which include a summary of significant accounting policies and other explanatory notes, as set out on pages 90 to 145.

DIRECTORS’ RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Company’s Directors are responsible for the preparation and fair presentation of the Financial Statements of Finbond Group Limited in accordance with **International Financial Reporting Standards** and the requirements of the **Companies Act of South Africa**, and the Financial Statements of Finbond Mutual Bank in accordance with **International Financial Reporting Standards**, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

AUDITOR’S RESPONSIBILITY

Our responsibility is to express an opinion on these Financial Statements based on our audits. We conducted our audits in accordance with **International Standards on Auditing**. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entities’ preparation and fair presentation of the Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entities’ internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

OPINION

In our opinion, these Financial Statements present fairly, in all material respects, the consolidated and separate financial position of Finbond Group Limited as at 29 February 2016, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with **International Financial Reporting Standards** and the requirements of the **Companies Act of South Africa**, and the financial position of Finbond Mutual Bank as at 29 February 2016, and its financial performance and cash flows for the year then ended in accordance with **International Financial Reporting Standards**.

OTHER REPORTS REQUIRED BY THE COMPANIES ACT

As part of our audit of the Financial Statements for the year ended 29 February 2016, we have read the Directors’ Report, the Audit Committee’s Report and the Company Secretary’s Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited Financial Statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited Financial Statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

REPORTS ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that KPMG Inc. has been the auditor of Finbond Group Limited for seven years and of Finbond Mutual Bank for four years.

KPMG Inc.
Registered Auditor

Per J Vliegenthart
Chartered Accountant (SA)
Registered Auditor
Director
19 April 2016

KPMG Forum
1226 Francis Baard Street
Hatfield
0083

DIRECTORS' REPORT

The Directors present their report, which forms part of the Annual Financial Statements of the Group, for the year ended 29 February 2016.

1. INCORPORATION

The Company was incorporated in the Republic of South Africa on 20 July 2001 and obtained its certificate to commence business on the same day.

2. REVIEW OF ACTIVITIES AND OPERATIONS

Nature of Business

Finbond Group Limited is a leading South African Financial Services institution that specialises in the design and delivery of unique value and solution-based savings, credit and insurance solutions tailored around depositor and borrower requirements rather than institutionalised policies and practices.

Finbond Group Limited conducts its business through four divisions focused on:
1. Lending Products (Unsecured and Secured);
2. Investment Products;
3. Transactional Banking Products; and
4. Property Investments Products.

Review of operations and financial results

The Financial Statements on pages 90 to 145 set out fully the financial positions, results of operations and cash flows of the Group and the Company for the financial year ended 29 February 2016.

Refer to note 45 for segmental information.

The Group net profit attributable to ordinary shareholders for the reporting period amounts to R57 253 594 (2015: R50 867 375). The Company's net profit for the reporting period amounts to a profit of R45 947 493 (2015: R74 532 400).

3. GOING CONCERN

The Financial Statements have been prepared on the going concern basis. This basis presumes that management neither intends to cease trading nor has reason to believe that the foreseeable future of the Company is in doubt.

4. EVENTS AFTER REPORTING DATE

The following events took place after the reporting date of the Group: A gross ordinary dividend of R25 915 170 was declared out of income reserves in Finbond Group Limited on 20 April 2016 in respect of the financial year ended 29 February 2016.

The Group publicly announced a rights issue immediately prior to the conclusion of 2016 financial year-end and successfully raised an additional R525 million from the transaction in March 2016. Subsequent to the current financial period, Finbond Group acquired a number of branches in South Africa, USA and Canada as going concerns through business combinations.

Refer to note 38 in the Financial Statements for further details regarding the events after reporting date.

5. DIRECTORS' INTERESTS AND SHAREHOLDING IN THE GROUP

5.1 The Company's Directors listed in the following table held the following number of shares in Finbond Group Limited at year-end:

	Beneficial		
	Direct	Indirect	Percentage held
2016 Director			
Dr Willie van Aardt*	-	203 940 261	33.7%
Mr Robert Emslie	260 991	-	0.04%
2015 Director			
Dr Willie van Aardt*	-	234 240 732	38.7%
Mr Robert Emslie	260 991	-	0.04%

No shares or share options were issued to the Directors in the current reporting period. No non-beneficial interests existed. There have been no changes to the interests of Directors in the Group since the year-end.

5.2 Directors' remuneration for services as Director in respect of the financial year ended 29 February 2016 is outlined in note 40.

SHARE OPTIONS GRANTED TO DIRECTORS

	Shares granted			Value of shares
	26 Aug 2013	3 Oct 2013	6 Apr 2016	
2016 Director				
Dr Willie van Aardt*	4 377 555	-	-	8 755 110
Mr Gary Sayers	1 983 630	516 370	-	4 767 634
Mr Carel van Heerden**	1 500 000	1 000 000	3 500 000	6 300 000

**Shareholding via Kings Reign Investments (Pty) Ltd, of which Dr van Aardt was the founder, and of which Dr van Aardt is a Director and the van Aardt Family Trust is the ultimate beneficial shareholder with 100% shareholding in Kings Reign Investments (Pty) Ltd. Dr van Aardt is the settlor of the van Aardt Family Trust.*
***Mr van Heerden was appointed as a Director from 15 January 2016.*

6. SHARE CAPITAL

There were no changes in the authorised and issued share capital of the Company during the period under review.

Shareholder spread and major shareholders

Refer to shareholder analysis on page 75.

7. BORROWINGS

In terms of the articles of association of the Company, the Directors may exercise all the powers of the Company to borrow money, as they consider appropriate.

Refer to note 19 for further details.

8. DIVIDENDS

A gross ordinary dividend of 3.4 cents (R20 570 858.50) was paid during the year in respect of the year ended 28 February 2015. A gross ordinary dividend of 3.4 cents (R25 915 170) was declared after the reporting date of the Group on 20 April 2016 in respect of the year ended 29 February 2016 and is payable to shareholders in accordance with the timetable below:

In terms of dividend tax effective since 1 April 2012, the following additional information is disclosed:

- The local dividend tax rate is 15%;
- 762 210 879 shares are issued, of which 14 044 127 are held by the Group;
- The net ordinary dividend is 2.9 cents per share for ordinary shareholders who are not exempt from dividends tax; and
- Finbond Group Limited's tax reference number is 9194313145.

Timetable:

• Declaration date	We, 20 April 2016
• Last day to trade cum dividend	Fr, 13 May 2016
• Shares commence trading ex dividend	Mo, 16 May 2016
• Record date	Fr, 20 May 2016
• Dividend payment date	Mo, 23 May 2016

No dematerialisation or rematerialisation of shares will be allowed for the period from Monday, 16 May 2016 to Friday, 20 May 2016, both dates inclusive.

Dividends are declared in the currency of the Republic of South Africa. The Directors have confirmed that the Company will satisfy the liquidity and solvency requirements immediately after the payment of the dividend.

9. DIRECTORS

The Directors of the Company during the year, and to the date of issue of the report are as follows:

Name	
Dr Malesela Motlatla	(Chairman) (Independent Non-Executive)
Dr Willie van Aardt	(Executive) (Chief Executive Officer)
Mr Gary Sayers	(Executive) (Chief Financial Officer)
Mr Carel van Heerden	(Executive) (Chief Operating Officer)
Ms Ina Wilken-Jonker	(Non-Executive)
Adv Neville Melville	(Independent Non-Executive)
Adv Jasper Noeth	(Independent Non-Executive)
Ms Rosetta Xaba	(Independent Non-Executive)
Mr Robert Emslie	(Independent Non-Executive)
Mr Danie Brits	(Independent Non-Executive)
Mr Herman Kotze*	(Non-Executive)

**Mr Kotze was appointed to the Board in the capacity of Non-Executive Director at the meeting of the Board held on 19 April 2016 subject to the completion of the administrative process to be followed at the CIPC, JSE and SARB.*

10. SECRETARY

Given the growing size and complexity of the Group and its operations, the Board of Finbond felt it in the interests of the Group to no longer outsource the company secretarial function, but rather to utilise a dedicated internal resource. Accordingly, the Board has appointed Mr Ben Bredenkamp (B. Com (Accounting), LLB, Post-Graduate Certificate in Advanced Taxation), who joined the Group's Legal and Compliance Department in 2013, to assume the role of Company Secretary.

The Board of Directors has considered and is satisfied with the competence, qualifications and experience of the Company Secretary.

11. INVESTMENTS IN SUBSIDIARIES

Name of Subsidiaries

- Finbond Securities (Pty) Ltd
  (previously Finbond Micro Finance (Pty) Ltd)
- Finbond Property Finance (Pty) Ltd
  (previously Mzanzi Finance (Pty) Ltd)
- ABC Cash Loans (Pty) Ltd
- Finbond Micro Finance 2 (Pty) Ltd
- Dimension Home Loans Group (Pty) Ltd
- Independent Bond Originators (Pty) Ltd
- Zevoli 182 (Pty) Ltd
- Supreme Finance (Pty) Ltd
- Finbond Mutual Bank
- Finbond Private Equity (Pty) Ltd

12. SPECIAL RESOLUTIONS

During the year ending 29 February 2016, the following special resolutions were made:

- Resolved that the remuneration of the Non-Executive Directors, as set out on page 145 of the previous Annual Report, to be paid by Finbond Mutual Bank, be fixed from 1 June 2015.
- It was resolved that the inter-group loans of the Company be ratified for the period ended 28 February 2015.
- It was resolved that, subject to compliance with the requirements of the JSE, the Directors of the Company were authorised, at their discretion, to procure for the Company or subsidiaries of the Company ordinary shares issued by the Company on the JSE.

13. AUDITORS

KPMG Inc. will continue in office in accordance with **section 270(2) of the Companies Act of South Africa, No. 71 of 2008** (as amended).

STATEMENTS OF FINANCIAL POSITION
as at 29 February 2016

		Finbond Group Limited Consolidated		Finbond Group Limited Company		Finbond Mutual Bank	
Figures in R'000	Note	**2016**	2015	**2016**	2015	**2016**	2015
Assets							
Cash and cash equivalents	3	136 035	197 500	-	46 009	126 728	148 084
Other financial assets	4	231 879	372 772	358	822	231 521	369 720
Unsecured loans and other advances to customers	5	343 749	290 715	-	-	298 061	278 379
Secured loans and other advances to customers	6	94 781	-	-	-	94 177	-
Trade and other receivables	7	133 436	57 554	38 735	28 436	83 810	29 161
Loans to group companies	8	-	-	163 362	50 069	172 871	214 504
Inventories		1 764	2 568	-	-	1 764	2 567
Current tax receivable		684	2 532	-	-	597	2 447
Investments in subsidiaries	9	-	-	451 472	451 472	-	-
Property, plant and equipment	10	62 090	46 044	-	-	54 136	43 471
Investment property	11	269 540	248 820	-	-	269 540	248 820
Goodwill	12	152 976	120 034	-	-	97 965	97 702
Intangible assets		171	171	-	-	171	171
Deferred taxation	13	4 323	10 545	-	2 426	-	-
Total Assets		**1 431 428**	1 349 255	**653 927**	579 234	**1 431 341**	1 435 026
Liabilities							
Bank overdraft	3	29 628	-	29 628	-	-	-
Trade and other payables	14	33 003	26 300	11 313	3 268	25 206	24 759
Fixed and notice deposits	15	907 705	921 935	-	-	907 705	921 935
Transactional deposits		3 189	69	-	-	3 189	69
Current tax payable		4 771	2	3 764	-	-	-
Finance lease obligation	16	1 644	1 532	-	-	1 460	1 532
Loans from shareholders	19	18 000	15 000	18 000	15 000	-	-
Loans from group companies	8	-	-	215 973	216 970	-	-
Deferred taxation	13	45 499	38 513	475	-	43 111	36 897
Total Liabilities		**1 043 439**	1 003 351	**279 153**	235 238	**980 671**	985 192
Equity							
Capital and reserves							
Share capital	17	203 365	201 523	196 423	194 581	457 781	457 781
Reserves	18	6 476	3 428	6 476	3 428	(35 940)	(35 940)
Retained income		178 972	141 777	171 875	145 987	28 829	27 993
Share capital and reserves attributable to ordinary shareholders		388 813	346 728	374 774	343 996	450 670	449 834
Non-controlling interest		(824)	(824)	-	-	-	-
Total Equity		**387 989**	345 904	**374 774**	343 996	**450 670**	449 834
Total Equity and Liabilities		**1 431 428**	1 349 255	**653 927**	579 234	**1 431 341**	1 435 026

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 29 February 2016

Figures in R'000	Note	Finbond Group Limited Consolidated 2016	Finbond Group Limited Consolidated 2015	Finbond Group Limited Company 2016	Finbond Group Limited Company 2015	Finbond Mutual Bank 2016	Finbond Mutual Bank 2015
Interest income	22	161 435	145 457	593	168	145 230	137 521
Interest expense	23	(87 525)	(76 137)	(4 307)	-	(83 096)	(74 696)
Net interest income/margin		**73 910**	69 320	**(3 714)**	168	**62 134**	62 825
Fee income	24	208 025	170 128	-	-	179 380	159 711
Management fee income	25	48 987	27 766	60 968	19 873	21 755	27 759
Fair value adjustments	26	3 032	1 791	-	-	(2 285)	(691)
Other microfinance income	27	139 732	79 686	250	31 984	122 632	49 317
Operating profit/(loss) from cell captive	28	(465)	30 612	(465)	30 612	-	-
Net commission expense	29	(4 903)	(3 384)	-	-	(6 090)	(3 415)
Net impairment charge on loans and advances	30	(71 314)	(60 137)	2	-	(68 836)	(52 872)
Operating expenses		(302 089)	(242 419)	(32 354)	(26 120)	(254 039)	(219 812)
Operating profit	33	94 915	73 363	24 687	56 517	54 651	22 822
Dividends received		-	-	27 925	34 617	-	161
Profit before taxation		**94 915**	73 363	**52 612**	91 134	**54 651**	22 983
Taxation	31	(37 661)	(22 496)	(6 665)	(16 602)	(25 890)	(8 397)
Total profit and comprehensive income for the year		57 254	50 867	45 947	74 532	28 761	14 586
Profit attributable to:							
Owners of the parent		57 254	50 867	45 947	74 532	28 761	14 586

	Note	2016	2015
Normalised earnings:			
Total profit	43	**64 652**	**50 867**
Earnings per share			
Per share information			
Basic earnings per share (cents)	43	9.7	8.6
Diluted earnings per share (cents)	43	9.7	8.6

STATEMENTS OF CHANGES IN EQUITY
for the year ended 29 February 2016

Figures in R'000	Share Capital	Reserves	Retained Income	Total attributable to Equity Holders of the Group/Company	Non-Controlling Interest	Total Equity
FINBOND GROUP LIMITED CONSOLIDATED						
Balance at 1 March 2014	**225 953**	**4 875**	**99 599**	**330 427**	**(824)**	**329 603**
Total comprehensive income for the year	-	-	50 867	50 867	-	50 867
Equity settled share-based payment charge	-	2 409	-	2 409	-	2 409
Transfer between reserves	-	(3 856)	3 856	-	-	-
Treasury shares purchased	(24 430)	-	-	(24 430)	-	(24 430)
Dividends	-	-	(12 545)	(12 545)	-	(12 545)
Balance at 1 March 2015	**201 523**	**3 428**	**141 777**	**346 728**	**(824)**	**345 904**
Total comprehensive income for the year	-	-	57 254	57 254	-	57 254
Equity settled share-based payment charge	-	3 048	-	3 048	-	3 048
Treasury shares re-issued	1 842	-	-	1 842	-	1 842
Dividends	-	-	(20 059)	(20 059)	-	(20 059)
Balance at 29 February 2016	**203 365**	**6 476**	**178 972**	**388 813**	**(824)**	**387 989**
Note	17	18				
FINBOND GROUP LIMITED COMPANY						
Balance at 1 March 2014	**239 163**	**4 875**	**80 305**	**324 343**	**-**	**324 343**
Total comprehensive income for the year	-	-	74 532	74 532	-	74 532
Equity settled share-based payment charge	-	2 409	-	2 409	-	2 409
Transfer between reserves	-	(3 856)	3 856	-	-	-
Treasury shares purchased	(44 582)	-	-	(44 582)	-	(44 582)
Dividends	-	-	(12 706)	(12 706)	-	(12 706)
Balance at 1 March 2015	**194 581**	**3 428**	**145 987**	**343 996**	**-**	**343 996**
Total comprehensive income for the year	-	-	45 947	45 947	-	45 947
Equity settled share-based payment charge	-	3 048	-	3 048	-	3 048
Treasury shares re-issued	1 842	-	-	1 842	-	1 842
Dividends	-	-	(20 059)	(20 059)	-	(20 059)
Balance at 29 February 2016	**196 423**	**6 476**	**171 875**	**374 774**	**-**	**374 774**
Note	17	18				
FINBOND MUTUAL BANK						
Balance at 1 March 2014	**457 781**	**(35 940)**	**26 113**	**447 954**	**-**	**447 954**
Total comprehensive income for the year	-	-	14 586	14 586	-	14 586
Dividends	-	-	(12 706)	(12 706)	-	(12 706)
Balance at 1 March 2015	**457 781**	**(35 940)**	**27 993**	**449 834**	**-**	**449 834**
Total comprehensive income for the year	-	-	28 761	28 761	-	28 761
Dividends	-	-	(27 925)	(27 925)	-	(27 925)
Balance at 29 February 2016	**457 781**	**(35 940)**	**28 829**	**450 670**	**-**	**450 670**
Note	17	18				

STATEMENTS OF CASH FLOWS
for the year ended 29 February 2016

Figures in R'000	Note	Finbond Group Limited Consolidated 2016	Finbond Group Limited Consolidated 2015	Finbond Group Limited Company 2016	Finbond Group Limited Company 2015	Finbond Mutual Bank 2016	Finbond Mutual Bank 2015
Cash flows (utilised for)/generated from operating activities							
Cash (utilised for)/generated from operations	34	(109 167)	161 166	53 406	16 626	(109 454)	182 142
Tax paid	35	(17 838)	(8 543)	-	(2)	(17 825)	(8 452)
Net cash (utilised for)/generated from operating activities		**(127 005)**	**152 623**	53 406	**16 624**	**(127 279)**	**173 690**
Cash flows (utilised for)/generated from investing activities							
Purchase of property, plant and equipment	10	(28 682)	(31 947)	-	-	(22 207)	(29 798)
Sale of property, plant and equipment	10	-	1 741	-	-	-	1 734
Purchase of investment property	11	(17 005)	(2 198)	-	-	-	(2 198)
Purchase of other intangible assets	12	(32 943)	(57 608)	-	-	-	(35 733)
Movement on group loans		-	-	(114 290)	(28 299)	(8 613)	(54 782)
Repayment of loans from group companies		-	-	-	-	-	-
Purchase of financial assets		(186 211)	(589 187)	-	-	(176 371)	(589 187)
Sale of financial assets		316 582	660 977	464	59 320	313 887	615 796
Cash outflow from common control transaction		-	-	-	-	-	(285)
Net cash (utilised for)/generated from investing activities		51 741	(18 222)	(113 826)	31 021	106 696	(94 453)
Cash flows (utilised for)/generated from financing activities							
Re-issued share capital/(share buy-back)		1 842	(24 819)	1 842	(19 762)	-	-
Repayment of other financial liabilities		-	-	-	-	-	-
Proceeds from shareholders loan		3 000	15 000	3 000	15 000	-	-
Finance lease payments		(612)	(1 136)	-	-	(773)	(1 136)
Dividends paid		(20 059)	(12 706)	(20 059)	(12 706)	-	(12 706)
Dividends received		-	-	-	12 706	-	-
Net cash utilised for financing activities		(15 829)	(23 661)	(15 217)	(4 762)	(773)	(13 842)
Total cash movement for the year		(91 093)	110 740	(75 637)	42 883	(21 356)	65 395
Cash at the beginning of the year		197 500	86 760	46 009	3 126	148 084	82 689
Total cash at end of the year		**106 407**	**197 500**	**(29 628)**	**46 009**	**126 728**	**148 084**

ACCOUNTING POLICIES

1. Presentation of Financial Statements

Finbond Group Limited ("the Company") is a listed entity on the Johannesburg Stock Exchange ("JSE"). The Company and Finbond Mutual Bank ("the Bank") are both domiciled in South Africa.

The consolidated financial statements are comprised of the Company and its subsidiaries, which include the Bank, together referred to as "the Group".

The consolidated and separate Financial Statements have been prepared in accordance with **International Financial Reporting Standards** (IFRSs) as issued by the **International Accounting Standards Board** (IASB), the **SAICA Financial Reporting Guides** as issued by the **Accounting Practices Committee**, the **Listing Requirements of the JSE**, the **Companies Act of South Africa**, and **Financial Reporting Pronouncements** as issued by the **Financial Reporting Standards Council**.

Unless otherwise stated, the Accounting Policies are consistent with those adopted in the prior year and have been applied consistently within the Group.

The Group's consolidated and separate Financial Statements have been prepared on the historical cost basis, except for the following items carried at fair value:

- Investment properties
- Written-off portfolio
- Financial assets at fair value through profit or loss.

Functional and presentation currency
The consolidated and separate Financial Statements are presented in South African Rand (ZAR), which is the functional currency of the Company.

All amounts have been rounded to the nearest thousand, except where indicated differently.

Use of estimates and judgement
The preparation of Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated Financial Statements, are disclosed in policy 1.2.

1.1 Consolidation

<u>Basis of consolidation</u>
The consolidated Financial Statements incorporate the Financial Statements of the Group and all investees (including special purpose entities) which are controlled by the Group.

The Group has control of an investee when it has power over the investee; it is exposed to or has rights to variable returns from involvement with the investee; and it has the ability to use its power over the investee to affect the amount of the investor's returns.

In assessing control, the entity is required to identify the entity structure of the investee. An investee would generally be a separate legal entity, or may also be a legally ring-fenced group of assets and liabilities within a legal entity, commonly referred to as a silo. Unstructured entities (where control is not definitive) are not consolidated, but are instead accounted for as an investment under other financial assets.

The results of subsidiaries are included in the consolidated Financial Statements from the date when control commences to the date on which control ceases.

All intragroup transactions, balances and unrealised gains or losses are eliminated in full in preparing the consolidated Financial Statements.

Non-controlling interests in the net assets of consolidated subsidiaries are identified and recognised separately from the Group's interest therein, and are within equity required. Losses of subsidiaries attributable to non-controlling interests are allocated to the non-controlling interest even if this results in a debit balance being recognised for non-controlling interest.

<u>Business combinations</u>
The Group accounts for business combinations using the acquisition method of accounting. The cost of the business combination is measured as the aggregate of the fair values of assets given, liabilities incurred and equity instruments issued.

Costs directly attributable to the acquisition were capitalised to the cost of the acquisition prior to 28 February 2010, but are expensed for business combinations from 1 March 2010.

Contingent consideration is included in the cost of the combination at fair value as at the date of acquisition. Subsequent changes to the assets, liabilities or equity which arise as a result of the contingent consideration are not affected against goodwill, but instead are recognised in profit and loss.

Contingent liabilities are only included in the identifiable assets and liabilities of the acquiree where there is a present obligation at acquisition date.

On acquisition, the Group assesses the classification of the acquiree's assets and liabilities and reclassifies them where the classification is inappropriate for group purposes. This excludes lease agreements and insurance contracts, for which items classification remains as per their inception date.

Non-controlling interests arising from a business combination, which are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation, are measured either at the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets or at fair value. The treatment is not an accounting policy choice but is selected for each individual business combination, and disclosed in the note for business combinations. All other components of non-controlling interests are measured at their acquisition date fair values, unless another measurement basis is required by IFRS.

Goodwill is determined as the consideration paid, plus the fair value of any shareholding held prior to obtaining control, plus non-controlling interest and less the fair value of the identifiable assets and liabilities of the acquiree. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a gain on a bargain purchase.

Goodwill is not amortised, but is tested on an annual basis for impairment. If goodwill is assessed to be impaired, that impairment is not subsequently reversed.

Common control transactions

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the combination, and control is not transitory. Common control transactions are accounted for using book value accounting, whereby all assets acquired and all liabilities assumed are recognised at their carrying amount in the Financial Statements of the parent, as at the acquisition date. Any excess or premium paid for the acquisition of the net assets of the business acquired will be recognised directly in equity as a non-distributable common control reserve. Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identidiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Investments in subsidiaries are accounted for at cost less allowance for impairment. The carrying amounts of these investments are reviewed annually and written down for impairment where considered necessary.

1.2 Significant judgements, estimates and sources of uncertainty

In preparing the consolidated and Company Financial Statements, management is required to make estimates and assumptions that affect the amounts represented in the Financial Statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the Financial Statements. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which estimates are revised and in any future periods. Significant judgements include:

Impairment testing

Impairment losses on loans and advances

Secured and unsecured loans and advances are stated net of identified impairment and incurred but unidentified impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

The estimation of allowances for impairments is inherently uncertain and depends on many factors, including general economic conditions, structural changes within industries, changes in individual customer circumstances and other external factors, such as legal requirements, regulatory specifications and governmental policy changes.

The Group reviews its secured and unsecured loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans (known as loss events), before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, a breach of contract such as a default or delinquency in payment for an individual borrower, or local economic conditions that correlate with defaults on assets in that group (e.g. strike action).

Management uses estimates based on industry trends as well as historical loss experience for assets with similar credit risk characteristics for identified impairment as well as incurred but unidentified impairment. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Judgemental and non-judgemental inputs are required in estimating future cash flows.

Appropriate allowances for impairments are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Refer to note 5 and note 6.

In addition to impairment estimates for assets with recognised objective evidence of impairment, estimates are made for impairments associated with assets that are impaired but for which objective evidence of impairment is not yet available. Estimates are based primarily on industry trends for this class of impairment.

Loan write-offs

Client balances (and the related impairment allowances accounts) are fully impaired at the earliest of when:

- Any part of the loan is over 150 days and no payment has been received within 90 days; or
- Legal handover is formally pursued by way of specific relief sought from the courts.

Carrying value of the written off portfolio

In accordance with the policies and procedures governing Finbond and its subsidiaries, overdue debtors are written off and attorneys are instructed to collect the written off debts as governed by, *inter alia*, the **National Credit Act of 2005** and the **Magistrates' Court Act of 1944**. Management estimated future recoveries in reviewing the carrying value of the written off portfolio to be recognised in loans and advances based on historic trends. Management used the Discounted Cash Flow methodology to value the written off portfolio by:

- Estimating future cash flows expected from collection efforts on the written-off portfolio;
- Estimating an appropriate discount rate based on the cost of equity; and
- Determining the net present value by discounting the expected future cash flows using the estimated discount rate.

Estimated future cash flows have been discounted at an appropriate discount rate to determine the present value of the cash flows.

Impairment of goodwill and intangible assets

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change, which may impact estimations and may then require adjustments to the carrying value of goodwill and intangible assets.

The Group reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

Expected future cash flows used to determine the value-in-use of goodwill and intangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, including **NCR regulations**, supply and demand for loans, together with economic factors such as inflation and interest rates. For futher details about the Group's goodwill and intangible assets, refer to note 12.

Taxation

The Group recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

Fair value adjustments of investment property

The Directors draw attention to the risks associated with property investments.

Although over the long-term property is considered a low risk asset, investors are reminded that significant short- and medium-term risk factors are inherent in the asset class. Investments in property are relatively illiquid and usually more difficult to realise than listed equities or bonds, which restricts the Group's ability to realise value in cash in the short-term.

The property valuations in this period have been prepared in a period of market uncertainty. The current turmoil in the world's financial markets has resulted in commercial and residential properties selling in much reduced quantities with virtually little or no market activity in some areas. The lack of market activity and the resulting lack of market evidence means that it is generally not possible to value with as high a degree of certainty, as would be the case in a more stable market with a higher, active level of market evidence. The best evidence of fair value is current prices in an active market for similar property investments, which emphasises that fair value reflects the best available use of an asset class (in this case investment property). In obtaining evidence to support fair value, the Group has gone to great lengths and obtained and considered information from a variety of sources.

For further details about the Group's investment properties refer to note 11.

Share based payments

IFRS 2 requires recognition of the cost of share based payments at the fair value of the instrument. Fair value is measured as the market price of the Finbond share options, adjusted for the terms and conditions applicable to the options.

Due to the fact that employee options are not traded, there is no market price available. The fair value has been determined using the Black Scholes option pricing model.

Valuation assumptions used as the inputs into the option pricing model are as follows:

- Term of the options;
- Current/spot price;
- Exercise/strike price;
- Risk-free rate;
- Volatility; and
- Dividends.

Refer to note 21.

1.3 Investment property

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the enterprise, and the cost of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or to service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised. Property interests held under operating leases are not classified or accounted for as investment property. Investment property comprises land and non-owner occupied buildings held to earn rentals and for capital appreciation.

Investment property is subsequently measured at fair value based on an independent valuation performed annually. A gain or loss arising from a change in fair value is included in net profit or loss for the period in which it arises.

Transfers to or from investment property are made when there is a change in use from investment property to owner-occupied property. The investment property will be carried at fair value up to the date of change in use and derecognised. After derecognition, owner-occupied property will be recognised as property in accordance with the policies for property, plant and equipment. The fair value at the date of change in use would be the cost for the purpose of accounting for the owner-occupied property.

1.4 Property, plant and equipment

the cost of an item of property, plant and equipment is recognised as an asset when:

- It is probable that future economic benefits associated with the item will flow to the Company; and
- The cost of the item can be measured reliably.

Property, plant and equipment are initially measured at cost and subsequently carried at cost less accumulated depreciation and any impairment losses.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Property	Not depreciated
Furniture and fixtures	6 years
Motor vehicles	5 years
Office equipment (including leased)	6 years
IT equipment	3 years
Computer software	2 years
Leasehold improvements	6 years

Property held under property, plant and equipment consists of land and buildings. Land has an indefinite useful life, and is thus not depreciated. The buildings are not depreciated, as the residual values of the buildings are estimated to be equal to, or more than the carrying amount.

The residual value, useful life and depreciation method of assets are reviewed at the end of each reporting period. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each component part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Subsequent expenditure is included in the assets carrying amount or is recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Group and the cost of the item can be measured reliably. Repairs and maintenance are charged to the statement of comprehensive income in the period in which the expense is incurred.

The Group reviews and tests the carrying value of property, plant and equipment when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.5 Intangible assets

An intangible asset is recognised when:

- It is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- The cost of the asset can be measured reliably.

Goodwill

Goodwill is initially measured at cost, being the excess of the cost of the business combination over the Group's interest of the net fair value of the identifiable assets, liabilities and contingent liabilities.

Subsequently, goodwill is carried at cost less any accumulated impairment. Testing for impairment is performed annually by an independent valuator.

Contingent consideration before 28 February 2010 was recognised as soon as payment became probable and the amount could be measured reliably. The price was subsequently adjusted against goodwill as the estimate of the amount payable was revised. Any shares issued subsequent to the date of acquisition in settlement of such contingent consideration was recorded at the share price on the date that the shares were issued, with a resultant adjustment to goodwill and the share reserve within equity.

Internally generated goodwill is not recognised as an asset.

1.6 Investments in subsidiaries

Company Financial Statements

In the Company's separate Financial Statements, investments in subsidiaries are carried at cost less any accumulated impairment.
The cost of an investment in a subsidiary is the aggregate of:

- The fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Company; plus
- Any costs directly attributable to the purchase of the subsidiary.

An adjustment to the cost resulting from a business combination contingent on future events is included in the cost if the adjustment is probable and can be measured reliably.

At each reporting date it is determined whether there is objective evidence that the investment in the subsidiaries is impaired. If this is the case, the difference between the recoverable amount of the subsidiary and its carrying value is recognised in the statements of comprehensive income.

1.7 Interest-free loans granted

Interest-free group loans with no fixed maturities are viewed as part of the Company's investment in subsidiaries, and are carried at cost net of impairments.

1.8 Financial instruments

Initial recognition and measurement

Financial instruments are recognised initially when the Group becomes a party to the contractual provisions of the instruments.

The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the time frame established by the market concerned. These investments are measured initially and subsequently at fair value. Gains and losses arising from changes in fair value are recognised in profit and loss, until the security is disposed of or is determined to be impaired, at which time the gain or loss is included in the profit or loss for the period.

Financial assets are derecognised when rights to receive cash flows from the financial asset have expired or where the Group has transferred substantially all risks and rewards of ownership. The Group derecognises financial liabilities when its contractual obligations are discharged or cancelled, or expire.

Financial instruments are measured initially at fair value. For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument. Transaction costs on financial instruments at fair value through profit or loss are immediately recognised in profit or loss.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities
Financial liabilities comprise trade and other payables, deposits received from customers, other financial liabilities and loans from group companies.

Financial liabilities at fair value through profit or loss are classified as such where the financial liability is either held for trading or it is designated as at fair value through profit and loss.

The Group derecognises financial liabilities when its contractual obligations are discharged, expired or cancelled.

Other financial liabilities, comprising of trade and other payables, deposits received from customers, other financial liabilities and loans from group companies, are subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised on an effective yield basis.

Financial assets
Financial assets comprise cash and cash equivalents, other financial assets, loans and other advances, other receivables and loans to group companies.

The Group classifies financial assets as loans and receivables, held-to-maturity and designated as at fair value through profit and loss.

Loans and receivables
Loans and receivables include loans and advances, trade and other receivables and loans to group companies.

Loans and receivables are subsequently measured at amortised cost using the effective interest rate method.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in profit or loss.

Cash and cash equivalents
Cash and cash equivalents comprise balances with less than twelve months maturity from date of acquisition, including cash on hand and demand deposits and other highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents are measured at amortised cost and approximates fair value due to the short-term nature of these instruments.

Bank overdraft represents balance owed to banking institutions with less than 12 months repayment terms.

Designated as at fair value through profit and loss, held for trading financial assets and held-to-maturity financial assets
Other financial assets include investments classified as designated as at fair value through profit and loss, held for trading and held to maturity investments.

Designated as at fair value through profit and loss
A financial asset is designated as at fair value through profit and loss upon initial recognition to the extent it produces more relevant information because it forms part of a group of assets which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally to management on that basis. Subsequent gains and losses arising from changes in fair value are recognised in profit and loss.

Held-for-trading financial assets
A financial asset is classified as held for trading if it has been acquired or incurred principally for the purpose of selling or repurchasing in the near term, or on initial recognition it is part of an identified portfolio of identifiable financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

Subsequent gains and losses arising from changes in fair value are recognised in profit and loss.

Held-to-maturity financial assets
If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. These financial assets are initially measured at fair value plus direct transaction costs.

Held to maturity investments are measured at amortised cost using the effective interest method, less any impairment.

Fair value determination
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measure date.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (as for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:
- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

Fair value determination as included in the measurement and disclosure requirements of **IFRS 13** is applicable to all elements of the statement of financial position, and not only financial instruments.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Offsetting financial instruments

Financial assets and liabillities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Deferred loan income reduces the outstanding loans and advances balance on the basis that the revenue will be recognised over the terms of the loans.

1.9 Taxation

Income tax expense

Income taxation comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current taxation comprises tax payable or receivable calculated on the basis of the expected taxable income for the year, using the tax rates enacted or substantially enacted at the balance sheet date, and any adjustment of tax payable for previous years. Taxable profit or loss differs from profit/loss as reported in the statements of comprehensive income as it excludes items of income or expense that are taxable or deductible in other years in determination of taxable profit or loss (temporary differences), and it further excludes items that are never taxable or deductible (non-temporary differences).

Deferred tax

Deferred taxation is recognised using the balance sheet method based on temporary differences between the tax base of an asset or liability and its balance sheet carrying amount. Temporay differences are differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the statement of financial position date.

The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of asstes or liabilties in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

Deferred taxation is charged to the income statement except to the extent that it relates to a transaction that is recognised directly in equity, or a business combination that is an acquisition. The effect on deferred taxation of any changes in tax rates is recognised in the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

A deferred taxation asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends and has the ability to settle its current tax assets and liabilities on a net basis.

1.10 Segment reporting: determination and presentation of operating segments

The Group determines and presents operating segments based on the information that is internally provided to the Chief Executive Officer (CEO) and all the Executive Committee members.

Segment results that are reported to the Chief Executive Officer include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly insignificant corporate assets, unallocated head office expenses, and income tax assets and liabilities, which are reported as reconciling.

On a primary basis, the Group is organised into four major operating divisions, namely investment, lending, property investment and transactional banking products. These divisions are the basis on which the Group reports its primary segment information for internal purposes. The Group operates in one principal geographical area, namely South Africa.

1.11 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases – lessee

Finance leases are recognised as assets and liabilities in the statements of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments.

The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease. The lease payments are apportioned between the finance charge and reduction of the outstanding liability.The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

Operating leases – lessor

Operating lease income is recognised as income on a straightline basis over the lease term. There are no lease incentives recognised as an integral part of lease payments. Income from leases is disclosed under other micro finance income in profit or loss.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straightline basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments is recognised as an operating lease asset. This liability is not discounted.

The asset recognised as part of the operating lease is accounted for in accordance with the policies applicable to property, plant and equipment.

Any contingent rents are expensed in the period that they are incurred.

1.12 Share capital and equity

Ordinary shares are classified as equity.

If the Group reacquires its own equity instruments (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) on those instruments is deducted from equity until the shares are cancelled or reissued. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Consideration paid or received shall be recognised directly in equity.

Dividends on ordinary shares and preference shares are recognised in equity in the period in which they have been approved by the Group's Directors. Dividends for the year that are declared after the Statement of Financial Position date are dealt with in the Directors' Report and in note 44.

1.13 Share-based payments

Goods or services received or acquired in a share-based payment transaction are recognised when the services are received. A corresponding increase in equity is recognised if the goods or services were received in an equity-settled share-based payment transaction.
Services received in a share-based payment transaction do not qualify for recognition as assets; they are recognised as expenses.

For equity-settled share-based payment transactions, the services received and the corresponding increase in equity are measured, directly, at the fair value of the services received provided that the fair value can be estimated reliably.

If the fair value of the services received cannot be estimated reliably, or if the services received are employee services, their value and the corresponding increase in equity are measured, indirectly, by reference to the fair value of the equity instruments granted.

Vesting conditions which are not market related (i.e. service conditions and non-market related performance conditions) are not taken into consideration when determining the fair value of the equity instruments granted. Instead, vesting conditions which are not market related will be taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Market conditions, such as a target share price, are taken into account when estimating the fair value of the equity instruments granted. The number of equity instruments is not adjusted to reflect equity instruments which are not expected to vest or do not vest because the market condition is not achieved.

If the share-based payments granted do not vest until the counterparty completes a specified period of service, the Group accounts for those services as they are rendered by the counterparty during the vesting period (or on a straight line basis over the vesting period).

For share-based payment transactions in which the terms of the arrangement provide either the entity or the counterparty with the choice of whether the entity settles the transaction in cash (or other assets), or by issuing equity instruments, the components of that transaction are recorded as a cash-settled share-based payment transaction if, and to the extent that, a liability to settle in cash or other assets has been incurred, or as an equity settled share-based payment transaction if, and to the extent that, no such liability has been incurred.

1.14 Employee benefits

<u>Short-term employee benefits</u>

The costs of short-term employee benefits (those payable within twelve months after the service has been rendered, such as paid vacation leave and bonuses) are recognised in the period in which the service is rendered and is not discounted.

The expected cost of compensated absences is recognised as an expense and associated liability as the employees render services that increase their entitlement, or in the case of non-accumulating absences, when the absence occurs. The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

<u>Defined contribution plans</u>

Payments to defined contribution provident benefit plans are charged as an expense as they fall due.

1.15 Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates, and value-added tax.

Interest revenue is recognised, in profit or loss, for all interest bearing instruments on an accrual basis using the effective interest rate method. For further details about interest revenue, refer to accounting policy 1.8.

Service fees (part of fee income) included in the price of the product are recognised as revenue over the period during which the service is performed.

Initiation fees (part of fee income), being the portion of the loan origination fees that relates to the creation of the financial asset, are deferred and recognised, in profit and loss, in a pattern consistent with the effective interest rate method on the original loan.

Management fee income is earned in terms of the Group's Transfer Pricing Policy for the provision of support and administrative services, to group companies, and to third party insurance service providers. Additional management fee income is earned for the provision of corporate finance transaction facilitation and negotiation services provided on corporate transactions undertaken by the Group.

Royalty revenue is earned on the rental of the Company's intellectual property consisting of trademarks, copyright and know-how.

Commission revenue (part of net commission expense) is recognised at the later of transfer at the Deeds Office or formal grant date from the Bank.

Dividends are recognised, in profit or loss, when the right to receive payment has been established.

Rental revenue (part of Other microfinance income) is recognised on a straight line basis over the term of the lease contract.

Operating profit

Operating profit is defined as the residual profit or loss from all operations before accounting for tax, dividends and non-trading items and has been consistently applied in the consolidated and separate Financial Statements.

1.16 Interest expense

Interest expense is recognised for all instruments measured at amortised cost, in profit or loss, using the effective interest rate method.

1.17 Common control reserve

The common control reserve comprises of the difference between the value of shares issued by Finbond Mutual Bank and the net asset value of assets and liabilities transferred from Finbond Group Limited to Finbond Mutual Bank as part of a common control transaction on 1 September 2012.

1.18 Inventories

Inventories relate to card stock held and are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and applicable variable selling expenses.

Costs include all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Cost of purchase comprises the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

Finbond orders cards to be produced in line with expected sales on transactional banking products. The cards are then expensed when the client takes receipt of the card in the branch.

NOTES TO THE FINANCIAL STATEMENTS

2. New standards and interpretations

2.1 Standards and interpretations early adopted

The Group has chosen not to early adopt any standards and interpretations not yet effective in the reporting period.

2.2 Standards and interpretations not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 March 2016, and have not been applied in preparing these consolidated and separate Financial Statements. Those which may be relevant to the Group and Company are set out below. The Group and Company do not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

IFRS 15 Revenue from contracts with customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

This new standard will most likely have an impact on the Group, which will include a possible change in the timing of when revenue is recognised and the amount of revenue recognised. The Group is currently in the process of performing a more detailed assessment of the impact of this standard on the Group and will provide more information in the year ending 28 February 2017 Financial Statements.

The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted under IFRS.

IFRS 9 Financial Instruments

On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

This standard will have a significant impact on the Group, which will include changes in the measurement bases of the Group's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, which is expected to increase the provision for bad debts recognised in the Group.

The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, with early adoption permitted. The Group is currently in the process of performing a more detailed assessment of the impact of this standard on the Group and will provide more information in the year ending 28 February 2017 Financial Statements.

IFRS 16 Leases

IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the contract customer ("lessee") and the supplier ("lessor"). IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related interpretations. IFRS 16 has one model for lessees, which will result in almost all leases being included on the Statement of Financial position. No significant changes have been included for lessors.

The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted only if the entity also adopts IFRS 15. The transitional requirements are different for lessees and lessors. The Group and Company are assessing the potential impact on the Financial Statements resulting from the application of IFRS 16.

3. Cash and cash equivalents

Figures in R'000	Finbond Group Limited Consolidated 2016	2015	Finbond Group Limited Company 2016	2015	Finbond Mutual Bank 2016	2015
Cash and cash equivalents consist of:						
Cash on hand (1)	6 726	5 697	-	-	4 921	5 168
Bank balances (2)	81 775	171 047	-	46 009	74 273	122 160
Bank overdraft (3)	(29 628)	-	(29 628)	-	-	-
Central bank balances (4)	37 890	11 739	-	-	37 890	11 739
Short-term deposits (5)	9 644	9 017	-	-	9 644	9 017
	106 407	**197 500**	**(29 628)**	46 009	**126 728**	148 084
Current assets	**136 035**	197 500	-	46 009	**126 728**	148 084
Current liabilities	**(29 628)**	-	**(29 628)**	-	-	-
	106 407	197 500	**(29 628)**	46 009	**126 728**	148 084

Cash and cash equivalents are stated at cost, which approximates fair value due to the short-term nature of these instruments.

1. Cash on hand is non-interest bearing.
2. The effective rate of interest earned on bank balances varies between 3.55% and 5.05% (2015: 2.5% and 4.75%).
3. R40 million overdraft facility that is unsecured. Interest is payable at the prime interest rate.
4. Mandatory reserve deposits with the SARB must be maintained at the average required by the SARB over a 1-month period and are non-interest bearing. These deposits may be used to manage significant intra- and inter-day cash outflows but are not taken into consideration for cash planning purposes.
5. Short-term deposits consist of a 12-month fixed deposit at an effective rate of 7.00% (2015: 6.65%).

4. Other financial assets

At fair value through profit or loss - designated Figures in R'000	Finbond Group Limited Consolidated 2016	Finbond Group Limited Consolidated 2015	Finbond Group Limited Company 2016	Finbond Group Limited Company 2015	Finbond Mutual Bank 2016	Finbond Mutual Bank 2015
Investment in Cell Captive Arrangement (1)	358	3 052	358	822	-	-
At fair value through profit or loss - held for trading						-
Stanlib Corporate Money Market Fund (2)	18	17	-	-	18	17
Investec Corporate Money Market Fund (3)	204	10 111	-	-	204	10 111
Cadiz Enterprise Development Fund (4)	1 132	1 080	-	-	1 132	1 080
Nedgroup Flexible Income Fund (5)	101 035	104 328	-	-	101 035	104 328
Coronation Strategic Income Fund (6)	50 005	51 751	-	-	50 005	51 751
Sanlam SIM Active Income Fund (7)	22 152	139 995	-	-	22 152	139 995
	174 546	307 282	**-**	-	**174 546**	307 282
Held to maturity						
Treasury bills (8)	56 975	62 438	-	-	56 975	62 438
Total other financial assets	**231 879**	372 772	**358**	822	**231 521**	369 720
Current assets						
At fair value through profit or loss - designated	358	3 052	358	822	-	-
At fair value through profit or loss - held for trading	174 546	307 282	-	-	174 546	307 282
Held to maturity	56 975	62 438	-	-	56 975	62 438
	231 879	372 772	**358**	822	**231 521**	369 720

1. Investment in cell captive arrangement, held at net asset value. Fair value hierarchy: Level 3 (2015: Level 3)
2. The investment is carried at market value, with an average yield of 7.08% (2015: 6.32%). Fair value hierarchy: Level 2 (2015: Level 2)
3. The investment is carried at market value, with an average yield of 6.95% (2015: 6.32%). Fair value hierarchy: Level 2 (2015: Level 2)
4. The investment is carried at market value, with an average yield of 4.72% (2015: 4.85%). Fair value hierarchy: Level 2 (2015: Level 2)
5. The investment is carried at market value, with an average yield of 7.18% (2015: 7.42%). Fair value hierarchy: Level 2 (2015: Level 2)
6. The investment is carried at market value, with an average yield of 6.21% (2015: 8.40%). Fair value hierarchy: Level 2 (2015: Level 2)
7. The investment is carried at market value, with an average yield of 6.73% (2015: 8.88%). Fair value hierarchy: Level 2 (2015: Level 2)
8. The treasury bills are purchased from the SARB, they carry an average interest rate of 6.67% (2015: 5.95%) and mature in 3 to 12 months. Fair value hierarchy: Level 2 (2015: Level 2)

The Group has not reclassified any financial assets from cost or amortised cost to fair value or *vice versa* during the current or prior year and there have not been any transfers of investments between fair value hierarchy classes.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of asset mentioned above.

5. Unsecured loans and other advances to customers

Figures in R'000	Finbond Group Limited Consolidated 2016	2015	Finbond Group Limited Company 2016	2015	Finbond Mutual Bank 2016	2015
Maturity analysis of loans and advances						
Demand to one month	47 339	47 092	-	-	37 037	44 082
Two to six months	322 969	252 949	-	-	277 048	240 509
Seven months to one year	33 698	23 663	-	-	30 567	23 120
More than one year	43 990	50 859	-	-	40 879	50 116
Gross loans and advances	447 996	374 563	-	-	385 531	357 827
Deferred future income	(75 751)	(56 961)	-	-	(63 694)	(54 257)
Loans and advances before impairment	372 245	317 602	-	-	321 837	303 570
Allowances for impairment to loans and advances	(28 496)	(26 887)	-	-	(23 776)	(25 191)
Net loans and advances (*)	**343 749**	290 715	-	-	**298 061**	278 379
Current assets	309 995	251 241	-	-	266 456	239 390
Non-current assets	33 754	39 474	-	-	31 605	38 989
	343 749	290 715	-	-	**298 061**	278 379
Movement of allowance for impairment						
Opening balance	26 887	19 135	-	-	25 191	19 135
Acquisitions		-	-	-	-	361
Opening balance through disposal	-	-	-	-	-	(413)
Net increase/(decrease) in provision	1 609	7 752	-	-	(1 415)	6 108
Closing balance	**28 496**	26 887	-	-	**23 776**	25 191
Impairment of due and past due loans and advances on a net basis						
Not past due	313 116	255 150	-	-	271 552	245 329
Loans and advances before impairment	314 239	256 048	-	-	272 445	246 172
Impairment	(1 123)	(898)	-	-	(893)	(843)
Past due	30 633	35 565	-	-	26 509	33 050
Loans and advances before impairment	58 006	61 554	-	-	49 392	57 398
Impairment	(27 373)	(25 989)	-	-	(22 883)	(24 348)
	343 749	290 715	-	-	**298 061**	278 379

The maximum exposure to credit risk at the reporting date is the gross portfolio as indicated above, as loans and advances are unsecured. Included in loans and advances is related accrued interest receivable of R25 312 868 (2015: R22 120 651). Past due loans and advances are delinquent by one day up until the date of write-off. All loans have been assessed for impairment, including not past due loans, in terms of the Group allowance policy.

Deferred future income consists of interest and fees, deferred and earned over the period of the loan using the effective interest rate method.

The creation and release of allowances for impaired loans and advances has been included in the impairment line in profit and loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash in terms of the Group write-off policy. The Group considers the following write-off indicators/triggers of the borrower:

- Unemployed;
- Uncontactable;
- Administration/Debt review;
- Deceased; or
- Any part of the loan over 150 days and no payment within 90 days.

Included in loans and advances past due are financial assets that would otherwise be written off to legal, but have been re-negotiated. Management does not consider the effect of past due re-negotiated loans to be material in terms of value or disclosure. Re-negotiated loans and advances are strictly monitored to the extent that three missed payments in terms of the re-negotiated terms will automatically lead to write-off.

Loans and advances are carried at amortised cost using the effective interest method.

In accordance with the policies and procedures governing Finbond and its subsidiaries, overdue debtors are written off and attorneys are instructed to collect the written-off debts ("Legal" or "written-off portfolio") as governed by, *inter alia*, the **National Credit Act of 2005** ("NCA") and the **Magistrates' Court Act of 1944** ("MCA").

The management of Finbond Group Limited has performed a valuation in respect of the written-off portfolio for the purpose of determining the fair value of the written-off portfolio for inclusion in the financial statements of Finbond, at 29 February 2016.

The written-off portfolio of the Group has been valued at R131.1 million using a NPV of the expected future cash flows from the portfolio and a discount rate of 19.16%. This value of R131.1 million represents 25% (2015: 25%) of the total written-off portfolio, which is in line with the previous year. The R131.1 million is comprised of the fair values of the written off portfolios of Supreme Finance (Pty) Ltd in the amount of R10.2 million, and Finbond Mutual Bank (R120.9 million).

*Current year movement in net loans and advances amounts to a R53 033 710 increase (2015: R79 726 457 increase).

6. Secured loans and other advances to customers

Figures in R'000	Finbond Group Limited Consolidated 2016	Finbond Group Limited Consolidated 2015	Finbond Group Limited Company 2016	Finbond Group Limited Company 2015	Finbond Mutual Bank 2016	Finbond Mutual Bank 2015
Maturity analysis of loans and advances						
Demand to one year	7 273	-	-	-	6 669	-
One to five years	7 616	-	-	-	7 616	-
More than five years	80 648	-	-	-	80 648	-
Maximum exposure to credit risk/ Gross loans and advances	95 537	-	-	-	94 933	-
Deferred future income	(741)	-	-	-	(741)	-
Loans and advances before impairment	94 796	-	-	-	94 192	-
Allowances for impairment to loans and advances	(15)	-	-	-	(15)	-
Net loans and advances	**94 781**	-	-	-	**94 177**	-
Current assets	7 215	-	-	-	6 616	-
Non-current assets	87 566	-	-	-	87 561	-
	94 781	-	-	-	**94 177**	-
Movement of allowance for impairment						
Opening balance	-	-	-	-	-	-
Increase in provision	15	-	-	-	15	-
Closing balance	15	-	-	-	15	-
Impairment of due and past due loans and advances on a net basis						
Not past due	94 781	-	-	-	94 177	-
Loans and advances before impairment	94 796	-	-	-	94 192	-
Impairment	(15)	-	-	-	(15)	-
Past due	-	-	-	-	-	-
Loans and advances before impairment	-	-	-	-	-	-
Impairment	-	-	-	-	-	-
	94 781	-	-	-	**94 177**	-

Secured loans and other advances to customers includes home loan financing provided by Finbond Mutual Bank and home loan bridging financing by Finbond Property Finance (Pty) Ltd.

The maximum exposure to credit risk at the reporting date is the gross portfolio as indicated above as secured loans and advances. Included in loans and advances is related accrued interest receivable of R421 795 (2015: R0) in respect of secured loans and advances.

Past due loans and advances are delinquent by one day, to date of charge-off/write-off to legal. All loans have been appropriately provisioned, including not past due loans, in terms of the Group provisioning policy.

Deferred future income consists of interest and initiation fees, deferred and earned over the period of the loan using the effective interest rate method.

The creation and release of the provision for impaired loans and advances has been included in the impairment line in profit and loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash in terms of the Group write-off policy.

Loans and advances are valued at amortised cost using the effective interest method.

7. Trade and other receivables

Figures in R'000	Finbond Group Limited Consolidated 2016	2015	Finbond Group Limited Company 2016	2015	Finbond Mutual Bank 2016	2015
Rental deposits	4 091	2 775	-	-	3 736	2 557
Prepayments	25 758	4 672	19 912	2 099	3 040	2 572
VAT	-	163	-	116	-	-
Subscription contracts (*)	31 838	19 415	-	-	31 838	19 415
Sundry receivables	19 237	27 968	11 166	26 221	9 304	2 056
Insurance binder and commission receivable	52 512	2 561	7 657	-	35 892	2 561
	133 436	57 554	**38 735**	28 436	**83 810**	29 161
Current assets	123 985	50 844	33 375	24 501	79 650	26 604
Non-current assets	9 451	6 710	5 360	3 935	4 160	2 557
	133 436	57 554	**38 735**	28 436	**83 810**	29 161

*The subscription contract balance above is net of unearned revenue of R13 765 619 (2015:R9 588 977) and provision for bad debts of R1 754 649 (2015: R958 925).

Fair value of other receivables

Fair value approximates carrying value due to the short term nature and effect of discounting being immaterial.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.

8. Loans to/(from) group companies

Figures in R'000	Finbond Group Limited Consolidated 2016	2015	Finbond Group Limited Company 2016	2015	Finbond Mutual Bank 2016	2015
Subsidiaries						
Supreme Finance (Pty) Ltd	-	-	163 362	50 069	-	36 012
Finbond Securities (Pty) Ltd (previously Finbond Micro Finance (Pty) Ltd)	-	-	(24 598)	(25 060)	-	-
Independent Bond Originators (Pty) Ltd	-	-	(13 761)	(13 594)	-	-
Finbond Property Finance (Pty) Ltd (previously Mzanzi Finance (Pty) Ltd)	-	-	(4 743)	176	-	-
Finbond Mutual Bank	-	-	(172 871)	(178 492)	-	-
Finbond Group Limited	-	-	-	-	172 871	178 492
	-	-	**(52 611)**	**(166 901)**	**172 871**	**214 504**

The loans are unsecured, bear no interest and are repayable on demand.

Current assets	-	-	163 362	50 069	172 871	214 504
Current liabilities	-	-	(215 973)	(216 970)	-	-
	-	-	**(52 611)**	(166 901)	**172 871**	214 504

Overall exposure to other companies in the Group for Finbond Mutual Bank decreased year-on-year.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of loan mentioned above.

9. Investments in subsidiaries

The following table lists the entities which are controlled by the Group, either directly or indirectly through subsidiaries.

COMPANY Figures in R'000		% holding **2016**	% holding 2015	Carrying amount **2016**	Carrying amount 2015
Finbond Group Limited					
Finbond Securities (Pty) Ltd (previously Finbond Micro Finance (Pty) Ltd)	Dormant	100.00%	100.00%	13 547	13 547
Finbond Property Finance (Pty) Ltd (previously Mzanzi Finance (Pty) Ltd)		100.00%	100.00%	-	-
Finbond Micro Finance 2 (Pty) Ltd	Dormant	100.00%	100.00%	-	-
Independent Bond Originators (Pty) Ltd	Dormant	100.00%	100.00%	16 048	16 048
Finbond Private Equity (Pty) Ltd (previously The Excel Group (Pty) Ltd)	Dormant	100.00%	100.00%	-	-
Zevoli 182 (Pty) Ltd	Dormant	100.00%	100.00%	-	-
Dimension Home Loans Group (Pty) Ltd		100.00%	100.00%	-	-
Finbond Mutual Bank		100%	100%	421 842	421 842
Supreme Finance (Pty) Ltd		100.00%	100.00%	35	35
ABC Cash Loans (Pty) Ltd (Namibia)	Dormant	51.00%	51.00%	-	-
Shanike Investments No. 155 (Pty) Ltd	Dormant	0.00%	100.00%	-	-
Non-current asset				**451 472**	451 472

Reconciliation of investments in subsidiaries - COMPANY 2016 Figures in R'000	Opening Balance	Purchase/ (Disposal)	Impairments	Total
Finbond Group Limited				
Finbond Securities (Pty) Ltd (previously Finbond Micro Finance (Pty) Ltd)	13 547	-	-	13 547
Independent Bond Originators (Pty) Ltd	16 048	-	-	16 048
Supreme Finance (Pty) Ltd	35	-	-	35
Finbond Mutual Bank	421 842	-	-	421 842
	451 472	-	-	**451 472**

Reconciliation of investments in subsidiaries - COMPANY 2015 Figures in R'000	Opening Balance	Purchase/ (Disposal)	Impairments	Total
Finbond Group Limited				
Finbond Micro Finance (Pty) Ltd (previously Blue Chip Finance Western Cape (Pty) Ltd)	13 547	-	-	13 547
Finbond Micro Finance 2 (Pty) Ltd	13 482	(13 482)	-	-
Dimension Home Loans Group (Pty) Ltd	2 723	(2 723)	-	-
Independent Bond Originators (Pty) Ltd	16 048	-	-	16 048
Finbond Private Equity (Pty) Ltd (previously The Excel Group (Pty) Ltd)	4 162	-	(4 162)	-
Supreme Finance (Pty) Ltd	35	-	-	35
Finbond Mutual Bank	421 842	-	-	421 842
	471 839	(16 205)	(4 162)	451 472

The carrying amounts of subsidiaries are carried at cost, net of impairment losses.

All subsidiaries, excluding ABC Cash Loans (Pty) Limited (Namibia), are domiciled in South Africa, which is also their main place of business.

The dormant subsidiaries do not form a significant part of the Group's operations, and most are in the process of being deregistered.

Supreme Finance (Pty) Ltd and Finbond Mutual Bank are the main operating companies in the Group, and are considered to be a material part of the Group's operating activities.

Independent Bond Originators (Pty) Ltd and Finbond Property Finance (Pty) Ltd contributes a small portion of the Group's operating income, and is not considered to be material.

10. Property, plant and equipment

GROUP Figures in R'000	2016 Cost/ Valuation	2016 Accumulated depreciation	2016 Carrying Value	2015 Cost/ Valuation	2015 Accumulated depreciation	2015 Carrying Value
Leasehold property	5 300	-	5 300	5 300	-	5 300
Furniture and fixtures	10 161	(2 646)	7 515	6 925	(1 287)	5 638
Motor vehicles	10 406	(2 692)	7 714	5 314	(896)	4 418
Office equipment	5 019	(1 308)	3 711	3 268	(509)	2 759
IT equipment	13 289	(6 341)	6 948	8 890	(2 807)	6 083
Computer software	3 510	(1 878)	1 632	1 553	(789)	764
Leasehold improvements	37 018	(9 109)	27 909	24 315	(4 187)	20 128
Assets not yet operational	1 361	-	1 361	954	-	954
Total	**86 064**	**(23 974)**	**62 090**	56 519	(10 475)	46 044

FINBOND MUTUAL BANK Figures in R'000	2016 Cost/ Valuation	2016 Accumulated depreciation	2016 Carrying Value	2015 Cost/ Valuation	2015 Accumulated depreciation	2015 Carrying Value
Leasehold property	5 300	-	5 300	5 300	-	5 300
Furniture and fixtures	8 994	(2 494)	6 500	6 410	(1 263)	5 147
Motor vehicles	10 139	(2 661)	7 478	5 314	(896)	4 418
Office equipment	4 408	(1 255)	3 153	3 129	(502)	2 627
IT equipment	12 458	(6 132)	6 326	8 583	(2 765)	5 818
Computer software	3 510	(1 878)	1 632	1 553	(789)	764
Leasehold improvements	30 842	(8 417)	22 425	22 515	(4 072)	18 443
Assets not yet operational	1 322	-	1 322	954	-	954
Total	**76 973**	**(22 837)**	**54 136**	53 758	(10 287)	43 471

Figures in R'000	Finbond Group Limited Consolidated 2016	Finbond Group Limited Consolidated 2015	Finbond Group Limited Company 2016	Finbond Group Limited Company 2015	Finbond Mutual Bank 2016	Finbond Mutual Bank 2015
Non-current asset	**62 090**	46 044	-	-	**54 136**	43 471

Reconciliation of property, plant and equipment - GROUP 2016 Figures in R'000	Opening Balance	Additions at cost	Disposals at the carrying amount	Depreciation charge for the period	Closing Balance
Leasehold property	5 300	-	-	-	5 300
Furniture and fixtures	5 638	3 564	(124)	(1 563)	7 515
Motor vehicles	4 418	4 612	-	(1 316)	7 714
Office equipment	2 759	1 654	(95)	(607)	3 711
IT equipment	6 083	4 465	(85)	(3 515)	6 948
Computer software	764	1 909	(5)	(1 036)	1 632
Leasehold improvements	20 128	12 797	(231)	(4 785)	27 909
Assets not yet operational	954	407	-	-	1 361
	46 044	**29 408**	**(540)**	**(12 822)**	**62 090**

Reconciliation of property, plant and equipment - GROUP 2015 Figures in R'000	Opening Balance	Additions at cost	Disposals at the carrying amount	Depreciation charge for the period	Closing Balance
Leasehold property	5 300	-	-	-	5 300
Furniture and fixtures	2 493	4 453	(434)	(874)	5 638
Motor vehicles	1 886	3 396	(117)	(747)	4 418
Office equipment	903	2 163	-	(307)	2 759
IT equipment	2 694	5 614	(153)	(2 072)	6 083
Computer software	447	918	-	(601)	764
Leasehold improvements	7 949	15 909	(1 160)	(2 570)	20 128
Assets not yet operational	896	58	-	-	954
	22 568	32 511	(1 864)	(7 171)	46 044

Reconciliation of property, plant and equipment - FINBOND MUTUAL BANK 2016 Figures in R'000	Opening Balance	Additions	Disposals	Depreciation	Total
Leasehold property	5 300	-	-	-	5 300
Furniture and fixtures	5 147	2 890	(92)	(1 445)	6 500
Motor vehicles	4 418	4 345	-	(1 285)	7 478
Office equipment	2 627	1 202	(107)	(569)	3 153
IT equipment	5 818	3 978	(80)	(3 390)	6 326
Computer software	764	1 879	(5)	(1 006)	1 632
Leasehold improvements	18 443	8 247	-	(4 265)	22 425
Assets not yet operational	954	368	-	-	1 322
	43 471	**22 909**	**(284)**	**(11 960)**	**54 136**

Reconciliation of property, plant and equipment - FINBOND MUTUAL BANK 2015 Figures in R'000	Opening Balance	Additions	Disposals	Depreciation	Total
Leasehold property	5 300	-	-	-	5 300
Furniture and fixtures	2 493	3 941	(436)	(851)	5 147
Motor vehicles	1 886	3 396	(117)	(747)	4 418
Office equipment	903	2 024	-	(300)	2 627
IT equipment	2 694	5 330	(176)	(2 030)	5 818
Computer software	447	918	-	(601)	764
Leasehold improvements	7 949	14 714	(1 765)	(2 455)	18 443
Assets not yet operational	896	58	-	-	954
	22 568	30 381	(2 494)	(6 984)	43 471

Pledged as security Figures in R'000	**Finbond Group Limited Consolidated**		**Finbond Group Limited Company**		**Finbond Mutual Bank**	
	2016	2015	**2016**	2015	**2016**	2015
Carrying value of assets pledged as security:						
Motor vehicles (Outstanding finance lease payments as secured by motor vehicles. Refer to note 16).	-	233	-	-	-	233
Leasehold IT equipment (Outstanding finance lease payments as secured by leasehold IT equipment. Refer to note 16).	1 476	1 506	-	-	1 476	1 506
	1 476	1 739	-	-	**1 476**	1 739

A register containing the information required by **Regulation 25(3) of the Companies Regulations 2011** is available for inspection at the registered office of the Company.

11. Investment property

Figures in R'000 GROUP	2016 Cost/ Valuation	2016 Accumulated depreciation	2016 Carrying Value	2015 Cost/ Valuation	2015 Accumulated depreciation	2015 Carrying Value
Investment property	269 540	-	269 540	248 820	-	248 820
FINBOND MUTUAL BANK						
Investment property	269 540	-	269 540	248 820	-	248 820

Figures in R'000	Finbond Group Limited Consolidated 2016	Finbond Group Limited Consolidated 2015	Finbond Group Limited Company 2016	Finbond Group Limited Company 2015	Finbond Mutual Bank 2016	Finbond Mutual Bank 2015
Reconciliation of investment property:						
Opening Balance	248 820	242 620	-	-	248 820	242 620
Additions	14 700	2 100	-	-	21 714	2 100
Additions resulting from capitalised subsequent expenditure	2 305	98	-	-	607	98
Fair value adjustment	3 715	4 002	-	-	(1 601)	4 002
Closing Balance	**269 540**	248 820	-	-	**269 540**	248 820
Non-current asset	269 540	248 820	-	-	269 540	248 820

Fair value hierarchy of investment property: Level 3 (2015: Level 3).

Details of property Figures in R'000	2016	2015	2016	2015	2016	2015
Erf 128 Waterkloof Ridge						
Purchase price	1 637	1 637	-	-	1 637	1 637
Adjustment to fair value	2 388	2 188	-	-	2 388	2 188
Capitalised expenditure	76	76	-	-	76	76
	4 101	3 901	-	-	**4 101**	3 901
Dullstroom Country Estate Portions 15,16,17,18,19,20,21,22,24,25,26,27,28,29,30,32,33,34,35,37,38,39,41,42,44,45,46,48,49,50,51,52 of Farm Morgenzon 122 JT and Portions 28,36,40,66 of Farm Kareekraal 135 JT						
Purchase price (Farm Morgenzon)	16 820	16 820	-	-	16 820	16 820
Purchase price (Farm Kareekraal)	1 472	1 472	-	-	1 472	1 472
Adjustment to fair value	15 319	22 768	-	-	15 319	22 768
Capitalised expenditure	629	167	-	-	629	167
	34 240	41 227	-	-	**34 240**	41 227
Portion 10,11 and remaining extent of Portion 6 of Farm Zwartkoppies 316 JT						
Purchase price	16 724	16 724	-	-	16 724	16 724
Adjustment to fair value	148 889	149 086	-	-	148 889	149 086
Capitalised expenditure	387	387	-	-	387	387
	166 000	166 197	-	-	**166 000**	166 197
Erf 7/315, 8/315, 1/316 and Erf 3/312, 1/312 Hatfield, Pretoria						
Purchase price (Erf 7/315, Erf 8/315)	5 511	5 511	-	-	5 511	5 511
Purchase price (Erf 1/316)	5 000	5 000	-	-	5 000	5 000
Purchase price (Erf 3/312, Erf 1/312)*	6 300	-	-	-	8 336	-
Adjustment to fair value	31 372	24 132	-	-	30 351	24 132
Capitalised expenditure	1 816	655	-	-	801	655
	49 999	35 298	-	-	**49 999**	35 298
Erf 571 Queenswood, Pretoria						
Purchase price	2 100	2 100	-	-	2 100	2 100
Adjustment to fair value	3	-	-	-	3	-
Capitalised expenditure	97	97	-	-	97	97
	2 200	2 197	-	-	**2 200**	2 197

Figures in R'000	Finbond Group Limited Consolidated 2016	2015	Finbond Group Limited Company 2016	2015	Finbond Mutual Bank 2016	2015
Erf 1/64 and remaining extent Erf 64 Hatfield, Pretoria						
Purchase price	8 400	-	-	-	13 378	-
Adjustment to fair value	3 918	-	-	-	(378)	-
Capitalised expenditure	682	-	-	-	-	-
	13 000	-	-	-	**13 000**	-

*Hatfield Erf 312/1, 312/2 and 64 were initially purchased by a subsidiary of Finbond Group Limited for R6.3 million and R8.4 million respectively. After being revalued to R8.1 million and R13 million respectively, these properties were sold to Finbond Mutual Bank at carrying value.

A register containing the information required by **Regulation 25(3) of the Companies Regulations 2011** is available for inspection at the registered office of the Company.

DETAILS OF VALUATION

Erf 128 Waterkloof Ridge

The valuation performed by independent valuer, Mr R.S. Monteiro (Dip. Comp. Prog.) of Quality Valuations t/a Q-Val using the market value as the method of valuation on 2 February 2016. The comparable sales method of valuation entails identification, analysis and application of recent comparable sales involving physically and legally similar properties in the general proximity of the subject property. Q-Val is not connected to the Company and has recent experience in the location and category of the investment properties being valued.

Sustainable net annual income	-
Direct operating expenses	R117 919

Dullstroom Country Estate

The valuation was performed by independent valuer, Mr O Bolweg (B. Comm, CIEA, Dip. Insol.Law N.Dip.Prop.Val) and Mr R.S. Monteiro (Dip. Comp. Prog.) of Quality Valuations t/a Q-Val using the market value based on the comparable sales method as the method of valuation on 1 February 2016. The comparable sales method of valuation entails identification, analysis and application of recent comparable sales involving physically and legally similar properties in the general proximity of the subject property. Q-Val is not connected to the Company and has recent experience in the location and category of the investment properties being valued.

Sustainable net annual income	-
Direct operating expenses	R1 000 630

The Dullstroom Country Estate property is in the process of being registered in Finbond Mutual Bank's name after being aquired from Finbond Group Limited in prior years. The title deed still reflects Finbond Group Limited as the owner but the property is reflected in Finbond Mutual Bank's records.

Portion 10,11 and remaining extent of Portion 6 of Farm Zwartkoppies 316 JT

A valuation was performed by an independent valuer, Mr T.E. Schoeman (Dip.Prop.Val) of Rhombus Property Valuations, using the Residual Land Valuation method. The Residual Land Valuation method entails preparing an income and expenditure statement based on comparable sales of proclaimed land and estimates of all envisaged expenditure with net receipts discounted to the date of valuation at a suitable discount rate. This valuation put the property value at R171 million on the Residual Land Valuation method. Mr TE Schoeman is not connected to the Company and has recent experience in the location and category of the investment properties being valued. In addition, a second valuation was obtained by an independent valuer, Mr A.D. Visser (Professional Associated Valuer) of Val-Co Property Valuers using the Residual Land Valuation method. This valuation put the property value at R161 million using the Residual Land Valuation method. Val-Co is not connected to the Company and has recent experience in the location and category of the investment properties being valued.

Having obtained the above mentioned two valuations in keeping with the Company's accounting policy on investment properties, management is of the opinion that the median between these two valuations represents the most accurate valuation to be disclosed in the Financial Statements at 29 February 2016. This is consistent with prior year treatment.

On 9 June 2008 the Mpumalanga Development Tribunal in terms of the **Development Facilitation Act No. 67 of 1995** approved the establishment of a land development area on portion 11, the remaining extent of portion 6 (a portion of portion 1) and portion 10 of the farm Zwartkoppies 316 JT Mpumalanga (the "DFA Approval") for which approval included the development of the following:

- 932 residential stands;
- 61 special residential stands (2 dwellings per stand (i.e. 122 units));
- 20 residential (maximum of 10 units per stand (i.e. 200 units));
- 3 stands for golf course and ancillary land uses;
- 1 clubhouse stand;
- 1 stand for hotel purposes;
- 1 stand for a sports centre;
- 1 stand for access control;

- 2 stands for an equestrian and dairy centre; and
- 12 private open space stands.

Prior to the DFA Approval, on 17 October 2006 the Mpumalanga Provincial Government's Department of Agriculture and Land Administration Environmental Management: Nkangala Region, granted authorisation to undertake a listed activity in terms of **section 22 of the Environment Conservation Act No. 73 of 1989** for the change of land use from agriculture to 6 star boutique hotel, golf estate, polo estate, fly fishing estate and a dairy estate on the subject property.

Principal assumptions used in the valuation of the property:

- Discount rate used in discounting the cash flows for the Residual Land valuation method	30%
- Expected period of completion and cash flows	5 years
- Gross sales based on a weighted average selling price per developed stand of R874k (median)	R875 million
- Development costs (median)	R519 million

Changes in above assumptions will have the following impact on the fair value:

- 5% change in discount rate	R34 million
- 1 year delay in the period of cash flows (discounted at reduced discount rate of 25%)	(R40 million)
- 10% change in development costs	R52 million
- 10% change in average selling price per developed stand	R91 million

Sustainable net annual income	-
Direct operating expenses	R50 734

Erf 7/315, 8/315, Erf 1/316, Erf 1/312 and Erf 2/312 Hatfield, Pretoria

Valuations were performed by independent valuer, Mr R.S. Monteiro (Dip. Comp. Prog.) of Quality Valuations t/a Q-Val using the comparable sales method as the method of valuation on 2 February 2016. The valuation put the property value at R50 million as at 2 February 2016. The comparable sales method of valuation entails identification, analysis and application of recent comparable sales involving physically and legally similar properties in the general proximity of the subject property. Q-Val is not connected to the Company and has recent experience in the location and category of the investment properties being valued.

Sustainable net annual income	-
Direct operating expenses	R143 789

Erf 2/312 is in the process of being registered in Finbond Mutual Bank's name after being acquired from Finbond Property Finance (Pty) Ltd in the current financial year. The title deed still reflects Finbond Property Finance (Pty) Ltd as the owner but the property is reflected in Finbond Mutual Bank's records.

Erf 571 Queenswood

The valuation performed by independent valuer, Mr R.S. Monteiro (Dip. Comp. Prog.) of Quality Valuations t/a Q-Val using the market value supported by the comparable sales method of valuation on 2 February 2016. The comparable sales method of valuation entails identification, analysis and application of recent comparable sales involving physically and legally similar properties in the general proximity of the subject property. Q-Val is not connected to the Company and has recent experience in the location and category of the investment properties being valued.

Sustainable net annual income	-
Direct operating expenses	R16 914

Erf 64/1 and remaining extent of Erf 64 Hatfield, Pretoria

The valuation performed by independent valuer, Mr O Bolweg (B. Comm, CIEA, Dip. Insol.Law N.Dip.Prop.Val) and Mr R.S. Monteiro (Dip. Comp. Prog.) of Quality Valuations t/a Q-Val using the comparable sales method of valuation on 2 February 2016. The comparable sales method of valuation entails identification, analysis and application of recent comparable sales involving physically and legally similar properties in the general proximity of the subject property. Q-Val is not connected to the Company and has recent experience in the location and category of the investment properties being valued.

Sustainable net annual income	-
Direct operating expenses	R17 463

Erf 64/1 is in the process of being registered in Finbond Mutual Bank's name after being acquired from Finbond Property Finance (Pty) Ltd in the current financial year. The title deed still reflects Finbond Property Finance (Pty) Ltd as the owner but the property is reflected in Finbond Mutual Bank's records.

Directors' note

The Directors again draw attention to the risks associated with property investments. Although property is considered a low risk asset over the long-term, investors must be aware that significant short and medium term risk factors are inherent in the asset class. Investments in property are relatively illiquid and usually more difficult to realise than listed equities or bonds and this restricts the Group's ability to realise value in cash in the short term. The property valuations in this period have been prepared in a period of market uncertainty. The current turmoil in the world's financial markets has resulted in commercial and residential properties selling in much reduced quantities with virtually little or no market activity in some areas. While management believes that sector performance is cyclical, the current lack of market activity and the resulting lack of market evidence mean that it is generally not possible to value with as high a degree of certainty as would be the case in a more stable market with a good level of market evidence. The best evidence of fair value is current prices in an active market for similar property investments. In obtaining evidence to support fair value, the Group has gone to great lengths obtaining and considering information from a variety of sources.

12. Goodwill

Figures in R'000 GROUP	2016 Cost	2016 Accumulated impairment	2016 Carrying Value	2015 Cost	2015 Accumulated impairment	2015 Carrying Value
Goodwill	**200 798**	**(47 822)**	**152 976**	167 856	(47 822)	120 034
FINBOND MUTUAL BANK						
Goodwill	**97 965**	**-**	**97 965**	97 702	-	97 702

Figures in R'000	Finbond Group Limited Consolidated 2016	Finbond Group Limited Consolidated 2015	Finbond Group Limited Company 2016	Finbond Group Limited Company 2015	Finbond Mutual Bank 2016	Finbond Mutual Bank 2015
Reconciliation of goodwill:						
Opening balance	120 034	62 597	-	-	97 702	62 597
Additions through business combinations	32 942	57 437	-	-	263	35 105
Closing balance	**152 976**	120 034	**-**	-	**97 965**	97 702
Non-current asset	152 976	120 034	-	-	97 965	97 702

Refer to note 37 for details relating to common control transaction.

Goodwill represents the excess of the purchase price over the assets, liabilities and contingent liabilities identified to date acquired in a business combination. Goodwill is, from date of acquisition, allocated to each of the cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination. The following cash-generating units are identified: Finbond Group Limited, Supreme Finance (Pty) Ltd and Finbond Mutual Bank.

During the current financial year, 58 additional branches were purchased by Supreme Finance (Pty) Ltd as going concern entities, which gave rise to the increase in goodwill.

Consolidated 2016 Figures in R'000	**Finbond Group Limited**	**Supreme Finance (Pty) Ltd**	**Finbond Mutual Bank**	**Other**	**Total**
Cost/valuation	-	22 332	97 702	-	120 034
Acquisition	-	32 679	263	-	32 942
Disposal	-	-	-	-	-
	-	**55 011**	**97 965**	**-**	**152 976**

Consolidated 2015 Figures in R'000	Finbond Group Limited	Supreme Finance (Pty) Ltd	Finbond Mutual Bank	Other	Total
Cost/valuation	-	-	62 596	-	62 596
Acquisition	-	28 331	41 281	-	69 612
Disposal	-	(5 999)	(6 175)	-	(12 174)
	-	22 332	97 702	-	120 034

Goodwill is allocated to individual cash-generating units, with impairment testing being performed annually, by comparing the net carrying value of the cash-generating units to the estimated 'value in use'. The value in use is determined by discounting estimated future cash flows of each cash-generating unit using the discounted cash flow methodology/income method. The method used was reviewed by an external, independent valuer.

Management regards the useful lives of cash-generating units to be indefinite and no impairments have resulted from impairment testing in the reporting period.

The Group and Company determine the recoverable amount, being the higher of the fair value less cost to sell and the value in use, of individual cash-generating units by discounting the expected future cash flows of each of the identified cash-generating units. The recoverable amount is then compared to the carrying value of the respective cash-generating units and an impairment loss is raised if required.

The calculation uses cash flow projections from business plans for the forthcoming five years, which are then extrapolated for further years. Extrapolation is achieved using a long-term growth rate that varies as follows:

	Finbond Mutual Bank	
	2016	2015
Microfinance lending growth rate	**4.5%**	4.5%

The risk-adjustment discount rate is based on the cost of equity and was calculated using the Capital Asset Pricing Model (CAPM):

	Finbond Mutual Bank	
	2016	2015
Microfinance cost of equity	**18.35%**	17.67%

13. Deferred taxation

	Finbond Group Limited Consolidated		Finbond Group Limited Company		Finbond Mutual Bank	
Figures in R'000	**2016**	2015	**2016**	2015	**2016**	2015
Deferred tax liability						
Property, plant and equipment	(865)	(865)	-	-	(865)	(865)
Investment properties	(43 995)	(36 955)	-	-	(43 995)	(36 955)
Prepayments and deferred charges	(1 086)	(948)	(1 285)	(588)	201	(360)
Other financial assets	446	255	-	-	447	254
Deferred tax balance from temporary differences other than unused tax losses	2 139	1 964	810	772	1 101	1 029
Provisions and straight lining	1 892	1 717	810	772	854	782
Finance leases	247	247	-	-	247	247
Tax losses available for set off against future taxable income	2 185	8 581	-	2 242	-	-
	(41 176)	(27 968)	**(475)**	2 426	**(43 111)**	(36 897)
Deferred tax liability	(45 499)	(38 513)	(475)	-	(43 111)	(36 897)
Deferred tax asset	4 323	10 545	-	2 426	-	-
Total net deferred tax (liability)/asset	**(41 176)**	(27 968)	**(475)**	2 426	**(43 111)**	(36 897)
Reconciliation of deferred tax asset/(liability):						
At the beginning of year	(27 968)	(14 203)	2 426	19 029	(36 897)	(38 263)
Increase due to capital gains inclusion rate change adjustment	(7 398)	-	-	-	(7 398)	-
Increase in finance lease	-	247	-	-	-	247
Decrease in tax loss available for set off against future taxable income - gross of valuation allowance	(6 396)	(14 912)	(2 242)	(16 220)	-	-
Taxable temporary difference on provisions and straight lining	175	508	38	205	72	140
(Deductible)/taxable temporary difference on prepayments and deferred charges	(138)	(860)	(697)	(588)	561	(272)
Taxable/(deductible) temporary difference movement on investment property at fair value	359	(571)	-	-	359	(571)
Taxable temporary difference on other financial assets	190	1 823	-	-	192	1 822
	(41 176)	(27 968)	(475)	2 426	(43 111)	(36 897)

Recognition of deferred tax asset

Deferred tax is calculated on all temporary differences under the balance sheet method using an effective tax rate of 28% (2015: 28%). The deferred tax assets are stated at the rate at which the assets are expected to be realised and recovered.

Use and sales rate

The deferred tax rate applied to the fair value adjustment of investment properties/financial assets is determined by the expected manner of recovery. Where the expected recovery of the investment property/financial assets is through sale the capital gains tax rate of 22.40% (2015: 18.67%) is used. If the expected manner of recovery is through indefinite use the normal tax rate of 28% (2015: 28%) is applied.

If the manner of recovery is partly through use and partly through sale, a combination of capital gains rate and normal tax rate is used.

No movement in deferred taxation is taken to the statement of changes in equity for the current or prior reporting period.

Unrecognised Capital Gains Tax (CGT) losses calculated and available for set-off against future capital taxable income at reporting date totalled R9 200 420 (2015: R9 200 420) for Finbond Mutual Bank.

14. Trade and other payables

Figures in R'000	Finbond Group Limited Consolidated 2016	Finbond Group Limited Consolidated 2015	Finbond Group Limited Company 2016	Finbond Group Limited Company 2015	Finbond Mutual Bank 2016	Finbond Mutual Bank 2015
Trade payables	1 982	13 630	524	47	10 642	15 901
VAT	13 103	892	853	-	7 362	881
Accrued leave pay	1 704	2 659	307	171	1 195	1 046
Accruals	11 904	5 301	9 072	25	2 201	4 583
Sundry payables	4 310	3 818	557	3 025	3 806	2 348
	33 003	26 300	**11 313**	3 268	**25 206**	24 759

Fair value approximates carrying amount due to the short term nature of liabilities.

15. Fixed and notice deposits

Figures in R'000	Finbond Group Limited Consolidated 2016	Finbond Group Limited Consolidated 2015	Finbond Group Limited Company 2016	Finbond Group Limited Company 2015	Finbond Mutual Bank 2016	Finbond Mutual Bank 2015
7-Day notice investment deposit	1 000	-	-	-	1 000	-
32-Day notice investment deposit	10 089	-	-	-	10 089	-
Fixed-term deposit shares	749 812	774 636	-	-	749 812	774 636
Indefinite period shares	69 577	92 789	-	-	69 577	92 789
Fixed-period shares	44 817	32 467	-	-	44 817	32 467
Permanent interest bearing shares	32 096	22 021	-	-	32 096	22 021
Unallocated deposits	314	22	-	-	314	22
	907 705	921 935	-	-	907 705	921 935
Non-current liabilities	641 764	654 586	-	-	641 764	654 586
Current liabilities	265 941	267 349	-	-	265 941	267 349
	907 705	921 935	-	-	**907 705**	921 935

Deposit products are classified as follows:

	Class shares:	Effective interest rate at 29 February 2016:
7-Day notice deposits	No share entitlement	6.75% (2015: -)
32-Day notice deposits	No share entitlement	7.25% (2015: -)
Fixed-period shares	"B" class shares	10.5% (2015: 10.75%)
Fixed-term deposits	"C" class shares	8.0–10.75% (2015: 5.90–10.00%)
Indefinite period shares	"D" class shares	9.25% (2015: 9.75%)
Permanent interest bearing shares	"E" class shares	11.0% (2015: 11.5%)

16. Finance lease obligation

Figures in R'000	Finbond Group Limited Consolidated 2016	Finbond Group Limited Consolidated 2015	Finbond Group Limited Company 2016	Finbond Group Limited Company 2015	Finbond Mutual Bank 2016	Finbond Mutual Bank 2015
Minimum lease payments due						
- within one year	1 366	1 249	-	-	1 240	1 249
- in second to fifth year inclusive	868	988	-	-	718	988
	2 234	2 237	-	-	1 958	2 237
Less: future finance charges	(590)	(705)	-	-	(498)	(705)
	1 644	1 532	-	-	**1 460**	1 532
Present value of minimum lease payments due						
- within one year	967	766	-	-	887	766
- in second to fifth year inclusive	677	766	-	-	573	766
	1 644	1 532	-	-	**1 460**	1 532
Non-current liabilities	677	766	-	-	573	766
Current liabilities	967	766	-	-	887	766
	1 644	1 532	-	-	**1 460**	1 532

The average lease term is three to five years and the average effective borrowing rate is 9.23% (2015: 7.23%). No breaches or defaults of loan terms of payments have taken place in either the current or prior year.

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The Group's obligations under finance leases are secured by the lessor's charge over leased assets. Refer to note 10.

17. Share capital

Figures in R'000	Finbond Group Limited Consolidated 2016	Finbond Group Limited Consolidated 2015	Finbond Group Limited Company 2016	Finbond Group Limited Company 2015	Finbond Mutual Bank 2016	Finbond Mutual Bank 2015
Authorised 1 000 000 000 ordinary shares of 0.0001 cent each	1	1	1	1	-	-

409 018 877 (2015: 394 974 750) unissued ordinary shares are under the control of the Directors in terms of a resolution of members passed at the last Annual General Meeting. This authority remains in force until the next Annual General Meeting.

Figures in R'000	2016	2015	2016	2015	2016	2015
Issued						
Issued share capital*	203 365	201 523	196 423	194 581	457 781	457 781

* FGL: 590 981 123 (2015: 589 614 168) ordinary shares of 0.0001 cent each
FMB: 457 781 488 Class A shares of R1.00 each

No ordinary shares were cancelled in the current or prior year.

CONSOLIDATED Figures in R'000	Share Capital	Own shares held	Total
At 28 February 2014	**239 692**	**(13 739)**	**225 953**
Shares repurchased	-	(24 430)	(24 430)
At 28 February 2015	**239 692**	**(38 169)**	**201 523**
Shares repurchased	-	(18 629)	(18 629)
Shares reissued	-	20 471	20 471
At 29 February 2016	**239 692**	**(36 327)**	**203 365**

COMPANY Figures in R'000	Share Capital	Own shares held	Total
At 28 February 2014	**239 692**	**(529)**	**239 163**
Own shares purchased	-	(44 582)	(44 582)
At 28 February 2015	**239 692**	**(45 111)**	**194 581**
Shares repurchased	-	(18 629)	(18 629)
Shares reissued	-	20 471	20 471
At 29 February 2016	**239 692**	**(43 269)**	**196 423**

18. Reserves

Figures in R'000	Finbond Group Limited Consolidated 2016	2015	Finbond Group Limited Company 2016	2015	Finbond Mutual Bank 2016	2015
Non-distributable reserves						
Equity settled share option reserve (Broad-based employee share scheme, refer to note 21 for further details.)	6 476	3 428	6 476	3 428	-	-
Common transactional reserve	-	-	-	-	(35 940)	(35 940)
	6 476	3 428	**6 476**	3 428	**(35 940)**	(35 940)

The common control reserve comprises of the difference between the value of shares issued by Finbond Mutual Bank and the net asset value of assets and liabilities transferred from Finbond Group Limited to Finbond Mutual Bank as part of a common control transaction on 1 September 2012. This amount is the difference between the price paid and the value of the investment property at the time it was transferred from Finbond Group Limited to the bank.

19. Loans from shareholders

Figures in R'000	Finbond Group Limited Consolidated 2016	2015	Finbond Group Limited Company 2016	2015	Finbond Mutual Bank 2016	2015
Net 1 Finance Holdings	15 000	15 000	15 000	15 000	-	-
The loan is unsecured, with repayment date 31 August 2016 or such date as mutually agreed upon and bears interest at prime plus 5% per annum.						
Mr F Manuel	3 000	-	3 000	-	-	-
The loan is unsecured, with repayment date 31 August 2016 or such date as mutually agreed upon and bears interest at 13% per annum.						
Current liabilities	**18 000**	15 000	**18 000**	15 000	**-**	-

20. Retirement benefits

Defined contribution plan

It is the policy of the Group to provide retirement benefits to all its employees below a predetermined salary threshold. The Company provides retirement fund benefits at a percentage of 1.75% of gross salaries, notwithstanding prior arrangements with Supreme Finance (Pty) Ltd employees prior to divisionalisation.

The Group is under no obligation to cover any unfunded benefits.

Figures in R'000	Finbond Group Limited Consolidated 2016	2015	Finbond Group Limited Company 2016	2015	Finbond Mutual Bank 2016	2015
The total Group contribution to such schemes	**3 256**	2 486	**104**	-	**2 733**	2 222

21. Share-based options

Share option group

Figures in Rand	Number	Weighted exercise price
Outstanding at the beginning of the year	22 831 141	13 573 465
Granted during the year	-	-
Forfeited during the year	(1 441 666)	(928 185)
Outstanding at the end of the year	21 389 475	12 645 280

Weighted average market price at the date of the offer of the first grant was R1.35
Weighted average market price at the date of the offer of the second grant was R1.80
Weighted average market price at the date of the offer of the third grant was R2.85

Outstanding options	Exercise date from two to five years
Options with exercise price of R1.35 (Grant 1)	12 322 765
Options with exercise price of R1.80 (Grant 2)	4 517 710
Options with exercise price of R2.85 (Grant 3)	4 549 000

Information on options granted to date

Weighted fair value of options issued to date	Exercise date from two to five years	Total
Grant 1	5 384 658	5 384 658
Grant 2	2 582 044	2 582 044
Grant 3	4 678 578	4 678 578
	12 645 280	**12 645 280**

Finbond share appreciation rights

The Finbond share appreciation rights ("SARs") provide participants a conditional right to receive an award equal to the increase in the share price of a number of notional shares over a specified vesting period (the "Award"). The Scheme is subject to performance vesting conditions as follows:
- 33% of the Award will vest when Finbond Group Limited achieves an audited net profit after tax ("NPAT") of R100 million;
- A further 33% of the Award will vest when Finbond Group Limited achieves an audited NPAT of R200 million;
- The balance of the Award will vest when Finbond Group Limited achieves an audited NPAT of R300 million.

Vesting of options is conditional on the employee remaining in the employment of the Company.

The SARs will be settled by the transfer of ordinary shares in the issued share capital of Finbond Group Limited ("Share"). The rules of the Scheme specify that once participants are paid cash based on the increase in value of the SARs, the cash must be applied towards the subscription or purchase of shares in Finbond Group Limited. The participants have no right to receive cash. Finbond Group Limited does, however, have the discretion to settle the Awards in cash. However, as it is Finbond's stated intention to settle the Awards in equity instruments, the Scheme is classified as equity-settled.

IFRS requires that all equity-settled share-based payment transactions be measured at fair value at grant date and be recognised as an expense in the income statement over the vesting period.

Fair value is measured as the market price of the Finbond Group Limited share options, adjusted for the terms and conditions applicable to the options. As employee options are not traded, there is no market price available. The fair value has been determined using an option pricing model.

A number of option pricing models exist. The widely accepted Black-Scholes model is used to value options traded openly in the market. However, the Black-Scholes model is not suited to valuing certain aspects of employee share options such as early exercise and performance criteria. Essentially, the Black-Scholes model does not allow for restricted trading in terms of the vesting period and employee exercise behaviour.

We have therefore used a variant of the binomial model, modelling the particular aspects of the Finbond Group Limited share options, including exercise behaviour.

The inputs into the binomial option pricing model are as follows:

- Current/spot price;
- Exercise/strike price;
- Risk-free rate;
- Option life;
- Volatility; and
- Dividends

Number of options and vesting
When determining the expected number of options that will ultimately be converted into issued share capital, cognisance of any service or performance conditions needs to be taken into account. For example, a typical condition of any option scheme is that the employee is still employed when the option vests. If the employee leaves, no cost is ultimately recognised. An initial best estimate of the number of shares expected to vest is made in determining the expected cost, then subsequently adjusted until vesting date when the actual number will be known.

Income statement effect
Under IFRS 2, the value of the options is spread over the vesting period.

Valuation assumptions
The inputs into the option pricing models are as follows:
- Term of the options;
- Current/spot price;
- Exercise/strike price;
- Risk-free rate;
- Volatility; and
- Dividends.

Option term
The life of the options has been assumed equal to the estimated vesting period of three years for tranche 1, four years for tranche 2 and five years for tranche 3. The vesting period has been determined based on the estimated vesting date of the SARs using Finbond's forecast financial information as per its strategic five year plan.

Spot/market price
The spot price is based on the weighted average market price at the date of the offer, as follows:
- 26 August 2013: R1.35.
- 3 October 2013: R1.80.
- 8 December 2014: R3.18

Strike price
The strike price is the same as the market price above.

Risk-free rate
Typically, the risk-free interest rate is the implied yield currently available on zero coupon government issues, with a remaining term equal to the expected term of the option being valued (based on the option's remaining expected life).

IFRS 2 requires the use of a risk-free interest rate with a remaining term equal to the expected life of the option, and risk-free interest rates are typically determined from a bootstrapped zero coupon perfect fit swap curve. The zero coupon swap rate curve as at the Allocation Date was used to determine the risk-free rate.

Expected volatility
We have applied a volatility of 25.46%–35% based on an analysis of the sector in which Finbond operates and an analysis of similar listed businesses. The 35% volatility is the mid-point between the historic volatility of Finbond's listed peers.

Dividend yield
A dividend yield of 1.63%–2.12% has been assumed, based on the average dividend yields of Finbond's listed peers, detailed below. This dividend yield is below the dividend yield of the major listed banks of 3.32%–4.65%. This is to be expected as the microlending sector would be expected to have a higher re-investment rate than mature established banks.

Total expenses of R3 048 090 (2015: R2 408 916) related to equity-settled share-based payment transactions were recognised.

Fair value of services received
The fair value of services received during the year was measured at the market price for those services.

22. Interest income

Figures in R'000	Finbond Group Limited Consolidated 2016	2015	Finbond Group Limited Company 2016	2015	Finbond Mutual Bank 2016	2015
Loans and advances	137 196	119 184	-	-	121 843	111 454
Cash and cash equivalents	24 239	26 273	593	168	23 387	26 067
	161 435	145 457	**593**	168	**145 230**	137 521

23. Interest expense

Figures in R'000	Finbond Group Limited Consolidated 2016	2015	Finbond Group Limited Company 2016	2015	Finbond Mutual Bank 2016	2015
Interest on bank facility	4 454	(166)	4 305	-	149	(181)
Liabilities held at amortised cost	-	-	-	-	-	(1 421)
Leased assets	731	605	2	-	607	600
Interest expense on transactional deposits	62	-	-	-	62	-
Interest expense: notice deposit liabilities	238	-	-	-	238	-
Interest expense: fixed-term deposit liabilities	68 454	64 182	-	-	68 454	64 182
Dividend expense: indefinite period shares	5 739	7 596	-	-	5 739	7 596
Dividend expense: fixed-period shares	4 370	3 119	-	-	4 370	3 119
Interest expense: permanent interest bearing shares	3 477	801	-	-	3 477	801
	87 525	76 137	**4 307**	-	**83 096**	74 696

24. Fee income

Figures in R'000	Finbond Group Limited Consolidated 2016	2015	Finbond Group Limited Company 2016	2015	Finbond Mutual Bank 2016	2015
Microfinance initiation fees	104 655	89 362	-	-	89 341	82 959
Microfinance service fees	93 816	80 761	-	-	80 997	76 747
Home loan initiation, service and other fees	560	-	-	-	48	-
Card initiation and service fees	8 994	5	-	-	8 994	5
	208 025	170 128	**-**	-	**179 380**	159 711

25. Management fee income

Figures in R'000	Finbond Group Limited Consolidated 2016	2015	Finbond Group Limited Company 2016	2015	Finbond Mutual Bank 2016	2015
Management fees	48 987	27 766	31 676	110	21 755	27 759
Royalties	-	-	14 325	10 366	-	-
Service fees	-	-	14 967	9 397	-	-
	48 987	27 766	**60 968**	19 873	**21 755**	27 759

Management fee income is earned in terms of the Group's transfer pricing policy for the provision of support and administrative services to group companies, and to third party insurance service providers. Additional management fee income is earned for the provision of corporate finance transaction facilitation and negotiation services provided on corporate transactions undertaken by the Group.

26. Fair value adjustments

Figures in R'000	Finbond Group Limited Consolidated 2016	2015	Finbond Group Limited Company 2016	2015	Finbond Mutual Bank 2016	2015
Investment property	3 715	4 002	-	-	(1 601)	4 002
Financial assets	(683)	(2 211)	-	-	(684)	(4 693)
	3 032	1 791	**-**	-	**(2 285)**	(691)

27. Other microfinance income

Figures in R'000	Finbond Group Limited Consolidated 2016	2015	Finbond Group Limited Company 2016	2015	Finbond Mutual Bank 2016	2015
Insurance commission revenue	100 392	21 477	-	87	86 644	20 180
Net legal subscriptions received	27 596	20 015	-	-	24 812	19 140
Prepaid airtime and electricity	8 673	4 411	137	177	8 508	4 226
Rental income	852	828	-	-	847	828
(Loss)/profit on the disposal of PPE	(540)	(123)	-	-	(284)	2 272
Profit on the disposal of insurance cell	-	31 317	-	29 177	-	-
Sundry income	2 759	1 761	113	2 543	2 105	2 671
	139 732	79 686	**250**	31 984	**122 632**	49 317

28. Operating (loss)/profit from cell captive arrangement

Figures in R'000	Finbond Group Limited Consolidated 2016	2015	Finbond Group Limited Company 2016	2015	Finbond Mutual Bank 2016	2015
Insurance premiums written	728	74 980	728	74 980	-	-
Commission	(106)	(133)	(106)	(133)	-	-
Fair value adjustments	-	34	-	34	-	-
Insurance claims paid	(882)	(1 825)	(882)	(1 825)	-	-
IBNR	-	(1 563)	-	(1 563)	-	-
Operating expenses	(205)	(29 162)	(205)	(29 162)	-	-
Taxation	-	(11 719)	-	(11 719)	-	-
Operating profit from cell captive arrangement	**(465)**	30 612	**(465)**	30 612	**-**	-

29. Net commission expense

Figures in R'000	Finbond Group Limited Consolidated 2016	2015	Finbond Group Limited Company 2016	2015	Finbond Mutual Bank 2016	2015
Commission received	2 622	800	-	-	-	6
Commission paid	(7 525)	(4 184)	-	-	(6 090)	(3 421)
	(4 903)	(3 384)	**-**	-	**(6 090)**	(3 415)

30. Net impairment charge on loans and advances

Figures in R'000	Finbond Group Limited Consolidated 2016	2015	Finbond Group Limited Company 2016	2015	Finbond Mutual Bank 2016	2015
Movement in impairment provision	(2 420)	(8 669)	-	-	605	(7 025)
Bad debts written off	(94 409)	(78 177)	-	-	(94 369)	(72 556)
Bad debts recovered	25 515	26 709	2	-	24 928	26 709
	(71 314)	(60 137)	**2**	-	**(68 836)**	(52 872)

31. Taxation

Major components of the tax expense/(income)

Figures in R'000	Finbond Group Limited Consolidated 2016	Finbond Group Limited Consolidated 2015	Finbond Group Limited Company 2016	Finbond Group Limited Company 2015	Finbond Mutual Bank 2016	Finbond Mutual Bank 2015
Current						
Local income tax - current period	24 455	9 725	3 764	-	19 675	9 726
Reassesment of prior year estimate	-	39	-	-	-	39
	24 455	9 764	**3 764**	-	**19 675**	9 765
Deferred						
Originating and reversing temporary differences	6 038	13 247	2 901	16 648	(1 183)	(917)
Capital inclusion rate change	7 398	-	-	-	7 398	-
Reassesment of prior year estimate	(230)	(515)	-	(46)	-	(451)
	13 206	12 732	**2 901**	16 602	**6 215**	(1 368)
	37 661	22 496	**6 665**	16 602	**25 890**	8 397
Reconciliation of tax expense						
Reconciliation between accounting profit and tax expense/(income):						
Accounting profit	94 915	73 363	52 612	91 134	54 651	22 983
Tax at the applicable tax rate of 28% (2015: 28%)	26 576	20 542	14 731	25 518	15 302	6 435
Tax effect of adjustments on taxable income						
Capital inclusion rate change	7 398	-	-	-	7 398	-
Non-deductible expenses	4 632	6 205	(104)	2 494	3 183	2 693
Impairment on business (or subsidiary joint venture and associates)	790	1 165	(899)	1 165	-	-
Employee cost - share based payment expense	853	674	853	674	-	-
Dividends expense: indefinite period shares	1 607	2 127	-	-	1 607	2 127
Dividends expense: fixed period shares	1 224	873	-	-	1 224	873
Other items	158	1 366	(58)	655	352	(307)
						-
Non-taxable income	(715)	(3 775)	(7 962)	(11 364)	7	(319)
Dividends received	-	-	(7 962)	(9 693)	-	(45)
Capital gain on sale of insurance cell captive	-	(2 282)	-	(2 282)	-	
Capital gain on sale of FGL shares	-	-	-	-	-	(647)
Capital gain on fair value of investment properties	(407)	-	-	-	90	-
Unrecognised assessed loss utilised	(46)	-	-	-	-	-
Previously unrecognised assessed loss recognised	(178)	-	-	-	-	-
Other items	(84)	(1 493)	-	611	(83)	373
Reassesment of prior year estimate	(230)	(476)	-	(46)	-	(412)
	37 661	22 496	**6 665**	16 602	**25 890**	8 397

32. Auditors' remuneration

Figures in R'000	Finbond Group Limited Consolidated 2016	Finbond Group Limited Consolidated 2015	Finbond Group Limited Company 2016	Finbond Group Limited Company 2015	Finbond Mutual Bank 2016	Finbond Mutual Bank 2015
Fees	3 583	2 753	-	-	3 583	2 753
Tax and secretarial services	478	374	108	-	353	374
	4 061	3 127	**108**	-	**3 936**	3 127

33. Operating profit

Operating profit for the year is stated after accounting for the following:

Figures in R'000	Finbond Group Limited Consolidated 2016	Finbond Group Limited Consolidated 2015	Finbond Group Limited Company 2016	Finbond Group Limited Company 2015	Finbond Mutual Bank 2016	Finbond Mutual Bank 2015
Income from investments						
Dividends	-	-	27 925	34 617	-	161
Operating lease charges						
Premises						
- Contractual amounts	44 149	36 584	-	-	38 462	33 574
Equipment						
- Contractual amounts	1 061	1 117	-	-	660	1 040
	45 210	37 701	**27 925**	34 617	**39 122**	34 775
Impairment on businesses (or subsidiaries, joint ventures and associates)	-	-	-	4 162	-	-
Depreciation on property, plant and equipment	12 822	7 171	-	-	11 960	6 984
Employee costs - short-term benefits	97 741	78 936	19 020	12 196	83 768	78 882
Employee costs - contributions to defined contribution plans	3 256	2 486	104	-	2 733	2 222
Employee costs - share based payment expense	3 048	2 409	3 048	2 409	-	-

34. Cash (utilised for)/generated from operations

Figures in R'000	Finbond Group Limited Consolidated 2016	Finbond Group Limited Consolidated 2015	Finbond Group Limited Company 2016	Finbond Group Limited Company 2015	Finbond Mutual Bank 2016	Finbond Mutual Bank 2015
Profit before taxation	94 915	73 363	52 612	91 134	54 651	22 983
Adjustments for:						
Depreciation and amortisation	12 822	7 172	-	-	11 960	6 984
Loss/(profit) on sale of assets	540	123	-	-	284	(2 272)
Dividends received/(paid)	-	161	-	(21 912)	-	-
Fair value loss	683	2 212	-	-	684	4 693
Fair value adjustments on investment property	(3 715)	(4 002)	-	-	1 601	(4 002)
Profit on disposal of insurance cell	-	(31 317)	-	(29 177)	-	-
Impairment in investment	-	-	-	4 162	-	-
Share option costs	3 048	2 409	3 048	2 409	-	-
Movements in impairment charge and bad debt	71 314	86 846	-	-	68 836	79 581
Interest and service charge on finance lease	-	776	-	-	-	776
Straightlining: operating leases	858	-	-	-	619	-
Accrued leave pay	(955)	-	136	-	149	-
Other non-cash items	-	(313)	-	-	-	(314)
Changes in working capital:						
Inventories	804	(2 567)	-	-	803	(2 567)
Unsecured loans and other advances to customers	(114 508)	(166 573)	-	-	(88 339)	(145 923)
Secured loans and other advances to customers	(94 781)	-	-	-	(94 177)	-
Other receivables	(75 882)	(39 421)	(10 299)	(27 046)	(54 649)	(15 737)
Trade and other payables	6 800	6 197	7 909	(2 944)	(766)	11 840
Deposits received from customers	(14 230)	226 031	-	-	(14 230)	226 031
Transaction deposits	3 120	69	-	-	3 120	69
	(109 167)	161 166	**53 406**	16 626	**(109 454)**	182 142

35. Tax paid

Figures in R'000	Finbond Group Limited Consolidated 2016	Finbond Group Limited Consolidated 2015	Finbond Group Limited Company 2016	Finbond Group Limited Company 2015	Finbond Mutual Bank 2016	Finbond Mutual Bank 2015
Balance at beginning of the year	2 530	3 751	-	(2)	2 447	3 760
Current tax for the year recognised in profit or loss	(24 455)	(9 764)	(3 764)	-	(19 675)	(9 765)
Balance at end of the year*	4 087	(2 530)	3 764	-	(597)	(2 447)
	(17 838)	(8 543)	-	(2)	**(17 825)**	(8 452)

*Taxation at the end of the period is payable within 12 months.

36. Business combinations

Group 2016

During the current financial period Finbond Group acquired a number of branches in South Africa as going concerns through business combinations, summarised below:

Seller/Selling Entity Figures in R'000	Purchase Price	Identifiable assets acquired: Debtors per Age Analysis	Unearned Future Income	Net Debtor	Property, Plant and Equipment	Goodwill at Acquisition Date
Henzakl Finansiering cc t/a Intra Finance - Douglas	442	221	(42)	179	-	263
Finansoll cc	1 954	832	(214)	618	-	1 336
A B M Lenings cc t/a Mika Loans	1 834	848	(224)	624	-	1 210
Mariju Finance cc	22 000	7 185	(2 151)	5 034	-	16 966
SASA Cash Loans cc	2 200	345	(117)	228	-	1 972
VANCO Financial Services cc	4 125	1 097	(190)	907	-	3 218
Vecto Trade 293 (Pty) Ltd	3 105	684	(93)	591	-	2 514
WJW Finance cc	1 984	455	(29)	426	-	1 558
Nokana Investments cc	1 129	324	(61)	263	-	866
African Loan Centre (Pty) Ltd	3 450	897	(147)	750	-	2 700
Calandi Financial Services cc	259	133	(29)	104	-	155
Chicapo Financial Services cc	301	155	(38)	117	-	184
	42 783	**13 176**	**(3 335)**	**9 841**	-	**32 942**
	1	*2*	*2*	*2.1*	*2.2*	*3*

1. *Consideration was transferred by way of cash payments.*
2. *Summary of the recognition amounts of assets acquired at date of acquisition. The valuation techniques used for measuring the fair value of material assets acquired were as follows:*
   - *2.1 Net debtor - recoverable amount of the debtors book.*
   - *2.2 Property, plant and equipment - depreciated replacement cost, reflecting adjustments for physical deterioration as well as functional and economic obsolescence.*
3. *Goodwill arising from the acquisition that has been recognised.*

Subsequent to the current financial period Finbond Group acquired a number of branches in South Africa, USA and Canada as going concerns through business combinations, summarised below:

Seller/Selling Entity Figures in R'000	Purchase Price	Identifiable assets acquired: Debtors per Age Analysis	Unearned Future Income	Net Debtor	Property, Plant and Equipment	Goodwill at Acquisition Date
Credicor (South Africa)	32 200	9 834	(1 599)	8 235	-	23 965
Loanfin (Bluff Loan CC and Chequered Flag Trading 112 CC) (South Africa)	*	**	**	**	**	**
American Cash Advance (USA)	129 128	**	**	**	**	**
Cash in a Flash (USA)	18 536	**	**	**	**	**
Cashback (USA)	95 238	**	**	**	**	**
Cash Shop (Canada)	77 381	**	**	**	**	**
	352 483	**9 834**	**(1 599)**	**8 235**	-	**23 965**

* - Purchase price will be based on a R1.22 multiple of the debtors book acquired at 1 June 2016 and thus the final purchase price will be determined at that point.

** - Final debtors, unearned future income and property, plant and equipment information not available at date of publishing to accurately calculate goodwill at acquisition.

Finbond Mutual Bank 2016

During the current financial period, Finbond Mutual Bank acquired a branch in South Africa as going a concern through a business combination, summarised below:

Seller/Selling Entity Figures in R'000	Purchase Price	Identifiable assets acquired Debtors per Age Analysis	 Unearned Future Income	 Net Debtor	 Property, Plant and Equipment	Goodwill at Acquisition Date
Henzakl Finansiering cc t/a Intra Finance - Douglas	442	221	(42)	179	-	263
	442	**221**	**(42)**	**179**	**-**	**263**
	1	*2*	*2*	*2.1*	*2.2*	*3*

1. *Consideration was transferred by way of cash payments.*
2. *Summary of the recognition amounts of assets acquired at date of acquisition. The valuation techniques used for measuring the fair value of material assets acquired were as follows:*
   2.1 Net debtor - recoverable amount of the debtors book.
   2.2 Property, plant and equipment - depreciated replacement cost, reflecting adjustments for physical deterioration as well as functional and economic obsolescence.
3. *Goodwill arising from the acquisition that has been recognised.*

37. Common control transaction

2015

During the prior financial year, branches were transferred between Finbond Mutual Bank and Supreme Finance (Pty) Ltd.

2016

During the financial year, Finbond Property Finance (Pty) Ltd, a subsidiary of Finbond Group Limited, sold all of its properties to Finbond Mutual Bank.

Finbond Mutual Bank Figures in R'000	Disposals **2016**	 2015	Acquisitions **2016**	 2015
Fair value asset (disposed)/acquired				
Investment properties	-	-	21 714	-
Property, plant and equipment	-	637	-	19
Other receivables	-	16	-	9
Loans and advances	-	3 440	-	2 394
Goodwill	-	6 455	-	5 999
Cash and cash equivalents	-	295	-	10
Trade and other payables	-	(81)	-	(61)
At acquisition/disposal fair value of net assets	-	10 762	21 714	8 370
(Sale)/purchase price	-	10 762	21 714	8 370
Financed through long term intergroup loan	-	10 762	21 714	8 370
Cash (disposed)/acquired	-	(295)	-	10
Net cash flow on sale/acquisition of subsidiaries	-	(295)	-	10
Finbond Mutual Bank	-	(295)	-	10

38. Commitments, contingencies and post balance sheet events

Operating leases - as lessee (expense)

At reporting date the Group had commitments for operating leases over premises and equipment which fall due as follows:

Figures in R'000	Finbond Group Limited Consolidated 2016	Finbond Group Limited Consolidated 2015	Finbond Group Limited Company 2016	Finbond Group Limited Company 2015	Finbond Mutual Bank 2016	Finbond Mutual Bank 2015
Minimum lease payments due						
- within one year	38 790	25 027	-	-	30 102	21 652
- in second to fifth year inclusive	40 262	24 022	-	-	32 135	19 733
	79 052	49 049	**-**	-	**62 237**	41 385

National Credit Regulator tribunal contingency

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

- refund five consumers whom the NCR believes Finbond overcharged in respect of credit life insurance;
- do an audit to determine how many other customers have been charged more than the industry average since commencing its credit life business, and to refund those customers; and
- pay an administrative fine of R1 million.

The NCR alleges that Finbond Mutual Bank customers, when taking out a short-term unsecured loan, are required to pay unreasonable premiums for the receipt of credit life insurance, in contravention of **Section 106 (2) of the National Credit Act** ("NCA") and that the commission charged for this insurance is not properly disclosed.

Finbond takes its obligations under the NCA seriously and respects the authority of the NCR. Finbond is, however, confident that it, at all times, complied with all relevant laws and regulations, and that the NCR application does not have legal merit and will be dismissed. The insurance premium rates of the Credit Life Insurance Products that Finbond Mutual Bank sells to consumers are actuarially determined, risk based, product specific, value adding, fully justified and not unreasonable nor at an unreasonable cost to the consumer, and Finbond will demonstrate this to the Tribunal.

Except for the items noted above, the Group and its Directors are not aware of the existence of any other possible contingencies at date of signature of these Financial Statements. No capital commitments, either contracted or not contracted for, have been approved by the Board as at year-end.

Post balance sheet events

The Group publicly announced a rights issue immediately prior to the conclusion of the 2016 financial year-end and successfully raised an additional R525 million from the transaction in March 2016.

Subsequent to the current financial period Finbond Group acquired a number of branches in South Africa, USA and Canada as going concerns through business combinations (See note 36 for detail). Below is a summary of the North America expansion:

Finbond has embarked upon an earnings enhancing growth strategy in terms of which Finbond will enter and expand its short-term lending business into the North American pay day lending (short-term lending) market. The initial phase of this strategy will be through the acquisition of 4 North American pay day lending businesses in the United States of America and Canada that will give Finbond a branch network of 91 branches in North America and Canada, of which 85 will be in the United States of America ("USA") and 6 in Canada.

To this end the Company has concluded 4 unrelated acquisition agreements on Tuesday, 2 February 2016, following the required internal authorities being granted, as announced on SENS on Friday, 5 February 2016:

An agreement to acquire all of the shares and shareholders' claims in TV Profile LLC trading as "American Cash Advance - Payday Cash Loans" with its 41 branches in Louisiana and Mississippi, USA ("the American Cash Advance Acquisition"):

- The purchase consideration payable by Finbond to the vendor is US$8 million;
- The vendor provided a profit warranty to achieve a net profit before tax ("NPBT") of US$2 million;
- 50% of the purchase consideration set out above will be payable on the effective date of the transaction in cash; and
- The balance of the purchase consideration, being US$4 million, will be paid to the vendors in cash following the determination of the NPBT of the subject of the transaction for the 12-month period ended 28 February 2017. For every US$1 by which NPBT for this period differs from the US$2 million profit warranty, the payment of US$4 million will be adjusted up or down, as the case may be, by US$4 for every US$1 that it deviates from the warranted profit. The maximum adjustment to this payment, either up or down, will be US$4 million.

An agreement to acquire all claims in the unincorporated business carried on under the name Cash Shop with its 6 branches in Canada ("the Cash Shop Canada Acquisition"):

- The purchase consideration payable by Finbond to the vendor is CAD$6.5 million;
- The vendor provided a profit warranty to achieve a NPBT of CAD$1 million;
- CAD$2.75 million of the purchase consideration set out above will be payable on the effective date of the transaction in cash; and

- The balance of the purchase consideration, being CAD$3.75 million, will be paid to the vendors in cash following the determination of the NPBT of the subject of the transaction for the 12-month period ended 28 February 2017. For every CAD$1 by which NPBT for this period differs from CAD$1 million, the amount of CAD$3.75 million will be adjusted up or down, as the case may be, by CAD$5.50. The maximum adjustment to this payment of CAD$2.75 million, either up or down, will be CAD$2.75 million.

An agreement to acquire the shares and shareholders' claims in Cash in a Flash Advertising USA Inc. trading as "Cash in a Flash" and "Xtra Cash" with its 8 branches in Indiana USA ("the Cash in a Flash Acquisition"):

- The purchase consideration payable by Finbond to the vendor is US$1.2 million. The vendor provided a profit warranty to achieve a net profit after tax ("NPAT") of US$300 000;
- 50% of the purchase consideration set out above will be payable on the effective date of the transaction in cash; and
- The balance of the purchase consideration, being US$600 000, will be paid to the vendor in cash following the determination of the NPAT of the subject of the transaction for the 12-month period ended 28 February 2017. For every US$1 by which NPAT for this period differs from US$300 000, this payment of U$600 000 will be adjusted up or down, as the case may be, by US$4. The maximum adjustment to this payment of US$600 000, either up or down, will be US$300 000.

An agreement to acquire 56% of the shares and shareholders' claims in Cashback LLC trading as "Cashback pay day Advance", "Cashback Loans" and "Cashback" with its 36 branches (and in the process of expanding by a further 5 branches in Southern California USA ("the Cashback Acquisition"):

- The purchase consideration payable by Finbond to the vendors is US$8 million for 50% of the shares in the business;
- The vendor provided a profit warranty to achieve an earnings before interest, taxation, dividends and amortisation ("EBITDA") of US$3.2 million for the year ending 28 February 2017;
- 50% of the purchase consideration set out above will be payable on the effective date of the transaction in cash; and
- The balance of the purchase consideration, being US$4 million, will be paid to the vendors in cash following the determination of the EBITDA of the subject of the transaction for the 12-month period ended 28 February 2017. For every US$1 by which EBITDA for this period differs from US$3.2 million, this payment of US$3.2 million will be adjusted up or down, as the case may be, by US$5. The maximum adjustment to this payment of US$4 million, either up or down, will be US$4 million.

All four of the North American transactions have an effective date of 1 March 2016.

Following the acquisitions, Finbond will have a branch network of 91 branches in the USA and Canada, of which 85 will be in the United States of America's states of California, Louisiana, Mississippi and Indiana and 6 in Canada's Ontario Province.

39. Related parties

Relationships

Subsidiaries	Refer to note 9.
Shareholders with significant influence	Kings Reign Investments (Pty) Ltd
	Konings Genade Beleggings (Pty) Ltd
Members of key management and Directors	Dr Willie van Aardt
	Mr Gary Sayers
	Mr Carel van Heerden
	Ms Ina Wilken-Jonker
	Dr Malesela Motlatla
	Adv Jasper Noeth
	Ms Rosetta Xaba
	Adv Neville Melville
	Mr Robert Emslie
	Mr Danie Brits

Related party balances

Figures in R'000	Finbond Group Limited Consolidated 2016	2015	Finbond Group Limited Company 2016	2015	Finbond Mutual Bank 2016	2015
Loan accounts - Owing (to)/by Group Companies Refer to note 8	-	-	(52 611)	(166 901)	172 871	214 504
Related party transactions						
Royalties (received from)/paid to related parties						
Finbond Mutual Bank	-	-	(14 325)	(10 366)	-	-
Finbond Group Limited	-	-	-	-	14 325	10 393
Service fees (received from)/paid to related parties						
Finbond Mutual Bank	-	-	(12 697)	(9 277)	-	-
Finbond Group Limited	-	-	-	-	12 697	9 326
Supreme Finance (Pty) Ltd	-	-	-	(120)	-	-
Corporate fees received from related parties						
Finbond Mutual Bank	-	-	-	-	-	-
Finbond Group Limited	-	-	-	-	-	-
Supreme Finance (Pty) Ltd	-	-	(120)	-	-	-
Management fees paid to/(received from) related parties						
Finbond Mutual Bank	-	-	12 843	13 773	-	-
Finbond Group Limited	-	-	-	-	(12 843)	(13 773)
Supreme Finance (Pty) Ltd	-	-	(57)	-	-	(102)
Property purchased from related parties						
Finbond Property Finance (Pty) Ltd	-	-	-	-	21 714	-
Commissions received from related parties						
Guardrisk Insurance Company Ltd - Cell number 187 & 125	-	(21 264)	-	-	-	(20 180)
Binder fees received from related parties						
Guardrisk Insurance Company Ltd - Cell number 187 & 125	-	(27 766)	-	(13 883)	-	(13 883)
Dividends to (received from)/paid to related parties						
Guardrisk Insurance Company Ltd - Cell number 187 & 125	-	-	-	(18 299)	-	-
Finbond Micro Finance 2 (Pty) Ltd (previously Bondmaster Group (Pty) Ltd)	-	-	-	(18 985)	-	-
Dimension Home Loans Group (Pty) Ltd	-	-	-	(2 178)	-	-
Finbond Mutual Bank	-	-	(27 925)	(12 706)	27 925	12 706
Bond Excel (Subsidiary of Finbond Private Equity (Pty) Ltd (previously The Excel Group (Pty) Ltd))	-	-	-	(749)	-	-
Finbond Group Limited	-	-	-	161	-	(161)

40. Directors' emoluments

Executive 2016 Figures in R'000	Basic Salary	Bonuses	Total
Dr Willie van Aardt	6 565	4 212	10 777
Mr Gary Sayers	1 852	1 051	2 903
Mr Carel van Heerden	1 644	1 051	2 695
	10 061	**6 314**	**16 375**

Executive 2015 Figures in R'000	Basic Salary	Bonuses	Total
Dr Willie van Aardt	5 802	2 696	8 498
Mr Gary Sayers	1 666	766	2 432
	7 468	3 462	10 930

Non-Executive 2016 Figures in R'000	Directors' fees	Committee fees	Consulting fees	Total
Ms Ina Wilken-Jonker	88	127	817	1 032
Dr Malesela Motlatla	124	241	-	365
Adv Neville Melville	88	137	-	225
Ms Rosetta Xaba	88	244	-	332
Adv Jasper Noeth	88	237	-	325
Mr Robert Emslie	88	233	121	442
Mr Danie Brits	88	249	-	337
	652	**1 468**	**938**	**3 058**

Non-Executive 2015 Figures in R'000	Directors' fees	Committee fees	Consulting fees	Total
Ms Ina Wilken-Jonker	81	125	884	1 090
Dr Malesela Motlatla	113	222	-	335
Adv Neville Melville	81	94	-	175
Ms Rosetta Xaba	81	186	-	267
Adv Jasper Noeth	81	205	-	286
Mr Robert Emslie	81	167	346	594
Mr Danie Brits	81	162	-	243
	599	1 161	1 230	2 990

Directors' emoluments consist of salaries received and bonuses.

41. Risk management

Capital management

The Group's objectives when managing capital for the Bank are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure and to reduce the cost of capital.

The Group sets the amount of capital in proportion to risk and to cater for unexpected losses. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets and market conditions.

The Bank has complied with all external imposed capital requirements as codified in the **Mutual Banks Act 1993** (as amended) and related regulations.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

There have been no changes to what the entity manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

The table below summarises the composition of regulatory capital for the Bank:

	Finbond Mutual Bank	
Figures in R'000	**2016**	2015
Composition of qualifying regulatory capital		
Ordinary share capital	457 781	457 781
Accumulated profit	26 112	26 112
Regulatory adjustments	(135 712)	(135 760)
Common Equity Tier 1 Capital (CET1)	**348 181**	348 133
Debt instruments issued i.t.o. **regulation 23(5)**	83 373	69 705
Unidentified impairments	1 621	844
Tier 2 Capital (T2)	**84 994**	70 549
Qualifying regulatory capital	**433 175**	418 682
T1%	28.8%	29.2%
T2%	7.0%	5.9%
Total capital adequacy ratio	**35.8%**	35.1%
Surplus regulatory capital	**131 241**	120 779

Financial risk management

The Group's activities expose it to a variety of financial risks: market risk, (fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potentially adverse effects on the Group's financial performance. Risk management is carried out by a Central Risk Department, headed up by the Chief Risk Officer (CRO), under policies approved by the Board of Directors.

The CRO identifies, evaluates and economically hedges financial risks (through the use of such tools as a risk barometer) in close co-operation with the Group's operating units. The Group views risk management as a measure of ensuring a responsible return on shareholders' equity. Ultimately, the Board remains responsible for risk management.

The Group is managed through a system of internal controls functioning uniformly throughout the entity so that an awareness of risk pervades every aspect of business and is seen as the responsibility of each employee of the Group. The Board of Directors provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and investment of excess liquidity.

Liquidity risk

Liquidity risk is the risk that Finbond is unable to meet its payment obligations when they fall due and to replace funds when they are withdrawn, the consequence of which may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

Liquidity management is a priority of the Group. The Group ensures that it has adequate liquid assets at all times in order to maintain its current ratio requirements. The short-term nature of the loan book versus the long-term sources of deposits received from clients, greatly reduces the liquidity risk of the Group.

The Group holds additional liquidity and has therefore been able to maintain funding at normal market rates. Liquidity risk is managed using a multifaceted approach, including:

- daily cash management procedures;
- cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored;
- group bank accounts are set up with sweeping facilities based on a predetermined maintain balance per branch to optimise cash utilisation;
- prudential limits to restrict concentration of cash flows by maturity or client;
- maintaining a stable deposit base;
- maintaining a large amount of surplus liquid assets determined by the Board of Directors, in compliance with SARB requirements.

Liquidity determines the day-to-day viability of the Group and remains one of the principal considerations of asset and liability management. The Group has a detailed asset and liability management policy, which sets out the policies and procedures that are in place and applied within the Group's Asset and Liability management process. The authority and responsibility for liability and interest rate risk management rests with the Group's Board of Directors. Liquidity is managed srictly by the Group and involves prudently managing assets and liabilities, both as to cash flow and concentration, to ensure that cash inflows have an appropriate relationship to approaching cash outflows.

Maturity analysis at 29 February 2016

Consolidated - 2016 Figures in R'000	Less than 1 year	Between 1-5 years	More than 5 years	Total
Cash and cash equivalents	136 035	-	-	136 035
Other financial assets	56 975	41 179	194 321	292 475
Unsecured loans and advances	330 432	142 730	5 463	478 625
Secured loans and advances	7 256	10 142	153 005	170 403
Trade and other receivables	123 985	9 451	-	133 436
Fixed and notice deposits	(265 940)	(720 961)	(104 185)	(1 091 086)
Transactional deposits	(3 189)	-	-	(3 189)
Bank overdraft	(29 628)	-	-	(29 628)
Trade and other payables	(18 196)	-	-	(18 196)
Other financial liabilities	(19 315)	(1 510)	-	(20 825)
Total	**318 415**	**(518 969)**	**248 604**	**48 050**

Consolidated - 2015 Figures in R'000	Less than 1 year	Between 1-5 years	More than 5 years	Total
Cash and cash equivalents	197 500	-	-	197 500
Other financial assets	62 438	89 284	431 505	583 227
Unsecured loans and advances	300 467	47 208	-	347 675
Trade and other receivables	50 844	6 710	-	57 554
Fixed and notice deposits	(267 783)	(785 037)	(17 525)	(1 070 345)
Transactional deposits	(69)	-	-	(69)
Trade and other payables	(22 748)	-	-	(22 748)
Other financial liabilities	(15 766)	(1 471)	-	(17 237)
Total	304 883	(643 306)	413 980	75 557

Maturity analysis at 29 February 2016

Company - 2016 Figures in R'000	Less than 1 year	Between 1-5 years	More than 5 years	Total
Other financial assets	-	418	-	418
Trade and other receivables	11 166	-	-	11 166
Investment in subsidiaries	-	-	451 472	451 472
Loans to group companies	163 362	-	-	163 362
Loans from group companies	(215 973)	-	-	(215 973)
Bank overdraft	(29 628)	-	-	(29 628)
Trade and other liabilities	(10 153)	-	-	(10 153)
Other financial liabilities	(18 000)	-	-	(18 000)
Total	**(99 226)**	**418**	**451 472**	**352 664**

Company - 2015 Figures in R'000	Less than 1 year	Between 1-5 years	More than 5 years	Total
Cash and cash equivalents	46 009	-	-	46 009
Other financial assets	-	970	-	970
Loans to group companies	50 069	-	-	50 069
Trade and other receivables	24 501	3 935	-	28 436
Investment in subsidiaries	-	-	451 472	451 472
Loans to group companies	50 069	-	-	50 069
Loans from group companies	(216 970)	-	-	(216 970)
Trade and other payables	(3 096)	-	-	(3 096)
Other financial liabilities	(15 000)	-	-	(15 000)
Total	(64 418)	4 905	451 472	391 959

Maturity analysis at 29 February 2016

Finbond Mutual Bank - 2016 Figures in R'000	Less than 1 year	Between 1-5 years	More than 5 years	Total
Cash and cash equivalents	126 728	-	-	126 728
Other financial assets	56 975	40 760	194 321	292 056
Unsecured loans and advances	280 499	131 069	4 987	416 555
Secured loans and advances	7 256	10 142	153 005	170 403
Loans to group companies	172 871	-	-	172 871
Trade and other receivables	44 877	-	-	44 877
Trade and other payables	(16 649)	-	-	(16 649)
Fixed and notice deposits	(265 940)	(720 961)	(104 185)	(1 091 086)
Transactional deposits	(3 189)	-	-	(3 189)
Other financial liabilities	(887)	(573)	-	(1 460)
Total	**402 541**	**(539 563)**	**248 128**	**111 106**

Maturity analysis at 28 February 2015

Finbond Mutual Bank - 2015 Figures in R'000	Less than 1 year	Between 1-5 years	More than 5 years	Total
Cash and cash equivalents	148 084	-	-	148 084
Other financial assets	62 438	61 456	245 825	369 719
Unsecured loans and advances	286 279	46 356	-	332 635
Loans to group companies	214 504	-	-	214 504
Trade and other receivables	21 471	2 557	-	24 028
Trade and other payables	(22 832)	-	-	(22 832)
Fixed and notice deposits	(267 348)	(654 586)	-	(921 934)
Transactional deposits	(69)	-	-	(69)
Other financial liabilities	(766)	(766)	-	(1 532)
Total	441 761	(544 983)	245 825	142 603

Interest rate risk

Interest rate risk is the potential impact on earnings or the value of the Group's holdings in financial instruments and on future cash flows from financial instruments due to changes in the interest rate.

The Group operates in a fixed and discretionary interest rate industry for most products. Discretionary rate items are those where the rates are not necessarily linked to a market interest rate but rather where management can, at their discretion, increase or decrease the rate as deemed appropriate, in line with NCA requirements.

Call deposits in which surplus unemployed funds are placed, bank balances, as well as sources of funding vary with the prime interest rate and JIBAR. Loans and advances and deposits received from customers have fixed and discretionary interest rates in line with NCA requirements. The Group policy is to manage interest rate risk, so that fluctuations in variable rates do not have a material impact on profits or losses. Refer also to the sensitivity analysis below.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rate instruments at the reporting date. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been on average 100 basis points higher or lower and all other variables were held constant, the Group's:

- profit for the year ended 29 February 2016 would increase or decrease by R1 581 462 (2015: R1 780 230).

This is mainly attributable to the Group's exposure to interest rates on its variable rate funding and cash and cash equivalents. Loans and advances exposure to interest rate risk is considered relatively insignificant based on the Group's product mix. Loan products are predominantly subject to fixed yields (discretionary) based on the Group's target product mix, as prescribed by the **National Credit Act (NCA)**.

The Group's sensitivity to interest rates remains low as all deposits are at fixed rates and most of the lending portfolio is also at fixed rates and recorded at book value.

Significant exposure to interest risk is set out on the next page.

Class of financial instruments: carrying value - 2016

Figures in R'000	Finbond Group Limited Consolidated	Finbond Group Limited Company	Finbond Mutual Bank
Cash and cash equivalents	136 035	-	126 728
Other financial assets	231 879	358	231 521
Unsecured loans and advances	343 749	-	298 061
Secured loans and advances	94 781	-	94 177
Fixed and notice deposits	907 705	-	907 705
Transactional deposits	3 189	-	3 189
Bank overdraft	(29 628)	(29 628)	-
Finance lease obligations	1 644	-	1 460
Net exposure	**1 689 354**	**(29 270)**	**1 662 841**

Class of financial instruments: carrying value - 2015

Figures in R'000	Finbond Group Limited Consolidated	Finbond Group Limited Company	Finbond Mutual Bank
Cash and cash equivalents	197 500	46 009	148 084
Other financial assets	372 772	822	369 720
Unsecured loans and advances	290 715	-	278 379
Fixed and notice deposits	921 935	-	921 935
Transactional deposits	69	-	69
Finance lease obligations	1 532	-	1 532
Net exposure	1 784 523	46 831	1 719 719

Credit risk

Credit risk is the Bank's most material risk and can be defined as the risk of loss arising from the failure of a client or counterparty to fulfil its financial and/or contractual obligations to the Bank. The credit risk the Bank faces arises mainly from consumer loans and advances.

Credit risk consists mainly of cash deposits and cash equivalents R136 043 201 (2015: R197 499 520), net unsecured loans and advances R343 748 852 (2015: R290 715 142) and secured loans and advance R89 478 385 (2015: R-). Loans and advances are stated net of impairment allowances on the face of the statement of financial position. The Group only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Loans and advances comprise a widespread demographic and economic customer base. Management evaluate credit risk relating to customers on an on-going basis.

The Group structures the levels of credit risks it undertakes, placing limits on the amounts of risk accepted in relation to one borrower, or a group of borrowers based on credit vetting and affordability upfront, as prescribed by the NCR.

Active pay date management complements the above and ensures maximum pro-active efficiencies on borrower repayments and collections.

Daily monitoring of recoverability and collectability at branch, area, region, as well as from Group level is practised. Collections strategies for groups of borrowers by demographic and economic customer base ensure effective and efficient collections efforts. A combination of insourced and outsourced collections strategies is followed.

The Group makes allowance for impairment against non-performing accounts, where recoverability is doubtful.

Refer to notes 5 and 6 for additional disclosure relating to loans and advances.

Foreign exchange risk

The Group is currently not exposed to currency risk as all lending operations are based locally or in common monetary areas while all funding is local.

Classification of financial assets and financial liabilities

Consolidated - 2016 Figures in R'000	Loans and receivables	Held to maturity	Designated at fair value	Other liabilities	Total
Cash and cash equivalents	136 035	-	-	-	136 035
Other financial assets	-	56 975	174 904	-	231 879
Unsecured loans and advances	343 749	-	-	-	343 749
Secured loans and advances	94 781	-	-	-	94 781
Other receivables	133 436	-	-	-	133 436
Total financial assets	**708 001**	**56 975**	**174 904**	**-**	**939 880**
Bank overdraft	-	-	-	(29 628)	(29 628)
Trade and other payables	-	-	-	(33 003)	(33 003)
Fixed and notice deposits	-	-	-	(907 705)	(907 705)
Transactional deposits	-	-	-	(3 189)	(3 189)
Total financial liabilities	**-**	**-**	**-**	**(973 525)**	**(973 525)**

Consolidated - 2015 Figures in R'000	Loans and receivables	Held to maturity	Designated at fair value	Other liabilities	Total
Cash and cash equivalents	197 500	-	-	-	197 500
Other financial assets	-	62 438	310 334	-	372 772
Unsecured loans and advances	290 715	-	-	-	290 715
Other receivables	57 554	-	-	-	57 554
Total financial assets	545 769	62 438	310 334	-	918 541
Trade and other payables	-	-	-	(26 300)	(26 300)
Fixed and notice deposits	-	-	-	(921 935)	(921 935)
Transactional deposits	-	-	-	(69)	(69)
Total financial liabilities	-	-	-	(948 304)	(948 304)

Company - 2016 Figures in R'000	Loans and receivables	Held to maturity	Designated at fair value	Other liabilities	Total
Cash and cash equivalents	-	-	-	-	-
Other financial assets	-	-	358	-	358
Trade and other receivables	38 735	-	-	-	38 735
Loans to group companies	163 362	-	-	-	163 362
Total financial assets	**202 097**	**-**	**358**	**-**	**202 455**
Bank overdraft	-	-	-	(29 628)	(29 628)
Other financial liabilities	(11 313)	-	-	-	(11 313)
Loans from group companies	(215 973)	-	-	-	(215 973)
Total financial liabilities	**(227 286)**	**-**	**-**	**(29 628)**	**(256 914)**

Company - 2015 Figures in R'000	Loans and receivables	Held to maturity	Designated at fair value	Other liabilities	Total
Cash and cash equivalents	46 009	-	-	-	46 009
Other financial assets	-	-	822	-	822
Trade and other receivables	28 436	-	-	-	28 436
Loans to group companies	50 069	-	-	-	50 069
Total financial assets	124 514	-	822	-	125 336
Trade and other payables	-	-	-	(3 268)	(3 268)
Loans from group companies	(216 970)	-	-	-	(216 970)
Total financial liabilities	(216 970)	-	-	(3 268)	(220 238)

Finbond Mutual Bank - 2016 Figures in R'000	Loans and receivables	Held to maturity	Designated at fair value	Other liabilities	Total
Cash and cash equivalents	126 728	-	-	-	126 728
Other financial assets	-	56 975	174 546	-	231 521
Unsecured loans and advances	298 061	-	-	-	298 061
Secured loans and advances	94 177	-	-	-	94 177
Trade and other receivables	83 810	-	-	-	83 810
Loans to group companies	172 871	-	-	-	172 871
Total financial assets	**775 647**	**56 975**	**174 546**	**-**	**1 007 168**
Trade and other payables	-	-	-	(25 206)	(25 206)
Fixed an notice deposits	-	-	-	(907 705)	(907 705)
Transactional deposits	-	-	-	(3 189)	(3 189)
Other financial liabilities	-	-	-	(1 460)	(1 460)
Total financial liabilities	**-**	**-**	**-**	**(937 560)**	**(937 560)**

Finbond Mutual Bank - 2015 Figures in R'000	Loans and receivables	Held to maturity	Designated at fair value	Other liabilities	Total
Cash and cash equivalents	148 084	-	-	-	148 084
Other financial assets	-	62 438	307 282	-	369 720
Loans and advances	278 379	-	-	-	278 379
Trade and other receivables	29 161	-	-	-	29 161
Loans to group companies	214 504	-	-	-	214 504
Total financial assets	670 128	62 438	307 282	-	1 039 848
Trade and other payables	-	-	-	(24 759)	(24 759)
Fixed and notice deposits	-	-	-	(921 935)	(921 935)
Transactional deposits	-	-	-	(69)	(69)
Other financial liabilties	-	-	-	(1 532)	(1 532)
Total financial liabilities	-	-	-	(948 295)	(948 295)

Income, expenses, gains and losses resulting from financial assets and liabilities

Consolidated - 2016 Figures in R'000	Loans and receivables	Held to maturity	Designated at fair value	Other liabilities	Total
Interest income	142 511	4 034	14 890	-	161 435
Interest expense	-	-	-	(87 525)	(87 525)
Fee income	208 025	-	-	-	208 025
Impairment losses	(71 314)	-	-	-	(71 314)
	279 222	**4 034**	**14 890**	**(87 525)**	**210 621**

Consolidated - 2015 Figures in R'000	Loans and receivables	Held to maturity	Designated at fair value	Other liabilities	Total
Interest income	120 951	3 234	21 272	-	145 457
Interest expense	-	-	-	(76 137)	(76 137)
Fee income	170 128	-	-	-	170 128
Impairment losses	(60 137)	-	-	-	(60 137)
	230 942	3 234	21 272	(76 137)	179 311

Company - 2016 Figures in R'000	Loans and receivables	Held to maturity	Designated at fair value	Other liabilities	Total
Interest income	593	-	-	-	593
Interest expense	(4 305)	-	-	(2)	(4 307)
	(3 712)	**-**	**-**	**(2)**	**(3 714)**

Company - 2015 Figures in R'000	Loans and receivables	Held to maturity	Designated at fair value	Other liabilities	Total
Interest income	168	-	-	-	168
Interest expense	-	-	-	-	-
	168	-	-	-	168

Finbond Mutual Bank - 2016 Figures in R'000	Loans and receivables	Held to maturity	Designated at fair value	Other liabilities	Total
Interest income	126 306	4 034	14 890	-	145 230
Interest expense	-	-	-	(83 096)	(83 096)
Fee income	179 380	-	-	-	179 380
Impairment losses	(68 836)	-	-	-	(68 836)
	236 850	**4 034**	**14 890**	**(83 096)**	**172 678**

Finbond Mutual Bank - 2015 Figures in R'000	Loans and receivables	Held to maturity	Designated at fair value	Other liabilities	Total
Interest income	113 015	3 234	21 272	-	137 521
Interest expense	-	-	-	(74 696)	(74 696)
Fee income	159 711	-	-	-	159 711
Impairment losses	(52 872)	-	-	-	(52 872)
	219 854	3 234	21 272	(74 696)	169 664

42. Fair value information

Fair value hierarchy of instruments measured at fair value

The table below analyses assets and liabilities carried at fair value, by level of fair value hierarchy. The different levels are based on the extent that quoted prices are used in the calculation of the fair value of the instruments and have been defined as follows:

Level 1: Fair value is based on quoted unadjusted prices in active markets for identical assets or liabilities that the Group can access at measurement date.

Level 2: Fair value is determined through valuation techniques based on observable inputs, either directly, such as quoted prices, or indirectly, such as derived from quoted prices. This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Fair value is determined through valuation techniques using significant unobservable inputs. This category includes all assets and liabilities where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Levels of fair value measurements : 2016

Figures in R'000

Assets and liabilities measured at fair value:	**Level 1**	**Level 2**	**Level 3**	**Total**
Recurring				
Other financial assets	-	231 521	358	231 879
Investment property	-	-	269 540	269 540
	-	**231 521**	**269 898**	**501 419**

Levels of fair value measurements : 2015

Figures in R'000

Assets and liabilities measured at fair value:	**Level 1**	**Level 2**	**Level 3**	**Total**
Recurring				
Other financial assets	-	369 720	3 052	372 772
Investment property	-	-	248 820	248 820
	-	369 720	251 872	621 592

Valuation techniques used to derive level 2 and 3 fair values

Level 2 fair values of other financial assets have been derived by using the rate as available in active markets. The underlying assets and liabilities of the investment in the cell captive arrangement were mainly cash and cash equivalents, gross debtors and SARS liabilities. These all approximated fair value, and the fair value hierarchy was considered level 2, with no elevated risk areas.

Level 3 fair values of investment properties have been generally derived using the market value, comparable sales method of valuation, and the residual land valuation method, as applicable to each property.

The fair value is determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the properties being valued. The valuation company provides the fair value of the Group's investment portfolio every twelve months.

Refer to note 11 for further information on the *Fair Value Methodologies and Assumptions for Investment Properties*.

Reconciliation of Assets and Liabilities measured at Level 3

Group - 2016 Figures in R'000	Note	Opening balance	Gains/losses recognised in profit or loss	Purchase	Settlements	Closing balance	Unrealised gains or losses included in profit or loss
Assets							
Investment property							
Investment properties	11	248 820	3 715	17 005	-	269 540	(1 601)

Group - 2015 Figures in R'000	Note	Opening balance	Gains/losses recognised in profit or loss	Purchase	Settlements	Closing balance	Unrealised gains or losses included in profit or loss
Assets							
Investment property							
Investment properties	11	242 620	4 002	2 198	-	248 820	4 002

Transfers of assets and liabilities within levels of the fair value hierarchy
No transfer of assets and liabilities within the levels of fair value hierarchy occurred during the current or prior financial year.

Assets and liabilities not measured at fair value, but fair values are disclosed : 2016
Figures in R'000

	Level 1	Level 2	Level 3
Finance lease obligations	-	1 644	-

Assets and liabilities not measured at fair value, but fair values are disclosed : 2015

	Level 1	Level 2	Level 3
Finance lease obligations	-	1 532	-

Cash and cash equivalents are not fair valued and stated at cost, which approximates fair value due to the short-term nature of the instrument.

Short-term receivables and short-term payables are measured at amortised cost and approximate fair value due to the short-term nature of these instruments. These instruments are not included in the fair value hierarchy.

Valuation techniques applied to loans and advances to customers are discussed in notes 5 and 6.

43. Earnings per share

Normalised earnings per share
Normalised earnings per share are determined by dividing profit or loss attributable to the ordinary equity holders of the parent, adjusted for specified transactions by the weighted average number of ordinary shares outstanding during the year. The specified transactions are changes in tax rates that are announced but not effective for the period reported. Such changes in tax rates will affect future periods.

	Finbond Group Limited Consolidated	
Figures in R'000	**2016**	2015
Basic earnings	57 254	50 867
Adjusted for:		
Tax effect on change in capital inclusion rate	7 398	-
Normalised earnings	**64 652**	50 867
Normalised earnings per share		
From continuing operations (c per share)	**11.0**	8.6
Basic earnings per share		
From continuing operations (c per share)	**9.7**	8.6

Basic earnings per share were based on earnings of R57 253 569 (2015: R50 867 375) and a weighted average number of ordinary shares of 588 070 838 (2015: 593 308 162).

Diluted earnings per share
In the determination of diluted earnings per share, profit or loss attributable to the equity holders of the parent and the weighted average number of ordinary shares are adjusted for the effects of all dilutive potential ordinary shares.

	Finbond Group Limited Consolidated	
Figures in R'000	**2016**	2015
Diluted earnings per share		
From continuing operations (c per share)	**9.7**	8.6

Diluted earnings per share are equal to earnings per share because there are no dilutive potential ordinary shares in issue.

Headline earnings and diluted headline earnings per share
Headline earnings per share and diluted headline earnings per share are determined by dividing headline earnings and diluted headline earnings by the weighted average number of ordinary shares outstanding during a period.

Headline earnings and diluted headline earnings are determined by adjusting basic earnings and diluted earnings by excluding separately identifiable re-measurement items. Headline earnings and diluted headline earnings are presented after tax and non-controlling interest.

Reconciliation between earnings and headline earnings

	2016		2015	
Figures in R'000	Gross	Net	Gross	Net
Basic earnings	-	57 254	-	50 867
Adjusted for:				
Loss on disposal of property, plant and equipment	854	615	123	89
Fair value of investment properties	(3 715)	(2 883)	(4 002)	(3 256)
Tax effect on change in capital inclusion rate	-	7 398	-	-
Gains/(losses) on the loss of control of a subsidiary	-	-	(4 683)	3 481
Headline profit	**(2 861)**	**62 384**	(8 562)	51 181

	Finbond Group Limited Consolidated	
	2016	2015
Headline and diluted headline earnings per share		
From continuing operations (c per share)	10.6	8.6
Dividends per share		
Final (*)	3.4	3.4

* The final dividend was declared and authorised after the end of the reporting period. The dividend has therefore not been recognised as a liability in the reporting period. It has been disclosed for information purposes only.

44. Dividends paid

	Finbond Group Limited Consolidated		**Finbond Group Limited Company**		**Finbond Mutual Bank**	
Figures in R'000	**2016**	2015	**2016**	2015	**2016**	2015
Dividends	(20 059)	(12 545)	(20 059)	(12 706)	(27 925)	(12 706)

Notice is hereby given that a gross ordinary dividend of 3.4 cents per share (2015: 3.4 cents) has been declared out of income reserves on 20 April 2016 in respect of the financial year ended 29 February 2016 and is payable to ordinary shareholders in accordance with the timetable below.
In terms of dividend tax effective since 1 April 2012, the following additional information is disclosed:

- The local dividend tax rate is 15%;
- 748 166 752 shares are in issue at date of dividend (605 025 250 issued shares less 14 044 127 treasury shares plus 157 185 629 rights offer shares issued on 16 March 2016);
- The net ordinary dividend is 2.9 cents per share for ordinary shareholders who are not exempt from dividends tax; and
- Finbond Group Limited's tax reference number is 9194313145.

Timetable:

Declaration date	Wednesday, 20 April 2016
Last day to trade cum dividend	Friday, 13 May 2016
Shares commence ex-trading	Monday, 16 May 2016
Record date	Friday, 20 May 2016
Dividend payment date	Monday, 23 May 2016

No dematerialisation or rematerialisation of shares will be allowed for the period from Monday, 16 May 2016 to Friday, 20 May 2016, both dates inclusive.
Dividends are declared in the currency of the Republic of South Africa. The Directors have confirmed that the Company will satisfy the liquidity and solvency requirements immediately after the payment of the dividend.

45. Segment reporting

CONSOLIDATED - 2016 Figures in R'000	Investment Products	Lending	Property Investment	Transactional Banking	Other	Consolidated
Interest income	20 127	138 201	-	517	2 590	161 435
Interest expense	(49 360)	(10 597)	-	(590)	(26 978)	(87 525)
Net interest income	(29 233)	127 604	-	(73)	(24 388)	73 910
Fee income	-	199 030	-	8 995	-	208 025
Management fee income	-	-	-	-	48 987	48 987
Other microfinance income	-	139 732	-	-	-	139 732
Operating profit from cell captive arrangement	-	(465)	-	-	-	(465)
Fair value adjustment	(683)	-	3 715	-	-	3 032
Net commission income	-	(4 903)	-	-	-	(4 903)
Net impairment (charge)/release on loans and advances	-	(72 080)	-	-	766	(71 314)
Operating expenses	(2 352)	(264 147)	(1 920)	(8 946)	(24 724)	(302 089)
Operating (loss)/profit before taxation	(32 268)	124 771	1 795	(24)	641	94 915
Taxation	10 288	(39 782)	(7 971)	8	(204)	(37 661)
(Loss)/profit for the period	**(21 980)**	**84 989**	**(6 176)**	**(16)**	**437**	**57 254**
(N1)	(38%)	148%	(11%)	(0%)	1%	100%

N1 - Taxation amount for property investment includes R7 398 441 for capital tax inclusion rate change.

(Loss)/profit for the period attributable to:						
Owners of the Company	(21 980)	84 989	(6 176)	(16)	437	57 254
Significant segment assets						
Cash and cash equivalents	61 132	47 259	-	2 782	(4 766)	106 407
Other financial assets	231 522	357	-	-	-	231 879
Loans and advances	-	438 530	-	-	-	438 530
Inventories	-	-	-	1 764	-	1 764
Property, plant and equipment	4	49 210	-	1 034	11 842	62 090
Investment property	-	-	269 540	-	-	269 540
Goodwill	-	152 976	-	-	-	152 976
Significant segment liabilities						
Deposits received from customers	907 705	-	-	-	-	907 705
Transactional deposits	-	-	-	3 189	-	3 189
Loans from shareholders	-	-	-	-	18 000	18 000

CONSOLIDATED - 2015 Figures in R'000	Investment Products	Lending	Property Investment	Transactional Banking	Other	Consolidated
Interest income	23 577	119 768	28	-	2 084	145 457
Interest expense	(37 700)	(16 049)	-	(128)	(22 260)	(76 137)
Net interest income	(14 123)	103 719	28	(128)	(20 176)	69 320
Fee income	(2)	169 835	290	9	(4)	170 128
Management fee income	-	-	-	-	27 766	27 766
Other microfinance income	515	50 105	-	-	29 066	79 686
Operating profit from cell captive arrangement	-	30 612	-	-	-	30 612
Fair value adjustment	(2 211)	-	4 002	-	-	1 791
Net commission expense	-	(3 384)	-	-	-	(3 384)
Net impairment charge on loans and advances	-	(57 959)	(923)	-	(1 255)	(60 137)
Operating expenses	(1 655)	(225 112)	(927)	(2 076)	(12 649)	(242 419)
Operating (loss)/profit before taxation	(17 476)	67 816	2 470	(2 195)	22 748	73 363
Taxation	-	71	171	-	(22 738)	(22 496)
(Loss)/profit for the period	**(17 476)**	**67 887**	**2 641**	**(2 195)**	**10**	**50 867**
	(34%)	133%	5%	(4%)	0%	100%
(Loss)/profit for the period attributable to:						
Owners of the Company	(17 476)	67 887	2 641	(2 195)	10	50 867
Significant segment assets						
Cash and cash equivalents	154 925	42 537	38	-	-	197 500
Other financial assets	369 720	3 052	-	-	-	372 772
Loans and advances	-	290 715	-	-	-	290 715
Inventories	-	-	-	2 568	-	2 568
Property, plant and equipment	10	38 267	-	1 597	6 170	46 044
Investment property	-	-	248 820	-	-	248 820
Goodwill	-	120 034	-	-	-	120 034
Significant segment liabilities						
Deposits received from customers	921 935	-	-	-	-	921 935
Transactional deposits	-	-	-	69	-	69
Loans from shareholders	-	-	-	-	15 000	15 000

"BE A YARDSTICK OF QUALITY.

SOME PEOPLE AREN'T USED TO AN ENVIRONMENT WHERE EXCELLENCE IS EXPECTED."

- Steve Jobs -

“IF YOU WANT TO SUCCEED

YOU SHOULD STRIKE OUT ON NEW PATHS,

RATHER THAN TRAVEL THE WORN PATHS OF ACCEPTED SUCCESS.”

- John D Rockefeller -

APPENDIX

NOTICE TO SHAREHOLDERS OF FINBOND GROUP LIMITED

Notice is hereby given that the Annual General Meeting of members of Finbond Group Limited ("the Company") will be held at Protea Hotel Fire & Ice Menlyn, 213 Thys Street, Menlyn, Pretoria on Tuesday, 28 June 2016 at 10:00 for the following purposes:

1. To receive and consider the consolidated audited Annual Financial Statements of the Company for the year ended 29 February 2016, including the Directors' report, the report of the Audit Committee and the audited consolidated financial statements, together with the report of the external auditors thereon.
2. To consider and, if deemed fit, to pass with or without modification, the following resolutions:

Ordinary resolution number 1

It is hereby resolved that the Directors be and are hereby authorised to allot and issue, at their discretion, the unissued share capital of the Company and/or grant options to subscribe for unissued shares, for such purposes and on such terms and conditions as they may determine, provided that such transaction(s) has/have been approved by the JSE Limited as and when required, and are subject to the JSE Listings Requirements and the Companies Act and shareholders hereby waive any pre-emptive rights thereto.

Ordinary resolution number 2 to be passed by 75% of the voting shareholders present

Resolved that, subject to meeting the relevant JSE Listings Requirements and no less than 75% of shareholders present in person or by proxy and entitled to vote at the Annual General Meeting at which this ordinary resolution is to be considered, voting in favour thereof, the Directors of the Company be and are hereby authorised, by way of general authority, to issue all or any of the authorised but unissued shares in the capital of the Company for cash as they in their discretion deem fit, subject to the following limitations:

- The securities must be of a class already in issue;
- The securities must be issued to public shareholders and not to related parties;
- The general issue of shares for cash in the aggregate in any one financial year may not exceed 15% of the Company's issued share capital of that class (114 331 632 shares);
- The maximum discount at which the securities may be issued is 10% of the weighted average traded price of those securities over the 30 business days prior to the date that the price of the issue is determined or agreed by the Directors of the Company; and
- That a press announcement giving full details, will be published at the time of any issue representing on a cumulative basis within one year, 5% or more of the number of shares of that class in issue prior to the issues.

Ordinary resolution number 3

Resolved to reappoint KPMG Inc. as auditors of the Company, and appoint Mrs V Yuill as the individual, designated auditor of the Company, for the 2016/2017 financial year, until the next Annual General Meeting.

Ordinary resolutions numbers 4 through 15: Director appointment and re-election

Ordinary resolution number 4: Resolved to re-elect Mr R Emslie to the Board of Directors in the capacity of Independent, Non-Executive Director who, in accordance with the Company's Memorandum of Incorporation, may be required to retire by rotation but offered himself for re-election;

Ordinary resolution number 5: Resolved to re-elect Adv N Melville to the Board of Directors in the capacity of Independent, Non-Executive Director who, in accordance with the Company's Memorandum of Incorporation, may be required to retire by rotation but offered himself for re-election;

Ordinary resolution number 6: Resolved to re-elect Dr M Motlatla to the Board of Directors in the capacity of Independent, Non-Executive Director who, in accordance with the Company's Memorandum of Incorporation, may be required to retire by rotation but offered himself for re-election;

Ordinary resolution number 7: Resolved to re-elect Adv J Noeth to the Board of Directors in the capacity of Independent, Non-Executive Director who, in accordance with the Company's Memorandum of Incorporation, may be required to retire by rotation but offered himself for re-election;

Ordinary resolution number 8: Resolved to re-elect Ms R Xaba to the Board of Directors in the capacity of Independent, Non-Executive Director who, in accordance with the Company's Memorandum of Incorporation, may be required to retire by rotation but offered herself for re-election;

Ordinary resolution number 9: Resolved to re-elect Ms H Wilken-Jonker to the Board of Directors in the capacity of Non-Executive Director who, in accordance with the Company's Memorandum of Incorporation, may be required to retire by rotation but offered herself for re-election;

Ordinary resolution number 10: Resolved to re-elect Mr D Brits to the Board of Directors in the capacity of Independent, Non-Executive Director who, in accordance with the Company's Memorandum of Incorporation, may be required to retire by rotation, but offered himself up for re-election;

Ordinary resolution number 11: Resolved to ratify the appointment of Mr C van Heerden to the Board of Directors in the capacity of Executive Director;

Ordinary resolution number 12: Resolved to ratify the appointment of Mr H Kotze to the Board of Directors in the capacity of Non-Executive Director;

Ordinary resolution number 13: Resolved to re-elect Mr DJ Brits to the Audit Committee;

Ordinary resolution number 14: Resolved to re-elect Mr R Emslie to the Audit Committee;

Ordinary resolution number 15: Resolved to re-elect Ms R Xaba to the Audit Committee.

Special resolution number 1

Resolved that the remuneration policy as set out on pages 78 to 81 of the Annual Report of which this notice forms part be approved and the remuneration of the Non-Executive Directors as set out on page 132, to be paid by Finbond Group Limited, be fixed from 1 June 2016 as follows:

- R24 941 for each attendance of a Board meeting (Chairman);
- R20 798 for each attendance of a Board meeting (other members);
- R19 887 for each attendance of a Board Committee meeting (Chairman), including meetings of the Remuneration, Social and Ethics, and Audit committees;
- R16 574 for each attendance of a Board Committee meeting (other members), including meetings of the Remuneration, Social and Ethics, and Audit committees;
- R11 601 retainer per month (Chairman); and
- R8 287 retainer per month (other members).

It is hereby noted that Executive Directors are contracted as employees of the Company and are not remunerated separately for attending meetings in their capacities as Directors. They are elected as Directors for as long as they continue to serve in their executive capacity, or until they resign such directorships.

Special resolution number 2

Resolved that the inter-group loans of the Company as set out on page 107 of the Integrated Annual Report of which this notice forms part be ratified for the period ended 29 February 2016 as follows:

Figures in Rand	29 Feb 2016
Loans to (from) group companies	
Subsidiaries	
Supreme Finance (Pty) Ltd	163 362 247
The loan is unsecured, interest-free and has no fixed terms of repayment.	
Finbond Securities (Pty) Ltd	(24 597 727)
The loan is unsecured, interest-free and has no fixed terms of repayment.	
Independent Bond Originators (Pty) Ltd	(13 760 997)
The loan is unsecured, interest-free and has no fixed terms of repayment.	
Finbond Property Finance (Pty) Ltd	(4 743 484)
The loan is unsecured, interest-free and has no fixed terms of repayment.	
Finbond Mutual Bank	(172 870 820)
The loan is unsecured, interest-free and has no fixed terms of repayment.	
	(52 610 781)

Special resolution number 3

Resolved that subject to compliance with the requirements of the JSE, the Directors of the Company be and are hereby authorised at their discretion to procure that the Company or subsidiaries of the Company acquire ordinary shares issued by the Company, provided that:

- The number of ordinary shares acquired in any one financial year shall not exceed 20% of the ordinary shares in issue at the date on which this resolution is passed;
- This authority shall lapse on the earlier of the date of the next Annual General Meeting of the Company or the date 15 months after the date on which this resolution is passed;
- The price paid per ordinary share may not be greater than 10% above the weighted average of the market value of the ordinary shares for the five business days immediately preceding the date on which a purchase is made;
- The number of shares purchased by subsidiaries of the Company shall not exceed 10% in the aggregate of the number of issued shares in the Company at the relevant times;
- The repurchase will not be effected during a prohibited period unless the Company has announced a repurchase programme; and
- An announcement giving full details, including the impact on the net asset value per share, will be published at the time the Company has cumulatively repurchased 3% of the class of share in issue and for each 3% in aggregate thereafter.

The reason for this special resolution is to authorise the Directors, if they deem it appropriate in the interests of the Company, to procure that the Company or subsidiaries of the Company acquire or purchase ordinary shares issued by the Company subject to the restrictions contained in the above resolution.

The effect of this special resolution will be to authorise the Directors of the Company to procure that the Company or subsidiaries of the Company acquire or purchase shares issued by the Company on the JSE. Such purchases:

- May not in any financial year exceed 20% of the Company's ordinary shares in issue at the date of passing the above resolution;
- Must be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the Company and the counterparty;
- May not be made at prices in excess of 10% above the weighted average of the market value of the ordinary shares for the five days preceding the date of purchase;
- At any point in time only one agent may be appointed to effect any repurchase on the Company's behalf;
- Must be authorised by the Company's MOI;
- Must comply with the requirements of the JSE; and
- If made by a subsidiary or subsidiaries, may not exceed 10% in the aggregate of the issued shares in the Company.

The general authority granted by this resolution will lapse on the earlier of the next Annual General Meeting of the Company or the date 15 months after the date on which this resolution was passed.

At the present time the Directors have no specific intention with regard to the utilisation of this authority, which will only be used if the circumstances are appropriate. If the authority is exercised, the ordinary shares will be purchased on the JSE.

The Directors, after considering the effect of a repurchase of up to 20% of the Company's issued ordinary shares, are of the opinion that for a period of twelve months after the date of notice of this Annual General Meeting:

- The Company and its subsidiaries will be able to pay their debts in the ordinary course of business.
- Recognised and measured in accordance with the accounting policies used in the latest audited Annual Group Financial Statements, the assets of the Company and its subsidiaries will exceed the liabilities of the Company and its subsidiaries.
- The ordinary capital and reserves of the Company and its subsidiaries will be adequate for the purposes of the business of the Company and its subsidiaries.
- The working capital of the Company and its subsidiaries will be adequate for the purposes of the business of the Company and its subsidiaries.

Voting procedures and electronic participation

On a poll, every shareholder present in person or represented by proxy and entitled to vote shall be entitled to one vote for every share held or represented by that shareholder.

On a poll taken at any such meeting the shareholder entitled to more than one vote need not, if he votes, use all of his votes, or cast all the votes he uses in the same way.

The Directors have made provision for electronic participation at the AGM. Any shareholders that wish to participate electronically, must notify the Company Secretary at ben@finbond.co.za. Access to the medium or means of electronic communication will be at the expense of the shareholder or proxy.

Threshold for resolution approval

For ordinary resolutions, with the exception of ordinary resolution 2 as detailed above, to be approved by shareholders, the resolution must be supported by more than 50% of the voting rights exercised on the resolution concerned. For special resolutions and ordinary resolution 2 to be approved by shareholders, each resolution must be supported by at least 75% of the voting rights exercised on the resolution concerned.

Proxies

A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend, participate in and vote at the meeting in the place of the shareholder. A proxy need not also be a shareholder of the Company.

Shareholders on the Company share register who have dematerialised their ordinary shares through Strate, other than those whose shareholding is recorded in their "own name" in the sub-register maintained by their CSDP, and who wish to attend the meeting in person, will need to request their CSDP or broker to provide them with the necessary authority to do so in terms of the custody agreement entered into between the dematerialised shareholders and their CSDP or broker, and:

- to furnish them with their voting instructions; or
- in the event that they wish to attend the general meeting, to obtain the necessary letter of representation to do so.

Shareholders who have not dematerialised their shares or who have dematerialised their shares with "own name" registration, and who are entitled to attend and vote at the AGM, are entitled to appoint one or more proxies to attend, speak and vote in their stead. A proxy need not be a shareholder and shall be entitled to vote on a show of hands or poll. It is requested that proxy forms be forwarded so as to reach the transfer secretaries at least 48 hours prior to the meeting. If shareholders who have not dematerialised their shares or who have dematerialised their shares with "own name" registration and who are entitled to attend and vote at the AGM do not deliver proxy forms to the transfer secretaries timeously, such shareholders will nevertheless at any time prior to the commencement of the voting on the resolutions at the AGM be entitled to lodge the form of proxy in respect of the AGM, in accordance with the instructions therein with the chairperson of the AGM.

Salient dates applicable to the AGM

• Last day to trade to be eligible to vote at the Annual General Meeting:	Friday, 10 June 2016
• Record date for determining those shareholders entitled to vote at the Annual General Meeting:	Friday, 17 June 2016

Section 63(1) of the Companies Act – Identification of Meeting Participants

Meeting participants (including proxies) are required to provide reasonably satisfactory identification before being entitled to attend or participate in shareholders' meetings. Forms of identification include valid identity documents, drivers' licences and passports.

Additional Information

The following additional information, some of which may appear elsewhere in the Annual Report of which this notice forms part, is provided in terms of paragraph 11.26 of the Listing Requirements of the JSE:

- Major shareholders (page 75); and
- Share Capital of the Company (page 119).

Directors' responsibility statement

The Directors, whose names appear on page 34 to 36 of this Annual Report of which this notice forms part, collectively and individually accept full responsibility for the accuracy of the information pertaining to the special resolutions and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading, that all reasonable enquiries to ascertain such facts have been made and that the special resolution contains all information required in terms of the Listings Requirements of the JSE.

Material Changes

Other than the facts and developments reported on in the Annual Report, there have been no material changes in the affairs or financial position of the Company and its subsidiaries since the date of signature of the Audit Report for the period ended 29 February 2016.

Shareholders who have dematerialised their shares through their Central Securities Depository Participant ("CSDP") or broker rather than through "own-name" registration and who wish to attend the Annual General Meeting must request their CSDP or broker to issue them with a letter of representation.

Dematerialised shareholders who have elected "own-name" registration in the sub-register through a CSDP or broker and who are unable to attend but wish to vote at the Annual General Meeting should timeously provide their CSDP or broker with their voting instructions in terms of the custody agreement entered into between the shareholder and their CSDP or broker.

By order of the Board.

Mr B.C. Bredenkamp
Group Secretary

19 April 2016

Finbond Mutual Bank
Brooklyn Forum Building
Cnr Veale and Fehrsen Streets
Nieuw Muckleneuk
Pretoria
0181

P.O. Box 2127
Brooklyn Square
Brooklyn
Pretoria
0075

NOTICE TO SHAREHOLDERS OF FINBOND MUTUAL BANK

Notice is hereby given that the Annual General Meeting of members of Finbond Mutual Bank ("the Bank") will be held at Brooklyn Forum Building, Cnr Veale and Fehrsen Streets, Nieuw Muckleneuk, Pretoria on Friday, 24 June 2016 at 10:00 for the following purposes:

1. To receive and consider the audited Annual Financial Statements of the Bank, for the period ended 29 February 2016, the report of the Board of Directors and the report of the external auditors thereon.

2. To consider and, if deemed fit, to pass with or without modification, the following resolutions, or conduct the following business:

Ordinary Resolution number 1: Automatic re-appointment of auditor (s45)
KPMG Inc. as auditors of the Bank, and Mr J Vliegenthart as the individual, designated auditor of the Bank, for the 2016/2017 financial year, are automatically re-appointed until the next Annual General Meeting.

Director appointment and re-election

Ordinary resolution number 2: Resolved to re-elect Mr R Emslie to the Board of Directors in the capacity of Independent, Non-Executive Director who, in accordance with the Bank's Articles of Association, may be required to retire by rotation but offered himself for re-election;

Ordinary resolution number 3: Resolved to re-elect Adv N Melville to the Board of Directors in the capacity of Independent, Non-Executive Director who, in accordance with the Bank's Articles of Association, may be required to retire by rotation but offered himself for re-election;

Ordinary resolution number 4: Resolved to re-elect Dr M Motlatla to the Board of Directors in the capacity of Independent, Non-Executive Director who, in accordance with the Bank's Articles of Association, may be required to retire by rotation but offered himself for re-election;

Ordinary resolution number 5: Resolved to re-elect Adv J Noeth to the Board of Directors in the capacity of Independent, Non-Executive Director who, in accordance with the Bank's Articles of Association, may be required to retire by rotation but offered himself for re-election;

Ordinary resolution number 6: Resolved to re-elect Ms R Xaba to the Board of Directors in the capacity of Independent, Non-Executive Director who, in accordance with the Bank's Articles of Association, may be required to retire by rotation but offered herself for re-election;

Ordinary resolution number 7: Resolved to re-elect Ms H Wilken-Jonker to the Board of Directors in the capacity of Non-Executive Director who, in accordance with the Bank's Articles of Association, may be required to retire by rotation but offered herself for re-election;

Ordinary resolution number 8: Resolved to re-elect Dr W van Aardt to the Board of Directors in the capacity of Executive Director;

Ordinary resolution number 9: Resolved to re-elect Mr G Sayers to the Board of Directors in the capacity of Executive Director;

Ordinary resolution number 10: Resolved to re-elect Mr D Brits to the Board of Directors in the capacity of Independent, Non-Executive Director who, in accordance with the Bank's Articles of Association, may be required to retire by rotation, but offered himself up for re-election.

Ordinary resolution number 11: Resolved to ratify the appointment of Mr C van Heerden to the Board of Directors in the capacity of Executive Director;

Ordinary resolution number 12: Resolved to ratify the appointment of Mr H Kotze to the Board of Directors in the capacity of Non-Executive Director

Ordinary resolution number 13: Resolved to re-elect Mr D Brits to the Audit Committee;

Ordinary resolution number 14: Resolved to re-elect Mr R Emslie to the Audit Committee;

Ordinary resolution number 15: Resolved to re-elect Ms R Xaba to the Audit Committee;

Ordinary resolution number 16: Directors' remuneration
Resolved that the remuneration policy as set out on pages 78 to 81 of the Annual Report of which this notice forms part be approved and the remuneration of the Non-Executive Directors as set out on page 132, to be paid by Finbond Mutual Bank, be fixed from 1 June 2016 as follows:

- R24 941 for each attendance of a Board meeting (Chairman);
- R20 798 for each attendance of a Board meeting (other members);
- R19 887 for each attendance of a Board Committee meeting (Chairman), including meetings of the Remuneration, Social and Ethics, and Audit Committees;
- R16 574 for each attendance of a Board Committee meeting (other members), including meetings of the Remuneration, Social and Ethics, and Audit Committees;
- R11 601 retainer per month (Chairman); and
- R8 287 retainer per month (other members).

It is hereby noted that Executive Directors are contracted as employees of the Bank and are not remunerated separately for attending meetings in their capacities as Directors. They are elected as Directors for as long as they continue to serve in their executive capacity, or until they resign such directorships.

Voting procedures and electronic participation

On a poll, every shareholder present in person or represented by proxy and entitled to vote shall be entitled to one vote for every share held or represented by that shareholder.

On a poll taken at any such meeting the shareholder entitled to more than one vote need not, if he votes, use all of his votes, or cast all the votes he uses in the same way.

The Directors have made provision for electronic participation at the AGM. Any shareholders who wish to participate electronically must notify the Company Secretary at ben@finbond.co.za. Access to the medium or means of electronic communication will be at the expense of the shareholder or proxy.

Threshold for resolution approval

For ordinary resolutions as detailed above, to be approved by shareholders, each resolution must be supported by more than 50% of the voting rights exercised on the resolution concerned.

Salient dates applicable to the AGM

Record date for determining those shareholders entitled to vote at the Annual General Meeting: Friday, 17 June 2016

Proxies

A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend, participate in and vote at the meeting in the place of the shareholder.

A proxy need not also be a shareholder of the Bank.

Litigation Statement

The Directors, whose names appear on pages 34 to 36 of this Annual Report of which this notice forms part, are not aware of any legal or arbitration proceedings including proceedings that are pending or threatened that may have or have had in the recent past, being at least the previous 12 (twelve) months, a material effect on the Bank's financial position, other than that disclosed on page 129 and 130 of the Annual Report.

Material Changes

Other than the facts and developments reported on in the Annual Report, there have been no material changes in the affairs or financial position of the Bank since the date of signature of the audit report for the period ended 29 February 2016.

By order of the Board.

Mr B.C. Bredenkamp
Group Secretary

19 April 2016

Finbond Mutual Bank
Brooklyn Forum Building
Cnr Veale and Fehrsen Streets
Nieuw Muckleneuk
Pretoria
0181

P.O. Box 2127
Brooklyn Square
Brooklyn
Pretoria
0075

FORM OF PROXY

FINBOND GROUP LIMITED
(Incorporated in the Republic of South Africa)
Registration number 2001/015761/06
("Finbond" or "the Group")

For use by shareholders who hold shares in certificated form or shareholders who have dematerialised their shares and registered with "own-name" registration only, at the Annual General Meeting to be held at Protea Hotel Fire & Ice Menlyn, 213 Thys Street, Menlyn, Pretoria at 10:00 on Tuesday, 28 June 2016.

I/We ______________________________

being the holder(s) of ______________ ordinary shares in Finbond ______________

do hereby appoint ______________________________ or failing him/her ______________

______________________________ or failing him/her ______________

the Chairperson of the Annual General Meeting, as my/our proxy to vote on my/our behalf at the Annual General Meeting of the Company to be held at Protea Hotel Fire & Ice Menlyn, 213 Thys Street, Menlyn, Pretoria, on Tuesday, 28 June 2016, at 10:00 and at any adjournment thereof, as follows:

	In favour of	**Against**	**Abstain**
To approve the Audited Financial Statements			
Ordinary resolution number 1			
Ordinary resolution number 2			
Ordinary resolution number 3			
Ordinary resolution number 4			
Ordinary resolution number 5			
Ordinary resolution number 6			
Ordinary resolution number 7			
Ordinary resolution number 8			
Ordinary resolution number 9			
Ordinary resolution number 10			
Ordinary resolution number 11			
Ordinary resolution number 12			
Ordinary resolution number 13			
Ordinary resolution number 14			
Ordinary resolution number 15			
Special resolution number 1			
Special resolution number 2			
Special resolution number 3			

(Indicate instructions to proxy by way of "X" in space provided above)
Except as instructed above, or if no instructions are inserted above, my/our proxy may vote as he thinks fit.

Signed at ______________ this ______________ day of ______________ 2016

Signature ______________________________

Assisted by (where necessary) ______________________________

(Note: A member entitled to attend and vote is entitled to appoint a proxy to attend, speak and vote in his stead. Such proxy need not be a member of the Company.
See additional notes on the reverse side.)

NOTES TO FORM OF PROXY

ADDITIONAL NOTES

1. An ordinary shareholder may insert the name of a proxy or the names of two alternative proxies of the ordinary shareholder's choice in the space provided, with or without deleting "the Chairman of the Annual General Meeting", but any such deletion must be initialed by the shareholder. The person whose name appears first on the form of proxy and has not been deleted shall be entitled to act as proxy to the exclusion of those whose names follow.
2. An ordinary shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that ordinary shareholder in the appropriate spaces provided. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the Annual General Meeting as he deems fit in respect of all the shareholder's votes exercisable thereat.
3. Forms of proxy must either be lodged at or posted to the registered address of the Company, P.O. Box 2127, Brooklyn Square, 0075, Bankforum, Cnr. Veale & Fehrsen Streets, Brooklyn, Pretoria, 0181 or the address of the Company's transfer secretaries, Link Market Services South Africa (Pty) Limited, Rennie House, 19 Ameshoff Street, Braamfontein 2001, P.O. Box 4844, Johannesburg 2000, to be received by no later than 10:00 on Wednesday, 22 June or 48 hours before any adjournment of the Annual General Meeting which date, if necessary, will be notified in the press and on SENS.
4. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies.
5. The completion and lodging of this form of proxy shall not preclude the relevant shareholder from attending the Annual General Meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should such shareholder wish to do so.
6. The Chairman of the Annual General Meeting may reject or accept any proxy form which is completed and/or received other than in accordance with these instructions; provided that he is satisfied as to the manner in which a shareholder wishes to vote.
7. This proxy form must be signed by all joint members.
8. A member or proxy is not obliged to vote in respect of all the ordinary shares held or represented by him, but the total number of votes for or against the resolution and in respect of which any abstention is recorded may not exceed the total number of votes to which the member or his proxy is entitled.
9. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy, unless previously recorded by the Company's transfer office or waived by the Chairman of the General Meeting.

FORM OF PROXY

FINBOND MUTUAL BANK
(Incorporated in the Republic of South Africa)
Registration number 011026
("Finbond" or "the Bank")

For use by shareholders who hold shares in certificated form or shareholders who have dematerialised their shares and registered with "own-name" registration only, at the Annual General Meeting to be held at Brooklyn Forum Building, Cnr. Veale and Fehrsen Streets, Nieuw Muckleneuk, Pretoria at 10:00 on Friday, 24 June 2016.

I/We ____

being the holder(s) of ____________________ ordinary shares in Finbond ____________________

do hereby appoint ______________________________________ or failing him/her ____________

____ or failing him/her ____________

the Chairperson of the Annual General Meeting, as my/our proxy to vote on my/our behalf at the Annual General Meeting of the Bank to be held at Brooklyn Forum Building, Cnr. Veale and Fehrsen Streets, Nieuw Muckleneuk, Pretoria, on Friday, 24 June 2016, at 10:00 and at any adjournment thereof, as follows:

	In favour of	**Against**	**Abstain**
To approve the Audited Financial Statements			
Ordinary resolution number 1			
Ordinary resolution number 2			
Ordinary resolution number 3			
Ordinary resolution number 4			
Ordinary resolution number 5			
Ordinary resolution number 6			
Ordinary resolution number 7			
Ordinary resolution number 8			
Ordinary resolution number 9			
Ordinary resolution number 10			
Ordinary resolution number 11			
Ordinary resolution number 12			
Ordinary resolution number 13			
Ordinary resolution number 14			
Ordinary resolution number 15			
Ordinary resolution number 16			

(Indicate instructions to proxy by way of "X" in space provided above)
Except as instructed above, or if no instructions are inserted above, my/our proxy may vote as he thinks fit.

Signed at ____________________ this __________ day of ____________________ 2016

Signature ____

Assisted by (where necessary) ____

(Note: A member entitled to attend and vote is entitled to appoint a proxy to attend, speak and vote in his stead. Such proxy need not be a member of the Bank.
See additional notes on the reverse side.)

NOTES TO FORM OF PROXY

ADDITIONAL NOTES

1. An ordinary shareholder may insert the name of a proxy or the names of two alternative proxies of the ordinary shareholder's choice in the space provided, with or without deleting "the Chairman of the Annual General Meeting", but any such deletion must be initialed by the shareholder. The person whose name appears first on the form of proxy and has not been deleted shall be entitled to act as proxy to the exclusion of those whose names follow.
2. An ordinary shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that ordinary shareholder in the appropriate spaces provided. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the Annual General Meeting as he deems fit in respect of all the shareholder's votes exercisable thereat.
3. Forms of proxy must either be lodged at or posted to the registered address of the Bank, P.O. Box 2127, Brooklyn Square, 0075, Bankforum, Cnr. Veale & Fehrsen Streets, Brooklyn, Pretoria, 0181 or the address of the Bank's transfer secretaries, Link Market Services South Africa (Pty) Limited, Rennie House, 19 Ameshoff Street, Braamfontein 2001, P.O. Box 4844, Johannesburg 2000, to be received by no later than 10:00 on Wednesday, 22 June or 48 hours before any adjournment of the Annual General Meeting which date, if necessary, will be notified in the press and on SENS.
4. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies.
5. The completion and lodging of this form of proxy shall not preclude the relevant shareholder from attending the Annual General Meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should such shareholder wish to do so.
6. The Chairman of the Annual General Meeting may reject or accept any proxy form which is completed and/or received other than in accordance with these instructions; provided that he is satisfied as to the manner in which a shareholder wishes to vote.
7. This proxy form must be signed by all joint members.
8. A member or proxy is not obliged to vote in respect of all the ordinary shares held or represented by him, but the total number of votes for or against the resolution and in respect of which any abstention is recorded may not exceed the total number of votes to which the member or his proxy is entitled.
9. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy, unless previously recorded by the Bank's transfer office or waived by the Chairman of the General Meeting.

GRI INDEX (GLOBAL REPORTING INITIATIVE INDEX)

Nr	GRI Ref	Topic	Additional explanations	Ref in Annual Report
		STANDARD DISCLOSURE		
1	G4-1	Statement from the most senior decision-maker of the organisation about the relevance of sustainability and the organisation's strategy for addressing sustainability.	Chief Executive Report	CEO's Review (pg.16-22)
2	G4-3	Company Name	Finbond Group Limited	Cover page
3	G4-4	Primary brands, products and services	Products	Products (pg.8)
4	G4-5	Location of the organisation's headquarters	Corporate Information	pg.165
5	G4-5	Number of countries where the organisation operates	SA, USA and Canada	pg.8
6	G4-7	Nature of ownership and legal form	Corporate Information	pg.165
7	G4-8	Markets served	Customers	pg.67
8	G4-9	Scale of the organisation	1 104 employees 4 contractors, 344 branches	History and Development (pg.4) Branch Network, Number of Employees and Active Clients (pg.7) Chairman's Review (pg.14) CEO's Review (pg.16-22) CFO's Review (pg.23) Financial Highlights and Indicators (pg.12) Products (pg.8)
9		Industry	Financial Services	
10	G4-13	Significant changes during the reporting period	Branches increased 286-344	Financial Highlights and Indicators (pg.12) Branch Network, Number of Employees and Active Clients (pg.7) Chairman's Review (pg.14) CEO's Review (pg.16-22) CFO's Review (pg.23) Products (pg.8)
11	G4-15	Has the Company made a CDP submission?	No	
12	G4-15	Has the Company made a WCD submission?	No	
13	G4-15	Does the report contain a King III compliance checklist?	King III Material Principles	King III (pg.57-64)
14	G4-16	Is the Company a signatory of the UN Global Impact?	No	
15	G4-16	Is the Company a signatory of any Industry-specific regulatory body (e.g. ICMM) or the Equator Principles?	Yes	
16	G4-17	Entities included in the organisation's consolidated financial statements or equivalent documents	Finbond Group Consolidated and Finbond Mutual Bank	Scope and Boundary (pg.2) Group Structure (pg.31)
17	G4-18	Process for defining the report content and the Aspect Boundaries	King III, GRI Index & SDTI	Scope and Boundary (pg.2)
18	G4-19	Material Aspects identified in the process for defining report content	External Environment, Strategy, Performance, Resources & Relationships	Scope and Boundary (pg.2)
19	G4-28	Stated reporting period of the report	1 March 2015 - 29 Feb 2016	Cover page
20	G4-28	Month of Financial Year End	February	Cover page
21	G4-29	Date of most recent previous report	Integrated Report for financial year ended February 2015	
22	G4-30	Reporting cycle	Annual	
23	G4-31	Contact point for questions regarding the report or its contents	Finbond Group Head Office Tel: 012 460 7288	
24	G4-32	Is the report GRI-compliant?	Yes	
25	G4-32	What Application Level has been declared?	Core	
26	G4-33	Has the report been assured?	No	
27	G4-33	If so, by whom?	N/A	
28	G4-33	Has the **AA1000AS** Assurance Standard been used by the assurance provider?	No	
29	G4-33	Has the **ISAE3000** Assurance Standard been used by the assurance provider?	No	
30	G4-33	Has the assurance provider identified specific data points that have been tested?	No	

Nr	GRI Ref	Topic	Additional explanations	Ref in Annual Report
31	G4-56	Organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics	Business Philosophy, Vision/ Mission/Core Values	Business Philosophy (pg.5) Vision/Mission/Values(pg.6)
		LABOUR		
32	G4-10	Total number of employees	1 104 excl 4 contractors	History and Development (pg.4) Branch Network, Number of Employees and Active Clients (pg.7) Financial Highlights and Indicators (pg.12) Chairman's Review (pg.14) Products (pg.8)
33	G4-10	Total number of contractors	4 contractors	
34	G4-10	Total number of employees and contractors	1 108	
35	G4-LA12	Percentage of employees who are deemed 'HDSA'	79.52%	
36	G4-LA12	Percentage of employees who are women	72.37%	
37	G4-10	Percentage of employees who are 'permanent'	97.92%	
38	G4-11	Percentage of employees who belong to a Trade Union	None	
39	G4- LA1 (b)	Employee turnover (i.e. number of persons who departed relative to the total number of employees at year end)	29.17%	
40		Total number of Person Hours Worked (PHW) - Reported		
41		Total number of Person Hours Worked (HW) - Calculated (i.e. 1 824 HW multiplied by total workforce at year end)	3 405 625	
42		Variance in HW reported, versus calculated (percentage)	2 617 600	
43		Total number of employees trained, including internal and external training interventions	30.10%	
44		Rand (R'000) Value of Employee Trained Spend	952	
45	G4-LA6	Total number of Person Days lost due to Absenteeism	1 200	
46		Percentage of Total Person Days lost due to Absenteeism - Calculated	38	
47		Total number of Person Days lost due to Industrial Action (i.e. strike action)	0.20%	
48		Percentage of Total Person Days lost due to Industrial Action - Calculated	None	
			None	
		ECONOMIC		
49	G4-EC1	Rand (R'000) Value of Total Revenue Generated	561 211	Financial Highlights and Indicators (pg.12)
50		Rand (R'000) Value of Total Revenue Generated per Employee	508	
51	G4-EC1	Rand (R'000) Value of Net Profit Generated	57 254	Financial Highlights and Indicators (pg.12)
52		Rand (R'000) Value of Net Profit per Employee	52	Employees (pg.68)
53	G4-EC1	Rand (R'000) Value of Total Compensation Paid to Employees and Contractors, including wages and benefits	128 313	Employees (pg.68)
54		Average Compensation per Employee and Contractors (Rands Thousands)	116	Employees (pg.68)
55	G4-EC1	Total Rand (R'000) Value of Compensation paid to Executive Directors - excluding gain on the exercise of share options	16 375	Remuneration Report - Key Statistics (pg.78-81)
56		Average Compensation per Executive Director (Rands Thousands) - Excluding Gains on the exercise of share options	5 458	Remuneration Report - Key Statistics (pg.78-81)
57		Ratio of Average Compensation paid to Executive Directors relative to Average Compensation Paid to Employees - Excluding "Gains"	47.05	Remuneration Report - Key Statistics (pg.78-81)
58	G4-EC1	Total Rand (R'000) Value of Gains on the Exercise of Share Options - Executive Directors	0	Remuneration Report - Key Statistics (pg.78-81)
59		Average Compensation per Executive Director (Rands Thousands) - Including "Gains on the exercise of share options"	5 458	Remuneration Report - Key Statistics (pg.78-81)
60		Ratio: Average Compensation paid to Executive Directors relative to Average Compensation paid to Employees - Including "Gains"	47.05	Remuneration Report - Key Statistics (pg.78-81)
61	G4-EC1	Total Compensation (R'000) Paid to Prescribed Officers - Excluding Gains on the exercise of share options	544	Remuneration Report - Key Statistics (pg.78-81)
62		Average Compensation (R'000) per Executive Director & Prescribed Officers - Excluding Gains on the exercise of share options	4 230	Remuneration Report - Key Statistics (pg.78-81)

Nr	GRI Ref	Topic	Additional explanations	Ref in Annual Report
63		Ratio: Average Executive Directors' & Prescribed Officers' Compensation relative to Average Employee Compensation - Excluding "Gains"	36.46	Remuneration Report - Key Statistics (pg.78-81)
64	G4-EC1	Total Rand (R'000) Value Gains on the exercise of share options - Prescribed Officers	0	Remuneration Report - Key Statistics (pg.78-81)
65		Average Compensation (R'000) per Executive Director & Prescribed Officer - Including "Gains on share options exercised"	4 230	Remuneration Report - Key Statistics (pg.78-81)
66		Ratio: Average Executive Directors & Prescribed Officers relative to Average Employee Compensation - Including "Gains"	36.46	Remuneration Report - Key Statistics (pg.78-81)
67		Ratio of Net Profit After Tax per Employee to Average Compensation per Employee	0.45	Employees (pg.68)
68		Rand (R'000) Value of Total Discretionary/Measure Spend	9 735	Employees (pg.68)
69	G4-EC1	Rand (R'000) Value of Total Taxes Paid, inclusive of VAT, Income Tax, Royalties, Rates & Taxes, and all other payments to Government	74 631	Economic Value Add Statement (pg.66)
70	G4-EC1	Rand (R'000) Value of Dividends Paid to Shareholders	20 059	Economic Value Add Statement (pg.66)
71	G4-EC1	Rand (R'000) Value of Earnings Retained	63 223	Economic Value Add Statement (pg.66)
72		Ratio of Payments to Employees relative to Dividends paid to Shareholders	6.4	
73		Ratio of Payments to Government relative to Dividends paid to Shareholders	3.72	
74		Rand (R'000) Value of Corporate Social Investment (CSI)/ Socio-economic Development (SED) expenditures - Reported	2 729	Community and Social Responsibility (pg.70)
75	G4-EC1	Rand (R'000) Value of CSI/SED Spend on Education	140	Community and Social Responsibility (pg.70)
76	G4-EC1	Rand (R'000) Value of CSI/SED Spend on Skills Development, including Adult Basic Education & Training (ABET)	120	Community and Social Responsibility (pg.70)
77	G4-EC1	Rand (R'000) Value of CSI/SED Spend on Health, including HIV/AIDS	187	Community and Social Responsibility (pg.70)
78	G4-EC1	Rand (R'000) Value of CSI/SED Spend on Basic Needs & Social Development, including Nutrition and/or Feeding Programmes	530	Community and Social Responsibility (pg.70)
79	G4-EC1	Rand (R'000) Value of CSI/SED Spend on Infrastructure Development	670	Community and Social Responsibility (pg.70)
80	G4-EC1	Rand (R'000) Value of CSI/SED Spend on Arts, Sports & Culture	35	Community and Social Responsibility (pg.70)
81	G4-EC1	Rand (R'000) Value of CSI/SED Spend on Other	1 198	Community and Social Responsibility (pg.70)
82	G4-EC1	Total Rand (R'000) Value of CSI/SED Spend	2 729	Community and Social Responsibility (pg.70)
83		Variance between Total CSI/SED Spend Reported...versus Calculated - Rands	0	
84		Variance between Total CSI/SED Spend Reported...versus Calculated - Percentage	0%	
85		CSI Spend as a percentage of Net Profit After Tax (NPAT)	4.77%	
86	G4-EC1	Does the report include a comprehensive discussion of returns on CSI?	Yes	Community and Social Responsibility (pg.70)
87	G4-EC1	Rand (R'000) Value of Enterprise Development Spend (i.e. support of small business)	1 131	
		ENVIRONMENTAL		
88	G4 EN3	Total Direct Energy Consumption (Gigajoules, GJ) – i.e. from fuels burned	29	Environment (pg.74)
89		Total Direct Energy Consumed per Person Hours Worked (MJ/HW)	0.013	Environment (pg.74)
90		Total Indirect Energy Consumption (Gigajoules, GJ) – i.e. from electricity consumed	0	Environment (pg.74)
91		Total Indirect Energy Consumed per person hour worked (MJ/HW)	0	Environment (pg.74)
92		Total Electricity Consumption (MWh)	573	Environment (pg.74)
93	G4 EN4	Total Electricity per Person Hour Worked (MWh/HW)	0.000219307	Environment (pg.74)
94	G4 EN3	Total Energy Consumption in Gigajoules - calculated (NEW)	2093	Environment (pg.74)
95		Does the company report a target for electricity consumption, or reductions, against a specific denominator (e.g. per PHW) (NEW)	No	Environment (pg.74)
96		Does the company report a target for total energy consumption or reductions, against a specific denominator (e.g. per PHW) (NEW)	No	Environment (pg.74)
97	G4 EN18	Total Carbon Emissions (Tons of Carbon Dioxide equivalents, CO_2e) - calculated	240	Environment (pg.74)

Nr	GRI Ref	Topic	Additional explanations	Ref in Annual Report
98	G4 EN18	Average Volume of Carbon Emissions per Person Hour Worked (Tons CO_2e/HW)	0	Environment (pg.74)
99	G4 EN19	Does the company report a target for carbon emissions, or reduction, against a specific denominator (e.g. per PHW). (NEW)	No	Environment (pg.74)
100	G4 EN8	Total Water Consumption (Kilolitres, or Kl)	44 198	Environment (pg.74)
101		Average Quantity of Water (Litres) Consumed per Person Hour Worked (l/HW)	17	Environment (pg.74)
102		Does the company report a target for water consumption, or reduction, against a specific denominator (e.g. per PHW). (NEW)	No	Environment (pg.74)
103	G4 EN23	Total Quantity of Non-Hazardous Waste Disposed (Tons)	5.2	Environment (pg.74)
104		Average Quantity of Non-Hazardous Waste per Person Hour Worked (Tons/HW)	0.000001987	Environment (pg.74)
105	G4 EN25	Total Quantity of Hazardous Waste Disposed (Tons)	0	Environment (pg.74)
106		Average Quantity of Hazardous Waste per Person Hour Worked (Tons/HW)	0	Environment (pg.74)
107	G4 EN23	Total Quantity of Waste sent for Recycling (Tons)	4.9	Environment (pg.74)
108		Percentage of Waste disposed of that is sent for recycling	94%	Environment (pg.74)
		HEALTH AND SAFETY		
109	G4 LA6	Number of fatalities (i.e. injuries on duty leading to death… excluding the deaths of workers not occurring ‘at work’)	0%	
110	G4 LA6	Number of First Aid Cases (FACs, i.e. injuries on duty leading to minor treatments, such as a plaster or a pain tablet)	1%	
111	G4 LA6	Number of Medical Treatment Cases (MTCs, i.e. injuries on duty leading to medical treatment, but no lost days)	0%	
112	G4 LA6	Number of Lost Time Injuries (LTIs, i.e. injuries on duty leading to at least one lost day)	0%	
113	G4 LA6	Total Number of Recordable Injuries, including MTCs, LTIs and Fatalities - Reported	0%	
114		Total Number of Recordable Injuries, including MTCs, LTIs and Fatalities	0	
115	G4 LA6	Fatal Injury Frequency Rate (FIFR, i.e. number of Fatalities per 200 000 Person Hours Worked) - Reported	0	
116		Fatal Injury Frequency Rate (FIFR, i.e. number of Fatalities per 200 000 Person Hours Worked)	0	
117	G4 LA6	Lost Time Injury Frequency Rate (LTIFR, i.e. Number of LTIs per 200 000 Person Hours Worked) - Reported	0	
118		Lost Time Injury Frequency Rate (LTIFR, i.e. Number of LTIs per 200 000 Person Hours Worked)	0	
119	G4 LA6	Total Recordable Injury Frequency Rate (TRIFR) - Reported	0	
120		Total Recordable Injury Frequency Rate (TRIFR)	0	
121		Does the company report a LTIFR and/or TRIFR target?	No	
122		Total Number of Employees & Contractors receiving Voluntary Counselling and Testing (VCT) for HIV/AIDS (i.e. counselled)	0	
123		Total Number of Employees & Contractors Tested for HIV/AIDS	0	
124		HIV/AIDS Prevalence Rate amongst employees	0%	
		GOVERNANCE		
125	G4-38	Number of Board Members	10	Remuneration Report - Key Statistics (pg.78-81)
126	G4-38	Number of Board Members who are Non-Executive	7	Remuneration Report - Key Statistics (pg.78-81)
127		Percentage of Board Members who are Non-Executive	70%	Remuneration Report - Key Statistics (pg.78-81)
128	G4-38	Number of Board Members who are deemed ‘Independent’	6	Remuneration Report - Key Statistics (pg.78-81)
129		Percentage of Board Members who are deemed ‘Independent’	60%	Remuneration Report - Key Statistics (pg.78-81)
130	G4-38	Number of Board Members who are deemed ‘HDSA’	2	Remuneration Report - Key Statistics (pg.78-81)
131		Percentage of Board Members who are deemed ‘HDSA’	20%	Remuneration Report - Key Statistics (pg.78-81)

Nr	GRI Ref	Topic	Additional explanations	Ref in Annual Report
132	G4-38	Number of Board Members who are Women	2	Remuneration Report - Key Statistics (pg.78-81)
133		Percentage of Board Members who are Women	20%	Remuneration Report - Key Statistics (pg.78-81)
134	G4-38	Average Length of Executive Director Service (in years)	5	Remuneration Report - Key Statistics (pg.78-81)
135	G4-38	Average Length of Non-Executive Director Service (in years)	5	Remuneration Report - Key Statistics (pg.78-81)
136	G4-38	Average Length of Director (full Board) Service (in years)	5	Remuneration Report - Key Statistics (pg.78-81)
137	G4 LA12	Average Age of Directors (in years)	58	Remuneration Report - Key Statistics (pg.78-81)
138		Overall Board and Committee Meeting attendance	99%	Remuneration Report - Key Statistics (pg.78-81)
139		Auditor Remuneration: % of Non-audit Fees	11.77%	Remuneration Report - Key Statistics (pg.78-81)
140		Auditor’s Rotation Period/Length of Current Auditor’s service	7	Remuneration Report - Key Statistics (pg.78-81)
141	G4-39	Independence of Board Chairman	Yes	Remuneration Report - Key Statistics (pg.78-81)
142		Number of Prescribed Officers	1	Remuneration Report - Key Statistics (pg.78-81)

DECLARATION

I hereby declare that to the best of my understanding this report is in accordance with the Core Guidelines of the G4 Sustainability Reporting Guidelines.

Any questions regarding this report or its contents can be directed to me directly by telephone or fax on +27 (0)12 460 7288/+27 (0)12 460 7285.

Gary Thomas Sayers
C.A. (SA)
Chief Financial Officer

"IF YOU ARE THE SMARTEST ONE
IN THE GROUP THEN YOUR GROUP IS TOO SMALL.
YOU NEED TO BE AROUND PEOPLE WHO KNOW MORE THAN YOU
AND HAVE MORE TALENT THAN YOU.
DON'T BE INTIMIDATED BY THEM;
BE INSPIRED."

- Joel Osteen -

CORPORATE INFORMATION

FINBOND GROUP LIMITED

Company registration number
2001/015761/06

Company Secretary
Mr B.C. Bredenkamp
Brooklyn Forum Building
Cnr Veale and Fehrsen Streets
Nieuw Muckleneuk, Pretoria, 0181
(P.O. Box 2127, Brooklyn Square, 0075)

Auditors
KPMG Inc.
KPMG Forum
1226 Francis Baard Street
Hatfield, 0083

Business address and registered office
Brooklyn Forum Building
Cnr Veale and Fehrsen Streets
Nieuw Muckleneuk, Pretoria, 0181

Share Registrar
Link Market Services South Africa (Proprietary) Limited
(Registration number 2000/007239/07)
13th Floor, Rennie House
19 Ameshoff Street
Braamfontein
(P.O. Box 4844, Johannesburg, 2000)

Sponsor
Grindrod Bank Limited
(Registration number 1994/007994/06)
Grindrod Tower, 8A Protea Place
4th Floor, Sandton, 2146
(P.O. Box 78011, Sandton, 2146)

Commercial Bankers
ABSA Bank Limited
Ground Floor, Brooklyn Gardens, Block D
Cnr Middel and Veale Streets
Brooklyn, Pretoria
(P.O. Box 2018, Brooklyn Square, 0075)

First National Bank
4 First Place, Bank City
Cnr Pritchard and Simmonds Streets
Johannesburg, 2000

FINBOND MUTUAL BANK

Bank registration number
01102

Company Secretary
Mr B.C. Bredenkamp
Brooklyn Forum Building
Cnr Veale and Fehrsen Streets
Nieuw Muckleneuk, Pretoria, 0181
(P.O. Box 2127, Brooklyn Square, 0075)

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Nieuw Muckleneuk, Pretoria, 0181

Commercial Bankers
ABSA Bank Limited
Ground Floor, Brooklyn Gardens, Block D,
Cnr Middel and Veale Streets
Brooklyn, Pretoria
(P.O. Box 2018, Brooklyn Square, 0075)

First National Bank
4 First Place, Bank City,
Cnr Pritchard and Simmonds Streets
Johannesburg, 2000

NOTES

“LET OTHERS LEAD SMALL LIVES, BUT NOT YOU.

LET OTHERS ARGUE OVER SMALL THINGS, BUT NOT YOU.

LET OTHERS CRY OVER SMALL HURTS, BUT NOT YOU.

LET OTHERS LEAVE THEIR FUTURE IN SOMEONE ELSE’S HANDS, BUT NOT YOU.

- Jim Rohn -

THE LIFEBUILDER'S CREED

TODAY IS THE MOST IMPORTANT DAY OF MY LIFE.
YESTERDAY WITH ITS SUCCESS AND VICTORIES, STRUGGLES AND FAILURES
IS GONE FOREVER.
THE PAST IS PAST.
DONE.
FINISHED.
I CANNOT RELIVE IT. I CANNOT GO BACK AND CHANGE IT.
BUT I WILL LEARN FROM IT AND IMPROVE MY TODAY.

TODAY. THIS MOMENT. NOW.
IT IS GOD'S GIFT TO ME AND IT IS ALL THAT I HAVE.

TOMORROW WITH ALL ITS JOYS AND SORROWS, TRIUMPHS AND
TROUBLES ISN'T HERE YET.
INDEED; TOMORROW MAY NEVER COME.
THEREFORE, I WILL NOT WORRY ABOUT TOMORROW.

TODAY IS WHAT GOD HAS ENTRUSTED TO ME.
IT IS ALL THAT I HAVE. I WILL DO MY BEST IN IT.
I WILL DEMONSTRATE THE BEST OF ME IN IT –
MY CHARACTER, GIFTEDNESS, AND ABILITIES –
TO MY FAMILY AND FRIENDS, CLIENTS AND ASSOCIATES.

I WILL IDENTIFY THOSE THINGS THAT ARE MOST IMPORTANT
TO DO TODAY,
AND THOSE THINGS I WILL DO UNTIL THEY ARE DONE.
AND WHEN THIS DAY IS DONE
I WILL LOOK BACK WITH SATISFACTION AT THAT
WHICH I HAVE ACCOMPLISHED.

THEN, AND ONLY THEN, WILL I PLAN MY TOMORROW,
LOOKING TO IMPROVE UPON TODAY, WITH GOD'S HELP.
THEN I SHALL GO TO SLEEP IN PEACE... CONTENT.

- Dale Witherington -

Designed by CM Steyn Photo&Graphic
SOLI DEO GLORIA

FINBOND GROUP LIMITED
Brooklyn Forum Building | 337 Cnr Veale and Fehrsen Streets
Nieuw Muckleneuk | Brooklyn | Pretoria | 0181
Tel: +27 12 460 7288 | Fax: +27 12 460 7285

www.finbondlimited.co.za

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