

# Beforepay Group Limited

ASX Announcement (ASX: B4P)

28 July 2023

## Beforepay Q4 FY23 Quarterly Activities and Appendix 4C Cash Flow Report (Unaudited)

### Beforepay reaches positive EBITDA

Beforepay Group Limited (Beforepay or the Company) (ASX: B4P) has released its Appendix 4C for the quarter ended 30 June 2023 (Q4 FY23).

In Q4 FY23, Beforepay achieved a significant milestone, achieving a positive EBITDA for the quarter of \$0.57m. This is the first time the Company has had a positive quarterly EBITDA. Other highlights include:

- Positive net profit in April 2023 of \$0.3m due to strong credit outcomes and the writeback of provisions from the holiday period.
- Surpassed \$1 billion in cumulative pay advances since inception.
- Reached 1 million registered users since inception.
- Pay advances of \$162.2m, up 51% on Q4 FY22 (year-on-year or YoY) and flat on Q3 FY23 (quarter-on-quarter or QoQ). During the quarter, the company reduced lending limits for riskier users, improving underlying economics.
- Net transaction margin (NTM) was \$4.09m, up from \$2.59m or 57% QoQ and up 88% YoY from \$2.18m in Q4 FY22, the result of reduced net defaults.
- Customer acquisition cost (CAC) on new users declined 70% YoY and 27% QoQ to \$23, while operating expenses declined 27% YoY and up 5% QoQ to \$4.38m.
- Continued balance sheet strength with cash on hand of \$21.8m and an equity position of \$26.7m. Beforepay continues to carry no debt at the operating-company level, only debt that finances receivables.
- Ethical Lender of the Year 2023 in the Global Pan Finance Awards.

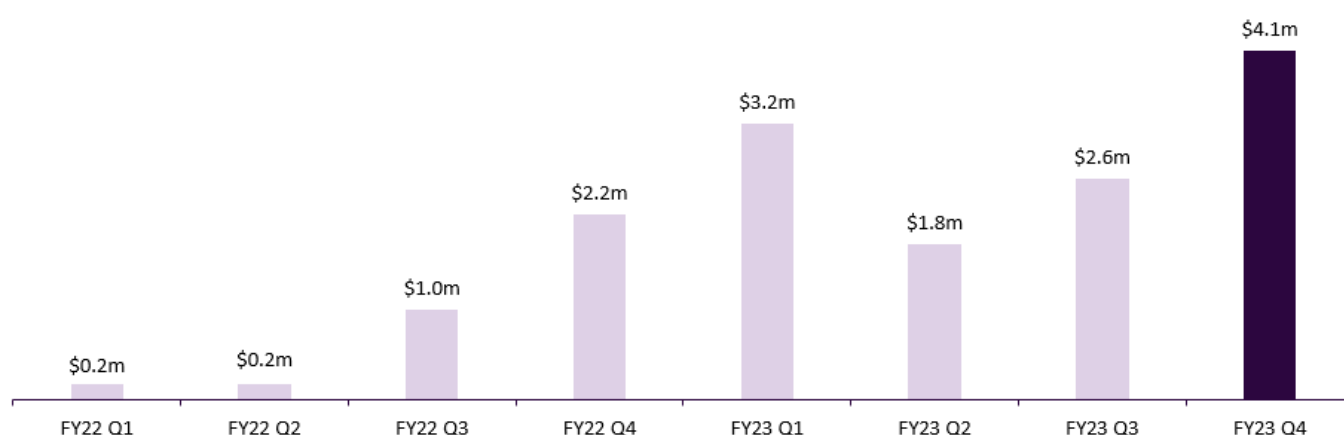
*Beforepay CEO Jamie Twiss said, "Achieving positive EBITDA is a milestone for the company. Our results this quarter show that Beforepay is sustainable and positioned for long-term success, with favorable economics, a strong balance sheet, and great momentum with our customers. We look forward to continuing to execute our strategy, and to helping more Australians access safe and affordable financial products."*

### Overview

	Q4 FY23	Q4 FY22	Q3 FY23	YoY Change %	QoQ Change %
<b>Platform metrics</b>					
Pay advances	\$162.2m	\$107.4m	\$161.9m	51%	-%
Average pay advance	\$341	\$299	\$351	14%	(3%)

Active users (no. users) <sup>1</sup>	234,034	173,398	222,277	35%	5%
<b>Financial metrics</b>					
Beforepay income	\$7.85m	\$5.26m	\$8.28m	49%	(5%)
Net transaction loss % (of pay advances plus fees)	1.4%	1.8%	2.6%	(23%)	(45%)
Net transaction margin	\$4.09m	\$2.18m	\$2.59m	88%	57%
Net transaction margin % (of pay advances)	2.5%	2.0%	1.6%	24%	57%
EBITDA (excluding one-off and significant items)	\$0.57m	(\$3.24m)	(\$0.77m)	(118%)	(174%)

### Net Transaction Margin (\$) By Quarter



	Q4 FY23	Q3 FY23	Change
<b>Balance sheet</b>			
Cash position	\$21,777,857 <sup>2</sup>	\$24,968,832	(\$3,190,975)
Equity position	\$26,671,223	\$26,834,483	(\$163,260)

### Financial Performance – Q4 FY23

- Total pay advances grew by 51% YoY to \$162.2m driven by both new customer acquisition and continued usage by existing customers. Pay advance volumes were flat quarter-on-quarter, reflecting adjustments to lending limits for riskier customer cohorts. This led to a 3% QoQ fall in average pay advance size to \$341 despite a 3% QoQ increase in the number of pay advances written to 476,000 during the quarter. As part of limit management, in Q4 FY23, total advances to customers in the bottom 30% by risk score fell to \$15.6m, or 9.6% of total volume, down from \$27.4m and 16.9% in Q3 FY23.
- Active users grew by 35% YoY to 234,034 and were up 5% on Q3 FY23 (222,277).
- Beforepay income increased 49% YoY to \$7.85m in Q4 FY23, down 5% on Q3 FY23 (\$8.28m). The QoQ decrease reflects the timing of revenue recognition, as Beforepay generates its

<sup>1</sup> Customers of Beforepay who have taken out an advance in the previous 12 months from the relevant date. This includes customers who have not yet repaid their most recent cash out and are not eligible to re-borrow until they have done so.

<sup>2</sup> Cash position as at 30 June 2023 represents statutory cash and cash equivalents (including cash held by third parties).

revenue through charging users a fixed fee of 5% per cash out received which is recognised over the period in which the customer advance is repaid.

- Net transaction loss % declined to 1.4% or 45% QoQ, and 23% YoY. Key mitigation efforts on defaults during Q4 FY23 included selective reduction of some limits, decreasing limits for customers where creditworthiness had changed, and releasing a new version of the credit model. The net transaction loss was also reduced by higher recoveries, which continued to perform well during the quarter as well as a writeback of some provisions taken in Q3 FY23.
- Direct service costs as a percentage of pay advances were flat at 0.3% in Q4 FY23 (previously 0.3% in Q3 FY23). Our direct service costs generally do not vary with the size of the pay advance.
- Net transaction margin % increased 57% to 2.5% compared to 1.6% in Q3 FY23, driven primarily by lower net transaction losses, and up 24% from Q4 FY22. Net transaction margin in dollars increased to \$4.09m, up 57% from Q3 FY23 and 88% from Q4 FY22.
- Total operating expenses (excluding one off and/or significant items) were \$4.38m in Q4 FY23, which increased 5% from \$4.17m in Q3 FY23 but down 27% from Q4 FY22 (\$5.98m).
- Within these operating expense numbers, advertising and marketing expenses attributable to customer acquisition were \$0.72m in Q4 FY23 or 33% lower than Q3 FY23 (\$1.07m). This was primarily driven by continued focus on optimising performance marketing expenditure. This resulted in the average customer acquisition cost (CAC) declining 27% to \$23 in Q4 FY23 from \$32 in Q3 FY23. Employee, general and administration and other costs were \$3.67m in Q4 FY23 or 18% higher than Q3 FY23 (\$3.10m) primarily related to non-recurring one-off staff incentive employment accruals.
- Underlying EBITDA profit achieved of \$0.57m, an improvement from the loss of (\$0.77m) in Q3 FY23, driven by the increase in net transaction margin due to lower net transaction losses in the quarter.

## Outlook

- Consistent with previous years, management expects Q1 FY24 will show slower growth than Q4 FY23 but generally strong credit performance.
- Recent CAC and operating expense levels have been consistent with Q4 FY23.

## Balance sheet

- Our underlying reported cash on hand as at Q4 FY23 was \$21.8m compared to \$25.0m at Q3 FY23. This reflects the steady improvement in underlying losses as well as timing differences in customer repayments, drawdown of receivables financing, and external settlement accounts. Cash decreased by \$3.2m during the quarter, comprising (\$3.1m) cash from operating activities, \$Nil cash from investing activities and (\$0.1m) cash from financing activities.
- As at Q4 FY23, Beforepay had drawn \$33.3m under its third-party debt facility (\$11.7m undrawn). During Q4 FY23 we did not need to draw down on this facility. The third-party debt facility has a capacity which increases to \$45.0m by December 2023 and expires in January 2024.
- Beforepay are currently in discussions with lenders to extend and expand the third-party debt facility beyond the current facility term.
- Beforepay had a total equity position of \$26.7m as at Q4 FY23. This compares to \$26.8m as at Q3 FY23.

- Beforepay retains a highly capital efficient model with an average pay advance duration<sup>3</sup> of approximately 26 days. As a result, the third-party funding cost of the average pay advance<sup>4</sup> is c.0.67% of the amount advanced, based on a 26-day loan duration. A 1% increase in interest rate would increase this to approximately 0.73%.

## Growth strategy

- Beforepay's growth strategy through new customer acquisition and customer retention remains unchanged. The momentum of growth in both revenue and user numbers combined with a positive net transaction margin demonstrates that the Company is successfully executing its strategy.
- The Company remains focused on continuing to grow without adding significant cost to the current operating expense base.
- Beforepay will continue to explore new growth opportunities, however, maintains a current focus on its path to profitability by managing costs and delivering on growth in its current products and geographies.

## Our business

- Beforepay remains committed to providing an ethical, customer-friendly product to help working Australians manage temporary cash-flow challenges.
- In Q4 FY23 Beforepay won Ethical Lender of the Year 2023 in the Global Pan Finance Awards. The award recognises Beforepay's commitment as a mission-driven organisation to providing working Australians with a safe and affordable alternative to navigating temporary cash-flow challenges.
- Our product advances people small sums of money (Q4 FY23 average of \$341) against their future wages over short periods of time, which helps them get through short-term challenges whilst not living beyond their means. Beforepay makes ongoing enhancements to customers' eligibility criteria and risk assessments.
- Our fee model is simple, transparent, and affordable, and gives our customers total control, charging only a small 5% transaction fee, zero interest, and never any late fees.
- If a customer does not pay back within the required time, the only penalty is that the service is suspended.
- Beforepay's service remains well regarded by customers, with an average 4.7 star rating (out of 5) across the Google Play Store and Apple App Store.

## Our customers

- Between April 2023 and June 2023, 71% of our customers were in full-time employment, 14% were part-time, 12% were in casual employment, and 3% were other<sup>5</sup>.
- The average annual individual customer gross income was \$60,469 during June 2023 (counting only the main source of income)<sup>6</sup>. This is compared to the ABS's national median income of \$63,000 (as of August 2022)<sup>7</sup>.
- The four main employment industries for our customers were construction at 13%, healthcare

<sup>3</sup> The weighted average time required across all advances in a period to fully repay the advance. Advances which default and remain unsettled are removed.

<sup>4</sup> The total dollar value of advances in a period divided by the number of advances in that period.

<sup>5</sup> Customer employment type in customers who took out an advance in June 2023. Employment type is derived from customer disclosures only.

<sup>6</sup> The average annual individual customer gross income has been derived from all customers who borrowed in June 2023. The average annual individual customer gross income is derived using the annualised net income identified by Beforepay's pay cycle detection tool, which is then grossed up using the ATO tax tables. Therefore, Beforepay's average annual individual customer gross income figure may be understated due to ignoring any secondary sources of income.

<sup>7</sup> <https://www.abs.gov.au/statistics/labour/earnings-and-working-conditions/employee-earnings/aug-2022>

and social services at 10%, retail trade at 11% and hospitality and restaurant services at 11%.

## Appendix 1: Use of Funds

Pursuant to Listing Rule 4.7C.2, the Company confirms that, in the months since listing on the ASX, it has incurred expenditure as detailed below, with the Use of Proceeds set out in column 2 of the table. The Company is well funded to achieve its strategic objectives and planned activities. As previously announced, the expenditure incurred reflects the company's shift in focus to a path to profitability and delivering growth in Australia rather than overseas expansion.

Intended Use of Funds \$m	Replacement Prospectus dated 29 Nov 2021	Actual Spend Since IPO (Jan 2022 - Jun 2023)	Commentary
Funding increase in loan book	\$5.9m	\$6.8m	Funding the growth in our 20% equity funded portion of the gross loan book since January 2022 has driven this increase in actual spend
Marketing and customer acquisition	\$16.9m	\$11.3m	Direct digital customer acquisition and above the line marketing spend has been lower than allocated as a result of the company's shift to digital marketing and move away from higher cost advertising (such as above the line advertising)
Overseas expansion focused on the US	\$7.6m	\$0.3m	Costs in exploring opportunities for future growth expansion in the US have been lower than allocated as a result of the company's shift in focus to a path to profitability and delivering on growth in its current geographies rather than overseas expansion
Costs related to the IPO offer	\$4.6m	\$4.6m	Advisor fees (legal, compliance, tax and accounting advisors) under the Underwriting Agreement, ASX listing costs and Prospectus insurance
<b>Total</b>	<b>\$35.0m</b>	<b>\$23.0m</b>	

In accordance with Listing Rule 4.7C, payments made to related parties and their associates included in item 6.1 of the Appendix 4C was A\$212,964 that comprised of payments made to Executive and Non-

Executive Directors relating to salary and wages, (inclusive of superannuation and applicable taxes withheld) and Director fees on standard terms.

This announcement has been authorised for release to the ASX by the Board.

For more information, please contact:

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### About Beforepay

Beforepay was founded in 2019 to support working Australians who have not been well-served by the traditional financial-services industry. The product is an ethical, customer-friendly way to help people manage temporary cash-flow challenges. We provide our customers with early access to a portion of their pay, on-demand, in exchange for a single fixed fee, which helps them to get through short-term challenges whilst not living beyond their means. For more information visit [www.beforepay.com.au](http://www.beforepay.com.au).

### Important notice

This announcement contains selected summary information only and is provided for general information purposes only. It should be read in conjunction with Beforepay Group's continuous disclosure announcements available at [www.beforepay.com.au/investor-hub/asx-announcements](http://www.beforepay.com.au/investor-hub/asx-announcements). Nothing in this announcement constitutes financial product, investment, legal, tax, accounting or other advice and it is not to be relied upon in substitution for the recipient's own exercise of independent judgment regarding the operations, financial condition and prospects of the Beforepay Group. Before making an investment decision, the recipient should consider its own financial situation, objectives and needs, and conduct its own independent investigation and assessment of the contents of this announcement, including obtaining investment, legal, tax, accounting and such other advice as it considers necessary or appropriate.

This announcement has been prepared without taking account of any person's individual investment objectives, financial situation or particular needs. The information in this announcement has been obtained from and based on sources believed by Beforepay Group to be reliable. To the maximum extent permitted by law, no member of the Beforepay Group makes a representation or warranty, express or implied, as to the accuracy, completeness, timeliness or reliability of the contents of this announcement. To the maximum extent permitted by law, no member of the Beforepay Group accepts any liability (including, without limitation, any liability arising from fault or negligence) for any loss whatsoever arising from the use of this announcement or its contents or otherwise arising in connection with it.

This announcement may contain forward-looking statements, guidance, forecasts, estimates, prospects, projections or statements in relation to future matters ('Forward Statements'). Forward Statements can generally be identified by the use of forward looking words such as "anticipate", "estimates", "will", "should", "could", "may", "expects", "plans", "forecast", "target" or similar expressions. Forward Statements including indications, guidance or outlook on future revenues, distributions or financial position and performance or return or growth in underlying investments are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. No independent third party has reviewed the reasonableness of any such statements or assumptions. No member of the Beforepay Group represents or warrants that such Forward Statements will be achieved or will prove to be correct or gives any warranty, express or implied, as to the accuracy, completeness, likelihood of achievement or reasonableness of any Forward Statement contained in this presentation. Except as required by law or regulation, Beforepay Group assumes no obligation to release updates or revisions to Forward Statements to reflect any changes. This announcement includes information regarding past performance of Beforepay Group and investors should be aware that past performance is not and should not be relied upon as being indicative of future performance.

Investors should note that certain financial data included in this announcement is not recognised under the Australian



Accounting Standards and is classified as 'non-IFRS financial information' under ASIC Regulatory Guide 230 'Disclosing non-IFRS financial information' ('RG 230'). Beforepay Group considers that non-IFRS information provides useful information to users in measuring the financial performance and position of the Beforepay Group. The non-IFRS financial measures do not have standardized meanings under Australian Accounting Standards and therefore may not be comparable to similarly titled measures determined in accordance with Australian Accounting Standards. Readers are cautioned therefore not to place undue reliance on any non-IFRS financial information and ratios in this announcement. All dollar values are in Australian dollars (\$) or A\$) unless stated otherwise. All figures are unaudited. Change percentages are calculated using unrounded figures and may differ slightly from a number calculated using rounded figures.



## Appendix 4C

### Quarterly cash flow report for entities subject to Listing Rule 4.7B

**Name of entity**

Beforepay Group Limited

**ABN**

63 633 925 505

**Quarter ended ("current quarter")**

30 June 2023

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (12 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers <sup>1</sup>	164,240	630,092
1.2 Payments for		
(a) research and development		
(b) product manufacturing and operating costs	(513)	(1,989)
(c) advertising and marketing	(714)	(5,243)
(d) leased assets		
(e) staff costs	(2,467)	(8,977)
(f) administration and corporate costs	(588)	(3,130)
1.3 Dividends received (see note 3)		
1.4 Interest received	14	14
1.5 Interest and other costs of finance paid <sup>2</sup>	(851)	(2,880)
1.6 Income taxes paid		
1.7 Government grants and tax incentives	-	1,372
1.8 Other (provide details if material) <sup>3</sup>	(162,177)	(627,950)
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(3,056)</b>	<b>(18,691)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire or for:		
(g) entities		

<sup>1</sup> Receipts from customers comprises repayment of customer advances, inclusive of Beforepay fees income

<sup>2</sup> Interest associated with the Debt Facility which funds customer pay advances

<sup>3</sup> Payments to customers comprises cash outs (Pay Advances) to customers)



Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
	(h) businesses		
	(i) property, plant and equipment	(6)	(19)
	(j) investments		
	(k) intellectual property		
	(l) other non-current assets		
2.2	Proceeds from disposal of:		
	(a) entities		
	(m) businesses		
	(n) property, plant and equipment	3	3
	(o) investments		
	(p) intellectual property		
	(q) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(3)</b>	<b>(16)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	(0)	3
3.2	Proceeds from issue of convertible debt securities		
3.3	Proceeds from exercise of options		
3.4	Transaction costs related to issues of equity securities or convertible debt securities		
3.5	Proceeds from borrowings <sup>4</sup>	(0)	12,504
3.6	Repayment of borrowings		
3.7	Transaction costs related to loans and borrowings	(42)	(42)
3.8	Dividends paid		
3.9	Other (provide details if material) <sup>5</sup>	(90)	(347)
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>(132)</b>	<b>12,118</b>

<sup>4</sup> Borrowings from the debt facility to fund customers cash outs (Pay Advances)

<sup>5</sup> Repayment of lease

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	24,969	28,367
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,056)	(18,691)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(3)	(16)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(132)	12,118
4.5	Effect of movement in exchange rates on cash held		
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>21,778</b>	<b>21,778</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	21,778	21,778
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>21,778</b>	<b>21,778</b>

<b>6.</b>	<b>Payments to related parties of the entity and their associates</b>	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	<b>213</b>
6.2	Aggregate amount of payments to related parties and their associates included in item 2	
<i>The company made payments to Executive &amp; Non-Executive Directors relating to Salaries &amp; Wages (inclusive of superannuation and applicable taxes withheld) and Directors Fees on normal commercial terms. Not included are any non-cash items (i.e. convertible note interest).</i>		

<b>7.</b>	<b>Financing facilities</b> <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Loan facilities	45,000	33,285

7.2	Credit standby arrangements		
7.3	Other (please specify)		
7.4	<b>Total financing facilities</b>	<b>45,000</b>	<b>33,285</b>
7.5	<b>Unused financing facilities available at quarter end</b>		<b>11,715</b>
7.6	<p>Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.</p> <p>AMAL Trustees Pty Ltd is trustee for the Longreach Direct Lending Fund (Longreach). There are no changes to existing financial covenants, including an interest rate of 9.5% per annum as provided in the Q3 FY23 statement. The financing facility has a capacity which increases to \$45 million by 15 December 2023 and expires in January 2024. Unused financing facilities available at quarter end is subject to meeting the Eligible Receivable test under the facility agreement.</p>		

<b>8.</b>	<b>Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1	Net cash from / (used in) operating activities (item 1.9)	(3,056)
8.2	Cash and cash equivalents at quarter end (item 4.6)	21,778
8.3	Unused finance facilities available at quarter end (item 7.5)	11,715
8.4	Total available funding (item 8.2 + item 8.3)	33,493
8.5	<b>Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>	10.96
	<p><i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i></p>	
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1	Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
	Answer: N/A	
8.6.2	Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
	Answer: N/A	
8.6.3	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
	Answer: N/A	
	<p><i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i></p>	

## Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: .....28 July 2023.....

Authorised by: .....By the Board.....  
(Name of body or officer authorising release – see note 4)

## Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.