

Unaudited Condensed Consolidated Interim Results and Dividend Declarations for the six months ended 31 December 2019

sasfin | Holdings Limited
beyond a bank

▲ 5.67%

EARNINGS PER
ORDINARY
SHARE

244.44 cents
(2018: 231.31 cents)

▼ 2.27%

HEADLINE EARNINGS
PER ORDINARY SHARE

244.44 cents
(2018: 250.12 cents)

▲ 4.43%

TOTAL
INCOME*

R642.352m
(2018: R615.117m)
** including associate income*

▼ 72bps

RETURN ON AVERAGE
SHAREHOLDERS'
EQUITY

9.73%
(2018: 10.45%)**
***restated*

▲ 37bps

COST TO
INCOME RATIO

74.33%
(2018: 73.96%)

▲ 6.86%

TOTAL
ASSETS

R14.527bn
(2018: R13.594bn)**
***restated*

▲ 7.50%

TOTAL
EQUITY***

R1.648bn
(2018: R1.533bn)**
**** total equity excludes preference
shares and non-controlling interest
** restated*

▲ 4.20%

GROSS LOANS
AND ADVANCES

R7.768bn
(2018: R7.455bn)

▼ 6bps

CREDIT LOSS
RATIO

117bps
(2018: 123bps)

▲ 4.97%

FUNDING
BASE****

R10.404bn
(2018: R9.911bn)
***** including preference
shares*

▲ 18.43%

TOTAL ASSETS UNDER
MANAGEMENT AND
ADVICE*****

R44.077bn
(2018: R37.219bn)
****** excluding under
administration*

▲ 40bps

GROUP TOTAL CAPITAL
ADEQUACY RATIO

17.06%
(2018: 16.66%)**
***restated*

Financial highlights

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

	% Change	31 December 2019 Unaudited	31 December 2018 Unaudited Restated*	30 June 2019 Audited
Consolidated statement of financial position				
Total assets (Rm's)	6.86	14 527	13 594*	14 601
Total gross loans and advances (Rm's)	4.20	7 768	7 455	7 889
Non-performing loans and advances (Rm's)	30.00	741	570	726
Income statement				
Earnings attributable to ordinary shareholders (Rm's)	5.67	78.702	74.476	148.060
Headline earnings (Rm's)	(2.27)	78.702	80.531	161.305
Financial performance				
Return on ordinary shareholders' average equity (%)		9.73	10.45*	10.29
Return on ordinary shareholders' average tangible equity (excluding intangible assets and goodwill) (%)		11.37	12.04*	11.95
Return on total average assets (%)		1.08	1.15*	1.12
Operating performance				
Non-interest income to total income (%)		59.03	59.02	59.30
Cost to income ratio (%)		74.33	73.96	76.59
Credit loss ratio (bps)		117	123	102
Non-performing advances to total gross loans and advances (%)		9.54	7.65	9.20
Share statistics				
Earnings per ordinary share (cents)	5.67	244.44	231.31	459.86
Headline earnings per ordinary share (cents)	(2.27)	244.44	250.12	501.00
Number of ordinary shares in issue at end of the period ('000)		32 301	32 301	32 301
Number of ordinary shares in issue at end of the period excluding treasury shares ('000)		32 197	32 197	32 197
Weighted average number of ordinary shares in issue excluding treasury shares ('000)		32 197	32 197	32 197
Dividends per ordinary share relating to profit for the period (cents)*	(2.27)	48.73	49.86	99.87
Preference share dividend number 1 for the year (cents)		416.91	418.09	418.09
Preference share dividend number 2 for the year (cents)		–	–	419.34
Net asset value per ordinary share (cents)**	7.54	5 103	4 745*	4 909
Capital adequacy (unaudited)				
Capital adequacy ratio (%)		17.063	16.664*	15.783

* Refer to "Basis of preparation" in the Selected Explanatory Notes section.

** This is based on the total shares in issue, including treasury shares.

Consolidated statement of financial position

AT 31 DECEMBER 2019

	31 December 2019 Unaudited R'000	31 December 2018 ¹ Unaudited Restated* R'000	30 June 2019 ¹ Audited R'000
ASSETS			
Cash and cash balances	1 605 756	1 112 997	1 312 786
Negotiable securities	2 877 664	2 762 151	3 077 519
Trading assets	1 341 129	1 214 157	1 187 523
Other receivables	276 479	361 970	410 776
Loans and advances	7 333 946	7 064 668*	7 487 205
Current taxation asset	7 571	29 171	23 799
Investment securities	670 268	731 670	747 714
Investments at fair value through profit and loss	560 025	622 282	635 298
Equity accounted associates	110 243	109 388	112 416
Property and equipment	135 850	74 412	75 245
Investment property	8 700	11 400	8 900
Intangible assets and goodwill	230 276	206 169	235 028
Deferred tax asset	39 661	25 167*	34 907
Total assets	14 527 300	13 593 932	14 601 402
LIABILITIES			
Funding under repurchase agreements and interbank	2 009 067	1 914 259	2 271 610
Trading liabilities	1 350 499	1 232 400	1 175 828
Current taxation liabilities	16 370	25 692	4 526
Trade and other payables	833 064	730 147	899 119
Provisions	47 022	39 734	57 695
Bank overdraft	41 541	–	46 008
Deposits from customers	4 983 459	4 491 425	4 981 067
Lease liability	88 031**	–	–
Debt securities issued	2 751 789	2 752 700	2 753 521
Long-term loans	430 040	564 368	495 715
Deferred tax liability	135 543	117 632	138 929
Total liabilities	12 686 425	11 868 357	12 824 018
EQUITY			
Ordinary share capital and share premium	167 266	167 266	167 266
Reserves	1 481 091	1 365 341*	1 418 360
Preference share capital and share premium	188 086	188 086	188 086
Non-controlling interest	4 432	4 882	3 672
Total equity	1 840 875	1 725 575	1 777 384
Total liabilities and equity	14 527 300	13 593 932	14 601 402

* Refer to "Basis of preparation" in the Selected Explanatory Notes section.

** Refer to note 1 for more information.

¹ Comparative information has not been restated for the adoption of IFRS 16. Refer to note 1 for more information.

Consolidated income statement

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

	31 December 2019 Unaudited R'000	31 December 2018 ¹ Unaudited R'000	30 June 2019 ¹ Audited R'000
Interest and similar income	683 691	656 850	1 330 151
Interest income calculated using the effective interest method	665 516	637 088	1 296 746
Other interest income	18 175	19 762	33 405
Interest and similar expense	(423 811)	(407 453)	(830 879)
Interest expense calculated using the effective interest method	(398 608)	(382 708)	(779 507)
Other interest expense	(25 203)	(24 745)	(51 372)
Net interest income	259 880	249 397	499 272
Non-interest income	374 454	359 157	727 588
Net fee and commission income	233 666	229 009	450 633
Fee and commission income	356 442	376 757	696 891
Fee and commission expense	(122 776)	(147 748)	(246 258)
Net gain on financial instruments	65 949	52 234	121 301
Other income	74 839	77 914	155 654
Total income	634 334	608 554	1 226 860
Impairment charges on loans and advances	(45 743)	(47 275)	(80 358)
Net income after impairments	588 591	561 279	1 146 502
Operating costs	(477 443)	(454 933)	(954 366)
Staff costs	(266 182)	(255 288)	(504 421)
Other operating expenses	(211 261)	(193 590)	(437 895)
Impairments on non-financial assets	–	(6 055)	(12 050)
Profit from operations	111 148	106 346	192 136
Share of associate income	8 018	6 563	19 149
Profit before income tax	119 166	112 909	211 285
Income tax expense	(32 168)	(30 344)	(48 832)
Profit for the period	86 998	82 565	162 453
Profit attributable to:			
Preference shareholders	7 536	7 441	14 955
Non-controlling interest	760	648	(562)
Equity holders of the Group	78 702	74 476	148 060
Profit for the period	86 998	82 565	162 453
Earnings per ordinary share (cents)	244.44	231.31	459.86
Diluted earnings per ordinary share (cents)	244.44	231.31	459.86

¹ Comparative information has not been restated for the adoption of IFRS 16. Refer to note 1 for more information.

Consolidated statement of comprehensive income

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

	31 December 2019 Unaudited R'000	31 December 2018 Unaudited R'000	30 June 2019 Audited R'000
Profit for the period	86 998	82 565	162 453
Other comprehensive income for the period, net of income tax	112	8 390	4 877
<i>Items that may be subsequently reclassified to profit and loss:</i>			
Foreign exchange differences on translation of foreign operation	112	8 390	4 877
Total comprehensive income for the period	87 110	90 955	167 330
Total comprehensive income attributable to:			
Preference shareholders	7 536	7 441	14 955
Non-controlling interest	760	648	(562)
Equity holders of the Group	78 814	82 866	152 937
Total comprehensive income for the period	87 110	90 955	167 330

Headline earnings reconciliation

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

	31 December 2019 Unaudited R'000	31 December 2018 Unaudited R'000	30 June 2019 Audited R'000
Earnings are determined as follows:			
Earnings attributable to equity holders of the Group	78 702	74 476	148 060
Headline adjustable items	–	6 055	13 245
Goodwill and intangible asset impairments	–	6 055	6 055
Gross	–	6 055	6 055
Tax impact	–	–	–
Investment property fair value loss	–	–	2 874
Gross	–	–	3 700
Tax impact	–	–	(826)
Property and equipment impairment	–	–	4 316
Gross	–	–	5 995
Tax impact	–	–	(1 679)
Headline earnings	78 702	80 531	161 305
Headline earnings per ordinary share (cents)	244.44	250.12	501.00

Condensed consolidated statement of changes in equity

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

	31 December 2019 Unaudited R'000	31 December 2018 Unaudited Restated* R'000	30 June 2019 Audited R'000
Opening total shareholders' equity	1 777 384	1 741 771	1 741 771
Change in accounting policy – IFRS 9	–	(66 103)*	(66 103)
Restated total equity at the beginning of the financial period	1 777 384	1 675 668	1 675 668
Total comprehensive income for the period	87 110	90 955	167 330
Profit for the period	86 998	82 565	162 453
Foreign currency translation reserve	112	8 390	4 877
Transactions with owners recorded directly in equity			
Preference share dividend	(7 536)	(7 441)	(14 955)
Ordinary share dividend	(16 119)	(33 607)	(50 659)
Closing balance	1 840 839	1 725 575	1 777 384

* Refer to "Basis of preparation" in the Selected Explanatory Notes section.

Condensed consolidated statement of cash flows

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

	31 December 2019 Unaudited R'000	31 December 2018 Unaudited R'000	30 June 2019 Audited R'000
Cash flows from operating activities	87 433	63 935	114 987
Movement in operating assets and liabilities	121 624	(749 266)	(613 144)
Net cash flows from operating activities	209 057	(685 331)	(498 157)
Net cash flows from investing activities	98 225	(90 224)	(123 709)
Net cash flows from financing activities	(10 234)	–	–
Net increase/(decrease) in cash and cash equivalents	297 048	(775 555)	(621 866)
Cash and cash equivalents at the beginning of the period	1 266 778	1 892 167	1 892 167
Effect of exchange rate fluctuations on cash held	389	(3 615)	(3 523)
Cash and cash equivalents at end of the period	1 564 215	1 112 997	1 266 778

Condensed consolidated segmental analysis

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

	31 December 2019 Unaudited R'000	31 December 2018 Unaudited Restated* R'000	30 June 2019 Audited R'000
Segment revenue**			
Banking Pillar	414 395	402 782	828 304
Capital Pillar	62 996	49 236	96 106
Wealth Pillar	167 276	162 971	321 393
Group and inter-segment eliminations	(2 315)	128	206
Total segment revenue	642 352	615 117	1 246 009
Segment profit			
Banking Pillar	68 157	58 108	125 346
Capital Pillar	(6 328)	(1 039)	(2 939)
Wealth Pillar	25 721	25 780	40 351
Group and inter-segment eliminations	(552)	(284)	(305)
Profit for the period	86 998	82 565	162 453
Segment assets			
Banking Pillar	11 983 195	11 635 979*	12 339 439
Capital Pillar	1 237 397	568 998	1 021 895
Wealth Pillar	1 589 815	1 492 455	1 532 868
Group and inter-segment eliminations	(283 107)	(103 500)	(292 800)
Total segment assets	14 527 300	13 593 932	14 601 402
Segment liabilities			
Banking Pillar	10 675 599	10 418 604	11 069 105
Capital Pillar	986 108	306 647	778 221
Wealth Pillar	1 331 786	1 259 389	1 287 063
Group and inter-segment eliminations	(307 068)	(116 283)	(310 371)
Total segment liabilities	12 686 425	11 868 357	12 824 018

* Refer to "Basis of preparation" in the Selected Explanatory Notes section.

** Includes income from associates.

Selected explanatory notes to the Condensed Interim Consolidated Financial Statements

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The Condensed Interim Consolidated Financial Statements comprise the following:

- Consolidated Statement of Financial Position
- Consolidated Statement of Comprehensive Income
- Condensed Consolidated Statement of Changes in Equity
- Condensed Consolidated Statement of Cash Flows
- Condensed Consolidated Segmental Analysis

at and for the period ended 31 December 2019.

These Condensed Interim Consolidated Financial Statements have been prepared under the supervision of Angela Pillay, CA(SA), Group and Bank Financial Director.

BASIS OF PREPARATION AND PRESENTATION OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2019

The Condensed Interim Consolidated Financial Statements have been prepared in accordance with and contain disclosure required by IAS 34 *Interim Financial Reporting*, as well as the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Limited Listings Requirements (JSE Listings Requirements), and the requirements of the Companies Act of South Africa No 71 of 2008, as amended (Companies Act).

The accounting policies applied in these unaudited, unreviewed Condensed Interim Consolidated Financial Statements for the period ended 31 December 2019 are in terms of International Financial Reporting Standards (IFRS) and are the same as those applied in the Group's Audited Consolidated Annual Financial Statements at the year ended 30 June 2019, apart from the adoption of IFRS 16 Leases (IFRS 16). IFRS 16 replaces IAS 17 Leases (IAS 17) and has been applied for the first time by the Group for the year commencing 1 July 2019. Refer to note 1 for details.

As previously reported in the June 2019 Annual Financial Statements, the final increase in the allowance for expected credit losses (ECLs) was R84.687 million, R29.986 million better than the initial estimate of R114.671 million, upon the initial adoption of IFRS 9 *Financial Instruments*, effective 1 July 2018. The downward revision was as a result of the recalibration of key input metrics, enhanced data quality and the inclusion of forward-looking information. The related deferred tax asset was also adjusted accordingly. Consequently, the balances for loans and advances, deferred tax and retained earnings at 31 December 2018 differ from what was previously disclosed as shown in the table below. It had no impact on the previously reported interim income statement figures.

	31 December 2018 As previously disclosed R'000	IFRS 9 Recalibration R'000	31 December 2018 Restated R'000
ASSETS			
Loans and advances	7 034 682	29 986	7 064 668
Deferred tax asset	33 288	(8 121)	25 167
	7 067 970	21 865	7 089 835
EQUITY			
Reserves	1 343 466	21 865	1 365 341
	1 343 466	21 865	1 365 341
Capital Adequacy Ratio	16.479%	0.185%	16.664%

Selected explanatory notes to the condensed interim financial statements

continued

1. LEASES

Impact of adoption of IFRS 16 Leases

IFRS 16 sets out the principles for the recognition, measurement and presentation of leases for both parties to a contract – the lessee and the lessor. It provides a single lessee accounting model, requiring lessees to recognise right-of-use assets and lease liabilities for all leases, unless the lease term is 12 months or less or the underlying asset is a low-value asset.

For annual reporting periods commencing on or after 1 January 2019, IFRS 16 replaced IAS 17 as well as the related interpretations. The core principle of this standard is that the lessee and lessor should recognise the rights and obligations arising from leasing arrangements on balance sheet. The most significant change pertaining to accounting for operating leases is from the lessee's perspective. IFRS 16 eliminates the classification of leases for lessees as either operating or finance leases, as was required by IAS 17, and introduces a single lease accounting model. According to this model a right-of-use asset, together with a lease liability for the future payments, is recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value. IFRS 16 did not introduce significant changes for lessors. As a result, the accounting policies applicable to the Group as a lessor are not significantly different from those under IAS 17.

As allowed by IFRS 16, the Group has elected to adopt IFRS 16 without restating comparative numbers, by following the simplified approach. Consequently, the comparative information (as previously reported for the year ended 30 June 2019) is presented in accordance with the requirements of IAS 17, with current and future periods presented in terms of IFRS 16. For Regulatory Capital purposes the right-of-use assets are risk weighted in line with the nature of the underlying assets.

In accordance with the allowed simplified approach, the Group applied IFRS 16 only to contracts that were previously identified as leases, and to use a single discount rate to a portfolio of leases with similar characteristics. Judgement was applied in determining the appropriate incremental borrowing rate used. The rate used considers six factors for the individual leases including the tenor of lease, currency of the lease, lessee entity in the Group, asset type, level of indebtedness and the economic environment.

In the application of the simplified approach the Group has recognised the following at the date of initial application (unless the lease term is shorter than 12 months or the underlying asset is of low value):

- A lease liability for all leases previously classified as operating leases, measured at the present value of the remaining lease payments, discounted using the applicable entity's incremental borrowing rate at the date of initial application;
- A right-of-use asset, measured at an amount equal to the lease liability, adjusted for any existing prepaid or accrued rentals; and
- The change had no impact on deferred tax or opening retained earnings.

1. LEASES continued

Impact of adoption of IFRS 16 Leases continued

	IAS 17 30 June 2019 R'000	IFRS 16 transition adjustment R'000	IFRS 16 1 July 2019 R'000
ASSETS			
Property and equipment ¹	75 245	79 873	155 118
	75 245	79 873	155 118
LIABILITIES			
Trade and other payables	899 119	(18 393)	880 726
Lease liability (net of accruals/prepayments already recognised) ²	–	98 266	98 266
	899 119	79 873	978 992

¹ The right-of-use asset, included in property and equipment, is depreciated over the shorter of the remaining lease term or its useful life.

² The lease liability is subsequently adjusted for the accrual of interest and lease payments made.

2. CREDIT RISK

2.1 Credit risk exposure analysis

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets, by credit quality.

	Credit risk grading	A	A	B	Default (C, D and E)	Securities and expected recoveries on default exposures
	ECL staging Total R'000	Stage 1 12-month ECL R'000	Stage 2 lifetime ECL R'000	Stage 2 lifetime ECL R'000	Stage 3 lifetime ECL R'000	R'000
31 December 2019						
Maximum credit exposures of financial assets at amortised cost						
Gross carrying amount*	12 527 744	6 615 842	50 227	360 346	741 430	383 286
Less: Credit loss allowance	(433 899)	(62 960)	(2 908)	(9 887)	(358 144)	–
Net carrying amount	12 093 845	6 552 882	47 319	350 459	383 286	383 286
31 December 2019						
Off-balance sheet exposure to credit risk	211 879					
Credit loss allowance on off-balance sheet credit risk recognised	2 521					
31 December 2019						
Maximum credit exposures on financial assets at fair value through profit or loss (FVTPL)	977 086					
Total exposure to credit risk	13 286 349					

* This includes cash and cash balances, negotiable securities, other receivables as well as loans and advances.

Selected explanatory notes to the condensed interim financial statements

continued

2. CREDIT RISK continued

2.1 Credit risk exposure analysis continued

	Credit risk grading ECL staging	A Stage 1 12-month ECL R'000	A Stage 2 lifetime ECL R'000	B Stage 2 lifetime ECL R'000	Default (C, D and E) Stage 3 lifetime ECL R'000	Securities and expected recoveries on default exposures R'000
31 December 2018						
Maximum credit exposures of financial assets at amortised cost						
Gross carrying amount*	11 691 919	6 565 236	72 123	236 418	581 024	299 715
Less: Credit loss allowance**	(390 132)	(89 371)	(4 683)	(14 769)	(281 309)	–
Net carrying amount	11 301 787	6 475 865	67 440	221 649	299 715	299 715
31 December 2018						
Off-balance sheet exposure to credit risk	242 156					
Credit loss allowance on off-balance sheet credit risk recognised	782					
31 December 2018						
Maximum credit exposures on financial assets at fair value through profit or loss (FVTPL)	867 492					
Total exposure to credit risk	12 414 217					

* This includes cash and cash balances, negotiable securities, other receivables as well as loans and advances.

** Restated, refer to "Basis of preparation" in the Selected Explanatory Notes section.

2. CREDIT RISK continued

2.2 Credit loss allowance analysis

2.2.1 Reconciliation of ECL on loans and advances at amortised cost

	Stage 1 R'000	Stage 2 R'000	Stage 3 R'000	Total R'000
Credit loss allowance at 1 July 2019	58 174	22 898	321 673	402 745
Transfers between stages¹	(8 238)	(10 101)	58 822	40 483
Transfer (from)/to stage 1	(8 238)	–	–	(8 238)
Transfer (from)/to stage 2	–	(10 101)	–	(10 101)
Transfer to/(from) stage 3	–	–	58 822	58 822
Net ECLs raised	13 023	–	–	13 023
ECL on new exposure raised	30 708	–	–	30 708
Change in ECL due to derecognition	(17 685)	–	–	(17 685)
Impaired accounts written off	–	–	(22 352)	(22 352)
Credit loss allowance on 31 December 2019	62 959	12 797	358 143	433 899
	Stage 1 R'000	Stage 2 R'000	Stage 3 R'000	Total R'000
Credit loss allowance at 1 July 2018²	71 512	54 292	244 164	369 968
Transfers between stages¹	(4 233)	(34 839)	50 877	11 805
Transfer (from)/to stage 1	(4 233)	–	–	(4 233)
Transfer (from)/to stage 2	–	(34 839)	–	(34 839)
Transfer to/(from) stage 3	–	–	50 877	50 877
Net ECLs raised	22 091	–	–	22 091
ECL on new exposure raised	53 243	–	–	53 243
Change in ECL due to derecognition	(31 152)	–	–	(31 152)
Impaired accounts written off	–	–	(13 732)	(13 732)
Credit loss allowance on 31 December 2018	89 370	19 453	281 309	390 132

¹ It is the Group's practice to transfer the ECL between stages, based on the ECL stage at the beginning of the reporting period and the ECL stage at the end of the reporting period, for those exposures still in existence.

² Restated, refer to "Basis of preparation" in the Selected Explanatory Notes section.

Selected explanatory notes to the condensed interim financial statements

continued

2. CREDIT RISK continued

2.2 Credit loss allowance analysis continued

2.2.2 Reconciliation of ECL on loans and advances at amortised cost by product

	Credit loss allowance on 1 July 2019 R'000	Total transfers between stages R'000	Net ECL raised/ (released) R'000	Impaired accounts written off R'000	Credit loss allowance on 31 December 2019 R'000
31 December 2019					
Equipment Finance	320 812	41 435	(1 649)	(22 094)	338 504
Stage 1	33 524	4 405	(1 649)	–	36 280
Stage 2	13 944	(6 017)	–	–	7 927
Stage 3	273 344	43 047	–	(22 094)	294 297
Capital Equipment Finance	28 518	4 404	(1 861)	(258)	30 803
Stage 1	7 255	4 118	(1 861)	–	9 512
Stage 2	1 843	(1 074)	–	–	769
Stage 3	19 420	1 360	–	(258)	20 522
Trade and Debtor Finance	35 211	(16 855)	13 977	–	32 333
Stage 1	13 002	(17 099)	13 977	–	9 880
Stage 2	5 120	(1 019)	–	–	4 101
Stage 3	17 089	1 263	–	–	18 352
Term loans: Secured	17 755	11 534	2 556	–	31 845
Stage 1	3 944	373	2 556	–	6 873
Stage 2	1 991	(1 991)	–	–	–
Stage 3	11 820	13 152	–	–	24 972
Guarantees	449	(35)	–	–	414
Stage 1	449	(35)	–	–	414
Stage 2	–	–	–	–	–
Stage 3	–	–	–	–	–
Total	402 745	40 483	13 023	(22 352)	433 899
Stage 1	58 174	(8 238)	13 023	–	62 959
Stage 2	22 898	(10 101)	–	–	12 797
Stage 3	321 673	58 822	–	(22 352)	358 143

2. CREDIT RISK continued

2.2 Credit loss allowance analysis continued

2.2.2 Reconciliation of ECL on loans and advances at amortised cost by product continued

	Credit loss allowance on 1 July 2018 R'000	Total transfers between stages R'000	Net ECL raised/ (released) R'000	Impaired accounts written off R'000	Credit loss allowance on 31 December 2018 R'000
31 December 2018¹					
Equipment Finance	269 688	45 019	(19 115)	(8 659)	286 933
Stage 1	27 143	32 348	(19 115)	–	40 376
Stage 2	45 051	(28 441)	–	–	16 610
Stage 3	197 494	41 112	–	(8 659)	229 947
Capital Equipment Finance	22 846	6 785	9 458	(5 073)	34 016
Stage 1	14 239	(6 551)	9 458	–	17 146
Stage 2	74	(84)	–	–	(10)
Stage 3	8 533	13 420	–	(5 073)	16 880
Trade and Debtor Finance	58 885	(28 277)	20 064	–	50 672
Stage 1	20 889	(18 030)	20 064	–	22 923
Stage 2	9 167	(6 001)	–	–	3 166
Stage 3	28 829	(4 246)	–	–	24 583
Term loans: Secured	17 257	(10 428)	11 684	–	18 513
Stage 1	7 949	(10 706)	11 684	–	8 927
Stage 2	–	(313)	–	–	(313)
Stage 3	9 308	591	–	–	9 899
Guarantees	1 292	(1 294)	–	–	(2)
Stage 1	1 292	(1 294)	–	–	(2)
Stage 2	–	–	–	–	–
Stage 3	–	–	–	–	–
Total	369 968	11 805	22 091	(13 732)	390 132
Stage 1	71 512	(4 233)	22 091	–	89 370
Stage 2	54 292	(34 839)	–	–	19 453
Stage 3	244 164	50 877	–	(13 732)	281 309

¹ Restated, refer to "Basis of preparation" in the Selected Explanatory Notes section.

Selected explanatory notes to the condensed interim financial statements

continued

3. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group's financial risk management objectives and policies are consistent with those disclosed in the Consolidated and Separate Annual Financial Statements at and for the period ended 30 June 2019.

Financial hierarchy

The table below analyses financial instruments carried at fair value by level of fair value hierarchy. The different levels are based on the inputs used in the calculation of fair value of the financial instruments. The levels have been defined as follows:

Level 1 – fair value is based on quoted market prices (unadjusted) in active markets for identical instruments.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – unobservable inputs for the asset or liability.

	Level 1 R'000	Level 2 R'000	Level 3 R'000	31 Dec 2019 Unaudited R'000	31 Dec 2018 Unaudited R'000	30 June 2019 Audited R'000
Financial assets	1 254 330	86 978	559 847	1 901 155	1 836 438	1 822 821
Investment securities	178	–	559 847	560 025	622 282	635 298
Trading assets	1 254 152	86 978	–	1 341 130	1 214 156	1 187 523
Financial liabilities	1 256 590	93 909	–	1 350 499	1 232 400	1 175 828
Trading liabilities	1 256 590	93 909	–	1 350 499	1 232 400	1 175 828
Non-financial assets	–	–	8 700	8 700	11 400	8 900
Investment property	–	–	8 700	8 700	11 400	8 900

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred. There were no transfers between Levels 1, 2 and 3 of the fair value hierarchy for the period ended 31 December 2019.

3. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES continued

Financial hierarchy continued

	31 Dec 2019 Unaudited R'000	31 Dec 2018 Unaudited R'000	30 June 2019 Audited R'000
Level 3 fair values – investment securities			
Opening balance	635 077	586 190	586 190
Total gains or losses in profit or loss	14 661	16 776	60 579
Acquisition of investments	10 608	34 320	–
Disposal of investments	(96 875)	–	(37 721)
(Repayments)/advances	(6 490)	(11 388)	30 185
Transfers	2 866	(3 879)	(4 156)
Closing balance	559 847	622 019	635 077

The valuations of Level 2 and Level 3 investment securities were based predominantly on detailed discounted cash flow methodologies, which were compared with implied price/earnings multiples, and where applicable, benchmarked to proxies of listed entities in similar industries for reasonableness.

This valuation methodology is allowed per the South African Venture Capital and Private Equity guidelines.

4. CHANGES IN THE COMPOSITION OF THE GROUP

During the period under review, there have been no changes in the composition of the Group.

5. SUBSEQUENT EVENTS

There are no material events subsequent to 31 December 2019 to report.

Commentary

FINANCIAL PERFORMANCE

For the six months ended 31 December 2019, Sasfin posted a 5.37% increase in profit to R86.998 million (December 2018: R82.565 million). This increase is due primarily to a 3.24% improvement in the impairment charge over this period as a result of improved credit quality. The Group's credit loss ratio improved from 123bps to 117bps. Headline earnings for the six months is down 2.27%. This decrease is due to adjustments in the prior year which have not recurred in the current year.

Total income (including associate income) grew by 4.43% in a subdued economy. There was positive income growth across all three Pillars of the Group.

Costs grew by 4.95% resulting in the Group's cost-to-income ratio deteriorating to 74.33% (December 2018: 73.96%). Although there has been an improvement from the June 2019 ratio of 76.59%, it remains a key management focus area.

ADOPTION OF IFRS 9 FINANCIAL INSTRUMENTS

In June 2019, the December 2018 interim results were restated to account for the IFRS 9 adjustment to opening retained earnings that was processed as part of the June 2019 audit and disclosed in our annual financial statements and integrated report.

FINANCIAL AND CAPITAL POSITION

Total assets grew by 6.86% to R14.527 billion (December 2018: R13.594 billion – restated for IFRS 9) with gross loans and advances growing by 4.20% to R7.768 billion (December 2018: R7.455 billion). This growth primarily came from the Capital Pillar, which grew its specialised lending book by R289.865 million.

While non-performing loans have increased by 30%, 21% of this increase was as a result of loans granted where there are guarantees in place from third-party entities which carry investment grade credit ratings. The balance of the non-performing loans are underpinned by strong tangible security or rental agreements.

Total Funding grew by 4.97% to R10.404 billion (December 2018: R9.911 billion) largely driven by deposit growth of 10.95%. Our cash and near cash (net of repurchase agreements) improved to R2.474 billion (December 2018: R1.961 billion).

We communicated last year that, given the changes in the accounting and regulatory landscape, together with the Group's growth aspirations, the Board had approved a dynamic dividend policy allowing for more profit appropriations. The Group's capital adequacy ratio improved to 17.06% (December 2018: 16.66%) primarily as a result of these increased appropriations.

SEGMENTAL OVERVIEW

Banking

Banking Pillar revenue increased by 2.88% in challenging economic conditions, attributable largely to an increase in net interest income, with non-interest revenue remaining flat. Profit for the period of R68.157 million (December 2018: R58.108 million) increased, due in part to the decrease in impairments by 30.41%.

Asset Finance showed solid performance with an enhanced product mix rolled-out in the past six months as well as a broader industry focus. Asset Finance has also bedded down its large system implementation.

Trade and Debtor Finance showed improved performance after a challenging couple of years. This business remains very susceptible to the South African economy with some of our clients struggling in the current environment. We have managed to enhance the overall credit quality of the book by reducing exposure to higher risk clients while ensuring book growth from better credit quality clients.

Our business banking offering continues to develop and is playing a critical role in generating lower cost funding for the Group and introducing new clients to Sasfin. We continue to evolve the B\\YOND platform in terms of our strategic roadmap for digital business banking and now offer digitally enabled revolving business loans and an APP. This together with the Hello Paisa relationship, which is performing well, has resulted in reduced losses in Transactional Banking due to increased clients and revenue.

Wealth

The Wealth Pillar's earnings remained largely flat, with profit after tax declining by 0.23% to R25.721 million (December 2018: R25.780 million). Sasfin Wealth continues to be impacted by lower local brokerage and portfolio management fees, given the state of South African equity markets.

SEGMENTAL OVERVIEW continued

Wealth continued

The business, however, has established itself as a strong institutional asset manager and offshore portfolio manager. This is evidenced in an increase of 18.43% in Assets under Management and Advice (excluding under Administration) to R44.077 billion (December 2018: R37.219 billion). Institutional assets under management now exceed R11 billion and offshore assets under management increased to R11.672 billion (December 2018: R9.132 billion). Sasfin Asset Managers has gone from strength to strength; the Sasfin BCI Flexible Income Fund won the coveted Raging Bull award in its category for the second year in a row and the Sasfin BCI Balanced Fund won best Moderate Allocation Fund at the recent Morningstar awards.

Capital

The Capital Pillar showed an increased loss after tax of R6.328 million (December 2018: R1.039 million), largely due to a significant increase in impairments relating to some of our Private Equity investments, together with an increased tax expense.

The strategy to reduce direct Private Equity is starting to bear fruit, with investment securities down due, in part to some realisations in the portfolio. Sasfin Capital, in conjunction with Sasfin Wealth, will be launching a private equity fund focused on new opportunities in 2020.

The business has undertaken a strategic transformation by offering term debt facilities to property and private businesses. The strategy has begun to show positive signs with an increase in loans and advances of R289.865 million, and there is a promising pipeline of new deals.

PROSPECTS

The South African business credit environment and local markets are exceptionally challenging and now exacerbated by Covid-19 (the Coronavirus). We are closely monitoring the developments of the Coronavirus globally and in South Africa and are responding to its impact on our stakeholders and business operations. Our response includes a range of interventions to ensure the safety and wellness of our stakeholders, that appropriate business continuity is in place and we are proactively engaging with all relevant parties. We have furthermore developed a five point plan to manage the impact of the pandemic. In light of the anticipated economic downturn resulting from Covid-19, we expect a challenging second six months.

There has been a marked increase in business insolvencies in South Africa over the past twelve months and it would seem as though this is not going to abate. Where companies have gone into business rescue, we have generally been successful in recovering our full exposure, given the security positions we take, but have unfortunately lost the clients. We are adopting a cautious approach to granting credit, and a very hands-on approach with our clients who have fallen on tough times. There are, however, many strong businesses in South Africa which require credit to grow their businesses, and a bank that is willing to work closely with them in these times. We are well placed to fulfil this role given our stated purpose of supporting business growth via our Asset Finance, Business Finance and Specialised Lending (in Capital) offerings.

We continue to make meaningful strides in increasing our depositor funding base, enhancing our fee income in the bank, and taking on more business clients to whom we can ultimately lend to, off the back of our digital business banking platform, B.YOND. This will ultimately reduce our cost of funding, which will underpin our ability to grow a meaningful lending business.

Over the last five years Sasfin Wealth has seen a significant reduction in local private client portfolio management fees and brokerage in line with the South African markets. We have fortunately made notable strides in building an award-winning institutional asset manager that adopts a multi-asset class approach to investing, and a strong offshore portfolio management capability. These businesses continue to show strong growth and have potential for scale.

Finally, as previously communicated to the market via a cautionary SENS announcement dated 14 November 2019, we continue to be in discussions with Arise B.V. which, if successful, may result in Arise B.V. becoming a shareholder of reference in Sasfin.

CONCLUSION

Over the last few years we undertook meaningful investment into our systems, products and people to ensure that we are well positioned to achieve our strategy. Now that most of that investment is embedded in the business, we are starting to see lower cost growth which we are confident can be maintained in the coming years.

Commentary continued

CONCLUSION continued

In these challenging economic times, our focus is to continue to support the growth in the businesses and global wealth of our clients. This in turn will enable us to grow our non-interest revenue lines (in Sasfin Wealth and Sasfin Bank), reduce our cost of funding (off the back of our Business Banking offering) and grow our lending book appropriately, in the medium term.

INTERIM PREFERENCE SHARE AND ORDINARY SHARE CASH DIVIDENDS

The Directors have declared:

- a gross cash preference dividend number 31 of 416.91 cents per share (December 2018: 418.09 cents per share) ("preference dividend"); and
- a gross cash ordinary share dividend of 48.730 cents per share (December 2018: 49.862 cents per share) ("ordinary dividend")

for the period 1 July 2019 to 31 December 2019.

Preference share dividend

Preference dividends have been paid on 1 000 000 (December 2018: 1 000 000) preference shares issued at R100.00 (December 2018: R100.00) each, and on 797 226 (December 2018: 797 226) preference shares issued at R110.49 (December 2018: R110.49) each.

The following further information is provided to shareholders with regards to the preference share dividend declaration in respect of the dividend tax:

- These dividends have been declared from income reserves;
- The dividend withholding tax rate is 20%, and a net dividend of 333.52800 cents (December 2018: 334.47200 cents) per share is paid to those shareholders who are not exempt from dividend withholding tax;
- The issued number of preference shares as at the declaration date is 1 797 226 (December 2018: 1 797 226).

The preference dividend is payable to holders of preference shares recorded in the register of the Company at the close of business on Friday, 3 April 2020.

Ordinary share dividend

The ordinary dividend is payable to holders of ordinary shares recorded in the register of the Company at the close of business on Friday, 3 April 2020.

The following further information is provided to shareholders with regards to the ordinary share interim dividend declaration in respect of the dividends tax:

- These dividends have been declared from income reserves;
- The dividend withholding tax rate is 20%, and a net dividend of 38.98433 cents (December 2018: 39.88960 cents) per share is paid to those shareholders who are not exempt from dividend withholding tax; and
- The issued number of ordinary shares as at declaration date is 32 301 441 (December 2018: 32 301 441)

The salient dates relating to the preference dividend and ordinary dividend are as follows:

Last day to trade cum the preference dividend and ordinary dividend

Tuesday, 31 March 2020

Preference shares and ordinary shares commence trading ex the preference dividend and ordinary dividend

Wednesday, 1 April 2020

Preference dividend and ordinary dividend record date

Friday, 3 April 2020

Payment date of preference dividend and ordinary dividend

Monday, 6 April 2020

Preference and ordinary share certificates may not be dematerialised or rematerialised between Wednesday, 1 April 2020 and Friday, 3 April 2020, both days inclusive.

Corporate details

COUNTRY OF INCORPORATION AND DOMICILE

South Africa

INDEPENDENT NON-EXECUTIVE CHAIR

Roy Andersen

EXECUTIVE DIRECTORS

Michael Sassoon (Chief Executive Officer)

Angela Pillay (Financial Director)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Richard Buchholz (Lead)

Grant Dunnington

Thabang Magare*

Mark Thompson

Eileen Wilton

* Appointed 19 December 2019

NON-INDEPENDENT, NON-EXECUTIVE DIRECTORS

Gugu Dingaan

Shaun Rosenthal (Alternate)

Roland Sassoon*

Gloria Serobe

* Appointed 1 January 2020

GROUP COMPANY SECRETARY

Charissa De Jager*

* Appointed 19 December 2019

WEBSITE AND EMAIL

www.sasfin.com

investorrelations@sasfin.com

TRANSFER SECRETARIES

Computershare Investor Services (Pty) Ltd

Rosebank Towers, 15 Biermann Avenue,

Rosebank, Johannesburg, 2196

SPONSOR

Sasfin Capital (Pty) Ltd (a member of the

Sasfin Group)

INDEPENDENT SPONSOR

Deloitte & Touche Sponsor Services (Pty) Ltd

AUDITORS

PricewaterhouseCoopers Inc.

REGISTERED OFFICE

29 Scott Street, Waverley, Johannesburg, 2090

Tel: +27 11 809 7500

Fax: +27 11 887 6167/2489

POSTAL ADDRESS

PO Box 95104, Grant Park, Johannesburg, 2051

COMPANY REGISTRATION NUMBER

1987/002097/06

TAX REFERENCE NUMBER

9300/204/71/7

Disclaimer

The Group has, in good faith, made a reasonable effort to ensure the accuracy and completeness of the information contained in this report, including information that may be regarded as forward-looking statements.

Forward-looking statements are not statements of fact, but statements by the Board based on its current estimates, projections, expectations, beliefs and assumptions regarding the Group's future performance, and no assurance is given.

The risks and uncertainties inherent in the forward-looking statements include, but are not limited to, changes to IFRS and the interpretations, applications and practices as they apply to past, present and future periods; domestic and international business and market conditions such as exchange rate and interest rate movements; changes in the domestic and international regulatory and legislative environments; changes to domestic and international operational, social, economic and political risks; and the effects of current and future litigation.

The Group does not undertake to update any forward-looking statements and does not assume responsibility for any loss or damage, however arising, as a result of the reliance by any party thereon, including, but not limited to, loss of earnings, profits or consequential loss or damage.

