Audited Summarised Consolidated Annual Financial Statements

for the year ended
30 September 2020

Sygnia

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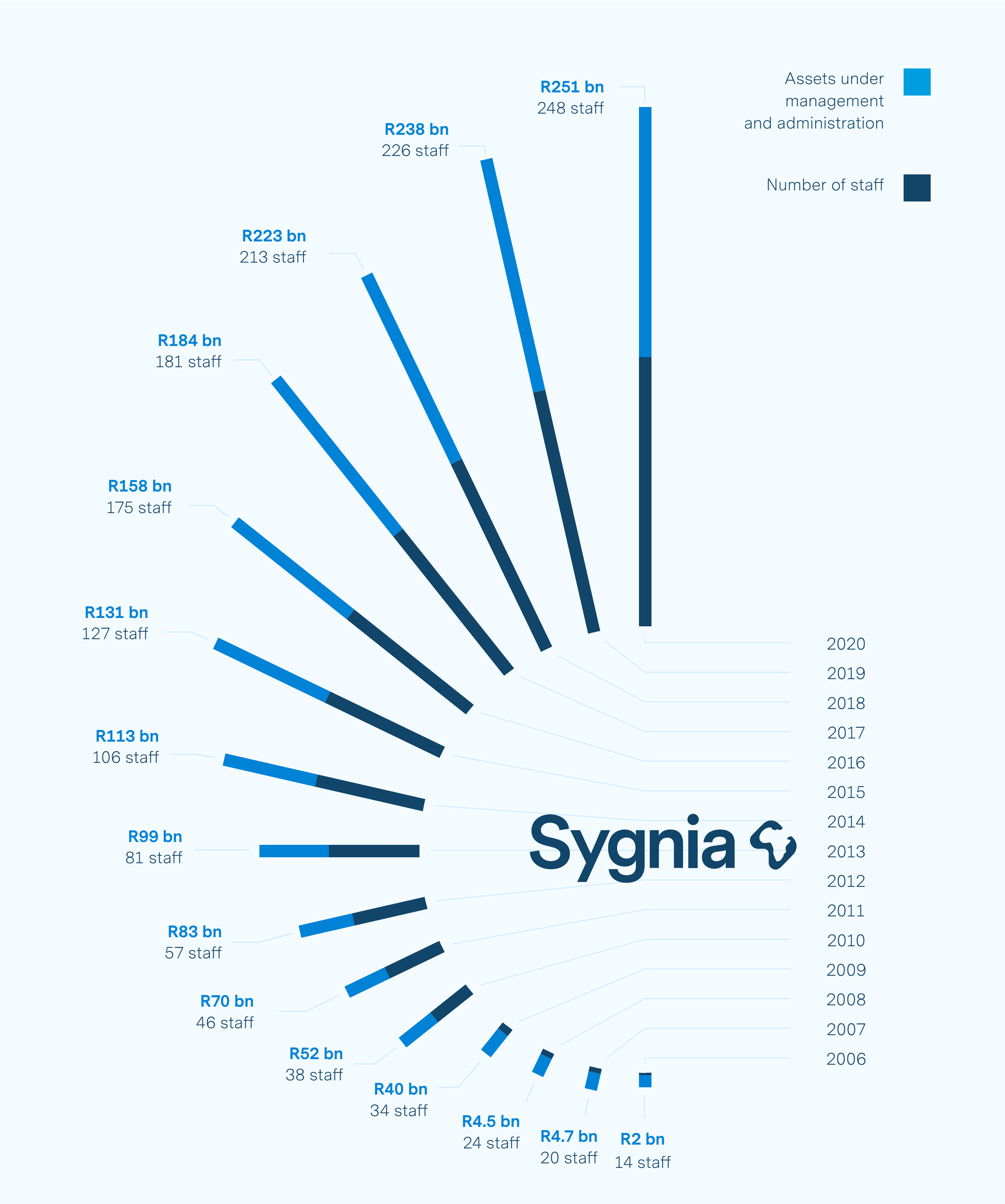
14 Years of growth



General information

Country of incorporation and domicile

South Africa

Nature of business and principal activities

Sygnia Limited and its subsidiaries ("the Group") is a specialist financial services group headquartered in South Africa and listed on the Johannesburg Stock Exchange ("JSE") and A2X Market ("A2X"). The Group focuses on the provision of investment management and administration solutions to institutional and retail clients located predominantly in South Africa.

Directors

Name	Date of appointment	Date of resignation
HI Bhorat (Chairman) #	11/06/2015	
G Cavaleros (Lead Independent) *#	28/06/2019	
MF Wierzycka (CEO)	17/09/2007	
DR Hufton (CEO)	01/09/2018	
M Sirkot (Financial Director)	16/01/2019	
IK Moyane *#	10/09/2015	31/03/2020
MH Jonas #	01/09/2018	
A Crawford-Brunt #	01/11/2018	
R Sithubi *#	26/02/2019	
C Appana *#	08/09/2020	

* Independent   # Non-executive

/ General information

Registered office:

7th Floor, The Foundry
Cardiff Street
Green Point
8001

Postal address:

PO Box 51591
Waterfront
8002

Auditor:

Mazars
Mazars House
Rialto Road
Grand Moorings Precinct
7441 Century City
South Africa

Company secretary:

G MacLachlan
Appointed: 01/11/2016

Company registration number:

2007/025416/06

Sponsor:

The Standard Bank of South Africa Limited

JSE share code:

SYG

ISIN code:

ZAE000208815

Directors’ Commentary

The directors have pleasure in presenting their report on the activities of the Group for the year ended 30 September 2020.

Main business and operations

Highlights

- Assets under management and administration of R251.8 billion as at 30 September 2020 (2019: R238.4 billion), up 5.6%.
- Revenue of R661.0 million (2019: R508.1 million), up 30.1%.
- Profit after tax of R206.1 million (2019: R125.9 million), up 63.7%.
- Headline earnings per share of 146.4 cents (2019: 87.9 cents), up 66.6%, and diluted headline earnings per share of 143.7 cents (2019: 87.3 cents), up 64.6%.
- Total dividend per share of 110.0 cents (2019: 60.0 cents).

Financial performance

Despite 2020 being a very challenging and economically turbulent environment for cyclical businesses such as Sygnia, the company’s assets under management and administration increased by 5.6% to R251.8 billion as at 30 September 2020 (2019: R238.4 billion). During the same period the FTSE/JSE All Share Index returned 2.0%, the JSE All Bond Composite Index 3.6% and the MSCI World Index, in SA Rands, 21.6%. The growth has also taken place in an environment where the institutional savings market is shrinking by virtue of almost negligible economic growth, corporate closures and mass retrenchments in South Africa.

Sygnia’s most notable achievement in the past year was the top quartile performance of most of its investment funds across all risk categories and asset classes as compared to its multi-manager and single manager peers. This compounds the already exceptional performance that we have delivered to our investors since the inception of the company in 2006 positioning the performance of our funds at the top of competitor surveys over most timeframes. This performance is a mixture of low-cost strategies and a strong focus on macroeconomic trends, which drive active asset allocation decisions. Our top performance has been a strong factor behind our growing presence in the retail market.

In addition, the Group has launched new products and services in line with its interpretation of customers’ demands and regulatory trends, contributing to the growth in its revenue.

Sygnia’s focus on low-cost investment and savings products and service provision has meant that, in contrast to our competitors, we have experienced little pressure on management fees. Our past initiatives, such as the launch of the Sygnia Umbrella Retirement Funds (SURF) in 2016 and the acquisition of the db X-tracker passive management business from Deutsche Bank in 2017 (renamed to Sygnia Itrix), are also starting to contribute materially to the Group’s results, both financially and in terms of market recognition and profile. SURF is now the sixth largest umbrella fund offering in South Africa, while Sygnia Itrix is the second largest provider of ETFs listed on the JSE.

In terms of financial performance, total revenues, at R661.0 million, rose by 30.1% (2019: R508.1 million), while total expenses, at R381.9 million, increased by 12.5% (2019: R339.4 million). The increase in expenses was primarily driven by higher staff costs associated with increased businesss activity, an increase in trading, custody and administration costs and marketing expenditure. This is partially offset by a decrease in third-party investment management fees paid, once-off expenses associated with entering the UK market and an impairment to the Bitcoin exchange project in the prior year. The increase in finance costs to R16.4 million (2019: R12.4 million) primarily relates to the IFRS 16 finance costs on corporate office leases. The Group generated a gain on invested capital of R8.5 million (2019: R0.7 million loss). The loss in the prior period was mainly due to closing out of equity and currency investments, which were substituted for interest income instruments.

Profit after tax increased by 63.7% to R206.1 million (2019: R125.9 million) in spite of difficult market conditions.

The Group continues to invest in technology to ensure that Sygnia continues to offer leading fintech solutions and exceptional service to clients. Its offshore expansion is not expected to contribute materially to the results for the foreseeable future, but is regarded as an exciting opportunity to diversify its revenues.

Corporate strategy

Sygnia has a very clear business strategy. We offer:

- Asset management services in the form of passive and multi-managed investments;
- A broad spectrum of investment funds, such as unitised life funds, unit trusts, Exchange Traded Funds and segregated portfolios;
- A full range of savings products, including retirement annuities, tax-free savings accounts, endowments, living annuities, and preservation funds;
- Institutional investment administration services;
- Retail LISP platform services;
- Treasury services;
- Employee benefits services, including SURF; and
- Execution-only stockbroking.

We aim to continue to grow organically, although we may conclude strategic acquisitions where these are regarded as being value-accretive and consistent or complementary to our core strategy.

Regulatory changes

The 2019 Default Regulations governing retirement funds continue to present an opportunity for Sygnia. All retirement funds must now consider passive investment options in their design and review of member default investment strategies and must ensure that those strategies offer value for money. Sygnia's house view fund ranges – Sygnia Signature and Sygnia Skeleton – are ideally placed to meet the default strategy requirements. In addition, given its retail administration platforms and products, Sygnia is well positioned to offer a seamless transition into the same-cost savings funds to members of retirement funds when leaving employment or retiring. The ASISA Standard: Retirement Savings Cost ("RSC") Disclosure came into effect on 1 September 2019 and sets out the minimum standards for fee and expense disclosure by commercial umbrella funds at a participating employer level. Commercial umbrella funds also have until 31 March 2021 to disclose all costs at a member level in terms of the ASISA Retirement Fund Standard: Effective Annual Cost ("EAC") For Individual Fund Members, which came into effect on 1 October 2020 and aligns with the EAC disclosure for retail investors required since 2016 .

The increased level of disclosure is onerous for many but is nothing new for Sygnia. As the lowest-cost savings product provider in South Africa, the Group has long been at the forefront of fee disclosures and expects to benefit from these improved and standardised levels of transparency in the investment industry.

Market conditions

Coming into our 2020 financial year, South Africa was working its way out from under the boot of a decade of corruption under the Zuma administration, and there was great optimism that we could find a way out of the downward spiral of the "lost decade". Unfortunately, the emergence of the coronavirus, and its impact on the global economy, has ceased any nascent recovery and, in fact, accelerated all of the worst trends in South Africa – inequality, corruption and unemployment.

/ Directors' commentary

The first quarter of 2020 saw the fastest bear market in history as the S&P 500 experienced a 34% sell-off from its high on 19 February to its low on 23 March. Central banks around the world responded with increased quantitative easing, driving real interest rates even further into negative territory. Mercifully, markets stabilised, with the Dow Jones Industrial Average surging 17.8% over the next quarter, its strongest quarter since 1987, and the S&P 500 soaring nearly 20%, its best quarterly gain since 1998. Unfortunately, the extraordinary response by central banks and governments led to 70-year-high levels of sovereign indebtedness, which economies and markets must now find ways to unwind.

Two years ago we positioned the Sygnia portfolios for what we saw as the "Japanification" of global markets, exemplified by Japan's experience thirty years ago, when low inflation, low interest rates and declining demographics led to high debt levels, low growth and increased volatility. Europe entered a similar stage about a decade ago, but the US and China were not expected to enter such a state for some time. Covid-19 accelerated the process, however, and it has become the new normal that investors must now navigate. Interest rates in the US are close to zero and, with US$7 trillion in projected fiscal stimulus, debt levels in the US now stand at above US$25 trillion.

South Africa continues to lag global markets in the wake of the pandemic, with the FTSE/JSE SWIX Index the worst-performing market in US dollar terms for the year-to-date to 30 September 2020. For the 12 months to 30 September, the FTSE/JSE SWIX returned -2.2%, while the MSCI World Index returned 21.6% (in rand terms), reflecting our economy's continued fall from grace with global investors.

South Africa lost its final investment grade rating on the same day that the country entered lockdown, when Fitch downgraded the country to junk status, causing South Africa's exclusion from the influential World Government Bond Index and leading foreigners to sell down their holdings in South African bonds. Where foreigners once held close to 43% of our government debt, today that stands below 30%, despite South Africa providing some of the highest real yields in the world. Global investors have increasing concerns about South Africa becoming a "failed state", where debt levels reach unsustainable levels and the government runs out of options to repay interest due on loans.

Unless the South African government can convince global investors that they have a plan to manage their way out of this situation and to generate growth, the downward spiral will snowball and lead to social unrest. Global investors will demand higher rates of return to loan money to South Africa, and South Africa will in turn have to borrow ever increasing amounts to repay interest on the debt due. Spending needs for social programmes will also increase due to rising unemployment, stressed schooling and health systems and electricity generation.

We do not believe South Africa is at the point of becoming a failed state just yet, but we are in the final minutes of the game, and there is now no room for error or equivocation. Without growth, South Africa will remain mired in a debt crisis, with the inevitable result being a trip to the International Monetary Fund and the unpalatable austerity measures they will attach to any loans given. A strong social compact is in the making between labour, business and government, which could pave the way to success. But if South Africa is to avoid a debt trap, it must throw off the shackles of corruption and commit to doing what is right. The well-published pension-public-private partnership model is an example of a new era of growth. In short, while we recognise that the South African economy is on a precipice, it can still step back by cutting spending, investing for growth and creating the jobs that will help the nation fulfil the potential we know it possesses.

A number of positive catalysts have raised the prospects for global growth in 2021, including the Biden presidency, the 14th Chinese 5 year plan, a weaker dollar and the successful phase 3 trials of a number of vaccines. As a small open commodity producing economy, South Africa is geared to global growth, particularly in China, and these improved prospects offer a glimmer of hope for 2021.

Stated capital

Sygnia Limited had 148 402 374 (2019: 152 242 847) shares in issue at the end of the year. 4 319 041 shares were repurchased by the Company and 478 568 shares were issued due to share options being exercised.

Final cash dividend

Sygnia is committed to rewarding its shareholders with regular distributions of free cash flow generated. Accounting for projected cash requirements, a gross final dividend for the financial year ended 30 September 2020 of 70.0 cents per share has been declared out of income reserves, resulting in a net dividend of 56.0 cents per share for shareholders after Dividends Tax (“DT”). Together with the interim gross dividend of 40.0 cents per share, this amounts to a total gross dividend of 110.0 cents per share.

Last day to trade: Monday, 28 December 2020
Shares trade ex dividend: Tuesday, 29 December 2020
Record date: Thursday, 31 December 2020
Payment date: Monday, 4 January 2021

Share certificates may not be dematerialised or rematerialised between Tuesday, 29 December 2020, and Thursday, 31 December 2020, both dates inclusive. Dividends declared after 31 March 2012 are subject to DT, where applicable. In terms of the DT, the following additional information is disclosed:

· The local DT rate is 20%;
· The number of ordinary shares in issue at the date of this declaration is 148 402 374;
· Sygnia’s tax reference number is 9334/221/16/6

Approval of audited summarised consolidated financial statements

These audited summarised consolidated financial statements were approved by the board of directors on 7 December 2020.

Forward looking information included in the announcement has not been reviewed or reported on by the auditors.

Audited summarised consolidated statement of financial position

as at 30 September 2020

	Notes	2020 R'000s	2019 R'000s
Assets			
Intangible assets	6	428 526	431 392
Property and equipment		27 479	32 789
Loans receivable		55 114	53 232
Right-of-use assets	7	47 894	-
Deferred tax assets		6 046	9 352
Tax receivable		-	2 551
Investments linked to investment contract liabilities		106 675 742	96 359 236
Other receivables		4 234	3 137
Trade receivables		73 415	93 814
Investments		339 244	258 448
Amounts owing by clearing houses		831	-
Amounts owing by clients		95 380	306 294
Cash and cash equivalents		259 683	174 960
Total assets		**108 013 588**	**97 725 205**
Equity			
Stated capital	8	603 173	641 494
Retained earnings		308 129	209 091
Other reserves		(208 461)	(211 305)
Total equity		**702 841**	**639 280**
Liabilities			
Loan payable	9	90 366	50 365
Preference share liability	10	100 000	135 000
Lease liabilities - Non-current	11	32 057	-
Deferred tax liabilities		74 039	75 153
Third-party liabilities arising on consolidation of unit trust funds		3 700 524	2 644 032
Investment contract liabilities		102 970 945	93 712 925
Tax payable		1 662	10 706
Lease liabilities - Current	11	18 997	-
Trade and other payables		225 792	150 941
Amounts owing to clearing houses		24 740	180 985
Amounts owing to clients		71 625	125 818
Total liabilities		**107 310 747**	**97 085 925**
Total equity and liabilities		**108 013 588**	**97 725 205**

Audited summarised consolidated statement of profit or loss and other comprehensive income

for the year ended 30 September 2020

	Notes	2020 R'000s	2019 R'000s
Revenue	12	661 009	508 107
Operating expenses	12	(381 886)	(339 394)
Profit from operations	**12**	**279 123**	**168 713**
Investment contract income		11 279 447	5 982 501
Transfer to investment contract liabilities		(11 279 447)	(5 982 501)
Interest income		26 315	26 266
Other investment income/(loss)		8 536	(701)
Finance costs		(16 408)	(12 399)
Profit before tax		**297 566**	**181 879**
Income tax		(91 484)	(55 938)
Profit after tax		**206 082**	**125 941**
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss:			
Foreign currency translation reserve		(6)	(18)
Total comprehensive income for the year		**206 076**	**125 923**
Earnings per share (cents)	13		
Basic		146.4	86.4
Diluted		143.7	85.8

Audited summarised consolidated statement of changes in equity

for the year ended 30 September 2020

	Notes	Stated capital R'000s	Other reserves R'000s	Share-based payment reserve R'000s	Retained earnings R'000s	Total equity R'000s
Balance at 1 October 2018		**665 901**	**(252 884)**	**40 427**	**170 819**	**624 263**
Total comprehensive income for the year		-	(18)	-	125 941	125 923
Dividends paid *		-	-	-	(87 669)	(87 669)
Share-based payment expense		-	-	2 166	-	2 166
Ordinary shares repurchased	8	(27 311)	-	-	-	(27 311)
Issue of shares relating to share options exercised	8	1 908	-	-	-	1 908
Transfer between share based payment reserve and stated capital for share options exercised	8	996	-	(996)	-	-
Balance at 30 September 2019		**641 494**	**(252 902)**	**41 597**	**209 091**	**639 280**
Adjustment on initial application of IFRS 16		-	-	-	(1 001)	(1 001)
Adjusted balance at 1 October 2019		**641 494**	**(252 902)**	**41 597**	**208 090**	**638 279**
Total comprehensive income for the year		-	(6)	-	206 082	206 076
Dividends paid **		-	-	-	(106 043)	(106 043)
Share-based payment expense		-	-	4 109	-	4 109
Ordinary shares repurchased	8	(42 037)	-	-	-	(42 037)
Issue of shares relating to share options exercised	8	2 457	-	-	-	2 457
Transfer between share based payment reserve and stated capital for share options exercised	8	1 259	-	(1 259)	-	-
Balance at 30 September 2020		**603 173**	**(252 908)**	**44 447**	**308 129**	**702 841**

* Dividends per share - 60 cents

** Dividends per share - 75 cents

Other reserves relate to equity acquired in subsidiaries from minority shareholders in prior periods, as well as business combinations under common control in which the consideration exceeded the carrying value of the net assets acquired and a foreign currency translation reserve.

Audited consolidated statement of cash flows

for the year ended 30 September 2020

	Notes	2020 R'000s	2019 R'000s
Cash flows from operating activities			
Cash flows from operations		407 664	183 040
Dividends received		80	85
Interest received		25 025	25 689
Interest paid		(16 430)	(11 220)
Tax paid		(96 881)	(47 402)
Net cash flows from operating activities		**319 458**	**150 192**
Cash flows from investing activities			
Additions to property and equipment		(2 550)	(12 847)
Additions to intangible assets		-	(4 297)
Loans advanced		(3 855)	(40 494)
Loans repaid		1 973	-
Purchase of investments		(244 457)	(81 230)
Proceeds on sale of investments		169 629	84 257
Net cash flows from investing activities		**(79 260)**	**(54 611)**
Cash flow from financing activities			
Dividends paid		(106 043)	(87 669)
Issue of ordinary shares	8	2 457	1 908
Preference share redemption	10	(35 000)	(15 000)
Ordinary shares repurchased	8	(42 037)	(27 311)
Loan advanced		40 000	50 000
Lease liabilities paid - principal portion	11	(13 532)	-
Net cash flows from financing activities		**(154 155)**	**(78 072)**
Net change in cash and cash equivalents		**86 043**	**17 509**
Cash and cash equivalents at beginning of the year		174 960	157 451
Exchange gains on cash and cash equivalents		(1 320)	-
Cash and cash equivalents at end of year		**259 683**	**174 960**

Note to the statement of cash flows:

Cash held in overnight settlement accounts on behalf of policyholders of Sygnia Life and clients of Sygnia Collective Investments (RF) Proprietary Limited is included on the face of the statement of financial position under “Cash and cash equivalents” with a corresponding payable to clients included in trade and other payables (unsettled trades). This results in the movement in these cash amounts being disclosed in the statement of cash flows. Changes in these amounts are shown under the "Changes in working capital”, under the “Cash flows from operating activities” section on the statement of cash flows. These cash amounts fluctuate on a daily basis and can result in significant fluctuations if comparing “Changes in working capital” between reporting periods.

Notes to the audited summarised consolidated annual financial statements

for the year ended 30 September 2020

1. Basis of preparation

The audited summarised consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for abridged reports, and the requirements of the Companies Act, 71 of 2008, applicable to summary financial statements. The Listings Requirements require preliminary reports to be prepared in accordance with the framework concepts, and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS") and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting ("IAS 34"). The accounting policies and methods of computation applied in the preparation of the audited summarised consolidated annual financial statements are in accordance with International Financial Reporting Standards and are consistent with those accounting policies applied in the preparation of the previous year's consolidated annual financial statements as well as all prior periods presented in these financial statements other than for the adoption of the following accounting standard: IFRS16 – Leases, and the prior year disclosure restatement as set out in more detail in note 5 below. The audited summarised consolidated annual financial statements and the full set of audited consolidated annual financial statements were prepared under the supervision of M Sirkot CA (SA) and approved by the board of directors on 7 December 2020.

2. Audit opinion

The auditors, Mazars, have issued their unmodified audit opinion on the consolidated annual financial statements for the year ended 30 September 2020. The audit was conducted in accordance with International Standards on Auditing. These summarised financial statements, which have not themselves been audited, have been derived from the consolidated annual financial statements, with which they are consistent in all material respects. Copies of the audit reports and the full consolidated annual financial statements are available for inspection at the company's registered office. The summarised consolidated annual financial statements are the responsibility of the directors and is only a summary of the information contained in the consolidated annual financial statements. Any investment decisions by investors and/or shareholders should be based on consideration of the consolidated annual financial statements on the Company's website (www.sygnia.co.za).

Any reference to future financial performance included in this announcement has not been reviewed or reported on by the company's auditors.

3. Use of estimates and judgements

The preparation of the audited summarised consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reporting amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis by the directors and management. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Significant estimates made by management in the application of IFRS relates to the impairment of intangible assets, the observable market data used to measure the share option expense, the valuation of level 3 financial assets and the recognition of deferred tax assets for subsidiaries with tax losses. Significant judgements include the consolidation of the Group's collective investment schemes and the classification of investment contract liabilities as financial liabilities. There were no material changes to judgements from the prior year.

4. Segment information

The Group has identified Sygnia's executive committee as the Chief Operating Decision Maker ("CODM"). The responsibility of the executive committee is to assess performance and to make resource allocation decisions across the Group. During the prior year, the Group commenced operations in the United Kingdom whereby one of the subsidiaries, registered in England & Wales, earned fees and incurred costs as the general partner to a private equity partnership registered in England & Wales. The revenue and costs related to these operations is not considered to be significant and therefore, no further disclosure has been made in relation to this segment. The South African operations continued to provide investment management and administration services to institutional and retail clients predominantly located in South Africa. No disaggregated information is provided to the CODM on the South African operations, and the CODM assesses operating performance and makes resource decisions about the South African operations as a whole. The Group has therefore concluded that the South African operations constitutes one operating segment.

5. Accounting policies

The consolidated financial statements comprise Sygnia Limited and its subsidiaries ("the Group").

Impact of adopting IFRS 16 on 1 October 2019

IFRS 16 provides the principles for the recognition, measurement, presentation and disclosure of leases and requires all lessees to account for all leases under a single on-balance-sheet model. The Group adopted IFRS 16 using the modified retrospective approach, and has not restated comparatives for the 2019 reporting year. The cumulative effect of adopting this standard is recognised as an adjustment to retained earnings at the beginning of the current year. The Group leases corporate office space in three locations in South Africa and one in London, England. The Group has recognised all right-of-use assets at 1 October 2019 at their carrying amounts as if IFRS 16 had been applied since the commencement date of the lease, discounted using the incremental borrowing rate at the date of initial application.

The Group applied a weighted average incremental borrowing rate to lease liabilities recognised during the period of 8.2%.

The following is a reconciliation of the operating lease commitments as at 30 September 2019 to the lease liabilities recognised on 1 October 2019:

	R'000
Operating lease commitments as at 30 September 2019	37 773
Recognition exemption in respect of short-term leases	(5 989)
Operating lease liabilities before discounting	31 784
Discounting effect using the incremental borrowing rate	(3 336)
Lease liabilities recognised under IFRS 16 at 1 October 2019	**28 448**

5. Accounting policies *(cont.)*

Impact of adopting IFRS 16 on 1 October 2019

The impact of the transition to IFRS 16 on 1 October 2019 on the statement of financial position is as follows:

	As previously stated R'000	Impact of adopting IFRS 16 R'000	Balances after adopting IFRS 16 R'000
Right-of-use assets	-	25 999	25 999
Deferred tax assets	9 352	366	9 718
Retained earnings	209 091	(1 001)	208 090
Lease liabilities	-	28 448	28 448
Trade and other payables	150 941	(1 082)	149 859

For the year ended 30 September 2020, the total profit for the period and earnings per shares were negatively impacted by R0.6 million and 0.4 cents per share respectively.

In applying IFRS 16 for the first time, the Group has used the following practical expedients:

- for corporate office leases with a term of less than 12 months on 1 October 2019, the Group applied the short-term exemption and accounted for the leases on a straight-line basis over the remaining lease term;
- the Group elected not to include initial direct costs in the measurement of the right-of-use asset for the leases in existence at the date of initial application;
- hindsight has been used when considering whether to include renewal and termination options in the lease term; and
- instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

The classification of the lease payments on the statement of cash flows, which were previously included within cash utilised from operations, has changed. The cash outflow has now been split between the principal portion paid (presented within financing activities) and the finance costs paid (shown as an operating activity).

Disclosure restatement to the 2019 Consolidated Statement of Financial Position

In the 2019 financial year, cash collateral deposits of R 3 888 263 000 held by the Group in terms of securities lending arrangements, as well as the Group’s obligation to repay similar amounts to the securities lending counterparties, were included in “Investments linked to investment contract liabilities”. Such disclosure was informative in that it allowed users of the financial statements to fully appreciate the Group’s financial position, as well as its obligations to securities lending counterparties, thus achieving a fair portrayal within the consolidated annual financial statements.

5. Accounting policies *(cont.)*

The criteria for offset as envisaged by IAS 32 do not however fully apply. In order to amend and enhance disclosure, the Group's obligations to repay cash collateral deposits to security lending counterparties are now reflected in "Investment contract liabilities". The change in such disclosure did not have any impact on the Group's financial position or earnings.

As a consequence of such amendment and enhanced disclosure, certain restatements have been made to both "Investments linked to investment contract liabilities" and "Investment contract liabilities" as follows:

	2019 R'000s
Consolidated statement of financial position	
Assets	
Investments linked to contract liabilities previously reported	92 470 973
Cash collateral received relating to securities lent	3 888 263
Investments linked to contract liabilities restated as at 30 September 2019	**96 359 236**
Liabilities	
Investment contract liabilities previously reported	89 824 662
Collateral payable relating to securities lent	3 888 263
Investment contract liabilities restated as at 30 September 2019	**93 712 925**

No restatement of the 2018 Consolidated statement of financial position is required, as 2019 was the first year that these transactions were entered into.

This restatement has had no impact on the following results previously reported by the Group:

- Consolidated profit before and after tax;
- Earnings per share (basic and diluted);
- Headline earnings per share (basic and diluted);
- Dividends per share;
- Net asset value of the Group nor net asset value per share;
- Tangible net asset value per share.

Forthcoming requirements

There are no new or revised Accounting Standards and Interpretations in issue, but not yet effective, that have a material impact on the business of the Group.

6. Intangible assets

2020	Goodwill R'000s	Management contracts R'000s	Customer relationships R'000s	Computer software R'000s	Licence R'000s	Closing balance R'000s
At cost						
Opening balance	149 698	253 885	17 176	37 931	1 170	459 860
Scrapping	-	-	-	(18 051)	-	(18 051)
Closing balance	**149 698**	**253 885**	**17 176**	**19 880**	**1 170**	**441 809**
Accumulated amortisation and impairment						
Opening balance	(31)	-	(5 066)	(23 137)	(234)	(28 468)
Amortisation	-	-	(1 863)	(886)	(117)	(2 866)
Scrapping	-	-	-	18 051	-	18 051
Closing balance	**(31)**	**-**	**(6 929)**	**(5 972)**	**(351)**	**(13 283)**
Carrying amount	**149 667**	**253 885**	**10 247**	**13 908**	**819**	**428 526**

2019	Goodwill R'000s	Management contracts R'000s	Customer relationships R'000s	Computer software R'000s	Licence R'000s	Closing balance R'000s
At cost						
Opening balance	149 698	253 885	16 311	34 499	1 170	455 563
Additions	-	-	865	3 432	-	4 297
Closing balance	**149 698**	**253 885**	**17 176**	**37 931**	**1 170**	**459 860**
Accumulated amortisation and impairment						
Opening balance	(31)	-	(3 536)	(15 766)	(117)	(19 450)
Amortisation	-	-	(1 530)	(4 370)	(117)	(6 017)
Impairment	-	-	-	(3 001)	-	(3 001)
Closing balance	**(31)**	**-**	**(5 066)**	**(23 137)**	**(234)**	**(28 468)**
Carrying amount	**149 667**	**253 885**	**12 110**	**14 794**	**936**	**431 392**

Goodwill consists mainly of amounts relating to two separate cash generating units ("CGUs"), namely SURF (previously Gallet Employee Benefits) and Sygnia Itrix. Consequently, there are two separate goodwill impairment assessments relating to each of the CGUs. The carrying amount relating to SURF is R18.5 million (2019: R18.5 million) and to Sygnia Itrix is R130.8 million (2019: R130.8 million).

The carrying amount of computer software as at 30 September 2020 relates to purchased computer software that is not yet available for use.

6. Intangible assets (*cont.*)

Critical accounting estimates and judgements

Management assesses the recoverable amount of each CGU and management contracts by using value-in-use calculations for each CGU and management contract. Value-in-use is assessed on a discounted cash-flow based calculation. These calculations use cash flow projections based on financial budgets, approved by the board, for a five-year planning period. Where appropriate, cash flows were extrapolated into perpetuity by using a terminal growth rate model. A key input used in the models to determine the value-in-use of the CGUs is the pre-tax discount rate applied to management's forecasted cash flows, which reflects the current market assessments of time value of money and the risk specific to the CGU.

Impairment evaluation of goodwill

The assumptions below, which are benchmarked against similar entities in the industry, have been used in estimating the value in use of the SURF and Sygnia Itrix CGUs:

	SURF %		Sygnia Itrix %	
	2020	2019	2020	2019
Risk-free rate (10 year Government bond)	9.5	8.3	9.5	8.3
Growth rate	3.0	4.1	3.3	4.5
Terminal growth rate *	4.2	5.7	3.6	5.7
Discount rate *	30.1	28.6	29.4	27.9

A reasonably possible change in these assumptions would not cause the carrying amount to exceed its recoverable amount.

Impairment evaluation of management contracts

The assumptions below, which are benchmarked against similar entities in the industry, have been used in estimating the value in use of management contracts:

	2020 %	2019 %
Risk-free rate (10 year Government bond)	9.5	8.3
Terminal growth rate *	3.6	5.7
Discount rate *	29.4	27.9

* Comparatives have been restated to disclose the pre-tax rates.

Impairment evaluation of customer relationships and licenses

There were no impairment indicators for customer relationships and licences. Refer to note 17 for an assessment of the COVID-19 pandemic.

7. Right-of-use assets

2020	Corporate offices R'000s	Total R'000s
At cost		
Opening balance	-	-
Adoption of IFRS 16	25 999	25 999
Additions	34 358	34 358
Foreign exchange adjustment	1 966	1 966
Closing balance	**62 323**	**62 323**
Accumulated depreciation		
Opening balance	-	-
Depreciation	(14 315)	(14 315)
Foreign exchange adjustment	(114)	(114)
Closing balance	**(14 429)**	**(14 429)**
Carrying amount	**47 894**	**47 894**

8. Stated capital

Authorised

500,000,000 Ordinary shares with no par value (2019: 500,000,000).

Issued	2020 Number of shares	2019 Number of shares	2020 R'000s	2019 R'000s
Opening balance	152 242 847	154 955 778	641 494	665 901
Ordinary shares repurchased	(4 319 041)	(3 091 500)	(42 037)	(27 311)
Issue of shares relating to share options exercised	478 568	378 569	2 457	1 908
Transfer between share based payment reserve and stated capital for share options exercised	-	-	1 259	996
Closing balance	**148 402 374**	**152 242 847**	**603 173**	**641 494**

The ordinary shares were repurchased at an average price of R9.73 (2019: R8.83) and were cancelled before year end.

The unissued shares at year end are under the control of the directors until the next annual general meeting. The directors of the company are authorised to repurchase shares under general approval subject to certain limitations and the JSE Listing Requirements.

9. Loan payable

	2020 R'000s	2019 R'000s
Opening balance	50 365	-
Facility drawdown	40 000	50 000
Interest accrued	5 363	1 231
Interest repaid	(5 362)	(866)
Closing balance	**90 366**	**50 365**

The loan amount represents the amount utilised from a R100 million facility with Standard Bank. This facility is in place from March 2019 to March 2022. Drawdowns can be made at any time during the facility period with five working days notice. Interest is accrued at JIBAR plus 1.5% and is payable quarterly. Capital can be repaid at any time with final repayment on 29 March 2022. The loan is secured by guarantees from various companies in the Group.

10. Preference share liability

	2020 R'000s	2019 R'000s
Opening balance	135 000	150 000
Preference share redemption	(35 000)	(15 000)
Closing balance	**100 000**	**135 000**

The rate of the Standard Bank preference shares is linked to prime. The preference shares can be redeemed by the Group at any time with a final compulsory redemption on 30 March 2022.

11. Lease liability

	2020 R'000s	2019 R'000s
Opening balance	-	-
Adoption of IFRS 16	28 448	-
Additions	34 358	-
Lease payments *	(16 953)	-
Finance costs	3 421	-
Exchange differences	1 780	-
Closing balance	**51 054**	**-**
Current portion	18 997	-
Non-current portion	32 057	-
	51 054	**-**
Maturity analysis - contractual undiscounted cash flows		
Up to 1 year	22 366	-
1 to 5 years	33 970	-
	56 336	**-**

* The lease payments include interest of R3.42 million, which has been presented on the statement of cash flows within operating activities (as finance costs). The capital repayments of R13.53 million have been disclosed within financing activities.

12. Profit from operations

Profit from operations is arrived at after taking the following into account:

	2020 R'000s	2019 R'000s
Revenue		
Investment management fees *	419 559	332 347
Investment administration fees	80 682	62 576
Trading income **	160 768	113 184
	661 009	**508 107**

* The general partner fees in the last annual financial statements have been combined with investment management fees to achieve a more consistent presentation with the current period financial statements.
** Trading income consists of brokerage income, securities lending income and treasury income.

Operating expenses include:		
Short-term operating lease	12 060	22 362
Asset management fees	21 717	30 208
Staff costs (excluding share options costs)	187 356	157 497
Share options costs	4 109	2 166
Trading, custody and administration costs	28 086	22 971

13. Earnings and headline earnings per share

	2020 R'000s	2019 R'000s
Profit attributable to ordinary shareholders	206 082	125 941
Impairment of intangible asset (after tax)	-	2 161
Headline earnings	**206 082**	**128 102**

	Number of shares	Number of shares
Weighted average number of ordinary shares in issue (basic)	140 790 102	145 809 601
Potential number of shares issued in respect of diluted instruments	2 651 118	974 599
Weighted average number of ordinary shares in issue (diluted)	**143 441 220**	**146 784 200**

	2020 Cents	2019 Cents
Earnings per share (basic)	146.4	86.4
Earnings per share (diluted)	143.7	85.8
Headline earnings per share (basic)	146.4	87.9
Headline earnings per share (diluted)	143.7	87.3

	2020 Cents	2019 Cents
Alternative performance measures		
Net asset value per share	499.2	438.4
Tangible net asset value per share	194.8	142.6

The tangible net asset value per share is the net asset value, excluding intangible assets, divided by the weighted average number of ordinary shares.

14. Fair value

The fair values of all financial instruments approximate the carrying values reflected in the statement of financial position. The carrying value and gains and losses of financial instruments is as follows:

	2020 R'000s	2019 R'000s
Financial assets at fair value through profit or loss		
Consolidated statement of financial position		
Investments linked to investment contract liabilities	106 675 742	96 359 236
Investments	339 244	258 448
	107 014 986	**96 617 684**
Consolidated statement of profit or loss and other comprehensive income		
Investment contract income	11 279 447	5 982 501
Other investment income/(loss)	8 536	(701)
	11 287 983	**5 981 800**
Financial assets at amortised cost		
Consolidated statement of financial position		
Loans receivable	55 114	53 232
Trade receivables	73 415	93 814
Amounts owing by clearing houses	831	-
Amounts owing by clients	95 380	306 294
Cash and cash equivalents	259 683	174 960
	484 423	**628 300**
Consolidated statement of profit or loss and other comprehensive income		
Interest income	26 315	26 266
	26 315	**26 266**
Financial liabilities at fair value through profit or loss		
Consolidated statement of financial position		
Investment contract liabilities	102 970 945	93 712 925
Third-party liabilities arising on consolidation of unit trust funds	3 700 524	2 644 032
	106 671 469	**96 356 957**
Consolidated statement of profit or loss and other comprehensive income		
Transfer to investment contract liabilities	(11 279 447)	(5 982 501)
	(11 279 447)	**(5 982 501)**

14. Fair value *(cont.)*

	2020 R'000s	2019 R'000s
Financial liabilities at amortised cost		
Consolidated statement of financial position		
Loan payable	90 366	50 365
Preference share liability	100 000	135 000
Lease liabilities	51 054	-
Trade and other payables	221 457	150 941
Amounts owing to clearing houses	24 740	180 985
Amounts owing to clients	71 625	125 818
	559 242	**643 109**
Consolidated statement of profit or loss and other comprehensive income		
Finance costs	(16 408)	(12 399)
	(16 408)	**(12 399)**

The following table shows the categories of financial instruments at fair value based on the degree to which fair value is observable.

Level 1 - fair value is derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 1 investments relates to equities and interest income securities.

Level 2 - fair value is derived from 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 investments relate to interest income securities, collective investment scheme, hedge funds, investments in insurance policies, investment contract portfolio debtors, investment contract portfolio accrued interest and cash and cash equivalents.

Level 3 - fair value is derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). The level 3 investment relates to unlisted private equity investments.

2020	Level 1 R'000s	Level 2 R'000s	Level 3 R'000s	Total R'000s
Investments linked to investment contract liabilities	24 754 167	80 016 871	1 904 704	106 675 742
Investments	-	339 244	-	339 244
Third-party liabilities arising on consolidation of unit trust funds	(2 332 598)	(1 367 926)	-	(3 700 524)
Investment contract liabilities	(22 417 296)	(78 648 945)	(1 904 704)	(102 970 945)

14. Fair value *(cont.)*

2019	Level 1 R'000s	Level 2 R'000s	Level 3 R'000s	Total R'000s
Investments linked to investment contract liabilities	31 652 987	63 488 864	1 217 385	96 359 236
Investments	58 450	199 998	-	258 448
Third-party liabilities arising on consolidation of unit trust funds	(2 438 043)	(205 989)	-	(2 644 032)
Investment contract liabilities	(29 212 665)	(63 282 875)	(1 217 385)	(93 712 925)

	2020 R'000s	2019 R'000s
Level 3 financial instruments		
Opening balance	1 217 385	-
Disposals / additions - discretionary mandates	(177 357)	1 236 223
Additions - non-discretionary mandates*	516 967	-
Fair value adjustment included in investment contract income	347 709	(18 838)
Closing balance	**1 904 704**	**1 217 385**

The level 3 investment relates to investments in partnerships registered in Guernsey, Braavos Capital I LP (BC I LP) and Braavos Capital II LP (BC II LP), which hold unlisted shares. The partnerships are administered and valued by an independent administrator based on the last traded price of the underlying shares less expenses. If the shares have not traded for more than 12 months, the directors will consider an alternative valuation.

A subsidiary in the Group, Sygnia Life Limited, has made a commitment to invest GBP 85 million in BC I LP and GBP 20 million in BC II LP.

The shares in the general partner of BC I LP and BC II LP are indirectly owned by two directors of Sygnia Limited. The fees paid to the general partner by BC I LP and BC II LP are as follows:

	2020 R'000s	2019 R'000s
Discretionary mandates	17 633	-
Non-discretionary mandates*	1 260	-
Closing balance	**18 893**	-

* Mandates directly secured by Braavos Investment Advisers for which a fee is paid to Sygnia for the use of its savings wrappers and support services.

15. Related-party transactions

Related-party transactions similar to those disclosed in the Group's financial statements for the year ended 30 September 2019 took place during the period under review. A new related party relationship came into effect between one of the UK subsidiary companies and a UK partnership, Braavos Investment Advisers LP (Braavos), of which the partners are two directors of Sygnia Limited.

	2020 R'000s	2019 R'000s
Transactions with related parties		
Revenue received from Braavos	7 924	-
Balances with related parties		
Fees receivable from Braavos	4 327	-

Refer to note 14 for general partner fees paid by a subsidiary to Braavos Capital I Limited Partnership and Braavos Capital II Limited Partnership.

16. Events subsequent to the reporting date

On the 1st of October 2020, 200 000 (fair value: R2.2 million) and 100 000 (fair value: R1.1 million) share options were granted to DR Hufton and M Sirkot respectively. On the 7th of December 2020, the directors proposed and approved a dividend of 70 cents per share.

17. COVID-19 pandemic

The outbreak of the COVID-19 pandemic in March 2020 has had a significant impact on the South African and international markets. This was further exacerbated by the announcement of a lock-down in South Africa from 27 March 2020. The Group continued operating during the lock-down. Even though the negative market movement impacted the Group's revenue in March 2020, markets recovered in April 2020 and the year end assets under management and administration is higher than pre-March 2020 levels. The Group continues to monitor the impact of the markets on its revenue and will adjust its cost base if required. The Group has considered the impact of COVID-19 on its financial assets at amortised cost. Trade receivables continue to be collected directly from clients' investments and unit trust funds. No receivables are past due. Cash and cash equivalents continue to be held with high credit quality financial institutions. The Group has concluded that the fair value of financial assets at amortised is equal to its carrying amount and consequently, no impairment is required.

Audited Summarised Consolidated Annual Financial Statements 2020

Sygnia Limited

Incorporated in the Republic of South Africa

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JSE share code: SYG

ISIN code: ZAE000208815
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