Annual Financial Statements for the year ended 30 June 2019

At Sasfin, we contribute to society by going beyond a bank to enable the growth in the business and global wealth of our clients.

sasfin beyond a bank | Holdings Limited

Table of contents

Indicates additional information available online or from the Company Secretary.

OUR REPORTS

Annual Financial Statements 2019
This report is Sasfin's Annual Financial Statements and includes risk and capital management disclosures.

Integrated Report 2019
This is Sasfin's primary report which presents our strategy, performance and plans.

Legal entity terminology used in this report
Group/Sasfin: Sasfin Holdings Limited and its subsidiaries

Banking Group: Sasfin Bank Limited and its subsidiaries

Bank: Sasfin Bank Limited

Wealth Group: Sasfin Wealth (Pty) Ltd and its subsidiaries

Capital: Sasfin Capital (Pty) Limited

Company: Sasfin Holdings Limited

Statement of preparation

In terms of section 29(1)(e)(ii) of the Companies Act 71 of 2008 as amended, we confirm that these Annual Financial Statements were prepared under the supervision of Angela Pillay CA(SA), Group Financial Director and have been audited in compliance with the requirements of sections 29(1)(e)(i) and 30(2)(a) of the Companies Act 71 of 2008 as amended.

Directors' responsibility statement

The Board of Directors (the Board) of Sasfin Holdings Limited (the Company or the Group) is responsible for the preparation and fair presentation of the Directors' Report and the Consolidated and Separate Annual Financial Statements of the Company including significant accounting policies and other explanatory notes.

The Consolidated and Separate Annual Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), the South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements, and the requirements of the Companies Act, No 71 of 2008, as amended (Companies Act).

The Board is also responsible for such internal controls as they deem necessary to enable the preparation of these Consolidated and Separate Annual Financial Statements and for maintaining adequate accounting records and an effective system of risk management.

Based on its own monitoring and oversight as well as assurance obtained from management, Group Risk, Compliance and Internal Audit, the Board is of the view that an effective internal financial control environment exists to support the integrity of the Consolidated and Separate Annual Financial Statements. The Board has a reasonable expectation that the Company and the Group will have adequate resources to continue in operational existence and as a going concern in the financial year ahead.

It is the responsibility of the independent auditors to report on the fair presentation of the Consolidated and Separate Annual Financial Statements.

The Consolidated and Separate Annual Financial Statements for the year ended 30 June 2019 were approved by the Board and are signed on its behalf by:

Roy Andersen	Michael Sassoon	Angela Pillay
Chair	*Chief Executive Officer*	*Group Financial Director*

17 September 2019

Company Secretary's certification

I hereby certify, in terms of section 88(2)(e) of the Companies Act, that Sasfin Holdings Limited has filed all returns and notices required by the Companies Act with the Companies and Intellectual Property Commission, for the financial year ended 30 June 2019, and that all such returns and notices as are required of a public company are true, correct and up to date.

Howard Brown
Company Secretary

17 September 2019

Group Audit and Compliance Committee report

INTRODUCTORY COMMENTS

The Group Audit and Compliance Committee (GACC/the Committee) is pleased to present its report in respect of the 2019 Annual Financial Statements of Sasfin Holdings Limited (the Group), in compliance with section 94(7) of the Companies Act. The Committee's functions are further informed by the Companies Act, Banks Act, the JSE Listings Requirements and King Report on Corporate Governance™ for South Africa, 2016 (King IV™)* and are approved by the Board.

COMMITTEE COMPOSITION AND ASSESSMENT OF ITS PERFORMANCE

In terms of the Banks Act, which takes precedence over the Companies Act, members of the Committee are appointed by the Board and hence not by the shareholders. Only Independent Non-Executive Directors are eligible to serve on the Committee.

The Board performs an annual review of the Committee's compliance with its responsibilities, performance, governance and best practice, as per its Charter.

Members		Appointed	Resigned
Gugu Mtetwa[1]	Chair	28 August 2017	30 September 2019
Linda de Beer[2]		1 July 2014	30 September 2019
Grant Dunnington		29 July 2013	
Richard Buchholz		7 March 2018	
Mark Thompson		21 June 2019	

[1] *Appointed as Chair on 19 November 2018.*
[2] *Resigned as Chair on 18 November 2018.*

The Committee holds private meetings with External Audit, the Chief Audit Executive, the Group Chief Risk Officer, and the Head: Group Compliance. The Chair of the Board, Executive Directors comprising the Chief Executive Officer, Group Financial Director, and executive management are invitees to meetings of the Committee but are excluded from the private meetings of the Committee.

FUNCTIONS OF THE COMMITTEE

The role of the Committee is to assist the Board to fulfil its oversight responsibilities in areas such as financial reporting, internal control practices, risk management processes and the Internal and External Audit functions.

The functions of the Committee are outlined in its Charter, which was reviewed and updated during the year and is available on the Sasfin website.

ANNUAL CONFIRMATIONS OF KEY FUNCTIONS FOR THE YEAR

During the year under review the Committee, among other matters, considered the following:

Financial control, financial reporting and the Integrated Report

- Reviewed the Interim Results, Annual Financial Statements, Integrated Report, dividend declarations and trading updates of the Group, and recommend those to the Board for approval
- Confirmed that it has assessed the appropriateness of the going concern basis for the preparation of the Interim Results and Annual Financial Statements and the solvency and liquidity tests in support of financial assistance and distributions
- Assessed the accounting policies and key assumptions applied in the preparation of the Annual Financial Statements, as well as dealing with technical reporting matters relating to significant exceptional transactions and accounting judgements
- Confirmed compliance of the Interim Results and Annual Financial Statements with IFRS and the JSE Listings Requirements
- Consideration was given to the annual JSE Proactive Monitoring report to ensure the integrity of the financial information in the Annual Financial Statements. In this regard, the Committee notes that the JSE had issued the Group with a letter on its review of the 2018 Annual Financial Statements. The issues raised related to matters of clarification as well as disclosure. These have been addressed with the JSE and appropriately dealt with in the current year's Annual Financial Statements

The Committee also considered combined assurance in the Group and specific attestations from Internal Audit, External Audit, Group Risk and Group Compliance to consider the adequacy and effectiveness of the internal controls within the Group. Even though we are comfortable that both these aspects of adequacy and effectiveness were in place, and there was improvement to the internal controls during the year, a key focus area for the Committee in the year ahead will be to enhance the integration of the new systems which went live during the latter half of this year.

External Audit

- Recommended for re-election PricewaterhouseCoopers Inc (PwC) as the audit firm, with Vincent Tshikhovhokhovho as the engagement partner, for shareholder approval
- Ensured that the appointment of the auditor complied with all the legislation regarding the appointment of auditors
- Reviewed and approved the list of non-audit services which the auditor may perform. There is a Board-approved non-audit services policy in place which places limits on non-audit services provided by external auditors
- In consultation with the executive management, agreed to the engagement letter, terms, audit plan and budgeted fees for the 2019 financial year
- Promoted and enabled effective communication between the External and Internal Audit functions

The Committee is satisfied that PwC is independent of the Group, and the partner who is responsible for signing the Group's Annual Financial Statements, as set out in section 94(8) of the Companies Act, has the requisite skills and expertise. This included consideration of:

- the representations by PwC to the Committee including the auditor's suitability assessment in terms of the JSE Listing Requirements;
- the independence of PwC not being impaired as set out by IRBA as well as other regulatory and internal processes within the audit firm; and
- policies and controls regarding non-assurance services provided by PwC.

Internal Audit

- Reviewed and approved the Internal Audit Charter, the annual audit plan, and the Internal Audit budget for the upcoming financial year
- Reviewed audit reports issued by Internal Audit including considering any weaknesses in controls that were identified and the corrective actions proposed by management
- Considered quarterly status update reports on the movements of internal and external audit findings
- Evaluated the independence, effectiveness and performance of the Group Internal Audit function and the Chief Audit Executive. The Committee concluded that the Chief Audit Executive and the function were independent and effective for the period under review

The Chief Audit Executive reported to the Committee, had unrestricted access to the Committee Chair and is of the opinion that the material internal financial controls were adequate to allow reliance to be placed on external reports issued by the Group. Areas of improvement were identified within the Procurement function and with respect to IT System Implementation Controls. The action plans to remediate are on track and will be monitored.

Compliance

- Reviewed and recommended the Compliance Charter and the annual Compliance and Monitoring plan
- Reviewed the findings from the South African Reserve Bank (SARB) Prudential Authority's anti-money laundering compliance inspection conducted in 2018 together with the remedial action plan proposed by management. The Committee noted the fine of R500 000 imposed by the SARB Prudential Authority and is satisfied with the action plan to enhance the FICA staff training programme
- Evaluated the effectiveness and performance of the Compliance function and concluded that these were appropriate

Combined Assurance

The Committee is of the view that significant strides have been made against the roadmap put in place last year for the combined assurance model. Alignment has been reached on the Group's overall risks together with the language used to describe risk, controls, and their measurement. The Committee, together with the GRCMC, considers bi-annually the work completed by the second, third and fourth Lines of Defence, including the assurance level provided by the assurance partners over those key controls linked to each of the Group's top risks. The journey of Combined Assurance will continuously evolve as the process matures within the Group; it continues working towards achieving the objective of enabling an effective control environment, along with supporting the integrity of information used for internal decision-making.

Expertise and experience of the Finance function and the Group Financial Director

- Received regular reports from the Group Financial Director regarding the financial performance of the Group, the tracking and monitoring of key performance indicators and regulatory ratios, details of budgets, forecasts and long-term plans
- Considered updates on the enhancement of the financial reporting controls and processes, and the adequacy and reliability of the management information used in the financial reporting process
- Received feedback from both Internal and External Audit regarding the financial control environment

Group Audit and Compliance Committee report continued

- Considered the expertise, resources and experience of the Finance function and the senior management responsible for this function
- Considered the appropriateness of the experience, effectiveness and expertise of the Group Financial Director and concluded that these were appropriate

KEY AUDIT MATTERS AS REPORTED BY THE EXTERNAL AUDITORS

The Committee considered the Key Audit Matters as reported by the External Auditors as part of the PwC audit report.

These matters are also key aspects considered by the Committee as part of the year-end reporting process in recommending the Annual Financial Statements as well as the adequacy and effectiveness of internal controls to the Board for approval and disclosure.

In respect of the Key Audit Matters reported in the current year, the Committee's oversight and monitoring processes included the following:

Expected credit losses of loans and advances

This is an area that is also reviewed by the Credit and Large Exposures Committee (CLEC) of the Board, before consideration by the Committee. The Committee considered whether the levels of provisioning and credit impairment were appropriate, given the impacts of the re-calibration of the IFRS 9 impairment model as well as the inclusion of forward-looking information. This included consideration and approval of an amendment to the adjusted opening retained income on 1 July 2018 as required by IFRS 9. Refer to note 1.1.1 for more information and which was disclosed. It was important for the Committee that a conservative approach was followed in this regard, considering strained economic conditions.

The Committee paid specific attention to the IFRS 9 disclosure in the Annual Financial Statements and considered its appropriateness. The Committee also had a specific discussion with the External Auditors in order to satisfy itself in this regard.

Valuation of investment securities

The Committee considered the oversight in this regard by the Capital Investment Committee of the Board, which reviews Private Equity and Property Equity valuations on a bi-annual basis. The assumptions, judgements and methodology were discussed at great length by the Committee to enable the Committee to satisfy itself as to the reasonableness of valuations. The Committee also had a specific discussion with the External Auditors in order to satisfy itself in this regard.

Migration of IT Systems impacting financial reporting

The Committee considered the oversight in this regard by the IT Committee which reviews all strategic IT projects of the Group. In the current year, two key systems were implemented, namely Calypso and LeaseWave. The impact that these projects had on the financial control environment, specifically relating to cash reconciliations, was considered, together with management's post balance sheet plan to remediate unresolved items. The Committee will consider the closeout reports for these projects as they fall due, and will continue to monitor the plan to remediate unresolved items.

IN CONCLUSION

The Committee is satisfied that it has fulfilled its responsibilities and complied with its legal, regulatory and governance responsibilities as set out in its mandate.

We would also like to thank Linda de Beer who resigned from the Committee in the past financial year for her invaluable contribution and insight.

We would like to welcome Mark Thompson to the Committee. He will chair this Committee post my resignation on 30 September 2019. Mark brings with him a wealth of knowledge in the fields of audit, credit and treasury.

Finally, I would like to take this opportunity to thank the Committee and Board for their support over the last financial year. My chairmanship of this Committee has been a rewarding one and I wish the new Committee members all the best.

Mtetwa

Gugu Mtetwa CA(SA)
Chair – Group Audit and Compliance Committee

17 September 2019

Directors' report

NATURE OF BUSINESS

Sasfin Holdings Limited (the Group or Sasfin) is a bank-controlling company listed on the JSE Limited (JSE). Sasfin and its subsidiaries provide a comprehensive range of specialist financial products and services focused on the needs of asset suppliers, small and medium businesses and institutional and private clients.

FINANCIAL RESULTS

The results of the Group and Company are set out in the Consolidated and Separate Annual Financial Statements and accompanying notes as well as in the Integrated Report 2019.

DIRECTORATE AND CHANGES TO THE BOARD

On 1 January 2019, Roland Sassoon stepped down as the Chief Executive Officer (CEO) of Sasfin Bank Limited and was succeeded by Michael Sassoon. Roland Sassoon will rejoin the Sasfin Bank Limited and Sasfin Holdings Boards from 1 January 2020 after serving a 12-month cooling off period, as a Non-Independent, Non-Executive Director.

Mark Thompson joined the Board in June 2019 and will chair the Group Audit and Compliance Committee upon Gugu Mtetwa's departure. Eileen Wilton accepted a position on the Board on 6 August 2019 and will chair the IT Committee.

DIRECTORS AND COMPANY SECRETARY

Independent Non-Executive Directors		Appointed	Resigned
Roy Andersen	Chair	14 February 2011	
Linda de Beer		1 July 2014	30 September 2019
Grant Dunnington		25 February 2010	
Gugu Mtetwa		28 August 2017	30 September 2019
Shahied Rylands		21 May 2007	
Richard Buchholz		7 March 2018	
Mark Thompson		21 June 2019	
Eileen Wilton		6 August 2019	
Non-Independent, Non-Executive Directors (Representatives of WIPHOLD, Sasfin's BEE partner)			
Gloria Serobe		7 March 2018	
Gugu Dingaan		7 March 2018	
Shaun Rosenthal (Alternate)		7 March 2018	
Executive Directors			
Michael Sassoon*	Chief Executive Officer	1 January 2018	
Angela Pillay	Group Financial Director	1 March 2018	
Roland Sassoon		21 August 1987	1 January 2019
Alternate Executive Director			
Linda Fröhlich		9 October 2013	5 March 2018
Company Secretary			
Howard Brown		28 August 2011	

* *Michael Sassoon was appointed as an Alternate Director on 9 October 2013, as a Director on 23 October 2015 and as Chief Executive Officer on 1 January 2018.*

Directors' report continued

SHARE CAPITAL

Ordinary share capital

There were no changes to the authorised ordinary share capital.

Preference share capital

There were no changes in the authorised or issued preference share capital of the Company.

Analysis of shareholders

The analysis of ordinary and preference shareholders is provided in the Shareholders' and Administrative Information Booklet included as part of the Integrated Report 2019.

SPECIAL RESOLUTIONS PASSED

Special resolutions passed during the year are available for inspection.

EVENTS AFTER THE REPORTING DATE

The Board is not aware of any material events which occurred after the reporting date and up to the date of this report, apart from those mentioned in note 47 to the Annual Financial Statements.

Independent auditor's report

TO THE SHAREHOLDERS OF SASFIN HOLDINGS LIMITED

Report on the audit of the consolidated and separate financial statements

OUR OPINION

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Sasfin Holdings Limited (the Company) and its subsidiaries (together the Group) as at 30 June 2019 and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Sasfin Holdings Limited's consolidated and separate financial statements set out on pages 16 to 114 comprise:

- the consolidated statement of financial position and the separate statement of financial position as at 30 June 2019;
- the consolidated statement of comprehensive income and the separate statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity and the separate statement of changes in equity for the year then ended;
- the consolidated statement of cash flows and the separate statement of cash flows for the year then ended;
- the notes to the financial statements, which include a summary of significant accounting policies; and
- the notes to the separate financial statements.

BASIS FOR OPINION

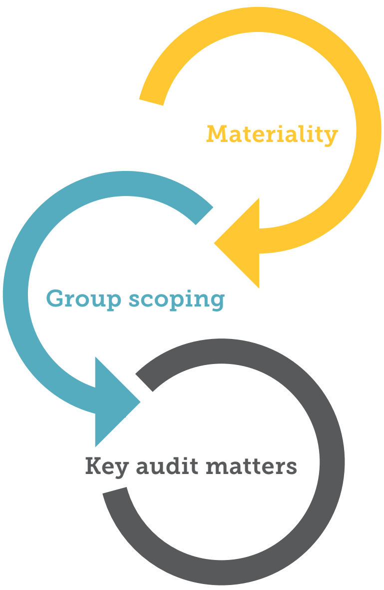
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and separate financial statements* section of our report.

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

Independence

We are independent of the Group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively.

OUR AUDIT APPROACH



Overview

Overall group materiality

- R23 million, which represents 1% of consolidated income which comprises of interest and similar income, fee and commission income, gains on financial instruments and other income.

Group audit scope

- The group operates in two geographic regions namely Southern Africa (South Africa) and Asia-Pacific (Hong Kong).
- Full scope audits were performed for all four components (a component represents a pillar or a subgroup of subsidiaries) based on their financial significance.

Key audit matters

- Expected credit losses on loans and advances
- Valuation of investment securities
- Migration of IT systems impacting financial reporting

Independent auditor's report continued

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality
The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	R23 million
How we determined it	1% of consolidated income
Rationale for the materiality benchmark applied	We chose consolidated income as the benchmark, because, in our view, it is the most suitable benchmark for the Group, due to the fact that the Group has a history of volatile profit before tax numbers and has a higher cost to income ratio than other commercial banks. Furthermore, income has remained consistent for the past three years. We chose 1% which is consistent with quantitative materiality thresholds used when using income as the benchmark.

How we tailored our group audit scope
We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We conducted a full scope audit of all four components (a component represents a pillar or a subgroup of subsidiaries) within the Group. The Group operates in two geographic regions, namely Southern Africa (South Africa) and Asia-Pacific (Hong Kong).

Our involvement in the work performed by the component audit teams included the following, among others:

- Attended the capital investment committee meetings; and
- Regular communication with the component audit teams throughout the audit which included planning meetings, appropriately direction of their audits, maintaining regular communication on the status of their audits and year end audit clearance meetings.

Further audit procedures were performed by us as the group engagement team on the consolidation process. The work performed by component auditors, together with these additional procedures performed at the Group level, provided us with sufficient evidence to express an opinion on the Group's consolidated financial statements as a whole.

KEY AUDIT MATTERS
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We communicate the key audit matters that relate to the audit of the consolidated financial statements of the current period in the table below. We have determined that there are no key audit matters to communicate in our report with regard to the audit of the separate financial statements of the Company for the current period.

	Key audit matter	How the matter was addressed in the audit
Group – Consolidated financial statements	***Expected credit losses on loans and advances***	
	At 30 June 2019, gross loans and advances amounted to R7.9 billion against which an expected credit loss (ECL) of R402 million was recognised. Refer to the following accounting policies and notes to the financial statements for details: • Note 1.12 A *(Financial instruments – Policy under IFRS 9)*; • Note 2.1 *(Critical estimates and judgements - Credit impairment of loans and advances)*; • Note 9 *(Loans and advances)*; and • Note 42 *(Credit risk) including Note 42.3 (Credit loss allowance analysis)*. The ECL was calculated by management by applying IFRS 9, *Financial Instruments* (IFRS 9) which was adopted for the first time on1 July 2018. In calculating the ECL, the key areas of significant management judgement and estimation included the following: • Determining whether evidence exists that there has been a significant increase in credit risk (SICR) since initial recognition of the financial instrument, by considering shifts in calculated behavioural and granting scores, beyond determined thresholds; • Determination of the write-off point. The Group considers the point at which there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that there is no realistic prospect of recovering the monies owed; • Determining and weighting of assumptions used in the forward-looking economic model. Four forward-looking scenarios are probability-weighted by management to determine the ECL (up-case, expected case, light down and severe down scenarios). The group validated strategies and utilised the outlook to project future changes in the repo rate. These scenarios are then linked to Probabilities of Default (PDs) and Loss Given Defaults (LGDs) to derive a forward looking ECL;	Our audit procedures addressed the key areas of significant judgement and estimation in determining the ECL on loans and advances as follows: Evaluation of SICR With the assistance of our valuation experts we performed the following procedures: • Calculated the impact of SICR, and tested the assumptions and data applied by management in their ECL calculation model; and • Tested the performance of SICR thresholds applied and the resultant transfer rate into stage 2 for SICR. This included benchmarking of the volume of up to date accounts transferred to stage 2 based on history. No material exceptions were noted. Determination of write-off point • For the lending portfolio, we evaluated management's assessment of historical post write-off recoveries, to determine the point at which there was no reasonable expectation of further recovery and whether it is in compliance with IFRS 9; and • We tested the application of the IFRS 9 write-off principles, including the exclusion of post write-off recoveries from the Loss Given Default (LGD) as determined by management. We found no exceptions in the determination of the write off point which is in line with the principles of IFRS 9. Inclusion of forward looking information and macro-economic variables in the ECL • With the assistance of our valuation expertise we considered and assessed the assumptions used in the forward looking economic model, specifically around the forward-looking scenarios used, the macro-economic variable considered as well as the macro-economic outlook. We compared these to our independently obtained actuarial statistics and market data; and

Independent auditor's report continued

	Key audit matter	How the matter was addressed in the audit
Group – Consolidated financial statements (continued)	***Expected credit losses on loans and advances***	
	• Determining event driven management ECL overlays. Management adjusts the results produced by the modelled output for events that influence the modelled output and which are not yet captured by the model; and • Calibrating of the ECL statistical model components (PD, Exposure at Default "EAD", and LGD) used to estimate the timing and amount of the forecasted cash flows based on historical default data, roll rates and recoveries. The Group stratifies aspects such as client risk groups, time on book, product term, default statuses, industry and rescheduling status. Management judgement is required to consider how historical data is used to project ECL. We determined the ECL on loans and advances to be a matter of most significance to our current year audit due to the following: • the first time adoption of IFRS 9 by the Group; • the magnitude of the ECL; and • the degree of judgement and estimation applied by management in determining the ECL.	• We tested the performance and sensitivity of the forward looking model in order to evaluate whether the chosen macro-economic factors and model provide a reasonable representation of the impact of macro-economic changes on the ECL results. No exceptions were noted. Assessment of ECL raised for individual exposures • Where ECL has been raised for individual exposures, we considered the impairment indicators, uncertainties and assumptions made by management in their assessment of the recoverability of the exposure. For a sample of stage 3 exposures, we independently recalculated the impairment losses based on our assessment of the expected cash flows and recoverability of collateral at an individual exposure level; • For collateral held, we inspected legal agreements and supporting documentation to confirm the existence and legal right to collateral; and • The collateral valuation techniques applied by management were evaluated against the Group's valuation guidelines. No material exceptions were noted. Calibrating of ECL statistical model components (PD, EAD, LGD) • We obtained an understanding of the methodologies and assumptions used by management in the various ECL model components and how these were calibrated to use historical information to estimate future cash flows; and • We re-performed the ECL calculation. Management's results from the ECL model were found to be within the range of our independently calculated ECL.

	Key audit matter	How the matter was addressed in the audit
Group – Consolidated financial statements	***Valuation of investment securities***	
	As set out in Note 10 to the financial statements, Investment securities, private and property equity investment valuations, recognised at an amount of R635 million as at 30 June 2019, are measured at fair value. Refer to the following accounting policies and notes to the financial statements for details: • Note 1.12 A *(Financial instruments – Policy under IFRS 9)*; • Note 2.2 *(Private Equity investment valuations);* • Note 2.3 *(Property Equity investment)*; • Note 2.4 *(Fair value)*; • Note 10 *(Investment Securities);* and • Note 40 *(Classification of assets and liabilities)*. The valuation of the private and property equity investments was identified as a matter of most significance in the current year audit of the consolidated financial statements due to the judgement required in valuing these investments, which includes determining the appropriate inputs and model, and due to the impact that these valuations have on the measurement of consolidated other income in the financial statements. Note 2.2 *(Critical estimates and judgements, Private equity investment valuations)* and Note 2.3 *(Critical estimates and judgements (Property equity investment valuations)* set out the basis, including the related judgements, for the fair value calculation of private and property equity investments. The Group has adopted as its primary valuation model for private equity valuations, a discounted cash flow or earnings methodology, corroborated by a market multiple approach, where appropriate. For the property valuations, the Group obtains third party valuations from registered professional valuers with experience relevant to the types of properties being valued. These valuation experts use best practice market norms in arriving at the value of the underlying property assets. Once the Group has received these valuations, relevant adjustments are made to take into account financial assets and/or obligations associated with these investments.	As part of our audit, we assessed the objectivity, independence and expertise of the registered professional valuers appointed by the Group, by: • Inspecting the registered professional valuers' valuation reports for a statement of independence, objectivity and compliance with valuation standards; and • We confirmed the registered professional valuers' affiliation with the South African Council for the Property Valuers Profession. We obtained the latest valuation reports issued by the registered professional valuers and gained an understanding of and tested the following controls: • Detailed analysis of forecasts and trends are compared to actual results; and • Group's Capital and Investment sub-committee approval of the valuations obtained. Our audit included obtaining an understanding and testing of the relevant controls put in place to ensure that there is appropriate governance over valuation model development and changes. We also tested that correct sources of external and internal data are used in the models' calculations. We evaluated whether the correct sources of external and internal data were used in the valuations. For a sample of private and property equity investments valuations we tested the calculations of the fair values by performing the following procedures: • Utilising our valuations expertise we evaluated the appropriateness of the valuation methodology; • For property valuations, with the assistance of our valuation experts, we independently sourced inputs and assessed the judgements and estimates applied in relation to our knowledge of current market practice and conditions; • For property valuations we compared the cash flows, market rental growth, vacancy factors and exit capitalisation rates against market related data;

	Key audit matter	How the matter was addressed in the audit
Group – Consolidated financial statements (continued)	*Valuation of investment securities*	
		• For private equity valuations, we recalculated the discounted cash flow, which supported management's valuation for each significant investments. With the assistance of our valuation experts, we evaluated the significant assumptions used in determining the discounted cash flow which included an independent comparison to industry norms and evaluation of the discount rates applied; and • We recalculated the valuations. No material exceptions noted. We evaluated the reasonableness of the terminal growth rates applied to the forecasted cash flows by benchmarking these against published sector growth rates, taking into account financial services industry benchmarks, regulatory reforms and landscape, political landscape and inflationary prospects within the country. We found the terminal growth rates to be within our independently determined range. We inspected the cash flow forecasts to ensure that they reflect the most recently approved management budgets and represent management's best estimate of future performance as approved by the board of directors. In addition, the current and previous years' forecasts were compared to actual performance, and our testing did not identify any material differences.

	Key audit matter	How the matter was addressed in the audit
Group – Consolidated financial statements	***Migration of IT systems impacting financial reporting***	
	During the current financial year, three core banking IT systems were migrated into one system. Furthermore, an additional core banking system went live at a similar time. The migration was as a result of the Group's strategic decision to streamline the business processes. The migration significantly impacted the current audit because it took place during the last three months of the financial year. We determined that the migration of IT systems impacting financial reporting to be a matter of most significance to our current year audit due to the fact that it resulted in a significant increase of audit effort to understand and evaluate the appropriateness of management controls over these system implementations and data migration activities.	We obtained and assessed the Group's IT Steering Committee policy and inspected whether the governance approvals were adhered to prior to the systems migration. We obtained an understanding and tested the design and implementation of the relevant management controls relating to the data migration and conversion to a new system. We evaluated the design and tested the operating effectiveness of controls over the key applications, operating systems and databases that were migrated and their related impact on financial reporting. We performed additional substantive procedures to test the completeness and accuracy of the data feeds post-migration into the general ledger. These included, among other procedures, agreeing a sample of the financial data items, line by line and column by column to ensure that the information was correctly mapped from legacy systems to the new system being implemented. Additional substantive testing was performed on specific year-end reconciliations (i.e custodian statement and bank statements against general ledger) no material exceptions were noted.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the document titled "Sasfin Holdings Limited Annual Financial Statements for the year ended 30 June 2019", which includes the Directors' Report, the Group Audit and Compliance Committee Report and the Company Secretary's Certification as required by the Companies Act of South Africa, and the disclosures set out on pages 98 to 99 that have been presented in terms of the requirements of the Banks Act 1990 (as amended) and Regulation 43 (1)(e)(ii) of the Banking Regulations, which we obtained prior to the date of this auditor's report, and the other sections of the document titled "Sasfin Holdings Limited Integrated Report for the year ended 30 June 2019", which is expected to be made available to us after that date. The other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent auditor's report continued

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and / or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Sasfin Holdings Limited for 2 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Vincent Tshikhovhokhovho
Registered Auditor
4 Lisbon Lane
Waterfall City
2019

17 September 2019

Consolidated statement of financial position

AT 30 JUNE 2019

	Accounting policy	Note	2019 R'000	2018[1] R'000
ASSETS				
Cash and cash balances	1.10	4	1 312 786	1 892 167
Negotiable securities	1.12	5	3 077 519	1 975 407
Trading assets	1.12	6	1 187 523	1 476 511
Other receivables	1.12	7	410 776	375 380
Non-current assets held for sale		8	–	–
Loans and advances	1.12	9	7 487 205	7 617 179
Current taxation asset	1.15		23 799	19 809
Investment securities	1.12	10	747 714	628 493
Investments at fair value through profit or loss	1.12		635 298	616 319
Equity accounted associates	1.2		112 416	12 174
Property and equipment	1.5	12	75 245	88 687
Investment property	1.3	13	8 900	12 600
Intangible assets and goodwill	1.4	14	235 028	202 283
Deferred tax asset	1.15	11	34 907	30 568
Total assets			14 601 402	14 319 084
LIABILITIES				
Funding under repurchase agreements and interbank	1.12	15	2 271 610	1 924 975
Trading liabilities	1.12	6	1 175 828	1 449 203
Current taxation liability	1.15		4 526	21 819
Trade and other payables	1.12	16	899 119	764 040
Provisions	1.7	17	57 695	37 705
Bank overdraft	1.10	4	46 008	–
Deposits from customers	1.12	18	4 981 067	4 449 344
Debt securities issued	1.12	19	2 753 521	3 115 432
Long-term loans	1.12	20	495 715	674 616
Deferred tax liability	1.15	11	138 929	140 179
Total liabilities			12 824 018	12 577 313
EQUITY				
Ordinary share capital	1.9	21	321	321
Ordinary share premium	1.9	22	166 945	166 945
Reserves	1.9		1 418 360	1 382 185
Preference share capital	1.9	23	18	18
Preference share premium	1.9	24	188 068	188 068
Non-controlling interest			3 672	4 234
Total equity			1 777 384	1 741 771
Total liabilities and equity			14 601 402	14 319 084

[1] *Comparative information has not been restated for the adoption of IFRS 9. Therefore comparability may not necessarily be achieved. Refer to note 1.1.1.*

Consolidated statement of comprehensive income

FOR THE YEAR ENDED 30 JUNE 2019

	Accounting policy	Note	2019 R'000	2018[1] R'000
Interest and similar income	1.13	26	1 330 151	1 281 874
Interest income calculated using the effective interest method			1 296 746	1 204 995
Other interest income			33 405	76 879
Interest and similar expense		27	(830 879)	(809 095)
Interest expense calculated using the effective interest method	1.13		(779 507)	(753 421)
Other interest expense	1.13		(51 372)	(55 674)
Net interest income			499 272	472 779
Non-interest income			727 588	746 437
Net fee and commission income	1.13	28	450 633	482 861
Fee and commission income			696 891	771 042
Fee and commission expense			(246 258)	(288 181)
Gains and losses on financial instruments	1.13	29	121 301	130 767
Other income		30	155 654	132 809
Total income			1 226 860	1 219 216
Impairment charges on loans and advances	1.12.4 & 2.1.1	42.3.4	(80 358)	(144 178)
Net income after impairments			1 146 502	1 075 038
Operating costs			(954 366)	(871 274)
Staff costs	1.14	31	(504 421)	(453 741)
Other operating expenses		32	(437 895)	(408 097)
Impairments on non-financial assets	1.11	33	(12 050)	(9 436)
Profit from operations			192 136	203 764
Share of associate income	1.2.4		19 149	110
Profit before income tax			211 285	203 874
Income tax expense	1.15	34	(48 832)	(71 428)
Profit for the year			162 453	132 446
Other comprehensive income for the year, net of tax effects				
Items that may subsequently be reclassified to profit or loss				
Foreign exchange differences on translation of foreign operations			4 877	9 741
Total comprehensive income for the year			167 330	142 187
Profit attributable to:			162 453	132 446
Non-controlling interest			(562)	1 981
Preference shareholders			14 955	15 531
Equity holders of the Group			148 060	114 934
Total comprehensive income attributable to:			167 330	142 187
Non-controlling interest			(562)	1 981
Preference shareholders			14 955	15 531
Equity holders of the Group			152 937	124 675
Earnings per share:				
Basic and diluted earnings per share (cents)			459.86	358.68

[1] *Comparative information has not been restated for the adoption of IFRS 9. Therefore comparability may not necessarily be achieved. Refer to note 1.1.1.*

Consolidated statement of changes in equity

FOR THE YEAR ENDED 30 JUNE 2019

	Ordinary share capital and premium R'000	Distri-butable reserves R'000	Foreign currency trans-lation reserve R'000	Hedging reserve R'000	Total ordinary share-holders' equity R'000	Pre-ference share capital and premium R'000	Non-con-trolling Interest R'000	Total share-holders' equity R'000
Balance at 30 June 2017	144 327	1 362 835	68 823	(107 099)	1 468 886	188 086	2 253	1 659 225
Total comprehensive income for the year	–	114 934	9 741	–	124 675	15 531	1 981	142 187
Profit for the year	–	114 934	–	–	114 934	15 531	1 981	132 446
Other comprehensive income net of income tax for the year	–	–	9 741	–	9 741	–	–	9 741
Transactions with owners recorded directly in equity								
Issued shares	413 491	–	–	–	413 491	–	–	413 491
Repurchase of shares	(390 552)	–	–	–	(390 552)	–	–	(390 552)
Dividends to preference shareholders	–	–	–	–	–	(15 531)	–	(15 531)
Dividends to ordinary shareholders	–	(67 049)	–	–	(67 049)	–	–	(67 049)
Balance at 30 June 2018	167 266	1 410 720	78 564	(107 099)	1 549 451	188 086	4 234	1 741 771
Changes on initial application of IFRS 9 (refer to note 1.1.1)	–	(66 103)	–	–	(66 103)	–	–	(66 103)
Restated balance at 1 July 2018[1]	167 266	1 344 617	78 564	(107 099)	1 483 348	188 086	4 234	1 675 668
Total comprehensive income for the year	–	148 060	4 877	–	152 937	14 955	(562)	167 330
Profit for the year	–	148 060	–	–	148 060	14 955	(562)	162 453
Other comprehensive income net of income tax for the year	–	–	4 877	–	4 877	–	–	4 877
Transactions with owners recorded directly in equity								
Dividends to preference shareholders	–	–	–	–	–	(14 955)	–	(14 955)
Dividends to ordinary shareholders	–	(50 659)	–	–	(50 659)	–	–	(50 659)
Balance at 30 June 2019	167 266	1 442 018	83 441	(107 099)	1 585 626	188 086	3 672	1 777 384

	2019 Cents per share	2018 Cents per share
Ordinary shares		
Interim dividend	49.86	46.89
Final dividend	50.01	104.37
Preference shares		
Dividend no 27	–	427.42
Dividend no 28	–	414.03
Dividend no 29	418.09	–
Dividend no 30	419.34	–

[1] *Comparative information has not been restated for the adoption of IFRS 9. Therefore comparability may not necessarily be achieved. Refer to note 1.1.1.*

Consolidated statement of cash flows

FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 R'000	2018 R'000
Cash flows from operating activities			
Cash receipts from customers	38.1	1 981 446	1 938 779
Cash paid to customers, suppliers and employees	38.2	(1 761 738)	(1 644 232)
Cash inflow from operating activities	38.3	219 708	294 547
Dividends received		18 014	22 185
Taxation paid	38.4	(57 121)	(32 987)
Dividends paid	38.5	(65 614)	(82 580)
Cash flows from operating activities before changes in operating assets and liabilities		114 987	201 165
Changes in operating assets and liabilities		(613 144)	802 743
Increase in loans and advances		(33 754)	(120 207)
(Increase)/decrease in trading assets		334 001	(123 348)
Increase in negotiable securities		(1 102 112)	(579 885)
(Increase)/decrease in other receivables		(35 396)	63 252
Increase/(decrease) in deposits		531 723	(102 646)
(Decrease)/increase in long-term funding		(178 901)	244 943
Increase in funding under repurchase agreements and interbank		346 635	618 049
(Decrease)/increase in trading liabilities		(273 375)	115 652
(Decrease)/increase in debt securities		(361 911)	618 714
Increase in trade and other payables		139 956	92 275
Increase/(decrease) in provisions		19 990	(24 056)
Net cash from operating activities		(498 157)	1 003 908
Cash flows from investing activities		(123 709)	(1 281 352)
Proceeds from the disposal of property and equipment		568	4 299
Proceeds from disposal of investment property		–	56 500
Proceeds from the disposal of investment securities		37 721	4 700
Acquisition of property and equipment		(22 751)	(22 471)
Acquisition of intangible assets		(61 083)	(82 815)
Net cash paid on acquisition of subsidiaries		–	(1 167 031)
Acquisition of investment securities		(47 672)	(108 145)
(Advance)/repayments of investment securities		(30 492)	33 611
Net cash flows from financing activities		–	22 939
Proceeds from issue of ordinary shares		–	413 491
Repurchase of ordinary shares		–	(390 552)
Net decrease in cash and cash balances		(621 866)	(254 505)
Cash and cash balances at beginning of the year	4	1 892 167	2 165 379
Effect of exchange rate movements on cash and cash balances		(3 523)	(18 707)
Cash and cash balances at the end of the year		1 266 778	1 892 167

Notes to the consolidated financial statements

FOR THE YEAR ENDED 30 JUNE 2019

1. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these Consolidated and Separate Annual Financial Statements are set out below.

1.1 Basis of preparation

The Consolidated and Separate Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and IFRS Interpretations Committee, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, the requirements of the Companies Act, No 71 of 2008, as amended, and the JSE Listings Requirements.

The directors assess the Group's and Company's future performance and financial position on a continuous basis and have no reason to believe that the Group and Company will not be a going concern in the reporting period ahead. Consequently the Consolidated and Separate Annual Financial Statements have been prepared on the going concern basis.

The Group has, in the preparation of these Consolidated and Separate Annual Financial Statements, consistently applied the accounting policies with those applied in the previous financial year, unless otherwise stated.

1.1.1 Adoption of new and amended standards for the first time in the current financial year

The following standards, interpretations and amendments have been adopted without affecting the Group's previously reported financial results, disclosures or accounting policies and did not impact the Group's results upon transition:

- IFRS 15 *Revenue from Contracts with Customers* (IFRS 15) – IFRS 15 replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers* and SIC-31 *Revenue – Barter of Transactions Involving Advertising Services*. This standard contains a single model that applies to all contracts with customers and two approaches to recognising revenue, namely at a point in time or over time. IFRS 15 details a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The adoption of IFRS 15 for the year commencing 1 July 2018 did not have a significant impact, since the standard does not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Group. Accordingly, the impact on the comparative information is limited to new disclosure requirements.
- IFRIC 22 *Foreign Currency Transactions and Advance Considerations* (IFRIC 22) – When foreign currency consideration is paid or received in advance of the item it relates to – which may be an asset, an expense or income – IAS 21 *The Effects of Changes in Foreign Exchange Rate*s is not clear on how to determine the transaction date for translating the related item. This has resulted in diversity in practice regarding the exchange rate used to translate the related item. IFRIC 22 clarifies that the transaction date is the date on which the Company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The Group adopted IFRIC 22 for the year commencing 1 July 2018. The adoption did not have a significant impact on the Group.

The adoption of IFRS 9 *Financial Instruments* (IFRS 9) had a material impact on the Group's results upon transition. IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) and is applied for the first time by the Group for the year commencing 1 July 2018.

The following is a summary of the main differences between IFRS 9 and IAS 39:

- Changes to the classification and measurement of financial assets. The classification and measurement of financial assets are determined by the business model applied by Sasfin in managing its financial assets and the contractual cash flow characteristics of the financial assets
- Moving from an incurred loss impairment model under IAS 39, to an expected credit loss (ECL) impairment model under IFRS 9
- Changes in the hedge accounting requirements and the application thereof

Refer to "IFRS 9 adoption" below for more detail.

IFRS 9 adoption

The Group has elected to adopt IFRS 9 retrospectively without restating comparatives i.e. restating opening retained income on 1 July 2018, the effective date. Consequently, the comparative information (as previously reported for the year ended 30 June 2018) are presented in accordance with the requirements of IAS 39, with current and future reporting periods presented in terms of IFRS 9.

1. ACCOUNTING POLICIES continued

1.1 Basis of preparation continued

1.1.1 *Adoption of new and amended standards for the first time in the current financial year continued*

IFRS 9 adoption continued

Classification and measurement

As indicated in the below table, the changes to the classification and measurement of financial assets and financial liabilities did not have a significant impact on the Group, apart from the increase in the credit loss allowance in respect of Loans and Advances and the related deferred tax impact.

				IFRS 9 Transition adjustment on 1 July 2018			
	IAS 39 Classification	IFRS 9 Classification	IAS 39 30 June 2018 R'000	ECL R'000	Classification and measure-ments R'000	Total IFRS 9 Adjustment R'000	IFRS 9 1 July 2018 R'000
ASSETS							
Cash and cash balances	Amortised cost	Amortised cost	1 892 167	–	–	–	1 892 167
Negotiable securities	Amortised cost	Amortised cost	1 975 407	–	–	–	1 975 407
Loans and advances	Amortised cost	Amortised cost	7 618 495	(84 686)	–	(84 686)	7 533 809
Trading assets	FVTPL	FVTPL	1 476 511	–	–	–	1 476 511
Other receivables	Amortised cost	Amortised cost	375 380	–	–	–	375 380
Investment securities			628 493	–	–	–	628 493
Private Equity and Property Equity investments	FVTPL – designated	FVTPL – default	586 497	–	–	–	586 497
Strategic investments	FVTPL – designated	FVTPL – default	41 996	–	–	–	41 996
Property and equipment	Outside scope	Outside scope	88 206	–	–	–	88 206
Investment property	Outside scope	Outside scope	12 600	–	–	–	12 600
Taxation	Outside scope	Outside scope	19 809	–	–	–	19 809
Intangible assets and goodwill	Outside scope	Outside scope	201 448	–	–	–	201 448
Deferred tax asset	Outside scope	Outside scope	30 568	18 583	–	18 583	49 151
Total assets			14 319 084	(66 103)	–	(66 103)	14 252 981

1. ACCOUNTING POLICIES continued
1.1 Basis of preparation continued
1.1.1 *Adoption of new and amended standards for the first time in the current financial year* continued
IFRS 9 adoption continued

Classification and measurement continued

	IAS 39 Classification	IFRS 9 Classification	IAS 39 30 June 2018 R'000	IFRS 9 Transition adjustment on 1 July 2018: ECL R'000	IFRS 9 Transition adjustment on 1 July 2018: Classification and measure-ments R'000	IFRS 9 Transition adjustment on 1 July 2018: Total IFRS 9 Adjustment R'000	IFRS 9 1 July 2018 R'000
LIABILITIES							
Funding under repurchase agreements and interbank	Amortised cost	Amortised cost	1 924 975	–	–	–	1 924 975
Deposits from customers	Amortised cost	Amortised cost	4 449 344	–	–	–	4 449 344
Debt securities issued	Amortised cost	Amortised cost	3 115 432	–	–	–	3 115 432
Long-term loans	Amortised cost	Amortised cost	674 616	–	–	–	674 616
Trading liabilities	FVTPL	FVTPL	1 449 203	–	–	–	1 449 203
Other payables	Amortised cost	Amortised cost	801 745	–	–	–	801 745
Taxation	Outside scope	Outside scope	21 819	–	–	–	21 819
Deferred tax liability	Outside scope	Outside scope	140 179	–	–	–	140 179
Total liabilities			12 577 313	–	–	–	12 577 313
EQUITY							
Ordinary share capital	Outside scope	Outside scope	321	–	–	–	321
Ordinary share premium	Outside scope	Outside scope	166 945	–	–	–	166 945
Reserves	Outside scope	Outside scope	1 382 185	(66 103)	–	(66 103)	1 316 082
Preference share capital	Outside scope	Outside scope	18	–	–	–	18
Preference share premium	Outside scope	Outside scope	188 068	–	–	–	188 068
Non-controlling interest	Outside scope	Outside scope	4 234	–	–	–	4 234
Total equity			1 741 771	(66 103)	–	(66 103)	1 675 668
Total liabilities and equity			14 319 084	(66 103)	–	(66 103)	14 252 981

Expected credit loss impairment model

The Group has elected not to apply the simplified approach to its finance lease receivables.

The allowance account for credit losses is determined with reference to the following:
- Stage 1: 12-month ECLs for those financial assets where there has not been a significant increase in credit risk since initial recognition.
- Stage 2: Lifetime ECLs for those financial assets where there has been a significant increase in credit risk on a collective basis.
- Stage 3: Lifetime ECLs for all credit impaired financial assets.

A significant increase in credit risk considers the impact of forward-looking economic information that is readily available, and where relevant, the ageing of the debt. Refer to note 1.12.A.

The change from an incurred loss model under IAS 39 to an ECL model under IFRS 9 resulted in an increase in the impairment loss allowance account (i.e. provision for credit losses) of R84.686 million, with a deferred tax impact of R18.583 million on 1 July 2018. The ECL model also includes financial guarantees issued, which were previously recognised in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Management has applied assumptions, judgements and estimates in developing the ECL model, based on historical experience and other factors that are believed to be reasonable. Refer to note 2.1 for further information.

1. ACCOUNTING POLICIES continued

1.1 Basis of preparation continued

1.1.1 *Adoption of new and amended standards for the first time in the current financial year continued*

IFRS 9 adoption continued

Expected credit loss impairment model continued

Impairment loss allowance for:

	Loans and advances under IAS 39 on 30 June 2018:						Loans and advances and financial guarantees under IFRS 9 on 1 July 2018:				
	Portfolio R'000	Special mention R'000	Sub-standard R'000	Doubtful R'000	Loss R'000	Total R'000	Stage 1 R'000	Stage 2 R'000	Stage 3 R'000	Total R'000	IFRS 9 transition adjust-ment R'000
Equipment Finance	41 859	4 851	1 509	11 530	189 436	249 185	27610	45 050	197 495	270 155	20 970
Capital Equipment Finance	1 102	955	–	–	169	2 226	14 239	74	8 533	22 846	20 620
Trade and Debtor Finance	8 178	2 607	–	–	14 261	25 046	21 792	9 167	28 829	59 788	34 742
Other secured loans	–	164	–	–	9 143	9 307	7 949	–	9 308	17 257	7 950
Financial guarantees	–	–	–	–	–	–	404	–	–	404	404
	51 139	8 577	1 509	11 530	213 009	285 764	71 994	54 291	244 165	370 450	84 686

Hedge accounting

Sasfin currently does not apply hedge accounting and hence the changes in IFRS 9 with regards to hedge accounting did not have any impact upon transition. The Group previously hedged a net investment in a foreign operation, which was discontinued on 1 July 2016. As permitted by IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39 with regards to this specific hedge, for which Sasfin still owns the underlying foreign subsidiary. Refer to note 1.12.3 for further information.

1.1.2 *Accounting policy elections*

The following accounting policy elections have been made by the Group and Company:

Asset/liability	Options	Election and implication	Accounting policy
Property and equipment	Cost/revaluation model	*Group* • Buildings are stated at cost less accumulated depreciation • Computer equipment, furniture and fittings and vehicles are carried at cost less accumulated depreciation • Depreciation rates applied: – Buildings: 9 years – Computer equipment: 2 to 5 years – Furniture and fittings: 6 to 10 years – Motor vehicles: 5 years – Buildings and leasehold improvements: 5 to 10 years	1.5
Investment properties	Cost/fair value model	*Group* Investment properties are carried at fair value with changes in fair value recognised in profit or loss.	1.3

1. ACCOUNTING POLICIES continued

1.1 Basis of preparation continued

1.1.2 Accounting policy elections continued

Asset/liability	Options	Election and implication	Accounting policy
Investments in subsidiaries and joint arrangements	Cost/financial instrument/equity accounted	*Company* • Cost less accumulated impairments *Group* • Subsidiaries are consolidated and joint arrangements are equity accounted	1.2
Investments in associate companies	Cost/financial instrument/equity accounted	Strategic investments. *Company* • Cost less accumulated impairments *Group* • Equity accounted. • Private equity investments *Company and Group* • Financial asset at fair value through profit or loss	1.2

1.2 Basis of consolidation

1.2.1 Business combinations

The Group accounts for business combinations using the acquisition method at the acquisition date – the date at which control over an investee transfers to the Group.

The Group controls an investee if it is exposed to, or has rights to, variable returns from its relationship with the investee and has the ability to affect those returns through its control over the investee.

The acquisition consideration is measured at fair value and does not include amounts related to the settlement of pre-existing relationships, which are recognised in profit or loss. Identifiable net assets acquired are measured at fair value at the acquisition date.

Contingent considerations payable are measured at fair value at the acquisition date.

1.2.2 Subsidiaries

Subsidiaries are investees controlled by the Group and Company. The financial statements of subsidiaries are consolidated into the Consolidated Annual Financial Statements from the date on which control commences until the date on which control ceases.

Investments in subsidiaries are reflected at cost less accumulated impairment in the Company's Separate Annual Financial Statements.

1.2.3 Structured entities

Structured entities are formed to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing, lending or other transaction.

The Group, in substance, controls a structured entity where the Group:

- controls the activities of the structured entity according to the Group's specific needs;
- has the decision-making powers to control the activities of the structured entity;
- has delegated decision-making powers by setting up an 'autopilot' mechanism;
- has rights to obtain the majority of the benefits of the structured entity;
- is exposed to risks incidental to the activities of the structured entity; and
- retains the majority of the residual ownership risks related to the structured entity or its assets.

1. ACCOUNTING POLICIES continued

1.2 Basis of consolidation continued

1.2.3 Structured entities continued

The assessment of whether the Group has control over a structured entity is carried out at inception. There is normally no further reassessment of control unless:

- there are changes to the structure of the relationship between the Group and the structured entity;
- there are additional transactions between the Group and the structured entity;
- Changes in market conditions alter the substance of the relationship between the Group and the structured entity; and
- the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and the structured entity.

The structured entities consolidated are:

- South African Securitisation Programme (RF) Limited (SASP), controlled by Sasfin Bank Limited;
- Fintech Receivables 2 (RF) Limited (FR2), controlled by Fintech (Pty) Limited (Fintech), a subsidiary of Sasfin Bank Limited; and
- Sunlyn (Pty) Limited, controlled by Sasfin Bank Limited.

1.2.4 Associates

An associate is an investee over which the Group has significant influence, but not control, over its financial and operating activities.

Investments in associate companies are initially accounted for at cost from the date that significant influence is effective.

Subsequent to initial recognition, investments in associates are equity-accounted. The Group's proportionate share of associate income (or loss) is accounted for in profit or loss and as part of the investment in associate. Dividend income from associates are not recognised in profit or loss, but against the investment in associate.

When the Group's share of losses in an associate exceeds its carrying amount, the investment in that associate is written down to zero and recognition of further losses is discontinued except to the extent that the Group has guaranteed obligations in respect of the associate.

Impairments to investments in associates are written down in profit or loss when they are impaired and are reflected at cost less accumulated impairment losses in the statement of financial position in the separate financial statements.

Associate companies held by Private Equity and Property Equity business units

Investments in associates held by the Private Equity and Property Equity businesses of the Group are classified as mandatory at fair value through profit or loss as these investments are managed on a fair value basis.

Changes in the fair value of these investments are recognised in non-interest income in the statement of comprehensive income in the period in which they occur.

1.3 Investment property

Investment properties are held to earn rental income or capital appreciation, or both. Investment properties are initially recognised at cost.

Subsequent to initial recognition, investment properties are accounted for at fair value.

Fair value is determined annually by independent professional valuators. Where fair value cannot be reliably determined, the Group uses alternative valuation methods such as discounted cash flow projections or recent prices in active markets.

Fair value adjustments on investment properties are reflected in profit or loss as part of non-interest income in the Group in the period in which these gains or losses arise.

When the use of a property changes such that it is reclassified to or from investment property, its fair value at the date of reclassification becomes its new cost. A change in use only occurs when a property meets or ceases to meet the definition of investment property and there is evidence of such a change in use.

1. ACCOUNTING POLICIES continued

1.4 Intangible assets

1.4.1 Goodwill

Goodwill that arises upon the acquisition of subsidiaries in the Group is recognised as an intangible asset and is measured at cost.

Subsequent to initial recognition, goodwill is tested annually for impairment and is reflected at cost less any accumulated impairment losses. Refer to note 2.5 for further information.

1.4.2 Internally developed software and distributor relationships

The Group capitalises its own unique and identifiable software (internally developed software) when it can reliably measure the cost to develop, is able to demonstrate its ability and intention to complete development and is satisfied that the internally developed software will generate future economic benefits.

Subsequent expenditure is only capitalised to the internally developed software asset when the Group determines that the expenditure will increase future economic benefits beyond those initially envisaged.

Distributor relationships are capitalised when acquired as part of a business combination and the Group is satisfied that the relationship will generate future economic benefits. These relationships are amortised over their expected useful lives and assessed for impairment annually.

Internally developed software is amortised in profit or loss on the straight-line basis over the expected useful lives of the assets. Refer to note 2.5 for further information.

Capitalised computer software is reflected at cost less accumulated amortisation and accumulated impairment losses.

Capitalised computer software and distributor relationships are amortised on the straight-line basis over their useful lives at rates which will reduce the assets to their anticipated residual values.

Amortisation methods, residual values and useful lives are reviewed and adjusted annually where appropriate. Amortisation expense is recognised in profit or loss.

The estimated useful lives of software (including internally developed software) are two to five years and for distributor relationships are five to 10 years, for the current and comparative years.

1.5 Property and equipment

1.5.1 Owned assets

Property and equipment in the Group are initially measured at cost, including any expenditure directly attributable to the acquisition or bringing the asset into use.

Property and equipment are reflected at carrying amount being cost less accumulated depreciation and impairment losses.

Repairs and maintenance on property and equipment are recognised directly in profit or loss.

1.5.2 Depreciation

Assets are depreciated on the straight-line basis over their useful lives at rates which will reduce the assets to their anticipated residual values.

Depreciation methods, residual values and useful lives are reviewed and adjusted annually where appropriate.

The estimated useful lives of property and equipment for the current and comparative years are two to 10 years.

1.5.3 Profit or loss on disposal

A profit or loss on the sale/disposal of an item of property and equipment is calculated as the difference between the carrying amount and the net proceeds received. This profit or loss is recognised within non-interest income in the statement of comprehensive income.

1.6 Currencies

1.6.1 Functional and presentation currency

The Consolidated and Separate Annual Financial Statements are presented in South African Rand (ZAR) and all amounts, unless otherwise indicated, are stated in thousands of ZAR (R'000).

All entities in the Group, with the exception of Sasfin Asia Limited, operate in the Republic of South Africa with a functional currency of ZAR.

1. ACCOUNTING POLICIES continued

1.6 Currencies continued

1.6.1 *Functional and presentation currency continued*

Sasfin Asia Limited operates in Hong Kong, with a functional currency of United States Dollar (USD). On consolidation, exchange differences arising from the translation of the Group's net investment in Sasfin Asia Limited are recognised in other comprehensive income and accumulated in the foreign currency translation reserve in equity.

1.6.2 *Transactions and balances*

Foreign currency transactions in the Group are translated into the presentation currency at exchange rates at the date of the transaction.

Foreign exchange gains and losses resulting from the settlement of foreign exchange assets or liabilities or the translation of monetary assets and liabilities are recognised in profit or loss except for qualifying net investment hedges which are recognised in other comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies are translated into the functional currency:

- exchange rate at the transaction date if measured at historical cost; or
- exchange rate at the date fair value was determined if measured at fair value.

Foreign exchange gains and losses on non-monetary assets and liabilities are accounted for based on the classification of the underlying items.

1.7 Provisions

A provision is recognised when the Group has a present, legal or constructive obligation, as a result of a past event, from which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Where the effects of the time value of money are material, provisions are recognised at the present value of the expected obligation.

With the adoption of IFRS 9, financial guarantees issued are recognised in accordance with IFRS 9 and no longer as part of Provisions.

1.8 Leases

1.8.1 *Group as the lessor*

Rental, lease and instalment sale contracts are financing transactions, with rentals and instalments receivable, less unearned finance charges, being reflected as Loans and Advances in the statement of financial position.

Finance income is recognised over the term of the lease using the effective interest method.

1.8.2 *Group as the lessee*

Operating leases

Payments under operating leases are expensed on a straight-line basis over the term of the lease in profit or loss. Penalties for early termination of operating lease contracts are recognised in profit or loss in the period in which the termination takes place.

1.9 Share capital

1.9.1 *Ordinary share capital*

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of tax.

Dividends are accounted for as distributions from equity in the period in which they are payable to shareholders.

Ordinary share capital of the Company purchased by the Company or its subsidiaries, is recognised as a reduction in equity at the amount of consideration paid, including directly attributable costs, net of tax.

1.9.2 *Preference share capital as equity*

Preference share capital is classified as equity if it is non-redeemable, or it is redeemable only at the Company's option or if dividends payable are discretionary at the option of the Company.

Incremental costs directly attributable to the issue of preference shares are recognised as a deduction from equity, net of tax.

1. ACCOUNTING POLICIES continued

1.9 Share capital continued

1.9.2 Preference share capital as equity continued

Preference dividends are accounted for as distributions from equity when they become payable to shareholders.

Preference share capital of the Company, purchased by the Company or its subsidiaries, is recognised as a reduction to equity at the amount of the consideration paid, including directly attributable costs, net of tax. Preference shares repurchased by the Company are cancelled.

1.10 Cash and cash balances

Cash and cash balances as reflected on the statement of cash flows comprise:

- Cash and cash balances on hand; and
- Balances with the SARB.

Cash and cash balances are available for use by the Group unless otherwise stated and are accounted for at amortised cost in the Annual Financial Statements.

1.11 Impairment of non-financial assets

The Group annually assesses all non-financial assets for impairment. Impairment occurs where there is evidence that the carrying amount of the non-financial asset exceeds its recoverable amount.

Impairment losses are recognised in profit or loss when the carrying amount of the non-financial asset or cash-generating unit exceeds its recoverable amount.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating units, and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

Calculation of recoverable amount

The recoverable amount of a non-financial asset is the greater of its fair value less costs to dispose, and its value in use. In determining value in use, estimated future cash flows to be generated from the non-financial asset are discounted to their present value using a pre-tax market-related risk-adjusted discount rate specific to the asset.

The recoverable amount of non-financial assets that do not generate largely independent cash inflows is determined for the cash-generating unit to which the asset belongs.

Impairment reversals

Impairment losses on non-financial assets are reversed where there have been changes to the recoverable amount. Impairment losses are reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined net of depreciation or amortisation, if no impairment loss had been recognised. Reversal of impairment losses is not recognised for goodwill that has been impaired.

1.12 Financial instruments

Since the Group has elected not to restate comparative information with the adoption of IFRS 9, the accounting policies applicable to both the current and comparative reporting periods have been included below for ease of reference.

A. Financial instruments – Policy under IFRS 9 (current and future periods)

Financial instruments, as reflected on the statement of financial position, include all financial assets, financial liabilities, derivative instruments and financial guarantee contracts issued, excluding investments in subsidiaries, associated companies and joint ventures (refer to note 1.2).

Financial assets are recognised on the date on which the Group commits to purchase the asset. Financial liabilities are recognised on the date on which the Group becomes party to the contractual provisions of the financial liability.

Financial instruments are initially recognised at fair value.

Transaction costs directly attributable to the acquisition of a financial asset or financial liability are recognised in profit or loss for financial instruments measured at fair value through profit or loss and, for all other financial instruments, against the financial instrument.

Subsequent to initial measurement, financial instruments are either measured at fair value through profit or loss, or amortised cost, based on the business model in terms of which the financial instruments are acquired and managed, as well as the contractual cash flow characteristics thereof.

1.12 **Financial instruments** continued

A. Financial instruments – Policy under IFRS 9 (current and future periods) *continued*

Classification and measurement of financial assets

Financial assets are classified and measured based on the Group's business model for managing it and the contractual cash flow characteristics of the financial assets. IFRS 9 eliminated the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale financial assets.

Financial assets held by the Group in a business model that has the objective of holding the financial assets to collect contractual cash flows, and the contractual terms of the financial asset leads to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are classified and measured as 'measured at amortised cost'.

Financial assets held by the Group in a business model that has the objective of realising cash flows through the sale of the assets and/or that is managed on a fair value basis, including those held for trading, are classified and measured as fair value through profit or loss (FVTPL).

Business model assessment

Sasfin makes an assessment of the objective of a business model in which an asset is held at a portfolio level since this best reflects the way the business is managed and information is provided to management. The following information is considered:

- The stated policies and objectives for the portfolio and the practical implementation of those policies. Specifically, whether management's strategy focuses on earning contractual interest revenue, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising profits and cash flows through the sale of the assets
- How the performance of the portfolio is evaluated and reported to Sasfin's management
- The risks that affect the performance of each portfolio and the strategy for how those risks are managed
- How managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected)
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. Information about sales activity is considered as part of the overall assessment of how Sasfin's stated objective for managing the financial assets is achieved and how cash flows are realised

Financial assets that are held for trading (i.e. acquired for the purpose of selling in the short-term) and those that the Group has elected to designated as at FVTPL are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing those financial assets.

Impairment

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for those financial instruments on which credit risk has not increased significantly since their initial recognition which are measured as 12-month ECL (see note 42).

For lease receivables, the Group has elected, in accordance with the allowed accounting policy choice in IFRS 9, to apply the general model for measuring loss allowance, as explained above.

1. ACCOUNTING POLICIES continued

1.12 Financial instruments continued

A. Financial instruments – Policy under IFRS 9 (current and future periods) *continued*

Impairment *continued*

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments for which a lifetime ECL is recognised and which are credit-impaired, are referred to as 'Stage 3 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive)
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover. Refer to note 42

The key inputs for the measurement of ECL are the following variables:

- Probability of Default (PD);
- Loss Given Default (LGD);
- Exposure at Default (EAD);
- Time to Default (TTD); or
- Expert judgement referred to below

ECL is a "three stage" model for calculating impairment losses, based on changes in credit quality since initial recognition namely:

- Stage 1 includes exposures that have not had a Significant Increase in Credit Risk (SICR) since initial recognition. For these financial instruments, ECL is calculated based on the relevant 12-month PD, TTD and EAD.
- Stage 2 includes exposures that had a SICR since initial recognition, but do not have objective evidence of impairment. For these financial instruments, ECL is calculated based on the relevant lifetime PD, TTD and EAD.
- Stage 3 includes exposures for which there are objective evidence of impairment at the reporting date. For these financial instruments, ECL is calculated based on a lifetime PD, TTD and EAD. The financial instrument must be classified as in "Stage 3", when it is credit-impaired.

An expert judgement approach is used to determine the LGD for the Capital Equipment Finance, Trade and Debtor Finance and Other Secured Loan portfolios. This approach determines the expected loss for Stage 3 exposures based on an anticipated salvage calculation. The value of the anticipated salvage used in the determination of the ECL of credit impaired financial instruments is calculated taking the following factors into account:

- Realisable market value of security (e.g. stock, equipment, property) (after taking account of costs associated with such sale)
- Stage and nature of legal process
- Wherewithal of debtor to pay based on available credit data (e.g. financial statements, cash flows, third party credit bureau reports)
- Any supporting suretyships or guarantees
- Financial standing/reputation of the client group and or related parties
- Any recourse/warranty claim against a supplier or any other third party
- Any applicable insurance claim
- Any negotiated settlement agreements
- Timing of expected recoveries

1.12 Financial instruments continued

***A. Financial instruments – Policy under IFRS 9 (current and future periods)** continued*

Significant Increase in Credit Risk (SICR)

The Group defines a SICR as follows:

- Rental and Capital Equipment
  - when a debtor is flagged as High Care; or
  - once an account becomes past due/arrears for more than seven days and up to and including 30 days.
- Trade Finance
  - when a debtor is flagged as High Care;
  - when no extensions have been granted in excess of the maximum tenor contractually agreed with the debtor and the debtor then becomes past due/arrears up to and including 30 days; or
  - when extensions have been granted in excess of the maximum tenor contractually agreed with the debtor and the account has been extended more than 30 days.

    Any one or more extensions will be counted from the first invoice's original payment date.
- Debtor Finance
  - when a debtor is flagged as High Care; or
  - margin Excess – Once an account is in margin excess for longer than seven days and up to and including 30 days.
- Other Secured Loans
  - when a debtor is flagged as High Care; or
  - once an account becomes past due/arrears for more than seven days and up to and including 30 days.

Clients in High Care are those that have shown signs of financial pressure because of the industry in which they operate and/or, based on the available financial information, are experiencing financial difficulty.

Restructured financial assets (Trade and Debtor finance)

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Default and curing (IFRS 9)

For purposes of calculating the ECL, the Group views a financial asset as in default and hence in Stage 3 (i.e. credit impaired), when the borrower becomes 90 days overdue on its contractual payments. In addition, the following qualitative factors are also considered to determine whether a debtor is in default:

- the debtor's business is subject to labour disputes or unresolved management problems that may affect its business, production or profitability;
- the debtor is experiencing delays or other unplanned adverse events results in cost overruns likely to require loan restructuring;
- the increase in the debtor's borrowings is not in proportion to the growth of the debtor's business;
- the debtor is experiencing difficulty with repaying obligations with other creditors; and
- indications that a debtor would enter into provisional or final liquidation or business rescue.

When a debtor has been classified as a credit-impaired (Stage 3), it can be cured to stage 1 subject to the debt being:

- up to date, and
- three consecutive payments paid on or before due date.

Should the debtor be defined as a "High Care" account, it will cure to Stage 2 and not Stage 1. Also, should the client still represent a SICR, curing may only take place to stage 2. For distressed restructured loans that were in default, there must be at least six consecutive monthly payments under the revised terms, in order to cure.

1. ACCOUNTING POLICIES continued

1.12 Financial instruments continued

A. Financial instruments – Policy under IFRS 9 (current and future periods) *continued*

Write off

Loans and advances as well as debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that there is no realistic prospect of recovering the monies owed. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- financial guarantee contracts: as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component.

Classification and measurement of financial liabilities, including financial guarantee contracts issued

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

Derecognition of financial assets and financial liabilities

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Refer to notes 1.2.3 and 35 for more details.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

Amortised cost

Amortised cost financial assets and financial liabilities are measured at the amount determined on initial recognition, less principal repayments and cumulative amortisation using the effective interest method, and any difference between the initial amount and the maturity amount, and for financial assets, adjusted for any ECL allowance.

Financial instruments at fair value through profit or loss

The Group has designated financial assets and financial liabilities at fair value through profit or loss where it eliminates or significantly reduces an accounting mismatch which would otherwise arise. The Group further classifies financial assets and financial liabilities at fair value through profit or loss when the business model is such that these financial assets and financial liabilities are managed and measured on a fair value basis.

Financial assets and financial liabilities at fair value through profit or loss are measured at fair value, with fair value gains and losses reported in non-interest income, apart from those related to interest rate swaps.

The fair value gains and losses on interest rate swaps are included in net interest income. Interest income and interest expense on debt instruments classified as at fair value through profit or loss are reported as such in profit or loss.

1. ACCOUNTING POLICIES continued

1.12 Financial instruments continued

B. Financial instruments – Policy under IAS 39 (comparative information)

Financial instruments, as reflected on the statement of financial position, include all financial assets, financial liabilities and derivative instruments, excluding investments in subsidiaries, associated companies and joint ventures (refer to accounting policy note 1.2).

Financial assets are recognised on the date on which the Group commits to purchase the asset. Financial liabilities are recognised on the date on which the Group becomes party to the contractual provisions of the financial liability.

Financial instruments are initially recognised at fair value.

Transaction costs directly attributable to the acquisition of a financial asset or financial liability are recognised in profit or loss for financial instruments measured at fair value through profit or loss and, for all other financial instruments, against the financial instrument.

Subsequent to initial measurement, financial instruments are either measured at fair value through profit or loss, or amortised cost.

Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss consist of instruments held for trading and those financial instruments that the Group has elected to designate at fair value through profit or loss.

Financial instruments at fair value are classified as held for trading if they are acquired or incurred for the purpose of selling or repurchasing in the short term. Financial assets and liabilities held for trading are measured at fair value. Gains or losses on held for trading financial assets and liabilities are recognised in profit or loss.

The Group has designated financial assets and liabilities at fair value through profit or loss for:

- financial assets or liabilities that are managed, evaluated and reported internally on a fair value basis; or
- where it eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- financial assets or liabilities that contain an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Financial assets and financial liabilities at fair value through profit or loss are measured at fair value, with fair value gains and losses reported in non-interest income, apart from those related to interest rate swaps.

The fair value gains and losses on interest rate swaps are included in net interest income. Interest income and interest expense on financial instruments designated at fair value through profit or loss are reported as such in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market.

Financial assets classified as loans and receivables are carried at amortised cost using the effective interest rate method, with interest income and impairment losses recognised in profit or loss.

Measurement

Amortised cost

Amortised cost financial assets and financial liabilities are measured at the amount determined on initial recognition, less principal repayments and cumulative amortisation using the effective interest rate method, and any difference between the initial amount and the maturity amount, less any cumulative impairment losses.

Borrowings

Borrowings are recognised initially at fair value, generally being their issued proceeds, net of directly attributable transaction costs incurred, and are subsequently measured at amortised cost with interest recognised over the period of the borrowing, using the effective interest rate method, in profit or loss.

1. ACCOUNTING POLICIES continued

1.12 Financial instruments continued

B. Financial instruments – Policy under IAS 39 (comparative information) *continued*

Measurement continued

Derecognition

Financial instruments are derecognised on the date when the Group commits to selling a financial asset or redeeming a financial liability.

The Group derecognises a financial asset when:

- the contractual rights to the cash flows arising from the financial asset have expired or have been forfeited; or
- it transfers the financial asset, including, substantially, all the risks and rewards of ownership of the asset; or
- it neither transfers nor retains, substantially, all the risks and rewards of ownership of the asset, and no longer retains control of the asset.

A financial liability is derecognised when the contractual obligations are discharged, cancelled, transferred or have expired.

The difference between the derecognised carrying amount of a financial asset or financial liability and the consideration paid or received, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Offsetting financial instruments and related income (IAS 39 and IFRS 9)

Financial assets and liabilities are set off and reported net in the statement of financial position only when there is a legally enforceable right to do so and there is an intention and ability to settle or realise the asset or liability on a net basis or simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

1.12.1 Repurchase agreements (IAS 39 and IFRS 9)

The Group enters into the sale of securities with a simultaneous agreement to repurchase the same securities, called repurchase agreements. Repurchase agreements are entered into as part of the Group's Fixed Income unit or to obtain short-term liquidity for the Group.

For repurchase agreements, the cash received, including accrued interest, is recognised in the statement of financial position together with a corresponding liability representing the Group's obligation to return the cash and interest.

Interest incurred on repurchase agreements is recognised over the life of each agreement using the effective interest method and recognised as interest expense in profit or loss.

1.12.2 Reverse repurchase agreements (IAS 39 and IFRS 9)

The Group enters into the purchase of securities with a simultaneous agreement to resell the same securities, called reverse repurchase agreements. Reverse repurchase agreements are entered into as part of the Group's Fixed Income unit.

For reverse repurchase agreements, the cash paid, including accrued interest, is recognised in the statement of financial position together with a corresponding asset representing the Group's right to receive the cash and interest.

Interest earned on reverse repurchase agreements is recognised over the life of each agreement using the effective interest method and recognised as interest income in profit or loss.

1.12.3 Derivative financial instruments and hedge accounting (IAS 39 and IFRS 9)

A derivative is a financial instrument that changes value in response to an underlying variable, requires little or no initial net investment, and is settled at a future date. Derivatives are initially recognised at fair value on the date on which the derivatives are entered into and subsequently remeasured at fair value.

Gains and losses from changes in the fair value of derivatives that are classified as held for trading are recognised in profit or loss.

Hedge accounting – net investment hedge

Derivatives designated in a hedging relationship comprise a hedge of a net investment in a foreign operation.

Hedge accounting is applied to derivatives designated in a hedging relationship where:

- the Group formally documents, at the inception of the hedge, the relationship between the hedged item and hedging instruments, as well as its risk management objective and strategy for undertaking various hedging relationships; and
- the Group documents its assessment, both at the inception of the hedge and on an ongoing basis, of whether the derivatives that are used in hedging relationships are highly effective in offsetting changes in fair values or cash flows of hedged items during the period for which the hedge is designated, and whether the results of the hedge are within a range of 80% to 125%.

The Group hedges net investments in foreign operations using derivative instruments. For such hedges, the designated component of the hedging instrument that relates to the effective portion of the hedge is recognised directly in the statement of comprehensive income and consolidated statement of changes in equity in the hedging reserve. Any ineffective portion is immediately recognised in profit or loss. On the partial disposal of a foreign operation, the proportionate share of those deferred gains and losses is recognised in profit or loss.

On disposal of a foreign operation, all remaining deferred gains and losses are recognised in profit or loss.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised in profit or loss.

1.12.4 Impairment of financial assets (IAS 39)

The Group annually assesses financial assets not at FVTPL for impairment. Impairment occurs where there is objective evidence that a loss event has occurred after the initial recognition of the financial asset(s) and that the loss event has an impact on the future cash flows of the financial asset(s) that can be measured reliably.

Financial assets carried at amortised cost

Impairment is calculated as the difference between the carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the financial asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss.

Financial assets carried at cost

Financial assets carried at cost comprise unquoted equity instruments not carried at fair value, as fair value cannot be reliably measured, or derivative assets linked to or to be settled by delivery of an unquoted equity instrument.

Impairment is recognised on financial assets carried at cost where cost of the financial asset exceeds the present value of estimated future cash flows arising from the financial asset.

Impairment losses recognised on financial assets carried at cost are not reversed.

1. ACCOUNTING POLICIES continued

1.13 Revenue

1.13.1 Net interest income

Net interest income comprises interest income less interest expense as well as the fair value gains and losses on interest rate swaps.

Interest income and interest expense on financial instruments and finance lease receivables are recognised using the effective interest method.

The effective interest rate is the rate that discounts future cash payments or receipts over the expected life of the financial instrument to the carrying amount of the financial instrument and finance lease receivables.

In calculating the effective interest rate, the Group estimates expected cash flows considering all contractual terms of the financial instrument and finance lease receivables, excluding future credit losses but including all fees paid or received, transaction costs and all other premiums or discounts between parties to the contract.

From 1 July 2018, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Before 1 July 2018, interest income on impaired financial assets was recognised as interest in suspense in the statement of financial position, as part of the specific impairments on loans and advances.

The effective interest rate is established on initial recognition of the financial instrument and finance lease receivables and not subsequently revised.

1.13.2 Non-interest income

Non-interest income comprises fees and commissions, agency revenue, net brokerage commission, asset management fees, fair value gains and losses, dividend income, foreign exchange gains and losses, and other income.

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a service to a customer.

Fee and commission income includes administration fees, advisory fees and forex service fees as well as fees for providing banking and financial services activities. Fee and commission income is recognised net of any trade discounts, volume rebates and amounts received on behalf of third parties such as Value Added Tax. Furthermore, when the Group is acting as an agent amounts collected on behalf of the principal are not recognised as revenue. Performance fees can be variable and recognition is constrained until such time that it is highly probable that a significant reversal in the amount of revenue recognised will not occur and the services related to the transactions have been completed under the terms of the contract.

The Group provides banking services to retail and corporate customers. Fees for ongoing account management are charged to the customer's account on a monthly basis. Transaction-based fees for interchange and foreign currency transactions are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Group. Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.

Asset management fees include management fees on assets under management and administration fees. These are recognised over the period for which the services are rendered.

Dividend income is received from equity investments in entities which the Group does not have significant influence or control. Dividend income is recognised when the Group's right to receive payment is established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

1. ACCOUNTING POLICIES continued

1.14 Employee benefits

1.14.1 Short-term benefits

Short-term benefits comprise salaries, incentive bonuses, accumulated leave pay, provident fund contributions, medical aid contributions, group life contributions and company car benefits.

Short-term benefits are recognised in profit or loss as they become due.

A provision is recognised for employees' leave entitlement when the Group has a present legal obligation to settle with the employee in cash or by leave to be taken.

1.14.2 Defined contribution plan

The Group pays fixed contributions as part of a defined contribution provident fund plan for the benefit of its employees to a separate entity. The Group has no further legal or constructive obligation in terms of the defined contribution benefit plan beyond these contributions.

Defined contributions are recognised in profit or loss as they become due.

1.15 Taxation

Income and capital gains tax comprise current and deferred taxation and are recognised in profit or loss.

1.15.1 Current tax

Current tax, comprising income tax and capital gains tax, is calculated on taxable income for the year based on current tax legislation.

1.15.2 Deferred tax

Deferred tax comprising deferred income tax and deferred capital gains tax is calculated using the statement of financial position method against which existing tax legislation is applied to temporary differences between the tax and accounting bases of assets and liabilities.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted.

Deferred tax assets are reviewed for recoverability at each reporting date.

Deferred tax resulting on items accounted for directly in the statement of changes in equity or statement of comprehensive income are recognised in the statement of changes in equity and statement of comprehensive income respectively.

Deferred tax is not recognised on:
- the initial recognition of goodwill;
- the initial recognition of assets and liabilities in a transaction that is not a business combination, which affects neither accounting nor taxable profits and losses; and
- investments in subsidiaries and joint ventures where the Group controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future.

Deferred tax assets are recognised on tax losses to the extent that it is probable that future taxable profits will be earned.

1.16 Earnings per share (EPS)

Basic EPS represents profit or loss attributable to ordinary shareholders of the Group divided by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS represents the profit or loss attributable to ordinary shareholders of the Group divided by the weighted average number of shares outstanding taking into account the dilutive effects of potential ordinary shares.

1.17 Commitments and contingent liabilities

Commitments represent the Group's commitment to future transactions.

Contingent liabilities are provisions of the Group with an uncertain timing or amount. Contingent liabilities principally consist of third-party obligations underwritten by the Group, guarantees other than financial guarantees and letters of credit.

Commitments and contingent liabilities are not recognised but disclosed in the consolidated and separate annual financial statements.

Notes to the consolidated financial statements
continued

FOR THE YEAR ENDED 30 JUNE 2019

1. ACCOUNTING POLICIES continued

1.18 Funds under administration, advisement and management

The Group holds and manages funds and acts as trustee in a fiduciary capacity on behalf of its clients.

The resulting assets and liabilities are not those of the Group, but of the Group's clients, and are not accounted for in the Consolidated and Separate Annual Financial Statements.

Income relating to these activities is recognised in profit or loss in terms of the Group's policy on revenue.

1.19 Segment reporting

The Group is divided into three operating segments, each of which engages in business activities from which they earn revenues and incur expenses, including revenues and expenses between operating segments.

The operating segments represents the Group's three pillars, i.e. Banking, Wealth and Capital, according to which its business is aligned. The Banking Pillar includes Business Banking as well as Transactional Banking and Treasury. The Wealth Pillar incorporates all divisions related to wealth management, among other asset management, portfolio management and stockbroking as well as wealth advisory and asset consulting. The Capital Pillar comprises Private Equity and Property Equity investments.

The operating results of the three pillars are regularly reviewed by the Group's Board of Directors, Chief Executive Officer (the Group's chief operating decision-maker), and senior management, who assess the performance of the divisions, and make decisions as to the appropriate resources to be allocated between divisions. Divisions are further segmented into business units as part of the Group's management and internal reporting structure.

Corporate Services represent the Group's central functions, and these costs are allocated to the operating segments using an internal model of cost allocation.

Geographical

The Group operates in two geographic regions being:
- Southern Africa (South Africa); and
- Asia-Pacific (Hong Kong).

2. CRITICAL ESTIMATES AND JUDGEMENTS

The preparation of these Consolidated and Separate Annual Financial Statements in accordance with IFRS requires management to make certain judgements, estimates and assumptions in its calculation of the carrying value of assets and liabilities and the reported amounts of profit or loss.

The assumptions, judgements and estimates used are based on historical experience and other factors that are believed to be reasonable.

Assumptions, judgements and estimates are reviewed on an ongoing basis, with revisions recognised in the period in which the revision was made, or in future periods if applicable.

2.1 Credit impairment of loans and advances (refer to notes 9 and 42)

A. Credit impairment – IFRS 9 (current and future periods)

The change from 'incurred loss' to an 'expected loss' model in accordance with IFRS 9, resulted in an extensive project to update and build new credit models to incorporate these changes. The final increase in the allowance for expected credit losses was R84.686 million, better than the initial estimate of R114.700 million. This downward revision was as a result of the recalibration of key input metrics, enhanced data quality and the inclusion of forward-looking information.

The Group assesses its loans and advances portfolio for impairment on a monthly basis using the expected loss model.

The Group applies judgement in the manner in which it defines and applies SICR, which is the driver in dividing the loans and advances portfolios between Stage 1, Stage 2 and Stage 3, with:

- Stage 1: 12-month ECLs for those financial assets where there has not been a significant increase in credit risk since initial recognition
- Stage 2: Lifetime ECLs for those financial assets where there has been a significant increase in credit risk on a collective basis
- Stage 3: Lifetime ECLs for all credit impaired financial assets

Refer to accounting policy note 1.12 for more information on SICR.

The Group further applies judgement in determining the inputs used in the ECL model, i.e. the PD, LGD, EAD and TTD that are used to determine the ECL for each of Stage 1, Stage 2 and Stage 3.

Given the forward-looking nature of the ECL model, estimates are also made and included in the ECL model for the Group's macro-economic outlook. One of the key macro-economic elements are changes to the prime interest rate. For each of the scenarios listed below, the average values of the factors over the next 12 months, and over the remaining forecast period are provided.

	Up case		Expected		Lite down		Severe down		Probability weighted	
	12 months %	Life time %	12 months %	Life time %	12 months %	Life time %	12 months %	Life time %	12 months %	Life time %
Factors										
Change in prime interest rate	(0.75)	(0.75)	0.25	0.25	0.50	0.50	0.75	0.75	0.2725	0.2725
PD	1.60	23.48	1.68	27.13	1.83	28.05	2.26	28.96	1.79	27.21
		R'000		R'000		R'000		R'000		R'000
Impact on ECL		(5 331)		(2 676)		1 240		11 546		–

In addition, the Group applies expert judgement, as referred to in accounting policy 1.12, to further refine the credit loss allowance. The adjustments based on expert judgement are subject to CLEC review and oversight.

2. CRITICAL ESTIMATES AND JUDGEMENTS continued

2.1 Credit impairment of loans and advances (refer to note 9 and note 42) continued

B. Credit impairment – IAS 39 (comparative information)

2.1.1 Performing loans and advances

The Group assesses its performing loan portfolio for impairment on a monthly basis using the incurred loss approach. The recoverable amount of performing loans is calculated on a portfolio basis, based on historical loss ratios, industry and Group-specific economic and other conditions.

Impairment is recognised as the difference between the discounted estimated future cash flows (the recoverable amount) on the performing loan portfolio and its carrying amount. The future cash flows used to calculate the recoverable amount exclude consideration of any anticipated future credit losses. The discount rate is the financial asset's original effective interest rate.

Generally, a period of time will elapse between the occurrence of an impairment event and evidence of the impairment becoming evident, the 'emergence period'. The Group has provided for incurred but not reported (IBNR) losses which recognise potential losses on its portfolio of loans and advances that have not yet been evidenced. The IBNR provision is calculated with reference to modelling parameters which include the PD, the LGD and emergence period.

2.1.2 Non-performing loans and advances

Non-performing loans comprise loans where there is evidence of impairment as a result of one or more past events or impairment triggers that have occurred since initial recognition.

Loans and advances are individually impaired where the Group has identified objective evidence of a default event, such as being due but unpaid for a period of 90 days or more or where loan covenants have been breached. Estimates of future cash flows on individually impaired loans and advances are based on historical loss experience for assets with similar credit risk characteristics after considering the estimated recoverability of security in the Group's possession.

The methodology used in determining impairments on non-performing Equipment Finance and Capital Equipment Finance loans and advances involves modelling expected cash flows and recoverability of security. These inputs are reviewed on a regular basis with reference to historical experience.

2.2 Private Equity investment valuations (refer to note 10)

The Group primarily adopts best practice valuation techniques as suggested by the South African Venture Capital and Private Equity Association guidelines. It mainly follows a discounted cash flow or earnings methodology, corroborated by a market multiples approach, where appropriate.

These valuations are subject to various assumptions and professional judgement including, but not limited to:

- estimates of local and global macro-economic performance, including factors such as expected interest and exchange rates;
- estimates of future operating cash flows of investees' businesses;
- estimates of long-term underlying operational performance of investees' businesses;
- expected capital expenditure and working capital needs of investees' businesses;
- assessment of long-term viability of investees' business models; and
- the inherent risks specific to the investees' businesses and the industries and countries in which these entities operate.

The valuations are reviewed and approved by the Group Investment Committee and are recommended to the Board for approval.

2.3 Property Equity investment valuations (refer to note 10)

In relation to investments held by the Group where the primary underlying assets are property, the Group obtains third-party valuations from registered professional valuers with experience relevant to the types of properties being valued, using the net income capitalised methodology.

These valuation experts use best practice market norms in arriving at the value of the underlying property assets. Once the Group has received these valuations, relevant adjustments are made to take into account financial assets and/or obligations associated with these investments.

2. CRITICAL ESTIMATES AND JUDGEMENTS continued

2.3 Property Equity investment valuations (refer to note 10) continued

These valuations are subject to various assumptions and professional judgement including, but not limited to:

- selection of capitalisation rates appropriate for the property considering its location, condition, nature of tenant(s), lease term etc;
- estimated operating factors such as operating costs, expected occupancy and tenant turnover; and
- comparisons to market-related rental yields and/or sold prices property achieved for similar properties.

The valuations are reviewed and approved by the Group Investment Committee and recommend to the Board for approval.

2.4 Fair value (refer to note 40)

Fair value is the price that would be realised on the sale of an asset or paid to transfer a liability on an arm's-length basis to an unrelated party.

The Group measures the fair value of a financial instrument using its quoted price in an active market. A market is regarded as active if transactions for the financial instrument take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The most accurate fair value of a financial instrument at initial recognition is normally the transaction price less the fair value of the consideration given or received. If the Group determines that the fair value of a financial instrument (measured at amortised cost) at initial recognition differs from the transaction price, and the fair value is evidenced neither by a quoted price in an active market for an identical financial instrument nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value with the difference between the fair value at initial recognition and the transaction price recognised in profit or loss over the life of the instrument, but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

'Bid' prices in an active market are used to measure financial assets held at fair value, while 'ask' prices in an active market are used to measure financial liabilities held at fair value.

Financial asset portfolios, that are exposed to market risk and credit risk, are measured on the basis of a price that would be received when selling a net long position for a particular risk exposure. Financial liability portfolios, that are exposed to market risk and credit risk, are measured on the basis of a price that would be paid to transfer a short position for a particular risk exposure. Market risk and credit risk portfolio level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit will not be less than the amount payable by the Group on demand, discounted from the first date on which the amount could be required to be paid.

The fair value of financial instruments that are not quoted in active markets or trade infrequently with little price transparency, requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions, and other risks affecting the specific instrument, and is determined by using valuation techniques which are validated and independently reviewed by qualified and experienced senior personnel within and external to the Group.

The Group's valuation methodologies comprise:

- price:earnings multiple valuation methodology;
- recent transaction prices and comparison with similar instruments;
- net asset value;
- discounted cash flow or earnings; and
- Black-Scholes.

Assumptions and inputs used in the valuation methodologies comprise:

- risk-free interest rate;
- benchmark interest rates;
- credit spreads; and
- liquidity and other *premia* used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices, and expected price volatilities and correlations.

Fair value estimates obtained from models are adjusted for factors such as liquidity risk or model uncertainties that the Group believes an independent market participant would take into account when pricing a valuation.

2. CRITICAL ESTIMATES AND JUDGEMENTS continued

2.4 Fair value (refer to note 40) continued

Fair value hierarchy

Valuation models

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Transfers between levels are recognised at the end of the reporting period during which the change has occurred.

2.5 Intangible assets and goodwill (refer to note 14)

2.5.1 Intangible assets

Intangible assets comprise internally generated and purchased information technology software as well as distributor relationships acquired as part of the business combinations.

The costs associated with internally developed software are only capitalised once the research phase has been concluded and the requirements for the development phase have been met, namely:

- it is technically feasible to complete the software for use;
- the Group is committed to complete the software for use;
- it will be possible to use the software and the Group intends to use the software to increase efficiencies and/or support the business;
- there are sufficient resources available to complete the software; and
- the costs can be reliably measured.

It requires judgement from management to determine when the above requirements have been met for capitalisation.

On an annual basis, the Group assesses impairment indicators relating to purchased information technology software such as technology advancement and the ability of the asset to continue to generate future economic benefit. Should an impairment indicator be triggered, the related software is assessed for impairment. Internally developed software, that is still in the development phase, is assessed annually for impairment.

Changes in estimates of related cash flow benefits from customers would give rise to impairment indicators relating to distributor relationships.

The individual carrying amounts of the respective intangible assets are compared to their estimated recoverable amounts in order to compute the impairment. Determining the estimated recoverable amount (being the greater of the asset's discounted cash flows to determine its value in use and fair value less costs to sell) and future cash flows of the relevant Cash-Generating Units (where applicable), as well as the impairment assessment requires management judgement.

2. CRITICAL ESTIMATES AND JUDGEMENTS continued

2.5 Intangible assets and goodwill (refer to note 14) continued

2.5.2 Goodwill

On an annual basis the Group assesses recognised goodwill for impairment. Management judgement is required in both the assessment for impairment and the impairment test. The impairment tests comprise comparing the carrying amount of the cash-generating unit (CGU) being assessed to the estimated CGU value in use. If the carrying amount is less than the value in use in a CGU then a goodwill impairment is recognised. The CGU comprises separate elements of the business to which the goodwill is allocated. The assessment of the value in use requires management judgement of future performance. The assumptions applied in determining the value-in-use match those applied in the preparation of the Group's budgets and forecasts which cover a five-year period. The related pre-tax expected future cash flows used to determine the forecasts in the calculation are discounted at an appropriate risk-adjusted rate which is referenced against the Group's historical long-term cost of funding rate.

2.6 Current and deferred taxation (refer to notes 11 and 34)

The Group is subject to direct and indirect taxation charges. There are elements of uncertainty and resultant judgement involved in the ultimate determination of these tax balances and charges. Should the final outcome differ to that initially calculated, the impact is accounted for in the period in which this outcome is known.

Deferred tax assets are reviewed at each reporting date for recoverability. These assets are reduced to the extent that it is no longer probable that the deferred tax asset will be realised. The significant management assumptions in determining these probability assessments to determine the deferred tax assets recoverability are the relevant entity budgets and forecasts.

2.7 Assessment of significant influence and control of entities (refer to note 39.1)

The Group controls and consolidates an entity after having regard to whether the Group has power over the investee, exposure or rights to the variable returns and its ability to affect the amount of the returns in the investee. The Group assesses each entity's core activities and exercises judgement to determine whether the Group has any control over those activities and the variable returns they give rise to. Regard is given to both current and potential voting rights, *de facto* control and any other contractual rights.

2.8 Statement of cash flows – Allocation of funding between operating and financing activities

Management applies significant judgement to determine which position, if any, of changes in long-term funding relates to the operating activities of the Group, i.e. granting funding to client, and which to funding the investment activities of the Group.

3. STANDARDS/INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

There are new or revised accounting standards and interpretations in issue that are not yet effective for the year ended 30 June 2019, and have not been applied in preparing these Consolidated and Separate Annual Financial Statements. The Group does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated. These include the following standards and interpretations that have been issued, with an indication of the estimated impact on the future financial statements of the Group:

Pronouncement	Title and details	Effective date
Amendment to IFRS 9	*Prepayment Features with Negative Compensation – Amendments to IFRS 9* In terms of IFRS 9, debt instruments can be measured at amortised cost or at fair value through other comprehensive income, subject to the contractual cash flows being "solely payments of principle and interest" on the principal amount outstanding (SPPI) and the instrument is held in an appropriate business model for that classification. This amendment to IFRS 9 clarifies that a financial asset passes the SPPI criteria irrespective of the event or circumstances that resulted in the early termination of the contracts and regardless of which party pays or receives the reasonable compensation for the early termination of the contract. This amendment to IFRS 9 is not expected to have a significant impact on the recognition and measurement of financial assets recognised by the Group in accordance with IFRS 9.	Annual periods beginning on or after 1 January 2019.
IFRS 17	*Insurance Contracts* IFRS 17 replaces the current standard on insurance contracts, IFRS 4. It creates one accounting model for all insurance contracts in all jurisdictions that apply IFRS. Amongst others, IFRS 17 requires an entity to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows, taking into account any uncertainty relating to insurance contracts. The financial statements of an entity will reflect the time value of money in estimated payments required to settle incurred claims. Insurance contracts are further required to be measured based only on the obligations created by the contracts. An entity will also be required to recognise profits as an insurance service is delivered, rather than on receipt of premiums. These amendments are not expected to have an impact on the Group.	Annual periods beginning on or after 1 January 2021.

3. STANDARDS/INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

<table>
<tr><th>Pronouncement</th><th>Title and details</th><th>Effective date</th></tr>
<tr><td>IFRS 16</td><td>Leases
IFRS 16 replaces IAS 17 Leases and related interpretations. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract – the customer or lessee and the supplier or lessor.

IFRS 16 includes a single model for lessees which will result in almost all leases being included in the statement of financial position. No significant changes have been included for lessors. IFRS 16 also includes new disclosure requirements for both lessees and lessors.

In those instances where the Group is the lessor, no significant impact is expected. In those instances where the Group is the lessee, an increase in leased assets (i.e. right of use of the leased asset) of R79.999 million and lease liabilities of R98.392 million are expected, with a neutral impact on deferred tax, accompanied by additional disclosure. As allowed by IFRS 16, the Group intends to adopt IFRS 16 without restating comparative numbers, i.e. the day one impact is recognised in opening retained earnings. Right-of-use assets will be risk weighted in line with the nature of the underlying assets.</td><td>Annual periods beginning on or after 1 January 2019.</td></tr>
<tr><td>IFRS 10 and IAS 28</td><td>Sale or contribution of assets between an investor and its associate or joint venture
The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognised. The definition of business is key to determining the extent of the gain to be recognised.

These amendments are not expected to have an impact on the Group.</td><td>Effective date is deferred by the IASB indefinitely. Adoption is still permitted.</td></tr>
<tr><td>IFRIC 23</td><td>Uncertainty over Income Tax Treatments
This standard clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities. Specifically, IFRIC 23 provides clarity on how to incorporate this uncertainty into the measurement of tax as reported in the Annual Financial Statements.

IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements about:
• judgements made;
• assumptions and other estimates used; and
• the potential impact of uncertainties that are not reflected.

The Group does not expect IFRIC 23 to have a significant impact on the measurement of tax in the Annual Financial Statements.</td><td>Annual periods beginning on or after 1 January 2019.</td></tr>
</table>

3. STANDARDS/INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

Pronouncement	Title and details	Effective date
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement* This amendment addresses the accounting for defined benefit plans when a plan amendment, curtailment or settlement occurs during a reporting period. The amendment is not expected to have an impact on the Group.	Annual periods beginning on or after 1 January 2019.
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures* This amendment clarifies that an entity should apply IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture, to which the equity method is not applied. It therefore implies that the expected credit loss model in IFRS 9 applies to such long-term interests. The amendment is not expected to have a significant impact on the Group.	Annual periods beginning on or after 1 January 2019.

All standards and interpretations relevant to the Group will be adopted at their effective date.

	2019 R'000	2018 R'000
4. CASH AND CASH BALANCES		
Funds on call[1]	1 183 046	1 277 639
Notice deposits	21	473 119
Balance with the SARB[2]	129 706	141 409
Cash on hand	13	–
	1 312 786	1 892 167
Less: Bank overdraft	(46 008)	–
	1 266 778	1 892 167

[1] *Funds on call of R9.2 million has been ceded as security for the debt securities issued. Refer to note 19.*
[2] *The balance with the SARB is for minimum reserve requirements and not available for use in the Group.*

	2019 R'000	2018 R'000
5. NEGOTIABLE SECURITIES		
Treasury bills	2 335 045	1 611 657
Landbank bills	463 964	363 750
Promissory notes	278 510	–
	3 077 519	1 975 407

Landbank bills, Treasury bills and promissory notes to the value of R2.286 billion (2018: R1.456 billion) have been pledged for the SARB refinancing auction.

	Financial assets		Financial liabilities	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
6. TRADING ASSETS AND LIABILITIES				
Financial assets and liabilities held for trade facilitation relate to the Fixed Income trading business in Sasfin Securities (Pty) Limited. Long and short bond positions are not set off. Financial assets held for trade facilitation are economically hedged by financial liabilities held for trade facilitation, minimising the Group's exposure to interest rate risk. Financial assets held for trade facilitation comprise the following categories of rated bond positions all of which are traded through the JSE:				
Government bonds	16 985	66 076	541 489	591 619
Government-owned entities	260 099	221 015	–	–
Corporate bonds	351 736	359 850	–	–
Derivatives	39 007	179 417	40 436	155 672
	667 827	826 358	581 925	747 291

6. TRADING ASSETS AND LIABILITIES continued

6.1 Reverse repurchase and repurchase agreements

The Group holds proprietary bond positions for trade facilitation related to the Fixed Income business in Sasfin Securities (Pty) Limited. This book consists of rated bond positions all traded through the JSE. In the normal course of business, the Group enters into repurchase (repo) and reverse repurchase (reverse repo) agreements to facilitate these trades. Repurchase and reverse repurchase agreements are not set off.

		2019 R'000	2018 R'000
	Reverse repurchase agreements (assets)	519 696	650 153
	Repurchase agreements (liabilities)	593 903	701 912
6.2	**Total trading assets**	1 187 523	1 476 511
	Financial assets	667 827	826 358
	Reverse repurchase agreements (assets)	519 696	650 153
6.3	**Total trading liabilities**	1 175 828	1 449 203
	Financial liabilities	581 925	747 291
	Repurchase agreements (liabilities)	593 903	701 912

7. OTHER RECEIVABLES

	2019 R'000	2018 R'000
Stockbroking receivable	107 078	77 135
Insurance asset	52 596	50 535
Value added taxation	35 153	39 499
Prepaid expenses	58 466	10 725
Dividend receivable	4 032	7 392
Other receivables	153 451	190 094
	410 776	375 380

The Stockbroking receivable represents unsettled transactions in terms of the trading rules applicable to the specific exchange where the deal was booked.

8. NON-CURRENT ASSET HELD FOR SALE

	2019 R'000	2018 R'000
Fair value at the beginning of the year	–	69 500
Disposals	–	(56 500)
Fair value adjustment	–	(400)
Transfer to Investment property	–	(12 600)
Fair value at the end of the year	–	–

Investment properties obtained through the acquisition of Benal Property Investments (Pty) Limited (included in the Capital business segment) was presented as Non-Current Assets held for sale in 2017. The majority of the properties were sold during 2018. The intention for the remaining properties is to sell, but Sasfin is currently not actively marketing the properties and hence it was transferred to Investment property in the 2018 financial year.

	Total R'000	Less than 1 year R'000	Between 2 and 5 years R'000	More than 5 years R'000
9. LOANS AND ADVANCES				
30 June 2019				
Gross investment in leases	7 724 095	3 360 253	4 350 102	13 740
Equipment finance	6 207 083	2 600 182	3 597 443	9 458
Capital Equipment Finance	1 517 012	760 071	752 659	4 282
Less: Unearned finance income	(1 240 417)	(372 505)	(865 751)	(2 161)
Equipment finance	(993 051)	(278 045)	(714 512)	(494)
Capital Equipment Finance	(247 366)	(94 460)	(151 239)	(1 667)
Net investment in leases[1]	6 483 678	2 987 748	3 484 351	11 579
Equipment finance	5 214 032	2 322 137	2 882 931	8 964
Capital Equipment Finance	1 269 646	665 611	601 420	2 615
Trade and Debtor Finance	1 207 514			
Other secured loans	197 755			
Loans and advances before impairments	7 888 947			
Credit loss allowance (Refer to note 42.3)	(401 742)			
Net loans and advances	7 487 205			
30 June 2018				
Gross investment in leases	7 717 059	3 181 038	4 527 024	8 997
Equipment finance	6 406 526	2 587 869	3 817 226	1 431
Capital Equipment Finance	1 310 533	593 169	709 798	7 566
Less: Unearned finance income	(1 139 021)	(433 945)	(701 273)	(3 803)
Equipment finance	(924 636)	(359 442)	(564 442)	(752)
Capital Equipment Finance	(214 385)	(74 503)	(136 831)	(3 051)
Net investment in leases	6 578 038	2 747 093	3 825 751	5 194
Equipment finance	5 481 890	2 228 427	3 252 784	679
Capital Equipment Finance	1 096 148	518 666	572 967	4 515
Trade and Debtor Finance	1 141 275			
Other secured loans	183 630			
Loans and advances before expected credit losses	7 902 943			
Impairments (refer to note 42.3)	(285 764)			
Impairments for non-performing loans and advances	(234 625)			
Impairments for performing loans and advances	(51 139)			
Net loans and advances	7 617 179			

[1] *Loans and advances with a carrying amount of R2.995 billion (2018: R3.366 billion) have been ceded as security for the debt securities issued. Refer to note 19.*

	2019 R'000	2018 R'000
10. INVESTMENT SECURITIES		
Investments at fair value through profit or loss (IFRS 9)	635 298	–
Listed equity investments	221	–
Private and Property Equity investments	635 077	–
Designated at fair value through profit and loss (IAS 39)	–	616 319
Listed equity investments	–	309
Private and Property Equity investments	–	574 014
Strategic investments*	–	41 996
Equity-accounted associates	112 416	12 174
	747 714	628 493

The associates of the Group that are classified and measured at fair value through profit or loss, are involved in a variety of businesses. The shareholding in these investments range between 20% and 50%.

All associates are incorporated in South Africa. None of the associates are considered to have an impact on the consolidated financial statements that is individually material. A full list of associates is available, on request, at the registered address of the Group.

	2019 R'000	2018 R'000
Summarised financial information for associates:**		
Post-tax profit from continuing operations	51 671	42
Other comprehensive income	–	–
Total comprehensive income	51 671	42
Total assets	4 157 158	5 742
Total liabilities	3 965 705	917

* *Comprises the Group's listed equity investment in Efficient Group Limited, prior to it becoming an associate.*

** *The current financial year includes the results of Axo Holding (Pty) Limited and Efficient Group Limited that were not included in the prior year.*

	2019 R'000	2018 R'000
11. DEFERRED TAX ASSETS AND LIABILITIES		
Deferred tax assets	34 907	30 568
Deferred tax liability	(138 929)	(140 179)

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2019 Assets R'000	2019 Liabilities R'000	2019 Net R'000	2018 Assets R'000	2018 Liabilities R'000	2018 Net R'000
Equipment Finance	–	(275 498)	(275 498)	–	(193 324)	(193 324)
Tax losses*	21 496	70 607	92 103	10 593	48 574	59 167
Fair value adjustments	(25 749)	(48 779)	(74 528)	(4 812)	(52 221)	(57 033)
Prepayments	(542)	(1 688)	(2 230)	(698)	(539)	(1 237)
Impairments	24 360	19 264	43 624	12 405	19 264	31 669
Provisions	14 900	101 442	116 342	14 045	44 715	58 760
Investment property	–	(694)	(694)	362	(1 524)	(1 162)
Intangible assets	–	(7 415)	(7 415)	–	(8 750)	(8 750)
Other temporary differences	442	3 832	4 274	(1 327)	3 626	2 299
Net tax assets/(liabilities)	34 907	(138 929)	(104 022)	30 568	(140 179)	(109 611)

* *Management is of the view that the deferred tax asset relating to the assessed tax losses will reverse in the future periods and therefore the asset will be recovered through future taxable income.*

11. DEFERRED TAX ASSETS AND LIABILITIES continued

Movements in temporary differences during the year

	Balance at 1 July R'000	IFRS 9 transition – day 1 R'000	Recognised in profit or loss R'000	Balance at 30 June R'000
2019				
Equipment finance	(193 324)	–	(82 174)	(275 498)
Tax losses	59 167	–	32 936	92 103
Fair value adjustments	(57 033)	–	(17 495)	(74 528)
Prepayments	(1 237)	–	(993)	(2 230)
Impairments	31 669	–	11 955	43 624
Provisions	58 760	18 583	38 999	116 342
Investment property	(1 162)	–	468	(694)
Intangible assets	(8 750)	–	1 335	(7 415)
Other temporary differences	2 299	–	1 975	4 274
	(109 611)	18 583	(12 994)	(104 022)

	Balance at 1 July R'000	Acquisition of subsidiary R'000	Recognised in profit or loss R'000	Balance at 30 June R'000
2018				
Equipment finance	(152 875)	–	(40 449)	(193 324)
Tax losses	29 947	1 086	28 134	59 167
Fair value adjustments	(42 502)	–	(14 531)	(57 033)
Prepayments	(1 567)	(2)	332	(1 237)
Impairments	32 158	–	(489)	31 669
Provisions	46 293	6	12 461	58 760
Investment property	(8 329)	–	7 167	(1 162)
Intangible assets	(10 099)	–	1 349	(8 750)
Other temporary differences	6 803	(1 931)	(2 573)	2 299
	(100 171)	(841)	(8 599)	(109 611)

Notes to the consolidated financial statements
continued

FOR THE YEAR ENDED 30 JUNE 2019

12. PROPERTY AND EQUIPMENT

	Computer equipment R'000	Furniture and fittings R'000	Motor vehicles R'000	Land and buildings R'000	Total R'000
2019					
Cost at the beginning of the year	155 406	38 483	3 237	49 614	246 740
Additions	14 868	2 657	49	5 177	22 751
Disposals	–	(609)	–	–	(609)
Transfers	(34 251)	82	(201)	–	(34 370)
Cost at the end of the year	136 023	40 613	3 085	54 791	234 512
Accumulated depreciation and impairment losses at the beginning of the year	120 651	28 320	2 368	6 714	158 053
Depreciation charge for the year	16 959	3 974	429	6 527	27 889
Disposals	–	(46)	–	–	(46)
Transfers	(29 950)	(2 462)	(212)	–	(32 624)
Impairments	–	–	–	5 995	5 995
Accumulated depreciation and impairment at the end of the year	107 660	29 786	2 585	19 236	159 267
Carrying amount at the beginning of the year	34 755	10 163	869	42 900	88 687
Carrying amount at the end of the year	28 363	10 827	500	35 555	75 245

12. PROPERTY AND EQUIPMENT continued

	Computer equipment R'000	Furniture and fittings R'000	Motor vehicles R'000	Land and buildings R'000	Total R'000
2018					
Cost at the beginning of the year	159 145	44 926	3 361	50 528	257 960
Acquisition of business[1]	501	17	–	–	518
Additions	17 606	4 201	457	207	22 471
Disposals	(12 834)	(207)	(581)	(1 121)	(14 743)
Transfers	(4 883)	–	–	–	(4 883)
Impairments	(4 129)	(10 454)	–	–	(14 583)
Cost at the end of the year	155 406	38 483	3 237	49 614	246 740
Accumulated depreciation and impairment losses at the beginning of the year	116 090	33 517	2 426	2 071	154 104
Depreciation charge for the year	19 935	3 666	383	4 534	28 518
Disposals	(10 940)	837	(441)	109	(10 435)
Transfers	(520)	–	–	–	(520)
Impairments	(3 914)	(9 700)	–	–	(13 614)
Accumulated depreciation and impairment at the end of the year	120 651	28 320	2 368	6 714	158 053
Carrying amount at the beginning of the year	43 055	11 409	935	48 457	103 856
Carrying amount at the end of the year	34 755	10 163	869	42 900	88 687

Land and buildings comprising R18.1 million (2018: R24.1 million) have been ceded as security to Absa Bank Limited in respect of a R8.24 million (2018: R13.5 million) Access Bond facility.

[1] *Refer to note 48.*

	2019 R'000	2018 R'000
13. INVESTMENT PROPERTY		
Fair value at the beginning of the year	12 600	–
Transfer from non-current assets held for sale	–	12 600
Fair value adjustment during the year	(3 700)	–
Transfer to non-current assets held for sale	–	–
Fair value at the end of the year	8 900	12 600

The fair value of the investment property has been determined by an independent valuator with the necessary experience and knowledge of the area in which the investment property is located, as at 30 June 2019, with reference to the International Valuations Standards and the Royal Institution of Chartered Surveyors (RICS) Valuation – Professional Standards.

14. INTANGIBLE ASSETS AND GOODWILL

	Distributor Relationships R'000	Software[1] R'000	Goodwill[3] R'000	Total R'000
2019				
Carrying amount at the beginning of the year	18 376	147 072	36 835	202 283
Transfers	15 892	(12 328)	(789)	2 775
Additions[2]	–	61 083	–	61 083
Amortisation	(4 887)	(20 171)	–	(25 058)
Impairment	–	(6 055)	–	(6 055)
Carrying amount at the end of the year	29 381	169 601	36 046	235 028
2018				
Carrying amount at the beginning of the year	22 249	76 920	32 609	131 778
Transfers	–	4 364	–	4 364
Additions[2]	–	82 815	–	82 815
Acquisition of subsidiary	895	6 878	3 777	11 550
Acquisition of a business	–	–	835	835
Amortisation	(4 768)	(14 855)	–	(19 623)
Impairment	–	(9 050)	(386)	(9 436)
Carrying amount at the end of the year	18 376	147 072	36 835	202 283

[1] *Software consists of capitalised development costs, being an internally generated intangible asset, as well as ready-to-use purchased software.*
[2] *93% (2018: 41%) of the software additions relate to the capitalisation of internally developed software.*
[3] *The Group assesses the recoverable amount of the CGU to which the goodwill relates, taking into account the current and estimated future profitability of the CGU, to determine whether it is at least equal to the carrying amount of the related goodwill. Should the carrying amount exceed the recoverable amount, an impairment is recognised. The CGU is in most cases the subsidiary to which the goodwill relate.*

Value-in-use was applied to determine the recoverable amount of goodwill. It was assumed that the profits of the CGU will grow very conservatively at 1% per annum for the next five years, with a profit based terminal value at the end of year five. These estimated profits were deemed to equal the cash flows over this period and have been discounted using the Group's weighted average cost of capital of 16% (2018: 17%).

	2019 R'000	2018 R'000
Allocation of goodwill		
Goodwill relating to the Banking Pillar (Rental equipment)	32 269	33 058
Goodwill relating to the Wealth Pillar	3 777	3 777
	36 046	36 835

	2019 R'000	2018 R'000

15. FUNDING UNDER REPURCHASE AGREEMENTS AND INTERBANK

	2019 R'000	2018 R'000
Short-term interbank loans	74 580	300 184
Funding under repurchase agreement	2 197 030	1 624 791
	2 271 610	1 924 975

The Bank participates in the SARB refinancing auction by tendering for cash against eligible collateral. Cash received from the tender is borrowed for one week at the repo rate.

Interbank facilities are overnight facilities utilised by the bank to manage its daily liquidity requirements.

16. TRADE AND OTHER PAYABLES

	2019 R'000	2018 R'000
Value Added Taxation	14 698	9 435
Stockbroking Payables	70 074	57 223
Audit fees and other services	14 368	9 987
Accounts payable	438 941	314 827
Other payables	80 693	79 935
Accruals	170 602	134 784
Income received in advance	1 095	861
Borrowings from related parties to the Group*	108 648	156 988
	899 119	764 040

* *These borrowings are unsecured, interest bearing and are repayable on demand subject to 30 days' written notice. The borrowings are not subject to a fixed repayment date. Interest is payable at 3 month Libor plus 1.5%.*

17. PROVISIONS

	2019 R'000	2018 R'000
Expected credit loss for off-balance sheet exposure[1]	–	–
Leave pay provision	18 456	18 652
Bonus provision	39 239	19 053
	57 695	37 705

[1] *In terms of the requirements of IFRS 9, a credit loss allowance (i.e. provision) has been raised on financial guarantee contracts issued as well as loan commitments. As allowed by IFRS 9, the Group has elected not to restate comparatives. Therefore there is no comparative information available for this specific item. Refer to note 42 for more detail.*

18. DEPOSITS FROM CUSTOMERS

	2019 R'000	2018 R'000
Call deposits	2 057 254	1 879 830
Notice deposits	884 124	657 342
Fixed deposits	1 868 188	1 745 155
Negotiable certificates of deposits	171 501	167 017
	4 981 067	4 449 344

		2019 R'000	2018 R'000
19.	**DEBT SECURITIES ISSUED**		
	Category analysis		
	Rated*	2 753 521	3 115 432

Floating rate notes are secured by a cession of rentals and equipment, underlying instalment finance assets and bank accounts in the name of SASP (refer to notes 9 and 4). All notes are placed with South African investors. The debt securities in issuance are rated by Global Credit Ratings Co.

* *There are various ratings on the debt securities. These ratings are available, on request, at the registered address of the Group.*

			2019 R'000	2018 R'000
20.	**LONG-TERM LOANS**			
	Represented by:	**Repayment date:**		
	European DFI loan facility	February 2014 – November 2018	–	36 096
	European DFI loan facility	August 2018 – May 2021	232 720	349 080
	IFC		7 495	39 440
	– Cleantech funding	September 2014 – September 2019	7 495	16 954
	– Subordinated loan	September 2014 – March 2020	–	22 486
	Absa Bank Limited – Redeemable preference shares[1]	30 August 2022	250 000	250 000
	Other		5 500	–
	Total		495 715	674 616

Long-term loans are interest bearing and the interest rates are individually negotiated.

[1] *The redemption date of the redeemable preference share issued on 31 December 2013 was extended to 30 August 2022.*

	2019 R'000	2018 R'000
21. ORDINARY SHARE CAPITAL		
Authorised		
100 000 000 (2018: 100 000 000) ordinary shares of 1 cent each	1 000	1 000
Issued		
32 196 882 (2018: 32 196 882) fully paid up ordinary shares		
Balance at the beginning of the year	321	317
Issue of shares	–	81
Shares repurchased	–	(77)
Balance at the end of the year	321	321
Reconciliation of the number of shares issued		
Total shares in issue (number)	32 301 441	32 301 441
Less: Treasury shares held by the Sasfin Share Incentive Trust (number)	(12 017)	(12 017)
Less: Treasury shares held by SasSec (number)	(92 542)	(92 542)
	32 196 882	32 196 882

On 30 October 2017, Wipfin Investments (Pty) Limited, a wholly owned subsidiary of Women Investment Portfolio Holdings Limited (WIPHOLD), has subscribed for 8 107 662 ordinary shares in Sasfin Holdings Limited for an aggregate subscription consideration of R413 490 762 in terms of a specific issue of shares for cash and Sasfin Holdings Limited has made an offer to repurchase all or some of the shares held by shareholders for R413 490 762 in compliance with all of the applicable requirements for a scheme of arrangement in terms of section 114 of the Companies Act read with section 115 of the Companies Act.

	2019 R'000	2018 R'000
22. ORDINARY SHARE PREMIUM		
Balance at the beginning of the year	166 945	144 010
Issued shares	–	413 410
Repurchase of shares	–	(390 475)
Balance at the end of the year	166 945	166 945
23. PREFERENCE SHARE CAPITAL		
Authorised		
5 000 000 (2018: 5 000 000) non-redeemable, non-cumulative, non-participating preference shares of 1 cent each.	50	50
Issued		
1 797 226 (2018:1 797 226) non-redeemable, non-cumulative, non-participating preference shares of 1 cent each	18	18

Preference shares are listed under the 'Specialist Securities – Preference Shares' sector of the JSE. Dividends are paid semi-annually at a rate of 82.5% of the ruling prime rate.

	2019 R'000	2018 R'000
24. PREFERENCE SHARE PREMIUM		
Balance at the beginning of the year	188 068	188 068
Balance at the end of the year	188 068	188 068

		2019 R'000	2018 R'000
25.	**COMMITMENTS AND CONTINGENT LIABILITIES**		
	Letters of credit	73 685	48 406
	Guarantees	17 038	26 432
	Carry facilities	11 952	12 652
	Capital expenditure	2 721	5 225
	Non-cancellable operating lease rentals for premises	116 354	132 913
	– One year	39 594	37 973
	– One to five years	76 760	94 940
		221 750	225 628

Funds to meet these commitments will be provided from internal Group resources or external funding arrangements as deemed necessary.

Guarantees have been issued by the Group on behalf of customers.

Operating leases

The Group leases a number of premises under operating leases. The lease terms are generally between one to five years, with an option to renew after the lease termination date. If a lease is renewed, the lease payments are renegotiated to reflect market rentals.

Taxation

The South African Revenue Authority, in the ordinary course of its business, commenced a tax audit on the Bank in August 2017. The process has yet to be concluded and the outcome is therefore not yet known. Having regard that there are elements of uncertainty and resultant judgement included in the determination of the taxes, should the final outcome differ to that initially calculated, a provision will be recognised if it becomes probable that further taxes will be raised. The appropriate carrying amount of any resulting provisions will be informed by the manner in which they are expected to be resolved.

Legal proceedings

In the ordinary course of business, the Group and Company are involved as a defendant in litigation, lawsuits and other proceedings. Management recognises the inherent difficulty of predicting the outcome of defended legal proceedings. Nevertheless, based on management's knowledge from investigation, analysis and after consulting with legal counsel, management believes that there are no individual legal proceedings that are currently assessed as being 'likely to succeed and material' or 'unlikely to succeed but material should they succeed'. The Group and Company are also the defendant in some legal cases for which the Group and Company are fully indemnified by external third parties, none of which are individually material. Management is accordingly satisfied that the legal proceedings currently pending against the Group and Company should not have a material adverse effect on the Group's and Company's consolidated financial position and the directors are satisfied that the Group and Company have adequate insurance programmes and, where required in terms of IFRS for claims that are probable, provisions are in place to meet claims that may succeed.

The third matter relates to a claim of approximately R10 million for a refund of moneys which Sasfin collected pursuant to an extent judgement which was subsequently rescinded and referred to trial. Sasfin regards the money as having been owed and is also resisting this claim vigorously.

In addition, the Group is exposed to certain actual and potential claims in the ordinary course of its business, none of which are individually material.

Based on information presently available and an assessment of the probability of these claims, the directors are satisfied that the Group has adequate provisions and/or insurance cover to meet such claims. As such, management it is not expecting any of these to have a material adverse effect on the Group.

Financial support

Should the need arise the Company has agreed to provide financial support to one of its wholly owned subsidiaries, Sasfin Capital (Pty) Limited, to enable it to carry on business as a going concern. The undertaking to support Sasfin Capital (Pty) Limited shall not in any way affect the Company's solvency or liquidity.

Guarantee for overdraft facility

The Company has issued a guarantee in relation to the overdraft facility which Sasfin Securities (Pty) Limited has with Nedbank. The facility is used daily to enable prompt settlement with clients and hence there is no outstanding amount on the facility at the end of each day. The undertaking to support Sasfin Securities (Pty) Limited shall not in any way affect the Company's solvency or liquidity.

	2019 R'000	2018 R'000
26. INTEREST INCOME		
Effective interest rate	1 296 746	1 204 995
Deposits with banks	98 855	134 527
Negotiable securities	155 934	127 282
Equipment finance	741 966	657 086
Capital Equipment finance	165 654	143 889
Trade and Debtor finance	91 762	115 064
Other secured loans	42 575	27 147
Other interest	33 405	76 879
Trading assets and other	(6 815)	36 618
Fixed income	40 220	40 261
	1 330 151	1 281 874
Total interest income (IFRS 9)	**1 330 151**	
Interest income on items measured at amortised cost	1 296 746	
– Performing financial assets	1 279 512	
– Credit impaired financial assets	17 234	
Interest income on items measured at fair value through profit or loss (IFRS 9)	33 405	

	2019 R'000	2018 R'000
27. INTEREST EXPENSE		
Effective interest	779 507	753 421
Interbank funding	138 110	99 495
Call deposits	111 325	134 419
Notice deposits	79 623	65 639
Fixed deposits	131 640	289 033
Debt securities	246 087	120 986
Long-term borrowings	64 080	40 307
Subordinated debt	–	3 542
Current accounts	1 945	–
Other deposits and loan accounts	6 697	–
Other interest	51 372	55 674
Trading liabilities and other	926	3 774
Fixed income	50 446	51 900
	830 879	809 095

Notes to the consolidated financial statements
continued

FOR THE YEAR ENDED 30 JUNE 2019

		2019 R'000	2018 R'000
28.	**NET FEE AND COMMISSION INCOME**		
	Fee and commission income	696 891	771 042
	Brokerage income and asset management fees	272 248	274 062
	Confirming fees	48 468	62 495
	Binder fees	3 883	4 077
	Commission income	157 802	168 924
	Administration fees	74 531	78 159
	Other fee and commission income	139 959	183 325
	Fee and commission expense	246 258	288 181
	Brokerage payaways and management fee costs	121 383	122 430
	Commission expenses	76 004	103 508
	Other fee and commission expense	910	164
	Administration and management fees	47 961	62 079
	Net fee and commission income	450 633	482 861
29.	**GAINS AND LOSSES ON FINANCIAL INSTRUMENTS**		
	Dividend income	18 014	22 185
	Fair value adjustments on financial instruments held at fair value through profit or loss (IFRS 9 and IAS 39)	50 425	(6 951)
	Fair value adjustments on financial instruments designated at fair value (IAS 39)	–	80 451
	Net gains on the derecognition of financial assets measured at amortised cost	7 849	–
	Net gains and losses on derivative instruments	410	(16 677)
	Foreign exchange gains and losses	44 603	51 759
	Total (closing balance for gains and losses of financial instruments)	121 301	130 767

		2019 R'000	2018 R'000
30.	**OTHER INCOME**		
	Income received on Evergreens	93 496	81 229
	Settlement profits[1]	42 488	26 718
	Rental income and recoveries	2 260	–
	Sundry income	17 410	24 862
		155 654	132 809

[1] *Includes gains or losses on the derecognition of Loans and advances.*

		2019 R'000	2018 R'000
31.	**STAFF COSTS**		
	Salaries and wages	440 009	391 302
	Executive Directors', Alternate Directors' and Prescribed Officers' remuneration (refer to note 39.3)	19 615	36 043
	Non-Executive Directors' remuneration (Refer to note 39.3)	4 557	3 531
	Contributions to defined contribution plans and other	40 240	22 865
		504 421	453 741
32.	**OTHER OPERATING EXPENSES**		
	The following items are included in operating expenses		
	Fees paid to auditors	24 616	14 388
	Audit fees – Current year	14 986	13 964
	– Underprovision prior year	5 300	–
	Regulatory	3 800	–
	Other	530	424
	Consulting fees	22 783	13 148
	Depreciation	27 889	28 518
	Amortisation of intangible assets	25 058	19 623
	Operating lease charges	55 290	49 075

Notes to the consolidated financial statements
continued

FOR THE YEAR ENDED 30 JUNE 2019

		2019 R'000	2018 R'000
33.	**IMPAIRMENTS ON NON-FINANCIAL ASSETS**		
	Internally developed software	6 055	9 050
	Goodwill	–	386
	Property and equipment	5 995	–
		12 050	9 436
34.	**INCOME TAX EXPENSE**		
	Current tax expense	35 838	62 829
	Current year	35 156	66 410
	Under/(over)provision in prior years	682	(3 581)
	Deferred tax expense	12 994	8 599
	Current year	12 555	(3 867)
	Overprovision in prior years	439	12 466
		48 832	71 428

	%	%
Reconciliation of taxation rate	%	%
South African normal tax rate	28.0	28.0
Adjusted for:	(4.89)	7.04
Exempt income	(10.62)	(1.47)
Non-deductible expenses*	4.79	4.98
Capital gains	–	1.86
Effect of tax rates in foreign entity	2.13	1.92
Underprovision in prior years**	0.64	4.36
Fair value adjustments	(1.73)	(3.87)
Other comprehensive income adjustments	0.04	
Other	(0.14)	(0.74)
Effective rate	23.11	35.04

* *Non-deductible expenditure comprises of interest paid on the preference shares in SPEIH (deemed dividends for tax purposes), legal fees incurred on the acquisition of ATFS and other capital investments, as well as a all donations being non-deductible due to the Bank being in an assessed tax loss position.*

** *The underprovision of taxes in 2018 relates primarily to the increase in the deferred tax liability, given a change in the anticipated manner of realisation of a specific equity investment. The tax rate increased from a blended rate to the Capital Gains tax rate.*

	2019	2018
Losses, balance of allowances and credits for which a deferred tax asset has been raised:		
Estimated tax losses available to offset future taxable income	213 858	179 041

	2019 R'000	2018 R'000
35. SECURITISATION		
In the ordinary course of business, the Group transfers financial assets to structured entities. The information below sets out the extent of such transfers and the Group's retained interest in transferred assets.		
Carrying and fair value of transferred assets	2 978 262	4 358 759
Carrying and fair value of associated liabilities	(2 753 521)	(3 115 432)
Net carrying amount and fair value	224 741	1 243 327

The Group has sold rental agreements to SASP but has retained residual ownership of SASP and continues to recognise these assets within loans and advances. The Group refinanced a further R200 million (2018: R389 million) worth of rental agreements during the year and placed a further Rnil (2018: R600 million) of notes during the year. Refer to note 19.

	2019 R'000	2018 R'000
36. FUNDS UNDER ADVISEMENT AND MANAGEMENT		
The Group administers client funds in a fiduciary capacity which comprise:		
Assets under management	33 137 478	31 628 163
Assets under advisement	7 981 219	8 034 552
Assets under administration	53 808 534	56 914 610
	94 927 231	96 577 325

37. EARNINGS PER SHARE

37.1 Reconciliation between basic and headline earnings

	Gross R'000	Direct tax R'000	Non-controlling and preference shareholders R'000	Profit attributable to ordinary shareholders R'000
2019				
Basic earnings	211 285	(48 832)	(14 393)	148 060
Headline adjustable items:	15 750	(2 505)	–	13 245
Investment property – fair value loss	3 700	(826)	–	2 874
Property and equipment impairment	5 995	(1 679)	–	4 316
Goodwill and intangible impairments	6 055	–	–	6 055
	227 035	(51 337)	(14 393)	161 305
2018				
Basic earnings	203 874	(71 428)	(17 512)	114 934
Headline adjustable items:	9 845	(2 627)	–	7 218
Investment property – fair value loss	400	(90)	–	310
Profit on disposal of assets	9	(3)	–	6
Goodwill and intangible impairments	9 436	(2 534)	–	6 902
	213 719	(74 055)	(17 512)	122 152

37.2 Summary of earnings and headline earnings per share

	Earnings attributable		Weighted average number of shares		Cents per share	
	2019 R'000	2018 R'000	2019	2018	2019 cents	2018 cents
Earnings per ordinary share	148 060	114 934	32 196 882	32 043 426	459.86	358.68
Diluted earnings per ordinary share	148 060	114 934	32 196 882	32 043 426	459.86	358.68
Headline earnings per ordinary share	161 305	122 152	32 196 882	32 043 426	501.00	381.21
Diluted headline earnings per ordinary share	161 305	122 152	32 196 882	32 043 426	501.00	381.21

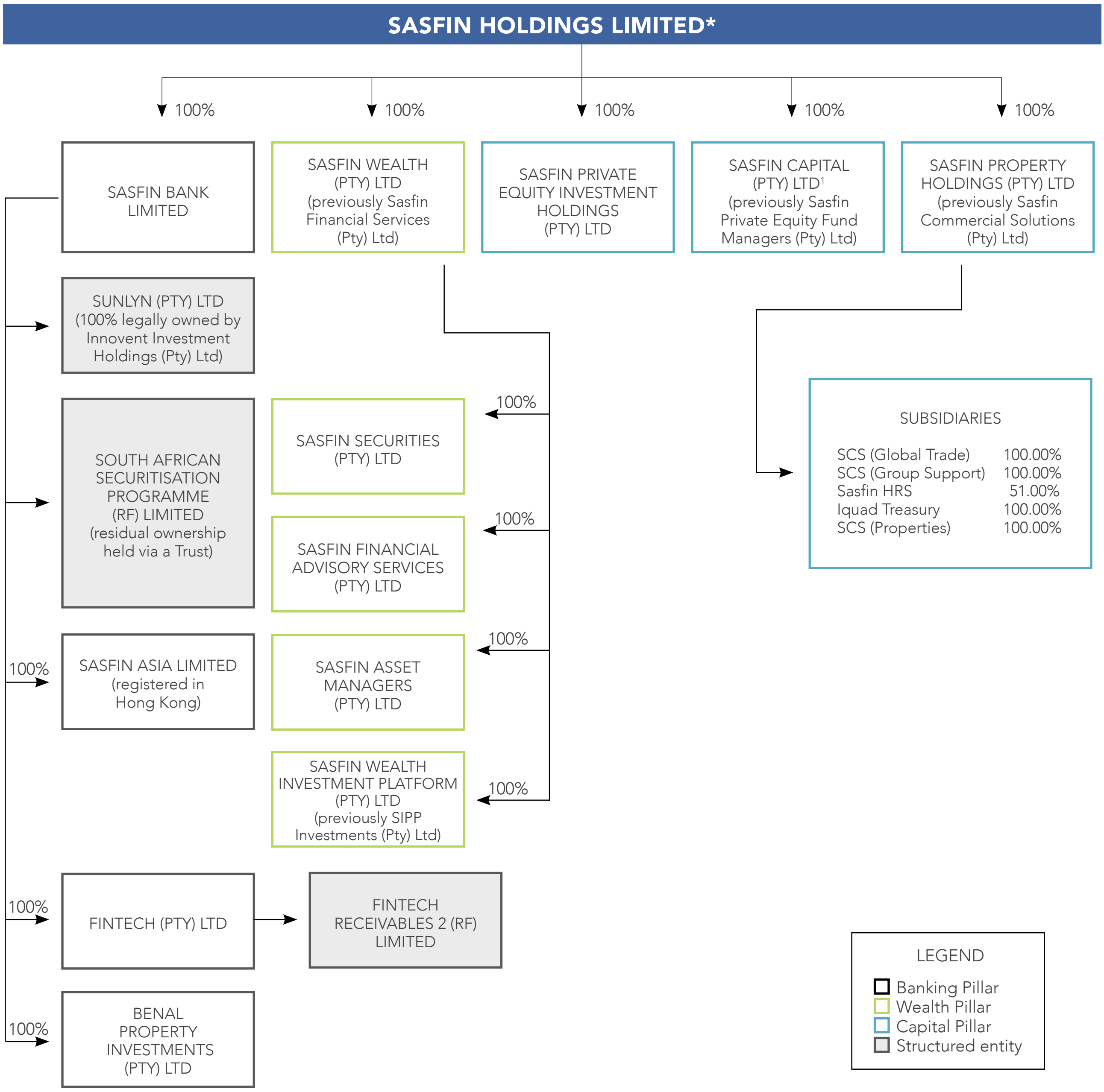
	2019 R'000	2018 R'000
38. NOTES TO THE STATEMENT OF CASH FLOWS		
38.1 Cash receipts from customers		
Interest income	1 330 151	1 281 874
Other income	651 295	656 905
	1 981 446	1 938 779
38.2 Cash paid to customers, suppliers and employees		
Interest expense	830 879	809 095
Total operating expenses	930 859	835 137
	1 761 738	1 644 232
38.3 Cash inflow from operating activities		
Reconciliation of operating profit to cash flows from operating activities		
Profit before income tax	211 285	203 874
Loss/(Profit) on disposal of property, plant and equipment	(5)	9
Dividends received	(18 014)	(22 185)
Impairment charges on loans and advances	80 358	144 178
Exchange rate fluctuations on cash held	3 523	18 707
Increase in foreign currency translation	(45 013)	(41 116)
Gains on disposal of financial instruments held at fair value through profit and loss	(7 849)	–
Share of profit of associate	(19 149)	–
Fair value adjustments on financial instruments	(54 125)	(67 866)
Fair value adjustments on investment property	3 700	400
Impairment of goodwill/intangible assets/property, plant and equipment	12 050	10 405
Depreciation	27 889	28 518
Amortisation of intangible assets	25 058	19 623
	219 708	294 547
38.4 Taxation paid		
Unpaid at the beginning of the year	2 010	(26 991)
Acquisition of subsidiary	–	(841)
Charge to the income statement	35 838	62 829
Unpaid at the end of the year	19 273	(2 010)
	57 121	32 987
38.5 Dividends paid		
Charge to distributable reserves	65 614	82 580
Total dividends paid	65 614	82 580

Notes to the consolidated financial statements
continued

FOR THE YEAR ENDED 30 JUNE 2019

39. RELATED-PARTY TRANSACTIONS

39.1 Subsidiaries and controlled structured entities (Refer to note 4)



[1] *Sasfin Capital (Pty) Limited was unbundled to Sasfin Holdings Limited on 1 July 2017.*

* *Significant shareholders of Sasfin Holdings Limited*

– *Unitas Enterprises Limited (2019: 42.36%; 2018: 41.04%), a wholly owned company of The Erwin Discretionary Settlement Trust, of which Roland Sassoon and Michael Sassoon are beneficiaries.*

– *Wipfin Investments (Pty) Limited (2019 and 2018: 25.1%), a wholly owned subsidiary of Women Investment Portfolio Holdings Limited (WIPHOLD).*

39. RELATED-PARTY TRANSACTIONS continued

39.2 Transactions with related parties

The Group's key management personnel, and persons connected with them, are also considered to be related parties for disclosure purposes. Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of Sasfin Holdings Limited (directly or indirectly) and comprise of the Board of Directors and the heads of the major business units and functions. Transactions are made on terms equivalent to those on an arm's-length basis as offered to the Group's clients. Key management personnel and their immediate relatives have balances with the Group at year-end as follows:

	2019 R'000	2018 R'000
Deposits	964	2 076
Short-term borrowings included in other payables	–	156 988
Funds under management	1 149	1 314
Funds under administration	701 382	830 726
Management fees paid to WIPHOLD	5 626	3 627
Consultancy fees paid to Roland Sassoon[1]	1 000	–

[1] *Roland Sassoon has been a consultant to Sasfin Holdings since 1 January 2019*

39.3 Key management personnel and related remuneration

Directors' and Prescribed Officers' remuneration

	Services as Directors R	Cash package[1] R	Other benefits[2] R	Incentive bonus[3] R	Total 2019 R	Incentive bonus[6] Payable in Sept 2019 R
2019						
Executive directors						
Roland Sassoon[a]	–	1 805 706	192 466	643 333	2 641 505	–
Angela Pillay	–	2 342 997	473 356	–	2 816 353	900 000
Michael Sassoon	–	3 577 649	422 657	643 333	4 643 639	1 200 000
Alternate executive directors						
Linda Fröhlich	–	2 677 412	369 378	490 980	3 537 770	800 000
Maston Lane	–	2 653 021	503 146	504 370	3 660 537	800 000
Independent non-executive directors						
Roy Andersen	996 200	–	–	–	996 200	–
Richard Buchholz	631 638	–	–	–	631 638	–
Linda de Beer	539 000	–	–	–	539 000	–
Grant Dunnington	866 913	–	–	–	866 913	–
Gugu Mtetwa	451 100	–	–	–	451 100	–
Shahied Rylands	773 950	–	–	–	773 950	–
Mark Thompson[b]	–	–	–	–	–	–
Prescribed officers						
Howard Brown	–	2 197 651	252 381	378 667	2 828 699	450 000
Francois Otto	–	2 149 557	261 890	842 000	3 253 447	600 000
Andrew (Josh) Souchon	–	2 308 197	292 156	417 600	3 017 953	450 000
Stewart Tomlinson	–	1 663 255	420 014	111 111	2 194 380	440 000
Erol Zeki	–	2 396 383	535 168	500 000	3 431 551	800 000
	4 258 801	23 771 828	3 722 612	4 531 394	36 284 635	6 440 000

[a] *Retired on 31 December 2018.*
[b] *Appointed on 21 June 2019.*

Notes to the consolidated financial statements
continued

FOR THE YEAR ENDED 30 JUNE 2019

39. RELATED-PARTY TRANSACTIONS continued

39.3 Key management personnel and related remuneration

Directors' and Prescribed Officers' remuneration

	Services as Directors R	Cash package[1] R	Other benefits[2] R	Incentive bonus[4] R	Total 2018 R	Incentive bonus[5] Payable in Sept 2018 R
2018						
Executive directors						
Roland Sassoon	–	3 641 930	637 704	750 000	5 029 634	643 333
Angela Pillay[a]	–	760 463	2 306 204	–	3 066 667	–
Michael Sassoon	–	2 931 437	633 613	700 000	4 265 050	643 333
Independent non-executive directors						
Roy Andersen	981 042	–	–	–	981 042	–
Linda de Beer	541 205	–	–	–	541 205	–
Grant Dunnington	712 050	–	–	–	712 050	–
John Moses[b]	49 783	–	–	–	49 783	–
Gugu Mtetwa	345 900	–	–	–	345 900	–
Shahied Rylands	652 000	–	–	–	652 000	–
Richard Buchholz[h]	248 825	–	–	–	248 825	–
Prescribed officers						
Linda Fröhlich	–	2 317 160	618 035	550 000	3 485 195	490 980
Maston Lane	–	2 359 974	669 458	550 000	3 579 432	504 370
Howard Brown	–	1 999 009	365 748	550 000	2 914 757	378 667
Andrew (Josh) Souchon	–	2 177 490	344 521	300 000	2 822 011	417 600
David Edwards[c]	–	1 507 419	424 670	541 000	2 473 089	100 000
Francois Otto[d]	–	336 665	52 020	323 880	712 565	842 000
Erol Zeki[e]	–	1 879 327	350 846	–	2 230 173	500 000
Glen Christopulo[f]	–	2 192 380	473 600	500 000	3 165 980	–
Lushen Pather[g]	–	757 739	441 029	1 100 000	2 298 768	–
	3 530 805	22 860 993	7 317 448	5 864 880	39 574 126	4 520 283

1 The remuneration of the Executive Directors is paid by subsidiaries of the Company.
2 Other benefits comprise: provident fund, medical aid, group life, company car, cash-settled share options and sign-on bonuses.
3 Relate to the Group's and individual's performance in the 2018 financial year.
4 Relate to the Group's and individual's performance in the 2017 financial year.
5 Relate to the Group's and individual's performance in the 2018 financial year.
6 Relate to the Group's and individual's performance in the 2019 financial year.

a Appointed on 01 March 2018
b Resigned on 28 August 2017
c Resigned on 30 April 2018
d Appointed on 01 May 2018
e Appointed on 15 September 2017
f Resigned on 31 March 2018
g Resigned on 31 December 2017
h Appointed on 17 March 2018

39. RELATED-PARTY TRANSACTIONS continued

39.4 Directors' interest in shares

Directors' interest in the Company's issued ordinary share capital at 30 June 2019 were:

Director	2019 Indirect beneficial	2018 Indirect beneficial
Michael Sassoon*	13 681 636	13 460 591

* *Roland Sassoon is similarly indirectly a part beneficiary of the same shares reflected as being held for the indirect benefit of Roland Sassoon.*

No director dealt in the shares of Sasfin Holdings Limited in the period after the financial year-end until the results were issued to the public.

39.5 Associates

39.5.1 *List of significant associates*

Name	Nature of business	% ownership 2019	% ownership 2018
Equity-accounted associates			
SAB & T BEE Services (Pty) Limited	BEE consulting and verification	–	39.00
Efficient Group Limited*	Integrated financial services group	28.96	14.28
Axo Holdings (Pty) Limited (acquired on 1 June 2018)	Developer of trading and investment platforms	49.00	49.00

* *Efficient was previously recognised as an investment at FVTPL.*

39.5.2 *Transactions and balances with associates*

The Group provides shareholder loans to some of its associates. The Group further provides Equipment Finance, Capital Equipment Finance as well as Trade and Debtor Finance to some of its associates. These transactions are generally conducted on the same terms as third-party transactions.

Associates in this context include both those that are equity accounted and those that are designated as at fair value through profit or loss. The collective amounts included in the Group's consolidated financial statements relating to these transactions, are as follows:

	2019 R'000	2018 R'000
Statement of financial position		
Loans and advances	360 625	271 923
Gross carrying amount[1]	377 939	
Expected credit losses[1]	(17 314)	
Statement of comprehensive income		
Interest income	54 618	35 313
Non-interest income	885	7 772
Credit losses[1]	57	
Other operating expenses	–	773

[1] *ECL was introduced by IFRS 9 and not applicable to the comparative period. Refer to IFRS 9 adoption.*

Notes to the consolidated financial statements
continued

FOR THE YEAR ENDED 30 JUNE 2019

40. CLASSIFICATION OF ASSETS AND LIABILITIES

Accounting classification and fair values

The table below sets out the Group's classification of each class of financial assets and liabilities, their fair values and carrying amounts.

Assets	Fair value through profit or loss Default R'000	Held for trading R'000	Amortised cost R'000	Outside scope of IFRS 9 R'000	Total R'000
2019					
Cash and cash balances	–	–	1 312 786	–	1 312 786
Trading assets	–	1 187 523	–	–	1 187 523
Negotiable securities	–	–	3 077 519	–	3 077 519
Other receivables	–	–	410 776	–	410 776
Loans and advances	–	–	7 487 205	–	7 487 205
Current taxation asset	–	–	–	23 799	23 799
Investment securities	635 298	–	–	112 416	747 714
– Investments at fair value through profit or loss	635 298	–	–	–	635 298
– Equity-accounted associates	–	–	–	112 416	112 416
Deferred tax asset	–	–	–	34 907	34 907
Property and equipment	–	–	–	75 245	75 245
Investment property	–	–	–	8 900	8 900
Intangible assets and goodwill	–	–	–	235 028	235 028
Total assets	635 298	1 187 523	12 288 286	490 295	14 601 402

Liabilities	Fair value through profit or loss Default R'000	Held for trading R'000	Amortised cost R'000	Outside scope of IFRS 9 R'000	Total R'000
2019					
Funding under repurchase agreements and interbank	–	–	2 271 610	–	2 271 610
Trading liabilities	–	1 175 828	–	–	1 175 828
Current taxation liability	–	–	–	4 526	4 526
Trade and other payables	–	–	899 119	–	899 119
Provisions	–	–	–	57 695	57 695
Bank overdraft	–	–	46 008	–	46 008
Deposits from customers	–	–	4 981 067	–	4 981 067
Debt securities issued	–	–	2 753 521	–	2 753 521
Long-term loans	–	–	495 715	–	495 715
Deferred tax liability	–	–	–	138 929	138 929
Total liabilities	–	1 175 828	11 447 040	201 150	12 824 018

40. CLASSIFICATION OF ASSETS AND LIABILITIES continued

Accounting classifications and fair values continued

Assets[1]	Designated at fair value R'000	Held for trading R'000	Loans and receivables R'000	Outside scope of IAS 39 R'000	Total R'000
2018					
Cash and cash balances	–	–	1 892 167	–	1 892 167
Trading assets	–	1 476 511	–	–	1 476 511
Negotiable securities	–	–	1 975 407	–	1 975 407
Other receivables	–	–	364 655	10 725	375 380
Loans and advances	–	–	7 617 179	–	7 617 179
Current taxation asset	–	–	–	19 809	19 809
Investment securities	616 319	–	–	12 174	628 493
– Investments at fair value through profit or loss	616 319	–	–	–	616 319
– Equity-accounted associates	–	–	–	12 174	12 174
Deferred tax asset	–	–	–	30 568	30 568
Property and equipment	–	–	–	88 687	88 687
Investment property	–	–	–	12 600	12 600
Intangible assets and goodwill	–	–	–	202 283	202 283
Total assets	616 319	1 476 511	11 849 408	376 846	14 319 084

Liabilities[1]	Held for trading R'000	Amortised cost R'000	Outside scope of IAS 39 R'000	Total R'000
2018				
Funding under repurchase agreements and interbank	–	1 924 975	–	1 924 975
Deposits from customers	–	4 449 344	–	4 449 344
Debt securities issued	–	3 115 432	–	3 115 432
Long-term loans	–	674 616	–	674 616
Trading liabilities	1 449 203	–	–	1 449 203
Provisions	–	37 705		37 705
Trade and other payables	–	716 348	47 692	764 040
Taxation	–	–	21 819	21 819
Deferred tax liability	–	–	140 179	140 179
Total liabilities	1 449 203	10 918 420	209 690	12 577 313

[1] *As allowed by the transitional requirements of IFRS 9, the comparative numbers have not been restated. Refer to note 1.1.1 for more information on the IFRS 9 transition.*

Notes to the consolidated financial statements
continued

FOR THE YEAR ENDED 30 JUNE 2019

40. CLASSIFICATION OF ASSETS AND LIABILITIES continued

40.1 Financial assets and liabilities measured at fair value

	2019			2018		
	Level 1 R'000	Level 2 R'000	Level 3 R'000	Level 1 R'000	Level 2 R'000	Level 3 R'000
Recurring fair value measurements						
Financial assets	1 148 737	39 007	635 077	1 297 403	221 413	586 188
Investment securities	221	–	635 077	309	41 996	586 188
Trading assets	1 148 516	39 007	–	1 297 094	179 417	–
Financial liabilities	1 135 392	40 436	–	1 293 531	155 672	–
Trading liabilities	1 135 392	40 436	–	1 293 531	155 672	–
Non-financial assets	–	–	8 900	–	–	12 600
Investment property	–	–	8 900	–	–	12 600

40. CLASSIFICATION OF ASSETS AND LIABILITIES continued

40.2 Movement in Level 3 instruments

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

	2019 Investment securities R'000	2019 Non-current assets held for sale R'000	2019 Investment property R'000	2018 Investment securities R'000	2018 Non-current assets held for sale R'000	2018 Investment property R'000
Balance at the beginning of the year	586 190	–	12 600	446 954	69 500	–
Total gains or losses in profit and loss	60 579	–	(3 700)	70 451	(400)	–
Acquisition of investments	–	–	–	107 096	–	–
Disposal of investments	(37 721)	–	–	(4 700)	(56 500)	–
Advances/(repayments)	30 185	–	–	(33 611)	–	–
Transfers	(4 156)	–	–	–	(12 600)	12 600
Balance at the end of the year	635 077	–	8 900	586 190	–	12 600

40.3 Gains and losses from fair value measurements

Total unrealised gains and losses for the reporting period on Level 3 positions held at the reporting date are set out below:

	2019 R'000	2018 R'000
Total gains in profit or loss	56 879	70 451

40. CLASSIFICATION OF ASSETS AND LIABILITIES continued

40.4 Sensitivity analysis of valuations using unobservable inputs

As part of the Group's risk management processes, stress tests are applied on the significant unobservable parameters to generate a range of potentially possible alternative valuations. The assets that are most impacted by this sensitivity analysis are Level 3 investment securities. The stress tests are applied independently and do not take into account of any cross-correlation between separate asset classes that would reduce the overall effect on the valuations.

The following table reflects how the unobservable parameters were changed in order to evaluate the sensitivities of Level 3 financial assets:

Significant unobservable parameter	Positive/(negative) variance applied to parameters	
Weighted Average Cost of Capital (WACC)	100/(100) bps	Private equity
Marketability and Minority discounts	100/(100) bps	Private equity
Revenue growth	100/(100) bps	Private equity
Capitalisation rate	50/(50) bps	Property equity
Vacancy rate	500/(500) bps	Property equity

A significant parameter has been deemed to be one which may result in a change to profit or loss, or a change in the fair value asset of more than 1%.

This is demonstrated by the following sensitivity analysis which includes reasonable range of possible outcomes:

Financial instrument	Parameter	2019 Potential effect recorded in profit or loss favourable/ (unfavourable) R'm	2018 Potential effect recorded in profit or loss favourable/ (unfavourable) R'm
Investment securities	WACC	(15.318)/18.809	(25.550)/33.958
Investment securities	Marketability and minority discounts	(4.618)/5.409	(6.858)/6.960
Investment securities	Revenue growth	11.435/(10.279)	31.259/(21.064)
Investment securities	Capitalisation rate	(5.480)/14.600	(8.265)/15.820
Investment securities	Vacancy rate	1.105/(1.105)	0.713/(0.713)

40. CLASSIFICATION OF ASSETS AND LIABILITIES continued

40.5 Market risk sensitivity on investment securities

The table below illustrates the market risk sensitivity for all investment securities held by the Group assuming a 10% shift in the share price or proxy share price.

	2019			2018		
	10% reduction in fair value R'000	Fair value R'000	10% increase in fair value R'000	10% reduction in fair value R'000	Fair value R'000	10% increase in fair value R'000
Listed						
Equity securities at fair value	199	221	243	38 075	42 305	46 536
Impact on gains and losses recognised in profit or loss for the year	20	22	24	(5 404)	(6 004)	(6 604)
Unlisted						
Equity securities at fair value	571 569	635 077	698 585	527 569	586 188	644 807
Impact on gains and losses recognised in profit or loss for the year	54 521	60 579	66 637	63 406	70 451	77 496

40.6 Financial assets and financial liabilities not measured at fair value

	2019			2018		
	Level 1 R'000	Level 2 R'000	Level 3 R'000	Level 1 R'000	Level 2 R'000	Level 3 R'000
Financial assets	–	4 390 305	7 897 981	–	3 867 574	7 993 875
Cash and cash balances	–	1 312 786	–	–	1 892 167	–
Negotiable securities	–	3 077 519	–	–	1 975 407	–
Other receivables	–	–	410 776	–	–	375 380
Loans and advances[1]	–	–	7 487 205	–	–	7 618 495
Financial liabilities	2 753 521	7 252 677	1 434 954	3 115 432	6 374 319	1 476 361
Funding under repurchase agreements and interbank	–	2 271 610	–	–	1 924 975	–
Trade and other payables	–	–	899 119	–	–	764 040
Provisions	–	–	57 695	–	–	37 705
Deposits from customers	–	4 981 067	–	–	4 449 344	–
Debt securities issued	2 753 521	–	–	3 115 432	–	–
Long-term loans	–	–	478 140	–	–	674 616

The carrying amount of financial assets and financial liabilities, recognised at amortised cost, is considered a reasonable approximation of fair value.

[1] *The carrying amount of Loans and Advances has been moved from Level 2 to Level 3 in the fair value hierarchy, since not all of the Level 2 inputs are observable in the market, e.g. credit spreads.*

Notes to the consolidated financial statements
continued

FOR THE YEAR ENDED 30 JUNE 2019

41. FINANCIAL RISK MANAGEMENT

Risk management is fundamental to the Group's business activities, enabling management to operate effectively in a changing and highly regulated environment. The Group remains committed to the objectives of increasing shareholder value by developing and growing the Group within its Board-approved risk appetite and by seeking an appropriate balance between risk and reward.

41.1 Risk management framework

Governance

The responsibility for risk management resides at all levels, from the Board through to all employees of the Group. The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The ALCO and GRCMC, both of which are committees of the Board, are responsible for monitoring Group risk management policies in their specified areas of responsibility. The GRCMC, ALCO, CLEC (previously CIC), and IT Committee have both Executive and Non-Executive Directors as members, as well as members of executive management as invitees. The GACC and REMCO have only Non-Executive Directors as members, with Executive Directors and members of senior management as invitees. The chair of each Board committee reports quarterly or as required to the Board on the activities of their respective committees.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls as well as to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions as well as products and services offered. The Group, through its training and management of standards and procedures, has developed a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Group uses the following lines of defence:

- Business unit management is primarily responsible for risk management. Its assessment, evaluation and measurement of risk is integrated with the day-to-day activities of the business. This process includes the implementation of the Group risk management policies, identification of key areas of risk, and implementation of corrective action where required. Business unit management is also responsible for appropriate reporting to the governance bodies within the Group.
- The Group Risk and Group Compliance units and function are independent of line management. These Group functions are primarily responsible for setting the Group's risk and compliance management framework and policy, and providing oversight and independent reporting to executive management, ALCO, GRCMC, GACC and the Board.
- The Group Internal Audit (GIA) function provides an independent assessment of the adequacy and effectiveness of the overall risk management framework and reports directly to the GACC. The GACC is responsible for monitoring compliance with the Group's risk and compliance management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The GACC is assisted in these functions by GIA, which undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the GACC.

41.2 Risk types, definitions, governance standards, policies and procedures

The Group has developed a set of policies, procedures and standards for each major risk type to ensure alignment and consistency in a manner in which the major risk types across the Group are identified, measured, managed and reported on. All policies and procedures are approved by GRCMC and applied consistently across the Group.

The risk governance principles in respect of market and liquidity risk have remained relatively unchanged from the prior year. The implementation of IFRS 9 led to the refinement of certain of the risk governance principles related to credit risk. Refer to note 42 for more information.

42. CREDIT RISK

Credit risk is the risk of a financial loss stemming from a borrower's failure to repay a loan or otherwise fail to meet a contractual obligation.

Credit risk arises principally from the Group's loans and advances, deposits placed with other banks, negotiable securities, financial guarantees issued, carry facilities granted and letters of credit issued. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (individual obligor default risk as well as country and sector risk).

Management of credit risk

The Board of Directors has delegated responsibility for the oversight of credit risk to the CLEC. The Group Credit department, which reports to the Chief Operating Officer of Sasfin Bank Limited, is responsible for management of the Group's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits, as approved and reviewed regularly by the Board, are allocated to business unit credit officers. Larger facilities may require approval by Group Credit, Head: Group Credit, CLEC, CIC or the Board
- Reviewing and assessing credit risk. Group Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned
- Limiting concentrations of exposure to counterparties, geographies and industries for loans and advances, deposits with banks and investment securities (refer to note 42.1)
- Developing and maintaining the Group's risk indicators in order to categorise exposures according to the degree of risk of financial loss faced, and to focus management on the attendant risks. The risk system is used in determining where impairment provisions (i.e. provisions for credit losses) may be required against specific credit exposures. The current risk framework consists of four grades reflecting varying degrees of risk of default, availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive/committee. Risk grades are subject to regular reviews by Group Risk
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Group Credit on the credit quality of local portfolios and appropriate corrective action is taken
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk

Each business unit is required to implement Group credit policies and procedures, with credit approval authorities delegated from the CLEC or CIC. Each business unit is also responsible for the quality and performance of its credit portfolio, and for monitoring and controlling all credit risks in its portfolios, including those subject to Group approval.

Regular audits of business units and Group Credit processes are undertaken annually by GIA.

Securitisation

The Group uses securitisation primarily as a source of funding for its lending operations, by adding flexibility to structural liquidity risk and diversifying its funding base. All securitisable assets are subject to the Group's credit risk policies and procedures.

The Group fulfils a number of roles in the process of securitising these assets, including that of originator, sponsor, hedge counterparty and administrator, and applies its Group credit risk policies and procedures to these functions.

42. CREDIT RISK continued

Management of credit risk continued

Deposits with other banks and money market funds

The Group places funds on a daily basis with other banks or money market funds. These deposits are generally held on overnight call or on a short-term tenor, and are available on demand or at maturity. The deposits are made in accordance with the mandates and directives provided by ALCO and GRCMC. In terms of these policies, deposits can only be made with banking institutions or money market funds that are rated as investment grade by accredited global rating agencies, and may not exceed internal risk limits. Deposits with other banks or money market funds are reported to executive management on a daily basis, and to ALCO on a quarterly basis. Collateral is not held for deposits with other banks or money market funds.

At the reporting date the Group does not expect any losses from non-performance by the counterparties for these deposits and money market funds.

Financial assets held for trade facilitation and reverse repurchase agreements

The Group, through its subsidiary SasSec, holds exchange-traded bonds for the purposes of trading with other market participants.

Impaired loans and securities (IAS 39)

These are loans and securities for which it is probable that the Group will be unable to collect all principal and interest due in accordance with the contractual terms of the loan/securities agreement(s). These loans are graded in the Group's internal credit risk grading system.

Past due but not impaired loans (IAS 39)

These are loans and securities where contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available, and/or the stage of collection of amounts owed to the Group.

Credit impairment (IFRS 9)

The Group determines an allowance for credit losses that represents its estimate of expected credit losses on its loan portfolio. Refer to accounting policy note 1.12 and note 2.1 for more information.

Credit impairment (IAS 39)

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a portfolio loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy (IFRS 9 and IAS 39)

Loans and security balances (and any related allowances for impairment losses) are written off when it is determined that these loans and securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's or issuer's financial position resulting in the borrower/issuer no longer being in a position to pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

42. CREDIT RISK continued

Management of credit risk continued

Credit risk measurement and determination

The Group uses internally developed models and practices to measure and manage credit risk, by utilising skilled resources to ensure it is properly managed and controlled. The Group has adopted the standardised approach in terms of Basel III to measure credit risk, and uses the regulatory risk buckets per the SARB as measurement criteria for assessing performing counterparties as follows:

2019 SARB risk bucket/ Credit risk grade	Categorisation of counterparty (IFRS 9)	2018 SARB risk bucket/ Credit risk grade	Categorisation of counterparty (IAS 39)
A	Stage 1 and Stage 2	A	• Performing loans and advances
			• Non-performing loans and advances
B	Stage 2	B	– Special mention
C	Stage 3	C	– Sub-standard
D	Stage 3	D	– Doubtful
E	Stage 3	E	– Loss

Collateral for loans and advances

The Group holds collateral against loans and advances in order to reduce credit risk. Although collateral is held, the Group's policy is to establish that loans and advances which are granted, are within the customer's capacity to repay the amount, rather than to rely on the collateral held against them. Estimates of the fair value of collateral are based on the value at the time of borrowing and are updated annually if an account is individually assessed for impairment. Collateral includes general notarial bonds over the client's stock and other assets, cession of debtor books as well as continuous covering mortgage bonds over property. Insurance taken out by the lender on loans and advances is also viewed as collateral.

Concentration risk

This is the risk of a material exposure by the Group to a small number of depositors, lenders, financial instruments, individuals, corporates, institutions or geographies.

Notes to the consolidated financial statements
continued

FOR THE YEAR ENDED 30 JUNE 2019

42. CREDIT RISK continued

42.1 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. Given the implementation of IFRS 9, without restating the 2018 numbers, the information below is not comparable in all respects. Refer to note 1.1.1 for the impact of the IFRS 9 transition.

Credit risk grading		A	A	B	Default (C, D and E)	
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	Securities and expected recoveries on default exposures R'000
2019						
Maximum credit exposures of financial assets at amortised cost						
Cash and cash balances[1]	1 312 786	–	–	–	–	–
Negotiable securities[1]	3 077 519	–	–	–	–	–
Loans and advances	7 888 947	6 520 430	535 159	107 254	726 104	228 586
Equipment finance	5 214 032	4 582 909	182 000	94 663	354 460	–
Capital equipment finance	1 269 646	1 083 472	48 552	12 591	125 031	–
Trade and debtor finance	1 207 514	712 519	276 447	–	218 548	228 586
Other secured loans	197 755	141 530	28 160	–	28 065	–
Other receivables[2]	410 776	–	–	–	–	–
Gross carrying amount	12 690 028	6 520 430	535 159	107 254	726 104	228 586
Less: Credit loss allowance	(401 742)	(57 163)	(6 310)	(16 588)	(321 681)	–
Net carrying amount	12 288 286	6 463 267	528 849	90 666	404 423	228 586

	Total R'000
2019	
Off-balance sheet exposure to credit risk	
Letters of credit	73 816
Carry facilities	11 952
Financial guarantees issued	43 326
Total exposure to off-balance sheet credit risk	129 094
Credit loss allowance on off-balance sheet credit risk recognised	449
2019	
Maximum credit exposures on financial assets at FVTPL	
Trading assets	667 827
Investment securities	378 393
	1 046 220
Total exposure to credit risk	13 464 049

[1] *Management has assessed these as high-quality liquid assets held with institutions with a low risk of default and hence no ECL allowance has been recognised for these, as it is immaterial.*

[2] *Given the short-term nature, no ECL allowance has been recognised.*

42. CREDIT RISK continued

42.1 Credit risk exposure analysis continued

Group maximum consolidated statement of financial position exposure to credit risk by credit quality

	Performing loans and advances R'000	Past due but not impaired R'000	Impaired R'000	Gross maximum exposure R'000	Security against impaired R'000	Net impaired exposure R'000
2018						
Cash and cash balances	1 750 758	–	–	1 750 758	–	–
Negotiable securities	1 975 407	–	–	1 975 407	–	–
Loans and advances	7 252 751	64 828	585 364	7 902 943	350 738	234 625
– Equipment finance	5 050 777	30 101	401 012	5 481 890	193 687	207 326
– Capital Equipment finance	1 080 736	632	14 780	1 096 148	13 656	1 124
– Trade and Debtor finance	978 749	34 095	128 431	1 141 275	111 563	16 868
– Other secured loans	142 490	–	41 141	183 631	31 832	9 307
Other receivables	375 380	–	–	375 380	–	–
– Stockbroking receivable	92 506	–	–	92 506	–	–
– Other receivables	282 874	–	–	282 874	–	–
Trading assets	1 476 511	–	–	1 476 511	–	–
Investment securities	628 493	–	–	628 493	–	–
	13 459 300	64 828	585 364	14 109 492	350 738	234 625

Add: Financial instruments not exposed to credit risk	141 409
Less: Credit impairments for loans and advances	(285 764)
– Impairments for non-performing loans and advances	(234 625)
– Impairments for performing loans and advances	(51 139)
	13 965 137
Represented by the following consolidated statement of financial position items:	
Cash and cash balances	1 892 167
Negotiable securities	1 975 407
Loans and advances	7 617 179
Investment securities	628 493
Trading assets	1 476 511
Other receivables	375 380
	13 965 137

2018
Off-balance sheet exposure to credit risk

Letters of credit	48 406
Carry facilities	12 652
Guarantees issued	26 432
	87 490

42. CREDIT RISK continued

42.1 Credit risk exposure analysis continued

Impaired exposure of non-performing loans and advances

	Special mention R'000	Sub-standard R'000	Doubtful R'000	Expected loss R'000	Net impaired exposure R'000
2018					
Equipment finance	4 851	1 509	11 530	189 436	207 326
Capital Equipment Finance	955	–	–	169	1 124
Trade and Debtor finance	2 607	–	–	14 261	16 868
Other secured loans	164	–	–	9 143	9 307
	8 577	1 509	11 530	213 009	234 625

Past due but not impaired loans and advances

	Between 1 and 30 days R'000	31 – 60 days R'000	61 – 90 days R'000	>90 days R'000	Total R'000
2018					
Ageing of loans and advances past due but not impaired					
Loans and advances	60 714	3 665	449	–	64 828
	60 714	3 665	449	–	64 828

	2019 R'000	2018 R'000
Concentration risk of advances		
Sectoral analysis		
Agriculture	89 855	61 400
Community, social and personal services	1 601 352	1 578 213
Construction	468 122	373 387
Electricity and water	32 109	39 041
Finance, real estate and business services	1 829 609	1 705 305
Manufacturing	1 097 170	1 260 609
Mining	254 569	239 058
Trade and accommodation	1 259 547	1 925 688
Transport and communication	1 256 614	720 242
Total	7 888 947	7 902 943

42. CREDIT RISK continued

42.1 Credit risk exposure analysis continued

Financial assets attract credit risk in the form of counterparty credit risk and concentration risk.

	2019 %	2018 %
Issuer ratings relating to the portfolio of bond assets were as follows		
Aa1/AA+/AA+	13.71	40.30
Aa2/AA/AA	1.68	3.40
Aa3/AA-/AA-	0.65	2.40
Aaa/AAA/AAA	52.12	53.20
A3/A-/A-	31.84	0.70
	100.00	100.00

42.2 Collateral and other security enhancements

42.2.1 Description of collateral for loans and advances

Loans and advances	Security
Equipment finance	The Group retains full ownership of the assets and equipment financed throughout the duration of the contract.
Capital equipment finance	The primary collateral for Capital Equipment Finance is the plant/equipment being financed. However, other security such as general notarial bonds over other assets and continuous covering mortgage bonds over property are sometimes taken to increase the collateral cover.
Trade finance	The primary collateral for Trade Finance is the equipment being financed. However, other security such as general notarial bonds over other assets and continuous covering mortgage bonds over property are sometimes taken to increase the collateral cover.
Debtor finance	The Groups' Debtor Finance division does not allow an advance which exceeds the debtors book of the counterparty. The Group has control over the debtors' books and is therefore covered regarding its exposure, using primarily the counterparty's receivables as its security. Depending on the credit rating and the industry, the Group also holds a margin of 15% to 30% of the fundable debtors book of the counterparty as an extra buffer for security. Additional securities may also be held as further collateral against these advances.
Other secured loans	The primary collateral held for commercial property finance comprises first and second covering mortgage bonds, and in some instances suretyships. The collateral is measured in terms of market-related property valuations.

42. CREDIT RISK continued

42.2 Collateral and other security enhancements continued

42.2.2 An estimate of the fair value of collateral and other security enhancements held against loans and advances

Given the nature of the finance lease rental agreement, whereby the underlying assets are legally owned by the Group, management is comfortable that at inception of the agreement, the value of the underlying asset equates to the amount due. The value of the asset is not subsequently reassessed unless there is default. An estimate of the fair value of collateral and other security enhancements held is shown below

	Gross exposure R'000	Security							Un-secured R'000
		Stock R'000	Fixed assets R'000	Receiv-ables R'000	Property R'000	Pledges/ deposits R'000	Total R'000		
2019									
Loans and advances									
Equipment Finance	5 214 032	–	3 657 914	–	–	–	3 657 914		1 556 118
Capital Equipment Finance	1 269 646	–	953 167	–	–	–	953 167		316 479
Trade and Debtor Finance	1 207 514	265 269	100 156	275 259	66 260	103 081	810 025		397 489
Other secured loans	197 755	–	–	–	–	150 801	150 801		46 954
	7 888 947	265 269	4 711 237	275 259	66 260	253 882	5 571 907		2 317 040
2018									
Loans and advances									
Equipment Finance	5 481 890	–	2 657 305	–	–	–	2 657 305		2 824 585
Capital Equipment Finance	1 096 148	–	506 158	–	–	–	506 158		589 990
Trade and Debtor finance	1 141 275	381 207	103 929	286 603	78 783	132 813	983 335		157 940
Other secured loans	183 630	–	–	–	–	150 393	150 393		33 237
	7 902 943	381 207	3 267 392	286 603	78 783	283 206	4 297 191		3 605 752

42.2.3 Collateral held against individually impaired assets

	Gross exposure R'000	Security							Un-secured R'000
		Stock R'000	Fixed assets R'000	Receiv-ables R'000	Property R'000	Pledges/ deposits R'000	Total R'000		
2019									
Loans and advances									
Equipment Finance	351 285	–	252 384	–	–	–	252 384		98 901
Capital Equipment Finance	125 031	–	93 976	–	–	–	93 976		31 055
Trade and Debtor finance	218 547	3 695	54 012	2 360	1 458	144 341	205 866		12 681
Other secured loans	28 065	–	–	–	–	22 719	22 719		5 346
	722 928	3 695	400 372	2 360	1 458	167 060	574 945		147 983
2018									
Loans and advances									
Equipment Finance	401 012	–	193 687	–	–	–	193 687		207 326
Capital Equipment Finance	14 780	–	13 656	–	–	–	13 656		1 124
Trade and Debtor Finance	128 431	20 279	30 052	35 109	15 011	11 112	111 563		16 868
Other secured loans	41 141	–	–	–	–	31 833	31 833		9 307
	585 364	20 279	237 395	35 109	15 011	42 945	350 739		234 625

42. CREDIT RISK continued

42.3 Credit loss allowance analysis

Given the implementation of IFRS 9, without restating the 2018 numbers, the information below is not comparable in all respects. Refer to note 1.1.1 for information on the IFRS 9 transition.

42.3.1 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
2019				
Credit loss allowance on 1 July 2018[1]	71 979	54 291	244 165	370 435
Transfers between stages[2]	(31 203)	(51 592)	142 720	59 925
Transfer (to)/from stage 1	(31 203)	–	–	(31 203)
Transfer from/(to) stage 2	–	(51 592)	–	(51 592)
Transfer from stage 3	–	–	142 720	142 720
Net expected credit losses (released)/raised	16 394	20 199	(6 857)	29 736
ECL on new exposures raised	22 823	22 556	19 116	64 495
Change in ECL due to derecognition[3]	(6 429)	(2 357)	(25 973)	(34 759)
Impaired accounts written off[4]	–	–	(58 354)	(58 354)
Credit loss allowance on 30 June 2019	57 170	22 898	321 674	401 742

[1] *Refer to note 2.1A for changes in the PDs due to re-calibration of the ECL model.*

[2] *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.*

[3] *Loans and Advances had contracted during the first half of the year, as a result of the expected early run-off of the Absa Technology Finance Solutions (ATFS) rental finance book. The Group has further improved its credit loss ratio, despite a difficult credit environment.*

[4] *The contractual amount outstanding on loans and advances that were written off during the period and that are still subject to enforcement activities amounts to R16.450 million.*

42. CREDIT RISK continued

42.3. Credit loss allowance analysis continued

42.3.2 Reconciliation of ECL on Loans and Advances at amortised cost by product

	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	Other movements R'000	Credit loss allowance on 30 June 2019 R'000
2019						
Equipment finance	270 156	74 687	19 390	(44 424)	–	319 809
Stage 1	27 611	(5 730)	10 638	–	–	32 519
Stage 2	45 050	(52 678)	21 572	–	–	13 944
Stage 3	197 495	133 095	(12 820)	(44 424)	–	273 346
Capital equipment finance	22 846	(2 901)	8 748	(174)	–	28 519
Stage 1	14 239	(10 144)	3 161	–	–	7 256
Stage 2	74	1 613	156	–	–	1 843
Stage 3	8 533	5 630	5 431	(174)	–	19 420
Trade and debtor finance	58 885	(9 983)	(150)	(13 541)	–	35 211
Stage 1	20 888	(8 733)	847	–	–	13 002
Stage 2	9 167	(2 518)	(1 529)	–	–	5 120
Stage 3	28 830	1 268	532	(13 541)	–	17 089
Other secured loans	17 257	(1 035)	1 748	(215)	–	17 755
Stage 1	7 949	(5 753)	1 748	–	–	3 944
Stage 2	–	1 991	–	–	–	1 991
Stage 3	9 308	2 727	–	(215)	–	11 820
Guarantees	1 292	(843)	–	–	–	449
Stage 1	1 292	(843)	–	–	–	449
Stage 2	–	–	–	–	–	–
Stage 3	–	–	–	–	–	–
Total	370 435	59 925	29 736	(58 354)	–	401 742
Stage 1	71 979	(31 203)	16 394	–	–	57 170
Stage 2	54 291	(51 592)	20 199	–	–	22 898
Stage 3	244 165	142 720	(6 857)	(58 354)	–	321 674

42. CREDIT RISK continued

42.3 Credit loss allowance analysis continued

42.3.2 Reconciliation of ECL on Loans and Advances at amortised cost by product continued

	Equipment Finance R'000	Capital Equipment Finance R'000	Debtor Finance R'000	Trade Finance R'000	Other secured loans R'000	Total R'000
2018						
Non-performing loans						
Balance at beginning of the year	149 897	730	–	33 180	8 029	191 836
Net impairments raised/ (released)	52 976	4 847	2 361	(18 674)	1 279	42 789
Balance at end of the year	202 873	5 577	2 361	14 506	9 308	234 625
Performing loans						
Balance at beginning of the year	24 027	2 024	–	5 821	–	31 872
Net impairments raised	6 917	9 993	–	2 357	–	19 267
Balance at end of the year	30 944	12 017	–	8 178	–	51 139
Total credit impairments	233 817	17 594	2 361	22 684	9 308	285 764

A 5% (2018) increase or decrease to the Probability of Default and Loss Given Default rates, results in a R1.8 million (2018) increase and R1.732 million (2018) decrease respectively, to the impairment of performing loans.

42.3.3 Impaired exposure of non-performing Loans and Advances

	Special mention R'000	Sub-standard R'000	Doubtful R'000	Expected loss R'000	Net impaired exposure R'000
2018					
Equipment Finance	4 851	1 509	11 530	189 436	207 326
Capital Equipment Finance	955	–	–	169	1 124
Trade and Debtor Finance	2 607	–	–	14 261	16 868
Other secured loans	164	–	–	9 143	9 307
	8 577	1 509	11 530	213 009	234 625

42. CREDIT RISK continued

42.3 Credit loss allowance analysis continued

42.3.4 Credit impairment charges recognised in profit or loss

	2019 R'000	2018 R'000
IFRS 9		
Net ECL recognised	89 687	
Loans and advances	89 541	
Letters of credit, loan commitments and financial guarantees	146	
Recoveries of loans and advances previously written off	(9 329)	
IAS 39		
Net impairments raised for non-performing loans		145 688
Increase in allowance		42 789
Amounts written off, net of recoveries		102 899
Net impairments released/raised for performing loans		(1 510)
Increase in allowance		19 267
Amounts written off, net of recoveries		(20 777)
	80 358	144 178

43. LIQUIDITY RISK

Liquidity risk is the risk that a bank may be unable to meet short-term financial demands. This usually occurs due to the inability to convert a security or hard asset to cash without a loss of capital and/or income in the process.

This risk is inherent in all banking and financial service operations and can be impacted by a range of institution-specific and market-wide events.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities, when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. ALCO sets limits and mandates for executive management to manage the liquidity risk within this framework.

Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of projected cash flows arising from future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, interbank loans and other interbank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business units and subsidiaries are met through short-term loans from Treasury to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements. The Group believes that the management of liquidity should encompass an overall consolidated statement of financial position approach, which consolidates all sources and uses of liquidity while maintaining a balance between liquidity, profitability and interest rate considerations.

Liquidity risk measurement

The Group's daily liquidity position is monitored and reported in the form of cash flow projections in terms of key periods ranging from demand to long term. Regular liquidity stress testing is conducted under a variety of scenarios ranging from normal to severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Group, operating subsidiaries and foreign branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO. Sources of liquidity are regularly reviewed to maintain a wide diversification by financial product and form.

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash balances and investment grade debt securities for which there is an active and liquid market, less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. ALCO monitors the Group's exposure to liquidity risk in terms of internal benchmarks it has set and defined for Treasury to maintain.

To manage the liquidity risk arising from financial liabilities, the Group holds high-quality liquid assets comprising cash and cash balances, treasury bills, landbank bills, and negotiable certificates of deposit for which there is an active liquid market.

Notes to the consolidated financial statements
continued

FOR THE YEAR ENDED 30 JUNE 2019

43. LIQUIDITY RISK continued

43.2 Liquidity risk

Contractual maturity analysis

	Carrying amount R'000	Gross outflow R'000	Less than 1 month R'000	1 – 3 months R'000	4 – 12 months R'000	1 – 5 years R'000	More than 5 years R'000	Non-contractual R'000	Total R'000
2019									
Discounted maturity									
Assets									
Cash and cash equivalents	1 312 786	1 312 786	1 312 786	–	–	–	–	–	1 312 786
Trading assets	1 187 523	1 187 523	623 358	13 883	276 847	273 435	–	–	1 187 523
Negotiable securities	3 077 519	3 077 519	1 500 918	331 968	750 566	294 237	199 830	–	3 077 519
Other receivables	410 776	410 776	208 316	14 436	61 615	126 409	–	–	410 776
Non-current assets held for sale	–	–	–	–	–	–	–	–	–
Loans and advances	7 487 205	7 487 205	597 206	1 337 843	2 141 487	3 786 893	25 508	(401 732)	7 487 205
Current taxation asset	23 799	23 799	23 799	–	–	–	–	–	23 799
Investment securities	747 714	–	–	–	–	–	–	747 714	747 714
Investments at fair value through profit or loss	635 298	–	–	–	–	–	–	635 298	635 298
Equity-accounted associates	112 416		–	–	–	–	–	112 416	112 416
Deferred tax asset	34 907	–	–	–	–	–	–	34 907	34 907
Property and equipment	75 245	–	–	–	–	–	–	75 245	75 245
Investment property	8 900	–	–	–	–	–	–	8 900	8 900
Intangible assets and goodwill	235 028	–	–	–	–	–	–	235 028	235 028
Total assets	14 601 402	13 499 608	4 266 383	1 698 130	3 230 515	4 480 974	225 338	700 062	14 601 402
Undiscounted maturity									
Liabilities									
Funding under repurchase agreements and interbank	2 271 610	2 271 610	2 271 610	–	–	–	–	–	2 271 610
Trading liabilities	1 175 828	1 175 828	55 558	121 747	456 463	542 060	–	–	1 175 828
Current taxation liability	4 526	4 526	–	4 526	–	–	–	–	4 526
Trade and other payables	899 119	899 119	584 782	207 659	106 678	–	–	–	899 119
Provisions	57 695	57 695	–	–	18 804	–	–	38 891	57 695
Bank overdraft	46 008	46 008	46 008	–	–	–	–	–	46 008
Deposits from customers	4 981 067	5 079 743	2 793 858	1 117 543	1 015 948	152 394	–	–	5 079 743
Debt securities issued	2 753 521	4 009 117	–	721 908	1 364 391	1 922 819	–	–	4 009 118
Long-term loans	495 715	548 308	38 804	3 748	111 756	394 000	–	–	548 308
Deferred tax liability	138 929	–	–	–	–	–	–	138 929	138 929
Total liabilities	12 824 018	14 039 361	5 790 620	2 177 131	3 074 040	3 011 273	–	177 820	14 230 884

	Funding under repurchase agreements and interbank R'000	Deposits from customers R'000	Debt securities issued R'000	Long-term loans R'000	Trading liabilities R'000	Trade and other payables R'000	Current taxation liabilities R'000	Deferred tax liabilities R'000
2019								
Discounted maturity								
Current liabilities	2 271 610	4 831 635	1 432 901	154 307	633 768	899 119	4 526	–
Non-current liabilities	–	149 432	1 320 620	341 408	542 060	–	–	138 929
Total	2 271 610	4 981 067	2 753 521	495 715	1 175 828	899 119	4 526	138 929

Sasfin's liquidity risk reporting is based on a contractual maturity basis as opposed to a business as usual maturity basis, which is preferred by the ALCO. The liquidity mismatches forecast are highly improbable to actually occur. Sasfin closely manages its liquidity positions by including various buffers into its daily liquidity monitoring reports.

43. LIQUIDITY RISK continued

43.2 Liquidity risk continued

Contractual maturity analysis continued

	Carrying amount R'000	Gross outflow R'000	Less than 1 month R'000	1 – 3 months R'000	4 – 12 months R'000	1 – 5 years R'000	More than 5 years R'000	Non-contractual R'000	Total R'000
2018									
Discounted maturity									
Assets									
Cash and cash balances	1 892 167	1 892 167	1 892 167	–	–	–	–	–	1 892 167
Trading assets	1 476 511	1 476 511	826 846	472 484	177 181	–	–	–	1 476 511
Taxation	19 809	19 809	–	19 809	–	–	–	–	19 809
Negotiable securities	1 975 407	1 975 407	295 203	977 043	703 161	–	–	–	1 975 407
Other receivables	375 380	375 380	210 761	122 421	42 198	–	–	–	375 380
Non-current assets held for sale	–	–	–	–	–	–	–	–	–
Loans and advances	7 617 179	7 902 943	463 861	1 209 312	2 092 035	4 109 054	28 681	(285 764)	7 617 179
Investment securities	628 493	–	–	–	–	–	–	628 493	628 493
Property and equipment	88 687	–	–	–	–	–	–	88 687	88 687
Investment property	12 600	12 600	–	–	12 600	–	–	–	12 600
Intangible assets and goodwill	202 283	–	–	–	–	–	–	202 283	202 283
Deferred tax asset	30 568	–	–	–	–	–	–	30 568	30 568
Total assets	14 319 084	13 654 817	3 688 838	2 801 069	3 027 175	4 109 054	28 681	664 267	14 319 084
Undiscounted maturity									
Liabilities									
Funding under repurchase agreements and interbank	1 924 975	1 924 975	1 924 975	–	–	–	–	–	1 924 975
Deposits from customers	4 449 344	4 449 344	2 230 869	919 749	1 182 699	116 027	–	–	4 449 344
Debt securities issued	3 115 432	4 919 262	–	400 160	–	4 519 102	–	–	4 919 262
Long-term loans	674 616	801 247	–	55 124	129 277	616 846	–	–	801 247
Trading liabilities	1 449 203	1 449 203	1 043 426	289 841	115 936	–	–	–	1 449 203
Other payables	801 745	787 331	395 188	310 541	81 602	–	–	14 414	801 745
Current taxation liability	21 819	21 819	–	21 819	–	–	–	–	21 819
Deferred tax liability	140 179	–	–	–	–	–	–	140 179	140 179
Total liabilities	12 577 313	14 353 181	5 594 458	1 997 234	1 509 514	5 251 975	–	154 593	14 507 774
Off-statement of financial position									
Loan commitments		106 581	62 043	34 622	4 711	4 805	400	–	106 581

	Funding under repurchase agreements and interbank R'000	Deposits from customers R'000	Debt securities issued R'000	Long-term loans R'000	Trading liabilities R'000	Other payables R'000	Current taxation liabilities R'000	Deferred tax R'000
2018								
Discounted maturity								
Current liabilities	1 924 975	4 333 317	392 432	184 401	1 449 203	787 331	21 819	–
Non-current liabilities	–	116 027	2 723 000	490 215	–	14 414	–	140 719
Total	1 924 975	4 449 344	3 115 432	674 616	1 449 203	801 745	21 819	140 719

Sasfin's liquidity risk reporting is based on a contractual maturity basis as opposed to a business as usual maturity basis, which is preferred by the ALCO. The liquidity mismatches forecast are highly improbable to actually occur. Sasfin closely manages its liquidity positions by including various buffers into its daily liquidity monitoring reports.

44. MARKET RISK

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return.

It is the risk of change in the actual or effective market value or earnings of a portfolio of financial instruments caused by adverse movements in market variables. The Group's market risks are:

- Interest rate risk – the risk of difference in the repricing characteristics of assets and liabilities; and
- Equity risk – the risk of an adverse change in the fair value of an investment in listed or unlisted equities.

Settlement risk

The Group is exposed to market price risk through its stock broker trading activities on behalf of clients and credit risk if counterparties fail to perform as contracted.

These risks are mitigated by the fact that the broker's client base comprises controlled clients (i.e. cash and/or scrip held before trading).

Management of market risk

The Group separates its exposures to market risks between trading and non-trading portfolios.

- Trading portfolios
  The Group applies a Value-at-Risk model (VaR) using the previous five years' historical data as an input to monitor market risk. The VaR measures the amount of maximum loss which will not be exceeded with 99% probability as a result of normal but adverse market price movements over a 10-day holding period. The calculated value at risk at year-end was R1.305 million (2018: R4.473 million).

- Non-trading portfolios
  Non-trading portfolios are held by Treasury and are associated with fluctuations in the market price of assets and liabilities. Accordingly, the Group has exposure to interest rate risk and currency risk in respect of non-trading portfolios.

Overall authority for market risk is vested with ALCO. Group Risk is responsible for the development of detailed risk management policies (subject to review and approval by ALCO and GRCMC) and for the day-to-day review of their implementation. Included in market risk is equity investment risk arising from equity price changes in respect of listed and unlisted investments held by the Group as approved by CIC, GRCMC and ALCO respectively.

Exposure to interest rate risk

- Trading portfolios
  Trading portfolios consist of exchange-traded bonds that bear fixed interest rates, hence there is no interest rate risk.

- Non-trading portfolios
  The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the Board-delegated monitoring committee for compliance with these limits and is assisted by Group Risk in its day-to-day monitoring activities.

Market risk on equity investments

The Group enters into Private Equity and Property Equity investments in unlisted entities in accordance with delegated authority limits as defined by the CIC. Market risk on these investments is managed in terms of the investment's purpose and strategic benefits to the Group and not only on investment returns and mark-to-market considerations. Periodic reviews and assessments are undertaken on the performance of these investments.

Currency risk

The Group incurs currency risk as a result of services and supplies acquired from foreign suppliers. The currencies in which the Group primarily deals are US Dollars, Pound Sterling and Euros. The Group is therefore exposed to volatility in the exchange rate of the Rand relative to these foreign currencies.

44. MARKET RISK continued

44.1 Derivative financial instruments

Derivatives are entered into in the normal course of business and no material losses are anticipated other than those which have been accounted for in profit or loss. All commitments or contingent commitments under derivative financial instruments are settled in cash.

Notional principal

Represents the gross notional value of all outstanding contracts as at year-end. The gross notional value is the sum of the absolute value of all purchases and sales of derivative instruments. This value will not affect the amount receivable or payable under a derivative contract due to the cash-settled nature of the various contracts. The gross notional value represents only the measure of involvement by the Group in derivative contracts and not its exposure to market or credit risks arising from such contracts.

Exchange rate contracts

The Group utilises forward exchange contracts from time to time to limit the exposure to movements in the exchange rate on foreign currency liabilities.

Interest rate swaps

Interest rate swaps are used to hedge the Group's exposure to changes in the fair values of its notes and certain loans and advances attributable to changes in market interest rates. Interest rate swaps are matched to specific issuance of notes or loans and advances.

Net investment hedge

The Group used a range forward collar contract to hedge the foreign currency translation risk on its net investment in its foreign subsidiary by limiting the risk of a decline in the net asset value of the Group's investment in Sasfin Asia Limited arising from changes in exchange rates. This hedge was terminated on 1 July 2016.

44. MARKET RISK continued

44.1 Market risks

The tables summarise the Group's exposure to interest rate risk through categorisation of assets and liabilities into time buckets, determined as being the earlier of the contractual re-pricing date or maturity.

	Up to 1 month R'000	1 – 3 months R'000	4 – 12 months R'000	1 – 5 years R'000	Total R'000
2019					
Assets					
Non-trading portfolios					
Cash and cash balances	1 312 786	–	–	–	1 312 786
Negotiable securities	1 500 918	331 968	506 827	737 806	3 077 519
Loans and advances	6 610 781	442 575	280 069	555 522	7 888 947
Total assets	9 424 485	774 543	786 896	1 293 328	12 279 252
Liabilities					
Non-trading portfolios					
Funding under repurchase agreements and interbank	2 271 610	–	–	–	2 271 610
Deposits from customers	3 461 584	504 698	870 920	143 865	4 981 067
Debt securities issued	–	2 753 521	–	–	2 753 521
Long-term loans	114 148	131 567	–	250 000	495 715
Total liabilities	5 847 342	3 389 786	870 920	393 865	10 501 913
Net pricing gap	3 577 143	(2 615 243)	(84 024)	899 463	1 777 339
Cumulative repricing gap	3 577 143	961 900	877 876	1 777 339	1 777 339
A 200 basis point (bp) interest rate change will have the following effect on profit/loss:					
200 bp parallel shock interest rate increase	3 125	(11 193)	–	–	(8 068)
200 bp parallel shock interest rate decrease	591	11 193	–	–	11 784
2018					
Assets					
Non-trading portfolios					
Cash and cash balances	1 750 758	–	–	–	1 750 758
Negotiable securities	295 204	977 043	703 160	–	1 975 407
Loans and advances	6 733 711	482 294	99 152	587 786	7 902 943
Total assets	8 779 673	1 459 337	802 312	587 786	11 629 108
Liabilities					
Non-trading portfolios					
Funding under repurchase agreements and interbank	1 924 975	–	–	–	1 924 975
Deposits from customers	2 350 395	855 796	1 127 126	116 027	4 449 344
Debt securities issued	–	3 115 432	–	–	3 115 432
Long-term loans	250 000	424 616	–	–	674 616
Total liabilities	4 525 370	4 395 844	1 127 126	116 027	10 164 367
Net pricing gap	4 254 303	(2 936 507)	(324 814)	471 759	1 464 741
Cumulative repricing gap	4 254 303	1 317 796	992 982	1 464 741	1 464 741
A 200 bp interest rate change will have the following effect on profit/loss:					
200 bp parallel shock interest rate increase	3 826	(4 146)	(18 660)	(99 520)	(118 500)
200 bp parallel shock interest rate decrease	3 914	19 626	88 322	471 048	582 910

44. MARKET RISK continued

44.2 Currency risk

The Group incurs currency risk as a result of services and supplies acquired from foreign suppliers. The currencies in which the Company primarily deals are United States Dollars, Pound Sterling and Euro. The Group utilises forward exchange contracts to hedge their estimated future foreign currency exposure from purchases.

Foreign currency risk sensitivity analysis

	US Dollar R'000	Euro R'000	Japanese Yen R'000	British Pound R'000	Other R'000	Total R'000
2019						
Forward exchange contracts	(467)	–	–	–	–	(467)
Import bills	268 860	61 742	5 056	8 755	83 025	427 438
Bank balances	93 430	10 342	–	2 826	3 765	110 363
Bank overdrafts	–	(38 009)	–	–	(7 999)	(46 008)
Import suppliers	(9 810)	(7 161)	(4 560)	–	(42 506)	(64 037)
Usance creditors	(21 713)	(2 127)	–	–	–	(23 840)
Other payables	(142 336)	(30 579)	–	(9 921)	–	(182 836)
Total net (short)/ long position	187 964	(5 792)	496	1 660	36 285	220 613
Sensitivity – 5%	9 398	(290)	25	83	1 814	11 030
2018						
Forward exchange contracts	(4 944)	3 123	(18)	(49)	170	(1 718)
Import bills	389 758	43 984	1 627	4 398	73	439 840
Bank balances	295 702	31 654	197	3 609	1 214	332 376
Bank overdrafts	(85 276)	(64 331)	(900)	(2 269)	(172)	(152 948)
Import suppliers	(13 901)	(690)	–	–	–	(14 591)
Usance creditors	(155 321)	(2 756)	–	–	–	(158 077)
Other payables	(264 383)	(12 631)	(201)	(5 406)	(504)	(283 125)
Total net (short)/ long position	161 635	(1 647)	705	283	781	161 757
Sensitivity – 5%	8 082	(82)	35	14	39	8 088

Notes to the consolidated financial statements
continued

FOR THE YEAR ENDED 30 JUNE 2019

44. MARKET RISK continued

44.2 Currency risk continued

Analysis of assets and liabilities by currency

	US Dollar R'000	Euro R'000	British Pound R'000	South African Rand R'000	Other R'000	Total R'000
2019						
Assets						
Cash and cash balances	238 180	29 733	5 951	1 033 542	5 380	1 312 786
Trading assets	–	–	–	1 187 523	–	1 187 523
Negotiable securities	–	–	–	3 077 519	–	3 077 519
Other receivables	472	–	–	410 304	–	410 776
Loans and advances	268 160	61 214	8 674	7 143 979	5 178	7 487 205
Current taxation asset	–	–	–	23 799	–	23 799
Investment securities	–	–	–	747 714	–	747 714
Investments at fair value through profit or loss	–	–	–	635 298	–	635 298
Equity-accounted associates	–	–	–	112 416	–	112 416
Deferred tax asset	–	–	–	34 907	–	34 907
Property and equipment	–	–	–	75 245	–	75 245
Investment property	–	–	–	8 900	–	8 900
Intangible assets and goodwill	–	–	–	235 028	–	235 028
Total assets	506 812	90 947	14 625	13 978 460	10 558	14 601 402
Liabilities						
Funding under repurchase agreements and interbank	43 647	30 542	–	2 197 421	–	2 271 610
Trading liabilities	–	–	–	1 175 828	–	1 175 828
Current taxation liability	–	–	–	4 526	–	4 526
Trade and other payables	110 880	47 919	41 771	698 551	–	899 119
Provisions	–	–	–	57 695	–	57 695
Bank overdraft	–	–	–	46 008	–	46 008
Deposits from customers	–	–	–	4 981 067	–	4 981 067
Debt securities issued	–	–	–	2 753 521	–	2 753 521
Long-term loans	–	–	–	495 715	–	495 715
Deferred tax liability	–	–	–	138 929	–	138 929
Total liabilities	154 527	78 459	41 771	12 549 261	–	12 824 018

44. MARKET RISK continued

44.2 Currency risk continued

Analysis of assets and liabilities by currency continued

	US Dollar R'000	Euro R'000	British Pound R'000	South African Rand R'000	Other R'000	Total R'000
2018						
Assets						
Cash and cash balances	295 702	31 654	3 609	1 559 791	1 411	1 892 167
Negotiable securities	–	–	–	1 975 407	–	1 975 407
Loans and advances	383 723	43 332	4 316	7 184 108	1 700	7 617 179
Other receivables	5 892	–	4 652	364 287	549	375 380
Non-current assets held for sale	–	–	–	–	–	–
Investment property	–	–	–	12 600	–	12 600
Investment securities	–	–	–	628 493	–	628 493
Trading assets	–	–	–	1 476 511	–	1 476 511
Property and equipment	–	–	–	88 687	–	88 687
Taxation	–	–	–	19 809	–	19 809
Intangible assets and goodwill	–	–	–	202 283	–	202 283
Deferred tax asset	–	–	–	30 568	–	30 568
Total assets	685 317	74 986	12 577	13 542 544	3 660	14 319 084
Liabilities						
Interbank funding	240 597	67 087	2 269	1 613 950	1 072	1 924 975
Deposits from customers	–	–	–	4 449 344	–	4 449 344
Trading liabilities	–	–	–	1 449 203	–	1 449 203
Long-term loans	–	–	–	674 616	–	674 616
Other payables	280 182	12 631	5 406	502 821	705	801 745
Debt securities issued	–	–	–	3 115 432	–	3 115 432
Taxation	–	–	–	21 819	–	21 819
Deferred tax liability	–	–	–	140 179	–	140 179
Total liabilities	520 779	79 718	7 675	11 967 364	1 777	12 577 313

44.3 Derivative financial instruments

	Within 1 year R'000	Net fair value R'000	Positive fair value R'000	Negative fair value R'000	Notional principal R'000
2019					
Exchange rate contracts	4 210	4 210	38 349	(34 139)	3 601 677
Interest rate swaps	(4 876)	(4 876)	658	(5 534)	1 630 257
Total derivatives	(666)	(666)	39 007	(39 673)	5 231 934
2018					
Exchange rate contracts	22 496	22 496	177 677	(155 181)	(28 204)
Interest rate swaps	1 249	1 249	1 740	(491)	1 591 693
Total derivatives	23 745	23 745	179 417	(155 672)	1 563 489

Notes to the consolidated financial statements
continued

FOR THE YEAR ENDED 30 JUNE 2019

45. CAPITAL MANAGEMENT

The Group manages its capital to achieve a prudent balance between maintaining appropriate capital levels to support business growth and depositors' confidence, and to provide stakeholders with returns on a sustainable basis.

The key fundamentals of the Group's capital management policy are to ensure that the Group is adequately capitalised to support its risk profile and to develop risk management techniques and internal controls to manage and monitor the risks of the Group.

Key objectives of capital management are to:

- ensure that the Group has sufficient qualifying capital resources to meet the minimum regulatory capital requirements as set by the SARB in accordance with the Basel III Accord and the Group's Board Risk Appetite;
- ensure that the available capital resources of the Group are sufficient to support the economic capital requirements of the Group;
- optimise return on regulatory and economic capital by providing investors with above market-related returns on a sustainable basis
- generate sufficient capital to support organic and new business growth objectives of the Group;
- allocate capital to businesses to support the strategic and growth objectives of the Group; and
- ensure that the Group is sufficiently capitalised to withstand the impact of potential stress events within the parameters of an appropriate capital buffer.

The Board is responsible for assessing and approving the Group's capital management framework, capital plans and capital buffer. The capital plans and buffer are set annually and reviewed quarterly or when the economy shows signs of stress. The Board has tasked the GRCMC to ensure the Group is in compliance with the capital management objectives. The GRCMC meets on a quarterly basis to review the regulatory and economic capital adequacy of the Group. The capital adequacy of the Group is reported to the Board on a quarterly basis.

Capital adequacy (unaudited)
The Group has developed and implemented a capital management framework, which ensures that the Group is adequately capitalised in terms of its regulatory and economic capital requirements, taking into account its risk profile, internal target ratios and stress testing.

The capital management framework and processes ensure the Group maintains adequate capital levels for legal and regulatory compliance purposes. The Group ensures that its actions do not compromise sound corporate governance and appropriate business practices.

The Group has adopted the aggregation approach for consolidation in terms of the Basel III regulations where the capital resources and requirements of the banking and financial entities within the Group are consolidated.

Regulatory capital (unaudited)
In terms of the requirements of the Banks Act, the Group has complied with the minimum capital requirements for the year under review.

The Group's regulatory capital is split into two tiers:

- Tier 1 capital is split into Common Equity Tier 1 capital and Additional Tier 1 capital, includes ordinary share capital, share premium, appropriated earnings and qualifying preference share capital.
- Tier 2 capital includes subordinated term debt after regulatory adjustments.

The minimum capital requirements are defined by two ratios and amount to:
- Tier 1 capital as a percentage of risk-weighted assets; and
- total qualifying capital as a percentage of risk-weighted assets.

45. CAPITAL MANAGEMENT continued

Regulatory capital (unaudited) continued

	2019 % Unaudited	2018 % Audited
Common Equity Tier 1 Capital	14.364	14.038
Additional Tier 1 Capital	0.587	0.775
Total Tier 1 Capital	14.951	14.813
Tier 2 Capital	0.832	0.323
Total capital	15.783	15.136
Stakeholder capital adequacy ratio minimum requirements		
Regulator:		
– Notional Common Equity Tier 1	8.500	8.375
– Notional Total Tier 1	10.750	10.375
– Total capital	13.500	13.125

Notes to the consolidated financial statements
continued

FOR THE YEAR ENDED 30 JUNE 2019

46. SEGMENT REPORTING

	2019 South Africa R'000	2019 Asia-Pacific R'000	2019 Total R'000	2018 South Africa R'000	2018 Asia-Pacific R'000	2018 Total R'000
Geographical segments						
External revenue	1 199 509	27 351	1 226 860	1 190 912	28 304	1 219 216
Segment assets	14 078 139	523 263	14 601 402	13 582 182	736 902	14 319 084

	Banking R'000	Wealth R'000	Capital R'000	Sasfin Holdings and Group eliminations R'000	Total R'000
Business segments					
2019					
Interest income	1 233 820	49 421	43 065	3 845	1 330 151
Interest expense	(726 380)	(51 496)	(49 598)	(3 405)	(830 879)
Net interest income	507 440	(2 075)	(6 533)	440	499 272
Non-interest income	320 864	304 330	102 628	(234)	727 588
Total income	828 304	302 255	96 095	206	1 226 860
Impairment charges on loans and advances	(80 019)	–	(339)	–	(80 358)
Net income after impairments	748 285	302 255	95 756	206	1 146 502
Operating costs	(579 266)	(268 681)	(106 415)	(4)	(954 366)
Staff costs	(321 098)	(116 528)	(62 537)	(4 258)	(504 421)
Other operating expenses	(252 113)	(152 153)	(37 883)	4 254	(437 895)
Goodwill and intangible asset impairments	(6 055)	–	(5 995)	–	(12 050)
Profit from operations	169 019	33 574	(10 659)	202	192 136
Share of associated companies' income	–	19 138	11	–	19 149
Profit before income tax	169 019	52 712	(10 648)	202	211 285
Income tax expense	(43 673)	(12 361)	7 709	(507)	(48 832)
Profit for the year	125 346	40 351	(2 939)	(305)	162 453
Segment assets	12 339 439	1 532 868	1 021 895	(292 800)	14 601 402
Segment liabilities	11 069 105	1 287 063	778 221	(310 371)	12 824 018

46. SEGMENT REPORTING continued

	Banking R'000	Wealth R'000	Capital R'000	Sasfin Holdings and Group eliminations R'000	Total R'000
Business segments					
2018					
Interest income	1 190 905	47 253	51 409	(7 693)	1 281 874
Interest expense	(717 637)	(52 103)	(49 130)	9 775	(809 095)
Net interest income	473 268	(4 850)	2 279	2 082	472 779
Non-interest income	287 560	293 699	165 971	(793)	746 437
Total income	760 828	288 849	168 250	1 289	1 219 216
Impairment charges on loans and advances	(132 491)	–	(10 911)	(776)	(144 178)
Net income after impairments	628 337	288 849	157 339	513	1 075 038
Operating costs	(520 668)	(245 328)	(104 244)	(1 034)	(871 274)
Staff costs	(285 613)	(103 770)	(64 381)	23	(453 741)
Other operating expenses	(225 619)	(141 558)	(39 863)	(1 057)	(408 097)
Goodwill and intangible asset impairments	(9 436)	–	–	–	(9 436)
Profit from operations	107 669	43 521	53 095	(521)	203 764
Share of associated companies' income	–	92	18	–	110
Profit before income tax	107 669	43 613	53 113	(521)	203 874
Income tax expense	(38 723)	(13 096)	(13 931)	(5 678)	(71 428)
Profit for the year	68 946	30 517	39 182	(6 199)	132 446
Segment assets	12 142 868	1 636 775	684 310	(144 869)	14 319 084
Segment liabilities	11 009 915	1 419 314	297 890	(149 806)	12 577 313

47. SUBSEQUENT EVENTS

The redemption date of the preference shares issued to Absa Bank Limited by Sasfin Private Equity Investment Holdings (Pty) Limited on 31 December 2013 was extended to 30 August 2022. This extension was signed on 30 August 2019. Refer to note 20.

48. BUSINESS COMBINATIONS COMPLETED IN THE PRIOR YEAR

48.1 Acquisition of the ATFS business

On 1 April 2018, the Group acquired the business of Absa Technology Finance Solutions (Pty) Limited (ATFS). The business consisted of the loan book, IT equipment, IT software and personnel.

The loan book comprises rental deals relating to technology assets such as business centres, PABX systems and IT infrastructure (networking and communication).

The transaction was concluded as part of Sasfin's strategy to expand its market share and grow its rental business.

As disclosed in the 2018 Annual Financial Statements, the allocation of the purchase price was based on provisional fair values of the assets and liabilities acquired, while the Group sought a professional valuation to determine the fair values of certain of the assets and liabilities acquired. The valuation had not been completed by the date the 2018 Annual Financial Statements were approved for issue by the Board of Directors.

Identifiable assets acquired and liabilities assumed

The following is a summary of the (restated) fair value of the identifiable assets and liabilities acquired, purchase consideration and goodwill (previously gain on bargain purchase):

	Provisional fair values reported 2018	Adjustment	Finalised fair value 2019
Loans and Advances (Loan book)	1 195 212	(40 613)	**1 154 599**
IT Equipment	–	481	**481**
Total assets	1 195 212	(40 132)	**1 155 080**
Accrued leave balances transferred on purchase	(471)	–	**(471)**
Total liabilities	(471)	–	**(471)**
Total identifiable net assets acquired at fair value	1 194 741	(40 132)	**1 154 609**
(Gain on bargain purchase)*/Goodwill	(39 297)	40 132	**835**
Total purchase consideration settled in cash	1 155 444	–	**1 155 444**

* *Since the purchase price allocation was only provisional in 2018, recognition of the gain on bargain purchase was postponed until the purchase price allocation was finalised with reference to the professional valuation obtained. Based on the finalised and completed purchase price allocation, a small goodwill was recognised, which is mostly representing the expected synergies arising from this acquisition.*

The comparative information has been restated in these financial statements to include the effect of the adjustments noted above. According to paragraph 10(f) of IAS 1 *Presentation of Financial Statements*, a restatement will usually require the presentation of a third consolidated statement of financial position as at 1 July 2017. Since this restatement of the provisional fair values has no effect on the statement of financial position as at that date, the directors do not consider that this would provide useful additional information. Consequently a third consolidated statement of financial position is not presented.

During 2018 the Group incurred acquisition-related costs of R3 752 150 relating to external legal fees and due diligence costs. These costs have been included in "Consulting fees" in note 32.

ATFS contributed R35 972 000 to Interest income and R479 117 000 to group profit before tax from the date of acquisition to 30 June 2018. Had the acquisition occurred on 1 July 2017, the Group Interest income would have been R1 389 000 000 and the Group profit before tax R205 311 000 for the year to 30 June 2018.

48.2 Acquisition of wholly owned subsidiary Sasfin Wealth Investment Platform (Pty) Limited (SWIP)

On 12 September 2017, the Group acquired all the issued share capital of SWIP (previously known as SIPP Investments (Pty) Limited) for a total purchase consideration of R9.9 million. Payment of R1.9 million of the total purchase consideration is contingent upon the successful integration of the business of SWIP in the Group. It is highly probably that the contingent purchase consideration will be paid in the next financial year. SWIP is a technology driven business with online retirement savings and investment portfolio tools, calculators and products. Goodwill has been determined as R3.7 million.

Separate statement of financial position

AT 30 JUNE 2019

	Accounting policy	Note	2019 R'000	2018 R'000
ASSETS				
Cash and cash balances	1.10	1	7 462	4 249
Other receivables	1.12	2	15 610	5 529
Current taxation asset	1.15		–	582
Deferred tax asset	1.15	3	725	329
Investments in subsidiaries and structured entities		4	516 152	516 052
Total assets			539 949	526 741
LIABILITIES				
Current taxation liability			380	–
Trade and other payables		5	3 474	2 716
Total liabilities			3 854	2 716
EQUITY				
Ordinary share capital	1.9	6	323	323
Ordinary share premium	1.9	7	163 363	163 363
Reserves	1.9		184 323	172 253
Preference share capital	1.9	8	18	18
Preference share premium	1.9	9	188 068	188 068
Total equity	1.9		536 095	524 025
Total liabilities and equity			539 949	526 741

Separate statement of comprehensive income

FOR THE YEAR ENDED 30 JUNE 2019

	Accounting policy	Note	2019 R'000	2018 R'000
Interest and similar income	1.13	10	265	1 941
Interest income calculated using the effective interest method			265	1 941
Net interest income			265	1 941
Non-interest income			88 764	42 224
Net fee and commission income	1.13	11.1	11 636	6 265
Fee and commission income			17 262	9 892
Fee and commission expense			(5 626)	(3 627)
Gains and losses on financial instruments	1.13	11.2	77 000	35 934
Other Income		11.3	128	25
Total income			89 029	44 165
Impairment charges on loans and advances	1.12.4, 2.1.1		–	(775)
Net income after impairments			89 029	43 390
Operating costs			(11 755)	(8 096)
Staff costs	1.14	12.1	(4 259)	–
Other operating expenses		12.2	(7 496)	(8 096)
Profit before income tax			77 274	35 294
Income tax expense	1.15	13	(428)	(5 629)
Total comprehensive income for the year			76 846	29 665
Profit attributable to:			76 846	29 665
Preference shareholders			14 955	15 531
Equity holders of the Group			61 891	14 134

Separate statement of changes in equity

FOR THE YEAR ENDED 30 JUNE 2019

	Ordinary share capital and premium R'000	Distributable reserves R'000	Total ordinary shareholders' equity R'000	Preference share capital and premium R'000	Total shareholders' equity R'000
Balance at 30 June 2017	163 686	225 084	388 770	188 086	576 856
Total comprehensive income for the year	–	14 134	14 134	15 531	29 665
Profit for the year	–	14 134	14 134	15 531	29 665
Issued shares	413 491	–	413 491	–	413 491
Share buy-back and cancellation	(413 491)	–	(413 491)	–	(413 491)
Dividends to preference shareholders	–	–	–	(15 531)	(15 531)
Dividends to ordinary shareholders	–	(66 965)	(66 965)	–	(66 965)
Balance at 30 June 2018	163 686	172 253	335 939	188 086	524 025
Total comprehensive income for the year	–	61 891	61 891	14 955	76 846
Profit for the year	–	61 891	61 891	14 955	76 846
Dividends to preference shareholders	–	–	–	(14 955)	(14 955)
Dividends to ordinary shareholders	–	(49 821)	(49 821)	–	(49 821)
Balance at 30 June 2019	163 686	184 323	348 009	188 086	536 095

Separate statement of cash flows

FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 R'000	2018 R'000
Cash flows from operating activities			
Cash receipts from customers	14.1	17 655	11 833
Cash paid to customers, employees and suppliers	14.2	(17 381)	(12 473)
Cash inflow from operating activities	14.3	274	(640)
Dividends received		77 000	35 934
Taxation paid	14.4	137	(1 446)
Dividends paid	14.5	(64 774)	(82 496)
Cash flows from operating activities before changes in operating assets and liabilities		12 637	(48 648)
Changes in operating assets and liabilities		(9 424)	5 510
(Decrease)/increase in other receivables		(10 180)	8 575
Increase/(decrease) in provisions		756	(3 065)
Net cash from operating activities		3 213	(43 184)
Cash flows from investing activities		–	(808)
Acquisition of investment securities		–	(808)
Net cash flows from financing activities		–	(46)
Loans to subsidiary companies		–	(46)
Proceeds from issue of ordinary shares		–	413 491
Repurchase of ordinary shares		–	(413 491)
Net increase/(decrease) in cash and cash balances		3 213	(43 992)
Cash and cash balances at beginning of the year	1	4 249	48 241
Cash and cash balances at the end of the year	1	7 462	4 249

Notes to the separate financial statements

FOR THE YEAR ENDED 30 JUNE 2019

		2019 R'000	2018 R'000
1.	**CASH AND CASH BALANCES**		
	Funds on call	7 462	4 249
		7 462	4 249
2.	**OTHER RECEIVABLES**		
	Value added taxation	–	137
	Prepaid expenses	173	336
	Receivables from Group entities	15 437	5 056
		15 610	5 529
3.	**DEFERRED TAX ASSETS AND LIABILITIES**		
	Deferred tax asset	725	329

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2019 Assets R'000	2019 Liabilities R'000	2019 Net R'000	2018 Assets R'000	2018 Liabilities R'000	2018 Net R'000
Prepayments	–	(35)	(35)	–	(71)	(71)
Provisions	760	–	760	400	–	400
Net tax assets/ (liabilities)	760	(35)	725	400	(71)	329

Movements in temporary differences during the year	Balance at 1 July	Recognised in profit or loss	Balance at 30 June
2019			
Prepayments	(71)	36	(35)
Provisions	400	360	760
	329	396	725
2018			
Tax losses	4 956	(4 956)	–
Prepayments	(43)	(28)	(71)
Provisions	378	22	400
	5 291	(4 962)	329

Notes to the separate financial statements
continued

FOR THE YEAR ENDED 30 JUNE 2019

		2019 R'000	2018 R'000
4.	**INVESTMENTS IN SUBSIDIARIES AND STRUCTURED ENTITIES**		
	Unlisted investments		
	Ordinary Shares at carrying amount at the beginning of the year	515 356	514 548
	Acquisition of Sasfin Capital (Pty) Limited	–	808
	Share Incentive Trust	796	696
		516 152	516 052

On 31 January 2018, Sasfin Financial Services distributed 100% of the issued share capital held in Sasfin Capital (Pty) Limited to the Company at the book value as a dividend in specie. This transaction was part of the Group restructuring to create the holding company for the Capital Pillar.

The shares in SPEIH held by the Company are ceded and pledged to Absa Bank Limited as a form of collateral/security for the subscription by Absa Bank Limited of the SPEIH redeemable preference shares.

		2019 R'000	2018 R'000
5.	**TRADE AND OTHER PAYABLES**		
	Value added taxation	470	–
	Audit fees and other services	2 713	1 427
	Payables to Group entities	–	873
	Other payables	275	–
	Accruals	16	416
		3 474	2 716
6.	**ORDINARY SHARE CAPITAL**		
	Authorised	1 000	1 000
	100 000 000 (2018: 100 000 000) ordinary shares of 1 cent each		
	Issued		
	32 196 882 (2018: 32 196 882) fully paid up ordinary shares		
	Balance at the beginning of the year	323	323
	Issue of shares	–	81
	Shares repurchased	–	(81)
	Balance at the end of the year	323	323
	Reconciliation of the number of shares issued		
	Total shares in issue (number)	32 301 441	32 301 441
	Less: Treasury shares held by the Sasfin Share Incentive Trust (number)	(12 017)	(12 017)
	Less: Treasury shares held by SasSec (number)	(92 542)	(92 542)
		32 196 882	32 196 882

On 30 October 2017, Wipfin Investments (Pty) Limited, a wholly owned subsidiary of Women Investment Portfolio Holdings Limited (WIPHOLD), has subscribed for 8 107 662 ordinary shares in Sasfin Holdings Limited for an aggregate subscription consideration of R413 490 762 in terms of a specific issue of shares for cash and Sasfin Holdings Limited has made an offer to repurchase all or some of the shares held by shareholders for R413 490 762 in compliance with all of the applicable requirements for a scheme of arrangement in terms of section 114 of the Companies Act read with section 115 of the Companies Act.

		2019 R'000	2018 R'000
7.	**ORDINARY SHARE PREMIUM**		
	Balance at the beginning of the year	163 363	163 363
	Issued shares	–	413 410
	Repurchase of shares	–	(413 410)
	Balance at the end of the year	163 363	163 363
8.	**PREFERENCE SHARE CAPITAL**		
	Authorised		
	5 000 000 (2018: 5 000 000) non-redeemable, non-cumulative, non-participating preference shares of 1 cent each.	50	50
	Issued		
	1 797 226 (2018:1 797 226) non-redeemable, non-cumulative, non-participating preference shares of 1 cent each	18	18
	Preference shares are listed under the 'Specialist Securities – Preference Shares' sector of the JSE. Dividends are paid semi-annually at a rate of 82.5% of the ruling prime rate.		
9.	**PREFERENCE SHARE PREMIUM**		
	Balance at the beginning of the year	188 068	188 068
	Balance at the end of the year	188 068	188 068
10.	**INTEREST INCOME**		
	Effective interest rate	265	1 941
	Deposits with banks	265	992
	Loans to entities in the Group	–	949
		265	1 941
11.	**NET FEE AND COMMISSION INCOME**		
11.1	**Fee and commission income**	17 262	9 892
	Other fee and commission income	17 262	9 892
	Fee and commission expense	(5 626)	(3 627)
	Administration and management fees	(5 626)	(3 627)
	Net fee and commission income	11 636	6 265
11.2	**Gains and losses on financial instruments**		
	Dividend income	77 000	35 934
	Total (closing balance for gains and losses of financial instruments)	77 000	35 934
11.3	**Other income**		
	Sundry income	128	25
		128	25

Notes to the separate financial statements
continued

FOR THE YEAR ENDED 30 JUNE 2019

		2019 R'000	2018 R'000
12.	**OPERATING COSTS**		
12.1	**Staff costs**		
	Non-Executive Directors' remuneration	4 259	–
	Balance at the end of the year	4 259	–
12.2	**Other operating costs**		
	The following items are included in operating expenses		
	Fees paid to auditors	3 998	2 817
	Audit fees – Current year	2 713	2 817
	– Underprovision prior year	1 285	–
	Consulting fees	416	1 893
13.	**INCOME TAX EXPENSE**		
	Current tax expense	824	667
	Current year	824	667
	Deferred tax expense	(395)	4 962
	Current year	(395)	4 962
		428	5 629
	Reconciliation of taxation rate	%	%
	South African normal tax rate	28.0	28.0
	Adjusted for:		
	Exempt income	(27.5)	(28.5)
	Non-deductible expenses	0.1	1.9
	Capital gains	–	14.0
	Overprovision in prior years	–	0.5
	Effective rate	0.6	15.9

		2019 R'000	2018 R'000
14.	**NOTES TO THE CASH FLOW STATEMENT**		
14.1	**Cash receipts from customers**		
	Interest income	265	1 941
	Other income	17 390	9 892
		17 655	11 833
14.2	**Cash paid to customers, suppliers and employees**		
	Interest expense	–	–
	Total operating expenses	17 381	12 473
		17 381	12 473
14.3	**Cash inflow from operating activities**		
	Profit before income tax	77 274	35 294
	Dividends received	(77 000)	(35 934)
		274	(640)
14.4	**Taxation paid**		
	Unpaid at the beginning of the year	(581)	197
	Charge to the income statement	823	668
	Unpaid at the end of the year	(379)	581
		(137)	1 446
14.5	**Dividends paid**		
	Charge to distributable reserves	64 774	82 496
	Total dividends paid	64 774	82 496

Notes to the separate financial statements
continued

FOR THE YEAR ENDED 30 JUNE 2019

15. CLASSIFICATION OF ASSETS AND LIABILITIES

Accounting classification and fair values

The table below sets out the Group's classification of each class of financial assets and liabilities, their fair values and carrying amounts.

Assets	Fair value through profit or loss Default R'000	Fair value through profit or loss Held for trading R'000	Amortised cost R'000	Outside scope of IFRS 9 R'000	Total R'000
2019					
Cash and cash balances	–	–	7 462	–	7 462
Other receivables	–	–	15 610	–	15 610
Deferred tax asset	–	–	–	725	725
Investments in subsidiaries and structured entities	–	–	796	515 356	516 152
Total assets	–	–	23 868	516 081	539 949

Assets[1]	Designated at fair value R'000	Held for trading R'000	Loans and receivables R'000	Outside scope of IFRS 9 R'000	Total R'000
2018					
Cash and cash balances	–	–	4 249	–	4 249
Other receivables	–	–	5 529	–	5 529
Current taxation asset	–	–	–	582	582
Deferred tax asset	–	–	–	329	329
Investments in subsidiaries and structured entities	–	–	696	514 548	515 244
Total assets	–	–	10 474	515 459	525 933

[1] *As allowed by the transitional requirements of IFRS 9, the comparative numbers have not been restated. Refer to note 1.1.1 for more information on the IFRS 9 transition.*

15. CLASSIFICATION OF ASSETS AND LIABILITIES continued

Liabilities	Fair value through profit or loss Default R'000	Fair value through profit or loss Held for trading R'000	Amortised cost R'000	Outside scope of IFRS 9 R'000	Total R'000
2019					
Current taxation liability	–	–	–	380	380
Trade and other payables	–	–	3 474	–	3 474
Total liabilities	–	–	3 474	380	3 854

Liabilities[1]	Designated at fair value R'000	Held for trading R'000	Loans and receivables R'000	Outside scope of IFRS 9 R'000	Total R'000
2018					
Trade and other payables	–	2 716	–	–	2 716
Total liabilities	–	2 716	–	–	2 716

[1] *As allowed by the transitional requirements of IFRS 9, the comparative numbers have not been restated. Refer to note 1.1.1 for more information on the IFRS 9 transition.*

Notes to the separate financial statements
continued

FOR THE YEAR ENDED 30 JUNE 2019

16. RELATED PARTY TRANSACTIONS

The following are defined as related parties of the Group:

- Subsidiaries (refer to note 39)
- Associated undertakings and joint arrangements
- Key management personnel

The Group has defined key management personnel as those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (executive or otherwise) of the Company as well as close members of the family of any of these individuals. Key management personnel are considered to be the directors of the Company.

	2019 R'000	2018 R'000
Transactions between Group companies comprise:		
Interest received	248	992
Interest paid	–	–
Dividends received	64 000	35 934
Management fees received	18 413	9 892
Management fees paid to WIPHOLD	5 626	3 627
Indebtedness between Group companies comprise:		
Sasfin Capital	15 437	5 056
Sasfin Bank Limited	–	(582)
Sasfin Capital	–	(291)

17. CONTINGENT LIABILITIES

The Company has guaranteed the debt exposures of certain of its subsidiaries as referred to below:

	2019 R'000	2018 R'000
Sasfin Asia Limited	281 472	274 000
Sasfin Bank Limited	472 450	472 450
Sasfin Private Equity Investment Holdings (Pty) Limited	250 000	250 000
Sasfin Securities (Pty) Limited	100 000	100 000
	1 103 922	1 096 450

Glossary of terms

TERM	DEFINITION
ALCO	Asset and Liability Committee
ATFS	Absa Technology Finance Solutions (Pty) Ltd
Basel III	Set of reform measures, in addition to Basel II, to strengthen the regulation, supervision and risk management of the banking sector
Benal	Benal Property Investments (Pty) Ltd
CAR	Capital Adequacy Ratio
CGU	Cash-generating unit
CIC	Capital Investment Committee
CLEC	Credit and Large Exposures Committee
Companies Act	Companies Act, No 71 of 2008, as amended
DFI	Development Finance Institutions
ECL	Expected Credit Losses
Efficient	Efficient Group Limited
Fintech	Fintech (Pty) Ltd
FVTPL	Fair value through profit or loss
GACC	Group Audit and Compliance Committee
GIA	Group Internal Audit
GRCMC	Group Risk and Capital Management Committee
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFC	International Finance Corporation
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
INBR	Incurred but not reported
IRBA	Independent Regulatory Board for Auditors
ISAs	International Standards on Auditing
ISL	Imperial Sasin Logistics (Pty) Ltd (previously Sasin Premier Logistics (Pty) Limited)
JSE	Johannesburg Stock Exchange Limited
LGD	Loss given default
Libor	London Interbank Offered Rate
PD	Probability of default
REMCO	Remuneration Committee
Reporting date	16 September 2019
SAICA	South African Institute of Chartered Accountants
SAL	Sasfin Asia Limited

Glossary of terms continued

SAM	Sasfin Asset Managers (Pty) Limited
SARB	South African Reserve Bank
SasCred	SasCred Financial Services Limited
Sasfin	Sasfin Holdings Limited
SASP	South African Securitisation Programme (RF) Limited
SasSec	Sasfin Securities (Pty) Limited
SCS	Sasfin Commercial Solutions (Pty) Limited
SENS	Stock Exchange News Service
SICR	Significant Increase in Credit Risk
SPAS	Share Price Appreciation Scheme
SPEIH	Sasfin Private Equity Investment Holdings (Pty) Limited
The Bank	Sasfin Bank Limited
The Company	Sasfin Holdings Limited
The Group	Sasfin Holdings Limited and its subsidiaries
USD	United States Dollar
WACC	Weighted Average Cost of Capital
WIPHOLD	Women Investment Portfolio Holdings Limited
ZAR	South African Rand

Notes

Notes

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 Linda de Beer Grant Dunnington Gugu Mtetwa Shahied Rylands (Lead) Mark Thompson Eileen Wilton
Non-Independent, Non-Executive Directors	Gugu Dingaan Gloria Serobe Shaun Rosenthal (Alternate)
Group Company Secretary	Howard Brown
Transfer secretaries	Computershare Investor Services (Pty) Limited Rosebank Towers 15 Biermann Avenue Rosebank Johannesburg 2196
Lead sponsor	Sasfin Capital (Pty) Limited (a member of the Sasfin Group)
Independent sponsor	Deloitte & Touche Sponsor Services (Pty) Limited
Auditors	PricewaterhouseCoopers Inc
Registered office	29 Scott Street Waverley Johannesburg 2090
Postal address	PO Box 95104 Grant Park Johannesburg 2051
Website	www.sasfin.com
E-mail	investorrelations@sasfin.com
Company registration number	1987/002097/06
Tax reference number	9300/204/71/7

GREYMATTER & FINCH # 12992

sasfin | Holdings Limited
beyond a bank