ANNUAL REPORT | 2020

Investec Bank Limited group and company annual financial statements

Investec

Cross reference tools

AUDITED INFORMATION
Denotes information in the risk and remuneration reports that forms part of the group's audited annual financial statements

ALTERNATIVE PERFORMANCE MEASURES
We supplement our IFRS figures with alternative performance measures used by management internally and which provide valuable, relevant information. These measures are highlighted with the symbol
The description of alternative performance measures and their calculation is provided in the alternative performance measures section.

PAGE REFERENCES
Refers readers to information elsewhere in this report

WEBSITE
Indicates that additional information is available on our website: www.investec.com

SUSTAINABILITY
Refers readers to further information in our 2020 group sustainability and ESG supplementary report available on our website: www.investec.com

REPORTING STANDARD
Denotes our consideration of a reporting standard

CONTENTS

1

OPERATIONAL AND STRATEGIC OVERVIEW

OVERVIEW OF THE INVESTEC GROUP'S AND INVESTEC BANK LIMITED'S ORGANISATIONAL STRUCTURE

1

Operating structure

Investec Bank Limited is the main banking subsidiary of Investec Limited

During July 2002 Investec Group Limited (since renamed Investec Limited) implemented a dual listed companies (DLC) structure and listed its offshore business on the London Stock Exchange (LSE).

In terms of the DLC structure, Investec Limited is the holding company of our businesses in Southern Africa and Investec plc is the holding company of our non-Southern African businesses. Investec Limited is listed on the Johannesburg Stock Exchange Limited (JSE) (since 1986) and Investec plc is listed on the LSE (since 2002).

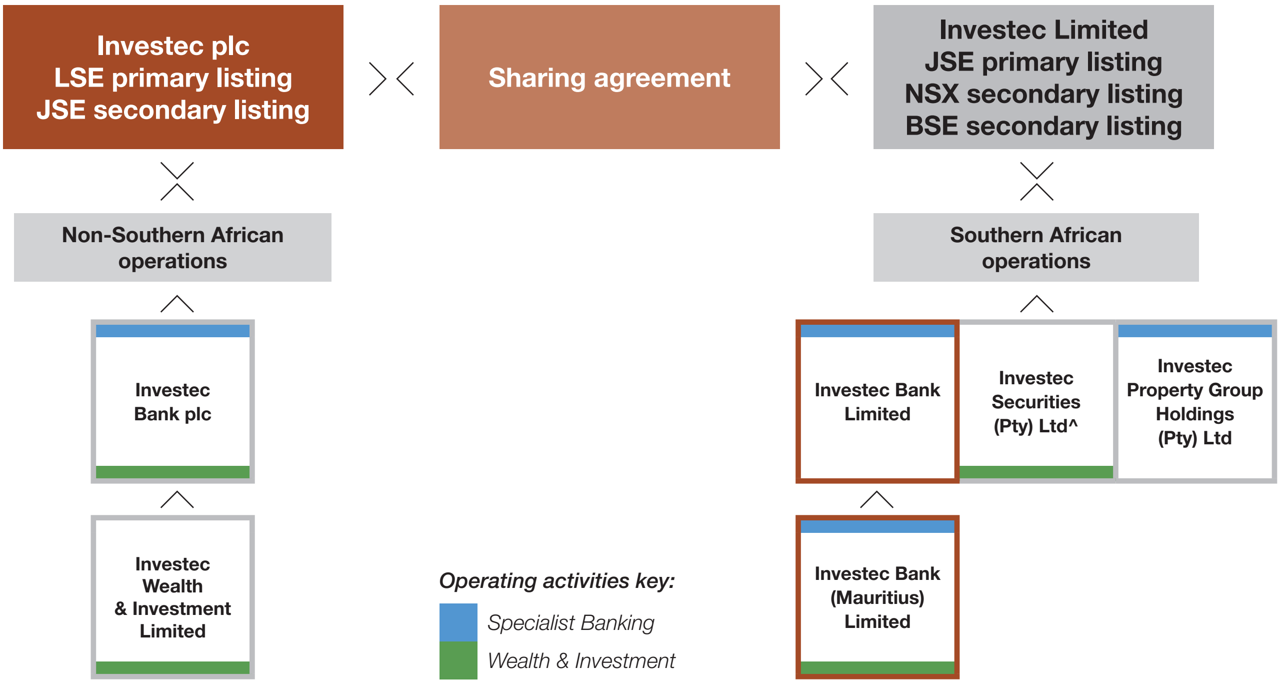
In March 2020, the Asset Management business was demerged and separately listed as Ninety One plc on the LSE and Ninety One Limited on the JSE.

All references in this report to the bank, IBL or the group relate to Investec Bank Limited, whereas references to Investec, Investec group or DLC relate to the combined DLC group comprising Investec plc and Investec Limited.

www ***A circular on the establishment of our DLC structure was issued on 20 June 2002 and is available on our website.***

www ***Further information on the demerger can be found on our website.***

The DLC structure and main operating subsidiaries at 31 March 2020



^ *Houses the Wealth & Investment business.*

All shareholdings in the ordinary share capital of the subsidiaries are 100%.

In March 2020, Investec completed the demerger and separate listing of Ninety One (formerly known as Investec Asset Management). The Investec group retained a 25% shareholding in the Ninety One group, with 16% held through Investec plc and 9% held through Investec Limited.

Salient features of the DLC structure

- Investec plc and Investec Limited are separate legal entities and listings, but are bound together by contractual agreements and mechanisms
- Investec group operates as if it is a single unified economic enterprise
- Shareholders have common economic and voting interests as if Investec plc and Investec Limited were a single company
- Creditors, however, are ring-fenced to either Investec plc or Investec Limited as there are no cross-guarantees between the companies.

Specialist Banking

Our specialist teams are well positioned to provide solutions to meet private, business, corporate and institutional clients' needs

Each business provides specialised products and services to defined target markets

What makes us distinct?

- High-quality specialist banking solutions to corporate and private clients with leading positions in selected areas
- Provision of high-touch personalised service with ability to execute quickly
- Ability to leverage international, cross-border platforms
- Well positioned to capture opportunities between the developed and the emerging world
- Strong ability to originate, manufacture and distribute
- Balanced business model with good business depth and breadth.

Focus on helping our clients create and preserve wealth	A highly valued partner and advisor to our clients		
High-income and high net worth private clients	Corporates/government/institutional clients		
Private Banking	*Corporate and Institutional Banking*	*Investec for Business*	*Investment Banking and Principal Investments*
– Transactional banking – Lending – Property finance – Savings	– Specialised Lending – Treasury and trading solutions – Institutional research, sales and trading – Specialised investments^ – Life assurance products^	– Import and trade finance lending – Cash flow lending – Asset finance	– Principal investments – Advisory – Debt and Equity Capital Markets
Our Private Banking business positions itself as an 'investment bank for private clients', offering both credit and equity services to our select clientele. Through strong partnerships, we have created a community of clients who thrive on being part of an entrepreneurial and innovative environment. Our target market includes high net worth individuals, entrepreneurs, high-income professionals, owner managers in mid-market companies and sophisticated investors.	Our Corporate and Institutional Banking business is a client-centric solution-driven offering concentrating on specialised lending and debt origination activities, and treasury and trading solutions. Our target market includes mid to large size corporates, intermediaries, institutions and government bodies.	Investec for Business (IFB) offers a holistic solution to mid-market corporate clients by combining bespoke lending with Investec's other transactional, advisory and investment offerings. Established to fulfil part of Investec's growth strategy by developing an integrated niche offering to the mid-market.	Our Principal Investment business focuses on co-investment alongside clients to fund investment opportunities or leverage third party capital into funds that are relevant to our client base. We are a leading Corporate Finance house with an international presence, providing advice to clients across sectors.

Natural linkages between the private client and corporate business

^ *Investec Specialist Investments and Investec Life which house these products are operationally part of Corporate and Institutional Banking although they are both subsidiaries of Investec Limited.*

Where we operate

South Africa

Established a presence in 1974

Strong brand and positioning

Fifth largest bank by assets

Leading position in corporate, institutional and private client banking activities

Mauritius

Established a presence in 1997

Focused on corporate, institutional and private client banking activities

Our client franchises showed resilience

Operating profit (before goodwill and acquired intangibles) decreased by 9.3%

R4 883 million

(2019: R5 381 million)

Headline earnings attributable to ordinary shareholders decreased 19.6%

R3 844 million

(2019: R4 784 million)

Net core loans and advances increased 5.4%

R283.9 billion

(31 March 2019: R269.4 billion)

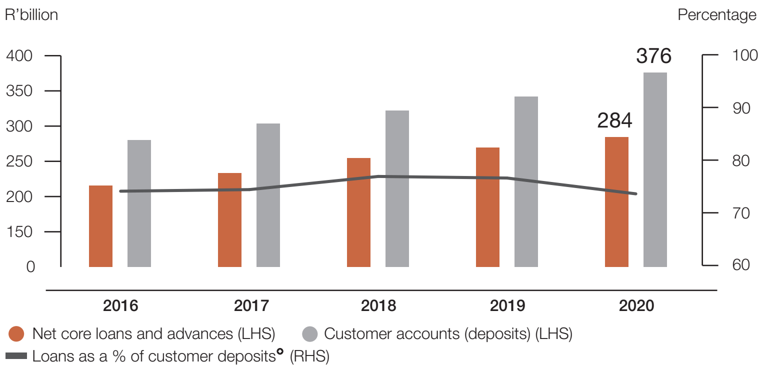
- The year under review was characterised by a tough operating environment, exacerbated in quick succession by a technical recession, South African sovereign credit rating downgrades and the sudden and extreme COVID-19 related dislocation in global markets during the last quarter of the financial year.
- The core client franchises reported revenue growth with private client interest and overall fee income up year on year. This was offset by the base effects of a large realisation in an associate entity in the prior year, as well as the impact of the COVID-19 pandemic on impairment charges and the value of certain portfolios.
- Net core loans grew 5.4% to R283.9 billion at 31 March 2020 (2019: R269.4 billion) with growth in private client lending offset by subdued corporate activity.
- Costs were well contained, increasing by 1.3% year on year.
- The credit loss ratio° increased to 0.37% (March 2019: 0.27%) driven primarily by a deterioration in the macroeconomic scenarios applied.
- As a result of the foregoing factors operating profit (before goodwill and acquired intangibles) decreased by 9.3% to R4 883 million (2019: R5 381 million).
- The overall financial impact of COVID-19 on operating profit (before goodwill and acquired intangibles) was approximately R1.2 billion (through higher impairment charges and negative fair value adjustments on certain portfolios as noted above, partially offset by a reduction in variable remuneration).
- The taxation charge increased year on year due to the prior year release of provisions associated with tax settlements.
- As a result of the above, headline earnings decreased by 19.6% to R3 844 million (2019: R4 784 million).

Financial performance

Headline earnings decreased 19.6%	**2020** **R3 844mn** 2019 R4 784mn
Operating profit (before goodwill and acquired intangibles) decreased 9.3%	**2020** **R4 883mn** 2019 R5 381mn
Annuity income° as a % of total operating income	**2020** **84.4%** 2019 78.3%
Cost to income ratio°	**2020** **52.6%** 2019 51.7%
Loan to deposit ratio°	**2020** **73.6%** 2019 76.6%

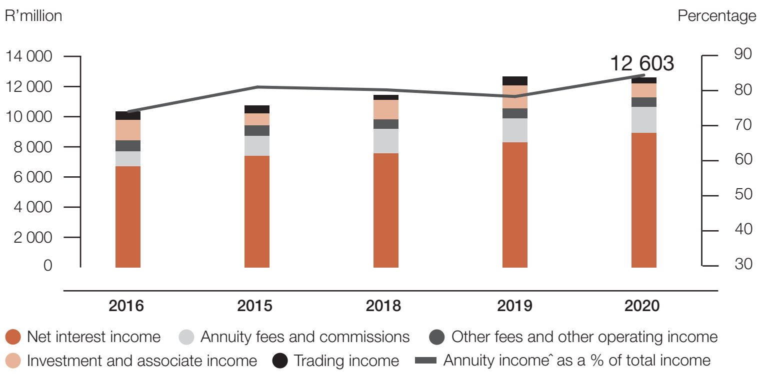
Continued growth of our key earnings drivers

Customer accounts (deposits) and loans



Revenue supported by resilient franchises

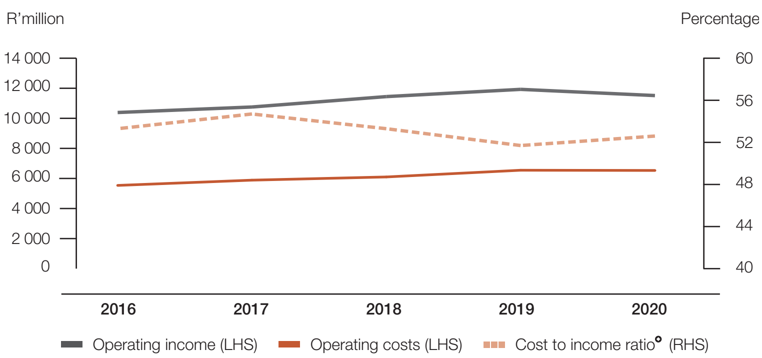
Total operating and annuity income^°



^ *Where annuity income is net interest income and annuity fees.*

Continued focus on cost containment

Jaws ratios°

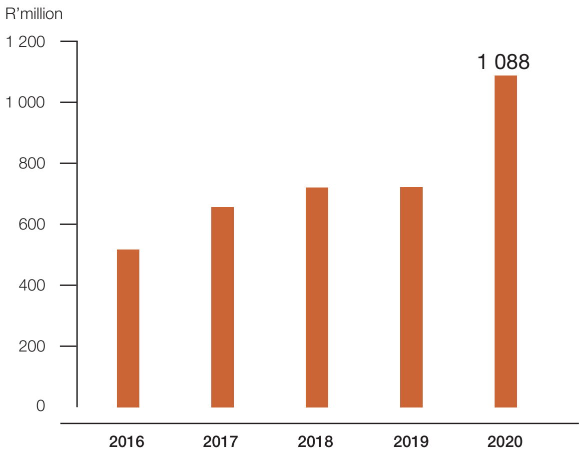


Impairments increased, driven primarily by a deterioration in macroeconomic scenarios

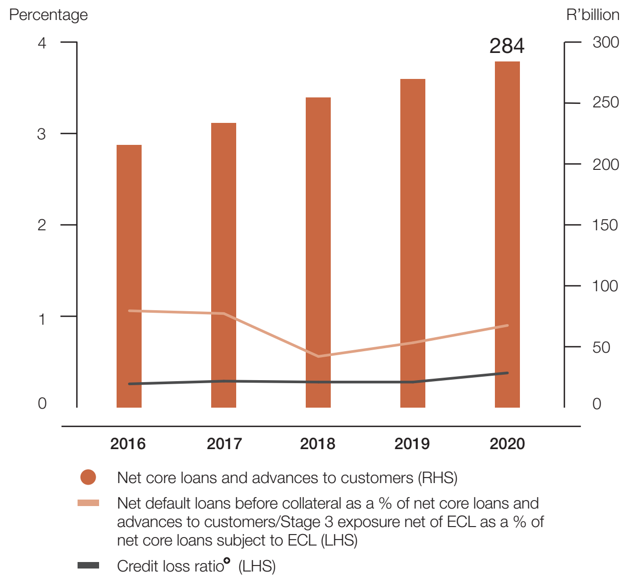
Since 31 March 2019:

- Net core loans and advances increased by 5.4% to R283.9 billion
- Gross core loans Stage 3 assets increased by R768 million to R4 353 million. Stage 3 assets (net of ECL impairment charges) as a percentage of net core loans subject to ECL was 0.9% (31 March 2019: 0.7%)
- The credit loss ratio° increased to 0.37% (31 March 2019: 0.27%) driven primarily by a deterioration of the macroeconomic scenarios applied (which were adjusted for COVID-19 and the South African sovereign downgrades)
- Net defaults (after impairments) remain adequately collateralised.

Impairments



Default and core loans



Maintained a sound balance sheet

The intimate involvement of executive management ensures stringent management of risk, capital and liquidity as set out below.

Capital management

Capital and leverage ratios remain sound, ahead of internal targets and regulatory requirements.

Investec Bank Limited received regulatory permission to adopt the Foundation Internal Ratings Based (FIRB) approach, effective 1 April 2019, resulting in pro-forma ratios as shown below, had the FIRB approach been applied as of 31 March 2019.

We are comfortable with our common equity tier 1 ratio target at 10.0% given our solid capital light revenues, and with our current leverage ratio at 6.9%.

Capital ratios

	FIRB	**Pro-forma FIRB***	**Standardised**
Investec Bank Limited	**31 March 2020**	31 March 2019	31 March 2019
Total capital adequacy ratio	16.4%	17.7%	15.8%
Tier 1 ratio	12.3%	12.8%	11.5%
Common equity tier 1 ratio – as reported	12.1%	12.5%	11.2%
Common equity tier 1 ratio – 'fully loaded'^^	12.1%	12.5%	11.1%
Leverage ratio** – as reported	6.9%	7.6%	7.7%
Leverage ratio** – 'fully loaded'^^	6.8%	7.5%	7.6%

* *We received approval to adopt the Foundation Internal Ratings Based (FIRB) approach, effective 1 April 2019. We therefore also presented ratios on a pro forma basis for 31 March 2019*

** *The leverage ratios are calculated on an end-quarter basis*

^^ *The key difference between the 'reported' basis at 31 March 2020 and the 'fully loaded' basis primarily relates to capital instruments that previously qualified as regular capital, but do not fully qualify under South African Prudential Authority regulations. These instruments continue to be registered on a reducing basis in the 'reported' figures until 2022.*

Note: Refer to pages 82 to 85 for further details

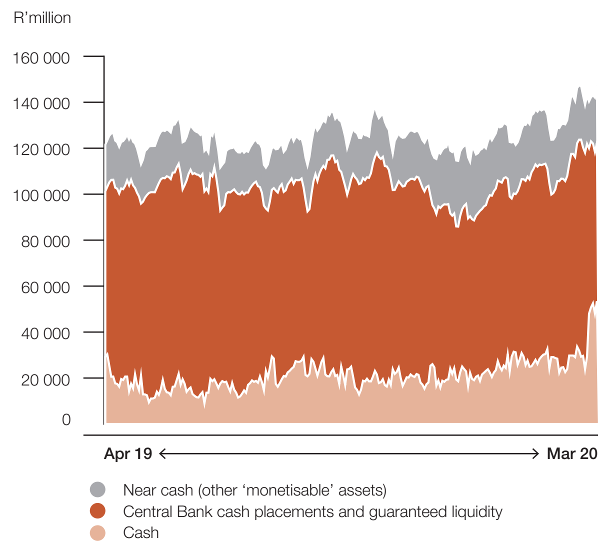
A well-established liquidity management philosophy remains in place

Continued to focus on:

- Maintaining a high level of readily available, high-quality liquid assets targeting a minimum cash to customer deposit ratio° of 25%, with the year-end ratio at 39.1%
- Diversifying funding sources
- Maintaining an appropriate mix of term funding
- Limiting concentration risk
- Maintaining low reliance on wholesale funding
- Continuing to benefit from a growing retail deposit franchise and recorded an increase in customer deposits.

We ended the year with the three-month average of Investec Bank Limited (solo basis) liquidity coverage ratio at 133.2% (31 March 2019: 135.6%) and net stable funding ratio at 116.4% (31 March 2019: 115.6%), well in excess of the minimum regulatory requirements.

Investec Bank Limited cash and near cash trend



Richard Wainwright

Chief executive officer of Investec Bank Limited

How did the operating environment impact your business over the past financial year?

The tough operating environment in the first six months of the financial year continued through the second half, exacerbated in quick succession by a technical recession, South African sovereign credit rating downgrades by Moody's and Fitch, a rising public sector debt trajectory and the recent ongoing public health and economic effects of COVID-19. Notwithstanding this environment, the results of the Specialist Bank in South Africa reflect a good performance from our core franchise businesses namely the Corporate and Institutional Bank, Private Bank and the Investment Bank. This was offset by a weak performance across our investment portfolio.

The Corporate and Institutional Bank's lending activities were impacted by low levels of business confidence, weak domestic demand and tighter margins. Muted GDP growth and slow deal activity led to more competitive pricing between banks resulting in core loans and advances across corporate and specialist lending activities remaining fairly flat year on year. The deposit book grew, with a significant portion of the increase occurring during March 2020, as large financial institutions and asset managers placed more deposits with us, as they become more defensive in the current economic climate. Overall, performance was broadly in line with the prior year despite the negative impact increased market volatility had on the trading book.

Within the Private Bank, growth in lending activities accelerated in the second half of the year, after a slow start due to a subdued business and economic outlook and pressure on private sector activities. The transactional banking environment has been more competitive with new entrants and continued innovation by traditional competitors. Despite these factors, the business delivered a solid performance with growth in market share, new accounts opened and point of sale activity. In addition, foreign exchange volumes were considerably higher year on year, as private clients sought diversified international exposure.

Corporate driven activity within Investment Banking and Principal Investments was negatively impacted by a reluctance by large corporates and private equity investors to pursue both organic and inorganic growth opportunities. This impacted the level of fee generation within M&A advisory and equity capital markets, notwithstanding the increase in corporate finance fee income year on year. The decline in global equity markets and deteriorating economic conditions in South Africa negatively impacted the valuations of our direct equity and direct property investments. Whilst the environment is not conducive to asset realisations, the dislocation may create attractive opportunities for our clients.

Investec for Business experienced a downward trend in levels of utilisation (particularly in the trade finance book) and margin pressure amid increased competition. A level of market resilience did however exist, which saw the business grow its core loans and advances.

The impact of COVID-19 is reflected in our impairment provisions which are forward-looking, however, the full effects on business activity and asset valuations may only manifest in the next financial year. As expected, in the context of the current environment, our credit loss ratio increased to 0.37% yet remains within our through-the-cycle range of 30bps – 40bps and well below industry averages. The bank is well capitalised and Rand and US dollar liquidity remain very strong.

What progress was made in the past financial year in respect of the group's key strategic objectives?

Our commitment to the group's key strategic objectives remains unchanged.

Capital discipline

We continue to operate with a capital disciplined mindset.

The transition to the Foundation Internal Ratings-Based (FIRB) approach at the start of the financial year enhanced our ability to price competitively and utilise our capital more efficiently. Our application to the SARB to implement the Advanced (AIRB) approach was submitted during the first half of the year and remains under review. Successful implementation is expected to result in a material reduction to our capital requirements with an estimated c.2% uplift to our CET1 ratio.

We aim to reduce the capital allocated to our investment portfolio in the medium term and rather direct it to our core franchise businesses.

Growth initiatives

During the year we continued to invest in our businesses for future growth and sustainability. To this end within the Private Bank:

- The execution of our targeted Young Professionals strategy, which broadened our target market into new professional segments is increasing our market share and contributing to book growth in retail mortgages and instalment sales
- In December 2019, Investec, in partnership with Fintech company OfferZen, launched programmable online Investec bank accounts for software developers – another niche target professional segment. While the beta testing is aimed at software developers, we believe that in the long term working closely with the developer community will lead to innovative solutions that will benefit all our customers
- We continued to build out 'My Investments': a digital investment platform accessed through Investec Online, providing private clients access to trade shares and invest in selected investments.

Investec for Business, which offers trade and import finance, borrowing base and cash flow lending along with asset and rental finance, is a key growth area for the bank. Over the past year, we onboarded 111 new clients, an increase of 11%, and granted 20% more facilities compared to the prior year.

In the Corporate and Institutional Bank:

- The strategic corporate arrangement entered into in July 2019 with Goldman Sachs to extend our cash equity trading capabilities has been positive and continues to gain momentum
- Through Investec Life and in collaboration with the Private Bank, new policy sales are up c.40% compared to the prior year
- Investec Specialist Investments, an alternative asset class fund manager offering within the bank, is increasing its assets under management (AUM) as its first two specialist funds have recently passed their three-year track record milestone
- We launched Investec Business Online, a single platform transactional banking capability for corporate and business clients. The Investec for Business client base will also be a key driver of growth on this platform.

Investec Property (IP), the fund manager for the Investec Property Fund (IPF), successfully doubled the AUM for IPF and its new co-investors in the European logistics platform to c.R40 billion at year end. IP has been growing AUM locally and internationally for several years. We will continue to look for opportunities across this platform in the UK, Europe and South Africa which may also provide investment opportunities for both our private and institutional clients.

Cost management

Our results demonstrate good cost control with cost growth remaining below inflation. This has been achieved through headcount containment and ongoing simplification of our operating model.

Connectivity

Driving greater connectivity, collaboration and linkages across business divisions locally and globally has been a key focus area.

- 'My Investments' is an initiative across the Private Bank and Wealth & Investment businesses to provide an online investment management solution to our entire private client base
- We have focused on leveraging the UK and South African Private Banking ecosystem by providing our South African client base offshore access, while at the same time introducing retail deposits and lending opportunities for the UK Banking business
- There has been ongoing integration and collaboration between Investec Life and the Private Bank to encourage broader product suite offerings to all our clients
- We have continued to work on simplifying our operating model by leveraging shared platforms and capabilities across our infrastructure to create operational efficiencies.

Digitalisation

We invest continually in our IT infrastructure in order to deliver high-tech, enhanced digital capabilities for an improved client experience.

- The build out of Investec Business Online, a transactional business banking platform within the Corporate and Institutional Bank, is gaining momentum with an increasing number of clients. Full functionality and roll out is expected to be completed towards the end of the first half of financial year 2021
- We have broadened the Investec for Intermediaries offering which seeks to create a unified digital capability for our intermediary client segment
- Automation and digitisation of client management processes has been a key focus this year, particularly around onboarding and account opening
- Security and the protection of our clients' data remains a top priority, with enhancements made to security features on Investec Online and the mobile app, such as multi-factor authentication, face biometrics, and 3D secure payments technology.

In addition to the above stakeholder capitalism, climate change and sustainability rose to the top of the corporate banking agenda in the past year. In South Africa, the role of corporates and fiduciary responsibilities of directors has always been important to the company and hence to all stakeholders, not just shareholders. One of Investec's most cherished values is that we strive to live in society, not off it. This is a mantra that we live by inside the bank.

We are active participants in the Sustainable Development Goals (SDGs) and welcome the work they are doing to shine a spotlight on some of the crucial interconnected elements of sustainable development in South Africa. In February 2020, in partnership with the Johannesburg Stock Exchange, we hosted members of 30 international banks and financial institutions who are driving the UN Global Investment for Sustainable Development (GISD) agenda. Investec's approach is to partner with our clients and stakeholders to focus on those SDGs where we can maximise positive socio-economic impact and reduce inequality.

A particularly memorable event from the past year was the title deeds initiative whereby Investec wrote off the mortgage debt of 3 600 households in 15 Gauteng townships. Staff assisted in handing over title deeds to a severely vulnerable population ensuring debt-free home ownership and contributing to SDG 10 (by reducing inequality) and SDG 11 (by enabling people to keep their homes).

Our 2020 group sustainability and ESG supplementary information report provides further detail on the many initiatives we support and fund as part of our commitment to the SDGs.

Q *How do you incorporate climate, environmental and social considerations into your business?*

We have a number of policies and processes in place to incorporate environmental and social considerations into our business activities and strategy. Over the past year, we have seen increased interest from stakeholders on climate-related issues. After an extensive engagement process, Investec Bank was the first bank in South Africa to make a comprehensive fossil fuel policy public (including oil and gas). In addition, we were the first bank in South Africa to commit to the Task Force on Climate-related Financial Disclosures (TCFD). We have disclosed our fossil fuel exposures and other ESG exposures in our 2020 group sustainability and ESG supplementary information report.

We recognise the opportunities to finance the transition to a low carbon economy. Our power and infrastructure business is at the forefront of many of these initiatives. For example, Investec is providing funding for black-owned energy and development company Pele Energy Group for the construction of wind and solar projects. We also launched the first structured product issued in South Africa over an Environmental World Index, giving investors access to world equity markets whilst considering their environmental impact. Furthermore, we are piloting a solar solution for our private bank clients.

Within our operations, we were pleased to achieve net-zero carbon emissions in February 2020 and received a four-star rating through the Green Building Council of South Africa for our Sandton head office. Our sustainability efforts were recognised with a number of awards: Best Investment Bank for Sustainable Finance in Africa in the 2020 Global Finance Awards; winner of the Sustainability Award in the 17th Annual National Business Awards 2019; winner of the Trialogue Strategic CSI Award 2019 for the Promaths programme; and voted one of South Africa's Top Empowered Companies by Impumelelo.

Q *What were the key challenges in your business over the past year?*

The most significant factors were the synchronised global economic slowdown and weak domestic economic growth which resulted in subdued investor confidence due to policy uncertainty and structural challenges within the South African environment. This led to reluctance by South African businesses and individuals to invest for growth.

In our lending businesses, we experienced pricing pressure from competitor funders, impacting both new business and refinancing of existing loans.

The economic backdrop also impacted our ability to reduce the investment portfolio and resulted in the reduction in value of certain listed, unlisted and property investments. We remain committed to rationalising and optimising the value of the investment portfolio as previously communicated, however, the impact from the current COVID-19 pandemic is likely to slow progress on this front until markets, corporate M&A and asset owners and managers' risk appetite normalises.

What are your strategic objectives in the coming financial year?

Our strategic objectives in the coming year remain largely the same as we outlined at the half year, however, these will be tempered against a COVID-19 backdrop.

- In these unprecedented times, our primary objectives are to ensure the wellbeing and safety of our staff and to support our clients and communities. By doing this, we will in the long term, retain and attract talent, gain client market share and deliver to the triple bottom line while balancing shareholder and societal returns
- Client acquisition remains a focus across all our businesses by expanding our value proposition and deepening client entrenchment and engagement
- Growing our capital light revenue aligns with our capital optimisation objective. This will be achieved by diversifying revenue streams through ‘My Investments’, Investec Life and Investec Specialist Investments
- Enlarging our retail deposit base and foreign currency and multicurrency accounts across all client segments including corporates, private clients and intermediaries
- Increased cooperation between the Specialist Bank and Wealth & Investment businesses
- Continued cost containment measures by leveraging operational efficiencies and scale and containing headcount
- While ROE enhancement remains front of mind, considering COVID-19, capital preservation is equally important. Risks do not manifest themselves immediately and therefore we continue to be conservative in both our liquidity and capital management.

What is your outlook for the coming financial year?

Global social containment measures in the face of COVID-19 have caused unprecedented turmoil in financial markets, businesses and the economy. The length and depth of the pandemic is not yet known; however, it is expected to further reduce corporate activity, increase business failures and materially depress capital markets and asset values.

We will continue to do our part to support South African businesses and the communities around us, and as a member of the Banking Association of South Africa, we are proud to partner with government and other South African banks to provide COVID-19 relief measures as we attempt to safeguard the sustainability of our economy and do right by society.

As with the Global Financial Crisis, we remain confident that the value of our brand, market positioning and client base will sustain us. Our clients have a track record of resilience in difficult operating environments. Together with the diversified international opportunities we can offer them, a continued focus on asset quality and capital preservation, our business is well positioned to weather the storm.

Risks relating to our operations

In our ordinary course of business we face a number of risks that could affect our business operations

These risks are summarised briefly in the table below. For additional information pertaining to these risks as well as information on the management and monitoring of these risks, see the page references provided.

10 – 12 The **financial services industry** in which we operate is intensely competitive.	**10 – 13, 31 – 34** **Market, business and general economic conditions** and fluctuations could adversely affect our businesses in a number of ways.	**28** We may be exposed to **country risk**, i.e. the risk inherent in sovereign exposure and events in other countries.
27 – 44 **Credit and counterparty risk** exposes us to losses caused by an obligor's failure to meet the terms of any agreement.	**76 – 77** Unintended **environmental (including climate risk), social and economic risks** could arise in our lending and investment activities.	**53 – 54** We may be exposed to **investment risk** in our unlisted and listed investment portfolios and property investment activities.
57 – 61 **Market risk** arising in our trading book could affect our operational performance.	**61 – 70** **Liquidity risk** may impair our ability to fund increases in assets or to meet our payment obligations as they fall due.	**66 – 68** Our net interest earnings and net asset value may be adversely affected by **interest rate risk.**
71 – 75 **Operational risk** from failures relating to internal processes, people, systems or from external events may disrupt our business or result in regulatory action.	**73 – 75** We may be **vulnerable to the failure of our systems** and breaches of our security systems (including cyber and information security).	**88** We may be exposed to **financial crime**, including money laundering, terrorist financing, bribery, fraud, tax evasion, embezzlement, forgery, counterfeiting, and identity theft.
75 **Reputational, strategic and business risks** could impact our operational performance.	**74 – 75** **Compliance, legal and regulatory risks** may have an impact on our operations, business prospects, costs, liquidity and capital requirements.	**23, 72 and 76** **Conduct risk** is the risk that inappropriate behaviours or business activities may be detrimental to our values, culture and ethical standards, or lead to reputational and/or financial damage.
78 – 85 **We may have insufficient capital** to meet regulatory requirements and may deploy capital inefficiently across the group.	**73** **Cyber risk** can result in data compromise, interruption to business processes or client services, material financial losses, or reputational harm.	We may be unable to recruit, retain and motivate key personnel. www **See Investec group's 2020 group sustainability and ESG supplementary report on our website for further information.**

Additional risks and uncertainties not presently known to us or that we currently deem immaterial may in the future also negatively impact our business operations.

FINANCIAL REVIEW

2

Key income drivers

The bank operates as a specialist bank providing a wide range of financial products and services to a select client base.

Key income drivers	Income impacted primarily by	Income statement – primarily reflected as
• Lending activities.	• Size of loan portfolio • Clients' capital and infrastructural investments • Client activity • Credit spreads • Interest rate environment.	• Net interest income • Fees and commissions • Investment income.
• Cash and near cash balances.	• Capital employed in the business and capital adequacy targets • Asset and liability management policies and risk appetite • Regulatory requirements • Credit spreads • Interest rate environment.	• Net interest income • Trading income arising from balance sheet management activities.
• Deposit and product structuring and distribution.	• Distribution channels • Client numbers • Ability to create innovative products • Regulatory requirements • Credit spreads • Interest rate environment.	• Net interest income • Fees and commissions.
• Investments (including listed and unlisted equities; debt securities; investment properties) • Gains or losses on investments • Dividends received.	• Macro- and micro-economic market conditions • Availability of profitable exit routes • Whether appropriate market conditions exist to maximise gains on sale • Attractive investment opportunities • Credit spreads • Interest rate environment.	• Net interest income • Investment income • Share of post taxation profit of associates.
• Advisory services.	• The demand for our specialised advisory services, which, in turn, is affected by applicable regulatory and other macro- and micro-economic fundamentals.	• Fees and commissions.
• Derivative sales, trading and hedging.	• Client activity, including lending activity • Client numbers • Market conditions/volatility • Asset and liability creation • Product innovation.	• Fees and commissions • Trading income arising from customer flow.
• Transactional banking services.	• Levels of activity • Ability to create innovative products • Appropriate systems infrastructure • Interest rate environment.	• Net interest income • Fees and commissions.

Overview

The bank posted a decrease in headline earnings attributable to ordinary shareholders of 19.6% to R3 844 million (2019: R4 784 million). The balance sheet remains sound with a capital adequacy ratio of 16.4% (31 March 2019: 15.8%).

Unless the context indicates otherwise, all income statement comparatives in the review below relate to the results for the year ended 31 March 2019.

Income statement analysis

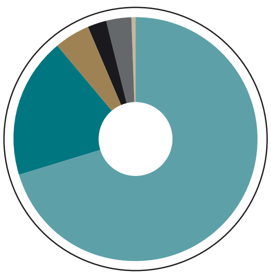
The overview that follows will highlight the main reasons for the variance in the major category line items on the face of the income statement during the year under review.

Total operating income

Total operating income before expected credit loss impairment charges was broadly flat year on year at R12 603 million (2019: R12 650 million). The various components of total operating income are analysed below:

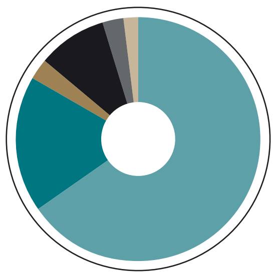
R'million	31 March 2020	% of total income	31 March 2019	% of total income	% change
Net interest income	8 943	71.0%	8 287	65.5%	7.9%
Net fee and commission income	2 346	18.6%	2 261	17.9%	3.8%
Investment income	601	4.8%	360	2.8%	66.9%
Share of post taxation profit of associates	320	2.5%	1 163	9.2%	(72.5%)
Trading income arising from					
– customer flow	443	3.5%	369	2.9%	20.1%
– balance sheet management and other trading activities	(50)	(0.4%)	210	1.7%	(123.8%)
Total operating income before expected credit loss impairment charges	**12 603**	**100.0%**	12 650	100.0%	(0.4%)

% of total operating income before expected credit loss impairment charges



31 March 2020
R12 603 million total operating income before expected credit loss impairment charges

71.0%	Net interest income
18.6%	Net fee and commission income
4.8%	Investment income
2.5%	Share of post taxation profit of associates
3.5%	Trading income arising from customer flow
(0.4%)	Trading income arising from balance sheet management and other trading activities



31 March 2019
R12 650 million total operating income before expected credit loss impairment charges

65.5%	Net interest income
17.9%	Net fee and commission income
2.8%	Investment income
9.2%	Share of post taxation profit of associates
2.9%	Trading income arising from customer flow
1.7%	Trading income arising from balance sheet management and other trading activities

Net interest income

Net interest income increased 7.9% to R8 943 million (2019: R8 287 million) underpinned by private client activity and loan book growth.

For a further analysis of interest income and interest expense refer to page 172.

Net fee and commission income

Net fee and commission income increased 3.8% to R2 346 million (2019: R2 261 million), primarily supported by private client lending and transactional activity.

For a further analysis of net fee and commission income refer to page 173.

Investment income

Investment income increased to R601 million (2019: R360 million). The non-repeat of certain investment write downs in the prior year was partially offset by higher negative fair value adjustments on the listed equity portfolio and lower realisations given the prevailing economic backdrop during the year under review.

For a further analysis of investment income refer to page 173.

Share of post taxation profit of associates

Share of post taxation profit of associates of R320 million (2019: R1 163 million) reflects earnings in relation to the group's investment in the IEP Group. The decrease year-on-year is as a result of a large realisation in the prior year.

Trading income

Total trading income decreased by 32.1% to R393 million (2019: R579 million). Reasonable activity levels were offset by COVID-19 related losses on certain trading portfolios and translation gains on foreign currency assets in the prior year which did not repeat in the current year.

Expected credit loss (ECL) impairment charges on loans and advances

ECL impairment charges increased to R1 088 million (2019: R722 million) driven primarily by a deterioration of the macroeconomic scenarios applied (which were adjusted for COVID-19 and the South African sovereign downgrades). As a result, the credit loss ratio increased to 0.37% (2019: 0.27%). Pre COVID-19, the credit loss ratio was calculated at 0.21% for 31 March 2020. Since 31 March 2019 gross core loan Stage 3 assets increased by R768 million to R4 353 million. Net Stage 3 exposures as a percentage of net core loans subject to ECL was 0.9% (31 March 2019: 0.7%).

For further information on asset quality refer to page 46 to 52.

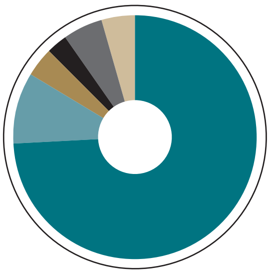
Operating costs

Operating costs were well contained, increasing by 1.3% to R6 632 million (2019: R6 547 million). The cost to income ratio increased to 52.6% (2019: 51.7%), impacted by the slight decrease in revenue.

R'million	**31 March 2020**	**% of total operating costs**	31 March 2019	% of total operating costs	% change
Staff costs	4 917	74.2%	5 051	77.1%	(2.7%)
Business expenses	629	9.5%	404	6.2%	55.7%
Equipment expenses	252	3.8%	209	3.2%	20.6%
Premises expenses*	195	2.9%	274	4.2%	(28.8%)
Premises expenses (excluding depreciation)*	92	1.4%	274	4.2%	(66.4%)
Premises depreciation*	103	1.6%	–	–	–
Marketing expenses	353	5.3%	345	5.3%	2.3%
Depreciation	286	4.3%	264	4.0%	8.3%
Operating costs	**6 632**	**100.0%**	6 547	100.0%	1.3%

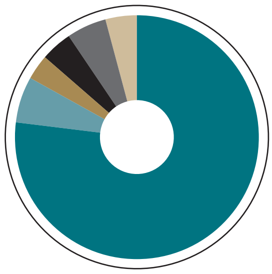
* *The group adopted IFRS 16 from 1 April 2019. The impact has been to increase the depreciation charge by R103 million as a result of recognising a right-of-use asset and to reduce the premises expense in the year ended 31 March 2020. The prior period has not been restated. Depreciation on premises is now being shown next to other premises expenses to aid comparability.*

% of total operating costs



31 MARCH 2020
R6 632 million total operating costs

74.2%	Staff costs
9.5%	Business expenses
3.8%	Equipment
2.9%	Premises
5.3%	Marketing
4.3%	Depreciation



31 MARCH 2019
R6 547 million total operating costs

77.1%	Staff costs
6.2%	Business expenses
3.2%	Equipment
4.2%	Premises
5.3%	Marketing
4.0%	Depreciation

Operating profit (before goodwill and acquired intangibles)

As a result of the foregoing factors, operating profit (before goodwill and acquired intangibles) decreased by 9.3% to R4 883 million (2019: R5 381 million).

Impairment of associates

Management critically evaluated the equity accounted value of the group's investment in the IEP Group (IEP) and consequently recognised an impairment of R937 million in the current year. The recoverable amount of the investment in IEP was determined by calculating Investec's stake of the sum of the fair values of underlying investments held by IEP. This was done by determining the best estimates of cash flows to be generated from the ultimate realisation of the underlying investments considering management's strategy with the investments, returns generated by the underlying investments, the nature of the assets and market considerations.

Taxation on operating profit before acquired intangibles

The taxation charge increased year-on-year to R816 million (2019: R391 million) due to the prior year release of provisions associated with tax settlements.

Balance sheet analysis

Since 31 March 2019:

- Total equity remained broadly flat at R41.7 billion (31 March 2019: R41.8 billion). An increase in retained earnings was offset by a reduction in other reserves due to negative fair value movements on our High Quality Liquid Assets and credit investment portfolios held at fair value through equity. This was a consequence of the sudden movement in credit spreads in March 2020, impacting valuations at 31 March 2020. More than half of this impact reversed post year-end.
- Total assets increased by 12.7% to R536.0 billion (31 March 2019: R475.6 billion), driven primarily by an increase in core loans and cash and near cash balances.
- Total liabilities increased 13.9% to R494.2 billion (2019: R433.8 billion) primarily driven by growth in customer accounts (deposits).

3

RISK MANAGEMENT AND CORPORATE GOVERNANCE

Overview of disclosure requirements

The risk disclosures provided are in line with the requirements of International Financial Reporting Standard 7 Financial Instruments: Disclosures (IFRS 7) and disclosures on capital required by International Accounting Standard 1 Presentation of Financial Statements (IAS 1) are included within this section of the annual report on pages 21 to 89 with further disclosures provided in the annual financial statements section on pages 153 to 247.

All sections, paragraphs, tables and graphs on which an audit opinion is expressed are marked as audited.

We supplement our IFRS 9 figures with alternative performance measures used by management internally and which provide valuable, relevant information to readers of the financial statements. Where applicable, definitions can be found in the definitions section of this report.

Information provided in this section of the annual report is prepared on an Investec Bank Limited (IBL) consolidated basis, unless otherwise stated.

www ***IBL also publishes separate Pillar III disclosures contained in a separate Pillar III report which can be found on Investec group's website.***

Philosophy and approach to risk management

The IBL Board Risk and Capital Committee (IBL BRCC) (comprising both executive and non-executive directors) meet at least six times per annum and recommends the overall risk appetite for the bank to the IBL board for approval. The risk appetite statement sets broad parameters relating to the IBL board's expectations around performance, business stability and risk management. The IBL board ensures that there are appropriate resources to manage the risk arising from running the bank.

The board has closely monitored developments as a result of the COVID-19 pandemic and receives regular updates. There has been enhanced governance and additional oversight on areas that have been most exposed to the pandemic to date.

Our comprehensive risk management process involves identifying, quantifying, managing, monitoring, mitigating and reporting the risks associated with each of our businesses to ensure the risks remain within the stated risk appetite.

The bank has a strong and embedded risk and capital management culture. Risk awareness, control and compliance are embedded in all our day-to-day activities through a levels of defence model.

We monitor and control risk exposure through independent credit, market, liquidity, operational, legal risk, internal audit, capital and compliance teams. This approach is core to assuming a tolerable risk and reward profile, helping us to pursue controlled growth across our business.

Risk management operates within an integrated geographical and divisional structure, in line with our management approach, ensuring that the appropriate processes are used to address all risks across the bank.

Risk management units are locally responsive yet globally aware. This helps to ensure that all initiatives and businesses operate within our defined risk-parameters and objectives and we are continually seeking new ways to enhance techniques.

We believe that the risk management systems and processes we have in place are adequate to support our strategy and allow the bank to operate within its risk appetite tolerance.

This section of our annual report explains in detail our approach to managing our business within our risk appetite tolerance, across all principal aspects of risk.

Overall summary of the year in review from a risk perspective

The executive management are integrally involved in ensuring stringent management of risk, liquidity, capital and conduct. The primary aim is to achieve a suitable balance between risk and reward in our business, particularly in the context of prevailing market conditions and overall Investec group strategy.

The financial year was characterised by persistent weak economic fundamentals. Against this backdrop, in the first quarter of 2020, the COVID-19 pandemic combined with an oil price shock stunned global markets resulting in unprecedented market dislocations. The sudden imposition of social containment measures in South Africa, as well as many countries across the world led to a synchronised slowdown of economic activity, mounting financial pressure on our clients. We continue to evaluate any changes we may need to make to adapt to the new legal and regulatory landscape that emerges.

On 27 March 2020, Moody's downgraded South Africa's sovereign credit rating by one notch from Baa3 (investment grade) to Ba1, maintaining the negative outlook. Fitch downgraded South Africa's rating further on 3 April 2020, to BB from BB+ with a negative outlook. On 29 April 2020, Standard & Poor's (S&P) also downgraded South Africa's sovereign credit outlook by one notch, to BB- with a stable outlook.

The bank's ratings continued to track rating adjustments to the South African sovereign rating during the course of the year. The bank's national long-term ratings remain sound at Aa1.za from Moody's, AA(zaf) from Fitch and za.AA from S&P.

Although the macro-environment continues to present challenges, the bank was able to maintain sound asset performance and risk metrics throughout the year in review. We remained within our risk appetite limits/targets across various risk disciplines, with only a few exceptions that were approved by IBL BRCC and noted by the IBL board.

Our risk appetite framework as set out on page 25 continues to be assessed in light of prevailing market conditions and group strategy.

Credit risk

Growth in the core loans have been driven by growth in the high net worth and specialised lending portfolio, partially offset by subdued corporate client activity. Net core loan book growth since 31 March 2019 was 5.4% to R283.9 billion at 31 March 2020. The bank's net core loan exposures remain well diversified with commercial investment property loans comprising approximately 14.0% of net core loans, other lending collateralised by property 3.2%, high net worth and private client lending 51.3% and corporate and other lending 31.5% (with most industry concentrations well below 5%).

Our exposure to sectors considered vulnerable to COVID-19 excluding property totalled R19.7 billion at 31 March 2020 or 6.6% of gross core loans and advances and includes our aviation and trade finance businesses. We, however, remain confident that we have a well-diversified portfolio across sectors. Government stimulus and support measures are expected to mitigate the impact on vulnerable sectors, but it remains too early to assess the full impact of this.

Assessing the expected impact from COVID-19 as well as the offsetting effect of government relief measures, required significant judgement. Regulatory bodies provided guidance on expectations around provisioning and staging treatment of exposures.

The forward looking macro-economic scenarios used in the measurement of ECL were updated to capture the wide-reaching impact of the sovereign downgrade by Moody's to sub-investment grade as well as the initial impact of COVID-19. A further management ECL overlay of R190 million was introduced at 31 March 2020 to capture the anticipated impact of South Africa's national lockdown on the commercial real estate portfolio as the calculated model-driven Stage 1 ECL for this portfolio was not considered sufficient. The management ECL overlay was estimated after stressing the probability of default (PD) and loss given default (LGD) for the commercial real estate portfolio. In line with our previous approach, Stage 3 ECLs continue to be assessed using expert credit judgement.

Asset quality metrics before the COVID-19 pandemic reflected solid performance of core loans. Pre COVID-19, the credit loss ratio was calculated at 0.21% for 31 March 2020 (31 March 2019: 0.27%) however, taking into account the impact of COVID-19 and the South African sovereign downgrades the credit loss ratio was 0.37%, largely reflecting a deterioration in macro-economic scenario forecasts.

Stage 2 exposures totalled R15.1 billion and have increased as a proportion of gross core loans subject to ECL to 5.3% at 31 March 2020 (31 March 2019: 4.0%). Stage 3 exposures totalled R4.4 billion at 31 March 2020 or 1.5% of gross core loans subject to ECL (31 March 2019: 1.3%). Stage 3 exposures have an ECL coverage ratio of 43.2%.

The measurement of ECL under IFRS 9 has increased complexity and reliance on expert credit judgements. Key judgemental areas under the implementation of IFRS 9 are highlighted in this document and are subject to robust governance processes. This applies the IFRS 9 transitional arrangements to regulatory capital calculations to absorb the full impact permissible of IFRS 9.

Investec Bank Limited absorbed the full impact of IFRS 9 on 1 April 2019, on adoption of the Foundation Internal Rating-Based Approach (FIRB) for credit risk.

In line with regulatory and accounting bodies guidance, exposures that have been granted COVID-19 relief measures such as payment holidays are not automatically considered to have been subject to a significant increase in credit risk and therefore do not alone result in a transfer across stages. At 31 March 2020, R1.0 billion of relief measures comprising 0.35% of gross core loans and advances had been granted, of which R885 million are assets reported in Stage 1. The remaining R115 million are assets reported in Stage 2.

Investment risk

Overall, we remain comfortable with the performance of the majority of our equity investment portfolios, which comprise 2.1% of total assets.

Traded market risk

Globally, the onset of the COVID-19 pandemic triggered extreme market movements, along with a lack of trading liquidity in certain markets. This resulted in a challenging risk management environment across the trading businesses and adversely affected trading revenue. The primary focus of the trading desks remains to manage and hedge the market risk arising from all client related activity.

Trading conditions remained challenging throughout the 2019-2020 financial year, dominated by local and global policy uncertainty. The JSE was down 21% year-on-year, while the Rand depreciated by 23% year-on-year against the US dollar. Against this challenging economic backdrop, the trading desks have performed well, primarily focusing on client facilitation whilst maintaining low levels of open risk.

Utilisation of risk limits have remained moderate and the desks have remained prudent during the year.

Balance sheet and liquidity risk

Holding a high level of readily available, high quality liquid assets remains paramount in the management of our balance sheet. We continued to maintain a low reliance on interbank wholesale funding to fund core lending asset growth.

A strong liquidity position continued to be maintained throughout the year primarily supported by growth in fixed term and notice retail customer deposits. Cash and near cash balances amounted to R147.2 billion at 31 March 2020 (31 March 2019: R118.4 billion). The bank has raised a substantial amount of deposits over the year, customer accounts (deposits) totalled R375.9 billion at 31 March 2020. Loans and advances to customers as a percentage of customer deposits ratio remained conservative at 73.6%. The 90-day simple average LCR ended the financial year at 133.2% (31 March 2019: 135.6%). The structural funding ratio represented by the NSFR ended the year at 116.2% as at 31 March 2020 (31 March 2019: 115.6%).

The pursuit of our long-term strategic objective to improve the resilience of our balance sheet by targeting the structural shape of our funding profile remains front and centre. We maintain $1.9 billion of strategic long-term non-ZAR funding from diversified sources across the globe at favourable funding spreads.

Looking forward, the focus remains on maintaining a strong liquidity position in light of the impact of the COVID-19 pandemic. Funding continues to be actively raised, particularly in the retail market, in line with the bank's strategic objectives and to insulate the bank from further ongoing market uncertainty. Globally, central banks adopted a coordinated approach in reacting to the COVID-19 pandemic. They began cutting interest rates and putting various mechanisms in place to ensure markets remained liquid. The South African PA cut rates by 250bps to the lowest levels in recent history. In addition to this, they employed further mechanisms to inject liquidity in the system; notably, introducing additional term repo facilities for the banks to access and the reduction in the LCR regulatory minimum from 100% to 80% until such time as the South African PA is of the view that financial markets have normalised.

Capital management

Conversion to the Foundation Internal Ratings Based (FIRB) measurement of credit capital resulted in a 1.3% uplift to Investec Bank Limited's common equity tier 1 (CET1) ratio, effective 1 April 2019. The bank's application for conversion to the Advanced Internal Ratings Based (AIRB) approach is under review by the South African PA and if successful is expected to result in a c. 2.0% uplift to the CET1 ratio. Investec Bank Limited's CET1 ratio includes a reduction of 51bps in the current year associated with our High Quality Liquid Assets and credit investment portfolios held at fair value through equity. This was a consequence of the sudden movement in credit spreads in March 2020, impacting valuations at 31 March 2020. More than half of this impact reversed post year end. On 6 April 2020, the South African Prudential Authority (South African PA) reduced the Pillar 2A capital requirement by 1.0% (0.5% in CET1), thereby increasing our surplus to regulatory requirements.

The bank continued to maintain a sound balance sheet with a low gearing ratio of 12.4 times and a core loans to equity ratio of 6.8 times. The bank's current leverage ratio of 6.9% is above the minimum 6% target level. The bank has always held capital well in excess of regulatory requirements and we intend to perpetuate this philosophy.

We maintain an Investec group target common equity tier 1 ratio in excess of 10% which is currently considered appropriate for our businesses given our sound leverage ratios and significant capital light revenues. The CET1 ratio is at 12.1% at 31 March 2020, in excess of regulatory minimums and ahead of our Investec group target.

The South African PA has provided for regulatory relief measures as well as guidance to banks in managing the COVID-19 crisis. These include the temporary relaxation of the Pillar 2A buffer to 0% (from 1%) and permission to utilise the capital conservation buffer (CCB) and the Domestically-Systemic Important Bank (D-SIB) buffer, subject to prior approval from the South African PA. The South African PA has stated that it intends to phase-in or reinstate the Pillar 2A buffer post the COVID-19 stress period.

Conduct, operational and reputational risk

We remain highly focused on managing conduct, reputational, operational, recovery and resolution risks. Financial and cyber crime are high priorities, and the bank continually aims to strengthen systems and controls in order to manage cyber risk as well as meet regulatory obligations to combat money laundering, fraud and corruption.

The operational response of our business to the disruptions caused by COVID-19 has been a robust, agile transition into remote working, enabling a seamless continuation of service to our clients. Through lockdown, approximately 95% of our employees have been working from home.

During the year, a number of stress scenarios were considered and incorporated into our processes including COVID-19 factors. We continue to assess the potential impact from the current stressed environment and its potential impact on the bank.

The IBL board, through the bank's risk and capital committee, continued to assess the impact of its principal risks and a number of stress scenarios on the business. The IBL board has concluded that the bank has sound systems and processes in place to manage these risks, and that while under a severe stress scenario business activity would be subdued, the bank would continue to maintain adequate liquidity and capital balances to support the continued operation of the bank.

In light of significant dislocation in the external market due to the COVID-19 pandemic it is unclear how the economy and our clients will adjust over the coming months and years. We entered this crisis with experience from the global financial crisis on how to navigate through challenging circumstances, as well as with considerable strength with regards to our high levels of liquidity, strong capital and low leverage. We have responded quickly to the operational and client impacts resulting from COVID-19 and we are comfortable that we have well established risk management processes and systems in place.

Salient Features

A summary of the key risk indicators is provided in the table below.

	31 March 2020 R	31 March 2019 R
Net core loans and advances (million)	283 946	269 404
Total assets (million)	535 970	475 603
Total risk-weighted assets (million)^	319 090	297 506
Total equity (million)	41 748	41 760
Cash and near cash (million)	147 169	118 365
Customer accounts (deposits) (million)	375 948	341 710
Loans and advances to customers to customer deposits	73.6%	76.6%
Structured credit investments as a % of total assets	0.6%	0.3%
Banking book investment and equity risk exposures as a % of total assets	2.1%	3.0%
Traded Market risk: one-day value at risk (million)	6.5	3.8
Core loans to equity ratio	6.8 x	6.4 x
Total gearing ratio*	12.4 x	11.0 x
Return on average assets#	0.80%	1.09%
Return on average risk weighted assets#	1.26%	1.46%
Gross defaults as a % of gross core loans and advances	1.5%	1.3%
Stage 3 exposure net of ECL as a % of net core loans and advances subject to ECL	0.9%	0.7%
Credit loss ratio**	0.37%	0.27%
Level 3 (fair value assets) as a % of total assets*	0.7%	0.9%
Total capital ratio^	16.4%	17.7%
Tier 1 ratio^	12.3%	12.8%
Common equity tier 1^	12.1%	12.5%
Leverage ratio - current^	6.9%	7.6%
Leverage ratio - 'Fully loaded'^	6.8%	7.5%

* *Total assets excluding intergroup loans to equity.*

** *ECL impairment charges on gross core loans and advances as a % of average gross core loans and advances subject to ECL.*

\# *Where return represents operating profit after taxation and non-controlling interests and after deducting preference dividends, but before goodwill, acquired intangibles and non-operating items. Average balances are calculated on a straight-line average.*

^ *We have adopted the Foundation Internal Rating Based (FIRB) approach effective 1 April 2019. The numbers presented are on a pro-forma basis for 31 March 2019.*

Overall group risk appetite

The bank has board-approved risk appetite statements and policy documents covering our risk tolerance and approach to our principal aspects of risk. The risk appetite framework acts as a guide to determine the acceptable risk profile of the bank and ensures that limits/targets are applied and monitored across all key operating jurisdictions and legal entities. The bank ensures that limits/targets are applied and monitored across all key operating jurisdictions and legal entities whilst keeping in line with the group's risk appetite parameters. The risk appetite statement is a high-level, strategic framework that supplements the detailed risk policy documents at each entity and geographic level. The risk appetite framework is a function of business strategy, budget and capital processes, our stress testing reviews, the regulatory and economic environment in which the bank is operating. The bank risk appetite framework is reviewed (in light of the above aspects) and approved at least annually or as business needs dictate. A documented process exists where our risk profile is measured against our risk appetite and this positioning is presented to the IBL BRCC and IBL board as well as DLC BRCC and DLC board.

The table below provides a high-level summary of the bank's overall risk tolerance framework.

Risk appetite and tolerance metrics	*Positioning at 31 March 2020*
We have a solid annuity income base supported by diversified revenue streams, and target an annuity income ratio in excess of 65%	Annuity income amounted to 84.4% of total operating income. Refer to page 7 for further information
We seek to maintain strict control over fixed costs and target a cost to income ratio between 49% to 52%	The cost to income ratio amounted to 52.6%. Refer to page 7 for further information
We are a lowly leveraged firm and target a leverage ratio in all our banking subsidiaries in excess of 6%	The current leverage ratio amounted to 6.9%. Refer to page 83 for further information
We intend to maintain a sufficient level of capital to satisfy regulatory requirements and our internal target ratios. We target a total capital adequacy ratio range of between 14% and 17% and we target a minimum tier 1 ratio of 11% and a CET1 ratio above 10%	We met these targets; Our total capital adequacy ratio amounted to 16.4% and our CET1 ratio amounted to 12.1%. Refer to page 85 for further information
We target a diversified loan portfolio, lending to clients we know and understand. We limit our exposure to a single/connected individual or company to 7.5% of tier 1 capital. We also have a number of risk tolerance limits and targets for specific asset classes	We maintained this risk tolerance level in place throughout the year
We have preference for primary exposure in the bank's main operating geography (i.e. South Africa). We will accept exposures where we have a branch or local banking subsidiary and tolerate exposures to other countries where we have developed a local understanding and capability or we are facilitating a transaction for a client	Refer to page 28 for further information
Financial risk from climate change is a highly important topic which helps to inform credit decisions. We take a cautious approach with respect to industries that are known to damage the environment. We acknowledge that our approach is still work in progress and we will continue to develop this over time.	Refer to pages 76 to 77 for further information
We target a credit loss ratio of less than 0.5% and Stage 3 net of ECL as a % of net core loans and advances to be less than 1.5%	We currently remain within all tolerance levels. The credit loss ratio amounted to 0.37%. Stage 3 net of ECL as a % of net core loans and advances amounted to 0.9%. Refer to pages 46 and 47 for further information
We carry a high level of liquidity in order to be able to cope with shocks to the system, targeting a minimum cash to customer deposit ratio of 25%	Total cash and near cash balances amounted to R147.2 billion at year end representing 39.1% of customer deposits. Refer to page 63 for further information
We have modest market risk as our trading activities primarily focus on supporting client activity and our appetite for proprietary trading is limited. We set an overall tolerance level of a one-day 95% VaR of less than R15 million	We met these internal limits; one-day VaR was R6.5 million at 31 March 2020. Refer to page 58 for further information
We have moderate appetite for investment risk, and set a risk tolerance of less than 12.5% of tier 1 capital for our unlisted principal investment portfolio	Our unlisted investment portfolio is R2 297 million, representing 5.9% of total tier 1 capital. Refer to page 53 for further information
We maintain sound operational risk practices to identify and manage operational risk. The bank has no appetite for failures in meeting our legal and ethical obligations to combat financial crime and for failures to meet regulatory rules or guidance	Refer to pages 71 to 75 for further information
We have a number of policies and practices in place to mitigate reputational, legal, tax and conduct risks	Refer to pages 75 and 76 for further information

Risk management objectives are to:

- Ensure adherence to our risk management culture
- Ensure the business operates within the board-approved risk appetite
- Support the long-term sustainability of the bank by providing an established, independent framework for identifying, evaluating, monitoring and mitigating risk with good customer outcomes
- Set, approve and monitor adherence to risk parameters and limits across the bank and ensure they are implemented and adhered to consistently
- Aggregate and monitor our exposure across risk classes
- Coordinate risk management activities across the organisation, covering all legal entities and jurisdictions
- Give the IBL board reasonable assurance that the risks we are exposed to are identified and appropriately managed and controlled
- Resource risk teams suitably and with appropriate expertise and facilitate operating independence
- Run appropriate risk committees, as mandated by the board
- Maintain compliance in relation to regulatory requirements.

An overview of our principal risks

In our daily business activities, the bank takes on a number of risks that have the potential to affect our business operations or financial performance and prospects.

These principal risks have been highlighted on page 14.

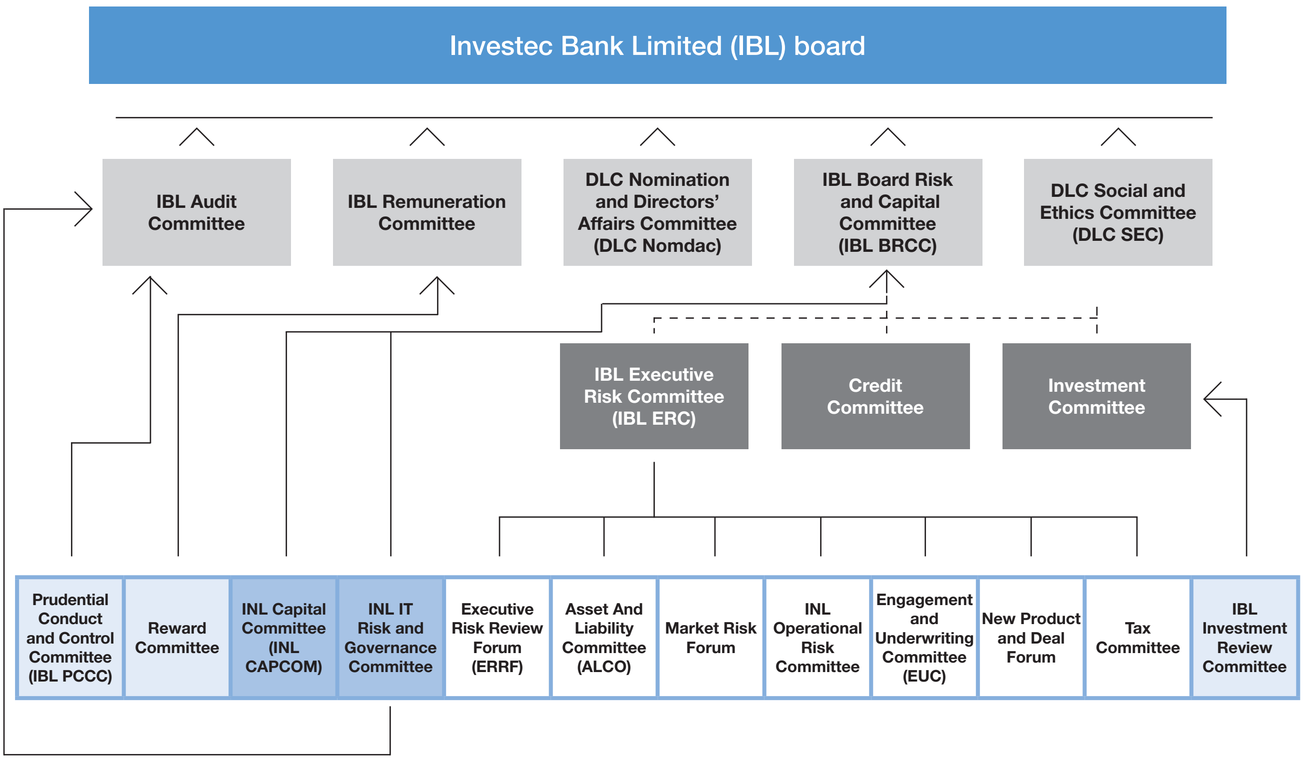
The sections that follow provide information on a number of these risk areas and how the bank manages these risks.

Additional risks and uncertainties that are currently considered immaterial and not included in this report may in the future impact our business operations and financial performance.

Risk management framework, committees and forums

A number of committees and forums identify and manage risk at bank level. These committees and forums operate together with risk management and are mandated by the board. Our governance framework is highlighted below.

Investec Bank Limited board and committee structure for the year ended 31 March 2020



Credit and counterparty risk management

Credit and counterparty risk description

Credit and counterparty risk is defined as the risk arising from an obligor's (typically a client or counterparty) failure to meet the terms of any agreement. Credit and counterparty risk arises when funds are extended, committed, invested, or otherwise exposed through contractual agreements, whether reflected on- or off-balance sheet.

Credit and counterparty risk arises primarily from three types of transactions:

- Lending transactions through loans and advances to clients and counterparties creating the risk that an obligor will be unable or unwilling to repay capital and/or interest on loans and advances granted to them. This category includes bank placements, where we have placed funds with other financial institutions
- Financial instrument transactions, producing issuer risk where payments due from the issuer of a financial instrument may not be received
- Trading transactions, giving rise to settlement and replacement risk (collectively counterparty risk):
  - Settlement risk is the risk that the settlement of a transaction does not take place as expected, with one party making required settlements as they fall due but not receiving the performance to which they are entitled
  - Replacement risk is the risk following default by the original counterparty resulting in the contract holder having to enter into a replacement contract with a second counterparty in order to fulfil the transaction.

The relevant credit committees will also consider wrong-way risk at the time of granting credit limits to each counterparty. In the banking book environment, wrong-way risk occurs where the value of collateral to secure a transaction, or guarantor, is positively correlated with the probability of default of the borrower or counterparty. For counterparty credit risk resulting from transactions in traded products (such as OTC derivatives), wrong-way risk is defined as exposure to a counterparty that is adversely correlated with the credit quality of that counterparty. It arises when default risk and credit exposure increase together.

Credit and counterparty risk may also arise in other ways and it is the role of the risk management functions and the various independent credit committees to identify risks falling outside these definitions.

Credit and counterparty risk governance structure

To manage, measure, monitor and mitigate credit and counterparty risk, independent credit committees exist in each geography where we assume credit risk. These committees operate under board-approved delegated limits, policies and procedures. There is a level of executive involvement and oversight in the credit decision-making forums depending on the size and complexity of the deal. It is our policy that all centralised credit committees comprises of voting members who are independent of the originating business unit. All decisions to enter into a transaction are based on unanimous consent.

In addition to the credit committees, the following processes assist in managing, measuring and monitoring credit and counterparty risk:

- Day-to-day arrears management and regular arrears reporting ensure that individual positions and any potential trends are dealt with in a timely manner
- Watchlist Forums review the management of distressed loans, potential problem loans and exposures in arrears that require additional attention and supervision. These committees review ECL impairments and staging at an asset level as well as potential fair value adjustments to loans and advances to customers and provide recommendations for the appropriate staging and level of ECL impairment where appropriate
- Credit Watchlist Forums review and manage exposures that may potentially become distressed as a result of changes in the economic environment or adverse share price movements, or that are vulnerable to volatile exchange rate or interest rate movements or idiosyncratic financial distress
- Arrears, Default and Recovery Forums specifically review and manage distressed loans and potentially distressed loans for private clients and corporates. These forums also review and monitor counterparties who have been granted forbearance measures
- Impairment Decision Committee (IDC) reviews recommendations from underlying watchlist forums and consider and approve the appropriate level of ECL impairments, ECL and staging
- Model Review Forum provides an internal screening and validation process for credit models. We have an established independent model validation team who review the models and provide feedback on the accuracy and operation of the models and note items for further development through this forum.

Credit committees and the processes above have incorporated considerations and decisions with respect to the COVID-19 pandemic and resulting relief measures, staging and ECL in line with the bank's existing governance.

Credit and counterparty risk appetite

The IBL board has set a risk appetite limit framework which regulates the maximum exposures we would be comfortable to tolerate in order to diversify and mitigate risk. This limit framework is approved at least annually and monitored on an ongoing basis by IBL BRCC, DLC BRCC and the IBL board on a regular basis. Should there be any breaches to limits, or where exposures are nearing limits, these exceptions are specifically highlighted for attention, and any remedial actions agreed.

Our assessment of our clients and counterparties includes consideration of their character, integrity, core competencies, track record and financial strength. A strong emphasis is placed on the historic and ongoing stability of income and cash flow streams generated by the clients. Our primary assessment method is therefore the ability of the client to meet their payment obligations.

Target clients include high net worth and/or high-income individuals, professionally qualified individuals, established corporates, small and medium enterprises, financial institutions and sovereigns. Corporates should demonstrate scale and relevance in their market, an experienced management team, able board members, strong earnings and cash flow. Direct exposures to cyclical industries and start-up ventures are generally avoided.

We are client-centric in our approach and originate loans mainly with the intent of holding these assets to maturity, thereby developing a 'hands-on' and longstanding relationship.

Interbank lending is largely reserved for those banks and institutions in the bank's core geographies of activity, which are systemic and highly rated.

Concentration risk

Concentration risk is when large exposures exist to a single client or counterparty, group of connected counterparties, or to a particular geography, asset class or industry. An example of this would be where a number of counterparties are affected by similar economic, legal, regulatory or other factors that could mean their ability to meet contractual obligations are correlated.

Credit and counterparty risk is always assessed with reference to the aggregate exposure to a single counterparty or group of related parties to manage concentration risk. In order to manage concentration, we will consider a sell down of exposures to market participants.

Concentration risk can also exist where portfolio loan maturities are clustered to single periods in time. Loan maturities are monitored on a portfolio and a transaction level.

Country risk

Country risk refers to the risk of lending to a counterparty operating in a particular country or the risk inherent in sovereign exposure, i.e. the risk of exposure to loss caused by events in that country. Country risk covers all forms of lending or investment activity whether to/with individuals, corporates, banks or governments. This can include geopolitical risks, transfer and convertibility risks, and the impact on the borrower's credit profile due to local economic and political conditions.

To mitigate country risk, there is a preference for primary exposure in the bank's main operating geographies. The bank will accept exposures where we have a branch or local banking subsidiary, and tolerate exposures to other countries where we are facilitating a transaction for a client who requires facilities in a foreign geography and where we have developed a local understanding and capability.

Investec's credit risk appetite with regard to country risk is characterised by the following principles:

- Preference is to have exposure only to politically stable jurisdictions that we understand and have preferably operated in before
- There is little specific appetite for exposures outside of the group's pre-existing core geographies or target markets
- The legal environment should be tested, have legal precedent in line with Organisation for Economic Co-operation Development (OECD) standards and have good corporate governance
- In certain cases, country risk can be mitigated by taking out political risk insurance with suitable counterparties, where deemed necessary and where considered economic.

While we do not have a separate country risk committee, the relevant credit committees as well as investment committees and IBL BRCC will consider, analyse and assess the appropriate foreign jurisdiction limits to be recorded when required.

Sustainability considerations

The bank has a holistic approach to sustainability. Our commitment to sustainability recognises the interconnected nature of our business, the economy, the environment and society. We play an important role in funding (both lending and in investing) a sustainable economy that is cognisant of the world's limited natural resources and promotes carbon reduction. We integrate environmental, social and governance (ESG) considerations into our day-to-day operations and decision-making to support a sustainable, long-term vision. The greatest socio-economic and environmental impact we can have is to partner with our clients and stakeholders to accelerate a cleaner, more resilient and inclusive world.

We are committed to respecting human rights and support internationally recognised principles, guidelines and voluntary standards dealing with ESG aspects. The following are some that are specific to climate:

- 2030 Agenda and the UN Sustainable Development Goals
- UN Global Compact
- International Finance Corporation (IFC) to assess high and medium risk industries
- OECD Guidelines for Multinational Enterprises and export credits
- CDP (Carbon Disclosure Project)
- Task Force on Climate-related Financial Disclosures (TCFD)
- Bankers Association of South Africa (BASA) guidelines for social and environmental risk
- United for Wildlife Financial Taskforce

We fully apply the key provisions of the Equator Principles (EP). All transactions in non-designated countries are EP monitored and compliant. We report on these in our sustainability and ESG supplementary report on our website.

We have a number of group policies that also guide decision-making from a sustainability perspective and we made our group fossil fuel policy public on 31 March 2020. A variety of ESG considerations are considered by the credit committee or investment committee when making lending or investment decisions. There is also oversight by the DLC SEC on social and environmental issues including climate related risks and opportunities.

In particular, the following factors are taken into account when assessing a transaction based on the outcome of the corporate sustainability considerations:

- Environmental considerations (including animal welfare and climate-related impacts)
- Social considerations (including human rights)
- Macro-economic considerations (including poverty, growth and unemployment).

www **Refer to our corporate sustainability and ESG supplementary information on our website.**

Stress testing and portfolio management

The bank's stress testing framework is designed to identify and assess vulnerabilities under stress. The process comprises a bottom-up analysis of the bank's material business activities, incorporating views from risk, management teams, business and the executive. Stress scenarios are designed based on findings from the bottom-up process, taking into consideration the broader macro-economic and political risk backdrop. These IBL specific stress scenarios form an integral part of our capital planning process and IFRS 9 reporting. The stress testing process also informs the risk appetite review process, and the management of risk appetite limits and is a key risk management tool of the bank. This process allows the bank to identify underlying risks and manage them accordingly.

The bank also performs *ad hoc* stress testing and reverse testing. *Ad hoc* stress tests are conducted in response to any type of material and/or emerging risks, with reviews undertaken of impacted portfolios to assess any migration in quality and highlight any vulnerabilities, identify portfolio concentrations and make appropriate recommendations, such as a reduction in risk appetite limits or specific exposures. Reverse stress tests are conducted to stress the bank's business plan to failure, and consider a broad variety of extreme and remote events.

Reviews are also undertaken of all material businesses, where the portfolios are analysed to assess any migration in portfolio quality, highlight any vulnerabilities, identify portfolio concentrations and make appropriate recommendations, such as a reduction in risk appetite limits or specific exposures.

Credit risk classification and provisioning policy

IFRS 9 requirements have been embedded into our group credit risk classification and provisioning policy. A framework has been established to incorporate both quantitative and qualitative measures. Policies for financial assets subject to ECL, as defined on page 250, are as described below:

Stage 1

Financial assets that are considered performing and have not had a significant increase in credit risk are reported as Stage 1 assets. Under IFRS 9 these Stage 1 financial assets have loss allowances measured at an amount equal to 12-month ECL.

In line with regulatory and accounting bodies guidance, exposures that have been granted COVID-19 relief measures such as payment holidays are not automatically considered to have been subject to a significant increase in credit risk and therefore do not alone result in a transfer across stages. Where relief measures are granted, there is no change in expectation of amounts due. These exposures will remain reported in Stage 1 for the foreseeable future and will not be required to hold a lifetime ECL. At 31 March 2020, R1.0 billion of gross core loans and advances had been granted some form of relief measures, of which R885 million were assets reported in Stage 1.

Stage 2

Financial assets are considered to be in Stage 2 when their credit risk has increased significantly since initial recognition. A loss allowance equivalent to a lifetime ECL is required to be held.

The bank's primary indicator for Stage 2 assets are distressed loans, potential problem loans and exposures in arrears that require additional attention and supervision from watchlist committees and are under management review.

Assets in forbearance are considered to be, at a minimum, Stage 2. Forbearance measures refer to concessions such as modification of the terms and conditions or refinancing that has been granted to a debtor in financial difficulty. These exposures are assessed on a case by case basis to determine whether the proposed modifications will be considered as forbearance. Where the credit committee considers it likely that the client will be able to return to perform against the original contractual obligations within a reasonable timeframe these assets will be considered performing and in Stage 2. Forbearance is distinguished from commercial renegotiations which take place as part of normal business activity and standard banking practice.

In addition to loans under management review, an asset may also move from Stage 1 to Stage 2 if the model calculated probability of default (PD) has significantly increased since origination. This is tested on both a relative and absolute basis to assess whether a significant deterioration in lifetime risk of default has occurred. The change in the lifetime PD from deal origination to the reporting date is monitored monthly. The absolute and relative changes in lifetime PDs are tested against predefined trigger levels. When the change in lifetime PDs exceeds the trigger levels, it is considered a significant increase in credit risk and the exposure is migrated to Stage 2. The trigger levels have been defined for each asset class and are a function of the credit rating and the remaining maturity of the exposure.

The bank assumes that all financial assets that are more than 30 days past due have experienced a significant increase in credit risk.

Exposures move back to Stage 1 once they no longer meet the criteria above for a significant increase in credit risk and as cure periods (specifically relating to forborne exposures) are met.

Stage 3

Financial assets are included in Stage 3 when there is objective evidence of credit impairment. The bank assesses a loan as Stage 3 when contractual payments of either principal or interest are past due for more than 90 days, the debtor is assessed as unlikely to pay and credit impaired, or the loan is otherwise considered to be in default, for example due to the appointment of an administrator or the client is in receivership. When a client is not expected to meet the original contractual obligations in a reasonable timeframe, the loan will be classified as Stage 3. Loans which are more than 90 days past due are considered to be in default.

Definition of default

The bank has aligned the IFRS 9 and regulatory definitions of default, credit impaired and non-performing exposure. Assets that are more than 90 days past due, or considered by management as unlikely to pay their obligations in full without realisation of collateral are considered as exposures in default.

ECL

The assessment of credit risk and the estimation of ECL are required to be unbiased, probability-weighted and incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be forward-looking and therefore, potentially volatile.

The expected impact from COVID-19, as well as the offsetting effect of government relief measures, required significant judgement. Regulatory bodies provided guidance on expectations around provisioning and staging treatment of exposures. The forward looking macro-economic scenarios used in the measurement of ECL were updated to capture the wide-reaching impacts of the sovereign downgrade by Moody's to sub-investment grade as well as the initial impact of COVID-19. A further management ECL overlay of R190 million was introduced at 31 March 2020 to capture the anticipated impact of South Africa's national lockdown on the commercial real estate portfolio as the calculated model-driven Stage 1 ECL for this portfolio was not considered sufficient. The management ECL overlay was estimated after stressing the probability of default (PD) and loss given default (LGD) for the commercial real estate portfolio. In line with our previous approach Stage 3 ECLs continued to be assessed using expert credit judgement.

Write-offs

A loan or advance is normally written off in full against the related ECL impairment allowance when the proceeds from realising any available security have been received or there is a reasonable amount of certainty that the exposure will not be recovered. This is considered on a case by case basis. Any recoveries of amounts previously written off decrease the amount of impairment losses.

Internal credit rating models and ECL methodology

Internal credit rating models cover all material asset classes. These internal credit rating models are also used for IFRS 9 modelling after adjusting for appropriate differences. Internal credit models calculate through the economic cycle losses whereas IFRS 9 requires 12-month or lifetime point-in-time losses based on conditions at the reporting date and multiple economic scenario forecasts of the future conditions over the expected lives.

Further information on internal credit ratings is provided on page 48.

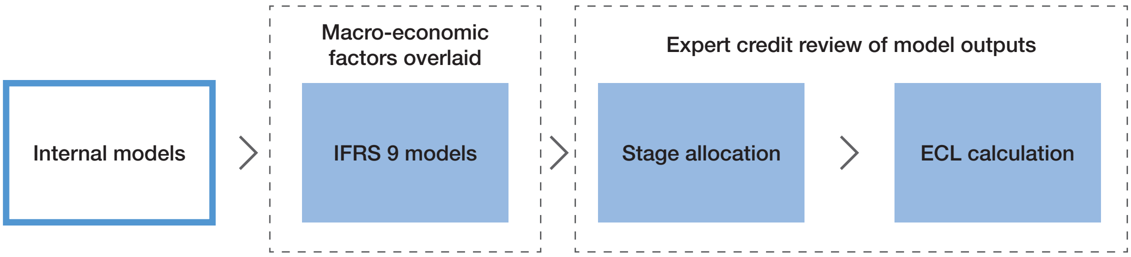
Key drivers of measurement uncertainty – subjective elements and inputs

The measurement of ECL has reliance on expert credit judgement. Key judgemental areas highlighted below and are subject to robust governance processes. Key drivers of measurement uncertainty include:

- The assessment of a significant increase in credit risk;
- A range of forward-looking probability weighted macro-economic scenarios; and
- Estimations of probabilities of default, loss given default and exposures at default using models.

In addition to these drivers, some initial judgements and assumptions were required in the design and build of the bank's ECL methodology, which are not considered to have material impact. This includes the use of income recognition effective interest rates (EIRs) in accordance with accounting standards, as the discount factor in the ECL calculation as well as the use of contractual maturity to assess behavioural lives. In addition, where we have experienced limitations on the availability of probability of default origination data for the historic book, a portfolio average has been used in some instances.

Process to determine ECL



ECLs are calculated using three main components:

- A probability of default (PD);
- A loss given default (LGD); and
- The exposure at default (EAD).

The 12-month and lifetime PDs represent the probability of a default occurring over the next 12 months or the lifetime of the financial exposures, respectively, based on conditions existing at the balance sheet date and future forecast macro-economic conditions that affect credit risk.

The LGD represents losses expected on default, taking into account the mitigating effect of collateral, its expected value when realised and the time value of money. The forecast value for the collateral is also affected by the range of forward-looking probability weighted macro-economic scenarios.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdown of a committed facility.

The calculation of the 12-month ECL is based on the 12-month PD and LGD along with the EAD and effective interest rate (EIR) for the asset. Lifetime ECL is calculated using the lifetime PD curve, and the appropriate LGDs and EADs and discount rates derived from the EIR based on the remaining life of the financial asset.

Expert judgement models are also utilised for certain portfolios where the ECL is found to be minimal, either due to the portfolio's small relative size or the low default nature of these portfolios, such as cash and balances held at central banks.

Management adjustments are made to modelled output to account for situations where additional information and known or expected risk factors have not been captured in the modelling process.

Forward-looking macro-economic scenarios

The measurement of ECL also requires the use of multiple economic scenarios to calculate a probability weighted forward-looking estimate. These scenarios are updated at least twice a year, or more frequently if there is a macro-economic shock or significant shift in expectations. The weighting of these scenarios for IFRS 9, as well as the scenarios themselves, are discussed and approved at the DLC Capital Committee, which forms part of the principal governance framework for the macro-economic scenarios.

A number of scenarios are forecast for consideration in capital planning, stress testing (including Investec specific stress scenarios) and IFRS 9.

For the bank, five macro-economic scenarios are used in the measurement of ECL under IFRS 9. These scenarios incorporate a base case, two upside cases and two downside cases. The aim of this economic scenario generation process is to provide a view of the current and projected state of the South African economy and the different economic scenarios that could occur in various stressed or improved environments over the next five years for a number of identified variables/risk drivers.

The expected impact from COVID-19 as well as the offsetting effect of government relief measures, required significant judgement. Regulatory bodies have provided guidance on expectations around provisioning and staging treatment of exposures. The forward looking macro-economic scenarios used in the measurement of ECL, as detailed below, were updated to capture the wide-reaching impacts of the sovereign downgrade by Moody's to sub-investment grade as well as the initial impact of COVID-19. A further management ECL overlay of R190 million was introduced as at 31 March 2020 to capture the anticipated impact of South Africa's national lockdown on the commercial real estate portfolio as the calculated model driven Stage 1 ECL for this portfolio was not considered sufficient. The management ECL overlay was estimated after stressing the PD and LGD for the commercial real estate portfolio.

The impact of the COVID-19 pandemic is still evolving. While collectively better understanding of COVID-19 has been gained over the last few months, it is not yet certain how long it will take to contain the virus, or how long the global economy will be negatively affected. Very substantial policy support measures have occurred globally, but the economic shock, both locally and internationally, will supersede the recession of 2008 – 2009 stemming from the global financial crisis at that time. In South Africa this year, a peak to trough contraction of 10.9% is expected, versus the 2.5% peak to trough contraction over the second half of 2008 and first half of 2009. Furthermore, risk is tilted to the downside.

Under the base case scenario a temporary, sharp global economic slowdown, and global financial market turmoil occurs as a result of the COVID-19 pandemic, with temporary, but severe currency depreciation. Interest rates reach very low levels. Sufficient global and domestic monetary and other policy support measures occur that are sufficient to see risk sentiment improve, and are also sufficient to bolster economic recovery and financial markets. South Africa is expected to exit recession in the third quarter of 2020. Expropriation without compensation (EWC) is put on hold in the crisis, and when it does occur, does not have a significant, negative impact on the economy, and is only confined to abandoned, unused, government and labour tenants' land. South Africa works towards eradicating its structural weaknesses and retains its BB+ rating from Moody's as government debt projections stabilise.

At 31 March 2020 the scenario weighting of the base case was 43%. As at 31 March 2019 the scenario weighting of the base case was 42% and South Africa was expected to achieve an annual growth rate of around 2.0% year-on-year in 2020, and 3.0% year-on-year by 2024. A severe global crisis was not part of the base case. This year, the base case includes a severe global crisis, with extreme policy measures (domestically and globally) aimed at alleviating as much of the crises impact as possible.

In the lite down case scenario the international environment is the same as the base case, but the domestic environment differs. In the light down case South Africa fails to see its debt projections stabilise, and loses its BB+ rating from Moody's, dropping towards the single B ratings from Moody's, S&P and Fitch. This persists until substantial fiscal repair is achieved. In the lite down case a more severe recession occurs in South Africa than in the base case. Business confidence is depressed even further, and investment growth is weak, while load shedding occurs. The Rand sees significant weakness.

At 31 March 2020 the scenario weighting of the lite down case was 42%. At 31 March 2019 the downside case was used instead of the lite down case, and included a worse global environment than in base case at that time. At 31 March 2019 the scenario weighting of the downside case was 37%. The down case was characterised by a sharp global slowdown and commodity price slump, combined with sub-investment grade ratings from all three key credit rating agencies, with a risk of further downgrades. The extent of the global slowdown envisioned in the down case projected last year was less severe than the recession that is materialising this year as a consequence of the COVID-19 pandemic. South Africa was expected to lose its investment grade rating in the down case, but not see further deterioration towards the single B ratings. A combination of the materialisation of a number of domestic and international events have led to a revision in the definition of the scenario, and its assigned probability.

The severe down case is currently characterised by a lengthy global recession and a global financial crisis, as one or more additional downside/s to growth develop besides the COVID-19 pandemic. Monetary and other policy support measures domestically and internationally are insufficient in this scenario to eradicate the extent of the severe risk aversion in investor sentiment. A depression occurs in the South African economy, with unprecedented Rand weakness. Nationalisation of private sector property under expropriation without compensation occurs. South Africa's credit ratings drop to single B from all three of the key credit rating agencies, and further downgrades occur into C grade, as government finances deteriorate further as debt projections continue to elevate and do not stabilise. Government borrows from increasingly wider sources as it sinks deeper into a debt trap. The scenario includes widespread load shedding, strike action and civil unrest.

At 31 March 2020 the scenario weighting of the severe down case was 10%. The severe down case at 31 March 2019 was referred to as the extreme down case and had a weighting of 10%. It was characterised by a lengthy global recession, and for South Africa, an economic depression (10 quarters or more of negative growth). South Africa's credit ratings fell to junk and the country became a failed state. The projected lengthy depression in the extreme down case saw GDP fall on average by 2% over the five year forecast period, with very high interest rates. In comparison, the severe down case, which is now Investec's worst down case scenario, only has an average 0.5% contraction in GDP over the five year period. A transition to a less severe economic scenario for the worst case has occurred as SA is currently no longer seen at material risk of becoming a failed state. The credit ratings are currently only seen at material risk of falling into the C grade ratings, instead of into the D grade ratings category.

The up case is characterised by a relatively quick rebound from the COVID-19 pandemic, globally and domestically. Global risk-on prevails and the global economy quickly returns to trend growth. Within a couple of years, above trend global growth and high commodity prices occur. South Africa's economic growth reaches 3% year-on-year and then moves towards 5% year-on-year, also supported by better governance and growth creating reforms. Business confidence rises and investment levels strengthen substantially as structural problems are worked down. This in turn supports a sustained acceleration in economic growth. No further credit rating downgrades occur. The rating outlooks stabilise, and then become positive on fiscal consolidation, with government debt projections stabilising. EWC is limited and the EWC that does occur has a slight positive impact on the economy and is confined to abandoned, unused, government and labour tenants' land. In particular, individuals are the new owners and receive the title deeds of the properties with no nationalisation occurring.

The scenario weighting is 4%, compared to 10% at 31 March 2019. This change reflects the increased downside risks currently still being seen as a consequence of the impact of COVID-19, at 31 March 2019 a severe global and domestic crisis was not anticipated as the starting point for the up case scenario.

The extreme up case is an acceleration of the up case scenario.

In the extreme up case the impact that the COVID-19 pandemic has had domestically and internationally is resolved rapidly, without further downside to growth developing. The global economy sees strong growth and a commodity boom developing after an immediate, substantial rebound in economic activity. In South Africa all structural constraints are rapidly overcome, with very high levels of governance prevailing and growth-creating reforms are successfully aimed at the private sector. Business confidence reaches high levels and both high rates of domestic fixed investment and very substantial foreign direct investment (FDI) inflows occur. The domestic economy quickly reaches growth rates of 4% year-on-year then 5% year-on-year. Strong fiscal consolidation occurs and government debt as a % of GDP falls back to the low ratios of 2000s. After an initial stabilisation of the credit ratings, credit rating upgrades occur. A strengthening in property rights occurs as EWC has no negative effects on the economy and there is no nationalisation. EWC proves a driver to economic growth and is limited only to abandoned, government and labour tenants' land with individuals obtaining title deeds to these properties, with no corruption or political favours. The extreme up case is characterised by the occurrence of all of these events.

At 31 March 2020 the scenario weighting of the extreme up case was 1% and has remained unchanged from the weighting assigned at 31 March 2019. Although the assumptions supporting the extreme up case have remained essentially unchanged, the impact of the severe global crisis brought on by the COVID-19 pandemic has weakened the actual projected GDP trajectory of the extreme up case. At 31 March 2019, fast, sustainable economic growth of between 5-7% year-on-year or more by the end of the period was envisioned, averaging 5.2% over the five-year forecasts period. However, growth over the five-year period is now only anticipated to average 3.7% following the impact of the pandemic on the global and domestic economy.

The table below shows the key factors that formed part of the macro-economic scenarios and the relative applied weightings of these scenarios

Macro-economic scenarios	**At 31 March 2020 average 2020 – 2025**					**At 31 March 2019 average 2019 – 2023**				
	Extreme up case %	**Up case %**	**Base case %**	**Lite down case %**	**Severe down case %**	Extreme upside %	Upside %	Base case %	Downside %	Extreme Downside %
South Africa										
GDP growth	3.7	2.6	0.8	0.2	(0.5)	5.2	3.9	2.4	0.7	(2.0)
Repo rate	4.8	5.1	5.8	6.0	7.6	5.5	6.2	7.3	8.4	17.2
Bond yield	9.1	9.4	9.9	10.5	11.8	7.9	8.3	9.7	10.9	14.8
Residential property price growth	7.4	4.1	2.6	1.9	0.2	12.9	6.5	5.1	3.0	(1.1)
Commercial property price growth	4.1	2.0	0.1	(1.8)	(4.3)	5.7	3.1	1.2	(1.6)	(6.0)
Exchange rate (South African Rand:US Dollar)	9.7	11.7	14.8	16.9	18.2	8.1	9.9	13.0	16.9	24.1
Scenario weightings	**1**	**4**	**43**	**42**	**10**	**1**	**10**	**42**	**37**	**10**

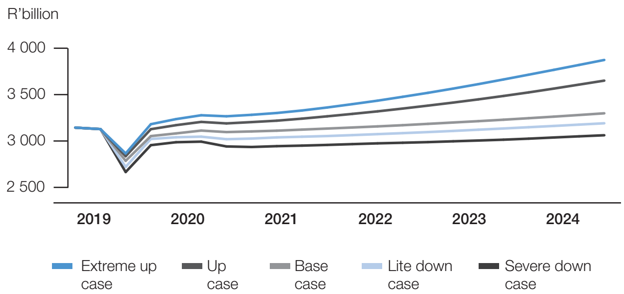
The following table shows annual averages of economic factors over a five-year period.

	Financial years				
Base case %	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025
South Africa					
GDP growth	(4.4)	3.5	1.4	1.7	2.0
Repo rate	4.8	6.0	6.3	6.3	6.3
Bond yield	10.8	10.6	9.6	9.5	9.4
Residential property price growth	(2.0)	1.2	3.6	4.8	5.6
Commercial property price growth	(4.4)	0.3	1.3	1.5	2.2
Exchange rate (South African Rand:US Dollar)	16.6	14.5	14.4	14.2	14.3

The table below shows the historic and forecasted South African GDP and peak to trough measurements from base case, lite down case, and severe down case scenarios.

March 2020 – 2025 Peak to trough %	Base case	Lite down	Severe down
South Africa			
GDP	(10.9)	(13.0)	(14.8)
Residential property prices	(3.3)	(3.9)	(6.3)
Commercial property prices	(5.8)	(10.7)	(23.3)

South African GDP forecast



Macro-economic sensitivities

Following the COVID-19 pandemic, a management ECL overlay of R190 million and updated macroeconomic scenarios were considered the most appropriate way to capture the worsened economic environment given the significant levels of uncertainty and lack of supportable economic information to produce robust forecasts. The expected impact from COVID-19 as well as the offsetting effect of government measures require some level of judgement. Given this background, the fast-changing nature of the crisis and the government measures announced, which are not easily quantifiable in economic scenarios; we will continue to review and refine our approach to economic scenarios given the evolving situation and significant uncertainty faced with respect to the economic outlook.

Management and measurement of credit and counterparty risk

Fundamental principles employed in the management of credit and counterparty risk include:

- A clear definition of our target market
- A quantitative and qualitative assessment of the creditworthiness of our counterparties
- Analysis of risks, including concentration risk (concentration risk considerations include asset class, industry, counterparty and geographical concentration)
- Decisions are made with reference to risk appetite limits
- Prudential limits
- Regular monitoring and review of existing and potential exposures once facilities have been approved
- A high level of executive involvement in decision-making
- Portfolio reviews and stress testing.

Within the credit approval process, internal and external ratings are included in the assessment of client quality.

A large proportion of the bank's portfolio is not rated by external rating agencies. We place reliance upon internal consideration of counterparties and borrowers, and use ratings prepared externally where available to support our decision-making process.

Regular reporting of credit and counterparty risk exposures within our operating units are made to management, the executives and boards through IBL BRCC and DLC BRCC. The board regularly reviews and approves the appetite for credit and counterparty risk, which is documented in risk appetite statements and policy documents. This is implemented and reviewed by the credit risk management teams in each jurisdiction.

Portfolio reviews and stress testing are undertaken on all material businesses, where the exposures are analysed to assess any migration in portfolio quality, highlight any vulnerabilities, identify portfolio concentrations and make appropriate recommendations, such as a reduction in risk appetite limits or specific exposures.

Credit and counterparty risk – nature of activities

Credit and counterparty risk is assumed through a range of client-driven lending activities to private and corporate clients as well as other counterparties, such as financial institutions and sovereigns. These activities are diversified across a number of business activities.

- **Core loans and advances:** The majority of credit and counterparty risk is through core loans and advances, which account for the material ECL allowances across our portfolio, which are detailed on pages 45 to 52
- **Treasury function:** There are also certain exposures, outside of core loans and advances where we assume credit and counterparty risk. These arise primarily from treasury placements where the treasury function, as part of the daily management of the bank's liquidity, places funds with central banks and other commercial banks and financial institutions. These transactions are typically short-term (less than one month) money market placements or secured repurchase agreements. These market counterparties are investment grade rated entities that occupy dominant and systemic positions in their domestic banking markets and internationally and are typically investment grade rated.

  In addition, credit and counterparty risk arises through the following exposures:

- **Customer trading activities to facilitate hedging client risk positions:** our customer trading portfolio consists of derivative contracts in interest rates, foreign exchange, commodities, credit derivatives and equities that are entered into, to facilitate a client's hedging requirements. The counterparties to such transactions are typically corporates, in particular, where they have an exposure to interest rates or foreign exchange due to operating in sectors that include imports and exports of goods and services. These positions are marked-to-market, typically with daily margin calls to mitigate credit exposure in the event of counterparty default
- **Structured credit:** these are bonds secured against a pool of assets, mainly UK and European residential mortgages. The bonds are typically highly rated (single 'A' and above), which benefit from a high level of credit subordination and can withstand a significant level of portfolio default
- **Debt Securities:** From time-to-time, we take on exposures by means of corporate debt securities rather than loan exposures. These transactions arise from knowledge of the corporate market and are based on our analysis of the credit fundamentals.

Credit risk mitigation

Credit risk mitigation techniques can be defined as all methods by which the bank seeks to decrease the credit risk associated with an exposure. The bank considers credit risk mitigation techniques as part of the credit assessment of a potential client or business proposal and not as a separate consideration of mitigation of risk. Credit risk mitigants can include any collateral item over which the bank has a charge over assets, netting and margining agreements, covenants, or terms and conditions imposed on a borrower with the aim of reducing the credit risk inherent to that transaction.

The bank has limited appetite for unsecured debt, the credit risk mitigation technique most commonly used is the taking of collateral, with a strong preference for tangible assets. Collateral is assessed with reference to the sustainability of value and the likelihood of realisation.

Acceptable collateral generally exhibits characteristics that allow for it to be easily identified and appropriately valued and assists the bank to recover outstanding exposures.

Where a transaction is supported by a mortgage or charge over property, the primary credit risk is still taken on the borrower. For property backed lending such as residential mortgages, the following characteristics of the property are considered: the type of property; its location; and the ease with which the property could be relet and/or resold. Where the property is secured by lease agreements, the credit committee prefers not to lend for a term beyond the maximum term of the lease. Commercial real estate generally takes the form of good quality property often underpinned by strong third party leases. Residential property is also generally of a high quality and based in desirable locations. Residential and commercial property valuations will continue to form part of our ongoing focus on collateral assessment. It is our policy to obtain a formal valuation of every commercial property offered as collateral for a lending facility before advancing funds. Residential properties are valued by desktop valuation and/or approved valuers, where appropriate.

In addition, the relevant credit committee normally requires a suretyship or guarantee in support of a transaction in our private client business. Other common forms of collateral in the retail asset class are motor vehicles, cash and share portfolios. Primary collateral in private client lending transactions can also include a high net worth individual's share/investment portfolio. This is typically in the form of a diversified pool of equity, fixed income, managed funds and cash. Lending against investment portfolios is typically geared at conservative loan-to-value ratios, after considering the quality, diversification, risk profile and liquidity of the portfolio.

Our corporate, government and institutional clients provide a range of collateral including cash, corporate assets, debtors (accounts receivable), trading stock, debt securities (bonds), listed and unlisted shares and guarantees.

The majority of credit mitigation techniques linked to trading activity is in the form of netting agreements and daily margining. The primary market standard legal documents that govern this include the International Swaps and Derivatives Association Master Agreements (ISDA), Global Master Securities Lending Agreement (GMSLA) and Global Master Repurchase Agreement (GMRA). In addition to having ISDA documentation in place with market and trading counterparties in over-the-counter (OTC) derivatives, the credit committee may require a Credit Support Annex (CSA) to ensure that marked-to-market credit exposure is mitigated daily through the calculation and placement/receiving of cash collateral. Where netting agreements have been signed, the enforceability is supported by external legal opinion within the legal jurisdiction of the agreement.

Set-off has been applied between assets, subject to credit risk and related liabilities in the annual financial statements, where:

- A legally enforceable right to set-off exists
- There is the intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

In addition to the above accounting set-off criteria, banking regulators impose the following additional criteria:

- Debit and credit balances relate to the same obligor/counterparty
- Debit and credit balances are denominated in the same currency and have identical maturities
- Exposures subject to set-off are risk-managed on a net basis
- Market practice considerations.

For this reason, there will be instances where credit and counterparty exposures are displayed on a net basis in these annual financial statements but reported on a gross basis to regulators.

Further information on credit derivatives is provided on page 61.

The bank endeavours to implement robust processes to minimise the possibility of legal and/or operational risk through good quality tangible collateral. The legal risk function of the bank ensures the enforceability of credit risk mitigants within the laws applicable to the jurisdictions in which Investec operates. When assessing the potential concentration risk in its credit portfolio, consideration is given to the types of collateral and credit protection that form part of the portfolio.

Credit and counterparty risk year in review

The current macro-economic environment remains challenging and volatile in the period under review. Growth in lending activities has slowed given the subdued business and economic outlook. We have maintained a conservative lending approach. Our lending appetite is based on a client-centric approach with a strong focus on client cash flows underpinned by tangible collateral.

Net core loan book growth since 31 March 2019 was 5.4% to R283.9 billion with growth in private client lending partially offset by subdued corporate activity.

Asset quality metrics before the COVID-19 pandemic reflected the solid performance of core loans. Pre COVID-19, the credit loss ratio was calculated at 0.21% for 31 March 2020 (31 March 2019: 0.27%) however, taking into account the impact of COVID-19 and the South African sovereign downgrades the credit loss ratio was 0.37%, largely reflecting a deterioration in macro-economic scenario forecasts.

Stage 2 exposures totalled R15.1 billion and have increased as a proportion of gross core loans subject to ECL to 5.3% at 31 March 2020 (31 March 2019: 4.0%).

Stage 3 exposures totalled R4.4 billion at 31 March 2020 or 1.5% of gross core loans subject to ECL (31 March 2019: 1.3%). Stage 3 exposures had an ECL coverage ratio of 43.2%.

Further information is provided in the financial review on pages 16 to 19.

The tables that follow provide an analysis of the bank's gross credit and counterparty exposures.

An analysis of gross credit and counterparty exposures

Gross credit and counterparty exposure totalled R578.7 billion at 31 March 2020. Cash and near cash balances amount to R147.2 billion and are largely reflected in the following line items in the table below: cash and balances at central banks, loans and advances to banks non-sovereign and non-bank cash placements and sovereign debt securities. There are Stage 2 and Stage 3 exposures outside of loans and advances to customers which are small relative to the balance sheet, where loans and advances to customers (including committed facilities) account for greater than 95.9% of overall ECLs.

An analysis of gross credit and counterparty exposures

R'million	31 March 2020	31 March 2019
Cash and balances at central banks	36 390	10 062
Loans and advances to banks	18 054	19 904
Non-sovereign and non-bank cash placements	14 045	12 208
Reverse repurchase agreements and cash collateral on securities borrowed	26 427	18 552
Sovereign debt securities	64 362	60 898
Bank debt securities	12 270	12 529
Other debt securities	17 427	13 559
Derivative financial instruments	16 255	5 521
Securities arising from trading activities	3 045	4 840
Loans and advances to customers	280 097	264 397
Own originated loans and advances to customers securitised	7 208	7 677
Other loans and advances	267	355
Other assets	113	2 822
Total on-balance sheet exposures	**495 960**	**433 324**
Guarantees	17 313	11 955
Committed facilities related to loans and advances to customers	56 019	55 970
Contingent liabilities, letters of credit and other	9 380	7 740
Total off-balance sheet exposures	**82 712**	**75 665**
Total gross credit and counterparty exposures	**578 672**	**508 989**

A further analysis of gross credit and counterparty exposures

The table below indicates in which class of asset (on the face of the consolidated balance sheet) credit and counterparty exposures are reflected. Not all assets included in the balance sheet bear credit and counterparty risk.

At 31 March 2020 R'million	Total gross credit and counterparty exposure	of which FVPL	*of which amortised cost and FVOCI*	ECL^	Assets that we deem to have no legal credit exposure	**Total assets**
Cash and balances at central banks	36 390	–	36 390	(1)	267	36 656
Loans and advances to banks	18 054	–	18 054	(4)	–	18 050
Non-sovereign and non-bank cash placements	14 045	545	13 500	(31)	–	14 014
Reverse repurchase agreements and cash collateral on securities borrowed	26 427	18 249	8 178	(1)	–	26 426
Sovereign debt securities	64 362	6 883	57 479	(39)	–	64 323
Bank debt securities	12 270	290	11 980	(11)	–	12 259
Other debt securities	17 427	3 736	13 691	(18)	–	17 409
Derivative financial instruments	16 255	16 255	–	–	1 179	17 434
Securities arising from trading activities	3 045	3 045	–	–	133	3 178
Investment portfolio	–	–	–	–	5 801*	5 801
Loans and advances to customers	280 097	22 936	257 161	(3 343)	–	276 754
Own originated loans and advances to customers securitised	7 208	–	7 208	(16)	–	7 192
Other loans and advances	267	–	267	(25)	–	242
Other securitised assets	–	–	–	–	416^^	416
Interests in associated undertakings	–	–	–	–	5 662	5 662
Deferred taxation assets	–	–	–	–	2 903	2 903
Other assets	113	–	113	(1)	6 044**	6 156
Property and equipment	–	–	–	–	3 008	3 008
Investment properties	–	–	–	–	1	1
Goodwill	–	–	–	–	178	178
Intangible assets	–	–	–	–	318	318
Loans to group companies	–	–	–	–	17 542	17 542
Total on-balance sheet exposures	**495 960**	**71 939**	**424 021**	**(3 490)**	**43 452**	**535 922**
Guarantees	17 313	–	17 313	(16)	978	18 275
Committed facilities related to loans and advances to customers	56 019	–	56 019	(48)	–	55 971
Contingent liabilities, letters of credit and other	9 380	4 642	4 738	–	14 993	24 373
Total off-balance sheet exposures	**82 712**	**4 642**	**78 070**	**(64)**	**15 971**	**98 619**
Total exposures	**578 672**	**76 581**	**502 091**	**(3 554)**	**59 423**	**634 541**

^ *ECLs include R48 million ECL held against financial assets held at FVOCI, which is reported on the balance sheet within reserves. This will result in minor differences between certain balance sheet lines reported above (largely sovereign debt securities) and the statutory balance sheet.*

* *Largely relates to exposures that are classified as investment risk in the banking book.*

^^ *Largely cash in securitised vehicles.*

** *Other assets include settlement debtors which we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

A further analysis of gross credit and counterparty exposures *(continued)*

The table below indicates in which class of asset (on the face of the consolidated balance sheet) credit and counterparty exposures are reflected. Not all assets included in the balance sheet bear credit and counterparty risk.

At 31 March 2019 R'million	Total gross credit and counterparty exposure	of which FVPL	*of which amortised cost and FVOCI*	ECL^	Assets that we deem to have no legal credit exposure	**Total assets**
Cash and balances at central banks	10 062	–	10 062	(8)	236	10 290
Loans and advances to banks	19 904	–	19 904	(1)	–	19 903
Non-sovereign and non-bank cash placements	12 208	611	11 597	(16)	–	12 192
Reverse repurchase agreements and cash collateral on securities borrowed	18 552	9 870	8 682	–	–	18 552
Sovereign debt securities	60 898	9 053	51 845	(23)	–	60 875
Bank debt securities	12 529	277	12 252	(7)	–	12 522
Other debt securities	13 559	2 474	11 085	(11)	–	13 548
Derivative financial instruments	5 521	5 521	–	–	2 179	7 700
Securities arising from trading activities	4 840	4 840	–	–	219	5 059
Investment portfolio	–	–	–	–	7 664*	7 664
Loans and advances to customers	264 397	16 036	248 361	(2 660)	–	261 737
Own originated loans and advances to customers securitised	7 677	–	7 677	(10)	–	7 667
Other loans and advances	355	–	355	(26)	–	329
Other securitised assets	–	–	–	–	232^^	232
Interest in associated undertakings	–	–	–	–	6 251	6 251
Deferred taxation assets	–	–	–	–	1 514	1 514
Other assets	2 822	–	2 822	(90)	5 505**	8 237
Property and equipment	–	–	–	–	2 563	2 563
Investment properties	–	–	–	–	1	1
Goodwill	–	–	–	–	171	171
Intangible assets	–	–	–	–	418	418
Loans to group companies	–	–	–	–	18 151	18 151
Total on-balance sheet exposures	**433 324**	**48 682**	**384 642**	**(2 852)**	**45 104**	**475 576**
Guarantees	11 955	–	11 955	(6)	1 066	13 015
Committed facilities related to loans and advances to customers	55 970	35	55 935	(33)	–	55 937
Contingent liabilities, letters of credit and other	7 740	2 604	5 136	–	14 375	22 115
Total off-balance sheet exposures	**75 665**	**2 639**	**73 026**	**(39)**	**15 441**	**91 067**
Total exposures	**508 989**	**51 321**	**457 668**	**(2 891)**	**60 545**	**566 643**

^ *ECLs include R27 million ECL held against financial assets held at FVOCI, which is reported on the balance sheet within reserves. This will result in minor differences between certain balance sheet lines reported above (largely sovereign debt securities) and the statutory balance sheet.*

* *Largely relates to exposures that are classified as investment risk in the banking book.*

^^ *Largely cash in securitised vehicles.*

** *Other assets include settlement debtors which we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

Detailed analysis of gross credit and counterparty exposures by industry

At 31 March 2020 R'million	High net worth and professional individuals	Lending collateralised by property - largely to private clients	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services	Finance and insurance
Cash and balances at central banks	–	–	–	–	36 390	–	–
Loans and advances to banks	–	–	–	–	–	–	18 054
Non-sovereign and non-bank cash placements	–	–	1 101	–	–	1 226	2 051
Reverse repurchase agreements and cash collateral on securities borrowed	170	–	–	–	–	12	25 181
Sovereign debt securities	–	–	–	–	64 362	–	–
Bank debt securities	–	–	–	–	–	–	12 270
Other debt securities	–	–	–	2 547	–	630	8 883
Derivative financial instruments	–	–	353	517	–	426	11 796
Securities arising from trading activities	–	–	–	80	1 860	–	423
Loans and advances to customers	139 825	49 367	2 755	7 884	4 011	8 179	22 461
Own originated loans and advances to customers securitised	7 208	–	–	–	–	–	–
Other loans and advances	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	2	34
Total on-balance sheet exposures	**147 203**	**49 367**	**4 209**	**11 028**	**106 623**	**10 475**	**101 153**
Guarantees	4 189	2 365	32	1 232	–	81	5 080
Committed facilities related to loans and advances to customers	38 304	4 614	542	1 451	200	672	2 860
Contingent liabilities, letters of credit and other	2 747	1 529	1	537	1 428	–	560
Total off-balance sheet exposures	**45 240**	**8 508**	**575**	**3 220**	**1 628**	**753**	**8 500**
Total gross credit and counterparty exposures	**192 443**	**57 875**	**4 784**	**14 248**	**108 251**	**11 228**	**109 653**

Retailers and wholesalers	Manufac-turing and commerce	Construc-tion	Corporate commercial real estate	Other residential mortgages	Mining and resources	Leisure, entertain-ment and tourism	Transport	Com-munication	**Total**
–	–	–	–	–	–	–	–	–	36 390
–	–	–	–	–	–	–	–	–	18 054
3 325	2 495	323	841	–	468	25	1 217	973	14 045
6	–	–	223	–	92	–	743	–	26 427
–	–	–	–	–	–	–	–	–	64 362
–	–	–	–	–	–	–	–	–	12 270
25	1 508	–	1 619	–	–	–	883	1 332	17 427
16	383	–	1 547	–	865	122	80	150	16 255
43	371	–	–	–	68	–	74	126	3 045
5 543	8 527	1 210	10 183	–	2 507	3 111	7 798	6 736	280 097
–	–	–	–	–	–	–	–	–	7 208
–	68	–	–	199	–	–	–	–	267
66	11	–	–	–	–	–	–	–	113
9 024	**13 363**	**1 533**	**14 413**	**199**	**4 000**	**3 258**	**10 795**	**9 317**	**495 960**
1 319	2 375	15	64	–	164	310	–	87	17 313
959	1 267	163	640	–	2 049	203	934	1 161	56 019
18	105	5	7	3	710	–	31	1 699	9 380
2 296	**3 747**	**183**	**711**	**3**	**2 923**	**513**	**965**	**2 947**	**82 712**
11 320	**17 110**	**1 716**	**15 124**	**202**	**6 923**	**3 771**	**11 760**	**12 264**	**578 672**

Detailed analysis of gross credit and counterparty exposures by industry *(continued)*

At 31 March 2019 R'million	High net worth and professional individuals	Lending collateralised by property - largely to private clients	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services	Finance and insurance
Cash and balances at central banks	–	–	–	–	10 062	–	–
Loans and advances to banks	–	–	–	–	–	–	19 904
Non-sovereign and non-bank cash placements	–	–	1 267	–	41	1 567	1 865
Reverse repurchase agreements and cash collateral on securities borrowed	524	–	–	–	–	–	17 219
Sovereign debt securities	–	–	–	–	60 898	–	–
Bank debt securities	–	–	–	–	–	–	12 529
Other debt securities	–	–	–	2 625	–	881	4 527
Derivative financial instruments	–	–	56	853	9	48	3 815
Securities arising from trading activities	–	–	–	80	4 695	–	1
Loans and advances to customers	130 519	46 662	2 878	7 670	3 396	10 015	20 783
Own originated loans and advances to customers securitised	7 677	–	–	–	–	–	–
Other loans and advances	–	–	–	–	–	–	–
Other assets	–	–	16	–	–	52	–
Total on-balance sheet exposures	**138 720**	**46 662**	**4 217**	**11 228**	**79 101**	**12 563**	**80 643**
Guarantees	4 040	979	–	1 745	1	946	666
Committed facilities related to loans and advances to customers	34 305	4 225	1 741	673	571	1 569	4 609
Contingent liabilities, letters of credit and other	3 171	1 727	1	434	1 157	13	50
Total off-balance sheet exposures	**41 516**	**6 931**	**1 742**	**2 852**	**1 729**	**2 528**	**5 325**
Total gross credit and counterparty exposures	**180 236**	**53 593**	**5 959**	**14 080**	**80 830**	**15 091**	**85 968**

Retailers and wholesalers	Manufacturing and commerce	Construction	Corporate commercial real estate	Other residential mortgages	Mining and resources	Leisure, entertainment and tourism	Transport	Communication	**Total**
–	–	–	–	–	–	–	–	–	10 062
–	–	–	–	–	–	–	–	–	19 904
1 513	2 613	338	479	–	616	27	586	1 296	12 208
–	–	–	42	–	–	60	707	–	18 552
–	–	–	–	–	–	–	–	–	60 898
–	–	–	–	–	–	–	–	–	12 529
–	1 514	–	1 595	–	146	–	837	1 434	13 559
7	106	–	401	–	160	19	15	32	5 521
–	–	–	–	–	–	–	64	–	4 840
3 809	7 141	1 264	9 022	–	3 561	2 988	7 781	6 908	264 397
–	–	–	–	–	–	–	–	–	7 677
–	109	–	–	246	–	–	–	–	355
2 117	485	46	–	–	9	63	2	32	2 822
7 446	**11 968**	**1 648**	**11 539**	**246**	**4 492**	**3 157**	**9 992**	**9 702**	**433 324**
1 067	1 380	230	56	–	412	22	124	287	11 955
1 014	1 031	50	1 276	–	1 495	1 016	1 874	521	55 970
118	28	17	10	–	1	–	–	1 013	7 740
2 199	**2 439**	**297**	**1 342**	**–**	**1 908**	**1 038**	**1 998**	**1 821**	**75 665**
9 645	**14 407**	**1 945**	**12 881**	**246**	**6 400**	**4 195**	**11 990**	**11 523**	**508 989**

Gross credit and counterparty exposures by residual contractual maturity

At 31 March 2020 R'million	Up to three months	Three to six months	Six months to one year	One to five years	Five to 10 years	> 10 years	Total
Cash and balances at central banks	36 390	–	–	–	–	–	36 390
Loans and advances to banks	16 713	335	707	299	–	–	18 054
Non-sovereign and non-bank cash placements	14 045	–	–	–	–	–	14 045
Reverse repurchase agreements and cash collateral on securities borrowed	21 665	2 792	116	1 083	771	–	26 427
Sovereign debt securities	13 243	9 657	9 021	8 668	19 231	4 542	64 362
Bank debt securities	698	–	754	5 092	5 726	–	12 270
Other debt securities	233	770	2 186	9 433	1 957	2 848	17 427
Derivative financial instruments	5 391	3 800	2 884	4 174	6	–	16 255
Securities arising from trading activities	30	24	469	878	625	1 019	3 045
Loans and advances to customers	25 835	19 234	30 879	154 230	33 105	16 814	280 097
Own originated loans and advances to customers securitised	–	2	2	39	716	6 449	7 208
Other loans and advances	267	–	–	–	–	–	267
Other assets	113	–	–	–	–	–	113
Total on-balance sheet exposures	**134 623**	**36 614**	**47 018**	**183 896**	**62 137**	**31 672**	**495 960**
Guarantees	1 499	745	3 734	7 689	3 449	197	17 313
Committed facilities related to loans and advances to customers	15 740	1 099	1 682	12 461	3 753	21 284	56 019
Contingent liabilities, letters of credit and other	994	293	889	5 405	708	1 091	9 380
Total off-balance sheet exposures	**18 233**	**2 137**	**6 305**	**25 555**	**7 910**	**22 572**	**82 712**
Total gross credit and counterparty exposures	**152 856**	**38 751**	**53 323**	**209 451**	**70 047**	**54 244**	**578 672**

The table below provides information on the bank's gross core loans and advances.

Composition of core loans and advances

R'million	31 March 2020	31 March 2019
Loans and advances to customers per the balance sheet	276 754	261 737
Add: own originated loans and advances to customers per the balance sheet	7 192	7 667
Net core loans and advances	**283 946**	**269 404**
*of which subject to ECL**	281 779	267 452
Net core loans and advances at amortised cost	261 077	253 396
Net fixed rate loans designated at FVPL (on which ECL is calculated for management purposes)^	20 702	14 056
of which FVPL (excluding fixed rate loans above)	2 167	1 952
Add: ECL	3 359	2 670
Gross core loans and advances	**287 305**	**272 074**
*of which subject to ECL**	285 138	270 122
of which FVPL (excluding fixed rate loans above)	2 167	1 952

^ *These are fixed rate loans which have passed the solely payments of principal and interest test (SPPI) and are held in a business model to collect contractual cash flows but have been designated at FVPL to eliminate accounting mismatches (interest rate risk is being economically hedged). The underlying loans have been fair valued and management performs an ECL calculation in order to obtain a reasonable estimate of the credit risk component. The portfolio is managed on the same basis as gross core loans and advances measured at amortised cost. The drawn exposure (R21 billion) falls predominantly into Stage 1 (consistent throughout the period) (31 March 2019: R14 billion). The ECL on the portfolio is R67 million (31 March 2019: R29 million).*

* *Refer to definitions page 250.*

An analysis of gross core loans and advances, asset quality and ECL

Stage 1: 93.2% of gross exposure subject to ECL is in Stage 1 and has not experienced a significant increase in credit risk since origination. ECL is calculated based on a 12–month expected credit loss. Coverage for these performing, non–deteriorated assets is 0.4%.

Stage 2: 5.3% of gross exposure is in Stage 2. These assets require a lifetime expected loss to be held. Only R1.3 billion or 0.5% of gross core loans and advances subject to ECL are shown in Stage 2 as greater than 30 days past due. R1.1 billion or 7.3% of Stage 2 have been categorised as such due to a significant model driven increase in credit risk since origination. An asset reported in Stage 2 does not imply we expect a loss on these assets. Stage 2 assets are assessed relative to their expected performance at the point of origination. While assets may underperform original expectations, the level of ECL indicates that our expected losses from these positions remain low.

Stage 3: 1.5% of gross exposure is in Stage 3 which is made up of assets that are credit impaired. Coverage ratio totals 43.2% and the remaining net exposure is considered to be well covered by collateral. Stage 3 ECL is predominantly driven by specific impairments raised against the non–performing loan portfolio.

An analysis of gross core loans and advances subject to ECL by stage

R'million	31 March 2020	31 March 2019
Gross core loans and advances subject to ECL	**285 138**	**270 122**
Stage 1	265 674	255 769
Stage 2	15 111	10 768
of which past due greater than 30 days	*1 297*	*354*
Stage 3	4 353	3 585
Gross core loans and advances subject to ECL (%)		
Stage 1	93.2%	94.7%
Stage 2	5.3%	4.0%
Stage 3	1.5%	1.3%

An analysis of ECL impairments on gross core loans and advances subject to ECL

R'million	31 March 2020	31 March 2019
ECL impairment charges on core loans and advances	(1 021)	(699)
Average gross core loans and advances subject to ECL	277 630	261 041
Credit loss ratio	**0.37%**	**0.27%**

R'million	31 March 2020	31 March 2019
ECL	**(3 359)**	**(2 670)**
Stage 1	(1 056)	(538)
Stage 2	(423)	(441)
Stage 3	(1 880)	(1 691)
Coverage ratio (%)		
Stage 1	0.4%	0.2%
Stage 2	2.8%	4.1%
Stage 3	43.2%	47.2%

A further analysis of Stage 3 gross core loans and advances subject to ECL

R'million	31 March 2020	31 March 2019
Stage 3 net of ECL	2 473	1 894
Aggregate collateral and other credit enhancements on Stage 3	2 696	3 055
Stage 3 net of ECL and collateral	–	–
Stage 3 as a % of gross core loans and advances subject to ECL	1.5%	1.3%
Total ECL as a % of Stage 3 exposure	77.2%	74.5%
Stage 3 net of ECL as a % of net core loans and advances subject to ECL	0.9%	0.7%

The tables that follow provide information with respect to the asset quality of our gross core loans and advances.

An analysis of staging and ECL movements for core loans and advances subject to ECL

The table below indicates underlying movements in gross core loans and advances subject to ECL from 31 March 2019 to 31 March 2020. The transfers between stages of gross core loans indicates the impact of stage transfers upon the gross exposure and associated opening ECL. There have been greater movements into Stage 2 and Stage 3 than in the previous year, mainly driven by select exposures across a few sectors in our loan book. The net remeasurement of ECL arising from stage transfers represents the (increase)/decrease in ECL due to these transfers. New lending net of repayments comprises new originations, further drawdowns, repayments and sell–downs as well as ECLs in Stage 3 that have been written off, typically when an asset has been sold. The ECL impact of changes to risk parameters and models during the period largely relates to the R190 million COVID-19 ECL overlay as well as updated macro-economic scenarios. Foreign exchange and other category largely comprises impact on the closing balance as a result of movements and translations in foreign exchange rates since the opening date, 31 March 2019. Further analysis as at 31 March 2020 of gross core loans and advances to customers subject to ECL and their ECL balances is shown in 'An analysis of core loans and advances by risk category' on the following pages.

	Stage 1		Stage 2		Stage 3		Total	
R'million	Gross exposure	ECL	Gross exposure	ECL	Gross exposure	ECL	Gross exposure	ECL
1 April 2018	**239 753**	**(592)**	**9 346**	**(269)**	**2 861**	**(1 115)**	**251 960**	**(1 976)**
Transfer from Stage 1	(6 940)	349	5 986	(101)	954	(248)	–	–
Transfer from Stage 2	4 716	(116)	(5 658)	156	942	(40)	–	–
Transfer from Stage 3	412	(66)	26	(5)	(438)	71	–	–
ECL re-measurement arising from transfer of stage	–	125	–	(109)	–	(512)		(496)
New lending net of repayments (includes assets written off)	16 680	(185)	768	(137)	(709)	98	16 739	(224)
Changes to risk parameters and models	–	(24)	–	24	–	–	–	–
Foreign exchange and other	1 148	(29)	300	–	(25)	55	1 423	26
At 31 March 2019	**255 769**	**(538)**	**10 768**	**(441)**	**3 585**	**(1 691)**	**270 122**	**(2 670)**
Transfer from Stage 1	(10 059)	19	8 156	(15)	1 903	(4)	–	–
Transfer from Stage 2	4 386	(58)	(4 878)	69	492	(11)	–	–
Transfer from Stage 3	175	(35)	60	(9)	(235)	44	–	–
ECL remeasurement arising from transfer of stage	–	80	–	59	–	(879)	–	(740)
New lending net of repayments (includes assets written off)	14 547	(34)	967	(1)	(1 399)	757	14 115	722
Changes to risk parameters and models	–	(488)	–	(85)	–	(87)	–	(660)
Foreign exchange and other	856	(2)	38	–	7	(9)	901	(11)
At 31 March 2020	**265 674**	**(1 056)**	**15 111**	**(423)**	**4 353**	**(1 880)**	**285 138**	**(3 359)**

An analysis of credit quality by internal rating grade

The bank uses a 25-grade internal rating scale which measures the risk of default to an exposure without taking into account any credit mitigation, such as collateral. This internal rating scale allows the bank to measure credit risk consistently across portfolios. The internal rating scale is derived from a mapping to default probabilities (PDs) and can also be mapped to external rating agency scales.

Investec internal rating scale	*Indicative external rating scale*
IB01 – IB12	AAA to BBB–
IB13 – IB19	BB+ to B–
IB20 – IB25	B– and below
Stage 3	D

The internal credit rating distribution below is based on the 12–month PD at 31 March 2020 for gross core loans and advances subject to ECL by stage. The staging classifications are not only driven by the absolute PD, but on factors that determine a significant increase in credit risk, including relative movement in PD since origination. There is therefore no direct correlation between the credit quality of an exposure and its stage classification as shown in the table below:

At 31 March 2020 **R'million**	IB01-IB12	IB13-IB19	IB20-IB25	Stage 3	**Total**
Gross core loans and advances subject to ECL	**128 100**	**140 899**	**11 786**	**4 353**	**285 138**
Stage 1	121 712	133 015	10 947	–	265 674
Stage 2	6 388	7 884	839	–	15 111
Stage 3	–	–	–	4 353	4 353
ECL	**(237)**	**(966)**	**(276)**	**(1 880)**	**(3 359)**
Stage 1	(98)	(792)	(166)	–	(1 056)
Stage 2	(139)	(174)	(110)	–	(423)
Stage 3	–	–	–	(1 880)	(1 880)
Coverage ratio	**0.2%**	**0.7%**	**2.3%**	**43.2%**	**1.2%**

At 31 March 2019 **R'million**	IB01-IB12	IB13-IB19	IB20-IB25	Stage 3	**Total**
Gross core loans and advances subject to ECL	**153 269**	**93 665**	**19 603**	**3 585**	**270 122**
Stage 1	150 126	88 014	17 629	–	255 769
Stage 2	3 143	5 651	1 974	–	10 768
Stage 3	–	–	–	3 585	3 585
ECL	**(92)**	**(703)**	**(184)**	**(1 691)**	**(2 670)**
Stage 1	(59)	(358)	(121)	–	(538)
Stage 2	(33)	(345)	(63)	–	(441)
Stage 3	–	–	–	(1 691)	(1 691)
Coverage ratio	**0.1%**	**0.8%**	**0.9%**	**47.2%**	**1.0%**

An analysis of core loans and advances by risk category – Lending collateralised by property

Client quality and expertise are at the core of our credit philosophy. We typically provide senior debt and other funding for property transactions, with a strong preference for income producing assets supported by an experienced client providing a material level of cash equity investment into the asset.
Our exposure to the property market is well diversified with strong bias towards prime locations for residential exposure and focus on tenant quality and income diversity for commercial assets.
Debt service cover ratios are a key consideration in the lending process supported by reasonable loan-to-security value ratios.

Year in review

The majority of the property assets are commercial investment properties and are located in South Africa. This portfolio grew by 6.9% to R39.7 billion at 31 March 2020 and is in line with our risk appetite. The forward looking macro-economic scenarios used in the measurement of ECL were updated to capture the wide-reaching impacts of the sovereign downgrade by Moody's to sub-investment grade as well as the initial impact of COVID-19. A further management ECL overlay of R190 million was introduced at 31 March 2020 to capture the anticipated impact of South Africa's national lockdown on the commercial real estate portfolio as the calculated model-driven Stage 1 ECL for this portfolio was not considered sufficient. The loan-to-value in this portfolio remains conservative and transactions are generally supported by strong cash flows. We follow a client-centric approach, backing counterparties with strong balance sheets and requisite expertise.

	Gross core loans and advances at amortised cost and FVPL (subject to ECL)								Gross core loans and advances at FVPL (not subject to ECL)	Gross core loans and advances
	Stage 1		Stage 2		Stage 3		Total			
R'million	Gross exposure	ECL	Gross exposure	ECL	Gross exposure	ECL	**Gross exposure**	**ECL**		
At 31 March 2020										
Commercial real estate	**43 464**	**(305)**	**1 315**	**(4)**	**543**	**(100)**	**45 322**	**(409)**	**–**	**45 322**
Commercial real estate – investment	38 249	(280)	1 305	(4)	542	(99)	40 096	(383)	–	40 096
Commercial real estate – development	4 369	(21)	–	–	–	–	4 369	(21)	–	4 369
Commercial vacant land and planning	846	(4)	10	–	1	(1)	857	(5)	–	857
Residential real estate	**3 974**	**(33)**	**51**	**(2)**	**20**	**(10)**	**4 045**	**(45)**	**–**	**4 045**
Residential real estate – development	3 353	(24)	31	–	–	–	3 384	(24)	–	3 384
Residential vacant land and planning	621	(9)	20	(2)	20	(10)	661	(21)	–	661
Total lending collateralised by property	**47 438**	**(338)**	**1 366**	**(6)**	**563**	**(110)**	**49 367**	**(454)**	**–**	**49 367**
Coverage ratio	**0.71%**		**0.44%**		**19.54%**		**0.92%**			
At 31 March 2019										
Commercial real estate	**39 682**	**(63)**	**2 423**	**(25)**	**907**	**(320)**	**43 012**	**(408)**	**–**	**43 012**
Commercial real estate – investment	35 494	(49)	1 132	(17)	812	(225)	37 438	(291)	–	37 438
Commercial real estate – development	3 604	(11)	1 288	(8)	–	–	4 892	(19)	–	4 892
Commercial vacant land and planning	584	(3)	3	–	95	(95)	682	(98)	–	682
Residential real estate	**2 859**	**(44)**	**531**	**(11)**	**260**	**(150)**	**3 650**	**(205)**	**–**	**3 650**
Residential real estate – development	2 266	(20)	482	(9)	208	(105)	2 956	(134)	–	2 956
Residential vacant land and planning	593	(24)	49	(2)	52	(45)	694	(71)	–	694
Total lending collateralised by property	**42 541**	**(107)**	**2 954**	**(36)**	**1 167**	**(470)**	**46 662**	**(613)**	**–**	**46 662**
Coverage ratio	**0.25%**		**1.22%**		**40.27%**		**1.31%**			

An analysis of core loans and advances by risk category – High net worth and other private client lending

Our private banking activities target high net worth individuals, active wealthy entrepreneurs, high-income professionals, newly qualified professionals with high-income earning potential, self-employed entrepreneurs, owner managers in small to mid-cap corporates and sophisticated investors.

Lending products are tailored to meet the requirements of our clients and deliver solutions to enable target clients to create and manage their wealth. This includes private client mortgages, transactional banking, high net worth lending, offshore banking and foreign exchange. Central to our credit philosophy is ensuring the sustainability of cash flow and income throughout the cycle. As such, the client base has been defined to include high net worth clients (who, through diversification of income streams, will reduce income volatility) and individuals with a profession which has historically supported a high and sustainable income stream, irrespective of the stage in the economic cycle.

Credit risk arises from the following activities:

- **Mortgages:** provides residential mortgage loan facilities to high net-worth individuals and high-income professionals tailored to their individual needs
- **High net worth and specialised lending:** provides tailored credit facilities to high net worth individuals and their controlled entities as well as portfolio loans to high net worth clients against their investment portfolio typically managed by Investec Wealth & Investment.

Year in review

We have seen continued growth in our private client portfolio and client base as we actively focus on our business strategy to increase our positioning in this space. Our high net worth client portfolio and residential mortgage book grew by 6.3% to R145.8 billion at 31 March 2020. Growth in both of these areas has been achieved with strong adherence to our risk appetite. The high net worth client portfolio continues to demonstrate resilience under COVID-19 conditions, accessing financial resources at their disposal where appropriate.

	Gross core loans and advances at amortised cost and FVPL (subject to ECL)								Gross core loans and advances at FVPL (not subject to ECL)	Gross core loans and advances
	Stage 1		Stage 2		Stage 3		Total			
R'million	Gross exposure	ECL	Gross exposure	ECL	Gross exposure	ECL	**Gross exposure**	**ECL**		
At 31 March 2020										
Mortgages	76 473	(93)	2 454	(56)	1 204	(290)	80 131	(439)	–	80 131
High net worth and specialised lending	64 342	(261)	2 061	(126)	499	(421)	66 902	(808)	–	66 902
Total high net worth and other private client lending	**140 815**	**(354)**	**4 515**	**(182)**	**1 703**	**(711)**	**147 033**	**(1 247)**	**–**	**147 033**
Coverage ratio	**0.25%**		**4.03%**		**41.75%**		**0.85%**			
At 31 March 2019										
Mortgages	70 282	(86)	2 333	(61)	1 098	(245)	73 713	(392)	–	73 713
High net worth and specialised lending	63 272	(134)	671	(23)	540	(456)	64 483	(613)	–	64 483
Total high net worth and other private client lending	**133 554**	**(220)**	**3 004**	**(84)**	**1 638**	**(701)**	**138 196**	**(1 005)**	**–**	**138 196**
Coverage ratio	**0.16%**		**2.80%**		**42.80%**		**0.73%**			

An analysis of core loans and advances by risk category – Corporate and other lending

We focus on traditional client-driven corporate lending activities. Within the corporate lending businesses, credit risk can arise from corporate loans, acquisition finance, asset finance, power and infrastructure finance, asset-based lending, fund finance and resource finance. We also undertake debt origination activities for corporate clients.

The credit risk management functions approve specific credit and counterparty limits that govern the maximum credit exposure to each individual counterparty. In addition, further risk management limits exist through industry and country limits to manage concentration risk. The credit appetite for each counterparty is based on the financial strength of the principal borrower, its business model and market positioning, the underlying cash flow to the transaction, the substance and track record of management, and the security package. Political risk insurance, and other insurance is taken where they are deemed appropriate.

The bank has limited appetite for unsecured credit risk and the facilities are typically secured by the assets of the borrower as well as shares of the borrower.

A summary of the nature of the lending and/or credit risk assumed within some of the key areas within our corporate lending business is provided below:

- **Corporate and acquisition finance:** provides senior secured loans to proven management teams and sponsors running mid-cap as well as some large-cap companies. Credit risk is assessed against debt serviceability based upon robust cash generation of the business demonstrated by both historical and forecast information. We typically act as transaction lead arranger or on a club or bi-lateral basis, and have a close relationship with management and sponsors
- **Asset-based lending:** provides working capital and secured corporate loans to mid-caps. These loans are secured by the assets of the business, for example, the accounts receivable, inventory and plant and machinery. In common with our corporate lending activities, strong emphasis is placed on supporting companies with scale and relevance in their industry, stability of cash flow, and experienced management
- **Fund finance:** provides debt facilities to asset managers and fund vehicles, principally in private equity. The geographical focus is mainly in South Africa where the bank can support experienced asset managers and their funds which show strong, long-term value creation and good custodianship of investors' money. Debt facilities are typically to fund vehicles which are secured against undrawn limited partner commitments and/or the funds underlying assets
- **Other corporate and financial institutions and governments:** provides senior secured loans to mid-large cap companies where credit risk is typically considered with respect to robust cash generation from an underlying asset and supported by performance of the overall business based on both historical and forecast information
- **Small ticket asset finance:** provides funding to small- and medium-sized corporates to support asset purchases (including motor vehicles) and other business requirements. The portfolio is highly diversified by industry and number of clients and is secured against the asset being financed
- **Large ticket asset finance:** provides the finance and structuring expertise for aircraft and larger lease assets, the majority of which are senior secured loans with a combination of corporate, cash flow and asset-backed collateral against the exposure
- **Power and infrastructure finance:** arranges and provides typically long-term financing for power and infrastructure assets, in particular renewable and traditional power projects as well as transportation assets, typically against contracted future cash flows of the project(s) from well-established and financially sound off-take counterparties. There is normally a requirement for a strong upfront equity contribution from an experienced sponsor.

Year in review

Corporate client and other lending increased by 3.6% to R89.2 billion as at 31 March 2020 as a result of increased lending activity by our mid-to-large corporate clients across a number of sectors. Growth has been well diversified across several asset classes and industries. Our SOE exposure is predominantly backed by government support.

As a result of the COVID-19 pandemic, we continue to proactively engage with clients and monitor developments closely, particularly the sub-sectors most affected to date which include the aviation portfolio due to the temporary shutdown of this industry and trade finance as a result of decreased import activity as well as heightened market volatility.

The aviation portfolio reported under both 'large ticket asset finance' and 'other corporate and financial institutions and governments', totals R4.4 billion of gross core loans at 31 March 2020. There is no unsecured corporate exposure to the airline industry. The majority of the exposure is either senior secured on aircraft with conservative loan to value ratios.

The trade finance exposure reported under asset-based lending totals R4.5 billion of gross core loans at 31 March 2020, the majority of the trade finance exposure is largely secured and covered by a credit guarantee. The government schemes announced are expected to directly support the clients within this business as well as in other areas of corporate and other lending.

R'million	Stage 1 Gross exposure	Stage 1 ECL	Stage 2 Gross exposure	Stage 2 ECL	Stage 3 Gross exposure	Stage 3 ECL	Total Gross exposure	Total ECL	Gross core loans and advances at FVPL (not subject to ECL)	Gross core loans and advances
	Gross core loans and advances at amortised cost and FVPL (subject to ECL)									
At 31 March 2020										
Acquisition finance	11 110	(36)	823	(32)	82	(19)	12 015	(87)	–	12 015
Asset-based lending	6 122	(44)	803	(28)	1 136	(951)	8 061	(1 023)	–	8 061
Fund finance	8 408	(26)	–	–	–	–	8 408	(26)	–	8 408
Other corporate and financial institutions and governments	43 024	(238)	5 982	(164)	541	(89)	49 547	(491)	2 167	51 714
Asset finance	3 288	(6)	42	–	328	–	3 658	(6)	–	3 658
Small ticket asset finance	1 953	(2)	42	–	–	–	1 995	(2)	–	1 995
Large ticket asset finance	1 335	(4)	–	–	328	–	1 663	(4)	–	1 663
Power and infrastructure finance	5 430	(14)	1 481	(11)	–	–	6 911	(25)	–	6 911
Resource finance	39	–	99	–	–	–	138	–	–	138
Total corporate and other lending	**77 421**	**(364)**	**9 230**	**(235)**	**2 087**	**(1 059)**	**88 738**	**(1 658)**	**2 167**	**90 905**
Coverage ratio	**0.47%**		**2.55%**		**50.74%**		**1.87%**			
At 31 March 2019										
Acquisition finance	12 889	(34)	276	(2)	29	(1)	13 194	(37)	–	13 194
Asset-based lending	5 628	(26)	53	(2)	283	(188)	5 964	(216)	–	5 964
Fund finance	5 090	(8)	–	–	–	–	5 090	(8)	–	5 090
Other corporate and financial institutions and governments	46 592	(128)	2 671	(305)	460	(331)	49 723	(764)	1 952	51 675
Asset finance	3 844	(5)	18	(1)	8	–	3 870	(6)	–	3 870
Small ticket asset finance	1 962	(1)	18	(1)	8	–	1 988	(2)	–	1 988
Large ticket asset finance	1 882	(4)	–	–	–	–	1 882	(4)	–	1 882
Power and infrastructure finance	5 076	(9)	1 792	(11)	–	–	6 868	(20)	–	6 868
Resource finance	555	(1)	–	–	–	–	555	(1)	–	555
Total corporate and other lending	**79 674**	**(211)**	**4 810**	**(321)**	**780**	**(520)**	**85 264**	**(1 052)**	**1 952**	**87 216**
Coverage ratio	**0.26%**		**6.67%**		**66.67%**		**1.23%**			

Investment risk in the banking book

Investment risk description

Investment risk in the banking book arises primarily from the following activities conducted within the bank:

- **Principal Investments:** Principal Investments focuses on providing capital to entrepreneurs and management teams to further their growth ambitions and leveraging third party capital into funds that are relevant to our client base. This is achieved through working together with our franchise businesses, private capital and specialised finance. Investments are selected based on:
  - The track record of management;
  - Attractiveness of the industry and the positioning therein;
  - Valuation/pricing fundamentals;
  - Environmental and sustainability analyses;
  - Exit possibilities and timing thereof; and
  - The ability to build value by implementing an agreed strategy.

  Investments in listed shares may arise on an IPO, or sale of an investment to a listed company. There is limited appetite for listed investments.
- **IEP Group:** Investec Bank Limited holds a 47.4% stake alongside third party investors and senior management of the business who collectively hold the remaining 52.6%. The investment in the IEP Group is reflected as an investment in an associate
- **Lending transactions:** The manner in which we structure certain transactions results in equity, warrants and profit shares being held, predominantly in unlisted companies
- **Property activities:** We undertake development, investment and trading opportunities in support of clients to create value and trade for profit within agreed risk parameters.

Management of investment risk

As investment risk arises from a variety of activities conducted by the bank, the monitoring and measurement thereof varies across transactions and/or type of activity.

Nature of investment risk	*Management of risk*
Principal Investments	Investment committees, and IBL BRCC
Listed equities	Investment committees, market risk management and IBL BRCC
Profit shares and investments arising from lending transactions	Credit risk management committees and IBL BRCC
Investment and trading properties	Investment committees, Investec Property group investment committee and IBL BRCC
IEP Group	A number of our executives are on the board of the IEP Group and IBL BRCC

Risk appetite limits and targets are set to manage our exposure to equity and investment risk. An assessment of exposures against limits and targets as well as stress testing scenario analysis are performed and reported to IBL BRCC. The portfolios are mainly made up of South African assets and industry concentration risk is well spread.

Summary of investments held and stress testing analyses

The balance sheet value of investments is indicated in the table below.

R'million	On-balance sheet value of investments 31 March 2020	Valuation change stress test 31 March 2020*	On-balance sheet value of investments 31 March 2019	Valuation change stress test 31 March 2019*
Unlisted investments**	3 424	514	3 525	529
Listed equities	2 377	594	4 139	1 035
Investment and trading properties	31	6	254	49
Warrants and profit shares	–	–	174	61
The IEP Group	5 611	842	6 184	928
Total	**11 443**	**1 956**	**14 276**	**2 602**

* *In order to assess our earnings sensitivity to a movement in the valuation of these investments, the stress testing parameters detailed below are applied.*

** *Includes the fair value loans investments of R1.1billion (31 March 2019: R1.2 billion), as referred to on page 213.*

Stress test values applied	
Unlisted investments and the IEP Group	15%
Listed equities	25%
Trading properties	20%
Investment properties	10%
Warrants, profit shares and other embedded derivatives	35%

Stress testing summary

Based on the information at 31 March 2020, as reflected above, we could have a R2.0 billion reversal in revenue (which assumes a year in which there is a 'severe stress scenario' simultaneously across all asset classes). This would not necessarily cause the bank to report a loss, but could have a significantly negative impact on earnings for that period. The probability of all these asset classes being negatively impacted at the same time is low, although the probability of listed equities being negatively impacted at the same time is high.

To date our experience through the COVID-19 pandemic has been that certain exposures have been negatively impacted for idiosyncratic reasons, albeit the small listed equities book at 31 March 2020 was impacted substantially due to the significant global share price falls during March 2020.

Capital requirements

In terms of Basel III capital requirements for the bank, unlisted and listed equities within the banking book are represented under the category of equity risk and investment properties, profit shares and embedded derivatives are considered in the calculation of capital required for credit risk.

Refer to page 83 for further detail.

Valuation and accounting methodologies

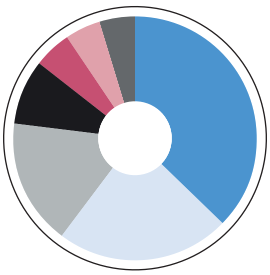
For a description of our valuation principles and methodologies refer to pages 194 to 203 for factors taken into consideration in determining fair value.

We have a low level of assets exposed to the volatility of IFRS fair value accounting with level 3 assets amounting to 0.74% of total assets (excluding assurance assets).

Refer to page 194 for further information.

Additional information

An analysis of the investment portfolio, warrants, profit shares and other embedded derivatives by industry of exposure (excluding investment and trading properties and the IEP Group)



31 MARCH 2020
R5 801 million

37.4%	Real estate
22.9%	Finance and insurance
16.7%	Communication
8.6%	Electricity, gas and water (Utility services)
5.1%	Manufacturing and commerce
4.8%	Mining and resources
4.5%	Other

Securitisation/structured credit activities exposures

Overview

The bank's definition of securitisation/structured credit activities (as explained below) is wider than the definition as applied for regulatory capital purposes, which largely focuses on positions we hold in an investor capacity and also include securitisation positions we have retained in transactions in which the bank has achieved significant risk transfer. We believe, however, that the information provided below is meaningful in that it groups all these related activities in order for a reviewer to obtain a fuller picture of the activities that we have conducted in this space. Some of the information provided below overlaps with the group's credit and counterparty exposure information.

Refer to page 38 for the balance sheet and credit risk classification.

The bank applies the standardised approach in the assessment of regulatory capital for securitisation.

The bank engages in transactions that involve the use of both special purpose entities and asset securitisation structures. Securitisation represents a small proportion of our current funding profile, but provides additional flexibility and a source of liquidity. IBL does not depend on special purpose vehicles for funding in the normal course of business. These entities form part of the consolidated bank balance sheet as reported.

We have securitised assets originated by our Private Client business. The primary motivations for the securitisation of these assets are to:

- Provide an alternative source of funding
- Act as a mechanism to transfer risk
- Leverage returns through the retention of equity tranches in low default rate portfolios
- Continue to create marketable instruments through self-securitisation.

Total assets that have been originated and securitised by the Private Client division amount to R7.2 billion at 31 March 2020 (31 March 2019: R7.7 billion) and consist of residential mortgages.

Further details of the various securitisation vehicles are highlighted below:

- Fox Street 1: R0.3 billion notes of the original R1.5 billion are still in issue. All notes are held internally
- Fox Street 2: R0.6 billion notes of the original R1.5 billion are still in issue. All notes are held internally
- Fox Street 3: R0.8 billion notes of the original R2.0 billion are still in issue. R794 million of the notes are held internally
- Fox Street 4: R1.4 billion notes of the original R3.7 billion are still in issue. All notes are held internally
- Fox Street 5: R1.7 billion notes of the original R2.9 billion are still in issue. All notes are held internally
- Fox Street 6: R1.1 billion notes of the original R1.3 billion are still in issue. R380 million of the notes are held internally
- Fox Street 7: R1.1 billion notes of the original R1.1 billion are still in issue. R99 million of the notes are held internally.

There is a clean-up call option that can be exercised at 10% of original notes issued. The margin on the notes increases at pre-specified intervals and coincides with the originator call option dates.

We have also sought out select opportunities in the credit/debt markets and traded in and purchased structured credit. These have largely been rated US corporate loans totalling R1.0 billion at 31 March 2020 (31 March 2019: nil), rated UK residential mortgage-backed securities (RMBS), totalling R0.8 billion at 31 March 2020 (31 March 2019: R0.2 billion), unrated South African RMBS totalling R1.6 billion at 31 March 2020 (31 March 2019: R1.1 billion) and unrated South Africa commercial mortgage backed securities (CMBS) totalling R20 million at 31 March 2020 (31 March 2019: R0.3 billion).

Accounting policies

Refer to page 164 and 166.

Risk management

All existing or proposed exposures to a securitisation or a resecuritisation are analysed on a case-by-case basis, with final approval typically required from the relevant credit committee. The analysis looks through to the historical and expected future performance of the underlying assets, the position of the relevant tranche in the capital structure as well as analysis of the cash flow waterfall under a variety of stress scenarios. External ratings are presented, but only for information purposes since the bank principally relies on its own internal risk assessment. Overarching these transaction level principles is the board-approved risk appetite policy, which details the bank's appetite for such exposures, and each exposure is considered relative to the bank's overall risk appetite. We can use explicit credit risk mitigation techniques where required, however, the bank prefers to address and manage these risks by only approving exposures to which the bank has explicit appetite through the constant and consistent application of the risk appetite policy.

In addition, securitisations of the bank's own originated assets are assessed in terms of the credit risk management philosophies and principles as set out on page 21.

Credit analysis

In terms of our analysis of our credit and counterparty risk, exposures arising from securitisation/structured credit activities reflect only those exposures to which we consider ourselves to be at risk. Assets that have been securitised by our Private Client division are reflected as part of our core lending exposures and not our securitisation/structured credit exposures as we believe this reflects the true nature and intent of these exposures and activities. These assets are reflected on the balance sheet line item 'own originated loans and advances to customers securitised' totalling R7.2 billion at 31 March 2020 (31 March 2019: R7.7 billion).

Securitisation/structured credit activities exposures

Nature of exposure/activity	Exposure 31 March 2020 R'million	Exposure 31 March 2019 R'million	Balance sheet and credit risk classification	Asset quality – relevant comments
Structured credit (gross exposure)	3 413	1 633	Other debt securities	
Rated	1 754	167		
Unrated	1 659	1 466		
Loans and advances to customers and third party intermediary originating platforms (mortgage loans) (net exposure)	175	220	Other loans and advances	
Private Client division assets which have been securitised (net exposure)	7 192	7 667	Own originated loans and advances to customers	Analysed as part of the bank's overall asset quality on core loans and advances as reflected on pages 45 to 52

Analysis of gross structured credit exposure

R'million	AAA	AA	A	BBB	BB	B and below	Total rated	Total unrated	Total
US Corporate loans	–	958	–	–	–	–	958	–	958
UK RMBS	–	796	–	–	–	–	796	–	796
South African RMBS	–	–	–	–	–	–	–	1 639	1 639
South African CMBS	–	–	–	–	–	–	–	20	20
Total at 31 March 2020	**–**	**1 754**	**–**	**–**	**–**	**–**	**1 754**	**1 659**	**3 413**
Total at 31 March 2019	**–**	**33**	**–**	**–**	**134**	**–**	**167**	**1 466**	**1 633**

Market risk in the trading book

Traded market risk description

Traded market risk is the risk of potential changes in the value of the trading book as a result of changes in market risk factors such as interest rates, equity prices, exchange rates, commodity prices, credit spreads and their underlying volatilities where derivatives are traded. The trading book is defined as positions in financial instruments and commodities, including derivative products and other off-balance sheet instruments that are held within the trading businesses.

Traded market risk profile

The focus of our trading activities is primarily on supporting our clients. Our strategic intent is that proprietary trading should be limited and that trading should be conducted largely to facilitate client flow. Within our trading activities, we act as principal with clients or the market. Market risk exists where we have taken on principal positions resulting from market making, underwriting and facilitation of client business in the foreign exchange, interest rate, equity, credit and commodity markets.

Traded market risk governance structure

Traded market risk is governed by policies that cover the management, identification, measurement and monitoring of market risk. We have an independent market risk team to identify, measure, monitor and manage market risk. This team reports into risk management where limits are approved, managed and monitored.

The market risk teams have reporting lines that are separate from the trading function, thereby ensuring independent oversight. The Market Risk Forum, mandated by the IBL BRCC, manages market risk in accordance with approved principles, policies and risk appetite. Trading desk risk limits are reviewed by the Market Risk Forum, IBL Review ERRF or IBL ERC in accordance with the risk appetite defined by the IBL board. Any significant changes in risk limits would then be taken to GRRRMF for review and approval. The appropriateness of limits is continually re-assessed, with limits reviewed at least annually, in the event of a significant market event.

Measurement of traded market risk

A number of quantitative measures are used to monitor and limit exposure to traded market risk. These measures include:

- Value at Risk (VaR) and Expected Shortfall (ES) as portfolio measures of market risk exposure
- Scenario analysis, stress tests and tools based on extreme value theory (EVT) that measure the potential impact on portfolio values of extreme moves in markets
- Sensitivity analysis that measures the impact of individual market risk factor movements on specific instruments or portfolios, including interest rates, foreign exchange rates, equity prices, credit spreads and commodity prices. We use sensitivity measures to monitor and limit exposure across portfolios, products and risk types.

Stress and scenario analyses are used to add insight into the possible outcomes under severe market disruptions. The stress-testing methodology assumes that all market factors move adversely at the same time and that no actions are taken during the stress events to mitigate risk. Stress scenarios based on historical experience as well as hypothetical scenarios are considered and are reviewed regularly for relevance in ever-changing market environments. Stress scenarios are run daily with analysis presented to IBL Review ERRF weekly and IBL BRCC when the committees meet or more often should market conditions require this.

Traded market risk management, monitoring and control

Market risk limits are set according to guidelines set out in our risk appetite policy. Limits are set at trading desk level with aggregate risk across all desks also monitored against overall market risk appetite limits. Current market conditions as well as stressed market conditions are taken into account when setting and reviewing these limits.

Market risk teams review the market risks in the trading book with detailed risk reports produced daily for each trading desk and for the aggregate risk of the trading book. The material risks identified are summarised in daily reports that are distributed to, and discussed with senior management when required. The production of risk reports allows for the monitoring of all positions in the trading book against prescribed limits. Documented policies and procedures are in place to ensure there is a formal process for recognition and authorisation for risk excesses incurred.

The risk management software is fully integrated with source trading systems, allowing valuation in risk and trading systems to be fully aligned. All valuation models are subject to independent validation by market risk ensuring models used for valuation and risk are validated independently of the front office.

Value at Risk

VaR is a technique that estimates the potential losses as a result of movements in market rates and prices over a specified time horizon at a given level of confidence. The VaR model derives future scenarios from past time series of market rates and prices, taking into account inter-relationships between the different markets such as interest rates and foreign exchange rates. The VaR model used is based on full revaluation historical simulation and incorporates the following features:

- Two-year historical period based on an unweighted time series
- Daily movements in each risk factor e.g. foreign exchange rates, interest rates, equity prices, credit spreads and associated volatilities are simulated with reference to historical market rates and prices, with proxies only used when no or limited historical market data is available, and the resultant one-day VaR is scaled up using the square root of time method for regulatory purposes
- Risk factor movements are based on both absolute and relative returns as appropriate for the different types of risk factors.

VaR numbers using a one-day holding period are monitored daily at the 95% and 99% confidence intervals, with limits set at the 95% confidence interval. Expected shortfalls are also monitored daily at the 95% and 99% levels as is the worst case loss in the VaR distribution.

The table below contains the 95% one-day VaR figures for the trading businesses.

	31 March 2020				31 March 2019			
R'million	**Year end**	Average	High	Low	**Year end**	Average	High	Low
95% one-day VaR								
Commodities	0.1	0.1	0.3	–	0.1	0.1	0.4	–
Equities	4.7	4.1	8.7	3.0	3.6	3.4	7.2	1.6
Foreign exchange	1.3	2.2	6.5	0.7	1.4	2.1	6.5	0.9
Interest rates	2.9	2.3	5.4	0.8	1.2	2.1	9.0	0.4
Consolidated*	**6.5**	**5.1**	**9.5**	**3.2**	**3.8**	**4.5**	**9.7**	**1.5**

* *The consolidated VaR for each entity is lower than the sum of the individual VaRs. This arises from the correlation offset between various asset classes.*

Expected shortfall

The ES measure overcomes some of VaR's shortcomings. ES seeks to quantify losses encountered in the tail beyond the VaR level. The 95% one-day ES is the average loss given that the 95% one-day VaR level has been exceeded. The table below contains the 95% one-day ES figures.

R'million	**31 March 2020 Year end**	31 March 2019 Year end
95% one-day ES		
Commodities	0.1	0.2
Equities	7.3	6.9
Foreign exchange	1.6	2.2
Interest rates	5.9	1.7
Consolidated*	**10.0**	**6.4**

* *The consolidated ES for each desk is lower than the sum of the individual ESs. This arises from the correlation offset between various asset classes.*

Stressed VaR

Stressed VaR (sVaR) is calculated using the VaR model but based on a one year period through which the relevant market factors experienced stress. The information in the table below contains the 99% one-day sVaR.

R'million	31 March 2020 Year end	31 March 2019 Year end
99% one-day VaR	**21.1**	**8.6**

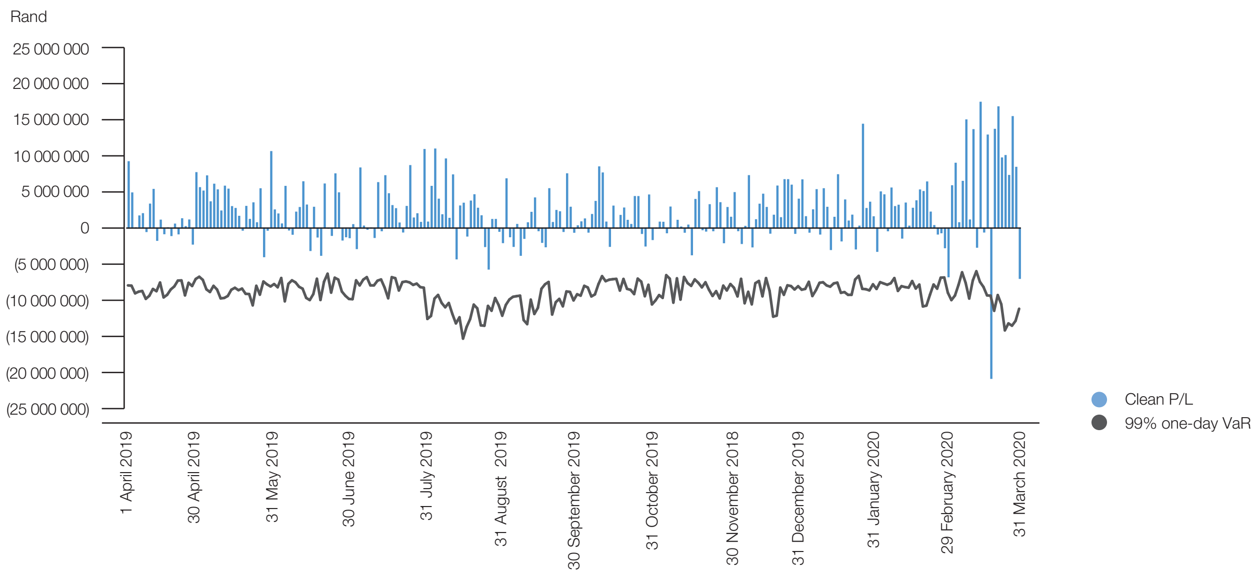
Backtesting

The performance of the VaR model is regularly monitored through backtesting. This is done by comparing daily clean profit and loss against one-day VaR based on a 99% confidence level. Clean profit and loss excludes items such as intra-day transactions, valuation adjustments, provisions, recoveries, commission, fees and hedge costs included in new trade revenue. If a loss exceeds the one-day VaR, a backtesting exception is considered to have occurred. Over time we expect the average rate of observed backtesting exceptions to be consistent with the percentile of the VaR statistic being tested. This is conducted at an aggregate and desk level on a daily basis.

The graph that follow shows the result of backtesting the total daily 99% one-day VaR against the clean profit and loss figures for our trading activities over the reporting period. Based on these graphs, we can gauge the accuracy of the VaR figures i.e. 99% of the time, the total trading activities are not expected to lose more than the 99% one-day VaR.

The average VaR for the year ended 31 March 2020 was higher than the previous year. The graph below is based on clean profit and loss, which excludes items such as fees, commissions, valuation adjustments, provisions, recoveries and intra-day transactions, resulted in one exception, which is below the expected number of two to three exceptions as implied by the 99% VaR model. The exception was as a result of significant increase in market volatility at the end of the financial year.

99% one-day VaR backtesting



Stress testing

The table below indicates the potential losses that could arise in the trading book portfolio per extreme value theory (EVT) at the 99% confidence level. EVT is a methodology widely used to estimate tail-event losses beyond the 95% one-day VaR. The numbers do not assume normality but rather rely on fitting a distribution to the tails of the VaR distribution.

	31 March 2020				**31 March 2019**			
R'million	**Year end**	Average	High	Low	**Year end**	Average	High	Low
99% EVT								
Commodities	0.6	0.5	1.8	0.1	1.4	1.2	2.8	0.2
Equities	29.2	16.8	70.7	6.7	22.5	20.6	47.9	4.4
Foreign exchange	3.4	6.3	15.5	2.1	8.9	20.2	48.5	3.1
Interest rates	25.8	8.3	32.7	2.1	3.9	11.4	50.8	0.9
Consolidated#	**37.4**	**18.7**	**76.7**	**7.5**	**17.2**	**25.4**	**48.7**	**5.7**

\# *The consolidated stress testing for each entity is lower than the sum of the individual stress test numbers. This arises from the correlation offset between various asset classes.*

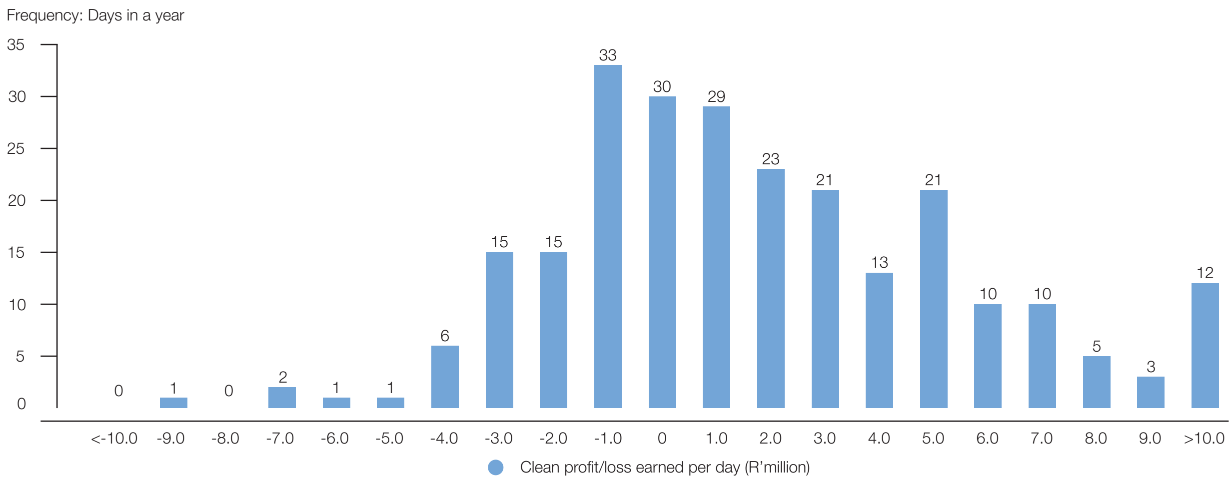
Capital

We have internal model approval from the South African PA for general market risk for all the above trading desks and accordingly trading capital is calculated as a function of the 99% 10-day VaR as well as the 99% 10-day sVaR together with standardised specific risk capital for issuer risk.

Clean profit and loss histograms

The histogram below illustrates the distribution of clean profit and loss during the financial year for our trading businesses. The distribution is skewed to the profit side and the graph shows that a clean profit was realised on 177 days out of a total of 251 days in the trading business. The average daily clean profit and loss generated for the year to 31 March 2020 was R2.4 million (31 March 2019: R2.0 million).

Clean profit and loss (excluding fees and hedge costs included in new trade revenue)



Traded market risk year in review

Globally, the onset of the COVID-19 pandemic triggered extreme market movements, along with a lack of trading liquidity in certain markets. This resulted in a challenging risk management environment across the trading businesses and adversely affected trading revenue. The primary focus of the trading desks remains to manage and hedge the market risk arising from all client related activity.

Trading conditions remained challenging, dominated by local and global policy uncertainty. South Africa's credit rating was under the spotlight for most of the year, which ultimately led to a sovereign downgrade in March by Moody's. The JSE was down 21% year-on-year, while the Rand has depreciated by 23% year-on-year against the US dollar. Against this challenging economic backdrop, the trading desks have performed well, primarily focusing on client facilitation whilst maintaining low levels of open risk.

Utilisation of risk limits have remained moderate and the desks have remained prudent during the year.

Market risk – derivatives

The bank enters into various derivatives contracts, largely on the back of customer flow for hedging foreign exchange, commodity, equity and interest rate exposures and to a small extent as principal for trading purposes. These include financial futures, options, swaps and forward rate agreements.

Information showing our derivative trading portfolio over the reporting period on the basis of the notional principal and the fair value of all derivatives can be found on pages 211 and 212.

The notional principal indicates our activity in the derivatives market and represents the aggregate size of total outstanding contracts at year end. The fair value of a derivative financial instrument represents the present value of the positive or negative cash flows which would have occurred had we closed out the rights and obligations arising from that instrument in an orderly market transaction at year end. Both these amounts reflect only derivatives exposure and exclude the value of the physical financial instruments used to hedge these positions.

Balance sheet risk management

Balance sheet risk description

Balance sheet risk encompasses the financial risks relating to our asset and liability portfolios, comprising liquidity, funding, concentration, encumbrance and non-trading interest rate risk.

Balance sheet risk governance structure and risk mitigation

Under delegated authority of the respective boards, the bank has established ALCOs within each banking entity, using regional expertise and local market access as appropriate. The ALCOs are mandated to ensure independent supervision of liquidity risk and non-trading interest rate risk within the risk appetite.

ALCOs meet on at least a monthly basis to review the exposures that lie within the balance sheet together with market conditions, and decide on strategies to mitigate any undesirable liquidity and interest rate risk. The Treasury function within each banking entity is mandated to holistically manage the liquidity mismatch and non-trading interest rate risk arising from our asset and liability portfolios on a day-to-day basis.

The Treasury function, by banking entity is required to exercise tight control of liquidity, funding, concentration, encumbrance and non-trading interest rate risk within the board-approved risk appetite limits. Non-trading interest rate risk and asset funding requirements are transferred from the originating business to the Treasury function.

The Treasury function directs pricing for all deposit products, establishes and maintains access to stable funds with the appropriate tenor and pricing characteristics, and manages liquid securities and collateral, thus providing prudential management and a flexible response to volatile market conditions. The Treasury function is the sole interface to the wholesale money market for both cash and derivative transactions.

We maintain an internal funds transfer pricing system based on prevailing market rates. Our funds transfer pricing system charges the businesses the price of liquidity taking into account the behavioural duration of the asset. The costs and risks of liquidity are clearly and transparently attributed to business lines thereby ensuring that price of liquidity is integrated into business level decision-making and drives the appropriate mix of sources and uses of funds.

Balance sheet risk management teams are based within group risk management in their relevant regions, and are responsible for identifying, quantifying and monitoring risks; providing daily independent governance and oversight of the treasury activities and the execution of the bank's policies.

There is a regular internal audit of the balance sheet risk management function, the frequency of which is determined by Investec's Audit committees.

Daily, weekly and monthly reports are independently produced highlighting bank activity, exposures and key measures against thresholds and limits and are distributed to management, ALCO, Treasury, IBL Review ERRF, IBL ERC, IBL BRCC as well as summarised reports for board meetings.

Liquidity risk

Liquidity risk description

Liquidity risk refers to the possibility that, despite being solvent, we have insufficient capacity to fund increases in assets, or are unable to meet our payment obligations as they fall due in normal and stressed conditions. This includes repaying depositors or maturing wholesale debt. This risk arises from mismatches in the timing of cash flows, and is inherent in all banking operations and can be impacted by a range of institution-specific and market-wide events.

Liquidity risk is further broken down into:

- **Funding liquidity:** this relates to the risk that the bank will be unable to meet current and/or future cash flows or collateral requirements in the normal course of business, without adversely affecting its solvency, financial position or its reputation
- **Market liquidity:** this relates to the risk that the bank may be unable to trade in specific markets or that it may only be able to do so with difficulty due to market disruptions or a lack of market liquidity.

Management and measurement of liquidity risk

Cohesive liquidity management is vital for protecting our depositors, preserving market confidence, safeguarding our reputation and ensuring sustainable growth with established funding sources. Through active liquidity management, we seek to preserve stable, reliable and cost-effective sources of funding. As such, the bank considers ongoing access to appropriate liquidity for all its operations to be of paramount importance, and our core liquidity philosophy is reflected in day-to-day practices which encompass the following robust and comprehensive set of policies and procedures for assessing, measuring and controlling the liquidity risk:

- Our liquidity management processes encompass requirements set out within Basel Committee on Banking Supervision (BCBS) guidelines and by the regulatory authorities in each jurisdiction, namely the South African PA and Bank of Mauritius (BOM)
- The risk appetite is clearly defined by the board and each geographic entity must have its own board-approved policies with respect to liquidity risk management
- We maintain a liquidity buffer in the form of unencumbered cash, government or rated securities (typically eligible for repurchase with the central bank), and near cash well in excess of the regulatory requirements as protection against unexpected disruptions in cash flows
- Funding is diversified with respect to currency, term, product, client type and counterparty to ensure a varied overall funding mix
- We monitor and evaluate each banking entity's maturity ladder and funding gap (cash flow maturity mismatch) on a 'liquidation', 'going concern' and 'stress' basis
- The balance sheet risk management team independently monitors key daily funding metrics and liquidity ratios to assess potential risks to the liquidity position, which further act as early warning indicators of potential market disruptions
- The maintenance of sustainable prudent liquidity resources takes precedence over profitability
- The bank maintains adequate contingency funding plans designed to protect depositors, creditors and shareholders and maintain market confidence during adverse liquidity conditions.

We measure liquidity risk by quantifying and calculating various liquidity risk metrics and ratios to assess potential risks to the liquidity position. These include:

- Internal 'survival horizon' metric which models how many days it takes before the bank's cash position turns negative under an internally defined worst-case liquidity stress;
- Regulatory metrics for liquidity measurement:
  - Liquidity Coverage Ratio (LCR); and
  - Net Stable Funding Ratio (NSFR).
- Modelling a 'business as usual' environment where we apply rollover and reinvestment assumptions under benign market conditions;
- An array of further liquidity stress tests, based on a range of scenarios and using historical analysis, documented experience and prudent judgement to model the impact on the bank's balance sheet;
- Contractual run-off based actual cash flows with no modelling adjustments;
- Additional internally defined funding and balance sheet ratios; and
- Any other local regulatory requirements.

This suite of metrics ensures the smooth management of the day-to-day liquidity position within conservative parameters and further validates that we are able to generate sufficient liquidity to withstand a range of liquidity stresses or market disruptions.

The parameters used in stress scenarios are reviewed at least annually, taking into account changes in the business environments and input from business units. The objective is to analyse the possible impact of an economic event so as to maintain sufficient liquidity and to continue to operate for a minimum period as detailed in the board-approved risk appetite.

We further carry out reverse stress tests to identify business model vulnerabilities which test 'tail risks' that can be missed in normal stress tests. The bank has calculated the severity of stress required to breach the liquidity requirements. This scenario is considered highly unlikely given the bank's strong liquidity position, as it requires an extreme withdrawal of deposits combined with the inability to take any management actions to breach liquidity minima that threaten the bank's liquidity position.

The bank operates an industry-recognised third party risk modelling system in addition to custom-built management information systems designed to measure and monitor liquidity risk on both a current and forward-looking basis.

Funding strategy

We maintain a funding structure of stable customer deposits and long-term wholesale funding well in excess of illiquid assets. We target a diversified funding base, avoiding undue concentrations by investor type, maturity, market source, instrument and currency. As a result, we are able to generate funding from a broad range of sources in each geographic location, which ensures a varied overall funding mix to support loan growth.

We acknowledge the importance of our retail deposit client base as the principal source of stable and well diversified funding. We continue to develop products to attract and service the investment needs of our client base.

The bank actively participates in global financial markets and our relationship is continuously enhanced through regular investor presentations internationally. Entities are only allowed to have funding exposure to wholesale markets where they can demonstrate that the market is sufficiently deep and liquid, and then only relative to the size and complexity of their business.

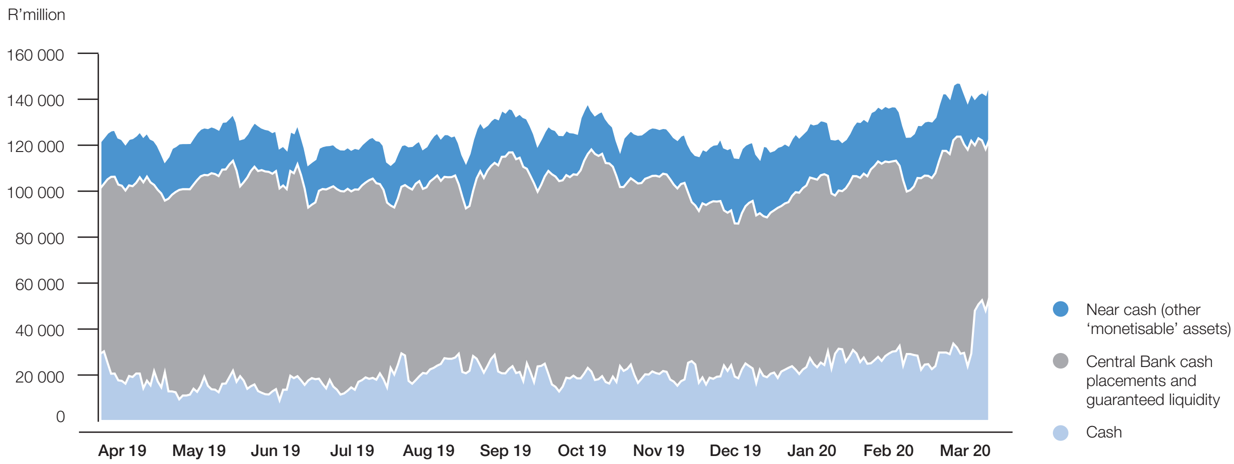
The bank's ability to access funding at cost-effective levels is influenced by maintaining or improving the entity's credit rating. A reduction in these ratings could have an adverse effect on the bank's funding costs, and access to wholesale term funding. Credit ratings are dependent on multiple factors, including operating environment, business model, strategy, capital adequacy levels, quality of earnings, risk appetite and exposure, and control framework.

We remain confident in our ability to raise funding appropriate to our needs.

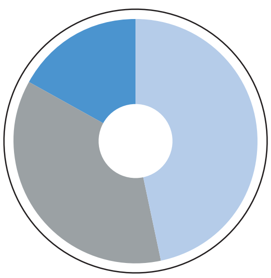
Liquidity buffer

To protect against potential shocks, we hold a liquidity buffer in the form of cash, unencumbered high quality liquid assets (typically in the form of government or rated securities eligible for repurchase with the central bank), and near cash, well in excess of the regulatory requirements as protection against disruptions in cash flows. These portfolios are managed within board-approved targets, and as well as providing a buffer under going concern conditions, also form an integral part of the broader liquidity generation strategy. The bank remains a net liquidity provider to the interbank market, placing significantly more funds with other banks than our short-term interbank borrowings. We do not rely on overnight interbank deposits to fund term lending.

Cash and near cash trend



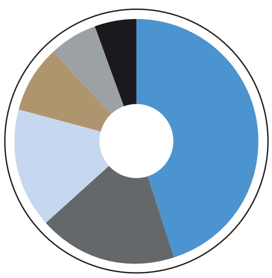
An analysis of cash and near cash at 31 March 2020



R147.2 billion

46.8%	Central Bank cash placements and guaranteed liquidity
36.3%	Cash
16.9%	Near cash (other 'monetisable' assets)

Bank and non-bank depositor concentration by type at 31 March 2020



R413.2 billion

45.0%	Other financials
18.5%	Individuals
15.6%	Non-financial corporates
9.0%	Banks
6.5%	Small business
5.4%	Public sector

The liquidity position of the bank remained sound with total cash and near cash balances amounting to R147.2 billion at year end

Contingency planning

The bank maintains contingency funding plans which detail the course of actions that can be taken in the event of a liquidity stress. The plans help to ensure that cash flow estimates and commitments can be met in the event of general market disruption or adverse bank-specific events, while minimising detrimental long-term implications for the business. The plans include:

- Details on the required daily monitoring of the liquidity position;
- Description of the early warning indicators to be monitored, and process of escalation if required;
- Liquidity stress scenarios to be modelled for Contingency Funding Plan (CFP) purposes (over and above daily stress testing scenarios);
- Funding and management actions available for use in a stress situation;
- Roles and responsibilities;
- Details of specific escalation bodies and key contacts; and
- Internal and external communication plans.

The plans have been tested within our core jurisdictions via externally facilitated liquidity crisis simulation exercises which assess their suitability and ability to adequately contain a liquidity stress.

Liquidity mismatch

The tables that follow show the bank's contractual and behavioural liquidity mismatch.

The table will not agree directly to the balances disclosed in the balance sheet due to the inclusion of loans to group companies in the other asset line.

With respect to the contractual liquidity tables that follow, we record all assets and liabilities with the underlying contractual maturity as determined by the cash flow profile for each deal.

With respect to the behavioural liquidity gap, we adjust the contractual profile of certain assets and liabilities:

- *Liquidity buffer:* the actual contractual profile of the assets in the liquidity buffer is of little consequence, as practically the bank would meet any unexpected net cash outflows by repo'ing or selling these highly liquid securities. Consequently, for the liquidity buffer:
  - The time horizon to monetise our regulatory liquid assets which are guaranteed by the central bank has been adjusted to 'on demand'; and
  - The time horizon for the cash and near cash portfolio of discretionary treasury assets has been set to one month where there are deep secondary markets for this elective asset class.
- *Customer deposits:* the contractual repayments of many deposits are on demand, or at notice, but behaviourally withdrawals vary significantly from this. Historical observations of the products are used to model the behavioural lives, and this analysis has identified significant additional sources of structural liquidity in the form of core deposits that exhibit stable behaviour.

Contractual liquidity at 31 March 2020

R'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	> Five years	Total
Cash and short-term funds – banks	50 848	1 433	1 352	65	973	–	35	54 706
Cash and short-term funds – non-banks	13 466	239	309	–	–	–	–	14 014
Investment/trading assets and statutory liquids	51 167	20 098	6 667	5 657	10 370	28 397	30 185	152 541
Securitised assets	–	–	–	–	–	3 596	4 012	7 608
Advances	4 184	5 516	8 659	15 936	17 920	114 594	110 187	276 996
Other assets	5 260	12 563	2 086	(299)	(77)	(2 766)	10 531	27 298
Assets	**124 925**	**39 849**	**19 073**	**21 359**	**29 186**	**143 821**	**154 950**	**533 163**
Deposits – banks	(493)	(1 127)	(298)	(197)	(118)	(35 044)	–	(37 277)
Deposits – non-banks	(179 982) ^	(21 831)	(57 046)	(30 874)	(40 067)	(42 479)	(3 669)	(375 948)
Negotiable paper	–	(251)	(491)	(36)	(1 240)	(1 215)	(25)	(3 258)
Securitised liabilities	–	–	–	–	–	–	(1 699)	(1 699)
Investment/trading liabilities	(6 855)	(4 995)	(19 612)	(3 255)	(3 947)	(12 532)	(2 048)	(53 244)
Subordinated liabilities	–	–	–	–	(610)	(11 427)	–	(12 037)
Other liabilities	(152)	(118)	(1 208)	(855)	(71)	(1 143)	(4 405)	(7 952)
Liabilities	**(187 482)**	**(28 322)**	**(78 655)**	**(35 217)**	**(46 053)**	**(103 840)**	**(11 846)**	**(491 415)**
Total equity	–	–	–	–	–	–	(41 748)	(41 748)
Contractual liquidity gap	**(62 557)**	**11 527**	**(59 582)**	**(13 858)**	**(16 867)**	**39 981**	**101 356**	**–**
Cumulative liquidity gap	(62 557)	(51 030)	(110 612)	(124 470)	(141 337)	(101 356)	–	

^ *Includes call deposits of R176 billion and the balance reflects term deposits which have finally reached/are reaching contractual maturity.*

Behavioural liquidity at 31 March 2020

R'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	> Five years	Total
Behavioural liquidity gap	**87 204**	**(3 487)**	**(4 468)**	**(3 701)**	**(983)**	**(201 645)**	**127 080**	**–**
Cumulative	87 204	83 717	79 249	75 548	74 565	(127 080)	–	

Non-trading interest rate risk

Non-trading interest rate risk description

Non-trading interest rate risk, otherwise known as interest rate risk in the banking book, arises from the impact of adverse movements in interest rates on both net interest earnings and economic value of equity.

Sources of interest rate risk in the banking book include:

- **Repricing risk:** arises from the timing differences in the fixed rate maturity and floating rate repricing of bank assets, liabilities and off-balance sheet derivative positions. This affects the interest rate margin realised between lending income and borrowing costs when applied to our rate sensitive portfolios
- **Yield curve risk:** repricing mismatches also expose the bank to changes in the slope and shape of the yield curve
- **Basis risk:** arises from imperfect correlation in the adjustments of the rates earned and paid on different instruments with otherwise similar repricing characteristics
- **Embedded option risk:** arises from optional elements embedded in items where the bank or its customers can alter the level and timing of their cash flows
- **Endowment risk:** refers to the interest rate risk exposure arising from the net differential between interest rate insensitive assets, interest rate insensitive liabilities and capital.

The above sources of interest rate risk affect the interest rate margin realised between lending income and borrowing costs, when applied to our rate sensitive asset and liability portfolios, which has a direct impact on future net interest earnings and the economic value of equity.

Measurement and management of non-trading interest rate risk

Non-trading interest rate risk is an inherent consequence of conducting banking activities, and arises from the provision of (non-trading) banking products and services. The bank considers the management of banking margin of vital importance, and our non-trading interest rate risk philosophy is reflected in our day-to-day practices.

The aim of non-trading interest rate risk management is to protect and enhance net interest income and economic value of equity in accordance with the board-approved risk appetite, and to ensure a high degree of stability of the net interest margin over an interest rate cycle. Non-trading interest rate risk is measured and analysed by utilising standard tools of traditional interest rate repricing mismatch and NPV sensitivity to changes in interest rate risk factors:

- Income metrics capture the change in accruals expected over a specified time horizon in response to a change in interest rates
- Economic value metrics capture all future cash flows in order to calculate the bank's net worth and therefore can highlight risks beyond the short-term earnings time horizon.

These metrics are used to assess and to communicate to senior management the financial impact of possible future interest rate scenarios, covering:

(i) Interest rate expectations and perceived risks to the central view

(ii) Standard shocks to levels and shapes of interest rates and yield curves

(iii) Historically-based yield curve changes.

The repricing gap provides a simple representation of the balance sheet, with the sensitivity of fair values and earnings to changes to interest rates calculated off the repricing gap. This also allows for the detection of interest rate risk concentration in specific repricing buckets. Net interest income sensitivity measures the change in accruals expected over the specified horizon in response to a shift in the yield curve, while economic value sensitivity and stress testing to macro-economic movement or changes to the yield curve measures the interest risk implicit change in net worth as a result of a change in interest rates on the current values of financial assets and liabilities. Economic value measures have the advantage that all future cash flows are considered and therefore can highlight risk beyond the earnings horizon.

Each geographic entity has its own board-approved non-trading interest rate risk appetite, which is clearly defined in relation to both income risk and economic value risk. The bank has limited appetite for non-trading interest rate risk.

Operationally, daily management of interest rate risk is centralised within the Treasury of each geographic entity and is subject to local independent risk and ALCO review. Treasury mitigates any residual undesirable risk where possible, by changing the duration of the banking book discretionary liquid asset portfolio, or through derivative transactions. The Treasury mandate allows for a tactical response to market volatility which may arise during changing interest rate cycles, in order to hedge residual exposures. Any resultant interest rate position is managed under the market risk limits. Balance sheet risk management independently monitors a broad range of interest rate risk metrics to changes in interest rate risk factors, detailing the sources of interest rate exposure.

Automatic optionality arising from variable rate products with an embedded minimum lending rate serves as an income protection mechanism for the bank against falling interest rates while behavioural optionality risk from customers of fixed rate products is mitigated by early repayment charges.

Internal capital is allocated for non-trading interest rate risk.

The bank complies with the BCBS108 framework which is currently in force for assessing banking book (non-trading) interest rate risk, and is in the process of enhancing its existing framework to adhere to the new BCBS368 principles which come into effect in 2022.

Interest rate sensitivity gap at 31 March 2020

The table below shows our non-trading interest rate mismatch at 31 March 2020. These exposures affect the interest rate margin realised between lending income and borrowing costs assuming no management intervention.

R'million	Not > three months	> Three months but < six months	> Six months < but one year	> One year but < five years	> Five years	Non-rate	Total non-trading
Cash and short-term funds – banks	42 987	–	–	–	–	9 352	52 339
Cash and short-term funds – non-banks	13 984	–	–	–	–	30	14 014
Investment/trading assets and statutory liquids	53 874	12 744	9 875	18 507	21 764	9 904	126 668
Securitised assets	7 608	–	–	–	–	–	7 608
Advances	245 603	4 397	1 388	19 605	1 009	4 990	276 992
Other assets	15 706	(1 784)	(3 229)	(875)	(780)	11 156	20 194
Assets	**379 762**	**15 357**	**8 034**	**37 237**	**21 993**	**35 432**	**497 815**
Deposits – banks	(37 193)	(10)	(56)	(18)	–	–	(37 277)
Deposits – non-banks	(310 234)	(23 833)	(25 316)	(10 484)	(944)	(5 137)	(375 948)
Negotiable paper	(1 865)	(50)	(878)	(405)	–	(60)	(3 258)
Securitised liabilities	(1 699)	–	–	–	–	–	(1 699)
Investment/trading liabilities	(14 195)	–	–	(105)	(173)	–	(14 473)
Subordinated liabilities	(11 596)	–	(101)	(340)	–	–	(12 037)
Other liabilities	–	–	–	–	–	(6 111)	(6 111)
Liabilities	**(376 782)**	**(23 893)**	**(26 351)**	**(11 352)**	**(1 117)**	**(11 308)**	**(450 803)**
Total equity	(869)	–	–	–	–	(40 879)	(41 748)
Balance sheet	**2 111**	**(8 536)**	**(18 317)**	**25 885**	**20 876**	**(16 755)**	**5 264**
Off-balance sheet	5 458	14 990	18 868	(23 596)	(20 984)	–	(5 264)
Repricing gap	**7 569**	**6 454**	**551**	**2 289**	**(108)**	**(16 755)**	**–**
Cumulative repricing gap	7 569	14 023	14 574	16 863	16 755	–	

Economic value sensitivity at 31 March 2020

For the reasons outlined above, our preference for monitoring and measuring non-trading interest rate risk is economic value sensitivity. The table below reflects our economic value sensitivity to a 2% parallel shift in interest rates assuming no management intervention. This sensitivity effect does not have a significant direct impact on our equity.

	Sensitivity to the following interest rates (expressed in original currencies)						
million	ZAR	GBP	USD	EUR	AUD	Other (ZAR)	**All (ZAR)**
200bps down	(216.3)	0.4	(3.9)	1.0	0.1	(0.7)	**(256.9)**
200bps up	133.2	(0.4)	2.6	(1.2)	(0.2)	1.0	**145.1**

Regulatory requirements

Liquidity Risk

In response to the global 2008/9 financial crisis, the BCBS introduced a series of reforms designed to both strengthen and harmonise global liquidity standards to ensure strong financial risk management and a safer global economy.

Two minimum standards for funding liquidity were introduced:

- The liquidity coverage ratio (LCR) is designed to ensure that banks have sufficient high quality liquid assets to meet their liquidity needs throughout a 30-calendar day severe stress
- The net stable funding ratio (NSFR) is designed to capture structural issues over a longer time horizon by requiring banks to have a sustainable maturity structure of assets and liabilities.

There are various regulatory and economic barriers that prevent liquidity from flowing out of the domestic economy. Namely, South Africa has exchange control that limits capital flows, along with prudential requirements on financial corporates.

A positive consequence of the above is that the Rand funding that the South African banks use is contained within the financial system and therefore the Rand is unlikely to be drained by currency withdrawal from offshore sources, or placements in offshore accounts.

To address this systemic challenge, the South African PA exercised national discretion and has announced a change to the available stable funding factor to include 35% of financial sector deposits that are less than six months in tenor. This, in turn, would reduce the amount of term deposits greater than six months in tenor, currently required by local banks to meet the NSFR, mitigating any increases in the overall cost of funds.

Despite the above constraints, Investec Bank Limited comfortably exceeds the LCR and NSFR liquidity ratio requirements, having embedded these ratios into our processes. The minimum requirements for LCR is 80%, recently reduced from 100% until such time as the South African PA is of the view that the financial markets have normalised. The minimum requirements of NSFR is 100%.

The South African PA noted that the South African HQLA shortage has continued to decrease such that the continued provision of the Committed Liquidity Facility (CLF) was unlikely to meet the qualifying criteria set out in the Basel III Framework. The South African PA therefore announced it would phase out the CLF over a period of three years by December 2021. Investec Bank Limited does not currently make use of the CLF.

Non-trading interest rate risk

In 2016, the BCBS finalised their standards for non-trading interest rate risk which recommended the risk is assessed as part of the bank's capital requirements, outlined six prescribed shock scenarios, and recommended enhanced disclosure requirements for supervisors to implement.

The South African PA has announced that it will adopt the new IRRBB regulatory reforms as outlined in BCBS368. Implementation of new IRRBB standards is scheduled for June 2021 allowing for one year parallel run with regulatory compliance deadline and public IRRBB disclosure following in January 2022. Investec Bank Limited currently submits required IRRBB output to the South African PA on a monthly basis and aims to be compliant with all aspects of the new IRRBB regulatory reforms when formally adopted by the South African PA.

South Africa, a member of the G20, has adopted the published BCBS guidelines for 'liquidity risk measurement standards and monitoring'.

There are certain shortcomings and constraints in the South African environment and the banking sector in South Africa is characterised by certain structural features such as:

- A low discretionary savings rate and a higher degree of contractual savings that are captured by institutions such as pension funds, provident funds and providers of asset management services
- There is currently no 'deposit protection scheme' in South Africa. However, the regulators plan to incorporate a deposit protection scheme within the broader amendments to the recovery and resolution framework.

Balance sheet risk year in review

South Africa continued to be confronted by several economic, political and social issues, both locally and internationally. South Africa's fiscal position remained under considerable pressure as the positions of Eskom, SAA and other SOEs continued to deteriorate. Globally, political and economic uncertainties such as Brexit and the US-China trade wars led to a changing sentiment towards emerging market assets. This led to alternating cycles of risk-on and risk-off periods, fuelling local currency volatility.

We closed the financial year with the COVID-19 pandemic placing the local and global economic activity under immense strain. Globally, central banks adopted a coordinated approach in reacting to the COVID-19 pandemic. They began cutting interest rates and putting various mechanisms in place to ensure markets remained liquid. The SARB cut rates by 250bps to the lowest levels in recent history. In addition to this, they employed further mechanisms to inject liquidity in the system; most notably, introducing additional term repo facilities for the banks to access, and the reduction in the LCR regulatory minimum from 100% to 80% until such time as the South African PA is of the view that financial markets have normalised.

Amid all the uncertainty brought about by COVID-19, Moody's announced a downgrade to the country's credit rating to below investment grade. The response to the downgrade was largely muted, however, as analysts and market participants believed the move was already largely priced into the market. This was followed by Fitch announcing a downgrade of South Africa's credit rating to BB from BB+, while also assigning a negative outlook.

IBL came into this period of economic and social turmoil with a strong balance sheet characterised by strong liquidity and capital ratios.

The pursuit of our long-term strategic objective to improve the resilience of our balance sheet by targeting the structural shape of our funding profile remains front and centre. We maintain $1.9 billion of strategic long-term non-ZAR funding from diversified sources across the globe at favourable funding spreads. Investec Bank Limited grew its total customer deposits by 10.0% from R341.6 billion to R375.9 billion as at 31 March 2020. Our private client funding initiatives had a pleasing year in the face of increased competition for retail deposits, delivering 16.8% growth to close the year at R170.4 billion, contributing positively to IBL's strategic funding objectives. We continue to see deposit growth out of our Private Banking franchise.

Over the same period, ZAR Wholesale funding grew by 5.0% to R205.5 billion with a strong focus on strategic tenor management. We are cognisant of the cost implications of long-term funding and continue to be strategic in our efforts to raise this type of funding. We continue to improve funding efficiency in line with Basel III liquidity guidelines.

Consistent with our liquidity management philosophy, we delivered liquidity ratios well above the regulatory requirements. The 90-day simple average LCR ended the financial year at 133.2%. The structural funding ratio represented by the NSFR ended the year at 116.2% as at 31 March 2020.

It is through the sustained resilience of our balance sheet that we believe we will be able to withstand these trying times and comfortably deal with disruptions the economy might encounter going forward.

Liquidity coverage ratio (LCR)

The objective of the Liquidity Coverage ratio (LCR) is to promote the short-term resilience of the liquidity risk profile of banks by ensuring that they have sufficient high quality liquid assets to survive a significant stress scenario lasting 30 calendar days.

In accordance with the provisions of section 6(6) of the South African Banks Act 1990 (Act No. 94 of 1990), banks are directed to comply with the relevant LCR disclosure requirements. This disclosure Template LIQ1 is in accordance with Pillar III of the Basel III liquidity accord, as specified by BCBS d400 (2017) and Directive D1/2019.

The values in the table are calculated as the simple average of the 91 calendar daily values over the period 1 January 2020 to 31 March 2020 for IBL solo. IBL consolidated group values use daily values for IBL solo, while those for other group entities use the average of January, February and March 2020 month-end values.

The Bank of Mauritius requires banks to comply with a combined-currency LCR minimum of 100% from 1 January 2020.

IBL Solo

The main drivers of the LCR results and the evolution of the contribution of inputs to the LCR's calculation over time:

- The structure and nature of deposits inside the 30-day window is the key driver of both the level and the volatility of the LCR. This weighted outflow is determined by the customer type of liabilities falling into the 30-day contractual bucket. In turn these deposit characteristics determine the targeted level of high quality liquid assets (HQLA) required to be held as a counterbalance to the modelled stressed outflows.

The composition of HQLA:

- The HQLA comprises primarily South African sovereign and central bank Rand-denominated securities and debt instruments, all of which are eligible for South African PA repo
- On average, Level 2 assets contributed 5% of total HQLA
- Some foreign denominated government securities are included in the HQLA, subject to regulatory limitations.

Changes since December 2019 quarter-end:

The average LCR increased by 10%, and remains fully compliant with regulatory requirements, and within the target range as set by the Board.

IBL Consolidated Group

Only banking and/or deposit-taking entities are included and the group data represents an aggregation of the relevant individual net cash outflows and the individual HQLA portfolios. Our two banks, IBL and Investec Bank (Mauritius) (IBM), contributed over 99% of the group's combined HQLA and stressed cash inflows and outflows. With the ability to transfer cash surpluses between group entities, the consolidated group LCR improves IBL solo ratios.

At 31 March 2020 R'million	**Investec Bank Limited Solo – Total weighted value**	**Investec Bank Limited consolidated Group-Total weighted value**
High quality liquid assets (HQLA)	83 775	85 606
Net cash outflows	63 002	60 149
Actual LCR (%)	**133.2%**	**142.6%**
Required LCR (%)*	100%	100%

* *Temporarily reduced to 80%.*

Net stable funding ratio (NSFR)

The objective of the Net Stable Funding Ratio (NSFR) is to promote the resilience in the banking sector by requiring banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities on an ongoing structural basis. By ensuring that banks do not embark on excessive maturity transformation that is not sustainable, the NSFR is intended to reduce the likelihood that disruptions to a bank's funding sources would erode its liquidity position, increasing its risk of failure and potentially lead to broader systemic risk.

In accordance with the provisions of section 6(6) of the South African Banks Act 1990 (Act No. 94 of 1990), banks are directed to comply with the relevant NSFR disclosure requirements. This disclosure Template LIQ2 is in accordance with Pillar III of the Basel III liquidity accord, as specified by Directive 11/2015 and Directive 01/2019.

The values in the table are calculated as at 31 March 2020.

The Bank of Mauritius does not currently require banks to comply with the NSFR standard.

IBL Solo

The main drivers of the NSFR results and the evolution of the contribution of inputs to the NSFR's calculation over time:

- The asset class, customer type and residual maturity of deposits are the key drivers of available stable funding, in particular those from either retail and small business customers or with maturity longer than a year. Capital issued is also a significant contributor
- The customer type and residual maturity of loans, as well as holdings in securities eligible as HQLA, are the key drivers of available stable funding. Lower weightings apply to mortgages, shorter-term loans and especially HQLA.

IBL Consolidated Group

Only banking and/or deposit-taking entities are included and the group data represents a consolidation of the relevant individual assets, liabilities and off-balance sheet items. Our two banks, IBL and IBM contribute over 99% of the group's combined available and required stable funding. The consolidated group NSFR improves due to the contribution of IBM's capital to available stable funding.

At 31 March 2020 **R'million**	**Investec Bank Limited Solo – Total weighted value**	**Investec Bank Limited consolidated Group – Total weighted value**
Available stabe funding (ASF)	327 460	347 926
Required stabe funding (RSF)	281 488	296 512
Actual NSFR (%)	**116.3%**	**117.3%**
Required NSFR (%)	100%	100%

Operational risk

Operational risk description

Operational risk is defined as the potential or actual impact as a result of failures relating to internal processes, people, systems, or from external events. The impact could be financial as well as non-financial such as customer detriment, reputational or regulatory consequences.

Operational risk is an inherent risk in the ordinary course of business activity. The bank aims to appropriately identify and manage operational risk within acceptable levels by adopting sound operational risk management practices which are fit for purpose.

Risk appetite

Operational risk appetite is defined as the level of risk exposure that is acceptable to the board in order to achieve its business and strategic objectives. The board is responsible for setting and regularly reviewing the risk appetite. The operational risk appetite policy defines the amount of operational risk exposure, or potential adverse impact of a risk event, that the bank is willing to accept.

Operational risks are managed in accordance with the approved risk appettite. Any breaches of limits are escalated to IBL BRCC.

Management and measurement of operational risk

Regulatory capital

The bank applies the standardised approach (TSA) for the assessment of regulatory capital.

As part of the Basel III Reforms, The Basel Committee has announced revisions to the calculations of capital requirements for operational risk. A single standardised approach will replace all existing approaches for the calculation of regulatory capital.

The bank will continue to work closely with regulators and industry bodies on the implementation of the revisions.

Operational risk management framework and governance

The operational risk management framework is embedded at all levels of the bank, supported by the risk culture and enhanced on a continual basis in line with regulatory developments. Included in the framework are policies, practices and processes which facilitate the identification, assessment, mitigation, monitoring and reporting of operational risk.

The bank's approach to managing operational risk operates in terms of a levels of defence model which reinforces accountability by allocating roles and responsibilities.

The levels of defence model is applied as follows:

- Level 1 – Business line management: responsible for identifying and managing risks inherent in the products, activities, processes and systems for which it is accountable
- Level 2 – Independent operational risk function: responsible for building and embedding the operational risk framework, challenging the business lines inputs to, and outputs from, risk management, risk measurement and reporting activities
- Level 3 – Independent review and challenge: responsible for reviewing and testing the application and effectiveness of operational risk management procedures and practices.

The bank's operational risk profile is reported on a regular basis to various operational risk forums and governance committees responsible for oversight.

Risk reports are used for ongoing monitoring of the operational risk profile which contributes to sound risk management and decision-making by the board and management.

Operational risk practices consist of the following:

	Risk and control assessments	*Internal risk events*	*External risk events*	*Key risk indicators*	*Scenarios analysis and capital calculation*
Description	Forward-looking qualitative assessments performed on key business processes. These assessments allow business units to identify, manage and monitor operational risks and controls	Internal risk events are analysed to enable business to identify and monitor trends in addition to addressing control weaknesses	An external data service is used to provide operational risk events from other organisations. These events are analysed to enhance our control environment. The external risk events also inform operational risk scenarios	Indicators are used to monitor risk exposures against identified thresholds. The output provides predictive capability in assessing the risk profile of the business	Extreme, unexpected, but plausible scenarios are assessed to identify and manage significant operational risk exposures. The results of this evaluation provide input to determine internal operational risk capital requirements

Operational risk year in review

The bank continued to enhance its operational risk framework in line with regulatory developments and sound practices. Regular interactions with regulators promotes an understanding of regulatory expectations and informs the approach to regulatory developments and requirements. The awareness of sound practice is achieved through interaction with industry counterparts as formal industry forums.

In response to the global COVID-19 pandemic, the bank has implemented all official and medical guidance as advised by the authorities. Our priority is the safety of our staff whilst remaining fully operational in supporting a business-as-usual environment and in servicing our client base whilst maintaining robust processes and controls. To this end all staff, including core operational and non-critical teams, have working-from-home capability. Where critical staff or teams are required in the office, this is managed on a case-by-case basis. As part of the switch to remote working caused by the COVID-19 pandemic, the group upgraded and improved the robustness of its technology infrastructure through increased capacity and security measures so as to facilitate a safe and durable global working environment.

Operational risk events

The bank manages all risk events within the agreed operational risk appetite. The majority of internal risks events for the year under review were categorised as execution and process failures and external fraud. Root cause analyses are performed on risk events to understand the weaknesses in the control environment and to determine the mitigating actions needed to prevent the failure from reoccurring.

Looking forward

Key operational risk considerations for the year ahead

DEFINITION OF RISK	MANAGEMENT AND MITIGATION APPROACHES
Anti-money laundering (AML), terrorist financing and sanctions	
Risk associated with money laundering, terrorist financing, bribery and tax evasion	• Implementation and continuous enhancement of AML, CFT and Sanctions, ABC (Anti-bribery and Corruption) policies and sanctions control systems across the bank • Increased sophistication of risk management methodology with the aim to allow more efficient allocation of resources toward higher risk areas • Continuous enhancement and automation of transaction monitoring capabilities, increased detection of AML related activities • Continuous monitoring and assimilation of local and international legislative and best-practice developments • AML knowledge is a key component of the control environment. The knowledge is supported by mandatory training for all staff and specialist training for AML roles • Industry participation to manage legislative requirements through engagement with regulators.
Business resilience	
Risk associated with disruptive incidents which can impact premises, staff, equipment, systems, and key business processes	• Maintaining business operations during adverse events, through appropriate continuity capabilities that minimise impact to clients and the broader financial system • Establishing fit-for-purpose resilience strategies including, but not limited to, relocating impacted businesses to alternate processing sites, implementation of high availability technology solutions, and ensuring physical resilience for critical infrastructure components • Conducting validation of recovery strategies at least annually to ensure they remain effective and appropriate • Enhancing the bank's global resilience capability through a team of dedicated resources and robust governance processes • Participating in regulatory and financial industry resilience activities to collaboratively minimise national systemic continuity risks.
Conduct	
Risk associated with inappropriate behaviour or business activities may lead to either a client, counterparty or market detriment and/or reputational and/or financial damage to the bank	• Strong organisational culture of entrenched values, which forms the cornerstone of Investec's behaviour towards all stakeholders, including clients • Appropriate controls and processes that deliver fair customer outcomes are in place • Monitoring of the bank's delivery of fair customer outcomes through conduct governance structures • Surveillance arrangements are in place across all trading activity and related communications • Continued cooperation with regulatory authorities and other stakeholders which include industry bodies on conduct risk issues • Promoting awareness of conduct-related matters across the bank through appropriate employee training and communication to drive responsible behaviour.

DEFINITION OF RISK	MANAGEMENT AND MITIGATION APPROACHES
Cybersecurity	
Risk associated with cyberattacks which can result in data compromise, interruption to business processes or client services, financial losses, or reputational harm	• Maintaining a risk-based strategy integrating prediction, prevention, detection and response capabilities • Enhancing the security architecture using advanced technology, research and threat intelligence, to protect against evolving threats and sophisticated attacks • Maturing cyber resilience through coordinated incident response and crisis management processes • Stress-testing of cyber controls through security assessments, red team exercises and attack simulations, run both internally and in conjunction with independent specialists • Embeding secure software development and testing practices to ensure IT systems are secure by design • Provision of ongoing security training to staff to ensure high levels of awareness and vigilance.
Data management	
Risk associated with poor governance in acquiring, processing, storing, and protecting data	• Establishing consistent mechanisms for unified data consolidation, storage and reporting • Automating data flows and streamline integration between systems to reduce the need for manual tasks, minimise data processing delays and eliminate single points of failure • Monitoring, report on, and enhance data quality and aggregation, in line with business needs and regulatory principles • Obtaining predictive intelligence through data analytics to support proactive risk management • Maintaining data retention and destruction processes to meet business needs and comply with applicable legal obligations.
Fraud	
Risk associated with fraud, corruption, theft, forgery and integrity misconduct by staff, clients, suppliers and other stakeholders	• Enhancing the bank's global approach to fraud management through a holistic framework and consistent policies, standards and methodologies • Maintaining an independent integrity (whistle blowing) line to ensure staff can report regulatory breaches, allegations of fraud, bribery and corruption, and non-compliance with policies • Conducting fraud risk assessments to proactively identify and map existing preventative and detective controls to the relevant fraud risks, and evaluate whether the identified controls are operating effectively • Increasing fraud detection and prevention controls in response to the continued upward trend in operational losses due to fraud attempts • Maintaining collaboration with other financial institutions in fraud prevention to recover funds that have been paid away • Proactive monitoring of adherence to fraud prevention policies and embedding of practices which comply with updated regulations, industry guidance and best practice • Continuing to create awareness by focusing on training staff, educating clients and intermediaries on fraud prevention and detection • Participating in industry working groups to gain an understanding of current trends in order to enhance the control environment.
Information security	
Risk associated with unauthorised access, use, disclosure, modification or destruction of data, which can impact confidentiality, integrity, or availability	• Identifying and classify high-value information assets based on confidentiality and business criticality • Implementing intelligent data loss prevention controls to protect information against unauthorised access or disclosure • Managing role-based access to systems and data and controlled privileged IT access, supported by risk-based access and activity monitoring • Protecting internal and external information flows to ensure data completeness and integrity • Maintaining safeguards to protect confidential physical documents and facilitate secure destruction • Continually improving data breach monitoring and response in line with relevant privacy laws.

DEFINITION OF RISK	MANAGEMENT AND MITIGATION APPROACHES
Process failure	
Risk associated with inadequate internal processes, including human error and control failure within the business. This includes process origination, execution and operations	• Proactive assessment relating to new products and projects to identify and implement adequate and effective controls including the management of change • Addressing human errors through training, improvement of processes and controls, including automation of processes where possible • Segregation of duties and appropriate authorisation controls • Causal analysis is used to identify weaknesses in controls following the occurrence of risk events • Risk and performance indicators are used to monitor the effectiveness of controls across business units • Thematic reviews across business units to ensure consistent and efficient application of controls.
Regulatory compliance	
Risk associated with identification, implementation and monitoring of compliance with regulations	• Group compliance and group legal assist in the management of regulatory and compliance risk which includes the identification and adherence to legal and regulatory requirements • Aligning and effecting regulatory and compliance approach to reflect new regulatory landscapes particularly the change of regulatory structures (e.g. Transitioning from Ibor to Risk-Free Rates) • Managing business impact and implementation challenges as a result of significant volumes of statutory and regulatory changes and developments • Monitoring remains focused appropriately as areas of conduct and regulatory risk develop • Ensuring that the business is appropriately positioned to cope with the regulatory changes resulting from geopolitical risk.
Technology	
Risk associated with disruption to the IT systems which underpin our critical business processes and client services	• Implementing strategic roadmaps that leverage new technologies to enhance capacity, scalability, security, resilience and robustness and reduce reliance on legacy IT systems • Future-proof IT development and implementation in support of innovation and delivery at pace • Driving automation to reduce human error whilst enhancing efficiency • Continuing to align IT architecture and standards across the bank, to reduce technical complexity and leverage common functions and services • Enhancing proactive monitoring of the IT environment, for continual visibility of health and performance • Maintaining and test IT resilience capabilities to withstand failure and minimise service disruption.
Third party	
Risk associated with the reliance on, and use of a service provider to provide services to the bank	• Appropriate due diligence in place to access and approve third-party arrangements • Policies and practices include adequate guidance over the assessment, selection, suitability and oversight of third party service providers • Continuing to strengthen governance processes and relevant policies relating to how to identify, assess, mitigate and manage risks across the range of third party service providers • Repeatable processes to facilitate both upfront and periodic evaluation based on the size, materiality, security and service provision of the third party.

Insurance

The bank maintains adequate insurance to cover key insurable risks. The insurance process and requirements are managed by the group insurance risk manager. Regular interaction between operational risk management and insurance risk management ensures that there is an exchange of information in order to enhance the mitigation of operational risk.

Recovery and resolution planning

The purpose of the recovery plans is to document how the board and management will plan for recovery from extreme financial stress to avoid liquidity and capital difficulties in the bank. The plan is reviewed and approved by the IBL board on an annual basis.

The recovery plans for the bank:

- Integrate with existing contingency planning;
- Analyse the potential for severe stress in the bank;
- Identify roles and responsibilities;
- Identify early warning indicators and trigger levels;
- Analyses the effects of the stresses under various scenarios;
- Include potential recovery actions available to the board and management to respond to the situation, including immediate, intermediate and strategic actions; and
- Analyses the recovery potential as a result of these actions to avoid resolution.

Financial Stability Board member countries are required to have recovery and resolution plans in place for all systemically significant financial institutions. The South African PA has adopted this requirement and has to date required South African domestically significant banking institutions to develop recovery plans. Guidance issued by the Financial Stability Board and the South African PA has been incorporated into Investec's recovery plan.

The South African PA has continued to focus on banks' finalising their recovery plans and together with the South African Treasury are considering legislation to adopt a resolution framework. We will be subject to this legislation once it is adopted.

Reputational and strategic risk

Reputational risk is damage to our reputation, name or brand and is often associated with strategic decisions. It also arises as a result of other risks manifesting and not being appropriately mitigated.

The bank aspires to maintain an excellent reputation for entrepreneurship, strong risk management discipline, a client-centric approach and an ability to be flexible and innovative. The bank recognises the serious consequences of any adverse publicity or damage to reputation, whatever the underlying cause.

We have various policies and practices to mitigate reputational risk, including strong values that are regularly and proactively reinforced. We also subscribe to sound corporate governance practices, which require that activities, processes and decisions are based on carefully considered principles. We are aware of the impact of practices that may result in a breakdown of trust and confidence in the organisation. The bank's policies and practices are regularly reinforced through transparent communication, accurate reporting, continuous group culture and values assessment, internal audit and regulatory compliance review, and risk management practices. As one of our core values and philosophies, we demand cast-iron integrity in all internal and external dealings, consistently and uncompromisingly displaying moral strength and behaviour which promotes trust. Strategic and reputational risk is mitigated as much as possible through these detailed processes and governance/escalation procedures from business units to the board, and from regular, clear communication with shareholders, customers and all stakeholders. In addition, Investec group's policy is to avoid any transaction, service or association which may bring with it the risk of potential damage to our reputation. Transaction approval governance structures such as credit and new product committees have therefore been tasked with this responsibility in relation to all new business undertaken. A disclosure and public communications policy has also been approved by the IBL board.

Legal risk

Legal risk is the risk of loss resulting from any of our rights not being fully enforceable or from our obligations not being properly performed. This includes our rights and obligations under contracts entered into with counterparties. Such risk is especially applicable where the counterparty defaults and the relevant documentation may not support the anticipated rights and remedies in the transaction.

Our objective is to identify, manage, monitor and mitigate legal risks throughout the bank. We seek to actively mitigate these risks by identifying them, setting minimum standards for their management and allocating clear responsibility for such management to legal risk managers, as well as ensuring compliance through proactive monitoring.

The scope of our activities is continuously reviewed and includes, among other things, the following areas:

- Relationship contracts
- Legislation/governance
- Litigation
- Corporate events
- Incident or crisis management
- Ongoing quality control.

The legal risk policy is implemented through:

- Identification and ongoing review of areas where legal risk is found to be present
- Allocation of responsibility for the development of procedures for management and mitigation of these risks
- Installation of appropriate segregation of duties, so that legal documentation is reviewed and executed with the appropriate level of independence from the persons involved in proposing or promoting the transaction
- Ongoing examination of the inter-relationship between legal risk and other areas of risk management, so as to ensure that there are no 'gaps' in the risk management process
- Establishing minimum standards for mitigating and controlling each risk. This is the nature and extent of work to be undertaken by our internal and external legal resources

- Establishing procedures to monitor compliance, taking into account the required minimum standards
- Establishing Legal Risk Forums (bringing together the various legal risk managers) to ensure we keep abreast of developments and changes in the nature and extent of our activities, and to benchmark our processes against best practice.

Overall responsibility for this policy rests with the board. The board delegates responsibility for implementation of the policy to the global head of legal risk. The global head assigns responsibility for controlling these risks to the managers of appropriate departments and focused units throughout the bank.

Conduct risk

The South African regulators have renewed and refocused efforts to ensure that the South African financial sector provides clients with good-value products in order to receive and make payments, save, borrow and insure against daily risks. To this end, a strong market conduct policy is a critical pillar in building a financial sector that delivers these outcomes. The required structural regulatory reform has progressed, with the Financial Sector Regulation Act 9 of 2017 (FSR Act) which came into effect in April 2018, with the established two new Authorities, namely the South African PA and a dedicated market conduct Authority, the Financial Sector Conduct Authority (FSCA). The FSCA is responsible for the regulation and supervision of financial institution that provide financial products and financial services i.e. financial institutions that are licensed in terms of a financial sector law.

The FSCA's key objective is to enhance and support the efficiency and integrity of financial markets, to protect financial customers by promoting their fair treatment by financial institutions and financial inclusion. The FSCA expects all licensed financial institutions to act with integrity and to treat their customers fairly. Furthermore, the FSCA expects financial institutions to have a culture that is conducive to consumer protection and market integrity, supported by a conduct risk framework.

The draft Conduct of Financial Institutions Bill (COFI Bill) was published for comment in December 2018 and the submission date for commentary was 1 April 2019. It is envisaged that the COFI Bill, once enacted, will consolidate and strengthen conduct laws and further ensure financial inclusion and transformation of the financial sector. The Bill establishes binding principles that reflect the outcomes that the financial sector will be expected to meet. The next reiteration of the COFI Bill is expected to be published for public comment during the second or third quarter of 2020.

Culture and governance are the underlying themes of the COFI Bill and the FSCA's approach to supervising and regulating financial institutions with a focus on the conduct of both the individuals and financial institutions. The FSCA requires improvements in culture of the financial institutions, including ensuring appropriate governance frameworks. Furthermore the FSCA requires that the decision-makers are directly and personally held accountable for weak governance and abusive practices by the institution.

Our approach to conduct risk is driven by our values and philosophies, which include 'client focus' and 'cast iron integrity' and is aligned with the regulator's retail and wholesale conduct risk regime. The implementation of appropriate standards of conduct, aims to ensure that the bank and its subsidiaries operate responsibly, appropriately and with integrity in the wholesale and retail markets, with the fair treatment of customers being the highest priority. The bank ensures that its products and services are scrutinized and regularly reviewed to ensure that they continue to deliver value and perform as expected. The bank has furthermore enabled a business environment that is conducive to consumer protection and market integrity, supported with the appropriate conduct risk management framework and it continues to align its conduct framework to developing legislative requirements and applicable best practices.

Climate risk and opportunities

Our position on climate change

We recognise the complexity and urgency of climate change. The bank's environmental policy considers the risks and opportunities that climate change presents to the global economy. We believe that as a specialised financial services organisation and given our positioning in the developed and emerging worlds, we can make a meaningful impact in addressing climate change.

We support the Paris Agreement aims of holding the increase in global average temperature to well below 2°C above pre-industrial levels and continue to pursue efforts towards limiting it to 1.5°C. We also recognise the urgency and need to accelerate action which has been incorporated into our approach.

Climate related financial disclosures (TCFD)

The table below illustrates a summary of our progress in terms of the TCFD aligned with the Financial Stability Board Taskforce recommendations and is structured around four core elements: governance, strategy, risk management, and metrics and targets. Climate risk disclosure is an evolving process. As we receive guidance from our regulatory regimes and the relevant reporting frameworks, we will continue to engage constructively with various stakeholders to improve our disclosures in alignment with our commitment to climate action.

Refer to detailed information in our 2020 TCFD report on our website

	PRE FINANCIAL YEAR END MARCH 2020	FINANCIAL YEAR END MARCH 2020	FINANCIAL YEAR END TO MARCH 2021
Governance	• Strengthened the group climate change statement and policy on environment • Reviewed the group policy on environmental and social risk for both investing and lending activities • Reviewed the group policy on lending to the coal industry	• Assigned board responsibility and oversight for climate related risks and opportunities • Assigned senior management responsibility for climate related risks and opportunities • Published a public fossil fuel policy	• Review risk appetite statements and frameworks to include TCFD recommendations, guidance and parameters
Strategy	• Committed to support the objectives of the Paris Agreement • Acknowledged our support of the TCFD recommendations in our annual reporting	• Followed the Intergovernmental Panel on Climate Change (IPCC) mitigation pathway of limiting global temperatures to 1.5ºC • Committing to ongoing carbon neutral emissions across all operations • First bank in SA and the eighth bank in the UK banking and financial services sector to sign up to the TCFDs in August 2019	• Engage with supply chain and clients to fully understand the carbon intensity of their business and to support them in implementing carbon reduction strategies • Climate scenario analysis and reporting
Risk management	• Supported business through: – guidance on ESG related matters using in-house developed ESG guidebooks based on IFC guidelines and – *ad hoc* training and awareness on ESG matters	• Evaluated lending and investment portfolios for ESG risks • Evaluated lending and investment portfolios for climate related risks and opportunities • Evaluated exposure to fossil fuels	• Strengthen capabilities in ESG identification, screening, measurement and reporting in risk management processes
Metrics and targets	• Included non-financial and ESG related targets within executive remuneration with a total weighting of 20% of short-term incentives and 25% of long-term incentives • Implemented emission reduction targets within our operations relating to energy usage	• Achieved carbon neutral status across our global operations for emissions in the 2020 financial year • Committed to ongoing carbon neutral emissions across all operations • Disclosed our fossil fuel exposure and ESG risk exposure in our sustainability report	• Evaluate sourcing operational energy requirements from renewable energy providers • Include climate metrics in risk appetite indicators • Review climate-related targets for executive remuneration

Capital management and allocation

Current regulatory framework

IBL is regulated by the South African PA at three distinct reporting levels; Investec Limited (which is equivalent to the scope of the controlling company), IBL Consolidated (which is equivalent to the scope of the consolidated banking group) and IBL Solo (which is equivalent to the standalone bank company). IBL calculates capital resources and requirements using the Basel III framework, in accordance with the amended Regulations relating to Banks (the Regulations), which sets out, amongst other things, the prescribed minimum required capital ratios and various components of capital requirements. In addition the South African capital framework, based on the Basel III framework, is further specified in Banks Act Directive 6 of 2016 (the capital directive), which sets out matters related to the prescribed minimum capital ratios and the application of various components of the said capital requirements such as the systemic risk capital requirement (Pillar 2A), the domestic systemically important bank (D-SIB) capital requirements, the countercyclical buffer (CCyB) range and the capital conservation buffer (CCB) range. In accordance with the capital directive, IBL has fully phased in all minimum Basel III ratios and requirements.

During the 2020 financial year, IBL was once again identified as a South African D-SIB and complies with such prescribed higher loss-absorbency (HLA) requirements in line with the Regulations. In addition, IBL Consolidated has further been designated as a systemically important financial institution (SIFI) in accordance with section 29 of the Financial Sector Regulation Act 9 of 2017 (FSR Act). The designation as a SIFI will have certain implications for IBL, most notably, IBL will be subject to an open bank resolution framework as promulgated in the draft Financial Sector Laws Amendment Bill (FSLAB) of 2018. The South African PA published a supplementary document, “Ending too big to fail - South Africa’s intended approach to bank resolution”, of which the discussion paper sets out the South African PA’s intended approach to planning for and conducting an open-bank resolution. The FSLAB introduced a new tranche of loss-absorbing instruments, referred to as ‘flac’ instruments, which will be subordinated to other unsecured liabilities and be clearly intended for bail-in within an open-bank resolution. The calibration, appetite and characteristics of ‘flac’ is currently subject to rigorous industry debate and is expected to develop in line with the finalisation of the FSLAB during the 2020 calendar year. This is a new area of responsibility for both the South African PA and banks, and as more insights are gained, the contents of the paper and the impact on Investec will be refined during 2020.

The South African PA continuously assess IBL’s bank specific individual capital requirement (ICR), also known as Pillar 2B, as part of its Supervisory Review and Evaluation Process (SREP), of which ICR may be based on factors such as the outcome of a common stress test on management/board buffers and/or levels of economic capital to cover risks not regarded as Pillar 1 risks, as observed in the Internal Capital Adequacy Assessment Process (ICAAP). IBL maintains an additional discretionary capital buffer, above the specified minimum requirements, to ensure that the execution of internal business objectives and to prevent the group from falling below the relevant capital minima’s with the occurrence of adverse/unforeseen external stresses. In line with Banks Act Circular 6 of 2016, banks in South Africa should not disclose to the public their ICR or D-SIB capital add-on requirements as these are bank-specific that are based on a combination of various qualitative and quantitative factors that are not directly comparable across banks.

With effect 1 January 2016, all CCyBs should be incorporated into a weighted average CCyB calculation based on jurisdictional reciprocity. Reciprocity ensures that the application of the CCyB in each jurisdiction does not distort the level playing field between domestic banks and foreign banks with exposures to counterparties in the same jurisdiction. South Africa has not announced any CCyB requirements for 2020. As at 31 March 2020, IBL does not have any jurisdictional reciprocity CCyB add-on as calculated in accordance with Banks Act Directive 2 od 2018.

For the year ended 31 March 2020, Investec calculated its minimum capital requirements in respect of:

- Credit risk for the retail portfolios using the Advanced Internal Ratings Based Approach (AIRB), and wholesale portfolios using the Foundation Internal Ratings Based Approach (FIRB);
- Credit risk for Investec Bank Mauritius and non-bank subsidiaries using the standardised approach;
- CCR exposure using the current exposure method (CEM);
- Operational risk capital requirement on the standardised approach;
- Equity risk using the IRB approach by applying the simple risk-weight method; and
- Market risk using an internal risk management model, approved by the South African PA.

Management of each separately regulated entity within IBL, with the support of the group’s capital management functions, ensures that capital remains prudently above minimum requirements at all times.

Regulatory considerations

The regulatory environment has continued to evolve during 2019/2020, with a vast number of new consultations, regulatory technical standards, implementing technical standards and other proposals being published or adopted, by the BCBS and the South African PA.

During December 2019, the BCBS issued a consolidated Basel Framework. The framework brings together all of the BCBS’s global standards for the regulation and supervision of banks. The publication of the standards in the new format of the consolidated framework has focused on reorganising existing requirements, not introducing new requirements or otherwise amending the standards previously agreed and published by the BCBS. The preparation of the standards in the new format did, however, reveal some inconsistencies between Basel requirements as well as ambiguities that needed to be addressed through minor policy changes. Therefore, concurrent with the publication of the consolidated framework, the South African PA will publish a consultative document during 2020, that will outline the proposed changes to the South African banking regulations.

In addition, South African PA Communication 2 of 2020, issued under the FSR Act, sets out the South African PA's proposed revised implementation dates in respect of specific regulatory frameworks in South Africa as a result of the impact of COVID-19. The proposed implementation dates are informed by a number of considerations, including the actions taken by the relevant international standard-setting bodies; whether the implementation of the framework is aligned to the regulatory or supervisory actions taken by the South African PA to date in response to COVID-19 and South Africa's overall progress in the implementation of certain internationally agreed frameworks and their relevant implementation dates.

Most notably, the key frameworks that have been delayed that will have an impact on IBL includes: the Standardised Approach to Counterparty Credit Risk, (SA-CCR), capital requirements for banks exposures to central counterparties, and capital requirements for equity investments in funds that have been moved out to 1 January 2021 (from 1 October 2020) and the revisions to the securitisation framework and large exposures framework that has been moved to 1 April 2021 from 1 January 2021.

IBL continues to assess and monitor the impact of new regulations and regulatory reforms through participation in Quantitative Impact Studies submissions to the South African PA, contributing to industry consultations and discussion groups at the Banking Association of South Africa (BASA) and quantifying and presenting the impact of these reforms on IBL to the Capital Committees and to the board.

In addition to the actions taken by the South African PA on deploying monetary policy tools to mitigate the impact of COVID-19, the South African PA has provided for regulatory relief measures as well as guidance to banks in managing the crisis. With the exception of the LCR relief that is effective 31 March 2020, the remainder of the relief measures will be available to banks during the COVID19 stress period, effective from 6 April 2020, and adequate notice and phase back will be provided by the South African PA once the impact period is better understood. The regulatory relief measures are provided for in three areas, namely:

- Loans restructured as a result of the impact of COVID-19 will not attract a higher capital charge
- For the duration of the crisis, the LCR, the ratio setting out the liquid assets a bank must maintain in relation to its anticipated outflows, is being lowered from 100% to 80%
- Banks Act Directives 2 of 2020 outlines various measures to provide temporary capital relief to banks during COVID19 stress period, i.e. from 6 April 2020 until such further notice from the South African PA. These capital relief measures include:
  - The temporary relaxation of the Pillar 2A buffer to 0% (from 1%);
  - Permission to utilise the CCB and the D-SIB buffer, subject to prior approval from the South African PA; and
  - The add back of the Pillar 2A buffer for purposes of the minority capital calculation and the conservation of capital distributions.

It is important to note that the South African PA intends to phase-in/reinstate the Pillar 2A buffer post the COVID19 stress period.

The South African PA has further provided recommendations to banks in Guidance note 4 of 2020 regarding the distribution of dividends on ordinary shares and payment of cash bonuses to executive officers and material risk takers. The recommendations include:

- Banks should appropriately conserve capital to retain their capacity to support the real economy in an environment of heightened uncertainty caused by Covid-19
- Capital resources must continue to be available to support the real economy and to absorb losses in the immediate and medium to long term, and as such, the South African PA expects:
  - no distribution of dividends on ordinary shares and no payment of cash bonuses to executive officers and material risk takers, should take place in 2020
  - board of directors of a bank to take appropriate action in respect of any distributions on dividends that may have already been declared by the bank and in respect of the accrual, vesting and payment of variable remuneration.

Capital targets

Over recent years, capital adequacy standards for banks have been raised as part of attempts to increase the stability and resilience of the global banking sector. IBL has always held capital well in excess of regulatory requirements and the group continues to remain well capitalised. Accordingly, we are targeting a minimum common equity tier 1 capital ratio of above 10%, a tier 1 capital ratio of above 11% and a total capital adequacy ratio target in the range of 14% to 17%. These targets are continuously assessed for appropriateness.

The Investec Limited and DLC Capital Committees are responsible for ensuring that the impact of any regulatory change is analysed, understood, prepared and planned for. To allow the committee to carry out this function, the group's regulatory and capital management teams closely monitor regulatory developments and regularly present to the committee on the latest developments and proposals. As part of any assessment, the committee is provided with analysis setting out the group's capital adequacy position, taking into account the most up-to-date interpretation of the rule changes. In addition, regular sessions with the board are held to ensure that members are kept up to date with the most salient changes to ensure the impact on the group and its subsidiaries is monitored and understood.

Management of leverage

At present IBL calculates and reports its leverage ratio based on the latest South African PA regulations. The leverage ratio is a non-risk-based measure intended to prevent excessive build-up of leverage and mitigate the risks associated with deleveraging during periods of market uncertainty. The reporting of the leverage ratio in South Africa has been mandatory since 1 January 2013 as part of an exercise to monitor South African banks' readiness to comply with the minimum standard of 4% from 1 January 2018. Following guidance from the South African PA, IBL applies the rules as outlined in the most recent BCBS publication.

Leverage ratio target

IBL is currently targeting a leverage ratio above 6%.

Capital management

Philosophy and approach

IBL operates an approach to capital management that utilises both regulatory capital as appropriate to that jurisdiction and internal capital, which is an internal risk-based assessment of capital requirements. Capital management primarily relates to management of the interaction of both, with the emphasis on regulatory capital for managing portfolio level capital sufficiency and on internal capital for ensuring that returns are appropriate given the level of risk taken at an individual transaction or business unit level.

The determination of target capital is driven by our risk profile, strategy and risk appetite, taking into account regulatory and market factors applicable to the group. At the most fundamental level, we seek to balance our capital consumption between prudent capitalisation in the context of the group's risk profile and optimisation of shareholder returns.

Our internal capital framework is designed to manage and achieve this balance.

The internal capital framework is based on the group's risk identification, review and assessment processes and is used to provide a risk-based approach to capital allocation, performance and structuring of our balance sheet. The objectives of the internal capital framework are to quantify the minimum capital required to:

- Maintain sufficient capital to satisfy the IBL board's risk appetite across all risks faced by the group;
- Provide protection to depositors against losses arising from risks inherent in the business;
- Provide sufficient capital surplus to ensure that the group is able to retain its going concern basis under relatively severe operating conditions.

Capital planning and stress/scenario testing

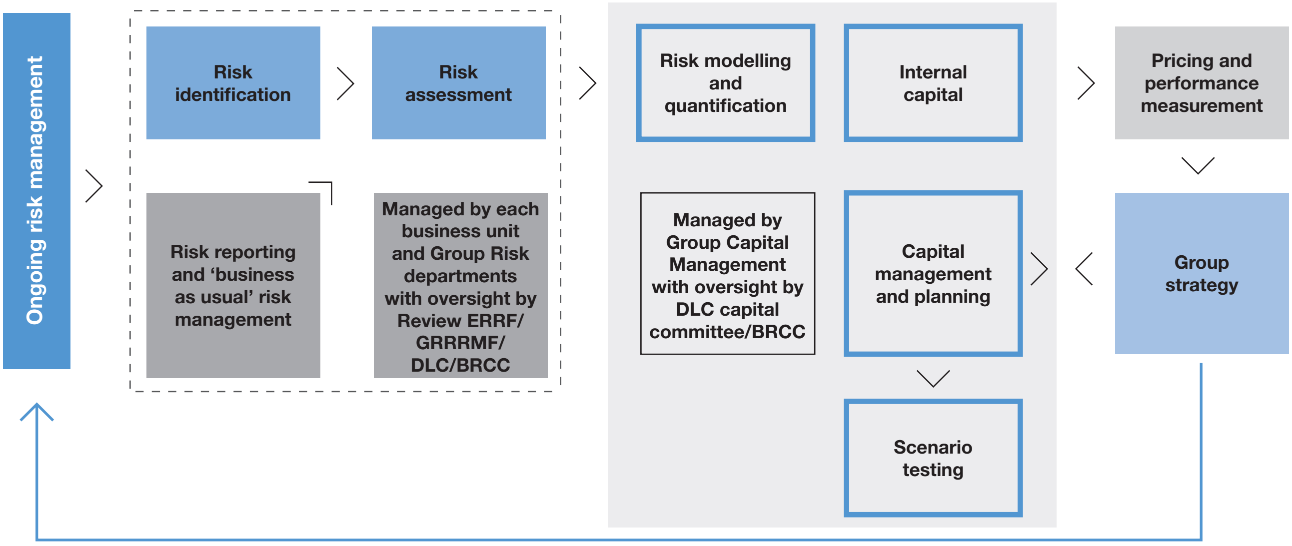
A capital plan is prepared and maintained to facilitate discussion of the impact of business strategy and market conditions on capital adequacy. This plan is designed to assess capital adequacy under a range of economic and internal conditions over the medium-term (three years), with the impact on earnings, asset growth, risk appetite and liquidity considered. The plan provides the IBL board (via the BRCC) with an input into strategy and the setting of risk appetite by considering business risks and potential vulnerabilities, capital usage and funding requirements given constraints where these exist.

Capital planning is performed regularly, with regulatory capital being the key driver of decision-making. The goal of capital planning is to provide insight into potential sources of vulnerability of capital adequacy by way of market, economic or internal events. As such, we stress the capital plans based on conditions most likely to place us under duress. The conditions themselves are agreed by the Limited and DLC Capital Committees after research and consultation with relevant internal experts. Such plans are used by management to formulate balance sheet strategy and agree management actions, trigger points and influence the determination of our risk appetite.

The output of capital planning allows senior management to make decisions to ensure that the group continues to hold sufficient capital to meet its regulatory and internal capital targets. On certain occasions, especially under stressed scenarios, management may plan to undertake a number of actions. Assessment of the relative merits of undertaking various actions is then considered using an internal view of relative returns across portfolios which are themselves based on internal assessments of risk and capital.

Risk management framework

The (simplified) integration of risk and capital management



Our capital plans are designed to allow senior management and the IBL board to review:

- Changes to capital demand caused by implementation of agreed strategic objectives, including the creation or acquisition of new businesses, or as a result of the manifestation of one or more of the risks to which we are potentially susceptible
- The impact on profitability of current and future strategies
- Required changes to the capital structure
- The impact of implementing a proposed dividend strategy
- The impact of alternate market or operating conditions on any of the above.

At a minimum level, each capital plan assesses the impact on our capital adequacy over expected case, upturn and downturn scenarios. On the basis of the results of this analysis, the Investec Limited and DLC Capital Committees and the BRCC are presented with the potential variability in capital adequacy and are responsible, in consultation with the IBL board, for consideration of the appropriate response.

Pillar 3 disclosure requirements

The Basel III framework is structured around three 'pillars' namely Pillar I minimum capital requirements, Pillar 2 supervisory review process and Pillar 3 market discipline. Pillar 3 aims to complement the other two pillars, by developing a set of disclosure requirements which will allow market participants to gauge the capital adequacy of a firm. The Pillar 3 disclosures for the 'silo' entity holding companies and its significant banking subsidiaries on a consolidated basis, will be available on the Investec group website.

Capital disclosures

The composition of our regulatory capital under a Basel III basis is provided in the table below.

Summary information on the terms and conditions of the main features of all capital instruments is provided on pages 225 to 230.

Capital structure and capital adequacy

	FIRB	Pro forma FIRB*	Standardised
R'million	**31 March 2020^**	31 March 2019^	31 March 2019^
Shareholders' equity	**39 754**	**39 770**	**39 770**
Shareholders' equity per balance sheet	41 288	41 304	41 304
Perpetual preference share capital and share premium	(1 534)	(1 534)	(1 534)
Regulatory adjustments to the accounting basis	**1 518**	**896**	**1 122**
Prudential valuation adjustment	(6)	(9)	(9)
Gains or losses on liabilities at fair value resulting from changes in our credit standing	(26)	(26)	(26)
Cash flow hedging reserve	1 550	931	931
Adjustment under IFRS 9 transitional arrangement	–	–	226
Deductions	**(2 721)**	**(3 426)**	**(2 741)**
Goodwill and intangible assets net of deferred tax	(496)	(588)	(588)
Investment in financial entity	(1 596)	(2 236)	(2 153)
Shortfall of eligible provisions compared to expected loss	(629)	(602)	–
Common equity tier 1 capital	**38 551**	**37 240**	**38 151**
Additional tier 1 capital	**751**	**920**	**920**
Additional tier 1 instruments	1 994	1 994	1 994
Phase out of non-qualifying additional tier 1 instruments	(1 227)	(1 074)	(1 074)
Investment in capital of financial entities above 10% threshold	(16)	–	–
Tier 1 capital	**39 302**	**38 160**	**39 071**
Tier 2 capital	**12 905**	**14 401**	**14 795**
Collective impairment allowances	895	483	877
Tier 2 instruments	12 037	13 918	13 918
Investment in capital of financial entities above 10% threshold	(27)	–	–
Total regulatory capital	**52 207**	**52 561**	**53 866**
Risk-weighted assets	**319 090**	**297 506**	**340 315**
Capital ratios			
Common equity tier 1 ratio	12.1%	12.5%	11.2%
Tier 1 ratio	12.3%	12.8%	11.5%
Total capital adequacy ratio	16.4%	17.7%	15.8%

* *We received approval to adopt the FIRB approach, effective 1 April 2019. We therefore also presented numbers on a pro forma basis for 31 March 2019.*
^ *IBL's capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, IBL's common equity tier 1 ratio would be 15bps lower (31 March 2019: 14bps lower).*

Capital management and allocation *(continued)*

Capital requirements

R'million	FIRB 31 March 2020	Pro forma FIRB* 31 March 2019	Standardised 31 March 2019
Capital requirements	**36 695**	**34 301**	**39 237**
Credit risk	30 653	28 546	33 341
Equity risk	1 726	1 863	1 863
Counterparty credit risk	1 016	600	732
Credit valuation adjustment risk	273	382	391
Market risk	478	381	381
Operational risk	2 549	2 529	2 529
Risk weighted assets	**319 090**	**297 506**	**340 315**
Credit risk	266 552	247 584	289 168
Equity risk	15 010	16 159	16 159
Counterparty credit risk	8 837	5 206	6 349
Credit valuation adjustment risk	2 371	3 310	3 392
Market risk	4 158	3 308	3 308
Operational risk	22 162	21 939	21 939

Leverage

R'million	FIRB 31 March 2020	Pro forma FIRB* 31 March 2019	Standardised 31 March 2019
Exposure measure	571 144	504 383	505 070
Tier 1 capital	39 302	38 160	39 071
Leverage ratio – current**	**6.9%**	**7.6%**	**7.7%**
Tier 1 capital 'fully loaded'^^	38 995	37 699	38 364
Leverage ratio – 'fully loaded'^^**	**6.8%**	**7.5%**	**7.6%**

* *We received approval to adopt the FIRB approach, effective 1 April 2019. We therefore also presented numbers on a pro forma basis for 31 March 2019.*
** *The leverage ratios are calculated on an end-quarter basis.*
^^ *The key difference between the 'reported' basis at 31 March 2020 and the 'fully loaded' basis primarily relates to capital instruments that previously qualified as regular capital, but do not fully qualify under South African PA regulations. These instruments continue to be registered on a reducing basis in the 'reported' figures until 2022.*

Movement in total regulatory capital

The table below analyses the movement in common equity tier 1, additional tier 1 and tier 2 capital during the year.

Total regulatory capital flow statement

R'million	31 March 2020	31 March 2019
Opening common equity tier 1 capital	**38 151**	**34 829**
New capital issue	899	–
Dividends	(1 236)	(1 022)
Profit after tax	3 090	4 963
IFRS 9 adjustments	–	(894)
Movement in other comprehensive income	(2 502)	299
Goodwill and intangible assets (deduction net of related tax liability)	92	(5)
Investment in financial entity	557	(41)
Shortfall of eligible provisions compared to expected loss	(629)	–
Gains or losses on liabilities at fair value resulting from changes in own credit standing	(1)	(25)
IFRS 9 transitional arrangements	(225)	225
Other, including regulatory adjustments and transitional arrangements	355	(178)
Closing common equity tier 1 capital	**38 551**	**38 151**
Opening additional tier 1 capital	**920**	**963**
New additional tier 1 capital issues	–	110
Investment in capital of financial entities above 10% threshold	(16)	–
Other, including regulatory adjustments and transitional arrangements	(153)	(153)
Closing additional tier 1 capital	**751**	**920**
Closing tier 1 capital	**39 302**	**39 071**
Opening tier 2 capital	**14 795**	**14 009**
New tier 2 capital issues	–	849
Redeemed capital	(3 175)	(1 210)
Collective impairment allowances	18	242
Investment in capital of financial entities above 10% threshold	(27)	–
Other, including regulatory adjustments and transitional arrangements	1 294	905
Closing tier 2 capital	**12 905**	**14 795**
Closing total regulatory capital	**52 207**	**53 866**

A summary of capital adequacy and leverage ratios

	FIRB	Pro forma FIRB*	Standardised
R'million	**31 March 2020^**	31 March 2019^	31 March 2019^
Common equity tier 1 (as reported)	12.1%	12.5%	11.2%
Common equity tier 1 ('fully loaded')^^	12.1%	12.5%	11.1%
Tier 1 (as reported)	12.3%	12.8%	11.5%
Total capital ratio (as reported)	16.4%	17.7%	15.8%
Leverage ratio** – current	6.9%	7.6%	7.7%
Leverage ratio** – 'fully loaded'^^	6.8%	7.5%	7.6%

* *We received approval to adopt the FIRB approach, effective 1 April 2019. We therefore also presented numbers on a pro forma basis for 31 March 2019.*

** *The leverage ratios are calculated on an end-quarter basis.*

^ *IBL's capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, IBL's common equity tier 1 ratio would be 15bps lower (31 March 2019: 14bps lower).*

^^ *The key difference between the 'reported' basis at 31 March 2020 and the 'fully loaded' basis primarily relates to capital instruments that previously qualified as regular capital, but do not fully qualify under South African PA regulations. These instruments continue to be registered on a reducing basis in the 'reported' figures until 2022.*

CREDIT RATINGS

In terms of our dual listed companies structure, creditors are ring-fenced to either Investec Limited or Investec plc as there are no cross-guarantees between the companies. Capital and liquidity are prohibited from flowing between the two entities and thus capital and liquidity are not fungible. As a result, the rating agencies have assigned separate ratings to the significant banking entities within the group, namely Investec Bank plc and Investec Bank Limited. Certain rating agencies have also assigned ratings to the holding companies, namely, Investec plc and Investec Limited. Our ratings for Investec Bank Limited and Investec Limited at 16 June 2020 were as follows:

RATING AGENCY	INVESTEC LIMITED	INVESTEC BANK LIMITED – A SUBSIDIARY OF INVESTEC LIMITED
Fitch		
Long-term ratings		
Foreign currency	BB	BB
National	AA(zaf)	AA(zaf)
Short-term ratings		
Foreign currency	B	B
National	F1+(zaf)	F1+(zaf)
Viability rating	bb	bb
Support rating	5	3
Moody's		
Long-term ratings		
Foreign currency		Ba1
National		Aa1.za
Short-term ratings		
Foreign currency		NP
National		P-1(za)
Baseline Credit Assessment (BCA) and adjusted BCA		ba1
S&P		
Long-term ratings		
Foreign currency		BB-
National		za.AA
Short-term ratings		
Foreign currency		B
National		za.A-1+
Global Credit Ratings		
Local currency		
Long-term rating		AA(za)
Short-term rating		A1+(za)
International		
Long-term rating		BB

The bank's internal audit function forms part of the Investec Limited function. In combination, the functions cover all the geographies in which Investec Limited operates. These functions use a global risk-based methodology and cooperate technically and operationally.

Internal audit reports at each Investec Bank Limited and Investec Limited Audit Committee meeting and has a direct reporting line to the chairman of these committees as well as dotted lines to the chief executive officer. For administrative purposes, the Investec Limited head of internal audit also reports to the global head of corporate governance and compliance. The function operates independently of executive management, but has regular access to the Investec Bank Limited and group chief executive officer and to business leaders. The function complies with the International Standards for the Professional Practice of Internal Auditing, and is subject to an independent Quality Assurance Review (QAR) at appropriate intervals. A QAR review has recently been undertaken covering Investec Bank Limited methodology and international best practice which indicated that Internal Audit is generally compliant with the requirements of the global Institute of Internal Auditors (IIA) standards as well as King IV and the Banks Act.

Annually, internal audit conducts a formal risk assessment of the entire business from which a comprehensive risk-based audit plan is derived. The assessment and programme are validated by executive management and approved by the responsible audit committee. Very high risk businesses and processes are audited every six to twelve months, with other areas covered at predetermined rotational intervals based on their risk profile. There is an ongoing focus on identifying fraud risk as well as auditing technology risks given the bank's dependence on IT systems. Thematic audits, which cover processes across multiple business units, are part of the audit plan and serve to provide consistent and integrated assurance between group functions and the operating entities. Internal audit also liaises with the external auditors and other assurance providers to enhance efficiencies in terms of integrated assurance. The annual plan is reviewed regularly to ensure it remains relevant and responsive, given changes in the operating environment. The audit committee approves any changes to the plan.

Significant control weaknesses are reported, in terms of an escalation protocol, where remediation procedures and progress are considered and monitored in detail by management. The audit committees receive a report on significant control issues and actions taken by management to enhance related controls. An update on the status of previously raised issues is provided by internal audit to the Investec Bank Limited and Investec Limited audit committees.

Internal audit's activity is governed by an internal audit charter which is approved by the group audit committees and is reviewed annually. The charter defines the purpose, authority and responsibilities of the function

Internal Audit proactively reviews its practices and resources for adequacy and appropriateness to meet an increasingly demanding corporate governance and regulatory environment, including the requirements of King IV in South Africa. The audit teams comprise well-qualified, experienced staff to ensure that the function has the competence to match Investec Limited's diverse requirements, which is assessed annually by the respective audit committees with no adverse outcomes. Where specific specialist skills or additional resources are required, these are obtained from third parties. Internal audit resources are subject to review by Investec Bank Limited and Investec Limited audit committees to ensure resourcing is appropriate, that the function operates independently and effectively, and appropriate succession planning is in place.

Regulatory change continues to be a key feature in the financial sector with ongoing global political events adding uncertainty as to the shape of financial services regulation going forward. Technological risk and social concerns, including environmental sustainability, are increasingly being addressed through regulation.

Global regulators expect financial services institutions to implement robust governance arrangements to enhance stability and ensure financial services are delivered in an appropriate manner. Regulators continue to focus on promoting resilience in financial markets, with sustained emphasis on recovery and resolution plans and structural enhancements to the banking sector as well as customer and market conduct related reforms.

Non-financial risks such as cybersecurity breaches and employee misconduct are a focus for regulators to ensure that consumers are appropriately protected and that stakeholders are treated appropriately. The maintenance of data quality and security remains a high priority for the banking industry and its regulators, in order to increase the efficiency of delivery and strengthen oversight.

The bank remained focused on maintaining the highest levels of compliance in relation to regulatory requirements and integrity in each of our jurisdictions. Our culture is central to our compliance framework and is supported by robust policies, processes and talented professionals who ensure that the interests of our customers and shareholders remain at the forefront of everything we do.

Year in review

Changes to the regulatory landscape in South Africa

Regulatory developments in the South African financial sector are ongoing. The two new authorities, namely the Financial Sector Conduct Authority (FSCA) and the South African PA became effective from April 2018. The FSCA has proceeded with its mandate as the conduct regulator responsible for the regulation and supervision of financial institutions, that provide financial products and financial services i.e. financial institutions that are licensed in terms of the financial sector law. The South African PA continues with its mandate to prudentially regulate financial institutions by supervising the financial safety and soundness of financial institutions. The regulatory reform will continue for at least the next couple of years.

Conduct risk and consumer protection

The draft Conduct of Financial Institutions Bill (COFI) was published by the FSCA for comment in December 2018. The intention is that the COFI legislation, once enacted, will consolidate and strengthen conduct laws and ensure financial inclusion and transformation of the financial sector. The next reiteration of the COFI Bill is to be published for public comment in the second or third quarter of 2020.

Other significant, relevant regulatory developments impacting Investec include the Insurance Act; Draft Central Counterparty (CCP) licence applications; external CCP and Trade Repository (TR) licence and Impact assessment; Draft Equivalence Framework External TRs; CCPs and Central Securities Depositories; Joint standard margin requirements for non-centrally cleared Over-the-Counter derivative transactions; the reports for the Retail Banking Diagnostic (including requests from the FSCA to the banking sector in response to the findings in the report); the Wholesale Financial Markets Review; the Retail Distribution Review proposals and the Draft Conduct Standard for Banks.

The Information Regulator has written to President Cyril Ramaphosa requesting the proclamation of the remaining sections of the Protection of Personal Information Act (the Act) be effective by the new financial year. In addition, the Information Regulator has published a second draft of the Guidelines for Codes of Conduct for specific sectors as allowed for by the Act. As part of the transitional arrangements, organisations will be required to be fully compliant within one year after commencement of the Act.

The General Data Protection Regulation (GDPR) applies since the 25 May 2018. GDPR brings about a single set of data protection rules for all organisations who provide goods and services or monitor the behaviour of residents in the European Union and United Kingdom, regardless of where the organisations are based.

In order to ensure that Investec Limited complies with all applicable data protection legislation, the requirements of PoPIA and GDPR have been aligned.

Financial crime

Financial crime remains a key regulatory focus for the bank. The economic and social impact of financial crime within South Africa, especially corruption, has led us to continuously monitor local and global developments and assimilate these into our AML, CFT, Sanctions and anti-bribery and corruption practices.

Changes introduced by the Financial Intelligence Centre Amendment Act, 2017 (Act No. 1 of 2017) placed more ownership on financial institutions to design control mechanisms commensurate to its risks, which in turn enabled the bank to focus its efforts on perceived higher risks. We have embraced the use of technology to aid in understanding our client risk profiles and improve our ability to monitor client transactions and behaviour.

Tax reporting (FATCA/CRS)

South Africa and Mauritius have inter-governmental agreements in place with the USA and each have enacted local law/regulation to implement FATCA. This allows South Africa and Mauritius to be treated as participating countries. This means that financial institutions in these countries report information annually on US clients (or non-compliant clients) to the South African Revenue Services (SARS) and the local Mauritian authority respectively. These authorities in turn exchange information with the USA which reciprocates with similar information (on South African and Mauritian tax residents respectively who hold financial accounts in the US). Both South Africa and Mauritius are in the process of preparing their sixth annual FATCA reports.

The CRS became effective in South Africa on 1 March 2016. South Africa opted for the 'wider-wider approach' which means that all South African reporting financial institutions, are required to collect tax-related information on all clients, rather than only in respect of the 102 countries which have currently opted into CRS. Consistent with the FATCA reporting regime, CRS reportable information is submitted to SARS annually. SARS then exchanges this information with relevant countries in return for reciprocal information on South Africans with financial accounts in those countries. South Africa is in the process of preparing its fourth annual CRS report. Mauritius conducted its first exchange of information in 2018 and is in the process of preparing its third annual CRS report.

The OECD recently published Mandatory Disclosure Rules (MDR) that aim to provide tax administrations with information on CRS avoidance arrangements and opaque offshore structures, including the users of those arrangement and structures and those involved with facilitation. SARS recently published draft revised CRS regulations and has proposed to include the MDR requirements in these revised regulations. The industry is pushing back on the effective date for implementation of MDR.

Chairman's introduction

I would like to present the annual corporate governance report for the year ended 31 March 2020, which describes our approach to corporate governance.

IBL is a wholly owned subsidiary of Investec Limited. Investec Limited and Investec plc are managed as a single economic enterprise as a result of the dual listed company (DLC) structure. The DLC board is responsible for statutory matters and corporate governance for the Investec group and sets the standards for the subsidiaries of the Investec group. The bank board is responsible for the oversight of statutory matters and corporate governance for the bank, and to ensure compliance with applicable legislation and governance requirements of the jurisdictions within which the bank operates. Stakeholders are therefore encouraged to read this report in conjunction with the Investec group corporate governance report, which provides a more detailed review of corporate governance from the DLC level, including further information on the duties and roles of the committees that operate at a DLC level and an explanation of how the regulatory and statutory duties of these committees are discharged.

Before going into the details of our governance, I would like to reflect on the board's achievements and the challenges encountered over the past year and to consider the key areas of focus for the board in the year ahead.

The past year in focus

A year of change

Significant change, and in particular the ability of the Investec group and the bank to prosper throughout change, has been a more evident theme than ever over the past year. Externally, the operating environment remained challenged over the year, with confidence impacted by muted economic growth in South Africa and global trade tensions. Economies experienced further volatility in the fourth quarter of the financial year as a result of the global outbreak of the COVID-19 pandemic. Internally, the Investec group continued to make progress in its strategy to simplify and focus the business in pursuit of disciplined growth in the long term, with the completion of the demerger and separate listing of the Asset Management business, which was successfully completed in March 2020, with the formation of Ninety One.

The simplification of the Investec group allows the banking and wealth businesses to focus on their growth plans, and to build on the current and potential linkages between the businesses, with enhanced collaboration between the key geographies within which the banking business operate.

The board has itself seen significant change, including the appointment of two new independent non-executive directors. This, and other board and leadership changes, have been delivered through planned and structured succession.

Board succession

As noted above, the composition of the board has continued to evolve, through planned succession and in accordance with the Prudential Authority's directive 4/2018. The changes that have been implemented have sought to ensure that the bank board has a majority of non-executive directors in relation to executive directors, and also ensure that the majority of non-executive directors are independent. With regards to independent non-executive directors, the bank has also sought to ensure that there is an appropriate balance of independent directors who also serve only on the IBL board, and independent directors who also serve on the group board.

The board appointed two non-executive directors, Morris Mthombeni and Geoffrey Qhena, in March 2020. These appointments will further strengthen the board's independent governance, ensuring that the board has a majority of non-executive directors in relation to executive directors and that the majority of non-executive directors are independent. The appointments of Morris and Geoffrey will also strengthen the collective skills, knowledge and experience of the board.

Stuart Spencer succeeded Nishlan Samujh as Finance Director with effect from 14 May 2019. Stuart has been with the Investec group since 2000 holding a variety of roles within the bank. We know that with his deep knowledge and experience of Investec and the banking sector, he will build upon the work of his predecessor.

We are immensely grateful to Nishlan for his contribution to the bank, and congratulate him on his appointment as an executive director of Investec Limited and Investec plc. We are pleased that the Investec group and the bank will continue to benefit from Nishlan's extensive skills, knowledge and experience in his new position.

Peter Thomas, a non-executive director, has served on the board for more than nine years, and in terms of the Prudential Authority's directive 4/2018 can no longer be considered independent. He will accordingly not stand for re-election at the 2020 annual general meeting (AGM). The board offers its sincere thanks to Peter for his long service, dedication and contribution to the bank.

The Investec group board announced their intention, subject to regulatory approval, to appoint Richard Wainwright, CEO of IBL and head of the South African Specialist Banking business, as an executive director of Investec Limited and Investec plc.

Diversity

Our continued dedication to attracting, growing and retaining a diverse team of talented people is vital to our ability to be an innovative organisation that can adapt and prosper in a fast-changing world. The bank's commitment to transformation remains firm, with the advancement of our employment equity plan, which is intended to address key transformation issues within the organisation. We continue to strive to achieve more diversity in all areas of the business, with a focus on improving the diversity of our workforce in regard to gender, race, sexual orientation, gender identity, disability, age and religion in order to foster diversity of thought.

Having a diverse board is and remains important to the bank, bringing indisputable benefits, including different outlooks, alternative points of view, and mindsets able to challenge the status quo. We have a board diversity policy, setting out the targets for board composition in terms of gender and race. As at 31 March 2020, there was one female board member, and five black persons as defined in the Financial Sector Code.

During the course of this year the board will be particularly focused on improving gender representation on the board.

Strategic vision

The board has continued to exercise leadership, integrity and judgment in pursuit of the bank's strategic goals and objectives.

Our key strategic priorities, as identified by the Investec group, include capital discipline, growth initiatives, cost management, digitalisation and improved connectivity. This will bring greater focus and simplicity to the bank and the Investec group, and enable our businesses to grow with discipline. Through the One Investec initiative, the specialist banking and wealth businesses are working together to build on the compelling linkages between the businesses, to enhance the services we are able to provide to our clients, and to increase the benefits for all our stakeholders. This will position Investec for sustainable long-term growth.

In these unprecedented times of COVID-19, our primary objectives are to ensure the wellbeing and safety of our employees and to support our clients and communities. By doing this we will in the long term continue to retain and attract top talent, gain client market share and deliver to the triple bottom line while balancing shareholder and societal returns.

Board effectiveness

The board's annual effectiveness review provides an opportunity to reflect on activities during the year, including the quality of our deliberations and decisions, and the contributions of individual members. Last year, Professor Robert Goffee conducted an independent review. The board has considered and implemented a number of the key findings and recommendations. In the current year the review was conducted by means of a self-evaluation questionnaire, and interviews with the chairman.

The findings of the 2019 effectiveness review were collated and presented at the January 2020 meeting of the DLC Nomdac, and the February 2020 board meeting. Overall, the board members were satisfied with board governance and functioning. The review identified the particular strengths of the board to be the composition of the board, the provision of information to the board and the board's overarching effectiveness. The suggested areas for potential improvement included an increased focus on strategy, the consideration of culture in a period of management change and enhancing the skills and experience of the board with specific banking skills, which has subsequently been addressed with the recent appointment of two independent non-executive directors. The board, with the assistance of the DLC Nomdac, will continue to monitor the actions resulting from the board effectiveness review as the year progresses.

Governance

Governance continued to be a key focus for the board during the year, with consideration focused on the requirements of the South African Banks Act 94 of 1990 (the South African Banks Act), the South African Companies Act, No 71 of 2008, as amended, (the South African Companies Act), the King IV code and Directive 4/2018 as issued by the South African Prudential Authority.

The embedding of the bank's new governance arrangements, following the establishment of the bank's independent Audit Committee and Board Risk and Capital Committee (BRCC) in the previous financial year, has been a primary focus of the prior year. The board has been particularly conscious of ensuring that the committees operate with clearly defined responsibilities and accountabilities, in order for the committees to be able to operate effectively, minimise duplication of discussion that has taken place at other committees and provide a clear process for escalation of matters to the board.

To support the interconnection between the board and the Investec group board, as we continue to enhance the bank's independent governance framework with the appointment of additional non-executive directors independent of the Investec group, and the establishment of independent board committees. We have sought to maintain a proportion of independent non-executive directors on the board and the board committees, who also sit on the Investec group board and board committees. This will ensure that we continue to maintain a productive and effective relationship between the bank and the Investec group.

In May 2020, the bank also formed an independent Remuneration Committee, to further strengthen the independence of the bank. The implementation of this committee, and the embedding of the IBL Audit Committee and IBL BRCC, will be a key focus of the board in the coming year.

Culture

Our commitment to the Investec culture has continued to ensure extraordinary client engagements, risk consciousness and progress towards the achievement of our strategic objectives.

Culture is, however, dynamic and the board recognises that it must evolve over time. The organisation has long had a culture of high performance, which requires dedication to cost discipline whilst continuing to foster an entrepreneurial spirit. The board recognises the central role it plays in ensuring the organisation's values, strategy and business model are aligned to its culture and purpose. Retaining the strong culture within the bank is now more important than ever as the group transitions from a founder-led organisation to a professionally-led organisation.

The year ahead

As the year drew to a close, we faced the challenges resulting from the COVID-19 pandemic. Similar to other organisations, we have taken decisive action to help ensure the welfare of our people, to assist our clients, to support our community, to work with the initiatives put forward by the governments in the jurisdictions in which we operate, and to manage the heightened risk environment. There remains uncertainty as to the depth of the potential downturn in activity, the duration of restrictive measures and the exit plans within the geographies in which we operate. At the present time it is difficult to predict the full impact that the pandemic will have on the bank. The board will continue to meet regularly, on a virtual basis, to ensure that all key aspects of the challenges posed by COVID-19 are given our full attention.

The board will continue to focus on those matters that will enable disciplined growth and enhance both the service to our clients and returns for our shareholder, including cost management; greater connectivity both with the wealth business in the South Africa and across geographies with the wealth and banking businesses in the UK; and developing and enhancing our digital capabilities. A key function of the board will be to oversee the delivery of our strategic priorities, whilst ensuring adherence to good corporate governance and sound decision making. This will include a full and proper regard to the environmental impact of our activities, the interests of all our stakeholders, including our clients, our shareholder, our employees, our regulators and the communities within which we operate.

Conclusion

We will continue to integrate social, ethical and environmental considerations into our day-to-day operations and our sustainability approach will continue to be based on the integration of people, planet and profit.

The aim of the bank is to remain domestically relevant and internationally networked and to showcase and leverage our global capabilities to our clients. IBL continues to work on innovation to enhance the client experience. All activities are aligned around client focus, growth and providing wealth creation opportunities across jurisdictions.

In conclusion our immediate focus, in these unprecedented times, is the wellbeing and safety of our employees and clients. We have acted decisively to support our people, clients and communities throughout this time to ensure we deliver to our clients the excellence of service that they expect and value.

Over the following pages, you will find more detail on our governance framework, including the composition of the board and management team, how we make decisions and what they have done over the past year in terms of their leadership, strategic direction, and oversight of the organisation. We trust that this report, together with the 2020 integrated report and financial statements, will provide you with an overview of how the bank is managed and how stakeholders' interests are protected.

Khumo Shuenyane
16 June 2020

Within this report you will find:

Director biographies

Biographies of our current directors are outlined below, including their relevant skills and experience, key external appointments and any appointments to board committees.

Khumo L Shuenyane

Chairman

Age: 49

Qualifications: *BEcon,CA (England and Wales)*

Relevant skills and experience

Khumo has served as an independent non-executive director of Investec Limited and Investec Plc since 2014. He also serves on the boards of a number of other companies within the Investec Group, including Investec Bank Limited, Investec Life Limited and Investec Property Fund Limited. He was appointed Chairman of Investec Bank Limited in 2018.

Khumo has been appointed as an independent non-executive director of Vodacom Group Limited with effect from 1 July 2020. He previously worked with Delta Partners, a global advisory firm headquartered in Dubai and focused on the telecoms, media and technology sectors, in various capacities for six years from 2014. Between 2007 and 2013 Khumo served as Group Chief Mergers & Acquisitions Officer for MTN Group Limited and a member of its Group Executive Committee.

Khumo previously worked for Investec Bank for nine years, serving as head of Principal Investments for three years and a member of Investec's corporate finance team before that. Prior to joining Investec in 1998, Khumo worked for Arthur Andersen in Birmingham, UK and in Johannesburg for six years from 1992. He qualified as a member of the Institute of Chartered Accountants in England & Wales in 1995.

External appointments

None

Committee membership

IBL BRCC, DLC Nomdac, IBL Remuneration Committee and DLC SEC

Date of appointment

8 August 2014

Zarina BM Bassa

Independent non-executive director

Age: 56

Qualifications: *BAcc, DipAcc, CA(SA)*

Relevant skills and experience

Zarina is a former partner of Ernst & Young Inc. She joined the Absa Group in 2002 and was an executive director of Absa Bank, a member of the group's executive committee, and Head of the Private Bank. She has previously chaired the South African Public Accountants' and Auditors' Board and the South African Auditing Standards Board and has been a board member of the Accounting Standards Board and a member of the JSE GAAP Monitoring Panel. Zarina has previously served as a non-executive director at several companies including the South African Institute of Chartered Accountants, Kumba Iron Ore Limited, Sun International Limited, Vodacom South Africa Proprietary Limited, Mercedes SA and the Financial Services Board. Zarina was appointed to the boards of Investec Limited and Investec plc on 1 November 2014, and as the senior independent non-executive director of Investec group on 1 April 2018.

External appointments

Oceana Group Limited, YeboYethu Limited, Woolworths Holdings Limited and JSE Limited

Committee membership

IBL Audit Committee (chair), IBM Audit Committee, IBL BRCC, DLC Nomdac and IBL Remuneration Committee

Date of appointment

1 November 2014

David Friedland

Independent non-executive director

Age: 66

Qualifications: *BCom, CA(SA)*

Relevant skills and experience

David is a former partner of both Arthur Andersen and KPMG Inc. where he also served as head of audit and risk in the KPMG Inc. Cape Town office before leaving in March 2013. David was appointed to the boards of Investec Limited and Investec plc on 1 March 2013.

External appointments

The Foschini Group Limited, Pick n Pay Stores Limited and Pres Les Proprietary Limited

Committee membership

IBL BRCC (chairman) and DLC Nomdac

Date of appointment

1 March 2013

David M Lawrence

Deputy chairman

Age: 69

Qualifications: *BA (Econ) (Hons), MCom*

Relevant skills and experience

David's early career was spent as an Economist at the Chamber of Mines (South Africa), subsequently working for the office of the Economic Advisor to the Prime Minister. He joined CitiBank (South Africa) in 1977 eventually becoming chairman and managing director. In 1987, First National Bank acquired CitiBank's business and it became FirstCorp Merchant Bank where David held the position of managing director. David joined Investec in 1996 as managing director, Corporate and Investment Banking.

External appointments

JSE Limited

Committee membership

IBL BRCC, IBM Audit Committee

Date of appointment

1 July 1997

Philip A Hourquebie

Independent non-executive director

Age: 66

Qualifications: *BAcc, BCom (Hons), CA(SA)*

Relevant skills and experience

Philip has been a longstanding Regional Managing Partner of two regions of Ernst & Young Inc. (Africa and Central and South East Europe, including Turkey). Philip left Ernst & Young Inc. in 2014. As a senior partner at Ernst & Young Inc., Philip's background is in the advisory services in both the private and public sector. As an advisory partner and senior client service partner, he has worked, *inter alia*, with clients in financial services, mining, telecommunications, consumer products and retail, state-owned enterprises, government agencies and government departments at all three levels. Philip has also been a past chair of the board of South African Institute of Chartered Accountants (SAICA).

External appointments

Aveng Limited

Committee membership

IBL Audit Committee, IBL BRCC, DLC Nomdac and IBL Remuneration Committee (chairman)

Date of appointment

12 December 2018

Morris Mthombeni

Independent non-executive director

Age: 46

Qualifications: *B Juris, B Proc, LLB, MBA, PhD*

Relevant skills and experience

Morris has served as an independent non-executive director since March 2020. With effect from 1 July 2020, he has also been appointed Interim Dean at the Gordon Institute of Business Sciences. Morris joined GIBS in 2014 where he rose to be the lead faculty member in the fields of corporate governance and corporate strategy. He was appointed executive director of faculty in 2017. In this role he was responsible for developing and transforming the GIBS team of academics. Previously, Morris held several senior positions in financial services including his role as CEO of Momentum Investments, and Executive Director of Momentum Metropolitan Holdings (previously known as MMI Holdings). Overall his business and financial services experience span a 29-year period.

External appointments

GIBS, Inno-Phemba Investments, Stangen and Relyant Life Assurance

Committee membership

IBL BRCC

Date of appointment

2 March 2020

Mvuleni Geoffrey Qhena

Independent non-executive director

Age: 54

Qualifications: *CA(SA), BCom (Hons) (UNISA), SEP (Wits and Harvard), Advanced Tax Certificate (UNISA)*

Relevant skills and experience

Geoffrey served as the chief executive officer and managing director of the Industrial Development Corporation (IDC) of South Africa Limited from 2005 to 2018, having previously served as its chief financial officer between 2003 and 2005. He was with the IDC for twenty years. He completed his articles with KPMG, lectured at the University of Johannesburg and acted as senior manager of restructuring for Transnet Group.

External appointments

Trustee at The SA Red Cross Air Mercy Services Trust

Committee membership

IBL Audit Committee, IBL BRCC and IBL Remuneration Committee

Date of appointment

2 March 2020

Peter RS Thomas

Non-executive director*

Age: 75

Qualifications: *CA(SA)*

Relevant skills and experience

Peter served as the managing director of The Unisec Group Limited. Peter has broad experience in finance and has been a director of numerous industrial companies. He also has an extensive background in commercial accounting.

External appointments

Boschendal Investment Company Proprietary Limited and JCI Limited

Committee membership

IBL BRCC, DLC Nomdac and DLC SEC

Date of appointment

1 July 1997

* *In accordance with the Prudential Authority's directive 4/2018, Peter was no longer considered to be independent with effect from 1 April 2020*

*Stuart Charles Spencer**

Finance director

Age: 51

Qualifications: *B Com (UCT), Postgraduate Diploma in Accounting (UCT), CA(SA)*

Relevant skills and experience

Stuart completed his articles at Deloitte & Touché in Johannesburg in 1994, and spent the next few years based in the UK, contracting to major international banks and travelling around the world.

He joined IBL in January 2000 and in 2004 was appointed as chief financial officer of Investec Corporate & Institutional Banking (ICIB) and in January 2006 he took on the role of chief operating officer of ICIB, a position he held until March 2012.

In March 2012 he was appointed as chief operating officer of Investec Specialist Bank, which responsibilities include finance functions, responsibility for Information Technology, Facilities, Operations and Project delivery. In May 2019 he was appointed as finance director of IBL.

External appointments

None

Committee membership

None

Date of appointment

14 May 2019

** Appointed as finance director of IBL effective from 14 May 2019*

Richard J Wainwright

Chief executive officer

Age: 57

Qualifications: *BCom (Honours: Fin Man), CTA, CA(SA)*

Relevant skills and experience

Richard has been the CEO of IBL since 2016

Richard started his career in 1985 at Price Waterhouse where he spent seven years, with two of those years in the Philadelphia USA office. In 1992, he proceeded to join NDH Bank and stayed for a year. In 1993, together with other management members from NDH Bank, he founded Circle Risk Management Limited (a financial services company, held 65% by NBS Bank that carried out financial market trading activities and investment banking. Richard was the Financial Director). He joined IBL in 1995 in the Specialised Finance division as a structured finance consultant specialising in derivative and tax structuring. In 1996 he started both the Financial Products (FP) and Project Finance divisions and in 2003 was appointed the head of Investec Corporate and Institutional banking division which he ran until 2016. In June 2020, it was announced that Richard had been appointed an executive director of Investec Limited and Investec plc, subject to regulatory approval.

External appointments

Deputy chair of the Banking Association of South Africa (BASA) and chairman of the Audit and Risk Committee

Committee membership

IBL BRCC

Date of appointment

1 February 2016

Fani Titi

Executive director

Age: 57

Qualifications: *BSc (cum laude), BSc Hons (cum laude) in Mathematics, MA in Mathematics, MBA*

Relevant skills and experience

Fani has been a member of the boards of Investec Limited and Investec plc since January 2004 and was non-executive chairman of Investec Limited and Investec plc from November 2011 until 15 May 2018. He has also been a member of the IBL board from July 2002, and the IBP board from August 2011. He has served on the board of Investec Asset Management from November 2013 and remains on the board of the newly listed Ninety One as a non-executive director. Fani was a founding member of the private investment group Kagiso Trust Investments Limited (now Kagiso Tiso Holdings), and later cofounded and led the public offering of Kagiso Media Limited on the JSE Limited as its CEO. Fani was subsequently the founding executive chairman of the private investment firm the Tiso Group, which subsequently merged with Kagiso Trust Investments to form Kagiso Tiso Holdings. Fani stepped down from the Tiso Group in 2008 to concentrate his time on his duties at the Investec group, while also looking after his private investment portfolio. Fani has over two decades of investment banking experience and has sat on the boards of different investee companies and JSE listed companies. Fani has also joined the Secretary General of the United Nations CEO Alliance on Global Investors for Sustainable Development (GISD). Fani was appointed joint group chief executive officer of Investec group on 1 October 2018 and following the demerger and separate listing of Ninety One, became the sole chief executive officer of the group.

External appointments

Ninety One plc

Committee membership

IBL BRCC and DLC SEC

Date of appointment

3 July 2002

Who we are

Governance framework

IBL is a wholly owned subsidiary of Investec Limited. Investec operates under a DLC structure and considers the corporate governance principles and regulations of both the UK and South Africa before adopting the higher standard for the group, which also complies with requirements in both jurisdictions.

From a legal perspective, the DLC is comprised of:

- Investec plc – a public company incorporated in the UK and listed on the London Stock Exchange (LSE) with a secondary listing on the JSE; and
- Investec Limited – a public company incorporated in South Africa and listed on the JSE, with secondary listings on the Namibia Stock Exchange and the Botswana Stock Exchange.

The governance structure of the bank was enhanced during the financial year ended 31 March 2019, with the addition of an independent Audit Committee and BRCC, to assume responsibilities that had previously been delegated to the Investec Limited and DLC BRCC respectively.

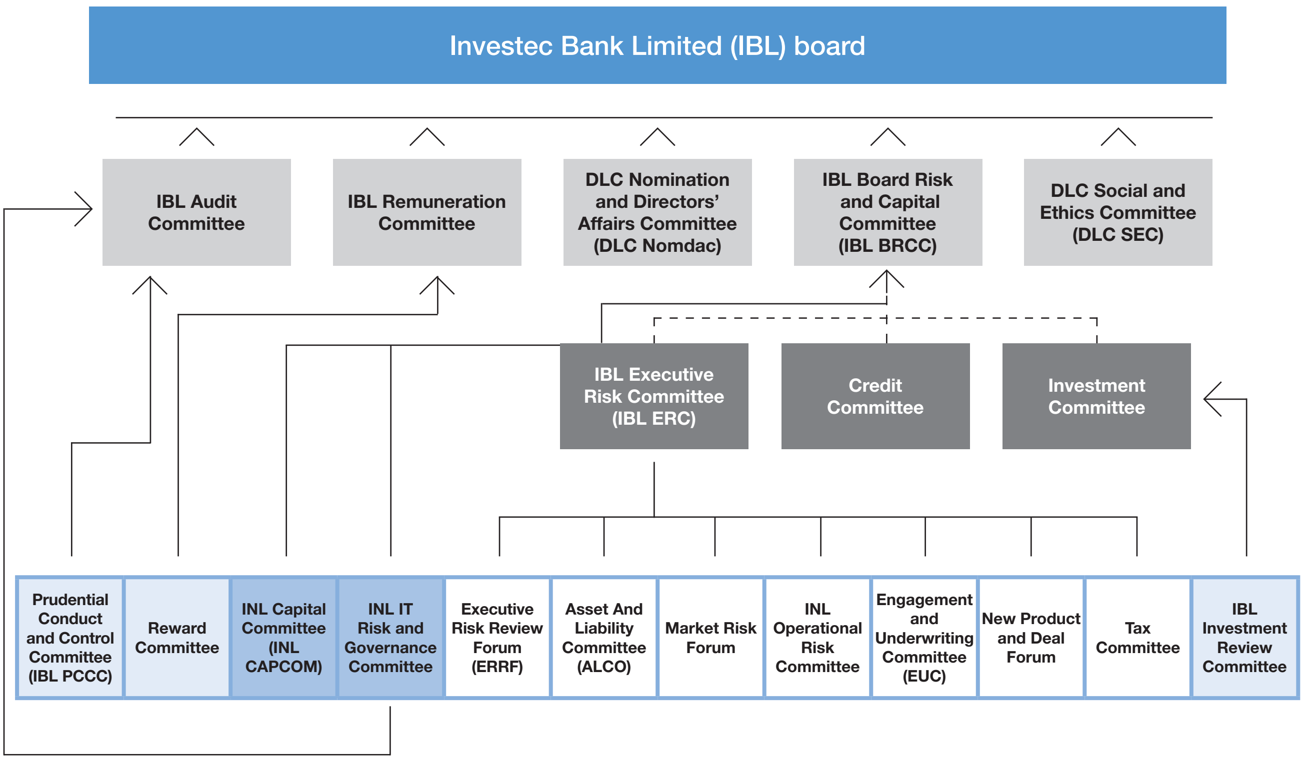
In May 2020, the bank also formed an independent Remuneration Committee, to further strengthen the independence of the bank.

The bank will continue to refine its governance structure, to ensure that it continues to operate with an appropriate level of independence and autonomy, within the context of the wider Investec group.

The governance framework from a bank perspective is detailed below.

Details of the governance framework of the Investec group can be found in Investec group's 2020 integrated annual report.

Investec Bank Limited board and committee structure for the year ended 31 March 2020



Board and executive roles

The key governance roles and responsibilities of the board and executive management are outlined below:

Chairman	*Chief executive officer*	*Financial director*
• Responsible for the leadership of the board and ensuring its overall effectiveness • Sets the board agenda, ensuring that there is sufficient time available for discussion of all items, and that the board meets with appropriate frequency • Acts as facilitator at board meetings to ensure that no director, whether executive or non-executive, dominates discussion, and ensures that appropriate discussion takes place and that relevant views amongst members are forthcoming and that discussions result in logical and understandable outcomes • Demonstrates objective judgement and encourages open and honest dialogue between all board members • Leads and manages the dynamics of the board, providing direction and focus • Ensures that the board approves the strategy of the bank and assists in monitoring progress towards achieving the strategy • Oversees the integrity and effectiveness of the governance processes of the board • Leads the development of and monitors the effective implementation of policies and procedures for the induction, training and professional development of all board members • Responsible for the evaluation of the performance of the board collectively, non-executive board members individually and contributes to the evaluation of the performance of the executive directors • Maintains regular dialogue with the CEO in respect of all operational matters and consults with the remainder of the board promptly on any relevant matter • Ensures that the board sets the tone from the top, in regard to culture • Serves as the senior interface with regulators and Investec group on behalf of the board	• Leads and manages the bank within the authorities delegated by the board • Develops and recommends business plans, policies and objectives for consideration by the board and taking into consideration business, economic and political trends that may impact the operations of the bank • Develops strategic proposals for consideration and recommendation to the board • Implements the decisions of the board and delivers the agreed strategic objectives • Ensures the bank's unique culture is embedded and perpetuated • Develops and supports the growth of all the bank's businesses • Monitors and manages the day-to-day operational requirements and administration of the bank	• Leads and manages the bank's finance function • Provides the board with updates on the bank's financial performance, management reporting, regulatory reporting, central creditors and finance IT • Submits reports, financial statements and consolidated budgets for consideration by the board • Involved in the financial management of the bank including financial planning, cash flow and management reporting

Non-executive director	Company secretary
• Brings unique perspectives to the boardroom to facilitate constructive dialogue on proposals • Constructively challenges and contributes to developing the bank's strategy • Monitors the performance of management against their agreed strategic goals • Oversees the effectiveness of internal controls and the integrity of financial reporting • Reviews succession planning for the board and management • Oversees the risk management framework • Oversees the remuneration of the executive directors and the bank's employees	• Maintains the flow of information to the board and its committees and ensures compliance with board procedures • Minutes all board and committee meetings to record the deliberations and decisions • Ensures that the board complies with relevant legislation and regulation, including JSE Listings Requirements • Ensures good corporate governance is implemented and advises the chairman and board in that regard • Guides the directors collectively and individually on their duties, responsibilities and powers • Ensures board procedures are followed and reviewed regularly • Facilitates a programme for the induction and ongoing development of directors • Maintains statutory records in accordance with legal requirements

Board composition

Membership

As at the date of this report, the board comprised three executive directors and eight non-executive directors, including the chairman.

The balance of executive and non-executive directors is such that there is a clear division of responsibility to ensure a balance of power ensuring that no single individual or group can dominate or have unfettered powers of decision-making. The board will continue in its endeavour to strengthen the composition of the board with additional independent non-executive directors.

The changes to the composition of the board, which occurred during the year are as follows:

- Nishlan Samujh, resigned from the board on 14 May 2019.
- Stuart Spencer was appointed to the board as finance director on 14 May 2019.
- Morris Mthombeni and Geoffrey Qhena were appointed to the board on 2 March 2020.
- Peter Thomas, a non-executive director of the bank since 1 July 1997, will not stand for re-election at the annual general meeting in August 2020. Peter stood down from the IBL Audit Committee on 1 April 2020.

The names of the directors are set out in the table on page 104.

Independence

The board considers the guidance set out in the King Code IV and directive 4/2018 as issued by the Prudential Authority, when considering the independence of members of the board.

In terms of principle 7 of the King IV Code, independence in the context of non-executive directors means the absence of an interest, position, association or relationship which, when judged from the perspective of a reasonable and informed third party, is likely to influence unduly caused bias in decision-making.

Based on the guidelines set out in the King IV Code, the board is of the view that non-executive directors are independent of management and focus on promoting the interest of stakeholders.

David Lawrence, previously an executive director of IBL, became a non-executive director in 2017. Accordingly, the board concluded that David could not be considered independent due to his previous executive role. David chairs the Investec Bank Mauritius board, which is a key banking subsidiary.

Peter Thomas, has been a non-executive director of the bank since 1 July 1997 and would accordingly have served more than nine consecutive years on the board after 31 March 2020. Peter will not stand for re-election at the 2020 AGM.

Diversity

Investec embraces differences as a strength within the bank. Having a diverse board is a clear benefit, bringing with it distinct and alternative viewpoints, and mind-sets able to challenge the status quo. The board is committed to ensuring that the bank meets its governance, social and regulatory obligations regarding diversity. We have a board diversity policy, setting out the targets for board composition in terms of gender and race.

The board set a target of 33% female representation on the board by the end of 2020. As at 31 March 2020, there was a 9% of representation of women on the board. The board recognises that more still needs to be done in regards to the representation of women on the board. The DLC Nomdac, to which the board has delegated responsibility for the consideration of the succession plan of the board and the appointment process for the board, ensures that appointments and the succession plan are based on merit and with regard to objective criteria and, within this context, promotes diversity in its broadest sense, including diversity of gender, social and ethnic background, and diversity of thought.

The board has a 9% representation of members who are ordinarily resident in South Africa (and having been naturalised prior to 1994) who are black women as defined in South African legislation, and 45% of the board members of Investec Bank Limited who are ordinarily resident in South Africa (and having been naturalised prior to 1994) are black people as defined in the Financial Sector Code or similar legislation that may be in force in South Africa from time to time.

Balance of non-executive and executive directors as at 31 March 2020

Non-independent non-executives	**1**
Independent non-executives, including chairman	**7**
Executives	**3**

64% of the board independent as at 31 March 2020

Tenure

On the recommendation of the DLC Nomdac, non-executive directors will be appointed for an expected term of up to nine years (three times three-year terms) from the date of their first appointment to the board. This is in line with directive 4/2018 of the South African Prudential Authority. All directors are subject to election at the first general meeting following their appointment.

Terms of appointment

On appointment, non-executive directors are provided with a letter of appointment. The letter sets out, among other things, duties, responsibilities and expected time commitments, details of Investec's policy on obtaining independent advice and, where appropriate, details of the board committees of which the non-executive director will be a member. Investec has a directors and officers liability policy in place that insures directors against liabilities they may incur in carrying out their duties. The CEO of the bank is provided with an employment contract which stipulates a three month written notice period.

Company secretary

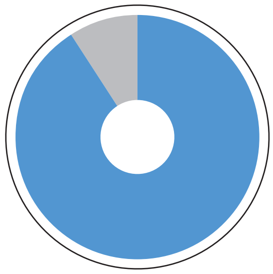
Niki van Wyk is the company secretary of IBL. The company secretary is professionally qualified and has gained experience over a number of years. Her services are evaluated by board members during the annual board evaluation process. She is responsible for the flow of information to the board and its committees and for ensuring compliance with board procedures. All directors have access to the advice and services of the company secretary whose appointment and removal is a board matter.

In compliance with the King IV Code and the JSE Listings Requirements, the board has considered and is satisfied that the company secretary is competent, has the relevant qualifications and experience and maintains an arm's-length relationship with the board. In evaluating these qualities, the board has considered the prescribed role and duties pursuant to the requirements codified in the South African Banks Act, the South African Companies Act and the governance requirements as applicable.

In addition, the board confirms that for the period 1 April 2019 to 31 March 2020 the company secretary did not serve as a director on the board nor did she take part in board deliberations and only advised on matters of governance, form or procedure.

Diversity as at 31 March 2020

Board gender balance



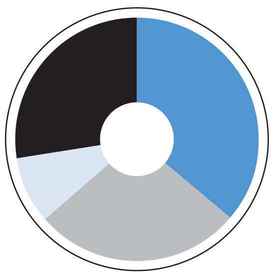
91%	Male
9%	Female

Age

41 – 50	**18%**
51 – 60	**46%**
61 and above	**36%**

Tenure as at 31 March 2020

Average tenure:



4	0 – 3 years
3	4 – 6 years
1	7 – 9 years
3	9 years plus

What we did

Board report

Role and responsibilities

The board serves as the focal point for and custodian of IBL's corporate governance and there is a continuous and ongoing focus on maintaining the highest levels of corporate governance through the various group committees which are in place. The board seeks to exercise ethical leadership, integrity and effective control in pursuit of strategic goals and objectives, to achieve long-term sustainability, growth and prosperity. The board is accountable for the performance and affairs of IBL. It provides leadership for the bank within a framework of prudent and effective controls that allow risks to be assessed and managed. The board meets its objectives by reviewing and guiding corporate strategy, setting the tone for the bank's values and standards, promoting high standards of corporate governance, approving key policies and objectives, ensuring that obligations to its stakeholders are understood and met, understanding the key risks, determining risk tolerance and approving and reviewing the processes in operation to mitigate risk including the approval of the terms of reference of key supporting board committees. The bank's chief executive officer and the executive team deliver against agreed performance targets aligned to the banks' strategy and in the best interest of the bank and its material stakeholders.

The board, management and employees of IBL are in full support of and are committed to complying with applicable regulatory requirements as set out in the King IV Code. As a result of our listed non-redeemable, non-cumulative, non-participating preference shares, we are also committed to complying with the JSE Listings Requirements. Stakeholders are therefore assured that we are being managed ethically and in compliance with the latest legislation, regulations and best practice.

To achieve its objectives, the board may delegate certain of its duties and functions to various board committees, forums or the chief executive officer, without abdicating its own responsibilities.

The ability to delegate certain functions is evidenced *inter alia* in the provisions of the Companies Act, the Banks Act, King IV and the JSE Listings Requirements.

The board undertakes effectiveness assessments of individual directors, the chairman, chief executive officer, the board as a whole and board committees on an annual basis.

The board is furthermore responsible for managing potential conflicts of interest between directors' personal financial interests and that of the bank. A director must be recused from the meeting when such matters are discussed and therefore may also not vote, although he/she would be counted for quorum purposes. The board in collaboration with company secretarial ensures that a register of declarations of interest is kept and updated regularly.

The board ensures that an effective risk management framework is implemented and maintained to identify risks, measure their impact and proactively manage and monitor these, ensuring senior executives are managing risk in an appropriate and informed manner.

Composition and meeting attendance

The board of IBL met six times during the financial year. Special meetings are called on an ad-hoc basis.

The chairman is responsible for setting the agenda for each meeting, in consultation with the chief executive officer and the company secretary. Comprehensive information packs on matters to be considered by the board are provided to directors in advance.

				IBL board (six meetings in the year)	
Members	**Independent**	**Date of appointment**	**Date of resignation**	**Eligible to attend**	**Attended**
Executive Directors					
F Titi (Group CEO)*	No	3 July 2002		6	6
RJ Wainwright (chief executive officer)	No	1 February 2016		6	6
SC Spencer (finance director)**	No	14 May 2019		6	6
NA Samujh (group chief financial officer)***	No	10 August 2016	14 May 2019	1	1
Non-executive directors					
DM Lawrence (deputy chairman)	No	1 July 1997		6	6
ZBM Bassa	Yes	1 November 2014		6	6
D Friedland	Yes	1 March 2013		6	6
PA Hourquebie	Yes	12 December 2018		6	6
KL Shuenyane (chairman)	Yes	8 August 2014		6	6
PRS Thomas****	Yes	1 July 1997		6	5
M Mthombeni*****	Yes	2 March 2020		1	1
MG Qhena*****	Yes	2 March 2020		1	1

* *F Titi became sole CEO of IBL on 16 March 2020 following the demerger of the Asset Management business from the Investec group.*

** *SC Spencer was appointed as finance director on 14 May 2019.*

*** *NA Samujh resigned on 14 May 2019.*

**** *In accordance with the Prudential Authority's directive 4/2018, PRS Thomas was no longer considered to be independent with effect from 1 April 2020.*

***** *M Mthombeni and MG Qhena were appointed on 2 March 2020.*

^ *Where a director is unable to attend a meeting, they receive papers in advance and have an opportunity to provide comments to the chairman of the board.*

Other regular attendees

- Head of risk
- Chief operating officer
- Chief finance officer of the specialist bank
- Heads of key business units
- Head of human resources
- Head of corporate governance and compliance

Key matters deliberated by the board

In addition to the standard and regular agenda items, such as report-backs from each board committee and comprehensive reports from the chief executive officer, the following specific matters of importance were tabled and deliberated at board meetings and directors' development sessions during 2019/2020.

BOARD AND COMMITTEE ACTIVITIES

Areas of focus	*What we did*
Strategy	• approved the strategy and monitored the implementation of the strategic plan and objectives • considered the key strategic priorities over the next two years which are capital discipline, growth initiatives, cost management, digitisation and connectivity • consideration and approval of any material departure from strategic objectives and policies, including realignments of business in which the group operates, including changes to IBL's governance structure • provided constructive challenge to management • monitored progress made with regard to agreed strategy
Compliance, risk, corporate governance and audit	• received and reviewed compliance reports in order to confirm that the bank meets all internal and regulatory requirements • received and considered reports on the bank's operational and technology capability, including specific updates on cyber and the strategy for technology and digitisation • received and reviewed reports in respect of specific risks monitored within the bank including updates in respect of Advanced Internal Ratings Based (AIRB) and Foundation Internal Ratings Based (FIRB) approach • considered and approved terms of reference for committees forming part of the governance structure • considered and approved the refurbishment of 100 Grayston Drive • considered and approved capital plans • considered and approved the IBL recovery plan • approved the compliance monitoring plan • confirmed the independence of directors of IBL • reviewed the corporate governance structure of the bank • ensured adherence with the King IV Code • considered auditor independence, appointment and monitoring of audit quality • oversight of Environmental Social and Governance (ESG) matters • oversight of integrity of annual financial statements • approval of recovery and resolution planning • approved the going concern
Leadership	• considered regular updates by the various committees including the DLC Remuneration Committee, DLC Nomdac, the IBL Audit Committee, DLC SEC and IBL BRCC • ensured that policies and the tone set at board level are effectively communicated and implemented across the bank • ensured succession is in place for executive and non-executive directors and critical roles in the business
Effectiveness	• considered the process for the 2019 board effectiveness review which took the form of a self-assessment questionnaire and interviews with the chairman • in light of the outcome of the board effectiveness review, finalised topics for directors' development sessions
Remuneration	• received and considered a report from the DLC Remuneration Committee chair at each meeting which covered regulatory developments pertaining to remuneration • deepening measures between executive remuneration and performance

Areas of focus	What we did
Relations with stakeholders	The board, in order to ensure satisfactory dialogue with stakeholders, and to foster strong and open relationships with regulators, noted and discussed the key areas of feedback from these stakeholders including: • board refreshment and succession • ongoing regular meetings and open dialogue with regulators • improving returns across the bank's businesses
Employee Experience	Investec's employee value proposition communicates reciprocity required and: • flexible annual leave policy • flexible work location and flexible time based on performance and deliverables • various initiatives to ignite individual and team performance • dress for your day initiative
Financial results, liquidity and solvency	• considered, reviewed and approved the financial results for the year ended March 2020 • considered, reviewed and approved the half- year financial results for the year ended September 2019 • confirmed that the bank was liquid and that the solvency and liquidity test has been satisfied i.e. a company satisfies the solvency and liquidity test at a particular time if, considering all reasonably foreseeable financial circumstances at that time: the assets of the company, as fairly valued, equal or exceed the liabilities of the company, as fairly valued; and it appears that the company will be able to pay its debts as they become due in the ordinary course of business for a period of: – 12 months after date on which the test is considered; or – In the case of a dividend, 12 months following the distribution • confirmed that adequate resources existed to support the bank on a going concern basis and accordingly adopted the going concern concept. • considered and approved the increase in capital of the bank
Directors' development	The board undertook directors' development training on the following key topics: • directors' duties • current board themes including: • climate change • ESG • sustainability, including coal • operational resilience • culture
Corporate Citizenship	The board discussed and monitored the various elements of good corporate citizenship including: • culture • the promotion of equality, the prevention of unfair discrimination and the reduction of corruption • consideration of sponsorships, donations and charitable giving • environmental, health and public safety, including the impact of the bank's activities and of its products and services • consumer relationships including the bank's advertising, public relations and compliance with consumer protection laws • labour and employment – the bank's standing in terms of the international labour organisation protocol on decent work and working conditions, employment relationships and its contribution towards the educational development of its employees • concerns raised by the employees and former employees The board: • satisfied itself that the bank's standing and commitment to the various elements of good corporate citizenship remained in place and was actively enforced • promoted the role IBL played in society

Board committees

Certain DLC (combined) board committees of Investec Limited and Investec plc act as the board committees of IBL as well. The reports by the chairmen of these committees can be found in the corporate governance report of the Investec group 2020 integrated annual report.

Social and Ethics Committee

In terms of the South African Companies Act, the chairman of the social and ethics committee should report to stakeholders on the matters within its mandate. The DLC SEC performs the necessary functions required on behalf of IBL. For further details on the role of the committee refer to pages 128 to 131 of the Investec group 2020 integrated annual report.

Nominations and Director's Affairs Committee

The DLC Nominations and Director's Affairs Committee (DLC Nomdac) currently acts as the Nomdac for the group (including IBL). The DLC Nomdac also undertakes the duties of a Directors' Affairs Committee as required by the South African Bank's Act. The details of this committee can be found on pages 124 to 127 of the Investec group 2020 integrated annual report.

Remuneration Committee

In May 2020, the bank formed an independent Remuneration Committee, the inaugural meeting was held on 4 June 2020. During the financial year ended 31 March 2020, the DLC Remuneration Committee acted as the Remuneration Committee for the group (including IBL) and the report from the DLC Remuneration Committee, explaining the group's policies and processes, as well as required disclosures can be found on page 124 to 138. Issues specific to IBL were considered at each meeting of the various committees and the IBL board received a report on the proceedings of the committees at each of their meetings.

IBL Audit Committee report

I am pleased to present you with the IBL Audit Committee (the committee) report for the financial year ended 31 March 2020. The committee continued to ensure that it exercised independent oversight and scrutiny of audit matters within the bank and its subsidiaries.

The IBL Audit Committee reports to the Investec Limited (INL) and DLC Audit Committees as well as the IBL board. The main objectives of the committee are to have oversight of and to give assurance to the board on financial reporting, internal controls, financial management systems, compliance, conduct and the control environment in respect of the bank and its subsidiaries.

Over the following pages I will share with you key information about the role and areas of focus of the IBL Audit Committee. In addition to outlining the committee's structure, we have included some insight into how decisions are made and where judgement has been applied to the significant issues addressed by the IBL Audit Committee during the financial year.

The IBL Audit Committee and the IBL BRCC have separate independent non-executive directors as chairs. David Friedland chairs the IBL BRCC. The IBL Audit Committee and the IBL BRCC continue to capture all significant issues effectively while minimising any overlap. These committees have met all legal and regulatory requirements from a composition and independence perspective. Given the synergies and nature of matters considered by the committees, their membership is such that an element of commonality exists. All members of the IBL Audit Committee are also members of the IBL BRCC. Furthermore, the committee comprises of two INL Audit Committee members who are also IBL board members, and an independent IBL-only board member, Geoffrey Qhena.

Committee performance

The performance of the IBL Audit Committee was assessed as part of an internal board effectiveness evaluation process and it was concluded that the committee continues to function effectively.

Roles and responsibilities

The IBL Audit Committee, which reports both to the IBL board and the INL and DLC Audit Committees, is an essential part of the bank's governance framework to which the board has delegated the following key functions:

- oversight of IBL's financial reporting process and risks, ensuring the integrity thereof and satisfying itself that any significant judgements made by management are sound
- appointing, managing and overseeing the relationship with IBL's external auditors, including quality control, the effectiveness and independence of the external audit function
- reviewing IBL's internal controls and assurance processes, including those of internal audit
- managed and oversaw the performance, conduct, quality and effectiveness of the bank's internal audit function
- scrutinising the activities and performance of the internal and external auditors
- overseeing the IBL Prudential Conduct and Control Committee (IBL PCCC)
- determining the fees to be paid to external auditors
- managing the level and nature of non-audit services provided by the auditors
- dealing with any concerns from outside and inside Investec regarding the integrity of reporting and financial control.

The exercise of appropriate judgement in preparing the financial statements is critical in ensuring that IBL reports to its shareholders in a fair, balanced and transparent way

IBL Audit Committee

Zarina Bassa

Chair of the IBL Audit Committee

Key areas of focus in FY 2020

- Considered the accounting and operational impact of COVID-19 and mitigating steps taken, including going concern, liquidity and viability
- Oversaw impact, governance and disclosure as it relates to IFRS 9. A specific focus was placed on the impact that COVID-19 had on the application of IFRS 9
- Monitored audit quality and audit partner accreditation looking at results of firm and engagement partner regulator reviews and/or internal quality control reviews
- Monitored close out of internal and external audit findings
- Considered and approved changes to the IFRS 9 scenarios and probabilities for 2020, in particular the impact of COVID-19
- Ensured compliance with the guidance issued by regulators pertaining to COVID-19
- Reviewed succession for key members of internal audit
- Oversaw regulatory compliance and the compliance programme
- Conducted an External Quality Review (EQR) of internal audit
- Revised the policy on non-audit services
- Considered key risk and reporting exposures faced by IBL

Key focus areas for FY 2021

- Consider the impact of COVID-19 and mitigating steps taken in this regard, including impacts on operational resilience, liquidity and going concern
- Together with INL, initiate the tender process for Mandatory Audit Firm Rotation (MAFR)
- Monitor external audit quality and independence
- Continue to focus on the judgements, oversight, governance and disclosure of the implications of IFRS 9, in particular MES and Expected Credit Losses (ECL) given COVID-19 and the South African sovereign downgrades
- Evaluate the effectiveness of the internal audit function
- Oversee the management of IT Risk and cyber-security through the IT Risk & Governance Committee
- Focus on ensuring that IBL's financial systems, processes and controls are operating effectively and evolve with the changes in the industry
- Consider the implication of changes in accounting standards and regulatory requirements and how management intend to implement such changes
- Oversee regulatory compliance and the compliance programme

Composition and meeting attendance

The IBL Audit Committee is comprised entirely of independent non-executive directors who all meet the predetermined skills, competency and experience requirements. The members' continuing independence is assessed annually by the DLC Nomdac, which in turn makes a recommendation on the members' independence to the board. The DLC Nomdac and IBL Board have concluded that the IBL Audit Committee has the appropriate balance of knowledge and skills in order for it to discharge its duties. In particular, all of the members are chartered accountants and by virtue of their experience in the banking, financial services and audit sectors, members collectively have the competence relevant to the sector in which the bank operates. The chairman of the IBL Audit Committee is also the chairman of the INL, PLC, Investec Bank Mauritius (IBM) and DLC Audit Committees. Further details of the experience of the members can be found in their biographies on pages 94 to 97.

The IBL Audit Committee met eight times during the year ended 31 March 2020, holding its first meeting on 03 May 2019.

	IBL Audit Committee (8 meetings in the year)		
Members	**Committee member since**	**Eligible to attend**	**Attended**
ZBM Bassa	1 November 2014	8	8
PRS Thomas*	13 February 1997	8	6
PA Hourquebie	12 December 2018	8	8
MG Qhena**	2 March 2020	1	1

* *PRS Thomas is an independent IBL only board member, who stepped down from the committee with effect from 1 April 2020.*

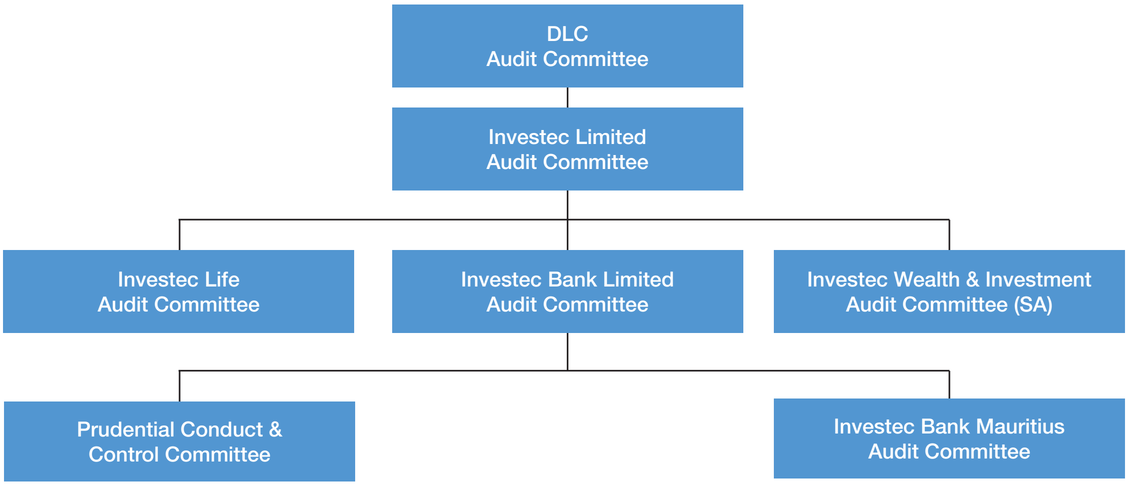
** *MG Qhena is an independent IBL only board member, who was appointed as a member of the committee on 2 March 2020.*

^ *Where a director is unable to attend a meeting, they receive papers in advance and have the opportunity to provide comments to the chairman of the committee.*

Other regular attendees

- Investec Bank Limited chief executive officer (CEO)
- Investec Bank Limited chief operations officer (COO) and finance director
- Group chief executive officer
- Group finance director
- Head of compliance
- Head of operational risk
- Head of internal audit
- Chief financial officer of the bank
- Joint external auditors of IBL and lead auditors of the DLC
- Head of tax
- Head of corporate governance
- Head of risk and credit

IBL Audit Committee structure



Areas covered by the IBL Audit Committee

The significant matters addressed by the committee during the financial year ended 31 March 2020, and in evaluating the annual report and financial statements, are described on the following pages.

Key audit matters

Key audit matters, are those matters in the view of the IBL Audit Committee that:

- required significant focus from the committee;
- were considered to be significant or material in nature requiring exercise of judgement; or
- matters which were otherwise considered to be subjective from an accounting or auditing perspective.

The following key audit matters were deliberated by the IBL Audit Committee during the year:

Key Audit Matters	*What we did*
Impact of COVID-19 The COVID-19 pandemic is of an unprecedented scale and has severely impacted the global economy and businesses across all industries. There is a significant degree of uncertainty about the further spread of the virus and the impact it will have on the world and Southern African economy	• considered the impact of Covid-19 on the economy and the resulting impact on the applicability of macro-economic scenarios (MES) and on the judgements and estimates used by management to prepare the annual financial statements • The areas most impacted by COVID-19 include: – going concern and business viability including liquidity – expected credit loss (ECL) assessment (IFRS 9 macro-economic scenarios, probabilities and staging) – fair value measurement and the resulting IFRS 13 Fair Value Measurement disclosures The steps taken by the committee to consider these are specifically addressed below
Compliance with COVID-19 guidance provided by regulators and standard setters in SA • As part of the response to the COVID-19 global crisis, banking regulators in South Africa and other jurisdictions issued guidance and revised regulations regarding the application of accounting principles, liquidity and capital management	• received and reviewed a memorandum prepared by Investec management summarising the guidance issued in all jurisdictions and how management intends to comply with this guidance • through the review of the ECL process, confirmed the application of the guidance on the accounting principles to be applied • through participation of audit committee members on the remuneration committee and the board of directors, confirmed that there will be no cash bonus payments to executive management and that an ordinary dividend will not be declared

Key Audit Matters	What we did
Fair value of level 3 instruments and the resulting IFRS 13 Fair Value Measurement disclosure • For level 3 instruments, such as unlisted investments in private equity businesses, investment properties, fair value loans and large bespoke derivative structures, there is necessarily a large degree of subjectivity surrounding the inputs to their valuations. With the lack of observable liquid market inputs, determining appropriate valuations continues to be highly judgemental	• received presentations on the material investments across the Investec group including an analysis of the key judgements and assumptions applied and approved the valuation adjustments proposed by management for the year ended 31 March 2020 • challenged and debated significant subjective exposures and assumptions including: – the valuation principles applied with the valuation of level 3 investments (unlisted and private equity investments) and fair value loans. Particular focus was given to the impact of COVID-19 on these valuation principles – fair value of exposures in industries highly affected by COVID-19 – exposures in respect of Southern African mining loans and investments – management's plans for work out of such exposures, client history, geographical and sectorial exposure and assumptions around collateral valuation and debt restructures – the appropriateness of the IFRS 13 disclosures on fair value
Impairment of investments in associates	• received and reviewed technical accounting memorandums prepared by group finance on the material investments in associates across IBL addressing the appropriateness of the carrying value of the investments and the impairment assessment performed by management. This included an analysis of the key judgements and assumptions applied • evaluated the appropriateness of the disclosure provided relating to significant judgements and estimates, valuation methods and assumptions applied • The committee evaluated the appropriateness of the carrying amount of investments in associates measured at amortised cost
Going concern • the directors are required to confirm that they are satisfied that the group has adequate resources to continue in business for the foreseeable future	• undertook an assessment on behalf of the board, and recommended to the board that it was appropriate for the financial statements to be prepared on a going concern basis • in this process considered reports on the bank's budgets and forecasts, profitability, capital, liquidity and solvency, scenario stress testing and the impact of legal proceedings; if any • considered the results of various stress testing based on different COVID-19 economic scenarios and the possible impact of COVID-19 on the ability of Investec to continue as a going concern

Key Audit Matters	*What we did*
Expected credit loss (ECL) assessment for IBL and material subsidiaries where applicable • The appropriateness of the allowance for expected credit losses is highly subjective and judgemental. The impact of COVID-19 and economic downgrades in South Africa have resulted in additional key judgments and assumptions being made during the current year	• reviewed the appropriateness of the forward looking macro-economic scenarios used in the measurement of ECL. The macro-economic scenarios were updated to capture the wide-reaching impacts of the sovereign downgrade to sub investment grade as well as the impact of COVID-19. The committee further evaluated the appropriateness of the management ECL overlay to capture the anticipated impact of South Africa's national lockdown on the commercial real estate portfolio • reviewed and monitored the bank's calculation of expected credit losses, trends in staging changes, model changes, scenario updates, post-model adjustments, and volatility. Specific review and consideration were given to the macro-economic scenarios used to calculate the COVID-19 ECL overlays and the staging applied for COVID-19 restructured positions • challenged the level of ECL and the assumptions used to calculate the ECL provisions held by the bank • assessed ECL experienced against forecast and considered whether ECL were appropriate. Particular focus was given to COVID-19 restructured positions (payment holidays) and sectors highly impacted by COVID-19 and exposures which are specifically affected by the negative current macro-economic environment • evaluated the IFRS 9 disclosures for relevance and compliance with IFRS • convened a dedicated combined audit and risk committee meeting to consider the impact of COVID-19 on ECL principles applied, changes to the models, economic scenarios updated for COVID-19, probabilities and weightings over the period of the financial year-end • assessed the appropriateness of the ECL provision raised by the group for large exposures in entities publicly perceived to be in financial distress
External audit, audit quality and mandatory audit firm rotation (MAFR)	• managed the relationship with the external auditors • considered and implemented a revised group policy in respect of non-audit services rendered by external audit • pre-approved all non-audit services provided by external audit and confirmed the services to be within the approved non-audit services policy • assessed the independence and objectivity of the external auditors • met with key members of EY Inc. and KPMG Inc. prior to every Audit Committee, to discuss the 2019/2020 audit plan, to discuss key areas of focus, findings, scope and conclusions • met separately with the leadership of Ernst & Young Inc. and KPMG Inc. to discuss auditor accreditation, independence, firm quality control, results of internal and external inspections and audit quality • discussed external audit feedback on the group's critical accounting estimates and judgements • discussed external auditor's draft report on specific control areas and the control environment ahead of the 2020 financial year end • the committee approved the external audit plan, audit fee and the main areas of focus • had a closed session with the auditors without management • In line with the conditions set out in section 94(8) of the South African Companies Act, and based on its assessment documented above, using the criteria set out by the King IV Code, the IBL Audit Committee confirms its satisfaction with the performance and quality of external audit, the external auditors and lead partners The Committee evaluated the legal and regulatory MAFR requirements to rotate external auditors. An audit rotation plan was developed and approved by the INL Audit Committee that details the timing of the audit tender process, the transition and the effective date of the rotation in each of the jurisdictions Investec operates in. According to the plan, Investec initiated the audit tender process to rotate one of the joint external audit firms of Investec Bank Limited Additional information regarding the procedures performed by the Committee on audit quality and the audit firm rotation plan is provided on page 115 to 116

Other matters considered by the IBL Audit Committee:

Apart from financial reporting matters, the committee has responsibility for oversight of the effectiveness of the bank's internal controls, the appointment, performance and effectiveness of internal audit, and the performance, objectivity and independence of the external auditors. The committee considered the following matters during the financial year ended 31 March 2020:

Area of focus	*What we did*
IFRS	• reviewed the impact of the first-time adoption of IFRS 16 and IFRIC 23 and the relevant disclosures • The 2019 IBL annual and interim financial statements were subject to a JSE pro-active monitoring review. The outcome of the review confirmed compliance with IFRS and regulatory disclosure requirements
Related Party Disclosures	• reviewed key related party transactions during the year and ensured that policies are being complied with
Regulatory Compliance and Reporting	• received regular reports from the regulatory compliance function and reviewed the adequacy of the scope and the effectiveness of the regulatory compliance processes applied. This included the evaluation of the quality of regulatory reporting, the scope and the integrity of the regulatory compliance process, the adequacy of internal regulatory compliance systems and processes, and the consideration and remediation of any findings by the external auditors and regulators
Post-balance sheet disclosure	• considered the need for post-balance sheet disclosures with specific consideration of the impact of COVID-19
Financial Statements	• met with senior management to gain assurance that the processes underlying the compilation of the annual financial statements were appropriate • conducted an in-depth, critical review of the annual financial statements and, where necessary, requested amendments to disclosure • assessed disclosure controls and procedures including compliance with IFRS, JSE Listings Requirements, Pro Active Monitoring Guidance and King IV • confirmed that management had reported on and evidenced the basis on which representations to the external auditors were made • received a written assessment from internal audit on internal controls • obtained input and assurance from the external auditors • the committee concluded that the processes underlying the preparation of the annual report and financial statements for the financial year ended 31 March 2020 were appropriate in ensuring that those statements were fairly presented • the committee recommended to the board that the 2020 annual report and financial statements were fairly presented
Combined Assurance Model	• satisfied itself with the appropriateness of the design and effectiveness of the combined assurance model applied which incorporates the various disciplines of risk management, legal and regulatory compliance. Satisfied itself with the levels of assurance and mitigants so that, taken as a whole, there is sufficient and appropriate assurance regarding mitigants for the key risks
Internal controls • the effectiveness of the overall control environment, the status of any material control issues with emphasis on the progress of specific remediation plans	• evaluated and tracked the status of the most material control issues identified by internal and external audit and tracked the progress of the associated remediation plans against agreed time frames • attended and received regular reports from the IBL BRCC. Based on this reporting, evaluated the impact of an evolving risk environment, including operational risk, on the internal control environment • evaluated reports on the internal control environment from the internal and external auditors • reviewed and approved the Combined Assurance Model, ensuring completeness of risks and adequacy and effectiveness of assurance coverage • received an update from Operational Risk on matters, if any, that could impact the control environment

Area of focus	*What we did*
Business control environment • the effectiveness of the control environment in each individual business, including the status of any material control issues and the progress of specific remediation plans	• received regular reports from the IBL PCCC • assessed reports on individual businesses and functions on their control environment, and scrutinised any identified control failures and closely monitored the status of remediation plans • received updates from senior management, and scrutinised action plans following internal audit findings • the committee requested confirmation from management regarding the remediation of any issues identified including the time frames and accountability for remediation
Internal audit • the performance of internal audit and delivery of the internal audit plan, including scope of work performed, the level of resources, the risk assessment methodology and coverage of the internal audit plan	• scrutinised and reviewed internal audit plans, risk assessment, methodology, staffing and approved the annual plan. Assumed responsibility for the monitoring and follow up of internal audit control findings, including IT, and ensured appropriate mitigation and timeous close out • received regular reports from internal audit on all significant issues identified • monitored audit quality in relation to internal audit • monitored delivery of the agreed audit plans, including assessing internal audit resources • reviewed succession for key internal audit roles • tracked, in parallel, the levels of high and moderate risk audits; and monitored related remediation plans • met with the head of internal audit prior to each Audit Committee meeting, without management being present, to discuss the remit of internal audit and any issues arising from the internal audits conducted • had a closed session of the audit committee with internal audit without management present • approved the internal audit plans, methodology and deliverables • confirmed that it was satisfied with the performance of the internal audit function • approved the risk assessment and rotational audit plan • reviewed the findings of the EQAR on the group internal audit function conducted by an external provider during 2020, with no material issues impacting the IBL internal audit function • received an opinion from internal audit on internal controls and the integrated risk management framework as part of the year-end sign-off process • considered the succession, skills matrix and the Continuous Professional Development (CPD) of Internal Audit • internal audit has a robust quality assurance program to ensure audit quality is maintained at the highest level • the quality assurance program is multi-faceted, and includes the attraction, development and retention of adequately skilled staff that exercise proficiency and due professional care, adherence to the global internal audit governance framework and audit methodology, oversight and review of every audit engagement and a quarterly post engagement quality assurance program • the results of the post engagement quality assurance program inform any training interventions required within the team and the results are consolidated and presented to the audit committee on an annual basis
Finance function	• discussed and concluded that the finance director has the appropriate expertise and experience and the finance function has sufficient resources and skills to perform the financial reporting for the bank

External Audit

Auditor appointment

In terms of Section 90 of the South African Companies Act an auditor is prohibited from providing certain specified services for a client on which a statutory audit is performed.

The Audit Committee has considered the following in determining the appointment of external auditors:

- The regulatory need for joint auditors;
- The state of the audit profession in South Africa;
- The level of specialisation, footprint, capacity and experience required by a firm in performing a joint audit of a bank or financial services group, which is of systemic importance;
- Level of quality control within the audit firms as evidenced by the results of internal and external regulatory reviews performed on audit firms and engagement partners;
- The level of inherent risk in auditing a Financial Services group and the consequent audit risk;
- Independence of the External Auditor; and
- The fundamental demands on audit quality balanced against shareholder views.

Non-audit services

The Investec group has a policy on the engagement of external auditors to provide non-audit services. This policy, designed to safeguard auditor objectivity and independence, includes guidelines on the permitted and non-permitted services and on services requiring specific approval. The policy was reviewed and revised during the current year.

The IBL Audit Committee reviews whether the level of non-audit fees could impact the independence of the auditors. The nature and extent of non-audit services that the external auditor may provide in terms of the policy is monitored by the audit committee.

Total audit fees paid to all auditors for the year ended 31 March 2020 were R69.8 million (2019: R64 million), of which R nil (2019: R nil) related to the provision of non-audit services.

Total non-audit fees for each of the auditing firms are approved by the IBL Audit Committee. Individual assignments are pre-approved by the chair of the IBL Audit Committee.

Based on the abovementioned policy and reviews, the committee was satisfied that the level and type of non-audit work undertaken throughout the year did not impair the independence of Ernst & Young Inc. and KPMG Inc.

Partner accreditation and audit quality

In terms of the amended JSE Listings Requirements external audit Partner Accreditation, which was previously done by the Independent Regulatory Board for Auditors (IRBA), is now the responsibility of the IBL Audit Committee, together with specific responsibilities around audit quality. In this regard discussions in respect of audit quality continued between the IBL Audit Committee and both Ernst & Young Inc. and KPMG Inc.

The following was covered during these discussions:

- transparency reports and reviews by the firm covering their client base, client acceptance and continuance processes, and the approach to clients, if any, that did not meet the client continuance criteria;
- any reputational, legal or impending legal issues impacting the firm
- the independence processes of the firm, including partner reward and remuneration criteria;
- interrogation of international and local firm audit quality control processes;
- detailed profiles of all partners and managers on the Investec assignment, including their relevant audit experience;
- details in relation to the firm's respective succession plans in order to provide assurance as to the partner rotation, transition and continuity process;
- results of the last firm-wide reviews carried out by the regulatory body, IRBA in South Africa;
- the results of the last individual partner quality reviews carried out by the regulator and internal firm-wide quality control reviews carried out in respect of each partner; and
- the completion of an audit quality questionnaire by each member of the audit committee and management, the results of which were that a robust audit is in place.

Auditor independence and objectivity

The IBL Audit Committee has satisfied itself that the external auditors are independent of Investec Bank Limited, as set out in the provisions of section 94(8) of the South African Companies Act. The IBL Audit Committee considers the reappointment of the external auditors each year before making a recommendation to shareholders and it assesses the independence of the external auditors on an ongoing basis.

A specific policy is in place in relation to the type of allowable non-audit services and the quantum of non-audit service fees that will be appropriate in the context (see further information above).

The auditors have confirmed their independence and were requested to review and confirm the level of their staff transactions with Investec, if any, in order to ensure that all auditors on the Investec audit meet the independence criteria.

In terms of the rotation process, the current joint lead audit partners for Investec Bank Limited are Tracy Middlemiss of KPMG Inc. and Gail Moshoeshoe of Ernst & Young Inc.

Mandatory audit firm rotation

In terms of the Banks Act in South Africa, Investec Bank Limited is required to appoint joint auditors.

The rule on MAFR as issued by the Independent Regulatory Board for Auditors (IRBA) requires that an audit firm shall not serve as the appointed auditor of a public interest entity for more than 10 consecutive financial years. Thereafter, the audit firm will only be eligible for reappointment as the auditor after the expiry of at least five financial years. This requirement is effective for financial years commencing on or after 1 April 2023. If, at the effective date, the entity has appointed joint auditors and both have had audit tenure of 10 years or more, then only one audit firm is required to rotate at the effective date and the remaining audit firm will be granted an additional two years before rotation is required.

The Investec Limited and Investec Bank Limited Audit Committee considered the implications of the mandatory audit firm rotation rule as issued by IRBA, the requirements of the South African Companies Act and the state of the audit profession in South Africa, including reputational or apparent audit failure perceptions. The views expressed by shareholders have been a key consideration, balanced with the implications of having joint auditors and the risks inherent to an audit transition. Based on this assessment, the audit Committee decided to commence the process by rotating one of the joint auditors effective from the financial year commencing 1 April 2023, with the remaining firm rotating two years thereafter. A competitive tender process has commenced to appoint the audit firm to be rotated for the financial year commencing 1 April 2023. The conclusion of the tender process will be communicated publicly as soon as it is concluded.

Re-election of auditors

In line with the conditions set out in section 94(8) of the South Companies Act, and based on its assessment, using the criteria set out by the King IV Code, and considering the guidance provided in the FRC guide on Audit Committees, the IBL Audit Committee confirms its satisfaction with the performance and quality of external audit, the external auditors and lead partners.

In making the recommendation for the re-election of Investec Bank Limited's external auditors, the board and the IBL Audit Committee have taken into consideration the South African Companies Act and the South African Prudential Authority requirements with respect to joint auditors as well as the requirements of mandatory firm rotation.

The board and the IBL Audit Committee are recommending the re-election of KPMG Inc. and Ernst & Young as the joint auditors of Investec Bank Limited.

Zarina Bassa
Chair of the IBL Audit Committee

16 June 2020

IBL Board Risk and Capital Committee report

I am pleased to present the IBL BRCC report for the financial year ended 31 March 2020.

Governance changes

The IBL BRCC, established in 2019, was a result of the continued enhancement of the bank's existing independent governance processes. It has helped to further enhance the level of oversight and enquiry of the bank's risk management framework.

To support the collaboration between the IBL Audit Committee and the IBL BRCC, Zarina Bassa, as the chair of the IBL Audit Committee, Philip Hourquebie and Peter Thomas, as members of the IBL Audit Committee, have also been appointed as members of the IBL BRCC. Peter Thomas stepped down from the IBL Audit Committee on 1 April 2020.

Following the establishment of the IBL BRCC, the committee reports to the DLC BRCC in addition to the IBL board.

Role of the committee

The IBL BRCC is an essential part of the bank's governance framework to which the board has delegated the monitoring of the bank's activities in relation to a number of risks and capital management. The IBL BRCC is the most senior risk management committee of the bank and comprises executive and non-executive membership.

The IBL BRCC has to ensure that all risks are identified and properly managed. Good client and market conduct is paramount in all the bank does and the IBL BRCC ensures a robust culture supported by oversight and management of information to evidence good practice

The IBL BRCC is also the appointed board committee to meet the requirements of the South African Banks Act and the King IV Code, which requires the board of directors of a bank and a holding company to appoint a risk and capital committee

Reports to the committee focus on the key risk disciplines of operational, capital, market, credit and counterparty risk,investment risk, reputational risk, conduct risk, balance sheet risk, business resilience, cyber crime risk, liquidity risk, recovery and resolution plan, IT Security and Technology, climate change and financial crime. Due to the dynamic nature of the business environment in which Investec operates, the committee is flexible to consider other matters of relevance as they arise. For example, the committee requested a number of *ad hoc* reports in order to adequately assess risks that are due to once off events, including deep dives on certain significant risk exposures such as business resilience and cyber crime.

The IBL Audit Committee has the primary role in providing assurance to the board that adequate controls are in place to mitigate the risk to an appropriate level of residual risk. The IBL Audit Committee relies on the output of the IBL BRCC in terms of process of ensuring the completeness of the Combined Assurance Model. As there are synergies between the IBL BRCC and IBL Audit Committee there is an overlap in membership.

At each board meeting, a report is presented on the key matters discussed at the committee with a focus on any risks identified.

We believe that robust risk management systems and processes are in place to support the group strategy

IBL BRCC

David Friedland

Chairman of the IBL BRCC

Key achievements in FY 2020

- Reviewed the Targeted Attack Simulation (TAS) exercise by external consultants to mitigate cyber crime risk and ensured remedial action was being taken in respect of identified weaknesses
- Monitored the effectiveness of the Risk Data Aggregation and Risk Reporting (RDARR)
- Continued focus on further embedding of IFRS 9
- Monitored the application and process to convert the wholesale Foundation Internal Ratings Based (FIRB) to Advanced Internal Ratings Based (AIRB)
- Considered the impact of COVID-19 and mitigating actions to be taken
- Approved the bank's Internal Capital Adequacy Assessment Process (ICAAP)

Areas of focus in FY 2021

- Monitor the continued mitigation of risks related to cybercrime and information security
- Monitor regulatory developments
- Monitor the impact and measures taken to manage COVID-19 including the impact on staff, the workplace, financial, client services, risk and compliance
- The committee will adjust its meeting plan and focus in accordance with any new risks identified
- To receive deep dives in areas such as business resilience, cyber security, credit risk exposures and other matters as and when they arise
- Monitor the conversion of wholesale book from FIRB to AIRB
- Approval of the bank's ICAAP

In the latter part of the financial year, the committee focused on the rapidly evolving impact of COVID-19 and the potential introduction of a broad range of risks across the business: people risk, operational resilience and financial risks including market risk, credit risk and liquidity risk. We focused on deposit origination through our funding channels in anticipation of increased levels of notice given by corporates to shore up their liquidity needs. We actively monitored our liquidity position and risk metrics and various market stress scenarios. The committee was provided with assurance that due attention and appropriate action was being taken and the committee.

Committee performance

The committee evaluated the committee's performance and concluded that it was operating effectively.

Role of the chair

During the year, meetings were held regularly with the heads of business, as well as heads of the risk disciplines outside of formal committee meetings in order to maintain an understanding of the bank's operations and risks facing the business. These interactions are an essential part of the role of the chairman, as it provides an additional layer of assurance to help gain comfort that the risks that are reported to the committee accurately reflect the risks facing the business.

Looking forward

There is currently unprecedented uncertainty resulting from the COVID-19 pandemic, including the depth of the potential downturn in activity, the duration of restrictive measures and the lockdown exit plans within the geographies in which we operate.

It is presently difficult to predict the full impact that the pandemic will have on the bank.

We will regularly review and question management's ongoing responses so as to ensure that the challenges posed by COVID-19 are given its full attention.

In the year ahead, the committee will continue to focus on matters related to the impact of economic conditions on Investec, effective risk data aggregation, the implementation of regulatory requirements such as the Financial Intelligence Centre Act (FICA), information security, cyber crime, business resilience and risks associated with the fast pace of regulatory change faced by the business, assessing the impact of external factors on the bank's risk profile and review of model changes to AIRB activities.

The committee will dedicate time either within scheduled meetings or with ad-hoc meetings to receive in-depth reporting on specific risks or business lines from subject matter experts to facilitate better understanding of the risks and to allow for debate and challenge.

David Friedland
Chairman, IBL BRCC

16 June 2020

Composition and meeting attendance

The DLC Nomdac and the board have formed the opinion that the IBL BRCC has the appropriate balance of knowledge and skills in order to discharge its duties. All members have the relevant knowledge and experience for them to be able to consider the issues that are presented to the committee.

The IBL BRCC met six times during the year ended 31 March 2020.

	IBL BRCC (6 meetings in the year)		
Members	**Committee member since**	**Eligible to attend**	**Attended**
D Friedland (Chairman)	18-Jan-19	6	6
ZBM Bassa	18-Jan-19	6	6
PA Hourquebie	18-Jan-19	6	6
KL Shuenyane	18-Jan-19	6	6
PRS Thomas	18-Jan-19	6	6
F Titi	18-Jan-19	6	6
RJ Wainwright	18-Jan-19	6	6
SC Spencer*	14-May-19	6	6
M Mthombeni**	2-Mar-20	1	1
MG Qhena***	2-Mar-20	1	1

* *SC Spencer was appointed to the IBL BRCC on 14 May 2019.*

** *M Mthombeni was appointed to the IBL BRCC as non-executive director on 2 March 2020.*

*** *MG Qhena was appointed to the IBL BRCC as non-executive director on 2 March 2020.*

^ *Where a director is unable to attend a meeting, they review their meeting papers in advance and have the opportunity to provide comments to the chairman of the committee.*

Other regular attendees

- Operational risk
- IBL chief risk officer
- Head of operational risk
- IBL financial director
- Internal audit
- AIRB/ FIRB project representative for AIRB/ FIRB
- Head of IT security

COMMITTEE ACTIVITIES

Areas of focus	What we did
Operational risk • Operational risk from failures relating to internal processes, people, systems or from external events may disrupt our business or result in regulatory action	• monitored operational losses and received detailed explanations for losses • reviewed the overall risk rating for the bank • reviewed and approved the risk appetite limits for the bank • monitored and reviewed regulatory compliance risk, information security risk, priviledged IT access and regulatory developments
Capital management • We may have insufficient capital to meet regulatory requirements and may deploy capital inefficiently across the group • The progress/plan to achieving required regulatory and internal targets and capital and leverage ratios	• measured key capital ratios against the internal and regulatory limits and what actions management planned to meet these ratios/limits • reviewed regulations on the management of capital – IFRS 9 and AIRB • the committee satisfied itself that IBL was adequately capitalised and that progress was being made towards achieving impending regulatory amendments to capital ratios.
Market risk • Market risk arising in our trading book could affect our operational performance. There is a risk of potential changes in the value of the trading book as a result of changes in market risk factors, such as interest rates, equity prices, commodity prices, exchange rates, credit spreads and the underlying volatilities in the derivatives market	• monitored risk appetite breaches and challenged management action which addressed these breaches • gained comfort that the bank had appropriately addressed identified breaches to limits • considered the impact and measures taken to manage COVID-19
Credit and counterparty risk • Credit and counterparty risk exposes us to losses caused by an obligor's failure to meet the terms of any agreement	• monitored the risk appetite limits and questioned management action taken in respect of breaches • challenged the effectiveness of the management of such risks within the business
Investment risk • We may be exposed to investment risk in our unlisted and listed investment portfolios and property investment activities	• reviewed and questioned the investment risk reports submitted to the committee • reviewed and challenged the governance processes in place to manage the risk
Reputational risk • Reputational, strategic and business risks could impact our operational performance	• monitored events which could potentially create reputational risk • gained comfort that reputational risk was mitigated as much as possible through detailed processes and governance escalation procedures from business units to the board, and from regular, clear communication with all stakeholders
Conduct risk • Conduct risk is the risk that inappropriate behaviours or business activities may be detrimental to our values, culture and ethical standards, or lead to reputational and/or financial damage	• reviewed and questioned the conduct risk report which is discussed at each meeting • challenged the effectiveness of the management of such risks within the business • gained comfort that conduct related matters were appropriately managed and where required, reporting was made to the regulators in a timely manner
Balance sheet risk • Balance sheet risk encompasses the financial risks relating to our asset and liability portfolios, comprising liquidity, funding, concentration, encumbrance and non-trading interest rate risk	• reviewed a report which highlights bank activity, liquidity balances and key measures against thresholds and limits and challenged the effectiveness of the management thereof
Business resilience • Risk associated with disruptive incidents which can impact premises, staff, equipment, systems and key business areas	• reviewed, challenged and debated reports which highlight processes in place to manage this risk • challenged the effectiveness of the management of such risk within the business • reviewed the results of business resilience reports

Areas of focus	*What we did*
Cyber crime risk • Cyber risk can result in data compromise, interruption to business processes or client services, material financial losses, or reputational harm	• received and assessed regular reports regarding the cyber crime landscape, including lessons learnt from external cyberattacks • received the targeted attack simulation (TAS) results and ensured that any remediation required was completed • gained comfort that the management of cyber crime was given the necessary priority.
Liquidity risk • Liquidity risk may impair our ability to fund increases in assets or to meet our payment obligations as they fall due. This includes repaying depositors or maturing wholesale debt. This risk arises from mismatches in the timing of cash flows, and is inherent in all banking operations and can be impacted by a range of institution-specific and market-wide events	• regularly reviewed reports which highlight bank activity, liquidity balances and key measures against thresholds and limits • reviewed management's plans to address liquidity challenges caused by COVID-19, including focused deposit origination and revised funding plans
Recovery and Resolution Plan • To document how the bank will recover from extreme financial stress to avoid liquidity and capital difficulties in Investec Bank Limited	• reviewed the recovery and resolution plans for the bank in line with the mandated annual review • challenged the recovery and resolution plans addressing how the bank will recover from extreme financial stress and avoid liquidity and capital difficulties in the bank • gained comfort that adequate plans had been put in place for scenarios where the bank was required to recover from extreme financial stress
IT Security & Technology • We may be vulnerable to the failure of our systems and breaches of our security systems (including cyber and information security)	• received and considered reports from the chair of the Investec Limited IT Risk and Governance Committee • interrogated reports on remedial actions in respect of TAS
Climate Change • Unintended environmental (including climate risk), social and economic risks could arise in our lending and investment activities	• received and reviewed reports regarding environment and climate change • considered management's actions to strengthen financial risk from climate change
Financial Crime • We may be exposed to financial crime, including money laundering, terrorist financing, bribery, fraud, tax evasion, embezzlement, forgery, counterfeiting, and identity theft	• regular reports were presented and interrogated with regard to financial crime events

Investec Bank Limited

(details as at 31 March 2020)

Khumo L Shuenyane (49)

Independent, non-executive chairman

Zarina BM Bassa (56)

Senior Independent, non-executive director

David Friedland (66)

Independent, non-executive director

Philip A Hourquebie (66)

Independent, non-executive director

David M Lawrence (69)

Deputy chairman, non-executive director

*Morris Mthombeni (46)**

Independent, non-executive director

*Mvuleni Geoffrey Qhena (54)**

Independent, non-executive director

Peter RS Thomas (75)

Non-executive director

*Stuart C Spencer (51)***

Finance director

Richard J Wainwright (57)

Chief executive officer

Fani Titi (57)

Executive director

* *Appointed 2 March 2020*

** *Appointed 14 May 2019*

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4

REMUNERATION REPORT

We have a strong entrepreneurial, merit- and values-based culture, characterised by passion, energy and stamina. The group remuneration committee approves then recommends for board approval executive and non-executive remuneration for Investec Bank Limited.

Remuneration report introduction

The IBL Remuneration Committee ("the committee") was established in May 2020 as an independent committee of the IBL board. The inaugural meeting of this committee was held on 4 June 2020. During the financial year ended 31 March 2020, the DLC Remuneration Committee acted as the Remuneration Committee for the group (including IBL). Issues specific to IBL were considered at each meeting of the committee and the IBL board received a report on the proceedings of the committee at each of its meetings. The IBL Remuneration committee will, going forward, ensure compliance with applicable legislation and governance requirements of the jurisdiction within which the bank operates, including its obligations as an independent bank regulated by the Prudential Authority (PA) and Financial Services Conduct Authority (FSCA). Whilst the committee is responsible for remuneration within the bank, it reports key items to both the IBL board and the DLC Remuneration Committee.

We believe that this change, which was a result of the continued enhancement of the bank's existing independent governance processes, will help to further enhance the level of oversight and enquiry of the bank's remuneration framework.

The financial year was characterised by a difficult trading environment and this was exacerbated by the South African sovereign downgrades and the sudden and extreme COVID-19 related dislocation in global markets during the last quarter of the financial year.

In light of future uncertainty brought about by COVID-19, the IBL Remuneration Committee agreed on the following principles:

- Protect our business (to ensure we have a sustainable, viable business for the long term);
- Protect our people;
- Mitigate flight risk and potential impact to franchises, particularly for key individuals; and
- Account for external factors including the views of regulators and shareholders.

In applying the principles outlined above, we adopted alternative approaches for three groups of our people. For the first group, generally lower earning employees, we reviewed and paid out the total variable remuneration following the end of the financial year. For the second group, generally higher earning employees, we adopted a prudent and conservative approach and paid only a portion of the potential variable remuneration following the end of the financial year. This population may be eligible for additional variable remuneration, to be paid or granted no later than December 2020, subject to performance for the first half of the 2021 financial year, and the economic and business outlook at that time.

For the third group, comprising executives and senior managers, we paid only a portion of the potential variable remuneration following the end of the financial year. Senior managers affected by this reduction in reward may be eligible for additional variable remuneration, to be paid or granted no later than December 2020, subject to performance for the first half of the 2021 financial year, and the economic and business outlook at that time.

In line with the request from the Prudential Authority to preserve cash and capital during this period, no cash bonuses were paid to executives and senior managers of the bank for the financial year ended 31 March 2020. Such individuals received shares with a 12-month vesting period on the portion that ordinarily would have been cash, with deferral for up to three years on the balance, as with all staff.

Executive directors took a 30% reduction in package for 3 months and donated this to Covid-19 causes, including the Solidarity Fund in South Africa.

Further details on the philosophy, policy and relevant disclosures per governance requirements can be found throughout the IBL remuneration report.

Remuneration philosophy

Our philosophy, which remains unchanged from prior years, is to employ the highest calibre individuals who are characterised by integrity, intellect and innovation and who adhere and subscribe to our culture, values and philosophies. We strive to inspire entrepreneurship by providing a working environment that stimulates extraordinary performance so that executive directors and employees may be positive contributors to our clients, their communities and the bank.

We reward employees generally for their contribution through:

- An annual gross remuneration package (base salary and benefits) providing an industry competitive package;
- A variable short-term incentive related to performance (annual bonus); and
- A long-term incentive (share awards) providing long-term equity participation.

We consider the aggregate of the above as the overall remuneration package designed to attract, retain, incentivise and drive the behaviour of our employees over the short-, medium- and longer-term in a risk conscious manner. Overall, rewards are considered as important as our core values of work content (greater responsibility, variety of work and high level of challenge) and work affiliation (entrepreneurial feel to the company and unique culture) in the attraction, retention and motivation of employees.

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

The type of people the organisation attracts, and the culture and environment within which they work, remain crucial in determining our success and long-term progress. Our reward programmes are clear and transparent, designed and administered to align directors' and employees' interests with those of all stakeholders and ensure the bank's short-, medium- and long-term success. Our reward programmes also recognise potential in our people.

In summary, we recognise that financial institutions have to distribute the return from their enterprises between the suppliers of capital and labour and the societies in which they do business, the latter through taxation and corporate social responsibility activities. Our remuneration philosophy seeks to maintain an appropriate balance between the interests of these stakeholders, and is closely aligned to our culture and values which include risk consciousness, meritocracy, material employee ownership and an unselfish contribution to colleagues, clients and society.

Remuneration principles

Remuneration policies, procedures and practices, collectively referred to as the 'remuneration policy', are designed, in normal market conditions, to:

- Be in line with the business strategy, objectives, values and long-term interests of the bank;
- Be consistent with and promote sound and effective risk management and not encourage risk taking that exceeds the level of tolerated risk of the bank;
- Ensure that payment of variable remuneration does not limit the bank's ability to maintain or strengthen its capital base;
- Target gross fixed remuneration (base salary and benefits including pension) at median market levels to contain fixed costs;
- Ensure that variable remuneration is largely economic value added (EVA) based and underpinned by our predetermined risk appetite and capital allocation;
- Facilitate alignment with shareholders through deferral of a portion of short-term incentives into shares and long-term incentive share awards; and
- Target total compensation (base salary, benefits and incentives) to the relevant competitive market at upper quartile levels for superior performance.

Given our stance on maintaining a low fixed cost component of remuneration, our commitment to inspiring an entrepreneurial culture and our risk-adjusted return on capital approach to EVA, we do not apply an upper limit on variable rewards.

The fixed cost component of remuneration is, however, designed to be sufficient so that employees do not become dependent on their variable compensation as we are not contractually (and do not consider ourselves morally) bound to make variable remuneration awards. Investec has the ability to pay no annual bonuses and make no long-term incentive awards should the performance of the bank or individual employees require this.

We do not pay remuneration through vehicles that facilitate avoidance of applicable laws and regulations.

No individual is involved in the determination of his/her own remuneration rewards and specific internal controls and processes are in place to prevent conflicts of interest between Investec and its clients from occurring and posing a risk to the bank on prudential grounds.

Remuneration policy

All remuneration payable (salary, benefits and incentives) is assessed at an Investec group, business unit and individual level. This framework seeks to balance both financial and non-financial measures of performance to ensure that the appropriate factors are considered prior to making awards, and that the appropriate mix of cash and share-based awards are made.

Our policy with respect to remuneration of employees has remained unchanged during the 2020 financial year.

Determination of remuneration levels

Qualitative and quantitative considerations form an integral part of the determination of overall levels of remuneration and total compensation for each individual.

Factors considered for overall levels of remuneration at the level of the Investec group include:

- Financial measures of performance
  - Risk-adjusted EVA model
  - Affordability
- Non-financial measures of performance
  - Market context
  - Specific input from the risk and compliance functions

Factors considered to determine total compensation for each individual include:

- Financial measures of performance
  - Achievement of individual targets and objectives
  - Scope of responsibility and individual contributions
- Non-financial measures of performance
  - Alignment and adherence to our culture and values
  - The level of cooperation and collaboration fostered
  - Development of self and others
  - Attitude displayed towards risk consciousness and effective risk management
  - Adherence to internal controls procedures
  - Compliance with the bank's regulatory requirements and relevant policies and procedures, including treating customers fairly
  - The ability to grow and develop markets and client relationships
  - Multi-year contribution to performance and brand building
  - Long-term sustained performance
  - Specific input from the risk and compliance functions
  - Attitude and contribution to sustainability principles and initiatives

Remuneration levels are targeted to be commercially competitive, on the following basis:

- The most relevant competitive reference points for remuneration levels are based on the scope of responsibility and individual contributions made;

- The committee recognises that we operate an international business and compete with both local and international competitors in each of our markets;
- Appropriate benchmarks, industry and comparable organisations' remuneration practices are reviewed regularly;
- For employees generally, the JSE Financial 15 has offered the most appropriate benchmark; and
- In order to avoid disproportionate packages across areas of the bank and between executives, adjustments may be made at any extremes to ensure broad internal consistency. Adjustments may also be made to the competitive positioning of remuneration components for individuals, in cases where a higher level of investment is needed in order to build, grow or sustain either a business unit or our capability in a geography.

The following section outlines our remuneration policy in more detail for each element of total compensation as it applies to employees. F Titi is remunerated at a DLC level and therefore his remuneration is set out in detail in the Investec group's 2020 integrated annual report.

Gross remuneration: base salary and benefits

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

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

Advisors are often engaged by human resources to obtain general benchmark information or to benchmark specific positions to ensure that gross remuneration levels are appropriate when compared against the market and competitive so that levels of remuneration do not inhibit our ability to recruit the people we need to develop our business.

Benefits are targeted at competitive levels and are delivered through flexible and tailored packages. Benefits include pension schemes; life, disability and personal accident insurance; medical cover; and other benefits, as dictated by competitive local market practices. Only salaries, not annual bonuses, are pensionable.

Variable short-term incentive: annual bonus

All employees are eligible to be considered for a discretionary annual bonus, subject *inter alia* to the factors set out above in the section dealing with the determination of remuneration levels.

Risk-weighted returns form the basis for variable remuneration levels

In our ordinary course of business we face a number of risks that could affect our business operations, as highlighted on page 14.

Risk Management is independent from the business units and monitors, manages and reports on the bank's risk to ensure it is within the stated risk appetite as mandated by the board of directors through the Board Risk and Capital Committee (BRCC). The bank monitors and controls risk exposure through credit, market, liquidity, operational and legal risk divisions/forums/ committees.

Risk consciousness and management is embedded in the organisational culture from the initiation of transactional activity through to the monitoring of adherence to mandates and limits and throughout everything we do.

The BRCC (comprising both executive and non-executive directors) sets the overall risk appetite for the bank and determines the categories of risk, the specific types of risks and the extent of such risks which the bank should undertake, as well as the mitigation of risks and overall capital management and allocation process. Senior members of the bank's risk management teams, who provide information for the meeting packs and present and contribute to the committee's discussions, attend these meetings.

The DLC Capital Committee is a sub-committee of the BRCC and provides detailed input into the bank's identification, quantification and measurement of its capital requirements, taking into account the capital requirements of the banking regulators. It determines the amount of internal capital that the bank should hold and its minimum liquidity requirements, taking into account all the associated risks plus a buffer for any future or unidentified risks. This measure of internal capital forms part of the basis for determining the variable remuneration pools of the various operating business units (as discussed above).

The Group Risk Review and Reserved Matters Forum (GRRRMF), formerly policy executive risk review forum (Policy ERRF), executive risk committee (ERC) and review executive risk review forum (Review ERRF), comprising members of the executive and the heads of the various risk functions, meet weekly. These committees' responsibilities include reviewing and approving limits and mandates, ensuring these are adhered to and that agreed recommendations to mitigate risk are implemented.

The group's central credit and risk forums provide transaction approval independent of the business unit on a deal-by-deal basis. The riskiness of business undertaken is evaluated and approved prior to initiation of the business through central forums and committees, deal forum, credit committee, investment committee and new product forum and is reviewed and ratified at ERC and GRRRMF on a regular basis. These central forums provide a level of risk management by ensuring that risk appetite and various limits are being adhered to and that an appropriate interest rate and, by implication, risk premium is built into every approved transaction. The approval of transactions by these independent central forums thus ensures that every transaction undertaken by the bank results in a contribution to profit that has already been subject to a level of risk adjustment.

Our EVA model as described in detail below is principally applied to realised profits against predetermined targets above risk and capital weighted returns. In terms of the EVA structure, capital is allocated based on risk and therefore the higher the risk, the higher the capital allocation and the higher the hurdle return rate required. This model ensures that risk and capital management are embedded in key processes at both a bank and transaction level, which form the basis of the bank's performance-related variable remuneration model, thus balancing the interests of all stakeholders.

Further, both the risk and compliance functions are also embedded in the operating business units and are subject to review by the internal audit and compliance monitoring teams. The risk and compliance functions also provide, on an exception-only basis, information relating to the behaviour of individuals and business areas if there has been evidence of non-compliance or behaviour which gives rise to concerns regarding the riskiness of business undertaken.

EVA model: allocation of performance-related bonus pool

Our business strategy and associated risk appetite, together with effective capital utilisation, underpin the EVA annual bonus allocation model.

Business units share in the annual bonus pool to the extent that they have generated a realised return on their allocated risk-adjusted capital base in excess of their target return on equity. Many of the potential future risks that the firm may face are avoided through ensuring that the bonus pools are based on actual realised risk-adjusted profits.

The bonus pools for non-operating business units (central services and head office functions) are generated by a levy payable by each operating business on its operating profit. This bonus pool may, in some years, be supplemented by a discretionary allocation as determined by the executive and agreed by the Remuneration Committee.

Our EVA model has been consistently applied for a period of about 20 years and encompasses the following elements:

- The profitability of each operating business unit is determined as if they are a stand-alone business. Gross revenue is determined based on the activity of the business, with arm's length pricing applicable to intersegment activity. Profits are determined as follows:
  - Realised gross revenue (net margin and other income)
  - *Less*: Funding costs
  - *Less*: Impairments for bad debts
  - *Add back:* Debt coupon or preference share dividends paid out of the business (where applicable)
  - *Less:* Direct operating costs (personnel, systems, etc.)
  - *Less:* Allocated costs and residual charges (certain independent group functions are provided on a centralised basis, with an allocation model applied to charge out costs incurred to business units. Costs allocated are based on the full operational costs for the particular central service area, inclusive of the variable remuneration cost of the central service. Allocation methodologies generally use cost drivers as the basis of allocation)
  - *Less:* Profits earned on retained earnings and statutory held capital
  - *Add:* Notional profit paid by centre on internal allocated capital
  - *Equals:* Net profits.
- Capital allocated is a function of both regulatory and internal capital requirements, the risk assumed within the business and our overall business strategy
- The bank has always held capital in excess of minimum regulatory requirements, and this principle is perpetuated in our internal capital allocation process. This process ensures that risk and capital discipline is embedded at the level of deal initiation and incorporates independent approval (outside of the business unit) of transactions by the various risk and credit committees

A detailed explanation of our capital management and allocation process is provided on pages 78 to 80.

- Internal capital comprises the regulatory capital requirement taking into account a number of specified risks plus a capital buffer which caters, *inter alia*, for any unspecified or future risks not specifically identified in the capital planning process. The bank then ensures that it actually holds capital in excess of this level of internal capital
- Internal capital is allocated to each business unit via a comprehensive analysis of the risks inherent within that business and an assessment of the costs of those risks
- Hurdle rates or targeted returns are determined for each business unit based on the weighted average cost of capital (plus a buffer for trading businesses to take into account additional risks not identified in the capital allocation process) applied to internal capital
- Targeted returns differ by business unit reflecting the competitive economics and shareholder expectation for the specific area of the business and are set with reference to the degree of risk and the competitive benchmarks for each product line
- In essence, varying levels of return are required for each business unit reflecting the state of market maturity, country of operation, risk, capital invested (capital intensive businesses) or expected expense base (fee-based businesses)
- Growth in profitability over time will result in an increasing bonus pool, as long as it is not achieved at the expense of capital efficiency
- Target returns must be reflective of the inherent risk assumed in the business. Thus, an increase in absolute profitability does not automatically result in an increase in the annual bonus pool. This approach allows us to embed risk and capital discipline in our business processes. These targets are subject to annual review
- The bank's credit and risk forums provide transaction approval independent of the business unit on a deal-by-deal basis adding a level of risk consciousness to the predetermined (and risk-adjusted) capital allocation and required hurdle rates and thus ensure that each transaction generates a return that is commensurate with its associated risk profile.

In terms of our EVA process, if business and individual performance goals are exceeded, the variable element of the total remuneration package is likely to be substantially higher than the relevant target benchmark. This ensures that overall remuneration levels have the potential to be positioned at the upper quartile level for superior performance, in line with our overarching remuneration policy.

In circumstances where an operating business unit does not have an EVA pool (e.g. when it incurs a loss or when it is a start-up), the executive may consider a discretionary allocation to allow for a modest bonus for those staff who were expected to contribute to the longer term interests of that business unit or the bank, despite the lack of EVA profits in the short term, e.g. control functions, support staff and key business staff.

It should be noted the salaries and proposed bonuses for employees responsible for risk, internal audit and compliance are not based on a formulaic approach and are independent of any revenues or profits generated by the business units where they work. The level of rewards for these employees are assessed against the overall financial performance of the bank; objectives based on their function; and compliance with the various non-financial aspects referred to above.

Key elements of the bonus allocation process are set out below:

- A fixed predetermined percentage of any return in excess of the EVA hurdle accrues to the business units' EVA pool;
- A portion of the total EVA pool is allocated towards the bonus pool for central service and head office employees;
- These bonus pools are reviewed regularly by the appropriate management and non-executive committees to ensure that awards are only paid when it is appropriate to do so, considering firm-wide performance against non-financial risk (both current and future) and compliance-based objectives and in order to ensure that the payment of such discretionary bonuses does not inhibit the bank's ability to maintain/raise its capital levels. All users of capital operate within a strict philosophical framework that requires a balancing of risk and reward and that is designed to encourage behaviour in the interests of all stakeholders as opposed to just employees;
- The EVA pools are calculated centrally by the bank's finance function and subject to audit as part of the year-end audit process;
- Once the annual audit is complete, line managers in each business unit will make discretionary bonus recommendations for each team member taking into consideration qualitative and quantitative criteria (as mentioned above);
- Bonus recommendations are then subject to an extensive review involving human resources and local management;
- Thereafter, these recommendations are subject to a global review by executive management before the Remuneration Committee's review and approval process.

The Investec group's Remuneration Committee specifically reviews and approves the individual remuneration packages of the executive directors and persons discharging managerial responsibilities. The committee also reviews the salaries and performance bonuses awarded to a number of other senior and higher paid employees across the bank. In addition, the committee specifically reviews and approves the salaries and performance bonuses awarded to each employee within the internal audit, compliance and risk functions, both in the business units and in the central functions, ensuring that such packages are competitive and are determined independently of the other business areas. In making these decisions the committee relies on a combination of external advice and supporting information prepared internally by the bank.

Deferral of annual bonus awards

All annual bonus awards exceeding a predetermined hurdle level are subject to 60% deferral in respect of that portion that exceeds the hurdle level. The deferred amount is awarded in the form of: forfeitable share awards vesting in three equal tranches at the end of 12 months, 24 months and 36 months; or cash released in three equal tranches at the end of 12 months, 24 months and 36 months. Where shares are being awarded to employees as part of the deferral of performance bonus awards, these are referred to as short-term share awards. These awards are made in terms of our existing long-term incentive plans (refer below). The entire amount of the annual bonus that is not deferred is payable upfront in cash. However, as outlined on page 125, in line with guidance from the Prudential Authority to preserve capital during this period, no cash bonuses were paid to executives and senior managers of the bank for the financial year ended 31 March 2020.

Long-term incentive: share awards

We have a number of share option and long-term share incentive plans that are designed to align the interests of employees with those of shareholders and long-term organisational interests, and to build material share ownership over the long term through share awards. These share option and incentive plans are also used in appropriate circumstances as a mechanism for retaining the skills of key talent. Awards are made in the form of forfeitable share awards.

In principle all employees are eligible for long-term incentives. Awards are considered by the Remuneration Committee and made only in the 42-day period following the release of our interim or final financial results in accordance with the Investment Association principles of remuneration. These awards comprise three elements, namely:

- 'New starter' awards may be awarded on a discretionary basis to new starters and are generally linked to salary levels.
- 'General allocation' awards may be awarded on a discretionary basis to those who have not had any other share award in a three-year period and are generally linked to salary levels.
- 'Top up' awards are made at the discretion of line management primarily to ensure multi-year performance and long-term value generation.

All proposed long-term incentive awards are recommended by business unit management, approved by the staff share executive committee and then the IBL and DLC Remuneration Committees before being awarded.

Forfeitable shares are subject to one third vesting after approximately three, four and five years, which we believe is appropriate for our business requirements. The awards are forfeited on termination, but 'good leaver' discretion is applied in exceptional circumstances.

Retention is addressed through the long-term nature of awards granted, which provides an element of 'lock-in' for employees throughout the vesting period and allows for multi-year contribution to performance and brand building.

www ***For further information on the share option and long-term share incentive plans in operation and in which the directors are eligible to participate, refer to the Investec group's 2020 integrated annual report.***

Non-executive directors' remuneration

Non-executive directors receive fees for being a member of the Investec Bank Limited board and fees are also payable for any additional time committed to the bank including attendance at certain meetings. Furthermore, non-executive directors may not participate in our share option plans or our long-term share incentive and pension plans.

Non-executive directors have donated a portion of their fees to Covid-19 causes, including the Solidarity Fund in South Africa. In addition it is proposed that the non-executive directors take a 10-20% reduction in fees from 1 September 2020.

Governance

Compliance and governance statement

The remuneration report complies with the provisions of the South African King IV Code of Corporate Practice and Conduct, the South African Companies Act 2008, the JSE Limited Listings Requirements, the South African Notice on the Governance and Risk Management Framework for Insurers, 2014, and the South African Prudential Authority (previously known as the Banking Supervision Department of the South African Reserve Bank) Basel Pillar III disclosure requirements.

Scope of our remuneration policy

The bank aims to apply remuneration policies to executive directors and employees that are largely consistent across the bank, but recognises that certain parts of the bank are governed by local regulations that may contain more onerous requirements in certain respects. Additionally, should any aspect of our remuneration policy contravenes local laws or regulations, the local laws or regulations shall prevail.

Audited information

Directors' annual remuneration

	Salaries, directors' fees and other remuneration 2020 R	Annual bonus 2020 R	Total remuneration expense 2020 R	Salaries, directors' fees and other remuneration 2019 R	Annual bonus 2019* R	Total remuneration expense 2019 R
Executive directors						
R Wainwright (chief executive officer)[1]	5 725 000	18 800 000	24 525 000	5 670 834	25 500 000	31 170 834
F Titi[2]	1 880 906	–	1 880 906	1 822 664	4 393 424	6 216 088
S Spencer[3]	2 788 000	5 500 000	8 288 000	–	–	–
Total in Rands	**10 393 906**	**24 300 000**	**34 693 906**	**7 493 498**	**29 893 424**	**37 386 922**
Non-executive directors						
KL Shuenyane (chairman)	2 500 000	–	2 500 000	2 291 667	–	2 291 667
DM Lawrence (deputy chairman)	2 530 000	–	2 530 000	2 517 500	–	2 517 500
PA Hourquebie	340 000		340 000	85 000		85 000
ZBM Bassa	340 000	–	340 000	340 000	–	340 000
D Friedland	940 000	–	940 000	940 000	–	940 000
PRS Thomas	1 340 000	–	1 340 000	1 340 000	–	1 340 000
M Mthombeni[4]	–	–	–	–	–	–
MG Qhena[4]	–	–	–	–	–	–
Total in Rands	**7 990 000**	**–**	**7 990 000**	**7 514 167**	**–**	**7 514 167**
Total in Rands	**18 383 906**	**24 300 000**	**42 683 906**	**15 007 665**	**29 893 424**	**44 901 089**

Fees constitute Investec Bank Limited board fees, inclusive of any additional attendance fees. Total Fees paid to the directors for Investec Bank Ltd, Investec plc and Investec Limited are disclosed in the Investec integrated annual report.

1 *R Wainwright – In line with the request from the Prudential Authority, no cash bonus will be paid to R Wainwright. The portion of the bonus that ordinarily would have been paid in cash will be delivered in INL shares with a 12-month vesting period. R8 090 000 of the 2020 Bonus is contingent and could be forfeited in December, subject to performance for the first half of the 2021 financial year, and the economic and business outlook at that time.*

2 *F Titi - At his own request he rescinded the bonus due to him, to recognise the experience of shareholders and other stakeholders.*

3 *S Spencer – In line with the request from the Prudential Authority, no cash bonus will be paid to S Spencer. The portion of the bonus that ordinarily would have been paid in cash will be delivered in INL shares with a 12-month vesting period. S Spencer may be eligible for a top up, to be paid or granted no later than December 2020, subject to performance for the first half of the 2021 financial year, and the economic and business outlook at that time. S Spencer was appointed as an executive director on 14 May 2019, hence no prior year comparison.*

4 *MG Qhena and M Mthombeni were appointed as non-executive directors on 2 March 2020, the two director's did not received any payments prior to 31 March 2020.*

Directors' shareholdings in Investec plc and Investec Limited shares at 31 March 2020

	Beneficial and non-beneficial interest		% of shares in issue[1]	Beneficial and non-beneficial interest		% of shares in issue[1]
	Investec plc[2]		Investec plc	Investec Limited[3]		Investec Limited
	31 March 2020	1 April 2019	**31 March 2020**	**31 March 2020**	1 April 2019	**31 March 2020**
Executive directors						
R Wainwright	–	–	0.0%	738 650	564 731	0.2%
F Titi	145 481	–	0.0%	–	–	0.0%
S Spencer	–	–	0.0%	144 505	–	0.0%
Total	**145 481**	**–**	**0.0%**	**883 155**	**564 731**	**0.2%**
Non-executive directors						
K Shuenyane	19 900	19 900	0.0%	–	–	0.0%
DM Lawrence	749 410	749 410	0.1%	100 590	100 590	0.0%
ZBM Bassa	–	–	0.0%	–	–	0.0%
PRS Thomas	–	–	0.0%	–	–	0.0%
D Friedland	–	–	0.0%	–	–	0.0%
PA Hourquebie	–	–	0.0%	–	–	0.0%
M Mthombeni[1]	–	–	0.0%	–	–	0.0%
MG Qhena[2]	–	–	0.0%	–	–	0.0%
Total	**769 310**	**769 310**	**0.1%**	**100 590**	**100 590**	**0.0%**

The table above reflects holdings of shares by current directors.

The issued share capital of Investec plc and Investec Ltd at 31 March 2020 was 696.1 million and 318.9 million shares, respectively

The market price of an Investec plc share at 31 March 2020 was £1.52 (2019: £4.42), ranging from a low of £1.29 to a high of £5.19 during the financial year.

The market price of an Investec Limited share at 31 March 2020 was R33.99 (2019: R84.34), ranging from a low of R27.11 to a high of R94.60 during the financial year.

[1] *M Mthombeni was appointed as a non-executive director on 02 March 2020*

[2] *MG Qhena was appointed as a non-executive director on 02 March 2020.*

Directors' interest in preference shares at 31 March 2020

	Investec Bank Limited		Investec Limited		Investec plc	
	31 March 2020	1 April 2019	**31 March 2020**	1 April 2019	**31 March 2020**	1 April 2019
DM Lawrence	5 116	5 116	12 659	12 659		
S Spencer	900		1 000			

The market price of an Investec Bank Limited preference share at 31 March 2020 was R50.00 (2019: R80.65).
The market price of an Investec Limited preference share at 31 March 2020 was R49.97 (2019: R72.60).
The market price of an Investec plc preference share at 31 March 2020 was R90.00 (2019: R98.00).

Directors' interest in options at 31 March 2020

Investec plc shares

The directors do not have any interest in options over Investec plc shares.

Investec Limited shares

The directors do not have any interest in options over Investec Limited shares.

Directors' interest in long-term incentive plans at 31 March 2020

Investec Limited shares

Name	Date of grant	Exercise price	Number of Investec Limited shares at 1 April 2019	Exercised during the year	Options/ Conditional granted / lapsed during the year	**Balance at 31 March 2020**	Market price at date of exercise	Gross gains made on date of exercise	Period exercisable
RJ Wainwright	1 June 2015	Nil	31 250	(31 250)	–	**–**	R80.12 (27 Sep 2019)	R2 503 625	
	2 June 2016	Nil	100 000	–	–	**100 000**	–	–	One third exercisable on 19 February 2019, 5 March 2020 and the final third on 5 March 2021
	8 June 2017	Nil	125 000	–	–	**125 000**	–	–	One third exercisable on 6 February 2020, 6 February 2021 and the final third on 10 March 2022
	31 May 2018	Nil	125 000	–	–	**125 000**	–	–	One third exercisable on 30 June 2021, 30 June 2022 and the final third on 2 March 2023
	29 May 2019	Nil	–	–	123 864	**123 864**	–	–	One third exercisable on 25 July 2022, 25 July 2023 and the final third on 26 February 2024
S Spencer	1 June 2015	Nil	15 000	(15 000)	–	**–**	R78.60 (3 Sep 2019)	R1 179 000	
	2 June 2016	Nil	32 000	–	–	**32 000**	–	–	One third exercisable on 19 February 2019, 5 March 2020 and 5 March 2021
	8 June 2017	Nil	100 000	(33 333)	–	**66 667**	R85.83 (7 Feb 2020)	R2 860 811	One third exercisable on 6 February 2020, 6 February 2021 and the final third on 10 March 2022
	31 May 2018	Nil	50 000	–	–	**50 000**	–	–	One third exercisable on 30 June 2021, 30 June 2022 and 2 March 2023
	29 May 2019	Nil	–	–	35 000	**35 000**	–	–	One third exercisable on 25 July 2022, 25 July 2023, 26 February 2024

Directors' interest in long-term incentive plans at 31 March 2020

Ninety One Ltd Awards

As a result of the demerger, in respect of the above awards, the following Ninety One shares were granted

Name	Date of grant	Exercise price	Number of Ninety One Limited shares at 1 April 2019	Exercised during the year	Options/ Conditional granted/ lapsed during the year	**Balance at 31 March 2020**	Market price at date of exercise	Gross gains made on date of exercise	Period exercisable
RJ Wainwright	16 March 2020	Nil	–	–	50 000	**50 000**			50% exercisable on 5 March 2020 and on 5 March 2021
	16 March 2020	Nil	–	–	62 500	**62 500**			One third exercisable on 6 February 2020, 6 February 2021 and the final third on 10 March 2022
	16 March 2020	Nil	–	–	62 500	**62 500**			One third exercisable on 30 June 2021, 30 June 2022 and the final third on 2 March 2023
	16 March 2020	Nil	–	–	61 932	**61 932**			One third exercisable on 25 July 2022, 25 July 2023 and the final third on 26 February 2024
S Spencer	16 March 2020	Nil	–	–	16 000	**16 000**			50% exercisable on 5 March 2020 and 5 March 2021
	16 March 2020	Nil	–	–	33 334	**33 334**			50% exercisable on 6 February 2021 and on 10 March 2022
	16 March 2020	Nil	–	–	25 000	**25 000**			One third exercisable on 30 June 2021, 30 June 2022 and 2 March 2023
	16 March 2020	Nil	–	–	17 500	**17 500**			One third exercisable on 25 July 2022, 25 July 2023, 26 February 2024

Directors' interests in the Investec plc Executive Incentive Plan 2013 at 31 March 2020 (audited)

Long-term share awards granted in respect of the 2019 financial year

Name	Date of grant	Exercise price	Number of Investec plc shares as at 1 April 2019	Conditional awards made during the year	**Balance at 31 March 2020**	Performance period	Period exercisable	Retention period	Treatment on termination of employment
F Titi	29 May 2019	Nil	–	278 080	**278 080**	1 April 2019 to 31 March 2022	20% is exercisable on 29 May each year commencing on 29 May 2022 until 29 May 2026 subject to performance criteria being met	A further twelve months retention after vesting date	Will be pro-rated based on the service over the performance period, relative to the performance period of the award.

As a result of the demerger, in respect of the above awards, the following Ninety One shares were granted

Name	Date of grant	Exercise price	Number of Ninety One Plc shares as at 1 April 2019	Conditional awards made during the year	**Balance at 31 March 2020**	Performance period	Period exercisable	Retention period	Treatment on termination of employment
F Titi	16 March 2020	Nil	–	139 040	**139 040**	1 April 2019 to 31 March 2022	20% is exercisable on 29 May each year commencing on 29 May 2022 until 29 May 2026 subject to performance criteria being met	A further twelve months retention after vesting date	Will be pro-rated based on the service over the performance period, relative to the performance period of the award.

The number of shares in issue and share prices for Investec plc and Investec Limited are provided below:

Pre Demerger	**31 March 2020**	31 March 2019	High over the year	Low over the year
Investec plc share price	**£3.04**	£4.42	£5.19	£2.98
Investec Limited share price	**R64.99**	R84.34	R94.60	R64.09
Number of Investec plc shares in issue (million)	**696.1**	682.1		
Number of Investec Limited shares in issue (million)	**318.9**	318.9		

Investec Share price pre demerger 1 April 2019 to 13 March 2020

Post Demerger	**31 March 2020**	31 March 2019	High over the year	Low over the year
Investec plc share price	**£1.52**		£1.88	£1.28
Investec Limited share price	**R33.99**		R37.66	R27.11
Number of Investec plc shares in issue (million)	**696.1**	682.1		
Number of Investec Limited shares in issue (million)	**318.9**	318.9		

Investec Share price post demerger 14 March 2020 to 31 March 2020.

As a result of the demerger one Ninety One share was distributed to shareholders for every two Investec shares, the opening share price of Ninety One Ltd on 16 March 2020 was R50.00 and the closing price on 31 March 2020 was R34.35.

Non-executive directors

The fee structure for non-executive directors for the period ending 31 August 2020 and as proposed for 2021 are shown in the table below (10-20% reduction in fees proposed, depending on role, as a result of the COVID-19 pandemic):

IBL non-executive directors fees schedule

Non-executive directors' remuneration	Period ending 31 August 2020	As proposed by the board for the period 1 September 2020 to 31 August 2021	% Change
Chairman's total fee	R2 500 000 per year	R2 000 000 per year	(20%)
Basic non-executive director fee	R500 000 per year	R450 000 per year	(10%)
Member of the IBL board (also member of the DLC board)	R340 000 per year	R306,000 per year	(10%)
Member of the IBL audit committee	R237 500 per year	R213 750 per year	(10%)
Member of the IBL BRCC	R150 000 per year	R135 000 per year	(10%)
Member of the IBL remuneration committee	R150 000 per year	R135 000 per year	(10%)
IBL representative on the DLC nominations committee	R125 000 per year	R112 500 per year	(10%)
IBL representative on the DLC social and ethics committee	R125 000 per year	R112 500 per year	(10%)

Pillar 3 remuneration disclosures – 2020

Investec Bank Ltd is required to make certain quantitative and qualitative remuneration disclosures on an annual basis in terms of the South African Prudential Authority's Basel Pillar III disclosure requirements.

The bank's qualitative remuneration disclosures are provided on pages 125 to 130.

The information contained in the tables below sets out the bank's quantitative disclosures for the year ended 31 March 2020. In the tables below senior management are defined as members of our South African general management forum, excluding DLC executive directors. Material risk takers are defined as anyone (not categorised above) who is deemed to be responsible for a division/function (e.g. lending, balance sheet management, advisory and transactional banking activities) which could be incurring risk on behalf of the bank. Furthermore, financial and risk control staff are defined as everyone in central group finance and central group risk as well as employees responsible for Risk and Finance functions within the operating business units. We further did not pay cash bonuses to certain senior managers in line with the Prudential Authority request.

Aggregate remuneration by remuneration type awarded during the financial year

	Senior management	Material risk takers	Financial and risk control staff	**Total**
Fixed Remuneration – Cash	48.3	50.5	209.1	307.9
Fixed Remuneration – Shares	–	–	–	–
Variable remuneration*				
– Cash	41.1	45.8	38.2	125.1
– Deferred shares	34.3	1.3	–	35.6
– Deferred cash	–	–	–	–
– Deferred shares – long-term incentive awards**	39.8	43.7	37.2	120.7
Total aggregate remuneration and deferred incentives (R'million)	**163.5**	**141.3**	**284.5**	**589.3**
Number of employees	16	21	263	300
Ratio of variable pay to fixed pay	2.4	1.8	0.4	0.9

* *Total number of employees receiving variable remuneration was 284.*

** *Value represents the number of shares awarded multiplied by the applicable share price. These awards were made during the period but have not yet vested. These vest one third at the end of years three, four and five.*

Additional disclosure on deferred remuneration

R'million	Senior management	Material risk takers	Financial and risk control staff	Total
Deferred unvested remuneration outstanding at the beginning of the year	459.2	274.7	155.2	889.1
Deferred unvested remuneration adjustment – employees that are no longer employed by the bank and reclassifications	(20.7)	(6.6)	13.3	(14.0)
Deferred remuneration awarded in year	74.1	45.0	37.2	156.3
Deferred remuneration reduced in year through performance adjustments	–	–	–	–
Deferred remuneration reduced in year through malus adjustments	–	–	–	–
Deferred remuneration vested in year	(143.0)	(84.9)	(49.6)	(277.5)
Deferred unvested remuneration outstanding at the end of the year	**369.6**	**228.2**	**156.1**	**753.9**

R'million	Senior management	Material risk takers	Financial and risk control staff	Total
Deferred unvested remuneration outstanding at the end of the year				
– Equity	350.1	228.2	156.1	734.4
– Cash	19.5	–	–	19.5
– Other	–	–	–	–
	369.6	**228.2**	**156.1**	**753.9**

Additional disclosure on deferred remuneration *(continued)*

R'million	Senior management	Material risk takers	Financial and risk control staff	Total
Deferred remuneration vested in year				
– For awards made in 2019 financial year	23.0	11.4	0.8	35.2
– For awards made in 2018 financial year	43.7	19.7	4.6	68.0
– For awards made in 2017 financial year	41.5	22.7	11.7	75.9
– For awards made in 2016 financial year	19.8	19.0	18.2	57.0
– For awards made in 2015 financial year	15.0	12.1	14.2	41.3
	143.0	**84.9**	**49.5**	**277.4**

Other remuneration disclosures: special payments

R'million	Senior management	Material risk takers	Financial and risk control staff	Total
Sign-on payments				
Made during the year (R'million)	–	–	–	–
Number of beneficiaries	–	–	–	–
Severance payments				
Made during the year (R'million)	–	–	0.7	0.7
Number of beneficiaries	–	–	3	3
Guaranteed bonuses				
Made during the year (R'million)	–	–	–	–
Number of beneficiaries	–	–	–	–

Key Management Personnel

Details of Directors' remuneration and interest in shares are disclosed on pages 131 to 135. IAS 24 "Related party disclosures" requires the following additional information for key management compensation.

Compensation of key management personnel	**2020 R'000**	2019 R'000
Short-term employee benefits	148 436	99 203
Other long-term employee benefits	101 183	31 908
Share-based payments	76 461	68 358
Total	**326 080**	**199 469**

Shareholdings, options and other securities of key management personnel

	2020 R'000	2019 R'000
Number of options held over Investec plc or Investec Limited ordinary shares under employee share schemes	3 079	3 661

	2020 R'000	2019 R'000
Number of Investec plc or Investec Limited Ordinary shares held beneficially and non-beneficially	2 459	14 897

We have defined key management personnel as the executive directors of Investec Bank Ltd, Investec plc and Investec Limited plus those classified as persons discharging managerial responsibility. In addition to the aforementioned executive directors, those are the global heads of marketing, people and organisation, and information technology. The compensation of key management personnel has increased materially this year, as the number of persons discharging managerial responsibility has increased. There is also significant currency impact.

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The directors are responsible for the preparation and fair presentation of the group annual financial statements and the annual financial statements of Investec Bank Limited, comprising the balance sheets at 31 March 2020, income statements, statements of comprehensive income, changes in equity and cash flows, notes to the annual financial statements, accounting policies, and the directors' report, in accordance with IFRS, the South African Institute of Chartered Accounts (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Standards Council, and in the manner required by the South African Companies Act. The directors are also responsible for such internal controls, as they determine what is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these annual financial statements. The directors have made an assessment of the ability of the company and its subsidiaries to continue as going concerns and have no reason to believe that the businesses will not be going concerns in the year ahead.

In addition, the board considers that this integrated annual report and annual financial statements, taken as a whole, are fair, balanced and understandable and provide information necessary to assess the company's performance, business model and strategy.

The auditors are responsible for reporting on whether Investec Bank Limited's group and company financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of Investec Bank Limited's group and company annual financial statements

The Investec Bank Limited group and company annual financial statements, as identified in the first paragraph, were approved by the board of directors on 16 June 2020 and signed on its behalf by:

Khumo Shuenyane **Richard Wainwright**

Declaration by the company secretary

In terms of section 88(2)(e) of the South African Companies Act, I hereby certify that, to the best of my knowledge and belief, Investec Bank Limited has lodged with the Companies and Intellectual Property Commission, for the financial year ended 31 March 2020, all such returns as are required in terms of the South African Companies Act and that all such returns are true, correct and up to date.

Niki van Wyk
Company secretary,

Investec Bank Limited

16 June 2020

Nature of business

IBL is a specialist bank providing a diverse range of financial products and services to a niche client base in South Africa and Mauritius.

Financial results

The group and company financial results of IBL are set out in the annual financial statements and accompanying notes for the year ended 31 March 2020.

A review of the operations for the year can be found on pages 16 to 19.

The preparation of the group and company annual financial statements was supervised by the financial director, Stuart Spencer.

Authorised and issued share capital

Details of the share capital are set out in notes 39 and 40 of the annual financial statements.

Investec Bank Limited enhanced its capital position by allotting and issuing 1 774 168 IBL ordinary shares of 50 cents each at a premium of R506.78 amounting to R899,999,943.04 on 31 March 2020 to Investec Limited.

Ordinary dividends

Having met the solvency and liquidity requirements that are stipulated in the South African Companies Act, the following interim ordinary dividend was declared and paid during the year:

- R1.05 billion (one billion and fifty million rand) was declared and paid on 17 December 2019.

In accordance with regulatory guidance, no final ordinary dividend was declared.

Preference dividends

Non-redeemable non-cumulative non-participating preference shares

Preference dividend number 33 for the six months ended 30 September 2019 , amounting to 424.01272 cents per share, was declared to members holding preference shares registered on 13 December 2019 and was paid on 17 December 2019.

Class IBRP1 redeemable non-cumulative non-participating preference shares

IBRP1 preference dividend number 9 for the period 1 April 2019 to 30 June 2019 , amounting to 1425.75565 cents per share, was declared to members holding IBRP1 preference shares registered on 19 July 2019 and was paid on 22 July 2019.

IBRP1 preference dividend number 10 for the period 1 July 2019 to 30 September 2019, amounting to 1413.72292 cents per share, was declared to members holding IBRP1 preference shares registered on 18 October 2019 and was paid on 21 October 2019.

IBRP1 preference dividend number 11 for the period 01 October 2019 to 31 December 2019, amounting to 1406.98499 cents per share, was declared to members holding IBRP1 preference shares registered on 24 January 2020 and was paid on 27 January 2020.

IBRP1 preference dividend number 12 for the period 01 January 2020 to 31 March 2020, amounting to 1345.55826 cents per share, was declared to members holding IBRP1 preference shares registered on 24 April 2020 and was paid on 28 April 2020.

Class IBRP4 credit-linked redeemable cumulative non-participating preference shares

IBRP4 preference dividend number 1 for the period 28 May 2019 to 27 August 2019, amounting to 71,835.61644 cents per share, was declared to members holding IBRP4 preference shares registered on 23 August 2019 and was paid on 28 August 2019.

IBRP4 preference dividend number 2 for the period 28 August 2019 to 27 November 2019, amounting to 68,730.30137 cents per share, was declared to members holding IBRP4 preference shares registered on 22 November 2019 and was paid on 28 November 2019.

IBRP4 preference dividend number 3 for the period 28 November 2019 to 27 February 2020, amounting to 68,639.56164 cents per share, was declared to members holding IBRP4 preference shares registered on 21 February 2020 and was paid on 28 February 2020.

Investec Bank Limited exercised its option to early redeem all 5,000 of the IBRP4 Programme Preference Share on 20 April 2020. The redemption took place at an amount of 4,037,086.68493 cents per share, being a return of capital of 4 000 000 cents per share plus accrued dividends in respect of the period 28 February 2020 to 19 April 2020, amounting to 37,086.68493 cents per share.

Directors

The names of the current directors of IBL, along with their biographical details, are set out on pages 94 to 97 of volume one, and are incorporated into this report by reference. Changes to the composition of the board since 1 April 2019 up to date of this report are shown in the table below:

	Date of appointment*
M Mthombeni	2 March 2020
MG Qhena	2 March 2020
SC Spencer	14 May 2019

Directors' shareholdings

No director holds any ordinary shares in IBL.

Directors' shareholdings in Investec plc and Investec Limited and in IBL's preference shares are set out on pages 132 to 135.

Directors' remuneration

Directors' remuneration is disclosed on page 131.

Company secretary and registered office

The company secretary is Niki van Wyk. The registered office is c/o Company Secretarial, Investec Limited, 100 Grayston Drive, Sandown, Sandton 2196.

Audit Committee

The audit committee report is disclosed on pages 108 to 116.

Social and Ethics Committee

As provided for under the South African Companies Act, the DLC SEC performs the necessary functions required on behalf of IBL. Further details on the role and responsibilities of the DLC SEC are set out in the Investec group 2020 integrated annual report.

Nominations and directors' affairs committee

The board of IBL has delegated the duties of the directors' affairs committee as set out in the South African Banks Act, to the DLC Nomdac. The details of the role and responsibilities of the DLC Nomdac are set in the Investec group 2020 integrated annual report.

Remuneration Committee

The DLC Remuneration Committee currently acts as the Remuneration Committee for the group (including IBL) and the details of the role and responsibilities of the DLC Remuneration Committee are set out in the Investec group 2020 integrated annual report.

Subsequent to the 2020 financial year, IBL established a standalone IBL Remuneration Committee, which will serve as the Remuneration Committee of IBL and its subsidiaries.

Auditors

KPMG Inc. and Ernst & Young Inc. have expressed their willingness to continue in office as joint auditors. A resolution to reappoint KPMG Inc. and Ernst & Young Inc. as joint auditors will be proposed at the annual general meeting taking place on 6 August 2020.

Holding company

The bank's holding company is Investec Limited.

Major shareholders

Investec Limited owns 100% of the issued ordinary shares.

Subsidiary and associated companies

Details of principal subsidiary companies are reflected on page 222 and the associate companies on page 215. The interest of the company in the aggregate profits after taxation of its subsidiary companies is R855.3 million (2019: R778.9 million) and its share in aggregate losses is R25.2 million (2019: R12.7 million).

Special resolutions

At the annual general meeting of members held on 8 August 2019, the following special resolutions were passed in terms of which:

The board of directors of IBL may authorise IBL to provide direct or indirect financial assistance to its subsidiaries by way of loan, guarantee, the provision of security or otherwise, not in the ordinary course of business.

Accounting policies and disclosure

Accounting policies are set having regard to commercial practice and are in accordance with IFRS, SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Standards Council, as well as the requirements of the South African Companies Act. These policies are set out on pages 161 to 171.

Diversity and employees

The group's approach is to recruit and promote on the basis of aptitude and attitude, with the deliberate intent to build a diverse workforce and promote an inclusive workplace, appropriately and fully representative of the jurisdiction's population. A diverse workforce is vital to our ability to be an innovative organisation that is able to adapt and prosper in a fast changing world.
We have various processes to encourage debate and dialogue around valuing diversity and difference. Emerging and established leaders are invited to participate in discussions with the executive leadership around all issues related to talent management and diversity. The group's policy is to adopt an open management style, thereby encouraging informal consultation at all levels about aspects of the group's operations, and motivating staff involvement in the group's performance by means of employee share schemes.

Further information is provided in the Investec group 2020 integrated annual report.

Political donations and expenditure

Investec Bank Limited made no political donations in 2020 (2019: R1.5 million).

Empowerment and transformation

The group endeavours to prevent and/or eliminate any form of discrimination based on gender, race, ethnicity, religion, age, disability, nationality or sexual preference. People with disabilities are an essential part of a diverse talent pool and are always considered, with every effort made to accommodate and facilitate an accessible environment. In the event of employees becoming disabled while in our employ, we are committed to ensuring their continued employment.

Environment

IBL is committed to pursuing sound environmental policies in all aspects of its business, and seeks to encourage and promote good environmental practice among its employees and within the communities in which it operates.

Further information is provided in the Investec group 2020 integrated annual report.

Subsequent events

The significant judgements and estimates applied to prepare the financial statements as at 31 March 2020 pertaining to COVID-19, in particular the extent and period of lockdown, the resulting implications on the South African economy, clients and the markets IBL operates in. Please refer to Note 52 on page 247 of the financial statements.

Going concern

The directors have made an assessment of the ability of the company and its subsidiaries to continue as going concerns and have no reason to believe that the businesses will not be a going concern in the year ahead.

Khumo Shuenyane
Chairman
16 June 2020

Richard Wainwright
Chief executive officer

To the Shareholder of Investec Bank Limited

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Investec Bank Limited (the group and company), which comprise the balance sheets at 31 March 2020, the income statements, the statements of total comprehensive income, the statement of changes in equity and the cash flow statements for the year then ended, the accounting policies and the notes to the financial statements, as set out on pages 153 to 247 and the specified disclosures within the risk management and corporate governance report and the remuneration report that are marked as audited.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Investec Bank Limited at 31 March 2020, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

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 *Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the group and company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (IRBA Code)* (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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, 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.

The following Key Audit Matters are discussed:

- Impact of COVID-19;
- Adequacy of the allowance for expected credit losses on loans and advances to customers; and
- Valuation of level 3 complex/illiquid financial instruments, unlisted investments and fair value loans.

KEY AUDIT MATTER	OUR AUDIT RESPONSE TO THE KEY AUDIT MATTER
Impact of COVID-19	
Refer to the Audit Committee Report (page 110) and Note 52 of the Consolidated and Separate Financial Statements (page 247) The COVID-19 pandemic is of an unprecedented scale and has severely impacted the global economy and businesses across all industries. As a result of the pandemic there are significant judgements and assumptions that impact financial reporting that are required to be considered within the financial statements. The areas of our audit most impacted by COVID-19 include:	Our audit response to these areas is detailed below:
Going concern The group and company's financial statements are prepared on the going concern basis of accounting. This basis is dependent on the group and company's ability to meet its liabilities as they fall due. Management are required to determine the appropriateness of preparing the financial statements on a going concern basis. The duration and impact of the COVID-19 pandemic remains highly uncertain. There is a risk that management's going concern analysis has not appropriately considered the full effect of COVID-19 on the group and company. Management performed an assessment of a COVID-19 impact on the going concern assumption using information available up to the date of issue of the consolidated financial statements.	**Going concern** We revisited our procedures on management's going concern assessment taking into account the known impact of COVID-19 on the nature of the group and company, its business model and related risks. With the support of our valuation specialists our procedures included: • Assessing the level of liquidity within the group and company to support ongoing requirements and the ability to refinance debt for at least the 12-month period after the approval of the financial statements; • Evaluating the reasonableness of management's adverse forecasts and associated stress testing, and its impact on the group and company's capital and liquidity positions; • Obtaining the reverse stress test performed by management and reviewing the assumptions used for appropriateness including the plausibility of management actions available to mitigate the impact of the reverse stress test; • Discussing the governance structure and protocols on the going concern assessment with management and non-executive directors, and corroborating our understanding against information we are aware of through the audit and by attending Audit Committee meetings where the assessment was deliberated and approved; and • Reviewing the adequacy of the going concern disclosures by evaluating whether they were consistent with management's assessment and in compliance with the relevant reporting requirements.
Adequacy of the allowance for expected credit losses on loans and advances to customers Refer to the separate Key Audit Matter below.	**Adequacy of the allowance for expected credit losses on loans and advances to customers** Refer to the separate Key Audit Matter below.
Significant judgement related to fair value ***Level 3 instruments*** Refer to the separate Key Audit Matter below.	**Significant judgement related to fair value** ***Level 3 instruments*** Refer to the separate Key Audit Matter below.
Level 1 and 2 instruments Market conditions towards the end of the financial year resulted in less liquidity, changes in credit spreads, weakened ZAR exchange rates, and greater volatility of certain level 1 and 2 financial instruments. Fair value measurements saw increased uncertainty in economic and financial forecasts in the near term, due to the difficulty in forecasting the magnitude and duration of the economic impact of COVID-19. Where there is a lack of observable, liquid market inputs, determining appropriate valuations is highly judgemental and this may result in subjective fair value movements which are material.	***Level 1 and 2 instruments*** • We tested the design and operating effectiveness of key controls supporting the valuation of level 1 and 2 financial instruments. In response to the risk that may arise due to remote working conditions, we increased the extent of roll-forward tests of controls. • We performed a detailed examination of management's valuation methodologies for the appropriateness and consistency of inputs, key assumptions and contractual obligations. As part of this assessment we also considered the appropriateness of the fair value hierarchy level within which the financial instruments had been classified. We engaged valuation specialists to assist with these procedures.

KEY AUDIT MATTER	OUR AUDIT RESPONSE TO THE KEY AUDIT MATTER
Impact of COVID-19 *(continued)*	
Events after the reporting date COVID-19 was an evolving crisis as at the reporting date. As a result, certain judgements and estimates were made by management to determine the impact of COVID-19 on conditions that existed at the reporting date, and in concluding whether events occurring after that date were adjusting or non-adjusting events.	**Events after the reporting date** We have reviewed relevant management information, post reporting date activity, key meeting minutes and held discussions with those charged with governance. We further considered the application of the guidance issued by various regulators and standard-setting bodies. We evaluated the completeness and appropriateness of the financial statement disclosures as they pertain to events after the reporting date in relation to the impact of COVID-19.
Adequacy of the allowance for expected credit losses on loans and advances to customers	
Refer to the Audit Committee Report (page 112); Accounting policies (page 165) and Note 24 of the Consolidated and Separate Financial Statements (page 213) The appropriateness of the allowance for expected credit losses (ECL) is material and requires significant judgement and assumptions by management. The impact of COVID-19 across the group and the South African sovereign downgrades resulted in additional judgements and assumptions being applied as at 31 March 2020. There has been large-scale business disruption as a result of COVID-19 that potentially gives rise to challenges for borrowers which may have a consequential impact on ECL. To help mitigate the impact of this disruption management have seen a number of actions taken by Government, Regulators and participating banks in South Africa. At year end the group and company reported gross loans and advances to customers subject to Expected Credit Losses (ECL) of R277 930 million (2019: 263 445 million) and R268 425 million (2019: R248 090 million); ECL provisions of R3 343 million (2019: R2 660 million) and R3 213 million (2019: R2 330 million); and total expected credit loss impairment charges of R1 088 million (2019: R722 million) and R1 099 million (2019: R708 million). We focused on the following key areas of significant judgement and assumptions applied by management within the ECL calculations:	We have performed audit procedures on the ECL balance at 31 March 2020 and the movement in ECL over the year. To address the significant judgements and estimates we focused on the following key procedures:

KEY AUDIT MATTER	OUR AUDIT RESPONSE TO THE KEY AUDIT MATTER

Adequacy of the allowance for expected credit losses on loans and advances to customers *(continued)*

Assessment of ECL models

ECL is determined using sophisticated modelling techniques, which consider both historical data and forward-looking information. The models used to determine credit impairments are complex, and certain inputs used are not fully observable.

Significant judgements are applied to the model design, including the estimation of key inputs such as the exposure at default (EAD); probability of default (PD) and loss given default (LGD).

Group and Company Modelled ECL represents 41.1% (2019: 49.2%) and 40.9% (2019: 51.7%) of the ECL on core loans and advances, respectively.

Assessment of ECL models

We tested the design and operating effectiveness of key controls, focusing on model governance and approvals.

Where models were updated, we assessed the changes for compliance with IFRS 9 requirements and obtained audit evidence that the appropriate interpretations were reflected in the models.

We involved our quantitative specialists to test assumptions and calculations used in the ECL models.

This included performing an assessment of:

- estimated behavioural lifetime for assets in scope of the behavioural lifetime exception in IFRS 9;
- the model design, and results for EAD, PD and LGD;
- testing and sensitivity analysis of significant assumptions;
- the appropriateness of the methodology, considering alternative techniques; and the programming code to verify it was consistent with the design documentation; and
- testing the completeness of the historical and reporting date data used in the models by tracing a sample of data back to the source systems.

Macro-economic inputs and forward looking information

Further judgement is required in incorporating macro-economic inputs and forward-looking information into the ECL models and in determining the ECL stage allocation.

The incorporation of COVID-19 pandemic projections into the forward-looking information required additional judgement and assumptions on COVID-19 specific impacts, including additional review and governance processes for approval of economic scenarios.

Macro-economic inputs and forward looking information

We tested the design and operating effectiveness of key controls over the following:

- Generation and approval of base case scenario;
- Generation and approval of the methodology and output of alternative scenarios, including the probability weights assigned; and
- Production and approval of models used to calculate the ECL impact of the scenarios.

Our economists evaluated the reasonableness of the base case and alternative scenarios generated, including the probability weights applied. Procedures included assessment of models and comparison to independent industry data.

We involved our quantitative specialists to assess the correlation of the macroeconomic factors forecast to the ECL and to test the scalars applied to the ECL that were calculated based on the scenarios.

We reviewed the governance processes that the group and company have put in place to review and approve the economic scenarios. As part of this assessment we attended the Board Risk and Capital Committee meetings where the economic scenarios were approved.

KEY AUDIT MATTER	OUR AUDIT RESPONSE TO THE KEY AUDIT MATTER
Adequacy of the allowance for expected credit losses on loans and advances to customers *(continued)*	
Assessment of SICR The assessment of what constitutes a significant increase in credit risk (SICR) involves judgement and assumptions. The SICR assessment incorporated assumptions which are subjective and includes both qualitative and quantitative measures. Additional processes were introduced to determine the SICR impact of payment holidays and other COVID-19 relief measures granted by the group and company.	**Assessment of SICR** We tested the design and operating effectiveness of key controls over the following: • The assessment and approval of a significant increase or reduction in credit risk and credit-impaired criteria and monitoring of asset levels in each stage. As part of the assessment we considered management's governance process around payment holidays granted to counterparties and the potential impact during the period as a result of COVID-19; • The approval of qualitative and quantitative staging criteria; and • The assessment and governance of manual overrides to staging outcomes. We performed testing for a sample of assets in stages 1, 2 and 3, including assets granted payment holidays as a result of COVID-19, to verify they were included in the appropriate stage based on criteria established by the group and company. Procedures included an independent recalculation of management's assessment against the requirements of IFRS 9, reasonability of changes in credit risk for certain portfolios and sensitivity analyses on impact of change in credit risk on ECL.
Post model adjustments Post model ECL adjustments are subject to further judgement and assumptions, which are made as a result of the impact of COVID-19. A post model adjustment was introduced at 31 March 2020 to capture the anticipated impact of South Africa's national lockdown on the commercial real estate portfolio as the calculated model-driven Stage 1 ECL for this portfolio was not considered sufficient.	**Post model adjustments** Due to the judgemental nature of the decision to introduce an ECL overlay, we focused our assessment on the appropriateness of the governance, approvals and reasonability of the adjustment. Our procedures included the reperformance of management's overlay calculation and assessment of the reasonableness of management assumptions against independent sources. We also performed sensitivity analyses on related portfolios.

KEY AUDIT MATTER	OUR AUDIT RESPONSE TO THE KEY AUDIT MATTER
Adequacy of the allowance for expected credit losses on loans and advances to customers *(continued)*	
ECL measurement for Stage 3 individually determined impairment exposures Impairment allowances are determined on a case by case basis for certain individual financial assets. Significant estimates, judgements and assumptions have been applied by management in their assessment of the ECL of the individual financial assets, including recoverability estimates, evaluating the adequacy and accessibility of collateral, estimates of exit values and determining the expected timing and amount of future cash flows. Group and company Individually assessed provisions represent 52.5% (2019: 50.8%) and 53.1% (2019: 48.3%) of ECL on core loans and advances, respectively.	**ECL measurement for Stage 3 individually determined impairment exposures** We tested the design and operating effectiveness of key management processes and controls over the following: • The calculation of the provision, including the timing of collateral valuations, work out strategies and annual credit reviews; • Estimation of the amount and timing of future cash flows, including the assessment and probability weighting assigned to alternative scenarios, where applicable; and • Approval of the final provision made by management's impairment decision committee. Where work out strategies require additional funding to execute, we obtained evidence of the approval for such funding through the group's risk management governance process and assessed the track record of management in approving the utilisation of the additional funding. We also selected a sample of loans to recalculate the ECL with the involvement of our quantitative specialists, where appropriate. Our selection criteria was updated to consider exposures in sectors we deem vulnerable to COVID-19, including aviation, gambling and hospitality, retail and real estate. For each item selected we compared management's assessment to our independent view on the exit price or collateral valuations, assumptions on expected cash flows and overall exit strategies. **Disclosures** Our testing focused on: • The adequacy of the disclosure and the impact of COVID-19 on the ECL; • Financial statement close process used to record the ECL journal entries; • IT controls over the completeness and accuracy of the data inputs for ECL; • Agreeing disclosures made back to source systems tested; • Reconciliations between finance and risk systems; and • Design and approval of the disclosures to meet IFRS requirements.

KEY AUDIT MATTER	OUR AUDIT RESPONSE TO THE KEY AUDIT MATTER
Valuation of level 3 complex/illiquid financial instruments, unlisted investments and fair value loans	
Refer to the Audit Committee Report (page 111); Accounting policies (page 164); and Note 12 of the Consolidated and Separate Financial Statements (page 194) There are R147 055 million (2019: R117 253 million) for group and R145 630 million (2019: R116 256 million) for company of financial assets that are required to be fair valued under IFRS 9 and 13 accounting frameworks. For level 3 instruments, such as unlisted investments in private equity businesses, investment properties, fair value loans, unlisted investments or large bespoke derivative structures there is an increased degree of subjectivity surrounding the inputs to their valuations. With the lack of observable liquid market inputs, determining appropriate valuations continues to be highly judgemental. This may result in subjective fair value movements which are material.	We tested the design and operating effectiveness of key controls for the valuation of level 3 financial instruments. For certain unlisted investments in private equity businesses and investment properties where it was more effective to do so a substantive approach was taken.
Unlisted investment portfolio Significant judgement is required by management due to the absence of verifiable third party information to determine the key inputs and assumptions in the valuation models. This means there is a heightened risk that the timing and extent of changes in fair value estimates could be misstated. The level of risk has increased from the prior year as a result of the impact of COVID-19 on market conditions, including the lack of liquidity for certain asset classes. **Fair value loans** The portfolios within level 3 of the fair value hierarchy with the greatest valuation uncertainty, which therefore required the most significant accounting judgements and thus audit effort, are the Southern African mining assets.	**Unlisted investment portfolio and fair value loans** We performed a detailed examination of management's valuation methodologies and assessed the appropriateness and consistency of model inputs, key assumptions and contractual obligations. Where such inputs and assumptions were not observable in the market, we engaged our valuation specialists to critically assess if the inputs and assumptions fell within an acceptable range, based on their independent review, industry knowledge and experience of the market. As a result of COVID-19 the extent of our use of specialists has increased year-on-year. Additional procedures performed on the Southern African mining assets included: • Performing a site visit during the year to inspect key assets and meeting with key management and Board members of the investee; • Engaging our valuations specialists to perform an independent valuation model in addition to assessing the key inputs and assumptions applied by management. In building the independent valuation models, considering alternative inputs and assumptions to those used by management; • Performing sensitivity analysis on material inputs; • Challenging management to produce new valuation models that were responsive to what they considered to be the range of reasonably likely outcomes; and • Obtaining audit evidence via legal confirmations from external counsel in order to assess the enforceability of collateral held.

Other Information

The directors are responsible for the other information. The other information comprises the Declaration by the company secretary, the Directors' report and the Audit committee's report, included in the Corporate governance report, as required by the Companies Act of South Africa and all information included in the Annual Report that is not marked as audited. Other information does not include the consolidated and separate financial statements, the sections marked as audited in the annual report and our auditors' report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do 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 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, 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.

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 determines is necessary to enable the preparation of the 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's and company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intends to liquidate the group and/or company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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.
- 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 and 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 auditors' 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 auditors' report. However, future events or conditions may cause the group and/or company to cease to continue as a going concern.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- 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 and business activities within the group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group and company 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 auditors' 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, and subsequent guidance, we report that Ernst & Young Inc. and KPMG Inc. have been the auditors of Investec Limited for 45 and 26 years, respectively.

Ernst & Young Inc.

Ernst & Young Inc.
Registered Auditor
Per Gail Moshoeshoe
Chartered Accountant (SA)
Registered Auditor
Director
16 June 2020

KPMG Inc

KPMG Inc.
Registered Auditor
Per Tracy Middlemiss
Chartered Accountant (SA)
Registered Auditor
Director
16 June 2020

For the year to 31 March R'million	Notes	Group 2020	Group 2019	Company 2020	Company 2019
Interest income	1	35 549	33 611	34 704	32 083
Interest income using effective interest rate		32 285	31 497	31 663	30 271
Other interest income		3 264	2 114	3 041	1 812
Interest expense	1	(26 606)	(25 324)	(26 541)	(25 065)
Net interest income		**8 943**	**8 287**	**8 163**	**7 018**
Fee and commission income	2	2 836	2 662	2 725	2 216
Fee and commission expense	2	(490)	(401)	(481)	(352)
Investment income	3	601	360	859	1 527
Share of post taxation profit of associates	26	320	1 163	343	1 193
Trading income/(loss) arising from					
– customer flow		443	369	451	367
– balance sheet management and other trading activities		(50)	210	3	148
Total operating income before expected credit loss impairment charges		**12 603**	**12 650**	**12 063**	**12 117**
Expected credit loss impairment charges	4	(1 088)	(722)	(1 099)	(708)
Operating income		**11 515**	**11 928**	**10 964**	**11 409**
Operating costs	5	(6 632)	(6 547)	(6 505)	(5 847)
Operating profit before goodwill and acquired intangibles		**4 883**	**5 381**	**4 459**	**5 562**
Impairment of goodwill	30	(3)	(3)	(3)	–
Amortisation of acquired intangibles	31	(51)	(51)	–	–
Impairment of associates	26	(937)	–	(937)	–
Operating profit		**3 892**	**5 327**	**3 519**	**5 562**
Financial impact of acquisition of subsidiary		–	10	–	–
Profit before taxation		**3 892**	**5 337**	**3 519**	**5 562**
Taxation on operating profit before acquired intangibles	7	(816)	(391)	(734)	(262)
Taxation on acquired intangibles	7	14	14	–	–
Profit after taxation		**3 090**	**4 960**	**2 785**	**5 300**
Loss attributable to non-controlling interests		–	3	–	–
Earnings attributable to shareholders		**3 090**	**4 963**	**2 785**	**5 300**

		Group		Company	
For the year to 31 March **R'million**	**Notes**	**2020**	2019	**2020**	2019
Profit after taxation		3 090	4 960	2 785	5 300
Other comprehensive income:					
Items that may be reclassified to the income statement					
Fair value movements on cash flow hedges taken directly to other comprehensive income	7	(619)	63	(610)	63
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income	7	(1 908)	(119)	(1 868)	(121)
Gain on realisation of debt instruments at FVOCI recycled through the income statement	7	(79)	(89)	(79)	(87)
Foreign currency adjustments on translating foreign operations		1 290	903	9	(14)
Items that will never be reclassified to the income statement					
Fair value movements on equity instruments at FVOCI taken directly to other comprehensive income	7	(1 187)	(461)	(1 187)	(461)
Gain attributable to own credit risk		1	2	1	2
Total comprehensive income/(loss)		**588**	**5 259**	**(949)**	**4 682**
Total comprehensive income/(loss) attributable to ordinary shareholders		402	5 090	(1 135)	4 510
Total comprehensive loss attributable to non-controlling interests		–	(3)	–	–
Total comprehensive income attributable to perpetual preference shareholders and other Additional Tier 1 security holders		186	172	186	172
Total comprehensive income/(loss)		**588**	**5 259**	**(949)**	**4 682**

		Group		Company	
At 31 March R'million	**Notes**	**2020**	2019	**2020**	2019
Assets					
Cash and balances at central banks	15	36 656	10 290	36 374	10 085
Loans and advances to banks	16	18 050	19 903	12 080	13 728
Non-sovereign and non-bank cash placements		14 014	12 192	14 305	12 132
Reverse repurchase agreements and cash collateral on securities borrowed	17	26 426	18 552	25 087	17 829
Sovereign debt securities	18	64 358	60 893	64 358	60 596
Bank debt securities	19	12 265	12 526	11 357	10 966
Other debt securities	20	17 416	13 553	16 956	13 192
Derivative financial instruments	21	17 434	7 700	17 429	7 526
Securities arising from trading activities	22	3 178	5 059	2 932	5 059
Investment portfolio	23	5 801	7 664	5 590	7 221
Loans and advances to customers	24	276 754	261 737	267 379	247 108
Own originated loans and advances to customers securitised	25	7 192	7 667	–	–
Other loans and advances	24	242	329	268	349
Other securitised assets	25	416	232	–	–
Interests in associated undertakings	26	5 662	6 251	5 611	6 184
Deferred taxation assets	27	2 903	1 514	2 874	1 372
Other assets	28	6 156	8 237	5 913	5 212
Property and equipment	29	3 008	2 563	2 987	2 551
Investment properties		1	1	1	1
Goodwill	30	178	171	7	–
Intangible assets	31	318	418	151	159
Loans to group companies	33	17 542	18 151	15 765	17 285
Investment in subsidiaries	34	–	–	4 159	15 659
		535 970	**475 603**	**511 583**	**454 214**
Liabilities					
Deposits by banks		37 277	30 041	37 277	30 041
Derivative financial instruments	21	22 097	11 097	22 158	11 097
Other trading liabilities	35	4 521	4 468	4 521	4 468
Repurchase agreements and cash collateral on securities lent	17	26 626	15 234	26 626	14 121
Customer accounts (deposits)		375 948	341 710	358 642	326 466
Debt securities in issue	36	3 258	6 512	2 428	5 482
Liabilities arising on securitisation of own originated loans and advances	25	1 699	1 720	–	–
Current taxation liabilities		315	542	296	559
Deferred taxation liabilities	27	47	78	–	–
Other liabilities	37	7 590	6 263	7 118	5 731
Loans from group companies and subsidiaries	33	2 807	2 260	5 890	5 912
		482 185	**419 925**	**464 956**	**403 877**
Subordinated liabilities	38	12 037	13 918	12 037	13 918
		494 222	**433 843**	**476 993**	**417 795**
Equity					
Ordinary share capital	39	32	32	32	32
Share premium	41	15 784	14 885	15 784	14 885
Other reserves		(787)	1 790	(4 751)	(1 017)
Retained income		26 259	24 597	23 065	22 059
Shareholders' equity excluding non-controlling interests		**41 288**	**41 304**	**34 130**	**35 959**
Other Additional Tier 1 securities in issue	42	460	460	460	460
Non-controlling interests		–	(4)	–	–
Total equity		**41 748**	**41 760**	**34 590**	**36 419**
Total liabilities and equity		**535 970**	**475 603**	**511 583**	**454 214**

R'million	Ordinary share capital	Share premium
Group		
At 1 April 2018	**32**	**14 885**
Movement in reserves 1 April 2018 – 31 March 2019		
Profit after taxation	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income	–	–
Gain on realisation of debt instruments at FVOCI recycled through the income statement	–	–
Foreign currency adjustments on translating foreign operations	–	–
Fair value movements on equity instruments at FVOCI taken directly to other comprehensive income	–	–
Gain attributable to own credit risk	–	–
Total comprehensive income for the year	–	–
Dividends paid to ordinary shareholders	–	–
Dividends paid to perpetual preference shareholders and other Additional Tier 1 security holders	–	–
Issue of other Additional Tier 1 securities in issue	–	–
Acquisition of subsidiary	–	–
Net equity movements of interests in associated undertakings	–	–
Other equity movements	–	–
At 1 April 2019	**32**	**14 885**
Movement in reserves 1 April 2019 – 31 March 2020		
Profit after taxation	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income	–	–
Gain on realisation of debt instruments at FVOCI recycled through the income statement	–	–
Foreign currency adjustments on translating foreign operations	–	–
Fair value movements on equity instruments at FVOCI taken directly to other comprehensive income	–	–
Gain attributable to own credit risk	–	–
Total comprehensive income for the year	–	–
Issue of ordinary shares	–	899
Dividends paid to ordinary shareholders	–	–
Dividends paid to perpetual preference shareholders and other Additional Tier 1 security holders	–	–
Disposal of group operations	–	–
Net equity movements of interests in associated undertakings	–	–
Capital contribution to group companies	–	–
Employee benefit liability recognised	–	–
Other equity movements	–	–
At 31 March 2020	**32**	**15 784**

Other reserves: Fair value reserve	Other reserves: Regulatory general risk reserve	Other reserves: Cash flow hedge reserve	Other reserves: Own credit risk reserve	Other reserves: Foreign currency reserve	Retained income	**Shareholders' equity excluding non-controlling interests**	Other Additional Tier 1 securities in issue	Non-controlling interests	**Total equity**
565	**632**	**(995)**	**23**	**1 128**	**20 901**	**37 171**	**350**	**–**	**37 521**
–	–	–	–	–	4 963	4 963	–	(3)	4 960
–	–	63	–	–	–	63	–	–	63
(119)	–	–	–	–	–	(119)	–	–	(119)
(89)	–	–	–	–	–	(89)	–	–	(89)
–	–	–	–	903	–	903	–	–	903
(461)	–	–	–	–	–	(461)	–	–	(461)
–	–	–	2	–	–	2	–	–	2
(669)	**–**	**63**	**2**	**903**	**4 963**	**5 262**	–	**(3)**	**5 259**
–	–	`	–	–	(850)	(850)	–	–	(850)
–	–	–	–	–	(172)	(172)	–	–	(172)
–	–	–	–	–	–	–	110	–	110
–	–	–	–	–	–	–	–	(1)	(1)
–	–	–	–	–	(109)	(109)	–	–	(109)
–	138	–	–	–	(136)	2	–	–	2
(104)	**770**	**(932)**	**25**	**2 031**	**24 597**	**41 304**	**460**	**(4)**	**41 760**
–	–	–	–	–	3 090	3 090	–	–	3 090
–	–	(619)	–	–	–	(619)	–	–	(619)
(1 908)	–	–	–	–	–	(1 908)	–	–	(1 908)
(79)	–	–	–	–	–	(79)	–	–	(79)
–	–	–	–	1 290	–	1 290	–	–	1 290
(1 187)	–	–	–	–	–	(1 187)	–	–	(1 187)
–	–	–	1	–	–	1	–	–	1
(3 174)	**–**	**(619)**	**1**	**1 290**	**3 090**	**588**	**–**	**–**	**588**
–	–	–	–	–	–	899	–	–	899
–	–	–	–	–	(1 050)	(1 050)	–	–	(1 050)
–	–	–	–	–	(186)	(186)	–	–	(186)
–	–	–	–	–	(4)	(4)	–	4	–
–	–	–	–	–	(44)	(44)	–	–	(44)
–	–	–	–	–	(86)	(86)	–	–	(86)
–	–	–	–	–	(133)	(133)	–	–	(133)
–	(75)	–	–	–	75	–	–	–	–
(3 278)	**695**	**(1 551)**	**26**	**3 321**	**26 259**	**41 288**	**460**	**–**	**41 748**

R'million	Ordinary share capital	Share premium
Company		
At 1 April 2018	**32**	**14 885**
Movement in reserves 1 April 2018 – 31 March 2019		
Profit after taxation	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income	–	–
Gain on realisation of debt instruments at FVOCI recycled through the income statement	–	–
Foreign currency adjustments on translating foreign operations	–	–
Fair value movements on equity instruments at FVOCI taken directly to other comprehensive income	–	–
Gain attributable to own credit risk	–	–
Total comprehensive income for the year	**–**	**–**
Dividends paid to ordinary shareholders	–	–
Dividends paid to perpetual preference shareholders and other Additional Tier 1 security holders	–	–
Issue of other Additional Tier 1 securities in issue	–	–
Net equity movements of interests in associated undertakings	–	–
At 1 April 2019	**32**	**14 885**
Movement in reserves 1 April 2019 – 31 March 2020		
Profit after taxation	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income	–	–
Gain on realisation of debt instruments at FVOCI recycled through the income statement	–	–
Foreign currency adjustments on translating foreign operations	–	–
Fair value movements on equity instruments at FVOCI taken directly to other comprehensive income	–	–
Gain attributable to own credit risk	–	–
Total comprehensive loss for the year	**–**	**–**
Issue of ordinary shares	–	899
Dividends paid to ordinary shareholders	–	–
Dividends paid to perpetual preference shareholders and other Additional Tier 1 security holders	–	–
Capital contribution to group companies	–	–
Employee benefit liability recognised	–	–
Transactions with group companies	–	–
Net equity movements of interests in associated undertakings	–	–
At 31 March 2020	**32**	**15 784**

Other reserves: Fair value reserve	Other reserves: Cash flow hedge reserve	Other reserves: Own credit risk reserve	Other reserves: Foreign currency reserve	Other reserves: Retained income	**Shareholders' equity excluding non-controlling interests**	Other Additional Tier 1 securities in issue	**Total equity**
567	**(992)**	**23**	**3**	**17 890**	**32 408**	**350**	**32 758**
–	–	–	–	5 300	5 300	–	5 300
–	63	–	–	–	63	–	63
(121)	–	–	–	–	(121)	–	(121)
(87)	–	–	–	–	(87)	–	(87)
–	–	–	(14)	–	(14)	–	(14)
(461)	–	–	–	–	(461)	–	(461)
–	–	2	–	–	2	–	2
(669)	**63**	**2**	**(14)**	**5 300**	**4 682**	**–**	**4 682**
–	–	–	–	(850)	(850)	–	(850)
–	–	–	–	(172)	(172)	–	(172)
–	–	–	–	–	–	110	110
–	–	–	–	(109)	(109)	–	(109)
(102)	**(929)**	**25**	**(11)**	**22 059**	**35 959**	**460**	**36 419**
–	–	–	–	2 785	2 785	–	2 785
–	(610)	–	–	–	(610)	–	(610)
(1 868)	–	–	–	–	(1 868)	–	(1 868)
(79)	–	–	–	–	(79)	–	(79)
–	–	–	9	–	9	–	9
(1 187)	–	–	–	–	(1 187)	–	(1 187)
–	–	1	–	–	1	–	1
(3 134)	**(610)**	**1**	**9**	**2 785**	**(949)**	**–**	**(949)**
–	–	–	–	–	899	–	899
–	–	–	–	(1 050)	(1 050)	–	(1 050)
–	–	–	–	(186)	(186)	–	(186)
–	–	–	–	(86)	(86)	–	(86)
–	–	–	–	(130)	(130)	–	(130)
–	–	–	–	(283)	(283)	–	(283)
–	–	–	–	(44)	(44)	–	(44)
(3 236)	**(1 539)**	**26**	**(2)**	**23 065**	**34 130**	**460**	**34 590**

For the year to 31 March R'million	Notes	Group 2020	Group 2019	Company 2020	Company 2019
Cash flows from operating activities					
Operating profit adjusted for non-cash and non-operating items	44	6 051	5 202	5 607	5 308
Taxation paid		(1 224)	(1 005)	(2 545)	(865)
Increase in operating assets	44	(32 482)	(23 511)	(29 035)	(29 884)
Increase in operating liabilities	44	58 546	26 729	58 926	33 215
Net cash inflow from operating activities		**30 891**	**7 415**	**32 953**	**7 774**
Cash flows from investing activities					
Cash flow on acquisition of property, equipment and intangible assets		(247)	(2 664)	(243)	(2 619)
Cash flow on disposal of property, equipment and intangible assets		55	75	50	33
Cash flow on acquisition of subsidiaries		–	–	–	(20)
Cash flow on investment in associates		(56)	–	(56)	–
Net cash outflow from investing activities		**(248)**	**(2 589)**	**(249)**	**(2 606)**
Cash flows from financing activities					
Proceeds on issue of shares, net of related costs		899	–	899	–
Dividends paid to ordinary shareholders	9	(1 050)	(850)	(1 050)	(850)
Dividends paid to perpetual preference shareholders and other Additional Tier 1 security holders	9	(186)	(172)	(186)	(172)
Proceeds from subordinated debt raised	38	–	849	–	849
Repayment of subordinated debt	38	(3 175)	(1 210)	(3 175)	(1 210)
Proceeds on Issue of other Additional Tier 1 securities in issue	42	–	110	–	110
Lease liabilities paid		(78)	–	(73)	–
Net cash outflow from financing activities		**(3 590)**	**(1 273)**	**(3 585)**	**(1 273)**
Effects of exchange rates on cash and cash equivalents		**1 092**	**1 175**	**–**	**–**
Net increase in cash and cash equivalents		**28 145**	**4 728**	**29 119**	**3 895**
Cash and cash equivalents at the beginning of the year		30 754	26 026	24 315	20 420
Cash and cash equivalents at the end of the year		**58 899**	**30 754**	**53 434**	**24 315**
Cash and cash equivalents is defined as including:					
Cash and balances at central banks		36 656	10 290	36 374	10 085
On demand loans and advances to banks		8 193	8 247	2 720	2 073
Non-sovereign and non-bank cash placements		14 014	12 192	14 305	12 132
Expected credit loss on cash and cash equivalents		36	25	35	25
Cash and cash equivalents at the end of the year		**58 899**	**30 754**	**53 434**	**24 315**

Cash and cash equivalents have a maturity profile of less than three months.

Basis of presentation

The group and company financial statements are prepared in accordance with the International Financial Reporting Standards, SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Standards Council, as well as the requirements of the Companies Act.

The group and company financial statements have been prepared on a historical cost basis, except as otherwise indicated.

As stated on page 140, the directors consider that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

'Group' refers to group and company in the accounting policies that follow unless specifically stated otherwise.

The accounting policies adopted by the group are consistent with the prior year except as noted below.

On 1 April 2019 the group adopted IFRS 16 Leases which replaced IAS 17 Leases. The group's accounting as a lessor under IFRS 16 is substantially unchanged from its approach under IAS 17, apart from certain subleases which are now classified as finance lease receivables. For lessees, IFRS 16 removes the distinction between finance and operating leases and introduces a single lease accounting model that will with some limited exemptions, apply to all leases and result in bringing them on balance sheet.

The implementation and impact of IFRS 16 is included on pages 247. As permitted by IFRS 16, the group has applied a modified retrospective basis and therefore comparative information has not been restated.

In addition to the changes noted above, IFRS 9, IAS 39 and IFRS 7 are all currently being reviewed as a result of planned reforms to interest rate benchmarks.

This is a global initiative to replace or reform interbank offered rates (IBORs) that are used to determine interest cash flows on financial instruments such as loans to customers, debt securities and derivatives. Consequently, financial contracts referencing these benchmarks with a maturity beyond 2021 may need to be amended to reference the alternative risk free rates ('RFR') in the applicable currency. There remain many uncertainties associated with the IBOR transition, including the prospective assessment of hedge accounting effectiveness.

The IFRS amendments include reliefs which apply to all hedging relationships that are directly affected by interest rate benchmark reform by allowing entities to assume the benchmark interest rate is not altered as a result of IBOR reform.

Following endorsement of the amendments by the EU in January 2020, the group has elected to early adopt the interest rate benchmark reform amendments for the current period. The amendments would have otherwise taken mandatory effect for accounting periods starting on or after 1 January 2020.

This election reduces the effects of any uncertainty arising from IBOR reform on the current period's financial statements. Had it not made this election, the group would have been required to further assess the effect of uncertainty arising from IBOR reform on its existing hedge relationships, potentially resulting in discontinuation of hedge relationships. The amendments are applied retrospectively to all designated hedge relationships that were either in force as of the start of the reporting period or designated subsequently.

The amendments and allow the group to assume that the interest rate benchmark on which the cash flows of the hedged item and/or hedging instrument are based is not altered by IBOR reform for the purposes of fair value hedge accounting.

Progress on the transition to RFR is being monitored, with the objective of ensuring a smooth transition for the group's hedge accounting relationships.

The group expects that the IASB will issue further amendments to these standards concerning the potential financial reporting implications when an existing interest rate benchmark is replaced with an alternative RFR.

Presentation of information

Disclosure under IFRS 7 Financial Instruments: Disclosures and IAS 1 Presentation of Financial Statements: Capital disclosures relating to the nature and extent of risks have been included in sections marked as audited in the risk management report on pages 21 to 85.

Certain disclosures required under IAS 24 Related Party Disclosures have been included in the section marked as audited in the remuneration report in Investec's 2020 integrated annual report.

Basis of consolidation

All subsidiaries or structured entities are consolidated when the group controls an investee. The group controls an investee if it is exposed to, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial results of subsidiaries are included in the consolidated annual financial statements of the group from the date on which control is obtained until the date the group can no longer demonstrate control. If the group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognised at fair value.

The group performs a reassessment of control whenever there is a change in the substance of the relationship between Investec and an entity. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognised at fair value.

The group also holds investments for example, in private equity investments which give rise to significant, but not majority, voting rights. Assessing these voting rights and whether Investec controls these entities requires judgement that affects the date at which subsidiaries are consolidated or deconsolidated.

Entities, other than subsidiary undertakings, in which the group exercises significant influence over operating and financial policies are treated as interests in associated undertakings. Interests in associated undertakings are accounted for using the equity method from the date that significant influence commences until the date that significant influence ceases. In circumstances where interests in associated undertakings or joint venture holdings arise in which the group has no strategic intention, these investments are classified as 'venture capital' holdings and are designated as held at fair value through profit or loss.

For equity accounted associates, the financial statements include the attributable share of the results and reserves of associated undertakings. The group's interests in associated undertakings are included in the balance sheet at cost plus the post-acquisition changes in the group's share of the net assets of the associate.

After application of the equity method, management evaluates if there is objective evidence that its net investment in the associate or joint venture is impaired.

Because goodwill forms part of the carrying amount of the net investment in an associate or a joint venture is not separately recognised, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 Impairment of Assets. Instead, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount whenever there is objective evidence that the net investment may be impaired.

The group balance sheet reflects the associated undertakings net of accumulated impairment losses.

Investments in subsidiaries (including loan advances to subsidiaries) are carried at their cost less any accumulated impairment losses in the company financial statements.

All intergroup balances, transactions and unrealised gains or losses within the group are eliminated in full regarding subsidiaries and to the extent of the interest in an associate.

Segmental reporting

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses. This includes revenues and expenses that relate to transactions with any of the group's other components. The operating results of the operating segment are reviewed regularly by chief operating decision-makers which are considered to be executive members of the board and for which discrete financial information is available.

No additional disclosures have been provided regarding the segmental results as the bank has one segment.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition date fair value and the amount of any prior non-controlling interest in the acquiree. For each business combination, the group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed immediately in the income statement.

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and the designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the group's previously held equity interest in the acquiree is remeasured to fair value at each acquisition date through the income statement.

Any contingent consideration to be transferred by the group will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognised in accordance with IFRS 9 either in the income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration and amount recognised for non-controlling interest is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the income statement as a gain in the year of acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. The group tests goodwill acquired in a business combination for impairment annually, irrespective of whether an indication of impairment exists and in accordance with IAS 36.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash generating units that are expected to benefit from the combination.

Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the cash-generating units retained.

Share-based payments to employees

The group engages in equity-settled share-based payments in respect of services received from employees.

The fair value of the services received in respect of equity-settled share-based payments is determined by reference to the fair value of the shares or share options on the date of grant to the employee. The cost of the share-based payment, together with a corresponding increase in equity, is recognised in the income statement over the period the service conditions of the grant are met, with the amount changing according to the number of awards expected to vest. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the group's best estimate of the number of equity instruments that will ultimately vest.

The increase in equity is offset by a payment made to the holding company of Investec Bank Limited for the provision of the equity-settled shares. In addition, all entities of the group account for any share-based recharge costs allocated to equity in the period during which it is levied in their separate annual financial statements. Any excess over and above the recognised share-based payment expense is accounted for as an expense in the income statement. This cost is presented with the share-based payment expense in note 6.

Fair value measurements are based on option pricing models, taking into account the risk-free interest rate, volatility of the underlying equity instrument, expected dividends and current share prices.

Where the terms of an equity-settled award are modified, the minimum expense recognised in staff costs is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

The loss of control of an employing subsidiary of the group gives rise to an acceleration of the equity settled share based payments charge for the related employees and on loss of control, the group recognises the amount that would have been recognised for the award if it remained in place on its original terms.

Employee benefits

The group operates various defined contribution schemes. All employer contributions are charged to the income statement as incurred, in accordance with the rules of the scheme, and included under staff costs.

The group has no liabilities for other post-retirement benefits.

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The long-term employment benefits liability relates to the obligation of Investec to deliver ordinary shares of Ninety One plc and Ninety One Limited to employees over a predetermined vesting period. The fair value of this liability is calculated by applying the Black-Scholes option pricing model at each reporting date. The liability is included in other liabilities on the balance sheet.

Foreign currency transactions and foreign operations

The presentation currency of the group is South African Rand, being the functional currency of the company and the currency in which its subsidiaries mainly operate except Mauritius which is in US Dollars.

Foreign operations are subsidiaries, interests in associated undertakings or branches of the group, the activities of which are based in a functional currency other than that of the reporting entity. The functional currency of group entities is determined based on the primary economic environment in which the entity operates.

Foreign currency transactions are translated into the functional currency of the entity in which the transactions arise, based on rates of exchange ruling at the date of the transactions. At each balance sheet date foreign currency items are translated as follows:

- Monetary items (other than monetary items that form part of the net investment in a foreign operation) are translated using closing rates, with gains or losses recognised in the income statement
- Exchange differences arising on monetary items that form part of the net investment in a foreign operation are determined using closing rates and recognised as a separate component of equity (foreign currency translation reserve) upon consolidation and is reclassified to the income statement upon disposal of the net investment
- Non-monetary items that are measured at historical cost are translated using the exchange rates ruling at the date of the transaction. Non-monetary items that are measured at fair value are translated using the exchange rate at the date of the valuation, with movement due to changes in foreign currency being presented in terms of the accounting policy for changes in the fair value movement of the respective item.

On consolidation, the results and financial position of foreign operations are translated into the presentation currency of the group as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet
- Income and expense items are translated at exchange rates ruling at the date of the transaction
- All resulting exchange differences are recognised in other comprehensive income (foreign currency translation reserve), which is reclassified in the income statement on disposal of the foreign operation
- Cash flow items are translated at the exchange rates ruling at the date of the transactions.

On loss of control of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation recognised in other comprehensive income is reclassified from equity to profit or loss and included in the profit on loss of control.

Revenue recognition

Revenue consists of interest income, fee and commission income, investment income, trading income arising from customer flow, trading income arising from balance sheet management and other trading activities and other operating income.

Interest income on debt instruments at amortised cost and FVOCI is recognised in the income statement using the effective interest rate method. Calculation of the effective interest rate takes into account fees payable or receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs.

The effective interest rate method is based on the estimated life of the underlying instrument and where this estimate is not readily available, the contractual life. Interest on instruments at FVPL is recognised based on the contractual rates.

Fee and commission income includes revenue from contracts with customers earned from providing advisory services as well as portfolio management and includes rental income from investment properties. Investment advisory and management fees are earned over the period in which the services are provided. Performance fees can be variable and recognition is constrained until such time as it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur and the services related to the transactions have been completed under the terms of the contract.

Revenue from contracts with customers is recognised in accordance with five steps to: identify the contract; identify the performance obligations; determine the transaction price; allocate the transaction price to the performance obligations; and recognise revenue when the performance obligations are satisfied.

Investment income includes income, other than margin from securities held for the purpose of generating interest yield, dividends and capital appreciation.

Customer flow trading income includes income from trading activities arising from making and facilitating client activities.

Trading income arising from balance sheet management and other trading activities consists of proprietary trading income and other gains or losses arising from balance sheet management.

Trading profit is shown net of the funding costs of the underlying positions and includes the unrealised profits on trading portfolios, which are marked to market daily. Equity investments received in lieu of corporate finance fees are included in investment portfolio and valued accordingly.

Dividend income is recognised when the group's right to receive payment is established.

Included in other operating income is incidental rental income, gains on realisation of properties (other than investment properties which is included in investment income), operating lease income and income from interests in associated undertakings.

Rewards programme

The group has a Rewards programme whereby account cardholders are awarded Rewards points in proportion to eligible transactions. Rewards points may be redeemed at a later stage for goods or services at a variety of lifestyle, shopping, travel and financial partners. Rewards points earned are valid for three years from allocation date. Client rewards are considered to be a cost of the interchange service fee revenue stream, where the cardholder is not considered to be the customer but rather that the associated rewards are incentives paid to cardholders in respect of this stream. As a result, the costs to provide cardholders with these rewards are considered to be expenses and recognised in fee and commission expenses as the related income is earned, with the obligation to settle these points reflected in other liabilities until such time as they are redeemed.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the group has access at that date. The fair value of an asset or a liability reflects its non-performance risk.

When available, the group measures the fair value of an instrument using the quoted price in an active market for that instrument.

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The group classifies disclosed fair values according to a hierarchy that reflects the significance of observable market inputs. A transfer is made between the hierarchy levels when the inputs have changed or there has been a change in the valuation method. Transfers are deemed to occur at the end of each semi-annual reporting period.

Financial instruments

Financial instruments are initially recognised at their fair value. For financial assets or financial liabilities not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities are included in the initial measurement. All other transaction costs are recorded in the income statement immediately.

Regular way purchase and sales transactions in respect of financial assets that require delivery of a financial instrument within the timeframe established by market convention are recorded at settlement date.

Business model assessment

For financial assets, IFRS 9 requires that a business model assessment is carried out which reflects how the group manages the assets in order to generate cash flows. The assessment is at a portfolio level, being the level at which the portfolio is managed. Factors considered by the group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the assets' performance is evaluated and reported and how risks are assessed and managed.

The standard sets out different types of business models:

- Hold to collect: it is intended to hold the asset to maturity to earn interest, collecting repayments of principal and interest from the customer. These assets are accounted for at amortised cost.
- Hold to collect and sell: this model is similar to the hold to collect model, except that the entity may elect to sell some or all of the assets before maturity to achieve the objectives of the business model. These assets are accounted for at FVOCI.
- Hold to sell/managed on a fair value basis: the entity originates or purchases an asset with the intention of disposing of it in the short or medium term to benefit from capital appreciation or the portfolio is managed on a fair value basis. These assets are accounted for at FVPL.

However, the group may make the following irrevocable election/designation at initial recognition of a financial asset on an asset by-asset basis:

- elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in OCI; and
- a debt instrument that meets the amortised cost or FVOCI criteria as measured at FVPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

The classification into one of these categories is based on the entity's business model for managing the assets and the contractual cash flow characteristics of the assets.

Solely payment of principal and interest (SPPI)

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the group assesses whether the assets' cash flows represent solely payments of principal and interest (the SPPI test). In making this assessment, the group considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related asset is classified and measured at FVPL.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Financial assets and liabilities measured at amortised cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise to cash flows that are solely payments of principal and interest, such as most loans and advances to banks and customers and some debt securities, are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost.

The group may commit to provide a loan which has not yet been drawn. When the loan that arises from the lending commitment is expected to meet the criteria to be measured at amortised cost the undrawn commitment is also considered to be and is included in the impairment calculation.

The carrying value of these financial assets at initial recognition includes any directly attributable transaction costs. If the initial fair value is lower than the cash amount advanced, such as in the case of some leveraged finance and syndicated lending activities, the difference is deferred and recognised over the life of the loan through the recognition of interest income, unless the loan is credit impaired.

Financial assets measured at fair value through other comprehensive income (FVOCI)

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. They are recognised on the trade date when the group enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed.

They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Gains less losses arising from derecognition of debt instruments measured at fair value through other comprehensive income'.

Financial assets measured at FVOCI are included in the impairment calculations and impairment is recognised in profit or loss.

Impairment of financial assets held at amortised cost or FVOCI

At each balance sheet date each financial asset or portfolio of advances categorised at amortised cost or at fair value through other comprehensive income, issued financial guarantee and loan commitment is measured for ECL impairment. Loss allowances are forward-looking, based on 12-month expected credit losses where there has not been a significant increase in credit risk rating, otherwise allowances are based on lifetime expected credit losses.

Expected credit losses are a probability-weighted estimate of credit losses. The probability is determined by the risk of default which is applied to the cash flow estimates. On a significant increase in credit risk, credit losses are rebased from 12-month to lifetime expectations. A change in credit risk is typically but not necessarily associated with a change in the expected cash flows.

The costs of loss allowances on assets held at amortised cost are presented as impairments in the income statement. Allowances in respect of financial guarantees and loan commitments are presented as other liabilities and charges recorded within income statement impairments. Financial assets held at amortised cost are presented net of allowances except where the asset has been wholly or partially written off.

Financial assets where 12-month ECL is recognised are considered to be 'stage 1', financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2', and financial assets for which there is objective evidence of impairment are considered to be in default or otherwise credit impaired are in 'stage 3'.

The group calculates the effective interest rate on stage 3 assets which is calculated based on the amortised cost of the financial assets (i.e. gross carrying amount less ECL) instead of gross carrying amount and incorporates the impact of ECLs in estimated future cash flows.

Financial assets and liabilities held at fair value through profit or loss

Financial instruments held at fair value through profit or loss include all instruments classified as held-for-trading and those instruments designated as held at fair value through profit or loss and those financial assets which do not meet the criteria for amortised cost of FVOCI.

Financial instruments classified as fair value through profit or loss are initially recorded at fair value on the balance sheet with changes in fair value subsequently recognised in the income statement. Financial instruments are classified as trading when they are held with the intention of short-term disposal, held with the intention of generating short-term profits, or are derivatives which are not designated as part of effective hedges. Financial instruments designated as held at fair value through profit or loss are designated as such on initial recognition of the instrument and remain in this classification until derecognition.

Financial assets and liabilities are designated as held at fair value through profit or loss only if:

- it eliminates or significantly reduces an inconsistent measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy and information about the group is provided internally on that basis to the group's key management personnel; or
- a financial liability contract contains one or more embedded derivatives (which significantly modifies the cash flows that would be required by the contract and is not clearly prohibited from separation from the host contract) and the group has designated the entire hybrid contract as a financial instrument at fair value through profit or loss.

Changes in fair value of financial liabilities designated at fair value that is attributable to changes in own credit risk is recognised in other comprehensive income. Any other changes in fair value are recognised in the income statement.

Securitisation/credit investment and trading activities exposures

The group makes use of securitisation vehicles as a source of finance, as a means of risk transfer and to leverage returns through the retention of equity tranches in low default rate portfolios. The group predominately focuses on the securitisation of residential and commercial mortgages. The group also trades in structured credit investments.

The structured entities are consolidated under IFRS 10 Consolidated Financial Statements when the group has exposure to or rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Loans and advances that are originated are transferred to structured entities, and the structured entities issue debt securities to external investors to fund the purchase of the securitised assets. When the group consolidates the structured entity, the group recognises the assets and liabilities on a gross basis. When the group does not consolidate the structured entity, the impact is that the securitised assets are derecognised and only any position still held by the group in the structured entity is reflected.

Financial liabilities

Financial liabilities are classified as non-trading, held-for-trading or designated as held at fair value through profit or loss.

Non-trading liabilities are recorded at amortised cost applying the effective interest rate method.

Held-for-trading liabilities or liabilities designated as held at fair value through profit or loss are measured at fair value.

All changes in fair value of financial liabilities are recognised in the income statement.

Day 1 profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on the valuation technique whose variables include only data from observable markets, the difference between the transaction price and fair value is recognised immediately in the income statement.

In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, when the instrument is rerecognised or over the life of the transaction.

Derecognition of financial assets and liabilities

A financial asset, or a portion thereof, is derecognised when the group's rights to cash flows have expired or when the group has transferred its rights to cash flows relating to the financial assets and either (a) the group has transferred substantially all the risks and rewards associated with the financial assets, or (b) the group has neither transferred nor retained substantially all the risks and rewards associated with the financial assets but has transferred control of the assets.

The treatment of a renegotiation or modification of the contractual cash flows of a financial asset depends upon whether the modification is done for commercial reasons, in which case if they are significant the old asset is derecognised and a new asset recognised, or because of financial difficulties of the borrower.

A financial liability is derecognised when it is extinguished, i.e. when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced or modified with substantially different terms, such a replacement or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

Reclassification of financial instruments

Financial assets are only reclassified where there has been a change in business model. Financial liabilities cannot be reclassified.

Derivative financial instruments

All derivative instruments of the group are recorded on the balance sheet at fair value. Positive and negative fair values are reported as assets and liabilities, respectively.

Derivative positions are entered into either for trading purposes or as part of the group's asset and liability management activities to manage exposures to interest rate and foreign currency risks. Both realised and unrealised profits or losses arising on derivatives are recognised in the income statement as part of trading income (other than circumstances in which cash flow hedging is applied as detailed below).

Derivative instruments entered into as economic hedges which do not qualify for hedge accounting and derivatives that are entered into for trading purposes are treated in the same way as instruments that are held-for-trading.

Credit derivatives are entered into largely for trading purposes. Credit derivatives are initially recognised at their fair values, being the transaction price of the derivative. Subsequently the derivatives are carried at fair value, with movements in fair value through profit or loss, based on the remeasured price. The counterparty risk from derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit value adjustment (CVA).

Hedge accounting

When the group first implemented IFRS 9, it made an election to continue to apply the hedge accounting requirements of IAS 39 as an accounting policy.

The group applies either fair value or cash flow hedge or hedge of net investments in foreign operations accounting when the transactions meet the specified hedge accounting criteria. To qualify for hedge accounting treatment, the group ensures that all of the following conditions are met:

- At inception of the hedge, the group formally documents the relationship between the hedging instrument(s) and hedged item(s) including the risk management objectives and the strategy in undertaking the hedge transaction. Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%
- For cash flow hedges, a forecasted transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect the income statement
- The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured
- The hedge effectiveness is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

For qualifying fair value hedges, the change in fair value of the hedging instrument is recognised in the income statement. Changes in fair value of the hedged item that is attributable to the hedged risk are also recognised in the income statement.

For qualifying cash flow hedges in respect of non-financial assets and liabilities, the change in fair value of the hedging instrument, relating to the effective portion is initially recognised directly in other comprehensive income in the cash flow hedge reserve and is included in the initial cost of any asset/liability recognised or in all other cases released to the income statement when the hedged firm commitment or forecasted transaction affects net profit. If the forecast transaction or firm commitment is no longer expected to occur, the balance included in other comprehensive income is reclassified to the income statement immediately and recognised in trading income from balance sheet management and other trading activities.

For qualifying cash flow hedges in respect of financial assets and liabilities, the change in fair value of the hedging instrument, which represents an effective hedge is initially recognised in other comprehensive income and is reclassified to the income statement in the same period during which the relevant financial asset or liability affects the income statement. Any ineffective portion of the hedge is immediately recognised in the income statement.

Qualifying hedges of a net investment in a foreign operation including a hedge of a monetary item that is accounted for as part of the net investment are accounted for in a way similar to cash flow hedges. Changes in the fair value of the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of any such gain or loss recorded in other comprehensive income is reclassified to the income statement.

Hedge accounting is discontinued when it is determined that the instrument ceases to be highly effective as a hedge; when the derivative expires or is sold, terminated or exercised; when the hedge item matures or is sold or repaid; when a forecasted transaction is no longer deemed highly probable, or when the designation as a hedge is revoked.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset when there is both an intention to settle on a net basis (or simultaneously) and a currently enforceable legal right to offset exists.

Issued debt and equity financial instruments

Financial instruments issued by the group are classified as liabilities if they contain a contractual obligation to deliver cash or another financial asset.

Financial instruments issued by the group are classified as equity where they confer on the holder a residual interest in the group, and the group has no obligation to deliver either cash or another financial asset to the holder. The components of compound issued financial instruments are accounted for separately with the liability component separated first and any residual amount being allocated to the equity component.

Equity instruments are initially measured net of directly attributable issue costs.

Sale and repurchase agreements (including securities borrowing and lending)

Securities sold subject to a commitment to repurchase them, at a fixed price or a selling price plus a lender's return, remain on balance sheet. Proceeds received are recorded as a liability on the balance sheet under 'repurchase agreements and cash collateral on securities lent'. Securities that are purchased under a commitment to resell the securities at a future date are not recognised on the balance sheet. The consideration paid is recognised as an asset under 'reverse repurchase agreements and cash collateral on securities borrowed'.

The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method.

Securities borrowing transactions that are not cash collateralised are not included on the balance sheet. Securities lending and borrowing transactions which are cash collateralised are accounted for in the same manner as securities sold or purchased subject to repurchase commitments.

The cash collateral from agency-based scrip lending transactions are disclosed on a net basis, in accordance with master netting agreements and the group's intention to settle net.

Financial guarantees

Financial guarantee contracts issued by the group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due, in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at fair value, adjusted for the transaction costs that are directly attributable to the issuance of the guarantee.

Subsequent to initial recognition, the liability under each guarantee is measured at the higher of the amount recognised, less cumulative amortisation and the expected credit loss. Subsequent to initial measurement, all changes in the balance sheet carrying value are recognised in the income statement.

Instalment credit, leases and rental agreements

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset/assets, even if that right is not explicitly specified in an arrangement.

A finance lease is a lease that transfers substantially all of the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

Where classified as a finance lease, amounts outstanding on these contracts, net of unearned finance charges, are included in loans and advances where the group is the lessor and included in liabilities where the group is the lessee. Finance charges on finance leases and instalment credit transactions are credited or debited to the income statement in proportion to the capital balances outstanding at the rate implicit in the agreement.

Where classified as operating leases, rentals payable/receivable are charged/ credited in the income statement on a straight-line basis over the lease term. Contingent rentals (if any) are accrued to the income statement when incurred.

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and impairments.

Cost is the cash equivalent paid or the fair value of the consideration given to acquire an asset and includes other expenditures that are directly attributable to the acquisition of the asset.

Depreciation is provided on the depreciable amount of each component on a straight-line basis over the expected useful life of the asset. The depreciable amount related to each asset is determined as the difference between the cost and the residual value of the asset. The residual value is the estimated amount, net of disposal costs, that the group would currently obtain from the disposal of an asset in similar age and condition as expected at the end of its useful life. The current and comparative annual depreciation rates for each class of property and equipment is as follows:

- Equipment 10% – 33%
- Furniture and vehicles 10% – 25%
- Freehold properties 4%
- Leasehold improvements*
- Right of use assets*

* *Leasehold improvements depreciation rates are determined by reference to the appropriate useful life of its separate components, limited to the period of the lease. Leasehold property and right of use asset depreciation rates are determined by reference to the period of the lease.*

The useful lives, depreciation methods and residual values are assessed annually. Routine maintenance and service costs of assets are expensed as incurred. Subsequent expenditure is only capitalised if it is probable that future economic benefits associated with the item will flow to the group.

Investment properties

Properties held for capital appreciation or rental yield are classified as investment properties.

Investment properties are initially measured at cost plus transaction costs and subsequently carried at fair value, with fair value gains or losses recognised in the income statement in 'investment income'.

Fair value of investment property is calculated by taking into account the expected rental stream associated with the property, and is supported by market evidence.

Leases

At inception of a contract the group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right of control the use of an identified asset, the group assesses whether:

- The group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use, and
- The group has the right to direct the use of the asset

As a lessee, the group recognises a right of use (ROU) asset and a lease liability at the lease commencement date.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement of the date, discounted using the group's incremental borrowing rate. The lease liability will increase for the accrual of interest, and will result in a constant rate of return throughout the life of the lease, and reduce when payments are made.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any indirect costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The ROU asset is subsequently depreciated using the straightline method from the commencement date to the end of the lease term. In addition, the ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is subsequently re-measured when there is a change in future lease payments arising from a change in index or rate, if there is a change in the group's estimate of the amount expected to be payable under a residual value guarantee, or if the group changes its assessment of whether it will exercise a purchase, extension or termination option.

Where the lease liability is re-measured, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded in the income statement if the carrying amount of the ROU asset has been reduced to zero.

The group has elected not to recognise ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less. The group recognises the lease payments associated with these leases as an expense on a straight line basis over the lease term.

When the group is the lessor, the lease must be classified as either a finance lease or an operating lease. A finance lease is a lease which confers substantially all the risks and rewards of the leased assets on the lessee. An operating lease is a lease where substantially all of the risks and rewards of the leased asset remain with the lessor.

When the lease is deemed a finance lease, the leased asset is not held on the balance sheet; instead a finance lease receivable is recognised representing the minimum lease payments receivable under the terms of the lease, discounted at the rate of interest implicit in the lease.

When the lease is deemed an operating lease, the lease income is recognised on a straight-line basis over the period of the lease unless another systematic basis is more appropriate.

For the balance sheet, the ROU assets are included within property and equipment, finance lease receivables are included within loans and advances to customers and the lease liabilities are included within other liabilities.

Non-current assets held for sale

The group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets held for sale are carried at the lower of their carrying amount and fair value less costs to sell.

Trading properties

Trading properties are carried at the lower of cost and net realisable value.

Intangible assets

Intangible assets are recorded at cost less accumulated amortisation and impairments.

Intangible assets with finite lives, are amortised over the useful economic life (currently three to eight years) on a straight-line basis. The depreciable amount related to each intangible asset is determined as the difference between the cost and the residual value of the asset.

Impairment of non-financial assets

At each balance sheet date, the group reviews the carrying value of non-financial assets, other than investment property, for indication of impairment. The recoverable amount, being the higher of fair value less cost of disposal and value in use, is determined for any assets for which an indication of impairment is identified. If the recoverable amount of an asset is less than its carrying value, the carrying value of the asset is reduced to its recoverable amount value.

Impairment losses are recognised as an expense in the income statement in the period in which they are identified. Reversal of impairment losses are recognised in income in the period in which the reversal is identified, to the extent that the carrying value of the asset does not exceed the amount that would have been calculated without impairment.

Taxation and deferred taxation

Current taxation payable is provided for based on the amount expected to be payable on taxable profits at rates that are enacted or substantively enacted and applicable to the relevant period.

Deferred taxation is provided on temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base, except where such temporary differences arise from:

- The initial recognition of goodwill
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction has no effect on accounting profit or tax profit
- In respect of temporary differences associated with the investments in subsidiaries and interests in associated undertakings, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred taxation assets or liabilities are measured using the tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred taxation asset can be utilised. Items recognised directly in other comprehensive income are net of related current and deferred taxation.

Borrowing costs

Borrowing costs that are directly attributable to property developments which take a substantial period of time to develop are capitalised.

Provisions, contingent liabilities and contingent assets

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the income statement net of any reimbursement. Contingent assets and contingent liabilities are not recognised on balance sheet.

Standards and interpretations issued but not yet effective

The following standards and interpretations, which have been issued but are not yet effective, are applicable to the group. These standards and interpretations have not been applied in these annual financial statements. The group intends to comply with these standards from the effective dates.

IFRS 17 Insurance contracts

IFRS 17 Insurance contracts was issued in May 2017, and sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. It applies to all types of insurance contracts, regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. IFRS 17 is effective from 1 January 2023, and the group is considering its impact.

All other standards and interpretations issued but not yet effective are not expected to have a material impact on the group.

Key management assumptions

In preparation of the annual financial statements, the group makes estimations and applies judgement that could affect the reported amount of assets and liabilities within the next financial year. Key areas in which judgement is applied include:

- The impact of COVID-19 required management to apply significant judgements and estimates to quantify the impact on the annual financial statements. The assumptions can specifically be viewed on pages 32 to 34, pages 194 to 203 and on page 247. Additional information regarding the impact and the assumptions applied can be seen in the risk section and the annual financial statements.
- In accordance with IFRS 13 Fair Value Measurement, the group categorises financial instruments carried on the balance sheet at fair value using a three level hierarchy. Financial instruments categorised as level 1 are valued using quoted market prices and therefore there is minimal judgement applied in determining fair value. However, the fair value of financial instruments categorised as level 2 and, in particular, level 3 is determined using valuation techniques including discounted cash flow analysis and valuation models. The valuation techniques for level 3 financial instruments involve management judgement and estimates the extent of which depends on the complexity of the instrument and the availability of market observable information. In particular significant uncertainty exists in the valuation of unlisted investments and fair value loans in the private equity and direct investments portfolios. Key valuation inputs are based on the most relevant observable market information and can include expected cash flows, discount rates, earnings multiples and the underlying assets within a business, adjusted where necessary for factors that specifically apply to the individual investments and recognising market volatility. Further details of the group's level 3 financial instruments and the sensitivity of the valuation including the effect of applying reasonably possible alternative assumptions in determining their fair value are also set out in note 12.

Details of unlisted investments can be found in note 23 with further risk analysis contained in the risk management section on pages 53 to 54.

- The determination of ECL against assets that are carried at amortised cost and ECL relating to debt instruments at FVOCI involves a high degree of uncertainty as it involves using assumptions that are highly subjective and sensitive to risk factors. The most significant judgements relate to defining what is considered to be a significant increase in credit risk; determining the probability of default (PD), exposure at default (EAD) and loss given default (LGD) and future cash flows; incorporating information about forecast economic conditions and the weightings to be applied to economic scenarios. More detail relating to the methodology, judgements and estimates and results of the group's assessment of ECLs including our assessment of the impact of COVID-19 can be found on pages 29 to 31.

Refer to pages 45 to 47 of the risk management section for further analysis on impairments.

- The group's income tax charge and balance sheet provision are judgemental in nature. This arises from certain transactions for which the ultimate tax treatment can only be determined by final resolution with the relevant local tax authorities. The group has recognised in its current tax provision certain amounts in respect of taxation that involve a degree of estimation and uncertainty where the tax treatment cannot finally be determined until a resolution has been reached by the relevant tax authority. Issues can take many years to resolve and assumptions on the likely outcome would therefore have to be made by the group in order to determine if an exposure should be measured based on the most likely amount or expected value.

  In making any estimates, management's judgement would be based on various factors, including any such transactions and events whose treatment for tax purposes is uncertain. In making any estimates, management's judgement has been based on various factors, including:

  – the current status of tax audits and enquiries;
  – the current status of discussions and negotiations with the relevant tax authorities;
  – the results of any previous claims;
  – any changes to the relevant tax environments; and

  Where appropriate the group has utilised expert external advice as well as experience of similar situations elsewhere in making any such provisions

- Management assesses the degree of control or influence the group has over certain investments in terms of IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures. In the case of the IEP Group, this is considered to be an area of significant judgement. We have concluded that we do not control IEP based on the decision making structure within the entity, our percentage holding, the number and involved nature of other shareholders and our historic experience of our power over the relevant activities.

- Management critically evaluated the equity accounted value of the group's investment in IEP and consequently recognised an impairment of R937 million in total in the current year. Management of IEP identified indicators of impairment of two investments in associates and recognised an impairment of R221 million. As a result of this impairment, Investec management performed an impairment test on the investment in IEP and recognised an additional impairment of R716 million. The recoverable amount of the investment in IEP was determined to be the value-in-use of the investment. The value-in-use was determined by calculating the sum of the fair values of the underlying investments held by IEP. This was done by determining the best estimates of the cash flows to be generated from the ultimate realisation of the underlying investments considering management's strategy with the investments, returns generated by the underlying investments, the nature of the assets and market considerations. This estimate was performed for each of the assets held by IEP, using valuation techniques and assumptions management believed to be most representative of the ultimate realisation of the investments.

- The group operates in a legal and regulatory environment that exposes it to litigation risks. As a result, the group is involved in disputes and legal proceedings which arise in the ordinary course of business. The group evaluates all facts, the probability of the outcome of legal proceedings and advice from internal and external legal counsel when considering the accounting implications.

1. Net interest income

		Group				Company			
		2020		2019		2020		2019	
For the year to 31 March R'million	**Notes**	**Balance sheet value**	**Interest income**	Balance sheet value	Interest income	**Balance sheet value**	**Interest income**	Balance sheet value	Interest income
Cash, near cash and bank debt and sovereign debt securities	1	171 769	7 884	134 356	7 472	163 561	7 673	125 336	7 278
Loans and advances	2	283 946	26 432	269 404	24 392	267 379	24 827	247 108	21 908
Private client		194 699	18 373	183 240	16 852	187 601	17 506	177 679	15 942
Corporate, institutional and other clients		89 247	8 059	86 164	7 540	79 778	7 321	69 429	5 966
Other debt securities and other loans and advances		17 658	812	13 882	883	17 224	801	13 541	851
Other interest-earning assets	3	17 958	421	21 004	864	18 993	1 403	17 285	2 046
Total interest-earning assets		**491 331**	**35 549**	**438 646**	**33 611**	**467 157**	**34 704**	**403 270**	**32 083**

		Group				Company			
		2020		2019		2020		2019	
For the year to 31 March R'million	**Notes**	**Balance sheet value**	**Interest expense**	Balance sheet value	Interest expense	**Balance sheet value**	**Interest expense**	Balance sheet value	Interest expense
Deposits by banks and other debt related securities	4	67 161	(1 861)	51 787	(1 912)	66 331	(1 809)	49 644	(1 706)
Customer accounts (deposits)		375 948	(23 337)	341 710	(22 035)	358 642	(23 080)	326 466	(21 739)
Other interest-bearing liabilities	5	4 506	(337)	3 980	(289)	5 890	(582)	5 912	(532)
Subordinated liabilities		12 037	(1 020)	13 918	(1 088)	12 037	(1 020)	13 918	(1 088)
Lease liabilities*		592	(51)	–	–	576	(50)	–	–
Total interest-bearing liabilities		**460 244**	**(26 606)**	**411 395**	**(25 324)**	**443 476**	**(26 541)**	**395 940**	**(25 065)**
Net interest income			**8 943**		**8 287**		**8 163**		**7 018**
Net interest margin			**1.92%**		**1.96%**		**1.88%**		**1.81%**

1. *Comprises (as per the balance sheet) cash and balances at central banks; loans and advances to banks; non-sovereign and non-bank cash placements; reverse repurchase agreements and cash collateral on securities borrowed; sovereign debt securities; bank debt securities.*
2. *Comprises (as per the balance sheet) loans and advances to customers; own originated loans and advances to customers securitised.*
3. *Comprises (as per the balance sheet) other securitised assets and loans to group companies.*
4. *Comprises (as per the balance sheet) deposits by banks; debt securities in issue; repurchase agreements and cash collateral on securities lent.*
5. *Comprises (as per the balance sheet) liabilities arising on securitisation of own originated loans and advances; loans from group companies and subsidiaries.*

* *The group has adopted IFRS 16 from 1 April 2019. The impact has been to recognise interest expense on the unwind of lease liabilities. The prior period comparatives have not been restated.*

2. Net fee and commission income

For the year to 31 March R'million	Group 2020	Group 2019	Company 2020	Company 2019
Corporate and institutional transactional and advisory services	1 448	1 542	1 383	1 147
Private client transactional fees	1 388	1 120	1 342	1 069
Fee and commission income	2 836	2 662	2 725	2 216
Fee and commission expense	(490)	(401)	(481)	(352)
Net fee and commission income	**2 346**	**2 261**	**2 244**	**1 864**
Annuity fees (net of fees payable)	1 699	1 616	1 675	1 359
Deal fees	647	645	569	505

All revenue generated from fee and commission income arises from contracts with customers.

3. Investment income

For the year to 31 March R'million	Listed equities	Unlisted equities	Fair value loan investments	Warrants and profit shares	Investment portfolio	Debt securities (sovereign, bank and other)	Trading properties	Other	Total
The following table analyses investment income generated by the asset portfolio shown on the balance sheet									
Group									
2020									
Realised	(13)	45	–	162	194	110	11	(3)	312
Unrealised^	(86)	(93)	(131)	1	(309)	111	–	(53)	(251)
Dividend income	351	224	–	–	575	–	–	–	575
Funding and other net related costs	–	(36)	–	–	(36)	–	1	–	(35)
	252	**140**	**(131)**	**163**	**424**	**221**	**12**	**(56)**	**601**
2019									
Realised	398	404	–	221	1 023	129	(1)	(1)	1 150
Unrealised^	(581)	(674)	(89)	(18)	(1 362)	51	–	114	(1 197)
Dividend income	332	106	–	–	438	–	–	–	438
Funding and other net related costs	–	(30)	–	–	(30)	–	–	(1)	(31)
	149	**(194)**	**(89)**	**203**	**69**	**180**	**(1)**	**112**	**360**
Company									
2020									
Realised	43	69	–	142	254	110	9	–	373
Unrealised^	(141)	(91)	(131)	–	(363)	111	–	(515)	(767)
Dividend income**	345	224	–	–	569	–	–	719	1 288
Funding and other net related costs	–	(36)	–	–	(36)	–	1	–	(35)
	247	**166**	**(131)**	**142**	**424**	**221**	**10**	**204**	**859**
2019									
Realised	459	404	–	221	1 084	127	(4)	(1)	1 206
Unrealised^	(556)	(674)	(89)	–	(1 319)	51	–	26	(1 242)
Dividend income**	332	106	–	–	438	–	–	1 156	1 594
Funding and other net related costs	–	(30)	–	–	(30)	–	(1)	–	(31)
	235	**(194)**	**(89)**	**221**	**173**	**178**	**(5)**	**1 181**	**1 527**

^ *In a year of realisation, any prior period mark-to-market gains/(losses) recognised are reversed in the unrealised item.*

** *In the company, dividend income from investment in subsidiaries is presented in "other".*

4. Expected credit loss impairment charges

For the year to 31 March R'million	Group 2020	Group 2019	Company 2020	Company 2019
Expected credit loss impairment charges/(releases) is recognised on the following assets:				
Loans and advances to customers	1 015	699	943	703
Expected credit loss impairment charges (refer to note 24)	1 219	1 228	1 149	1 232
Post write-off recoveries	(204)	(529)	(206)	(529)
Own originated securitised assets	6	(1)	–	–
Core loans and advances	**1 021**	**698**	**943**	**703**
Other balance sheet assets	43	16	131	(2)
Off-balance sheet commitments and guarantees	24	8	25	7
Total expected credit loss impairment charges	**1 088**	**722**	**1 099**	**708**

5. Operating costs

For the year to 31 March R'million	Group 2020	Group 2019	Company 2020	Company 2019
Staff compensation costs	4 754	4 913	4 738	4 521
Salaries and wages (including directors' remuneration*)	3 944	4 086	3 941	3 745
Share-based payments expense	498	548	487	511
Social security costs	35	42	35	39
Pension and provident fund contributions	277	237	275	226
Training and other costs	163	138	161	125
Staff costs	4 917	5 051	4 899	4 646
Premises expenses**	195	274	182	213
Premises expenses (excluding depreciation)**	92	274	84	213
Premises depreciation**	103	–	98	–
Equipment expenses (excluding depreciation)	252	209	202	111
Business expenses***	629	404	588	308
Marketing expenses	353	345	350	336
Depreciation, amortisation and impairment on property, equipment and intangibles	286	264	284	233
	6 632	**6 547**	**6 505**	**5 847**
The following amounts were paid by the group to the auditors in respect of the audit of the financial statements and for other services provided to the group:				
Ernst & Young fees				
Total fees paid to the audit firm by virtue of being the group's auditor	**34**	**38**	**24**	**26**
Audit of the group's accounts	27	27	24	26
Audit of the group's subsidiaries pursuant to legislation	6	10	–	–
Audit related to assurance services	1	1	–	–
KPMG fees				
Total fees paid to the audit firm by virtue of being the group's auditor	**36**	**26**	**28**	**24**
Audit of the group's accounts	33	24	28	24
Audit of the group's subsidiaries pursuant to legislation	3	2	–	–
Total	**70**	**64**	**52**	**50**
Minimum operating lease payments recognised in operating costs**	–	194	–	189

* *Details of the directors' emoluments, pensions and their interests are disclosed in the remuneration report on pages 125 to 138.*

** *The group adopted IFRS 16 from 1 April 2019. The impact has been to increase the depreciation charge by R103 million for the group and R98 million for the company as a result of recognising a right-of-use asset and to reduce the premises expense in the year to 31 March 2020. The prior period comparatives have not been restated. Depreciation on premises is now being shown next to other premises expenses to aid comparability.*

*** *Business expenses mainly comprise insurance costs, consulting and professional fees, travel expenses and subscriptions.*

6. Share-based payments and employee benefits

The group operates share option and long-term share incentive plans for employees which are on an equity-settled basis.

The purpose of the staff share schemes is to promote an *esprit de corps* within the organisation, create an awareness of the Investec group's performance and provide an incentive to maximise individual and group performance by allowing all staff to share in the risks and rewards of the group.

Further information on the group share options and long-term share incentive plans are provided in the remuneration report and on our website.

	Group		Company	
For the year to 31 March R'million	**2020**	2019	**2020**	2019
Equity-settled share-based payment expense charged to the income statement	**498**	**548**	**487**	**511**
Fair value of options at grant date	**471**	**541**	**455**	**493**
Details of options and shares outstanding during the year				
Outstanding at the beginning of the year	19 753 916	21 799 041	18 010 877	20 320 679
Re-location of employees during the year	10 436	212 389	1 116 470	55 046
Granted during the year	5 353 790	5 899 759	5 168 782	5 377 298
Exercised during the year^	(5 992 317)	(7 494 681)	(5 772 611)	(7 121 967)
Lapsed during the year	(745 312)	(662 592)	(743 482)	(620 179)
Outstanding at the end of the year	**18 380 513**	**19 753 916**	**17 780 036**	**18 010 877**
Vested and exercisable at the end of the year	**511 860**	**339 353**	**504 929**	**291 297**

^ *The weighted average share price during the year was R56.00 (2019: R91.85) and the weighted average exercise price during the year was Rnil (2019: Rnil).*

	Group		Company	
For the year to 31 March	**2020**	2019	**2020**	2019
The exercise price range and weighted average remaining contractual life for the options and shares outstanding were as follows:				
Long-term incentive options and long-term shares with no strike price				
Exercise price	Rnil	Rnil	Rnil	Rnil
Weighted average remaining contractual life	2.10 years	2.03 years	2.10 years	2.03 years
Weighted average fair values of options and long-term grants at measurement date	R 88.00	R 91.72	R 88.00	R 91.65
The fair value of shares granted were calculated at market price. For shares granted during the period, the inputs were as follows:				
– Share price at date of grant	R 88.00	R90.96 – R92.55	R 88.00	R90.96 – R92.55
– Exercise price	Rnil	Rnil	Rnil	Rnil
– Option life	3.75 - 4.75 Years	4.75 Years	3.75 - 4.75 Years	4.75 Years

For information on the share options granted to directors, refer to the remuneration report on pages 132 to 135.

6. Share-based payments and employee benefits *(continued)*

Long-term employment benefit liability – Ninety One shares

As part of the IAM demerger, each participant of the Investec share option and long-term share incentive plans for employees, received the right to one Ninety One share option for every two Investec share options they had. The Ninety One share options were granted on the same terms and vesting period as the Investec options they related to.

Investec has an obligation to deliver Ninety One shares to the holders of Investec share options, accordingly this obligation was classified and measured as another long-term liability in terms of IAS 19 Employee Benefits (IAS 19). The initial liability of R133 million in the group and R130 million in the company was calculated at the date of demerger for the portion of the options already vested. The total value of the liability represented was accounted for in retained income. The liability was subsequently measured through profit or loss.

The IAS 19 long-term employment benefit liability movement recognised in the income statement for the year ended 31 March 2020 was a gain of R5.2 million in the group and R5.1 million in the company.

	Group	Company
	2020	**2020**
For the year to 31 March	**Number of share options**	**Number of share options**
Details of options and shares outstanding during the year		
IAM Demerger – Ninety One Share awards issued 16 March 2020	9 446 450	9 146 575
Re-location of employees during the year	4 444	(114)
Exercised during the year	(246 638)	(242 263)
Lapsed during the year	(17 191)	(17 191)
Outstanding at the end of year	**9 187 065**	**8 887 007**
Exercisable at the end of year	**252 159**	**248 890**

	Group	Company
	2020	**2020**
The exercise price range and weighted average remaining contractual life for options and shares outstanding at 31 March 2020, were as follows:		
Long term incentive options and long term shares with no strike price		
Exercise price	Rnil	Rnil
Weighted average remaining contractual life	2.10 years	2.10 years
The fair value of the liability was calculated by using the Black-Scholes option pricing model.		
For the liability calculated on the date of demerger and as at 31 March 2020, the inputs into the model were as follows:		
– Share price at date of grant	R30.55	R30.55
– Exercise price	R nil	R nil
– Expected volatility	56.82%	56.82%
– Option life	0.14 – 4.19 years	0.14 – 4.19 years
– Expected dividend yields	0% – 6.28%	0% – 6.28%
– Risk-free rate	5.73% – 7.71%	5.73% – 7.71%

Management concluded that the share-price used to calculate the liability as at the date of the demerger (13 March 2020) approximated the fair value of the share-priced to be used to calculate the liability as at 31 March 2020. Management performed procedures to support this.

7. Taxation

For the year to 31 March R'million	Group 2020	Group 2019	Company 2020	Company 2019
Income statement tax charge				
Taxation on income				
South Africa	769	348	734	262
– Current taxation	854	446	905	374
in respect of the current year	1 010	713	1 061	641
in respect of release of tax provisions no longer required	–	(172)	–	(172)
in respect of prior year adjustments	(156)	(95)	(156)	(95)
– Deferred taxation	(85)	(98)	(171)	(112)
Foreign taxation – Mauritius	33	29	–	–
Total taxation charge as per income statement	**802**	**377**	**734**	**262**
Total taxation charge for the year comprises:				
Taxation on operating profit before acquired intangibles	816	391	734	262
Taxation on acquired intangibles	(14)	(14)	–	–
	802	**377**	**734**	**262**
Tax rate reconciliation:				
Profit before taxation as per income statement	3 892	5 337	3 519	5 562
Total taxation charge as per income statement	802	377	734	262
Effective rate of taxation	20.6%	7.1%	20.9%	4.7%
The standard rate of South African normal taxation has been affected by:				
Dividend income	6.4%	6.9%	12.8%	12.4%
Foreign earnings*	3.0%	2.1%	–	–
Release of tax provisions no longer required	–	3.2%	–	3.1%
Prior year tax adjustments	4.0%	1.8%	1.4%	1.7%
Profits of capital nature	–	(0.2%)	0.1%	(0.2%)
Other Additional Tier 1 dividends	0.4%	0.2%	0.4%	0.2%
Tax impact of equity accounted earnings of associate	2.5%	6.1%	2.7%	6.0%
Impairment of associates and subsidiaries	(6.6%)	–	(11.0%)	–
Group restructures	(0.4%)	–	2.3%	–
Other non-taxable/non-deductible differences^	(1.9%)	0.8%	(1.7%)	0.1%
	28.0%	**28.0%**	**28.0%**	**28.0%**

* *Includes the effect of cumulative tax losses and other permanent differences relating to foreign subsidiaries.*

7. Taxation *(continued)*

For the year to 31 March R'million	Group 2020	Group 2019	Company 2020	Company 2019
The deferred taxation charge/(credit) in the income statement arises from:				
Deferred capital allowances	(13)	25	–	–
Income and expenditure accruals	(170)	133	(189)	156
Unrealised fair value adjustments on financial instruments	185	(159)	183	(159)
Deferred taxation on acquired intangibles	(14)	(14)	–	–
Expected credit losses	(43)	(98)	(79)	(109)
Finance lease accounting	(32)	15	(86)	–
	(87)	**(98)**	**(171)**	**(112)**
Other comprehensive income taxation effects				
Fair value movements on cash flow hedges taken directly to other comprehensive income	(619)	63	(610)	63
– Pre-taxation	(1 019)	(231)	(1 010)	(231)
– Deferred taxation	137	318	137	318
– Current taxation	263	(24)	263	(24)
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income	(1 908)	(119)	(1 868)	(121)
– Pre-taxation	(2 754)	(180)	(2 714)	(192)
– Deferred taxation	846	61	846	71
Gain on realisation of debt instruments at FVOCI recycled through the income statement	(79)	(89)	(79)	(87)
– Pre-taxation	(110)	(124)	(110)	(112)
– Deferred taxation	31	35	31	25
Fair value movements on equity instruments at FVOCI taken directly to other comprehensive income	(1 187)	(461)	(1 187)	(461)
– Pre-taxation	(1 505)	(544)	(1 505)	(544)
– Deferred taxation	318	83	318	83

8. Headline earnings

For the year to 31 March R'million	Group 2020	Group 2019
Earnings attributable to shareholders	3 090	4 963
Dividends paid to perpetual preference shareholders and other Additional Tier 1 security holders	(186)	(172)
Earnings attributable to ordinary shareholders	**2 904**	**4 791**
Headline adjustments, net of taxation*	940	(7)
Impairment of goodwill	3	3
Impairment of associates	937	–
Financial impact of acquisition of subsidiary	–	(10)
Headline earnings attributable to ordinary shareholders	**3 844**	**4 784**

* *These amounts are net of taxation of Rnil (2019: Rnil) for both group and company, with no impact on non-controlling interests in the current and prior year.*

9. Dividends

For the year to 31 March R'million	Group 2020	Group 2019	Company 2020	Company 2019
Ordinary dividend	**1 050**	**850**	**1 050**	**850**
Perpetual preference dividend				
Final dividend in prior year	65	65	65	65
Interim dividend for current year	66	65	66	65
Total dividend attributable to perpetual preference shareholders recognised in current financial year	**131**	**130**	**131**	**130**
The directors have declared a final dividend in respect of the financial year ended 31 March 2020 of 409.64891 cents (2019: 422.87121 cents) per perpetual preference share.				
Dividends attributable to Other Additional Tier 1 securities in issue	55	42	55	42
The IV048 and IV050 Other Additional Tier 1 floating rate notes pay dividends on a quarterly basis at a rate equal to the three-month JIBAR plus 5.15% and 4.55% respectively. Refer to note 42.				
Total dividends declared to other equity holders including Other Additional Tier 1 securities	**186**	**172**	**186**	**172**

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10. Analysis of income and impairments by measurement category

	At fair value through profit or loss		
	IFRS 9 mandatory		
For the year to 31 March **R'million**	Trading^	Non-trading^	Designated at initial recognition
Group			
2020			
Interest income	372	1 665	1 219
Interest expense	(147)	–	(1 034)
Fee and commission income	–	–	–
Fee and commission expense	–	–	–
Investment income	–	128	266
Share of post taxation profit of associates	–	–	–
Trading income/(loss) arising from			
- customer flow	511	(26)	–
- balance sheet management and other trading activities	544	10	(386)
Total operating income before expected credit loss impairment charges	**1 280**	**1 777**	**65**
Expected credit loss impairment charges	–	–	(45)
Operating income	**1 280**	**1 777**	**20**
2019			
Interest income	289	721	954
Interest expense	(119)	(78)	(1 150)
Fee and commission income	–	–	–
Fee and commission expense	–	–	–
Investment income	–	(4)	–
Share of post taxation profit of associates	–	–	–
Trading income/(loss) arising from			
- customer flow	493	(12)	–
- balance sheet management and other trading activities	335	18	108
Total operating income before expected credit loss impairment charges	**998**	**645**	**(88)**
Expected credit loss impairment charges	–	–	28
Operating income	**998**	**645**	**(60)**

* *Includes off balance sheet items.*

^ *Fair value through profit and loss income statement items have been split as trading and non-trading, as defined by regulatory rules for the trading book and banking book requirements respectively. Trading consists of positions held for trading intent or hedge elements of the trading book.*

At fair value through other comprehensive income

Debt instruments with a dual business model	Equity instruments	Amortised cost	Non-financial instruments	Other fee income*	Total
4 621	–	27 664	1	7	35 549
–	–	(25 377)	(48)	–	(26 606)
–	–	1 882	95	859	2 836
(4)	–	(450)	–	(36)	(490)
103	260	(121)	–	(35)	601
–	–	–	320	–	320
–	–	(42)	–	–	443
–	–	(218)	–	–	(50)
4 720	**260**	**3 338**	**368**	**795**	**12 603**
(22)	–	(997)	–	(24)	(1 088)
4 698	**260**	**2 341**	**368**	**771**	**11 515**
4 708	–	26 789	144	6	33 611
–	–	(23 977)	–	–	(25 324)
–	–	1 491	14	1 157	2 662
(2)	–	(332)	–	(67)	(401)
125	245	15	(21)	–	360
–	–	–	1 163	–	1 163
–	–	(105)	–	(7)	369
–	–	(251)	–	–	210
4 831	**245**	**3 630**	**1 300**	**1 089**	**12 650**
5	–	(747)	–	(8)	(722)
4 836	**245**	**2 883**	**1 300**	**1 081**	**11 928**

10. Analysis of income and impairments by measurement category *(continued)*

For the year to 31 March R'million	At fair value through profit or loss IFRS 9 mandatory Trading^	 Non-trading^	 Designated at initial recognition
Company			
2020			
Interest income	177	1 637	1 219
Interest expense	(66)	–	(1 034)
Fee and commission income	–	–	–
Fee and commission expense	–	–	–
Investment income	–	128	266
Share of post taxation profit of associates	–	–	–
Trading income/(loss) arising from			
- customer flow	520	(26)	–
- balance sheet management and other trading activities	544	11	(386)
Total operating income before expected credit loss impairment charges	**1 175**	**1 750**	**65**
Expected credit loss impairment charges	–	–	(45)
Operating income	**1 175**	**1 750**	**20**
2019			
Interest income	146	692	954
Interest expense	(78)	–	(1 150)
Fee and commission income	–	–	–
Fee and commission expense	–	–	–
Investment income	–	(11)	–
Share of post taxation profit of associates	–	–	–
Trading income/(loss) arising from			
- customer flow	493	(12)	–
- balance sheet management and other trading activities	259	10	108
Total operating income before expected credit loss impairment charges	**820**	**679**	**(88)**
Expected credit loss impairment charges	–	–	28
Operating income	**820**	**679**	**(60)**

* *Includes off balance sheet items.*

^ *Fair value through profit and loss income statement items have been split as trading and non-trading, as defined by regulatory rules for the trading book and banking book requirements respectively. Trading consists of positions held for trading intent or hedge elements of the trading book.*

At fair value through other comprehensive income

Debt instruments with a dual business model	Equity instruments	Amortised cost	Non-financial instruments	Other fee income*	Total
4 602	–	27 061	1	7	34 704
–	–	(25 393)	(48)	–	(26 541)
–	–	1 785	82	858	2 725
(4)	–	(441)	–	(36)	(481)
103	260	(122)	260	(36)	859
–	–	–	343	–	343
–	–	(43)	–	–	451
–	–	(166)	–	–	3
4 701	**260**	**2 681**	**638**	**793**	**12 063**
(20)	–	(1 009)	–	(25)	(1 099)
4 681	**260**	**1 672**	**638**	**768**	**10 964**
4 680	–	25 591	14	6	32 083
–	–	(23 837)	–	–	(25 065)
–	–	1 374	3	839	2 216
(2)	–	(283)	–	(67)	(352)
125	245	20	1 148	–	1 527
–	–	–	1 193	–	1 193
–	–	(107)	–	(7)	367
–	–	(229)	–	–	148
4 803	**245**	**2 529**	**2 358**	**771**	**12 117**
–	–	(729)	–	(7)	(708)
4 803	**245**	**1 800**	**2 358**	**764**	**11 409**

11. Analysis of assets and liabilities by measurement category

At 31 March R'million	At fair value through profit or loss – IFRS 9 mandatory – Trading^	At fair value through profit or loss – IFRS 9 mandatory – Non-trading^	At fair value through profit or loss – Designated at initial recognition
Group			
2020			
Assets			
Cash and balances at central banks	–	–	–
Loans and advances to banks	–	–	–
Non-sovereign and non-bank cash placements	–	545	–
Reverse repurchase agreements and cash collateral on securities borrowed	3 731	14 518	–
Sovereign debt securities	–	6 883	–
Bank debt securities	–	289	–
Other debt securities	–	3 736	–
Derivative financial instruments*	17 434	–	–
Securities arising from trading activities	2 932	246	–
Investment portfolio	–	4 400	–
Loans and advances to customers	–	2 167	20 702
Own originated loans and advances to customers securitised	–	–	–
Other loans and advances	–	–	–
Other securitised assets	–	–	–
Interests in associated undertakings	–	–	–
Deferred taxation assets	–	–	–
Other assets	727	17	–
Property and equipment	–	–	–
Investment properties	–	–	–
Goodwill	–	–	–
Intangible assets	–	–	–
Loans to group companies	460	–	–
	25 284	**32 801**	**20 702**
Liabilities			
Deposits by banks	–	–	–
Derivative financial instruments*	22 097	–	–
Other trading liabilities	4 521	–	–
Repurchase agreements and cash collateral on securities lent	3 175	–	–
Customer accounts (deposits)	–	–	44 601
Debt securities in issue	–	–	–
Liabilities arising on securitisation of own originated loans and advances	–	–	–
Current taxation liabilities	–	–	–
Deferred taxation liabilities	–	–	–
Other liabilities	924	–	–
Loans from group companies	–	–	–
	30 717	**–**	**44 601**
Subordinated liabilities	–	–	–
	30 717	**–**	**44 601**

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*

^ *Fair value through profit and loss balance sheet positions have been split as trading and non-trading, as defined by regulatory rules for the trading book and banking book requirements respectively. Trading consists of positions held for trading intent or hedge elements of the trading book.*

At fair value through other comprehensive income					
Debt instruments with a dual business model	Equity instruments	**Total instruments at fair value**	**Amortised cost**	Non-financial instruments or scoped out of IFRS 9	**Total**
–	–	–	36 656	–	36 656
–	–	–	18 050	–	18 050
–	–	545	13 469	–	14 014
–	–	18 249	8 177	–	26 426
53 138	–	60 021	4 337	–	64 358
7 092	–	7 381	4 884	–	12 265
6 637	–	10 373	7 043	–	17 416
–	–	17 434	–	–	17 434
–	–	3 178	–	–	3 178
–	1 401	5 801	–	–	5 801
–	–	22 869	253 885	–	276 754
–	–	–	7 192	–	7 192
–	–	–	242	–	242
–	–	–	416	–	416
–	–	–	–	5 662	5 662
–	–	–	–	2 903	2 903
–	–	744	2 566	2 846	6 156
–	–	–	–	3 008	3 008
–	–	–	–	1	1
–	–	–	–	178	178
–	–	–	–	318	318
–	–	460	17 082	–	17 542
66 867	**1 401**	**147 055**	**373 999**	**14 916**	**535 970**
–	–	–	37 277	–	37 277
–	–	22 097	–	–	22 097
–	–	4 521	–	–	4 521
–	–	3 175	23 451	–	26 626
–	–	44 601	331 347	–	375 948
–	–	–	3 258	–	3 258
–	–	–	1 699	–	1 699
–	–	–	–	315	315
–	–	–	–	47	47
–	–	924	2 837	3 829	7 590
–	–	–	2 807	–	2 807
–	**–**	**75 318**	**402 676**	**4 191**	**482 185**
–	–	–	12 037	–	12 037
–	**–**	**75 318**	**414 713**	**4 191**	**494 222**

11. Analysis of assets and liabilities by measurement category *(continued)*

	At fair value through profit or loss		
	IFRS 9 mandatory		
At 31 March **R'million**	Trading^	Non-trading^	Designated at initial recognition
Group			
2019			
Assets			
Cash and balances at central banks	–	–	–
Loans and advances to banks	–	–	–
Non-sovereign and non-bank cash placements	–	610	–
Reverse repurchase agreements and cash collateral on securities borrowed	8 228	1 642	–
Sovereign debt securities	–	9 053	–
Bank debt securities	–	277	–
Other debt securities	–	2 474	–
Derivative financial instruments*	7 700	–	–
Securities arising from trading activities	5 059	–	–
Investment portfolio	–	5 032	–
Loans and advances to customers	–	1 952	14 056
Own originated loans and advances to customers securitised	–	–	–
Other loans and advances	–	–	–
Other securitised assets	–	–	–
Interests in associated undertakings	–	–	–
Deferred taxation assets	–	–	–
Other assets	428	12	–
Property and equipment	–	–	–
Investment properties	–	–	–
Goodwill	–	–	–
Intangible assets	–	–	–
Loans to group companies	115	–	–
	21 530	**21 052**	**14 056**
Liabilities			
Deposits by banks	–	–	–
Derivative financial instruments*	11 097	–	–
Other trading liabilities	4 468	–	–
Repurchase agreements and cash collateral on securities lent	7 742	–	–
Customer accounts (deposits)	–	–	44 606
Debt securities in issue	–	–	2 856
Liabilities arising on securitisation of own originated loans and advances	–	–	–
Current taxation liabilities	–	–	–
Deferred taxation liabilities	–	–	–
Other liabilities	828	–	–
Loans from group companies	–	–	–
	24 135	**–**	**47 462**
Subordinated liabilities	–	–	–
	24 135	**–**	**47 462**

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*

^ *Fair value through profit and loss balance sheet positions have been split as trading and non-trading, as defined by regulatory rules for the trading book and banking book requirements respectively. Trading consists of positions held for trading intent or hedge elements of the trading book.*

At fair value through other comprehensive income

Debt instruments with a dual business model	Equity instruments	**Total instruments at fair value**	**Amortised cost**	Non-financial instruments or scoped out of IFRS 9	**Total**
–	–	–	10 290	–	10 290
–	–	–	19 903	–	19 903
–	–	610	11 582	–	12 192
–	–	9 870	8 682	–	18 552
46 551	–	55 604	5 289	–	60 893
5 250	–	5 527	6 999	–	12 526
6 182	–	8 656	4 897	–	13 553
–	–	7 700	–	–	7 700
–	–	5 059	–	–	5 059
–	2 632	7 664	–	–	7 664
–	–	16 008	245 729	–	261 737
–	–	–	7 667	–	7 667
–	–	–	329	–	329
–	–	–	232	–	232
–	–	–	–	6 251	6 251
–	–	–	–	1 514	1 514
–	–	440	4 326	3 471	8 237
–	–	–	–	2 563	2 563
–	–	–	–	1	1
–	–	–	–	171	171
–	–	–	–	418	418
–	–	115	18 036	–	18 151
57 983	**2 632**	**117 253**	**343 961**	**14 389**	**475 603**
–	–	–	30 041	–	30 041
–	–	11 097	–	–	11 097
–	–	4 468	–	–	4 468
–	–	7 742	7 492	–	15 234
–	–	44 606	297 104	–	341 710
–	–	2 856	3 656	–	6 512
–	–	–	1 720	–	1 720
–	–	–	–	542	542
–	–	–	–	78	78
–	–	828	2 193	3 242	6 263
–	–	–	2 260	–	2 260
–	**–**	**71 597**	**344 466**	**3 862**	**419 925**
–	–	–	13 918	–	13 918
–	**–**	**71 597**	**358 384**	**3 862**	**433 843**

11. Analysis of assets and liabilities by measurement category *(continued)*

	At fair value through profit or loss		
	IFRS 9 mandatory		
At 31 March R'million	Trading^	Non-trading^	Designated at initial recognition
Company			
2020			
Assets			
Cash and balances at central banks	–	–	–
Loans and advances to banks	–	–	–
Non-sovereign and non-bank cash placements	–	545	–
Reverse repurchase agreements and cash collateral on securities borrowed	3 731	14 518	–
Sovereign debt securities	–	6 883	–
Bank debt securities	–	–	–
Other debt securities	–	3 701	–
Derivative financial instruments*	17 429	–	–
Securities arising from trading activities	2 932	–	–
Investment portfolio	–	4 189	–
Loans and advances to customers	–	2 167	20 702
Other loans and advances	–	–	–
Interests in associated undertakings	–	–	–
Deferred taxation assets	–	–	–
Other assets	727	17	–
Property and equipment	–	–	–
Investment properties	–	–	–
Goodwill	–	–	–
Intangible assets	–	–	–
Loans to group companies	460	–	–
Investment in subsidiaries	–	–	–
	25 279	**32 020**	**20 702**
Liabilities			
Deposits by banks	–	–	–
Derivative financial instruments*	22 158	–	–
Other trading liabilities	4 521	–	–
Repurchase agreements and cash collateral on securities lent	3 175	–	–
Customer accounts (deposits)	–	–	44 601
Debt securities in issue	–	–	–
Current taxation liabilities	–	–	–
Other liabilities	924	–	–
Loans from group companies and subsidiaries	–	–	–
	30 778	**–**	**44 601**
Subordinated liabilities	–	–	–
	30 778	**–**	**44 601**

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*

^ *Fair value through profit and loss balance sheet positions have been split as trading and non-trading, as defined by regulatory rules for the trading book and banking book requirements respectively. Trading consists of positions held for trading intent or hedge elements of the trading book.*

At fair value through other comprehensive income

Debt instruments with a dual business model	Equity instruments	**Total instruments at fair value**	**Amortised cost**	Non-financial instruments or scoped out of IFRS 9	**Total**
–	–	–	36 374	–	36 374
–	–	–	12 080	–	12 080
–	–	545	13 760	–	14 305
–	–	18 249	6 838	–	25 087
53 138	–	60 021	4 337	–	64 358
6 473	–	6 473	4 884	–	11 357
6 617	–	10 318	6 638	–	16 956
–	–	17 429	–	–	17 429
–	–	2 932	–	–	2 932
–	1 401	5 590	–	–	5 590
–	–	22 869	244 510	–	267 379
–	–	–	268	–	268
–	–	–	–	5 611	5 611
–	–	–	–	2 874	2 874
–	–	744	2 510	2 659	5 913
–	–	–	–	2 987	2 987
–	–	–	–	1	1
–	–	–	–	7	7
–	–	–	–	151	151
–	–	460	15 305	–	15 765
–	–	–	3 228	931	4 159
66 228	**1 401**	**145 630**	**350 732**	**15 221**	**511 583**
–	–	–	37 277	–	37 277
–	–	22 158	–	–	22 158
–	–	4 521	–	–	4 521
–	–	3 175	23 451	–	26 626
–	–	44 601	314 041	–	358 642
–	–	–	2 428	–	2 428
–	–	–	–	296	296
–	–	924	2 534	3 660	7 118
–	–	–	5 890	–	5 890
–	**–**	**75 379**	**385 621**	**3 956**	**464 956**
–	–	–	12 037	–	12 037
–	**–**	**75 379**	**397 658**	**3 956**	**476 993**

11. Analysis of assets and liabilities by measurement category *(continued)*

	At fair value through profit or loss		
	IFRS 9 mandatory		
At 31 March R'million	Trading^	Non-trading^	Designated at initial recognition
Company			
2019			
Assets			
Cash and balances at central banks	–	–	–
Loans and advances to banks	–	–	–
Non-sovereign and non-bank cash placements	–	610	–
Reverse repurchase agreements and cash collateral on securities borrowed	8 228	1 642	–
Sovereign debt securities	–	9 053	–
Bank debt securities	–	–	–
Other debt securities	–	2 474	–
Derivative financial instruments*	7 526	–	–
Securities arising from trading activities	5 059	–	–
Investment portfolio	–	4 589	–
Loans and advances to customers	–	1 348	14 056
Other loans and advances	–	–	–
Interests in associated undertakings	–	–	–
Deferred taxation assets	–	–	–
Other assets	428	12	–
Property and equipment	–	–	–
Investment properties	–	–	–
Intangible assets	–	–	–
Loans to group companies	115	–	–
Investment in subsidiaries	–	799	–
	21 356	**20 527**	**14 056**
Liabilities			
Deposits by banks	–	–	–
Derivative financial instruments*	11 097	–	–
Other trading liabilities	4 468	–	–
Repurchase agreements and cash collateral on securities lent	7 742	–	–
Customer accounts (deposits)	–	–	44 606
Debt securities in issue	–	–	2 856
Current taxation liabilities	–	–	–
Other liabilities	828	–	–
Loans from group companies and subsidiaries	–	–	–
	24 135	**–**	**47 462**
Subordinated liabilities	–	–	–
	24 135	**–**	**47 462**

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*

^ *Fair value through profit and loss balance sheet positions have been split as trading and non-trading, as defined by regulatory rules for the trading book and banking book requirements respectively. Trading consists of positions held for trading intent or hedge elements of the trading book.*

At fair value through other comprehensive income					
Debt instruments with a dual business model	Equity instruments	**Total instruments at fair value**	**Amortised cost**	Non-financial instruments or scoped out of IFRS 9	**Total**
–	–	–	10 085	–	10 085
–	–	–	13 728	–	13 728
–	–	610	11 522	–	12 132
–	–	9 870	7 959	–	17 829
46 253	–	55 306	5 290	–	60 596
5 250	–	5 250	5 716	–	10 966
6 182	–	8 656	4 536	–	13 192
–	–	7 526	–	–	7 526
–	–	5 059	–	–	5 059
–	2 632	7 221	–	–	7 221
–	–	15 404	231 704	–	247 108
–	–	–	349	–	349
–	–	–	–	6 184	6 184
–	–	–	–	1 372	1 372
–	–	440	1 693	3 079	5 212
–	–	–	–	2 551	2 551
–	–	–	–	1	1
–	–	–	–	159	159
–	–	115	17 170	–	17 285
–	–	799	13 287	1 573	15 659
57 685	**2 632**	**116 256**	**323 039**	**14 919**	**454 214**
–	–	–	30 041	–	30 041
–	–	11 097	–	–	11 097
–	–	4 468	–	–	4 468
–	–	7 742	6 379	–	14 121
–	–	44 606	281 860	–	326 466
–	–	2 856	2 626	–	5 482
–	–	–	–	559	559
–	–	828	1 658	3 245	5 731
–	–	–	5 912	–	5 912
–	**–**	**71 597**	**328 476**	**3 804**	**403 877**
–	–	–	13 918	–	13 918
–	**–**	**71 597**	**342 394**	**3 804**	**417 795**

12. Financial instruments at fair value

The table below analyses recurring fair value measurements for financial assets and financial liabilities. These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to the valuation technique used.

The different levels are identified as follows:

Level 1 – quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

		Fair value category		
At 31 March R'million	**Total instruments at fair value**	Level 1	Level 2	Level 3
Group				
2020				
Assets				
Non-sovereign and non-bank cash placements	545	–	545	–
Reverse repurchase agreements and cash collateral on securities borrowed	18 249	–	18 249	–
Sovereign debt securities	60 021	60 021	–	–
Bank debt securities	7 381	5 543	1 838	–
Other debt securities	10 373	5 869	4 504	–
Derivative financial instruments	17 434	80	17 354	–
Securities arising from trading activities	3 178	3 111	67	–
Investment portfolio	5 801	2 570	51	3 180
Loans and advances to customers	22 869	–	22 204	665
Other assets	744	744	–	–
Loans to group companies	460	–	460	–
	147 055	**77 938**	**65 272**	**3 845**
Liabilities				
Derivative financial instruments	22 097	–	22 097	–
Other trading liabilities	4 521	50	4 471	–
Repurchase agreements and cash collateral on securities lent	3 175	–	3 175	–
Customer accounts (deposits)	44 601	–	44 601	–
Other liabilities	924	–	924	–
	75 318	**50**	**75 268**	**–**
Net financial assets/(liabilities) at fair value	**71 737**	**77 888**	**(9 996)**	**3 845**

12. Financial instruments at fair value *(continued)*

At 31 March R'million	Total instruments at fair value	Fair value category Level 1	Level 2	Level 3
Group				
2019				
Assets				
Non-sovereign and non-bank cash placements	610	–	610	–
Reverse repurchase agreements and cash collateral on securities borrowed	9 870	–	9 870	–
Sovereign debt securities	55 604	55 604	–	–
Bank debt securities	5 527	2 727	2 800	–
Other debt securities	8 656	4 186	4 470	–
Derivative financial instruments	7 700	–	7 700	–
Securities arising from trading activities	5 059	4 974	85	–
Investment portfolio	7 664	4 091	354	3 219
Loans and advances to customers	16 008	–	15 341	667
Other assets	440	440	–	–
Loans to group companies	115	–	115	–
	117 253	**72 022**	**41 345**	**3 886**
Liabilities				
Derivative financial instruments	11 097	–	11 097	–
Other trading liabilities	4 468	2 282	2 186	–
Repurchase agreements and cash collateral on securities lent	7 742	–	7 742	–
Customer accounts (deposits)	44 606	–	44 606	–
Debt securities in issue	2 856	–	2 856	–
Other liabilities	828	–	828	–
	71 597	**2 282**	**69 315**	**–**
Net financial assets/(liabilities) at fair value	**45 656**	**69 740**	**(27 970)**	**3 886**

12. Financial instruments at fair value *(continued)*

At 31 March R'million	Total instruments at fair value	Fair value category Level 1	Level 2	Level 3
Company				
2020				
Assets				
Non-sovereign and non-bank cash placements	545	–	545	–
Reverse repurchase agreements and cash collateral on securities borrowed	18 249	–	18 249	–
Sovereign debt securities	60 021	60 021	–	–
Bank debt securities	6 473	4 635	1 838	–
Other debt securities	10 318	5 834	4 484	–
Derivative financial instruments	17 429	80	17 349	–
Securities arising from trading activities	2 932	2 865	67	–
Investment portfolio	5 590	2 569	8	3 013
Loans and advances to customers	22 869	–	22 204	665
Other assets	744	744	–	–
Loans to group companies	460	–	460	–
	145 630	**76 748**	**65 204**	**3 678**
Liabilities				
Derivative financial instruments	22 158	–	22 158	–
Other trading liabilities	4 521	50	4 471	–
Repurchase agreements and cash collateral on securities lent	3 175	–	3 175	–
Customer accounts (deposits)	44 601	–	44 601	–
Other liabilities	924	–	924	–
	75 379	**50**	**75 329**	**–**
Net financial assets/(liabilities) at fair value	**70 251**	**76 698**	**(10 125)**	**3 678**

12. Financial instruments at fair value *(continued)*

At 31 March R'million	Total instruments at fair value	Fair value category Level 1	Level 2	Level 3
Company				
2019				
Assets				
Non-sovereign and non-bank cash placements	610	–	610	–
Reverse repurchase agreements and cash collateral on securities borrowed	9 870	–	9 870	–
Sovereign debt securities	55 306	55 306	–	–
Bank debt securities	5 250	2 727	2 523	–
Other debt securities	8 656	4 186	4 470	–
Derivative financial instruments	7 526	–	7 526	–
Securities arising from trading activities	5 059	4 974	85	–
Investment portfolio	7 221	4 043	322	2 856
Loans and advances to customers	15 404	–	15 341	63
Other assets	440	440	–	–
Loans to group companies	115	–	115	–
Investment in subsidiaries	799	–	–	799
	116 256	**71 676**	**40 862**	**3 718**
Liabilities				
Derivative financial instruments	11 097	–	11 097	–
Other trading liabilities	4 468	2 282	2 186	–
Repurchase agreements and cash collateral on securities lent	7 742	–	7 742	–
Customer accounts (deposits)	44 606	–	44 606	–
Debt securities in issue	2 856	–	2 856	–
Other liabilities	828	–	828	–
	71 597	**2 282**	**69 315**	**–**
Net financial assets/(liabilities) at fair value	**44 659**	**69 394**	**(28 453)**	**3 718**

12. Financial instruments at fair value *(continued)*

Transfers between level 1 and level 2

There were no transfers between level 1 and level 2 in the current and prior year.

Level 3 instruments

The following table shows a reconciliation of the opening balances to the closing balances for level 3 financial instruments. All instruments are at fair value through profit or loss.

Group

R'million	Investment portfolio	Loans and advances to customers	Total
Balance at 1 April 2018	3 069	604	3 673
Net losses recognised in the income statement	(758)	–	(758)
Purchases	1 062	–	1 062
Sales	(370)	–	(370)
Settlement	(4)	–	(4)
Transfers into level 3	220	63	283
Balance at 31 March 2019	**3 219**	**667**	**3 886**
Net losses recognised in the income statement	(107)	(4)	(111)
Purchases	429	6	435
Sales	(383)	–	(383)
Settlements	(245)	(4)	(249)
Transfers into level 3	245	–	245
Foreign exchange adjustments	22	–	22
Balance at 31 March 2020	**3 180**	**665**	**3 845**

For the year ended 31 March 2020, R245 million of level 2 instruments have been transferred into level 3 due to delisting of instruments.

For the year ended 31 March 2019, R283 million has been transferred from level 2 into level 3 as a result of a credit risk adjustment to the discount rate becoming a significant input.

The group transfers between levels within the fair value hierarchy when the significance of the unobservable inputs change or if the valuation methods change.

12. Financial instruments at fair value *(continued)*

The following table shows a reconciliation of the opening balances to the closing balances for level 3 financial instruments. All instruments are at fair value through profit or loss.

Company

R'million	Investment portfolio	Loans and advances to customers	Other level 3 assets	Total
Balance as at 1 April 2018	2 732	–	867	3 599
Net losses recognised in the income statement	(676)	–	(68)	(744)
Purchases	954	–	–	954
Sales	(370)	–	–	(370)
Settlements	(4)	–	–	(4)
Transfers into level 3	220	63	–	283
Balance as at 31 March 2019	**2 856**	**63**	**799**	**3 718**
Net losses recognised in the income statement	(107)	(4)	–	(111)
Purchases	483	610	–	1 093
Sales	(240)	–	–	(240)
Settlements	(245)	(4)	(799)	(1 048)
Transfers into level 3	245	–	–	245
Foreign exchange adjustments	21	–	–	21
Balance as at 31 March 2020	**3 013**	**665**	**–**	**3 678**

For the year ended 31 March 2020, R245 million of level 2 instruments have been transferred into level 3 due to delisting of instruments.

For the year ended 31 March 2019, R283 million has been transferred from level 2 into level 3 as a result of a credit risk adjustment to the discount rate becoming a significant input.

The group transfers between levels within the fair value hierarchy when the significance of the unobservable inputs change or if the valuation methods change.

The following table quantifies the gains or (losses) included in the income statement recognised on level 3 financial instruments:

For the year to 31 March **R'million**	**Total**	Realised	Unrealised
Group			
2020			
Total gains or (losses) included in the income statement for the year			
Investment (loss)/income	(111)	55	(166)
	(111)	**55**	**(166)**
2019			
Total gains or (losses) included in the income statement for the year			
Investment (loss)/income	(758)	49	(807)
	(758)	**49**	**(807)**

For the year to 31 March **R'million**	**Total**	Realised	Unrealised
Company			
2020			
Total gains or (losses) included in the income statement for the year			
Investment (loss)/income	(111)	55	(166)
	(111)	**55**	**(166)**
2019			
Total gains or (losses) included in the income statement for the year			
Investment (loss)/income	(744)	49	(793)
	(744)	**49**	**(793)**

12. Financial instruments at fair value *(continued)*

Measurement of financial assets and liabilities at level 2

The table below sets out information about the valuation techniques used at the end of the reporting period in measuring financial instruments categorised as level 2 in the fair value hierarchy:

	VALUATION BASIS/TECHNIQUES	MAIN INPUTS
Assets		
Non-sovereign and non-bank cash placements	Discounted cash flow model	Yield curve
Reverse repurchase agreements and cash collateral on securities borrowed	Discounted cash flow model	Yield curve
Bank debt securities	Discounted cash flow model	Yield curve
Other debt securities	Discounted cash flow model	Yield curve
Derivative financial instruments	Discounted cash flow model Black-Scholes	Yield curve Volatilities
Securities arising from trading activities	Adjusted quoted price Discounted cash flow model	Liquidity adjustment Yield curve
Investment portfolio	Adjusted quoted price	Liquidity adjustment
Loans and advances to customers	Discounted cash flow model	Yield curve
Loans to group companies	Discounted cash flow model	Yield curve
Liabilities		
Derivative financial instruments	Discounted cash flow model Black-Scholes	Yield curve Volatilities
Other trading liabilities	Discounted cash flow model	Yield curve
Repurchase agreements and cash collateral on securities lent	Discounted cash flow model	Yield curve
Customer accounts (deposits)	Discounted cash flow model	Yield curve
Debt securities in issue	Discounted cash flow model	Yield curve
Other liabilities	Discounted cash flow model	Yield curve
Loans from group companies	Discounted cash flow model	Yield curve

12. Financial instruments at fair value *(continued)*

Sensitivity of fair values to reasonably possible alternative assumptions by level 3 instrument type

The fair value of financial instruments in level 3 are measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable market data. The below valuations have been considered taking the global pandemic of COVID-19 into consideration. The following table shows the sensitivity of these fair values to reasonably possible alternative assumptions, determined at a transactional level:

					Potential impact on the income statement	
At 31 March 2020	**Level 3 balance sheet value R'million**	Valuation method	Significant unobservable input changed	Range which unobservable input has been changed	**Favourable changes R'million**	**Unfavourable changes R'million**
Group						
Assets						
Investment portfolio	3 180				428	(555)
		Price earnings	EBITDA	*	293	(290)
		Discounted cash flow	Discount rate	(0.1%)/1.9%	7	(67)
		Discounted cash flow	Cash flows	*	25	(25)
		Net asset value	Underlying asset value	^	24	(67)
		Discounted cash flow	Precious and industrial metal prices	(6%)/6%	16	(27)
		Other	Various	**	63	(79)
Loans and advances to customers	665				48	(76)
		Discounted cash flow	Cash flows	*	42	(70)
		Net asset value	Underlying asset value	^	6	(6)
Total	**3 845**				**476**	**(631)**

					Potential impact on the income statement	
At 31 March 2019	Level 3 balance sheet value R'million	Valuation method	Significant unobservable input changed	Range which unobservable input has been changed	Favourable changes R'million	Unfavourable changes R'million
Group						
Assets						
Investment portfolio	3 219				585	(578)
		Price earnings	EBITDA	*	272	(264)
		Discounted cash flow	Cash flows	(50%)/50%	167	(167)
		Net asset value	Underlying asset value	**	15	(24)
		Discounted cash flow	Precious and industrial metal prices	(10%)/6%	41	(41)
		Other	Various	^	90	(82)
Loans and advances to customers	667				308	(308)
		Discounted cash flow	Cash flows	(50%)/50%	302	(302)
		Price earnings	EBITDA	*	6	(6)
Total	**3 886**				**893**	**(886)**

* *The EBITDA and cash flows have been stressed on an investment-by-investment basis in order to obtain favourable and unfavourable valuations.*

^ *Net asset values are calculated by reference to the fair value of the assets and liabilities within the entity.*

** *The valuation sensitivity of certain equity investments have been assessed by adjusting various inputs such as expected cash flows, discount rates, earnings multiples rather than a single input. It is deemed appropriate to reflect the outcome on a portfolio basis for the purposes of this analysis as the sensitivity of the investments cannot be determined through the adjustment of a single input.*

12. Financial instruments at fair value *(continued)*

At 31 March 2020	Level 3 balance sheet value R'million	Valuation method	Significant unobservable input changed	Range which unobservable input has been changed	Potential impact on the income statement: Favourable changes R'million	Potential impact on the income statement: Unfavourable changes R'million
Company						
Assets						
Investment portfolio	3 013				428	(555)
		Price earnings	EBITDA	*	293	(290)
		Discounted cash flow	Discount rate	(0.1%)/1.9%	7	(67)
		Discounted cash flow	Cash flows	*	25	(25)
		Net asset value	Underlying asset value	^	24	(67)
		Discounted cash flow	Precious and industrial metal prices	(6%)/6%	16	(27)
		Other	Various	**	63	(79)
Loans and advances to customers	665				48	(76)
		Discounted cash flow	Cash flows	*	42	(70)
		Net asset value	Underlying asset value	^	6	(6)
Total	**3 678**				**476**	**(631)**

At 31 March 2019	Level 3 balance sheet value R'million	Valuation method	Significant unobservable input changed	Range which unobservable input has been changed	Potential impact on the income statement: Favourable changes R'million	Potential impact on the income statement: Unfavourable changes R'million
Company						
Assets						
Investment portfolio	2 856				488	(481)
		Price earnings	EBITDA	*	232	(224)
		Discounted cash flow	Cash flows	(50%)/50%	110	(110)
		Net asset value	Underlying asset value	**	15	(24)
		Discounted cash flow	Precious and industrial metal prices	(10%)/6%	41	(41)
		Other	Various	^	90	(82)
Loans and advances to customers	63	Discounted cash flow	Cash flows	**	6	(6)
Investment in subsidiaries	799	Discounted cash flow	Cash flows	(50%)/50%	400	(400)
Total	**3 718**				**894**	**(887)**

* *The EBITDA and cash flows have been stressed on an investment-by-investment basis in order to obtain favourable and unfavourable valuations.*

^ *Net asset values are calculated by reference to the fair value of the assets and liabilities within the entity.*

** *The valuation sensitivity of certain equity investments have been assessed by adjusting various inputs such as expected cash flows, discount rates, earnings multiples rather than a single input. It is deemed appropriate to reflect the outcome on a portfolio basis for the purposes of this analysis as the sensitivity of the investments cannot be determined through the adjustment of a single input.*

12. Financial instruments at fair value *(continued)*

In determining the value of level 3 financial instruments, the following are the principal input that can require judgement:

EBITDA

The company's earnings before interest, taxes, depreciation and amortisation. This is the main input into a price earnings multiple valuation method.

Discount rates

Discount rates (including WACC) are used to adjust for the time value of money when using a discounted cash flow valuation method. Where relevant, the discount rate also accounts for illiquidity, market conditions and uncertainty of future cash flows.

Cash flows

Cash flows relate to the future cash flows which can be expected from the instrument and requires judgement.

Underlying asset value

In instances where cash flows have links to referenced assets, the underlying asset value is used to determine the fair value.
The underlying asset valuation is derived using observable market prices sourced from broker quotes, specialist valuers or other reliable pricing sources.

Price of precious and industrial metals

The price of precious and industrial metals is a key driver of future cash flows on these investments.

Credit spreads

Credit spreads reflect the additional yield that a market participant would demand for taking exposure to the credit risk a counter party. The credit spread for an instrument forms part of the yield used in a discounted cash flow calculation. In general a significant increase in a credit spread in isolation will result in a movement in fair value that is unfavourable for the holder of a financial instrument.

Price-earnings multiple

The price-to-earnings ratio is an equity valuation multiple. It is a key driver in the valuation of unlisted investments.

13. Fair value of financial instruments at amortised cost

The following table sets out the fair value of financial instruments held at amortised cost when the carrying value is not a reasonable approximation of fair value.

At 31 March R'million	Carrying amount	Fair value	Fair value category Level 1	Level 2	Level 3
Group					
2020					
Assets					
Reverse repurchase agreements and cash collateral on securities borrowed	8 177	8 175	–	8 175	–
Sovereign debt securities	4 337	5 077	5 077	–	–
Bank debt securities	4 884	4 783	2 713	2 070	–
Other debt securities	7 043	6 342	1 984	4 358	–
Loans and advances to customers	253 885	253 917	2 812	226 626	24 479
Liabilities					
Deposits by banks	37 277	37 768	–	37 768	–
Repurchase agreements and cash collateral on securities lent	23 451	23 281	18 299	4 982	–
Customer accounts (deposits)	331 347	331 928	141 786	190 142	–
Debt securities in issue	3 258	3 293	–	3 293	–
Subordinated liabilities	12 037	13 455	13 455	–	–
2019					
Assets					
Reverse repurchase agreements and cash collateral on securities borrowed	8 682	8 684	–	8 684	–
Sovereign debt securities	5 289	5 097	5 097	–	–
Bank debt securities	6 999	6 992	3 698	3 294	–
Other debt securities	4 897	4 871	2 650	2 221	–
Loans and advances to customers	245 729	245 739	2 782	222 243	20 714
Liabilities					
Deposits by banks	30 041	30 544	–	30 544	–
Repurchase agreements and cash collateral on securities lent	7 492	7 447	4 223	3 224	–
Customer accounts (deposits)	297 104	297 692	114 106	183 585	1
Debt securities in issue	3 656	3 677	–	3 677	–
Subordinated liabilities	13 918	15 496	15 496	–	–

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value and have been reflected in level 1. This assumption also applies to demand deposits and savings accounts without a specific maturity included in customer accounts (deposits) and variable rate financial instruments.

13. Fair value of financial instruments at amortised cost *(continued)*

At 31 March R'million	Carrying amount	Fair value	Fair value category Level 1	Level 2	Level 3
Company					
2020					
Assets					
Reverse repurchase agreements and cash collateral on securities borrowed	6 838	6 836	–	6 836	–
Sovereign debt securities	4 337	5 077	5 077	–	–
Bank debt securities	4 884	4 783	2 713	2 070	–
Other debt securities	6 638	5 939	1 984	3 955	–
Loans and advances to customers	244 510	244 510	2 812	233 154	8 544
Liabilities					
Deposits by banks	37 277	37 768	–	37 768	–
Repurchase agreements and cash collateral on securities lent	23 451	23 281	18 299	4 982	–
Customer accounts (deposits)	314 041	314 601	129 785	184 816	–
Debt securities in issue	2 428	2 463	–	2 463	–
Subordinated liabilities	12 037	13 455	13 455	–	–
2019					
Assets					
Reverse repurchase agreements and cash collateral on securities borrowed	7 959	7 961	–	7 961	–
Sovereign debt securities	5 290	5 097	5 097	–	–
Bank debt securities	5 716	5 698	2 404	3 294	–
Other debt securities	4 536	4 509	2 650	1 859	–
Loans and advances to customers	231 704	231 705	2 782	228 546	377
Liabilities					
Deposits by banks	30 041	30 544	–	30 544	–
Repurchase agreements and cash collateral on securities lent	6 379	6 333	4 222	2 111	–
Customer accounts (deposits)	281 860	282 431	103 704	178 727	–
Debt securities in issue	2 626	2 647	–	2 647	–
Subordinated liabilities	13 374	14 725	14 725	–	–

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value and have been reflected in level 1. This assumption also applies to demand deposits and savings accounts without a specific maturity included in customer accounts (deposits) and variable rate financial instruments.

13. Fair value of financial instruments at amortised cost *(continued)*

The table below sets out information about the valuation techniques used at the end of the reporting period in measuring level 2 and level 3 financial instruments not held at fair value:

	Valuation basis/technique	Main inputs
Assets		
Reverse repurchase agreements and cash collateral on securities borrowed	Discounted cash flow model	Yield curve
Bank debt securities	Discounted cash flow model	Yield curve
Other debt securities	Discounted cash flow model	Yield curve
Loans and advances to customers	Discounted cash flow model	Yield curve
Liabilities		
Deposits by banks	Discounted cash flow model	Yield curve
Repurchase agreements and cash collateral on securities lent	Discounted cash flow model	Yield curve
Customer accounts (deposits)	Discounted cash flow model	Yield curve
Debt securities in issue	Discounted cash flow model	Yield curve

In isolated instances amortised cost assets are sold. For the year ended 31 March 2019, the most significant of these was a loan to the value of R78 million, sold as the risk of the asset exceeded the appetite of the portfolio. There were no sales in the current year.

14. Financial instruments designated at fair value

At 31 March R'million	Carrying value	Fair value adjustment Current	Fair value adjustment Cumulative	Change in fair value attributable to credit risk Current	Change in fair value attributable to credit risk Cumulative	Maximum exposure to credit risk
Group and company						
Assets						
2020						
Loans and advances to customers	20 702	(583)	677	(40)	(67)	20 024
	20 702	**(583)**	**677**	**(40)**	**(67)**	**20 024**
2019						
Loans and advances to customers	14 056	163	174	(28)	(30)	13 882
	14 056	**163**	**174**	**(28)**	**(30)**	**13 882**

At 31 March R'million	Carrying value	Remaining contractual amount to be repaid at maturity	Fair value adjustment Current	Fair value adjustment Cumulative
Group and company				
Liabilities				
2020				
Customer accounts (deposits)	44 601	43 929	130	527
	44 601	**43 929**	**130**	**527**
2019				
Customer accounts (deposits)	44 606	44 497	(108)	142
Debt securities in issue	2 856	2 856	353	353
	47 462	**47 353**	**245**	**495**

Changes in fair value due to credit risk are determined as the change in the fair value of the financial instrument that is not attributable to changes in other market inputs.

Current and cumulative changes in fair value of financial liabilities attributable to credit risk were both R1.7 million (2019: R2.0 million) and R34.7 million (2019: R33.0 million) respectively.

15. Cash and balances at central banks

At 31 March R'million	Group 2020	Group 2019	Company 2020	Company 2019
Gross cash and balances at central banks	36 657	10 298	36 375	10 093
Expected credit loss on amortised cost	(1)	(8)	(1)	(8)
Net cash and balances at central banks	**36 656**	**10 290**	**36 374**	**10 085**
The country risk of cash and balances at central banks lies in the following geographies:				
South Africa	36 374	10 085	36 374	10 085
Other	282	205	–	–
	36 656	**10 290**	**36 374**	**10 085**

16. Loans and advances to banks

At 31 March R'million	Group 2020	Group 2019	Company 2020	Company 2019
Gross loans and advances to banks	18 054	19 904	12 082	13 729
Expected credit loss on amortised cost	(4)	(1)	(2)	(1)
Net loans and advances to banks	**18 050**	**19 903**	**12 080**	**13 728**
The country risk of loans and advances to banks lies in the following geographies:				
South Africa	4 756	12 220	4 609	11 885
Africa (excluding RSA)	2 163	171	679	8
United Kingdom	5 659	1 077	4 268	87
Europe (excluding UK)	3 784	1 072	2 473	192
Australia	84	150	32	103
United States of America	1 046	3 363	–	1 417
Asia	551	1 837	13	24
Other	7	13	6	12
	18 050	**19 903**	**12 080**	**13 728**

17. Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent

	Group		Company	
At 31 March R'million	**2020**	2019	**2020**	2019
Assets				
Gross reverse repurchase agreements and cash collateral on securities borrowed	26 427	18 552	25 087	17 829
Expected credit loss on amortised cost	(1)	^	^	^
Net reverse repurchase agreements and cash collateral on securities borrowed	**26 426**	**18 552**	**25 087**	**17 829**
Reverse repurchase agreements	24 316	16 378	22 977	15 655
Cash collateral on securities borrowed	2 110	2 174	2 110	2 174
	26 426	**18 552**	**25 087**	**17 829**
As part of the reverse repurchase and securities borrowing agreements the group and company have received securities that they are allowed to sell or re-pledge. R1.5 billion (2019: R5.5 billion) has been re-sold or re-pledged to third parties in connection with financing activities or to comply with commitments under short sale transactions.				
Liabilities				
Repurchase agreements	26 626	15 234	26 626	14 121
	26 626	**15 234**	**26 626**	**14 121**
The assets transferred and not derecognised in the above repurchase agreements are fair valued at R27.9 billion (2019: R11.5 billion) in the group and R27.9 billion (2019: R11.5 billion) in the company. They are pledged as security for the term of the underlying repurchase agreement. Refer to note 45.				

^ *Less than R1 million*

18. Sovereign debt securities

	Group		Company	
At 31 March R'million	**2020**	2019	**2020**	2019
Gross sovereign debt securities	64 362	60 897	64 362	60 600
Expected credit loss on amortised cost	(4)	(4)	(4)	(4)
Net sovereign debt securities	**64 358**	**60 893**	**64 358**	**60 596**
Bonds	30 596	22 521	30 596	22 224
Government securities	1 841	1 791	1 841	1 791
Treasury bills	31 921	36 581	31 921	36 581
	64 358	**60 893**	**64 358**	**60 596**
The country risk of the sovereign debt securities lies in the following geographies:				
South Africa	64 154	60 753	64 154	60 456
Other	204	140	204	140
	64 358	**60 893**	**64 358**	**60 596**

19. Bank debt securities

	Group		Company	
At 31 March R'million	**2020**	2019	**2020**	2019
Gross bank debt securities	12 269	12 530	11 361	10 969
Expected credit loss on amortised cost	(4)	(4)	(4)	(3)
Net bank debt securities	**12 265**	**12 526**	**11 357**	**10 966**
Bonds	9 826	10 828	9 207	9 545
Asset-based securities	649	650	649	650
Floating rate notes	1 790	1 048	1 501	771
	12 265	**12 526**	**11 357**	**10 966**
The country risk of the bank debt securities lies in the following geographies:				
South Africa	6 789	7 066	6 500	6 788
United Kingdom	2 156	2 130	2 156	1 400
Europe (excluding UK)	1 595	1 321	1 287	1 321
Australia	1 063	1 060	1 063	1 060
United States of America	350	903	351	351
Other	312	46	–	46
	12 265	**12 526**	**11 357**	**10 966**

20. Other debt securities

	Group		Company	
At 31 March R'million	**2020**	2019	**2020**	2019
Gross other debt securities	17 427	13 559	16 965	13 196
Expected credit loss on amortised cost	(11)	(6)	(9)	(4)
Net other debt securities	**17 416**	**13 553**	**16 956**	**13 192**
Bonds	11 597	11 545	11 193	11 217
Commercial paper	78	88	78	88
Floating rate notes	4 002	1 761	3 946	1 761
Asset-based securities	1 739	126	1 739	126
Other investments	–	33	–	–
	17 416	**13 553**	**16 956**	**13 192**
The country risk of the other debt securities lies in the following geographies:				
South Africa	9 857	8 937	9 802	8 937
United Kingdom	2 716	2 372	2 670	2 333
Europe (excluding UK)	3 884	1 855	3 526	1 566
Australia	–	179	–	146
United States of America	958	–	958	–
Other	1	210	–	210
	17 416	**13 553**	**16 956**	**13 192**

21. Derivatives

The group enters into various contracts for derivatives both as principal for trading purposes and as customer for hedging foreign exchange and interest rate exposures. These include financial futures, options, swaps and forward rate agreements. The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations. In the tables that follow notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair value of a derivative financial instrument represents the present value of positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out by the group in an orderly market transaction at balance sheet date.

	2020			2019		
At 31 March R'million	**Notional principal amounts**	**Positive fair value**	**Negative fair value**	Notional principal amounts	Positive fair value	Negative fair value
Group						
Foreign exchange derivatives						
Forward foreign exchange contracts	14 635	639	1 264	98 486	1 297	1 219
Currency swaps	159 934	6 236	12 334	41 796	1 634	4 484
OTC options bought and sold	64 093	1 567	1 374	51 922	506	611
Other foreign exchange contracts	4 069	10	11	4 961	20	26
	242 731	**8 452**	**14 983**	**197 165**	**3 457**	**6 340**
Interest rate derivatives						
Caps and floors	5 337	46	65	2 806	10	6
Swaps	1 270 113	6 906	8 300	1 092 550	2 218	3 202
Forward rate agreements	20 216	1 274	1 306	12 200	114	120
OTC options bought and sold	487	^	4	925	^	1
Other interest rate contracts	6 387	923	6	6 977	306	26
OTC derivatives	**1 302 540**	**9 149**	**9 681**	**1 115 458**	**2 648**	**3 355**
Exchange traded futures	1 073	80	–	15	52	–
	1 303 613	**9 229**	**9 681**	**1 115 473**	**2 700**	**3 355**
Equity and stock index derivatives						
OTC options bought and sold	598	1 173	3 896	39 525	1 896	2 003
Equity swaps and forwards	2 482	1 170	7 388	34 511	73	855
OTC derivatives	**3 080**	**2 343**	**11 284**	**74 036**	**1 969**	**2 858**
Exchange traded futures	1 481	–	–	2 613	2	–
Exchange traded options	–	–	–	698	1	–
Warrants	–	–	–	(6 322)	–	5 472
	4 561	**2 343**	**11 284**	**71 025**	**1 972**	**8 330**
Commodity derivatives						
OTC options bought and sold	–	–	–	2	7	8
Commodity swaps and forwards	125	863	895	1	173	92
	125	**863**	**895**	**3**	**180**	**100**
Credit derivatives	**11 784**	**90**	**144**	**10 782**	**8**	**57**
Other derivatives*		**48**	**–**		**174**	**–**
Cash collateral		**(3 591)**	**(14 890)**		**(791)**	**(7 085)**
Derivatives per balance sheet		**17 434**	**22 097**		**7 700**	**11 097**

* *Mainly includes profit shares received as part of lending transactions.*

^ *Less than R1 million.*

21. Derivatives *(continued)*

At 31 March R'million	2020 Notional principal amounts	2020 Positive fair value	2020 Negative fair value	2019 Notional principal amounts	2019 Positive fair value	2019 Negative fair value
Company						
Foreign exchange derivatives						
Forward foreign exchange contracts	14 635	638	1 263	98 486	1 297	1 219
Currency swaps	159 934	6 236	12 334	41 796	1 634	4 484
OTC options bought and sold	64 093	1 567	1 374	51 922	506	611
Other foreign exchange contracts	4 069	10	11	4 961	20	26
	242 731	**8 451**	**14 982**	**197 165**	**3 457**	**6 340**
Interest rate derivatives						
Caps and floors	5 337	46	65	2 806	10	6
Swaps	1 270 113	6 906	8 300	1 092 550	2 218	3 202
Forward rate agreements	20 216	1 274	1 306	12 200	114	120
OTC options bought and sold	487	^	4	925	^	1
Other interest rate contracts	6 387	923	6	6 977	306	26
OTC derivatives	**1 302 540**	**9 149**	**9 681**	**1 115 458**	**2 648**	**3 355**
Exchange traded futures	1 073	80	–	15	52	–
	1 303 613	**9 229**	**9 681**	**1 115 473**	**2 700**	**3 355**
Equity and stock index derivatives						
OTC options bought and sold	598	1 173	3 896	39 525	1 896	2 003
Equity swaps and forwards	2 371	1 166	7 479	34 511	73	855
OTC derivatives	**2 969**	**2 339**	**11 375**	**74 036**	**1 969**	**2 858**
Exchange traded futures	1 481	–	–	2 613	2	–
Exchange traded options	–	–	–	698	1	–
Warrants	–	–	–	(6 322)	–	5 472
	4 450	**2 339**	**11 375**	**71 025**	**1 972**	**8 330**
Commodity derivatives						
OTC options bought and sold	–	–	–	2	7	8
Commodity swaps and forwards	125	863	895	1	173	92
	125	**863**	**895**	**3**	**180**	**100**
Credit derivatives	**11 664**	**90**	**115**	**10 782**	**8**	**57**
Other derivatives*		**48**	**–**		**–**	**–**
Cash collateral		**(3 591)**	**(14 890)**		**(791)**	**(7 085)**
Derivatives per balance sheet		**17 429**	**22 158**		**7 526**	**11 097**

* *Mainly includes profit shares received as part of lending transactions.*

^ *Less than R1 million.*

22. Securities arising from trading activities

At 31 March R'million	Group 2020	Group 2019	Company 2020	Company 2019
Bonds	2 014	4 840	2 013	4 840
Floating rate notes	786	–	786	–
Listed equities	340	134	133	134
Unlisted equities	–	85	–	85
Other investments	38	–	–	–
	3 178	**5 059**	**2 932**	**5 059**

23. Investment portfolio

At 31 March R'million	Group 2020	Group 2019	Company 2020	Company 2019
Listed equities^	2 567	4 139	2 567	4 093
Unlisted equities*	2 107	2 319	1 896	2 035
Fair value loan investments	1 127	1 206	1 127	1 093
	5 801	**7 664**	**5 590**	**7 221**

^ *Included is an investment in the Investec Property Fund shares of R1.2 billion (2019: R2.6 billion) and an investment of R189 million (2019: Rnil) in a portfolio of perpetual preference shares issued by South African listed banks which is measured at FVOCI. The dividends recognised on the Investec Property Fund shares are R254 million (2019: R245 million) and on the portfolio of preference shares are R14 million (2019: nil). The group measures investments at FVOCI when it considers the investments to be strategic or held for long-term dividend yield.*

* *Unlisted equities includes loan instruments that are convertible into equity.*

24. Loans and advances to customers and other loans and advances

At 31 March R'million	Group 2020	Group 2019	Company 2020	Company 2019
Gross loans and advances to customers at amortised cost	257 161	248 360	247 657	234 005
Gross loans and advances to customers designated at FVPL at inception^	20 769	14 085	20 768	14 085
Gross loans and advances to customers subject to ECL	277 930	262 445	268 425	248 090
Expected credit loss on amortised cost	(3 343)	(2 660)	(3 213)	(2 330)
	274 587	259 785	265 212	245 760
Loans and advances to customers at fair value	2 167	1 952	2 167	1 348
Net loans and advances to customers	**276 754**	**261 737**	**267 379**	**247 108**
Gross other loans and advances	267	355	348	429
Expected credit loss on other loans and advances	(25)	(26)	(80)	(80)
Net other loans and advances	**242**	**329**	**268**	**349**

^ *These are fixed rate loans which have passed the solely payments of principal and interest test (SPPI) and are held in a business model to collect contractual cash flows but have been designated at FVPL to eliminate accounting mismatches (interest rate risk is being economically hedged). The underlying loans have been fair valued and management performs an ECL calculation in order to obtain a reasonable estimate of the credit risk component. The portfolio is managed on the same basis as gross core loans and advances measured at amortised cost.*

For further analysis on loans and advances refer to pages 45 to 47 in the risk management section.

24. Loans and advances to customers *(continued)*

	Group		Company	
At 31 March R'million	**2020**	2019	**2020**	2019
Expected credit losses on loans and advances to customers at amortised cost				
Balance at the beginning of the year	2 660	1 966	2 330	1 639
Charge to the income statement	1 219	1 228	1 149	1 232
Utilised	(660)	(523)	(642)	(512)
Disposals	–	(36)	–	(29)
Transfers	93	(1)	93	–
Transactions with group companies	–	–	283	–
Exchange adjustment	31	26	–	–
Balance at the end of the year	**3 343**	**2 660**	**3 213**	**2 330**
Expected credit losses on other loans and advances at amortised cost				
Balance at the beginning of the year	26	25	80	79
Charge to the income statement	(1)	–	–	–
Transfers	–	1	–	1
Balance at the end of the year	**25**	**26**	**80**	**80**

25. Securitised assets and liabilities arising on securitisation

	Group	
At 31 March R'million	**2020**	2019
Gross own originated loans and advances to customers securitised	7 208	7 677
Expected credit loss on own originated loans and advances to customers securitised	(16)	(10)
Net own originated loans and advances to customers securitised	**7 192**	**7 667**
Other securitised assets are made up of the following categories of assets:		
Cash and cash equivalents	416	232
Total other securitised assets	**416**	**232**
The associated liabilities are recorded on balance sheet in the following line items:		
Liabilities arising on securitisation of own originated loans and advances	**1 699**	**1 720**
Expected credit losses on own originated loans and advances to customers securitised at amortised cost		
Balance at the beginning of the year	10	10
Charge/(release) to the income statement	6	(1)
Transfer	–	1
Balance at the end of the year	**16**	**10**

26. Interests in associated undertakings

At 31 March R'million	Group 2020	Group 2019	Company 2020	Company 2019
Analysis of the movement in interests in associated undertakings:				
At the beginning of the year	6 251	6 288	6 184	6 180
Disposals	–	(20)	–	–
Acquisitions	56	20	56	20
Share of post taxation profit of associates	320	1 163	343	1 193
Net equity movements of interests in associated undertakings	(44)	(124)	(44)	(123)
Dividends declared by associate	–	(1 088)	–	(1 086)
Exchange adjustments	16	12	9	–
Impairment of associates*	(937)	–	(937)	–
At the end of the year	**5 662**	**6 251**	**5 611**	**6 184**

* *Of the impairment, R221 million relates to impairments of associates recorded by IEP itself, and R716 million relates to the impairment processed by the group on the equity accounted value of IEP.*

	2020	2019
Details of material associated company		
IEP Group Proprietary Limited		
Summarised financial information (R'million):		
For the year to 31 March		
Revenue	13 708	14 637
Profit after taxation	2 584	3 012
Total comprehensive income	1 774	2 915
At 31 March		
Assets		
Non-current assets	20 558	20 429
Current assets	5 956	6 286
Liabilities		
Non-current liabilities	9 476	5 600
Current liabilities	2 580	6 549
Net asset value	**14 458**	**14 566**
Non-controlling interest	2 473	2 574
Shareholders' equity	11 985	11 992
Effective interest in issued share capital	47.4%	45.9%
Net asset value^	5 611	5 502
Goodwill	–	682
Carrying value of interest – equity method	**5 611**	**6 184**

^ *The net asset value of IEP is R5.7 billion (47.4% of R12 billion) reduced by the portion of the impairment of IEP that exceeded the value of the goodwill.*

Management critically evaluated the equity accounted value of the group's investment in IEP and consequently recognised an impairment of R937 million in total in the current year. Management of IEP identified indicators of impairment of two investments in associates and recognised an impairment of R221 million. As a result of this impairment, Investec management performed an impairment test on the investment in IEP and recognised an additional impairment of R716 million. The recoverable amount of the investment in IEP was determined to be the value-in-use of the investment. The value-in-use was determined by calculating the sum of the fair values of the underlying investments held by IEP. This was done by determining the best estimates of the cash flows to be generated from the ultimate realisation of the underlying investments considering management's strategy with the investments, returns generated by the underlying investments, the nature of the assets and market considerations. This estimate was performed for each of the assets held by IEP, using valuation techniques and assumptions management believed to be most representative of the ultimate realisation of the investments.

27. Deferred taxation

At 31 March R'million	Group 2020	Group 2019	Company 2020	Company 2019
Deferred taxation assets	2 903	1 514	2 874	1 372
Deferred taxation liabilities	(47)	(78)	–	–
Net deferred taxation assets	**2 856**	**1 436**	**2 874**	**1 372**
The net deferred taxation assets arise from:				
Deferred capital allowances	1	(12)	–	–
Income and expenditure accruals	755	585	735	546
Unrealised fair value adjustments on financial instruments	1 320	170	1 320	170
Deferred taxation on acquired intangibles	(47)	(61)	–	–
Expected credit loss on loans and advances to customers	425	382	417	338
Finance lease accounting	86	54	86	–
Cash flow hedges	316	318	316	318
Net deferred taxation assets	**2 856**	**1 436**	**2 874**	**1 372**
Reconciliation of net deferred taxation assets/(liabilities):				
At the beginning of the year	1 436	487	1 372	434
Adoption of IFRS 9	–	347	–	329
Reversal to income statement – current year taxation	87	98	171	112
Reversal directly in other comprehensive income	1 332	497	1 332	497
Exchange adjustments	1	7	(1)	–
At the end of the year	**2 856**	**1 436**	**2 874**	**1 372**

Deferred taxation assets are recognised to the extent it is likely that profits will be available in future periods. The assessment of the likelihood of future profits is based on past performance and current projections.

28. Other assets

At 31 March R'million	Group 2020	Group 2019	Company 2020	Company 2019
Gross other assets	6 157	8 327	5 913	5 212
Expected credit loss on amortised cost	(1)	(90)	–	–
Net other assets	**6 156**	**8 237**	**5 913**	**5 212**
Settlement debtors	847	527	846	527
Trading properties	30	252	3	214
Prepayments and accruals	1 302	1 258	1 285	1 204
Trading initial margin	744	440	744	440
Investec Import Solutions debtors	–	2 621	–	–
Commodities	1 782	1 163	1 782	1 163
Fee debtors	10	24	10	24
Corporate tax assets	42	121	–	200
Other	1 399	1 831	1 243	1 440
	6 156	**8 237**	**5 913**	**5 212**

29. Property and equipment

At 31 March R'million	Freehold properties	Right-of-use assets*	Leasehold improvements	Furniture and vehicles	Equipment	Total
Group						
2020						
Cost						
At the beginning of the year	2 357	–	65	207	855	3 484
Additions*	5	673	1	6	148	833
Disposals and modifications	–	(84)	–	(7)	(20)	(111)
At the end of the year	**2 362**	**589**	**66**	**206**	**983**	**4 206**
Accumulated depreciation						
At the beginning of the year	(41)	–	(52)	(144)	(684)	(921)
Disposals	–	–	–	4	13	17
Depreciation	(71)	(103)	(6)	(14)	(100)	(294)
At the end of the year	**(112)**	**(103)**	**(58)**	**(154)**	**(771)**	**(1 198)**
Net carrying value	**2 250**	**486**	**8**	**52**	**212**	**3 008**
2019						
Cost						
At the beginning of the year	2 200	–	63	198	847	3 308
Acquisition of subsidiary undertaking	–	–	–	–	1	1
Additions	157	–	2	16	116	291
Disposals	–	–	(14)	(7)	(109)	(130)
Reclassifications	–	–	14	–	–	14
At the end of the year	**2 357**	**–**	**65**	**207**	**855**	**3 484**
Accumulated depreciation						
At the beginning of the year	–	–	(34)	(132)	(648)	(814)
Disposals	–	–	2	3	55	60
Depreciation	(41)	–	(6)	(15)	(91)	(153)
Reclassifications	–	–	(14)	–	–	(14)
At the end of the year	**(41)**	**–**	**(52)**	**(144)**	**(684)**	**(921)**
Net carrying value	**2 316**	**–**	**13**	**63**	**171**	**2 563**

* *The group adopted IFRS 16 from 1 April 2019 and as a result recognised right-of-use assets included within additions of R653 million. The prior period comparatives have not been restated. Refer to note 53.*

29. Property and equipment *(continued)*

At 31 March R'million	Freehold properties	Right-of-use assets*	Leasehold improvements	Furniture and vehicles	Equipment	Total
Company						
2020						
Cost						
At the beginning of the year	2 357	–	51	198	833	3 439
Additions*	5	642	1	6	144	798
Disposals and modifications	–	(72)	–	(1)	(10)	(83)
At the end of the year	**2 362**	**570**	**52**	**203**	**967**	**4 154**
Accumulated depreciation						
At the beginning of the year	(41)	–	(39)	(142)	(666)	(888)
Disposals	–	–	–	1	7	8
Depreciation	(71)	(98)	(6)	(13)	(99)	(287)
At the end of the year	**(112)**	**(98)**	**(45)**	**(154)**	**(758)**	**(1 167)**
Net carrying value	**2 250**	**472**	**7**	**49**	**209**	**2 987**
2019						
Cost						
At the beginning of the year	2 200	–	49	185	743	3 177
Additions	157	–	2	16	110	285
Disposals	–	–	–	(3)	(20)	(23)
At the end of the year	**2 357**	**–**	**51**	**198**	**833**	**3 439**
Accumulated depreciation						
At the beginning of the year	–	–	(34)	(130)	(583)	(747)
Disposals	–	–	–	2	5	7
Depreciation	(41)	–	(5)	(14)	(88)	(148)
At the end of the year	**(41)**	**–**	**(39)**	**(142)**	**(666)**	**(888)**
Net carrying value	**2 316**	**–**	**12**	**56**	**167**	**2 551**

* *The group adopted IFRS 16 from 1 April 2019 and as a result recognised right-of-use assets included within additions of R639 million. The prior period comparatives have not been restated. Refer to note 53.*

30. Goodwill

At 31 March R'million	Group 2020	Group 2019	Company 2020	Company 2019
Group				
Cost				
At the beginning of the year	174	171	–	–
Acquisitions	10	3	10	–
At the end of the year	**184**	**174**	**10**	**–**
Accumulated impairments				
At the beginning of the year	(3)	–	–	–
Impairments	(3)	(3)	(3)	–
At the end of the year	**(6)**	**(3)**	**(3)**	**–**
Net carrying value	**178**	**171**	**7**	**–**

Goodwill is tested annually for impairment, or more frequently if evidence exists that goodwill might be impaired, by comparing the carrying value to its recoverable amount.

The recoverable amount of goodwill is determined based on expected cash flows within the cash-generating units of the group to which the goodwill is allocated. Key assumptions within the calculation include discount rates, growth rates in revenue and related expenditure and loan impairment rates.

Discount rates are based on pre-tax rates that reflect current market conditions, adjusted for the specific risks associated with the cash-generating unit. Growth rates are based on industry growth forecasts. Cash flow forecasts are based on the most recent financial budgets for the next financial year and are extrapolated for a period of three to five years, adjusted for expected future events.

Goodwill relates particularly to the businesses from Investec for Business (IFB) which has been identified as a separate cash-generating unit. The goodwill relating to IFB has been tested for impairment, taking into account profitability, being the budgeted profits and the future profit growth for the next five years. The valuation is based on management's assessment of appropriate profit forecast and discount rate to estimate the fair value. Discount rate applied of 5.25% is determined using the South African Inter-bank lending rate, adjusted for business specific risk.

The valuation is a level 3 in the fair value hierarchy.

31. Intangible assets

At 31 March R'million	Group Acquired software	Group Internally generated software	Group Client relationships	Group Total	Company Acquired software	Company Total
2020						
Cost						
At the beginning of the year	863	47	412	1 322	823	823
Additions	87	–	–	87	87	87
Disposals	(80)	(41)	–	(121)	–	–
At the end of the year	**870**	**6**	**412**	**1 288**	**910**	**910**
Accumulated amortisation and impairments						
At the beginning of the year	(679)	(33)	(192)	(904)	(664)	(664)
Disposals	53	27	–	80	–	–
Amortisation	(95)	–	(51)*	(146)	(95)	(95)
At the end of the year	**(721)**	**(6)**	**(243)**	**(970)**	**(759)**	**(759)**
Net carrying value	**149**	**–**	**169**	**318**	**151**	**151**
2019						
Cost						
At the beginning of the year	715	28	412	1 155	708	708
Acquisition of subsidiary undertaking	–	13	–	13	–	–
Additions	167	6	–	173	134	134
Disposals	(19)	–	–	(19)	(19)	(19)
At the end of the year	**863**	**47**	**412**	**1 322**	**823**	**823**
Accumulated amortisation and impairments						
At the beginning of the year	(588)	(14)	(141)	(743)	(581)	(581)
Disposals	2	–	–	2	2	2
Amortisation	(93)	(19)	(51)*	(163)	(85)	(85)
At the end of the year	**(679)**	**(33)**	**(192)**	**(904)**	**(664)**	**(664)**
Net carrying value	**184**	**14**	**220**	**418**	**159**	**159**

* *Amortisation of acquired intangibles as disclosed in the income statement.*

32. Acquisitions

2020

Company

On 1 April 2019 Investec Bank Limited concluded multiple transaction agreements to acquire the net assets of subsidiary companies in an effort to fully integrate the businesses into the group and accelerate the growth of Investec for Business. After various group restructures, the business assets of Reichmans (Pty) Ltd, Reichmans Holdings, Pinpoint, Capital Acceptance, and Import Solutions were acquired to form Investec for Business.

In terms of each sale agreement the transaction constitutes a transfer of the relative businesses as going concerns and the provisions of section 45 of the Income Tax act apply to each agreement, as agreed upon by all parties involved. As these companies are common control companies, the transactions are accounted for as a pooling of interests and the net assets are measured at their carrying value as previously recorded by the respective subsidiary.

The carrying value of all the assets acquired and liabilities assumed at the date of acquisition and total consideration paid are shown below:

R'million	Fair value of assets and liabilities
Loans and advances to customers	4 910
Intangible assets	40
Other assets	2 901
Property and equipment	7
Assets	**7 858**
Customer accounts (deposits)	1
Other liabilities	273
Liabilities	**274**
Net carrying value of assets acquired	**7 584**
Fair value of consideration	**7 584**

In accordance with the terms of the agreements, each subsidiary would use the funds received to settle any outstanding amounts owed to Investec Bank Limited. Consequently, no physical cash payment was made and the net receivable is to be distributed as a dividend in the 2020 and 2021 financial year, after which the subsidiary companies will be deregistered. As all of these entities are within the IBL group, this transaction has no financial impact at a group level.

2019

There were no significant acquisitions of subsidiaries during the year ended 31 March 2019.

33. Loans to group companies and loans from group companies and subsidiaries

At 31 March R'million	Group 2020	Group 2019	Company 2020	Company 2019
Loans to group companies				
Loans to fellow subsidiaries	12 285	17 711	15 305	17 170
Preference share investment in Investec Limited	319	319	–	–
Preference share investment in fellow subsidiaries	4 478	6	–	–
Intergroup derivative financial instruments	460	115	460	115
	17 542	**18 151**	**15 765**	**17 285**
Loans from group companies and subsidiaries				
Loans from subsidiaries	–	–	3 085	3 726
Sechold Finance Services Proprietary Limited	–	–	118	118
KWJ Investments Proprietary Limited	–	–	130	130
AEL Investment Holdings Proprietary Limited	–	–	–	439
Investpref Limited	–	–	59	59
Other subsidiaries	–	–	2 778	2 980
Loan from holding company – Investec Limited	164	113	164	113
Loans from fellow subsidiaries	2 643	2 147	2 641	2 073
	2 807	**2 260**	**5 890**	**5 912**

There were no subordinated loan amounts included in the loans to group companies. Loans from group companies and subsidiaries are unsecured, interest-bearing, with no fixed terms of repayment.

34. Investment in subsidiaries

At 31 March	Nature of business	Holding %	Shares at book value 2020 R'million	Shares at book value 2019 R'million	Loan advances to subsidiaries 2020 R'million	Loan advances to subsidiaries 2019 R'million
Company						
Material direct subsidiaries of Investec Bank Limited						
Investec Bank (Mauritius) Limited^	Banking institution	100	534	534	613	2 649
Reichmans Holdings Proprietary Limited and Investec Import Solutions Proprietary Limited^^#	Trade and asset financing and import logistics	100	383	849	–	8 877
Sechold Finance Services Proprietary Limited^^	Investment holding	100	*	*	–	–
KWJ Investments Proprietary Limited^^	Investment holding	100	*	*	–	–
AEL Investment Holdings Proprietary Limited^^	Investment holding	100	*	*	343	–
Investpref Limited^^	Investment holding	100	*	*	–	–
Copperleaf Country Estate Proprietary Limited^^	Property developer	100	11	11	80	88
Other^^#			3	179	2 192	2 472
			931	**1 573**	**3 228**	**14 086**

Details of subsidiary and associated companies which are not material to the financial position of the group are not reflected above.

Loans to group companies are unsecured interest-bearing, with no fixed terms of repayment.

^ *Mauritius.*
^^ *South Africa.*
* *Less than R1 million.*
# *Management evaluated the carrying value of the investment in subsidiaries and as a result recognised an impairment of R642 million on these subsidiaries. This primarily arose from the transaction detailed in note 32. The recoverable amounts were determined to be the net asset value of the investments.*

34. Investment in subsidiaries *(continued)*

Consolidated structured entities

Investec Bank Limited has subordinated investment interest in the following structured entities which are consolidated. Typically a structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. The judgements to assess whether the group has control over these structures include assessing the purpose and design of the entity, considering whether the group or another involved party with power over the relevant activities is acting as a principal in its own right or as an agent on behalf of others.

Name of principal structured entity	Type of structured entity
Fox Street 1 (RF) Limited	Securitised residential mortgages
Fox Street 2 (RF) Limited	Securitised residential mortgages
Fox Street 3 (RF) Limited	Securitised residential mortgages
Fox Street 4 (RF) Limited	Securitised residential mortgages
Fox Street 5 (RF) Limited	Securitised residential mortgages
Fox Street 6 (RF) Limited	Securitised residential mortgages
Fox Street 7 (RF) Limited	Securitised residential mortgages
Integer Home Loans Proprietary Limited	Securitised third party originated residential mortgages

For additional detail on the assets and liabilities arising on securitisation refer to note 25. For details of the risks to which the group is exposed through its all of its securitisations are included in the risk management report on page 55.

The key assumptions for the main types of structured entities which the group consolidates are summarised below:

Securitised residential mortgages

The group has securitised residential mortgages in order to provide investors with exposure to residential mortgage risk and to raise funding. These structured entities are consolidated due to the group's holdings of subordinated notes. The group is not required to fund any losses above those incurred on the notes it has retained, such losses are reflected in any impairment of securitised mortgages as those assets have not been derecognised.

Securitised third party originated residential mortgages

The group has a senior and subordinated investment in a third party originated structured entity. The structured entity is consolidated due to the group's exposure to residual economic benefits. The group is not required to fund any losses above those incurred on the investments made.

35. Other trading liabilities

	Group		Company	
At 31 March R'million	**2020**	2019	**2020**	2019
Deposits	4 471	2 186	4 471	2 186
Short positions – gilts	50	2 282	50	2 282
	4 521	**4 468**	**4 521**	**4 468**

36. Debt securities in issue

At 31 March R'million	Group 2020	Group 2019	Company 2020	Company 2019
Repayable in:				
Less than three months	751	464	701	464
Three months to one year	1 292	1 441	1 292	1 241
One to five years	1 215	4 607	435	3 777
	3 258	**6 512**	**2 428**	**5 482**

37. Other liabilities

At 31 March R'million	Group 2020	Group 2019	Company 2020	Company 2019
Settlement liabilities	2 136	1 856	2 072	1 657
Other creditors and accruals	3 326	2 666	3 042	2 487
Other non-interest bearing liabilities	699	1 080	600	930
Dividends Rewards Programme liability	644	623	644	623
Lease liabilities*	592	–	576	–
Long service employee benefits liability	129	–	126	–
Expected credit loss on off balance sheet commitments and guarantees	64	38	58	34
	7 590	**6 263**	**7 118**	**5 731**

Reconciliation of lease liabilities

At 31 March R'million	2020	2019	2020	2019
Balance at the beginning of the year	–	–	–	–
Adoption of IFRS 16	736	–	722	–
Interest	51	–	50	–
Additional leases	34	–	34	–
Repayment of lease liabilities	(129)	–	(123)	–
Lease modification	(107)	–	(107)	–
Exchange rate adjustment	7	–	–	–
Balance at the end of the year	**592**	**–**	**576**	**–**

Lease liabilities included in other liabilities due in

At 31 March R'million	Undiscounted payments 2020	Present value 2019	Undiscounted payments 2020	Present value 2019
Less than one year	137	131	132	123
One to five years	472	380	468	374
Later than five years	136	81	136	79
	745	**592**	**736**	**576**

* *The group adopted IFRS 16 from 1 April 2019 and as a result recognised lease liabilities. The prior period comparatives have not been restated.*

38. Subordinated liabilities

At 31 March R'million	Group 2020	Group 2019	Company 2020	Company 2019
Issued by Investec Bank Limited				
IV019 indexed rate subordinated unsecured callable bonds	179	155	179	155
IV019A indexed rate subordinated unsecured callable bonds	374	371	374	371
IV025 variable rate subordinated unsecured callable bonds	–	1 000	–	1 000
IV026 variable rate subordinated unsecured callable bonds	–	750	–	750
IV030 indexed rate subordinated unsecured callable bonds	–	501	–	501
IV030A indexed rate subordinated unsecured callable bonds	–	424	–	424
IV031 variable rate subordinated unsecured callable bonds	–	500	–	500
IV033 variable rate subordinated unsecured callable bonds	159	159	159	159
IV034 fixed rate subordinated unsecured callable bonds	101	101	101	101
IV035 variable rate subordinated unsecured callable bonds	1 468	1 468	1 468	1 468
IV036 variable rate subordinated unsecured callable bonds	32	32	32	32
IV037 variable rate subordinated unsecured callable bonds	2 015	1 533	2 015	1 533
IV038 variable rate subordinated unsecured callable bonds	350	350	350	350
IV039 indexed rate subordinated unsecured callable bonds	187	179	187	179
IV040 variable rate subordinated unsecured callable bonds	589	589	589	589
IV041 fixed rate subordinated unsecured callable bonds	190	190	190	190
IV042 variable rate subordinated unsecured callable bonds	50	50	50	50
IV043 fixed rate subordinated unsecured callable bonds	150	150	150	150
IV044 variable rate subordinated unsecured callable bonds	240	240	240	240
IV045 indexed rate subordinated unsecured callable bonds	1 822	1 740	1 822	1 740
IV046 variable rate subordinated unsecured callable bonds	1 200	1 200	1 200	1 200
IV047 variable rate subordinated unsecured callable bonds	1 818	1 387	1 818	1 387
IV049 variable rate subordinated unsecured callable bonds	1 113	849	1 113	849
	12 037	**13 918**	**12 037**	**13 918**
Remaining maturity:				
In one year or less, or on demand	260	3 175	260	3 175
In more than one year, but not more than two years	5 626	260	5 626	260
In more than two years, but not more than five years	6 151	9 634	6 151	9 634
In more than five years	–	849	–	849
	12 037	**13 918**	**12 037**	**13 918**
Reconciliation from opening balance to closing balance:				
Opening balance	13 918	13 374	13 918	13 374
Issue of subordinated liabilities	–	849	–	849
Redemption of subordinated liabilities	(3 175)	(1 210)	(3 175)	(1 210)
Consumer Price Index, effective interest rate adjustments and currency adjustments on foreign denominated bonds adjustment	1 294	905	1 294	905
Closing balance	**12 037**	**13 918**	**12 037**	**13 918**

The only event of default in relation to the subordinated debt is the non-payment of principal or interest. The only remedy available to the holders of the subordinated debt in the event of default is to petition for the winding up of the issuing entity. In a winding up no amount will be paid in respect of the subordinated debt until all other creditors have been paid in full.

38. Subordinated liabilities *(continued)*

IV019 indexed rate subordinated unsecured callable bonds

R179 million (2019: R155 million) Investec Bank Limited IV019 locally registered subordinated unsecured callable bonds are due in March 2028. Interest on these inflation-linked bonds is payable semi-annually on 31 March and 30 September at a rate of 2.60%. The IV019 is a replica of the R210 South African government bond. The maturity date is 31 March 2028, but the company has the option to call the bonds upon regulatory capital disqualification or from 3 April 2023.

IV019A indexed rate subordinated unsecured callable bonds

R374 million (2019: R371 million) Investec Bank Limited IV019A locally registered subordinated unsecured callable bonds are due in March 2028. Interest on these inflation-linked bonds is payable semi-annually on 31 March and 30 September at a rate of 2.60%. The IV019A is a replica of the R210 South African government bond. The maturity date is 31 March 2028, but the company has the option to call the bonds upon regulatory capital disqualification or from 3 April 2023.

IV025 variable rate subordinated unsecured callable bonds

Rnil (2019: R1 000 million) Investec Bank Limited IV025 locally registered subordinated unsecured callable bonds are due in September 2024. Interest is payable quarterly on 12 December, 12 March, 12 June and 12 September at a rate equal to the three-month JIBAR plus 2.50% up to and excluding 12 September 2024. The maturity date is 12 September 2024, but the company has the option to call the bonds upon regulatory capital disqualification or from 12 September 2019. The bonds were called on 12 September 2019.

IV026 variable rate subordinated unsecured callable bonds

Rnil (2019: R750 million) Investec Bank Limited IV026 locally registered subordinated unsecured callable bonds are due in September 2024. Interest is payable quarterly on 27 December, 27 March, 27 June and 27 September at a rate equal to the three-month JIBAR plus 2.45% up to and excluding 27 September 2024. The maturity date is 27 September 2024, but the company has the option to call the bonds upon regulatory capital disqualification or from 27 September 2019. The bonds were called on 27 September 2019.

IV030 indexed rate subordinated unsecured callable bonds

Rnil (2019: R501 million) Investec Bank Limited IV030 locally registered subordinated unsecured callable bonds are due in January 2025. Interest on these inflation-linked bonds is payable semi-annually on 31 January and 31 July at a rate of 2.00%. The IV030 is a replica of the I2025 South African government bond. The maturity date is 31 January 2025, but the company has the option to call the bonds upon regulatory capital disqualification or from 31 January 2020. The bonds were called on 31 January 2020.

IV030A indexed rate subordinated unsecured callable bonds

Rnil (2019: R424 million) Investec Bank Limited IV030A locally registered subordinated unsecured callable bonds are due in January 2025. Interest on these inflation-linked bonds is payable semi-annually on 31 January and 31 July at a rate of 2.00%. The IV030A is a replica of the I2025 South African government bond. The maturity date is 31 January 2025, but the company has the option to call the bonds upon regulatory capital disqualification or from 31 January 2020. The bonds were called on 31 January 2020.

IV031 variable rate subordinated unsecured callable bonds

Rnil (2019: R500 million) Investec Bank Limited IV031 locally registered subordinated unsecured callable bonds are due in March 2025. Interest is payable quarterly on 11 December, 11 March, 11 June and 11 September at a rate equal to the three-month JIBAR plus 2.95% up to and excluding 11 March 2025. The maturity date is 11 March 2025, but the company has the option to call the bonds upon regulatory capital disqualification or from 11 March 2020. The bonds were called on 11 March 2020.

IV033 variable rate subordinated unsecured callable bonds

R159 million Investec Bank Limited IV033 locally registered subordinated unsecured callable bonds are due in February 2026. Interest is payable quarterly on 11 May, 11 August, 11 November and 11 February at a rate equal to the three-month JIBAR plus 4.25% up to and excluding 11 February 2026. The maturity date is 11 February 2026, but the company has the option to call the bonds upon regulatory capital disqualif1ication or from 11 February 2021.

IV034 fixed rate subordinated unsecured callable bonds

R101 million Investec Bank Limited IV034 locally registered subordinated unsecured callable bonds are due in February 2026. Interest is payable semi-annually on 11 February and 11 August at a rate equal to 12.47% up to and excluding 11 February 2026. The maturity date is 11 February 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 11 February 2021.

38. Subordinated liabilities *(continued)*

IV035 variable rate subordinated unsecured callable bonds

R1 468 million Investec Bank Limited IV035 locally registered subordinated unsecured callable bonds are due in April 2027. Interest is payable quarterly on 7 April, 7 July, 7 October and 7 January at a rate equal to the three-month JIBAR plus 4.65% up to and excluding 7 April 2027. The maturity date is 7 April 2027, but the company has the option to call the bonds upon regulatory capital disqualification or from 7 April 2022.

IV036 variable rate subordinated unsecured callable bonds

R32 million Investec Bank Limited IV036 locally registered subordinated unsecured callable bonds are due in April 2026. Interest is payable quarterly on 22 April, 22 July, 22 October and 22 January at a rate equal to the three-month JIBAR plus 4.25% up to and excluding 22 July 2026. The maturity date is 22 July 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 22 July 2021.

IV037 variable rate subordinated unsecured callable bonds

$125 million Investec Bank Limited IV037 locally registered subordinated unsecured Tier II callable bonds are due in October 2026 and were issued at an issue price of $91 million. The notes will automatically convert from zero coupon notes to floating rate notes on the first optional redemption date, being 19 October 2021. The implied zero coupon yield is 6.29961713% nacq (ACT/360) up until; the 19 October 2021. If the issuer does not exercise the option to redeem the notes on 19 October 2021, then interest on the floating rate notes shall commence on 19 October 2021 and is payable quarterly on 19 January, 19 July, 19 April and 19 October at a rate equal to the three-month USD Libor plus 5.5% up to and excluding 19 October 2026. The maturity date is 19 October 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 19 October 2021.

IV038 variable rate subordinated unsecured callable bonds

R350 million Investec Bank Limited IV038 locally registered subordinated unsecured callable bonds are due in September 2026. Interest is payable quarterly on 23 March, 23 June, 23 September and 23 December at a rate equal to the three-month JIBAR plus 4.25% up to and excluding 23 September 2026. The maturity date is 23 September 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 23 September 2021.

IV039 indexed rate subordinated unsecured callable bonds

R187 million (2019: R179 million) Investec Bank Limited IV039 locally registered subordinated unsecured callable bonds are due in January 2027. Interest is payable quarterly on 31 January, 30 April, 31 July and 31 October at a rate equal to the three-month JIBAR plus 4.25% up to and excluding 31 January 2027. The maturity date is 31 January 2027, but the company has the option to call the bonds upon regulatory capital disqualification or from 31 Jan 2022.

IV040 variable rate subordinated unsecured callable bonds

R589 million Investec Bank Limited IV040 locally registered subordinated unsecured callable bonds are due in September 2026. Interest is payable quarterly on 29 March, 29 June, 29 September and 29 December at a rate equal to the three-month JIBAR plus 4.25% up to and excluding 29 September 2026. The maturity date is 29 September 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 29 September 2021.

IV041 fixed rate subordinated unsecured callable bonds

R190 million Investec Bank Limited IV040 locally registered subordinated unsecured callable bonds are due in September 2026. Interest is payable quarterly on 29 March, 29 June, 29 September and 29 December at a rate equal to the three-month JIBAR plus 4.25% up to and excluding 29 September 2026. The maturity date is 29 September 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 29 September 2021.

IV042 variable rate subordinated unsecured callable bonds

R50 million Investec Bank Limited IV042 locally registered subordinated unsecured callable bonds are due in November 2026. Interest is payable quarterly on 18 February, 18 May, 18 August and 18 November at a rate equal to the three-month JIBAR plus 4.25% up to and excluding 18 November 2026. The maturity date is 18 November 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 18 November 2021.

IV043 fixed rate subordinated unsecured callable bonds

R150 million Investec Bank Limited IV042 locally registered subordinated unsecured callable bonds are due in November 2026. Interest is payable quarterly on 21 February, 21 May, 21 August and 21 November at a rate equal to the three-month JIBAR plus 4.25% up to and excluding 18 November 2026. The maturity date is 21 November 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 18 November 2021.

38. Subordinated liabilities *(continued)*

IV044 variable rate subordinated unsecured callable bonds

R240 million Investec Bank Limited IV044 locally registered subordinated unsecured callable bonds are due in January 2027. Interest is payable quarterly on 31 January, 30 April, 31 July and 31 October at a rate equal to the three-month JIBAR plus 4.15% up to and excluding 18 November 2026. The maturity date is 31 January 2027, but the company has the option to call the bonds upon regulatory capital disqualification or from 31 January 2022.

IV045 indexed rate subordinated unsecured callable bonds

R1 822 million (2019: R1 740 million) Investec Bank Limited IV045 locally registered subordinated unsecured callable bonds are due in January 2027. Interest is payable quarterly on 31 January, 30 April, 31 July and 31 October at a rate of 2.75%. The IV045 is a replica of the R212 South African government bond. The maturity date is 31 January 2027, but the company has the option to call the bonds upon regulatory capital disqualification or from 31 January 2022.

IV046 variable rate subordinated unsecured callable bonds

R1 200 million Investec Bank Limited IV046 locally registered subordinated unsecured callable bonds are due in June 2027. Interest is payable quarterly on 21 September, 21 December, 21 March and 21 June at a rate equal to the three-month JIBAR plus 3.90%. The maturity date is 21 June 2027, but the company has the option to call the bonds upon regulatory capital disqualification or from 21 June 2022.

IV047 variable rate subordinated unsecured callable bonds

$116 million Investec Bank Limited IV047 locally registered subordinated unsecured Tier II callable bonds are due in June 2027 and were issued at an issue price of $86 million. The notes will automatically convert from zero coupon notes to floating rate notes on the first optional redemption date, being 30 June 2022. The implied zero coupon yield is 5.915966% nacq (ACT/360) up until; the 30 June 2022. If the issuer does not exercise the option to redeem the notes on 30 June 2022, then interest on the floating rate notes shall commence on 30 June 2022 and is payable quarterly on 30 September, 30 December, 30 June at a rate equal to the three-month USD LIBOR plus 4.5% up to and excluding 30 June 2027. The maturity date is 30 June 2027, but the company has the option to call the bonds upon regulatory capital disqualification or from 30 June 2022.

IV049 variable rate subordinated unsecured callable bonds

R1 113 million (2019: R849 million) Investec Bank Limited IV049 locally registered subordinated unsecured callable bonds are due in 4 December 2028. Interest is payable quarterly in arrears on 4 March, 4 June and 4 September and 4 December at a rate equal to three-month JIBAR plus 3.413% basis points up to and excluding 4 March 2028. The maturity date is 4 March 2028, but the company has the option to call the bonds upon regulatory capital disqualification or from 4 March 2028.

39. Ordinary share capital

	Group		Company	
At 31 March R'million	**2020**	2019	**2020**	2019
Authorised				
105 000 000 (2019: 105 000 000) ordinary share of 50 cents each				
Issued				
64 793 190 (2019: 63 019 022) ordinary share of 50 cents each, fully paid	32	32	32	32

40. Perpetual preference shares

	Group		Company	
At 31 March R'million	**2020**	2019	**2020**	2019
Authorised				
70 000 000 (2019: 70 000 000) non-redeemable, non-cumulative, non-participating preference shares of one cent each (perpetual preference shares)				
20 000 000 (2019: 20 000 000) non-redeemable, non-cumulative, non-participating preference shares with a par value of one cent each (non-redeemable programme preference shares)				
Issued				
15 447 630 (2019: 15 447 630) non-redeemable, non-cumulative, non-participating preference shares of one cent each, issued at a premium of between R96.46 - R99.99 per share	1 534	1 534	1 534	1 534
– Perpetual preference share capital	*	*	*	*
– Perpetual preference share premium	1 534	1 534	1 534	1 534

* *Less than R1 million.*

Share premium on perpetual preference shares is included in the line item share premium on the balance sheet. Refer to note 41.

Preference shareholders will be entitled to receive dividends, if declared, at a rate limited to 83.33% of the South African prime interest rate on R100 being the deemed value of the issue price of the preference share held.

Preference shareholders receive dividends in priority to any payment of dividends to the holder of any other class of shares in the capital of the company not ranking prior or *pari passu* with the preference shares.

An ordinary dividend will not be declared by Investec Bank Limited unless the preference dividend has been declared. If declared, preference dividends are payable semi-annually at least seven business days prior to the date on which Investec Bank Limited pays its ordinary dividends, if any, but shall be payable no later than 120 business days after 31 March and 30 September, respectively.

41. Share premium

	Group		Company	
At 31 March R'million	**2020**	2019	**2020**	2019
Share premium on ordinary shares	14 250	13 351	14 250	13 351
Share premium on perpetual preference shares (refer to note 40)	1 534	1 534	1 534	1 534
	15 784	**14 885**	**15 784**	**14 885**

42. Other Additional Tier 1 securities in issue

	Group		Company	
At 31 March R'million	**2020**	2019	**2020**	2019
IV048 variable rate subordinated unsecured callable bonds	350	350	350	350
IV050 variable rate subordinated unsecured callable bonds	110	110	110	110
	460	**460**	**460**	**460**

IV048 variable rate subordinated unsecured callable bonds

Investec Bank Limited issued R350 million other Additional Tier 1 floating rate notes on the 22 March 2018. Interest is payable quarterly on 22 June, 22 September, 22 December and 22 March at a rate equal to the three-month Jibar plus 5.15%. There is no maturity date but the issuer has the option to redeem on 22 March 2023 and on every interest payment date thereafter. The interest is payable at the option of the issuer.

IV050 variable rate subordinated unsecured callable bonds

Investec Bank Limited issued R93 million and R17 million Other Additional Tier 1 floating rate notes on the 26 March 2019 and 29 March 2019. Interest is payable quarterly on the 26 June,26 September, 26 December and 26 March at a rate equal to the three-month JIBAR plus 4.55%. There is no maturity date but the issuer has the option to redeem on the 26 June 2024 and on any interest payment date thereafter. The interest is payable at the option of the issuer.

43. Finance lease disclosures

	Group and company		Group	
	2020		2019	
At 31 March R'million	**Total future minimum payments**	**Present value**	Total future minimum payments	Present value
Finance lease receivables included in loans and advances to customers				
Lease receivables due in:				
Less than one year	1 731	1 504	1 580	1 337
One to five years	1 489	1 278	1 210	1 060
	3 220	**2 782**	**2 790**	**2 397**
Unearned finance income	**438**		**393**	

At 31 March 2020 and 31 March 2019, there were no unguaranteed residual values.

44. Notes to cash flow statement

At 31 March R'million	Group 2020	Group 2019	Company 2020	Company 2019
Profit before taxation adjusted for non-cash items is derived as follows:				
Profit before taxation	3 892	5 337	3 519	5 562
Adjustments for non-cash items included in net income before taxation:				
Amortisation of acquired intangibles	51	51	–	–
Depreciation, amortisation and impairment of property, equipment and intangibles	389	264	382	233
Expected credit loss impairment charges excluding ECL on cash and cash equivalents	1 099	720	1 109	706
Share of post taxation profit of associates	(320)	(1 163)	(343)	(1 193)
Impairment of goodwill	3	3	3	–
Financial impact of acquisition of subsidiary	–	(10)	–	–
Impairment of associates	937	–	937	–
Profit before taxation adjusted for non-cash and non-operating items	**6 051**	**5 202**	**5 607**	**5 308**
Increase in operating assets				
Loans and advances to banks	1 885	(1 205)	2 295	(1 204)
Reverse repurchase agreements and cash collateral on securities borrowed	(7 628)	2 059	(7 258)	2 057
Sovereign debt securities	(5 533)	1 380	(5 836)	1 662
Bank debt securities	(1 286)	(4 527)	(2 072)	(4 921)
Other debt securities	(2 204)	(2 197)	(3 336)	(2 449)
Derivative financial instruments	(9 880)	5 513	(7 576)	5 636
Securities arising from trading activities	1 881	(4 184)	2 127	(4 184)
Investment portfolio	451	1 028	210	(35)
Loans and advances to customers	(13 023)	(14 794)	(13 857)	(14 119)
Own originated loans and advances to customers securitised	475	(835)	–	–
Other loans and advances	87	(64)	81	(71)
Other securitised assets	(184)	9	–	–
Other assets	2 011	(455)	(754)	(819)
Loans to group companies	466	(5 239)	6 941	(11 437)
	(32 482)	**(23 511)**	**(29 035)**	**(29 884)**
Increase in operating liabilities				
Deposits by banks	7 236	5 434	7 236	5 434
Derivative financial instruments	10 995	(4 810)	11 061	(4 810)
Other trading liabilities	53	2 163	53	2 163
Repurchase agreements and cash collateral on securities lent	11 368	6 590	12 505	6 934
Customer accounts (deposits)	30 999	17 331	32 175	15 391
Debt securities in issue	(3 254)	3 039	(3 054)	3 039
Liabilities arising on securitisation of own originated loans and advances	(21)	169	–	–
Other liabilities	623	1 560	(1 028)	3 004
Loans from group companies	547	(4 747)	(22)	2 060
	58 546	**26 729**	**58 926**	**33 215**

45. Commitments

At 31 March R'million	Group 2020	Group 2019	Company 2020	Company 2019
Undrawn facilities	56 019	55 970	53 491	52 509
	56 019	**55 970**	**53 491**	**52 509**
The group has entered into forward foreign exchange contracts and loan commitments in the normal course of its banking business for which the fair value is recorded on balance sheet.				
Operating lease commitments*				
Future minimum lease payments under non-cancellable operating leases:				
Less than one year	–	105	–	105
One to five years	–	265	–	265
	–	**370**	**–**	**370**

* On 1 April 2019 the group adopted IFRS 16 Leases which replaced IAS 17 Leases; this resulted in the group recognising a lease liability and a right of use (ROU) asset instead of operating lease commitments.

At 31 March R'million	2020 Carrying amount of pledged asset	2020 Carrying value of related liability repurchase agreements and cash collateral on securities lent	2019 Carrying amount of pledged asset	2019 Carrying value of related liability repurchase agreements and cash collateral on securities lent
Group				
Pledged assets				
Loans and advances to banks	304	307	–	–
Sovereign debt securities	22 670	19 499	5 977	5 385
Bank debt securities	1 031	933	2 259	2 106
Other debt securities	2 337	2 544	–	–
Securities arising from trading activities	1 542	1 679	4 542	4 542
	27 884	**24 962**	**12 778**	**12 033**
Company				
Pledged assets				
Loans and advances to banks	304	307	–	–
Sovereign debt securities	22 670	19 499	5 977	5 385
Bank debt securities	1 031	933	977	993
Other debt securities	2 337	2 544	–	–
Securities arising from trading activities	1 542	1 679	4 542	4 542
	27 884	**24 962**	**11 496**	**10 920**

The assets pledged by the group are strictly for the purpose of providing collateral for the counterparty. To the extent that the counterparty is permitted to sell and/or re-pledge the assets, they are classified on the balance sheet as reverse repurchase agreements and cash collateral on securities borrowed.

46. Contingent liabilities

At 31 March R'million	Group 2020	Group 2019	Company 2020	Company 2019
Guarantees and assets pledged as collateral security:				
– Guarantees and irrevocable letters of credit	21 937	15 327	22 489	16 060
	21 937	**15 327**	**22 489**	**16 060**

The amounts shown above are intended only to provide an indication of the volume of business outstanding at the balance sheet date.

Guarantees are issued by Investec Bank Limited on behalf of third parties and other group companies. The guarantees are issued as part of the banking business.

Legal proceedings

The group operates in a legal and regulatory environment that exposes it to litigation risks. As a result, the group is involved in disputes and legal proceedings which arise in the ordinary course of business. These claims, if any, cannot be reasonably estimated at this time but the group does not expect the ultimate resolution of any of the proceedings to which the group is party to have a significant adverse effect on the financial position of the group.

47. Related party transactions

At 31 March R'million	Group and company 2020	 2019
Transactions, arrangements and agreements involving key management personnel and others:		
Transactions, arrangements and agreements involving directors and connected persons and companies controlled by them, and with officers of the company, were as follows:		
Key management personnel and connected persons and companies controlled by them:		
Loans		
At the beginning of the year	69	551
Increase in loans	133	36
Repayment of loans	(18)	(517)
Exchange adjustments	–	(1)
At the end of the year	**184**	**69**
Guarantees		
At the beginning of the year	–	7
Additional guarantees granted	9	–
Guarantees cancelled	–	(7)
Exchange adjustments	–	–
At the end of the year	**9**	**–**
Deposits		
At the beginning of the year	(184)	(432)
Increase in deposits	(59)	(150)
Decrease in deposits	49	398
Exchange adjustments	–	–
At the end of the year	**(194)**	**(184)**
The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or where applicable, with other employees. The transactions did not involve more than the normal risk of repayment. None of these loans have been impaired		
Compensation of key management personnel		
Short-term employee benefits	148	99
Other long-term employee benefits	101	32
Share-based payments	76	68
	325	**199**

47. Related party transactions *(continued)*

At 31 March R'million	Transactions with Investec plc and its subsidiaries 2020	2019	Transactions with Investec Bank (Mauritius) and its subsidiaries 2020	2019
Transactions with fellow subsidiaries				
Assets				
Loans and advances to banks	777	51	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	474	370	–	–
Loans and advances to customers	3	114	–	–
Other debt securities	1 664	695	4 587	3 658
Derivative financial instruments	239	405	204	24
Other assets	–	140	–	–
Liabilities				
Deposits from banks	203	342	4 143	1 322
Customer accounts (deposits)	–	–	–	–
Repurchase agreements and cash collateral on securities lent	–	–	–	–
Derivative financial instruments	80	59	13	247
Debt securities in issue	–	–	–	–
Other liabilities	200	62	16	–
Income statement				
Interest income	56	47	219	144
Interest expense	7	9	233	9
Fee and commission income	–	–	8	15
Fee and commission expense	–	–	–	–
Off balance sheet				
Guarantees issued	–	–	52	48

The above outstanding balances arose from the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties.

In the normal course of business, services are rendered between Investec plc and Investec Bank Limited entities. In the year to 31 March 2020, this resulted in a net payment by Investec plc group of R323.1 million (2019: R690.9 million).

For the year to 31 March R'million	2020	2019
Transactions with associates		
Amounts due from associates and its subsidiaries	2 952	3 535
Interest income from loans to associates	71	88
Interest expense from loans to associates	89	91

The above outstanding balances arose from the ordinary course of business and are on the same terms, including interest rates and security, as for comparable transactions with third party counterparties.

Refer to page 3 for related party relationships and pages 125 to 138 in the directors' remuneration report for other transactions relating to directors.

Refer to note 33 for loans to group companies and loans from group companies and subsidiaries and note 34 for loan advances to subsidiaries.

48. Liquidity analysis of financial liabilities based on undiscounted cash flows

The balances in the below table will not agree directly to the balances in the balance sheet as the table incorporates all cash flow on an undiscounted basis relating to both principal and those associated with all future coupon payments (except for trading liabilities and trading derivatives). Furthermore loan commitments are generally not recognised on the balance sheet. Trading liabilities and trading derivatives have been included in the 'Demand' time bucket and not by contractual maturity because trading liabilities are typically held for short periods of time.

For an unaudited analysis based on discounted cash flows please refer to pages 65.

At 31 March R'million	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
Group								
2020								
Liabilities								
Deposits by banks	378	1 246	285	211	115	34 866	398	37 499
Derivative financial instruments	21 953	–	–	–	–	137	7	22 097
– held-for-trading	21 953	–	–	–	–	–	–	21 953
– held for hedging risk	–	–	–	–	–	137	7	144
Other trading liabilities	4 521	–	–	–	–	–	–	4 521
Repurchase agreements and cash collateral on securities lent	3 175	6 658	14 682	42	85	866	2 238	27 746
Customer accounts (deposits)	174 288	35 752	48 484	30 988	40 616	46 456	3 343	379 927
Debt securities in issue	–	250	503	71	1 274	1 298	–	3 396
Liabilities arising on securitisation of own originated loans and advances	–	–	15	52	52	385	1 285	1 789
Other liabilities	2 559	1 426	1 659	823	165	1 635	151	8 418
Loans from group companies	2 807	–	–	–	–	–	–	2 807
Subordinated liabilities	7	53	81	168	302	12 845	–	13 456
Total on balance sheet liabilities	**209 688**	**45 385**	**65 709**	**32 355**	**42 609**	**98 488**	**7 422**	**501 656**
Contingent liabilities	4 513	2	5 227	508	479	11 481	4 371	26 581
Commitments	5 296	–	8 152	1 271	2 012	14 482	24 810	56 023
Total liabilities	**219 497**	**45 387**	**79 088**	**34 134**	**45 100**	**124 451**	**36 603**	**584 260**

48. Liquidity analysis of financial liabilities based on undiscounted cash flows *(continued)*

At 31 March R'million	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
2019								
Liabilities								
Deposits by banks	351	8 153	1 796	395	513	19 102	–	30 310
Derivative financial instruments	11 097	–	–	–	–	–	–	11 097
– held-for-trading	11 040	–	–	–	–	–	–	11 040
– held for hedging risk	57	–	–	–	–	–	–	57
Other trading liabilities	4 468	–	–	–	–	–	–	4 468
Repurchase agreements and cash collateral on securities lent	7 742	4 226	566	341	372	870	2 403	16 520
Customer accounts (deposits)	130 828	38 205	43 132	36 005	55 087	41 294	1 096	345 647
Debt securities in issue	–	53	411	431	1 055	4 699	–	6 649
Liabilities arising on securitisation of own originated loans and advances	–	–	75	75	106	21	1 584	1 861
Other liabilities	3 078	430	1 668	65	167	836	21	6 265
Loans from group companies	2 260	–	–	–	–	–	–	2 260
Subordinated liabilities	7	53	135	1 906	1 870	11 525	–	15 496
Total on balance sheet liabilities	**159 831**	**51 120**	**47 783**	**39 218**	**59 170**	**78 347**	**5 104**	**440 573**
Contingent liabilities	3 603	50	4 854	2 058	972	4 638	292	16 467
Commitments	5 037	432	7 681	1 510	4 246	14 040	23 024	55 970
Total liabilities	**168 471**	**51 602**	**60 318**	**42 786**	**64 388**	**97 025**	**28 420**	**513 010**

48. Liquidity analysis of financial liabilities based on undiscounted cash flows *(continued)*

R'million	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
Company								
2020								
Liabilities								
Deposits by banks	378	1 246	285	211	115	34 866	398	37 499
Derivative financial instruments	22 044	–	–	–	–	108	7	22 159
– held-for-trading	22 044	–	–	–	–	–	–	22 044
– held for hedging risk	–	–	–	–	–	108	7	115
Other trading liabilities	4 521	–	–	–	–	–	–	4 521
Repurchase agreements and cash collateral on securities lent	3 175	6 658	14 682	42	85	866	2 238	27 746
Customer accounts (deposits)	162 287	34 284	47 605	29 888	39 591	45 622	3 343	362 620
Debt securities in issue	–	200	503	53	1 256	444	–	2 456
Other liabilities	2 479	1 152	1 601	794	147	1 612	143	7 928
Loans from group companies	5 890	–	–	–	–	–	–	5 890
Subordinated liabilities	7	53	81	168	302	12 845	–	13 456
Total on balance sheet liabilities	**200 781**	**43 593**	**64 757**	**31 156**	**41 496**	**96 363**	**6 129**	**484 275**
Contingent liabilities	4 513	–	5 025	504	364	11 373	4 371	26 150
Commitments	5 296	–	7 940	943	1 862	12 754	24 699	53 494
Total liabilities	**210 590**	**43 593**	**77 722**	**32 603**	**43 722**	**120 490**	**35 199**	**563 919**

48. Liquidity analysis of financial liabilities based on undiscounted cash flows *(continued)*

R'million	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
2019								
Liabilities								
Deposits by banks	351	8 153	1 796	395	513	19 102	–	30 310
Derivative financial instruments	11 097	–	–	–	–	–	–	11 097
– held-for-trading	11 040	–	–	–	–	–	–	11 040
– held for hedging risk	57	–	–	–	–	–	–	57
Other trading liabilities	4 468	–	–	–	–	–	–	4 468
Repurchase agreements and cash collateral on securities lent	7 742	4 224	42	43	82	870	2 403	15 406
Customer accounts (deposits)	120 425	36 403	41 987	35 664	53 840	40 987	1 096	330 402
Debt securities in issue	–	53	411	365	901	3 789	–	5 519
Other liabilities	3 360	195	1 161	45	1 659	817	–	7 237
Loans from group companies	5 912	–	–	–	–	–	–	5 912
Subordinated liabilities	7	53	135	1 906	1 870	11 525	–	15 496
Total on balance sheet liabilities	**153 362**	**49 081**	**45 532**	**38 418**	**58 865**	**77 090**	**3 499**	**425 847**
Contingent liabilities	3 603	–	4 675	2 045	815	4 630	292	16 060
Commitments	5 037	–	7 481	1 105	3 630	12 317	22 939	52 509
Total liabilities	**162 002**	**49 081**	**57 688**	**41 568**	**63 310**	**94 037**	**26 730**	**494 416**

49. Hedges

The group uses derivatives for the management of financial risks relating to its asset and liability portfolios, mainly associated with non-trading interest rate risks and exposures to foreign currency risk. Most non-trading interest rate risk is transferred from the originating business to the Central Treasury in the Specialist Bank. Once aggregated and netted Central Treasury, as the sole interface to the wholesale market for cash and derivative transactions, actively manages, the liquidity mismatch and non-trading interest rate risk from our asset and liability portfolios. In this regard, Treasury is required to exercise tight control of funding, liquidity, concentration and non-trading interest rate risk within defined parameters.

The accounting treatment of accounting hedges is dependant on the classification between fair value hedges and cash flow hedges and in particular accounting hedges require the identification of a direct relationship between a hedged item and hedging instrument.

This relationship is established in limited circumstances based on the manner in which the group manages its risk exposure. Below is a description of each category of accounting hedges achieved by the group.

Fair value hedges

Fair value hedges are entered into mainly to hedge the exposure of changes in fair value of fixed rate financial instruments attributable to interest rates.

At 31 March R'million	Description of financial instrument being hedged	Fair value of hedging instrument	Cumulative fair value gains or (losses) on hedging instrument	Current year fair value gains or (losses) on hedging instrument	Cumulative fair value gains or (losses) on hedged item*	Current year fair value gains or (losses) on hedged item
Group						
2020						
Interest rate swap	**Bonds**	**(2 184)**	**(2 184)**	**(1 432)**	**2 178**	**1 425**
2019						
Interest rate swap	Bonds	(729)	(404)	(177)	329	(13)
Company						
2020						
Interest rate swap	**Bonds**	**(2 184)**	**(2 184)**	**(1 432)**	**2 178**	**1 425**
2019						
Interest rate swap	Bonds	(729)	(404)	(177)	329	(13)

* *Change in fair value used as the basis for recognising hedge effectiveness for the period.*

Carrying amount of the hedged item

At 31 March R'million	**2020**	2019
Assets		
Sovereign debt securities	30 705	46 181
Bank debt securities	5 221	6 515
Other debt securities	3 987	8 112

49. Hedges *(continued)*

Maturity analysis of hedged item

At 31 March R'million	Up to one month	One month to three months	Three months to six months	Six months to one year	One to five years	Greater than five years	Total
Assets - notionals							
2020							
Sovereign debt securities	–	–	10 634	–	3 077	17 467	31 178
Bank debt securities	–	–	–	109	5 413	–	5 522
Other debt securities	–	–	111	1 633	1 439	1 247	4 430
2019							
Sovereign debt securities	233	573	6 025	5 216	2 801	3 739	18 587
Bank debt securities	–	104	–	–	1 248	1 601	2 953
Other debt securities	170	–	–	–	962	310	1 442

There was no ineffective portion recognised in the income statement.

There are no accumulated fair value hedge adjustments for hedged items that have ceased to be adjusted for hedging gains and losses.

Cash flow hedges

The group is exposed to variability in cash flows on future liabilities arising from changes in base interest rates and foreign exchange rates. The aggregate expected cash flows are hedged based on cash flow forecasts with reference to terms and conditions present in the affected contractual arrangements. Changes in fair value are initially recognised in other comprehensive income and reclassified to the income statement when the cash flow affects the income statement.

At 31 March R'million	Description of financial instrument being hedged	Fair value of hedging instrument	Period cash flows are expected to occur and affect income statement
Group and company			
2020			
Cross-currency swap	Bonds	(2 585)	Three months
Forward exchange contracts	Dividends	(78)	Three months
2019			
Cross-currency swap	Bonds	(1 251)	Three months
Forward exchange contracts	Dividends	(78)	Three months

There are cash flow hedges during the year to mitigate interest rate and currency risk. A reconciliation of the cash flow hedge reserve can be found in the statement of changes in equity. There was no ineffective portion recognised in the income statement.

Realisations to the income statement for cash flow hedges of (R262 million) [2019: (R490 million)] are included in net interest income.

There are R78 million (2019: R78 million) accumulated cash flow hedge reserves for hedged items that have ceased to be adjusted for hedging gains and losses.

There was no ineffective portion recognised in the income statement in the current year.

50. Offsetting

At 31 March R'million	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Net amount
	Amounts subject to enforceable netting arrangements				
	Effects of offsetting on balance sheet			Related amounts not offset	
Group					
2020					
Assets					
Cash and balances at central banks	36 656	–	36 656	–	36 656
Loans and advances to banks	32 940	(14 890)	18 050	(304)	17 746
Non-sovereign and non-bank cash placements	14 014	–	14 014	–	14 014
Reverse repurchase agreements and cash collateral on securities borrowed	26 426	–	26 426	–	26 426
Sovereign debt securities	64 358	–	64 358	(22 670)	41 688
Bank debt securities	12 265	–	12 265	(1 031)	11 234
Other debt securities	17 416	–	17 416	(2 337)	15 079
Derivative financial instruments	31 714	(14 280)	17 434	(9 381)	8 053
Securities arising from trading activities	3 178	–	3 178	(1 542)	1 636
Investment portfolio	5 801	–	5 801	–	5 801
Loans and advances to customers	279 376	(2 622)	276 754	–	276 754
Own originated loans and advances to customers securitised	7 192	–	7 192	–	7 192
Other loans and advances	242	–	242	–	242
Other securitised assets	416	–	416	–	416
Other assets	6 156	–	6 156	–	6 156
	538 150	**(31 792)**	**506 358**	**(37 265)**	**469 093**
Liabilities					
Deposits by banks	40 868	(3 591)	37 277	–	37 277
Derivative financial instruments	47 676	(25 579)	22 097	(9 381)	12 716
Other trading liabilities	4 521	–	4 521	–	4 521
Repurchase agreements and cash collateral on securities lent	26 626	–	26 626	(24 824)	1 802
Customer accounts (deposits)	378 570	(2 622)	375 948	–	375 948
Debt securities in issue	3 258	–	3 258	–	3 258
Liabilities arising on securitisation of own originated loans and advances	1 699	–	1 699	–	1 699
Other liabilities	7 590	–	7 590	–	7 590
Subordinated liabilities	12 037	–	12 037	–	12 037
	522 845	**(31 792)**	**491 053**	**(34 205)**	**456 848**

50. Offsetting *(continued)*

	Amounts subject to enforceable netting arrangements				
	Effects of offsetting on balance sheet			Related amounts not offset	
At 31 March R'million	Gross amounts	Amounts offset	**Net amounts reported on the balance sheet**	Financial instruments (including non-cash collateral)	**Net amount**
Group					
2019					
Assets					
Cash and balances at central banks	10 290	–	10 290	–	10 290
Loans and advances to banks	26 988	(7 085)	19 903	–	19 903
Non-sovereign and non-bank cash placements	12 192	–	12 192	–	12 192
Reverse repurchase agreements and cash collateral on securities borrowed	18 552	–	18 552	–	18 552
Sovereign debt securities	60 893	–	60 893	(5 977)	54 916
Bank debt securities	12 526	–	12 526	(2 259)	10 267
Other debt securities	13 553	–	13 553	–	13 553
Derivative financial instruments	11 507	(3 807)	7 700	(3 101)	4 599
Securities arising from trading activities	5 059	–	5 059	(4 542)	517
Investment portfolio	7 664	–	7 664	–	7 664
Loans and advances to customers	264 116	(2 379)	261 737	–	261 737
Own originated loans and advances to customers securitised	7 667	–	7 667	–	7 667
Other loans and advances	329	–	329	–	329
Other securitised assets	232	–	232	–	232
Other assets	8 237	–	8 237	–	8 237
	459 805	**(13 271)**	**446 534**	**(15 879)**	**430 655**
Liabilities					
Deposits by banks	30 832	(791)	30 041	–	30 041
Derivative financial instruments	21 198	(10 101)	11 097	(3 101)	7 996
Other trading liabilities	4 468	–	4 468	–	4 468
Repurchase agreements and cash collateral on securities lent	15 234	–	15 234	(12 034)	3 200
Customer accounts (deposits)	344 089	(2 379)	341 710	–	341 710
Debt securities in issue	6 512	–	6 512	–	6 512
Liabilities arising on securitisation of own originated loans and advances	1 720	–	1 720	–	1 720
Other liabilities	6 263	–	6 263	–	6 263
Subordinated liabilities	13 918	–	13 918	–	13 918
	444 234	**(13 271)**	**430 963**	**(15 135)**	**415 828**

50. Offsetting *(continued)*

At 31 March R'million	Amounts subject to enforceable netting arrangements: Effects of offsetting on balance sheet – Gross amounts	Amounts subject to enforceable netting arrangements: Effects of offsetting on balance sheet – Amounts offset	Amounts subject to enforceable netting arrangements: Effects of offsetting on balance sheet – Net amounts reported on the balance sheet	Amounts subject to enforceable netting arrangements: Related amounts not offset – Financial instruments (including non-cash collateral)	Net amount
Company					
2020					
Assets					
Cash and balances at central banks	36 374	–	36 374	–	36 374
Loans and advances to banks	26 970	(14 890)	12 080	(304)	11 776
Non-sovereign and non-bank cash placements	14 305	–	14 305	–	14 305
Reverse repurchase agreements and cash collateral on securities borrowed	25 087	–	25 087	–	25 087
Sovereign debt securities	64 358	–	64 358	(22 670)	41 688
Bank debt securities	11 357	–	11 357	(1 031)	10 326
Other debt securities	16 956	–	16 956	(2 337)	14 619
Derivative financial instruments	31 709	(14 280)	17 429	(9 381)	8 048
Securities arising from trading activities	2 932	–	2 932	(1 542)	1 390
Investment portfolio	5 590	–	5 590	–	5 590
Loans and advances to customers	270 001	(2 622)	267 379	–	267 379
Other loans and advances	268	–	268	–	268
Other assets	5 913	–	5 913	–	5 913
	511 820	**(31 792)**	**480 028**	**(37 265)**	**442 763**
Liabilities					
Deposits by banks	40 868	(3 591)	37 277	–	37 277
Derivative financial instruments	47 737	(25 579)	22 158	(9 381)	12 777
Other trading liabilities	4 521	–	4 521	–	4 521
Repurchase agreements and cash collateral on securities lent	26 626	–	26 626	(24 824)	1 802
Customer accounts (deposits)	361 264	(2 622)	358 642	–	358 642
Debt securities in issue	2 428	–	2 428	–	2 428
Other liabilities	7 118	–	7 118	–	7 118
Subordinated liabilities	12 037	–	12 037	–	12 037
	502 599	**(31 792)**	**470 807**	**(34 205)**	**436 602**

50. Offsetting *(continued)*

At 31 March R'million	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Net amount
	Amounts subject to enforceable netting arrangements				
	Effects of offsetting on balance sheet			Related amounts not offset	
2019					
Assets					
Cash and balances at central banks	10 085	–	10 085	–	10 085
Loans and advances to banks	20 813	(7 085)	13 728	–	13 728
Non-sovereign and non-bank cash placements	12 132	–	12 132	–	12 132
Reverse repurchase agreements and cash collateral on securities borrowed	17 829	–	17 829	–	17 829
Sovereign debt securities	60 596	–	60 596	(5 977)	54 619
Bank debt securities	10 966	–	10 966	(977)	9 989
Other debt securities	13 192	–	13 192	–	13 192
Derivative financial instruments	11 333	(3 807)	7 526	(3 101)	4 425
Securities arising from trading activities	5 059	–	5 059	(4 542)	517
Investment portfolio	7 221	–	7 221	–	7 221
Loans and advances to customers	249 487	(2 379)	247 108	–	247 108
Other loans and advances	349	–	349	–	349
Other assets	5 212	–	5 212	–	5 212
	424 274	**(13 271)**	**411 003**	**(14 597)**	**396 406**
Liabilities					
Deposits by banks	30 832	(791)	30 041	–	30 041
Derivative financial instruments	21 198	(10 101)	11 097	(3 101)	7 996
Other trading liabilities	4 468	–	4 468	–	4 468
Repurchase agreements and cash collateral on securities lent	14 121	–	14 121	(10 921)	3 200
Customer accounts (deposits)	328 845	(2 379)	326 466	–	326 466
Debt securities in issue	5 482	–	5 482	–	5 482
Other liabilities	5 731	–	5 731	–	5 731
Subordinated liabilities	13 918	–	13 918	–	13 918
	424 595	**(13 271)**	**411 324**	**(14 022)**	**397 302**

51. Derecognition

Transfer of financial assets that do not result in derecognition

Investec Bank Limited has been party to securitisation transactions whereby assets continue to be recognised on balance sheet (either fully or partially) although they have been subject to legal transfer to another entity. Securitisations may, depending on the individual arrangement, result in continued recognition of the securitised assets and the recognition of the debt securities issued in the transaction.

	2020		2019	
At 31 March R'million	**Carrying amount of assets that are continued to be recognised**	**Carrying amount of associated liabilities**	Carrying amount of assets that are continued to be recognised	Carrying amount of associated liabilities
Company				
No derecognition achieved				
Loans and advances to customers	7 192	7 192	7 667	7 667
	7 192	**7 192**	**7 667**	**7 667**

All the above derecognised assets in the company relate to Fox Street 1 (RF), Fox Street 2 (RF), Fox Street 3 (RF) Ltd, Fox Street 4 (RF) Ltd, Fox Street 5 (RF), Fox Street 6 (RF) and Fox Street 7 (RF) at 31 March 2020 and Fox Street 1 (RF), Fox Street 2 (RF), Fox Street 3 (RF) Ltd, Fox Street 4 (RF) Ltd, Fox Street 5 (RF) and Fox Street 6 (RF) at 31 March 2019. For additional information refer to page 55 in the risk management report.

For transfer of assets in relation to repurchase agreements see note 17.

52. Events after the reporting period

The significant judgements and estimates applied to prepare the financial statements as at 31 March 2020 reflected the impact of COVID-19 and the resulting lockdown as at the balance sheet date.

These judgements, specifically those relating to the impairment of loans and advances and valuation of fair value instruments were determined by considering a range of economic scenarios including the adverse impact of the lockdown and by applying the guidance issued by various international regulators and standard-setting bodies.

The action of various governments and central banks, in particular in South Africa, provides an indication of the potential severity of the downturn and that the recovery environment could be significantly different from past crises with a duration which is also difficult to predict.

Subsequent to the balance sheet date, extensions to lockdown periods have been announced and there has been further deterioration in certain macro-economic forecasts. In South Africa various government and social programmes were launched, aimed at reducing the impact of COVID-19 and to stimulate the economy.

The group believes that the significant judgements and estimates made at the balance sheet date took account of the impact of COVID-19 and the results of subsequent event procedures performed by management up to 16 June 2020 did not identify additional information that requires these judgements and estimates to be updated. The group has also considered the impact of subsequent events that would be considered non-adjusting, such as changes in the key management assumptions detailed in the accounting policies. Management is satisfied that there were no such items of sufficient significance to warrant additional disclosure. However, should the COVID-19 crisis cause disruption to global economic activity for a longer period than forecasted this could put upward pressure on the group ECLs and downward pressure on other valuations.

Management performed a detailed assessment of events after the reporting period and any consequent potential impact on the annual financial statements and concluded that the financial statement disclosure was appropriate. This process included a review of changes in underlying credit risk of loans and advances, evaluating changes in assumptions of fair value calculations, evaluating significant movements on the share price of listed investments and evaluating the level of financial assistance provided to clients compared to the balance sheet date.

The group is not aware of any other events after the reporting date as defined by IAS 10 Events after the Reporting Period, that would require the financial statements to be adjusted or which would require additional disclosures.

53. Changes in accounting policies

On 1 April 2019 the group adopted IFRS 16 Leases which replaced IAS 17 Leases. The group's accounting as a lessor under IFRS 16 is substantially unchanged from its approach under IAS 17, apart from certain subleases which are now classified as finance lease receivables. For lessees, IFRS 16 removes the distinction between finance and operating leases and introduces a single lease accounting model that will with some limited exemptions, apply to all leases and result in bringing them on balance sheet.

Operating lease commitments as at 31 March 2019 amounted to R370 million (company: R370 million). Lease liabilities amounting to R736 million (company: R722 million), primarily in respect of leased properties, previously accounted for as operating leases, were recognised at 1 April 2019. Excluding the effect of discounting, the difference between the commitments previously reported and the opening lease liabilities principally arises due to immaterial differences between commitments previously disclosed and the accounting treatment of options which are available to exercise at the end of certain lease contracts which leads to a higher balance under IFRS 16 than was part of the commitment under IAS 17.

As a lessee, the group now recognises a lease liability measured at the present value of remaining lease payments and a right of use (ROU) asset measured at the amount of the initial measurement of the lease liability, plus any lease payments made prior to commencement date, initial direct costs, and estimated costs of restoring the underlying asset to the condition required by the lease, less any lease incentives received. The lease payments are discounted using the group's incremental borrowing rate. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment.

The lease liability will increase for the accrual of interest, and will result in a constant rate of return throughout the life of the lease, and reduce when lease payments are made. The right of use asset is being depreciated in the income statement over the life of the lease.

As permitted by the standard, the group applied IFRS 16 on a modified retrospective basis without restating prior years.

The group elected to take advantage of the following transition options on transition at 1 April 2019:

- applied IFRS 16 to contracts previously identified as leases by IAS 17
- calculated the right of use asset equal to the lease liability, adjusted for prepaid or accrued payments
- used the incremental borrowing rate as the discount rate
- did not apply IFRS 16 to operating leases with a remaining lease term of less than 12 months
- relied on the assessment of whether the lease contract is onerous under IAS 37 at 31 March 2019 as an alternative to performing an impairment review of the right use of assets created on 1 April 2019.

The impact on adoption was recognition of ROU assets of R653 million (company: R639 million) and lease liabilities of R736 million (company: R722 million), with no impact on retained income. An existing accrual of R83 million (company: R83 million) was adjusted against the ROU assets.

GLOSSARY

The following abbreviations have been used throughout this report:

AGM	Annual general meeting
ADR Forum	Arrears, Recovery and Default Forum
AIRB	Advanced Internal Ratings-Based
AML	Anti-money laundering
AUM	Assets under management
BASA	Banking Association of South Africa
BCBS	Basel Committee of Banking Supervision
BSE	Botswana Stock Exchange
CA	Chartered Accountant
CCB	Capital conservation buffer
CCR	Counterparty credit risk
CCyB	Countercyclical capital buffer
CDS	Credit default swap
CEM	Current exposure method
CEO	Chief Executive Officer
CET1	Common equity tier 1
CFO	Chief Financial Officer
CFT	Combating the financing of terrorism
COO	Chief Operating Officer
COVID	Corona Virus Disease
CRO	Chief Risk Officer
CVA	Credit valuation adjustment
DLC	Dual listed company
DLC BRCC	DLC Board Risk and Capital Committee
DLC Nomdac	DLC Nominations and Directors Affairs Committee
DLC SEC	DLC Social and Ethics Committee
D-SIB	Domestic systemically important bank
EBITDA	Earnings before interest, taxes, depreciation and amortisation
ECL	Expected credit loss
EIR	Effective interest rate
EP	Equator Principles
ESG	Environmental, social and governance
FIRB	Foundation Internal Ratings-Based
FSLAB	Financial Sector Laws Amendment Bill
FSR Act	Financial Sector Regulation Act 9 of 2017
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit and loss
GDP	Gross domestic product
GDPR	General Data Protection Regulation
GISD	UN Global Investment for Sustainable Development
GRRRMF	Group Risk Review and Reserves Matters Forum
HLA	Higher loss-absorbency
HNW	High net worth
IAM	Investec Asset Management
IASs	International Accounting Standards
IBL	Investec Bank Limited
IBL BRCC	IBL Board Risk and Capital Committee
IBL ERC	IBL Executive Risk Committee
IBL Review ERRF	IBL Review Executive Risk Review Forum
ICAAP	Internal Capital Adequacy Assessment Process
ICR	Individual capital requirement
IEP	IEP Group
IFB	Investec for Business
IFC	International Finance Corporation
IFRS	International Financial Reporting Standard
IP	Investec Property
IPF	Investec Property Fund
IRB	Internal Ratings-Based
IRRBB	Interest Rate Risk in the Banking Book
IW&I	Investec Wealth & Investment
JIBAR	Johannesburg Interbank Average Rate
JSE	Johannesburg Stock Exchange
LCR	Liquidity coverage ratio
LHS	Left hand side
LSE	London Stock Exchange
NSFR	Net stable funding ratio
NSX	Namibian Stock Exchange
OCI	Other comprehensive income
PACCC	Prudential assurance conduct and controls committee
PRA	Prudential Regulation Authority
RHS	Right hand side
ROU	Right of use asset
RWA	Risk-weighted asset
SA-CCR	Standardised Approach to Counterparty Credit Risk
SDGs	Sustainable Development Goals
SIFI	Systemically important financial institution
SOE	State-owned Enterprise
South African PA	South African Prudential Authority (previously known as the Banking Supervision Division of the South African Reserve Bank)
SPPI	Solely payments of principal and interest
SREP	Supervisory Review and Evaluation Process
TCFD	Task Force on Climate-related Financial Disclosures
VaR	Value at Risk
WACC	Weighted average cost of capital

We supplement our IFRS figures with alternative performance measures used by management internally and which provide valuable, relevant information to readers. A description of the group's alternative performance measures and their calculation, where relevant, is set out below.

Alternative performance measures constitute *pro forma* financial information. The *pro forma* financial information is the responsibility of the board of directors and is presented for illustrative purposes only and because of its nature may not fairly present the group's financial position, changes in equity, and results in operations or cash flows.

Annuity income	Net interest income (refer to page 172) plus net annuity fees and commissions (refer to page 173)
Core loans to equity	Net core loans and advances divided by total shareholder's equity per the balance sheet
Cost to income ratio	Refer to calculation in the table below

R'million	**31 March 2020**	31 March 2019
Operating costs (A)	6 632	6 547
Total operating income before expected credit losses	12 603	12 650
Less: Profit attributable to other non-controlling interests	–	3
Total (B)	**12 603**	**12 653**
Cost to income ratio (A/B)	**52.6%**	**51.7%**

Coverage ratio	ECL as a percentage of gross core loans and advances subject to ECL
Credit loss ratio	ECL impairment charges on core loans and advances as a percentage of average gross core loans and advances subject to ECL
Gearing ratio	Total assets excluding intergroup divided by total equity
Gross core loans and advances	Refer to calculation on page 45
Loans and advances to customers as a % of customer accounts	Loans and advances to customers as a percentage of customer accounts (deposits)
Net core loans and advances	Refer to calculation on page 45
Net interest margin	Interest income net of interest expense, divided by average interest-earning assets. Refer to calculation on page 172
Return on average assets	Earnings attributable to ordinary shareholders divided by average total assets excluding assurance assets
Return on risk-weighted assets	Earnings attributable to ordinary shareholders divided by average risk-weighted assets

Cash and near cash

Includes cash, near cash (other 'monetisable assets') and Central Bank cash placements and guaranteed liquidity

Interest-earning assets

Cash and near cash, bank debt securities, sovereign debt securities, core loans and advances, other debt securities, other loans and advances and other securitised assets. Refer to page 172 for calculation

Interest-bearing liabilities

Deposits by banks, debt securities in issue, repurchase agreements and cash collateral on securities lent, customer accounts (deposits), liabilities arising on securitisation of own originated loans and advances and loans from group companies. Refer to page 172 for calculation

Ninety One and Ninety One group

All references to Ninety One and Ninety One group refer to Ninety One plc and its subsidiaries plus Ninety One Limited and its subsidiaries

Subject to ECL

Includes financial assets held at amortised cost and FVOCI as well as designated at FVPL loan portfolios for which ECL is not required for IFRS purposes but for which management evaluates on this basis. Refer to page 45 for core loans and advances subject to ECL

Structured credit

Reflects the gross exposure of rated and unrated structured credit classified within other debt securities and other loans and advances on the balance sheet. Refer to page 56 for detail

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