Out of the Ordinary

Investec

Investec Limited

Financial information (excludes results of Investec plc)

Unaudited condensed consolidated financial information for the six months ended 30 September 2018

IFRS – Rand

2018

Introduction

On 1 April 2018 the group adopted IFRS 9 'Financial Instruments' which replaced IAS 39 'Financial Instruments: Recognition and Measurement. IFRS 9 requires a move from incurred loss methodology under IAS 39 to an expected credit loss (ECL) methodology.

Disclosure related to the initial application and the impact of the transition from IAS 39 to IFRS 9 were included in the transition disclosures published on 15 June 2018. The Investec Limited transition disclosures can be accessed via the Investec website at www.investec.com.

The disclosure of the impact and accounting policies is included on pages 24 to 29. Credit disclosures shown on pages 30 to 47 are reported under IFRS 9 with 1 April comparatives.

Throughout the rest of the financial disclosures comparative information is provided as at 31 March 2018 and has been presented on an IAS 39 basis and not restated as permitted under IFRS.

Overview of results

Key financial statistics	30 Sept 2018	30 Sept 2017	% change	31 March 2018
Total operating income before expected credit losses/impairment losses (R'million)	9 755	9 073	7.5%	18 217
Operating costs (R'million)	5 037	4 841	4.0%	9 619
Operating profit before acquired intangibles (R'million)	4 340	3 859	12.5%	7 869
Headline earnings attributable to ordinary shareholders (R'million)	2 583	2 617	(1.3%)	5 490
Cost to income ratio	51.6%	53.4%		52.8%
Total capital resources (including subordinated liabilities) (R'million)	67 881	63 007	7.7%	66 292
Total shareholders equity (R'million)	53 258	48 858	9.0%	51 279
Total assets (R'million)	637 952	599 824	6.4%	617 710
Net core loans and advances (R'million)	260 636	251 549	3.6%	256 702
Customer accounts (deposits) (R'million)	331 672	309 964	7.0%	321 823
Loans and advances to customers as a % of customer accounts (deposits)	76.1%	78.6%		77.4%
Cash and near cash balances (R'million)	110 827	102 620	8.0%	116 533
Funds under management (R'million)	955 655	939 880	1.7%	896 237
Total gearing ratio (i.e. total assets excluding assurance assets to equity)	9.1x	9.4x		9.3x

Key asset quality and capital ratios	30 Sept 2018	1 April 2018
Capital adequacy ratio	14.7%	14.5%
Tier 1 ratio	11.1%	10.8%
Common equity tier 1 ratio	10.3%	10.0%
Leverage ratio – current	7.5%	7.4%
Leverage ratio – 'fully loaded'	7.1%	6.9%
Stage 3 exposure as a % of gross core loans and advances to customers subject to ECL	1.5%	1.1%
Stage 3 exposure net of ECL as a % of net core loans and advances to customers subject to ECL	0.8%	0.7%
Stage 3 exposure net of ECL and collateral	–	–
Credit loss ratio#	0.30%*	0.28%**

* *Annualised.*

** *As at 31 March 2018.*

\# *Expected credit loss (ECL) impairment charges on gross core loans and advances as a % of average gross core loans and advances subject to ECL.*

Condensed consolidated income statement

R'million	Six months to 30 Sept 2018	Six months to 30 Sept 2017	Year to 31 March 2018
Interest income	16 182	16 022	32 509
Interest expense	(12 341)	(12 492)	(25 240)
Net interest income	**3 841**	**3 530**	**7 269**
Fee and commission income	4 469	4 448	9 245
Fee and commission expense	(206)	(246)	(459)
Investment income	607	738	1 000
Share of post taxation profit of associates	364	382	777
Trading income/(loss) arising from			
– customer flow	295	150	414
– balance sheet management and other trading activities	376	55	(41)
Other operating income	9	16	12
Total operating income before expected credit losses/impairment losses	**9 755**	**9 073**	**18 217**
Expected credit loss impairment charges*	(378)	–	–
Impairment losses on loans and advances*	–	(373)	(729)
Operating income	**9 377**	**8 700**	**17 488**
Operating costs	(5 037)	(4 841)	(9 619)
Operating profit before acquired intangibles	**4 340**	**3 859**	**7 869**
Amortisation of acquired intangibles	(26)	(26)	(51)
Operating profit	**4 314**	**3 833**	**7 818**
Additional costs on acquisition of subsidiary	–	–	(100)
Profit before taxation	**4 314**	**3 833**	**7 718**
Taxation on operating profit before goodwill and acquired intangibles	(711)	(443)	(367)
Taxation on acquired intangibles	7	7	14
Profit after taxation	**3 610**	**3 397**	**7 365**
Profit attributable to Asset Management non-controlling interests	(80)	(65)	(156)
Profit attributable to other non-controlling interests	(657)	(343)	(907)
Earnings attributable to shareholders	**2 873**	**2 989**	**6 302**

* *On adoption of IFRS 9, there is a move from an incurred loss model to an expected credit loss methodology.*

Consolidated statement of total comprehensive income

R'million	Six months to 30 Sept 2018	Six months to 30 Sept 2017	Year to 31 March 2018
Profit after taxation	3 610	3 397	7 365
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*	(21)	(35)	(93)
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income*^	(170)	–	–
Gain on realisation debt instruments at FVOCI recycled to the income statement*^	(38)	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income*	–	159	245
Gain on realisation of available-for-sale assets recycled to the income statement*	–	(46)	(94)
Foreign currency adjustments on translating foreign operations	831	65	(648)
Total comprehensive income	**4 212**	**3 540**	**6 775**
Total comprehensive income attributable to ordinary shareholders	3 227	2 902	5 254
Total comprehensive income attributable to non-controlling interests	737	408	1 063
Total comprehensive income attributable to perpetual preferred securities and other Additional Tier 1 securities	248	230	458
Total comprehensive income	**4 212**	**3 540**	**6 775**

* *Net of taxation of (R40.0 million) [Six months to 30 September 2017: R43.6 million; year to 31 March 2018: R194.0 million].*

^ *On adoption of IFRS 9 on 1 April 2018, the fair value reserve was introduced, replacing the available-for-sale reserve.*

Headline earnings

R'million	Six months to 30 Sept 2018	Six months to 30 Sept 2017	Year to 31 March 2018
Earnings attributable to shareholders	2 873	2 989	6 302
Dividends paid to perpetual preference shareholders and other Additional Tier 1 security holders	(248)	(230)	(458)
Earnings attributable to ordinary shareholders	**2 625**	**2 759**	**5 844**
Headline adjustments:	(42)	(142)	(354)
Revaluation of investment properties*	(42)	(96)	(260)
Gain on realisation of available-for-sale assets recycled to the income statement*	–	(46)	(94)
Headline earnings attributable to ordinary shareholders	**2 583**	**2 617**	**5 490**

* *Taxation on headline earnings adjustments amounted to R18.0 million (Six months to 30 September 2017: R45.3 million), year to 31 March 2018: R88.6 million), with a (41.6 million)(Six months to 30 September 2017: R69.3 million, year to 31 March 2018: R350.5 million) impact on earnings attributable to non-controlling interests.*

Condensed consolidated balance sheet

At R'million	30 Sept 2018	1 April 2018*	31 March 2018*	30 Sept 2017
Assets				
Cash and balances at central banks	9 586	9 180	9 187	9 200
Loans and advances to banks	20 732	19 617	19 620	23 399
Non-sovereign and non-bank cash placements	10 441	9 972	9 993	10 399
Reverse repurchase agreements and cash collateral on securities borrowed	17 705	24 217	24 217	21 916
Sovereign debt securities	58 923	62 363	62 403	50 722
Bank debt securities	10 232	7 947	7 965	8 083
Other debt securities	13 891	10 405	10 390	12 167
Derivative financial instruments	9 515	12 541	12 563	11 214
Securities arising from trading activities	21 112	12 289	12 289	12 458
Investment portfolio	8 915	8 110	6 928	7 911
Loans and advances to customers	252 295	246 760	249 072	243 482
Own originated loans and advances to customers securitised	8 341	7 625	7 630	8 067
Other loans and advances	359	265	265	291
Other securitised assets	315	299	299	330
Interests in associated undertakings	6 819	6 495	6 495	5 898
Deferred taxation assets	1 067	1 331	983	649
Other assets	14 227	13 292	13 305	13 736
Property and equipment	3 107	2 973	2 973	770
Investment properties	18 934	19 439	19 439	18 992
Goodwill	211	211	211	211
Intangible assets	461	412	412	460
	487 188	**475 743**	**476 639**	**460 355**
Other financial instruments at fair value through profit or loss in respect of liabilities to customers	150 764	141 071	141 071	139 469
	637 952	**616 814**	**617 710**	**599 824**
Liabilities				
Deposits by banks	29 700	27 793	27 793	28 606
Derivative financial instruments	14 531	15 907	15 907	13 457
Other trading liabilities	16 992	14 238	14 238	15 568
Repurchase agreements and cash collateral on securities lent	6 500	8 395	8 395	9 906
Customer accounts (deposits)	331 672	321 791	321 823	309 964
Debt securities in issue	7 710	6 885	6 885	5 564
Liabilities arising on securitisation of own originated loans and advances	2 216	2 274	2 274	2 413
Current taxation liabilities	339	551	551	1 033
Deferred taxation liabilities	189	171	171	262
Other liabilities	9 458	12 340	12 310	10 575
	419 307	**410 345**	**410 347**	**397 348**
Liabilities to customers under investment contracts	150 699	141 013	141 013	139 424
Insurance liabilities, including unit-linked liabilities	65	58	58	45
	570 071	**551 416**	**551 418**	**536 817**
Subordinated liabilities	14 623	15 013	15 013	14 149
	584 694	**566 429**	**566 431**	**550 966**
Equity				
Ordinary share capital	1	1	1	1
Share premium	13 576	12 820	12 820	12 578
Treasury shares	(1 882)	(1 552)	(1 552)	(1 988)
Other reserves	1 861	1 185	1 125	1 872
Retained income	27 400	25 994	26 948	25 260
Shareholders' equity excluding non-controlling interests	**40 956**	**38 448**	**39 342**	**37 723**
Other Additional Tier 1 securities in issue	900	900	900	550
Non-controlling interests	11 402	11 037	11 037	10 585
– Perpetual preferred securities issued by subsidiaries	1 534	1 534	1 534	1 534
– Non-controlling interests in partially held subsidiaries	9 868	9 503	9 503	9 051
Total equity	**53 258**	**50 385**	**51 279**	**48 858**
Total liabilities and equity	**637 952**	**616 814**	**617 710**	**599 824**

* *The 1 April 2018 balance sheet has been presented on an IFRS 9 basis and the comparative as at 31 March 2018 on an IAS 39 basis.*

Consolidated statement of changes in equity

At 30 September 2018 R'million	Ordinary share capital	Share premium	Treasury shares
At 1 April 2017	**1**	**11 895**	**(1 189)**
Movement in reserves 1 April 2017 – 30 September 2017			
Profit after taxation	–	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–	–
Gains on available-for-sale assets recycled to the income statement	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	–
Total comprehensive income for the period	**–**	**–**	**–**
Issue of ordinary shares	–	683	–
Movement of treasury shares	–	–	(664)
Share-based payments adjustments	–	–	–
Transfer from share-based payments reserve to treasury shares	–	–	(135)
Transfer from regulatory general risk reserves	–	–	–
Movement in non-controlling interests due to share issues in subsidiary	–	–	–
Dividends declared to other equity holders including other Additional Tier 1 securities	–	–	–
Dividends paid to perpetual preference shareholders included in non-controlling interests and other Additional Tier 1 securities	–	–	–
Dividends paid to ordinary shareholders	–	–	–
Dividends paid to non-controlling interests	–	–	–
At 30 September 2017	**1**	**12 578**	**(1 988)**
Movement in reserves 1 October 2017 – 31 March 2018			
Profit after taxation	–	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–	–
Gains on available-for-sale assets recycled to the income statement	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	–
Total comprehensive income for the period	**–**	**–**	**–**
Issue of ordinary shares	–	242	–
Issue of other Additional Tier 1 security instruments	–	–	–
Movement of treasury shares	–	–	(321)
Share-based payments adjustments	–	–	–
Transfer from share-based payments reserve to treasury shares	–	–	757
Transfer from regulatory general risk reserves	–	–	–
Partial disposal of group operations	–	–	–
Movement in non-controlling interests due to share issues in subsidiary	–	–	–
Dividends declared to other equity holders including other Additional Tier 1 securities	–	–	–
Dividends paid to perpetual preference shareholders included in non-controlling interests and other Additional Tier 1 securities	–	–	–
Dividends paid to ordinary shareholders	–	–	–
Dividends paid to non-controlling interests	–	–	–
At 31 March 2018	**1**	**12 820**	**(1 552)**

Consolidated statement of changes in equity

(continued)

	Other reserves										
	Capital reserve account	Available-for-sale reserves/ Fair value reserve*	Regulatory general risk reserve	Cash flow hedge reserve	Own credit reserve	Foreign currency reserve	Retained income	Shareholders' equity excluding non-controlling interests	Non-controlling interests	Other additional Tier 1 securities in issue	Total equity
	61	**193**	**660**	**(900)**	**–**	**1 734**	**23 045**	**35 500**	**10 521**	**550**	**46 571**
					–						
	–	–	–	–	–	–	2 989	2 989	408	–	3 397
	–	–	–	(35)	–	–	–	(35)	–	–	(35)
	–	159	–	–	–	–	–	159	–	–	159
	–	(46)	–	–	–	–	–	(46)	–	–	(46)
	–	–	–	–	–	65	–	65	–	–	65
	–	**113**	**–**	**(35)**	**–**	**65**	**2 989**	**3 132**	**408**	**–**	**3 540**
	–	–	–	–	–	–	–	683	–	–	683
	–	–	–	–	–	–	–	(664)	–	–	(664)
	–	–	–	–	–	–	350	350	–	–	350
	–	–	–	–	–	–	135	–	–	–	–
	–	–	(19)	–	–	–	19	–	–	–	–
	–	–	–	–	–	–	–	–	70	–	70
	–	–	–	–	–	–	(230)	(230)	133	32	(65)
	–	–	–	–	–	–	–	–	(133)	(32)	(165)
	–	–	–	–	–	–	(1 048)	(1 048)	–	–	(1 048)
	–	–	–	–	–	–	–	–	(414)	–	(414)
	61	**306**	**641**	**(935)**	**–**	**1 799**	**25 260**	**37 723**	**10 585**	**550**	**48 858**
					–						
	–	–	–	–	–	–	3 313	3 313	655	–	3 968
	–	–	–	(58)	–	–	–	(58)	–	–	(58)
	–	86	–	–	–	–	–	86	–	–	86
	–	(48)	–	–	–	–	–	(48)	–	–	(48)
	–	–	–	–	–	(713)	–	(713)	–	–	(713)
	–	**38**	**–**	**(58)**	**–**	**(713)**	**3 313**	**2 580**	**655**	**–**	**3 235**
	–	–	–	–	–	–	–	242	–	–	242
	–	–	–	–	–	–	–	–	–	350	350
	–	–	–	–	–	–	–	(321)	–	–	(321)
	–	–	–	–	–	–	306	306	–	–	306
	–	–	–	–	–	–	(757)	–	–	–	–
	–	–	(14)	–	–	–	14	–	–	–	–
	–	–	–	–	–	–	103	103	85	–	188
	–	–	–	–	–	–	–	–	140	–	140
	–	–	–	–	–	–	(228)	(228)	–	31	(197)
	–	–	–	–	–	–	–	–	–	(31)	(31)
	–	–	–	–	–	–	(1 063)	(1 063)	–	–	(1 063)
	–	–	–	–	–	–	–	–	(428)	–	(428)
	61	**344**	**627**	**(993)**	**–**	**1 086**	**26 948**	**39 342**	**11 037**	**900**	**51 279**

Consolidated statement of changes in equity

(continued)

At 30 September 2018 R'million	Ordinary share capital	Share premium	Treasury shares
Adoption of IFRS 9	–	–	–
At 1 April 2018	**1**	**12 820**	**(1 552)**
Movement in reserves 1 April 2018 – 30 September 2018			
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	–	–	–
Gains on available-for-sale assets recycled to the income statement	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	–
Total comprehensive income for the period	**–**	**–**	**–**
Issue of ordinary shares	–	756	–
Net equity movements of associates	–	–	–
Movement of treasury shares	–	–	(567)
Share-based payments adjustments	–	–	–
Transfer from share-based payments reserve to treasury shares	–	–	237
Other equity movements	–	–	–
Transfer from retained income to non-controlling interest			
Dividends declared to other equity holders including other Additional Tier 1 securities	–	–	–
Dividends paid to perpetual preference shareholders included in non-controlling interests and other Additional Tier 1 securities	–	–	–
Dividends paid to ordinary shareholders	–	–	–
Dividends paid to non-controlling interests	–	–	–
At 30 September 2018	**1**	**13 576**	**(1 882)**

* *On adoption of IFRS 9 on 1 April 2018, the fair value reserve was introduced, replacing the available-for-sale reserve.*

Other reserves										
Capital reserve account	Available-for-sale reserves/ Fair value reserve*	Regulatory general risk reserve	Cash flow hedge reserve	Own credit reserve	Foreign currency reserve	Retained income	Share-holders' equity excluding non-controlling interests	Non-controlling interests	Other additional Tier 1 securities in issue	Total equity
–	36	–	–	24	–	(954)	(894)	–	–	(894)
61	**380**	**627**	**(993)**	**24**	**1 086**	**25 994**	**38 448**	**11 037**	**900**	**50 385**
–	–	–	–	–	–	2 873	2 873	737	–	3 610
–	–	–	(21)	–	–	–	(21)	–	–	(21)
–	(170)	–	–	–	–	–	(170)	–	–	(170)
–	(38)	–	–	–	–	–	(38)	–	–	(38)
–	–	–	–	–	831	–	831	–	–	831
–	**(208)**	**–**	**(21)**	**–**	**831**	**2 873**	**3 475**	**737**	**–**	**4 212**
–	–	–	–	–	–	–	756	–	–	756
–	–	–	–	–	–	(109)	(109)	–	–	(109)
–	–	–	–	–	–	–	(567)	–	–	(567)
–	–	–	–	–	–	346	346	–	–	346
–	–	–	–	–	–	(237)	–	–	–	–
–	–	74	–	–	–	(72)	2	–	–	2
				–		(13)	(13)	13		–
–	–	–	–	–	–	(248)	(248)	66	54	(128)
–	–	–	–	–	–	–	–	(66)	(54)	(120)
–	–	–	–	–	–	(1 134)	(1 134)	–	–	(1 134)
–	–	–	–	–	–	–	–	(385)	–	(385)
61	**172**	**701**	**(1 014)**	**24**	**1 917**	**27 400**	**40 956**	**11 402**	**900**	**53 258**

Condensed consolidated segmental information

For the six months to 30 September 2018 R'million	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Total group
Segmental business analysis – income statement					
Net interest income	44	38	3 759	–	3 841
Net fee and commission income	1 585	715	1 963	–	4 263
Investment income	–	5	602	–	607
Share of post taxation profit of associates	–	–	364	–	364
Trading income arising from					
– customer flow	–	1	294	–	295
– balance sheet management and other trading activities	1	–	375	–	376
Other operating income/(loss)	24	–	(15)	–	9
Total operating income before expected credit losses	**1 654**	**759**	**7 342**	**–**	**9 755**
Expected credit loss impairment charges	–	–	(378)	–	(378)
Operating income	**1 654**	**759**	**6 964**	**–**	**9 377**
Operating costs	(1 036)	(517)	(3 364)	(120)	(5 037)
Operating profit/(loss) before acquired intangibles and non-controlling interests	**618**	**242**	**3 600**	**(120)**	**4 340**
Profit attributable to non-controlling interests	(80)	–	(657)	–	(737)
Profit/(loss) before acquired intangibles, taxation and after non-controlling interests	**538**	**242**	**2 943**	**(120)**	**3 603**
Cost to income ratio	62.6%	68.1%	45.8%	n/a	51.6%
Total assets (R'million)	152 334	17 691	467 927	–	637 952

For the six months to 30 September 2017 R'million	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Total group
Segmental business analysis – income statement					
Net interest income	41	43	3 446	–	3 530
Net fee and commission income	1 509	695	1 998	–	4 202
Investment income	–	4	734	–	738
Share of post taxation profit of associates	–	–	382	–	382
Trading income arising from					
– customer flow	–	3	147	–	150
– balance sheet management and other trading activities	4	1	50	–	55
Other operating income	15	–	1	–	16
Total operating income before impairment on loans and advances	**1 569**	**746**	**6 758**	**–**	**9 073**
Impairment losses on loans and advances	–	–	(373)	–	(373)
Operating income	**1 569**	**746**	**6 385**	**–**	**8 700**
Operating costs	(1 002)	(506)	(3 207)	(126)	(4 841)
Operating profit/(loss) before acquired intangibles and non-controlling interests	**567**	**240**	**3 178**	**(126)**	**3 859**
Profit attributable to non-controlling interests	(65)	–	(343)	–	(408)
Profit/(loss) before acquired intangibles, taxation and after non-controlling interests	**502**	**240**	**2 835**	**(126)**	**3 451**
Cost to income ratio	63.9%	67.8%	47.5%	n/a	**53.4%**
Total assets (R'million)	140 949	16 874	442 001	–	**599 824**

Net interest income

For the six months to 30 September R'million	Notes	2018 Balance sheet value	2018 Interest income	2017 Balance sheet value	2017 Interest income
Cash, near cash and bank debt and sovereign debt securities	1	127 619	3 635	123 719	3 697
Loans and advances	2	260 636	11 707	251 549	11 699
Private client		173 299	8 075	168 466	7 828
Corporate, institutional and other clients		87 337	3 632	83 083	3 871
Other debt securities and other loans and advances		14 250	424	12 458	387
Other interest-earning assets	3	3 283	416	330	239
Total interest-earning assets		**405 788**	**16 182**	**388 056**	**16 022**

For the six months to 30 September R'million	Notes	2018 Balance sheet value	2018 Interest income	2017 Balance sheet value	2017 Interest income
Deposits by banks and other debt-related securities	4	43 910	(1 147)	44 076	(1 181)
Customer accounts (deposits)		331 672	(10 428)	309 964	(10 415)
Other interest-bearing liabilities	5	2 216	(219)	2 413	(281)
Subordinated liabilities		14 623	(547)	14 149	(615)
Total interest-bearing liabilities		**392 421**	**(12 341)**	**370 602**	**(12 492)**
Net interest income			**3 841**		**3 530**
Net annualised interest margin			**1.90%**		**1.82%**

Notes:
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; Investec Import Solutions debtors.*
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.*

Additional income statement note disclosures

(continued)

Net fee and commission income

For the six months to 30 September R'million	2018	2017
Asset management and wealth management businesses net fee and commission income	**2 300**	**2 204**
Fund management fees/fees for assets under management	2 008	1 941
Private client transactional fees	326	326
Fee and commission expense	(34)	(63)
Specialist Banking net fee and commission income	**1 963**	**1 998**
Corporate and institutional transactional and advisory services	1 714	1 774
Private client transactional fees	421	407
Fee and commission expense	(172)	(183)
Net fee and commission income	**4 263**	**4 202**
Annuity fees (net of fees payable)	3 772	3 623
Deal fees	491	579

Trust and fiduciary fees amounted to R2.3 million (2017: R2.3 million) and is included in private client transaction fees.

Included in Specialist Banking corporate and institutional transactional and advisory services is net fee income of R676.7 million (2017: R699.7 million) for operating lease income.

Investment income

For the six months to 30 September R'million	Investment portfolio (listed and unlisted equities)*	Debt securities (sovereign, bank and other)	Investment properties	Other asset categories	Total
2018					
The following table analyses investment income generated by the asset portfolio shown on the balance sheet:					
Group					
Realised	585	55	588	3	1 231
Unrealised^	(310)	57	(570)	115	(708)
Dividend income	121	–	–	–	121
Funding and other net related costs	(25)	–	–	(12)	(37)
	371	**112**	**18**	**106**	**607**
Total investment income					
2017					
Realised	219	107	153	26	505
Unrealised^	73	–	40	–	113
Dividend income	144	–	–	–	144
Funding and other net related (costs)/income	(37)	–	–	13	(24)
Total investment income	**399**	**107**	**193**	**39**	**738**

* *Including warrants and profit shares.*
^ *In a year of realisation, any prior period mark-to-market gains/(losses) recognised are reversed in the unrealised line item.*

Additional IAS 34 disclosures

Analysis of assets and liabilities by measurement basis

At 30 September 2018 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	At fair value through profit or loss: Financial assets linked to investment contract liabilities
2018				
Assets				
Cash and balances at central banks	–	–	–	–
Loans and advances to banks	–	–	–	–
Non-sovereign and non-bank cash placements	83	795	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	6 238	3 050	–	–
Sovereign debt securities	–	11 407	–	–
Bank debt securities	–	500	–	–
Other debt securities	–	1 980	–	–
Derivative financial instruments	9 515	–	–	–
Securities arising from trading activities	20 189	923	–	–
Investment portfolio	–	8 915	–	–
Loans and advances to customers	–	3 117	15 376	–
Own originated loans and advances to customers securitised	–	–	–	–
Other loans and advances	–	–	–	–
Other securitised assets	–	–	–	–
Interests in associated undertakings	–	–	–	–
Deferred taxation assets	–	–	–	–
Other assets	627	2 211	–	–
Property and equipment	–	–	–	–
Investment properties	–	–	–	–
Goodwill	–	–	–	–
Intangible assets	–	–	–	–
	36 652	**32 898**	**15 376**	**–**
Other financial instruments at fair value through profit or loss in respect of liabilities to customers	–	–	–	150 764
	36 652	**32 898**	**15 376**	**150 764**
Liabilities				
Deposits by banks	–	–	–	–
Derivative financial instruments	14 531	–	–	–
Other trading liabilities	16 992	–	–	–
Repurchase agreements and cash collateral on securities lent	3 230	–	–	–
Customer accounts (deposits)	–	–	42 426	–
Debt securities in issue	–	–	–	–
Liabilities arising on securitisation of own originated loans and advances	–	–	–	–
Current taxation liabilities	–	–	–	–
Deferred taxation liabilities	–	–	–	–
Other liabilities	683	–	–	–
	35 436	**–**	**42 426**	**–**
Liabilities to customers under investment contracts	–	–	–	150 699
Insurance liabilities, including unit-linked liabilities	–	–	–	65
	35 436	**–**	**42 426**	**150 764**
Subordinated liabilities	–	–	–	–
	35 436	**–**	**42 426**	**150 764**

At fair value through other comprehensive income					
Debt instrument with dual business model	Equity instruments	Total financial instruments at fair value	Financial Instruments at amortised cost	Non-financial instruments or scoped out of IFRS 9	Total
–	–	–	9 586	–	9 586
–	–	–	20 732	–	20 732
–	–	878	9 563	–	10 441
–	–	9 288	8 417	–	17 705
42 295	–	53 702	5 221	–	58 923
3 546	–	4 046	6 186	–	10 232
7 415	–	9 395	4 496	–	13 891
–	–	9 515	–	–	9 515
–	–	21 112	–	–	21 112
–	–	8 915	–	–	8 915
–	–	18 493	233 802	–	252 295
–	–	–	8 341	–	8 341
–	–	–	359	–	359
–	–	–	315	–	315
–	–	–	–	6 819	6 819
–	–	–	–	1 067	1 067
–	–	2 838	6 109	5 280	14 227
–	–	–	–	3 107	3 107
–	–	–	–	18 934	18 934
–	–	–	–	211	211
–	–	–	–	461	461
53 256	**–**	**138 182**	**313 127**	**35 879**	**487 188**
–	–	150 764	–	–	150 764
53 256	**–**	**288 946**	**313 127**	**35 879**	**637 952**
–	–	–	29 700	–	29 700
–	–	14 531	–	–	14 531
–	–	16 992	–	–	16 992
–	–	3 230	3 270	–	6 500
–	–	42 426	289 246	–	331 672
–	–	–	7 710	–	7 710
–	–	–	2 216	–	2 216
–	–	–	–	339	339
–	–	–	–	189	189
–	–	683	3 143	5 632	9 458
–	**–**	**77 862**	**335 285**	**6 160**	**419 307**
–	–	150 699	–	–	150 699
–	–	65	–	–	65
–	**–**	**228 626**	**335 285**	**6 160**	**570 071**
–	–	–	14 623	–	14 623
–	**–**	**228 626**	**349 908**	**6 160**	**584 694**

Additional IAS 34 disclosures

(continued)

Financial instruments carried 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)

Assets and liabilities related to the long-term assurance business attributable to policyholders are categorised as level 1 in the fair value category.

		Fair value category		
At 30 September 2018 **R'million**	**Total instruments at fair value**	**Level 1**	**Level 2**	**Level 3**
Assets				
Non-sovereign and non-bank cash placements	878	83	795	–
Reverse repurchase agreements and cash collateral on securities borrowed	9 288	–	9 288	–
Sovereign debt securities	53 702	53 702	–	–
Bank debt securities	4 046	3 902	144	–
Other debt securities	9 395	3 592	5 675	128
Derivative financial instruments	9 515	–	9 503	12
Securities arising from trading activities	21 112	21 050	62	–
Investment portfolio	8 915	2 864	431	5 620
Loans and advances to customers	18 493	–	17 889	604
Other assets	2 838	2 838	–	–
Other financial instruments at fair value through profit and loss in respect of liabilities to customers	150 764	150 764	–	–
	288 946	**238 795**	**43 787**	**6 364**
Liabilities				
Derivative financial instruments	14 531	–	14 531	–
Other trading liabilities	16 992	14 717	2 275	–
Repurchase agreements and cash collateral on securities lent	3 230	–	3 230	–
Customer accounts (deposits)	42 426	–	42 426	–
Other liabilities	683	–	683	–
Liabilities to customers under investment contracts	150 699	150 699	–	–
Insurance liabilities, including unit-linked liabilities	65	65	–	–
	228 626	**165 481**	**63 145**	**–**
Net financial assets/(liabilities) at fair value	**60 320**	**73 314**	**(19 358)**	**6 364**

Transfers between level 1 and level 2

There were no significant transfers between level 1 and level 2 in the current period.

Level 3 instruments

The following table is a reconciliation of the opening balances to the closing balances for fair value measurements in level 3 of the fair value hierarchy. All instruments are at fair value through profit or loss:

R'million	
Balance at 1 March 2018	**2 857**
Adoption of IFRS 9	1 690
Balance at 1 April 2018	**4 547**
Total gains or losses recognised in the income statement	113
Purchases	1 337
Sales	(89)
Issues	247
Settlements	(123)
Transfers into level 3	215
Foreign exchange adjustments	117
Balance at 30 September 2018	**6 364**

For the period ended 30 September 2018, R214.9 million has been transferred out of level 2 into level 3 as a result of the inputs to the valuation method becoming unobservable in the market.

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/(losses) included in the income statement recognised on level 3 financial instruments:

For the six months to 30 September 2018 R'million	Total	Realised	Unrealised
Group			
Total gains/(losses) included in the income statement for the period			
Net interest income	35	35	–
Investment (loss)/income	(7)	(208)	201
Trading income arising from balance sheet management and other trading activities	85	66	19
	113	**(107)**	**220**

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 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 30 September 2018	**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**
Assets						
Other debt securities	128	Price earnings	EBITDA	(5%)/5%	6	(6)
Derivative financial instruments	12	Price earnings	EDITDA	(5%)/20%	2	(1)
Investment portfolio	5 620				782	(915)
		Price earnings	EBITDA	*	435	(355)
		Discounted cash flow	Precious and industrial metals prices	(10%)/6%	21	(35)
		Discounted cash flow	Cash flows	(15%)-25%	58	(49)
		Discounted cash flow	Property prices	(5%)/15%	172	(172)
		Other	Various	**	96	(304)
Loans and advances to customers	604	Discounted cash flow	Cash flows	(15%)/5%	30	(91)
Total	**6 364**				**820**	**(1 013)**

* *The EBITDA has been stressed on an investment-by-investment basis in order to obtain favourable and unfavourable valuations.*

** *The valuation sensitivity for certain equity investments and fair value loans has 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 purpose of this analysis as the sensitivity of the investments cannot be determined through the adjustment of a single input.*

In determining the value of level 3 financial instruments, the following are principal inputs that do require judgement:

Price-earnings multiple

The price-to-earnings ratio is an equity valuation multiple. It is a key driver in the valuation of unlisted investments.

EBITDA

The group's earnings before interest, taxes, depreciation and amortisation. This is the main input into a price earnings multiple valuation method.

Price of property and precious and industrial metal prices

The price of property and precious and industrial metals is a key driver of future cash flows on these investments.

Cash flows

Cash flows relate to the future cash flows which can be expected from the instrument and requires judgement.

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 assumptions
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	Liquidity adjustment
Investment portfolio	Adjusted quoted price	Liquidity adjustment
Loans and advances to customers	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
Other liabilities	Discounted cash flow model	Yield curve

Fair value of financial assets and liabilities at amortised cost

The following table sets out the fair value of financial instruments held at amortised cost where the carrying value is not a reasonable approximation of fair value.

At 30 September 2018 R'million	Carrying amount	Fair value
Assets		
Loans and advances to banks	20 732	20 741
Reverse repurchase agreements and cash collateral on securities borrowed	8 417	8 415
Sovereign debt securities	5 221	5 055
Bank debt securities	6 186	6 162
Other debt securities	4 496	4 404
Loans and advances to customers	233 802	233 865
Liabilities		
Deposits by banks	29 700	30 158
Repurchase agreements and cash collateral on securities lent	3 270	3 205
Customer accounts (deposits)	289 246	289 575
Other liabilities	3 143	3 174
Subordinated liabilities	14 623	15 970

Expected credit loss impairment charges For the six months to 30 September R'million	2018	2017
Expected credit loss impairment charges/(releases) are recognised on the following assets		
Loans and advances to customers	382	–
Own originated securitised assets	(2)	–
Core loans and advances	380	–
Other balance sheet assets	1	–
Off balance sheet commitments and guarantees	(3)	–
	378	–
Impairment losses on loans and advances*	–	373
	378	**373**

* *On adoption of IFRS 9, there is a move from an incurred loss model to an expected credit loss methodology.*

Extract of operating costs For the six months to 30 September R'million	2018	2017
Staff costs	3 578	3 418
Premises expenses (excluding depreciation)	227	238
Equipment expenses (excluding depreciation)	356	316
Business expenses	506	522
Marketing expenses	244	237
Depreciation, amortisation and impairment of property, equipment and intangibles	126	110
	5 037	**4 841**

Extract of reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent At R'million	30 Sept 2018	31 March 2018
Assets		
Reverse repurchase agreements	11 704	15 079
Cash collateral on securities borrowed	6 001	9 138
	17 705	**24 217**
Liabilities		
Repurchase agreements	6 500	8 395
	6 500	**8 395**

Extract of other debt securities At R'million	30 Sept 2018	31 March 2018
Bonds	8 611	6 336
Floating rate notes	3 291	2 800
Asset-based securities	1 754	1 218
Other investments	235	36
	13 891	**10 390**
Gross other debt securities	13 895	10 390
Expected credit loss*	(4)	–

* *On adoption of IFRS 9, there is a move from an incurred loss model to an expected credit loss methodology.*

Additional note disclosures

(continued)

Extract of securities arising from trading activities At R'million	30 Sept 2018	31 March 2018
Bonds	725	599
Listed equities	20 244	11 606
Unlisted equities	81	84
Other investments	62	–
	21 112	**12 289**

Extract of loans and advances to customers and other loans and advances At R'million	30 Sept 2018	31 March 2018
Gross loans and advances to customers at amortised cost	236 324	233 250
Gross loans and advances to customers designated at FVPL at inception	15 417	17 250
Gross loans and advances to customers subject to ECL	251 741	250 500
Expected credit loss	(2 563)	–
Impairment losses	–	(1 428)
	249 178	249 072
Loans and advances to customers at fair value	3 117	–
Net loans and advances to customers	**252 295**	**249 072**
Gross other loans and advances	384	288
Expected credit loss of other loans and advances*	(25)	–
Impairments of other loans and advances*	–	(23)
Net other loans and advances	**359**	**265**

* On adoption of IFRS 9, there is a move from an incurred loss model to an expected credit loss methodology.

Extract of securitised assets and liabilities arising on securitisation At R'million	30 Sept 2018	31 March 2018
Gross own originated loans and advances to customers securitised	8 350	7 636
Expected credit loss of own originated loans and advances to customers securitised*	(9)	–
Impairments of own originated loans and advances to customers securitised*	–	(6)
Net own originated loans and advances to customers securitised	**8 341**	**7 630**
Total other securitised assets	**315**	**299**

* On adoption of IFRS 9, there is a move from an incurred loss model to an expected credit loss methodology.

Other assets At R'million	30 Sept 2018	31 March 2018
Settlement debtors	1 210	2 528
Trading properties	3 169	2 928
Prepayments and accruals	607	524
Trading initial margin	639	659
Investec Import Solutions debtors	2 968	2 819
Fee debtors	63	55
Corporate tax assets	245	88
Other	5 326	3 704
	14 227	**13 305**
Gross other assets	14 300	13 305
Expected credit losses*	(73)	–

* On adoption of IFRS 9, there is a move from an incurred loss model to an expected credit loss methodology.

Debt securities in issue At R'million	30 Sept 2018	31 March 2018
Bonds and medium-term notes repayable in:		
Less than three months	2 251	360
Three months to one year	2 079	2 865
One to five years	2 944	3 240
Greater than five years	436	420
	7 710	**6 885**

Other liabilities At R'million	30 Sept 2018	31 March 2018
Settlement liabilities	2 210	2 986
Other non-interest-bearing liabilities	3 020	4 267
Other creditors and accruals	4 201	5 057
Expected credit loss on off balance sheet commitments and guarantees	27	–
	9 458	**12 310**

Extract of perpetual preference share capital At R'million	30 Sept 2018	31 March 2018
Perpetual preference share capital	*	*
Perpetual preference share premium	3 183	3 183
	3 183	**3 183**

* *Less than R1 million.*

Extract of deferred taxation At R'million	30 Sept 2018	31 March 2018
Losses carried forward	293	219
	293	**219**

Extract of subordinated liabilities At R'million	30 Sept 2018	31 March 2018
Remaining maturity:		
In one year or less, or on demand	1 750	1 210
In more than one year, but not more than two years	1 393	3 114
In more than two years, but not more than five years	9 610	10 192
In more than five years	1 870	497
	14 623	**15 013**

Additional note disclosures

(continued)

Offsetting At 30 September 2018 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	
Assets					
Cash and balances at central banks	9 586	–	9 586	–	9 586
Loans and advances to banks	26 305	(5 573)	20 732	–	20 732
Non-sovereign and non-bank cash placements	10 441	–	10 441	–	10 441
Reverse repurchase agreements and cash collateral on securities borrowed	17 705	–	17 705	(3 122)	14 583
Sovereign debt securities	58 923	–	58 923	(1 643)	57 280
Bank debt securities	10 232	–	10 232	(977)	9 255
Other debt securities	13 891	–	13 891	–	13 891
Derivative financial instruments	12 091	(2 576)	9 515	(3 002)	6 513
Securities arising from trading activities	21 112	–	21 112	(383)	20 729
Investment portfolio	8 915	–	8 915	–	8 915
Loans and advances to customers	254 989	(2 694)	252 295	–	252 295
Own originated loans and advances to customers securitised	8 341	–	8 341	–	8 341
Other loans and advances	359	–	359	–	359
Other securitised assets	315	–	315	–	315
Other assets	14 227	–	14 227	–	14 227
	467 432	**(10 843)**	**456 589**	**(9 127)**	**447 462**
Liabilities					
Deposits by banks	30 685	(985)	29 700	–	29 700
Derivative financial instruments	21 695	(7 164)	14 531	(3 002)	11 529
Other trading liabilities	16 992	–	16 992	(383)	16 609
Repurchase agreements and cash collateral on securities lent	6 500	–	6 500	(2 156)	4 344
Customer accounts (deposits)	334 366	(2 694)	331 672	–	331 672
Debt securities in issue	7 710	–	7 710	–	7 710
Liabilities arising on securitisation of own originated loans and advances	2 216	–	2 216	–	2 216
Other liabilities	9 458	–	9 458	–	9 458
Subordinated liabilities	14 623	–	14 623	–	14 623
	444 245	**(10 843)**	**433 402**	**(5 541)**	**427 861**

Offsetting *(continued)* **At 31 March 2018 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					
Assets					
Cash and balances at central banks	9 187	–	9 187	–	9 187
Loans and advances to banks	24 198	(4 578)	19 620	–	19 620
Non-sovereign and non-bank cash placements	9 993	–	9 993	–	9 993
Reverse repurchase agreements and cash collateral on securities borrowed	24 217	–	24 217	(254)	23 963
Sovereign debt securities	62 403	–	62 403	(5 239)	57 164
Bank debt securities	7 965	–	7 965	(2 275)	5 690
Other debt securities	10 390	–	10 390	(855)	9 535
Derivative financial instruments	18 066	(5 503)	12 563	(4 837)	7 726
Securities arising from trading activities	12 289	–	12 289	(94)	12 195
Investment portfolio	6 928	–	6 928	–	6 928
Loans and advances to customers	251 029	(1 957)	249 072	–	249 072
Own originated loans and advances to customers securitised	7 630	–	7 630	–	7 630
Other loans and advances	265	–	265	–	265
Other securitised assets	299	–	299	–	299
Other assets	13 305	–	13 305	–	13 305
	458 164	**(12 038)**	**446 126**	**(13 554)**	**432 572**
Liabilities					
Deposits by banks	29 968	(2 175)	27 793	–	27 793
Derivative financial instruments	23 813	(7 906)	15 907	(4 837)	11 070
Other trading liabilities	14 238	–	14 238	–	14 238
Repurchase agreements and cash collateral on securities lent	8 395	–	8 395	(5 105)	3 290
Customer accounts (deposits)	323 780	(1 957)	321 823	–	321 823
Debt securities in issue	6 885	–	6 885	–	6 885
Liabilities arising on securitisation of own originated loans and advances	2 274	–	2 274	–	2 274
Other liabilities	12 310	–	12 310	–	12 310
Subordinated liabilities	15 013	–	15 013	–	15 013
	436 676	**(12 038)**	**424 638**	**(9 942)**	**414 696**

IFRS 9 transition disclosures

Reconciliation of IAS 39 carrying amount to IFRS 9 carrying amount

The table below reflects the impact of IFRS 9 implementation on the balance sheet lines and shows movements between amortised cost and fair value:

Only assets and liabilities which have changed are shown.

R'million	IAS 39 carrying amount at 31 March 2018	Reclassifi-cations in	Reclassifi-cations out	Remeasure-ments	ECL	IFRS 9 carrying amount at 1 April 2018
Assets						
Financial assets at amortised cost (previously loans and receivables and held-to-maturity)						
Cash and balances at central banks	9 187	–	–	–	(7)	9 180
Loans and advances to banks	18 325	1 295[2]	–	–	(3)	19 617
Non-sovereign and non-bank cash placements	9 419	–	–	–	(21)	9 398
Reverse repurchase agreements and cash collateral on securities borrowers	11 751	–	–	–	*	11 751
Sovereign debt securities	3 463	1 144[2]	–	(36)	(3)	4 568
Bank debt securities	1 829	1 727[2]	–	(15)	(3)	3 538
Other debt securities	1 229	2 255[2]	–	20	(4)	3 500
Loans and advances to customers	231 822	–	(3 623)[1]	–	(654)	227 545
Own originated loans and advances to customers securitised	7 630	–	–	–	(5)	7 625
Other assets	8 072	–	–	–	(13)	8 059
Financial assets at fair value through profit or loss (previously trading and designated inception)						
Loans and advances to banks	1 295	–	(1 295)[2]	–	–	–
Sovereign debt securities	41 050	–	(29 346)[3]	–	–	11 704
Bank debt securities	–	298[4]	–	–	–	298
Other debt securities	109	952[4]	–	–	–	1 061
Derivative financial instruments	12 563	–	(22)	–	–	12 541
Investment portfolio	6 925	1 642[1]	–	(460)	–	8 107
Loans and advances to customers	17 250	2 004[1]	–	–	(39)	19 215
Financial assets at fair value through other comprehensive income (previously available-for-sale)						
Sovereign debt securities	17 890	29 345[3]	(1 144)[2]	19	(19)	46 091
Bank debt securities	6 136	–	(2 025)[2 & 4]	7	(7)	4 111
Other debt securities	9 052	–	(3 208)[2 & 4]	3	(3)	5 844
Liabilities						
Financial liabilities at amortised cost						
Other liabilities	6 302	–	–	–	30	6 332
Financial liabilities at fair value						
Customer accounts (deposits)	39 485	–	–	(32)	–	39 453

1 *Certain loans and advances to customers which were previously classified as amortised cost but which do not meet the SPPI test required for amortised cost classification under IFRS 9 have been reclassified to FVPL.*

2 *Certain debt instruments previously held as available-for-sale or designated at FVPL under IAS 39, have been reclassified to amortised cost under IFRS 9 as it is the intention to hold these specific assets to collect contractual cash flows which meet the SPPI test.*

3 *Certain sovereign debt securities of R29.3 billion have been reclassified to FVOCI as a dual business model was applicable to these assets.*

4 *Certain debt securities previously held as available-for-sale which do not meet the SPPI test have been reclassified to FVPL.*

* *Less than R1 million.*

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles prior year's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected credit loss model at 1 April 2018:

R'million	Loan loss allowance and provision IAS 39 and and IAS 37 at 31 March 2018	Reclassifi-cation	Remeasure-ment	ECL under IFRS 9 at 1 April 2018	Total increase in impairment allowances
Assets					
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)					
Cash and balances at central banks	–	–	(7)	(7)	(7)
Loans and advances to banks	–	–	(3)	(3)	(3)
Non-sovereign and non-bank cash placements	–	–	(21)	(21)	(21)
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	*	*	*
Sovereign debt securities	–	–	(3)	(3)	(3)
Bank debt securities	–	–	(3)	(3)	(3)
Other debt securities	–	–	(4)	(4)	(4)
Loans and advances to customers	(1 430)	154	(691)	(1 967)	(537)
Own originated loans and advances to customers securitised	(6)	–	(5)	(11)	(5)
Other loans and advances	(25)	–	–	(25)	–
Other assets	(53)	–	(13)	(66)	(13)
Available for sale (IAS 39)/Financial assets FVOCI (IFRS 9)					
Sovereign debt securities	–	–	(19)	(19)	(19)
Bank debt securities	–	–	(7)	(7)	(7)
Other debt securities	–	–	(3)	(3)	(3)
Liabilities					
Off balance sheet exposures (recognised in other liabilities)					
Guarantees	–	–	(5)	(5)	(5)
Committed facilities related to loans and advances to customers	–	–	(25)	(25)	(25)
Total	**(1 514)**	**154**	**(809)**	**(2 169)**	**(655)**

* *Less than R1 million.*

Accounting policies

Basis of preparation

The group accounting policies related to financial instruments, which have been significantly changed as the result of the implementation of IFRS 9, are applicable with effect from 1 April 2018. The full set of accounting policies is set out in the 2018 integrated annual report.

Standards adopted during the year ending 31 March 2019

The requirements of IFRS 9 'Financial Instruments' were adopted from 1 April 2018. IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting, which the group has exercised.

The adoption of IFRS 9 includes the adoption of 'Prepayment Features with Negative Compensation (Amendments to IFRS 9)' which is effective for annual periods beginning on or after 1 January 2019 with early adoption permitted. The group has decided to apply the amendment from 1 April 2018.

The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The group is not restating comparatives on initial application as permitted by IFRS 9.

Additionally on 1 April 2018, the group adopted IFRS 15, 'Revenue from contracts with customers' which replaced IAS 18 'Revenue'. It applies to all contracts with customers except leases, financial instruments and insurance contracts. The standard establishes a more systematic approach for revenue measurement and recognition by introducing a five-step model governing revenue recognition. There is no material impact on measurement and recognition principles previously applied under IAS 18. There is also no material impact from the disclosure requirements of IFRS 15.

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 trade 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 and is included in the impairment calculation below.

The carrying value of these financial assets at initial recognition includes any directly attributable transactions 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 set out below and impairment is recognised in profit or loss.

On initial recognition of an equity investment that is not held for trading, the group may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

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 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 or are considered to be in default or otherwise credit-impaired are in 'Stage 3'.

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 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 or FVOCI.

Financial instruments classified as FVPL 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 profit, 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.

Changes in fair value resulting from own credit risk on financial liabilities designated at fair value is recognised in other comprehensive income.

Financial assets and liabilities are designated as held at fair value through profit or loss only if:

- they eliminate or significantly reduce a 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 liabilities or both financial assets and financial liabilities 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.

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 predominantly focuses on the securitisation of lease receivables. 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 securitised assets are derecognised and only any position still held by the group in the structured entity is reflected.

Day-one 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, or when the instrument is derecognised 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, that is 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 profit 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 in the hedge accounting section 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 current market price or 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

The group applies either fair value 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 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%.
- The effectiveness of the hedge can be reliably measured, i.e. the fair value 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.

Embedded derivatives

To the extent that a derivative may be embedded in a hybrid contract for a financial liability and the hybrid contract is not carried at fair value with changes in fair value recorded in the income statement, the embedded derivative is separated from the host contract and accounted for as a standalone derivative if and only if:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; and
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

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 issued by subsidiaries of Investec Limited are recorded as non-controlling interests on the balance sheet.

Equity instruments are initially measured net of directly attributable issue costs.

Treasury shares represent issued equity repurchased by the group which has not been cancelled. Treasury shares are deducted from shareholders' equity and represent the purchase consideration, including directly attributable costs. Where treasury shares are subsequently sold or reissued, net proceeds received are included in shareholders' equity.

Sale and repurchase agreements (including securities borrowing and lending)

Securities sold subject to a commitment to repurchase, 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 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 income/expense and is accrued over the life of the agreement using the effective interest 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.

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 initially recognised less cumulative revenue and the initial amount less any impairment calculated as set out above. Subsequent to initial measurement, all changes in the balance sheet carrying value are recognised in the income statement.

Risk management

The following risk management and capital section will provide detail on the quantitative disclosures required on a semi-annual basis. For additional qualitative disclosures, definitions and descriptions, please refer to our annual financial statements for the year ended 31 March 2018 and our IFRS 9 Financial Instruments transition report as at 1 April 2018.

Investec Limited also publishes additional Pillar III disclosures contained in a separate Pillar III report which can be found on our website.

Philosophy and approach to risk management

The board risk and capital committee (comprising both executive and non-executive directors) meets six times per annum and approves the overall risk appetite for the Investec group. The group risk and capital committee, comprising of executive directors and executive management is chaired by the CEO. All members and chairman of this committee are appointed by the board risk and capital committee. The group's risk appetite statement sets broad parameters relating to the board's expectations around performance, business stability and risk management. The board ensures that there are appropriate resources to manage the risk arising from running our businesses.

Our comprehensive risk management process involves identifying, quantifying, managing and mitigating the risks associated with each of our businesses.

Risk awareness, control and compliance are embedded in all our day-to-day activities. As fundamental to our values, we have a strong and embedded risk and capital management culture.

Group risk management monitors, manages and reports on our risks to ensure that they are within the stated risk appetite mandated by the board of directors through the board risk and capital committee.

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

Group 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 group.

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, 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 group to operate within its risk appetite tolerance.

Credit and counterparty risk management

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

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 high level of executive involvement and non-executive review 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 are comprised 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. The scope of these forums and committees have been adjusted where necessary to incorporate changes to governance processes arising from IFRS 9 implementation:

- 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 committees 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 if needed
- Credit watchlist forum reviews and manages 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 recoveries 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.

Credit risk classification and provisioning policy

The group has incorporated IFRS 9 requirements into our group credit risk classification and provisioning policy. A framework has been established that incorporates both quantitative and qualitative measures. Any decisions in relation to significant increase in credit risk will be management decisions subject to approval by the appropriate committees. The policies for financial assets at amortised cost and at fair value through other comprehensive income (FVOCI), in accordance with IFRS 9, have been developed as described below:

Definition of default

The group 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.

Stage 1

All 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.

Stage 2

Financial assets are considered to be in Stage 2 when their credit risk has increased significantly since initial recognition. The group was not required to hold specific impairments against these assets under IAS 39, however, a loss allowance equivalent to a lifetime ECL is now required to be held under IFRS 9.

The group'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. This comprises 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, or private clients who have undergone a significant deterioration in financial circumstances.

Assets that have been subject to 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 difficulties. 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 as both a relative and absolute measure to further inform whether a significant deterioration in lifetime risk of default has occurred.

The group does not rebut the presumption in IFRS 9 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. Under IFRS 9, the group 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 in receivership. Forborne loans that are considered non-performing, for example if a loan is not expected to return to fulfil the original contractual obligations in a reasonable timeframe, will be classified as Stage 3.

The group's policy is not to rebut the presumption in IFRS 9 that loans which are more than 90 days past due are in default.

Expected credit loss (ECL)

The assessment of credit risk and the estimation of ECL are required to be unbiased, probability-weighted and should 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 more forward-looking than under IAS 39, and the resulting impairment charge may be more volatile.

Write-offs

The group's policy on when financial assets are written off has not significantly changed on adoption of IFRS 9. A loan or advance is normally written off, in full, against the related 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. Similarly the treatment and recognition of recoveries is unaffected by the implementation of IFRS 9. Any recoveries of amounts previously written off decrease the amount of impairment losses.

An analysis of gross credit and counterparty exposures

Gross credit and counterparty exposure totalled R488.1 billion at 30 September 2018. Cash and near cash balances amount to R110.8 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 and sovereign debt securities. These exposures are all Stage 1. There are immaterial 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 93.5% of overall ECLs.

An analysis of gross credit and counterparty exposures

R'million	30 Sept 2018	1 April 2018
Cash and balances at central banks	9 436	9 165
Loans and advances to banks	20 735	19 620
Non-sovereign and non-bank cash placements	10 459	9 993
Reverse repurchase agreements and cash collateral on securities borrowed	17 705	24 217
Sovereign debt securities	58 927	62 365
Bank debt securities	10 238	7 950
Other debt securities	13 896	10 409
Derivative financial instruments	6 388	6 835
Securities arising from trading activities	1 142	698
Loans and advances to customers	254 858	248 727
Own originated loans and advances to customers securitised	8 350	7 636
Other loans and advances	384	290
Other assets	3 215	3 363
Total on-balance sheet exposures	**415 733**	**411 268**
Guarantees	9 658	10 590
Committed facilities related to loans and advances to customers	54 905	47 856
Contingent liabilities, letters of credit and other	7 812	7 076
Total off-balance sheet exposures	**72 375**	**65 522**
Total gross credit and counterparty exposures	**488 108**	**476 790**

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 30 September 2018 R'million	Total gross credit and counterparty exposure	*of which FVPL*	*of which Amortised cost and FVOCI*	Expected credit losses^	Assets that we deem to have no legal credit exposure	Total assets
Cash and balances at central banks	9 436	–	9 436	(8)	158	9 586
Loans and advances to banks	20 735	–	20 735	(3)	–	20 732
Non-sovereign and non-bank cash placements	10 459	878	9 581	(18)	–	10 441
Reverse repurchase agreements and cash collateral on securities borrowed	17 705	9 288	8 417	–	–	17 705
Sovereign debt securities	58 927	11 407	47 520	(19)	–	58 908
Bank debt securities	10 238	500	9 738	(12)	–	10 226
Other debt securities	13 896	1 981	11 915	(7)	–	13 889
Derivative financial instruments	6 388	6 388	–	–	3 127	9 515
Securities arising from trading activities	1 142	1 142	–	–	19 970	21 112
Investment portfolio	–	–	–	–	8 915#	8 915
Loans and advances to customers	254 858	18 534	236 324	(2 563)	–	252 295
Own originated loans and advances to customers securitised	8 350	–	8 350	(9)	–	8 341
Other loans and advances	384	–	384	(25)	–	359
Other securitised assets	–	–	–	–	315*	315
Interest in associated undertakings	–	–	–	–	6 819	6 819
Deferred taxation assets	–	–	–	–	1 067	1 067
Other assets	3 215	–	3 215	(73)	11 085**	14 227
Property and equipment	–	–	–	–	3 107	3 107
Investment properties	–	–	–	–	18 934	18 934
Goodwill	–	–	–	–	211	211
Intangible assets	–	–	–	–	461	461
Other financial instruments at fair value through profit and loss in respect of liabilities to customers	–	–	–	–	150 764	150 764
Total on-balance sheet exposures	**415 733**	**50 118**	**365 615**	**(2 737)**	**224 933**	**637 929**
Guarantees	9 658	–	9 658	(8)	1 031	10 681
Committed facilities related to loans and advances to customers	54 905	265	54 640	(19)	35	54 921
Contingent liabilities, letters of credit and other	7 812	–	7 812	–	13 471	21 283
Total off-balance sheet exposures	**72 375**	**265**	**72 110**	**(27)**	**14 537**	**86 885**
Total exposures	**488 108**	**50 383**	**437 725**	**(2 764)**	**239 470**	**724 814**

^ *Expected credit losses include R23 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 equity risk in the banking book.*
* *Largely cash in the securitised vehicles.*
** *Other assets include settlement debtors where 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

At 1 April 2018 R'million	Total gross credit and counterparty exposure	*of which FVPL*	*of which Amortised cost and FVOCI*	Expected credit losses^	Assets that we deem to have no legal credit exposure	Total assets
Cash and balances at central banks	9 165	–	9 165	(7)	22	9 180
Loans and advances to banks	19 620	–	19 620	(3)	–	19 617
Non-sovereign and non-bank cash placements	9 993	574	9 419	(21)	–	9 972
Reverse repurchase agreements and cash collateral on securities borrowed	24 217	12 466	11 751	–	–	24 217
Sovereign debt securities	62 365	11 704	50 661	(22)	–	62 343
Bank debt securities	7 950	298	7 652	(10)	–	7 940
Other debt securities	10 409	1 061	9 348	(7)	–	10 402
Derivative financial instruments	6 835	6 835	–	–	5 706	12 541
Securities arising from trading activities	698	698	–	–	11 591	12 289
Investment portfolio	–	–	–	–	8 110[#]	8 110
Loans and advances to customers	248 727	19 254	229 473	(1 967)	–	246 760
Own originated loans and advances to customers securitised	7 636	–	7 636	(11)	–	7 625
Other loans and advances	290	–	290	(25)	–	265
Other securitised assets	–	–	–	–	299*	299
Interest in associated undertakings	–	–	–	–	6 495	6 495
Deferred taxation assets	–	–	–	–	1 331	1 331
Other assets	3 363	–	3 363	(66)	9 995**	13 292
Property and equipment	–	–	–	–	2 973	2 973
Investment properties	–	–	–	–	19 439	19 439
Goodwill	–	–	–	–	211	211
Intangible assets	–	–	–	–	412	412
Other financial instruments at fair value through profit and loss in respect of liabilities to customers	–	–	–	–	141 071	141 071
	411 268	**52 890**	**358 378**	**(2 139)**	**207 655**	**616 784**
Total on-balance sheet exposures	10 590	–	10 590	(5)	1 102	11 687
Guarantees	47 856	–	47 856	(25)	–	47 831
Committed facilities related to loans and advances to customers						
Contingent liabilities, letters of credit and other	7 076	1 421	5 655	–	18 733	25 809
Total off-balance sheet exposures	**65 522**	**1 421**	**64 101**	**(30)**	**19 835**	**85 327**
Total exposures	**476 790**	**54 311**	**422 479**	**(2 169)**	**227 490**	**702 111**

^ *Expected credit losses include R29 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 equity risk in the banking book.*

* *Largely cash in the securitised vehicles.*

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

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Detailed analysis of gross credit and counterparty exposures by industry

At 30 September 2018 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
Cash and balances at central banks	–	–	–	–	9 436	–
Loans and advances to banks	–	–	–	–	–	–
Non-sovereign and non-bank cash placements	48	–	1 231	–	–	770
Reverse repurchase agreements and cash collateral on securities borrowed	320	–	–	–	–	25
Sovereign debt securities	–	–	–	–	58 927	–
Bank debt securities	–	–	–	–	–	–
Other debt securities	–	–	–	2 403	–	–
Derivative financial instruments	–	–	147	1 039	–	5
Securities arising from trading activities	–	–	–	76	1 008	–
Loans and advances to customers	127 763	44 613	2 239	6 577	4 988	6 644
Own originated loans and advances to customers securitised	8 350	–	–	–	–	–
Other loans and advances	–	–	–	–	–	–
Other assets	–	–	–	–	–	9
Total on-balance sheet exposures	**136 481**	**44 613**	**3 617**	**10 095**	**74 359**	**7 453**
Guarantees	4 917	1 034	–	1 168	–	629
Committed facilities related to loans and advances to customers	33 652	3 597	827	1 294	262	2 322
Contingent liabilities, letters of credit and other	3 573	1 871	–	–	1 272	7
Total off-balance sheet exposures	**42 142**	**6 502**	**827**	**2 462**	**1 534**	**2 958**
Total gross credit and counterparty exposures	**178 623**	**51 115**	**4 444**	**12 557**	**75 893**	**10 411**

Finance and insurance	Retailers and whole-salers	Manufac-turing and commerce	Construc-tion	Corporate commer-cial real estate	Other residential mortgages	Mining and resources	Leisure, entertain-ment and tourism	Transport	Communi-cation	Total
–	–	–	–	–	–	–	–	–	–	9 436
20 735	–	–	–	–	–	–	–	–	–	20 735
2 355	1 008	1 914	38	331	–	902	30	987	845	10 459
16 448	–	–	–	190	–	10	58	654	–	17 705
–	–	–	–	–	–	–	–	–	–	58 927
10 238	–	–	–	–	–	–	–	–	–	10 238
6 980	–	1 476	–	1 167	–	–	–	595	1 275	13 896
4 448	15	216	–	264	–	149	6	48	51	6 388
–	–	–	–	–	–	–	–	58	–	1 142
18 243	3 287	8 125	2 120	9 423	–	3 111	2 859	7 157	7 709	254 858
–	–	–	–	–	–	–	–	–	–	8 350
–	–	121	–	–	263	–	–	–	–	384
101	2 397	578	38	–	–	11	66	1	14	3 215
79 548	**6 707**	**12 430**	**2 196**	**11 375**	**263**	**4 183**	**3 019**	**9 500**	**9 894**	**415 733**
355	67	660	61	23	–	696	23	14	11	9 658
3 917	1 520	864	41	1 268	–	876	1 039	1 177	2 249	54 905
–	203	38	–	–	–	–	–	–	848	7 812
4 272	**1 790**	**1 562**	**102**	**1 291**	**–**	**1 572**	**1 062**	**1 191**	**3 108**	**72 375**
83 820	**8 497**	**13 992**	**2 298**	**12 666**	**263**	**5 755**	**4 081**	**10 691**	**13 002**	**488 108**

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

At 1 April 2018 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
Cash and balances at central banks	–	–	–	–	9 165	–
Loans and advances to banks	–	–	–	–	–	–
Non-sovereign and non-bank cash placements	–	–	18	–	–	1 843
Reverse repos and cash collateral on securities borrowed	658	–	–	–	–	89
Sovereign debt securities	–	–	–	–	62 365	–
Bank debt securities	–	–	–	–	–	–
Other debt securities	–	–	–	–	1 312	–
Derivative financial instruments	–	–	16	1 121		28
Securities arising from trading activities	–	–	–	–	586	–
Loans and advances to customers	125 770	40 616	2 926	6 301	5 839	11 875
Own originated loans and advances to customers securitised	7 636	–	–	–	–	–
Other loans and advances	–	–	–	–	–	–
Other assets	–	–	–	–	–	9
Total on-balance sheet exposures	**134 064**	**40 616**	**2 960**	**7 422**	**79 267**	**13 844**
Guarantees	4 433	937	–	946	1	1 117
Committed facilities related to loans and advances to customers	29 887	2 932	788	569	314	781
Contingent liabilities, letters of credit and other	4 065	1 376			711	6
Total off-balance sheet exposures	**38 385**	**5 245**	**788**	**1 515**	**1 026**	**1 904**
Total gross credit and counterparty exposures	**172 449**	**45 861**	**3 748**	**8 937**	**80 293**	**15 748**

Finance and insurance	Retailers and wholesalers	Manufacturing and commerce	Construction	Corporate commercial real estate	Other residential mortgages	Mining and resources	Leisure, entertainment and tourism	Transport	Communication	Total
–	–	–	–	–	–	–	–	–	–	9 165
19 620	–	–	–	–	–	–	–	–	–	19 620
2 203	1 728	2 048	504	201	–	396	30	155	867	9 993
22 502	–	934	–	–	–	–	–	34	–	24 217
–	–	–	–	–	–	–	–	–	–	62 365
7 950	–	–	–	–	–	–	–	–	–	7 950
3 218	–	1 993	–	955	–	1 917	–	–	1 014	10 409
4 699	198	123	–	387	–	135	42	59	27	6 835
–	–	–	–	–	–	–	–	–	112	698
18 229	4 881	7 566	1 954	6 812	–	2 815	3 017	4 552	5 574	248 727
–	–	–	–	–	–	–	–	–	–	7 636
–	–	–	–	–	290	–	–	–	–	290
384	2 004	456	136	–	–	8	72	1	293	3 363
78 805	**8 811**	**13 120**	**2 594**	**8 355**	**290**	**5 271**	**3 161**	**4 801**	**7 887**	**411 268**
148	81	1 059	128	466	–	1 016	145	52	61	10 590
3 901	1 156	935	313	176	–	2 251	55	1 545	2 253	47 856
	188	19	–	–	–	–	–	–	711	7 076
4 049	**1 425**	**2 013**	**441**	**642**	**–**	**3 267**	**200**	**1 597**	**3 025**	**65 522**
82 854	**10 236**	**15 133**	**3 035**	**8 997**	**290**	**8 538**	**3 361**	**6 398**	**10 912**	**476 790**

Gross credit counterparty exposures by residual contractual maturity

30 September 2018 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	9 436	–	–	–	–	–	9 436
Loans and advances to banks	20 262	2	381	90	–	–	20 735
Non-sovereign and non-bank cash placements	10 379	29	20	21	10	–	10 459
Reverse repurchase agreements and cash collateral on securities borrowed	12 669	67	3 118	911	888	52	17 705
Sovereign debt securities	15 821	16 071	7 829	5 860	8 290	5 056	58 927
Bank debt securities	58	161	2 579	1 869	5 325	246	10 238
Other debt securities	1 003	270	646	8 525	1 973	1 479	13 896
Derivative financial instruments	2 079	1 216	1 125	1 772	186	10	6 388
Securities arising from trading activities	3	–	–	86	379	674	1 142
Loans and advances to customers	25 782	15 087	33 493	134 686	31 314	14 496	254 858
Own originated loans and advances to customers securitised	5	3	9	31	645	7 657	8 350
Other loans and advances	–	121	263	–	–	–	384
Other assets	3 215	–	–	–	–	–	3 215
Total on-balance sheet exposures	**100 712**	**33 027**	**49 463**	**153 851**	**49 010**	**29 670**	**415 733**
Guarantees	1 695	1 720	4 217	1 492	3	531	9 658
Committed facilities related to loans and advances to customers	19 135	981	2 566	10 729	3 201	18 293	54 905
Contingent liabilities, letters of credit and other	726	383	920	3 527	774	1 482	7 812
Total off-balance sheet exposures	**21 556**	**3 084**	**7 703**	**15 748**	**3 978**	**20 306**	**72 375**
Total gross credit and counterparty exposures	**122 268**	**36 111**	**57 166**	**169 599**	**52 988**	**49 976**	**488 108**

Composition of core loans and advances to customers

R'million	30 Sept 2018	1 April 2018
Loans and advances to customers per the balance sheet	252 295	246 759
Add: own originated loans and advances to customers per the balance sheet	8 341	7 626
Net core loans and advances to customers	**260 636**	**254 385**
*Of which subject to ECL**	257 519	252 381
Net core loans and advances to customers at amortised cost and FVOCI	242 102	235 131
*Net fixed rate loans which have passed the SPPI test designated at FVPL (for which management calculates ECL)^*	15 417	17 250
Of which FVPL (excluding fixed rate loans above)	3 117	2 004
Add: ECLs	2 572	1 978
Gross core loans and advances to customers	**263 208**	**256 363**
*of which subject to ECL**	260 091	254 359
of which FVPL (excluding fixed rate loans above)	3 117	2 004

^ *These are fixed rate loans which have passed the solely payments of principal and interest test 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 for interest rate risk and are subject to the 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 in Stage 1, Stage 2 and Stage 3 amounts to R15 billion (1 April 2018: R17 billion). The related ECL on the portfolio is R41 million (1 April 2018: R54 million).*

* *For which management evaluates ECL.*

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

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

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

R'million	30 Sept 2018	1 April 2018
Gross core loans and advances to customers subject to ECL	**260 091**	**254 359**
Stage 1	248 752	242 048
Stage 2	7 518	9 450
of which past due greater than 30 days	*206*	*313*
Stage 3	3 821	2 861
Gross core loans and advances to customers subject to ECL (%)		
Stage 1	95.6%	95.2%
Stage 2	2.9%	3.7%
Stage 3	1.5%	1.1%

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

R'million	30 Sept 2018	31 March 2018^
ECL impairment charges on core loans and advances	(382)	–
Average gross core loans and advances to customers subject to ECL	257 225	–
Income statement charge for impairments on core loans and advances	–	(701)
Average gross core loans and advances to customers	–	247 786
Annualised credit loss ratio	**0.30%**	**0.28%**

R'million	30 Sept 2018	1 April 2018
ECL	**(2 572)**	**(1 978)**
Stage 1	(603)	(593)
Stage 2	(320)	(269)
Stage 3	(1 649)	(1 116)
ECL coverage ratio (%)		
Stage 1	0.2%	0.2%
Stage 2	4.3%	2.8%
Stage 3	43.2%	39.0%

^ *Comparative information has been presented on an IAS39 basis. On adoption of IFRS 9 there is a move from incurred loss model to an expected credit loss methodology.*

Further analysis of Stage 3 gross core loans and advances to customers

R'million	30 Sept 2018	1 April 2018
Stage 3 net of ECLs	2 172	1 745
Aggregate collateral and other credit enhancements on Stage 3	3 346	3 552
Stage 3 net of ECL and collateral	–	–
Stage 3 as a % gross core loans and advances to customers subject to ECL	1.5%	1.1%
Stage 3 ECL impairments as a % of Stage 3 exposure	67.3%	69.1%
Stage 3 net of ECL as a % of net core loans and advances to customers subject to ECL	0.8%	0.7%

Stage 1: 95.6% 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 0.2%.

Stage 2: 2.9% of gross exposure is in Stage 2 and has seen a significant increase in credit risk since origination. These assets require a lifetime expected loss to be held resulting in an increase in coverage to 4.3%. Only R206 million or 0.1% of gross core loans shown in Stage 2 are greater than 30 days past due. 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 well covered by collateral. Stage 3 ECL is predominantly driven by specific impairments raised against the non-performing loan portfolio.

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

The table below indicates underlying movements in gross core loans and advances to customers subject to ECL from 1 April 2018 to 30 September 2018. The transfers between stages of gross core loans indicates the impact of stage transfers upon the gross exposure and associated opening ECL. 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. 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, 1 April 2018. Further analysis as at 30 September 2018 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	**242 048**	**(593)**	**9 450**	**(269)**	**2 861**	**(1 116)**	**254 359**	**(1 978)**
Transfer from Stage 1	(2 787)	26	2 220	(9)	567	(17)	–	–
Transfer from Stage 2	2 763	(96)	(3 704)	167	941	(71)	–	–
Transfer from Stage 3	165	(9)	11	(2)	(176)	11	–	–
New lending net of repayments (including assets written off)	4 422	40	(492)	15	(409)	(153)	3 521	(98)
ECL remeasurement arising from transfer of stage	–	(9)	–	(112)	–	(179)	–	(300)
Changes to risk parameters and models	–	49	–	(105)	–	(109)	–	(165)
Foreign exchange and other	2 141	(11)	33	(5)	37	(15)	2 211	(31)
30 September 2018	**248 752**	**(603)**	**7 518**	**(320)**	**3 821**	**(1 649)**	**260 092**	**(2 572)**

An analysis of core loans and advances by risk category

At 30 September 2018 R'million	Gross core loans and advances at amortised cost, FVOCI 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			
	Gross exposure	ECL	Gross exposure	ECL	Gross exposure	ECL	Gross exposure	ECL		
Lending collateralised by property	**41 692**	**(106)**	**1 557**	**(81)**	**1 367**	**(562)**	**44 616**	**(749)**	**–**	**44 616**
Commercial real estate	**38 932**	**(61)**	**936**	**(35)**	**1 113**	**(376)**	**40 981**	**(472)**	**–**	**40 981**
Commercial real estate – investment	33 405	(42)	866	(35)	900	(321)	35 171	(398)	–	35 171
Commercial real estate – development	4 633	(15)	–	–	75	(38)	4 708	(53)	–	4 708
Commercial vacant land and planning	894	(4)	70	–	138	(17)	1 102	(21)	–	1 102
Residential real estate	**2 760**	**(45)**	**621**	**(46)**	**254**	**(186)**	**3 635**	**(277)**	**–**	**3 635**
Residential real estate – investment	–	–	–	–	–	–	–	–	–	–
Residential real estate – development	2 334	(34)	603	(43)	160	(97)	3 097	(174)	–	3 097
Residential vacant land and planning	426	(11)	18	(3)	94	(89)	538	(103)	–	538
High net worth and other private client lending	**133 559**	**(227)**	**1 128**	**(28)**	**1 426**	**(494)**	**136 113**	**(749)**	**–**	**136 113**
Mortgages	68 569	(64)	862	(23)	961	(223)	70 392	(310)	–	70 392
High net worth and specialised lending	64 990	(163)	266	(5)	465	(271)	65 721	(439)	–	65 721
Corporate and other lending	**73 501**	**(270)**	**4 833**	**(211)**	**1 028**	**(593)**	**79 362**	**(1 074)**	**3 117**	**82 479**
Acquisition finance	12 414	(45)	404	(19)	21	(4)	12 839	(68)	1 267	14 106
Asset-based lending	5 183	(45)	65	(1)	273	(160)	5 521	(206)	604	6 125
Fund finance	5 018	(3)	–	–	–	–	5 018	(3)	–	5 018
Other corporate and financial institutions and governments	42 498	(162)	2 539	(169)	600	(318)	45 637	(649)	1 246	46 883
Asset finance	2 502	(5)	–	–	23	–	2 525	(5)	–	2 525
Small ticket asset finance	1 886	(4)	–	–	23	–	1 909	(4)	–	1 909
Large ticket asset finance	616	(1)	–	–	–	–	616	(1)	–	616
Project finance	5 307	(8)	1 825	(22)	–	–	7 132	(30)	–	7 132
Resource finance	579	(2)	–	–	111	(111)	690	(113)	–	690
Gross core loans and advances	**248 752**	**(603)**	**7 518**	**(320)**	**3 821**	**(1 649)**	**260 091**	**(2 572)**	**3 117**	**263 208**

An analysis of core loans and advances by risk category under IFRS 9

At 1 April 2018 R'million	Stage 1		Stage 2		Stage 3		Total		Gross core loans and advances at FVPL (not subject to ECL)	Gross core loans and advances
	Gross core loans and advances at amortised cost, FVOCI and FVPL (subject to ECL)									
	Drawn exposure	ECL	Drawn exposure	ECL	Drawn exposure	ECL	Drawn exposure	ECL		
Lending collateralised by property	**37 607**	**(108)**	**1 892**	**(16)**	**865**	**(352)**	**40 364**	**(476)**	**252**	**40 616**
Commercial real estate	**34 155**	**(55)**	**1 670**	**(8)**	**695**	**(272)**	**36 520**	**(335)**	**252**	**36 772**
Commercial real estate – investment	30 562	(43)	1 453	(8)	673	(256)	32 688	(307)	252	32 940
Commercial real estate – development	2 905	(7)	130	–	8	(2)	3 043	(9)	–	3 043
Commercial vacant land and planning	688	(5)	87	–	14	(14)	789	(19)	–	789
Residential real estate	**3 452**	**(53)**	**222**	**(8)**	**170**	**(80)**	**3 844**	**(141)**	**–**	**3 844**
Residential real estate – investment	–	–	–	–	–	–	–	–	–	–
Residential real estate – development	2 819	(35)	70	–	146	(59)	3 035	(94)	–	3 035
Residential vacant land and planning	633	(18)	152	(8)	24	(21)	809	(47)	–	809
High net worth and other private client lending	**130 597**	**(197)**	**1 442**	**(39)**	**1 368**	**(452)**	**133 407**	**(688)**	**–**	**133 407**
Mortgages	66 536	(45)	659	(18)	874	(188)	68 069	(251)	–	68 069
High net worth and specialised lending	64 061	(152)	783	(21)	494	(264)	65 338	(437)	–	65 338
Corporate and other lending	**73 844**	**(288)**	**6 116**	**(214)**	**628**	**(312)**	**80 588**	**(814)**	**1 752**	**82 340**
Acquisition finance	12 671	(74)	1 216	(21)	97	(2)	13 984	(97)	–	13 984
Asset-based lending	4 056	(41)	515	(10)	236	(149)	4 807	(200)	603	5 410
Fund finance	4 909	(5)	–	–	–	–	4 909	(5)	–	4 909
Other corporate and financial institutions and governments	43 489	(148)	3 181	(165)	156	(72)	46 826	(385)	1 149	47 975
Asset finance	2 596	(8)	57	(7)	24	–	2 677	(15)	–	2 677
Small ticket asset finance	2 184	(5)	41	(7)	–	–	2 225	(12)	–	2 225
Large ticket asset finance	412	(3)	16	–	24	–	452	(3)	–	452
Project finance	5 494	(11)	1 147	(11)	–	–	6 641	(22)	–	6 641
Resource finance	629	(1)	–	–	115	(89)	744	(90)	–	744
Gross core loans and advances	**242 048**	**(593)**	**9 450**	**(269)**	**2 861**	**(1 116)**	**254 359**	**(1 978)**	**2 004**	**256 363**

Key drivers of measurement uncertainty – subjective elements and inputs

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. Key drivers of measurement uncertainty include:

- the assessment of what constitutes a significant increase in credit risk;
- the introduction of a range of forward-looking probability weighted macro-economic scenarios; and
- estimation 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 group's ECL methodology, which are not considered to have a material impact. This includes the use of income recognition effective interest rates (EIRs) that are calculated under IAS 39 and used as the discount factor in the IFRS 9 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.

We will continue to assess and monitor the group's measurement uncertainty and sensitivity to changes in economic credit conditions and expect to provide additional disclosures relating to sensitivities in the 2019 Annual Report.

Forward-looking macro-economic scenarios

The measurement of ECL also requires the use of multiple economic scenarios to calculate an unbiased and 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 in DLC Capital Committee, which forms part of the principal governance framework for macro-economic scenarios.

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

IFRS 9 is likely to result in an increase in the volatility of provisions going forward, particularly for Stage 1 and Stage 2 assets as a result of macro-economic scenario changes. Sensitivities to macro-economic scenarios and factors form part of our overall risk monitoring.

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 with non-executive review and oversight
- 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 group'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 as support in our decision-making process.

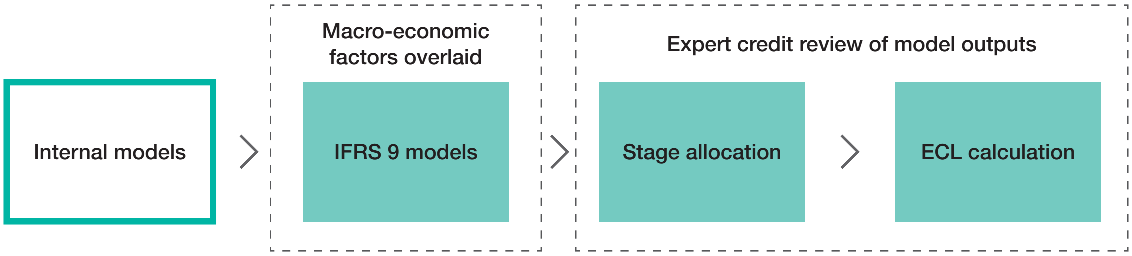
Regular reporting of credit and counterparty risk exposures within our operating units are made to management, the executives and the board at the group risk and capital committee (GRCC) and board risk and capital committee (BRCC). The board regularly reviews and approves the appetite for credit and 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. Credit policies have been updated and amended to include changes to reflect the implementation of IFRS 9.

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.

Internal credit rating models and ECL methodology

Internal credit rating models have been developed to cover all material asset classes. These internal credit rating models are then used for IFRS 9 modelling but adjusted for key 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.

Process to determine expected credit loss



ECLs are calculated using three main components:

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

Under IFRS 9, 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 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 have also been utilised for certain portfolios where the ECL is judged to be minimal, either due to the portfolio's relative size or the highly-rated 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.

Investment risk in the banking book

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

- **Principal Investments:** Principal investments are normally undertaken in support of a client requiring equity to grow and develop an existing business, or the acquisition of a business from third parties. Investments are selected based on the track record of management, the attractiveness of the industry and the ability to build value for the existing business by implementing an agreed strategy. Investments in listed shares may arise on the IPO, or sale of one of our investments. Additionally, listed investments may be considered where we believe that the market is mispricing the value of the underlying security
- **IEP Group:** Investec Bank Limited holds a 45.7% stake alongside third party investors and senior management of the business who hold the remaining 54.3%. 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, warrant and profit shares being held, predominantly within unlisted companies
- **Property activities:** We source development, investment and trading opportunities to create value and trade for profit within agreed risk parameters.

The table below provides an analysis of income and revaluations recorded with respect to these investments.

	Income/(loss) (pre-funding costs)					
R'million	**Unrealised***	**Realised***	**Dividends**	**Other**	**Total**	**Fair value through equity/OCI**
For the six months to 30 September 2018						
Unlisted investments	(54)	76	31	–	53	(2)
Listed equities	(271)	454	90	–	273	–
Investment and trading properties	(532)	595	–	–	63	–
Warrants and profit shares	15	55	–	–	70	–
The IEP Group^	–	–	–	367	367	–
Total	**(842)**	**1 180**	**121**	**367**	**826**	**(2)**
For the six months to 30 September 2017						
Unlisted investments	55	124	57	–	236	(2)
Listed equities	4	60	87	–	151	–
Investments and trading properties	9	140	–	–	149	–
Warrants, profit shares and other embedded derivatives	14	35	–	–	49	–
The IEP Group^	–	–	–	374	374	–
Total	**82**	**359**	**144**	**374**	**959**	**(2)**

* *In a year of realisation, any prior period mark-to-market gains/losses recognised are reversed in the unrealised line item.*
^ *As explained above.*

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 30 September 2018	Valuation change stress test 30 September 2018*	On-balance sheet value of investments 1 April 2018	Valuation change stress test 1 April 2018*
Unlisted investments**	5 872	881	4 313	647
Listed equities	3 043	761	2 988	747
Investment and trading properties^^	9 554	1 272	9 882	1 281
Warrants and profit shares	206	72	213	74
The IEP Group∞	6 424	964	6 180	927
Total	**25 099**	**3 950**	**23 576**	**3 676**

* *In order to assess our earnings sensitivity to a movement in the valuation of these investments, the following stress-testing parameters are applied:*
** *Includes the investment portfolio.*
^^ *For the purposes of the above analysis, the exposures arising from the consolidation of the Investec Property Fund have been reflected at the level of our economic ownership, being 26.6% (1 April 2018: 26.8%).*
∞ *As explained on page 48.*

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

Stress testing summary

Based on the information at 30 September 2018, as reflected above, we could have a R4.0 billion reversal in revenue (which assumes a year in which there is a 'severe stress scenario' simultaneously across all asset classes). This would not cause the group 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 very low, although the probability of listed equities being negatively impacted at the same time is high.

Capital requirements

In terms of Basel III capital requirements for Investec Limited, 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.

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

30 September 2018
R9 121 million

Real estate	42.5%
Manufacturing and commerce	21.8%
Finance and insurance	12.9%
Communication	8.0%
Electricity, gas and water (utility service)	5.7%
Mining and resources	4.9%
Other	4.2%

Securitisation/structured credit activities exposures

Overview

The group'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 those securitisations in which the group has achieved significant risk transfer. We, however, believe 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 33 for the balance sheet and credit risk classification.

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

We engage 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. We do not depend on special purpose vehicles for funding in the normal course of business. These entities form part of the consolidated group balance sheet as reported.

We have securitised assets originated by our Private Client business in South Africa. 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 R8.3 billion at 30 September 2018 (1 April 2018: R7.6 billion) and consist of residential mortgages. Within these securitisation vehicles loans greater than 90 days in arrears amounted to R29 million.

Further details of our various securitisation vehicles are highlighted below:

- Fox Street 1: R0.7 billion notes of the original R1.5 billion are still in issue. R677 million of the notes are held internally
- Fox Street 2: R0.7 billion notes of the original R1.5 billion are still in issue. R243 million of the notes are held internally
- Fox Street 3: R1.1 billion notes of the original R2.0 billion are still in issue. R201 million of the notes are held internally
- Fox Street 4: R2.0 billion notes of the original R3.7 billion are still in issue. All notes are held internally
- Fox Street 5: R2.1 billion notes of the original R2.9 billion are still in issue. All notes are held internally.
- Fox Street 6: R1.3 billion notes of the original R1.3 billion are still in issue. R536 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 UK and European Residential mortgage backed securities (RMBS), totalling R0.2 billion at 30 September 2018 (1 April 2018: R0.2 billion) and unrated South African RMBS totalling R1.6 billion at 30 September 2018 (1 April 2018: R1.0 billion).

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.

Securitisation/structured credit activities exposures

Nature of exposure/activity	Exposure 30 Sept 2018 R'million	Exposure 1 April 2018 R'million	Balance sheet and credit risk classification	Asset quality – relevant comments
Structured credit (gross exposure)*	1 791	1 145	Other debt securities and other loans and advances	
Rated	176	165		
Unrated	1 615	980		
Loans and advances to customers and third party intermediary originating platforms (mortgage loans) (with the potential to be securitised) – (net exposure)	238	265	Other loans and advances	
Private Client division assets (net exposure)	8 341	7 625	Own originated loans and advances to customers securitised	Analysed as part of the group's overall asset quality on core loans and advances

* Analysis of rated and unrated structured credit

	30 September 2018			1 April 2018		
R'million	Rated**	Unrated	Total	Rated**	Unrated	Total
UK and European RMBS	140	–	140	129	–	129
Australian RMBS	36	–	36	36	–	36
South African RMBS	–	1 615	1 615	–	980	980
Total	**176**	**1 615**	**1 791**	**165**	**980**	**1 145**

** A further analysis of rated structured credit investments

R'million	AAA	AA	A	BBB	BB	B	C and below	Total
UK and European RMBS	–	–	–	–	140	–	–	140
Australian RMBS	–	36	–	–	–	–	–	36
Total at 30 September 2018	**–**	**36**	**–**	**–**	**140**	**–**	**–**	**176**
Total at 1 April 2018	**–**	**36**	**–**	**–**	**129**	**–**	**–**	**165**

Market risk in the trading book

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.

The focus of our trading activities is primarily on supporting client activity. 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.

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, such as the effect of a one basis point change in interest rates. 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 weekly to Review Executive Risk Review Forum (ERRF) or more often depending on market conditions.

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.

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 well as the worst case loss in the VaR distribution.

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

	30 September 2018				31 March 2018			
R'million	**Period end**	**Average**	**High**	**Low**	**Year end**	**Average**	**High**	**Low**
95% (one-day)								
Commodities	0.1	0.1	0.2	–	–	0.1	1.5	–
Equities	4.2	2.9	7.4	1.5	3.6	3.4	7.4	2.0
Foreign exchange	2.0	2.2	4.4	1.1	1.7	2.9	9.1	0.9
Interest rates	1.5	2.8	9.0	0.4	2.4	2.2	4.7	0.3
Consolidated*	**4.8**	**4.2**	**9.7**	**1.7**	**3.4**	**5.0**	**13.7**	**2.4**

* *The consolidated VaR for each desk is lower than the sum of the individual VaRs. This arises from the consolidation offset between various asset classes (diversification).*

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	30 Sept 2018 Period end	31 March 2018 Year end
Commodities	0.3	0.1
Equities	6.3	7.1
Foreign exchange	5.1	3.7
Interest rates	2.7	4.1
Consolidated*	**8.0**	**8.8**

* *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 (diversification).*

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.

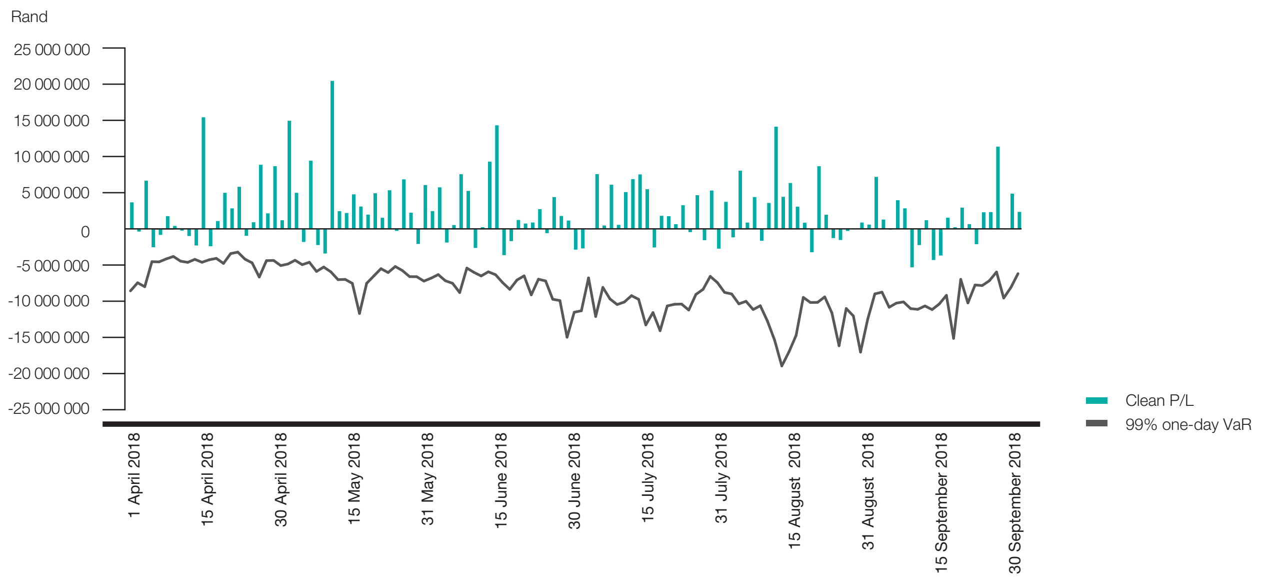
R'million	30 Sept 2018 Period end	31 March 2018 Year end
99% one-day sVaR	14.9	13.3

Backtesting

The graph that follows shows the result of backtesting the total daily 99% one-day VaR against the hypothetical profit and loss figures for our trading activities over the reporting period. The primary focus of trading activity is the hedging of client flow and clean profit and loss excludes items such as fees and hedge costs included in new trades revenue. 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.

Average VaR for the period ended 30 September 2018 was slightly lower due to lower VaR utilisations on the equities and foreign exchange desks. Using clean profit and loss data for backtesting resulted in zero exceptions over the six month period (as shown in the graph below), which is less than the expected number of exceptions.

99% one-day VaR backtesting



Stress testing

The table below indicates the potential losses that could arise if the portfolio is stress tested under extreme market conditions. The method used is known as extreme value theory (EVT), the reported stress scenario below calculates the 99% EVT which is a 1-in-8 year possible loss event. These numbers do not assume normality but rather rely on fitting a distribution to the tails of the VaR distribution.

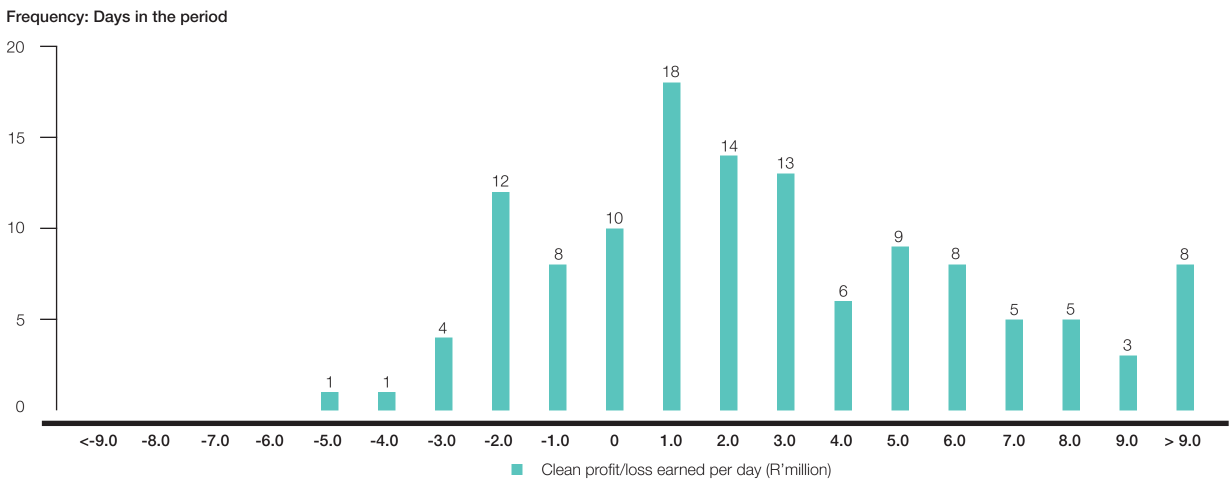
	30 September 2018				
R'million	**Period end**	**Average**	**High**	**Low**	**31 March 2018 year end**
99% (using 99% EVT)					
Commodities	2.4	1.2	2.8	0.2	0.2
Equities	16.1	13.3	29.6	4.7	13.9
Foreign exchange	34.4	24.4	47.7	3.5	20.1
Interest rates	11.6	16.4	50.8	0.9	13.5
Consolidated**	**27.0**	**23.5**	**46.8**	**5.7**	**29.6**

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

Clean profit and loss histogram

The histogram below illustrates the distribution of clean profit and loss during the period for our trading businesses. The distribution is skewed to the profit side and the graph shows that positive trading revenue was realised on 89 days out of a total of 125 days in the trading business for the six months to 30 September 2018. The average daily trading revenue generated for the six months to 30 September 2018 was R2.4 million (six months to 30 September 2017: R0.6 million).

Clean profit and loss (excluding fees and hedge costs inlcuded in new trades revenue)



Balance sheet risk management

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.

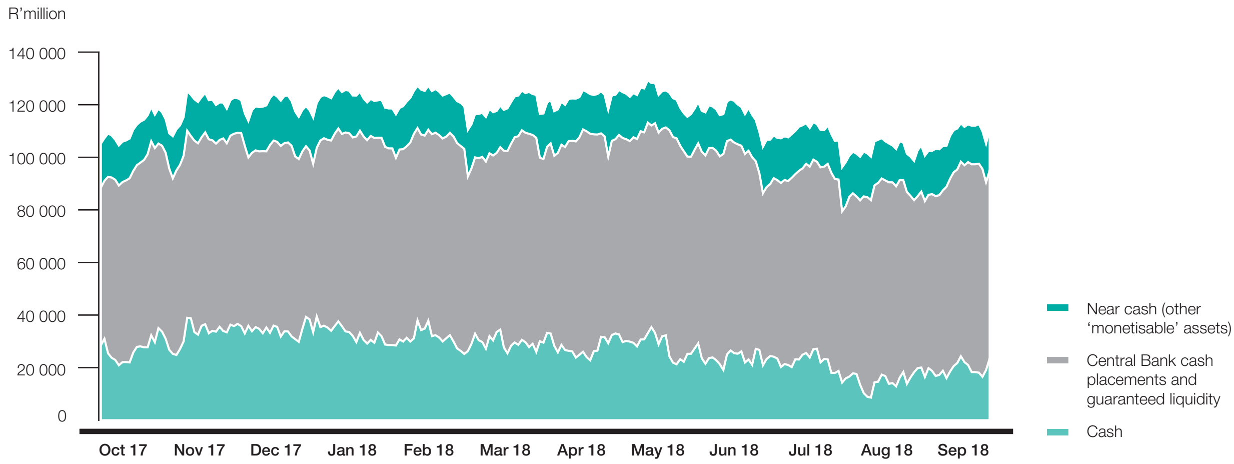
Liquidity risk

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.

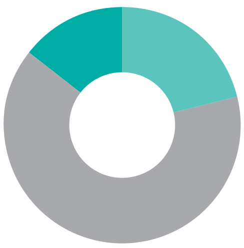
Liquidity risk is further broken down into:

- **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 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.

Cash and near cash trend



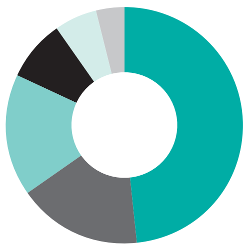
An analysis of cash and near cash at 30 September 2018



R110 827 million

Cash	21.2%
Central Bank cash placements and guaranteed liquidity	64.5%
Near cash (other 'monetisable' assets)	14.3%

Bank and non-bank depositor concentration by type at 30 September 2018



R361 372 million

Other financials	48.5%
Non-financial corporates	16.9%
Individuals	16.7%
Banks	8.2%
Small business	6.0%
Public sector	3.7%

Contractual liquidity

With respect to the contractual liquidity table below, we record all assets and liabilities showing 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 Investec 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 'available-for-sale' 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 in reality 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 30 September 2018

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	26 916	2 435	539	18	212	98	100	30 318
Cash and short-term funds – non-banks	9 520	260	583	28	34	16	–	10 441
Investment/trading assets and statutory liquids	57 862	43 935	2 003	951	3 262	33 046	24 987	166 046
Securitised assets	65	134	246	353	756	3 335	3 767	8 656
Advances	5 047	4 430	6 758	11 114	21 189	100 993	103 123	252 654
Other assets	1 593	530	66	186	–	3 969	12 729	19 073
Assets	**101 003**	**51 724**	**10 195**	**12 650**	**25 453**	**141 457**	**144 706**	**487 188**
Deposits – banks	(518)	(631)	(1 903)	(366)	(1 487)	(24 520)	(275)	(29 700)
Deposits – non-banks	(135 089)^	(29 826)	(64 938)	(31 907)	(30 265)	(37 166)	(2 481)	(331 672)
Negotiable paper	(11)	(960)	(339)	(1 156)	(1 013)	(3 496)	(735)	(7 710)
Securitised liabilities	–	–	–	–	–	–	(2 216)	(2 216)
Investment/trading liabilities	(588)	(18 352)	(3 395)	(1 083)	(4 933)	(7 717)	(1 955)	(38 023)
Subordinated liabilities	–	(12)	–	–	–	(3 649)	(10 962)	(14 623)
Other liabilities	(1 068)	(988)	(772)	(92)	(1 363)	(510)	(5 193)	(9 986)
Liabilities	**(137 274)**	**(50 769)**	**(71 347)**	**(34 604)**	**(39 061)**	**(77 058)**	**(23 817)**	**(433 930)**
Total equity	–	–	–	–	–	–	(53 258)	(53 258)
Contractual liquidity gap	**(36 271)**	**955**	**(61 152)**	**(21 954)**	**(13 608)**	**64 399**	**67 631**	**–**
Cumulative liquidity gap	(36 271)	(35 316)	(96 468)	(118 422)	(132 030)	(67 631)	–	

^ *Includes call deposits of R126 billion and the balance reflects term deposits which have finally reached/are reaching contractual maturity.*

Behavioural liquidity at 30 September 2018

As discussed on page 56.

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	**60 328**	**(619)**	**(8 397)**	**(4 712)**	**(23 992)**	**(155 671)**	**133 063**	**–**
Cumulative	60 328	59 709	51 312	46 600	22 608	(133 063)	–	–

Non-trading interest rate risk

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 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 effect on future net interest earnings and the economic value of equity.

Interest rate sensitivity gap at 30 September 2018

The table below shows our non-trading interest rate mismatch at 30 September 2018. 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	20 301	–	–	–	–	9 239	29 540
Cash and short-term funds – non-banks	9 976	–	–	–	–	258	10 234
Investment/trading assets and statutory liquids	43 550	23 905	9 728	9 523	11 093	42 313	140 112
Securitised assets	8 656	–	–	–	–	–	8 656
Advances	225 217	4 231	1 621	14 586	2 458	4 293	252 406
Other assets	–	–	–	–	–	18 400	18 400
Assets	**307 700**	**28 136**	**11 349**	**24 109**	**13 551**	**74 503**	**459 348**
Deposits – banks	(29 310)	–	(373)	(17)	–	–	(29 700)
Deposits – non-banks	(264 662)	(23 360)	(25 644)	(10 446)	(1 913)	(3 505)	(329 530)
Negotiable paper	(6 760)	(242)	(509)	(141)	–	(58)	(7 710)
Securitised liabilities	(2 216)	–	–	–	–	–	(2 216)
Investment/trading liabilities	(256)	–	–	(92)	(64)	(14 430)	(14 842)
Subordinated liabilities	(12 134)	(1 957)	–	–	(441)	(91)	(14 623)
Other liabilities	–	(104)	–	–	–	(8 897)	(9 001)
Liabilities	**(315 338)**	**(25 663)**	**(26 526)**	**(10 696)**	**(2 418)**	**(26 981)**	**(407 622)**
Intercompany loans	11 280	(4 607)	(1 236)	48	(323)	(1 038)	4 124
Total equity	–	–	–	–	(1 297)	(51 961)	(53 258)
Balance sheet	**3 642**	**(2 134)**	**(16 413)**	**13 461**	**9 513**	**(5 477)**	**2 592**
Off-balance sheet	(4 826)	3 463	13 043	(8 410)	(5 862)	–	(2 592)
Repricing gap	**(1 184)**	**1 329**	**(3 370)**	**5 051**	**3 651**	**(5 477)**	**–**
Cumulative repricing gap	(1 184)	145	(3 225)	1 826	5 477	–	

Economic value sensitivity at 30 September 2018

As outlined above, non-trading interest rate risk is measured and monitors using our economic value sensitivity approach. The table below reflects our economic value sensitivity to a 2% parallel shift in interest rates assuming no management intervention. The numbers represent the change to the value of the interest rate sensitive portfolios should such a hypothetical scenario arise. 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	466.3	(1.0)	25.7	0.1	1.0	–	**824.3**
200bps up	(201.4)	1.0	(19.2)	(2.4)	(1.0)	–	**(503.1)**

Capital structure and capital adequacy

R'million	30 Sept 2018	1 April 2018	31 March 2017
Tier 1 capital			
Shareholders' equity	37 773	35 265	36 159
Shareholders' equity per balance sheet	40 956	38 448	39 342
Perpetual preference share capital and share premium	(3 183)	(3 183)	(3 183)
Non-controlling interests	–	–	–
Non-controlling interests per balance sheet	9 867	9 503	9 503
Non-controlling interests excluded for regulatory purposes	(9 867)	(9 503)	(9 503)
Regulatory adjustments to the accounting basis	1 379	1 358	993
Cash flow hedging reserve	1 014	993	993
Adjustments under IFRS 9 transitional arrangements	365	365	
Deductions	(3 311)	(2 773)	(2 772)
Goodwill and intangible assets net of deferred tax	(672)	(624)	(624)
Investment in financial entity	(2 582)	(2 149)	(2 149)
Other regulatory deductions	(57)	–	–
Common equity tier 1 capital	**35 841**	**33 850**	**34 379**
Additional tier 1 capital	**2 791**	**2 785**	**2 785**
Additional tier 1 instruments	5 617	5 617	5 617
Phase out of non-qualifying additional tier 1 instruments	(2 830)	(2 830)	(2 830)
Non-qualifying surplus capital attributable to non-controlling interests	(67)	(72)	(72)
Minority interest in non-banking entities	71	70	70
Tier 1 capital	**38 632**	**36 635**	**37 164**
Tier 2 capital	**12 518**	**12 429**	**12 348**
Collective impairment allowances	730	716	635
Tier 2 instruments	14 623	15 013	15 013
Non-qualifying surplus capital attributable to non-controlling interests	(2 835)	(3 300)	(3 300)
Total regulatory capital	**51 150**	**49 064**	**49 512**
Risk-weighted assets	**349 130**	**337 892**	**338 484**
Capital ratios			
Common equity tier 1 ratio	10.3%	10.0%	10.2%
Tier 1 ratio	11.1%	10.8%	11.0%
Total capital adequacy ratio	14.7%	14.5%	14.6%

Capital adequacy
(continued)

Capital requirements

R'million	30 Sept 2018	1 April 2018	31 March 2018
Capital requirements	**38 897**	**37 590**	**37 656**
Credit risk	31 011	29 323	29 389
Equity risk	2 658	2 797	2 797
Counterparty credit risk	654	653	653
Credit valuation adjustment risk	418	695	695
Market risk	557	609	609
Operational risk	3 599	3 513	3 513
Risk-weighted assets	**349 130**	**337 892**	**338 484**
Credit risk	278 346	263 579	264 171
Equity risk	23 859	25 140	25 140
Counterparty credit risk	5 869	5 867	5 867
Credit valuation adjustment risk	3 750	6 251	6 251
Market risk	5 001	5 477	5 477
Operational risk	32 305	31 578	31 578

Leverage

R'million	30 Sept 2018	1 April 2018	31 March 2018
Exposure measure	**514 979**	**495 349**	**495 670**
Tier 1 capital	38 632	36 635	37 164
Leverage ratio – current**	**7.5%#**	**7.4%#**	**7.5%#**
Tier 1 capital fully loaded^^	36 438	34 179	35 350
Leverage ratio – fully loaded^^**	**7.1%#**	**6.9%#**	**7.1%#**

A summary of capital adequacy and leverage ratios

R'million	30 Sept 2018	1 April 2018	31 March 2018
Common equity tier 1 (as reported)	10.3%	10.0%	10.2%
Common equity tier 1 (fully loaded)^^	10.2%	9.8%	10.2%
Tier 1 (as reported)	11.1%	10.8%	11.0%
Total capital adequacy ratio (as reported)	14.7%	14.5%	14.6%
Leverage ratio** – current	7.5%#	7.4%#	7.5%#
Leverage ratio** – fully loaded^^	7.1%#	6.9%#	7.1%#

** *The leverage ratios are calculated on an end-quarter basis.*
# *Based on revised BIS rules.*
^^ *The fully loaded ratio assumes full adoption of IFRS 9 and is based on Basel III capital requirements as fully phased in by 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	30 Sept 2018	31 March 2018
Opening common equity tier 1 capital	**34 379**	**32 497**
New capital issues	756	925
Dividends	(1 382)	(2 569)
Profit after taxation	2 862	6 302
IFRS 9 adjustments	(894)	–
Treasury shares	(567)	(985)
Gain on transfer of non-controlling interests	–	103
Share-based payment adjustments	346	656
Movement in other comprehensive income	493	(590)
Goodwill and intangible assets (deduction net of related taxation liability)	(48)	96
Investment in financial entity	(434)	(2 149)
Adjustments under IFRS 9 transitional agreements	365	–
Other, including regulatory adjustments and transitional arrangements	(35)	93
Closing common equity tier 1 capital	**35 841**	**34 379**
Opening additional tier 1 capital	**2 785**	**2 900**
New additional tier 1 issues	–	350
Other, including regulatory adjustments and transitional arrangements	5	(475)
Movement in minority interest in non-banking entities	1	10
Closing additional tier 1 capital	**2 791**	**2 785**
Closing tier 1 capital	**38 632**	**37 164**
Opening tier 2 capital	**12 348**	**11 153**
New tier 2 capital issues	–	3 287
Redeemed capital	(1 210)	(2 205)
Collective impairment allowances	96	314
Other, including regulatory adjustments and transitional arrangements	1 284	(201)
Closing tier 2 capital	**12 518**	**12 348**
Closing total regulatory capital	**51 150**	**49 512**