INVESTEC LIMITED | 2019

Financial information (excludes results of Investec plc)

Unaudited condensed financial information
for the six months ended 30 September 2019

IFRS – Rand

Introduction

On 1 April 2019 the group adopted IFRS 16 Leases which replaced IAS 17 Leases. The group's accounting as a lessor under IFRS 16 is substantially unchanged from its approach under IAS 17, apart from certain subleases which are now classified as finance lease receivables. For lessees, IFRS 16 removes the distinction between finance and operating leases and introduces a single lease accounting model that will, with some limited exemptions, apply to all leases and result in bringing them on balance sheet.

The implementation and impact of IFRS 16 is included on page 24. As permitted by IFRS 16, the group has applied a modified retrospective basis and therefore comparative information has not been restated.

Key financial statistics	**30 Sept 2019**	30 Sept 2018	% change	31 March 2019
Total operating income before expected credit losses (R'million)	9 999	9 755	2.5%	19 086
Operating costs (R'million)	5 174	5 037	2.7%	10 188
Operating profit before goodwill and acquired intangibles (R'million)	4 553	4 340	4.9%	8 137
Headline earnings attributable to ordinary shareholders (R'million)	2 914	2 583	12.8%	5 704
Cost to income ratio*	54.6%	55.4%		56.5%
Total capital resources (including subordinated liabilities) (R'million)	71 501	67 881	5.3%	71 472
Total equity (R'million)	56 862	53 258	6.8%	55 615
Total assets (R'million)	678 341	637 952	6.3%	661 669
Net core loans and advances (R'million)	273 720	260 636	5.0%	271 204
Customer accounts (deposits) (R'million)	349 172	331 672	5.3%	341 578
Loans and advances to customers as a % of customer accounts (deposits)	76.4%	76.1%		77.2%
Cash and near cash balances (R'million)	119 979	110 827	8.3%	118 365
Funds under management	1 021 472	955 655	6.9%	972 285
Total gearing ratio (i.e. total assets excluding assurance assets to equity)	9.1x	9.1x		9.1x
Total capital adequacy ratio	15.9%	14.7%		14.9%
Tier 1 ratio	12.4%	11.1%		11.2%
Common equity tier 1 ratio	11.6%	10.3%		10.5%
Leverage ratio – current	7.3%	7.5%		7.6%
Leverage ratio – 'fully loaded'	7.1%	7.1%		7.3%
Stage 3 as a % of gross core loans and advances subject to ECL	1.3%	1.5%		1.4%
Stage 3 net of ECL as a % of net core loans and advances subject to ECL	0.8%	0.8%		0.8%
Credit loss ratio	0.18%**	0.30%**		0.28%

* *The group has changed its cost to income ratio definition to exclude operating profits or losses attributable to other non-controlling interests. As such, the cost to income ratio is calculated as: operating costs divided by operating income (net of operating profits or losses attributable to other non-controlling interests).*

** *Annualised*

CONDENSED CONSOLIDATED INCOME STATEMENT

R'million	Six months to 30 Sept 2019	Six months to 30 Sept 2018	Year to 31 March 2019
Interest income	18 109	16 182	34 099
Interest expense	(13 842)	(12 341)	(26 229)
Net interest income	**4 267**	**3 841**	**7 870**
Fee and commission income	4 790	4 469	9 346
Fee and commission expense	(433)	(206)	(606)
Investment income	725	607	240
Share of post taxation profit of associates	260	364	1 163
Trading income arising from			
– customer flow	309	295	613
– balance sheet management and other trading liabilities	70	376	419
Other operating income	11	9	41
Total operating income before expected credit loss impairment charges	**9 999**	**9 755**	**19 086**
Expected credit loss impairment charges	(272)	(378)	(761)
Operating income	**9 727**	**9 377**	**18 325**
Operating costs	(5 174)	(5 037)	(10 188)
Operating profit before goodwill and acquired intangibles	**4 553**	**4 340**	**8 137**
Impairment of goodwill	–	–	(3)
Amortisation of acquired intangibles	(26)	(26)	(51)
Operating profit	**4 527**	**4 314**	**8 083**
Financial impact of group restructures	(81)	–	(9)
Profit before taxation	**4 446**	**4 314**	**8 074**
Taxation on operating profit before acquired intangibles	(673)	(711)	(694)
Taxation on acquired intangibles and financial impact on group restructures	17	7	18
Profit after taxation	**3 790**	**3 610**	**7 398**
Profit attributable to Asset Management non-controlling interests	(99)	(80)	(176)
Profit attributable to non-controlling interests	(530)	(657)	(1 049)
Earnings attributable to shareholders	**3 161**	**2 873**	**6 173**

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

R'million	**Six months to 30 Sept 2019**	Six months to 30 Sept 2018	Year to 31 March 2019
Profit after taxation	3 790	3 610	7 398
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*	(355)	(21)	62
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income*	183	(170)	(201)
Gain on realisation of debt instruments at FVOCI recycled through the income statement*	(34)	(38)	(89)
Foreign currency adjustments on translating foreign operations	276	831	959
Items that will never be reclassified to the income statement			
Net (loss)/gain attributable to own credit risk	(2)	–	1
Total comprehensive income	**3 858**	**4 212**	**8 130**
Total comprehensive income attributable to ordinary shareholders	2 978	3 227	6 416
Total comprehensive income attributable to non-controlling interests	629	737	1 225
Total comprehensive income attributable to perpetual preference shareholders and other Additional Tier 1 security holders	251	248	489
Total comprehensive income	**3 858**	**4 212**	**8 130**

* *These amounts are net of taxation of (R147.6 million) [Six months to 30 Sept 2018: (R40.0million); year to 31 March 2019: (R390.0 million)].*

CALCULATION OF HEADLINE EARNINGS

R'million	**Six months to 30 Sept 2019**	Six months to 30 Sept 2018	Year to 31 March 2019
Earnings attributable to shareholders	3 161	2 873	6 173
Dividend paid to perpetual preference shareholders and Additional Tier 1 security holders	(251)	(248)	(489)
Earnings attributable to ordinary shareholders	**2 910**	**2 625**	**5 684**
Headline adjustments, net of taxation^	4	(42)	20
Impairment of goodwill	–	–	3
Revaluation of investment properties	4	(42)	17
Headline earnings attributable to ordinary shareholders	**2 914**	**2 583**	**5 704**

^ *These amounts are net of taxation of Rnil (Six months to 30 Sept 2019: R18.0 million; year to 31 March 2019 Rnil) with a (R9.9million) [Six months to 30 Sept 2019: (R41.6 million); year to 31 March 2019 (R26.0 million] impact on earnings attributable to non-controlling interests.*

CONSOLIDATED BALANCE SHEET

At R'million	30 Sept 2019	31 March 2019	30 Sept 2018
Assets			
Cash and balances at central banks	12 290	10 290	9 586
Loans and advances to banks	21 270	22 125	20 732
Non-sovereign and non-bank cash placements	12 683	12 192	10 441
Reverse repurchase agreements and cash collateral on securities borrowed	13 228	21 346	17 705
Sovereign debt securities	71 756	60 893	58 923
Bank debt securities	10 593	12 502	10 232
Other debt securities	14 392	13 580	13 891
Derivative financial instruments	9 921	7 736	9 515
Securities arising from trading activities	18 492	20 079	21 112
Investment portfolio	10 684	10 070	8 915
Loans and advances to customers	266 653	263 537	252 295
Own originated loans and advances to customers securitised	7 067	7 667	8 341
Other loans and advances	262	329	359
Other securitised assets	270	294	315
Interests in associated undertakings	6 566	6 284	6 819
Deferred taxation assets	2 287	1 890	1 067
Other assets	15 900	14 281	14 227
Property and equipment	3 221	3 043	3 107
Investment properties	18 428	18 425	18 934
Goodwill	211	211	211
Intangible assets	373	418	461
	516 547	**507 192**	**487 188**
Other financial instruments at fair value through profit or loss in respect of liabilities to customers	161 794	154 477	150 764
	678 341	**661 669**	**637 952**
Liabilities			
Deposits by banks	29 340	31 735	29 700
Derivative financial instruments	14 720	11 111	14 531
Other trading liabilities	11 458	11 132	16 992
Repurchase agreements and cash collateral on securities lent	14 300	15 234	6 500
Customer accounts (deposits)	349 172	341 578	331 672
Debt securities in issue	12 315	12 328	7 710
Liabilities arising on securitisation of own originated loans and advances	1 489	1 720	2 216
Current taxation liabilities	958	574	339
Deferred taxation liabilities	77	54	189
Other liabilities	11 217	10 254	9 458
	445 046	**435 720**	**419 307**
Liabilities to customers under investment contracts	161 648	154 422	150 699
Insurance liabilities, including unit-linked liabilities	146	55	65
	606 840	**590 197**	**570 071**
Subordinated liabilities	14 639	15 857	14 623
	621 479	**606 054**	**584 694**
Equity			
Ordinary share capital	1	1	1
Share premium	13 576	13 576	13 576
Treasury shares	(2 521)	(1 881)	(1 882)
Other reserves	2 091	2 055	1 861
Retained income	31 123	29 398	27 400
Shareholders' equity excluding non-controlling interests	**44 270**	**43 149**	**40 956**
Other Additional Tier 1 securities in issue	1 010	1 010	900
Non-controlling interests	11 582	11 456	11 402
– Perpetual preferred securities issued by subsidiaries	1 534	1 534	1 534
– Non controlling interests in partially held subsidiaries	10 048	9 922	9 868
Total equity	**56 862**	**55 615**	**53 258**
Total liabilities and equity	**678 341**	**661 669**	**637 952**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R'million	Ordinary share capital	Share premium	Treasury shares
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	–	–	–
Gain on realisation of debt instruments at FVOCI recycled through 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)**
Movement in reserves 1 October 2018 – 31 March 2019			
Profit after taxation	–	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–	–
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income	–	–	–
Gain on realisation of debt instruments at FVOCI recycled through the income statement	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	–
Net gain attributable to own credit risk	–	–	–
Total comprehensive income for the period	**–**	**–**	**–**
Issue of other Additional Tier 1 security instruments	–	–	–
Movement of treasury shares	–	–	(552)
Share-based payments adjustments	–	–	–
Transfer from share-based payments reserve to treasury shares	–	–	553
Transfer from regulatory general risk reserves	–	–	–
Acquisition of subsidiary	–	–	–
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 2019	**1**	**13 576**	**(1 881)**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(continued)

Other reserves										
Capital reserve account	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**	Other additional Tier 1 issue securities in issue	Non-controlling interests	**Total equity**
61	**380**	**627**	**(993)**	**24**	**1 086**	**25 994**	**38 448**	**900**	**11 037**	**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)	54	66	(128)
–	–	–	–	–	–	–	–	(54)	(66)	(120)
–	–	–	–	–	–	(1 134)	(1 134)	–	–	(1 134)
–	–	–	–	–	–	–	–	–	(385)	(385)
61	**172**	**701**	**(1 014)**	**24**	**1 917**	**27 400**	**40 956**	**900**	**11 402**	**53 258**
				–						
–	–	–	–	–	–	3 300	3 300	–	488	3 788
–	–	–	83	–	–	–	83	–	–	83
–	(31)	–	–	–	–	–	(31)	–	–	(31)
–	(51)	–	–	–	–	–	(51)	–	–	(51)
–	–	–	–	–	128	–	128	–	–	128
–	–	–	–	1	–	–	1	–	–	1
–	**(82)**	**–**	**83**	**1**	**128**	**3 300**	**3 430**	**–**	**488**	**3 918**
–	–	–	–	–	–	–	–	110	–	110
–	–	–	–	–	–	–	(552)	–	–	(552)
–	–	–	–	–	–	430	430	–	–	430
–	–	–	–	–	–	(553)	–	–	–	–
–	–	64	–	–	–	(64)	–	–	–	–
–	–	–	–	–	–	–	–	–	(2)	(2)
–	–	–	–	–	–	320	320	–	39	359
–	–	–	–	–	–	–	–	–	81	81
–	–	–	–	–	–	(241)	(241)	51	64	(126)
–	–	–	–	–	–	–	–	(51)	(64)	(115)
–	–	–	–	–	–	(1 194)	(1 194)	–	–	(1 194)
–	–	–	–	–	–	–	–	–	(552)	(552)
61	**90**	**765**	**(931)**	**25**	**2 045**	**29 398**	**43 149**	**1 010**	**11 456**	**55 615**

R'million	Ordinary share capital	Share premium	Treasury shares
Movement in reserves 1 April 2019 – 30 September 2019			
Profit after taxation	–	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–	–
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income	–	–	–
Gain on realisation of debt instruments at FVOCI recycled through the income statement	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	–
Net loss attributable to own credit risk	–	–	–
Total comprehensive income for the period	**–**	**–**	**–**
Issue of ordinary shares	–	–	–
Issue of other Additional Tier 1 security instruments	–	–	–
Net equity movements of associates	–	–	–
Movement of treasury shares	–	–	(785)
Share-based payments adjustments	–	–	–
Transfer from share-based payments reserve to treasury shares	–	–	145
Transfer from regulatory general risk reserves	–	–	–
Partial disposal of group operations	–	–	–
Movement in non-controlling interests due to share issues in subsidiary	–	–	–
Transfer from retained income to non-controlling interests	–	–	–
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 2019	**1**	**13 576**	**(2 521)**

Other reserves										
Capital reserve account	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**	Other additional Tier 1 issue securities in issue	Non-controlling interests	**Total equity**
–	–	–	–	–	–	3 161	3 161	–	629	3 790
–	–	–	(355)	–	–	–	(355)	–	–	(355)
–	183	–	–	–	–	–	183	–	–	183
–	(34)	–	–	–	–	–	(34)	–	–	(34)
–	–	–	–	–	276	–	276	–	–	276
–	–	–	–	(2)	–	–	(2)	–	–	(2)
–	**149**	**–**	**(355)**	**(2)**	**276**	**3 161**	**3 229**	**–**	**629**	**3 858**
–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	(44)	(44)	–	–	(44)
–	–	–	–	–	–	–	(785)	–	–	(785)
–	–	–	–	–	–	298	298	–	–	298
–	–	–	–	–	–	(145)	–	–	–	–
–	–	(32)	–	–	–	32	–	–	–	–
–	–	–	–	–	–	(4)	(4)	–	4	–
–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	(251)	(251)	59	130	(62)
–	–	–	–	–	–	–	–	(59)	(130)	(189)
–	–	–	–	–	–	(1 322)	(1 322)	–	–	(1 322)
–	–	–	–	–	–	–	–	–	(507)	(507)
61	**239**	**733**	**(1 286)**	**23**	**2 321**	**31 123**	**44 270**	**1 010**	**11 582**	**56 862**

CONDENSED CONSOLIDATED SEGMENTAL INFORMATION

For the six months to 30 September 2019 R'million	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Total group
Net interest income	40	51	4 176	–	4 267
Net fee and commission income	1 736	744	1 877	–	4 357
Investment income	–	1	724	–	725
Share of post taxation profit of associates	–	–	260	–	260
Trading (loss)/income arising from					
– customer flow	–	(2)	311	–	309
– balance sheet management and other trading activities	(2)	1	71	–	70
Other operating income	11	–	-	–	11
Total operating income before expected credit loss impairment charges	**1 785**	**795**	**7 419**	**–**	**9 999**
Expected credit loss impairment charges	–	–	(272)	–	(272)
Operating income	**1 785**	**795**	**7 147**	**–**	**9 727**
Operating costs	(1 084)	(537)	(3 417)	(136)	(5 174)
Operating profit before goodwill, acquired intangibles and non-controlling interests	**701**	**258**	**3 730**	**(136)**	**4 553**
Profit attributable to non-controlling interests	(99)	–	(530)	–	(629)
Profit before goodwill, acquired intangibles, taxation after non-controlling interests	**602**	**258**	**3 200**	**(136)**	**3 924**
Cost to income ratio	60.7%	67.5%	49.6%	n/a	**54.6%**
Total assets (R'million)	163 343	10 493	504 505	–	**678 341**

For the six months to 30 September 2018 R'million	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Total group
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 loss impairment charges	**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 before goodwill, acquired intangibles and non-controlling interests	**618**	**242**	**3 600**	**(120)**	**4 340**
Profit attributable to non-controlling interests	(80)	–	(657)	–	(737)
Profit before goodwill, acquired intangibles, taxation after non-controlling interests	**538**	**242**	**2 943**	**(120)**	**3 603**
Cost to income ratio*	62.6%	68.1%	50.3%	n/a	**55.4%**
Total assets (R'million)	152 334	17 691	467 927	–	**637 952**

* *The group has changed its cost to income ratio definition to exclude operating profits or losses attributable to other non-controlling interests.*

Net interest income

For the six months to 30 September R'million		2019 Balance sheet value	2019 Interest income	2018 Balance sheet value	2018 Interest income
Cash, near cash and bank debt and sovereign debt securities	1	141 820	4 306	127 619	3 635
Net core loans and advances	2	273 720	13 150	260 636	11 707
Private client		190 546	9 147	173 299	8 075
Corporate, institutional and other clients		83 174	4 003	87 337	3 632
Other debt securities and other loans and advances		14 654	365	14 250	424
Other interest-earning assets	3	347	288	3 283	416
Total interest-earning assets		**430 541**	**18 109**	405 788	16 182

For the six months to 30 September R'million		2019 Balance sheet value	2019 Interest expense	2018 Balance sheet value	2018 Interest expense
Deposits by banks and other debt-related securities	4	55 955	(1 275)	43 910	(1 147)
Customer accounts (deposits)		349 172	(11 790)	331 672	(10 428)
Other interest-bearing liabilities	5	1 489	(139)	2 216	(219)
Subordinated liabilities		14 639	(628)	14 623	(547)
Lease liabilities^		287	(10)	–	–
Total interest-bearing liabilities		**421 542**	**(13 842)**	**392 421**	**(12 341)**
Net interest income			**4 267**		**3 841**
Net interest margin*			**1.99%**		**1.90%**

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.*
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.*

* *Impacted by debt funding issued by the Investec Property Fund in which the group has a 26.6% interest. Excluding the debt funding cost, the net interest margin amounted to 2.11% (2018: 2.05%)*

^ *The group adopted IFRS 16 from 1 April 2019. The impact has been to recognise interest expense on the unwind of lease liabilities. The prior period comparatives have not been restated.*

Net fee and commission income

For the six months to 30 September R'million	2019	2018
Asset management and wealth management businesses net fee and commission income	**2 480**	**2 300**
Fund management fees/fees for assets under management	**2 199**	2 008
Private client transactional fees	**339**	326
Fee and commission expense	**(58)**	(34)
Specialist Banking net fee and commission income	**1 877**	**1 963**
Corporate and institutional transactional and advisory services	**1 566**	1 714
Private client transactional fees	**686**	421
Fee and commission expense	**(375)**	(172)
Net fee and commission income	**4 357**	**4 263**
Annuity fees (net of fees payable)	**3 829**	3 772
Deal fees	**528**	491

Trust and fiduciary fees amounted to R4.5 million (2018: R4.7 million) and is included in private client transactional fees in the group.

All revenue generated from fee and commission income arises from contracts with customers.

Included in Specialist Banking corporate and institutional transactional and advisory services is net fee income of R662.2 million (2018: R720.7 million) for operating lease income which is out of scope of IFRS 15 - Revenue from contracts with customers.

Investment income

For the six months to 30 September R'million	Listed equities	Unlisted equities	Fair value loan investments	Warrants and profit shares	Investment portfolio	Debt securities (sovereign, bank and other)	Investment and trading properties	Other asset categories	Total
2019									
Realised	64	71	–	35	**170**	47	(7)	(2)	**208**
Unrealised^	275	(55)	152	(8)	**364**	34	(15)	(41)	**342**
Dividend income	130	62	–	–	**192**	–	–	–	**192**
Funding and other net related costs	–	(19)	–	–	**(19)**	–	2	–	**(17)**
	469	**59**	**152**	**27**	**707**	**81**	**(20)**	**(43)**	**725**
2018									
Realised	453	77	–	55	**585**	55	588	3	**1 231**
Unrealised^	(434)	(54)	163	15	**(310)**	57	(570)	115	**(708)**
Dividend income	90	31	–	–	**121**	–	–	–	**121**
Funding and other net related costs	–	(25)	–	–	**(25)**	–	–	(12)	**(37)**
	109	**29**	**163**	**70**	**371**	**112**	**18**	**106**	**607**

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

Analysis of financial assets and liabilities by measurement category

At 30 September 2019 R'million	Total instruments at fair value	Financial instruments at amortised cost	Non-financial instruments or scoped out of IFRS 9	Total
Assets				
Cash and balances at central banks	–	12 290	–	12 290
Loans and advances to banks	–	21 270	–	21 270
Non-sovereign and non-bank cash placements	891	11 792	–	12 683
Reverse repurchase agreements and cash collateral on securities borrowed	8 046	5 182	–	13 228
Sovereign debt securities	66 392	5 364	–	71 756
Bank debt securities	6 250	4 343	–	10 593
Other debt securities	9 199	5 193	–	14 392
Derivative financial instruments	9 921	–	–	9 921
Securities arising from trading activities	18 492	–	–	18 492
Investment portfolio	10 684	–	–	10 684
Loans and advances to customers	20 657	245 996	–	266 653
Own originated loans and advances to customers securitised	–	7 067	–	7 067
Other loans and advances	–	262	–	262
Other securitised assets	–	270	–	270
Interests in associated undertakings	–	–	6 566	6 566
Deferred taxation assets	–	–	2 287	2 287
Other assets	1 238	6 918	7 744	15 900
Property and equipment	–	–	3 221	3 221
Investment properties	–	–	18 428	18 428
Goodwill	–	–	211	211
Intangible assets	–	–	373	373
	151 770	**325 947**	**38 830**	**516 547**
Other financial instruments at fair value through profit or loss in respect of liabilities to customers	161 794	–	–	161 794
	313 564	**325 947**	**38 830**	**678 341**
Liabilities				
Deposits by banks	–	29 340	–	29 340
Derivative financial instruments	14 720	–	–	14 720
Other trading liabilities	11 458	–	–	11 458
Repurchase agreements and cash collateral on securities lent	5 879	8 421	–	14 300
Customer accounts (deposits)	45 152	304 020	–	349 172
Debt securities in issue	2 834	9 481	–	12 315
Liabilities arising on securitisation of own originated loans and advances	–	1 489	–	1 489
Current taxation liabilities	–	–	958	958
Deferred taxation liabilities	–	–	77	77
Other liabilities	832	4 931	5 454	11 217
	80 875	**357 682**	**6 489**	**445 046**
Liabilities to customers under investment contracts	161 648	–	–	161 648
Insurance liabilities, including unit-linked liabilities	146	–	–	146
	242 669	**357 682**	**6 489**	**606 840**
Subordinated liabilities	–	14 639	–	14 639
	242 669	**372 321**	**6 489**	**621 479**

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).

		Fair value category		
At 30 September 2019 **R'million**	**Total instruments at fair value**	Level 1	Level 2	Level 3
Assets				
Non-sovereign and non-bank cash placements	891	5	886	–
Reverse repurchase agreements and cash collateral on securities borrowed	8 046	–	8 046	–
Sovereign debt securities	66 392	66 392	–	–
Bank debt securities	6 250	4 046	2 204	–
Other debt securities	9 199	4 393	4 692	114
Derivative financial instruments	9 921	–	9 921	–
Securities arising from trading activities	18 492	18 031	461	–
Investment portfolio	10 684	2 528	69	8 087
Loans and advances to customers	20 657	–	19 895	762
Other assets	1 238	1 238	–	–
Other financial instruments at fair value through profit or loss in respect of liabilities to customers	161 794	161 794	–	–
	313 564	**258 427**	**46 174**	**8 963**
Liabilities				
Derivative financial instruments	14 720	–	14 720	–
Other trading liabilities	11 458	8 305	3 153	–
Repurchase agreements and cash collateral on securities lent	5 879	–	5 879	–
Customer accounts (deposits)	45 152	–	45 152	–
Debt securities in issue	2 834	–	2 834	–
Other liabilities	832	–	718	114
Liabilities to customers under investment contracts	161 648	–	161 648	–
Insurance liabilities, including unit-linked liabilities	146	–	146	–
	242 669	**8 305**	**234 250**	**114**
Net financial assets/(liabilities) at fair value	**70 895**	**250 122**	**(188 076)**	**8 849**

Transfers between level 1 and level 2

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

Level 3 instruments

R'million	Investment portfolio	Loans and advances to customers	Other level 3 assets	Total
Balance at 1 April 2019	6 702	760	115	7 577
Total gains included in the income statement	158	1	(1)	158
Purchases	1 384	–	–	1 384
Sales	(272)	–	–	(272)
Issues	92	1	–	93
Settlements	(75)	–	–	(75)
Transfers into level 3	34	–	–	34
Foreign exchange adjustments	64	–	–	64
Balance at 30 September 2019	**8 087**	**762**	**114**	**8 963**

R'million	Other liabilities
Balance at 1 April 2019	**68**
Total losses included in the income statement	20
Purchases	24
Foreign exchange adjustments	2
Balance at 30 September 2019	**114**

The group transfers between levels within the fair value hierarchy when the significance of the unobservable inputs change or if the valuation methods change. For the six months to 30 September 2019, there were transfers of £3.8 million from level 3 assets into level 1 where an equity position became listed in the period. There were transfers from level 2 into level 3 of R34 million assets due to inputs to the model becoming unobservable in the market.

The following table quantifies the gains or (losses) included in the income statement recognised on level 3 financial instruments:

For the six months to 30 September 2019 R'million	Total	Realised	Unrealised
Total gains or (losses) included in the income statement for the year			
Interest income	1	1	–
Investment income	3	21	(18)
Trading income arising from balance sheet management and other trading activities	134	–	134
	138	**22**	**116**

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 2019	**Level 3 balance sheet value R'million**	Valuation method	Significant unobservable input changed	Range which unobservable input has been changed	**Favourable changes R'million**	**Unfavourable changes R'million**
Assets						
Investment portfolio	8 087				1 185	(986)
		Price earnings	EBITDA	*	361	(304)
		Discounted cash flow	Discount rate	(1%)/1%	161	(5)
		Discounted cash flow	Cash flows	(25%)/25%	296	(277)
		Discounted cash flow	Property values	(5%)/5%	236	(236)
		Discounted cash flow	Precious and industrial metal prices	(10%)/6%	16	(27)
		Other	Various	**	45	(38)
		Net asset value	Underlying asset value	^	70	(99)
Loans and advances to customers	762	Price earnings	EBITDA	*	6	(6)
Other debt securities	114	Price earnings	EBITDA	(5%)/5%	6	(6)
Total level 3 assets	**8 963**				**1 197**	**(998)**
Liabilities						
Other liabilities	114	Discounted cash flow	Property values	(5%)/5%	12	(12)
Total level 3 liabilities	**114**				**12**	**(12)**

* *The EBITDA and cash flows have been stressed on an investment-by-investment basis in order to obtain favourable and unfavourable valuations.*
** *The valuation sensitivity for the certain equity investments has been assessed by adjusting various inputs such as expected cash flows, discount rates and earnings multiples rather than a single input. It is deemed appropriate to reflect the outcome on a portfolio basis for the purposes of this analysis as the sensitivity of the investments cannot be determined through the adjustment of a single input.*
^ *Underlying asset values are calculated by reference to a tangible asset.*

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

Price-earnings multiple

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

EBITDA

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

Property values and precious and industrial metals

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.

Underlying asset value

In instances where cash flows have links to referenced assets, the underlying asset value is used to determine the fair value. The underlying asset valuation is derived using observable market prices sourced from broker quotes, specialist valuers or other reliable pricing sources.

Discount rates

Discount rates (including WACC) are used to adjust for the time value of money when using a discounted cash flow valuation method. Where relevant, the discount rate also accounts for illiquidity, market conditions and uncertainty of future cash flows.

Measurement of financial assets and liabilities at level 2

The table below sets out information about the valuation techniques used at the end of the reporting period in measuring financial instruments categorised as level 2 in the fair value hierarchy:

	Valuation basis/techniques	Main inputs
Assets		
Non-sovereign and non-bank cash placements	Discounted cash flow model	Yield curve
Reverse repurchase agreements and cash collateral on securities borrowed	Discounted cash flow model	Yield curve
Bank debt securities	Discounted cash flow model	Yield curve
Other debt securities	Discounted cash flow model	Yield curve
Derivative financial instruments	Discounted cash flow model Black-Scholes	Yield curve Volatilities
Securities arising from trading activities	Discounted cash flow model	Yield curve
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
Debt securities in issue	Discounted cash flow model	Yield curve
Other liabilities	Discounted cash flow model	Yield curve
Liabilities to customers under investment contracts	Current price of underlying unitised assets	Listed prices
Insurance liabilities, including unit-linked liabilities	Current price of underlying unitised assets	Listed prices

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 2019 R'million	Carrying amount	Fair value
Assets		
Sovereign debt securities	5 364	5 217
Bank debt securities	4 343	4 452
Other debt securities	5 193	5 237
Loans and advances to customers	245 996	245 942
Liabilities		
Deposits by banks	29 340	29 800
Repurchase agreements and cash collateral on securities lent	8 421	8 388
Customer accounts (deposits)	304 020	306 157
Debt securities in issue	9 481	9 502
Subordinated liabilities	14 639	15 821

Expected credit loss impairment charges

For the six months to 30 September R'million	2019	2018
Expected credit loss impairment charges/(releases) is recognised on the following assets:		
Loans and advances to customers	234	382
Own originated securitised assets	11	(2)
Core loans and advances	**245**	**380**
Other balance sheet assets	24	1
Off balance sheet commitments and guarantees	3	(3)
Total expected credit loss impairment charges	**272**	**378**

Extract of operating costs

For the six months to 30 September R'million	2019	2018
Staff costs	3 666	3 578
Premises expenses^	150	227
Premises expenses (excluding depreciation)^	126	227
Premises depreciation^	24	–
Equipment expenses (excluding depreciation)	385	356
Business expenses	564	506
Marketing expenses	246	244
Depreciation, amortisation and impairment on property, equipment and intangibles^	163	126
	5 174	**5 037**

^ *The group adopted IFRS 16 from 1 April 2019. The impact has been to increase the depreciation charge by R24.1 million as a result of recognising aright-of-use asset and to reduce the premises expense in the six months to 30 September 2019. The prior period comparatives have not been restated. Depreciation on premises is now being shown next to other premises expenses to aid comparability.*

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 2019	31 March 2019
Assets		
Gross reverse repurchase agreements and cash collateral on securities borrowed	13 228	21 346
Expected credit loss on amortised cost	^	^
Net reverse repurchase agreements and cash collateral on securities borrowed	**13 228**	**21 346**
Reverse repurchase agreements	8 967	16 378
Cash collateral on securities borrowed	4 261	4 968
	13 228	**21 346**
Liabilities		
Repurchase agreements	14 300	15 234
	14 300	**15 234**

^ *Less than R1 million.*

Extract of other debt securities

At R'million	30 Sept 2019	31 March 2019
Gross other debt securities	14 398	13 586
Expected credit loss on amortised cost	(6)	(6)
Net other debt securities	**14 392**	**13 580**
Bonds	8 010	11 545
Floating rate notes	4 414	1 761
Asset-based securities	1 968	241
Other investments	-	33
	14 392	**13 580**

Extract of securities arising from trading activities

At R'million	30 Sept 2019	31 March 2019
Bonds	568	3 554
Listed equities	17 512	16 440
Unlisted equities	36	85
Floating rate notes	376	–
	18 492	**20 079**

Extract of loans and advances to customers and other loans and advances

At R'million	30 Sept 2019	31 March 2019
Gross loans and advances to customers at amortised cost	248 651	250 097
Gross loans and advances to customers designated at FVPL at inception^	18 636	14 085
Gross loans and advances to customers subject to ECL	**267 287**	**264 182**
Expected credit loss on amortised cost	(2 696)	(2 691)
	264 591	**261 491**
Loans and advances to customers at fair value	2 062	2 046
Net loans and advances to customers	**266 653**	**263 537**
Gross other loans and advances	287	355
Expected credit loss of other loans and advances	(25)	(26)
Net other loans and advances	**262**	**329**

^ *These are fixed rate loans which have passed the solely payments of principal and interest test (SPPI) and are held in a business model to collect contractual cash flows but have been designated at FVPL to eliminate accounting mismatches (interest rate risk is being economically hedged). The underlying loans have been fair valued and management performs an ECL calculation in order to obtain a reasonable estimate of the credit risk component. The portfolio is managed on the same basis as gross core loans and advances measured at amortised cost.*

Extract of securitised assets and liabilities arising on securitisation

At R'million	30 Sept 2019	31 March 2019
Gross own originated loans and advances to customers securitised	7 089	7 677
Expected credit loss of own originated loans and advances to customers securitised	(22)	(10)
Net own originated loans and advances to customers securitised	**7 067**	**7 667**
Total other securitised assets	**270**	**294**

Other assets

At R'million	30 Sept 2019	31 March 2019
Gross other assets	15 901	14 371
Expected credit loss on amortised cost	(1)	(90)
Net other assets	**15 900**	**14 281**
Settlement debtors	4 717	2 140
Trading properties	2 720	2 723
Prepayments and accruals	1 037	677
Trading initial margin	683	672
Investec For Business debtors (previously Investec Import Solutions debtors)	77	2 621
Commodities	2 328	1 163
Fee debtors	45	243
Corporate tax assets	110	123
Other	4 183	3 919
	15 900	**14 281**

Debt securities in issue

At R'million	30 Sept 2019	31 March 2019
Repayable in:		
Less than three months	1 350	917
Three months to one year	746	2 092
One to five years	9 527	7 530
Greater than five years	692	1 789
	12 315	**12 328**

Other liabilities

At R'million	30 Sept 2019	31 March 2019
Settlement liabilities	4 216	2 938
Other creditors and accruals	2 314	2 155
Other non-interest-bearing liabilities	3 767	4 500
Dividends Rewards Programme liability	591	623
Lease liability*	287	-
Expected credit loss on off balance sheet commitments and guarantees	42	38
	11 217	**10 254**

* *The group adopted IFRS 16 from 1 April 2019 and as a result recognised lease liabilities. The prior period comparatives have not been restated.*

Extract of perpetual preference share capital

At R'million	30 Sept 2019	31 March 2019
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 2019	31 March 2019
Losses carried forward	367	251
	367	**251**

Extract of subordinated liabilities

At R'million	30 Sept 2019	31 March 2019
Remaining maturity:		
In one year or less, or on demand	1 454	3 175
In more than one year, but not more than two years	2 047	885
In more than two years, but not more than five years	11 138	10 948
In more than five years	-	849
	14 639	**15 857**

Offsetting

	Amounts subject to enforceable netting arrangements				
	Effects of offsetting on balance sheet			Related amounts not offset	
At 30 September 2019 **R'million**	**Gross amounts**	**Amounts offset**	**Net amounts reported on the balance sheet**	**Financial instruments (including non-cash collateral)**	**Net amount**
Assets					
Cash and balances at central banks	12 290	–	12 290	–	12 290
Loans and advances to banks	29 155	(7 885)	21 270	–	21 270
Non-sovereign and non-bank cash placements	12 683	–	12 683	–	12 683
Reverse repurchase agreements and cash collateral on securities borrowed	13 228	–	13 228	(1 060)	12 168
Sovereign debt securities	71 756	–	71 756	(7 668)	64 088
Bank debt securities	10 593	–	10 593	(977)	9 616
Other debt securities	14 392	–	14 392	(174)	14 218
Derivative financial instruments	14 003	(4 082)	9 921	(3 229)	6 692
Securities arising from trading activities	18 492	–	18 492	(1 620)	16 872
Investment portfolio	10 684	–	10 684	–	10 684
Loans and advances to customers	269 411	(2 758)	266 653	(258)	266 395
Own originated loans and advances to customers securitised	7 067	–	7 067	–	7 067
Other loans and advances	262	–	262	–	262
Other securitised assets	270	–	270	–	270
Other assets	15 900	–	15 900	–	15 900
	500 186	**(14 725)**	**485 461**	**(14 986)**	**470 475**
Liabilities					
Deposits by banks	30 244	(904)	29 340	-	29 340
Derivative financial instruments	25 783	(11 063)	14 720	(3 229)	11 491
Other trading liabilities	11 458	-	11 458	-	11 458
Repurchase agreements and cash collateral on securities lent	14 300	-	14 300	(10 041)	4 259
Customer accounts (deposits)	351 930	(2 758)	349 172	-	349 172
Debt securities in issue	12 315	-	12 315	-	12 315
Liabilities arising on securitisation of own originated loans and advances	1 489	-	1 489	-	1 489
Liabilities arising on securitisation of other assets	-	-	-	-	-
Other liabilities	11 217	-	11 217	-	11 217
Subordinated liabilities	14 639	-	14 639	-	14 639
	473 375	**(14 725)**	**458 650**	**(13 270)**	**445 380**

At 31 March 2019 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	10 290	–	10 290	–	10 290
Loans and advances to banks	29 210	(7 085)	22 125	–	22 125
Non-sovereign and non-bank cash placements	12 192	–	12 192	–	12 192
Reverse repurchase agreements and cash collateral on securities borrowed	21 346	–	21 346	(1 199)	20 147
Sovereign debt securities	60 893	–	60 893	(5 977)	54 916
Bank debt securities	12 502	–	12 502	(2 259)	10 243
Other debt securities	13 580	–	13 580	–	13 580
Derivative financial instruments	11 543	(3 807)	7 736	(3 101)	4 635
Securities arising from trading activities	20 079	–	20 079	(4 542)	15 537
Investment portfolio	10 070	–	10 070	–	10 070
Loans and advances to customers	265 916	(2 379)	263 537	–	263 537
Own originated loans and advances to customers securitised	7 667	–	7 667	–	7 667
Other loans and advances	329	–	329	–	329
Other securitised assets	294	–	294	–	294
Other assets	14 281	–	14 281	–	14 281
	490 192	**(13 271)**	**476 921**	**(17 078)**	**459 843**
Liabilities					
Deposits by banks	32 526	(791)	31 735	–	31 735
Derivative financial instruments	21 212	(10 101)	11 111	(3 101)	8 010
Other trading liabilities	11 132	–	11 132	–	11 132
Repurchase agreements and cash collateral on securities lent	15 234	–	15 234	(12 034)	3 200
Customer accounts (deposits)	343 957	(2 379)	341 578	–	341 578
Debt securities in issue	12 328	–	12 328	–	12 328
Liabilities arising on securitisation of own originated loans and advances	1 720	–	1 720	–	1 720
Other liabilities	10 254	–	10 254	–	10 254
Subordinated liabilities	15 857	–	15 857	–	15 857
	464 220	**(13 271)**	**450 949**	**(15 135)**	**435 814**

Changes in accounting policies

Implementation of IFRS 16

On 1 April 2019 the group adopted IFRS 16 Leases which replaced IAS 17 Leases. The group's accounting as a lessor under IFRS 16 is substantially unchanged from its approach under IAS 17, apart from certain subleases which are now classified as finance lease receivables. For lessees, IFRS 16 removes the distinction between finance and operating leases and introduces a single lease accounting model that will, with some limited exemptions, apply to all leases and result in bringing them on balance sheet.

As a lessee, the group now recognises a lease liability measured at the present value of remaining lease payments and a right of use (ROU) asset measured at the amount of the initial measurement of the lease liability, plus any lease payments made prior to commencement date, initial direct costs, and estimated costs of restoring the underlying asset to the condition required by the lease, less any lease incentives received. The lease payments are discounted using the group's incremental borrowing rate. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment.

The lease liability will increase for the accrual of interest, and will result in a constant rate of return throughout the life of the lease, and reduce when lease payments are made. The ROU asset is being depreciated in the income statement over the life of the lease.

As permitted by the standard the group applied IFRS 16 on a modified retrospective basis without restating prior years.

The group elected to take advantage of the following transition options on transition at 1 April 2019:

- applied IFRS 16 to contracts previously identified as leases by IAS 17
- calculated the right of use asset equal to the lease liability, adjusted for prepaid or accrued payments
- used the incremental borrowing rate as the discount rate
- not applied IFRS 16 to operating leases with a remaining lease term of less than 12 months
- relied on the assessment of whether the lease contract is onerous under IAS 37 at 31 March 2019 as an alternative to performing an impairment review of the right use of assets created on 1 April 2019.

The impact on adoption was the recognition of Right of Use assets of R197 million and lease liabilities of R197 million, with no impact on retained income.

The following risk management and capital section will provide details on the quantitative disclosure 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 2019.

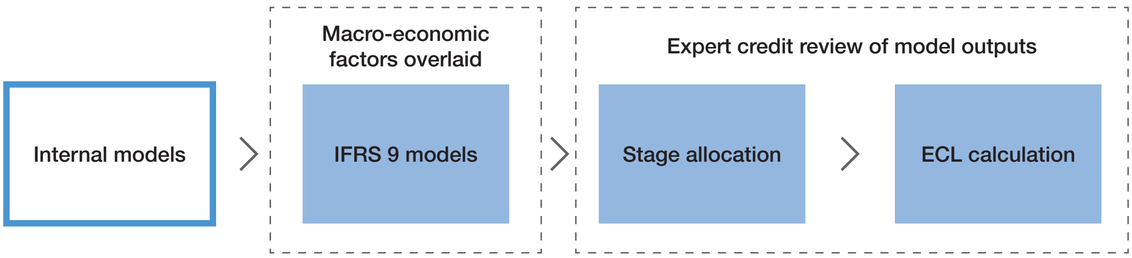
Key drivers of measurement uncertainty – subjective elements and inputs

The measurement of ECL under IFRS 9 has increased complexity and reliance on expert credit judgement. Key judgemental areas under the implementation of IFRS 9 are subject to robust governance processes. Key drivers of measurement uncertainty include:

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

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

Process to determine ECL



ECLs are calculated using three main components:

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

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 future forecast macro-economic conditions that affect credit risk.

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

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

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

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

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

Forward-looking macro-economic scenarios

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

Since 31 March 2019 our macro-economic scenarios have been refined to incorporate our updated economic outlooks, in particular, the previously presented extreme down case has been removed as the probability of this scenario declined substantially after President Ramaphosa formally became President of South Africa this year, having previously been acting President. Instead, a severe down case scenario was introduced to replace it, characterised by a marked escalation in the trade war. The lite down case replaces the previous down case to reflect a less severe scenario.

For the group, five macro-economic scenarios are used in the measurement of ECL under IFRS 9. These scenarios incorporate a base case, two up cases and two down cases. The aim of this economic scenario generation process is to provide a view of the current and projected state of the South African economy and the different economic scenarios that could occur in various stressed or improved environments over the next five years for a number of identified variables/risk drivers. Management's view of the most likely outcome (base case) is that a sedate pace of global monetary policy normalisation will occur, with a prolonged, severe global risk-off environment through the period avoided.

The base case scenario additionally foresees higher confidence and investment levels with limited negative impact of expropriation without compensation to the economy. The Rand becomes structurally stronger, nearing its purchasing power parity valuation over the five year period. South Africa retains one investment grade (Moody's) rating on its local currency long-term sovereign debt in the year ahead. Global growth persists around its trend growth rate.

The lite down case scenario is one where South Africa is rated sub-investment grade by all three key credit rating agencies. A short V shaped recession occurs, with marked rand weakness after South Africa loses its Moody's investment grade rating. However, modestly strengthening global demand and elevated commodity prices help lessen the longer-term impact of domestic disturbances. A severe global financial market risk-off environment is avoided, with neutral to global risk-on, and the rand eventually recoups some of its losses.

The severe down case has a low probability of occuring. Both the global economy and the South African economy fall into recession, with South Africa experiencing a more severe recession than in the lite down case. In this scenario the global trade war escalates.

Domestically, expropriation without compensation has a material negative impact on the economy, with title deeds not being transferred to individuals and wide scale land grabs occurring. South Africa receives a Moody's credit rating downgrade in a predominantly risk-off environment.

The up case encompasses a scenario where South Africa has good governance, growth enhancing reforms in line with global norms (structural constraints are overcome) and greater socio-economic stability. Strong business confidence, fixed investment growth into double digits, substantial foreign direct investment inflows, a strengthening of property rights and fiscal consolidation are also all characterisations of the up case. A strengthening in global growth (US-China trade tensions subside) and in the commodity cycle, as well as a stabilisation of credit ratings, also occur. The extreme up case is a persistence and intensification of the up case, resulting in credit rating upgrades for South Africa.

The table below shows the key factors that form part of the macro-economic scenarios and the relative weightings of these scenarios applied as at 30 September 2019:

Macro-economic scenarios

Average June 2019 – March 2024	Extreme up case %	Up case %	Base case %	Lite down case %	Severe down case %
South Africa					
GDP	4.5	3.5	2.2	1.1	(0.1)
Repo	5.5	6.1	6.8	7.3	10.1
Bond yield	7.9	8.2	9.2	9.5	13.1
Residential property price	13.5	6.0	4.6	3.4	(0.9)
Commercial property prices	5.5	2.2	0.7	(0.6)	(4.1)
Exchange rates	8.2	10.0	13.5	15.0	16.7
Scenario weightings	**1**	**10**	**45**	**35**	**9**

Macro-economic sensitivities

IFRS 9 may 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, in particular the group's potential ECLs if each scenario were given a 100% weighting. In these instances all non-modelled ECLs, including credit assessed ECLs and other management judgements remain unchanged.

Credit and counterparty risk management

Credit and counterparty risk description

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

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

An analysis of gross credit and counterparty exposures

Gross credit and counterparty exposure totalled R522.6 billion at 30 September 2019. Cash and near cash balances amounted to R120.0 billion and are largely reflected in the following line items in the table below: cash and balances at central banks, loans and advances to banks, non-sovereign and non-bank cash placements and sovereign debt securities. 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 96% of overall ECLs.

An analysis of gross credit and counterparty exposures

R'million	30 Sept 2019	31 March 2019
Cash and balances at central banks	11 997	10 062
Loans and advances to banks	21 272	22 126
Non-sovereign and non-bank cash placements	12 704	12 208
Reverse repurchase agreements and cash collateral on securities borrowed	13 228	21 346
Sovereign debt securities	71 760	60 898
Bank debt securities	10 597	12 505
Other debt securities	14 398	13 586
Derivative financial instruments	7 077	5 521
Securities arising from trading activities	2 351	4 840
Loans and advances to customers	269 349	266 228
Own originated loans and advances to customers securitised	7 089	7 677
Other loans and advances	287	355
Other assets	179	2 822
Total on-balance sheet exposures	**442 288**	**440 174**
Guarantees	13 868	11 955
Committed facilities related to loans and advances to customers	58 576	55 970
Contingent liabilities, letters of credit and other	7 898	7 740
Total off-balance sheet exposures	**80 342**	**75 665**
Total gross credit and counterparty exposures	**522 630**	**515 839**

A further analysis of our 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 2019 R'million	Total gross credit and counterparty exposure	*of which FVPL*	*of which amortised cost and FVOCI*	ECL^	Assets that we deem to have no legal credit exposure	**Total assets**
Cash and balances at central banks	11 997	–	11 997	(9)	302	12 290
Loans and advances to banks	21 272	–	21 272	(2)	–	21 270
Non-sovereign and non-bank cash placements	12 704	891	11 813	(21)	–	12 683
Reverse repurchase agreements and cash collateral on securities borrowed	13 228	8 046	5 182	–	–	13 228
Sovereign debt securities	71 760	7 090	64 670	(31)	–	71 729
Bank debt securities	10 597	279	10 318	(7)	–	10 590
Other debt securities	14 398	2 559	11 839	(12)	–	14 386
Derivative financial instruments	7 077	7 077	–	–	2 844	9 921
Securities arising from trading activities	2 351	2 351	–	–	16 141	18 492
Investment portfolio	–	–	–	–	10 684 #	10 684
Loans and advances to customers	269 349	20 698	248 651	(2 696)	–	266 653
Own originated loans and advances to customers securitised	7 089	–	7 089	(22)	–	7 067
Other loans and advances	287	–	287	(25)	–	262
Other securitised assets	–	–	–	–	270 *	270
Interest in associated undertakings	–	–	–	–	6 566	6 566
Deferred taxation assets	–	–	–	–	2 287	2 287
Other assets	179	–	179	(1)	15 722 **	15 900
Property and equipment	–	–	–	–	3 221	3 221
Investment properties	–	–	–	–	18 428	18 428
Goodwill	–	–	–	–	211	211
Intangible assets	–	–	–	–	373	373
Other financial instruments at fair value through profit and loss in respect of liabilities to customers	–	–	–	–	161 794	161 794
Total on-balance sheet exposures	**442 288**	**48 991**	**393 297**	**(2 826)**	**238 843**	**678 305**
Guarantees	13 868	–	13 868	(6)	956	14 818
Committed facilities related to loans and advances to customers	58 576	112	58 464	(36)	–	58 540
Contingent liabilities, letters of credit and other	7 898	3 378	4 520	–	14 744	22 642
Total off-balance sheet exposures	**80 342**	**3 490**	**76 852**	**(42)**	**15 700**	**96 000**
Total exposures	**522 630**	**52 481**	**470 149**	**(2 868)**	**254 543**	**774 305**

^ *ECLs include R36 million ECL held against financial assets held at FVOCI, which is reported on the balance sheet within the fair value reserve. This will result in minor differences between certain balance sheet lines reported above (largely sovereign debt securities) and the statutory balance sheet.*
# *Largely relates to exposures that are classified as investment risk in the banking book.*
* *Largely cash in securitised vehicles.*
** *Other assets include settlement debtors which we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

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

At 31 March 2019 **R'million**	Total gross credit and counterparty exposure	*of which FVPL*	*of which amortised cost and FVOCI*	ECL^	Assets that we deem to have no legal credit exposure	**Total assets**
Cash and balances at central banks	10 062	–	10 062	(8)	236	10 290
Loans and advances to banks	22 126	–	22 126	(1)	–	22 125
Non-sovereign and non-bank cash placements	12 208	611	11 597	(16)	–	12 192
Reverse repurchase agreements and cash collateral on securities borrowed	21 346	9 870	11 476	–	–	21 346
Sovereign debt securities	60 898	9 053	51 845	(23)	–	60 875
Bank debt securities	12 505	277	12 228	(7)	–	12 498
Other debt securities	13 586	2 589	10 997	(11)	–	13 575
Derivative financial instruments	5 521	5 521	–	–	2 215	7 736
Securities arising from trading activities	4 840	4 840	–	–	15 239	20 079
Investment portfolio	–	–	–	–	10 070 #	10 070
Loans and advances to customers	266 228	16 130	250 098	(2 691)	–	263 537
Own originated loans and advances to customers securitised	7 677	–	7 677	(10)	–	7 667
Other loans and advances	355	–	355	(26)	–	329
Other securitised assets	–	–	–	–	294 *	294
Interest in associated undertakings	–	–	–	–	6 284	6 284
Deferred taxation assets	–	–	–	–	1 890	1 890
Other assets	2 822	–	2 822	(90)	11 549 **	14 281
Property and equipment	–	–	–	–	3 043	3 043
Investment properties	–	–	–	–	18 425	18 425
Goodwill	–	–	–	–	211	211
Intangible assets	–	–	–	–	418	418
Other financial instruments at fair value through profit and loss in respect of liabilities to customers	–	–	–	–	154 477	154 477
Total on-balance sheet exposures	**440 174**	**48 891**	**391 283**	**(2 883)**	**224 351**	**661 642**
Guarantees	11 955	–	11 955	(6)	1 066	13 015
Committed facilities related to loans and advances to customers	55 970	35	55 935	(33)	–	55 937
Contingent liabilities, letters of credit and other	7 740	2 604	5 136	–	14 375	22 115
Total off-balance sheet exposures	**75 665**	**2 639**	**73 026**	**(39)**	**15 441**	**91 067**
Total exposures	**515 839**	**51 530**	**464 309**	**(2 922)**	**239 792**	**752 709**

^ *ECLs include R27 million ECL held against financial assets held at FVOCI, which is reported on the balance sheet within the fair value reserve. This will result in minor differences between certain balance sheet lines reported above (largely sovereign debt securities) and the statutory balance sheet.*
# *Largely relates to exposures that are classified as investment risk in the banking book.*
* *Largely cash in securitised vehicles.*
** *Other assets include settlement debtors which we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

Gross credit and counterparty exposures by residual contractual maturity

At 30 September 2019 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	11 997	–	–	–	–	–	11 997
Loans and advances to banks	21 202	–	1	50	19	–	21 272
Non-sovereign and non-bank cash placements	12 704	–	–	–	–	–	12 704
Reverse repurchase agreements and cash collateral on securities borrowed	10 412	83	546	1 104	1 083	–	13 228
Sovereign debt securities	12 107	14 777	13 241	9 124	15 177	7 334	71 760
Bank debt securities	175	205	593	3 277	6 304	43	10 597
Other debt securities	303	675	582	8 986	2 713	1 139	14 398
Derivative financial instruments	2 823	1 347	943	1 659	277	28	7 077
Securities arising from trading activities	82	121	350	148	57	1 593	2 351
Loans and advances to customers	33 666	13 026	25 830	145 371	32 083	19 373	269 349
Own originated loans and advances to customers securitised	–	5	8	108	1 190	5 778	7 089
Other loans and advances	–	–	287	–	–	–	287
Other assets	179	–	–	–	–	–	179
Total on-balance sheet exposures	**105 650**	**30 239**	**42 381**	**169 827**	**58 903**	**35 288**	**442 288**
Guarantees	1 757	466	4 260	5 589	1 133	663	13 868
Committed facilities related to loans and advances to customers	16 845	936	2 393	14 573	3 401	20 428	58 576
Contingent liabilities, letters of credit and other	526	151	1 188	4 164	745	1 124	7 898
Total off-balance sheet exposures	**19 128**	**1 553**	**7 841**	**24 326**	**5 279**	**22 215**	**80 342**
Total gross credit and counterparty exposures	**124 778**	**31 792**	**50 222**	**194 153**	**64 182**	**57 503**	**522 630**

This page has been left blank intentionally.

Detailed analysis of gross credit and counterparty exposures by industry

At 30 September 2019 R'million	High net worth and other professional individuals	Lending collateralised by property – largely to private clients	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services	Finance and insurance
Cash and balances at central banks	–	–	–	–	11 997	–	–
Loans and advances to banks	–	–	–	–	–	–	21 272
Non-sovereign and non-bank cash placements	–	–	1 386	–	48	454	2 570
Reverse repurchase agreements and cash collateral on securities borrowed	64	–	–	–	12	44	12 119
Sovereign debt securities	–	–	–	–	71 760	–	–
Bank debt securities	–	–	–	–	–	–	10 597
Other debt securities	–	–	–	2 533	–	656	6 056
Derivative financial instruments	–	–	89	554	295	111	4 726
Securities arising from trading activities	–	–	–	80	1 708	–	109
Loans and advances to customers	135 475	49 668	2 610	6 841	3 888	8 964	19 354
Own originated loans and advances to customers securitised	7 089	–	–	–	–	–	–
Other loans and advances	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	–	69
Total on-balance sheet exposures	**142 628**	**49 668**	**4 085**	**10 008**	**89 708**	**10 229**	**76 872**
Guarantees	3 868	2 298	47	1 749	–	112	1 357
Committed facilities related to loans and advances to customers	38 277	5 098	823	374	505	1 666	3 004
Contingent liabilities, letters of credit and other	2 617	1 753	28	455	1 213	24	140
Total off-balance sheet exposures	**44 762**	**9 149**	**898**	**2 578**	**1 718**	**1 802**	**4 501**
Total gross credit and counterparty exposures	**187 390**	**58 817**	**4 983**	**12 586**	**91 426**	**12 031**	**81 373**

Retailers and wholesalers	Manufacturing and commerce	Construction	Corporate commercial real estate	Other residential mortgages	Mining and resources	Leisure, entertainment and tourism	Transport	Communication	**Total**
–	–	–	–	–	–	–	–	–	11 997
–	–	–	–	–	–	–	–	–	21 272
2 219	2 669	346	495	–	569	30	763	1 155	12 704
–	6	–	188	–	34	–	761	–	13 228
–	–	–	–	–	–	–	–	–	71 760
–	–	–	–	–	–	–	–	–	10 597
15	1 461	–	1 166	–	–	–	910	1 601	14 398
6	97	–	517	–	589	50	12	31	7 077
–	250	–	–	–	–	–	78	126	2 351
5 364	7 667	895	8 841	–	2 887	2 555	6 989	7 351	269 349
–	–	–	–	–	–	–	–	–	7 089
–	67	–	–	220	–	–	–	–	287
100	7	1	–	–	–	1	1	–	179
7 704	**12 224**	**1 242**	**11 207**	**220**	**4 079**	**2 636**	**9 514**	**10 264**	**442 288**
1 354	1 691	137	67	–	572	314	93	209	13 868
302	1 380	178	567	26	2 339	194	1 671	2 172	58 576
31	9	–	–	–	414	–	–	1 214	7 898
1 687	**3 080**	**315**	**634**	**26**	**3 325**	**508**	**1 764**	**3 595**	**80 342**
9 391	**15 304**	**1 557**	**11 841**	**246**	**7 404**	**3 144**	**11 278**	**13 859**	**522 630**

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

At 31 March 2019 R'million	High net worth and other professional individuals	Lending collateralised by property – largely to private clients	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services	Finance and insurance
Cash and balances at central banks	–	–	–	–	10 062	–	–
Loans and advances to banks	–	–	–	–	–	–	22 126
Non-sovereign and non-bank cash placements	–	–	1 267	–	41	1 567	1 865
Reverse repurchase agreements and cash collateral on securities borrowed	524	–	–	–	–	–	20 013
Sovereign debt securities	–	–	–	–	60 898	–	–
Bank debt securities	–	–	–	–	–	–	12 505
Other debt securities	–	–	–	2 625	–	881	4 554
Derivative financial instruments	–	–	56	853	9	48	3 815
Securities arising from trading activities	–	–	–	80	4 695	–	1
Loans and advances to customers	131 940	46 965	2 878	7 670	3 396	10 015	20 790
Own originated loans and advances to customers securitised	7 677	–	–	–	–	–	–
Other loans and advances	–	–	–	–	–	–	–
Other assets	–	–	16	–	–	52	–
Total on-balance sheet exposures	**140 141**	**46 965**	**4 217**	**11 228**	**79 101**	**12 563**	**85 669**
Guarantees	4 040	979	–	1 745	1	946	666
Committed facilities related to loans and advances to customers	34 304	4 225	1 741	673	571	1 569	4 610
Contingent liabilities, letters of credit and other	3 171	1 727	1	434	1 157	13	50
Total off-balance sheet exposures	**41 515**	**6 931**	**1 742**	**2 852**	**1 729**	**2 528**	**5 326**
Total gross credit and counterparty exposures	**181 656**	**53 896**	**5 959**	**14 080**	**80 830**	**15 091**	**90 995**

Retailers and wholesalers	Manufacturing and commerce	Construction	Corporate commercial real estate	Other residential mortgages	Mining and resources	Leisure, entertainment and tourism	Transport	Communication	**Total**
–	–	–	–	–	–	–	–	–	10 062
–	–	–	–	–	–	–	–	–	22 126
1 513	2 613	338	479	–	616	27	586	1 296	12 208
–	–	–	42	–	–	60	707	–	21 346
–	–	–	–	–	–	–	–	–	60 898
–	–	–	–	–	–	–	–	–	12 505
–	1 514	–	1 595	–	146	–	837	1 434	13 586
7	106	–	401	–	160	19	15	32	5 521
–	–	–	–	–	–	–	64	–	4 840
3 809	7 141	1 364	9 022	–	3 561	2 988	7 781	6 908	266 228
–	–	–	–	–	–	–	–	–	7 677
–	109	–	–	246	–	–	–	–	355
2 117	485	46	–	–	9	63	2	32	2 822
7 446	**11 968**	**1 748**	**11 539**	**246**	**4 492**	**3 157**	**9 992**	**9 702**	**440 174**
1 067	1 380	230	56	–	412	22	124	287	11 955
1 014	1 031	50	1 276	–	1 495	1 016	1 874	521	55 970
118	28	17	10	–	1	–	–	1 013	7 740
2 199	**2 439**	**297**	**1 342**	**–**	**1 908**	**1 038**	**1 998**	**1 821**	**75 665**
9 645	**14 407**	**2 045**	**12 881**	**246**	**6 400**	**4 195**	**11 990**	**11 523**	**515 839**

The tables that follow provide information on gross core loans and advances.

Composition of core loans and advances

The table below describes the differences between ‘loans and advances to customers’ as per the balance sheet and gross core loans and advances.

R’million	30 Sept 2019	31 March 2019
Loans and advances to customers per the balance sheet	266 653	263 537
Add: own originated loans and advances to customers per the balance sheet	7 067	7 667
Net core loans and advances	**273 720**	**271 204**
*of which subject to ECL**	271 658	269 158
Net core loans and advances at amortised cost	253 063	255 102
Net fixed rate loans designated at FVPL (on which ECL is calculated for management purposes)^	18 595	14 056
of which FVPL (excluding fixed rate loans above)	2 062	2 046
Add: ECL	2 718	2 701
Gross core loans and advances	**276 438**	**273 905**
*of which subject to ECL**	274 376	271 859
of which FVPL (excluding fixed rate loans above)	2 062	2 046

^ *These are fixed rate loans which have passed the solely payments of principal and interest test (SPPI) and are held in a business model to collect contractual cash flows but have been designated at FVPL to eliminate accounting mismatches (interest rate risk is being economically hedged). The underlying loans have been fair valued and management performs an ECL calculation in order to obtain a reasonable estimate of the credit risk component. The portfolio is managed on the same basis as gross core loans and advances measured at amortised cost. The drawn (R19 billion) exposure falls predominantly into Stage 1 (consistent throughout the period) (31 March 2019: R14 billion). The ECL on the portfolio is R41 million (31 March 2019: R29 million).*

* *Includes portfolios for which ECL is not required for IFRS purposes but for which management evaluates on this basis.*

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

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

R'million	30 Sept 2019	31 March 2019
Gross core loans and advances subject to ECL	**274 376**	**271 859**
Stage 1	255 977	257 297
Stage 2	14 917	10 768
of which past due greater than 30 days	*286*	*354*
Stage 3	3 482	3 794
Gross core loans and advances subject to ECL (%)		
Stage 1	93.3%	94.6%
Stage 2	5.4%	4.0%
Stage 3	1.3%	1.4%

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

R'million	30 Sept 2019	31 March 2019
ECL impairment charges on core loans and advances	(244)	(738)
Average gross core loans and advances subject to ECL	273 118	263 109
Annualised credit loss ratio	**0.18%**	**0.28%**

R'million	30 Sept 2019	31 March 2019
ECL	**(2 718)**	**(2 701)**
Stage 1	(608)	(538)
Stage 2	(673)	(441)
Stage 3	(1 437)	(1 722)
ECL coverage ratio (%)		
Stage 1	0.2%	0.2%
Stage 2	4.5%	4.1%
Stage 3	41.3%	45.4%

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

R'million	30 Sept 2019	31 March 2019
Stage 3 net of ECL	2 045	2 072
Aggregate collateral and other credit enhancements on Stage 3	2 858	3 055
Stage 3 net of ECL and collateral	–	–
Stage 3 as a % of gross core loans and advances subject to ECL	1.3%	1.4%
Total ECL as a % of Stage 3 exposure	78.1%	71.2%
Stage 3 net of ECL as a % of net core loans and advances subject to ECL	0.8%	0.8%

Stage 1: 93.3% 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 loss. Coverage for these performing, non-deteriorated assets is 0.2%.

Stage 2: 5.4% of gross exposure is in Stage 2 and has seen an increase in credit risk since origination. These assets require a lifetime expected loss to be held. Only R286 million or 0.1% of gross core loans and advances subject to ECL 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: 1.3% of gross exposure is in Stage 3 which is made up of assets that are credit impaired. The coverage ratio totals 41.3% 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 subject to ECL

The table below indicates underlying movements in gross core loans and advances to customers subject to ECL from 31 March 2019 to 30 September 2019. 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. Exposures within this category may have transferred stage during the period. Foreign exchange and other category largely comprises impact on the closing balance as a result of movements and translations in foreign exchange rates since the opening date, 31 March 2019. Further analysis as at 30 September 2019 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
At 31 March 2019	**257 297**	**(538)**	**10 768**	**(441)**	**3 794**	**(1 722)**	**271 859**	**(2 701)**
Transfer from Stage 1	(8 374)	175	7 835	(117)	539	(58)	–	–
Transfer from Stage 2	2 906	(5)	(3 056)	38	150	(33)	–	–
Transfer from Stage 3	77	(3)	211	(1)	(288)	4	–	–
ECL remeasurement arising from transfer of stage	–	37	–	(97)	–	(57)	–	(117)
New lending net of repayments (includes assets written off)	2 973	(79)	(386)	12	(487)	195	2 100	128
Changes to risk parameters and models	–	(86)	–	(87)	–	85	–	(88)
Foreign exchange and other	1 098	(109)	(455)	20	(226)	149	417	60
At 30 September 2019	**255 977**	**(608)**	**14 917**	**(673)**	**3 482**	**(1 437)**	**274 376**	**(2 718)**

An analysis of credit quality by internal rating grade

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

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

The internal credit rating distribution below is based on the 12-month PD at 30 September 2019 for gross core loans and advances subject to ECL by stage. The staging classifications are not only driven by the absolute PD, but on factors that determine a significant increase in credit risk, including relative movement in PD since origination. There is therefore no direct correlation between the credit quality of an exposure and its stage classification as shown in the table below:

At 30 September 2019 **R'million**	IB01-IB12	IB13-IB19	IB20-IB25	Stage 3	**Total**
Gross core loans and advances subject to ECL	**153 858**	**100 877**	**16 159**	**3 482**	**274 376**
Stage 1	151 726	90 987	13 264	-	255 977
Stage 2	2 132	9 890	2 895	-	14 917
Stage 3	-	-	-	3 482	3 482
ECL	**(78)**	**(887)**	**(316)**	**(1 437)**	**(2 718)**
Stage 1	(72)	(370)	(166)	-	(608)
Stage 2	(6)	(517)	(150)	-	(673)
Stage 3	–	–	–	(1 437)	(1 437)
Coverage ratio (%)	**0.1%**	**0.9%**	**2.0%**	**41.3%**	**1.0%**

At 31 March 2019 **R'million**	IB01-IB12	IB13-IB19	IB20-IB25	Stage 3	**Total**
Gross core loans and advances subject to ECL	**153 269**	**95 193**	**19 603**	**3 794**	**271 859**
Stage 1	150 126	89 542	17 629	–	257 297
Stage 2	3 143	5 651	1 974	–	10 768
Stage 3	–	–	–	3 794	3 794
ECL	**(92)**	**(703)**	**(184)**	**(1 722)**	**(2 701)**
Stage 1	(59)	(358)	(121)	–	(538)
Stage 2	(33)	(345)	(63)	–	(441)
Stage 3	–	–	–	(1 722)	(1 722)
Coverage ratio (%)	**0.1%**	**0.7%**	**0.9%**	**45.4%**	**1.0%**

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

	Gross core loans and advances at amortised cost and FVPL (subject to ECL)								Gross core loans and advances at FVPL (not subject to ECL)	Gross core loans and advances
	Stage 1		Stage 2		Stage 3		Total			
R'million	Gross exposure	ECL	Gross exposure	ECL	Gross exposure	ECL	**Gross exposure**	**ECL**		
At 30 September 2019										
Commercial real estate	**43 899**	**(83)**	**1 332**	**(3)**	**802**	**(262)**	**46 033**	**(348)**	**95**	**46 128**
Commercial real estate – investment	38 214	(68)	1 327	(3)	707	(171)	40 248	(242)	95	40 343
Commercial real estate – development	4 910	(11)	–	–	–	–	4 910	(11)	–	4 910
Commercial vacant land and planning	775	(4)	5	–	95	(91)	875	(95)	–	875
Residential real estate	**2 817**	**(60)**	**470**	**(27)**	**253**	**(147)**	**3 540**	**(234)**	–	**3 540**
Residential real estate – development	2 169	(26)	421	(21)	183	(95)	2 773	(142)	–	2 773
Residential vacant land and planning	648	(34)	49	(6)	70	(52)	767	(92)	–	767
Total lending collateralised by property	**46 716**	**(143)**	**1 802**	**(30)**	**1 055**	**(409)**	**49 573**	**(582)**	**95**	**49 668**
At 31 March 2019										
Commercial real estate	**39 682**	**(63)**	**2 423**	**(25)**	**1 116**	**(351)**	**43 221**	**(439)**	**94**	**43 315**
Commercial real estate – investment	35 494	(49)	1 132	(17)	1 021	(256)	37 647	(322)	94	37 741
Commercial real estate – development	3 604	(11)	1 288	(8)	–	–	4 892	(19)	–	4 892
Commercial vacant land and planning	584	(3)	3	–	95	(95)	682	(98)	–	682
Residential real estate	**2 859**	**(44)**	**531**	**(11)**	**260**	**(150)**	**3 650**	**(205)**	**–**	**3 650**
Residential real estate – development	2 266	(20)	482	(9)	208	(105)	2 956	(134)	–	2 956
Residential vacant land and planning	593	(24)	49	(2)	52	(45)	694	(71)	–	694
Total lending collateralised by property	**42 541**	**(107)**	**2 954**	**(36)**	**1 376**	**(501)**	**46 871**	**(644)**	**94**	**46 965**

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

	Gross core loans and advances at amortised cost and FVPL (subject to ECL)								Gross core loans and advances at FVPL (not subject to ECL)	Gross core loans and advances
	Stage 1		Stage 2		Stage 3		Total			
R'million	Gross exposure	ECL	Gross exposure	ECL	Gross exposure	ECL	**Gross exposure**	**ECL**		
At 30 September 2019										
Mortgages	70 151	(77)	4 931	(131)	1 090	(252)	76 172	(460)	–	76 172
High net worth and specialised lending	64 737	(159)	1 053	(9)	602	(476)	66 392	(644)	–	66 392
Total high net worth and other private client lending	**134 888**	**(236)**	**5 984**	**(140)**	**1 692**	**(728)**	**142 564**	**(1 104)**	**–**	**142 564**
At 31 March 2019										
Mortgages	70 282	(86)	2 333	(61)	1 098	(245)	73 713	(392)	–	73 713
High net worth and specialised lending	64 693	(134)	671	(23)	540	(456)	65 904	(613)	–	65 904
Total high net worth and other private client lending	**134 975**	**(220)**	**3 004**	**(84)**	**1 638**	**(701)**	**139 617**	**(1 005)**	**–**	**139 617**

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

	Gross core loans and advances at amortised cost and FVPL (subject to ECL)								Gross core loans and advances at FVPL (not subject to ECL)	Gross core loans and advances
	Stage 1		Stage 2		Stage 3		Total			
R'million	Gross exposure	ECL	Gross exposure	ECL	Gross exposure	ECL	**Gross exposure**	**ECL**		
At 30 September 2019										
Acquisition finance	11 528	(36)	253	(8)	30	(8)	11 811	(52)	–	11 811
Asset-based lending*	7 411	(44)	870	(9)	549	(271)	8 830	(324)	–	8 830
Fund finance	5 549	(7)	3	–	–	–	5 552	(7)	–	5 552
Other corporate and financial institutions and governments	41 597	(129)	4 615	(474)	156	(21)	46 368	(624)	1 967	48 335
Asset finance	3 004	(4)	16	(1)	–	–	3 020	(5)	–	3 020
Small ticket asset finance	1 860	(1)	16	(1)	–	–	1 876	(2)	–	1 876
Large ticket asset finance	1 144	(3)	–	–	–	–	1 144	(3)	–	1 144
Project finance	5 188	(9)	1 230	(10)	–	–	6 418	(19)	–	6 418
Resource finance	96	–	144	(1)	–	–	240	(1)	–	240
Total corporate and other lending	**74 373**	**(229)**	**7 131**	**(503)**	**735**	**(300)**	**82 239**	**(1 032)**	**1 967**	**84 206**
At 31 March 2019										
Acquisition finance	12 889	(34)	276	(2)	29	(1)	13 194	(37)	–	13 194
Asset-based lending	5 628	(26)	53	(2)	283	(188)	5 964	(216)	–	5 964
Fund finance	5 090	(8)	–	–	–	–	5 090	(8)	–	5 090
Other corporate and financial institutions and governments	46 699	(128)	2 671	(305)	460	(331)	49 830	(764)	1 952	51 782
Asset finance	3 844	(5)	18	(1)	8	–	3 870	(6)	–	3 870
Small ticket asset finance	1 962	(1)	18	(1)	8	–	1 988	(2)	–	1 988
Large ticket asset finance	1 882	(4)	–	–	–	–	1 882	(4)	–	1 882
Project finance	5 076	(9)	1 792	(11)	–	–	6 868	(20)	–	6 868
Resource finance	555	(1)	–	–	–	–	555	(1)	–	555
Total corporate and other lending	**79 781**	**(211)**	**4 810**	**(321)**	**780**	**(520)**	**85 371**	**(1 052)**	**1 952**	**87 323**

* *Includes Import Solutions (R3.1 billion) at 30 September 2019 previously disclosed as Other assets.*

Investment risk in the banking book

Investment risk in the banking book comprises 5.1% of total assets.

Summary of investments held and stress testing analyses

An analysis of income and revaluations of these investments can be found in the investment income note on page 12. The balance sheet value of investments is indicated in the table below.

R'million	On-balance sheet value of investments 30 Sept 2019	Valuation change stress test 30 Sept 2019*	On-balance sheet value of investments 31 March 2019	Valuation change stress test 31 March 2019*
Unlisted investments**	8 165	1 225	7 036	1 055
Listed equities	2 519	630	3 034	758
Investment and trading properties	8 873	1 159	8 866	1 159
Warrants and profit shares	165	58	174	60
The IEP Group^^	6 472	971	6 184	928
Total	**26 194**	**4 042**	**25 294**	**3 960**

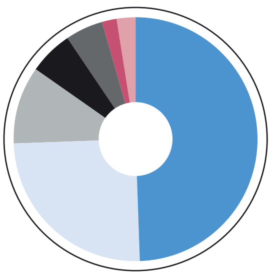
** Includes the fair value loans investments of R4.4 billion.
^ For the purposes of the above analysis, the exposures arising from the consolidation of the Investec Property Fund have been reflected at the level of our economic ownership, being 26.6% (31 March 2019: 26.6%).
^^ The investment in the IEP Group is reflected as an investment in an associate. Investec Bank Limited holds a 47.4% stake alongside third party investors and senior management of the business who hold the remaining 52.6%.
* In order to assess our earnings sensitivity to a movement in the valuation of these investments, the stress testing parameters detailed below are applied:

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 2019, 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 necessarily 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 low, although the probability of listed equities being negatively impacted at the same time is high.

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



30 SEPTEMBER 2019
R10 849 million

49.8%	Real estate
24.2%	Finance and insurance
10.3%	Communication
5.7%	Electricity, gas and water (utility service)
4.8%	Manufacturing and commerce
2.8%	Mining and resources
2.4%	Other

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 purposes, which largely focuses on those securitisations in which the bank 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 full picture of the activities that we have conducted in this space. Some of the information provided below overlaps with the bank's credit and counterparty exposure information.

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.

Further details of our various securitisation vehicles are highlighted below:

- Fox Street 1: R0.6 billion notes of the original R1.5 billion are still in issue. All notes are held internally
- Fox Street 2: R0.7 billion notes of the original R1.5 billion are still in issue. All notes are held internally
- Fox Street 3: R1.0 billion notes of the original R2.0 billion are still in issue. R182 million of the notes are held internally
- Fox Street 4: R1.9 billion notes of the original R3.7 billion are still in issue. All notes are held internally
- Fox Street 5: R1.7 billion notes of the original R2.9 billion are still in issue. All notes are held internally.
- Fox Street 6: R1.1 billion notes of the original R1.3 billion are still in issue. R423 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 considered select opportunities in the credit/debt markets and traded in and purchased structured credit. These have largely been rated UK residential mortgage backed securities (RMBS), totalling R0.3 billion at 30 September 2019 (31 March 2019: R0.2 billion), unrated South African RMBS totalling R1.1 billion at 30 September 2019 (31 March 2019: R1.1 billion) and unrated South African commercial mortgage backed securities (CMBS) totalling R0.5 billion at 30 September 2019 (31 March 2019: R0.3 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. These assets are reflected on the balance sheet line item 'own originated loans and advances to customers' totaling R7.1 billion at 30 September 2019 (31 March 2019: R7.7 billion).

Nature of exposure/activity	Exposure 30 Sept 2019 R'million	Exposure 31 March 2019 R'million	Balance sheet and credit risk classification	Asset quality – relevant comments
Structured credit (gross exposure)	1 899	1 633	Other debt securities	
Rated	305	167		
Unrated	1 594	1 466		
Loans and advances to customers and third party intermediary originating platforms (mortgage loans) (net exposure)	195	220	Other loans and advances	
Private Client division assets which have been securitised (net exposure)	7 067	7 667	Own originated loans and advances to customers	Analysed as part of the group's overall asset quality on core loans and advances

Analysis of gross structured credit exposure

R'million	AAA	AA	A	BBB	BB	B and below	Total rated	Total unrated	Total
UK RMBS	–	–	305	–	–	–	305	–	305
South African RMBS	–	–	–	–	–	–	–	1 101	1 101
South African CMBS	–	–	–	–	–	–	–	493	493
Total at 30 September 2019	**–**	**–**	**305**	**–**	**–**	**–**	**305**	**1 594**	**1 899**
Total at 31 March 2019	**–**	**33**	**–**	**–**	**134**	**–**	**167**	**1 466**	**1 633**

Market risk in the trading book

Traded market risk description

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

Measurement of traded market risk

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

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

Value at Risk

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

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

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

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

	30 September 2019				31 March 2019			
95% one-day VaR R'million	**Period end**	Average	High	Low	**Year end**	Average	High	Low
Commodities	0.1	0.1	0.3	-	0.1	0.1	0.4	–
Equities	4.3	4.5	8.1	3.2	3.8	3.6	7.5	1.5
Foreign exchange	1.2	2.2	6.5	0.8	1.4	2.1	6.5	0.9
Interest rates	1.2	1.7	4.5	0.8	1.2	2.1	9.0	0.4
Consolidated*	**5.3**	**5.3**	**10.0**	**3.4**	**3.8**	**4.7**	**9.7**	**1.7**

* *The consolidated VaR is lower than the sum of the individual VaRs. This arises from the correlation 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.

95% one-day ES **R'million**	**30 Sept 2019 Period end**	31 March 2019 Year end
Commodities	0.2	0.2
Equities	6.6	7.1
Foreign exchange	1.6	2.2
Interest rates	1.8	1.7
Consolidated*	**7.2**	**6.6**

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

Stressed VaR

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

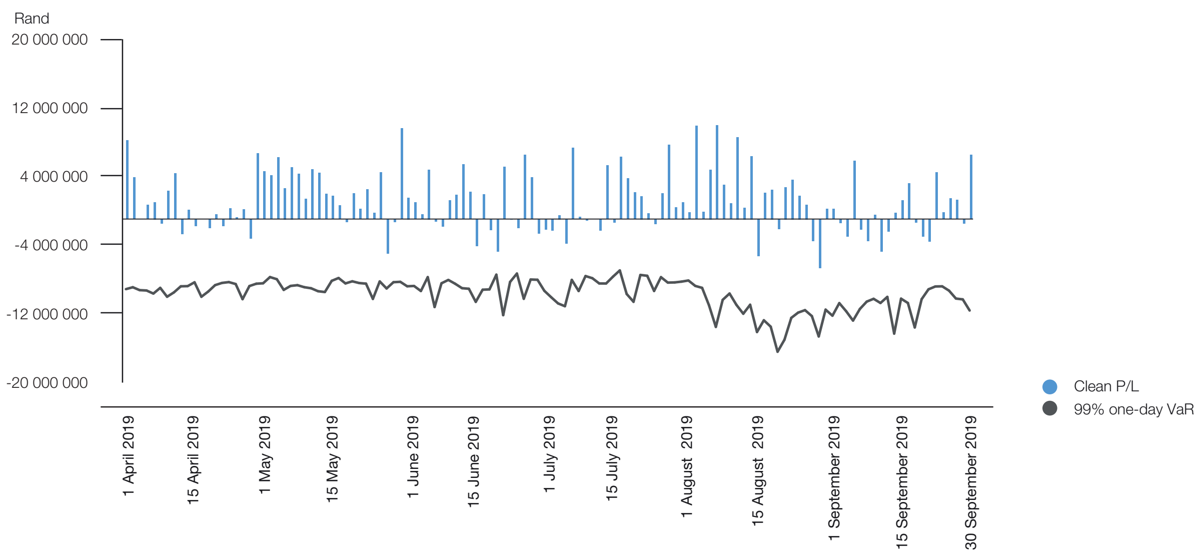
R'million	**30 Sept 2019 Period end**	31 March 2019 Year end
99% one-day sVaR	**15.5**	**9.5**

Backtesting

The performance of the VaR model is regularly monitored through backtesting. This is done by comparing daily clean profit and loss against one-day VaR based on a 99% confidence level. Clean profit and loss excludes items such as intra-day transactions, valuation adjustments, provisions, recoveries, commission, fees and hedge costs included in the new trade revenue. If a loss exceeds the one-day VaR, a backtesting exception is considered to have occurred. Over time we expect the average rate of observed backtesting exceptions to be consistent with the percentile of the VaR statistic being tested. This is conducted at an aggregate and desk level on a daily basis. The graph that follows shows the result of backtesting the total daily 99% one-day VaR against the clean profit and loss figures for our trading activities over the reporting period. Based on this graph, we can gauge the accuracy of the VaR figures i.e. 99% of the time, losses are not expected to exceed the 99% one-day VaR.

The average VaR for the six months to 30 September 2019 in the trading book was slightly higher than year ended 31 March 2019 due to increased market volatility and higher VaR utilisation on the equities and foreign exchange desks. Using clean profit and loss data for backtesting resulted in zero exceptions (as shown in the graph below), which is below the expected number of exceptions that a 99% VaR model implies.

99% one-day VaR backtesting



Stress testing

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

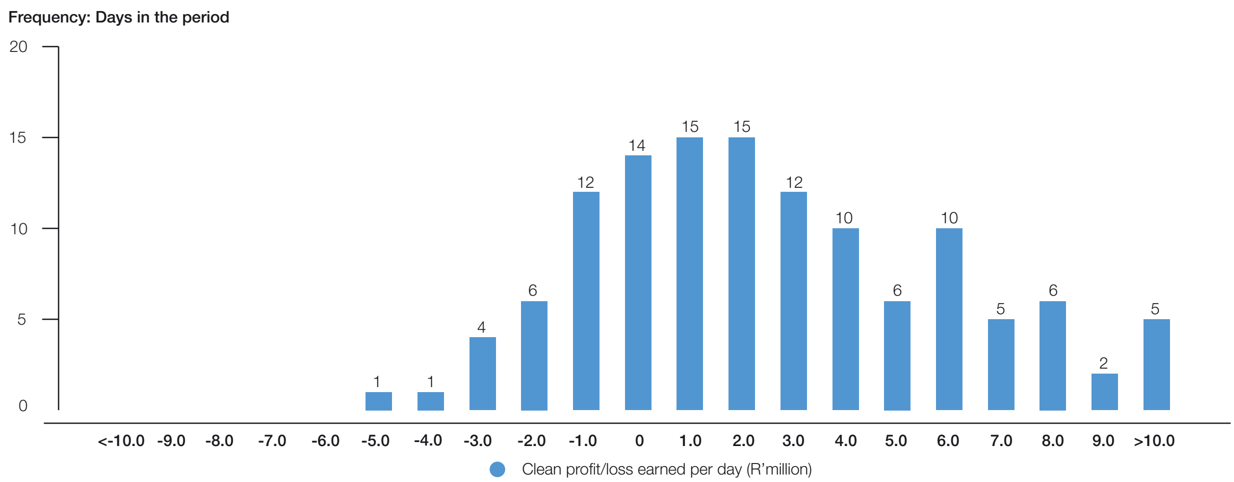
	30 September 2019				
99% EVT R'million	**Period end**	Average	High	Low	**31 March 2019 year end**
Commodities	0.9	0.6	1.8	0.2	1.4
Equities	22.2	19.1	37.0	8.9	25.6
Foreign exchange	10.3	7.5	15.5	2.5	8.9
Interest rates	4.2	6.8	23.0	2.1	3.9
Consolidated#	**21.0**	**20.4**	**43.0**	**11.8**	**18.0**

The consolidated stress testing is lower than the sum of the individual stress test 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 business. The distribution is skewed to the profit side and the graph shows that a clean profit was realised on 86 days out of a total of 124 days in the trading business for the six months to 30 September 2019. The average daily clean profit and loss generated for the six months to 30 September 2019 was R2.1 million (six months to 30 September 2018: R2.4million).

Clean profit and loss (excluding fees and hedge costs included 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.

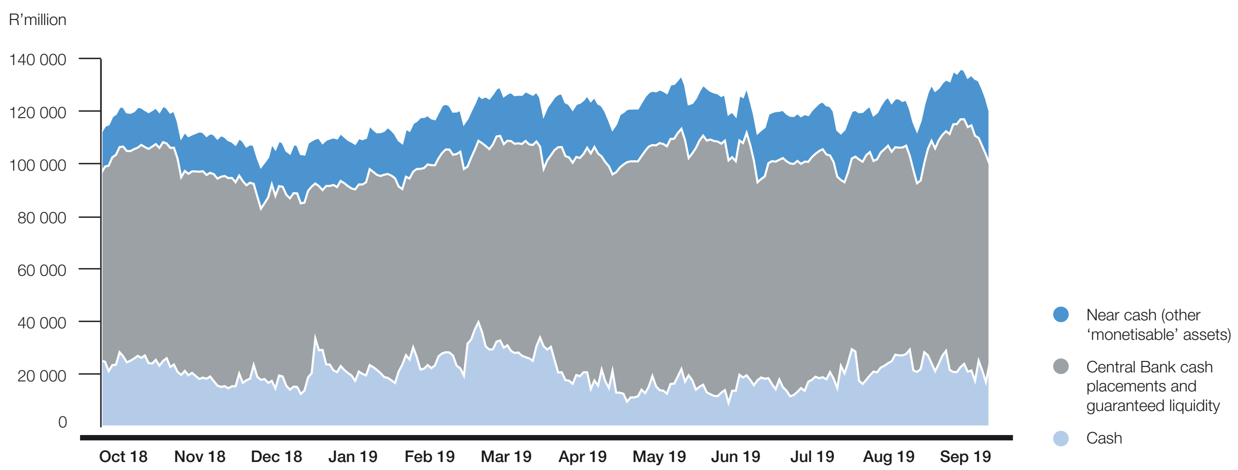
Liquidity risk

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.

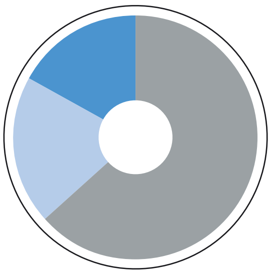
Liquidity risk is further broken down into:

- **Funding liquidity:** this relates to the risk that the group 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 group 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



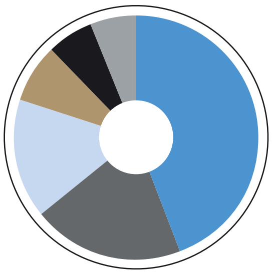
An analysis of cash and near cash at 30 September 2019



R120.0 billion

63.4%	Central Bank cash placements and guaranteed liquidity
19.8%	Cash
16.8%	Near cash (other 'monetisable' assets)

Bank and non-bank depositor concentration by type at 30 September 2019



R378.5 billion

44.3%	Other financials
20.1%	Individuals
15.6%	Non-financial corporates
7.8%	Banks
6.3%	Small business
5.9%	Public sector

Liquidity mismatch

The tables that follow show the liquidity mismatch across our business.

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

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

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

Contractual liquidity at 30 September 2019

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	32 548	371	394	–	152	4	91	33 560
Cash and short-term funds – non-banks	11 783	434	466	–	–	–	–	12 683
Investment/trading assets and statutory liquids	49 744	34 429	9 728	3 053	7 701	38 730	30 675	174 060
Securitised assets	–	–	–	–	–	3 533	3 804	7 337
Advances	5 262	7 809	10 916	9 140	20 277	106 486	107 025	266 915
Other assets	516	4 391	926	402	–	353	15 404	21 992
Assets	**99 853**	**47 434**	**22 430**	**12 595**	**28 130**	**149 106**	**156 999**	**516 547**
Deposits – banks	(851)	(922)	(554)	(220)	(388)	(26 405)	–	(29 340)
Deposits – non-banks	(155 044)	(24 793)	(60 587)	(37 863)	(27 847)	(39 858)	(3 180)	(349 172)
Negotiable paper	(590)	(147)	(604)	(1 080)	–	(8 851)	(1 043)	(12 315)
Securitised liabilities	–	–	–	–	–	–	(1 489)	(1 489)
Investment/trading liabilities	(344)	(21 008)	(2 056)	(504)	(3 012)	(10 826)	(2 728)	(40 478)
Subordinated liabilities	–	(21)	(4)	(1 489)	–	(11 851)	(1 274)	(14 639)
Other liabilities	(2 691)	(893)	(135)	(253)	(1 202)	(483)	(6 595)	(12 252)
Liabilities	**(159 520)**	**(47 784)**	**(63 940)**	**(41 409)**	**(32 449)**	**(98 274)**	**(16 309)**	**(459 685)**
Total equity	–	–	–	–	–	–	(56 862)	(56 862)
Contractual liquidity gap	**(59 667)**	**(350)**	**(41 510)**	**(28 814)**	**(4 319)**	**50 832**	**83 828**	**–**
Cumulative liquidity gap	(59 667)	(60 017)	(101 527)	(130 341)	(134 660)	(83 828)	–	

^ *Includes call deposits of R154 billion and the balance reflects term deposits which have finally reached/are reaching contractual maturity.*

Behavioural liquidity

As discussed on page 50.

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	**44 473**	**(1 165)**	**3 725**	**(4 923)**	**(10 387)**	**(182 813)**	**151 090**	**–**
Cumulative	44 473	43 308	47 033	42 110	31 723	(151 090)	–	

Non-trading interest rate risk description

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

Sources of interest rate risk in the banking book include:

- **Repricing risk:** arises from the timing differences in the fixed rate maturity and floating rate repricing of group 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 group 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 2019

The table below shows our non-trading interest rate mismatch 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	20 132	–	–	4	–	11 694	31 830
Cash and short-term funds – non-banks	12 581	–	–	–	–	97	12 678
Investment/trading assets and statutory liquids	40 298	14 305	13 376	18 613	13 566	54 249	154 407
Securitised assets	7 337	–	–	–	–	–	7 337
Advances	250 091	3 317	2 316	4 994	258	5 872	266 848
Other assets	10 340	(3 708)	(3 568)	1 943	90	10 126	15 223
Assets	**340 779**	**13 914**	**12 124**	**25 554**	**13 914**	**82 038**	**488 323**
Deposits – banks	(27 204)	(134)	(125)	(1 773)	–	(104)	(29 340)
Deposits – non-banks	(288 309)	(28 529)	(17 865)	(9 792)	(981)	(3 696)	(349 172)
Negotiable paper	(2 635)	(607)	–	(5 048)	(1 043)	(148)	(9 481)
Securitised liabilities	(1 489)	–	–	–	–	–	(1 489)
Investment/trading liabilities	(2 226)	(420)	(1 759)	–	–	(7 906)	(12 311)
Subordinated liabilities	(14 209)	–	–	(291)	–	(139)	(14 639)
Other liabilities	–	–	–	–	–	(11 081)	(11 081)
Liabilities	**(336 072)**	**(29 690)**	**(19 749)**	**(16 904)**	**(2 024)**	**(23 074)**	**(427 513)**
Total equity	(1 544)	–	–	–	–	(55 318)	(56 862)
Balance sheet	**3 163**	**(15 776)**	**(7 625)**	**8 650**	**11 890**	**3 646**	**3 948**
Off-balance sheet	(3 762)	16 044	12 681	(13 337)	(15 574)	–	(3 948)
Repricing gap	**(599)**	**268**	**5 056**	**(4 687)**	**(3 684)**	**3 646**	**–**
Cumulative repricing gap	(599)	(331)	4 725	38	(3 646)	–	

Economic value sensitivity at 30 September 2019

As outlined above, non-trading interest rate risk is measured and monitored using an 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 would only have a negligible 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	(236.2)	0.7	2.9	0.6	0.3	–	(168.0)
200bps up	113.6	(0.6)	(2.2)	(0.7)	(0.3)	–	53.6

Capital structure and capital adequacy - Limited

R'million	FIRB 30 Sept 2019^	Pro forma FIRB* 31 March 2019^	Standardised 31 March 2019^
Tier 1 capital			
Shareholders' equity	41 087	39 966	39 966
Shareholders' equity per balance sheet	44 270	43 149	43 149
Perpetual preference share capital and share premium	(3 183)	(3 183)	(3 183)
Non-controlling interests	–	–	–
Non-controlling interests per balance sheet	10 048	9 922	9 922
Non-controlling interests excluded for regulatory purposes	(10 048)	(9 922)	(9 922)
Regulatory adjustments to the accounting basis	1 285	931	1 155
Cash flow hedging reserve	1 285	931	931
Adjustment under IFRS 9 transitional arrangement	–	–	224
Deductions	(4 489)	(3 825)	(2 971)
Goodwill and intangible assets net of deferred tax	(585)	(629)	(629)
Investment in financial entity	(2 383)	(2 221)	(2 138)
Shortfall of eligible provisions compared to expected loss	(860)	(604)	–
Other regulatory adjustments	(661)	(371)	(204)
Common equity tier 1 capital	**37 883**	**37 072**	**38 150**
Additional tier 1 capital	**2 383**	**2 374**	**2 432**
Additional tier 1 instruments	5 727	5 727	5 727
Phase out of non-qualifying additional tier 1 instruments	(3 302)	(3 302)	(3 302)
Non-qualifying surplus capital attributable to non-controlling interest	(127)	(136)	(78)
Non-controlling interest in non-banking entities	85	85	85
Tier 1 capital	**40 266**	**39 446**	**40 582**
Tier 2 capital	**11 569**	**11 566**	**13 165**
Collective impairment allowances	806	483	876
Tier 2 instruments	14 639	15 857	15 857
Non-qualifying surplus capital attributable to non-controlling interests	(3 876)	(4 774)	(3 568)
Total regulatory capital	**51 835**	**51 012**	**53 747**
Risk-weighted assets	**325 432**	**318 533**	**361 750**
Capital ratios			
Common equity tier 1 ratio	11.6%	11.6%	10.5%
Tier 1 ratio	12.4%	12.4%	11.2%
Total capital adequacy ratio	15.9%	16.0%	14.9%

* *We had approval to adopt the Foundation Internal Rating (FIRB) approach, effective 1 April 2019. We therefore also presented numbers on a pro-forma basis for 31 March 2019.*

^ *Investec Limited's capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, Investec Limited's common equity tier 1 ratio would be 49bps lower (31 March 2019: 27bps lower).*

Capital requirements

	FIRB	Pro forma FIRB*	Standardised
R'million	**30 Sept 2019**	31 March 2019	31 March 2019
Capital requirements	**37 457**	**36 721**	**41 703**
Credit risk	29 546	28 808	33 649
Equity risk	2 522	2 701	2 701
Counterparty credit risk	666	579	711
Credit valuation adjustment risk	258	347	356
Market risk	787	641	641
Operational risk	3 678	3 645	3 645
Risk-weighted assets	**325 432**	**318 533**	**361 750**
Credit risk	256 697	249 892	291 886
Equity risk	21 914	23 433	23 433
Counterparty credit risk	5 790	5 023	6 166
Credit valuation adjustment risk	2 245	3 010	3 090
Market risk	6 835	5 558	5 558
Operational risk	31 951	31 617	31 617

A summary of capital adequacy and leverage ratios

	FIRB	Pro forma FIRB*	Standardised
R'million	**30 Sept 2019^**	31 March 2019^	31 March 2019^
Common equity tier 1 (as reported)	11.6%	11.6%	10.5%
Common equity tier 1 ('fully loaded')^^	11.6%	11.6%	10.5%
Tier 1 (as reported)	12.4%	12.4%	11.2%
Total capital adequacy ratio (as reported)	15.9%	16.0%	14.9%
Leverage ratio** – current	7.3% #	7.4%#	7.6%#
Leverage ratio** – 'fully loaded'^^	7.1% #	7.1%#	7.3%#

* *We had approval to adopt the Foundation Internal Rating (FIRB) approach, effective 1 April 2019. We therefore also presented numbers on a pro-forma basis for 31 March 2019.*
** *The leverage ratios are calculated on an end-quarter basis.*
# *Based on revised BIS rules.*
^ *Investec Limited's capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, Investec Limited's common equity tier 1 ratio would be 49bps lower (31 March 2019: 27bps lower).*
^^ *The key difference between the 'reported' basis and the 'fully loaded' basis is primarily relating to capital instruments that previously qualified as regulatory capital, but do not fully qualify under South African Prudential Authority regulations. These instruments continue to be recognised on a reducing basis in the 'reported' figures until 2022.*

(continued)

Leverage

R'million	FIRB 30 Sept 2019^	Pro forma FIRB* 31 March 2019^	Standardised 31 March 2019^
Exposure measure	**549 600**	**533 377**	**534 230**
Tier 1 capital	40 266	39 446	40 582
Leverage ratio- current**	**7.3%** #	**7.4%**#	**7.6%**#
Tier 1 capital 'fully loaded'^^	38 979	38 057	38 889
Leverage ratio- 'fully loaded'^^**	**7.1%** #	**7.1%**#	**7.3%**#

* *We had approval to adopt the Foundation Internal Rating (FIRB) approach, effective 1 April 2019. We therefore also presented numbers on a pro-forma basis for 31 March 2019.*
** *The leverage ratios are calculated on an end-quarter basis.*
# *Based on revised BIS rules.*
^ *Investec Limited's capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, Investec Limited's common equity tier 1 ratio would be 49bps lower (31 March 2019: 27bps lower).*
^^ *The key difference between the 'reported' basis and the 'fully loaded' basis is primarily relating to capital instruments that previously qualified as regulatory capital, but do not fully qualify under South African Prudential Authority regulations. These instruments continue to be recognised on a reducing basis in the 'reported' figures until 2022.*

We supplement our IFRS figures with alternative performance measures used by management internally and which provide valuable, relevant information to readers. A description of the group's alternative performance measures and their calculation, where relevant, is set out below.

Alternative performance measures constitute *pro forma* financial information. The *pro forma* financial information is the responsibility of the board of directors and is presented for illustrative purposes only and because of its nature may not fairly present the group's financial position, changes in equity, and results in operations or cash flows.

Annualised net interest margin	Interest income net of interest expense multiplied by two, divided by average interest-earning assets. Refer to calculation on page 11
Annuity income	Net interest income (refer to page 11) plus net annuity fees and commissions (refer to page 12)
Cost to income ratio	Operating costs divided by operating income before ECL impairment charges (net of depreciation on operating leased assets and net of operating profits or losses attributable to other non-controlling interests) Refer to calculation below

R'million	30 Sept 2019	30 Sept 2018	31 March 2019
Operating costs (A)	5 174	5 037	10 188
Total operating income before expected credit losses	9 991	9 755	19 086
Less: Profit attributable to other non-controlling interests	(488)	(657)	(1 049)
Total (B)	9 503	9 098	18 037
Cost to income ratio (A/B)	**54.4%**	**55.4%**	**56.5%**

Coverage ratio	ECL as a percentage of gross core loans and advances subject to ECL
Credit loss ratio	ECL impairment charges on core loans and advances as a percentage of average gross core loans and advances subject to ECL
Gearing ratio	Total assets excluding assurance assets divided by total equity
Gross core loans and advances	Refer to calculation on page 36
Loans and advances to customers as a % of customer accounts	Loans and advances to customers as a percentage of customer accounts (deposits)
Net core loans and advances	Refer to calculation on page 36

Cash and near cash

Includes cash, near cash (other 'monetisable assets') and Central Bank cash placements and guaranteed liquidity

ECL

Expected credit loss

Effective operational tax rate

Tax on profit on ordinary activities (excluding non-operating items) divided by operating profit before goodwill and acquired intangibles and excluding share of post taxation profit of associates and joint venture holdings

Funds under management

Includes third party assets under administration managed by the Wealth & Investment, Asset Management and Property businesses

FVOCI

Fair value through other comprehensive income

FVPL

Fair value through profit and loss

Interest-earning assets

Cash and near cash, bank debt securities, sovereign debt securities, core loans and advances, other debt securities, other loans and advances and other securitised assets. Refer to page 11 for calculation

Interest-bearing liabilities

Deposits by banks, debt securities in issue, repurchase agreements and cash collateral on securities lent, customer accounts (deposits), liabilities arising on securitisation of own originated loans and advances and loans from group companies. Refer to page 11 for calculation

Structured credit

Reflects the gross exposure of rated and unrated structured credit classified within other debt securities on the balance sheet. Refer to page 45 for detail.