ANNUAL REPORT | 2019

Investec Bank Limited group and company annual financial statements

Investec

Cross reference tools

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

PAGE REFERENCES
Refers readers to information elsewhere in this report

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

CORPORATE SUSTAINABILITY
Refers readers to further information in our 2019 corporate sustainability and ESG supplementary report available on our website: www.investec.com

REPORTING STANDARD
Denotes our consideration of a reporting standard

CONTENTS

1

OPERATIONAL AND STRATEGIC OVERVIEW

Operating structure

Investec Bank Limited is the main banking subsidiary of Investec Limited

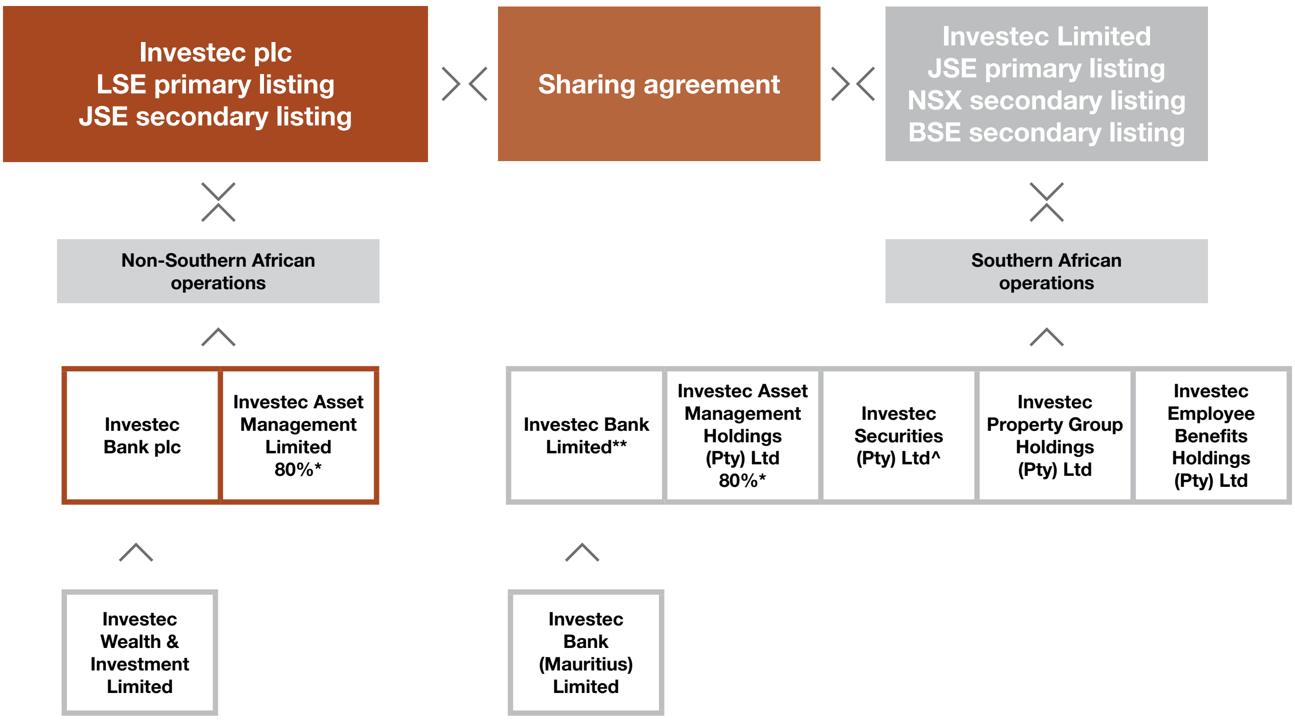
During July 2002 Investec Group Limited (since renamed Investec Limited) implemented a dual listed companies (DLC) structure and listed its offshore business on the London Stock Exchange (LSE).

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

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

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

Our DLC structure and main operating subsidiaries at 31 March 2019



All shareholdings in the ordinary share capital of the subsidiaries are 100%, unless otherwise stated.

* *Senior management in the company holds 20% minus one share (31 March 2018: 17%)*
** *JSE listed preference shares in issue*
^ *Houses the Wealth & Investment business*

Salient features of the DLC structure

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

Specialist Banking

Our specialist teams are well positioned to provide services for both personal and business needs across Corporate and Institutional Banking, Private Banking, Investec for Business, and Investment Banking and Principal Investments.

Each business provides specialised products and services to defined target markets

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

Natural linkages between the private client and corporate business

OUR OPERATIONAL FOOTPRINT

Where we operate

South Africa

Strong brand and positioning

Fifth largest bank by assets

Leading position in corporate, institutional and private client banking activities

Mauritius

Established 1997

Focused on corporate, institutional and private client banking activities

Our value proposition

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

Specialist expertise delivered with dedication and energy

Chief executive officer: Richard Wainwright

OPERATING ENVIRONMENT INDICATORS

The table below provides an overview of some key statistics that should be considered when reviewing our operational performance.

	As at 31 March 2019	As at 31 March 2018	% change	Average over the year 1 April 2018 to 31 March 2019
Market indicators				
FTSE All share	3 978	3 894	2.2%	4 003
JSE All share	56 463	55 475	1.8%	55 348
S&P	2 834	2 641	7.3%	2 740
Nikkei	21 206	21 454	(1.2%)	21 968
Dow Jones	25 929	24 103	7.6%	25 038
Rates				
SA R186	8.60%	7.99%		8.80%
Rand overnight	6.73%	6.76%		6.57%
SA prime overdraft rate	10.25%	10.00%		10.09%
JIBAR – three-month	7.15%	6.87%		7.03%
US 10 year	2.41%	2.74%		2.89%
Commodities				
Gold	US$1 295/oz	US$1 324/oz	(2.2%)	US$1 263/oz
Brent Crude Oil	US$68/bbl	US$70/bbl	(2.9%)	US$71/bbl
Platinum	US$841/oz	US$936/oz	(10.1%)	US$841/oz
Macro-economic				
South Africa GDP (% change over the period)	0.8%	1.3%		
South Africa per capita GDP (real value in Rands for calendar year 2018 and 2017)	55 595	55 930	(0.6%)	

Sources: Bureau For Economic Research, Bloomberg, IRESS, Johannesburg Stock Exchange, SARB Quarterly Bulletin, World Economic Forum.

1

Growth in key earnings drivers

Operating profit (before amortisation of acquired intangibles and impairment of goodwill) increased 16.3%

R5 381 million

(2018: R4 626 million)

Headline earnings attributable to ordinary shareholders increased 7.6%

R4 784 million

(2018: R4 446 million)

- The bank has delivered a resilient performance against a challenging backdrop.
- Earnings were supported by growth in private client interest and fee income and an increase in associate earnings from a realisation in the IEP Group. This was partially offset by subdued corporate activity levels and a weaker performance from the investment portfolio.
- Net core loans grew 5.9% to R269.4 billion at 31 March 2019 (2018: R254.3 billion).
- Costs increased ahead of revenue, impacted by a lower premises charge in the prior year (resulting from the rental provision release).
- The credit loss ratio⊙ amounted to 0.27% (March 2018: 0.28%), remaining at the lower end of its long term average trend.
- As a result of the foregoing factors operating profit (before amortisation of acquired intangibles and impairment of goodwill) increased by 16.3% to R5 831 million (2018: R4 626 million).

⊙Alternative performance measures

We supplement our IFRS figures with alternative performance measures used by management internally and which provide valuable, relevant information to readers of the financial statements. These measures are highlighted with the symbol⊙. The definition of alternative performance measures is provided in the definitions section of this report.

Financial performance

Headline earnings increased 7.6%	**2019** **R4 784mn** 2018 R4 446mn
Operating profit (before amortisation of acquired intangibles and impairment of goodwill) increased 16.3%	**2019** **R5 381mn** 2018 R4 626mn
Annuity income⊙ as a % of total operating income	**2019** **78.3%** 2018 80.2%
Cost to income ratio⊙	**2019** **51.7%** 2018 53.3%
Loan to deposit ratio⊙	**2019** **76.6%** 2018 75.6%

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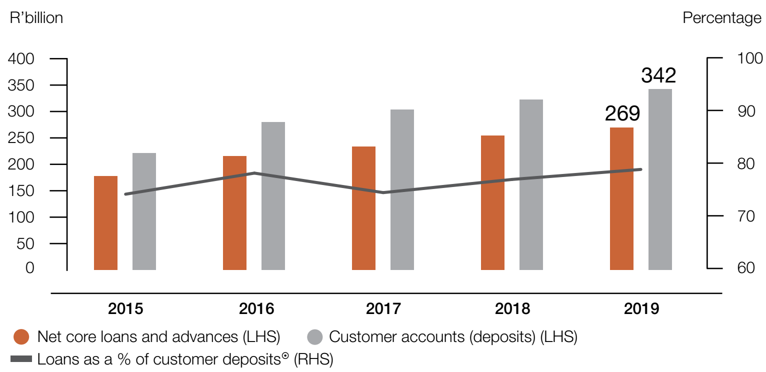
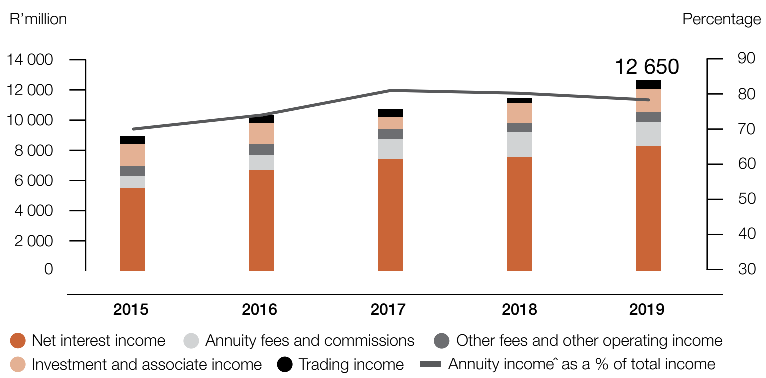
Continued to grow our key earnings drivers

Customer accounts (deposits) and loans



Supporting growth in operating income

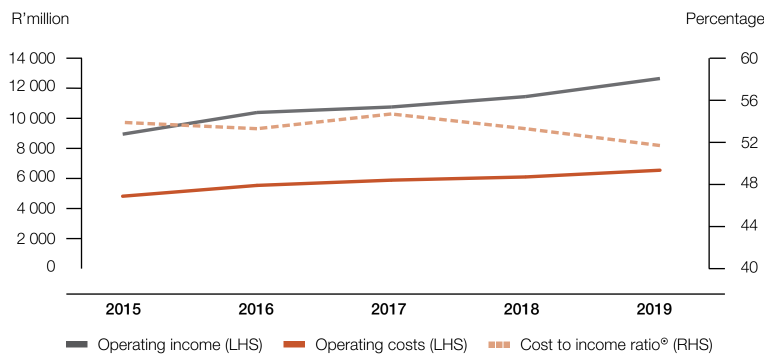
Total operating and annuity income^⊙



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

Continued focus on cost containment

Jaws ratios⊙

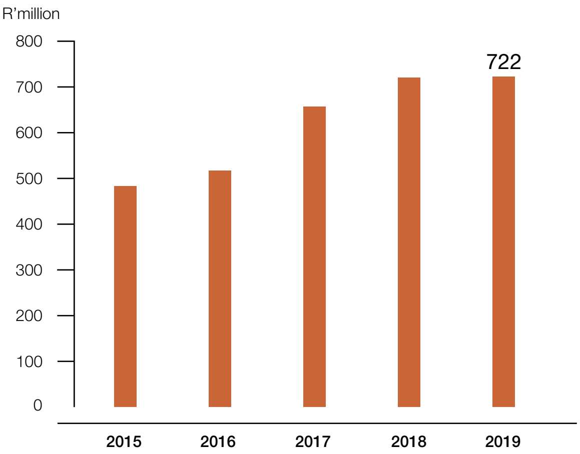


Impairments increased by 0.3% to R722mn, however, the credit loss ratio remains at the lower end of its long-term average trend

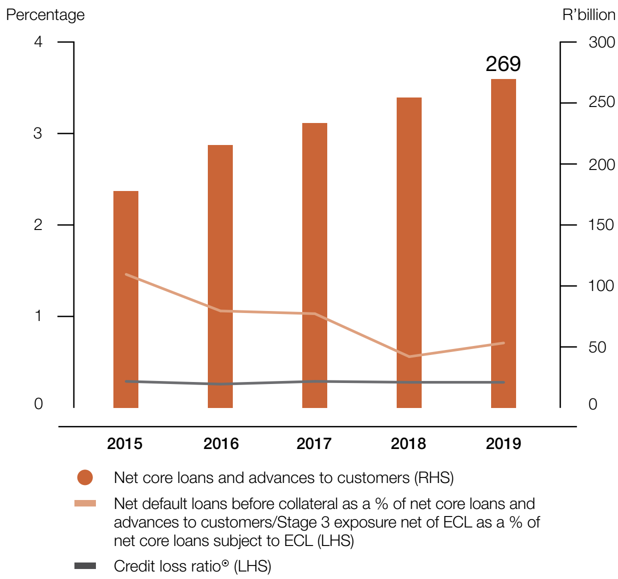
Since 31 March 2018:

- Core loans and advances increased by 5.9% to R269.4 billion
- Stage 3 assets (net of ECL impairment charges) as a percentage of net core loans subject to ECL amounted to 0.7% (1 April 2018: 0.7%; 31 March 2018: 0.56%)
- The credit loss ratio® reduced to 0.27% (31 March 2018: 0.28%), remaining at the lower end of its long term average trend
- Net defaults (after impairments) remain adequately collateralised.

Impairments



Default and core loans



Maintained a sound balance sheet

The intimate involvement of senior management ensures stringent management of risk and liquidity.

Our policy has always been to hold capital well in excess of regulatory requirements and we intend to perpetuate this philosophy.

The bank has maintained a stable capital base.

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

Capital ratios

	Pro-forma FIRB	Standardised	
Investec Bank Limited	**31 March 2019**	**31 March 2019**	31 March 2018
Common equity tier 1 ratio	12.5%	11.2%	10.9%
Tier 1 ratio	12.8%	11.5%	11.2%
Total capital adequacy ratio	17.7%	15.8%	15.5%

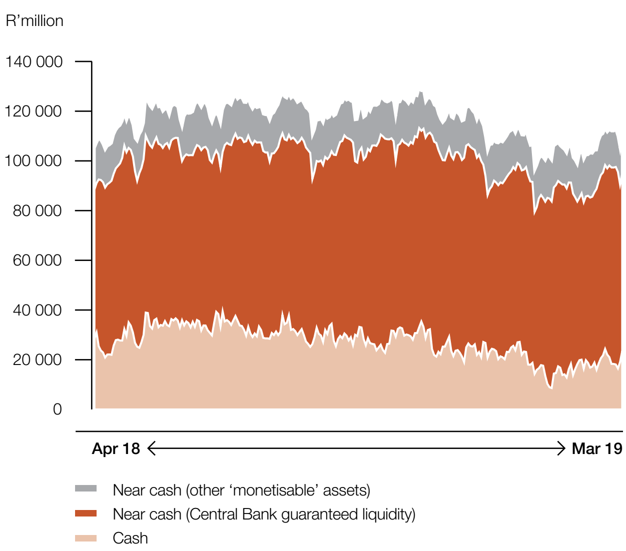
A well-established liquidity management philosophy remains in place

Continue to focus on:

- Maintaining a high level of readily available, high-quality liquid assets targeting a minimum cash to customer deposit ratio⊙ of 25%, with the year-end ratio at 34.6%
- Diversifying funding sources
- Maintaining an appropriate mix of term funding
- Limiting concentration risk
- Reduced reliance on wholesale funding
- Continued to benefit from a growing retail deposit franchise and recorded an increase in customer deposits.

We ended the year with the three-month average of Investec Bank Limited (solo basis) liquidity coverage ratio at 135.6% (31 March 2018: 133.9%) and net stable funding ratio at 115.6% (31 March 2018: 108.4%), well in excess of the minimum regulatory requirements.

Cash and near cash trend



⊙ ***Alternative performance measures***
We supplement our IFRS 9 figures with alternative measures used by management internally and which provide valuable, relevant information to readers of the financial statements. These measures are highlighted with the symbol⊙

Richard Wainwright

Chief executive officer of Investec Bank Limited
Southern Africa

How has the operating environment impacted your business over the past financial year?

The South African operating environment has been challenging in the period under review. Growth in lending activities has slowed given the subdued business and economic outlook, putting pressure on certain sectors. High levels of volatility, subdued credit extension, low market volumes and clients facing a difficult trading environment all impacted the business. The transactional banking environment is more competitive with new and potential new entrants and continued innovation by traditional competitors.

Despite these factors, business has shown good growth largely due to lending book growth in the prior year, a greater number of clients seeking international exposure which remains a strategic advantage for us and clients holding on to cash in these uncertain times.

What have been the key developments in your business over the past financial year?

We continued to focus on diversifying revenues, expanding our value proposition, deepening client relationships and engagement. Key developments over the year include:

- Team established to oversee our principal investments with a clearly defined strategy that is within our risk appetite framework
- Integrating our import solutions and trade finance businesses and launching Investec for Business as a specific segment to target smaller to mid-tier companies;
- Launching a corporate transactional business banking platform, aimed largely at mid-tier companies;
- Implementing a targeted Young Professionals strategy to expand our client base
- Gaining traction in our Life business as we continue to build out the platform
- Building on our investment and funds platforms
- Growing the Investec retail deposit funding channels
- Received regulatory approval to adopt the Foundation Internal Ratings Based (FIRB) approach to calculating regulatory capital, effective 1 April 2019
- We were recognised by the Financial Times of London as the best Private Bank and Wealth Manager in South Africa for the sixth year running.

What are your strategic objectives in the coming financial year?

Our strategic priorities over the next two to three years are aligned to the group's stated objectives at our recent Capital Markets Day;

- Continued focus on capital allocation in order to optimise returns. We have implemented a strategic shift in our approach to private equity investments, moving away from large direct investments to a client centric approach
- Further diversification of our revenue base by building new sources of revenue through a number of initiated growth strategies including Investec Life, Investec for Business, corporate and business transactional banking, fund platforms and targeted Private Banking Young Professionals strategy
- Continue to optimise our funding by growing our retail deposit channels
- Improved management of the cost base, with increased focus and benefits to be gained through simplicity, automation, operational leverage and containing headcount growth
- Throughout the business model, we will continue to invest in our digital and technology platforms in order to remain competitive and to deliver on our high-touch, high-tech value proposition to both corporate and private clients
- Continue to enhance collaboration with the rest of the group.

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

We have a long history of supporting our communities and contributing to transforming our society in South Africa with a specific focus on education and learnership opportunities. Our flagship Promaths programme contributed 5% of South Africa's total mathematics and science distinctions respectively in the past year and we funded 173 (2018: 157) high school and university bursaries. We were also one of the first signatories to the Youth Empowerment Services (YES) initiative in South Africa and placed more than 1 200 youth with 11 partners during the year. In line with our commitment to transform our society, diversity and inclusion remains a core focus internally and by the end of the financial year, women made up 55.0% (2018: 54.9%) of our workforce in Southern Africa.

Operationally, we have implemented a number of initiatives to reduce our carbon footprint by 1.7% in Southern Africa despite a headcount increase of 3.8% for the same period. We also strengthened our policies around ESG and our commitment to support the transition to a clean and energy-efficient global economy. We were proud to have participated in the launch of Kathu Solar Plant which is the largest concentrated solar power plant in South Africa. The plant created 1 700 employment opportunities, provides 179 000 households with electricity and will save six million tonnes of CO_2 emissions over a 20 year period. We were also proud to partner with UK Climate Investments to commit a combined R1 billion to a dedicated renewable energy investment vehicle Revego Africa Energy. Revego Fund Managers (RFM), a newly incorporated black-owned and managed fund manager, will be responsible for managing Revego's investments in operating renewable energy projects in South Africa and other sub-Saharan African countries.

Our corporate sustainability and ESG supplementary report provides further detail on the Sustainable Development Goals and the many initiatives we are supporting or funding.

What is your outlook for the coming financial year?

The interplay between South Africa's political dynamics and the economy has fostered an operating environment marked by low business and consumer confidence. Going forward, the challenge for the Ramaphosa administration will be striking the optimal balance between reforms and fiscal consolidation. The focus on business-friendly policies is likely to be reinforced in order to stimulate the economy, however we remain cautious as the operating environment could remain challenging for business.

Notwithstanding the backdrop, we remain committed to maintaining discipline around the allocation of our capital and generating increased returns to shareholders. We will continue to roll out new initiatives as we diversify our revenue streams. Our sustainable level of recurring income, together with our resilient client base, will continue to support reasonable levels of client activity.

Risks relating to our operations

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

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

6, 11 – 12 The **financial services industry** in which we operate is intensely competitive.	**6, 11 – 12, 28 – 30** **Market, business and general economic conditions** and fluctuations could adversely affect our business in a number of ways.	**26** We may be exposed to **country risk** i.e. the risk inherent in sovereign exposure and events in other countries.
30 – 47 **Credit and counterparty risk** exposes us to losses caused by financial or other problems experienced by our clients.	**26** Unintended **environmental (including climate risk), social and economic risks** could arise in our lending and investment activities.	**48 – 49** We may be exposed to **investment risk** in our unlisted and listed investment portfolios.
52 – 56 **Market risk** arising in our trading book could affect our operational performance.	**56 – 61** **Liquidity risk** may impair our ability to meet our payment obligations as they fall due.	**62 – 63** Our net interest earnings and net asset value may be adversely affected by **interest rate risk.**
66 – 70 **Operational risk** (including financial crime and process failure) may disrupt our business or result in regulatory action.	**66 – 70** We may be **vulnerable to the failure of our systems** and breaches of our security systems (including cyber and information security).	**66 – 70** **Employee misconduct** could cause harm that is difficult to detect.
69 **Reputational, strategic** and **business risk** could impact our operational performance.	**69 – 70** **Compliance, legal and regulatory risks** may have an impact on our business.	**70** **Retail conduct risk** is the risk that we treat our customers unfairly and deliver inappropriate outcomes. **Wholesale conduct risk** is the risk of conducting ourselves inappropriately in the market.
71 – 77 **We may have insufficient capital** in the future and may be unable to secure additional financing when it is required.	We may be unable to **recruit, retain and motivate key personnel.** www *See Investec group's 2019 corporate sustainability and ESG supplementary report on our website for further information.*	

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

FINANCIAL REVIEW

2

Key income drivers

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

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

Overview

The bank posted an increase in headline earnings attributable to ordinary shareholders of 7.6% to R4 784 million (2018: R4 446 million). The balance sheet remains sound with a capital adequacy ratio of 15.8% (31 March 2018: 15.5%).

Unless the context indicates otherwise, all income statement comparatives in the review below relate to the results for the year ended 31 March 2018.

Income statement analysis

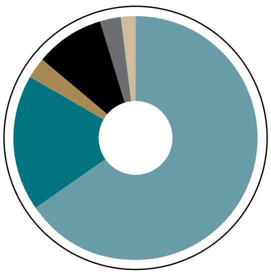
The overview that follows will highlight the main reasons for the variance in the major category line items on the face of the income statement during the year under review.

Total operating income

Total operating income before expected credit loss/impairment losses on loans and advances increased by 10.5% to R12 650 million (2018: R11 446 million). The various components of operating income are analysed further below.

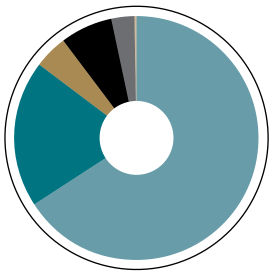
R'million	**31 March 2019**	**% of total income**	31 March 2018	% of total income	% change
Net interest income	8 287	65.5%	7 562	66.1%	9.6%
Net fee and commission income	2 261	17.9%	2 245	19.6%	0.7%
Investment income	360	2.8%	530	4.6%	(32.1%)
Share of post taxation profit of associates	1 163	9.2%	777	6.8%	49.7%
Trading income arising from					
– customer flow	369	2.9%	356	3.1%	3.7%
– balance sheet management and other trading activities	210	1.7%	(26)	(0.2%)	>100.0%
Other operating income	–	–	2	–	
Total operating income before expected credit loss/impairment losses on loans and advances	**12 650**	**100%**	**11 446**	**100.0%**	**10.5%**

% of total operating income before expected credit loss/impairment losses on loans and advances



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

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



31 March 2018
R11 446 million total operating income before impairment losses on loans and advances

66.1%	Net interest income
19.6%	Net fee and commission income
4.6%	Investment income
6.8%	Share of post taxation profit of associates
3.1%	Trading income arising from customer flow
(0.2%)	Trading income arising from balance sheet management and other trading activities

Net interest income

Net interest income increased 9.6% to R8 287 million (2018: R7 562 million) supported by higher net margins and continued lending activity from our private client base.

For a further analysis of interest income and interest expense refer to page 163.

Net fee and commission income

Net fee and commission income increased 0.7% to R2 261 million (2018: R2 245 million). Good growth and activity levels from our private client base and Investec for Business were offset by lower investment banking and corporate client activity levels.

For a further analysis of net fee and commission income refer to page 164.

Investment income

Investment income decreased by 32.1% to R360 million (2018: R530 million) impacted by a weaker performance from the listed and unlisted investment portfolio.

For a further analysis of investment income refer to pages 164 to 165.

Share of post taxation profit of associates

Share of post taxation profit of associates of R1 163 million (2018: R777 million) reflects earnings in relation to the bank's investment in the IEP Group. The increase is largely driven by a realisation within the IEP Group.

Trading income

Total trading income increased significantly amounting to R579 million (2018: R330 million), primarily reflecting translation gains on foreign currency equity investments (partially offsetting the related weaker investment income performance).

Impairment losses on loans and advances

Expected credit loss (ECL) impairment charges increased marginally by 0.3% to R722 million (2018: R720 million under the IAS 39 incurred loss model), however, the credit loss ratio® reduced to 0.27% (2018: 0.28%), remaining at the lower end of its long term average trend. Stage 3 assets (net of ECL impairment charges) as a percentage of net core loans subject to ECL remained at 0.7% (1 April 2018: 0.7%).

For further information on asset quality refer to pages 41 to 47.

Total operating costs

The cost to income ratio® improved to 51.7% (2018: 53.5%). Operating costs increased 7.3% to R6 547 million (2018: R6 100 million) impacted a lower premises charge in the prior year (resulting from the rental provision release). Excluding this, costs increased 1.3% reflecting increased focus on cost containment.

The various components of total operating costs are analysed below.

R'million	**31 March 2019**	**% of total operating costs**	31 March 2018	% of total operating costs	% change
Staff costs	5 051	77.1%	4 866	79.8%	3.8%
Business expenses	404	6.2%	488	8.0%	(17.2%)
Equipment expenses	209	3.2%	201	3.3%	4.0%
Premises expenses	274	4.2%	46	0.8%	>100%
Marketing expenses	345	5.3%	308	5.0%	12.0%
Depreciation	264	4.0%	191	3.1%	38.2%
Total operating costs	**6 547**	**100%**	**6 100**	**100.0%**	**7.3%**

®Alternative performance measures

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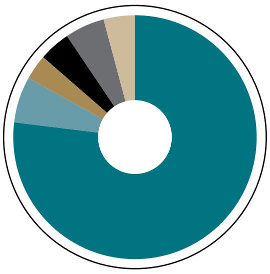
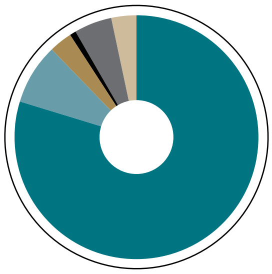
% of total operating costs



31 MARCH 2019
R6 547 million total operating costs

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



31 MARCH 2018
R6 100 million total operating costs

79.8%	Staff costs
8.0%	Business expenses
3.3%	Equipment
0.8%	Premises
5.0%	Marketing
3.1%	Depreciation

Taxation

The effective tax rate remains below the bank's historical effective tax rate due to the release of tax provisions relating to the resolution of long standing tax matters.

Operating profit (before amortisation of acquired intangibles and impairment of goodwill)

As a result of the foregoing factors, operating profit (before amortisation of acquired intangibles and impairment of goodwill) increased by 16.3% to R5 381 million (2018: R4 626 million). The increase in profit before tax was partially offset by a higher tax charge resulting in overall profit after taxation increasing by 6.1% to R4 960 million (2018: R4 673 million).

Balance sheet analysis

Since 31 March 2018:

- Total equity increased by 8.9% to R41.8 billion (31 March 2018: R38.4 billion), largely as a result of retained earnings
- Total assets increased by 7.1% to R475.6 billion (31 March 2018: R444.1 billion), largely as a result of an increase in core loans and advances.

3

RISK MANAGEMENT AND CORPORATE GOVERNANCE

Risk management objectives are to:

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

Overview of disclosure requirements

Risk disclosures provided in line with the requirements of International Financial Reporting Standard 7 Financial Instruments: Disclosures (IFRS 7) and disclosures on capital required by International Accounting Standard 1 Presentation of Financial Statements (IAS 1) are included within this section of the annual report on pages 20 to 79 with further disclosures provided in the annual financial statements section on pages 144 to 234. Where applicable throughout the risk disclosures, comparative information is reported under IFRS 9 at 1 April 2018. 31 March 2018 information can be found on pages 245 and 250. This has been presented on an IAS 39 basis and not restated as permitted under IFRS 9.

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

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

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

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

Philosophy and approach to risk management

The IBL Board Risk and Capital Committee (IBL BRCC) approves the overall risk appetite for the bank. The risk appetite statement sets broad parameters relating to the board's expectations around performance, business stability and risk management. The board ensures that there are appropriate resources to manage the risk arising from running our businesses.

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

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

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

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

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

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

Overall summary of the year in review from a risk perspective

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

Succession of the group's executive management team has been an ongoing focus area for the board where a number of processes have been implemented to ensure an orderly management succession process. Leadership and talent development remain high priority areas for the board and management of the group.

As part of the group's orderly succession plan to move from founding members to the next generation of leadership, a number of board and management changes have been announced. The process has been well managed and there has been no negative impact on the group's operations.

IFRS 9 became effective from 1 April 2018. IFRS 9 replaced IAS 39 and sets out the new requirements for the recognition and measurement of financial instruments. These requirements focus primarily on the classification and measurement of financial instruments and measurement of impairment losses based on an expected credit loss (ECL) model. The measurement of ECL under IFRS 9 has increased complexity and reliance on expert credit judgements. Key judgemental areas under the implementation of IFRS 9 are highlighted in this document and are subject to robust governance processes. Investec Limited confirmed to the South African Prudential Authority that the transitional arrangements will be used to absorb the full impact permissible of IFRS 9 in regulatory capital calculations for both Investec Limited and IBL.

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

Our risk appetite framework as set out on page 23 continues to be assessed in light of prevailing market conditions and group strategy.

Credit risk

Our credit exposures are to a select target market comprising high-income and high net worth individuals, established corporates, and medium-sized enterprises. Our risk appetite continues to favour lower risk, income-based lending, with exposures well collateralised and credit risk taken over a short to medium term.

These target clients have remained active during the financial year, and have displayed a level of resilience, seeking out opportunities despite the volatility in the markets.

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

Underlying core assets continue to perform well. There was growth in net core loans of 6.9% to R269.4 billion (1 April 2018: R251.9 billion) with high net worth and specialised lending and corporate portfolios representing the majority of the growth for the financial year in review.

We have observed a small percentage increase in our Stage 2 and Stage 3 exposures. Stage 2 exposure amounted to R10.8 billion or 4.0% of gross core loans and advances subject to ECL as at 31 March 2019 (1 April 2018: R9.3 billion or 3.7%). Stage 3 exposure amounted to R3.6 billion or 1.3% of gross core loans and advances subject to ECL as at 31 March 2019 (1 April 2018: R2.9 billion or 1.1%). The credit loss ratio improved to 0.27% (31 March 2018: 0.28%) remaining at the lower end of its long term average range.

Investment risk

Overall, we remain comfortable with the performance of the majority of our equity investment portfolios, which comprise 3.0% of total assets.

Traded market risk

In South Africa, the optimism experienced during early 2018 was replaced by concerns over the financial health of state-owned enterprises and policy uncertainty surrounding the expropriation of land without compensation. South Africa's credit rating has remained under the spotlight. The Rand was under pressure during the period, down 22% year-on-year against the US Dollar. Globally, the ongoing US-China Trade war impacted emerging market economies whilst further Brexit uncertainty added to volatile markets. Against this challenging economic backdrop, the trading desks have performed well, primarily focusing on client facilitation whilst maintaining low levels of open risk. This is reflected in a decrease in average VaR utilisation as compared to the previous year.

Balance sheet and liquidity risk

The bank comfortably exceeds regulatory liquidity requirements for the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). Investec Bank Limited (solo basis) ended the period to 31 March 2019 with the three-month average of its LCR at 135.6% (31 March 2018: 133.9%). The structural funding ratio represented by the NSFR was adopted officially as a regulatory measure from 1 January 2019 with a minimum of 100%. Investec Bank Limited delivered an NSFR of 115.6% for the period under review.

We continue to improve balance sheet efficiency by improving our wholesale and retail funding channels and mix. Our funding channels are characterised by their well-diversified structures and are robust enough to deal with any disruptions the economy may encounter throughout the year.

Capital management

The bank has received regulatory permission to adopt the Foundation Internal Ratings Based (FIRB) approach, effective 1 April 2019, resulting in a pro-forma CET 1 ratio of 12.5% had the FIRB approach been applied as of 31 March 2019. Leverage ratios are robust and remain comfortably ahead of the bank's target of 6% (31 March 2019: 7.7%)

The bank has continued to maintain a sound balance sheet with a low gearing ratio of 11.0 times and a core loans to equity ratio of 6.4 times.

We have always held capital well in excess of regulatory requirements and we intend to perpetuate this philosophy. We meet our current internal targets for total capital adequacy and for our common equity tier 1 ratio to be in excess of 10%. Capital continued to grow and we are comfortable that credit growth is in line with our risk appetite framework and supported by sound risk metrics.

Conduct, operational and reputational risk

We continue to spend much time and effort focusing on operational, reputational, conduct, recovery and resolution risks. Our customer and market conduct committee continues to ensure that the bank maintains a client-focused and fair outcomes-based culture.

Financial and cybercrime remain high priorities, and the bank continually aims to strengthen its systems and controls in order to manage cyber risk. We also continued to focus on combating money laundering, as well as preventing bribery and corruption in order to ensure the safety of our clients' wealth and to meet our regulatory obligations.

The bank's stress testing framework is well embedded in its operations and is designed to identify and regularly test the bank's key 'vulnerabilities under stress'. A fundamental part of the stress testing process is a full and comprehensive analysis of all the bank's material business activities, incorporating views from risk, the business and the executive – a process called the 'bottom-up' analysis. Resulting from the 'bottom-up' analysis, the IBL specific stress scenarios are designed to specifically test the unique attributes of the bank's portfolio. The key is to understand the potential threats to our sustainability and profitability and thus a number of risk scenarios have been developed and assessed. These Investec-specific stress scenarios form an integral part of our capital planning process. The stress testing process also informs the risk appetite review process and the management of risk appetite limits and is a key risk management tool of the bank. This process allows the bank to identify underlying risks and manage them accordingly.

The country continued to confront an uncertain economic environment for the better part of 2018, following the initial optimism following the ascension of Cyril Ramaphosa to the ANC Presidency. The problems facing state owned enterprises and the realities of state capture came to the fore. Risks to the fiscus emanating from state owned enterprises (SOEs) continued to pose major challenges. On the global front, trade tensions, slowing economic growth and Brexit uncertainty started becoming a prominent feature of the local economic environment which transitioned us from risk-on sentiment.

The appointment of Mr Cyril Ramaphosa as president along with his cabinet, is seen as a positive development for South Africa, following on from the recent African National Congress (ANC) ruling party majority win in the 2019 Elections.

Moody's retained South Africa's investment grade long-term sovereign debt credit rating at Baa3 on a dual currency basis over the period on a stable outlook. Fitch and Standard & Poor's credit rating agencies maintained South Africa's sub-investment grade rating over the period.

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

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

Salient features

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

Year to 31 March	2019	2018
Total assets (R'million)	475 603	444 072
Total risk-weighted assets (R'million)	340 315	320 607
Total equity (R'million)	41 760	38 415
Cash and near cash (R'million)	118 365	116 533
Customer accounts (deposits) (R'million)	341 710	321 893
Loans and advances to customers to customer deposits	76.6%	76.9%
Structured credit as a % of total assets	0.34%	0.26%
Banking book investment and equity risk exposures as a % of total assets	3.00%	3.29%
Traded market risk: one-day value at risk (R'million)	3.8	3.2
Core loans to equity ratio	6.4x	6.6x
Total gearing ratio*	11.0x	11.2x
Return on average assets#	1.08%	1.12%
Return on average risk-weighted assets#	1.46%	1.48%

	31 March 2019	1 April 2018
Net core loans and advances (R'million)	269 404	251 988
Stage 3 exposure as a % of gross core loans and advances subject to ECL	1.3%	1.1%
Stage 3 exposure net of ECL as a % of net core loans and advances subject to ECL	0.7%	0.7%
Credit loss ratio**	0.27%	0.28%
Level 3 (fair value assets) as a % of total assets	0.85%	0.85%
Total capital adequacy ratio	15.8%	15.4%
Tier 1 ratio	11.5%	11.0%
Common equity tier 1 ratio	11.2%	10.7%
Common equity tier 1 ratio (Pro-forma FIRB)^	12.5%	n/a
Leverage ratio – current	7.7%	7.6%

* *Total assets excluding intergroup loans to equity.*

** *ECL impairment charges on gross core loans and advances as a % of average gross core loans and advances subject to ECL. The credit loss ratio comparatives are as at 31 March 2018 (under IAS 39)*

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

^ *We have approval to adopt the Foundation Internal Rating Based (FIRB) approach effective 1 April 2019.*

Overall group risk appetite

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

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

Risk appetite and tolerance metrics	*Positioning at 31 March 2019*
We have a solid annuity income base supported by diversified revenue streams, and target an annuity income ratio in excess of 65%	Annuity income amounted to 78.3% of total operating income. Refer to page 8 for further information
We seek to maintain strict control over fixed costs and target a cost to income ratio between 49% to 52%	The cost to income ratio amounted to 51.7%. Refer to page 8 for further information
We are a lowly leveraged firm and target a leverage ratio in all our banking subsidiaries in excess of 6%	The current leverage ratio amounted to 7.6%. Refer to page 75 for further information
We intend to maintain a sufficient level of capital to satisfy regulatory requirements and our internal target ratios. We target a total capital adequacy ratio range of between 14% and 17% and we target a minimum tier 1 ratio of 11% and a common equity tier 1 ratio above 10%	We met these targets; Our total capital adequacy ratio amounted to 15.8% and our common equity tier 1 ratio amounted to 11.2%. Refer to page 76 for further information
We target a diversified loan portfolio, lending to clients we know and understand. We limit our exposure to a single/connected individual or company to 5% of tier 1 capital (up to 10% if approved by the relevant board committee). We also have a number of risk tolerance limits and targets for specific asset classes	We maintained this risk tolerance level in place throughout the year
There is a preference for primary exposure in the bank's main operating geography (i.e. South Africa). The bank will accept exposures where we have a branch or local banking subsidiary and tolerate exposures to other countries where we have developed a local understanding and capability or we are facilitating a transaction for a client	Refer to page 26 for further information
We target a credit loss ratio of less than 0.5% and Stage 3 net of ECL as a % of net core loans and advances to be less than 1.5%	We currently remain within all tolerance levels. The credit loss ratio amounted to 0.27%. Stage 3 net of ECL as a % of net core loans and advances amounted to 0.7%. Refer to pages 41 and 42 for further information
We carry a high level of liquidity in order to be able to cope with shocks to the system, targeting a minimum cash to customer deposit ratio of 25%	Total cash and near cash balances amounted to R118.4 billion at year end representing 34.6% of customer deposits. Refer to page 58 for further information
We have modest market risk as our trading activities primarily focus on supporting client activity and our appetite for proprietary trading is limited. We set an overall tolerance level of a one-day 95% VaR of less than R15 million	We met these internal limits; one-day VaR was R3.8 million at 31 March 2019. Refer to page 53 for further information
We have moderate appetite for investment risk, and set a risk tolerance of less than 12.5% of tier 1 capital for our unlisted principal investment portfolio (excluding the IEP Group)	Our unlisted investment portfolio is R2 319 million, representing 5.9% of total tier 1 capital. Refer to page 49 for further information
Our operational risk team focuses on appropriately identifying and managing operational risk within acceptable levels by adopting sound operational risk practices that are fit for purpose. We have heightened focus on financial and cybercrime	Refer to pages 66 to 69 for further information
We have a number of policies and practices in place to mitigate reputational, legal and conduct risks	Refer to pages 69 and 70 for further information

An overview of our principal risks

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

These principal risks have been highlighted on page 13.

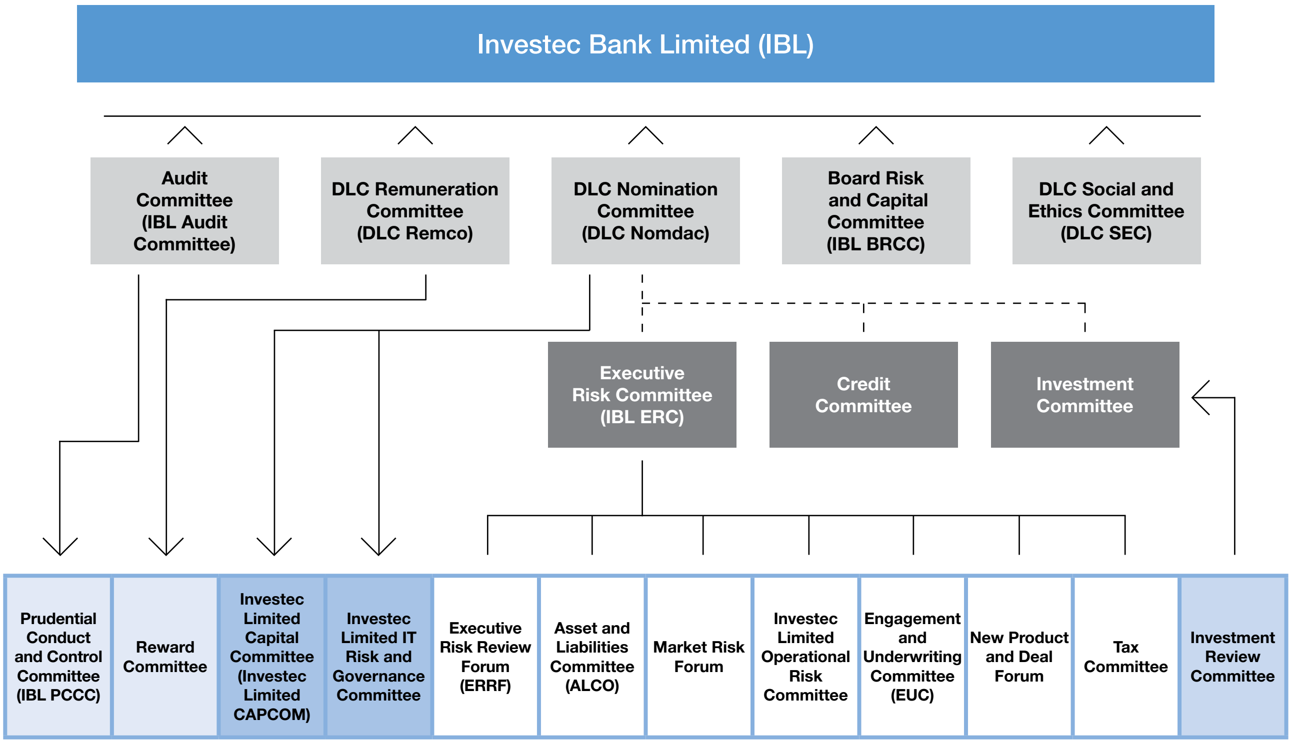
The sections that follow provide information on a number of these risk areas and how the group manages these risks.

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

Risk management framework, committees and forums

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

Investec Bank Limited board and committee structure for the year ended 31 March 2019



Credit and counterparty risk management

Credit and counterparty risk description

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

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

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

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

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

Credit and counterparty risk governance structure

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

In addition to the credit committees, the following processes assist in managing, measuring and monitoring credit and counterparty risk. The scope of these forums and committees have been adjusted where necessary to reflect changes to governance processes arising from IFRS 9 implementation:

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

Credit and counterparty risk appetite

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

There is a preference for primary exposure in the bank's main operating geographies (i.e. Southern Africa). Our assessment of our clients and counterparties includes consideration of their character, integrity, core competencies, track record and financial strength. A strong emphasis is placed on the historic and ongoing stability of income and cash flow streams generated by the clients. Our primary assessment method is therefore the ability of the client to meet their payment obligations.

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

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

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

Concentration risk

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

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

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

Country risk

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

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

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

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

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

Sustainability considerations

The bank has a holistic approach to corporate sustainability, which runs beyond recognising our own footprint on the environment and includes our many corporate social investment activities and our lending and investing activities. This is not merely for business reasons, but based on a broader responsibility to our environment and society. Accordingly, corporate sustainability risk considerations are considered by the credit committee and investment committee when making lending or investment decisions. There is also oversight by SEC on social and environmental issues including climate related impact considerations. In particular, the following factors are taken into account when assessing a transaction based on the outcome of the corporate responsibility considerations:

- Environmental considerations (including animal welfare and climate – related impacts)
- Social considerations (including human rights)
- Macro-economic considerations.

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

Stress testing and portfolio management

The bank has embedded its stress testing framework which is a repeatable stress testing process, designed to identify and regularly test the bank's key 'vulnerabilities under stress', as explained in page 21. The bank also performs *ad hoc* stress tests, which by their nature need to be completed on request and in response to emerging risk issues.

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

Credit risk classification and provisioning policy

IFRS 9 requirements have been embedded into our group credit risk classification and provisioning policy. A framework has been established to incorporate both quantitative and qualitative measures. Policies for financial assets at amortised cost and at fair value through other comprehensive income (FVOCI), in accordance with IFRS 9, have been developed as described on the next page:

Definition of default

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

Stage 1

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

Stage 2

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

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

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

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

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

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

Stage 3

Financial assets are included in Stage 3 when there is objective evidence of credit impairment. As required, under IFRS 9, the group assesses a loan as Stage 3 when contractual payments of either principal or interest are past due for more than 90 days, the debtor is assessed as unlikely to pay and credit impaired, or the loan is otherwise considered to be in default, for example due to the appointment of an administrator or the client is in receivership. When a client is not expected to meet the original contractual obligations in a reasonable timeframe, the loan will be classified as Stage 3. Loans which are more than 90 days past due are considered to be in default.

ECL

The assessment of credit risk and the estimation of ECL are required to be unbiased, probability-weighted and incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39, and the resulting impairment charge may be more volatile.

Write-offs

The bank's policy on the timing of the write-off of financial assets has not significantly changed on the adoption of IFRS 9. A loan or advance is normally written off in full against the related ECL impairment allowance when the proceeds from realising any available security have been received or there is a reasonable amount of certainty that the exposure will not be recovered. This is considered on a case by case basis. Similarly, the treatment and recognition of recoveries is unaffected by the implementation of IFRS 9. Any recoveries of amounts previously written off decrease the amount of impairment losses.

Internal credit rating models and ECL methodology

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

Further information on internal credit ratings is provided on page 43.

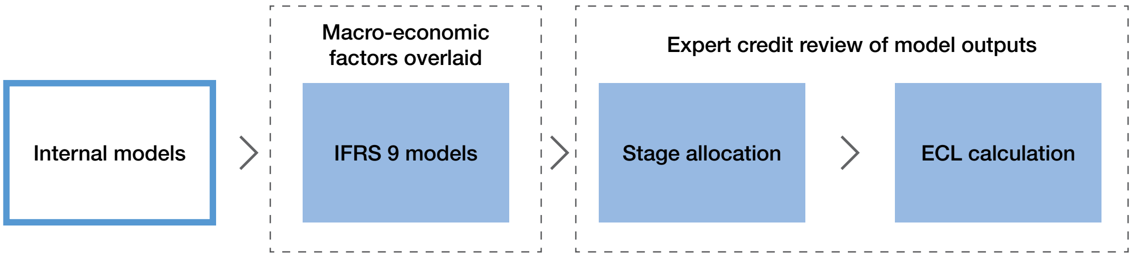
Key drivers of measurement uncertainty – subjective elements and inputs

The measurement of ECL under IFRS 9 has a continued reliance on expert credit judgement. Key judgemental areas under the implementation of IFRS 9 are highlighted in this document and are subject to robust governance processes. Key drivers of measurement uncertainty include:

- the assessment of 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 bank's ECL methodology, which are not considered to have a material impact. This includes the use of income recognition effective interest rates (EIRs) that are calculated under IAS 39 and used as the discount factor in the 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 Investec Limited 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 IBL specific stress scenarios) and IFRS 9.

For the bank, five macro-economic scenarios are used in the measurement of ECL under IFRS 9. These scenarios incorporate a base case, two upside cases and a two downside cases. The aim of this economic scenario generation process is to provide a view of the current and projected state of the South African economy and the different economic scenarios that could occur in various stressed or improved environments over the next five years for a number of identified variables/risk drivers. Management's view of the most likely outcome 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 foresees higher confidence and investment levels to date, limited negative impact of expropriation without compensation to the economy. Additionally, the rand becomes structurally stronger, nearing its purchasing power parity valuation in 2021. South Africa retains one investment grade (Moody's) rating on its local currency long-term sovereign debt in the year ahead. Sedate global monetary policy normalisation persists in this scenario – where a severe global risk-off environment is avoided, and a neutral to global risk-on environment prevails where global growth persists around its trend growth rate.

The downside case scenario shows business confidence and investment relatively depressed, with marked rand weakness, significant strike action and regular electricity load shedding. South Africa is rated sub-investment grade by all three key credit rating agencies, with an increased chance of further credit rating downgrades. Faster than expected global (US) monetary policy normalisation, general market risk-off, a global sharp economic slowdown (commodity slump), marked escalation of the US-China trade war and a short global financial crisis (South Africa V shaped recession) are all characterisations of this scenario. The extreme downside case has a low probability with the global economy falling into recession and South Africa in economic depression. The probability of this extreme downside case has fallen over the period under review.

The upside encompasses a scenario where South Africa has better governance, growth creating reforms in line with global norms (structural constraints are overcome) and greater socio-economic stability. Strong business confidence occurs, 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 upside 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 upside case is a persistence and intensification of the upside 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 31 March 2019:

Macro-economic scenarios

Average 2019 – 2023	Extreme upside %	Upside %	Base case %	Downside %	Extreme downside %
South Africa					
GDP	5.2	3.9	2.4	0.7	(2.0)
Repo	5.5	6.2	7.3	8.4	17.2
Bond yield	7.9	8.3	9.7	10.9	14.8
Residential property price	12.9	6.5	5.1	3.0	(1.1)
Commercial property prices	5.7	3.1	1.2	(1.6)	(6.0)
Exchange rates	8.1	9.9	13.0	16.9	24.1
Scenario weightings	**1**	**10**	**42**	**37**	**10**

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 bank'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.

Management and measurement of credit and counterparty risk

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

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

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

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

Regular reporting of credit and counterparty risk exposures within our operating units are made to management, the executives and boards through IBL BRCC and DLC board. The board regularly reviews and approves the appetite for credit and counterparty risk, which is documented in risk appetite statements and policy documents. This is implemented and reviewed by the credit risk management teams in each jurisdiction. Credit policies have been updated and amended to include changes to reflect the implementation of IFRS 9.

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

Credit and counterparty risk – nature of activities

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

- **Core loans and advance:** The majority of credit and counterparty risk is through core loans and advances, which account for the material ECL allowances across our portfolio, which are detailed on pages 40 to 47.
- **Treasury function:** There are also certain exposures, outside of core loans and advances where we assume credit and counterparty risk. These arise primarily from treasury placements where the treasury function, as part of the daily management of the bank's liquidity, places funds with central banks and other commercial banks and financial institutions. These transactions are typically short-term (less than one month) money market placements or secured repurchase agreements. These market counterparties are investment grade rated entities that occupy dominant and systemic positions in their domestic banking markets and internationally and are typically investment grade rated.

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

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

Credit risk mitigation

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

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

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

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

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

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

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

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

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

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

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

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

Further information on credit derivatives is provided on page 56.

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

Credit and counterparty risk year in review

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

Underlying core assets continue to perform well. There was growth in core loans of 6.9% to R269.4 billion (1 April 2018: R251.9 billion) with high net worth and specialised lending and corporate portfolios representing the majority of the growth for the financial year in review.

We have observed a small increase in our Stage 2 and Stage 3 exposures. Stage 2 exposure that amounted to R10.8 billion or 4.0% of gross core loans and advances subject to ECL as at 31 March 2019 (1 April 2018: R9.3 billion or 3.7%). Stage 3 exposure amounted to R3.6 billion or 1.3% of gross core loans and advances subject to ECL as at 31 March 2019 (1 April 2018: R2.9 billion or 1.1%). The credit loss ratio improved to 0.27% (2018: 0.28%) remaining at the lower end of its long term average range.

Further information is provided in the financial review on pages 15 to 18.

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

An analysis of gross credit and counterparty exposures

Gross credit and counterparty exposure totalled R508.9 billion at 31 March 2019. Cash and near cash balances amount to R118.3 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 93.5% of overall ECLs.

An analysis of gross credit and counterparty exposures

R'million	31 March 2019	1 April 2018
Cash and balances at central banks	10 062	9 165
Loans and advances to banks	19 904	17 265
Non-sovereign and non-bank cash placements	12 208	9 993
Reverse repurchase agreements and cash collateral on securities borrowed	18 552	20 480
Sovereign debt securities	60 898	62 365
Bank debt securities	12 529	8 036
Other debt securities	13 559	10 361
Derivative financial instruments	5 521	6 858
Securities arising from trading activities	4 840	698
Loans and advances to customers	264 397	247 128
Own originated loans and advances to customers securitised	7 677	6 836
Other loans and advances	355	290
Other assets	2 822	3 364
Total on-balance sheet exposures	**433 324**	**402 839**
Guarantees	11 955	10 588
Committed facilities related to loans and advances to customers	55 970	47 531
Contingent liabilities, letters of credit and other	7 740	7 076
Total off-balance sheet exposures	**75 665**	**65 195**
Total gross credit and counterparty exposures	**508 989**	**468 034**

A further analysis of gross credit and counterparty exposures

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

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

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

\# *Largely relates to exposures that are classified as equity risk in the banking book.*

* *Largely cash in the securitised vehicles.*

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

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

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

At 1 April 2018 R'million	Total gross credit and counterparty exposure	*of which FVPL*	*of which Amortised cost and FVOCI*	ECLs^	Assets that we deem to have no legal credit exposure	**Total assets**
Cash and balances at central banks	9 165	–	9 165	(7)	22	9 180
Loans and advances to banks	17 265	–	17 265	(2)	–	17 263
Non-sovereign and non-bank cash placements	9 993	574	9 419	(21)	–	9 972
Reverse repurchase agreements and cash collateral on securities borrowed	20 480	9 205	11 275	–	–	20 480
Sovereign debt securities	62 365	11 704	50 661	(22)	–	62 343
Bank debt securities	8 036	298	7 738	(10)	–	8 026
Other debt securities	10 361	953	9 408	(7)	–	10 354
Derivative financial instruments	6 858	6 858	–	–	5 706	12 564
Securities arising from trading activities	698	698	–	–	177	875
Investment portfolio	–	–	–	–	9 124#	9 124
Loans and advances to customers	247 128	19 254	227 874	(1 966)	–	245 162
Own originated loans and advances to customers securitised	6 836	–	6 836	(10)	–	6 826
Other loans and advances	290	–	290	(25)	–	265
Other securitised assets	–	–	–	–	241*	241
Interest in associated undertakings	–	–	–	–	6 288	6 288
Deferred taxation assets	–	–	–	–	933	933
Other assets	3 364	–	3 364	(67)	3 376**	6 673
Property and equipment	–	–	–	–	2 494	2 494
Investment properties	–	–	–	–	1	1
Goodwill	–	–	–	–	171	171
Intangible assets	–	–	–	–	412	412
Loans to group companies	–	–	–	–	13 499	13 499
Total on-balance sheet exposures	**402 839**	**49 544**	**353 295**	**(2 137)**	**42 444**	**443 146**
Guarantees	10 588	–	10 588	(5)	1 102	11 685
Committed facilities related to loans and advances to customers	47 531	–	47 531	(25)	–	47 506
Contingent liabilities, letters of credit and other	7 076	1 421	5 655	–	18 732	25 808
Total off-balance sheet exposures	**65 195**	**1 421**	**63 774**	**(30)**	**19 834**	**84 999**
Total exposures	**468 034**	**50 965**	**417 069**	**(2 167)**	**62 278**	**528 145**

^ *ECLs include R29 million ECL held against financial assets held at FVOCI, which is reported on the balance sheet within reserves. This will result in minor differences between certain balance sheet lines reported above (largely sovereign debt securities) and the statutory balance sheet.*
# *Largely relates to exposures that are classified as equity risk in the banking book.*
* *Largely cash in the securitised vehicles.*
** *Other assets include settlement debtors where we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

Gross credit counterparty exposures by residual contractual maturity

At 31 March 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	10 062	–	–	–	–	–	10 062
Loans and advances to banks	19 885	–	–	–	19	–	19 904
Non-sovereign and non-bank cash placements	12 208	–	–	–	–	–	12 208
Reverse repurchase agreements and cash collateral on securities borrowed	16 189	322	250	777	1 014	–	18 552
Sovereign debt securities	12 728	15 094	10 190	8 607	9 157	5 122	60 898
Bank debt securities	2 335	387	217	4 301	5 246	43	12 529
Other debt securities	388	2	1 045	8 740	2 180	1 204	13 559
Derivative financial instruments	1 561	862	1 635	1 270	167	26	5 521
Securities arising from trading activities	–	1	30	204	63	4 542	4 840
Loans and advances to customers	27 485	19 024	27 443	143 858	31 257	15 330	264 397
Own originated loans and advances to customers securitised	–	7	–	33	648	6 989	7 677
Other loans and advances	355	–	–	–	–	–	355
Other assets	2 822	–	–	–	–	–	2 822
Total on-balance sheet exposures	**106 018**	**35 699**	**40 810**	**167 790**	**49 751**	**33 256**	**433 324**
Guarantees	1 153	1 455	4 418	4 340	3	586	11 955
Committed facilities related to loans and advances to customers	16 679	1 034	2 129	13 868	3 214	19 046	55 970
Contingent liabilities, letters of credit and other	690	339	702	4 496	205	1 308	7 740
Total off-balance sheet exposures	**18 522**	**2 828**	**7 249**	**22 704**	**3 422**	**20 940**	**75 665**
Total gross credit and counterparty exposures	**124 540**	**38 527**	**48 059**	**190 494**	**53 173**	**54 196**	**508 989**

Detailed analysis of gross credit and counterparty exposures by industry

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

Finance and insurance	Retailers and whole-salers	Manufac-turing and commerce	Construc-tion	Corporate commer-cial real estate	Other residential mortgages	Mining and resources	Leisure, entertain-ment and tourism	Transport	Communi-cation	**Total**
–	–	–	–	–	–	–	–	–	–	10 062
19 904	–	–	–	–	–	–	–	–	–	19 904
1 865	1 513	2 613	338	479	–	616	27	586	1 296	12 208
17 219	–	–	–	42	–	–	60	707	–	18 552
–	–	–	–	–	–	–	–	–	–	60 898
12 529	–	–	–	–	–	–	–	–	–	12 529
4 527	–	1 514	–	1 595	–	146	–	837	1 434	13 559
3 815	7	106	–	401	–	160	19	15	32	5 521
1	–	–	–	–	–	–	–	64	–	4 840
20 783	3 809	7 141	1 264	9 022	–	3 561	2 988	7 781	6 908	264 397
–	–	–	–	–	–	–	–	–	–	7 677
–	–	109	–	–	246	–	–	–	–	355
–	2 117	485	46	–	–	9	63	2	32	2 822
80 643	**7 446**	**11 968**	**1 648**	**11 539**	**246**	**4 492**	**3 157**	**9 992**	**9 702**	**433 324**
666	1 067	1 380	230	56	–	412	22	124	287	11 955
4 609	1 014	1 031	50	1 276	–	1 495	1 016	1 874	521	55 970
50	118	28	17	10	–	1	–	–	1 013	7 740
5 325	**2 199**	**2 439**	**297**	**1 342**	**–**	**1 908**	**1 038**	**1 998**	**1 821**	**75 665**
85 968	**9 645**	**14 407**	**1 945**	**12 881**	**246**	**6 400**	**4 195**	**11 990**	**11 523**	**508 989**

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

At 1 April 2018 **R'million**	High net worth and professional individuals	Lending collateralised by property – largely to private clients	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services
Cash and balances at central banks	–	–	–	–	9 165	–
Loans and advances to banks	–	–	–	–	–	–
Non-sovereign and non-bank cash placements	–	–	18	–	–	1 843
Reverse repurchase agreements and cash collateral on securities borrowed	658	–	–	–	–	89
Sovereign debt securities	–	–	–	–	62 365	–
Bank debt securities	–	–	–	–	–	–
Other debt securities	–	–	–	–	1 312	–
Derivative financial instruments	–	–	16	1 121		28
Securities arising from trading activities	–	–	–	–	586	–
Loans and advances to customers	124 415	40 616	2 926	6 301	5 839	11 875
Own originated loans and advances to customers securitised	6 836	–	–	–	–	–
Other loans and advances	–	–	–	–	–	–
Other assets	–	–	–	–	–	9
Total on-balance sheet exposures	**131 909**	**40 616**	**2 960**	**7 422**	**79 267**	**13 844**
Guarantees	4 431	937	–	946	1	1 117
Committed facilities related to loans and advances to customers	29 563	2 932	788	569	314	781
Contingent liabilities, letters of credit and other	4 066	1 376	–	–	711	6
Total off-balance sheet exposures	**38 060**	**5 245**	**788**	**1 515**	**1 026**	**1 904**
Total gross credit and counterparty exposures	**169 969**	**45 861**	**3 748**	**8 937**	**80 293**	**15 748**

Finance and insurance	Retailers and whole-salers	Manufac-turing and commerce	Construc-tion	Corporate commer-cial real estate	Other residential mortgages	Mining and resources	Leisure, entertain-ment and tourism	Transport	Communi-cation	**Total**
–	–	–	–	–	–	–	–	–	–	9 165
17 265	–	–	–	–	–	–	–	–	–	17 265
2 203	1 728	2 048	504	201	–	396	30	155	867	9 993
18 765	–	934	–	–	–	–	–	34	–	20 480
–	–	–	–	–	–	–	–	–	–	62 365
8 036	–	–	–	–	–	–	–	–	–	8 036
3 170	–	1 993	–	955	–	1 917	–	–	1 014	10 361
4 722	198	123	–	387	–	135	42	59	27	6 858
–	–	–	–	–	–	–	–	–	112	698
18 221	4 879	7 431	1 855	6 812	–	2 815	3 017	4 552	5 574	247 128
–	–	–	–	–	–	–	–	–	–	6 836
–	–	–	–	–	290	–	–	–	–	290
385	2 004	456	136	–	–	8	72	1	293	3 364
72 767	**8 809**	**12 985**	**2 495**	**8 355**	**290**	**5 271**	**3 161**	**4 801**	**7 887**	**402 839**
148	81	1 059	128	466	–	1 016	145	52	61	10 588
3 901	1 156	934	313	176	–	2 251	55	1 545	2 253	47 531
–	188	18	–	–	–	–	–	–	711	7 076
4 049	**1 425**	**2 011**	**441**	**642**	**–**	**3 267**	**200**	**1 597**	**3 025**	**65 195**
76 816	**10 234**	**14 996**	**2 936**	**8 997**	**290**	**8 538**	**3 361**	**6 398**	**10 912**	**468 034**

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

Composition of core loans and advances

R'million	31 March 2019	1 April 2018
Loans and advances per the balance sheet	261 737	245 162
Add: own originated loans and advances per the balance sheet	7 667	6 826
Net core loans and advances	**269 404**	**251 988**
Of which subject to ECL*	267 452	249 984
Net core loans and advances at amortised cost	253 396	232 734
Net fixed rate loans which have passed the SPPI test designated at FVPL (for which management calculates ECL)^	14 056	17 250
Of which FVPL (excluding fixed rate loans above)	1 952	2 004
Add: ECLs	2 670	1 976
Gross core loans and advances	**272 074**	**253 964**
Of which subject to ECL*	270 122	251 960
Of which FVPL (excluding fixed rate loans above)	1 952	2 004

^ *These are fixed rate loans which have passed the solely payments of principal and interest test (SPPI) and are held in a business model to collect contractual cash flows but have been designated at FVPL to eliminate accounting mismatches (interest rate risk is being economically hedged). The underlying loans have been fair valued and management performs an ECL calculation in order to obtain a reasonable estimate of the credit risk component. The portfolio is managed on the same basis as gross core loans and advances measured at amortised cost. The drawn exposure falls predominantly into Stage 1 (consistent throughout the period) R14 billion as at 31 March 2019 (1 April 2018: R17 billion). The related ECL on the portfolio is R29 million (1 April 2018: R54 million).*

* *Includes portfolios for which ECL is not required for IFRS 9 purposes but for which management evaluates ECL.*

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

Stage 1: 94.7% of gross exposure subject to ECL is in Stage 1 and has not experienced a significant increase in credit risk since origination. ECL is calculated based on a 12–month expected credit loss. Coverage for these performing, non–deteriorated assets is 0.2%.

Stage 2: 4.0% 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 resulting in an increase in coverage to 4.1%. Only R354 million or 0.1% of gross core loans shown in Stage 2 are greater than 30 days past due. An asset reported in Stage 2 does not imply we expect a loss on these assets. Stage 2 assets are assessed relative to their expected performance at the point of origination. While assets may underperform original expectations, the level of ECL indicates that our expected losses from these positions remain low.

Stage 3: 1.3% of gross exposure is in Stage 3 which is made up of assets that are credit impaired. Coverage ratio totals 47.2% and the remaining net exposure is considered to be well covered by collateral. Stage 3 ECL is predominantly driven by specific impairments raised against the non–performing loan portfolio.

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

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

R'million	31 March 2019	1 April 2018
Gross core loans and advances subject to ECL	**270 122**	**251 960**
Stage 1	255 769	239 753
Stage 2	10 768	9 346
of which past due greater than 30 days	354	313
Stage 3	3 585	2 861
Gross core loans and advances subject to ECL (%)		
Stage 1	94.7%	95.2%
Stage 2	4.0%	3.7%
Stage 3	1.3%	1.1%

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

R'million	31 March 2019	31 March 2018^
ECL impairment charges on core loans and advances	(699)	n/a
Average gross core loans and advances subject to ECL	261 041	n/a
Income statement impairment charge on loans and advances	n/a	(692)
Average gross core loans and advances	n/a	245 304
Credit loss ratio (%)	**0.27%**	**0.28%**

^ *Comparative information has been presented on an IAS 39 basis. On adoption of IFRS 9 there is a move from incurred loss model to ECL methodology.*

R'million	31 March 2019	1 April 2018
ECL	**(2 670)**	**(1 976)**
Stage 1	(538)	(592)
Stage 2	(441)	(269)
Stage 3	(1 691)	(1 115)
ECL coverage ratio (%)		
Stage 1	0.2%	0.2%
Stage 2	4.1%	2.9%
Stage 3	47.2%	39.0%

A further analysis of Stage 3 gross core loans and advances

R'million	31 March 2019	1 April 2018
Stage 3 net of ECLs	1 894	1 746
Aggregate collateral and other credit enhancements on Stage 3	3 055	3 547
Stage 3 net of ECL and collateral	–	–
Stage 3 as a % of gross core loans and advances subject to ECL	1.3%	1.1%
Total ECL impairments as a % of Stage 3 exposure	74.5%	69.1%
Stage 3 net of ECL as a % of net core loans and advances subject to ECL	0.7%	0.7%

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

The table below indicates underlying movements in gross core loans and advances subject to ECL from 1 April 2018 to 31 March 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. Foreign exchange and other category largely comprises impact on the closing balance as a result of movements and translations in foreign exchange rates since the opening date, 1 April 2018. Further analysis as at 31 March 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
1 April 2018	**239 753**	**(592)**	**9 346**	**(269)**	**2 861**	**(1 115)**	**251 960**	**(1 976)**
Transfer from Stage 1	(6 940)	349	5 986	(101)	954	(248)	–	–
Transfer from Stage 2	4 716	(116)	(5 658)	156	942	(40)	–	–
Transfer from Stage 3	412	(66)	26	(5)	(438)	71	–	–
New lending net of repayments (includes assets written off)	16 680	(185)	768	(137)	(709)	98	16 739	(224)
ECL remeasurement arising from transfer of stage	–	125	–	(109)	–	(512)	–	(496)
Changes to risk parameters and models	–	(24)	–	24	–	–	–	–
Foreign exchange and other	1 148	(29)	300	–	(25)	55	1 423	26
31 March 2019	**255 769**	**(538)**	**10 768**	**(441)**	**3 585**	**(1 691)**	**270 122**	**(2 670)**

An analysis of credit quality by internal rating grade

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

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

The internal credit rating distribution below is based on the 12–month PD at 31 March 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:

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

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

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

Year in review

The majority of the property assets are commercial investment properties and are located in South Africa. This portfolio continues to grow as a proportion of our net core loans exposures and totals R37.1 billion or 13.8% at 31 March 2019. Loan-to-value remains conservative and transactions are generally supported by strong cash flows. We follow a client-centric approach, backing counterparties with strong balance sheets and requisite expertise.

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 31 March 2019										
Commercial real estate	**39 682**	**(63)**	**2 423**	**(25)**	**907**	**(320)**	**43 012**	**(408)**	**–**	**43 012**
Commercial real estate – investment	35 494	(49)	1 132	(17)	812	(225)	37 438	(291)	–	37 438
Commercial real estate – development	3 604	(11)	1 288	(8)	–	–	4 892	(19)	–	4 892
Commercial vacant land and planning	584	(3)	3	–	95	(95)	682	(98)	–	682
Residential real estate	**2 859**	**(44)**	**531**	**(11)**	**260**	**(150)**	**3 650**	**(205)**	**–**	**3 650**
Residential real estate – investment	–	–	–	–	–	–	–	–	–	–
Residential real estate – development	2 266	(20)	482	(9)	208	(105)	2 956	(134)	–	2 956
Residential vacant land and planning	593	(24)	49	(2)	52	(45)	694	(71)	–	694
Total lending collateralised by property	**42 541**	**(107)**	**2 954**	**(36)**	**1 167**	**(470)**	**46 662**	**(613)**	**–**	**46 662**
At 1 April 2018										
Commercial real estate	**34 156**	**(55)**	**1 669**	**(9)**	**695**	**(272)**	**36 520**	**(336)**	**252**	**36 772**
Commercial real estate – investment	30 563	(43)	1 452	(9)	673	(256)	32 688	(308)	252	32 940
Commercial real estate – development	2 905	(7)	130	–	8	(2)	3 043	(9)	–	3 043
Commercial vacant land and planning	688	(5)	87	–	14	(14)	789	(19)	–	789
Residential real estate	**3 452**	**(54)**	**222**	**(8)**	**170**	**(79)**	**3 844**	**(141)**	**–**	**3 844**
Residential real estate – investment	–	–	–	–	–	–	–	–	–	–
Residential real estate – development	2 819	(35)	70	–	146	(58)	3 035	(93)	–	3 035
Residential vacant land and planning	633	(19)	152	(8)	24	(21)	809	(48)	–	809
Total lending collateralised by property	**37 608**	**(109)**	**1 891**	**(17)**	**865**	**(351)**	**40 364**	**(477)**	**252**	**40 616**

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

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

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

Credit risk arises from the following activities:

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

Year in review

We have seen continued growth in our private client portfolio and client base as we actively focus on our business strategy to increase our positioning in this space. Our high net worth client portfolio and residential mortgage book grew by 5.1% to R137.2 billion at 31 March 2019. Growth in both of these areas has been achieved with strong adherence to our conservative lending appetite.

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 31 March 2019										
Mortgages	70 282	(86)	2 333	(61)	1 098	(245)	73 713	(392)	–	73 713
High net worth and specialised lending	63 272	(134)	671	(23)	540	(456)	64 483	(613)	–	64 483
Total high net worth and other private client lending	**133 554**	**(220)**	**3 004**	**(84)**	**1 638**	**(701)**	**138 196**	**(1 005)**	**–**	**138 196**
At 1 April 2018										
Mortgages	65 740	(44)	655	(18)	874	(188)	67 269	(250)	–	67 269
High net worth and specialised lending	62 705	(152)	783	(21)	494	(264)	63 982	(437)	–	63 982
Total high net worth and other private client lending	**128 445**	**(196)**	**1 438**	**(39)**	**1 368**	**(452)**	**131 251**	**(687)**	**–**	**131 251**

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

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

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

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

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

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

Year in review

The corporate book increased by 6.0% to R86.2 billion as at 31 March 2019 as a result of increased lending activity by our mid-to-large corporate clients across a number of sectors. Our book remains well diversified across sectors and our SOEs exposure is predominantly backed by government support.

Corporate and other lending

R'million	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			
	Gross exposure	ECL	Gross exposure	ECL	Gross exposure	ECL	**Gross exposure**	**ECL**		
At 31 March 2019										
Acquisition finance	12 889	(34)	276	(2)	29	(1)	13 194	(37)	–	13 194
Asset-based lending	5 628	(26)	53	(2)	283	(188)	5 964	(216)	–	5 964
Fund finance	5 090	(8)	–	–	–	–	5 090	(8)	–	5 090
Other corporate and financial institutions and governments	46 592	(128)	2 671	(305)	460	(331)	49 723	(764)	1 952	51 675
Asset finance	3 844	(5)	18	(1)	8	–	3 870	(6)	–	3 870
Small ticket asset finance	1 962	(1)	18	(1)	8	–	1 988	(2)	–	1 988
Large ticket asset finance	1 882	(4)	–	–	–	–	1 882	(4)	–	1 882
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	**79 674**	**(211)**	**4 810**	**(321)**	**780**	**(520)**	**85 264**	**(1 052)**	**1 952**	**87 216**
At 1 April 2018										
Acquisition finance	12 670	(75)	1 216	(21)	97	(2)	13 983	(98)	–	13 983
Asset-based lending	4 055	(41)	515	(10)	236	(148)	4 806	(199)	604	5 410
Fund finance	4 909	(5)	–	–	–	–	4 909	(5)	–	4 909
Other corporate and financial institutions and governments	43 347	(146)	3 082	(165)	156	(73)	46 585	(384)	1 148	47 733
Asset finance	2 596	(8)	57	(6)	24	–	2 677	(14)	–	2 677
Small ticket asset finance	2 184	(5)	41	(6)	–	–	2 225	(11)	–	2 225
Large ticket asset finance	412	(3)	16	–	24	–	452	(3)	–	452
Project finance	5 494	(11)	1 147	(11)	–	–	6 641	(22)	–	6 641
Resource finance	629	(1)	–	–	115	(89)	744	(90)	–	744
Total corporate and other lending	**73 700**	**(287)**	**6 017**	**(213)**	**628**	**(312)**	**80 345**	**(812)**	**1 752**	**82 097**

Investment risk in the banking book

Investment risk description

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

- **Principal Investments:** Principal Investments are focused on providing capital to entrepreneurs and management teams to further their growth ambitions as well as leverage third party capital into funds that are relevant to our client base. Investments are selected based on the track record of management, the attractiveness of the industry and the ability to build value for the existing business by implementing an agreed strategy. Investments in listed shares may arise on an IPO, or sale of one of our investments to a listed company. We have limited appetite for listed investments
- **IEP Group:** Investec Bank Limited holds a 45.9% stake alongside third party investors and senior management of the business who hold the remaining 54.1%. The investment in the IEP Group is reflected as an investment in an associate
- **Lending transactions:** The manner in which we structure certain transactions results in equity, warrant and profit shares being held, predominantly in unlisted companies
- **Property activities:** We undertake development, investment and trading opportunities in support of clients to create value and trade for profit within agreed risk parameters.

Management of investment risk

As investment risk arises from a variety of activities conducted by the group, the monitoring and measurement thereof varies across transactions and/or type of activity. Independent credit and investment committees exist in each geography where we assume investment risk.

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

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

The table below provides an analysis of income and revaluations of these investments.

For the year to 31 March R'million	Income/(loss) (pre-funding costs) Unrealised*	Realised*	Dividends	Other	Total	Fair value through equity/OCI
Year to 31 March 2019						
Unlisted investments	(764)	404	106	–	(254)	–
Listed equities	(580)	399	332	–	151	92
Investment and trading properties	–	(1)	–	–	(1)	–
Warrants and profit shares	(18)	221	–	–	203	–
The IEP Group	–	–	–	1 193	1 193	–
Total	**(1 362)**	**1 023**	**438**	**1 193**	**1 292**	**92**
Year to 31 March 2018						
Unlisted investments	(413)	427	109	–	123	(2)
Listed equities	(208)	10	321	–	123	(369)
Investment and trading properties	–	8	–	–	8	–
Warrants, profit shares and other embedded derivatives	(9)	218	–	–	209	–
The IEP Group	–	–	–	766	766	–
Total	**(630)**	**663**	**430**	**766**	**1 229**	**(371)**

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

Summary of investments held and stress testing analyses

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

R'million	On-balance sheet value of investments 31 March 2019	Valuation change stress test 31 March 2019*	On-balance sheet value of investments 1 April 2018	Valuation change stress test 1 April 2018*
Unlisted investments^	3 525	529	3 542	531
Listed equities	4 139	1 035	4 774	1 194
Investment and trading properties	254	49	267	53
Warrants, profit shares and other embedded derivatives	174	61	213	74
The IEP Group^^	6 184	928	6 180	927
Total	**14 276**	**2 602**	**14 976**	**2 779**

^ *Includes fair value loan investments of R1.2 billion as referred to on page 201.*
^^ *As explained on page 48.*
* *In order to assess our earnings sensitivity to a movement in the valuation of these investments the following stress testing parameters are applied:*

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

Stress testing summary

Based on the information at 31 March 2019, as reflected above, we could have a R2.6 billion reversal in revenue (which assumes a year in which there is a 'severe stress scenario' simultaneously across all asset classes). This would not cause the group to report a loss, but could have a significantly negative impact on earnings for that period. The probability of all these asset classes being negatively impacted at the same time is low, although the probability of listed equities being negatively impacted at the same time is high.

Capital requirements

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

Refer to page 75 for further detail.

Valuation and accounting methodologies

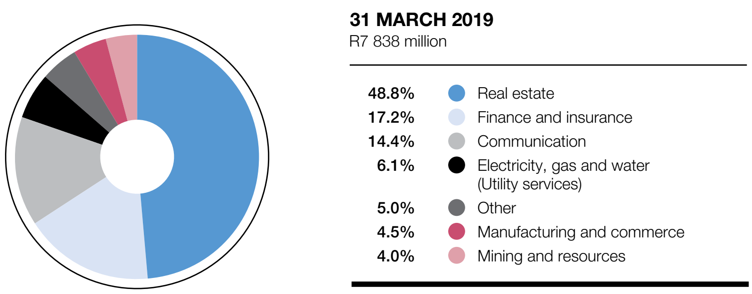
For a description of our valuation principles and methodologies refer to pages 184 and 192 for factors taken into consideration in determining fair value.

We have a low level of assets exposed to the volatility of IFRS fair value accounting with level 3 assets amounting to 0.9% of total assets (excluding assurance assets).

Refer to page 184 for further information.

Additional information

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



Securitisation/structured credit activities exposures

Overview

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

Refer to page 33 for the balance sheet and credit risk classification.

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

The bank engages in transactions that involve the use of both special purpose entities and asset securitisation structures. Securitisation represents a small proportion of our current funding profile, but provides additional flexibility and a source of liquidity. Investec Bank Limited does 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. The primary motivations for the securitisation of these assets are to:

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

Total assets that have been originated and securitised by the Private Client division amount to R7.7 billion at 31 March 2019 (31 March 2018: R6.8 billion) and consist of residential mortgages. Within these securitisation vehicles loans greater than 90 days in arrears amounted to R31.1 million.

Further details of the 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. R593 million of the notes are held internally
- Fox Street 3: R1.0 billion notes of the original R2.0 billion are still in issue. R192 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: R1.9 billion notes of the original R2.9 billion are still in issue. All notes are held internally
- Fox Street 6: R1.3 billion notes of the original R1.3 billion are still in issue. R475 million of the notes are held internally.

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

We have also sought out select opportunities in the credit/debt markets and traded in and purchased structured credit. These have largely been rated UK residential mortgage-backed securities (RMBS), totalling R0.2 billion at 31 March 2019 (1 April 2018: R0.2 billion), unrated South African RMBS totalling R1.1 billion at 31 March 2019 (1 April 2018: R1.0 billion) and unrated South Africa commercial mortgage backed securities (CMBS) totalling R0.3 billion at 31 March 2019 (1 April 2018: Rnil)

Accounting policies

Refer to page 156 and 157.

Risk management

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

In addition, securitisations of the bank's own originated assets are assessed in terms of the credit risk management philosophies and principles as set out on page 20.

Credit analysis

In terms of our analysis of our credit and counterparty risk, exposures arising from securitisation/structured credit activities reflect only those exposures to which we consider ourselves to be at risk. Assets that have been securitised by our Private Client division are reflected as part of our core lending exposures and not our securitisation/structured credit exposures as we believe this reflects the true nature and intent of these exposures and activities.

Securitisation/structured credit activities exposures

Nature of exposure/activity	Exposure 31 March 2019 R'million	Exposure 01 April 2018 R'million	Balance sheet and credit risk classification	Asset quality – relevant comments
Structured credit (gross exposure)	1 633	1 145	Other debt securities	
Rated	167	165		
Unrated	1 466	980		
Loans and advances to customers and third party intermediary platforms (mortgage loans) – (net exposure)	220	265	Other loans and advances	
Private Client division assets – which have been securitised (net exposure)	7 667	6 826	Own originated loans and advances to customers securitised	Analysed as part of the group's overall asset quality on core loans and advances

Analysis of gross structured credit exposure

R'million	AAA	AA	A	BBB	BB	B and below	C and below	Total rated	Total unrated	Total
UK RMBS	–	–	–	–	134	–	–	134	–	**134**
Australian RMBS	–	33	–	–	–	–	–	33	–	**33**
South African RMBS	–	–	–	–	–	–	–	–	1 133	**1 133**
South African CMBS	–	–	–	–	–	–	–	–	333	**333**
Total at 31 March 2019	**–**	**33**	**–**	**–**	**134**	**–**	**–**	**167**	**1 466**	**1 633**
Total at 1 April 2018	**–**	**36**	**–**	**–**	**129**	**–**	**–**	**165**	**980**	**1 145**

Market risk in the trading book

Traded market risk description

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

Traded market risk profile

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

Traded market risk governance structure

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

The market risk team has reporting lines that are separate from the trading function, thereby ensuring independent oversight. A Market Risk Forum, mandated by the IBL BRCC, manages market risk in accordance with approved principles, policies and risk appetite. Risk limits across all trading desks are reviewed by the Market Risk Forum and recommended for approval at review ERRF in accordance with the risk appetite defined by the board. Limit reviews approved at review ERRF and IBL ERC and any significant change would also be taken to Policy ERRF for review and approval. The appropriateness of limits is continually re-assessed, with limits reviewed at least annually, in the event of a significant market event or at the discretion of senior management.

Measurement of traded market risk

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

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

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

Traded market risk management, monitoring and control

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

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

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

Value at Risk

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

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

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

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

	31 March 2019				**31 March 2018**			
R'million	**Year end**	Average	High	Low	**Year end**	Average	High	Low
95% (one-day)								
Commodities	0.1	0.1	0.4	–	–	0.1	1.5	–
Equities	3.6	3.4	7.2	1.6	3.9	3.1	7.4	1.4
Foreign exchange	1.4	2.1	6.5	0.9	1.7	2.9	9.1	0.9
Interest rates	1.2	2.1	9.0	0.4	2.4	2.2	4.7	0.3
Consolidated*	**3.8**	**4.5**	**9.7**	**1.5**	**3.2**	**4.6**	**13.3**	**2.1**

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

Expected shortfall

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

95% (one-day) **R'million**	**31 March 2019**	31 March 2018
Commodities	0.2	0.1
Equities	6.9	7.2
Foreign exchange	2.2	3.7
Interest rates	1.7	4.1
Consolidated*	**6.4**	**8.7**

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

Stressed VaR

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

R'million	**31 March 2019 Year end**	31 March 2018 Year end
99% 1-day sVaR	8.6	12.0

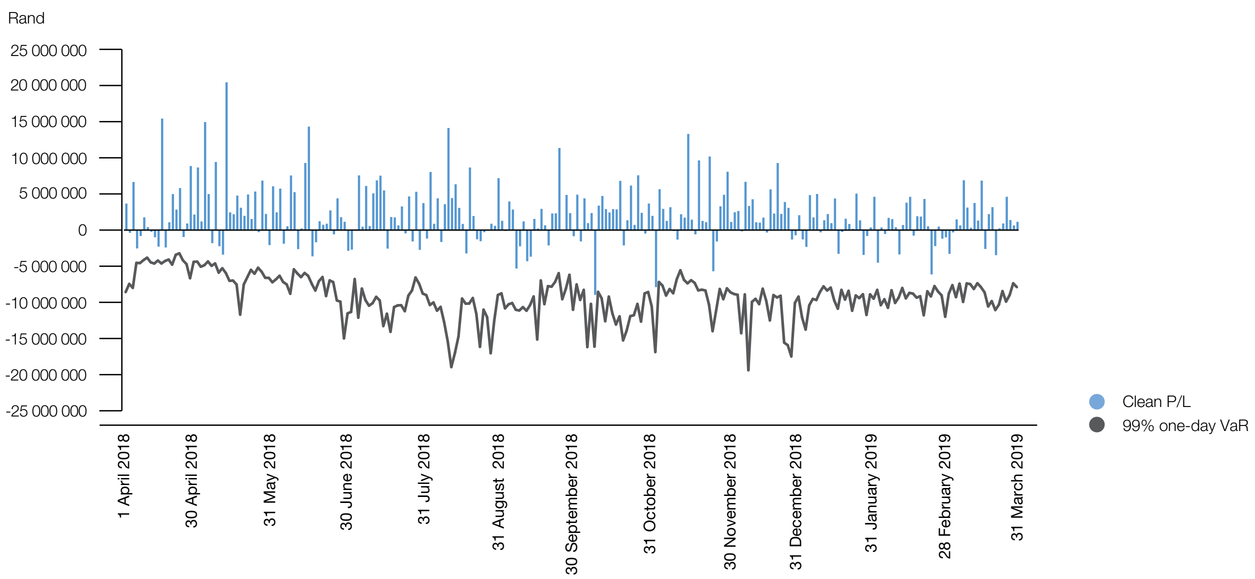
Backtesting

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

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

Average VaR for the year ended March 2019 was lower than the previous year, primarily due to lower VaR utilisation across most desks. The graph below is based on clean profit and loss, which excludes items such as fees, commissions, valuation adjustments, provisions, recoveries and intra-day transactions. This backtesting resulted in zero exceptions which is below the expected number of two to three exceptions as implied by the 99% VaR model.

99% one-day VaR backtesting



Stress testing

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

	31 March 2019				31 March 2018
R'million	**Year end**	Average	High	Low	**Year end**
99% (using 99% EVT)					
Commodities	1.4	1.2	2.8	0.2	0.2
Equities	22.5	20.6	47.9	4.4	13.6
Foreign exchange	8.9	20.2	48.5	3.1	20.1
Interest rates	3.9	11.4	50.8	0.9	13.5
Consolidated*	**17.2**	**25.4**	**48.7**	**5.7**	**29.3**

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

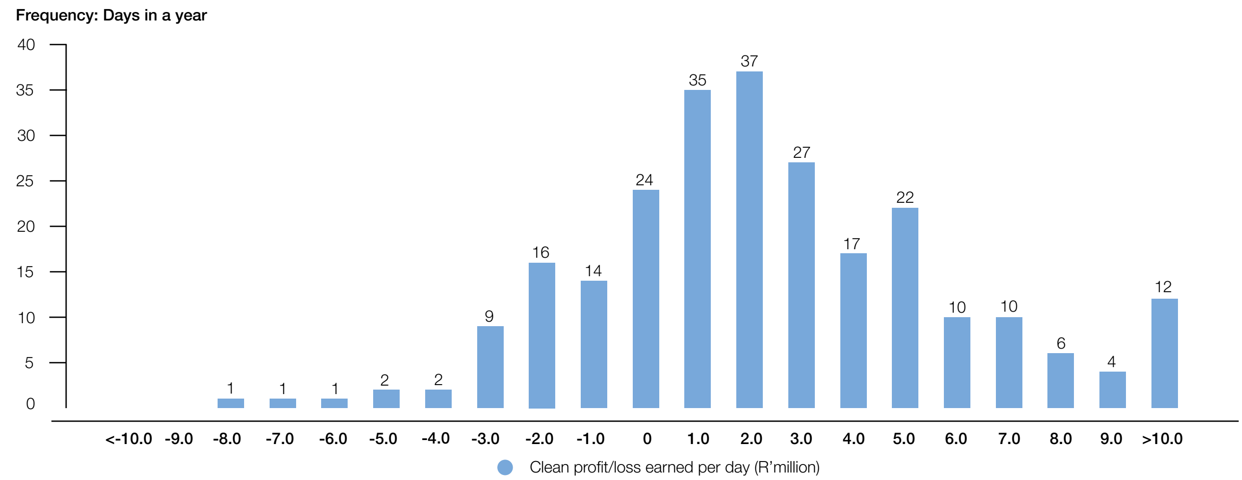
Capital

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

Clean profit and loss histograms

The histogram below illustrates the distribution of clean profit and loss during the financial year for our trading businesses. The distribution is skewed to the profit side and the graph shows that a clean profit was realised on 180 days out of a total of 250 days in the trading business. The average daily clean profit and loss generated for the year to 31 March 2019 was R2.0 million (2018: -R0.7 million).

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



Traded market risk year in review

In South Africa, the optimism experienced during early 2018 was replaced by concerns over the financial health of state-owned enterprises and policy uncertainty surrounding the expropriation of land without compensation. South Africa's credit rating has remained under spotlight. The Rand was under pressure during the period, down 22% year-on-year against the US Dollar. Globally, the ongoing US-China Trade war impacted emerging-market economies whilst further Brexit uncertainty added to volatile markets. Against this challenging economic backdrop, the trading desks have performed well, primarily focusing on client facilitation whilst maintaining low levels of open risk. This is reflected in a decrease in average VaR utilisation as compared to the previous year.

Market risk – derivatives

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

Information showing our derivative trading portfolio over the reporting period on the basis of the notional principal and the fair value of all derivatives can be found on pages 199 and 200.

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

Balance sheet risk management

Balance sheet risk description

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

Balance sheet risk governance structure and risk mitigation

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

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

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

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

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

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

There is a regular audit of the balance sheet risk management function, the frequency of which is determined by the independent audit committees.

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

Liquidity risk

Liquidity risk description

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

Liquidity risk is further broken down into:

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

Management and measurement of liquidity risk

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

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

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

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

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

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

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

The bank operates an industry-recognised third party risk modelling system in addition to custom-built management information systems designed to measure and monitor liquidity risk on both a current and forward-looking basis. The system is audited by Internal Audit thereby ensuring integrity of the process.

Funding strategy

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

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

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

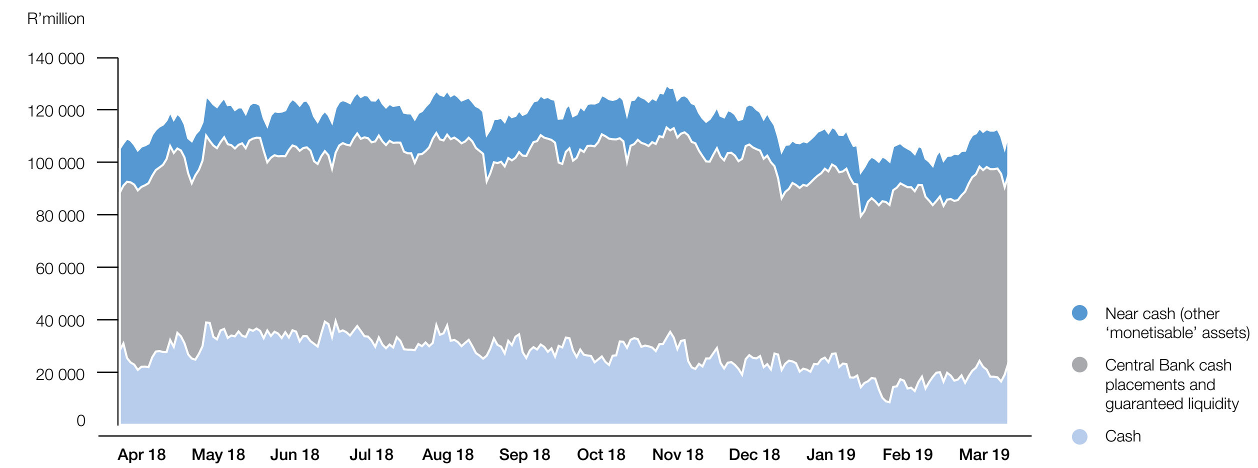
The bank's ability to access funding at cost-effective levels is influenced by maintaining or improving the entity's credit rating. A reduction in these ratings could have an adverse effect on the bank's funding costs, and access to wholesale term funding. Credit ratings are dependent on multiple factors,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

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

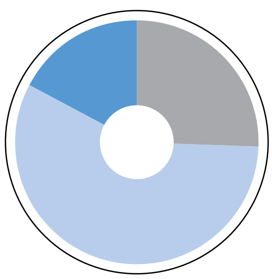
Liquidity buffer

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

Investec Limited cash and near cash trend



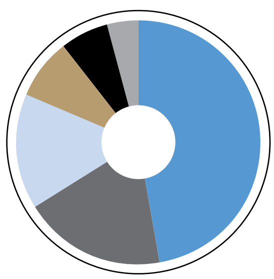
An analysis of cash and near cash at 31 March 2019



R118.4 billion

25.8%	Cash
57.0%	Central Bank cash placements and guaranteed liquidity
17.2%	Near cash (other 'monetisable' assets)

Bank and non-bank depositor concentration by type at 31 March 2019



R371.8 billion

47.3%	Other financials
19.0%	Individuals
15.3%	Non-financial corporates
8.1%	Banks
6.4%	Public sector
3.9%	Small business

The liquidity position of the bank remained sound with total cash and near cash balances amounting to R118.4 billion at year end

Contingency planning

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

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

Liquidity mismatch

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

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

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

Contractual liquidity at 31 March 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	26 325	840	370	–	98	–	2 560	30 193
Cash and short-term funds – non-banks	11 580	271	338	–	–	–	3	12 192
Investment/trading assets and statutory liquids	48 474	26 424	10 668	3 271	4 561	11 308	27 493	132 199
Securitised assets	–	–	–	–	–	3 833	4 066	7 899
Advances	4 773	5 942	11 622	12 537	17 574	109 005	100 613	262 066
Other assets	9 387	10 753	(332)	(557)	(451)	(2 911)	12 905	28 794
Assets	**100 539**	**44 230**	**22 666**	**15 251**	**21 782**	**121 235**	**147 640**	**473 343**
Deposits – banks	(366)	–	(1 268)	(501)	(349)	(27 557)	–	(30 041)
Deposits – non-banks	(146 459)^	(20 160)	(58 278)	(31 857)	(42 945)	(39 247)	(2 764)	(341 710)
Negotiable paper	–	(53)	(393)	(523)	(901)	(3 440)	(1 202)	(6 512)
Securitised liabilities	–	–	–	–	–	(859)	(861)	(1 720)
Investment/trading liabilities	(2 076)	(11 335)	(2 340)	(1 290)	(1 494)	(9 853)	(2 411)	(30 799)
Subordinated liabilities	–	(19)	(4)	–	–	(2 894)	(11 001)	(13 918)
Other liabilities	(825)	(141)	(1 261)	(93)	–	(563)	(4 000)	(6 883)
Liabilities	**(149 726)**	**(31 708)**	**(63 544)**	**(34 264)**	**(45 689)**	**(84 413)**	**(22 239)**	**(431 583)**
Total equity	–	–	–	–	–	–	(41 760)	(41 760)
Contractual liquidity gap	**(49 187)**	**12 522**	**(40 878)**	**(19 013)**	**(23 907)**	**36 822**	**83 641**	**–**
Cumulative liquidity gap	(49 187)	(36 665)	(77 543)	(96 556)	(120 463)	(83 641)	–	

^ *Includes call deposits of R137 billion and the balance reflects term deposits which have finally reached/are reaching contractual maturity.*

Behavioural liquidity at 31 March 2019

As discussed on page 59.

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	**40 882**	**2 037**	**2 172**	**(5 168)**	**(6 524)**	**(181 972)**	**148 573**	**–**
Cumulative	40 882	42 919	45 091	39 923	33 399	(148 573)	–	

Regulatory requirements

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

Two minimum standards for funding liquidity were introduced:

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

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

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

- A low discretionary savings rate and a higher degree of contractual savings that are captured by institutions such as pension funds, provident funds and providers of asset management services
- There is currently no 'deposit protection scheme' in South Africa. However, the regulators plan to incorporate a deposit protection scheme within the broader amendments to the recovery and resolution framework
- South Africa has an insufficient supply of level 1 assets in domestic currency to meet the aggregate demand.

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

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

To address this systemic challenge, the South African Prudential Authority exercised national discretion and has announced:

- The introduction of a committed liquidity facility (CLF) whereby South African banks can apply to the Reserve Bank for the CLF against eligible collateral for a prescribed commitment fee. The CLF is limited to 40% of Net Outflows under the LCR. The bank does not currently make use of the Committed Liquidity Facility offered by the South African Prudential Authority
- A change to the available stable funding factor as applied to less than six month's term deposits from the financial sector. The change recognises 35% of less than six months financial sector deposits which has the impact of reducing the amount of greater than six month's term deposits required by local banks to meet the NSFR, and will therefore mitigate any increases in the overall cost of funds.

Despite the above constraints, Investec Bank Limited comfortably exceeds the LCR and NSFR liquidity ratio requirements, having embedded these ratios into our processes.

Balance sheet risk year in review

- The bank maintained its strong liquidity position and continued to hold high levels of surplus liquid assets
- Our liquidity risk management process remains robust and comprehensive.

The country continued to confront an uncertain economic environment for the better part of 2018, following the initial excitement and optimism following the ascension of Cyril Ramaphosa to the ANC Presidency. The problems facing state owned enterprises and the realities of state capture came to the fore and the euphoria following the ANC elective conference quickly subsided. Risks to the fiscus emanating from SOEs like Eskom, Transnet, SAA, SARS and PRASA continued to pose major challenges. On the global front, trade tensions, slowing economic growth and Brexit uncertainty started becoming a prominent feature of the local economic environment which transitioned us from risk-on sentiment.

In line with its strategic objectives, the bank took actions to improve the stability and structural shape of its funding profile. We elected to early refinance long term Non-ZAR funding in an effort to take advantage of favourable funding spreads, Investec Bank Limited grew its total customer deposits by 6.2% from R321.9bn to R341.7bn as at 31 March 2019. Our private client funding initiatives had a strong year growing by 10.5% to close the year at R145.9bn positively contributing to Investec Bank Limited's strategic funding objective. We continue to derive funding growth out of our Private Banking franchise achieving 13.5% growth from our core franchise client base.

Over the same period ZAR Wholesale funding channels grew by 3.1% to R195.8bn with a strong focus on lengthening tenor. We are cognisant of the cost implications of long-term funding and will continue to opportunistic in our efforts to fetch this class of deposits.

We continue to run a strong liquidity position in the face of both macro and micro economic uncertainty. We delivered liquidity ratios well in excess of regulatory requirements. The 90-day simple average LCR ended the financial year at 135.6%. The structural funding ratio represented by the NSFR was adopted officially as a regulatory measure from 1 January 2019 with a minimum of 100%. The bank delivered an NSFR of 115.6% over the period under review well in excess of regulatory requirement.

We continue to improve balance sheet efficiency by improving our wholesale and retail funding channels and mix. Our funding channels are characterized by their well-diversified structure and are robust enough to meet and deal with any disruptions the economy may encounter throughout the year.

Non-trading interest rate risk

Non-trading interest rate risk description

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

Sources of interest rate risk in the banking book include:

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

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

Measurement and management of non-trading interest rate risk

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

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

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

These metrics are used to assess and to communicate to senior management the financial impact of possible future interest rate scenarios, covering (i) interest rate expectations and perceived risks to the central view (ii) standard shocks to levels and shapes of interest rates and yield curves (iii) historically-based yield curve changes.

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

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

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

We are exposed to automatic optionality risk for those lending products where the bank applies a minimum lending rate. This is an income protection mechanism allowing for upward potential and no downside risk. We are not materially exposed to behavioural embedded option risk, as contract breakage penalties on fixed-rate items specifically cover this risk, while early termination of variable rate contracts has negligible impact on interest rate risk.

The bank has a relatively small endowment risk due to paying market rates on all deposits, compared to banks with significant low or non-interest-bearing current and cheque accounts. Endowment risk due to free funding, comprising mainly ordinary share capital and reserves, is managed passively, with the focus on measuring and monitoring. The endowment risk is included within our non-trading interest rate risk measures.

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

The bank complies with the BCBS108 framework which is currently in force for assessing banking book (non-trading) interest rate risk, and is in the process of enhancing its existing framework to adhere to the new BCBS368 principles which come into effect in 2020.

Interest rate sensitivity gap at 31 March 2019

The table below shows our non-trading interest rate mismatch at 31 March 2019. These exposures affect the interest rate margin realised between lending income and borrowing costs assuming no management intervention.

R'million	Not > three months	> Three months but < six months	> Six months but < one year	> One year but < five years	> Five years	Non-rate	Total non-trading
Cash and short-term funds – banks	16 907	–	–	–	–	11 504	28 411
Cash and short-term funds – non-banks	12 183	–	–	–	–	9	12 192
Investment/trading assets and statutory liquids	46 766	16 446	10 842	11 403	11 547	12 913	109 917
Securitised assets	7 666	–	–	–	–	233	7 899
Advances	251 156	3 287	765	4 679	1 150	856	261 893
Other assets	15 351	(16)	(5 221)	(328)	(219)	12 202	21 769
Assets	**350 029**	**19 717**	**6 386**	**15 754**	**12 478**	**37 717**	**442 081**
Deposits - banks	(29 271)	(275)	(406)	(17)	–	(72)	(30 041)
Deposits - non-banks	(266 837)	(24 953)	(33 360)	(10 477)	(727)	(4 790)	(341 144)
Negotiable paper	(1 862)	(355)	(789)	(570)	–	(80)	(3 656)
Securitised liabilities	(1 720)	–	–	–	–	–	(1 720)
Investment/trading liabilities	(1 233)	–	–	(197)	–	(553)	(1 983)
Subordinated liabilities	(13 474)	–	–	–	(441)	(3)	(13 918)
Other liabilities	–	–	–	–	–	(5 195)	(5 195)
Liabilities	**(314 397)**	**(25 583)**	**(34 555)**	**(11 261)**	**(1 168)**	**(10 693)**	**(397 657)**
Total equity	(953)	–	–	–	–	(40 807)	(41 760)
Balance sheet	**34 679**	**(5 866)**	**(28 169)**	**4 493**	**11 310**	**(13 783)**	**2 664**
Off balance sheet	(27 054)	16 399	23 713	(9 923)	(5 799)	–	(2 664)
Repricing gap	**7 625**	**10 533**	**(4 456)**	**(5 430)**	**5 511**	**(13 783)**	**–**
Cumulative repricing gap	7 625	18 158	13 702	8 272	13 783	–	

Economic value sensitivity at 31 March 2019

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

	Sensitivity to the following interest rates (expressed in original currencies)						
R'million	ZAR	GBP	USD	EUR	AUD	Other (ZAR)	**All (ZAR)**
200bps down	(648.2)	(0.4)	19.1	(0.3)	0.1	–	**(382.7)**
200bps up	592.6	0.7	(11.6)	(2.8)	0.1	–	**394.5**

Liquidity coverage ratio (LCR)

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

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

The values in the table are calculated as the simple average of the 90 calendar daily values over the period 1 January 2018 to 31 March 2019 for Investec Bank Limited (IBL) bank solo. Investec Bank Limited consolidated group values use daily values for IBL bank solo, while those for other group entities use the average of January, February and March 2019 month-end values.

The minimum LCR requirement is 100% for 2019, having increased by 10% for both IBL bank solo and IBL consolidated group.

The Bank of Mauritius requires banks to comply with a combined-currency LCR minimum of 80% from 1 January 2019.

Investec Bank Limited (IBL) Bank Solo

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

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

The composition of HQLA:

- The HQLA comprises primarily South African sovereign and central bank Rand-denominated securities and debt instruments, all of which are eligible for South African Prudential Authority repo
- On average, Level 2 assets contributed 5% of total HQLA. Since 1 December 2017, we have not made use of the South African Prudential Authority's committed liquidity facility (CLF)
- Some foreign denominated government securities are included in the HQLA, subject to regulatory limitations.

Changes since December 2018 quarter-end:

The average LCR decreased by 4%, and remains fully compliant with regulatory requirements, and within the target range as set by the board.

Investec Bank Limited Consolidated group

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

At 31 March 2019 R'million	**Investec Bank Limited Bank Solo – Total weighted value**	**Investec Bank Limited Consolidated group – Total weighted value**
High quality liquid assets (HQLA)	81 086	82 331
Net cash outflows	59 881	57 018
Actual LCR (%)	**135.6**	**144.6**
Required LCR (%)	100.0	100.0

Net stable funding ratio (NSFR)

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

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

The values in the table are calculated as at 31 March 2019.

The minimum NSFR requirement is 100%. This applies to both IBL solo and Investec Bank Limited consolidated group.

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

Investec Bank Limited Bank (IBL) Solo

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

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

Investec Bank Limited Consolidated group

Only banking and/or deposit-taking entities are included and the group data represents a consolidation of the relevant individual assets, liabilities and off-balance sheet items. Our two banks, Investec Bank Limited (IBL) and Investec Bank (Mauritius) Limited (IBM), contributed over 97% of the group's combined available and required stable funding. The consolidated group NSFR is slightly higher than IBL solo's with the contribution of IBM's capital to available stable funding.

At 31 March 2019 R'million	**Investec Bank Limited Bank Solo – Total weighted value**	**Investec Bank Limited Consolidated group – Total weighted value**
Available stable funding (ASF)	303 165	315 194
Required stable funding (RSF)	262 357	269 824
Actual NSFR (%)	**115.6**	**116.8**
Required NSFR (%)	100.0	100.0

Operational risk

Operational risk description

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

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

Risk appetite

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

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

Management and measurement of operational risk

Regulatory capital

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

As part of the Basel III Reforms, The Basel Committee has announced revisions to the calculations of capital requirements for operational risk. A single standardised approach will replace all existing approaches for the calculation of regulatory capital from January 2022.

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

Operational risk management framework and governance

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

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

The levels of defence model is applied as follows:

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

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

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

Operational risk practices consist of the following:

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

Operational risk year in review

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

Operational risk events

The group aims to manage all risk events within the agreed operational risk appetite levels. In 2019, the majority of operational risk losses occurred in the following categories: execution, delivery and process management and fraud.

The value of these losses are largely driven by a small number of isolated events. Root cause analyses are performed on risk events to ensure steps are taken to mitigate against re-occurrence and to protect our customers and shareholders.

Looking forward

Key operational risk considerations for the year ahead

DEFINITION OF RISK	MANAGEMENT, MITIGATION APPROACH AND PRIORITIES FOR 2019/2020
Business resilience	
Risk associated with disruptive incidents which can impact premises, staff, equipment, systems, and key business processes	• Maintain business operations during adverse events, through appropriate continuity capabilities that minimise impact to clients and the broader financial system • Establish fit-for-purpose resilience strategies including, but not limited to, relocating impacted businesses to alternate processing sites, implementation of high availability technology solutions, and ensuring physical resilience for critical infrastructure components • Conduct validation of recovery strategies at least annually to ensure they remain effective and appropriate • Enhance the bank's global resilience capability through a team of dedicated resources and robust governance processes • Participate in regulatory and financial industry resilience activities to collaboratively minimise national systemic continuity risks
Cybesecurity	
Risk associated with cyberattacks which can interrupt client services or business processes, or result in financial losses	• Maintain a risk-based strategy to ensure the bank is adequately protected against advanced cyberattacks, incorporating prediction, prevention, detection and response capabilities • Manage an adaptive cybesecurity architecture, ensuring consistent coverage of baseline cyber controls, with continual monitoring for visibility and proactive response to evolving cyber threats • Enhance cyber resilience by aligning security incident response with crisis management and business resilience processes • Validate the effectiveness of cyber controls through regular penetration testing and targeted attack simulations, run both internally and in conjunction with independent external specialists • Embed secure software development and testing practices to ensure IT systems are secure by design • Provide ongoing security training to staff to ensure high levels of awareness and vigilance
Anti-Money Laundering (AML), terrorist financing and sanctions	
Risk associated with money laundering, terrorist financing, bribery and tax evasion	• Continuous enhancement of AML and sanctions control systems across the bank • Refinement of risk management methodology with the aim to risk rate clients better allowing more effective resource allocation based on the risk posed to the bank • Further enhancing the transaction monitoring environments with an aim to detect AML related activities • Continuous monitoring of adherence to AML policies and legislative requirements • AML awareness remains a key component of the control environment. The awareness is supported by mandatory training for all staff and specialist training for AML roles • Participate at industry body levels to manage legislative requirements through engagement with regulators
Fraud	
Risk associated with fraud, corruption, theft, forgery and integrity misconduct by staff, clients, suppliers and other stakeholders	• Enhance the bank's global approach to fraud management through a holistic framework and consistent policies, standards and methodologies • Maintain an independent integrity line to ensure staff is able to report regulatory breaches, allegations of fraud, bribery and corruption, and non-compliance with policies • Proactive monitoring of adherence to fraud prevention policies and embedding of practices which comply with updated regulations, industry guidance and best practice • Continue to focus on training staff, educating clients and intermediaries on fraud prevention and detection • Participate in industry working groups to gain an understanding of current trends in order to enhance the control environment

DEFINITION OF RISK	MANAGEMENT, MITIGATION APPROACH AND PRIORITIES FOR 2019/2020
Information security	
Risk associated with the compromise of information assets which can impact their confidentiality, integrity, or availability	• Identify high-value information assets based on confidentiality and business criticality • Manage role-based access to business systems and data, in support of least-privilege and segregation of duty principles • Implement strong security controls to protect information against unauthorised access or disclosure, and reduce opportunity for data compromise • Maintain safeguards to protect confidential physical documents and facilitate secure destruction • Develop mechanisms to monitor for and respond to data breaches in line with relevant privacy laws • Protect and monitor internal and external information flows to ensure data completeness and integrity • Develop data retention and destruction processes based on business needs, whilst meeting applicable regulatory compliance obligations
Outsourcing and third party	
Risk associated with the reliance on, and use of a service provider to provide services to the group	• Governance structures are in place to approve outsource and third-party arrangements • Policies and practices include adequate guidance over the assessment, selection, suitability and oversight of the outsource and third party providers • Continue to strengthen governance processes and relevant policies relating to how we identify, assess, mitigate and manage risks across the range of outsource and third party providers • Repeatable processes to facilitate both upfront and periodic evaluation based on the size, materiality, security and service provision of the third party
Process failure	
Risk associated with inadequate internal processes, including human error and control failure within the business. This includes process origination, execution and operations	• Proactive assessment relating to new products and projects to implement adequate and effective controls including the management of change • Address human errors through training, improvement of processes and controls, including automation of processes where possible • Segregation of duties and appropriate authorisation controls • Causal analysis is used to identify weaknesses in controls following the occurrence of risk events • Risk and performance indicators are used to monitor the effectiveness of controls across business units • Thematic reviews across business units to ensure consistent and efficient application of controls
Regulatory compliance	
Risk associated with identification, implementation and monitoring of compliance with regulations	• Group compliance and group legal assist in the management of regulatory and compliance risk which includes the identification and adherence to legal and regulatory requirements • Align regulatory and compliance approach to reflect new regulatory landscapes particularly the change of regulatory structures • Manage business impact and implementation challenges as a result of significant volumes of statutory and regulatory changes and developments (Refer to the compliance section page 79) • Monitoring remains focused appropriately as areas of conduct and regulatory risk develop • Ensure that the business is appropriately positioned to cope with the regulatory changes resulting from geopolitical risk
Technology availability	
Risk associated with disruption to the IT systems which underpin our critical business processes and client services	• Continue to align IT architecture and standards across the bank, to reduce technical complexity and leverage common functions and services • Further enhance IT operational processes, including management of IT changes to minimise adverse impact, and response to IT incidents for swift resolution and root cause analysis • Drive automation to reduce human error whilst enhancing efficiency • Implement strategic infrastructure and application road maps, leveraging new technologies to enhance capacity, scalability, security, and reduce reliance on legacy IT systems • Establish effective, proactive monitoring of the technology environment, providing continual visibility of the health and performance of IT systems and processes • Maintain and test IT resilience capabilities to withstand failure and minimise service disruption

Insurance

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

Recovery and resolution planning

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

The recovery plans for the bank:

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

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

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

Reputational and strategic risk

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

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

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

Legal risk management

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

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

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

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

The legal risk policy is implemented through:

- Identification and ongoing review of areas where legal risk is found to be present
- Allocation of responsibility for the development of procedures for management and mitigation of these risks
- Installation of appropriate segregation of duties, so that legal documentation is reviewed and executed with the appropriate level of independence from the persons involved in proposing or promoting the transaction
- Ongoing examination of the inter-relationship between legal risk and other areas of risk management, so as to ensure that there are no 'gaps' in the risk management process
- Establishing minimum standards for mitigating and controlling each risk. This is the nature and extent of work to be undertaken by our internal and external legal resources
- Establishing procedures to monitor compliance, taking into account the required minimum standards
- Establishing Legal Risk Forums (bringing together the various legal risk managers) to ensure we keep abreast of developments and changes in the nature and extent of our activities, and to benchmark our processes against best practice.

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

Conduct risk

The Financial Sector Regulation Act (Twin Peaks), which became effective in April 2018, transformed the Financial Services Board into the Financial Sector Conduct Authority (FSCA). The FSCA has jurisdiction to regulate the conduct of all financial institutions. National Treasury and the FSCA are reviewing the legislative framework to align to the mandate of the new conduct regulator.

The draft Conduct of Financial Institutions Bill (COFI) was published for comment in December 2018. The intention is that the COFI Bill, once enacted, will consolidate and strengthen conduct laws and ensure financial inclusion and transformation of the financial sector.

The bank continues to align its conduct framework to developing legislative requirements and applicable best practice.

Climate related financial disclosures (TCFD)

We recognise and support the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) to disclose clear, comparable and consistent information. This is the start of a long-term process to build a better understanding of environmental, social and governance (ESG) and climate-related risks and opportunities and consequently improve our disclosures in this regard.

Governance

Climate related risk considerations are integrated into multidisciplinary company-wide management processes throughout the Investec group. We are guided by our climate change statement and policies on environmental and social risk. The board has the ultimate responsibility to monitor that IBL is operating as a responsible corporate. The DLC SEC takes overall responsibility for reviewing ESG aspects, including policy and strategic intent, and meets four times a year. The DLC SEC supports the IBL board in its duties to protect and endorse the bank's reputation for responsible corporate conduct. In the past year the board discussed and monitored the various elements of good corporate citizenship including, but not limited to, environmental (including climate change related risks and opportunities), health and public safety, including the impact of the bank's activities and of its products and services. The IBL board satisfied itself that the bank's standing and commitment to the various elements of good corporate citizenship remained in place and was actively enforced.

A variety of environmental, social and macro-economic risk considerations are considered by the credit and investment committees when making lending or investment decisions. Divisional risk forums assess new deals for financial soundness including ESG due diligence.

We engage with our clients on sustainability issues in order to minimise the risks and require clients to meet appropriate technical, governance, transparency, social and environmental standards.

In view of the increasing challenges globally, financial risks along with environmental and social risks are regularly monitored and reviewed to ensure our policies and practices remain relevant and appropriate for the Investec group.

Strategy

As a distinctive financial institution, we are aware of our broader social responsibility and play a critical role in funding a stable and sustainable economy that contributes to our communities and is cognisant of climate change and our planet's limited natural resources.

We recognise the need to move as quickly and smoothly as possible towards a low-carbon economy while always being mindful of the socio-economic consequences of this transition. We also recognise the importance of various industries, including the energy sector, for the global economy. At the same time, their potential impacts on local communities and the environment needs to be taken into account. All these socio-economic and environmental factors need to be assessed in order to ensure an orderly transition.

Our strategy is based on the following:

- we believe that the widest and most positive influence we can have is for our businesses to use their specialist skills in advisory, lending and investing to support our clients and stakeholders. This not only navigates risks, but also takes advantage of the opportunities that sustainable growth presents. An important aspect of our approach is a deliberate focus on financing infrastructure solutions that promote renewable and clean energy and we have developed strong expertise in this sector
- we embrace our responsibility to understand and manage our own carbon footprint. Our approach is to limit and minimise our direct carbon impact and create awareness to encourage positive sustainable behaviour. We are exploring various opportunities as we work towards our ultimate goal of becoming carbon neutral in our operations
- where appropriate, we will share resources and intelligence to support global efforts to combat illegal wildlife trade. We are signatories to the United for Wildlife Financial Taskforce which leverages the existing global financial crime architectures to support efforts to combat illegal wildlife trade.

Risk management

The bank supports international best practices regarding the responsibilities of the financial sector in financing and investing transactions. Social, environmental and ethical risk considerations are implicit in our values, culture and code of conduct and are applied as part of our ESG risk framework.

In particular, the following factors are taken into account when a transaction is evaluated and approved or declined based on sustainability considerations:

- Climate change and environmental considerations (including animal welfare)
- Social considerations
- Ethical considerations (including human rights)
- Macro-economic considerations.

We have a policy on environmental and social risk practices for both our lending and financing activities as well as our investment activities (including more detailed guidance for certain high-risk industries). This policy guides us in identifying and managing potential adverse impacts to the environment and to human rights, as well as the associated risks affecting our clients and our business. We have identified certain controversial activities we will not engage in, or will only participate under stringent criteria. As part of this commitment, we also engage with clients and suppliers to further understand their processes and policies and to explore how environmental and social risks may be mitigated. The objective of the ESG risk framework is to enable the business to identify, assess and manage a number of relevant risks at various stages of the lending and the investment process.

The bank will avoid exposures to any lending and investments that involve:

- Undue damage to high conservation and/or protected environmental areas
- Forced labour or child labour
- The production and trade of controversial or military weapons or ammunitions
- The production or trade in any product or activity deemed illegal under the country of operation's laws and regulations.

Any lending or investment activities with a corporate involved in transactions in the following activities requires stringent escalation to Policy ERRF:

- The production and trade in radioactive materials
- The production of harmful or addictive substances
- Activities that involve early drug testing on humans
- Activities that involve any form of testing on animals.

We follow the guidelines supplied by the International Finance Corporation (IFC) to categorise our general finance, lending and investing activities, into high, medium and low risk.

- **High risk:** Proposed funding or investment is likely to have significant adverse social or environmental impacts that are diverse, irreversible or unprecedented
- **Medium risk:** Proposed funding or investment likely to have potential limited adverse social or environmental impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures
- **Low risk:** Proposed funding or investment is likely to have minimal or no social or environmental impacts. Primarily services, consulting, training and education, trading, retail sales, etc.

We provide training on ESG risks and opportunities to staff through our credit college and have an ESG guideline handbook that is available to assist all staff in assessing ESG matters.

www ***For more information, please refer to our climate change, environmental and social risk policy on our website.***

Metrics and targets

We recognise that effective environmental management is an essential part of managing our carbon impact and are committed to operating an effective environmental management system (EMS) compliant with King IV in South Africa. Further to this, our EMS reporting tool allows us to track and manage our direct operational impact.

www ***For details on our commitment please refer to our environmental policy statement on our website.***

In terms of our business impact, there is still a large degree of uncertainty around climate scenario analysis for the financial sector. We have embarked on a process to collect and disclose the relevant metrics and targets for potential climate risks and opportunities for our business and will enhance these disclosures within the five-year pathway, as outlined by the Financial Stability Board's Task Force on Climate-related Financial Disclosures.

We also participate in the sustainable finance committee (a sub-committee of the South African Bankers Association) where climate change and climate related scenario analysis are regularly discussed and will continue to monitor our reporting in terms of industry best practice.

Capital management and allocation

Regulatory capital – Investec Bank Limited

Current regulatory framework – Investec Limited

Investec Bank Limited is regulated by the South African Prudential Authority.

Investec Bank Limited calculates capital resources and requirements using the Basel III framework, as implemented in Southern Africa by the South African Prudential Authority in accordance with the Regulations relating to Banks, Gazette No. 35950, 12 December 2012 – (The Regulations), Banks Act, 1990 (Act No. 94 of 1990) – (The Act) and relevant published Banks Act Circulars, Guidance notes and Directives. The South African capital framework was legislated in Banks Act Directive 6 of 2016 that stipulates the various capital Tiers, together with various related elements specified in the Regulations and in the Basel III framework, including the systemic risk capital requirements (Pillar IIA), the bank specific individual capital requirement (ICR, also known as Pillar IIB), and the phasing in of the related minimum requirements from 2016 up to 2019 and thereafter. The higher loss absorbency (HLA) requirement for domestic systemically important banks (D-SIB) is regarded as an extension of the capital conservation buffer (CCB) of which the first 50%, up to a maximum of 1% of risk weighted exposures (RWE), must be fully met by CET 1 capital. The South African Prudential Authority continuously assesses Investec Limited's ICR as part of its Supervisory Review and Evaluation Process (SREP) of which ICR may be based on the levels of economic capital Investec Limited holds to cover risks not regarded as Pillar 1 risks, as observed in the internal capital adequacy assessment process (ICAAP). Investec Bank Limited maintains an additional discretionary capital buffer above the specified minimum requirements to ensure that the execution of internal business objectives or the occurrence of adverse external environmental factors do not prevent the IBL group from operating above the relevant minima. In line with Banks Act Circular 6 of 2016, banks in South Africa should not disclose to the public their ICR or D-SIB requirements as these are bank-specific requirements that are based on a combination of various qualitative and quantitative factors that are not directly comparable across banks.

South Africa has not announced any Counter Cyclical Capital Buffers (CCyB) requirements. The institution specific CCyB requirement, held for purposes of the reciprocity requirement, is calculated based on private sector non-bank exposures held in the Basel member jurisdictions in which a buffer rate has been set. As at 31 March 2019 Investec Bank Limited is holding an institution specific CCyB of 0.03% of RWE. Investec Bank Limited continues to hold capital in excess of relevant capital minima's and capital buffer requirements.

For the year ending 31 March 2019, Investec Bank Limited applied the standardised approach to calculate its credit risk, counterparty credit risk and operational risk capital requirements. Capital requirements for equity risk is calculated using the internal ratings-based (IRB) approach by applying the simple risk-weight method. The market risk capital requirement is measured using an internal risk management model, approved by the South African Prudential Authority.

Investec Bank Limited was granted approval by the Prudential Authority in March 2019 to calculate its minimum capital requirements in respect of credit risk for the retail portfolios using the Advanced Internal Ratings Based Approach (AIRB); and for wholesale portfolios using the Foundation Internal Ratings Based Approach (FIRB) effective 1 April 2019. In this regard, we have provided pro-forma (unaudited) amounts of the impact of our IRB approvals as at 31 March 2019.

Various subsidiaries of Investec Bank Limited are subject to additional regulation covering various activities or implemented by local regulators in other jurisdictions. For capital management purposes, it is the prevailing rules applied to the consolidated Investec Limited group that are monitored most closely. Nevertheless, where capital is a relevant consideration, management within each regulated entity pays close attention to prevailing local regulatory rules as determined by their respective regulators. Management of each regulated entity, with the support of the group's capital management functions, ensures that capital remains prudently above minimum requirements at all times.

Regulatory considerations

The South African Prudential Authority issued Banks Act Guidance note 6 of 2018 that specifies the proposed implementation dates of BCBS regulatory reforms relevant to Banks in South Africa. The Prudential Authority has agreed to preliminary implementation dates for each regulatory reform, based on industry comments, quantitative impact studies, global considerations and implementation complexity. Reforms that will impact Investec Limited in the short- to medium-term include: capital requirements for equity investments in funds and bank exposures to central counterparties, revisions to the securitisation framework, standardised approach for measuring counterparty credit risk and the new large exposures framework. The PA is in the process of amending the Banks Regulations to incorporate regulatory reforms that will be implemented in South Africa in Q4 of 2019 together with a statement of the expected impact.

The remainder of the regulatory reforms are likely to be implemented in Southern Africa in line with BCBS timelines on 1 January 2022.

In addition, the Prudential Authority is in the process to consult with Banks in anticipation of the promulgation of the resolution bill that will provide the resolution authority the powers to resolve the failure of financial institutions in a way that will mitigate any negative impact on South Africa's financial stability and minimise macro-economic cost. The resolution bill, as enacted in the Financial Sector Regulation Act (9/2017) of which commencement dates are stipulated in government gazette No 41549, will impact the way which the group will treat existing and future regulatory capital instruments for purposes of the loss absorbency requirements.

Investec Bank Limited continues to assess and monitor the impact of new Regulations and regulatory reforms through participation of industry Quantitative Impact Studies (QIS) submissions to the Prudential Authority and presenting updates and impacts of the reforms to senior executives at the Investec Limited and DLC Capital Committee and the Board.

Capital targets

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

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

Management of leverage

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

Leverage ratio target

Investec Bank Limited is currently targeting a leverage ratio above 6%.

Capital management

Philosophy and approach

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

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

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

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

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

Capital planning and stress/scenario testing

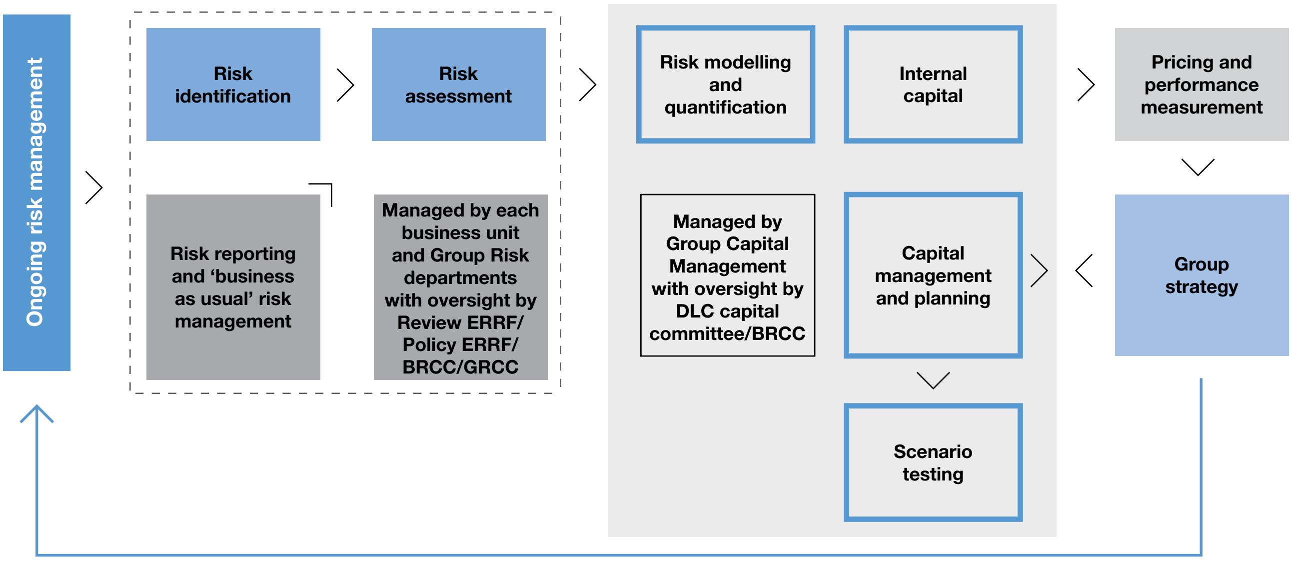
A capital plan is prepared and maintained to facilitate discussion of the impact of business strategy and market conditions on capital adequacy. This plan is designed to assess capital adequacy under a range of economic and internal conditions over the medium-term (three years), with the impact on earnings,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

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

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

Risk management framework

The (simplified) integration of risk and capital management



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

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

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

Pillar 3 disclosure requirements

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

Capital disclosures

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

Capital management and allocation

Capital structure and capital adequacy

Summary information on the terms and conditions of the main features of all capital instruments is provided on pages 214 to 219.

Capital structure and capital adequacy

R'million	Pro-forma FIRB* 31 March 2019	Standardised 31 March 2019^	Standardised 1 April 2018^	Standardised 31 March 2018^
Tier 1 capital				
Shareholders' equity	39 770	39 770	35 637	36 531
Shareholders' equity per balance sheet	41 304	41 304	37 171	38 065
Perpetual preference share capital and share premium	(1 534)	(1 534)	(1 534)	(1 534)
Regulatory adjustments to the accounting basis	931	1 157	1 345	994
Cash flow hedging reserve	931	931	994	994
Adjustments under IFRS 9 transitional arrangements	–	226	351	–
Deductions	(3 461)	(2 776)	(2 696)	(2 696)
Goodwill and intangible assets net of deferred tax	(588)	(588)	(583)	(583)
Investment in financial entity	(2 236)	(2 153)	(2 113)	(2 113)
Shortfall of eligible provisions compared to expected loss	(602)	–	–	–
Other regulatory deductions	(35)	(35)	–	–
Common equity tier 1 capital	**37 240**	**38 151**	**34 286**	**34 829**
Additional tier 1 capital	**920**	**920**	**963**	**963**
Additional tier 1 instruments	1 994	1 994	1 884	1 884
Phase out of non-qualifying additional tier 1 instruments	(1 074)	(1 074)	(921)	(921)
Tier 1 capital	**38 160**	**39 071**	**35 249**	**35 792**
Tier 2 capital	**14 401**	**14 795**	**14 090**	**14 009**
Collective impairment allowances	483	877	716	635
Tier 2 instruments	13 918	13 918	13 374	13 374
Total regulatory capital	**52 561**	**53 866**	**49 339**	**49 801**
Risk-weighted assets	**297 506**	**340 315**	**320 475**	**320 607**
Capital ratios				
Common equity tier 1 ratio	12.5%	11.2%	10.7%	10.9%
Tier 1 ratio	12.8%	11.5%	11.0%	11.2%
Total capital adequacy ratio	17.7%	15.8%	15.4%	15.5%

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

^ *Investec Bank Limited's capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, Investec Bank Limited's common equity tier 1 ratio would be 14bps lower (31 March 2018: 13bps lower).*

Capital management and allocation (continued)

Capital requirements

R'million	31 March 2019	1 April 2018	31 March 2018
Capital requirements	**39 237**	**35 653**	**35 668**
Credit risk	33 341	28 855	28 870
Equity risk	1 863	2 521	2 521
Counterparty credit risk	732	655	655
Credit valuation adjustment risk	391	697	697
Market risk	381	502	502
Operational risk	2 529	2 423	2 423

Risk-weighted assets

R'million	31 March 2019	1 April 2018	31 March 2018
Risk-weighted assets	**340 315**	**320 475**	**320 607**
Credit risk	289 168	259 362	259 494
Equity risk	16 159	22 663	22 663
Counterparty credit risk	6 349	5 887	5 887
Credit valuation adjustment risk	3 392	6 269	6 269
Market risk	3 308	4 515	4 515
Operational risk – standardised approach	21 939	21 779	21 779

Leverage ratios

R'million	31 March 2019^	1 April 2018^	31 March 2018^
Exposure measure	**505 070**	**466 522**	**466 846**
Tier 1 capital	39 071	35 249	35 792
Leverage ratio – current**	**7.7%**#**	**7.6%#**	**7.7%#**
Tier 1 capital fully loaded^^	38 364	33 935	35 179
Leverage ratio – fully loaded^^**	**7.6%**#**	**7.3%#**	**7.5%#**

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

\# *Based on revised BIS rules.*

^ *Investec Bank Limited's capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, Investec Bank Limited's common equity tier 1 ratio would be 14bps lower (31 March 2018: 13bps lower).*

^^ *The key difference between the 'reported' basis at 31 March 2019 and the 'fully loaded' basis primarily relates to capital instruments that previously qualified as regular capital, but do not fully qualify under South African Prudential Authority regulations. These instruments continue to be registered on a reducing basis in the 'reported' figures until 2022.*

Movement in total regulatory capital

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

Total regulatory capital flow statement

At 31 March R'million	**2019**	2018
Opening common equity tier 1 capital	**34 829**	**33 848**
Dividends	(1 022)	(1 437)
Profit after taxation	4 963	4 673
IFRS 9 adjustments	(894)	–
Movement in other comprehensive income	299	(336)
Goodwill and intangible assets (deduction net of related tax liability)	(5)	96
Investment in financial entity	(41)	(2 113)
Adjustment under IFRS 9 transitional arrangements	225	–
Other, including regulatory adjustments and transitional arrangements	(203)	98
Closing common equity tier 1 capital	**38 151**	**34 829**
Opening additional tier 1 capital	**963**	**767**
New additional tier 1 capital issues	110	350
Other, including regulatory adjustments and transitional arrangements	(153)	(154)
Closing additional tier 1 capital	**920**	**963**
Closing tier 1 capital	**39 071**	**35 792**
Opening tier 2 capital	**14 009**	**13 501**
New tier 2 capital issues	849	2 273
Redeemed capital	(1 210)	(2 205)
Collective impairment allowances	242	314
Other, including regulatory adjustments and transitional arrangements	905	126
Closing tier 2 capital	**14 795**	**14 009**
Closing total regulatory capital	**53 866**	**49 801**

A summary of capital adequacy and leverage ratios

	31 March 2019^	1 April 2018^	31 March 2018^
Common equity tier 1 (as reported)	11.2%	10.7%	10.9%
Common equity tier 1 fully loaded^^	11.1%	10.6%	10.9%
Tier 1 (as reported)	11.5%	11.0%	11.2%
Total capital adequacy ratio (as reported)	15.8%	15.4%	15.5%
Leverage ratio* – current	7.7%#	7.6%#	7.7%#
Leverage ratio* – fully loaded^^	7.6%#	7.3%#	7.5%#

\# *Based on revised BIS rules.*
* *The leverage ratios are calculated on an end-quarter basis.*
^ *Investec Bank Limited's capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, Investec Bank Limited's common equity tier 1 ratio would be 14bps lower (31 March 2018: 13bps lower).*
^^ *The key difference between the 'reported' basis at 31 March 2018 and the 'fully loaded' basis primarily relates to capital instruments that previously qualified as regular capital, but do not fully qualify under South African Prudential Authority regulations. These instruments continue to be registered on a reducing basis in the 'reported' figures until 2022.*

In terms of our dual listed companies structure, creditors are ring-fenced to either Investec Limited or Investec plc as there are no cross-guarantees between the companies. Capital and liquidity are prohibited from flowing between the two entities and thus capital and liquidity are not fungible. As a result, the rating agencies have assigned separate ratings to the significant banking entities within the group, namely Investec Bank plc and Investec Bank Limited. Certain rating agencies have also assigned ratings to the holding companies, namely, Investec plc and Investec Limited. Our ratings for Investec Bank Limited and Investec Limited at 12 June 2019 are as follows:

RATING AGENCY	INVESTEC LIMITED	INVESTEC BANK LIMITED – A SUBSIDIARY OF INVESTEC LIMITED
Fitch		
Long-term ratings		
Foreign currency	BB+	BB+
National		AA(zaf)
Short-term ratings		
Foreign currency	B	B
National		F1+(zaf)
Viability rating	bb+	bb+
Support rating	5	3
Moody's		
Long-term ratings		
Foreign currency		Baa3
National		Aa1.za
Short-term ratings		
Foreign currency		P-3
National		P-1(za)
Baseline Credit Assessment (BCA) and adjusted BCA		baa3
S&P		
Long-term ratings		
Foreign currency		BB
National		za.AA+
Short-term ratings		
Foreign currency		B
National		za.A-1+
Global Credit Ratings		
Local currency		
Long-term rating		AA(za)
Short-term rating		A1+(za)

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

Internal Audit reports at each Investec Bank Limited and Investec Limited Audit Committee meeting and has a direct reporting line to the chairman of these committees as well as dotted lines to the appropriate chief executive officers. For administrative purposes, the Investec Limited head of Internal Audit also reports to the global head of corporate governance and compliance. The function operates independently of executive management, but has regular access to the Investec Bank Limited and group chief executive officers and to business unit executives. The function complies with the International Standards for the Professional Practice of Internal Auditing, and is subject to an independent Quality Assurance Review (QAR) at appropriate intervals. The most recent independent QAR benchmarked the functions against the publication by the Chartered Institute for Internal Auditors entitled Effective Internal Audit in the Financial Services Sector, final report issued in January 2015. The next QAR review will take place during the 2019/20 financial year.

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

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

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

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

Regulatory change continues to be a key challenge in the financial sector with global political events adding uncertainty as to the shape of the financial services regulation going forward.

Global regulations remain focused on countering market abuse with heightened scrutiny and regulatory attention in this area, including sustained focus on the EU's strengthened Market Abuse Regime.

This year, global regulators have continued to focus on promoting stability and resilience in financial markets, with sustained emphasis on recovery and resolution plans and structural reforms to the banking sector as well as customer and market conduct related forums.

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

Year in review

Changes to the regulatory landscape in South Africa

The South African financial sector regulatory developments are ongoing with some of the new regulatory structures becoming effective from April 2018. The Financial Sector Conduct Authority (FSCA) has proceeded with its mandate as the conduct regulator for all financial institutions. The regulatory reform will continue for at least the next five years.

Conduct risk and consumer protection

The draft Conduct of Financial Institutions Bill (COFI) was published for comment in December 2018. The intention is that the COFI legislation, once enacted, will consolidate and strengthen conduct laws and ensure financial inclusion and transformation of the financial sector.

Other significant, relevant regulatory developments impacting Investec include the Insurance Act, Amendments to the Policyholder Protection Rules and the Long Term Insurance Act, the Code of Conduct for Over-The-Counter-Derivatives Providers, Authorisation Criteria for Over-The-Counter-Derivatives Providers, the reports for the Retail Banking Diagnostic and the Wholesale Financial Markets Review, and staggered consultation and implementation of the Retail Distribution Review proposals.

The Information Regulator tabled the draft Regulations relating to the Protection of Personal Information Act (PoPIA) on the 3 December 2018 and the final Regulations were published in the Government Gazette on the 14 December 2018. It is anticipated that the effective date for the Regulations will be aligned to the effective date for the remaining sections of PoPIA.

The General Data Protection Regulation (GDPR) applies since the 25 May 2018. GDPR brings about a single set of data protection rules for all organisations operating in the European Union, regardless of where organisations are based.

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

Financial crime

Financial crime continues to be a regulatory focus for Investec both locally and globally especially in the areas of Anti-Money Laundering (AML), Combatting the Financing of Terrorism (CFT), Sanctions and Anti-Bribery and Corruption practices.

Efforts are focused on increasing system capability, developing and implementing effective controls and ensuring adequate resourcing to improve efficiency and manage and mitigate money laundering, terrorist financing and bribery and corruption risk.

In 2017 the Financial Intelligence Centre (FIC) under the auspices of the South African National Treasury promulgated the revised Financial Intelligence Centre Act 1 of 2017, with the effective date of 2 October 2017. A transitional period from the 2 October 2017 to the 2 April 2019 was provided by the FIC, in order to enable accountable and reporting institutions to implement the necessary requirements. This amendment introduces a number of new requirements, the most significant being the departure from the Rules – Based Approach to a Risk Based Approach (RBA). The RBA requires that AML, CFT and sanctions controls adopted are proportionate to the financial crime risks identified. This will ensure that enhanced measures are applied where the financial crime risks are higher and simplified measures are applied where the risks are lower. In this way, an organisation is able to target its resources more effectively, whilst ensuring that these risks are efficiently mitigated and managed.

Tax reporting (FATCA/CRS)

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

The CRS became effective in South Africa on 1 March 2016. South Africa opted for the ‘wider-wider approach’ which means all South African reporting financial institutions are required to collect tax-related information on all clients, rather than only in respect of the 102 countries which have currently opted into CRS. Consistent with the FATCA reporting regime, Common Reporting Statement (CRS) reportable information is submitted to SARS annually. SARS then exchanges this information with relevant countries in return for reciprocal information on South Africans with financial accounts in those countries. South Africa is in the process of preparing its 3rd annual CRS report. Mauritius conducted its first exchange of information in 2018 and is in the process of preparing its second annual CRS report.

Chairman's introduction

I would like to present the annual corporate governance report for the year ended 31 March 2019, which describes our approach to corporate governance.

IBL is a major subsidiary of Investec Limited and due to the dual listed company (DLC), operational structure, compliance with many of the specific corporate governance requirements is at the group DLC level. Stakeholders are encouraged to read the Investec group corporate governance report, which provides a more detailed review and reports from the various board committees' chairmen. Additionally, this report outlines the duties and roles of the said committees and the way the regulatory and statutory duties of these committees are discharged.

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

The past year in focus

IBL's commitment to deliver on its strategic objectives, amidst several challenges that negatively impacted the economy, remained solid during the year. Notwithstanding the persistent macro uncertainty, the South African political climate and weak economic conditions, Investec's client-centered approach and entrepreneurial spirit have continued to anchor the business over the past year. The board and management's strategy for the bank remains balanced in terms of managing the risks presented in these uncertain times, positioning for future opportunities as they arise, as well as recognising opportunities within the risk framework.

We remain committed to the needs of our clients and our target market and continue to amplify and advance client engagement by continuing to leverage our international capabilities for corporate and private clients and to build a diversified portfolio of businesses. The bank continues to evolve the digital client experience and proposition. There are ongoing activities to ensure alignment of strategies, product development and marketing across the businesses within the bank.

Focus on improving the ROE also remains a key priority for the board.

The board continued its involvement in the Youth Employment Service (YES) programme, launched by President Cyril Ramaphosa. The YES programme is an initiative which is aimed at offering one million young people between the ages of 18 and 34, paid work experience over the next three years. In terms of the YES programme the bank will sponsor 1 270 youth internships.

One of IBL's priorities during 2018 was implementing the banks mid-market client strategy. In this regard, Investec for Business (IFB) was established to fulfil part of the South African Specialist Bank growth strategy by developing and delivering an integrated niche offering to the mid-market, a sector in which IBL has largely been under represented and which makes up the bulk of the South African business. IFB accordingly saw the merger of three of IBL's established mid-market working capital lending businesses, namely Reichmans Capital, Investec Import Solutions and Integrated Debt (formerly part of Specialised Growth Finance) and integrated complementary services and capabilities from other parts of IBL.

Having implemented the King IV Code during 2018, the board and management of IBL remain committed to ensuring compliance with relevant legislative and regulatory requirements and are geared to adapt rapidly and proactively to the ever-changing legislative environment. IBL's approach to changes in legislation is tightly managed and actively monitored through the various legal, compliance and audit forums within the organisation.

Management and board succession

The board, working closely with the DLC Nominations and Director Affairs Committee (DLC Nomdac), continues to drive succession planning at board level. In considering succession, the board is cognisant of diversity within the bank and therefore will continue to consider this issue whenever any recommendations are made for the board.

Diversity

IBL's commitment to transformation remains firm. Investec's employment equity plan, which is being monitored by the Transformation and DLC Social and Ethics Committees (DLC SEC), is intended to address key transformation issues within the organisation.

We are committed to attracting, developing and retaining a diverse team of talented people. A diverse workforce is vital to our ability to be an innovative organisation that can adapt and prosper in a fast-changing world. Our recruitment strategies prioritise previously disadvantaged, female and disabled candidates where possible. We have various processes to encourage, debate and dialogue around promoting diversity and we are focused on improving our position in this regard.

Having a diverse board and workplace is, and remains, important to IBL bringing as it does the clear benefits of distinct and different outlooks, alternative viewpoints and challenging mindsets.

The board furthermore approved a board diversity policy, as required by the JSE Limited (JSE) Listings Requirements, setting out the targets for board composition in terms of gender and race.

Strategy

The board remains focused on pursuing IBL's strategic goals and objectives. In this regard, we remain focused on:

- Disciplined capital allocation in order to optimise returns
- Further diversification of revenue base
- Continued optimisation of our funding by growing our retail deposit channels
- Improving management of our cost base
- Continued investment in our digital and technology platforms
- Driving greater connectivity and linkages with Investec Wealth.

Board effectiveness

The board continues to be committed to regularly reviewing its own effectiveness and that of its committees. The board undertakes an annual evaluation of its performance and that of its committees and individual directors, with independent external input into the process every third year.

During 2019 an independent effectiveness review was conducted by Professor Robert Goffee, from the London Business School.

The next board effectiveness review will be facilitated internally.

Governance

The board comprises a number of non-executive directors who also chair the respective board sub-committees. During 2019 the board will continue to ensure the ongoing optimal composition and functioning of the board whilst considering the requirements of the South African Banks Act 94 of 1990 (South African Banks Act), the South African Companies Act, No 71 of 2008, as amended, (South African Companies Act) and the King IV code. The board has taken cognisance of Directive 4 of 2018 issued by the South African Prudential Authority (previously known as the Banking Supervision Department of the South African Reserve Bank) dealing with governance. Work has been underway to reduce the number of executives on the board. In this regard Bradley Tapnack stepped down from the board on 15 May 2018. As part of transitioning from the founders to the next level of management, Glynn Burger retired from the board on 12 December 2018 whilst Stephen Koseff and Bernard Kantor resigned from the board on 30 January 2019. Sam Abrahams, an independent non-executive director retired from the board after the annual general meeting held on 8 August 2018 and Philip Hourquebie, an independent non-executive director of the Investec Limited and Investec plc boards, was appointed to the board on 12 December 2018. The board and DLC Nomdac are committed to reconstituting the board with specific reference to the number of bank-only independent, non-executive directors on the board, the ratio of executive vs non-executive board members and the depth of knowledge, skills and experience of members of the board, measured against the nature, size, complexity and risk profile of IBL.

Another focus area of the board for the year remains the enhancement and further bolstering of the bank's independent governance framework. This is evident in the separation of the roles of the chairmen of IBL, Investec Limited and Investec plc. The board has furthermore established a standalone Investec Bank Limited Audit Committee (IBL Audit Committee) and an IBL BRCC. The chairs of the DLC Audit Committee and DLC Board Risk and Capital Committee (DLC BRCC) also chair the IBL committees.

Conflict of interests

The board reviewed and approved on updated directors' disclosures of personal financial interests' policy. In terms of section 75 of the South African Companies Act, directors have a responsibility to avoid situations that place, or may be perceived to place, their personal interest in conflict with their duties. The conflicts of interest policy requires directors to declare any actual or potential conflict of interest immediately when they become aware of such situation. Before each scheduled meeting, each director, must submit a "declaration of interest" form outlining other directorships and personal financial interests, including those of related parties. Where actual or potential conflicts are declared, the recusal procedure is implemented, and affected directors are excluded from discussions and any decisions on the subject matter of the declared conflict. Actual and potential conflicts of interests are taken into account in the annual assessment of director independence.

Conclusion

The careful selection of people, their ongoing development and uncompromising commitment to our stated values will continue to be a distinctive characteristic of Investec's culture and drive.

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

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

Over the following pages, you will find more detail on IBL's governance framework, including who the board and management are, how they make decisions and what they have done over the past year in terms of their leadership, strategic direction, and oversight of the organisation. We trust that this report, together with the 2019 integrated report and financial statements, will provide you with an overview of how IBL is managed and how stakeholders' interest is protected.

On behalf of the board I would like to express our gratitude to those directors who retired and stepped down from the board during the past financial year. Bradley Tapnack, Sam Abrahams, Glynn Burger, Stephen Koseff and Bernard Kantor's valuable contributions and dedication over the years will be missed. I would also like to thank our former chairman, Fani Titi for his leadership over the past couple of years before taking on the role of joint group chief executive officer.

Khumo Shuenyane

12 June 2019

Within this report you will find:

Who we are

What we did

Director biographies as at date of report

Biographies of our directors are outlined below, including their relevant skills and experience, other principal appointments and any appointments to Investec's IBL committees and DLC committees for the year under review:

*Fani Titi**

Executive director

Age: 56

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

Relevant skills and experience
Fani has been a member of the boards of Investec Limited and Investec plc since January 2004 and has been non-executive chairman of Investec Limited and Investec plc from November 2011. He has also been a member of the Investec Bank plc (IBP) board from July 2002 and chaired its board from June 2007 until May 2018. He has been a member of the IBP board from August 2011, and its chairman from August 2014. He has served on the board of Investec Asset Management from November 2013. Fani was a founding member of the private investment group Kagiso Trust Investments Limited (now Kagiso Tiso Holdings), and later co-founded and led the public offering of Kagiso Media Limited on the JSE Limited as its chief executive officer. Fani was subsequently the founding executive chairman of the private investment firm the Tiso Group, which subsequently merged with Kagiso Trust Investments to form Kagiso Tiso Holdings. Fani stepped down from the Tiso Group in 2008 to concentrate his time on his duties at the Investec group, while also looking after his private investment portfolio. Fani has over two decades of investment banking experience and has served on the boards of different investee companies and JSE listed companies. Fani has also joined the Secretary General of the United Nations CEO Alliance on Global Investors for Sustainable Development (GIPS). Fani was appointed as joint chief executive officer of the Investec group on 1 October 2018

Other principal appointments
Investec Limited, Investec plc and another of Investec subsidiaries

Committees
IBL BRCC and DLC SEC

Date of appointment
3 July 2002

* *Resigned as chairman of IBL on 15 May 2018.*

*Samuel E Abrahams**

Independent non-executive director

Age: 80

Qualifications: *FCA CA(SA)*

Relevant skills and experience
Sam commenced his accounting career as an Article Clerk at Wolperty and Abrahams in Durban in 1956, where he thereafter served as partner, and subsequently Country Manager Partner, of the successors in the practice, Arthur Andersen & Co until 1996, when he retired. His second career comprised several appointments to listed companies both in South Africa and in the UK. These included Investec plc and Investec Limited until his retirement from those groups in 2012. He served as chairman of the Audit Committee of most of the companies in which he acted as non-executive director

Other principal appointments
The Foschini Group Limited, Victor Daitz Foundation and Investec Securities Proprietary Limited

Date of appointment
1 July 1997

* *Retired from the board on 08 August 2018*

Zarina BM Bassa

Independent non-executive director

Age: 55

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

Relevant skills and experience
Zarina is a former partner of Ernst & Young Inc. She joined the Absa Group in 2002 and was an executive director of Absa Bank and a member of the group's executive committee and Head of the Private Bank. She has previously chaired the South African Public Accountants' and Auditors' Board and the South African Auditing Standards Board and has been a member of the JSE GAAP Monitoring Panel. Zarina has previously served as a non-executive director of Kumba Iron Ore Limited, Sun International Limited, the Financial Services Board and Vodacom South Africa. Zarina has been appointed as the senior independent director (SID) of Investec plc and Investec Limited effective from 1 April 2018

Other principal appointments
Oceana Group Limited, Yebo Yethu Limited, Woolworths Holdings Limited, the JSE Limited, Investec plc, Investec Limited and various Investec subsidiaries including IBL, IBP Investec Bank Mauritius and Investec Life

Committees
IBL Audit Committee (chair), IBL BRCC, DLC Nomdac and DLC Remco

Date of appointment
1 November 2014

Glynn R Burger*

Former group risk and finance director

Age: 62
Qualifications: *BAcc, CA(SA), H Dip BDP, MBL*

Relevant skills and experience
Glynn joined Investec in 1980. His positions within Investec have included chief accounting officer, group risk manager and joint managing director for South Africa

Other principal appointments
IEP Group Proprietary Limited, BUD Proprietary Limited and Corobrik Proprietary Limited

Date of appointment
30 June 1990

* *Retired from the board on 12 December 2018*

David Friedland

Independent non-executive director

Age: 65
Qualifications: *BCom, CA(SA)*

Relevant skills and experience
David is a former partner of both Arthur Andersen and KPMG Inc. where he also served as head of audit and risk in the KPMG Inc. Cape Town office before leaving in March 2013

Other principal appointments
Investec Limited, Investec plc, Investec Fund Managers (RF) Propriety Limited, the Foschini Group Limited, Pick n Pay Stores Limited and Pres Les Proprietary Limited

Committees
IBL BRCC (chairman) and DLC Nomdac

Date of appointment
1 March 2013

Philip A Hourquebie*

Independent non-executive director

Age: 65
Qualifications: *BAcc, BCom (Hons), CA(SA)*

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

Other principal appointments
Investec Limited,* Investec plc, Aveng Limited and Investec Property Fund Limited

Committees
IBL Audit Committee, DLC Remco (chairman), DLC Nomdac and IBL BRCC

Date of appointment
12 December 2018

* *Effective from 12 December 2018*

Bernard Kantor*

Executive director

Age: 69
Qualifications: *CTA*

Relevant skills and experience
Bernard joined Investec in 1980. He has had varied experience within Investec as a manager of the trading division, marketing manager and chief operating officer

Other principal appointments
Phumelela Gaming and Leisure Limited (chairman), a number of Investec subsidiaries and IEP Group Proprietary Limited

Committees
DLC SEC and DLC BRCC**

Date of appointment
30 June 1990

* *Resigned from the board on 30 January 2019*

*Stephen Koseff**

Executive director

Age: 67

Qualifications: *BCom, CA(SA), HDip BDP, MBA*

Relevant skills and experience

Stephen joined Investec in 1980. He has diverse experience within Investec as chief accounting officer and general manager of banking, treasury and merchant banking. Stephen has been appointed as chair of Bid Corporation with effect from 31 March 2018. Stephen retired from the board of IBL on 30 January 2019

Other principal appointments

IBP*, Investec plc, Investec Limited, Bid Corporation Limited (chairman), a number of Investec subsidiaries and IEP Group Proprietary Limited

Committees

DLC BRCC and DLC SEC

Date of appointment

30 June 1990

* *Retired from the board on 30 January 2019*

David M Lawrence

Deputy chairman

Age: 68

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

Relevant skills and experience

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

Other principal appointments

Investec Bank (Mauritius) Limited and a number of outside companies including JSE Limited

Committees

IBL BRCC

Date of appointment

1 July 1997

*Nishlan A Samujh**

Former chief financial officer

Age: 45

Qualifications: *B.Acc, Dip Acc, CA (SA), HDip Tax*

Relevant skills and experience

Nishlan has been the chief financial officer of IBL since 2010. He started his career in 1996 at KPMG Inc. where he spent three years, serving his CA(SA) articles. In 1999, he proceeded to join Sasol Chemical Industries for a short period before joining Investec in January 2000

Nishlan started his career at Investec in the financial reporting team as a technical accountant. In 2010 he took full responsibility for the finance function in South Africa. The role developed into the Global Head of Finance.

Other principal appointments

Investec Limited and Investec plc

Committees

IBL BRCC and IBL Investment Review Committee

Date of appointment

10 August 2016

* *Resigned from the board of IBL on 14 May 2019*

*Khumo L Shuenyane**

Independent non-executive director, chairman*

Age: 48

Qualifications: *BEcon*

Relevant skills and experience

Khumo serves on the boards of a number of companies in the Investec group. He is also a partner at Delta Partners, a global advisory firm headquartered in Dubai, focused on the telecom's media and technology. Between 2007 and 2013 Khumo served as group chief mergers and acquisitions officer for MTN Group Limited and was a member of its group executive committee. Khumo was previously head of Principal Investments at Investec and was a member of Investec's Corporate Finance division for a total of nine years. Prior to joining Investec in 1998, Khumo worked for Arthur Andersen in Birmingham (UK) and Johannesburg for six years from 1992. He qualified as a member of the Institute of Chartered Accountants in England and Wales in 1995

Other principal appointments

Investec Limited, Investec plc, Investec Specialist Investments (RF) Limited, Investec Life and Investec Property

Committees

IBL BRCC

Date of appointment

8 August 2014

* *Appointed as chairman of IBL on 15 May 2018.*

*Stuart Charles Spencer**

Finance director

Age: 50

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

Relevant skills and experience

Stuart has over 23 years of banking experience, focused on both the wholesale and retail markets. After completing his articles in 1994 at Deloitte and Touché in Johannesburg, he spent the next three years based in the UK, contracting to major International Banks and travelling around the world

He has been employed at IBL for the last 19 years, having joined in January 2000. In 2004 he was appointed as chief financial officer of Investec Corporate & Institutional Banking (ICIB) and in January 2006 he was appointed as chief operating officer of ICIB, a position he held until March 2012. His primary responsibilities included managing the key support functions of the business in respect of Finance, Information Technology, Operations, Project management and Compliance and Legal

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

Other principal appointments

Investec Specialist Investments (RF) Limited and Investec Specialist Investments Fund Managers Proprietary Limited (a business line division of Investec Limited group)

Committees

IBL Transformation Committee, IBL Investment Committee, IBL Investment Review Committees and IBL ERC

Date of appointment

14 May 2019

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

*Bradley Tapnack**

Former executive director

Age: 72

Qualifications: *BCom CA (SA)*

Relevant skills and experience

Bradley is the Global Head of Corporate Governance and Compliance for the Investec group

Bradley's career commenced as an article clerk at Price Waterhouse, where he also spent approximately seven years as a partner. He subsequently spent four years as the Group Operations Director of the largest Advertising and Marketing Group in South Africa at that time, Grey Holdings Limited. He joined I. Kuper and Company as a shareholder and director which business was sold to Investec in 1989. Through his career in auditing and within the group he has over 40 years' experience in financial institutions

Other principal appointments

Investec Life Limited* (chairman)

Date of appointment

1 July 1997

* *Resigned from the IBL board on 15 May 2018.*

Peter RS Thomas

Independent non-executive director

Age: 74

Qualifications: *CA(SA)*

Relevant skills and experience

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

Other principal appointments

Investec Bank (Australia) Limited, Investec Bank (Mauritius) Limited, Investec USA Holdings Company, Investec Securities (US) LLC, Boschendal Proprietary Limited (chairman), Boschendal Investment Company Proprietary Limited, JCI Limited and various unlisted companies

Committees

IBL Audit Committee, Investec Bank (Mauritius) Limited Audit Committee (chairman) and IBL BRCC

Date of appointment

1 July 1997

Richard J Wainwright

Chief executive officer

Age: 56

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

Relevant skills and experience
Richard has been the CEO of IBL since 2016

He started his career in 1985 at Price Waterhouse where he spent seven years, with two of those years in the Philadelphia USA office. In 1992, he proceeded to join NDH Bank and stayed for a year. Together with other management members from NDH Bank, he commenced Circle Risk Management Limited in 1993 and remained there until 1995 when he joined IBL

Committees
IBL BRCC

Date of appointment
1 February 2016

Who we are

Governance framework

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

From a legal perspective, the DLC is comprised of:

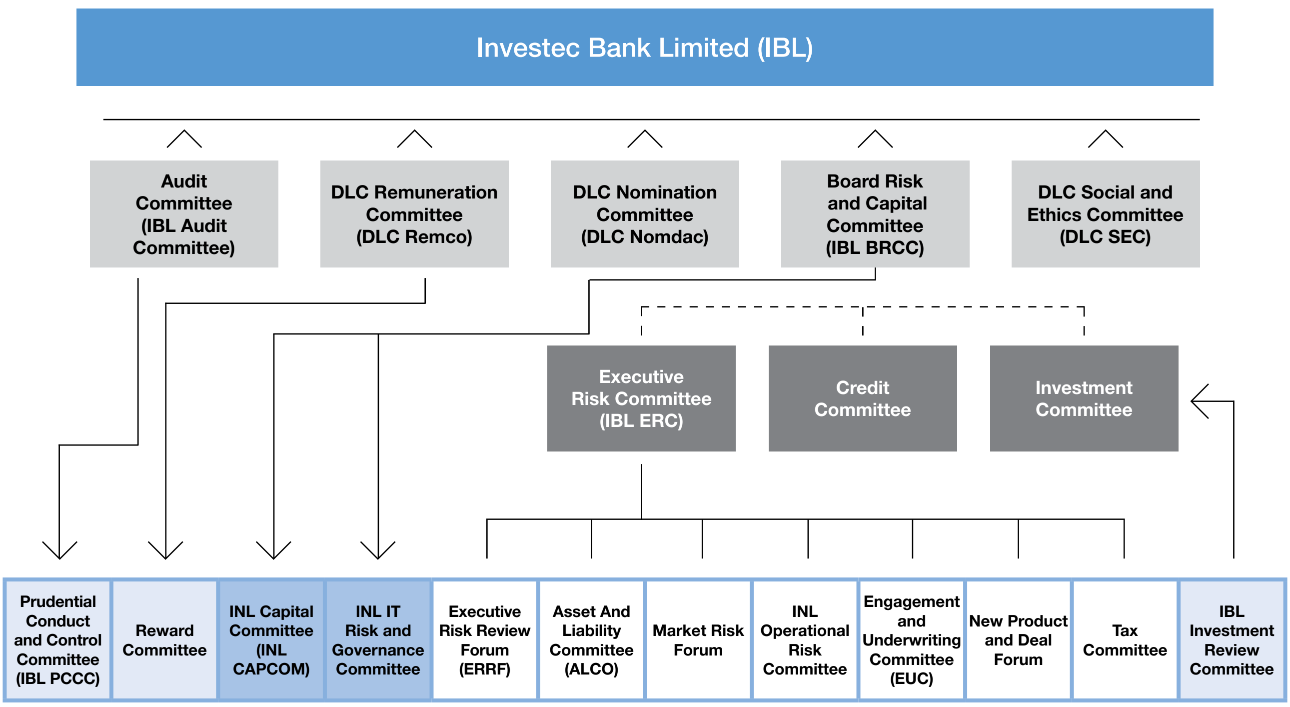
- Investec plc – a public company incorporated in the UK and listed on the London Stock Exchange (LSE) with a secondary listing on the JSE; and
- Investec Limited – a public company incorporated in South Africa and listed on the JSE, with secondary listings on the Namibia Stock Exchange and the Botswana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

During 2019 the following standalone committees were established as part of the IBL governance structure:

- IBL Audit Committee
- IBL BRCC
- IBL Executive Risk Committee (IBL ERC)
- IBL Prudential Conduct and Control Committee (IBL PCCC).

The committees were previously integrated into the Investec Limited structures.

Investec Bank Limited board and committee structure for the year ended 31 March 2019



Board and executive roles

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

Chairman	*Chief executive officer*	*Chief financial officer*
• In collaboration with the company secretary, ensure the contents and order of the agenda are correct • Encourage open and honest dialogue between all board directors • Lead and manage the dynamics of the board, providing direction and focus • Ensure that the board sets the strategy of the bank and assists in monitoring progress towards achieving the strategy • Perform director evaluations • Serve as the primary interface with regulators and other stakeholders on behalf of the board • Is responsible for ensuring the integrity and effectiveness of the governance process of the board • Is responsible for maintaining regular dialogue with the chief executive officer regarding all operational matters and will consult with the remainder of the board promptly on any matter that gives him cause for major concern • Act as facilitator at board meetings to ensure that no director, whether executive or non-executive, dominates discussion, that appropriate discussion takes place and that the relevant opinion among members is forthcoming and discussions result in logical and understandable outcomes • Play a crucial role in ensuring the board is properly led	• Lead and manage the bank within the authorities delegated by the board • Ensuring the bank's unique culture is embedded and perpetuated • Development and growth of all the bank's businesses • Ensuring the bank achieves the strategic and financial objectives approved by the board • Monitor and manage the day-to-day operational requirements and administration of the bank • Develop and recommend business plans, policies and objectives for consideration by the board and taking into consideration business, economic and political trends that may affect the operations of the bank • Submit reports, financial statements and consolidated budgets for consideration by the board • Implement all approved plans, policies and programmes • Oversee the financial management of the bank including financial planning, cash flow and management reporting	• Lead and manages the bank's finance function • Provide the board with updates on the bank's financial performance, management reporting, regulatory reporting, central creditors and finance IT • Submit reports, financial statements and consolidated budgets for consideration by the board • Involved in the financial management of the bank including financial planning, cash flow and management reporting • Provides the board with updates on the bank's financial performance

Non-executive directors	*Executive directors*	*Company secretary*
• Bring unique perspectives to the boardroom to facilitate constructive dialogue on proposals • Constructively challenge and contribute to assist in developing the banks strategy • Monitor the performance of management against their agreed strategic goals • Address any concerns or questions from shareholders and non-executive directors • Ensures the effectiveness of internal controls and the integrity of financial reporting • Benefit the bank's and board's effectiveness through diverse experiences and backgrounds • Succession planning • Risk management oversight	• Ensure a clear division of responsibility to ensure a balance of power • Developing the bank's strategy • Ensure that the board has more than one point of direct interaction with management • Bring unique perspectives to the boardroom to facilitate constructive dialogue on proposals • Manage the performance of management against their agreed strategic goals • Ensure the effectiveness of internal controls and the integrity of financial reporting • Contributes to board effectiveness through outside contacts and opinions • Ensure succession is in place • Manage risk • Regulatory compliance • Stakeholder management	• Maintain the flow of information to the board and its committees and ensure compliance with board procedures • Minute all board and committee meetings to record the deliberations and decisions taken therein • Ensure that the board complies with relevant legislation and regulation, including JSE Listings Requirements • Ensure good corporate governance is implemented and advise the chairman and board in that regard • Guide the directors collectively and individually on their duties, responsibilities and powers • Make directors aware of any law relevant to the bank • Report any failure on the part of the bank or a director to comply with the Memorandum of Incorporation (MoI) or the relevant legislation • Ensure board procedures are followed and reviewed regularly • Ensure applicable rules and regulations for conducting the affairs of the board are complied with • Facilitate a programme for the induction and ongoing development of directors • Maintain statutory records in accordance with legal requirements • Guide the board on how its responsibilities should be properly discharged in the best interest of the organisation • Keep abreast of, and inform, the board of current and new developments regarding corporate governance thinking and practice • Fulfil all other functions assigned to the position by the South African Companies Act and by any other legislation

Board composition

Membership

At the end of the year under review, the board comprised three executive directors and six non-executive directors.

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

During the past year:

- Bradley Tapnack resigned from the board on 15 May 2018
- Sam Abrahams retired from the board on 8 August 2018
- Fani Titi stepped down as chairman of the board on 15 May 2018 and was appointed as the joint group chief executive officer of Investec Limited and Investec plc on 1 October 2018
- Khumo Shuenyane assumed the role as chairman of the board on 15 May 2018
- Glynn Burger stepped down from the board, as executive director, on 12 December 2018
- Philip Hourquebie, a director of Investec Limited and Investec plc, was appointed to the board effective from 12 December 2018
- Stephen Koseff, resigned from the board on 30 January 2019
- Bernard Kantor resigned from the board on 30 January 2019

The names of the directors are set out in the table on page 112.

Independence

The independence of the board is determined in accordance with the requirements of the King IV Code.

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

In assessing the independence of members of the board, the board considers if a member of the board:

- is a significant provider of financial capital, or ongoing funding to the organisation; or is an officer, employee or representative of such provider of financial capital or funding
- participates in a share-based incentive scheme offered by the organisation
- owns securities in the company, the value of which is material to the personal wealth of the director
- has been in the employ of the organisation as an executive manager during the preceding three financial years, or is a related party to such executive manager
- has been the designated external auditor responsible for performing the statutory audit for the organisation, or a key member of the audit team of the external audit firm, during the preceding three financial years
- is a significant or ongoing professional adviser to the organisation, other than as a member of the board
- is entitled to remuneration contingent on the performance of the organisation

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

David Lawrence, previously an executive director of IBL, became a non-executive director in 2017. Accordingly, the board concluded that David could not be considered independent due to his previous role.

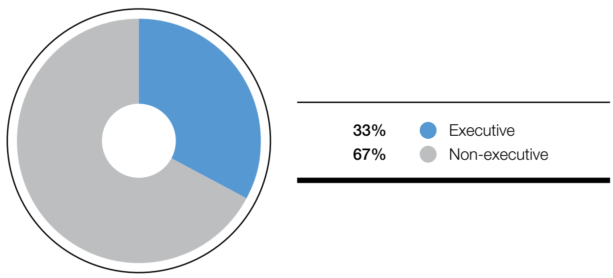
Relationships and associations

Philip Hourquebie was a Regional Managing Partner of two regions of Ernst & Young Inc. (Africa and Central South East Europe, including Turkey) up to 2014. The board concluded that notwithstanding his previous association with Ernst & Young Inc., Philip retains independence of judgement as he was never Investec Limited or IBL's designated auditor.

Balance of non-executive and executive directors as at 31 March 2019

Non-independent non-executives	**1**
Independent non-executives, including chairman	**5**
Executives	**3**

56% **of board independent as at 31 March 2019**



Tenure

The board follows a thorough process of assessing independence on an annual basis for each director whose tenure exceeds nine years. All directors are subject to election at the first general meeting following their appointment. The board does not believe that tenure of any of the current non-executive directors interferes with their independence of judgement and ability to act in Investec's best interest.

Terms of appointment

On appointment, non-executive directors are provided with a letter of appointment. The letter sets out, among other things, duties, responsibilities and expected time commitments, details of Investec's policy on obtaining independent advice and, where appropriate, details of the board committees of which the non-executive director will be a member. Investec has an insurance policy that insures directors against liabilities they may incur in carrying out their duties. On the recommendation of the DLC Nomdac, non-executive directors will be appointed for an expected term of nine years (three times three-year terms) from the date of their first appointment to the board. This is in line with directive 4/2018 of the South African Prudential Authority.

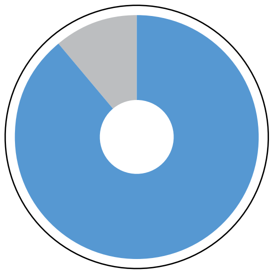
Company secretary

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

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

In addition, the board confirms that for the period 1 April 2018 to 31 March 2019 the company secretary did not serve as a director on the board nor did she take part in board deliberations and only advised on matters of governance, form or procedure.

Board gender balance as at 31 March 2019



89%	Male
11%	Female

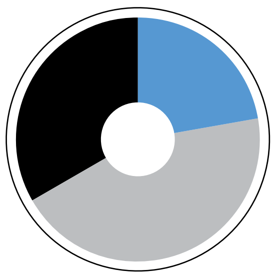
Diversity as at 31 March 2019

Age

40 – 50	**22%**
51 – 60	**33%**
61 and above	**45%**

Tenure as at 31 March 2019

Average tenure:



2	0 – 3 years
4	3 – 6 years
0	6 – 9 years
3	9 years plus

What we did

Board report

Role and responsibilities

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

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

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

The board, through the IBL Audit Committee, is responsible for establishing formal and transparent arrangements for maintaining a relationship with external and internal auditors, ensuring timely and accurate disclosure to the board of any information of material importance.

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

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

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

King IV Code

The board has applied the King IV Code throughout the bank. The board is satisfied that the bank is in compliance with King IV.

Composition and meeting attendance

The board of IBL met six times during the financial year.

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

				IBL board (six meetings in the year)	
Members	**Independence**	**Date of appointment**	**Date of resignation**	**Eligible to attend**	**Attended**
F Titi (joint group CEO)*	No	3 Jul 2002		6	6
RJ Wainwright (chief executive officer)	No	1 Feb 2016		6	6
NA Samujh (chief financial officer)	No	10 Aug 2016	14 May 2019	6	6
SC Spencer (finance director)	No	14 May 2019		0	0
S Koseff (executive director)	No	30 Jun 1990	30 Jan 2019	6	6
B Kantor (executive director)	No	30 Jun 1990	30 Jan 2019	6	5
GR Burger (executive director)	No	30 Jun 1990	12 Dec 2018	4	4
B Tapnack (executive director)	No	1 Jul 1997	15 May 2018	1	1
Non-executive directors					
DM Lawrence (deputy chairman)	No	1 Jul 1997		6	5
SE Abrahams	Yes	1 Jul 1997	8 Aug 2018	3	3
ZBM Bassa	Yes	1 Nov 2014		6	6
D Friedland	Yes	1 Mar 2013		6	6
KL Shuenyane	Yes	8 Aug 2014		6	6
PRS Thomas	Yes	1 Jul 1997		6	6
PA Hourquebie	Yes	12 Dec 2018		2	2

* *Fani Titi resigned as chairman of the board on 15 May 2018 and became an executive director.*

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

Other regular attendees

- Head of risk
- Chief operating officer
- Head of company secretarial and share schemes
- Heads of key business units
- Head of human resources
- Head of corporate governance and compliance

Key matters deliberated by the board

In addition to the standard and regular agenda items, such as report-backs from each board committee and comprehensive reports from the chief executive officer, the following specific matters of importance were tabled and deliberated at board meetings and directors' development sessions during 2018/2019.

BOARD AND COMMITTEE ACTIVITIES

Areas of focus	What we did
Strategy	• agreed strategy and monitored the implementation of the strategy • provided constructive challenge to management • monitored progress made with regard to agreed strategic initiatives.
Compliance, risk and corporate governance and audit committees	• received and reviewed compliance reports in order to confirm that the bank meets all internal and regulatory requirements • received reports on the bank's operational and technology capability, including specific updates on cyber risk capability and the strategy for technology and infrastructure services • received reports in respect of specific risks monitored within the bank including updates in respect of General Data Protection Regulations (GDPR), Advanced Internal Rating Based (AIRB), International Financial Reporting Standards (IFRS) 9 and IFRS 15 • considered and approved capital plans • considered the impact of the JSE Listings Requirements • approved the recovery and resolution plan for South Africa • approved the risk appetite for the bank • confirmed the independence of directors of IBL • reviewed the corporate governance structure of the bank • ensured adherence with the King IV Code • considered auditor independence, appointment and monitoring of audit quality • received reports on conduct • reviewed and has oversight of the provisions for related party transactions • oversight of integrity of annual financial statements • approval of recovery and resolution planning.
Leadership	• considered regular updates by the various committees including DLC Remco, DLC Nomdac, the IBL Audit Committee, DLC SEC and IBL BRCC • ensured that policies and behaviours set at board level are effectively communicated and implemented across the bank • executive succession planning.
Effectiveness	• considered the process for the 2019 board effectiveness review which took the form of an independent review conducted by Prof Robert Goffee, from the London School of Business • noted that the 2019 effectiveness review required some improvements to be made by the board in the issues identified in the review • in light of the outcome of the board effectiveness review, finalised topics for directors' development sessions.
Remuneration	• received a report from the DLC Remco chair at each meeting which covered regulatory developments pertaining to remuneration • feedback on aligning executive remuneration and performance.

BOARD AND COMMITTEE ACTIVITIES *(continued)*

Areas of focus (continued)	*What we did* (continued)
Relations with stakeholders	The board, in order to ensure satisfactory dialogue with shareholders, and to foster strong and open relationships with regulators, noted and discussed the key areas of feedback from these stakeholders including feedback relating to: • board refreshment and succession • succession planning for the chief executive officer and senior management • regular meetings and open dialogue with regulators • improving returns across the bank's businesses.
Corporate citizenship	The board discussed and monitored the various elements of good corporate citizenship including: • culture • the promotion of equality, the prevention of unfair discrimination and the reduction of corruption • consideration of sponsorships, donations and charitable giving • environmental, health and public safety, including the impact of the bank's activities and of its products and services • consumer relationships including the bank's advertising, public relations and compliance with consumer protection laws • labour and employment – the bank's standing in terms of the international labour organisation protocol on decent work and working conditions, employment relationships and its contribution towards the educational development of its employees • concerns raised by the employees and former employees The board: • satisfied itself that the bank's standing and commitment to the various elements of good corporate citizenship remained in place and was actively enforced • promoted the role IBL played in society.
Financial results, liquidity and solvency and viability statement	• considered, reviewed and approved the financial results for the year ended March 2019 for IBL • confirmed that the bank was liquid and that the solvency and liquidity test has been satisfied i.e. a company satisfies the solvency and liquidity test at a particular time if, considering all reasonably foreseeable financial circumstances at that time: the assets of the company, as fairly valued, equal or exceed the liabilities of the company, as fairly valued; and it appears that the company will be able to pay its debts as they become due in the ordinary course of business for a period of: – 12 months after date on which the test is considered; or – In the case of a dividend, 12 months following the distribution • confirmed that adequate resources existed to support the bank on a going concern basis and accordingly adopted the going concern concept.
Directors development	• undertook directors' development training on the following key topics: – cybercrime and IT governance – cryptocurrency – South African Financial Intelligence Centre (FIC) Amendment Act – directors duties to disclose conflicts of interest – culture – client asset sourcebook (CASS).

Board committees

The Investec Limited Audit Committee and the DLC BRCC served both as Investec Limited and IBL committees until the establishment of standalone committees in January 2019.

Certain DLC (combined) board committees of Investec Limited and Investec plc act as the board committees of IBL as well. The reports by the chairmen of these committees can be found in the corporate governance report of the Investec group 2019 integrated annual report.

Social and Ethics Committee

In terms of the South African Companies Act, the chairman of the social and ethics committee should report to shareholders on the matters within its mandate. The DLC SEC performs the necessary functions required on behalf of IBL. For further details on the role of the committee refer to pages 131 to 134 of the Investec group 2019 integrated annual report.

Nominations and Directors' Affairs Committee

The DLC Nomdac currently acts as the nomdac for the group (including IBL). The DLC Nomdac also undertakes the duties of a Directors' Affairs Committee as required by the South African Bank's Act. The details of this committee's role can be found on pages 127 to 130 of the Investec group 2019 integrated annual report.

Remuneration Committee

The DLC Remuneration Committee (DLC Remco) currently acts as the Remuneration Committee for the group (including IBL) and the report from the DLC Remco, explaining the group's policies and processes, as well as required disclosures can be found on page 171. Issues specific to IBL are considered at each meeting of the various committees and the IBL board receives a report on the proceedings of the committees at each of their meetings.

IBL Audit Committee report

I am pleased to present you with the IBL Audit Committee report for the financial year ended 31 March 2019. The standalone IBL Audit Committee was established on 21 January 2019 following a continued focus by the bank to enhance the bank's existing governance processes with the formation of standalone bank committees. We believe that this change in the governance structure of Investec Bank Limited will help enhance the level of independent oversight and scrutiny of audit matters. A significant area of focus has been the allocation of responsibilities between the IBL Audit Committee and the Investec Limited Audit Committee.

The main objectives of the committee are to have oversight of and to give assurance to the board on the bank's financial reporting, internal controls and finance management systems, compliance, conduct and the control environment. The major focus area of the committee amongst others during the year has been management and oversight of the internal and external audit function and the continued review of the processes and procedures implemented for IFRS 9.

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

Role of the chair

The role of the chair of the IBL Audit Committee requires regular meetings with the heads of internal audit, compliance, legal, tax, operational and IT risk, credit, finance, the head of corporate governance as well as the lead external audit partners and senior management outside of formal committee meetings in order to maintain and develop an understanding of the bank's operations and the risks facing the business. These interactions are essential for providing an additional layer of assurance to gain comfort that these control functions are aligned in terms of their understanding of the risks and mitigations thereof.

The IBL Audit Committee and the IBL BRCC are chaired by different independent non-executive directors. David Friedland chairs the IBL BRCC. The IBL Audit Committee and the IBL BRCC continue to capture all significant issues effectively while minimising any overlap. These committees have met all legal and regulatory requirements from a composition and independence perspective, and by so doing, provide an additional layer of independence between the said committees. Given the synergies and nature of matters considered by the committees, their membership is such that an element of commonality persists. All members of the IBL Audit Committee are also members of the IBL BRCC.

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

IBL Audit Committee

Zarina Bassa
Chair of the IBL Audit Committee

Key areas of focus in FY 2019

- Establishment of the standalone committee
- The impact, oversight, governance and disclosures in relation to IFRS 9
- Monitoring of audit quality, external audit and audit partner accreditation and results of quality reviews
- Assessment of the overall effectiveness of the bank's governance, risk management and control processes/ framework
- Determination of the plan and process for future mandatory audit firm rotation (MAFR)
- Consideration of auditors independence
- Monitoring and close out of internal and external audit findings, including IT
- Reviewing related party governance processes and disclosures
- Review of policy on non-audit services
- Internal audit succession.

Other areas of focus in FY 2020

- Monitoring of the bank's business continuity plans
- IT risk and cyber security
- Assessing conduct risk

In order to ensure regulatory compliance Khumo Shuenyane, as the new chairman of IBL, stepped down from the IBL Audit Committee and Philip Hourquebie was subsequently appointed to the committee on 12 December 2018.

The committee comprises of two Investec Limited and DLC Audit Committee members and an independent IBL-only board member, Peter Thomas.

Committee performance

The IBL Audit Committee performance was considered, as part of the overall board effectiveness process conducted during the financial year, through an independent effectiveness review conducted by Professor Robert Goffee of the London School of Business. This process did not identify any areas of concern pertaining to the IBL Audit Committee.

Roles and responsibilities

The IBL Audit Committee is an essential part of the bank's governance framework to which the board has delegated the following key functions:

- oversight of the bank's financial reporting process and risks
- ensuring the integrity of the bank's financial reporting and satisfying itself that any significant judgements made by management are sound
- managing and overseeing the relationship with the bank's joint external auditors
- reviewing the bank's internal controls and assurance processes, including those of internal audit and the combined assurance model
- scrutinising the activities and performance of the internal and external auditors, including monitoring their independence and objectivity
- concluding on the effectiveness of the finance function and the finance director
- oversight over regulatory compliance

Composition and meeting attendance

Prior to the establishment of the IBL Audit Committee in 2019, the board had mandated authority for the IBL Audit Committee to be integrated into the Investec Limited Audit Committee. The IBL Audit Committee reports both to the IBL board and to the Investec Limited Audit Committee.

The reporting of the committee to the Investec Limited Audit Committee is supported through the same chair for the Investec Limited Audit Committee and the IBL Audit Committee.

The IBL Audit Committee is comprised entirely of independent non-executive directors who all meet the predetermined skills, competency and experience requirements. The members' continuing independence is assessed annually by the DLC Nomdac, which in turn makes a recommendation on the members' independence to the board. The DLC Nomdac and IBL board have formed the opinion that the IBL Audit Committee has the appropriate balance of knowledge and skills in order for it to discharge its duties. In particular, a majority of the members are chartered accountants and by virtue of their experience in the banking, financial services and audit sectors, members collectively have competence relevant to the sector in which the bank operates. Further details of the experience of the members can be found in their biographies on pages 83 to 87.

Looking ahead

In advancing the committees' efforts of the prior year, focus will continue to be centred on the implementation of IFRS 9, IT controls and cybersecurity and the implementation of IFRS 16.

In addition there will be continued consideration of the independence of the internal auditor and external auditor and audit quality measures. The IBL Audit Committee will also oversee an external review of the internal audit function.

The combined Investec Limited and IBL Audit Committee met four times during the year. The standalone IBL Audit Committee met twice during the year ended 31 March 2019, holding its first meeting on 21 January 2019.

Composition and meeting attendance

		Combined Investec Limited & IBL (four meetings in the year)		IBL (two meetings in the year)	
Members	**Committee member since**	**Eligible to attend**	**Attended**	**Eligible to attend**	**Attended**
ZBM Bassa	1 Nov 2014	4	4	2	2
PRS Thomas*	13 Feb 1997	4	4	2	2
PA Hourquebie**	12 Dec 2018	4	4	2	2
LC Bowden***	12 Jan 2019	2	2	n/a	n/a
KL Shuenyane****	8 Aug 2014	3	3	n/a	n/a

* *PRS Thomas is an independent IBL only board member.*
** *PA Hourquebie was appointed to the boards of Investec Limited and Investec plc on 14 August 2017.*
*** *LC Bowden was appointed to the committee on 12 January 2019.*
**** *KL Shuenyane stepped down from the Investec Limited Audit Committee after becoming chairman of IBL.*
^ *Where a director is unable to attend a meeting, they receive papers in advance and have the opportunity to provide comments to the chairman of the committee.*

Other regular attendees

- Joint chief executive officers of the group
- Managing director of the group
- Group risk and finance director of the group
- Head of compliance
- Head of IT
- Head of operational risk
- Head of internal audit
- Chief financial officer of the bank
- External auditors
- Head of company secretarial and staff share schemes
- Head of tax
- Investec Bank Limited chief operations officer (COO)
- Investec Bank Limited chief executive officer (CEO)
- Head of corporate governance

How the committee spent its time:

Investec Bank Limited Audit Committee

Financial reporting	External audit matters	Internal audit matters	Risk management and internal controls (including BCP, IT risk and cybesecurity)	Other (including macro issues and reports from subsidiary commit-tees)
25%	30%	30%	10%	5%

Areas of focus	*Role of the committee*
Reporting	• considered reports submitted by assurance providers in respect of material breakdowns in internal controls, any matters impacting on financial results and any material regulatory breaches • reviewed reports received from the respective sub-audit committees of the bank (which were replaced by the IBL Prudential Conduct and Control Committee (IBL PCCC)) during the year. • received reports from finance in respect of the expected financial results for the financial year ended March 2019 • received reports from the external auditors in respect of their audit plan for the financial year ended March 2019 • considered reports from the external auditors in respect of any significant audit review differences • reviewed written assessments from internal audit regarding internal financial controls and the integrated risk management framework • discussed reports from management in relation to the identification of critical accounting judgements, key sources of estimation uncertainty, significant accounting policies and the proposed disclosures in the 2019 annual report • provided reports to the board in respect of matters that the IBL Audit Committee believes the board should be aware of.
Integrated reporting	• oversaw and reviewed the integrated reporting process with specific reference to: – considering all facts and risks that may impact on the integrity of the integrated report – reviewing of financial statements to be included in the integrated report – reviewing the disclosure of sustainability issues in the integrated report to ensure that they are reliable and do not conflict with the financial information – reviewing the need to engage an external assurance provider on material sustainability issues – engaging the external auditors to provide assurance on the integrated report.
Annual report	• approved the annual report of IBL for the financial year ended March 2019.
Viability statement	• noted and discussed the contents of the viability statement.

Areas of focus *(continued)*	*Role of the committee* *(continued)*
Audit quality	• considered audit quality in relation to IBL • considered transparency reports and reviews by each of the two firms covering their client base, client acceptance and continuance processes, and the approach to clients, if any, that did not meet the client continuance criteria • reviewed the independence processes of the firm, including partner reward and remuneration criteria • interrogation of international and local firm audit quality control processes • reviewed detailed profiles of all partners and managers on the Investec assignment, including their relevant audit experience • each firm was requested to provide details of their respective succession plans to provide the IBL Audit Committee with assurance as to the partner rotation, transition and continuity process • considered the results of the last firm-wide review carried out by regulatory bodies, both Independent Regulatory Board of Auditors (IRBA) in South Africa as well as international bodies such as the Public Company Accounting Oversight Board (PCAOB) • reviewed the results of the last individual partner quality reviews carried out by the regulator; internal firm-wide quality control reviews carried out in respect of each partner; and an audit quality questionnaire was also completed by each member of the IBL Audit Committee and management, the results of which were that a robust audit is in place.
Auditor independence and objectivity	• assessed the independence and effectiveness of the external auditors and considered their reappointments for 2020.
Related party disclosures	• considered related party disclosures in relation to IBL • DLC Nomdac reviewed key related party transactions during the year and ensured that policies are being complied with.
IFRS	• reviewed the impact of IFRS 9 on the results, as well as relevant disclosures • reviewed the impact of IFRS 15 and the relevant disclosures.
Meetings	The chair: • held regular meetings during the year with the group risk and finance director, the chief financial officer, the joint external auditors and internal auditors, the heads of the Specialist Bank, compliance, operational risk, risk, IT risk and cybersecurity and tax.
Financial consideration	• considered loan exposures to distressed markets such as mining and local state-owned companies in relation to credit and liquidity risks • considered the draft financial results of IBL for the financial year 2019.
Finance function	• reviewed the effectiveness of the finance function, including the finance director.
Effectiveness review	• reviewed the independence and effectiveness of both the internal and the joint external auditors.
Non-audit services	• reviewed and revised the policy on non-audit services and ensured compliance therewith as a factor in not compromising the independence of the external audit function. The chair of the committee pre-approved all non-audit services.
Accounting policies and practices	• approved critical accounting judgements, significant accounting policies and disclosures in the financial statements.
Combined assurance	• satisfied itself that a combined assurance model is applied which incorporates the various risk and levels of assurance and mitigants so that, taken as a whole, there is sufficient and appropriate assurance regarding mitigants for the key risks.

Key audit matters

Key audit matters are in the view of the Audit Committee those matters that required significant focus from the committee, were considered to be significant or material in nature, requiring assumptions and the exercise of judgement, or those matters which were otherwise considered to be subjective from an accounting or auditing perspective.

IFRS 9

- the implementation of IFRS 9 including model assumptions, appropriateness and governance, reasonableness of multiple economic scenarios and weighting's and probabilities, EAD and LGD assumptions, ECL and fair value, management overlays applied to model outputs and the overall IFRS 9 disclosure
- exposures to distressed sectors and to state owned entities

Valuation of level 3 instruments and fair value loans

Challenged and debated significant subjective exposures and assumptions including:

- the valuation of level 3 investments and fair value loans
- exposures in respect of Southern African mining loans and investments. Assessed whether there had been a significant increase in credit risk (SICR). Considered management's plans for work out of such exposures, client history, geographical and sectoral exposure and assumptions around collateral valuation and debt restructures

Provision for Uncertain Tax Positions

The committee considered and concluded on the level of and disclosure of tax provisions which have not changed materially from the previous year and will remain until the resolution of negotiations with the respective tax authorities.

Contingent Liabilities

The committee considered whether the disclosure in respect of contingent liabilities, including legal proceedings, if any, was complete and appropriate.

Other Areas of Audit Committee Focus

- Monitoring and follow up of external and internal audit control findings, including IT, and ensuring appropriate mitigation and timeous close out
- The implementation of IFRS 15
- Review of unlisted and private equity investments including investments in associates and the overall valuations and recognition of revenue
- Reviewing related party governance processes and disclosures
- Review of regulatory compliance reports and oversight over the compliance programme
- Monitoring of Audit Quality, both internal and external
- Determination of the plan and process for future Mandatory Audit Firm Rotation (MAFR) as required by the Independent Regulatory Board for Auditors in respect of Investec Limited and Investec Bank Limited
- Review of the need for Post Balance Sheet disclosure, if any.

Zarina Bassa
Chair, IBL Audit Committee

12 June 2019

Significant judgements and estimates

The significant judgements and estimates and actions taken by the committee in relation to the 2019 annual report and financial statements are outlined below. Each of these matters was discussed with the external auditor during the year and, where appropriate, has been addressed in the auditor's report on pages 136 to 142.

Detail of committee activities

Area of focus	What we did
Impairments • the bank has implemented IFRS 9 by developing models to calculate expected credit losses in a range of economic scenarios. The key areas of judgement include setting modelling assumptions, developing methodologies for the weighting of economic scenarios, establishing criteria to determine significant deterioration in credit quality and the application of management adjustments to the model output	• challenged the level of provisions and the assumptions used to calculate the impairment provisions held by the bank • assessed expected credit losses experienced are against forecast, and considered whether impairment provisions were appropriate • monitored the bank's expected credit losses, model changes, scenario updates, post-model adjustments and volatility • evaluated the IFRS 9 disclosures • a dedicated combined meeting of the audit and risk committees were convened to consider the changes to the models, economic scenarios and weightings over the period of the financial year.
Valuations • the bank exercises judgement in the valuation and disclosure of financial instruments, derivative assets and certain portfolios, including unlisted and private equity investments	• challenged and debated material individual positions, in particular the unlisted and private equity investments • received presentations on the material investments across the bank including an analysis of the key judgements and assumptions used • the committee approved the valuation adjustments proposed by management for the year ended 31 March 2019.
Going concern • the directors are required to confirm that they are satisfied that the bank has adequate resources to continue in business for the foreseeable future	• the committee undertakes an assessment on behalf of the board, in order to provide the board with assurance that it can make the statement • considered reports on the bank's budgets and forecasts, profitability, capital, liquidity and solvency and the impact of legal proceedings, if any • the committee concluded that it was satisfied that the bank had adequate resources to continue in business for the foreseeable future • the committee recommended to the board that it was appropriate for the financial statements to be prepared on a going concern basis.
Fair, balanced and understandable reporting • the bank is required to ensure that its external reporting is fair, balanced and understandable, and whether it provides the information necessary for stakeholders to assess the bank's position and performance, business model and strategy	• the committee undertakes an assessment on behalf of the board, in order to provide the board with assurance that it can make the statement • met with senior management to gain assurance that the processes underlying the compilation of the annual financial statements were appropriate • conducted an in-depth, critical review of the annual financial statements and, where necessary, requested amendments to disclosure • assessed disclosure controls and procedures • obtained input and assurance from the external auditors • confirmed that management had reported on and evidenced the basis on which representations to the external auditors were made • the committee concluded that the processes underlying the preparation of the annual report and financial statements for the year ended 31 March 2019 were appropriate in ensuring that those statements were fair, balanced and understandable • the committee recommended to the board that the 2019 annual report and financial statements were fair, balanced and understandable.

Other significant matters

Apart from financial reporting matters, the committee has responsibility for the oversight of the effectiveness of the bank's internal controls, the performance and effectiveness of internal audit, and the performance, objectivity and independence of the external auditor. In addition to the standard and regular agenda items, such as reports from the prudential assurance, conduct and controls committee, the most significant matters considered during the financial year ended 31 March 2019 are described in the table below.

Area of focus	*What we did*
Internal controls • the effectiveness of the overall control environment, including the IT environment, the status of any material control issues with emphasis on the progress of specific remediation plans	• evaluated and tracked the status of the most material control issues identified by internal and external audit and tracked the progress of the associated remediation plans against agreed time frames • received regular reports from the IBL Prudential Conduct and Control Committee (PCCC) • considered the second line of defence role in the oversight of operational risk controls • evaluated reports on the internal control environment from the internal and external auditors • reviewed and approved the Combined Assurance Model, ensuring completeness of risks and adequacy of assurance coverage • met with leadership of EY Inc. and KPMG Inc. to discuss and conclude on auditor accreditation, firm quality control and audit quality • the committee requested confirmation from management regarding the remediation of the issues identified including the time frames and accountability for remediation.
Business control environment • the effectiveness of the control environment in each individual business, including the status of any material control issues and the progress of specific remediation plans	• received regular reports from the IBL PCCC • assessed reports on individual businesses and functions on their control environment, and scrutinised any identified control failures and closely monitored the status of remediation plans • received updates from senior management, and scrutinised action plans following unsatisfactory audit findings • the committee requested confirmation from management regarding the remediation of any issues identified including the time frames and accountability for remediation.
Internal audit • the performance of internal audit and delivery of the internal audit plan, including scope of work performed, the level of resources, and the methodology and coverage of the internal audit plan • completion of an internal audit quality questionnaire by the members • review of succession plans for key roles	• scrutinised and agreed internal audit plans, methodology and deliverables • received regular reports from internal audit on all significant issues identified by the internal audit function • monitored delivery of the agreed audit plans, including assessing the adequacy of internal audit capacity and skills, and any impacts on the audit plan • reviewed succession for key internal audit roles • review of close out plans, mitigants and timeous close out of issues raised • tracked the levels of high risk audits, and monitored related remediation plans • met with the head of internal audit, without management being present, to discuss the remit of internal audit and any issues arising from the internal audits conducted • the committee approved the internal audit plans, methodology and deliverables • the committee confirmed that it was satisfied with the performance of the internal audit function • an external evaluation of the internal audit function is to be conducted during the 2020 financial year.
External audit • the performance and work of the bank's joint external auditors, Ernst & Young and KPMG	• met with key members of the Ernst & Young and KPMG audit team to discuss the 2018/2019 audit plan and agree key areas of focus • assessed regular reports from Ernst & Young and KPMG on the progress of the 2018/2019 audit and any material accounting and control issues identified • discussed EY Inc. and KPMG Inc. feedback on the bank's critical accounting estimates and judgements • discussed Ernst & Young's and KPMG's draft report on certain control areas and the control environment ahead of the 2019 financial year end • the committee approved the external audit plan and the main areas of focus • met with the leadership of EY Inc. and KPMG Inc. to discuss and conclude on auditor accreditation, firm quality control and audit quality

Functions of the IBL Audit Committee

- financial reporting process and risk management
- fraud and IT risks as they relate to financial reporting
- the effectiveness of the bank's internal controls, internal financial controls and risk management framework
- the statutory audit and bank annual financial statements, the integrated annual report as well as the interim results
- in independence and performance of the external auditors and appropriateness of the statutory auditor's provision of non-audit services
- review of external audit and quality of external audit work performed

Financial statements, accounting practices and internal financial controls

The IBL Audit Committee is satisfied that the financial statements for Investec Bank Limited were prepared in accordance with IFRS and in the manner required by the South African Companies Act. The IBL Audit Committee has examined and reviewed the financial statements to ensure that they fairly represent the financial position at the end of the financial year and the results of the operations and cash flows for the 2019 financial year.

Zarina Bassa
Chair, IBL Audit Committee

12 June 2019

External audit

The IBL Audit Committee has responsibility for reviewing the relationship with the external auditors, including considering audit fees, non-audit services, the quality of the audit performed and the independence and objectivity of the external auditors. In line with the conditions set out in section 94(8) of the South African Companies Act, and based on its assessment, using the criteria set out by King IV, the IBL Audit Committee confirms its satisfaction with the independence, performance and quality of external audit, the external auditors and lead partners.

Auditor appointment

In evaluating and selecting the company's independent registered auditor, the IBL Audit Committee considers, among other things, historical and recent performance of the current independent audit firm, an analysis of known significant legal or regulatory proceedings related to the firm, regulator reviews of the audit firm partners, industry experience, audit fee revenues, firm capabilities and audit approach, and the independence and tenure of the audit firm. KPMG Inc. and Ernst & Young Inc. are the appointed joint external auditors of Investec Bank Limited. See further information below.

Non-audit services

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

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

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

Auditor independence and objectivity

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

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

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

The external auditors are required to rotate the lead audit partner every five years and other senior audit staff every seven years.

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

Mandatory audit firm rotation

Investec Bank Limited and Investec Limited are subject to joint audit requirements. The regulations regarding mandatory audit firm rotation will become effective on 1 April 2023 and are applicable to Investec's 2024 year-end. The IBL Audit Committee has considered the implications of mandatory audit firm rotation together with the Investec Limited Audit Committee, the views expressed by shareholders, the requirements of the Companies Act, the implications of having joint auditors, managing audit quality and the risks inherent during a transition and has agreed to commence the process of mandatory audit firm rotation by rotating off one of the joint auditors effective for the March 2021 year-end at the earliest, with the remaining firm rotating off within an approximate two year period thereafter. A comprehensive tender process will be put in place in advance of the rotations.

Re-election of auditors

Having satisfied itself as to audit quality and auditor independence, the board and IBL Audit Committee are recommending the re-election of Ernst & Young Inc. and KPMG Inc. as joint auditors of Investec Bank Limited at its annual general meeting in August 2019.

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

IBL Board Risk and Capital Committee report

I am pleased to present the inaugural report of the IBL BRCC for the financial year ended 31 March 2019.

The DLC BRCC no longer acts as the board risk and capital committee for IBL, in accordance with the requirements of the South African Banks Act and in line with other regulatory requirements. The board has established its own BRCC during the past year. The IBL BRCC held its first meeting on 18 January 2019.

Governance changes

The IBL BRCC was established in January 2019 as an independent committee of the bank. We believe that this change, which was a result of the continued enhancement of the bank's existing independent governance processes, has helped to further enhance the level of oversight and enquiry of the bank's risk management framework.

The establishment of the committee, its interaction with and the allocation of responsibilities between the IBL Audit Committee and the IBL BRCC given the synergies and nature of matters considered by the two committees, have been significant points of focus during the year. To support the collaboration between the Audit Committee and the board risk and capital committee, Zarina Bassa, as the chair of the IBL Audit Committee, Philip Hourquebie and Peter Thomas, as members of the IBL Audit Committee, have also been appointed as members of the IBL BRCC.

Prior to the establishment of the IBL BRCC in January 2019, the board had mandated the DLC BRCC to be the board risk and capital committee of the bank. Following the establishment of the IBL BRCC, in carrying out its responsibilities, the committee reports to the DLC BRCC in addition to the IBL board. The reporting by the IBL BRCC to the DLC BRCC is reinforced by the fact that both committees are chaired by the same chairman.

Role of the committee

The role of the committee is to review, on behalf of the board, management recommendations on a range of risks facing the business. We perform this function by considering the risk reports presented and question whether no management action is required and whether action taken by management, following discussion, is appropriate. During the year under review all risk and capital measures remained within the board-approved risk appetite despite a number of emerging economic and political risks which presented itself. The committee reviewed and approved the capital plans for IBL under various stress scenarios. The committee was also actively involved in reviewing the various IBL models of the Foundation Internal Rating Based (FIRB) project. Special meetings were held where the various models were presented to the committee for approval. The South African Prudential Authority approved the IBL application to calculate its minimum capital requirements in respect of credit risk for the wholesale portfolios using FIRB and retail portfolios using Advanced Internal Ratings Based (AIRB), effective April 2019.

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

IBL BRCC

David Friedland
Chairman of the IBL BRCC

Key achievements in FY 2019

- Review of the targeted attack simulation exercise by external consultants to mitigate cybercrime risk and ensured remedial action was being taken in respect of identified weaknesses, if any
- Monitoring of progress of the AIRB project
- Monitoring of the effectiveness of the risk data aggregation risk (RDARR) Project
- Review of model changes to AIRB activities
- Understanding and challenging the implementation of IFRS 9
- Continued focus on further embedding of IFRS 9

Areas of focus in FY 2020

- Monitoring and continued mitigation of risks related to cybercrime and information security
- Monitoring of Regulatory Developments
- Impact of economic conditions on Investec
- The IBL BRCC committee will adjust its meeting plan and focus in accordance with any new risks identified

As a committee, we gained comfort in the fact that a detailed review of the risk appetite limits was conducted by the executives in the Policy Executive Risk Review Committee (Policy ERRF), which recommended the risk appetite limits to the committee for approval. We reviewed the risk appetite limits and challenged the assumptions contained therein.

Reports to the committee focus on the key risk disciplines of credit, operational, legal, conduct, reputational, capital, liquidity, market and investment risk and cybersecurity. However, due to the dynamic nature of the business environment in which Investec operates, the committee is flexible to consider other matters of relevance as they arise. For example, the committee requested a number of ad hoc reports in order to adequately assess risks that are due to once off events.

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

Committee performance

The annual effectiveness review of the board of IBL preceded the creation of the committee in January 2019. Further information regarding the performance of the DLC BRCC may be found in the Investec group 2019 integrated annual report.

Role of the chair

During the year, meetings were held regularly with the heads of business, as well as heads of the risk disciplines outside of formal committee meetings in order to maintain and develop an understanding of the bank's operations and risks facing the business. These interactions are an essential part of the role of the chairman, as it provides an additional layer of assurance to help gain comfort that the risks that are reported to the committee accurately reflect the risks facing the business. The IBL Audit Committee has the primary role in providing assurance to the board that enterprise wide risks have been correctly identified and appropriate controls are in place. Therefore, the IBL Audit Committee will rely on the output of the IBL BRCC to give assurance as regards enterprise wide risk. As there are synergies between the IBL BRCC and IBL Audit Committee there is an overlap in membership.

Looking forward

In the year ahead, the committee will continue to focus on matters related to the impact of economic conditions on Investec, effective risk data aggregation, the implementation of regulatory requirements such as the Financial Intelligence Centre Act (FICA), information security, cybercrime and risks associated with the fast pace of regulatory change faced by the business, assessing the impact of external factors on the bank's risk profile and review of model changes to AIRB activities.

The committee will continue to focus on the requirements in relation to further embedding of IFRS 9.

David Friedland
Chairman, IBL BRCC

12 June 2019

IBL Board risk and capital committee

Composition and meeting attendance

The DLC BRCC met six times during the year. Information relating to attendance can be found Volume one of the Investec group 2019 integrated report. The standalone IBL BRCC met twice during the year ended 31 March 2019, holding its first meeting on 18 January 2019.

	IBL BRCC (two meetings in the year)			
Members	**Date of appointment**	**Date of resignation**	**Eligible to attend**	**Attended**
ZBM Bassa	18 Jan 2019		2	2
PKO Crosthwaite	18 Jan 2019		2	1
D Friedland (Chairman)	18 Jan 2019		2	2
PA Hourquebie*	18 Jan 2019		2	2
B Kantor	18 Jan 2019	30 Jan 2019	1	1
S Koseff	18 Jan 2019	30 Jan 2019	1	1
KL Shuenyane	18 Jan 2019		2	2
PRS Thomas**	18 Jan 2019		2	1
F Titi	18 Jan 2019		2	2
RJ Wainwright	18 Jan 2019		2	2

* *PA Hourquebie was appointed to the IBL board on 12 December 2018 and was subsequently appointed to the IBL BRCC on 18 January 2019.*

** *PRS Thomas was appointed to the DLC BRCC as representative of the IBL board. Following the establishment of the standalone IBL BRCC on 18 January 2019, PRS Thomas will no longer be a member of the DLC BRCC but only of the IBL BRCC*

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

Other regular attendees

- Operational risk
- IBL chief risk officer
- Head of operational risk
- IBL chief financial officer
- Investor relations representative
- CFO Private Bank – Investec Bank Limited (for AIRB meetings)
- Head of company secretarial and staff share schemes
- IBL chief operations officer (COO)
- IBL chief executive officer (CEO)

Role

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

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

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

The DLC Nomdac and the board have formed the opinion that the IBL BRCC has the appropriate balance of knowledge and skills in order to discharge its duties. In particular, the majority of members are independent non-executive directors, as required in terms of the King IV Code, and all members have the relevant knowledge and experience for them to be able to consider the issues that are presented to the committee.

COMMITTEE ACTIVITIES

Areas of focus	*What we did*
Operational risk • The potential or actual impact as a result of failures relating to internal processes, people, systems, or from external events. The impacts can be financial as well as non-financial such as customer detriment, reputational or regulatory consequences	• monitored operational losses to ensure no further risk exits • reviewed the overall risk rating for the bank • considered and reviewed the risk appetite limits for the bank • monitored and reviewed regulatory compliance risk, information security risk, access risk and regulatory developments.
Capital management • The progress/plan to achieving required regulatory and internal targets and capital and leverage ratios	• measured key capital ratios against the internal and regulatory limits and what actions management planned to meet these ratios/limits • reviewed impending regulations on the management of capital – IFRS 9 and AIRB • the committee satisfied itself that IBL was adequately capitalised and that progress was being made towards achieving impending regulatory amendments to capital ratios.
Market risk • 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, commodity prices, exchange rates, credit spreads and the underlying volatilities where derivatives are traded	• monitored risk appetite breaches and challenged management action which addressed these breaches • the committee gained comfort that the bank had appropriately addressed identified breaches to limits.
Credit and counterparty risk • Credit and counterparty risk are defined as the risk arising from an obligor's (typically a client or counterparty) failure to meet the terms of any agreement thereby resulting in a loss to the group	• monitored the risk appetite limit and queried management action taken in respect of breaches • the committee challenged the effectiveness of the management of such risks within the business.
Investment risk • The probability or likelihood of occurrence of losses relative to the expected return of any particular investment	• received reports regarding investment risk • reviewed and questioned the investment risk reports submitted to the committee.

COMMITTEE ACTIVITIES *(continued)*

Areas of focus (continued)	*What we did* (continued)
Reputational risk • Reputational risk is damage to our reputation, name or brand. Reputational risk is often associated with strategic decisions made and also arises as a result of other risks manifesting and not being appropriately mitigated	• monitored events which could potentially create reputational risk • gained comfort that reputational risk was mitigated as much as possible through detailed processes and governance escalation procedures from business units to the board, and from regular, clear communication with all stakeholders.
Conduct risk • Conduct risk means the risk that detriment is caused to the group, its customers, its counterparties or the market, as a result of inappropriate execution of business activities	• reviewed and questioned the conduct risk report which is discussed at each meeting • challenged the effectiveness of the management of such risks within the business.
Balance sheet risk • Balance sheet risk encompasses the financial risks relating to our asset and liability portfolios, comprising liquidity, funding, concentration, encumbrance and non-trading interest rate risk	• reviewed a report which highlights bank activity, liquidity balances and key measures against thresholds and limits and challenged the effectiveness of the management thereof.
Business continuity risk • Risk associated with disruptive incidents which can impact premises, staff, equipment, systems and key business areas	• reviewed, challenged and debated reports which highlight processes in place to manage this risk • challenged the effectiveness of the management of such risk within the business.
Cybercrime risk • Risk associated with cyberattacks which can interrupt client services or business processes, or result in financial losses	• received regular reports regarding the cybercrime landscape, including lessons learnt from external cyberattacks • received the targeted attack simulation results and ensured that any remediation required was completed • gained comfort that the management of cybercrime was given the necessary priority.
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	• reviewed a report which highlights bank activity, liquidity balances and key measures against thresholds and limits.

Investec Bank Limited

(details as at 12 June 2019)

Zarina BM Bassa (55)

Senior Independent, non-executive director

Fani Titi (56)

Executive director

David Friedland (65)

Independent, non-executive director

Philip Hourquebie (65)

Independent, non-executive director

David M Lawrence (67)

Deputy chairman, non-executive director

Khumo L Shuenyane (48)

Independent, non-executive chairman

Stuart C Spencer (50)

Finance director

Peter RS Thomas (74)

Independent, non-executive director

Richard J Wainwright (56)

Chief executive officer

4

REMUNERATION REPORT

We have a strong entrepreneurial, merit- and values-based culture, characterised by passion, energy and stamina. The group remuneration committee approves then recommends for board approval executive and non-executive remuneration to the Investec Limited and Investec Bank Limited boards. The policy on remuneration packages for non-executive directors is agreed and determined by the board

Remuneration philosophy

Our philosophy, which remains unchanged from prior years, is to employ the highest calibre individuals who are characterised by integrity, intellect and innovation and who adhere and subscribe to our culture, values and philosophies. We strive to inspire entrepreneurship by providing a working environment that stimulates extraordinary performance so that executive directors and employees may be positive contributors to our clients, their communities and the bank.

We reward employees generally for their contribution through:

- An annual gross remuneration package (base salary and benefits) providing an industry competitive package;
- A variable short-term incentive related to performance (annual bonus); and
- A long-term incentive (share awards) providing long-term equity participation.

We consider the aggregate of the above as the overall remuneration package designed to attract, retain, incentivise and drive the behaviour of our employees over the short-, medium- and longer-term in a risk conscious manner. Overall, rewards are considered as important as our core values of work content (greater responsibility, variety of work and high level of challenge) and work affiliation (entrepreneurial feel to the company and unique culture) in the attraction, retention and motivation of employees.

We have a strong entrepreneurial, merit and values-based culture, characterised by passion, energy and stamina. The ability to live and perpetuate our culture and values in the pursuit of excellence in a regulated industry and within an effective risk management environment is considered paramount in determining overall reward levels.

The type of people the organisation attracts, and the culture and environment within which they work, remain crucial in determining our success and long-term progress. Our reward programmes are clear and transparent, designed and administered to align directors' and employees' interests with those of all stakeholders and ensure the bank's short-, medium- and long-term success. Our reward programmes also recognise potential in our people.

In summary, we recognise that financial institutions have to distribute the return from their enterprises between the suppliers of capital and labour and the societies in which they do business, the latter through taxation and corporate social responsibility activities. Our remuneration philosophy seeks to maintain an appropriate balance between the interests of these stakeholders, and is closely aligned to our culture and values which include risk consciousness, meritocracy, material employee ownership and an unselfish contribution to colleagues, clients and society.

Remuneration principles

Remuneration policies, procedures and practices, collectively referred to as the 'remuneration policy', are designed, in normal market conditions, to:

- Be in line with the business strategy, objectives, values and long-term interests of the bank;
- Be consistent with and promote sound and effective risk management and not encourage risk taking that exceeds the level of tolerated risk of the bank;
- Ensure that payment of variable remuneration does not limit the bank's ability to maintain or strengthen its capital base;
- Target gross fixed remuneration (base salary and benefits including pension) at median market levels to contain fixed costs;
- Ensure that variable remuneration is largely economic value added (EVA) based and underpinned by our predetermined risk appetite and capital allocation;
- Facilitate alignment with shareholders through deferral of a portion of short-term incentives into shares and long-term incentive share awards; and
- Target total compensation (base salary, benefits and incentives) to the relevant competitive market at upper quartile levels for superior performance.

Given our stance on maintaining a low fixed cost component of remuneration, our commitment to inspiring an entrepreneurial culture and our risk-adjusted return on capital approach to EVA, we do not apply an upper limit on variable rewards.

The fixed cost component of remuneration is, however, designed to be sufficient so that employees do not become dependent on their variable compensation as we are not contractually (and do not consider ourselves morally) bound to make variable remuneration awards. Investec has the ability to pay no annual bonuses and make no long-term incentive awards should the performance of the bank or individual employees require this.

We do not pay remuneration through vehicles that facilitate avoidance of applicable laws and regulations.

Furthermore, employees must undertake not to use any personal hedging strategies or remuneration or liability-related contracts of insurance to undermine the risk alignment effects embedded in their remuneration arrangements. Compliance maintains arrangements designed to ensure that employees comply with this policy.

No individual is involved in the determination of his/her own remuneration rewards and specific internal controls and processes are in place to prevent conflicts of interest between Investec and its clients from occurring and posing a risk to the bank on prudential grounds.

Remuneration policy

All remuneration payable (salary, benefits and incentives) is assessed at an Investec group, business unit and individual level. This framework seeks to balance both financial and non-financial measures of performance to ensure that the appropriate factors are considered prior to making awards, and that the appropriate mix of cash and share-based awards are made.

Our policy with respect to remuneration of employees has remained unchanged during the 2019 financial year.

Determination of remuneration levels

Qualitative and quantitative considerations form an integral part of the determination of overall levels of remuneration and total compensation for each individual.

Factors considered for overall levels of remuneration at the level of the Investec group include:

- Financial measures of performance
  - Risk-adjusted EVA model
  - Affordability
- Non-financial measures of performance
  - Market context
  - Specific input from the risk and compliance functions

Factors considered to determine total compensation for each individual include:

- Financial measures of performance
  - Achievement of individual targets and objectives
  - Scope of responsibility and individual contributions
- Non-financial measures of performance
  - Alignment and adherence to our culture and values
  - The level of cooperation and collaboration fostered
  - Development of self and others
  - Attitude displayed towards risk consciousness and effective risk management
  - Adherence to internal controls procedures
  - Compliance with the bank's regulatory requirements and relevant policies and procedures, including treating customers fairly
  - The ability to grow and develop markets and client relationships
  - Multi-year contribution to performance and brand building
  - Long-term sustained performance
  - Specific input from the risk and compliance functions
  - Attitude and contribution to sustainability principles and initiatives

Remuneration levels are targeted to be commercially competitive, on the following basis:

- The most relevant competitive reference points for remuneration levels are based on the scope of responsibility and individual contributions made;
- The committee recognises that we operate an international business and compete with both local and international competitors in each of our markets;
- Appropriate benchmark, industry and comparable organisations' remuneration practices are reviewed regularly;
- For employees generally, the JSE Financial 15 has offered the most appropriate benchmark; and
- In order to avoid disproportionate packages across areas of the bank and between executives, adjustments may be made at any extremes to ensure broad internal consistency. Adjustments may also be made to the competitive positioning of remuneration components for individuals, in cases where a higher level of investment is needed in order to build or grow or sustain either a business unit or our capability in a geography.

The following section outlines our remuneration policy in more detail for each element of total compensation as it applies to employees. Our remuneration arrangements for S Koseff, B Kantor, GR Burger and F Titi can be found in the Investec group's 2019 integrated annual report.

Gross remuneration: base salary and benefits

Salaries and benefits are reviewed annually and reflect the relative skills and experience of, and contribution made by, the individual. It is the bank's policy to seek to set base salaries and benefits (together known as gross remuneration) with reference to the middle quartiles of the market levels when compared like for like with peer group companies.

Human Resources provides guidelines to business units on recommended salary levels for all employees within the organisation to facilitate the review. These guidelines include a strategic message on how to set salary levels that will aid Investec in meeting its objectives while remaining true to corporate values, and incorporate guidance on increasing levels to take account of the change in the cost of living over the year to ensure that salary levels always allow employees to afford a reasonable standard of living and do not encourage a reliance on variable remuneration.

Advisers are often engaged by human resources to obtain general benchmark information or to benchmark specific positions to ensure that gross remuneration levels are appropriate when compared against the market and competitive so that levels of remuneration do not inhibit our ability to recruit the people we need to develop our business.

Benefits are targeted at competitive levels and are delivered through flexible and tailored packages. Benefits include pension schemes; life, disability and personal accident insurance; medical cover; and other benefits, as dictated by competitive local market practices. Only salaries, not annual bonuses, are pensionable.

Variable short-term incentive: annual bonus

All employees are eligible to be considered for a discretionary annual bonus, subject *inter alia* to the factors set out above in the section dealing with the determination of remuneration levels.

Risk-weighted returns form the basis for variable remuneration levels

In our ordinary course of business we face a number of risks that could affect our business operations, as highlighted on page 13.

Risk Management is independent from the business units and monitors, manages and reports on the bank's risk to ensure it is within the stated risk appetite as mandated by the board of directors through the Board Risk and Capital Committee (BRCC). The bank monitors and controls risk exposure through credit, market, liquidity, operational and legal risk divisions/forums/ committees.

Risk consciousness and management is embedded in the organisational culture from the initiation of transactional activity through to the monitoring of adherence to mandates and limits and throughout everything we do.

The BRCC (comprising both executive and non-executive directors) sets the overall risk appetite for the bank and determines the categories of risk, the specific types of risks and the extent of such risks which the bank should undertake, as well as the mitigation of risks and overall capital management and allocation process. Senior members of the bank's risk management teams, who provide information for the meeting packs and present and contribute to the committee's discussions, attend these meetings.

The DLC Capital Committee is a sub-committee of the BRCC and provides detailed input into the bank's identification, quantification and measurement of its capital requirements, taking into account the capital requirements of the banking regulators. It determines the amount of internal capital that the bank should hold and its minimum liquidity requirements, taking into account all the associated risks plus a buffer for any future or unidentified risks. This measure of internal capital forms part of the basis for determining the variable remuneration pools of the various operating business units (as discussed above).

The policy executive risk review forum (Policy ERRF) and review executive risk review forum (Review ERRF), comprising members of the executive and the heads of the various risk functions, meet weekly. These committees responsibilities include approving limits and mandates, ensuring these are adhered to and that agreed recommendations to mitigate risk are implemented.

The group's central credit and risk forums provide transaction approval independent of the business unit on a deal-by-deal basis. The riskiness of business undertaken is evaluated and approved prior to initiation of the business through central forums and committees, deal forum, credit committee, investment committee and new product forum and is reviewed and ratified at Review ERRF and Policy ERRF on a regular basis. These central forums provide a level of risk management by ensuring that risk appetite and various limits are being adhered to and that an appropriate interest rate and, by implication, risk premium is built into every approved transaction. The approval of transactions by these independent central forums thus ensures that every transaction undertaken by the bank results in a contribution to profit that has already been subject to a level of risk adjustment.

Our EVA model as described in detail below is principally applied to realised profits against predetermined targets above risk and capital weighted returns. In terms of the EVA structure, capital is allocated based on risk and therefore the higher the risk, the higher the capital allocation and the higher the hurdle return rate required. This model ensures that risk and capital management are embedded in key processes at both a bank and transaction level, which form the basis of the bank's performance-related variable remuneration model, thus balancing the interests of all stakeholders.

Further, both the risk and compliance functions are also embedded in the operating business units and are subject to review by the internal audit and compliance monitoring teams. The risk and compliance functions also provide, on an exception-only basis, information relating to the behaviour of individuals and business areas if there has been evidence of non-compliance or behaviour which gives rise to concerns regarding the riskiness of business undertaken.

EVA model: allocation of performance-related bonus pool

Our business strategy and associated risk appetite, together with effective capital utilisation, underpin the EVA annual bonus allocation model.

Business units share in the annual bonus pool to the extent that they have generated a realised return on their allocated risk-adjusted capital base in excess of their target return on equity. Many of the potential future risks that the firm may face are avoided through ensuring that the bonus pools are based on actual realised risk-adjusted profits.

The bonus pools for non-operating business units (central services and head office functions) are generated by a levy payable by each operating business on its operating profit. This bonus pool may, in some years, be supplemented by a discretionary allocation as determined by the executive and agreed by the Remuneration Committee.

Our EVA model has been consistently applied for a period of about 20 years and encompasses the following elements:

- The profitability of each operating business unit is determined as if they are a stand-alone business. Gross revenue is determined based on the activity of the business, with arm's length pricing applicable to intersegment activity. Profits are determined as follows:
  - Realised gross revenue (net margin and other income)
  - *Less*: Funding costs
  - *Less*: Impairments for bad debts
  - *Add back:* Debt coupon or preference share dividends paid out of the business (where applicable)
  - *Less:* Direct operating costs (personnel, systems, etc.)
  - *Less:* Allocated costs and residual charges (certain independent group functions are provided on a centralised basis, with an allocation model applied to charge out costs incurred to business units. Costs allocated are based on the full operational costs for the particular central service area, inclusive of the variable remuneration cost of the central service. Allocation methodologies generally use cost drivers as the basis of allocation)

  - *Less:* Profits earned on retained earnings and statutory held capital
  - *Add:* Notional profit paid by centre on internal allocated capital
  - *Equals:* Net profits.
- Capital allocated is a function of both regulatory and internal capital requirements, the risk assumed within the business and our overall business strategy
- The bank has always held capital in excess of minimum regulatory requirements, and this principle is perpetuated in our internal capital allocation process. This process ensures that risk and capital discipline is embedded at the level of deal initiation and incorporates independent approval (outside of the business unit) of transactions by the various risk and credit committees

A detailed explanation of our capital management and allocation process is provided on pages 71 to 73.

- Internal capital comprises the regulatory capital requirement taking into account a number of specified risks plus a capital buffer which caters, *inter alia*, for any unspecified or future risks not specifically identified in the capital planning process. The bank then ensures that it actually holds capital in excess of this level of internal capital
- Internal capital is allocated to each business unit via a comprehensive analysis of the risks inherent within that business and an assessment of the costs of those risks
- Hurdle rates or targeted returns are determined for each business unit based on the weighted average cost of capital (plus a buffer for trading businesses to take into account additional risks not identified in the capital allocation process) applied to internal capital
- Targeted returns differ by business unit reflecting the competitive economics and shareholder expectation for the specific area of the business and are set with reference to the degree of risk and the competitive benchmarks for each product line
- In essence, varying levels of return are required for each business unit reflecting the state of market maturity, country of operation, risk, capital invested (capital intensive businesses) or expected expense base (fee-based businesses)
- Growth in profitability over time will result in an increasing bonus pool, as long as it is not achieved at the expense of capital efficiency
- Target returns must be reflective of the inherent risk assumed in the business. Thus, an increase in absolute profitability does not automatically result in an increase in the annual bonus pool. This approach allows us to embed risk and capital discipline in our business processes. These targets are subject to annual review
- The bank's credit and risk forums provide transaction approval independent of the business unit on a deal-by-deal basis adding a level of risk consciousness to the predetermined (and risk-adjusted) capital allocation and required hurdle rates and thus ensure that each transaction generates a return that is commensurate with its associated risk profile.

In terms of our EVA process, if business and individual performance goals are exceeded, the variable element of the total remuneration package is likely to be substantially higher than the relevant target benchmark. This ensures that overall remuneration levels have the potential to be positioned at the upper quartile level for superior performance, in line with our overarching remuneration policy.

In circumstances where an operating business unit does not have an EVA pool (e.g. when it incurs a loss or when it is a start-up), the executive may consider a discretionary allocation to allow for a modest bonus for those staff who were expected to contribute to the longer term interests of that business unit or the bank, despite the lack of EVA profits in the short term, e.g. control functions, support staff and key business staff.

It should be noted the salaries and proposed bonuses for employees responsible for risk, internal audit and compliance are not based on a formulaic approach and are independent of any revenues or profits generated by the business units where they work. The level of rewards for these employees are assessed against the overall financial performance of the bank; objectives based on their function; and compliance with the various non-financial aspects referred to above.

Key elements of the bonus allocation process are set out below:

- A fixed predetermined percentage of any return in excess of the EVA hurdle accrues to the business units' EVA pool
- A portion of the total EVA pool is allocated towards the bonus pool for central service and head office employees
- These bonus pools are reviewed regularly by the appropriate management and non-executive committees to ensure that awards are only paid when it is appropriate to do so, considering firm-wide performance against non-financial risk (both current and future) and compliance-based objectives and in order to ensure that the payment of such discretionary bonuses does not inhibit the bank's ability to maintain/raise its capital levels. All users of capital operate within a strict philosophical framework that requires a balancing of risk and reward and that is designed to encourage behaviour in the interests of all stakeholders as opposed to just employees
- The EVA pools are calculated centrally by the bank's finance function and subject to audit as part of the year-end audit process
- Once the annual audit is complete, line managers in each business unit will make discretionary bonus recommendations for each team member taking into consideration qualitative and quantitative criteria (as mentioned above)
- Bonus recommendations are then subject to an extensive geographic review involving human resources, local management and local remuneration committees
- Thereafter, these recommendations are subject to a global review by executive management before the Remuneration Committee's review and approval process.

The Investec group's Remuneration Committee specifically reviews and approves the individual remuneration packages of the executive directors and persons discharging managerial responsibilities. The committee also reviews the salaries and performance bonuses awarded to a number of other senior and higher paid employees across the bank. In addition, the committee specifically reviews and approves the salaries and performance bonuses awarded to each employee within the internal audit, compliance and risk functions, both in the business units and in the central functions, ensuring that such packages are competitive and are determined independently of the other business areas. In making these decisions the committee relies on a combination of external advice and supporting information prepared internally by the bank.

Deferral of annual bonus awards

All annual bonus awards exceeding a predetermined hurdle level are subject to 60% deferral in respect of that portion that exceeds the hurdle level. The deferred amount is awarded in the form of: forfeitable share awards vesting in three equal tranches at the end of 12 months, 24 months and 36 months; or cash released in three equal tranches at the end of 12 months, 24 months and 36 months. Where shares are being awarded to employees as part of the deferral of performance bonus awards, these are referred to as short-term share awards. These awards are made in terms of our existing long-term incentive plans (refer below). The entire amount of the annual bonus that is not deferred is payable upfront in cash.

Long-term incentive: share awards

We have a number of share option and long-term share incentive plans that are designed to align the interests of employees with those of shareholders and long-term organisational interests, and to build material share ownership over the long term through share awards. These share option and incentive plans are also used in appropriate circumstances as a mechanism for retaining the skills of key talent.

Awards are made in the form of forfeitable share awards other than for countries where the taxation of such awards is penal. In these cases awards are made in the form of conditional awards or market strike options.

In principle all employees are eligible for long-term incentives. Awards are considered by the Remuneration Committee and made only in the 42-day period following the release of our interim or final financial results in accordance with the Investment Association principles of remuneration. These awards comprise three elements, namely:

- 'New starter' awards are made based on a *de facto* non-discretionary basis using an allocation table linked to salary levels
- 'General allocation' awards are also *de facto* non-discretionary awards of the same quantum as new starter awards and are made to employees who have not had any other share award in a three-year period
- 'Top up' awards are made at the discretion of line management primarily to ensure multi-year performance and long-term value generation.

All proposed long-term incentive awards are recommended by business unit management, approved by the staff share executive committee and then the Remuneration Committee before being awarded.

Forfeitable shares are subject to one third vesting after approximately three, four and five years, which we believe is appropriate for our business requirements. The awards are forfeited on termination, but 'good leaver' discretion is applied in exceptional circumstances.

Retention is addressed through the long-term nature of awards granted, which provides an element of 'lock-in' for employees throughout the vesting period and allows for multi-year contribution to performance and brand building.

www ***For further information on the share option and long-term share incentive plans in operation and in which the directors are eligible to participate, refer to the Investec group's 2019 integrated annual report.***

Non-executive directors' remuneration

Non-executive directors receive fees for being a member of the Investec Bank Limited board and fees are also payable for any additional time committed to the bank including attendance at certain meetings. Furthermore, non-executive directors may not participate in our share option plans or our long-term share incentive and pension plans.

Governance

Compliance and governance statement

The remuneration report complies with the provisions of the South African King IV Code of Corporate Practice and Conduct, the South African Companies Act 2008, the JSE Limited Listings Requirements, the South African Notice on the Governance and Risk Management Framework for Insurers, 2014, and the South African Prudential Authority (previously known as the Banking Supervision Department of the South African Reserve Bank) Basel Pillar III disclosure requirements.

Scope of our remuneration policy

The bank aims to apply remuneration policies to executive directors and employees that are largely consistent across the bank, but recognises that certain parts of the bank are governed by local regulations that may contain more onerous requirements in certain respects. In those cases, the higher requirements are applied to that part of the bank. Additionally, where any aspect of our remuneration policy contravenes local laws or regulations, the local laws or regulations shall prevail.

Audited information

Directors' annual remuneration

	Salaries, directors' fees and other remuneration 2019 R	**Annual bonus 2019[1] R**	**Total remuneration expense 2019 R**	Salaries, directors' fees and other remuneration 2018 R	Annual bonus 2018[1] R	Total remuneration expense 2018 R
Executive directors						
RJ Wainwright (chief executive officer)	5 670 834	25 500 000	31 170 834	4 266 667	24 500 000	28 766 667
S Koseff[2]	2 190 075	1 097 753	3 287 828	2 522 769	6 268 012	8 790 781
B Kantor[3]	1 990 977	1 097 753	3 088 730	2 293 426	6 268 012	8 561 438
GR Burger[4]	1 571 918	6 367 278	7 939 196	2 250 000	15 140 124	17 390 124
NA Samujh	2 891 667	10 900 000	13 791 667	2 708 333	12 000 000	14 708 333
B Tapnack[5]	303 781	361 644	665 425	2 375 000	3 300 000	5 675 000
F Titi[6]	1 822 664	4 393 424	6 216 088	3 743 049	–	3 743 049
Total in Rands	**16 441 916**	**49 717 852**	**66 159 768**	**20 159 244**	**67 476 148**	**87 635 392**
Non-executive directors						
KL Shuenyane (chairman)[7]	2 291 667	–	2 291 667	320 000	–	320 000
DM Lawrence (deputy chairman)[8]	2 517 500	–	2 517 500	2 685 000	–	2 685 000
SE Abrahams[9]	320 733	–	320 733	2 430 167	–	2 430 167
ZBM Bassa	340 000	–	340 000	320 000	–	320 000
D Friedland	940 000	–	940 000	1 320 000	–	1 320 000
PA Hourquebie	85 000	–	85 000	–	–	–
PRS Thomas	1 340 000	–	1 340 000	1 873 600	–	1 873 600
Total in Rands	**7 834 900**	**–**	**7 834 900**	**8 948 767**	**–**	**8 948 767**
Total in Rands	**24 276 816**	**49 717 852**	**73 994 668**	**29 108 011**	**67 476 148**	**96 584 159**

1 *As discussed on page 118 a portion of the bonus is received in cash and a portion is deferred in Investec Limited shares over a three-year period.*
2 *S Koseff resigned as ED on 30 January 2019.*
3 *B Kantor resigned as ED on 30 January 2019.*
4 *GR Burger resigned as ED on 12 December 2018.*
5 *B Tapnack resigned on 15 May 2018.*
6 *F Titi resigned as chairman of the board on 15 May 2018. 2018 figures are fees as a non executive director. He was appointed group CEO designate on 1 April 2018, and joint CEO on 1 October 2018.*
7 *KL Shuenyane was appointed as chairman of the board on 15 May 2018.*
8 *DM Lawrence was previously an executive director of the board, he became a non-executive director on 23 June 2017.*
9 *SE Abrahams retired as NED on 8 August 2018.*

Directors' shareholdings in Investec plc and Investec Limited shares at 31 March 2019

	Beneficial and non-beneficial interest		% of shares in issue[1]	Beneficial and non-beneficial interest		% of shares in issue[1]
	Investec plc[2]		Investec plc	Investec Limited[3]		Investec Limited
	31 March 2019	1 April 2018	**31 March 2019**	**31 March 2019**	1 April 2018	**31 March 2019**
Executive directors						
RJ Wainwright (chief executive officer)	–	–	0.0%	564 731	486 065	0.2%
S Koseff[4,11]	6 236 822	5 936 212	0.9%	787 841	962 841	0.2%
B Kantor[5,11]	1 703 141	1 507 271	0.2%	1 000 500	1 600 500	0.5%
GR Burger[6,11]	2 558 451	3 208 064	0.4%	627 120	327 076	0.2%
NA Samujh (chief financial officer)	625	625	0.0%	74 531	58 115	0.0%
B Tapnack[7]	–	20 595	0.0%	90 224	104 779	0.0%
F Titi[10]	–	–	0.0%	–	–	0.0%
Total number	**10 499 039**	**10 672 767**	**1.5%**	**3 144 947**	**3 539 376**	**1.1%**
Non-executive directors						
KL Shuenyane (chairman)[8]	19 900	19 900	0.0%	60 006	60 006	0.0%
DM Lawrence (deputy chairman)	749 410	749 410	0.1%	100 590	100 590	0.0%
SE Abrahams[9]	–	–	0.0%	–	–	0.0%
ZBM Bassa	–	–	0.0%	–	–	0.0%
D Friedland	–	–	0.0%	–	–	0.0%
PRS Thomas	–	–	0.0%	–	–	0.0%
PA Hourquebie	–	–	0.0%	–	–	0.0%
Total number	**769 310**	**769 310**	**0.1%**	**160 596**	**160 596**	**0.0%**
Total number	**11 268 349**	**11 442 077**	**1.6%**	**3 305 543**	**3 699 972**	**1.1%**

1 *The issued share capital of Investec plc and Investec Limited at 31 March 2019 was 682.1 million and 318.9 million shares, respectively.*
2 *The market price of an Investec plc share at 31 March 2019 was £4.42 (2018: £5.50), ranging from a low of £4.23 to a high of £5.95 during the financial year.*
3 *The market price of an Investec Limited share as at 31 March 2019 was R84.34 (2018: R92.28), ranging from a low of R76.92 to a high of R105.31 during the financial year.*
4 *S Koseff resigned as ED on 30 January 2019.*
5 *B Kantor resigned as ED on 30 January 2019.*
6 *GR Burger resigned from the board of IBL as ED on 12 December 2018.*
7 *B Tapnack resigned on 15 May 2018.*
8 *KL Shuenyane was appointed as chairman of the board on 15 May 2018.*
9 *SE Abrahams retired as NED on 8 August 2018.*
10 *F Titi was appointed CEO designate on 1 April 2018. F Titi stepped down as a chairman on 15 May 2018 and was appointed as Executive Director on 15 May 2018. F Titi was appointed joint CEO of the group on 1 October 2018.*
11 *The beneficial and non-beneficial holdings of S Koseff, GR Burger, B Kantor., include Investec plc shares which relate to the awards to each of them in respect of £1 million fixed allowance granted on 2 June 2016, 6 June 2017 and 31 May 2018. These shares are, however, subject to a retention period in terms of which 20% of shares will be free from retention restriction each year over a period of five years.*

Directors' interest in preference shares at 31 March 2019

	Investec Bank Limited		Investec Limited		Investec plc	
	31 March 2019	1 April 2018	**31 March 2019**	1 April 2018	**31 March 2019**	1 April 2018
Executive directors						
S Koseff	4 000	4 000	3 000	3 000	12 139	12 139
B Tapnack	2 000	2 000	8 640	8 620	–	–
Non-executive directors						
DM Lawrence	5 116	5 116	12 659	12 659	–	–

- *The market price of an Investec Bank Limited preference share at 31 March 2019 was R80.65 (2018: R71.56).*
- *The market price of an Investec Limited preference share at 31 March 2019 was R72.60 (2018: R67.50).*
- *The market price of an Investec plc preference share at 31 March 2019 was R98.00 (2018: R88.00).*

Directors' interest in options at 31 March 2019

Investec plc shares

The directors do not have any interest in options over Investec plc shares.

Investec Limited shares

The directors do not have any interest in options over Investec Limited shares.

Directors' interest in long-term incentive plans at 31 March 2019

Investec Limited shares

Name	Date of grant	Exercise price	Number of Investec Limited shares at 1 April 2018	Exercised during the year	Options granted/ lapsed during the year	**Balance at 31 March 2019**	Market price at date of exercise	Gross gains made on date of exercise	Period exercisable
RJ Wainwright	27 May 2014	Nil	43 750	(43 750)	–	**–**	R104.35 (26 Sep 2018)	R4 565 378	
	1 June 2015	Nil	125 000	(93 750)	–	**31 250**	R91.30 (18 Mar 2019)	R8 559 375	The remaining 25% is exercisable on 12 August 2019
	2 June 2016	Nil	150 000	(50 000)	–	**100 000**	R91.30 (18 Mar 2019)	R4 565 000	50% of the conditional award is exercisable on 5 March 2020 and the balance on 5 March 2021
	8 June 2017	Nil	125 000	–	–	**125 000**			One third of the conditional award is exercisable on 6 February 2020; one third on 6 February 2021 and the final balance on 10 March 2022
	31 May 2018	Nil	–	–	125 000	**125 000**			One third of the conditional award is exercisable on 30 June 2021; one third on 30 June 2022 and the final third on 2 March 2023
NA Samujh	27 May 2014	Nil	18 750	(18 750)	–	**–**	R102.32 (19 Sep 2018)	R1 918 511	
	1 June 2015	Nil	80 000	(30 000)	–	**–**	R87.57 (19 Feb 2019)	R5 237 316	The remaining 25% is exercisable on 12 August 2019
				(30 000)	–	**20 000**	R87.00 (22 Mar 2019)		
	2 June 2016	Nil	100 000	(33 333)	–	**66 667**	R87.58 (19 Feb 2019)	R2 919 167	50% of the conditional award is exercisable on 5 March 2020 and the final balance on 5 March 2021
	8 June 2017	Nil	75 000	–	–	**75 000**			One third of the conditional award is exercisable on 6 February 2020; one third on 6 February 2021 and the balance on 10 March 2022
	31 May 2018	Nil	–	–	75 000	**75 000**			One third of the conditional award is exercisable on 30 June 2021; one third on 30 June 2022 and the final third on 2 March 2023

These options are not subject to performance conditions.

Directors' interests in the Investec plc Executive Incentive Plan 2013 at 31 March 2019

Long-term share awards made in respect of the financial year ending 31 March 2013

Name	Performance period	Performance conditions met (Y/N)	Balance as at 1 April 2018 – shares	Exercised	Balance at 31 March 2019	Vesting date and retention period
S Koseff	1 April 2013 to 31 March 2016	Yes	201 155	201 155	–	Vested on 16 September 2018. Retention period end date on 18 March 2019
B Kantor	1 April 2013 to 31 March 2016	Yes	201 155	201 155	–	Vested on 16 September 2018. Retention period end date on 18 March 2019
GR Burger	1 April 2013 to 31 March 2016	Yes	201 155	201 155	–	Vested on 16 September 2018. Retention period end date on 18 March 2019

The Executive Incentive Plan 2013 and the awards made on 16 September 2013 were approved at the July 2013 annual general meeting in terms of which 600 000 nil cost options each were awarded to S Koseff, B Kantor and GR Burger.

The performance criteria in respect of these awards were met and detailed in the Investec group's 2016 integrated annual report. These awards have now vested subject to the retention periods reflected above. These awards formed part of their variable remuneration in respect of the financial year ending 31 March 2013.

Directors' interests in the Investec plc Executive Incentive Plan 2013 at 31 March 2019 *(continued)*

Long-term share awards granted in respect of the 2016 financial year

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2018	Conditional awards made during the year	**Balance at 31 March 2019**	Performance period	Period exercisable	Retention period	Treatment on termination of employment
S Koseff	2 June 2016	Nil	314 225	–	**314 225**	1 April 2016 to 31 March 2019	One third was exercisable on 2 June 2019; one third on 2 June 2020 and the final third on 2 June 2021 subject to performance criteria being met	A further six months retention after vesting date	Will be pro-rated based on service over the performance period, relative to the performance period of the award
B Kantor	2 June 2016	Nil	314 225	–	**314 225**	1 April 2016 to 31 March 2019	One third was exercisable on 2 June 2019; one third on 2 June 2020 and the final third on 2 June 2021 subject to performance criteria being met	A further six months retention after vesting date	Will be pro-rated based on service over the performance period, relative to the performance period of the award
GR Burger	2 June 2016	Nil	277 801	–	**277 801**	1 April 2016 to 31 March 2019	One third was exercisable on 2 June 2019; one third on 2 June 2020 and the final third on 2 June 2021 subject to performance criteria being met	A further six months retention after vesting date	Will be pro-rated based on service over the performance period, relative to the performance period of the award

The Executive Incentive Plan and the awards made thereunder were approved at the August 2015 annual general meeting. On 2 June 2016, 314 225 conditional awards were awarded to S Koseff and B Kantor, and 277 801 to GR Burger. These awards formed part of their variable remuneration in respect of the financial year ending 31 March 2016. The face value at grant for these awards was equivalent to 100% of fixed remuneration, and amounted to £1 480 000 for S Koseff and B Kantor, and £1 308 000 for GR Burger based on the share price for Investec plc at the time of grant. The awards vested on 2 June 2019. Vesting of the awards based on the performance conditions was assessed at 121.7% of target. Given the vesting at 121.7% the final number of shares to vest for each of S Koseff and B Kantor will be 382 346 respectively. The final number of shares for GR Burger will be 338 026. The full details of the performance assessment are outlined in the Investec group's 2019 integrated annual report.

Directors' interests in the Investec plc Executive Incentive Plan 2013 at 31 March 2019 *(continued)*

Long-term share awards granted in respect of the 2017 financial year

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2018	Conditional awards made during the year	**Balance at 31 March 2019**	Performance period	Period exercisable	Retention period	Treatment on termination of employment
S Koseff	8 June 2017	Nil	252 130	–	**252 130**	1 April 2017 to 31 March 2020	20% is exercisable on 8 June each year, commencing on 8 June 2020 until 8 June 2024 subject to performance criteria being met	A further six months retention after vesting date	Will be pro-rated based on service over the performance period, relative to the performance period of the award
B Kantor	8 June 2017	Nil	252 130	–	**252 130**	1 April 2017 to 31 March 2020	20% is exercisable on 8 June each year, commencing on 8 June 2020 until 8 June 2024 subject to performance criteria being met	A further six months retention after vesting date	Will be pro-rated based on service over the performance period, relative to the performance period of the award
GR Burger	8 June 2017	Nil	227 651	–	**227 651**	1 April 2017 to 31 March 2020	20% is exercisable on 8 June each year, commencing on 8 June 2020 until 8 June 2024 subject to performance criteria being met	A further six months retention after vesting date	Will be pro-rated based on service over the performance period, relative to the performance period of the award

The Executive Incentive Plan and the awards made thereunder were approved at the August 2015 annual general meeting. On 8 June 2017, 252 130 conditional awards were awarded to S Koseff and B Kantor, and 227 651 to GR Burger. These awards formed part of their variable remuneration in respect of the financial year ending 31 March 2017. The performance criteria in respect of these awards were detailed in the Investec group's 2017 integrated annual report. These awards have not yet vested. Vesting starts at 0% for threshold performance. The face value at grant for these awards was equivalent to 100% of fixed remuneration, and amounted to £1 480 000 for S Koseff and B Kantor, and £1 336 309 for GR Burger based on the average of the closing share price for Investec plc from 2 June 2017 to 7 June 2017.

Directors' interests in the Investec plc Executive Incentive Plan 2013 at 31 March 2019 *(continued)*

Long-term share awards granted in respect of the 2018 financial year

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2018	Conditional awards made during the year	**Balance at 31 March 2019**	Performance period	Period exercisable	Retention period	Treatment on termination of employment
S Koseff	31 May 2018	Nil	–	264 759	**264 759**	1 April 2018 to 31 March 2021	20% is exercisable on 31 May each year, commencing on 31 May 2021 until 31 May 2025, subject to performance criteria being met	A further six-month retention after vesting date	Will be pro-rated based on service over the performance period, relative to the performance period of the award
B Kantor	31 May 2018	Nil	–	264 759	**264 759**	1 April 2018 to 31 March 2021	20% is exercisable on 31 May each year, commencing on 31 May 2021 until 31 May 2025, subject to performance criteria being met	A further six-month retention after vesting date	Will be pro-rated based on service over the performance period, relative to the performance period of the award
GR Burger	31 May 2018	Nil	–	239 066	**239 066**	1 April 2018 to 31 March 2021	20% is exercisable on 31 May each year, commencing 31 May 2021 until 31 May 2025, subject to performance criteria being met	A further six-month retention after vesting date	Will be pro-rated based on service over the performance period, relative to the performance period of the award

The Executive Incentive Plan and the awards made thereunder were approved at the August 2015 annual general meeting. On 31 May 2018, 264 759 conditional awards were awarded to S Koseff and B Kantor, and 239 066 to GR Burger. These awards formed part of their variable remuneration in respect of the financial year ending 31 March 2018. The performance criteria in respect of these awards were detailed in the Investec group's 2018 integrated annual report. These awards have not yet vested. Vesting starts at 0% for threshold performance. The face value at grant for these awards was equivalent to 100% of fixed remuneration, and amounted to £1 480 000 for S Koseff and B Kantor, and £1 336 375 for GR Burger based on the share price for Investec plc at the time of grant.

The number of shares in issue and share prices for Investec plc and Investec Limited are provided below:

	31 March 2019	31 March 2018	High over the year	Low over the year
Investec plc share price	£4.42	£5.50	£5.95	£4.23
Investec Limited share price	R84.34	R92.28	R105.31	R76.92
Number of Investec plc shares in issue (million)	682.1	669.8		
Number of Investec Limited shares in issue (million)	318.9	310.7		

Pillar III remuneration disclosures

The bank in South Africa is required to make certain quantitative and qualitative remuneration disclosures on an annual basis in terms of the South African Prudential Authority's Basel Pillar III disclosure requirements.

The bank's qualitative remuneration disclosures are provided on pages 114 to 118.

The information contained in the tables below sets out the bank's quantitative disclosures for the year ended 31 March 2019.

In the tables below senior management are defined as members of our South African general management forum, excluding executive directors. Material risk takers are defined as anyone (not categorised above) who is deemed to be responsible for a division/function (e.g. lending, balance sheet management, advisory and transactional banking activities) which could be incurring risk on behalf of the bank. Furthermore, financial and risk control staff are defined as everyone in central group finance and central group risk as well as employees responsible for Risk and Finance functions within the operating business units.

Aggregate remuneration by remuneration type awarded during the financial year

	Senior management	Material risk takers	Financial and risk control staff	**Total**
Fixed remuneration (all cash based and no portion is deferred)	55.1	54.7	217.0	326.8
Variable remuneration*	214.9	160.4	106.5	481.8
– Cash	82.3	85.3	70.0	237.6
– Deferred shares	64.3	42.8	1.8	108.9
– Deferred cash	–	–	–	–
– Deferred shares – long-term incentive awards**	68.3	32.3	34.7	135.3
Total aggregate remuneration and deferred incentives (R'million)	270.0	215.1	323.5	808.6
Number of employees	19	23	269	311
Ratio between fixed and variable pay	0.26	0.34	2.04	0.68

* *Total number of employees receiving variable remuneration was 311.*

** *Value represents the number of shares awarded multiplied by the applicable share price. These awards were made during the period but have not yet vested. These vest one third at the end of years three, four and five.*

Additional disclosure on deferred remuneration

R'million	Senior management	Material risk takers	Financial and risk control staff	Total
Deferred unvested remuneration outstanding at the beginning of the year	510.1	325.0	286.7	1 121.8
Deferred unvested remuneration adjustment – employees that are no longer employed by the bank and reclassifications	34.6	(15.1)	(89.3)	(69.8)
Deferred remuneration awarded in year	132.6	75.1	36.5	244.2
Deferred remuneration reduced in year through performance adjustments	–	–	–	–
Deferred remuneration reduced in year through malus adjustments	–	–	–	–
Deferred remuneration vested in year	(218.1)	(110.2)	(78.8)	(407.1)
Deferred unvested remuneration outstanding at the end of the year	**459.2**	**274.8**	**155.1**	**889.1**

R'million	Senior management	Material risk takers	Financial and risk control staff	Total
Deferred unvested remuneration outstanding at the end of the year				
– Equity	420.8	274.7	155.2	850.7
– Cash	38.4	–	–	38.4
	459.2	**274.7**	**155.2**	**889.1**

Additional disclosure on deferred remuneration *(continued)*

R'million	Senior management	Material risk takers	Financial and risk control staff	Total
Deferred remuneration vested in year				
– For awards made in 2018 financial year	24.4	10.0	0.2	34.6
– For awards made in 2017 financial year	37.5	17.0	3.6	58.1
– For awards made in 2016 financial year	78.5	29.8	21.6	129.9
– For awards made in 2015 financial year	60.9	43.2	45.7	149.8
– For awards made in 2014 financial year	16.8	10.2	7.7	34.7
	218.1	**110.2**	**78.8**	**407.1**

Other remuneration disclosures: special payments

R'million	Senior management	Material risk takers	Financial and risk control staff	Total
Sign-on payments				
Made during the year (R'million)	–	–	–	–
Number of beneficiaries	–	–	–	–
Severance payments				
Made during the year (R'million)	–	–	0.1	0.1
Number of beneficiaries	–	–	–	–
Guaranteed bonuses				
Made during the year (R'million)	–	1.0	–	1.0
Number of beneficiaries	–	1.0	–	1.0

Key Management Personnel

Details of Directors' remuneration and interest in shares are disclosed on pages 119 to 126. IAS "Related party disclosures" requires the following additional information for key management compensation.

Compensation of key management personnel	**2019 R'000**	2018 R'000
Short-term employee benefits	99 203	126 342
Other long-term employee benefits	31 908	60 417
Share-based payments	68 358	45 121
Total	**199 469**	**231 880**

Shareholdings, options and other securities of key management personnel

	2019 R'000	2018 R'000
Number of options held over Investec plc or Investec Limited ordinary shares under employee share schemes	3 661	3 069

	2019 R'000	2018 R'000
Number of Investec plc or Investec Limited Ordinary shares held beneficially and non-beneficially	14 897	15 082

We have defined key management personnel as the directors of Investec plc and Investec Limited plus those classified as persons discharging managerial responsibility. In addition to the directors listed in the report, those are Henry Blumenthal, Nishlan Samujh and Richard Wainwright.

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ANNUAL FINANCIAL STATEMENTS

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for the preparation and fair presentation of the group annual financial statements and the annual financial statements of Investec Bank Limited, comprising the balance sheets at 31 March 2019, and the income statements and statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the annual financial statements, accounting policies, and the directors' report, in accordance with IFRS, South African Institute of Chartered Accounts (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Standards Council, and in the manner required by the South African Companies Act. The directors are also responsible for such internal controls, as the directors determine what is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these annual financial statements. The directors have made an assessment of the ability of the company and its subsidiaries to continue as going concerns and have no reason to believe that the businesses will not be a going concern in the year ahead.

In addition, the board considers that this integrated annual report and annual financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary to assess the company's performance, business model and strategy.

The auditors are responsible for reporting on whether Investec Bank Limited's group and company financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of Investec Bank Limited's group and company annual financial statements

The Investec Bank Limited group and company annual financial statements, as identified in the first paragraph, were approved by the board of directors on 12 June 2019 and signed on its behalf by:

Khumo Shuenyane
Chairman

Richard Wainwright
Chief executive officer

12 June 2019

Declaration by the company secretary

In terms of section 88(2)(e) of the South African Companies Act, I hereby certify that, to the best of my knowledge and belief, Investec Bank Limited has lodged with the Companies and Intellectual Property Commission, for the financial year ended 31 March 2019, all such returns as are required in terms of the South African Companies Act and that all such returns are true, correct and up to date.

Niki van Wyk
Company secretary, Investec Bank Limited

12 June 2019

Directors' report

Nature of business

IBL is a specialist bank providing a diverse range of financial products and services to a niche client base in South Africa and Mauritius.

Financial results

The group and company financial results of IBL are set out in the annual financial statements and accompanying notes for the year ended 31 March 2019.

A review of the operations for the year can be found on pages 15 to 18.

The preparation of the group and company annual financial statements was supervised by the chief financial officer, Nishlan Samujh.

Authorised and issued share capital

Details of the share capital are set out in notes 40 and 41 of the annual financial statements.

Ordinary dividends

The following dividends were declared and paid during the year:

- R850 000 000 was declared and paid on 31 January 2019.

Preference dividends

Non-redeemable non-cumulative non-participating preference shares

Preference dividend number 30 for the six months ended 31 March 2018, amounting to 425.72498 cents per share, was declared to members holding preference shares registered on 8 June 2018 and was paid on 18 June 2018.

Preference dividend number 31 for the six months ended 30 September 2018, amounting to 417.79151 cents per share, was declared to members holding preference shares registered on 14 December 2018 and was paid on 18 December 2018.

Preference dividend number 32 for the six months ended 31 March 2019, amounting to 422.87121 cents per share, was declared to members holding preference shares registered on 7 June 2019 and will be paid on 18 June 2019.

Class IBRP1 redeemable non-cumulative non-participating preference shares

IBRP1 preference dividend number 5 for the period 1 April 2018 to 30 June 2018, amounting to 1391.69167 cents per share, was declared to members holding IBRP1 preference shares registered on 20 July 2018 and was paid on 23 July 2018.

IBRP1 preference dividend number 6 for the period 1 July 2018 to 30 September 2018, amounting to 1406.98499 cents per share, was declared to members holding IBRP1 preference shares registered on 19 October 2018 and was paid on 22 October 2018.

IBRP1 preference dividend number 7 for the period 1 October 2018 to 31 December 2018, amounting to 1421.58383 cents per share, was declared to members holding IBRP1 preference shares registered on 18 January 2019 and was paid on 21 January 2019.

IBRP1 preference dividend number 8 for the period 1 January 2019 to 31 March 2019, amounting to 1410.08801 cents per share, was declared to members holding IBRP1 preference shares registered on 18 April 2019 and was paid on 23 April 2019.

Directors

Details of directors of IBL are reflected on pages 83 to 87 in volume one.

The names of the current directors of IBL, along with their biographical details, are set out on pages 83 to 87 of volume one, and are incorporated into this report by reference. Changes to the composition of the board since 1 April 2018 up to date of this report are shown in the table below:

	Date of appointment*	Date of resignation
SE Abrahams		8 August 2018
GR Burger		12 December 2018
F Titi	15 May 2018*	15 May 2018*
PA Hourquebie		12 December 2018
B Kantor		30 January 2019
S Koseff		30 January 2019
KL Shuenyane	15 May 2018*	
NA Samujh		14 May 2019
SC Spencer	14 May 2019	
B Tapnack		15 May 2018

* *Fani Titi stepped down as chairman and was appointed as executive director of IBL. Khumo Shuenyane was appointed as chairman*

Directors' shareholdings

No director holds any ordinary shares in IBL.

Directors' shareholdings in Investec plc and Investec Limited and in IBL's preference shares are set out on pages 120 to 121.

Directors' remuneration

Directors' remuneration is disclosed on page 119.

Company secretary and registered office

The company secretary is Niki van Wyk. The registered office is c/o Company Secretarial, Investec Limited, 100 Grayston Drive, Sandown, Sandton 2196.

Audit Committee

The audit committee report is disclosed on pages 98 to 106.

Social and Ethics Committee

As provided for under the South African Companies Act, the DLC SEC performs the necessary functions required on behalf of IBL. Further details on the role and responsibilities of the DLC SEC are set out in the Investec group 2019 integrated annual report.

Nominations and directors' affairs committee

The board of IBL has delegated the duties of the directors' affairs committee as set out in the South African Banks Act, to the DLC Nomdac. The details of the role and responsibilities of the DLC Nomdac are set in the Investec group 2019 integrated annual report.

Remuneration Committee

The DLC Remco currently acts as the Remuneration Committee for the group (including IBL) and the details of the role and responsibilities of the DLC Remco are set out in the Investec group 2019 integrated annual report

Auditors

KPMG Inc. and Ernst & Young Inc. have expressed their willingness to continue in office as joint auditors. A resolution to reappoint KPMG Inc. and Ernst & Young Inc. as joint auditors will be proposed at the annual general meeting taking place on 8 August 2019.

Holding company

The bank's holding company is Investec Limited.

Major shareholders

Investec Limited owns 100% of the issued ordinary shares.

Subsidiary and associated companies

Details of principal subsidiary companies are reflected on page 212 and the associate companies on page 205. The interest of the company in the aggregate profits after taxation of its subsidiary companies is R778.9 million (2018: R749.1 million) and its share in aggregate losses is R12.7 million (2018: R1.0 million).

Special resolutions

At the annual general meeting of members held on 8 August 2018, the following special resolutions were passed in terms of which:

The board of directors of IBL may authorise IBL to provide direct or indirect financial assistance by way of loan, guarantee, the provision of security or otherwise, not in the ordinary course of business.

Accounting policies and disclosure

Accounting policies are set having regard to commercial practice and are in accordance with IFRS, SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Standards Council, as well as the requirements of the South African Companies Act. These policies are set out on pages 153 to 162.

Employees

The group's approach is to recruit and promote on the basis of aptitude and attitude, with the deliberate intent to build a diverse workforce and promote an inclusive workplace, appropriately and fully representative of the jurisdiction's population. The group's policy is to adopt an open management style, thereby encouraging informal consultation at all levels about aspects of the group's operations, and motivating staff involvement in the group's performance by means of employee share schemes.

Further information is provided in the Investec group 2019 integrated annual report.

Political donations and expenditure

Investec Bank Limited made political donations in 2019 in the amount of R1.5 million (2018: Nil).

Empowerment and transformation

The group's approach is to recruit and promote on the basis of aptitude and attitude, with the deliberate intent to build a diverse workforce and promote an inclusive workplace, appropriately and fully representative of the jurisdiction's population. We endeavour to prevent and/or eliminate any form of discrimination based on gender, race, ethnicity, religion, age, disability, nationality and sexual preference. People with disabilities are an essential part of a diverse talent pool and are always considered, with every effort made to accommodate and facilitate an accessible environment. In the event of employees becoming disabled while in our employ, we are committed to ensuring their continued employment. We have various processes to encourage debate and dialogue around valuing diversity and difference. Emerging and established leaders are invited to participate in discussions with the executive leadership around all issues related to talent management and diversity.

Environment

IBL is committed to pursuing sound environmental policies in all aspects of its business, and seeks to encourage and promote good environmental practice among its employees and within the communities in which it operates.

Further information is provided in the Investec group 2019 integrated annual report.

Subsequent events

There are no material facts or circumstances which occurred between the balance sheet date and the date of this report that would require adjustment or disclosure in the annual financial statements.

Going concern

The directors have made an assessment of the ability of the company and its subsidiaries to continue as going concerns and have no reason to believe that the businesses will not be a going concern in the year ahead.

Khumo Shuenyane
Chairman

Richard Wainwright
Chief executive officer

12 June 2019

Diversity

At Investec, we are committed to attracting, developing and retaining a diverse team of people. A diverse workforce is vital to our ability to be an innovative organisation that is able to adapt and prosper in a fast changing world. Our recruitment strategies prioritise previously disadvantaged, female and disabled candidates where possible. We have various processes to encourage debate and dialogue around promoting diversity and we are focused on improving our position in this regard.

To the Shareholder of Investec Bank Limited

Report on the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Investec Bank Limited (the group and company), which comprise the balance sheets at 31 March 2019, the income statements, the statements of comprehensive income, the statements of changes in equity and the cash flow statements for the year then ended, and the accounting policies and notes to the financial statements, as set out on pages 144 to 250 and the specified disclosures within the risk management and corporate governance report and the remuneration report that are marked as audited.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Investec Bank Limited at 31 March 2019, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the group and company in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

KEY AUDIT MATTER	OUR AUDIT RESPONSE TO THE KEY AUDIT MATTER
Monitoring of credit quality and the appropriateness of the allowance for credit losses	
Refer to the Accounting policies (page 161); and Note 25 of the group and company Financial Statements (page 201) On 1 April 2018 the group and company adopted IFRS 9 'Financial Instruments' which replaced IAS 39 and which requires impairment losses to be evaluated on an expected credit loss (ECL) basis as opposed to an incurred loss methodology under IAS 39. The determination of the allowance for expected credit losses (ECL) is material and requires significant judgment and assumptions by management. We have identified the audit of ECL impairment allowances to be a key audit matter. The key areas of significant judgement and assumptions by management within the ECL calculations include:	As IFRS 9 was implemented as at 1 April 2018 we performed audit procedures on the opening balances to gain assurance on the transition from IAS 39. This included evaluating the accounting interpretations for compliance with IFRS 9 and testing the adjustments and disclosures made on transition. We also performed audit procedures on the closing balance as at 31 March 2019 and the movement in ECL over the period. To address the significant judgments and estimates we focused on the following key procedures:
Assessment of SICR The group and company is required to recognise an allowance for either 12 month or lifetime ECLs, depending on whether there has been a significant increase in credit risk (SICR) since initial recognition. The assessment of what constitutes a significant increase in credit risk (SICR) applied by management involves judgement and assumptions. SICR has been established to apply both qualitative and quantitative measures. We focused on the completeness of assets recognised in stages 2 and 3, including the triggers for an asset requiring a move between stages.	**Assessment of SICR** We tested the design and operating effectiveness of key controls focusing on the following: • Assessment and approval of the movement of exposures between the various impairment stages, and the monitoring of asset levels in each stage (including performing peer benchmarking); • Approval of qualitative and quantitative staging criteria; • Assessment and governance of manual overrides to staging outcomes; and • Data quality. We also tested a sample of assets in stage 1, 2 and 3 to verify they were included in the appropriate stage based on the criteria established by the group.

KEY AUDIT MATTER	OUR AUDIT RESPONSE TO THE KEY AUDIT MATTER
Monitoring of credit quality and the appropriateness of the allowance for credit losses *(continued)*	
Assessment of estimation of EAD, PD and LGD within the ECL calculation including macro-economic inputs and forward-looking information ECL is determined using sophisticated modelling techniques, which take into account both historical data and forward-looking information. The models used to determine credit impairments are complex, and certain inputs used are not fully observable. Significant judgements are applied to the model design, including the estimation of key inputs such as the exposure at default (EAD); probability of default (PD) and loss given default (LGD). Further judgement is required in incorporating macro-economic inputs and forward-looking information into the ECL models and in determining the ECL stage allocation.	**Assessment of estimation of EAD, PD and LGD within the ECL calculation including macro-economic inputs and forward-looking information** We tested the design and operating effectiveness of key controls focusing on model governance, including the design, build, testing, review, and approval of models. As part of this we assessed the accounting interpretations made for compliance with IFRS 9 and obtained audit evidence that the appropriate interpretations were reflected in the models. We involved our modelling specialists to test assumptions and calculations used in the ECL. This included performing an assessment of: • estimated behavioural lifetime for assets in scope of the behavioural lifetime exception in IFRS 9; • the model design documentation; • the appropriateness of the methodology considering alternative techniques; and • the code to verify it was consistent with the design documentation. We also tested a sample of the historical and reporting date data used in the models by tracing it back through to the origination systems. **Macro-economic inputs and forward looking information** We tested the design and operating effectiveness of key controls focusing on the following: • Generation and approval of base case scenario; • Generation and approval of the methodology and output of alternative scenarios, including the probability weights assigned; and • Production and approval of models used to calculate the ECL impact of the scenarios. We involved our economic specialists to help us to assess both the base case and alternative scenarios generated, including the probability weights applied. In performing this assessment, we considered economic forecasts from a variety of external sources. We involved our modelling specialists to assess the correlation of the macroeconomic factors forecasted to the ECL and to test the scalars (parameters) applied to the ECL that were calculated based on the scenarios.

KEY AUDIT MATTER	OUR AUDIT RESPONSE TO THE KEY AUDIT MATTER
Monitoring of credit quality and the appropriateness of the allowance for credit losses *(continued)*	
Evaluation of ECL measurement and disclosures for Stage 3 individually determined impairment exposures Impairment allowances are determined on a case by case basis for certain individual financial assets. Significant estimates, judgements and assumptions have been applied by management in their assessment of the ECL of the individual financial assets, including recoverability estimates, evaluating the adequacy and accessibility of collateral and determining the expected timing and amount of future cash flows. At year end the group and company reported total gross core loans and advances of R262 445 million (2018: R248 902 million) and R248 090 million (2018: R235 286 million); expected credit losses (impairment allowances) of R2 660 million (2018: R1 428 million) and R2 330 million (2018: R1 140 million); and credit losses of R722 million (2018: R720 million) and R708 million (2018: R641 million), respectively. Due to the significant judgement applied, this is a Key Audit Matter.	**ECL measurement for Stage 3 individually determined impairment exposures** We tested the design and operating effectiveness of key controls focusing on the following: • The processes and controls to calculate the allowance, including timing of collateral valuations, work out strategies, annual credit reviews (where work out strategies require additional funding to execute we have obtained evidence of the approval for such funding through the bank's risk management governance process as well as assessing the track record of management approving the utilisation of the additional funding); • Estimation of the amount and timing of future cash flows, including the assessment and probability weights assigned to alternative scenarios, where applicable; and • Approval of final allowance amount. We also selected a sample of loans to recalculate the ECL with the involvement of our valuation specialists where appropriate. Our sample considered high risk sectors including marine, property and mining exposures. For each item selected we formed an independent view of collateral or exit values, cash flow assumptions and exit strategies. We also considered the alternative scenarios being considered and the probability weights assigned. We assessed the reasonableness of the discount rate used and re-performed the discounted cash flow calculations. We compared our measurement outcome to that prepared by management and investigated any differences that arose. **Disclosures of ECL** Our testing focused on: • Financial statement close process used to record the ECL journal entries; • IT controls over the completeness and accuracy of the ECL; • Agreeing disclosures back to source systems tested; • Reconciliations between finance and risk systems; and • Design and approval of the disclosures to meet IFRS requirements, including the transition from IAS 39.

KEY AUDIT MATTER	OUR AUDIT RESPONSE TO THE KEY AUDIT MATTER
Valuation of level 3 complex/illiquid financial instruments, unlisted investments and fair value loans	
Refer to the Accounting policies (page 156); and Note 13 of the group and company Financial Statements (page 184) There are R117 253 million (2018: R123 231 million) for group and R116 256 million (2018: R122 244 million) for company, of assets that are required to be fair valued under the IFRS accounting framework. For level 3 instruments, such as unlisted investments in private equity businesses, fair value loans, unlisted investments or large bespoke derivative structures there is necessarily a large degree of subjectivity surrounding the inputs to their valuations. With lack of observable liquid market inputs, determining appropriate valuations continues to be highly judgmental. This may result in subjective fair value movements which are material. Significant judgment is required by management due to the absence of verifiable third party information to determine the key inputs and assumptions in the valuation models. At year end the group and company reported level 3 assets of R3 886 million (2018: R1 983 million) and R3 718 million (2018: R1 841 million), and level 3 liabilities of Rnil (2018: Rnil) respectively for both group and company. The portfolios within level 3 with the greatest valuation uncertainty, which hence required the most significant accounting and auditing judgments, are the Southern Africa mining assets, including related lending activities. Due to the significant judgement applied, this is a Key Audit Matter.	We tested the design and operating effectiveness of key controls for the valuation of level 3 financial instruments. We performed a detailed examination of management's valuation methodologies and assessed the appropriateness and consistency of model inputs, key assumptions and contractual obligations. As part of this testing we used our valuation specialists. Where such inputs and assumptions were not observable in the market we engaged our valuation specialists to critically assess if the inputs and assumptions fell within an acceptable range based on relevant knowledge and experience of the market. In relation to the Southern Africa mining assets additional procedures were performed over and above those noted above including: • Performed a site visit to inspect key assets, and met with key management and/or Board members of the investee; • Engaged our business valuations specialists to build an independent valuation model in addition to assessing the key inputs and assumptions. As part of this they also considered alternative inputs and assumptions; sensitivity analysis was performed on the most material inputs; • We challenged management on updated valuation models and that they were responsive to what they considered to be the range of reasonable likely outcomes; and • Obtained audit evidence via external legal confirmations or discussions with external counsel in order to assess the enforceability of collateral held.

KEY AUDIT MATTER	OUR AUDIT RESPONSE TO THE KEY AUDIT MATTER
IT systems and controls impacting financial reporting	
The group and company audit relies significantly on automated and IT dependent manual controls. Control deficiencies in the IT control environment could result in the financial accounting and reporting records being materially misstated. Due to the significant audit effort spent on the audit of these systems, with particular focus on access management controls, as it is critical for the control environment of the group and company, this has been raised as a Key Audit Matter	We have: • Evaluated the design and tested the operating effectiveness of IT controls over the key applications, operating systems and databases that are relevant to financial reporting; • We evaluated user access and segregation of duties and relevant application controls within business processes. This included testing the reliability and continuity of the IT systems, the integrity of system interfaces, the completeness and accuracy of data feeds, automated calculations and specific input controls. • Tested the operating effectiveness of key automated controls for in scope business processes, including automated calculations; • For any identified deficiencies, tested the design and operating effectiveness of compensating controls and, where necessary, extended the scope of our substantive audit procedures; and • Tested key system migrations during the year including transferring positions between front office trading systems.

Other Information

The Directors are responsible for the other information. The other information comprises the Declaration by the company secretary, the Directors' report and the Audit committee's report, included in the Corporate governance report, as required by the Companies Act of South Africa and all information included in the Annual Report. Other information does not include the consolidated and separate financial statements and our auditors' report thereon.

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

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

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

Auditors' responsibilities for the audit of the Consolidated and Separate Financial Statements

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Ernst & Young Inc. and KPMG Inc. have been the auditors of Investec Bank Limited for 44 and 25 years respectively.

Ernst & Young Inc.

Ernst & Young Inc.
Registered Auditor

Per Gail Moshoeshoe
Chartered Accountant (SA)
Registered Auditor
Director

12 June 2019

KPMG Inc

KPMG Inc.
Registered Auditor

Per Tracy Middlemiss
Chartered Accountant (SA)
Registered Auditor
Director

12 June 2019

INCOME STATEMENTS

		Group		Company	
For the year to 31 March **R'million**	Notes	**2019**	2018	**2019**	2018
Interest income	1	33 611	31 687	32 083	30 764
Interest income calculated using effective interest rate		31 497	^	30 271	^
Other interest income		2 114	^	1 812	^
Interest expense	1	(25 324)	(24 125)	(25 065)	(24 297)
Net interest income		**8 287**	**7 562**	**7 018**	**6 467**
Fee and commission income	2	2 662	2 458	2 216	2 003
Fee and commission expense	2	(401)	(213)	(352)	(185)
Investment income	3	360	530	1 527	1 122
Share of post taxation profit of associates	27	1 163	777	1 193	766
Trading income/(loss) arising from					
– customer flow		369	356	367	361
– balance sheet management and other trading activities		210	(26)	148	(65)
Other operating income	4	–	2	–	–
Total operating income before expected credit losses/ impairment losses		**12 650**	**11 446**	**12 117**	**10 469**
Expected credit loss impairment charges*	5	(722)	–	(708)	–
Impairment losses on loans and advances*	5	–	(720)	–	(641)
Operating income		**11 928**	**10 726**	**11 409**	**9 828**
Operating costs	6	(6 547)	(6 100)	(5 847)	(5 515)
Operating profit before impairment of goodwill and acquired intangibles		**5 381**	**4 626**	**5 562**	**4 313**
Impairment of goodwill	31	(3)	–	–	–
Amortisation of acquired intangibles	32	(51)	(51)	–	–
Operating profit		**5 327**	**4 575**	**5 562**	**4 313**
Financial impact of acquisition of subsidiary	33	10	(100)	–	–
Profit before taxation		**5 337**	**4 475**	**5 562**	**4 313**
Taxation on operating profit before acquired intangibles	8	(391)	184	(262)	305
Taxation on acquired intangibles	8	14	14	–	–
Profit after taxation		**4 960**	**4 673**	**5 300**	**4 618**
Loss attributable to non-controlling interests		3	–	–	–
Earnings attributable to shareholders		**4 963**	**4 673**	**5 300**	**4 618**

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

^ *As permitted by IFRS 9, the group has elected not to restate comparative annual financial statements.*

		Group		Company	
For the year to 31 March **R'million**	Notes	**2019**	2018	**2019**	2018
Profit after taxation		4 960	4 673	5 300	4 618
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	8	63	(99)	63	(93)
Fair value movements on available-for-sale assets taken directly to other comprehensive income^	8	–	494	–	482
Gain on realisation of available-for-sale assets recycled through the income statement^	8	–	(94)	–	(81)
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income^		(119)	–	(121)	–
Gain on realisation of debt instruments at FVOCI recycled to the income statement^		(89)	–	(87)	–
Foreign currency adjustments on translating foreign operations		903	(637)	(14)	–
Items that will never be reclassified to income statement					
Fair value movements on equity instruments at FVOCI taken directly to other comprehensive income^		(461)	–	(461)	–
Net gain attributable to own credit risk		2	–	2	–
Total comprehensive income		**5 259**	**4 337**	**4 682**	**4 926**
Total comprehensive income attributable to ordinary shareholders		5 090	4 204	4 510	4 793
Total comprehensive loss attributable to non-controlling interest		(3)	–	–	–
Total comprehensive income attributable to perpetual preference shareholders and other Additional Tier 1 security holders		172	133	172	133
Total comprehensive income		**5 259**	**4 337**	**4 682**	**4 926**

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

At R'million	Notes	Group 31 March 2019	Group 1 April 2018*	Group 31 March 2018
Assets				
Cash and balances at central banks	16	10 290	9 180	9 187
Loans and advances to banks	17	19 903	17 263	17 265
Non-sovereign and non-bank cash placements		12 192	9 972	9 993
Reverse repurchase agreements and cash collateral on securities borrowed	18	18 552	20 480	20 480
Sovereign debt securities	19	60 893	62 363	62 403
Bank debt securities	20	12 526	8 033	8 051
Other debt securities	21	13 553	10 357	10 342
Derivative financial instruments	22	7 700	12 564	12 586
Securities arising from trading activities	23	5 059	875	875
Investment portfolio	24	7 664	9 124	7 943
Loans and advances to customers	25	261 737	245 162	247 474
Own originated loans and advances to customers securitised	26	7 667	6 826	6 830
Other loans and advances	25	329	265	265
Other securitised assets	26	232	241	241
Interest in associated undertakings	27	6 251	6 288	6 288
Deferred taxation assets	28	1 514	933	586
Other assets	29	8 237	6 673	6 686
Property and equipment	30	2 563	2 494	2 494
Investment properties		1	1	1
Goodwill	31	171	171	171
Intangible assets	32	418	412	412
Loans to group companies	34	18 151	13 499	13 499
		475 603	**443 176**	**444 072**
Liabilities				
Deposits by banks		30 041	24 607	24 607
Derivative financial instruments	22	11 097	15 907	15 907
Other trading liabilities	36	4 468	2 305	2 305
Repurchase agreements and cash collateral on securities lent	18	15 234	8 395	8 395
Customer accounts (deposits)		341 710	321 861	321 893
Debt securities in issue	37	6 512	3 473	3 473
Liabilities arising on securitisation of own originated loans and advances	26	1 720	1 551	1 551
Current taxation liabilities		542	202	202
Deferred taxation liabilities	28	78	99	99
Other liabilities	38	6 263	6 874	6 844
Loans from group companies	34	2 260	7 007	7 007
		419 925	**392 281**	**392 283**
Subordinated liabilities	39	13 918	13 374	13 374
		433 843	**405 655**	**405 657**
Equity				
Ordinary share capital	40	32	32	32
Share premium	42	14 885	14 885	14 885
Other reserves		1 790	1 353	1 293
Retained income		24 597	20 901	21 855
Shareholders' equity excluding non-controlling interests		**41 304**	**37 171**	**38 065**
Other Additional Tier 1 securities in issue	43	460	350	350
Non-controlling interests		(4)	–	–
Total equity		**41 760**	**37 521**	**38 415**
Total liabilities and equity		**475 603**	**443 176**	**444 072**

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

At R'million	Notes	Company 31 March 2019	1 April 2018*	31 March 2018
Assets				
Cash and balances at central banks	16	10 085	8 982	8 989
Loans and advances to banks	17	13 728	11 855	11 857
Non-sovereign and non-bank cash placements		12 132	9 972	9 993
Reverse repurchase agreements and cash collateral on securities borrowed	18	17 829	19 886	19 886
Sovereign debt securities	19	60 596	62 363	62 403
Bank debt securities	20	10 966	6 405	6 421
Other debt securities	21	13 192	10 001	9 984
Derivative financial instruments	22	7 526	12 373	12 395
Securities arising from trading activities	23	5 059	875	875
Investment portfolio	24	7 221	7 647	7 647
Loans and advances to customers	25	247 108	233 671	234 146
Other loans and advances	25	349	278	278
Interest in associated undertakings	27	6 184	6 180	6 180
Deferred taxation assets	28	1 372	763	434
Other assets	29	5 212	3 307	3 307
Property and equipment	30	2 551	2 430	2 430
Investment properties		1	1	1
Intangible assets	32	159	127	127
Loans to group companies	34	17 285	8 269	8 269
Investment in subsidiaries	35	15 659	14 743	15 358
		454 214	**420 128**	**420 980**
Liabilities				
Deposits by banks		30 041	24 607	24 607
Derivative financial instruments	22	11 097	15 907	15 907
Other trading liabilities	36	4 468	2 305	2 305
Repurchase agreements and cash collateral on securities lent	18	14 121	7 187	7 187
Customer accounts (deposits)		326 466	311 075	311 107
Debt securities in issue	37	5 482	2 443	2 443
Current taxation liabilities		559	188	188
Other liabilities	38	5 731	6 432	6 405
Loans from group companies and subsidiaries	34	5 912	3 852	3 852
		403 877	**373 996**	**374 001**
Subordinated liabilities	39	13 918	13 374	13 374
		417 795	**387 370**	**387 375**
Equity				
Ordinary share capital	40	32	32	32
Share premium	42	14 885	14 885	14 885
Other reserves		(1 017)	(399)	(455)
Retained income		22 059	17 890	18 793
Shareholders' equity excluding non-controlling interests		**35 959**	**32 408**	**33 255**
Other Additional Tier 1 securities in issue	43	460	350	350
Total equity		**36 419**	**32 758**	**33 605**
Total liabilities and equity		**454 214**	**420 128**	**420 980**

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

R'million	Ordinary share capital	Share premium
Group		
At 1 April 2017	**32**	**14 885**
Movement in reserves 1 April 2017 – 31 March 2018		
Profit after taxation	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–
Gain on realisation of available-for-sale assets recycled through the income statement	–	–
Foreign currency adjustments on translating foreign operations	–	–
Total comprehensive income for the year	**–**	**–**
Dividends paid to ordinary shareholders	–	–
Dividends paid to perpetual preference shareholders	–	–
Issue of other Additional Tier 1 securities in issue	–	–
Transfer from regulatory general risk reserve to retained earnings	–	–
At 31 March 2018	**32**	**14 885**
Adoption of IFRS 9	–	–
At 1 April 2018	**32**	**14 885**
Movement in reserves 1 April 2018 – 31 March 2019		
Profit after taxation	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income	–	–
Gain on realisation of debt instruments at FVOCI recycled through the income statement	–	–
Foreign currency adjustments on translating foreign operations	–	–
Fair value movements on equity instruments at FVOCI taken directly to other comprehensive income	–	–
Net gain attributable to own credit risk	–	–
Total comprehensive income for the year	**–**	**–**
Dividends paid to ordinary shareholders	–	–
Dividends paid to perpetual preference shareholders and other Additional Tier 1 security holders	–	–
Issue of other Additional Tier 1 securities in issue	–	–
Acquisition of subsidiary	–	–
Net equity movements of interest in associated undertaking	–	–
Other equity movements	–	–
At 31 March 2019	**32**	**14 885**

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

	Other reserves									
	Available-for-sale reserve/ Fair value reserve*	Regulatory general risk reserve	Cash flow hedge reserve	Own credit risk reserve	Foreign currency reserve	Retained income	**Shareholders' equity excluding non-controlling interests**	Other Additional Tier 1 securities in issue	Non-controlling interests	**Total equity**
	128	**665**	**(896)**	**–**	**1 765**	**18 586**	**35 165**	**–**	**–**	**35 165**
	–	–	–	–	–	4 673	4 673	–	–	4 673
	–	–	(99)	–	–	–	(99)	–	–	(99)
	494	–	–	–	–	–	494	–	–	494
	(94)	–	–	–	–	–	(94)	–	–	(94)
	–	–	–	–	(637)	–	(637)	–	–	(637)
	400	**–**	**(99)**	**–**	**(637)**	**4 673**	**4 337**	**–**	**–**	**4 337**
	–	–	–	–	–	(1 304)	(1 304)	–	–	(1 304)
	–	–	–	–	–	(133)	(133)	–	–	(133)
	–	–	–	–	–	–	–	350	–	350
	–	(33)	–	–	–	33	–	–	–	–
	528	**632**	**(995)**	**–**	**1 128**	**21 855**	**38 065**	**350**	**–**	**38 415**
	37	–	–	23	–	(954)	(894)	–	–	(894)
	565	**632**	**(995)**	**23**	**1 128**	**20 901**	**37 171**	**350**	**–**	**37 521**
	–	–	–	–	–	4 963	4 963	–	(3)	4 960
	–	–	63	–	–	–	63	–	–	63
	(119)	–	–	–	–	–	(119)	–	–	(119)
	(89)	–	–	–	–	–	(89)	–	–	(89)
	–	–	–	–	903	–	903	–	–	903
	(461)	–	–	–	–	–	(461)	–	–	(461)
	–	–	–	2	–	–	2	–	–	2
	(669)	**–**	**63**	**2**	**903**	**4 963**	**5 262**	**–**	**(3)**	**5 259**
	–	–	–	–	–	(850)	(850)	–	–	(850)
	–	–	–	–	–	(172)	(172)	–	–	(172)
	–	–	–	–	–	–	–	110	–	110
	–	–	–	–	–	–	–	–	(1)	(1)
	–	–	–	–	–	(109)	(109)	–	–	(109)
	–	138	–	–	–	(136)	2	–	–	2
	(104)	**770**	**(932)**	**25**	**2 031**	**24 597**	**41 304**	**460**	**(4)**	**41 760**

R'million	Ordinary share capital	Share premium
Company	**32**	**14 885**
At 1 April 2017		
Movement in reserves 1 April 2017 – 31 March 2018		
Profit after taxation	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–
Gain on realisation of available-for-sale assets recycled through the income statement	–	–
Total comprehensive income for the year	**–**	**–**
Dividends paid to ordinary shareholders	–	–
Dividends paid to perpetual preference shareholders	–	–
Issue of other Additional Tier 1 securities in issue	–	–
At 31 March 2018	**32**	**14 885**
Adoption of IFRS 9	–	–
At 1 April 2018	**32**	**14 885**
Movement in reserves 1 April 2018 - 31 March 2019		
Profit after taxation	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income	–	–
Gain on realisation of debt instruments at FVOCI recycled through the income statement	–	–
Foreign currency adjustments on translating foreign operations	–	–
Fair value movements on equity instruments at FVOCI taken directly to other comprehensive income	–	–
Net gain attributable to own credit risk	–	–
Total comprehensive income for the year	–	–
Dividends paid to ordinary shareholders	–	–
Dividends paid to perpetual preference shareholders and other Additional Tier 1 security holders	–	–
Issue of other Additional Tier 1 securities in issue	–	–
Net equity movements of interest in associated undertaking	–	–
At 31 March 2019	**32**	**14 885**

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

Other reserves							
Available-for-sale reserve/ Fair value reserve*	Cash flow hedge reserve	Own credit risk reserve	Foreign currency reserve	Retained income	**Share-holders' equity excluding non-controlling interests**	Other Additional Tier 1 securities in issue	**Total equity**
133	**(899)**	**–**	**3**	**15 612**	**29 766**	**–**	**29 766**
–	–	–	–	4 618	4 618	–	4 618
–	(93)	–	–	–	(93)	–	(93)
482	–	–	–	–	482	–	482
(81)	–	–	–	–	(81)	–	(81)
401	**(93)**	**–**	**–**	**4 618**	**4 926**	**–**	**4 926**
–	–	–	–	(1 304)	(1 304)	–	(1 304)
–	–	–	–	(133)	(133)	–	(133)
–	–	–	–	–	–	350	350
534	**(992)**	**–**	**3**	**18 793**	**33 255**	**350**	**33 605**
33	–	23	–	(903)	(847)	–	(847)
567	**(992)**	**23**	**3**	**17 890**	**32 408**	**350**	**32 758**
–	–	–	–	5 300	5 300	–	5 300
–	63	–	–	–	63	–	63
(121)	–	–	–	–	(121)	–	(121)
(87)	–	–	–	–	(87)	–	(87)
–	–	–	(14)	–	(14)	–	(14)
(461)	–	–	–	–	(461)	–	(461)
–	–	2	–	–	2	–	2
(669)	**63**	**2**	**(14)**	**5 300**	**4 682**	**–**	**4 682**
–	–	–	–	(850)	(850)	–	(850)
–	–	–	–	(172)	(172)	–	(172)
–	–	–	–	–	–	110	110
–	–	–	–	(109)	(109)	–	(109)
(102)	**(929)**	**25**	**(11)**	**22 059**	**35 959**	**460**	**36 419**

		Group		Company	
For the year to 31 March **R'million**	Notes	**2019**	2018	**2019**	2018
Cash flows from operating activities					
Operating profit adjusted for non-cash items	45	5 202	4 666	5 308	4 279
Taxation paid		(1 005)	(481)	(865)	(374)
Increase in operating assets	45	(23 511)	(21 277)	(29 884)	(21 252)
Increase in operating liabilities	45	26 729	15 244	33 215	19 841
Net cash inflow/(outflow) from operating activities		**7 415**	**(1 848)**	**7 774**	**2 494**
Cash flows from investing activities					
Cash flow on acquisition of property, equipment and intangible assets		(2 664)	(191)	(2 619)	(152)
Cash flow on disposal of property, equipment and intangible assets		75	24	33	24
Cash flow on acquisition of subsidiary	33	–	(100)	–	–
Net investment in associates		–	–	(20)	–
Net cash outflow from investing activities		**(2 589)**	**(267)**	**(2 606)**	**(128)**
Cash flows from financing activities					
Dividends paid to ordinary shareholders	10	(850)	(1 304)	(850)	(1 304)
Dividends paid to perpetual preference shareholders and other Additional Tier 1 security holders	10	(172)	(133)	(172)	(133)
Proceeds from subordinated debt raised	39	849	2 273	849	2 273
Repayment of subordinated debt	39	(1 210)	(2 205)	(1 210)	(2 205)
Proceeds on issue of other Additional Tier 1 securities in issue	43	110	350	110	350
Net cash outflow from financing activities		**(1 273)**	**(1 019)**	**(1 273)**	**(1 019)**
Effects of exchange rates on cash and cash equivalents		**1 175**	**(864)**	**–**	**–**
Net increase/(decrease) in cash and cash equivalents		**4 728**	**(3 998)**	**3 895**	**1 347**
Cash and cash equivalents at the beginning of the year		26 026	30 024	20 420	19 073
Cash and cash equivalents at the end of the year		**30 754**	**26 026**	**24 315**	**20 420**
Cash and cash equivalents is defined as including:					
Cash and balances at central banks		10 290	9 187	10 085	8 989
On demand loans and advances to banks		8 247	6 846	2 073	1 438
Non-sovereign and non-bank cash placements		12 192	9 993	12 132	9 993
ECL on cash and cash equivalents		25	–	25	–
Cash and cash equivalents at the end of the year		**30 754**	**26 026**	**24 315**	**20 420**

Cash and cash equivalents have a maturity profile of less than three months.

Basis of presentation

The group and company financial statements are prepared in accordance with the International Financial Reporting Standards, SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Standards Council, as well as the requirements of the Companies Act.

The group and company financial statements have been prepared on a historical cost basis, except as otherwise indicated.

'Group' refers to group and company in the accounting policies that follow unless specifically stated otherwise.

On 1 April 2018 the group adopted IFRS 9 Financial Instruments which replaced IAS 39 Financial Instruments: Recognition and Measurement and sets out the new requirements for the recognition and measurement of financial instruments. These requirements focus primarily on the classification and measurement of financial instruments and measurement of impairment losses based on an expected credit loss (ECL) model as opposed to an incurred loss methodology under IAS 39. IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting, which the group has exercised.

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

The accounting policies related to financial instruments has significantly changed and the disclosure of the impact of IFRS 9 is included in note 53.

Additionally, on 1 April 2018 the group adopted IFRS 15 Revenue from Contracts with Customers which replaced IAS 18 Revenue. IFRS 15 provides a principles-based approach for revenue recognition and introduces the concept of recognising revenue for obligations as they are satisfied. It applies to all contracts with customers except leases, financial instruments and insurance contracts. The group's measurement and recognition principles were aligned to the new standard and hence there has been no material impact on measurement and recognition principles or on disclosure requirements from the adoption of IFRS 15.

Presentation of information

Disclosure under IFRS 7 Financial Instruments: Disclosures and IAS 1 Presentation of Financial Statements: Capital disclosures relating to the nature and extent of risks have been included in sections marked as audited in the risk management report on pages 20 to 76.

Certain disclosures required under IAS 24 Related Party Disclosures have been included in the section marked as audited in the remuneration report in Investec's 2019 integrated annual report.

Basis of consolidation

All subsidiaries or structured entities are consolidated when the group controls an investee. The group controls an investee if it is exposed to, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial results of subsidiaries are included in the consolidated annual financial statements of the group from the date on which control is obtained until the date the group can no longer demonstrate control. The group performs a reassessment of control whenever there is a change in the substance of the relationship between Investec and an entity. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. The group also holds investments for example, in private equity investments which give rise to significant, but not majority, voting rights. Assessing these voting rights and whether Investec controls these entities requires judgement that affects the date at which subsidiaries are consolidated or deconsolidated.

Entities, other than subsidiary undertakings, in which the group exercises significant influence over operating and financial policies are treated as interests in associated undertakings. Interests in associated undertakings are accounted for using the equity method from the date that significant influence commences until the date that significant influence ceases. In circumstances where interests in associated undertakings or joint venture holdings arise in which the group has no strategic intention, these investments are classified as 'venture capital' holdings and are designated as held at fair value through profit or loss.

For equity accounted associates, the financial statements include the attributable share of the results and reserves of associated undertakings. The group's interests in associated undertakings are included in the balance sheet at cost plus the post-acquisition changes in the group's share of the net assets of the associate.

The group balance sheet reflects the associated undertakings net of accumulated impairment losses.

Investments in subsidiaries (including loan advances to subsidiaries) are carried at their cost less any accumulated impairment losses in the company financial statements.

All intergroup balances, transactions and unrealised gains or losses within the group are eliminated in full regarding subsidiaries and to the extent of the interest in an associate.

Segmental reporting

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses. This includes revenues and expenses that relate to transactions with any of the group's other components. The operating results of the operating segment are reviewed regularly by chief operating decision-makers which include members of the board and for which discrete financial information is available.

No additional disclosures have been provided regarding the segmental results as the bank has one segment.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition date fair value and the amount of any prior non-controlling interest in the acquiree. For each business combination, the group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed immediately in the income statement.

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and the designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the group's previously held equity interest in the acquiree is remeasured to fair value at each acquisition date through the income statement.

Any contingent consideration to be transferred by the group will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognised in accordance with IFRS 9 either in the income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration and amount recognised for non-controlling interest is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the income statement as a gain in the year of acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. The group tests goodwill acquired in a business combination for impairment annually, irrespective of whether an indication of impairment exists and in accordance with IAS 36.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash generating units that are expected to benefit from the combination.

Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the cash-generating units retained.

Share-based payments to employees

The group engages in equity-settled share-based payments in respect of services received from employees.

The fair value of the services received in respect of equity-settled share-based payments is determined by reference to the fair value of the shares or share options on the date of grant to the employee. The cost of the share-based payment, together with a corresponding increase in equity, is recognised in the income statement over the period the service conditions of the grant are met, with the amount changing according to the number of awards expected to vest. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the group's best estimate of the number of equity instruments that will ultimately vest.

The increase in equity is offset by a payment made to the holding company of Investec Bank Limited for the provision of the equity-settled shares. In addition, all entities of the group account for any share-based recharge costs allocated to equity in the period during which it is levied in their separate annual financial statements. Any excess over and above the recognised share-based payment expense is accounted for as an expense in the income statement. This cost is presented with the share-based payment expense in note 7.

Fair value measurements are based on option pricing models, taking into account the risk-free interest rate, volatility of the underlying equity instrument, expected dividends and current share prices.

Where the terms of an equity-settled award are modified, the minimum expense recognised in staff costs is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Foreign currency transactions and foreign operations

The presentation currency of the group is South African Rand, being the functional currency of the company and the currency in which its subsidiaries mainly operate except Mauritius which is in US Dollars.

Foreign operations are subsidiaries, interests in associated undertakings or branches of the group, the activities of which are based in a functional currency other than that of the reporting entity. The functional currency of group entities is determined based on the primary economic environment in which the entity operates.

Foreign currency transactions are translated into the functional currency of the entity in which the transactions arise, based on rates of exchange ruling at the date of the transactions. At each balance sheet date foreign currency items are translated as follows:

- Monetary items (other than monetary items that form part of the net investment in a foreign operation) are translated using closing rates, with gains or losses recognised in the income statement

- Exchange differences arising on monetary items that form part of the net investment in a foreign operation are determined using closing rates and recognised as a separate component of equity (foreign currency translation reserve) upon consolidation and is reclassified to the income statement upon disposal of the net investment
- Non-monetary items that are measured at historical cost are translated using the exchange rates ruling at the date of the transaction. Non-monetary items that are measured at fair value are translated using the exchange rate at the date of the valuation, with movement due to changes in foreign currency being presented in terms of the accounting policy for changes in the fair value movement of the respective item.

On consolidation, the results and financial position of foreign operations are translated into the presentation currency of the group as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet
- Income and expense items are translated at exchange rates ruling at the date of the transaction
- All resulting exchange differences are recognised in other comprehensive income (foreign currency translation reserve), which is reclassified in the income statement on disposal of the foreign operation
- Cash flow items are translated at the exchange rates ruling at the date of the transactions.

Revenue recognition

Revenue consists of interest income, fee and commission income, investment income, trading income arising from customer flow, trading income arising from balance sheet management and other trading activities and other operating income.

Interest income on debt instruments at amortised cost and FVOCI is recognised in the income statement using the effective interest rate method. Calculation of the effective interest rate takes into account fees payable or receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs.

The effective interest rate method is based on the estimated life of the underlying instrument and where this estimate is not readily available, the contractual life. Interest on instruments at FVPL is recognised based on the contractual rates.

Fee and commission income includes revenue from contracts with customers earned from providing advisory services as well as portfolio management and includes rental income from investment properties. Investment advisory and management fees are earned over the period in which the services are provided. Performance fees can be variable and recognition is constrained until such time as it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur and the services related to the transactions have been completed under the terms of the contract.

Revenue from contracts with customers is recognised in accordance with five steps to: identify the contract; identify the performance obligations; determine the transaction price; allocate the transaction price to the performance obligations; and recognise revenue when the performance obligations are satisfied.

Investment income includes income, other than margin from securities held for the purpose of generating interest yield, dividends and capital appreciation.

Customer flow trading income includes income from trading activities arising from making and facilitating client activities.

Trading income arising from balance sheet management and other trading activities consists of proprietary trading income and other gains or losses arising from balance sheet management.

Trading profit is shown net of the funding costs of the underlying positions and includes the unrealised profits on trading portfolios, which are marked to market daily. Equity investments received in lieu of corporate finance fees are included in investment portfolio and valued accordingly.

Dividend income is recognised when the group's right to receive payment is established.

Included in other operating income is incidental rental income, gains on realisation of properties (other than investment properties which is included in investment income), operating lease income and income from interests in associated undertakings.

Rewards programme

The group has a Rewards programme whereby account cardholders are awarded Rewards points in proportion to eligible transactions. Rewards points may be redeemed at a later stage for goods or services at a variety of lifestyle, shopping, travel and financial partners. Rewards points earned are valid for three years from allocation date. Client rewards are considered to be a cost of the interchange service fee revenue stream, where the cardholder is not considered to be the customer but rather that the associated rewards are incentives paid to cardholders in respect of this stream. As a result, the costs to provide cardholders with these rewards are considered to be expenses and recognised in fee and commission expenses as the related income is earned, with the obligation to settle these points reflected in other liabilities until such time as they are redeemed.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the group has access at that date. The fair value of an asset or a liability reflects its non-performance risk.

When available, the group measures the fair value of an instrument using the quoted price in an active market for that instrument.

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The group classifies disclosed fair values according to a hierarchy that reflects the significance of observable market inputs. A transfer is made between the hierarchy levels when the inputs have changed or there has been a change in the valuation method. Transfers are deemed to occur at the end of each semi-annual reporting period.

Financial instruments

Financial instruments are initially recognised at their fair value. For financial assets or financial liabilities not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities are included in the initial measurement. All other transaction costs are recorded in the income statement immediately.

Regular way purchase and sales transactions in respect of financial assets that require delivery of a financial instrument within the timeframe established by market convention are recorded at settlement date.

Refer to note 54 for accounting policies on financial instruments for the prior year.

Business model assessment

For financial assets, IFRS 9 requires that a business model assessment is carried out which reflects how the group manages the assets in order to generate cash flows. The assessment is at a portfolio level, being the level at which the portfolio is managed. Factors considered by the group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the assets' performance is evaluated and reported and how risks are assessed and managed.

The standard sets out different types of business models:

- Hold to collect: it is intended to hold the asset to maturity to earn interest, collecting repayments of principal and interest from the customer. These assets are accounted for at amortised cost.
- Hold to collect and sell: this model is similar to the hold to collect model, except that the entity may elect to sell some or all of the assets before maturity to achieve the objectives of the business model. These assets are accounted for at FVOCI.
- Hold to sell/managed on a fair value basis: the entity originates or purchases an asset with the intention of disposing of it in the short or medium term to benefit from capital appreciation or the portfolio is managed on a fair value basis. These assets are accounted for at FVPL.

However, the group may make the following irrevocable election/designation at initial recognition of a financial asset on an asset by-asset basis:

- elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in OCI; and
- a debt instrument that meets the amortised cost or FVOCI criteria as measured at FVPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

The classification into one of these categories is based on the entity's business model for managing the assets and the contractual cash flow characteristics of the assets.

Solely payment of principal and interest (SPPI)

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the group assesses whether the assets' cash flows represent solely payments of principal and interest (the SPPI test). In making this assessment, the group considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related asset is classified and measured at FVPL.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Financial assets and liabilities measured at amortised cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise to cash flows that are solely payments of principal and interest, such as most loans and advances to banks and customers and some debt securities, are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost.

The group may commit to provide a loan which has not yet been drawn. When the loan that arises from the lending commitment is expected to meet the criteria to be measured at amortised cost the undrawn commitment is also considered to be and is included in the impairment calculation.

The carrying value of these financial assets at initial recognition includes any directly attributable transaction costs. If the initial fair value is lower than the cash amount advanced, such as in the case of some leveraged finance and syndicated lending activities, the difference is deferred and recognised over the life of the loan through the recognition of interest income, unless the loan is credit impaired.

Financial assets measured at fair value through other comprehensive income (FVOCI)

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. They are recognised on the trade date when the group enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed.

They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Gains less losses arising from derecognition of debt instruments measured at fair value through other comprehensive income'.

Financial assets measured at FVOCI are included in the impairment calculations and impairment is recognised in profit or loss.

Impairment of financial assets held at amortised cost or FVOCI

At each balance sheet date each financial asset or portfolio of advances categorised at amortised cost or at fair value through other comprehensive income, issued financial guarantee and loan commitment is measured for ECL impairment. Loss allowances are forward-looking, based on 12-month expected credit losses where there has not been a significant increase in credit risk rating, otherwise allowances are based on lifetime expected credit losses.

Expected credit losses are a probability-weighted estimate of credit losses. The probability is determined by the risk of default which is applied to the cash flow estimates. On a significant increase in credit risk, credit losses are rebased from 12-month to lifetime expectations. A change in credit risk is typically but not necessarily associated with a change in the expected cash flows.

The costs of loss allowances on assets held at amortised cost are presented as impairments in the income statement. Allowances in respect of financial guarantees and loan commitments are presented as other liabilities and charges recorded within income statement impairments. Financial assets held at amortised cost are presented net of allowances except where the asset has been wholly or partially written off.

Financial assets where 12-month ECL is recognised are considered to be 'stage 1', financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2', and financial assets for which there is objective evidence of impairment are considered to be in default or otherwise credit impaired are in 'stage 3'.

The group calculates the effective interest rate on stage 3 assets which is calculated based on the amortised cost of the financial assets (i.e. gross carrying amount less ECL) instead of gross carrying amount and incorporates the impact of ECLs in estimated future cash flows.

Financial assets and liabilities held at fair value through profit or loss

Financial instruments held at fair value through profit or loss include all instruments classified as held-for-trading and those instruments designated as held at fair value through profit or loss and those financial assets which do not meet the criteria for amortised cost of FVOCI.

Financial instruments classified as fair value through profit or loss are initially recorded at fair value on the balance sheet with changes in fair value subsequently recognised in the income statement. Financial instruments are classified as trading when they are held with the intention of short-term disposal, held with the intention of generating short-term profits, or are derivatives which are not designated as part of effective hedges. Financial instruments designated as held at fair value through profit or loss are designated as such on initial recognition of the instrument and remain in this classification until derecognition.

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

- it eliminates or significantly reduces an inconsistent measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy and information about the group is provided internally on that basis to the group's key management personnel; or
- a financial liability contract contains one or more embedded derivatives (which significantly modifies the cash flows that would be required by the contract and is not clearly prohibited from separation from the host contract) and the group has designated the entire hybrid contract as a financial instrument at fair value through profit or loss.

Changes in fair value of financial liabilities designated at fair value that is attributable to changes in own credit risk is recognised in other comprehensive income. Any other changes in fair value are recognised in the income statement.

Securitisation/credit investment and trading activities exposures

The group makes use of securitisation vehicles as a source of finance, as a means of risk transfer and to leverage returns through the retention of equity tranches in low default rate portfolios. The group predominately focuses on the securitisation of residential and commercial mortgages. The group also trades in structured credit investments.

The structured entities are consolidated under IFRS 10 Consolidated Financial Statements when the group has exposure to or rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Loans and advances that are originated are transferred to structured entities, and the structured entities issue debt securities to external investors to fund the purchase of the securitised assets. When the group consolidates the structured entity, the group recognises the assets and liabilities on a gross basis. When the group does not consolidate the structured entity, the impact is that the securitised assets are derecognised and only any position still held by the group in the structured entity is reflected.

Financial liabilities

Financial liabilities are classified as non-trading, held-for-trading or designated as held at fair value through profit or loss.

Non-trading liabilities are recorded at amortised cost applying the effective interest rate method.

Held-for-trading liabilities or liabilities designated as held at fair value through profit or loss are measured at fair value.

All changes in fair value of financial liabilities are recognised in the income statement.

Day 1 profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on the valuation technique whose variables include only data from observable markets, the difference between the transaction price and fair value is recognised immediately in the income statement.

In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, when the instrument is rerecognised or over the life of the transaction.

Derecognition of financial assets and liabilities

A financial asset, or a portion thereof, is derecognised when the group's rights to cash flows have expired or when the group has transferred its rights to cash flows relating to the financial assets and either (a) the group has transferred substantially all the risks and rewards associated with the financial assets, or (b) the group has neither transferred nor retained substantially all the risks and rewards associated with the financial assets but has transferred control of the assets.

The treatment of a renegotiation or modification of the contractual cash flows of a financial asset depends upon whether the modification is done for commercial reasons, in which case if they are significant the old asset is derecognised and a new asset recognised, or because of financial difficulties of the borrower.

A financial liability is derecognised when it is extinguished, i.e. when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced or modified with substantially different terms, such a replacement or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

Reclassification of financial instruments

Financial assets are only reclassified where there has been a change in business model. Financial liabilities cannot be reclassified.

Derivative financial instruments

All derivative instruments of the group are recorded on the balance sheet at fair value. Positive and negative fair values are reported as assets and liabilities, respectively.

Derivative positions are entered into either for trading purposes or as part of the group's asset and liability management activities to manage exposures to interest rate and foreign currency risks. Both realised and unrealised profits or losses arising on derivatives are recognised in the income statement as part of trading income (other than circumstances in which cash flow hedging is applied as detailed below).

Derivative instruments entered into as economic hedges which do not qualify for hedge accounting and derivatives that are entered into for trading purposes are treated in the same way as instruments that are held-for-trading.

Credit derivatives are entered into largely for trading purposes. Credit derivatives are initially recognised at their fair values, being the transaction price of the derivative. Subsequently the derivatives are carried at fair value, with movements in fair value through profit or loss, based on the remeasured price. The counterparty risk from derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit value adjustment (CVA).

Hedge accounting

The group applies either fair value or cash flow hedge or hedge of net investments in foreign operations accounting when the transactions meet the specified hedge accounting criteria. To qualify for hedge accounting treatment, the group ensures that all of the following conditions are met:

- At inception of the hedge, the group formally documents the relationship between the hedging instrument(s) and hedged item(s) including the risk management objectives and the strategy in undertaking the hedge transaction. Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%
- For cash flow hedges, a forecasted transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect the income statement
- The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured
- The hedge effectiveness is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

For qualifying fair value hedges, the change in fair value of the hedging instrument is recognised in the income statement. Changes in fair value of the hedged item that is attributable to the hedged risk are also recognised in the income statement.

For qualifying cash flow hedges in respect of non-financial assets and liabilities, the change in fair value of the hedging instrument, relating to the effective portion is initially recognised directly in other comprehensive income in the cash flow hedge reserve and is included in the initial cost of any asset/liability recognised or in all other cases released to the income statement when the hedged firm commitment or forecasted transaction affects net profit. If the forecast transaction or firm commitment is no longer expected to occur, the balance included in other comprehensive income is reclassified to the income statement immediately and recognised in trading income from balance sheet management and other trading activities.

For qualifying cash flow hedges in respect of financial assets and liabilities, the change in fair value of the hedging instrument, which represents an effective hedge is initially recognised in other comprehensive income and is reclassified to the income statement in the same period during which the relevant financial asset or liability affects the income statement. Any ineffective portion of the hedge is immediately recognised in the income statement.

Qualifying hedges of a net investment in a foreign operation including a hedge of a monetary item that is accounted for as part of the net investment are accounted for in a way similar to cash flow hedges. Changes in the fair value of the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of any such gain or loss recorded in other comprehensive income is reclassified to the income statement.

Hedge accounting is discontinued when it is determined that the instrument ceases to be highly effective as a hedge; when the derivative expires or is sold, terminated or exercised; when the hedge item matures or is sold or repaid; when a forecasted transaction is no longer deemed highly probable, or when the designation as a hedge is revoked.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset when there is both an intention to settle on a net basis (or simultaneously) and a currently enforceable legal right to offset exists.

Issued debt and equity financial instruments

Financial instruments issued by the group are classified as liabilities if they contain a contractual obligation to deliver cash or another financial asset.

Financial instruments issued by the group are classified as equity where they confer on the holder a residual interest in the group, and the group has no obligation to deliver either cash or another financial asset to the holder. The components of compound issued financial instruments are accounted for separately with the liability component separated first and any residual amount being allocated to the equity component.

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

Sale and repurchase agreements (including securities borrowing and lending)

Securities sold subject to a commitment to repurchase them, at a fixed price or a selling price plus a lender's return, remain on balance sheet. Proceeds received are recorded as a liability on the balance sheet under 'repurchase agreements and cash collateral on securities lent'. Securities that are purchased under a commitment to resell the securities at a future date are not recognised on the balance sheet. The consideration paid is recognised as an asset under 'reverse repurchase agreements and cash collateral on securities borrowed'.

The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method.

Securities borrowing transactions that are not cash collateralised are not included on the balance sheet. Securities lending and borrowing transactions which are cash collateralised are accounted for in the same manner as securities sold or purchased subject to repurchase commitments.

The cash collateral from agency-based scrip lending transactions are disclosed on a net basis, in accordance with master netting agreements and the group's intention to settle net.

Financial guarantees

Financial guarantee contracts issued by the group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due, in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at fair value, adjusted for the transaction costs that are directly attributable to the issuance of the guarantee.

Subsequent to initial recognition, the liability under each guarantee is measured at the higher of the amount recognised, less cumulative amortisation and the expected credit loss. Subsequent to initial measurement, all changes in the balance sheet carrying value are recognised in the income statement.

Instalment credit, leases and rental agreements

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset/assets, even if that right is not explicitly specified in an arrangement.

A finance lease is a lease that transfers substantially all of the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

Where classified as a finance lease, amounts outstanding on these contracts, net of unearned finance charges, are included in loans and advances where the group is the lessor and included in liabilities where the group is the lessee. Finance charges on finance leases and instalment credit transactions are credited or debited to the income statement in proportion to the capital balances outstanding at the rate implicit in the agreement.

Where classified as operating leases, rentals payable/receivable are charged/ credited in the income statement on a straight-line basis over the lease term. Contingent rentals (if any) are accrued to the income statement when incurred.

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and impairments.

Cost is the cash equivalent paid or the fair value of the consideration given to acquire an asset and includes other expenditures that are directly attributable to the acquisition of the asset.

Depreciation is provided on the depreciable amount of each component on a straight-line basis over the expected useful life of the asset. The depreciable amount related to each asset is determined as the difference between the cost and the residual value of the asset. The residual value is the estimated amount, net of disposal costs, that the group would currently obtain from the disposal of an asset in similar age and condition as expected at the end of its useful life. The current and comparative annual depreciation rates for each class of property and equipment is as follows:

- Equipment 10% – 33%
- Furniture and vehicles 10% – 25%
- Freehold properties 4%
- Leasehold improvements*

* *Leasehold improvements depreciation rates are determined by reference to the appropriate useful life of its separate components, limited to the period of the lease. Leasehold property depreciation rates are determined by reference to the period of the lease.*

The useful lives, depreciation methods and residual values are assessed annually. Routine maintenance and service costs of assets are expensed as incurred. Subsequent expenditure is only capitalised if it is probable that future economic benefits associated with the item will flow to the group.

Investment properties

Properties held for capital appreciation or rental yield are classified as investment properties.

Investment properties are initially measured at cost plus transaction costs and subsequently carried at fair value, with fair value gains or losses recognised in the income statement in 'investment income'.

Fair value of investment property is calculated by taking into account the expected rental stream associated with the property, and is supported by market evidence.

Trading properties

Trading properties are carried at the lower of cost and net realisable value.

Intangible assets

Intangible assets are recorded at cost less accumulated amortisation and impairments.

Intangible assets with finite lives, are amortised over the useful economic life (currently three to eight years) on a straight-line basis. The depreciable amount related to each intangible asset is determined as the difference between the cost and the residual value of the asset.

Impairment of non-financial assets

At each balance sheet date, the group reviews the carrying value of non-financial assets, other than investment property, for indication of impairment. The recoverable amount, being the higher of fair value less cost of disposal and value in use, is determined for any assets for which an indication of impairment is identified. If the recoverable amount of an asset is less than its carrying value, the carrying value of the asset is reduced to its recoverable amount value.

Impairment losses are recognised as an expense in the income statement in the period in which they are identified. Reversal of impairment losses are recognised in income in the period in which the reversal is identified, to the extent that the carrying value of the asset does not exceed the amount that would have been calculated without impairment.

Taxation and deferred taxation

Current taxation payable is provided for based on the amount expected to be payable on taxable profits at rates that are enacted or substantively enacted and applicable to the relevant period.

Deferred taxation is provided on temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base, except where such temporary differences arise from:

- The initial recognition of goodwill
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction has no effect on accounting profit or tax profit
- In respect of temporary differences associated with the investments in subsidiaries and interests in associated undertakings, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred taxation assets or liabilities are measured using the tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred taxation asset can be utilised. Items recognised directly in other comprehensive income are net of related current and deferred taxation.

Employee benefits

The group operates various defined contribution schemes. All employer contributions are charged to the income statement as incurred, in accordance with the rules of the scheme, and included under staff costs.

The group has no liabilities for other post-retirement benefits.

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Borrowing costs

Borrowing costs that are directly attributable to property developments which take a substantial period of time to develop are capitalised.

Provisions, contingent liabilities and contingent assets

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the income statement net of any reimbursement. Contingent assets and contingent liabilities are not recognised on balance sheet.

Standards and interpretations issued but not yet effective

The following standards and interpretations, which have been issued but are not yet effective, are applicable to the group. These standards and interpretations have not been applied in these annual financial statements. The group intends to comply with these standards from the effective dates.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases. The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 Leases. Lessees will be required to recognise a lease liability measured at the present value of remaining cash flows 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. Subsequently the lease liability will increase for the accrual of interest, resulting in a constant rate of return throughout the life of the lease, and reduce when payments are made. The right of use asset will amortise to the income statement over the life of the lease.

As permitted by the standard the group will apply IFRS 16 on a modified retrospective basis without restating prior years. The group has elected to take advantage of the following transition options on transition at 1 April 2019:

- apply IFRS 16 to contracts previously identified as leases by IAS 17
- calculate the right of use asset equal to the lease liability, adjusted for prepaid or accrued payments
- use the incremental borrowing rate as the discount rate for property leases
- not apply IFRS 16 to operating leases with a remaining lease term of less than 12 months
- rely 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 crated on 1 April 2019. Where this is the case the carrying amount of the assets will be adjusted by the onerous lease provision.

The expected impact of adopting IFRS 16 is an increase in right of use right of use assets of R653 million, an increase in lease liabilities of R736 million.

IFRS 17 Insurance contracts

IFRS 17 Insurance contracts was issued in May 2017, and sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. It applies to all types of insurance contracts, regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. IFRS 17 is effective from 1 January 2021, and the group is considering its impact.

All other standards and interpretations issued but not yet effective are not expected to have a material impact on the group.

Key management assumptions

In preparation of the annual financial statements, the group makes estimations and applies judgement that could affect the reported amount of assets and liabilities within the next financial year. Key areas in which judgement is applied include:

- In accordance with IFRS 13 Fair Value Measurement, the group categorises financial instruments carried on the balance sheet at fair value using a three level hierarchy. Financial instruments categorised as level 1 are valued using quoted market prices and therefore there is minimal judgement applied in determining fair value. However, the fair value of financial instruments categorised as level 2 and, in particular, level 3 is determined using valuation techniques including discounted cash flow analysis and valuation models. The valuation techniques for level 3 financial instruments involve management judgement and estimates the extent of which depends on the complexity of the instrument and the availability of market observable information. In particular significant uncertainty exists in the valuation of unlisted investments and fair value loans in the private equity and direct investments portfolios. Key valuation inputs are based on the most relevant observable market information and can include expected cash flows, discount rates, earnings multiples and the underlying assets within a business, adjusted where necessary for factors that specifically apply to the individual investments and recognising market volatility. Further details of the group's level 3 financial instruments and the sensitivity of the valuation including the effect of applying reasonably possible alternative assumptions in determining their fair value are also set out in note 13.

Details of unlisted investments can be found in note 24 with further risk analysis contained in the risk management section on pages 48 to 49.

- The determination of ECL against assets that are carried at amortised cost and ECL relating to debt instruments at FVOCI involves a high degree of uncertainty as it involves using assumptions that are highly subjective and sensitive to risk factors. The most significant judgments relate to defining what is considered to be a significant increase in credit risk; determining the probability of default (PD), exposure at default (EAD) and loss given default (LGD) and future cash flows; incorporating information about forecast economic conditions and the weightings to be applied to economic scenarios. More detail relating to the methodology and results of the group's assessment of ECLs can be found on pages 25 to 30.

Refer to pages 40 to 47 of the risk management section for further analysis on impairments.

- The group's income tax charge and balance sheet provision are judgemental in nature. This arises from certain transactions for which the ultimate tax treatment can only be determined by final resolution with the relevant local tax authorities. The group has recognised in its current tax provision certain amounts in respect of taxation that involve a degree of estimation and uncertainty where the tax treatment cannot finally be determined until a resolution has been reached by the relevant tax authority. The carrying amount of this provision is often dependent on the timetable and progress of discussions and negotiations with the relevant tax authorities, arbitration processes and legal proceedings in the relevant tax jurisdictions in which the group operates. Issues can take many years to resolve and assumptions on the likely outcome would therefore have to be made by the group

  The nature of any assumptions made, when calculating carrying amounts relating to any estimated tax which could be payable as a result of decisions by tax authorities in respect of any such transactions and events whose treatment for tax purposes is uncertain

  In making any estimates, management's judgement would be based on various factors, including any such transactions and events whose treatment for tax purposes is uncertain. In making any estimates, management's judgement has been based on various factors, including:

  – the current status of tax audits and enquiries;
  – the current status of discussions and negotiations with the relevant tax authorities;
  – the results of any previous claims;
  – any changes to the relevant tax environments; and

  Where appropriate the group has utilised expert external advice as well as experience of similar situations elsewhere in making any such provisions

- Management assesses the degree of control or influence the group has over certain investments in terms of IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures. In the case of the IEP Group, this is considered to be an area of significant judgement. We have concluded that we do not control IEP based on the decision making structure within the entity, our percentage holding, the number and involved nature of other shareholders and our historic experience of our power over the relevant activities.

For the year to 31 March R'million	Notes	Group 2019 Balance sheet value	Group 2019 Interest income	Group 2018 Balance sheet value	Group 2018 Interest income	Company 2019 Balance sheet value	Company 2019 Interest income	Company 2018 Balance sheet value	Company 2018 Interest income
1. Net interest income									
Cash, near cash and bank debt and sovereign debt securities	1	134 356	7 472	127 379	7 029	125 336	7 278	119 549	6 888
Net core loans and advances	2	269 404	24 392	254 304	23 200	247 108	21 908	234 146	21 164
Private client		183 240	16 852	171 144	15 476	177 679	15 942	165 406	14 816
Corporate, institutional and other clients		86 164	7 540	83 160	7 724	69 429	5 966	68 740	6 348
Other debt securities and other loans and advances		13 882	883	10 607	753	13 541	851	10 262	714
Other interest-earning assets	3	21 004	864	13 740	705	17 285	2 046	8 269	1 998
Total interest-earning assets		**438 646**	**33 611**	**406 030**	**31 687**	**403 270**	**32 083**	**372 226**	**30 764**

For the year to 31 March R'million	Notes	Group 2019 Balance sheet value	Group 2019 Interest expense	Group 2018 Balance sheet value	Group 2018 Interest expense	Company 2019 Balance sheet value	Company 2019 Interest expense	Company 2018 Balance sheet value	Company 2018 Interest expense
Deposits by banks and other debt-related securities	4	51 787	(1 912)	36 475	(1 564)	49 644	(1 706)	34 237	(1 478)
Customer accounts (deposits)		341 710	(22 035)	321 893	(21 388)	326 466	(21 739)	311 107	(21 295)
Other interest-bearing liabilities	5	3 980	(289)	8 558	–	5 912	(532)	3 852	(351)
Subordinated liabilities		13 918	(1 088)	13 374	(1 173)	13 918	(1 088)	13 374	(1 173)
Total interest-bearing liabilities		**411 395**	**(25 324)**	**380 300**	**(24 125)**	**395 940**	**(25 065)**	**362 570**	**(24 297)**
Net interest income			**8 287**		**7 562**		**7 018**		**6 467**
Net interest margin			**1.96%**		**1.89%**		**1.81%**		**1.78%**

Notes:

1. *Comprises (as per the balance sheet) cash and balances at central banks; loans and advances to banks; non-sovereign and non-bank cash placements; reverse repurchase agreements and collateral on securities borrowed; sovereign debt securities; bank debt securities.*
2. *Comprises (as per the balance sheet) loans and advances to customers; own originated loans and advances to customers securitised.*
3. *Comprises (as per the balance sheet) other securitised assets; Investec Import Solutions debtors; loans to group companies.*
4. *Comprises (as per the balance sheet) deposits by banks; debt securities in issue; repurchase agreements and cash collateral on securities lent.*
5. *Comprises (as per the balance sheet) liabilities arising on securitisation of own originated loans and advances; loans from group companies and subsidiaries.*

For the year to 31 March R'million	Group 2019	Group 2018	Company 2019	Company 2018
2. Net fee and commission income				
Corporate and institutional transactional and advisory services	1 542	1 656	1 147	1 298
Private client transactional fees	1 120	802	1 069	705
Fee and commission income	2 662	2 458	2 216	2 003
Fee and commission expense	(401)	(213)	(352)	(185)
Net fee and commission income	**2 261**	**2 245**	**1 864**	**1 818**
Annuity fees (net of fees payable)	1 616	1 616	1 359	1 301
Deal fees	645	629	505	517

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

3. Investment income

The following table analyses investment income generated by the asset portfolio shown on the balance sheet:

For the year to 31 March R'million	Investment portfolio (listed and unlisted equities and fair value loan investments)*	Debt securities (sovereign, bank and other)	Other asset categories	Total
Group				
2019				
Realised	1 023	129	(2)	1 150
Unrealised^	(1 362)	51	114	(1 197)
Dividend income	438	–	–	438
Funding and other net related costs	(30)	–	(1)	(31)
	69	**180**	**111**	**360**
2018				
Realised	655	128	5	788
Unrealised^	(630)	–	(3)	(633)
Dividend income	430	–	–	430
Funding and other net related costs	(55)	–	–	(55)
	400	**128**	**2**	**530**

* *Including warrants and profit shares.*

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

For the year to 31 March R'million	Investment portfolio (listed and unlisted equities and fair value loan investments)*	Debt securities (sovereign, bank and other)	Other asset categories**	Total
3. Investment income *(continued)*				
The following table analyses investment income generated by the asset portfolio shown on the balance sheet:				
Company				
2019				
Realised	1 084	127	(5)	1 206
Unrealised^	(1 319)	51	26	(1 242)
Dividend income	438	–	1 156	1 594
Funding cost and other net related costs	(30)	–	(1)	(31)
	173	**178**	**1 176**	**1 527**
2018				
Realised	685	110	(3)	792
Unrealised^	(621)	–	(3)	(624)
Dividend income	430	–	579	1 009
Funding cost and other net related costs	(55)	–	–	(55)
	439	**110**	**573**	**1 122**

* *Including warrants and profit shares.*

** *Dividend income from investment in subsidiaries.*

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

	Group		**Company**	
For the year to 31 March **R'million**	**2019**	2018	**2019**	2018
4. Other operating income				
Rental income from properties	–	2	–	–
	–	**2**	**–**	**–**

For the year to 31 March R'million	Group 2019	Group 2018	Company 2019	Company 2018
5. Expected credit loss impairment charges and impairment losses on loans and advances				
Expected credit loss impairment charges/(releases) is recognised on the following assets:				
Loans and advances to customers	699	*	703	*
Expected credit loss impairment charges (refer to note 25)	1 228	*	1 232	*
Post write-off recoveries	(529)	*	(529)	*
Own originated securitised assets	(1)	*	–	*
Core loans and advances	**698**	*****	**703**	*****
Other balance sheet assets	16	*	(2)	*
Off balance sheet commitments and guarantees	8	*	7	*
Total expected credit loss impairment charges	**722**	*****	**708**	*****
Impairment losses on loans and advances comprises:				
Loans and advances to customers	*****	**692**	*****	**641**
Specific impairment charged to the income statement	*	368	*	317
Portfolio impairment charged to the income statement	*	324	*	324
Securitised assets	*****	**–**	*****	**–**
Specific impairment charged to the income statement	*	1	*	–
Portfolio impairment released to the income statement	*	(1)	*	–
Other loans and advances	*****	**1**	*****	**–**
Specific impairment charged to the income statement	*	1	*	–
Other assets	*****	**27**	*****	**–**
Specific impairment charged to the income statement	*	27	*	–
Total impairment losses on loans and advances	*****	**720**	*****	**641**

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

For the year to 31 March R'million	Group 2019	Group 2018	Company 2019	Company 2018
6. Operating costs				
Staff compensation costs	4 913	4 720	4 521	4 372
– Salaries and wages (including directors' remuneration*)	4 086	3 850	3 745	3 532
– Share-based payments expense	548	606	511	581
– Social security costs	42	62	39	61
– Pensions and provident fund contributions	237	202	226	198
Training and other costs	138	146	125	139
Staff costs	5 051	4 866	4 646	4 511
Premises expenses (excluding depreciation)	274	46	213	(2)
Equipment expenses (excluding depreciation)	209	201	111	136
Business expenses**	404	488	308	401
Marketing expenses	345	308	336	297
Depreciation, amortisation and impairment of property, equipment and intangibles	264	191	233	172
	6 547	**6 100**	**5 847**	**5 515**
The following amounts were paid by the group to the auditors in respect of the audit of the financial statements and for other services provided to the group:				
Total fees paid to the audit firm by virtue of being the group's auditor	**38**	**23**	**26**	**21**
Audit of the group's accounts	27	21	26	21
Audit of the group's subsidiaries pursuant to legislation	10	2	–	–
Audit related to assurance services	1	–	–	–
	38	**23**	**26**	**21**
KPMG fees				
Total fees paid to the audit firm by virtue of being the group's auditor	**26**	**40**	**24**	**20**
Audit of the group's accounts	24	37	24	17
Audit of the group's subsidiaries pursuant to legislation	2	3	–	3
	26	**40**	**24**	**20**
Total	**64**	**63**	**50**	**41**
Minimum operating lease payments recognised in operating costs	**194**	**210**	**189**	**198**

* *Details of the directors' emoluments, pensions and their interests are disclosed in the remuneration report on pages 114 to 130.*

** *Business expenses mainly comprise insurance costs, consulting and professional fees, travel expenses and subscriptions.*

For the year to 31 March R'million	Group 2019	Group 2018	Company 2019	Company 2018

7. Share-based payments

The group operates share option and long-term share incentive plans for employees which are on an equity-settled basis. The purpose of the staff share schemes is to promote an *esprit de corps* within the organisation, create an awareness of the Investec group's performance and provide an incentive to maximise individual and group performance by allowing all staff to share in the risks and rewards of the group.

Further information on the group share options and long-term share incentive plans are provided in the remuneration report and on our website.

For the year to 31 March R'million	Group 2019	Group 2018	Company 2019	Company 2018
Equity-settled share-based payment expense	**548**	**606**	**511**	**581**
Fair value of options and shares at grant date	**541**	**582**	**493**	**554**
Details of options and shares outstanding during the year				
Outstanding at the beginning of the year	21 799 041	28 026 367	20 320 679	26 421 815
Relocation of employees during the year	212 389	(200 466)	55 046	(322 146)
Granted during the year	5 899 759	6 021 010	5 377 298	5 734 795
Exercised during the year^	(7 494 681)	(10 923 511)	(7 121 967)	(10 487 501)
Lapsed during the year	(662 592)	(1 124 359)	(620 179)	(1 026 284)
Outstanding at the end of the year	**19 753 916**	**21 799 041**	**18 010 877**	**20 320 679**
Vested and exercisable at the end of the year	**339 353**	**248 641**	**291 297**	**237 768**

^ *The weighted average share price and weighted average exercise price during the year were R91.85 (2018: R96.49) and Rnil (2018: Rnil) respectively.*

For the year to 31 March R'million	Group 2019	Group 2018	Company 2019	Company 2018
The exercise price range and weighted average remaining contractual life for the options and shares outstanding were as follows:				
Long-term incentive options and long term shares with no strike price				
Weighted average remaining contractual life	2.03 years	1.90 years	2.03 years	1.88 years
Weighted average fair value of options and long-term grants at measurement date	R91.72	R96.67	R91.65	R96.66
The fair value of shares granted are calculated at market price. For shares granted during the year, the inputs were as follows:				
– Share price at date of grants	R90.96 – R92.55	R94.94 – R97.45	R90.96 – R92.55	R94.94 – R97.45
– Exercise price	Rnil	Rnil	Rnil	Rnil
– Option life	4.75 years	4.75 years	4.75 years	4.75 years

For information on the share options granted to directors, refer to the remuneration report on pages 120 to 127.

	Group		Company	
For the year to 31 March R'million	**2019**	2018	**2019**	2018
8. Taxation				
Income statement taxation charge				
Taxation on income				
South Africa	348	(223)	262	(305)
– Current taxation	446	106	374	(9)
In respect of the current year	713	903	641	788
In respect of release of tax provisions no longer required	(172)	(797)	(172)	(797)
In respect of prior year adjustments	(95)	–	(95)	–
– Deferred taxation	(98)	(329)	(112)	(296)
Foreign taxation – Mauritius	29	25	–	–
Total taxation charge/(credit) as per income statement	**377**	**(198)**	**262**	**(305)**
Total taxation charge/(credit) for the year comprises:				
Taxation on operating profit before acquired intangibles	391	(184)	262	(305)
Taxation on acquired intangibles	(14)	(14)	–	–
	377	**(198)**	**262**	**(305)**
Tax rate reconciliation:				
Profit before taxation as per income statement	5 337	4 475	5 562	4 313
Total taxation (credit)/charge as per income statement	377	(198)	261	(305)
Effective rate of taxation	**7.1%**	**(4.4%)**	**4.7%**	**(7.1%)**
The standard rate of South African normal taxation has been affected by:				
Dividend income	6.9%	7.3%	12.4%	11.0%
Foreign earnings*	2.1%	2.2%	–	–
Release of tax provisions no longer required	3.2%	17.8%	3.1%	18.5%
Prior year tax adjustments	1.8%	–	1.7%	–
Tax rate differential of profits of capital nature	(0.2%)	–	(0.2%)	–
Other Additional Tier 1 dividends	0.2%	–	0.2%	–
Tax impact of equity accounted earnings of associate	6.1%	4.8%	6.0%	5.0%
Other non-taxable/non-deductible differences	0.8%	0.3%	0.1%	0.6%
	28.0%	**28.0%**	**28.0%**	**28.0%**

* *Includes the effect of cumulative tax losses and other permanent differences relating to foreign subsidiaries.*

8. Taxation *(continued)*

For the year to 31 March R'million	Group 2019	Group 2018	Company 2019	Company 2018
The deferred taxation charge/credit in the income statement arises from:				
Deferred capital allowances	25	(20)	–	–
Income and expenditure accruals	133	(251)	156	(254)
Unrealised fair value adjustments on financial instruments	(159)	(39)	(159)	(39)
Deferred taxation on acquired intangibles	(14)	(14)	–	–
ECL/impairment on loans and advances to customers	(98)	–	(109)	(3)
Finance lease accounting	15	(5)	–	–
	(98)	**(329)**	**(112)**	**(296)**
Other comprehensive income taxation effects				
Fair value movements on cash flow hedges taken directly to other comprehensive income	63	(99)	63	(93)
– Pre-taxation	(231)	45	(231)	51
– Deferred taxation	318	–	318	–
– Current taxation	(24)	(144)	(24)	(144)
Fair value movements on available-for sale assets taken directly to other comprehensive income*	–	494	–	482
– Pre-taxation	–	653	–	636
– Deferred taxation	–	(159)	–	(154)
Gain on realisation of available-for-sale assets recycled through the income statement*	–	(94)	–	(81)
– Pre-taxation	–	(131)	–	(113)
– Deferred taxation	–	37	–	32
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income*	(119)	–	(121)	–
– Pre-taxation	(180)	–	(192)	–
– Deferred taxation	61	–	71	–
Gain on realisation of debt instruments at FVOCI recycled through the income statement*	(89)	–	(87)	–
– Pre-taxation	(124)	–	(112)	–
– Deferred taxation	35	–	25	–
Fair value movements on equity instruments at FVOCI taken directly to other comprehensive income*	(461)	–	(461)	–
– Pre-taxation	(544)	–	(544)	–
– Deferred taxation	83	–	83	–

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

For the year to 31 March R'million	Group **2019**	 2018
9. Headline earnings		
Profit after taxation	4 963	4 673
Dividend paid to perpetual preference shareholders and other Additional Tier 1 security holders	(172)	(133)
Earnings attributable to ordinary shareholders	**4 791**	**4 540**
Headline adjustments, net of taxation*	(7)	(94)
Gain on realisation of available-for-sale assets recycled through the income statement	–	(94)
Impairment of goodwill	3	–
Financial impact of acquisition of subsidiary	(10)	–
Headline earnings attributable to ordinary shareholders	**4 784**	**4 446**

* *These amounts are net of taxation of Rnil million (2018: R36.6 million), with no impact on non-controlling interests in the current and prior year.*

For the year to 31 March R'million	Group **2019**	 2018	Company **2019**	 2018
10. Dividends				
Ordinary dividend	**850**	**1 304**	**850**	**1 304**
Perpetual preference dividend				
Final dividend in prior year	65	67	65	67
Interim dividend for current year	65	66	65	66
Total dividend attributable to perpetual preference shareholders recognised in current financial year	**130**	**133**	**130**	**133**
The directors have declared a final perpetual preference dividend in respect of the financial year ended 31 March 2019 of 422.87121 cents (2018: 425.72498 cents) per perpetual preference share.				
Dividends attributable to Other Additional Tier 1 securities in issue	**42**	**–**	**42**	**–**
The IV048 Other Additional Tier 1 floating rate notes pay dividends on a quarterly basis at a rate equal to the three-month JIBAR plus 5.15%. Refer to note 43.				
Total dividends declared to other equity holders including other additional Tier 1 securities	**172**	**133**	**172**	**133**

11. Analysis of income and impairments by measurement category

For the year to 31 March R'million	At fair value through profit or loss – IFRS 9 mandatory Trading^	At fair value through profit or loss – IFRS 9 mandatory Non-trading^	At fair value through profit or loss Designated at initial recognition
Group			
2019			
Interest income	289	721	954
Interest expense	(119)	(78)	(1 150)
Fee and commission income	–	–	–
Fee and commission expense	–	–	–
Investment income	–	(4)	–
Share of post taxation profit of associates	–	–	–
Trading income arising from			
– customer flow	493	(12)	–
– balance sheet management and other trading activities	335	18	108
Total operating income before expected credit loss impairment charges	**998**	**645**	**(88)**
Expected credit loss impairment charges	–	–	28
Operating income	**998**	**645**	**(60)**

* Includes off balance sheet items.

^ *Fair value through profit and loss income statement items have been split as trading and non-trading, as defined by regulatory rules for the trading book and banking book requirements respectively. Trading consists of positions held for trading intent or to hedge elements of the trading book.*

For the year to 31 March R'million	At fair value through profit or loss Trading	At fair value through profit or loss Designated at inception
Group		
2018		
Net interest income	624	3 269
Fee and commission income	294	114
Fee and commission expense	–	(1)
Investment income	–	176
Share of post taxation profit of associates	–	–
Trading income/(loss) arising from		
– customer flow	212	9
– balance sheet management and other trading activities	72	(48)
Other operating income	–	–
Total operating income before impairment losses on loans and advances	**1 202**	**3 519**
Impairment losses on loans and advances	–	–
Operating income	**1 202**	**3 519**

At fair value through other comprehensive income					
Debt instruments with a dual business model	Equity instruments	Amortised cost	Non-financial instruments	Other fee income*	**Total**
4 708	–	26 789	144	6	33 611
–	–	(23 977)	–	–	(25 324)
–	–	1 491	14	1 157	2 662
(2)	–	(332)	–	(67)	(401)
125	245	15	(21)	–	360
–	–	–	1 163	–	1 163
–	–	(105)	–	(7)	369
–	–	(251)	–	–	210
4 831	**245**	**3 630**	**1 300**	**1 089**	**12 650**
5	–	(747)	–	(8)	(722)
4 836	**245**	**2 883**	**1 300**	**1 081**	**11 928**

		At fair value through other comprehensive income				
Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non-financial instruments	Other fee income	**Total**
129	24 766	1 815	(23 042)	1	–	7 562
–	1 159	–	1	213	677	2 458
–	(93)	–	(18)	(11)	(90)	(213)
–	(13)	354	–	13	–	530
–	–	–	–	777	–	777
–	(5)	–	140	–	–	356
–	(49)	(1)	–	–	–	(26)
–	–	–	–	2	–	2
129	**25 765**	**2 168**	**(22 919)**	**995**	**587**	**11 446**
–	(720)	–	–	–	–	(720)
129	**25 045**	**2 168**	**(22 919)**	**995**	**587**	**10 726**

11. Analysis of income and impairments by measurement category *(continued)*

For the year to 31 March R'million	At fair value through profit or loss IFRS 9 mandatory Trading^	 Non-trading^	 Designated at initial recognition
Company			
2019			
Interest income	146	692	954
Interest expense	(78)	–	(1 150)
Fee and commission income	–	–	–
Fee and commission expense	–	–	–
Investment income	–	(11)	–
Share of post taxation profit of associates	–	–	–
Trading income arising from			
– customer flow	493	(12)	–
– balance sheet management and other trading activities	259	10	108
Total operating income before expected credit loss impairment charges	**820**	**679**	**(88)**
Expected credit loss impairment charges	–	–	28
Operating income	**820**	**679**	**(60)**

* *Includes off balance sheet items.*

^ *Fair value through profit and loss income statement items have been split as trading and non-trading, as defined by regulatory rules for the trading book and banking book requirements respectively. Trading consists of positions held for trading intent or to hedge elements of the trading book.*

For the year to 31 March R'million	At fair value through profit or loss Trading	 Designated at inception
Company		
2018		
Net interest income	572	3 269
Fee and commission income	–	106
Fee and commission expense	–	(1)
Investment income	–	214
Share of post taxation profit of associates	–	–
Trading income/(loss) arising from		
– customer flow	212	9
– balance sheet management and other trading activities	29	(49)
Total operating income before impairment losses on loans and advances	**813**	**3 548**
Impairment losses on loans and advances	–	–
Operating income	**813**	**3 548**

At fair value through other comprehensive income					
Debt instruments with a dual business model	Equity instruments	Amortised cost	Non-financial instruments	Other fee income*	**Total**
4 680	–	25 591	14	6	32 083
–	–	(23 837)	–	–	(25 065)
–	–	1 374	3	839	2 216
(2)	–	(283)	–	(67)	(352)
125	245	20	1 148	–	1 527
–	–	–	1 193	–	1 193
–	–	(107)	–	(7)	367
–	–	(229)	–	–	148
4 803	**245**	**2 529**	**2 358**	**771**	**12 117**
–	–	(729)	–	(7)	(708)
4 803	**245**	**1 800**	**2 358**	**764**	**11 409**

		At fair value through other comprehensive income				
Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non-financial instruments	Other fee income	**Total**
61	23 500	1 764	(22 700)	1	–	6 467
–	1 005	–	1	213	678	2 003
–	(57)	–	(18)	(11)	(98)	(185)
–	–	337	–	571	–	1 122
–	–	–	–	766	–	766
–	–	–	140	–	–	361
–	(45)	–	–	–	–	(65)
61	**24 403**	**2 101**	**(22 577)**	**1 540**	**580**	**10 469**
–	(641)	–	–	–	–	(641)
61	**23 762**	**2 101**	**(22 577)**	**1 540**	**580**	**9 828**

At 31 March R'million	At fair value through profit or loss		
	IFRS 9 mandatory		
	Trading^	Non-trading^	Designated at initial recognition
12. Analysis of financial assets and liabilities by measurement category			
Group			
2019			
Assets			
Cash and balances at central banks	–	–	–
Loans and advances to banks	–	–	–
Non-sovereign and non-bank cash placements	–	610	–
Reverse repurchase agreements and cash collateral on securities borrowed	8 228	1 642	–
Sovereign debt securities	–	9 053	–
Bank debt securities	–	277	–
Other debt securities	–	2 474	–
Derivative financial instruments*	7 700	–	–
Securities arising from trading activities	5 059	–	–
Investment portfolio	–	5 032	–
Loans and advances to customers	–	1 952	14 056
Own originated loans and advances to customers securitised	–	–	–
Other loans and advances	–	–	–
Other securitised assets	–	–	–
Interests in associated undertakings	–	–	–
Deferred taxation assets	–	–	–
Other assets	428	12	–
Property and equipment	–	–	–
Investment properties	–	–	–
Goodwill	–	–	–
Intangible assets	–	–	–
Loans to group companies	115	–	–
	21 530	**21 052**	**14 056**
Liabilities			
Deposits by banks	–	–	–
Derivative financial instruments*	11 097	–	–
Other trading liabilities	4 468	–	–
Repurchase agreements and cash collateral on securities lent	7 742	–	–
Customer accounts (deposits)	–	–	44 606
Debt securities in issue	–	–	2 856
Liabilities arising on securitisation of own originated loans and advances	–	–	–
Current taxation liabilities	–	–	–
Deferred taxation liabilities	–	–	–
Other liabilities	828	–	–
Loans from group companies	–	–	–
	24 135	**–**	**47 462**
Subordinated liabilities	–	–	–
	24 135	**–**	**47 462**

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*

^ *Fair value through profit and loss balance sheet positions have been split as trading and non-trading, as defined by regulatory rules for the trading book and banking book requirements respectively. Trading consists of positions held for trading intent or to hedge elements of the trading book.*

At fair value through other comprehensive income

Debt instrument with dual business model	Equity instruments	**Total instruments at fair value**	**Amortised cost**	Non-financial instruments or scoped out of IFRS 9	**Total**
–	–	–	10 290	–	10 290
–	–	–	19 903	–	19 903
–	–	610	11 582	–	12 192
–	–	9 870	8 682	–	18 552
46 551	–	55 604	5 289	–	60 893
5 250	–	5 527	6 999	–	12 526
6 182	–	8 656	4 897	–	13 553
–	–	7 700	–	–	7 700
–	–	5 059	–	–	5 059
–	2 632	7 664	–	–	7 664
–	–	16 008	245 729	–	261 737
–	–	–	7 667	–	7 667
–	–	–	329	–	329
–	–	–	232	–	232
–	–	–	–	6 251	6 251
–	–	–	–	1 514	1 514
–	–	440	4 326	3 471	8 237
–	–	–	–	2 563	2 563
–	–	–	–	1	1
–	–	–	–	171	171
–	–	–	–	418	418
–	–	115	18 036	–	18 151
57 983	**2 632**	**117 253**	**343 961**	**14 389**	**475 603**
–	–	–	30 041	–	30 041
–	–	11 097	–	–	11 097
–	–	4 468	–	–	4 468
–	–	7 742	7 492	–	15 234
–	–	44 606	297 104	–	341 710
–	–	2 856	3 656	–	6 512
–	–	–	1 720	–	1 720
–	–	–	–	542	542
–	–	–	–	78	78
–	–	828	2 193	3 242	6 263
–	–	–	2 260	–	2 260
–	**–**	**71 597**	**344 466**	**3 862**	**419 925**
–	–	–	13 918	–	13 918
–	**–**	**71 597**	**358 384**	**3 862**	**433 843**

12. Analysis of financial assets and liabilities by measurement category *(continued)*

At 31 March R'million	At fair value through profit or loss – Trading	At fair value through profit or loss – Designated at inception
Group		
2018		
Assets		
Cash and balances at central banks	–	–
Loans and advances to banks	–	–
Non-sovereign and non-bank cash placements	574	–
Reverse repurchase agreements and cash collateral on securities borrowed	9 205	–
Sovereign debt securities	–	41 050
Bank debt securities	–	–
Other debt securities	–	–
Derivative financial instruments*	12 586	–
Securities arising from trading activities	875	–
Investment portfolio	–	4 847
Loans and advances to customers	–	17 250
Own originated loans and advances to customers securitised	–	–
Other loans and advances	–	–
Other securitised assets	–	–
Interests in associated undertakings	–	–
Deferred taxation assets	–	–
Other assets^	625	–
Property and equipment	–	–
Investment properties	–	–
Goodwill	–	–
Intangible assets	–	–
Loans to group companies	45	–
	23 910	**63 147**
Liabilities		
Deposits by banks	–	–
Derivative financial instruments*	15 907	–
Other trading liabilities	2 305	–
Repurchase agreements and cash collateral on securities lent	917	–
Customer accounts (deposits)	–	39 485
Debt securities in issue	–	–
Liabilities arising on securitisation of own originated loans and advances	–	–
Current taxation liabilities	–	–
Deferred taxation liabilities	–	–
Other liabilities	291	–
Loans from group companies	–	–
	19 420	**39 485**
Subordinated liabilities	–	–
	19 420	**39 485**

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*

^ *R849 million has been corrected by reclassifying from non-financial instruments to loans and receivables at 31 March 2018 and comprises intercompany amounts*

Available-for-sale	Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments or scoped out of IAS 39	Total
–	–	–	9 187	–	9 187	–	9 187
–	–	–	17 265	–	17 265	–	17 265
–	574	–	9 419	–	9 419	–	9 993
–	9 205	–	11 275	–	11 275	–	20 480
17 890	58 940	3 463	–	–	3 463	–	62 403
6 135	6 135	1 333	583	–	1 916	–	8 051
9 053	9 053	84	1 205	–	1 289	–	10 342
–	12 586	–	–	–	–	–	12 586
–	875	–	–	–	–	–	875
3 096	7 943	–	–	–	–	–	7 943
–	17 250	–	230 224	–	230 224	–	247 474
–	–	–	6 830	–	6 830	–	6 830
–	–	–	265	–	265	–	265
–	–	–	241	–	241	–	241
–	–	–	–	–	–	6 288	6 288
–	–	–	–	–	–	586	586
–	625	–	4 939	–	4 939	1 122	6 686
–	–	–	–	–	–	2 494	2 494
–	–	–	–	–	–	1	1
–	–	–	–	–	–	171	171
–	–	–	–	–	–	412	412
–	45	–	13 454	–	13 454	–	13 499
36 174	**123 231**	**4 880**	**304 887**	**–**	**309 767**	**11 074**	**444 072**
–	–	–	–	24 607	24 607	–	24 607
–	15 907	–	–	–	–	–	15 907
–	2 305	–	–	–	–	–	2 305
–	917	–	–	7 478	7 478	–	8 395
–	39 485	–	–	282 408	282 408	–	321 893
–	–	–	–	3 473	3 473	–	3 473
–	–	–	–	1 551	1 551	–	1 551
–	–	–	–	–	–	202	202
–	–	–	–	–	–	99	99
–	291	–	–	3 377	3 377	3 176	6 844
–	–	–	–	7 007	7 007	–	7 007
–	**58 905**	**–**	**–**	**329 901**	**329 901**	**3 477**	**392 283**
–	–	–	–	13 374	13 374	–	13 374
–	**58 905**	**–**	**–**	**343 275**	**343 275**	**3 477**	**405 657**

12. Analysis of financial assets and liabilities by measurement category *(continued)*

At 31 March R'million	At fair value through profit or loss – IFRS 9 mandatory – Trading^	At fair value through profit or loss – IFRS 9 mandatory – Non-trading^	At fair value through profit or loss – Designated at initial recognition
Company			
2019			
Assets			
Cash and balances at central banks	–	–	–
Loans and advances to banks	–	–	–
Non-sovereign and non-bank cash placements	–	610	–
Reverse repurchase agreements and cash collateral on securities borrowed	8 228	1 642	–
Sovereign debt securities	–	9 053	–
Bank debt securities	–	–	–
Other debt securities	–	2 474	–
Derivative financial instruments*	7 526	–	–
Securities arising from trading activities	5 059	–	–
Investment portfolio	–	4 589	–
Loans and advances to customers	–	1 348	14 056
Other loans and advances	–	–	–
Interests in associated undertakings	–	–	–
Deferred taxation assets	–	–	–
Other assets	428	12	–
Property and equipment	–	–	–
Investment properties	–	–	–
Intangible assets	–	–	–
Loans to group companies	115	–	–
Investment in subsidiaries	–	799	–
	21 356	**20 527**	**14 056**
Liabilities			
Deposits by banks	–	–	–
Derivative financial instruments*	11 097	–	–
Other trading liabilities	4 468	–	–
Repurchase agreements and cash collateral on securities lent	7 742	–	–
Customer accounts (deposits)	–	–	44 606
Debt securities in issue	–	–	2 856
Current taxation liabilities	–	–	–
Other liabilities	828	–	–
Loans from group companies and subsidiaries	–	–	–
	24 135	**–**	**47 462**
Subordinated liabilities	–	–	–
	24 135	**–**	**47 462**

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*

^ *Fair value through profit and loss balance sheet positions have been split as trading and non-trading, as defined by regulatory rules for the trading book and banking book requirements respectively. Trading consists of positions held for trading intent or to hedge elements of the trading book. Non-trading consists of positions that are expected to be held to maturity.*

At fair value through other comprehensive income					
Debt instrument with dual business model	Equity instruments	**Total instruments at fair value**	**Amortised cost**	Non-financial instruments or scoped out of IFRS 9	**Total**
–	–	–	10 085	–	10 085
–	–	–	13 728	–	13 728
–	–	610	11 522	–	12 132
–	–	9 870	7 959	–	17 829
46 253	–	55 306	5 290	–	60 596
5 250	–	5 250	5 716	–	10 966
6 182	–	8 656	4 536	–	13 192
–	–	7 526	–	–	7 526
–	–	5 059	–	–	5 059
–	2 632	7 221	–	–	7 221
–	–	15 404	231 704	–	247 108
–	–	–	349	–	349
–	–	–	–	6 184	6 184
–	–	–	–	1 372	1 372
–	–	440	1 693	3 079	5 212
–	–	–	–	2 551	2 551
–	–	–	–	1	1
–	–	–	–	159	159
–	–	115	17 170	–	17 285
–	–	799	13 287	1 573	15 659
57 685	**2 632**	**116 256**	**323 039**	**14 919**	**454 214**
–	–	–	30 041	–	30 041
–	–	11 097	–	–	11 097
–	–	4 468	–	–	4 468
–	–	7 742	6 379	–	14 121
–	–	44 606	281 860	–	326 466
–	–	2 856	2 626	–	5 482
–	–	–	–	559	559
–	–	828	1 658	3 245	5 731
–	–	–	5 912	–	5 912
–	**–**	**71 597**	**328 476**	**3 804**	**403 877**
–	–	–	13 918	–	13 918
–	**–**	**71 597**	**342 394**	**3 804**	**417 795**

12. Analysis of financial assets and liabilities by measurement category *(continued)*

At 31 March R'million	At fair value through profit or loss Trading	 Designated at inception
Company		
2018		
Assets		
Cash and balances at central banks	–	–
Loans and advances to banks	–	–
Non-sovereign and non-bank cash placements	574	–
Reverse repurchase agreements and cash collateral on securities borrowed	9 205	–
Sovereign debt securities	–	41 050
Bank debt securities	–	–
Other debt securities	–	–
Derivative financial instruments*	12 395	–
Securities arising from trading activities	875	–
Investment portfolio	–	4 551
Loans and advances to customers	–	17 250
Other loans and advances	–	–
Interests in associated undertakings	–	–
Deferred taxation assets	–	–
Other assets^	625	–
Property and equipment	–	–
Investment properties	–	–
Intangible assets	–	–
Loans to group companies	80	–
Investment in subsidiaries	–	–
	23 754	**62 851**
Liabilities		
Deposits by banks	–	–
Derivative financial instruments*	15 907	–
Other trading liabilities	2 305	–
Repurchase agreements and cash collateral on securities lent	917	–
Customer accounts (deposits)	–	39 485
Debt securities in issue	–	–
Current taxation liabilities	–	–
Other liabilities	291	–
Loans from group companies and subsidiaries	–	–
	19 420	**39 485**
Subordinated liabilities	–	–
	19 420	**39 485**

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*

^ *R849 million has been corrected by reclassifying from non-financial instruments to loans and receivables at 31 March 2018 and comprises intercompany amounts.*

Available-for-sale	**Total instruments at fair value**	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	**Total instruments at amortised cost**	Non-financial instruments or scoped out of IAS 39	**Total**
–	–	–	8 989	–	8 989	–	8 989
–	–	–	11 857	–	11 857	–	11 857
–	574	–	9 419	–	9 419	–	9 993
–	9 205	–	10 681	–	10 681	–	19 886
17 890	58 940	3 463	–	–	3 463	–	62 403
5 838	5 838	–	583	–	583	–	6 421
8 815	8 815	–	1 169	–	1 169	–	9 984
–	12 395	–	–	–	–	–	12 395
–	875	–	–	–	–	–	875
3 096	7 647	–	–	–	–	–	7 647
–	17 250	–	216 896	–	216 896	–	234 146
–	–	–	278	–	278	–	278
–	–	–	–	–	–	6 180	6 180
–	–	–	–	–	–	434	434
–	625	–	1 958	–	1 958	724	3 307
–	–	–	–	–	–	2 430	2 430
–	–	–	–	–	–	1	1
–	–	–	–	–	–	127	127
–	80	–	8 189	–	8 189	–	8 269
–	–	–	13 785	–	13 785	1 573	15 358
35 639	**122 244**	**3 463**	**283 804**	**–**	**287 267**	**11 469**	**420 980**
–	–	–	–	24 607	24 607	–	24 607
–	15 907	–	–	–	–	–	15 907
–	2 305	–	–	–	–	–	2 305
–	917	–	–	6 270	6 270	–	7 187
–	39 485	–	–	271 622	271 622	–	311 107
–	–	–	–	2 443	2 443	–	2 443
–	–	–	–	–	–	188	188
–	291	–	–	3 306	3 306	2 808	6 405
–	–	–	–	3 852	3 852	–	3 852
–	**58 905**	**–**	**–**	**312 100**	**312 100**	**2 996**	**374 001**
–	–	–	–	13 374	13 374	–	13 374
–	**58 905**	**–**	**–**	**325 474**	**325 474**	**2 996**	**387 375**

13. Financial instruments at fair value

The table below analyses recurring fair value measurements for financial assets and financial liabilities. These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to the valuation technique used. The different levels are identified as follows:

Level 1 – quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

		Fair value category		
At 31 March R'million	**Total instruments at fair value**	Level 1	Level 2	Level 3
Group				
2019				
Assets				
Non-sovereign and non-bank cash placements	610	–	610	–
Reverse repurchase agreements and cash collateral on securities borrowed	9 870	–	9 870	–
Sovereign debt securities	55 604	55 604	–	–
Bank debt securities	5 527	2 727	2 800	–
Other debt securities	8 656	4 186	4 470	–
Derivative financial instruments	7 700	–	7 700	–
Securities arising from trading activities	5 059	4 974	85	–
Investment portfolio	7 664	4 091	354	3 219
Loans and advances to customers	16 008	–	15 341	667
Other assets	440	440	–	–
Loans to group companies	115	–	115	–
	117 253	**72 022**	**41 345**	**3 886**
Liabilities				
Derivative financial instruments	11 097	–	11 097	–
Other trading liabilities	4 468	2 282	2 186	–
Repurchase agreements and cash collateral on securities lent	7 742	–	7 742	–
Customer accounts (deposits)	44 606	–	44 606	–
Debt securities in issue	2 856	–	2 856	–
Other liabilities	828	–	828	–
	71 597	**2 282**	**69 315**	**–**
Net financial assets/(liabilities) at fair value	**45 656**	**69 740**	**(27 970)**	**3 886**

13. Financial instruments at fair value *(continued)*

At 31 March R'million	Total instruments at fair value	Fair value category Level 1	Level 2	Level 3
Group				
2018				
Assets				
Non-sovereign and non-bank cash placements	574	–	574	–
Reverse repurchase agreements and cash collateral on securities borrowed	9 205	–	9 205	–
Sovereign debt securities	58 940	58 940	–	–
Bank debt securities	6 135	4 883	1 252	–
Other debt securities	9 053	4 146	4 907	–
Derivative financial instruments	12 586	–	12 564	22
Securities arising from trading activities	875	791	84	–
Investment portfolio	7 943	4 419	1 563	1 961
Loans and advances to customers	17 250	–	17 250	–
Other assets	625	625	–	–
Loans to group companies	45	–	45	–
	123 231	**73 804**	**47 444**	**1 983**
Liabilities				
Derivative financial instruments	15 907	–	15 907	–
Other trading liabilities	2 305	692	1 613	–
Repurchase agreements and cash collateral on securities lent	917	–	917	–
Customer accounts (deposits)	39 485	–	39 485	–
Other liabilities	291	–	291	–
	58 905	**692**	**58 213**	**–**
Net financial assets/(liabilities) at fair value	**64 326**	**73 112**	**(10 769)**	**1 983**

13. Financial instruments at fair value *(continued)*

At 31 March R'million	Total instruments at fair value	Fair value category Level 1	Level 2	Level 3
Company				
2019				
Assets				
Non-sovereign and non-bank cash placements	610	–	610	–
Reverse repurchase agreements and cash collateral on securities borrowed	9 870	–	9 870	–
Sovereign debt securities	55 306	55 306	–	–
Bank debt securities	5 250	2 727	2 523	–
Other debt securities	8 656	4 186	4 470	–
Derivative financial instruments	7 526	–	7 526	–
Securities arising from trading activities	5 059	4 974	85	–
Investment portfolio	7 221	4 043	322	2 856
Loans and advances to customers	15 404	–	15 341	63
Other assets	440	440	–	–
Loans to group companies	115	–	115	–
Investment in subsidiaries	799	–	–	799
	116 256	**71 676**	**40 862**	**3 718**
Liabilities				
Derivative financial instruments	11 097	–	11 097	–
Other trading liabilities	4 468	2 282	2 186	–
Repurchase agreements and cash collateral on securities lent	7 742	–	7 742	–
Customer accounts (deposits)	44 606	–	44 606	–
Debt securities in issue	2 856	–	2 856	–
Other liabilities	828	–	828	–
	71 597	**2 282**	**69 315**	**–**
Net financial assets/(liabilities) at fair value	**44 659**	**69 394**	**(28 453)**	**3 718**

At 31 March R'million	Total instruments at fair value	Fair value category Level 1	Level 2	Level 3
13. Financial instruments at fair value *(continued)*				
Company				
2018				
Assets				
Non-sovereign and non-bank cash placements	574	–	574	–
Reverse repurchase agreements and cash collateral on securities borrowed	9 205	–	9 205	–
Sovereign debt securities	58 940	58 940	–	–
Bank debt securities	5 838	4 586	1 252	–
Other debt securities	8 815	3 908	4 907	–
Derivative financial instruments	12 395	–	12 373	22
Securities arising from trading activities	875	791	84	–
Investment portfolio	7 647	4 419	1 409	1 819
Loans and advances to customers	17 250	–	17 250	–
Other assets	625	625	–	–
Loans to group companies	80	–	80	–
	122 244	**73 269**	**47 134**	**1 841**
Liabilities				
Derivative financial instruments	15 907	–	15 907	–
Other trading liabilities	2 305	692	1 613	–
Repurchase agreements and cash collateral on securities lent	917	–	917	–
Customer accounts (deposits)	39 485	–	39 485	–
Other liabilities	291	–	291	–
	58 905	**692**	**58 213**	**–**
Net financial assets/(liabilities) at fair value	**63 339**	**72 577**	**(11 079)**	**1 841**

13. Financial instruments at fair value *(continued)*

Transfers between level 1 and level 2

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

Level 3 instruments

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

R'million	Investment portfolio	Loans and advances to customers	Other level 3 assets	Total
Group				
Balance as at 1 April 2017	**2 829**	**–**	**466**	**3 295**
Total gains/(losses) recognised in the income statement	(147)	–	12	(135)
Purchases	542	–	–	542
Sales	(649)	–	–	(649)
Settlements	(95)	–	–	(95)
Transfers out of level 3	(494)	–	(456)	(950)
Foreign exchange adjustments	(25)	–	–	(25)
Balance as at 31 March 2018	**1 961**	**–**	**22**	**1 983**
Adoption of IFRS 9	1 108	604	(22)	1 690
Balance as at 1 April 2018	**3 069**	**604**	**–**	**3 673**
Total losses recognised in the income statement	(758)	–	–	(758)
Purchases	1 062	–	–	1 062
Sales	(370)	–	–	(370)
Settlements	(4)	–	–	(4)
Transfers into level 3	220	63	–	283
Balance as at 31 March 2019	**3 219**	**667**	**–**	**3 886**
Company				
Balance as at 1 April 2017	**2 687**	**–**	**466**	**3 153**
Total gains/(losses) recognised in the income statement	(147)	–	12	(135)
Purchases	542	–	–	542
Sales	(649)	–	–	(649)
Settlements	(95)	–	–	(95)
Transfers out of level 3	(494)	–	(456)	(950)
Foreign exchange adjustments	(25)	–	–	(25)
Balance as at 31 March 2018	**1 819**	**–**	**22**	**1 841**
Adoption of IFRS 9	913	–	845	1 758
Balance as at 1 April 2018	**2 732**	**–**	**867**	**3 599**
Total losses recognised in the income statement	(676)	–	(68)	(744)
Purchases	954	–	–	954
Sales	(370)	–	–	(370)
Settlements	(4)	–	–	(4)
Transfers into level 3	220	63	–	283
Balance as at 31 March 2019	**2 856**	**63**	**799**	**3 718**

For the year ended 31 March 2019, R283 million has been transferred from level 2 into level 3 as a result of a credit risk adjustment to the discount rate becoming a significant input.

For the year ended 31 March 2018, a level 3 investment of R950 million has been transferred to level 2 due to a transaction price becoming available.

The group transfers between levels within the fair value hierarchy when the significance of the unobservable inputs change or if the valuation methods change.

13. Financial instruments at fair value *(continued)*

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

For the year to 31 March R'million	Total	Realised	Unrealised
Group			
2019			
Total gains/(losses) included in the income statement for the year			
Investment (loss)/income	(758)	49	(807)
	(758)	**49**	**(807)**
2018			
Total gains/(losses) included in the income statement for the year			
Investment (loss)/income	(135)	399	(534)
	(135)	**399**	**(534)**

For the year to 31 March R'million	Total	Realised	Unrealised
Company			
2019			
Total gains/(losses) recognised in the income statement for the year			
Investment (loss)/income	(744)	49	(793)
	(744)	**49**	**(793)**
2018			
Total gains/(losses) recognised in the income statement for the year			
Investment (loss)/income	(135)	399	(534)
	(135)	**399**	**(534)**

13. Financial instruments at fair value *(continued)*

Measurement of financial assets and liabilities at level 2

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

	VALUATION BASIS/TECHNIQUES	MAIN INPUTS
Assets		
Non-sovereign and non-bank cash placements	Discounted cash flow model	Yield curve
Reverse repurchase agreements and cash collateral on securities borrowed	Discounted cash flow model	Yield curve
Bank debt securities	Discounted cash flow model	Yield curve
Other debt securities	Discounted cash flow model	Yield curve
Derivative financial instruments	Discounted cash flow model Black-Scholes	Yield curve Volatilities
Securities arising from trading activities	Adjusted quoted price	Liquidity adjustment
Investment portfolio	Adjusted quoted price	Liquidity adjustment
Loans and advances to customers	Discounted cash flow model	Yield curve
Loans to group companies	Discounted cash flow model	Yield curve
Liabilities		
Derivative financial instruments	Discounted cash flow model Black-Scholes	Yield curve Volatilities
Other trading liabilities	Discounted cash flow model	Yield curve
Repurchase agreements and cash collateral on securities lent	Discounted cash flow model	Yield curve
Customer accounts (deposits)	Discounted cash flow model	Yield curve
Debt securities in issue	Discounted cash flow model	Yield curve
Other liabilities	Discounted cash flow model	Yield curve
Loans from group companies	Discounted cash flow model	Yield curve

13. Financial instruments at fair value *(continued)*

Sensitivity of fair values to reasonably possible alternative assumptions by level 3 instrument type

The fair value of financial instruments in level 3 are measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable market data. The following table shows the sensitivity of these fair values to reasonable possible alternative assumptions, determined at a transactional level:

At 31 March 2019	Level 3 balance sheet value R'million	Valuation method	Significant unobservable input changed	Range which unobservable input has been changed	Potential impact on the income statement: Favourable changes R'million	Potential impact on the income statement: Unfavourable changes R'million
Group						
Assets						
Investment portfolio	3 219				585	(578)
		Price earnings	EBITDA	*	272	(264)
		Discounted cash flow	Precious and industrial metals prices	(10%)/6%	41	(41)
		Discounted cash flow	Cash flows	(50%)/50%	167	(167)
		Other	Various	**	90	(82)
		Net asset value	Underlying asset value	^	15	(24)
Loans and advances to customers	667				308	(308)
		Discontinued cash flow	Cash flows	(50%)/50%	302	(302)
		Price earnings	EBITDA	*	6	(6)
Total	**3 886**				**893**	**(886)**

At 31 March 2018	Level 3 balance sheet value R'million	Valuation method	Significant unobservable input changed	Range which unobservable input has been changed	Potential impact on the income statement: Favourable changes R'million	Potential impact on the income statement: Unfavourable changes R'million
Group						
Assets						
Derivative financial instruments	22	Price earnings	EDITDA	(10%)/10%	2	(2)
Investment portfolio	1 961				942	(974)
		Price earnings	EBITDA	*	805	(734)
		Discounted cash flow	Precious and industrial metals prices	(10%)/6%	40	(68)
		Discounted cash flow	Cash flows	*	10	(30)
		Other	Various	**	87	(142)
Total	**1 983**				**944**	**(976)**

* *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 certain equity investments has been assessed by adjusting various inputs such as expected cash flows, discount rates, earnings multiples rather than a single input. It is deemed appropriate to reflect the outcome on a portfolio basis for the purpose of this analysis as the sensitivity of the investments cannot be determined through the adjustment of a single input.*

^ *Underlying asset values are calculated by reference to a tangible asset.*

13. Financial instruments at fair value *(continued)*

Sensitivity of fair values to reasonably possible alternative assumptions by level 3 instrument type (continued)

At 31 March 2019	Level 3 balance sheet value R'million	Valuation method	Significant unobservable input changed	Range which unobservable input has been changed	Potential impact on the income statement: Favourable changes R'million	Potential impact on the income statement: Unfavourable changes R'million
Company						
Assets						
Investment portfolio	2 856				488	(481)
		Price earnings	EBITDA	*	232	(224)
		Discounted cash flow	Precious and industrial metals prices	(10%)/6%	41	(41)
		Discounted cash flow	Cash flows	(50%)/50%	110	(110)
		Other	Various	**	90	(82)
		Net asset value	Underlying asset value	^	15	(24)
Loans and advances to customers	63	Discontinued cash flow	Cash flows	**	6	(6)
Investment in subsidiaries	799	Discounted cash flow	Cash flows	(50%)/50%	400	(400)
Total	**3 718**				**894**	**(887)**

At 31 March 2018	Level 3 balance sheet value R'million	Valuation method	Significant unobservable input changed	Range which unobservable input has been changed	Potential impact on the income statement: Favourable changes R'million	Potential impact on the income statement: Unfavourable changes R'million
Company						
Assets						
Derivative financial instruments	22	Price earnings	EBITDA	(10%)/10%	2	(2)
Investment portfolio	1 819				902	(934)
		Price earnings	EBITDA	*	765	(694)
		Discounted cash flow	Precious and industrial metals prices	(10%)/6%	40	(68)
		Discounted cash flows	Cash flows	*	10	(30)
		Other	Various	**	87	(142)
Total	**1 841**				**904**	**(936)**

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

** *The valuation sensitivity for certain equity investments has been assessed by adjusting various inputs such as expected cash flows, discount rates, earnings multiples rather than a single input. It is deemed appropriate to reflect the outcome on a portfolio basis for the purpose of this analysis as the sensitivity of the investments cannot be determined through the adjustment of a single input.*

^ *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.

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

Price of property 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.

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.

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

14. Fair value of financial instruments at amortised cost

			Fair value category		
At 31 March R'million	**Carrying amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Group					
2019					
Assets					
Reverse repurchase agreements and cash collateral on securities borrowed	8 682	8 684	–	8 684	–
Sovereign debt securities	5 289	5 097	5 097	–	–
Bank debt securities	6 999	6 992	3 698	3 294	–
Other debt securities	4 897	4 871	2 650	2 221	–
Loans and advances to customers	245 729	245 739	2 782	222 243	20 714
Liabilities					
Deposits by banks	30 041	30 544	–	30 544	–
Repurchase agreements and cash collateral on securities lent	7 492	7 447	4 223	3 224	–
Customer accounts (deposits)	297 104	297 692	114 106	183 585	1
Debt securities in issue	3 656	3 677	–	3 677	–
Subordinated liabilities	13 918	15 496	15 496	–	–

			Fair value category		
At 31 March R'million	Carrying amount	Fair value	Level 1	Level 2	Level 3
Group					
2018					
Assets					
Sovereign debt securities	3 463	3 458	3 458	–	–
Bank debt securities	1 916	1 951	1 368	583	–
Other debt securities	1 289	1 292	–	1 292	–
Loans and advances to customers	230 224	230 234	6 499	204 425	19 310
Liabilities					
Deposits by banks	24 607	24 813	211	24 602	–
Repurchase agreements and cash collateral on securities lent	7 478	7 475	4 090	3 385	–
Customer accounts (deposits)	282 408	283 334	132 178	151 156	–
Debt securities in issue	3 473	3 479	–	3 479	–
Subordinated liabilities	13 374	14 725	14 725	–	–

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value and have been reflected in level 1. This assumption also applies to demand deposits and savings accounts without a specific maturity included in customer accounts (deposits) and variable rate financial instruments.

14. Fair value of financial instruments at amortised cost *(continued)*

At 31 March R'million	Carrying amount	Fair value	Fair value category Level 1	Level 2	Level 3
Company					
2019					
Assets					
Reverse repurchase agreements and cash collateral on securities borrowed	7 959	7 961	–	7 961	–
Sovereign debt securities	5 290	5 097	5 097	–	–
Bank debt securities	5 716	5 698	2 404	3 294	–
Other debt securities	4 536	4 509	2 650	1 859	–
Loans and advances to customers	231 704	231 705	2 782	228 546	377
Liabilities					
Deposits by banks	30 041	30 544	–	30 544	–
Repurchase agreements and cash collateral on securities lent	6 379	6 333	4 222	2 111	–
Customer accounts (deposits)	281 860	282 431	103 704	178 727	–
Debt securities in issue	2 626	2 647	–	2 647	–
Subordinated liabilities	13 918	15 496	15 496	–	–

At 31 March R'million	Carrying amount	Fair value	Fair value category Level 1	Level 2	Level 3
Company					
2018					
Assets					
Sovereign debt securities	3 463	3 458	3 458	–	–
Liabilities					
Deposits by banks	24 607	24 813	211	24 602	–
Repurchase agreements and cash collateral on securities lent	6 270	6 268	4 090	2 178	–
Customer accounts (deposits)	271 622	272 547	132 222	140 325	–
Debt securities in issue	2 443	2 449	–	2 449	–
Subordinated liabilities	13 374	14 725	14 725	–	–

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value and have been reflected in level 1. This assumption also applies to demand deposits and savings accounts without a specific maturity included in customer accounts (deposits) and variable rate financial instruments.

The table below sets out information about the valuation techniques used at the end of the reporting period in measuring level 2 and level 3 financial instruments not held at fair value:

	VALUATION BASIS/TECHNIQUE	MAIN INPUTS
Assets		
Reverse repurchase agreements and cash collateral on securities borrowed	Discounted cash flow model	Yield curve
Bank debt securities	Discounted cash flow model	Yield curve
Other debt securities	Discounted cash flow model	Yield curve
Loans and advances to customers	Discounted cash flow model	Yield curve
Liabilities		
Deposits by banks	Discounted cash flow model	Yield curve
Repurchase agreements and cash collateral on securities lent	Discounted cash flow model	Yield curve
Customer accounts (deposits)	Discounted cash flow model	Yield curve
Debt securities in issue	Discounted cash flow model	Yield curve

In isolated instances amortised cost assets were sold during the year. The most significant of these was a loan to the value of R78 million, sold as the risk of the asset exceeded the appetite of the portfolio.

15. Financial instruments designated at fair value

At 31 March R'million	Carrying value	Fair value adjustment Current	Fair value adjustment Cumulative	Change in fair value attributable to credit risk Current	Change in fair value attributable to credit risk Cumulative	Maximum exposure to credit risk
Group and company						
Assets						
2019						
Loans and advances to customers	14 056	163	174	(28)	(30)	13 882
	14 056	**163**	**174**	**(28)**	**(30)**	**13 882**
2018						
Loans and advances to customers	17 250	265	394	–	–	16 990
	17 250	**265**	**394**	**–**	**–**	**16 990**

At 31 March R'million	Carrying value	Remaining contractual amount to be repaid at maturity	Fair value adjustment Current	Fair value adjustment Cumulative
Group and company				
Liabilities				
2019				
Customer accounts (deposits)	44 606	44 497	(108)	142
Debt securities in issue	2 856	2 856	353	353
	47 462	**47 353**	**245**	**495**
2018				
Customer accounts (deposits)	39 485	39 235	161	250
	39 485	**39 235**	**161**	**250**

Changes in fair value due to credit risk are determined as the change in the fair value of the financial instrument that is not attributable to changes in other market inputs.

Current and cumulative changes in fair value of financial liabilities attributable to credit risk were both R2 million and R33 million respectively.

At 31 March R'million	Group 2019	Group 2018	Company 2019	Company 2018
16. Cash and balances at central banks				
Gross cash and balances at central banks	10 298	9 187	10 093	8 989
Expected credit loss on amortised cost*	(8)	–	(8)	–
Net cash and balances at central banks	**10 290**	**9 187**	**10 085**	**8 989**
The country risk of cash and balances at central banks lies in the following geographies:				
South Africa	10 085	8 989	10 085	8 989
Other	205	198	–	–
	10 290	**9 187**	**10 085**	**8 989**

At 31 March R'million	Group 2019	Group 2018	Company 2019	Company 2018
17. Loans and advances to banks				
Gross loans and advances to banks	19 904	17 265	13 729	11 857
Expected credit loss on amortised cost*	(1)	–	(1)	–
Net loans and advances to banks	**19 903**	**17 265**	**13 728**	**11 857**
The country risk of loans and advances to banks lies in the following geographies:				
South Africa	12 220	8 005	11 885	7 852
United Kingdom	1 077	2 486	87	1 216
Europe (excluding UK)	1 072	1 563	192	1 445
Australia	150	208	103	90
United States of America	3 363	3 474	1 417	1 038
Asia	1 837	609	24	15
Other	184	920	20	201
	19 903	**17 265**	**13 728**	**11 857**

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

At 31 March R'million	Group 2019	Group 2018	Company 2019	Company 2018
18. Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent				
Assets				
Gross reverse repurchase agreements and cash collateral on securities borrowed	18 552	20 480	17 829	19 886
Expected credit loss on amortised cost*	^	–	^	–
Net reverse repurchase agreements and cash collateral on securities	**18 552**	**20 480**	**17 829**	**19 886**
Reverse repurchase agreements	16 378	15 079	15 655	14 485
Cash collateral on securities borrowed	2 174	5 401	2 174	5 401
	18 552	**20 480**	**17 829**	**19 886**
As part of the reverse repurchase and securities borrowing agreements, the group and company have received securities that they are allowed to sell or repledge. R5.5 billion (2018: R1.5 billion) has been resold or repledged to third parties in connection with financing activities or to comply with commitments under short sale transactions.				
Liabilities				
Repurchase agreements	15 234	8 395	14 121	7 187
	15 234	**8 395**	**14 121**	**7 187**
In the group and company, assets transferred and not derecognised in the group is R12.8 billion (2018: R8.5 billion) and R11.5 billion (2018: R7.1 billion) in the company. They are pledged as security for the term of the underlying repurchase agreement. Refer to note 46.				

^ *Less than R1 million.*

At 31 March R'million	Group 2019	Group 2018	Company 2019	Company 2018
19. Sovereign debt securities				
Gross sovereign debt securities	60 897	62 403	60 600	62 403
Expected credit loss on amortised cost*	(4)	–	(4)	–
Net sovereign debt securities	**60 893**	**62 403**	**60 596**	**62 403**
Bonds	22 521	17 153	22 224	17 153
Government securities	1 791	1 144	1 791	1 144
Treasury bills	36 581	44 106	36 581	44 106
	60 893	**62 403**	**60 596**	**62 403**
The country risk of the sovereign debt securities lies in the following geographies:				
South Africa	60 753	62 403	60 456	62 403
Other	140	–	140	–
	60 893	**62 403**	**60 596**	**62 403**

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

	Group		Company	
At 31 March R'million	**2019**	2018	**2019**	2018
20. Bank debt securities				
Gross bank debt securities	12 530	8 051	10 969	6 421
Expected credit loss on amortised cost*	(4)	–	(3)	–
Net bank debt securities	**12 526**	**8 051**	**10 966**	**6 421**
Bonds	10 828	5 028	9 545	3 398
Asset-based securities	650	583	650	583
Floating rate notes	1 048	2 440	771	2 440
	12 526	**8 051**	**10 966**	**6 421**
The country risk of the other debt securities lies in the following geographies:				
South Africa	7 066	4 856	6 788	4 856
United Kingdom	2 130	2 066	1 400	1 459
Europe (excluding UK)	1 321	–	1 321	–
Australia	1 060	–	1 060	–
United States of America	903	1 023	351	–
Other	46	106	46	106
	12 526	**8 051**	**10 966**	**6 421**

	Group		Company	
At 31 March R'million	**2019**	2018	**2019**	2018
21. Other debt securities				
Gross other debt securities	13 559	10 342	13 196	9 984
Expected credit loss on amortised cost*	(6)	–	(4)	–
Net other debt securities	**13 553**	**10 342**	**13 192**	**9 984**
Bonds	11 545	6 337	11 217	6 015
Commercial paper	88	60	88	60
Floating rate notes	1 761	2 800	1 761	2 800
Asset-based securities	126	1 109	126	1 109
Other investments	33	36	–	–
	13 553	**10 342**	**13 192**	**9 984**
The country risk of the other debt securities lies in the following geographies:				
South Africa	8 937	5 309	8 937	5 309
United Kingdom	2 372	163	2 333	129
Europe (excluding UK)	1 855	3 791	1 566	3 503
Australia	179	96	146	60
United States of America	–	169	–	169
Other	210	814	210	814
	13 553	**10 342**	**13 192**	**9 984**

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

22. Derivative financial instruments

The group enters into various contracts for derivatives both as principal for trading purposes and as customer for hedging foreign exchange and interest rate exposures. These include financial futures, options, swaps and forward rate agreements.

The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations.

In the tables that follow, notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair value of a derivative financial instrument represents the present value of future positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out by the group in an orderly market transaction at balance sheet date.

	2019			**2018**		
At 31 March R'million	**Notional principal amounts**	**Positive fair value**	**Negative fair value**	Notional principal amounts	Positive fair value	Negative fair value
Group						
Foreign exchange derivatives						
Forward foreign exchange contracts	98 486	1 297	1 219	126 140	3 349	2 240
Currency swaps	41 796	1 634	4 484	35 187	2 046	3 002
OTC options bought and sold	51 922	506	611	36 304	899	1 036
Other foreign exchange contracts	4 961	20	26	2	^	^
	197 165	**3 457**	**6 340**	**197 633**	**6 294**	**6 278**
Interest rate derivatives						
Caps and floors	2 806	10	6	2 114	8	5
Swaps	1 092 550	2 218	3 202	283 476	2 357	3 228
Forward rate agreements	12 200	114	120	1 600	52	14
OTC options bought and sold	925	^	1	1 000	31	31
Other interest rate contracts	6 977	306	26	6 604	^	396
OTC derivatives	1 115 458	2 648	3 355	294 794	2 448	3 674
Exchange traded futures	15	52	–	–	–	–
	1 115 473	**2 700**	**3 355**	**294 794**	**2 448**	**3 674**
Equity and stock index derivatives						
OTC options bought and sold	39 525	1 896	2 003	41 004	4 703	3 097
Equity swaps and forwards	34 511	73	855	59 104	1 044	1 437
OTC derivatives	74 036	1 969	2 858	100 108	5 747	4 534
Exchange traded futures	2 613	2	–	1 828	(21)	–
Exchange traded options	698	1	–	5 131	(1)	–
Warrants	(6 322)	–	5 472	2 188	–	5 904
	71 025	**1 972**	**8 330**	**109 255**	**5 725**	**10 438**
Commodity derivatives						
OTC options bought and sold	2	7	8	10	9	9
Commodity swaps and forwards	1	173	92	816	62	30
	3	**180**	**100**	**826**	**71**	**39**
Credit derivatives	**10 782**	**8**	**57**	**9 106**	**10**	**56**
Embedded derivatives*		**–**	**–**		**22**	**–**
Cash collateral		**(791)**	**(7 085)**		**(2 175)**	**(4 578)**
Derivatives per balance sheet		**7 700**	**11 097**		**12 395**	**15 907**

* *In 2018 embedded derivatives mainly included profit shares received as part of lending transactions. Following the adoption of IFRS 9 these are either accounted for as stand-alone derivatives or no longer separated from the host contract so form part of the fair value of loans accounted for at fair value.*

^ *Less than R1 million.*

22. Derivative financial instruments *(continued)*

	2019			2018		
At 31 March R'million	**Notional principal amounts**	**Positive fair value**	**Negative fair value**	Notional principal amounts	Positive fair value	Negative fair value
Company						
Foreign exchange derivatives						
Forward foreign exchange contracts	98 486	1 297	1 219	126 140	3 349	2 240
Currency swaps	41 796	1 634	4 484	35 187	2 046	3 002
OTC options bought and sold	51 922	506	611	36 304	899	1 036
Other foreign exchange contracts	4 961	20	26	2	^	^
	197 165	**3 457**	**6 340**	**197 633**	**6 294**	**6 278**
Interest rate derivatives						
Caps and floors	2 806	10	6	2 114	8	5
Swaps	1 092 550	2 218	3 202	283 476	2 357	3 228
Forward rate agreements	12 200	114	120	1 600	52	14
OTC options bought and sold	925	^	1	1 000	31	31
Other interest rate contracts	6 977	306	26	6 604	^	396
OTC derivatives	1 115 458	2 648	3 355	294 794	2 448	3 674
Exchange traded futures	15	52	–	–	–	–
	1 115 473	**2 700**	**3 355**	**294 794**	**2 448**	**3 674**
Equity and stock index derivatives						
OTC options bought and sold	39 525	1 896	2 003	41 004	4 703	3 097
Equity swaps and forwards	34 511	73	855	59 104	1 044	1 437
OTC derivatives	74 036	1 969	2 858	100 108	5 747	4 534
Exchange traded futures	2 613	2	–	1 828	(21)	–
Exchange traded options	698	1	–	5 131	(1)	–
Warrants	(6 322)	–	5 472	2 188	–	5 904
	71 025	**1 972**	**8 330**	**109 255**	**5 725**	**10 438**
Commodity derivatives						
OTC options bought and sold	2	7	8	10	9	9
Commodity swaps and forwards	1	173	92	816	62	30
	3	**180**	**100**	**826**	**71**	**39**
Credit derivatives	**10 782**	**8**	**57**	**8 856**	**10**	**56**
Embedded derivatives*		**–**	**–**		**22**	**–**
Cash collateral		**(791)**	**(7 085)**		**(2 175)**	**(4 578)**
Derivatives per balance sheet		**7 526**	**11 097**		**12 395**	**15 907**

* *In 2018 embedded derivatives mainly included profit shares received as part of lending transactions. Following the adoption of IFRS 9 these are either accounted for as stand-alone derivatives or no longer separated from the host contract so form part of the fair value of loans accounted for at fair value.*

^ *Less than R1 million.*

At 31 March R'million	Group 2019	Group 2018	Company 2019	Company 2018
23. Securities arising from trading activities				
Bonds	4 840	698	4 840	698
Listed equities	134	93	134	93
Unlisted equities	85	84	85	84
	5 059	**875**	**5 059**	**875**

At 31 March R'million	Group 2019	Group 2018	Company 2019	Company 2018
24. Investment portfolio				
Listed equities^	4 139	4 774	4 093	4 620
Unlisted equities*	2 319	3 169	2 035	3 027
Fair value loan investments	1 206	–	1 093	–
	7 664	**7 943**	**7 221**	**7 647**

^ *Included is an investment in The Group Investec Property Fund shares of R2.6 billion which is measured at FVOCI. The dividends recognised on this investment is R245 million. The group measures the investment at FVOCI as it considers it to be a strategic investment.*

* *Unlisted equities include loan instruments that are convertible into equity.*

At 31 March R'million	Group 2019	Group 2018	Company 2019	Company 2018
25. Loans and advances to customers and other loans and advances				
Gross loans and advances to customers at amortised cost	248 360	231 652	234 005	218 036
Gross loans and advances to customers designated at FVPL at inception^	14 085	17 250	14 085	17 250
Gross loans and advances to customers subject to ECL	262 445	248 902	248 090	235 286
Expected credit loss*	(2 660)	–	(2 330)	–
Impairments losses*	–	(1 428)	–	(1 140)
	259 785	247 474	245 760	234 146
Loans and advances to customers at fair value	1 952	–	1 348	–
Net loans and advances to customers	**261 737**	**247 474**	**247 108**	**234 146**
Gross other loans and advances	355	290	429	357
Expected credit losses on other loans and advances*	(26)	–	(80)	–
Impairments of other loans and advances*	–	(25)	–	(79)
Net other loans and advances	**329**	**265**	**349**	**278**

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

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

For further analysis on loans and advances refer to pages 40 to 47 in the risk management section.

At 31 March R'million	Group 2019	Company 2019
25. Loans and advances to customers and other loans and advances *(continued)*		
Expected credit losses on loans and advances to customers at amortised cost		
Balance at the beginning of year	**1 428**	**1 140**
Adoption of IFRS 9	538	499
Balance at 1 April 2018	**1 966**	**1 639**
Charge to the income statement	1 228	1 232
Utilised	(523)	(512)
Disposals	(36)	(29)
Transfers	(1)	–
Exchange adjustment	26	–
Balance at end of year	**2 660**	**2 330**
Expected credit losses on other loans and advances at amortised cost		
Balance at the beginning of year	25	79
Transfers	1	1
Balance at end of year	**26**	**80**

At 31 March R'million	Group 2018	Company 2018

25. Loans and advances to customers and other loans and advances *(continued)*

Specific and portfolio impairments

Reconciliation of movements in specific and portfolio impairments:

At 31 March R'million	Group 2018	Company 2018
Loans and advances to customers		
Specific impairment		
Balance at the beginning of the year	883	721
Charge to the income statement	368	317
Impairment losses on loans and advances	670	619
Reversals and recoveries recognised in the income statement	(302)	(302)
Utilised	(447)	(456)
Transfers	(5)	–
Exchange adjustment	(6)	
Balance at the end of the year	**793**	**582**
Portfolio impairment		
Balance at the beginning of the year	321	234
Charge to the income statement	324	324
Transfers	5	–
Exchange adjustment	(15)	–
Balance at the end of the year	**635**	**558**
Other loans and advances		
Specific impairment		
Balance at the beginning of the year	9	60
Charge/(release) to the income statement	1	–
Utilised	(2)	–
Transfers	(1)	–
Balance at the end of the year	**7**	**60**
Portfolio impairment		
Balance at the beginning of the year	17	19
Transfers	1	–
Balance at the end of the year	**18**	**19**
Total specific impairments	800	642
Total portfolio impairments	653	577
Total impairments	**1 453**	**1 219**

At 31 March R'million	Group 2019	2018
26. Securitised assets and liabilities arising on securitisation		
Gross own originated loans and advances to customers securitised	7 677	6 836
Expected credit loss of own originated loans and advances to customers securitised*	(10)	–
Impairments of own originated loans and advances to customers securitised*	–	(6)
Net own originated loans and advances to customers securitised	**7 667**	**6 830**
Other securitised assets are made up of the following categories of assets:		
Cash and cash equivalents	232	241
Total other securitised assets	**232**	**241**
The associated liabilities are recorded on balance sheet in the following line items:		
Liabilities arising on securitisation of own originated loans and advances	**1 720**	**1 551**

At 31 March R'million	2019
Expected credit losses of own originated loans and advances to customers securitised at amortised cost	
Balance at the beginning of year	6
Adoption of IFRS 9	4
Balance at 1 April 2018	**10**
Release to the income statement	(1)
Transfers	1
Balance at end of year	**10**

At 31 March R'million	2018
Specific and portfolio impairments	
Reconciliation of movements in group-specific and portfolio impairments of assets that have been securitised:	
Specific impairment	
Balance at the beginning of the year	1
Charge to the income statement	1
Utilised	–
Balance at the end of the year	**2**
Portfolio impairment	
Balance at the beginning of the year	5
Release to the income statement	(1)
Balance at the end of the year	**4**
Total portfolio and specific impairments on balance sheet	**6**

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

At 31 March R'million	Group 2019	Group 2018	Company 2019	Company 2018
27. Interest in associated undertakings				
Analysis of the movement in interests in associated undertakings:				
At the beginning of the year	6 288	5 514	6 180	5 413
Acquisitions	20	–	20	–
Disposal	(20)	–	–	–
Share of post taxation profit of associates	1 163	777	1 193	766
Net equity movements	(124)	–	(123)	–
Dividends declared by associates	(1 088)	–	(1 086)	–
Exchange adjustments	12	(3)	–	–
Other	–	–	–	1
At the end of the year	**6 251**	**6 288**	**6 184**	**6 180**

R'million	2019	2018
Details of material associated companies		
IEP Group Proprietary Limited		
Summarised financial information (R'million):		
For the year to 31 March		
Revenue	14 637	11 698
Profit after taxation	3 012	1 927
Total comprehensive income	2 915	1 903
At 31 March		
Assets		
Non-current assets	20 429	20 862
Current assets	6 286	6 184
Liabilities		
Non-current liabilities	5 600	9 603
Current liabilities	6 549	3 073
Net asset value	**14 566**	**14 370**
Non-controlling interest	2 574	2 342
Shareholders' equity	11 992	12 028
Effective interest in issued share capital	45.9%	45.7%
Net asset value	5 502	5 499
Goodwill	682	681
Carrying value of interest – equity method	**6 184**	**6 180**

At 31 March R'million	Group 2019	Group 2018	Company 2019	Company 2018
28. Deferred taxation				
Deferred taxation assets	1 514	586	1 372	434
Deferred taxation liabilities	(78)	(99)	–	–
Net deferred taxation assets	**1 436**	**487**	**1 372**	**434**
The net deferred taxation assets arise from:				
Deferred capital allowances	(12)	13	–	–
Income and expenditure accruals	585	345	546	335
Unrealised fair value adjustments on financial instruments	170	85	170	85
Deferred taxation on acquired intangibles	(61)	(76)	–	–
Impairment of loans and advances to customers	382	51	338	14
Finance lease accounting	54	69	–	–
Cash flow hedges	318	–	318	–
Net deferred taxation assets	**1 436**	**487**	**1 372**	**434**
Reconciliation of net deferred taxation assets:				
At the beginning of the year	487	279	434	260
Adoption of IFRS 9	347	–	329	–
Credit to income statement	98	329	112	296
Credit/(charge) directly in other comprehensive income	497	(122)	497	(122)
Exchange adjustments	7	1	–	–
At the end of the year	**1 436**	**487**	**1 372**	**434**

Deferred taxation assets are recognised to the extent it is likely that profits will be available in future periods. The assessment of the likelihood of future profits is based on past performance and current projections.

At 31 March R'million	Group 2019	Group 2018	Company 2019	Company 2018
29. Other assets				
Gross other assets	8 327	6 686	5 212	3 307
Expected credit loss on amortised cost*	(90)	–	–	–
Net other assets	**8 237**	**6 686**	**5 212**	**3 307**
Settlement debtors	527	959	527	790
Trading properties	252	265	214	210
Prepayments and accruals	1 258	1 172	1 204	1 106
Trading initial margins	440	337	440	337
Investec Import Solutions debtors	2 621	2 819	–	–
Commodities	1 163	–	1 163	–
Fee debtors	24	30	24	30
Corporate tax assets	121	55	200	–
Other	1 831	1 049	1 440	834
	8 237	**6 686**	**5 212**	**3 307**

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

30. Property and equipment

At 31 March R'million	Freehold properties	Leasehold improvements	Furniture and vehicles	Equipment	Total
Group					
2019					
Cost					
At the beginning of year	2 200	63	198	847	3 308
Acquisition of subsidiary undertaking	–	–	–	1	1
Additions	157	2	16	116	291
Disposals	–	(14)	(7)	(109)	(130)
Reclassifications	–	14	–	–	14
At the end of year	**2 357**	**65**	**207**	**855**	**3 484**
Accumulated depreciation					
At the beginning of year	–	(34)	(132)	(648)	(814)
Disposals	–	2	3	55	60
Depreciation	(41)	(6)	(15)	(91)	(153)
Reclassifications	–	(14)	–	–	(14)
At the end of year	**(41)**	**(52)**	**(144)**	**(684)**	**(921)**
Net carrying value	**2 316**	**13**	**63**	**171**	**2 563**
2018					
Cost					
At the beginning of the year	–	44	163	752	959
Additions	2 200	19	40	83	2 342
Disposals	–	–	(10)	(38)	(48)
Reclassifications	–	–	5	50	55
At the end of the year	**2 200**	**63**	**198**	**847**	**3 308**
Accumulated depreciation					
At the beginning of the year	–	(28)	(120)	(537)	(685)
Disposals	–	–	6	30	36
Depreciation	–	(6)	(13)	(91)	(110)
Reclassifications	–	–	(5)	(50)	(55)
At the end of the year	**–**	**(34)**	**(132)**	**(648)**	**(814)**
Net carrying value	**2 200**	**29**	**66**	**199**	**2 494**

At 31 March R'million	Freehold properties	Leasehold improvements	Furniture and vehicles	Equipment	Total
30. Property and equipment *(continued)*					
Company					
2019					
Cost					
At the beginning of year	2 200	49	185	743	3 177
Additions	157	2	16	110	285
Disposals	–	–	(3)	(20)	(23)
At the end of year	**2 357**	**51**	**198**	**833**	**3 439**
Accumulated depreciation					
At the beginning of year	–	(34)	(130)	(583)	(747)
Disposals	–	–	2	5	7
Depreciation	(41)	(5)	(14)	(88)	(148)
At the end of year	**(41)**	**(39)**	**(142)**	**(666)**	**(888)**
Net carrying value	**2 316**	**12**	**56**	**167**	**2 551**
2018					
Cost					
At the beginning of the year	–	44	147	712	903
Additions	2 200	5	40	58	2 303
Disposals	–	–	(2)	(27)	(29)
At the end of the year	**2 200**	**49**	**185**	**743**	**3 177**
Accumulated depreciation					
At the beginning of the year	–	(29)	(119)	(520)	(668)
Disposals	–	–	–	18	18
Depreciation	–	(5)	(11)	(81)	(97)
At the end of the year	**–**	**(34)**	**(130)**	**(583)**	**(747)**
Net carrying value	**2 200**	**15**	**55**	**160**	**2 430**

At 31 March R'million	Group 2019	 2018
31. Goodwill		
Cost		
At the beginning of the year	171	171
Acquisitions	3	–
At the end of the year	**174**	**171**
Accumulated impairments		
At the beginning of the year	–	–
Impairments	(3)	–
At the end of the year	**(3)**	**–**
Net carrying value	**171**	**171**

Goodwill is tested annually for impairment, or more frequently if evidence exists that goodwill might be impaired, by comparing the carrying value to its recoverable amount.

The recoverable amount of goodwill is determined based on expected cash flows within the cash-generating units of the group to which the goodwill is allocated. Key assumptions within the calculation include discount rates, growth rates in revenue and related expenditure and loan impairment rates.

Discount rates are based on pre-tax rates that reflect current market conditions, adjusted for the specific risks associated with the cash-generating unit. Growth rates are based on industry growth forecasts. Cash flow forecasts are based on the most recent financial budgets for the next financial year and are extrapolated for a period of three to five years, adjusted for expected future events.

Goodwill relates particularly to the businesses from the Import Solutions (IIS) acquisition which has been identified as a separate cash-generating unit. The goodwill relating to IIS has been tested for impairment, taking into account profitability, being the budgeted profits and the future profit growth for the next five years. The valuation is based on management's assessment of appropriate profit forecast and discount rate to estimate the fair value. The discount rate applied of 6.75% is determined using the South African Inter-bank lending rate, adjusted for business specific risk.

The valuation would be level 3 in the fair value hierarchy.

32. Intangible assets

At 31 March R'million	Group Acquired software	Group Internally generated software	Group Client relation-ships	Group Total	Company Acquired software	Company Internally generated software	Company Total
2019							
Cost							
At the beginning of year	715	28	412	1 155	708	–	708
Acquisition of a subsidiary undertaking	–	13	–	13	–	–	–
Additions	167	6	–	173	134	–	134
Disposals	(19)	–	–	(19)	(19)	–	(19)
At the end of year	**863**	**47**	**412**	**1 322**	**823**	**–**	**823**
Accumulated amortisation and impairments							
At the beginning of year	(588)	(14)	(141)	(743)	(581)	–	(581)
Disposals	2	–	–	2	2	–	2
Amortisation	(93)	(19)	(51)*	(163)	(85)	–	(85)
At the end of year	**(679)**	**(33)**	**(192)**	**(904)**	**(664)**	**–**	**(664)**
Net carrying value	**184**	**14**	**220**	**418**	**159**	**–**	**159**
2018							
Cost							
At the beginning of the year	679	127	412	1 218	672	99	771
Additions	49	–	–	49	49	–	49
Disposals	(13)	(99)	–	(112)	(13)	(99)	(112)
At the end of the year	**715**	**28**	**412**	**1 155**	**708**	**–**	**708**
Accumulated amortisation and impairments							
At the beginning of the year	(514)	(106)	(90)	(710)	(507)	(98)	(605)
Disposals	1	98	–	99	1	98	99
Amortisation	(75)	(6)	(51)*	(132)	(75)	–	(75)
At the end of the year	**(588)**	**(14)**	**(141)**	**(743)**	**(581)**	**–**	**(581)**
Net carrying value	**127**	**14**	**271**	**412**	**127**	**–**	**127**

* *Amortisation of acquired intangibles as disclosed in the income statement.*

33. Acquisitions

There were no significant acquisitions or disposals of subsidiaries during the current year.

2018

A deferred consideration of R100 million which was based on profitability criteria, was paid in the prior year relating to the acquisition of the Investec Import Solutions group, previously Blue Strata group. This was recognised as an expense in the income statement.

	Group		Company	
At 31 March R'million	**2019**	2018	**2019**	2018
34. Loans to group companies and loans from group companies and subsidiaries				
Loans to group companies				
Loans to fellow subsidiaries	17 711	8 198	17 170	8 189
Preference share investment in Investec Limited	319	319	–	–
Preference share investment in fellow subsidiaries	6	4 937	–	–
Intergroup derivative financial instruments	115	45	115	80
	18 151	**13 499**	**17 285**	**8 269**
Loans from group companies and subsidiaries				
Loans from subsidiaries	–	–	3 726	1 845
Sechold Finance Services Proprietary Limited	–	–	118	122
KWJ Investments Proprietary Limited	–	–	130	119
AEL Investment Holdings Proprietary Limited	–	–	439	–
Investpref Limited	–	–	59	–
Other subsidiaries	–	–	2 980	1 604
Loan from holding company – Investec Limited	113	522	113	522
Loans from fellow subsidiaries	2 147	1 554	2 073	1 485
Preference shares issued to fellow subsidiaries	–	4 931	–	–
	2 260	**7 007**	**5 912**	**3 852**

There were no subordinated loan amounts included in the loans to group companies. Loans from group companies are unsecured, interest-bearing, with no fixed terms of repayment.

35. Investment in subsidiaries

At 31 March	Nature of business	Holding %	Shares at book value 2019 R'million	Shares at book value 2018 R'million	Loan advances to subsidiaries 2019 R'million	Loan advances to subsidiaries 2018 R'million
Company						
Material direct subsidiaries of Investec Bank Limited						
Investec Bank (Mauritius) Limited^	Banking	100	534	534	2 649	2 890
Reichmans Holdings Proprietary Limited	Trade and asset financing	100	112	112	6 306	6 893
Sechold Finance Services Proprietary Limited	Investment holding	100	*	*	–	–
KWJ Investments Proprietary Limited	Investment holding	100	*	*	–	–
AEL Investment Holdings Proprietary Limited	Investment holding	100	*	*	–	356
Investpref Limited	Investment holding	100	*	*	–	150
Copperleaf Country Estate Proprietary Limited	Property developer	100	11	11	88	99
Investec Import Solutions Proprietary Limited	Import logistics and trade finance	100	737	737	2 571	2 867
Other			179	179	2 472	530
			1 573	**1 573**	**14 086**	**13 785**

Details of subsidiary and associated companies which are not material to the financial position of the group are not reflected above. Loans to group companies are unsecured interest-bearing, with no fixed terms of repayment.

^ *Mauritius.*

* *Less than R1 million.*

Consolidated structured entities

Investec Bank Limited has subordinated investment interests in the following structured entities which are consolidated. Typically a structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. The judgements to assess whether the group has control over these structures include assessing the purpose and design of the entity, considering whether the group or another involved party with power over the relevant activities is acting as a principal in its own right or as an agent on behalf of others.

Name of principal structured entity	*Type of structured entity*
Fox Street 1 (RF) Limited	Securitised residential mortgages
Fox Street 2 (RF) Limited	Securitised residential mortgages
Fox Street 3 (RF) Limited	Securitised residential mortgages
Fox Street 4 (RF) Limited	Securitised residential mortgages
Fox Street 5 (RF) Limited	Securitised residential mortgages
Fox Street 6 (RF) Limited	Securitised residential mortgages
Integer Home Loans Proprietary Limited	Securitised third party originated residential mortgages

For additional detail on the assets and liabilities arising on securitisation refer to note 26. Details of the risks to which the group is exposed through all of its securitisations are included in the risk management report on pages 50 and 57.

The key assumptions for the main types of structured entities which the group consolidates are summarised below:

Securitised residential mortgages

The group has securitised residential mortgages in order to provide investors with exposure to residential mortgage risk and to raise funding. These structured entities are consolidated due to the group's holdings of subordinated notes. The group is not required to fund any losses above those incurred on the notes it has retained, such losses are reflected in any impairment of securitised mortgages as those assets have not been derecognised.

Securitised third party originated residential mortgages

The group has a senior and subordinated investment in a third party originated structured entity. The structured entity is consolidated due to the group's exposure to residual economic benefits. The group is not required to fund any losses above those incurred on the investments made.

At 31 March R'million	Group 2019	Group 2018	Company 2019	Company 2018
36. Other trading liabilities				
Deposits	2 186	1 613	2 186	1 613
Short positions – gilts	2 282	692	2 282	692
	4 468	**2 305**	**4 468**	**2 305**

At 31 March R'million	Group 2019	Group 2018	Company 2019	Company 2018
37. Debt securities in issue				
Repayable in:				
Less than three months	464	86	464	86
Three months to one year	1 441	2 500	1 241	1 670
One to five years	4 607	887	3 777	687
	6 512	**3 473**	**5 482**	**2 443**

At 31 March R'million	Group 2019	Group 2018	Company 2019	Company 2018
38. Other liabilities				
Settlement liabilities	1 856	473	1 657	457
Other creditors and accruals	2 666	2 720	2 487	2 549
Other non-interest-bearing liabilities	1 080	3 087	930	2 835
Dividends Rewards Programme liability^	623	564	623	564
Expected credit loss on off balance sheet commitments and guarantees	38	–	34	–
	6 263	**6 844**	**5 731**	**6 405**

^ *Dividends Rewards Programme liability has been included in other creditors and accruals in prior years.*

At 31 March R'million	Group **2019**	Group 2018	Company **2019**	Company 2018
39. Subordinated liabilities				
Issued by Investec Bank Limited				
IV08 fixed rate subordinated unsecured callable upper tier 2 bonds	–	200	–	200
IV09 variable rate subordinated unsecured callable upper tier 2 bonds	–	200	–	200
IV019 indexed rate subordinated unsecured callable bonds	155	129	155	129
IV019A indexed rate subordinated unsecured callable bonds	371	368	371	368
IV025 variable rate subordinated unsecured callable bonds	1 000	1 000	1 000	1 000
IV026 variable rate subordinated unsecured callable bonds	750	750	750	750
IV030 indexed rate subordinated unsecured callable bonds	501	444	501	444
IV030A indexed rate subordinated unsecured callable bonds	424	420	424	420
IV031 variable rate subordinated unsecured callable bonds	500	500	500	500
IV032 variable rate subordinated unsecured callable bonds	–	810	–	810
IV033 variable rate subordinated unsecured callable bonds	159	159	159	159
IV034 fixed rate subordinated unsecured callable bonds	101	101	101	101
IV035 variable rate subordinated unsecured callable bonds	1 468	1 468	1 468	1 468
IV036 variable rate subordinated unsecured callable bonds	32	32	32	32
IV037 variable rate subordinated unsecured callable bonds	1 533	1 182	1 533	1182
IV038 variable rate subordinated unsecured callable bonds	350	350	350	350
IV039 indexed rate subordinated unsecured callable bonds	179	166	179	166
IV040 variable rate subordinated unsecured callable bonds	589	589	589	589
IV041 fixed rate subordinated unsecured callable bonds	190	190	190	190
IV042 variable rate subordinated unsecured callable bonds	50	50	50	50
IV043 fixed rate subordinated unsecured callable bonds	150	150	150	150
IV044 variable rate subordinated unsecured callable bonds	240	240	240	240
IV045 indexed rate subordinated unsecured callable bonds	1 740	1 603	1 740	1 603
IV046 variable rate subordinated unsecured callable bonds	1 200	1 200	1 200	1 200
IV047 variable rate subordinated unsecured callable bonds	1 387	1 073	1 387	1 073
IV049 variable rate subordinated unsecured callable bonds	849	–	849	–
	13 918	**13 374**	**13 918**	**13 374**
Remaining maturity:				
In one year or less, or on demand	3 175	1 210	3 175	1 210
In more than one year, but not more than two years	260	3 114	260	3 114
In more than two years, but not more than five years	9 634	8 553	9 634	8 553
In more than five years	849	497	849	497
	13 918	**13 374**	**13 918**	**13 374**
Reconciliation from opening balance to closing balance:				
Opening balance	13 374	13 180	13 374	13 180
Subordinated debt raised	849	2 273	849	2 273
Repayment of subordinated debt	(1 210)	(2 205)	(1 210)	(2 205)
Consumer Price Index, effective interest rate adjustments and currency adjustments on foreign denominated bonds	905	126	905	126
Closing balance	**13 918**	**13 374**	**13 918**	**13 374**

The only event of default in relation to the subordinated debt is the non-payment of principal or interest. The only remedy available to the holders of the subordinated debt in the event of default is to petition for the winding up of the issuing entity. In a winding up no amount will be paid in respect of the subordinated debt until all other creditors have been paid in full.

39. Subordinated liabilities *(continued)*

IV08 fixed rate subordinated unsecured callable upper tier 2 bonds

Rnil (2018: R200 million) Investec Bank Limited IV08 locally registered subordinated unsecured callable bonds without a maturity date. Interest is paid six-monthly in arrears on 31 October and 30 April at a rate of 13.735% per annum until 30 April 2018. The company has the option to call the bonds from 30 April 2013 or on any interest payment date falling after 30 April 2018. If not called by 30 April 2018, the bonds will pay interest of 5.625% above JIBAR payable quarterly in arrears until called. The bonds were called on 30 April 2018.

IV09 variable rate subordinated unsecured callable upper tier 2 bonds

Rnil (2018: R200 million) Investec Bank Limited IV09 locally registered subordinated unsecured callable bonds without a maturity date. Interest is paid quarterly in arrears on 31 July, 31 October, 31 January and 30 April at a rate equal to three-month JIBAR plus 3.75% until 30 April 2018. The company has the option to call the bonds from 30 April 2013 or on any interest payment date falling after 30 April 2018. If not called by 30 April 2018, the bonds will pay interest of 5.625% above JIBAR payable quarterly in arrears until called. The bonds were called on 30 April 2018.

IV019 indexed rate subordinated unsecured callable bonds

R155 million (2018: R129 million) Investec Bank Limited IV019 locally registered subordinated unsecured callable bonds are due in March 2028. Interest on these inflation-linked bonds is payable semi-annually on 31 March and 30 September at a rate of 2.65%. The IV019 is a replica of the R210 South African government bond. The maturity date is 31 March 2028, but the company has the option to call the bonds upon regulatory capital disqualification or from 3 April 2023.

IV019A indexed rate subordinated unsecured callable bonds

R371 million (2018: R368 million) Investec Bank Limited IV019A locally registered subordinated unsecured callable bonds are due in March 2028. Interest on these inflation-linked bonds is payable semi-annually on 31 March and 30 September at a rate of 2.60%. The IV019A is a replica of the R210 South African government bond. The maturity date is 31 March 2028, but the company has the option to call the bonds upon regulatory capital disqualification or from 3 April 2023.

IV025 variable rate subordinated unsecured callable bonds

R1 000 million Investec Bank Limited IV025 locally registered subordinated unsecured callable bonds are due in September 2024. Interest is payable quarterly on 12 December, 12 March, 12 June and 12 September at a rate equal to the three-month JIBAR plus 2.50% up to and excluding 12 September 2024. The maturity date is 12 September 2024, but the company has the option to call the bonds upon regulatory capital disqualification or from 12 September 2019.

IV026 variable rate subordinated unsecured callable bonds

R750 million Investec Bank Limited IV026 locally registered subordinated unsecured callable bonds are due in September 2024. Interest is payable quarterly on 27 December, 27 March, 27 June and 27 September at a rate equal to the three-month JIBAR plus 2.45% up to and excluding 27 September 2024. The maturity date is 27 September 2024, but the company has the option to call the bonds upon regulatory capital disqualification or from 27 September 2019.

IV030 indexed rate subordinated unsecured callable bonds

R501 million (2018: R444 million) Investec Bank Limited IV030 locally registered subordinated unsecured callable bonds are due in January 2025. Interest on these inflation-linked bonds is payable semi-annually on 31 January and 31 July at a rate of 2.00%. The IV030 is a replica of the I2025 South African government bond. The maturity date is 31 January 2025, but the company has the option to call the bonds upon regulatory capital disqualification or from 31 January 2020.

IV030A indexed rate subordinated unsecured callable bonds

R424 million (2018: R420 million) Investec Bank Limited IV030A locally registered subordinated unsecured callable bonds are due in January 2025. Interest on these inflation-linked bonds is payable semi-annually on 31 January and 31 July at a rate of 2.00%. The IV030A is a replica of the I2025 South African government bond. The maturity date is 31 January 2025, but the company has the option to call the bonds upon regulatory capital disqualification or from 31 January 2020.

IV031 variable rate subordinated unsecured callable bonds

R500 million Investec Bank Limited IV031 locally registered subordinated unsecured callable bonds are due in March 2025. Interest is payable quarterly on 11 December, 11 March, 11 June and 11 September at a rate equal to the three-month JIBAR plus 2.95% up to and excluding 11 March 2025. The maturity date is 11 March 2025, but the company has the option to call the bonds upon regulatory capital disqualification or from 11 March 2020.

39. Subordinated liabilities *(continued)*

IV032 variable rate subordinated unsecured callable bonds

Rnil (2018: R810 million) Investec Bank Limited IV032 locally registered subordinated unsecured callable bonds are due in August 2023. Interest is payable quarterly on 14 November, 14 February, 14 May, 14 August at a rate equal to the three-month JIBAR plus 2.95%. The maturity date is 14 August 2023, but the company has the option to call the bonds upon regulatory capital disqualification or from 14 August 2018.

IV033 variable rate subordinated unsecured callable bonds

R159 million Investec Bank Limited IV033 locally registered subordinated unsecured callable bonds are due in February 2026. Interest is payable quarterly on 11 May, 11 August, 11 November and 11 February at a rate equal to the three-month JIBAR plus 4.25% up to and excluding 11 February 2026. The maturity date is 11 February 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 11 February 2021.

IV034 fixed rate subordinated unsecured callable bonds

R101 million Investec Bank Limited IV034 locally registered subordinated unsecured callable bonds are due in February 2026. Interest is payable semi-annually on 11 February and 11 August at a rate equal to 12.47% up to and excluding 11 February 2026. The maturity date is 11 February 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 11 February 2021.

IV035 variable rate subordinated unsecured callable bonds

R1 468 million Investec Bank Limited IV035 locally registered subordinated unsecured callable bonds are due in April 2027. Interest is payable quarterly on 7 April, 7 July, 7 October and 7 January at a rate equal to the three-month JIBAR plus 4.65% up to and excluding 7 April 2027. The maturity date is 7 April 2027, but the company has the option to call the bonds upon regulatory capital disqualification or from 7 April 2022.

IV036 variable rate subordinated unsecured callable bonds

R32 million Investec Bank Limited IV036 locally registered subordinated unsecured callable bonds are due in April 2026. Interest is payable quarterly on 22 April, 22 July, 22 October and 22 January at a rate equal to the three-month JIBAR plus 4.25% up to and excluding 22 July 2026. The maturity date is 22 July 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 22 July 2021.

IV037 variable rate subordinated unsecured callable bonds

$125 million Investec Bank Limited IV037 locally registered subordinated unsecured tier 2 callable bonds are due in October 2026 and were issued at an issue price of $91 million. The notes will automatically convert from zero coupon notes to floating rate notes on the first optional redemption date, being 19 October 2021. The implied zero coupon yield is 6.29961713% nacq (ACT/360) up until 19 October 2021. If the Issuer does not exercise the option to redeem the notes on 19 October 2021, then interest on the floating rate notes shall commence on 19 October 2021 and is payable quarterly on 19 January, 19 July, 19 April and 19 October at a rate equal to the three-month USD LIBOR plus 5.5% up to and excluding 19 October 2026. The maturity date is 19 October 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 19 October 2021.

IV038 variable rate subordinated unsecured callable bonds

R350 million Investec Bank Limited IV038 locally registered subordinated unsecured callable bonds are due in September 2026. Interest is payable quarterly on 23 March, 23 June, 23 September and 23 December at a rate equal to the three-month JIBAR plus 4.25% up to and excluding 23 September 2026. The maturity date is 23 September 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 23 September 2021.

IV039 indexed rate subordinated unsecured callable bonds

R179 million (2018: R166 million) Investec Bank Limited IV039 locally registered subordinated unsecured callable bonds are due in January 2027. Interest on these inflation-linked bonds is payable quarterly on 31 January, 30 April, 31 July and 31 October at a rate of 2.75%. The IV039 is a replica of the R212 South African government bond. The maturity date is 31 January 2027, but the company has the option to call the bonds upon regulatory capital disqualification or from 31 January 2022.

IV040 variable rate subordinated unsecured callable bonds

R589 million Investec Bank Limited IV040 locally registered subordinated unsecured callable bonds are due in September 2026. Interest is payable quarterly on 29 March, 29 June, 29 September and 29 December at a rate equal to the three-month JIBAR plus 4.25% up to and excluding 29 September 2026. The maturity date is 29 September 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 29 September 2021.

39. Subordinated liabilities *(continued)*

IV041 fixed rate subordinated unsecured callable bonds

R190 million Investec Bank Limited IV040 locally registered subordinated unsecured callable bonds are due in September 2026. Interest is payable quarterly on 29 March, 29 June, 29 September and 29 December at a rate of 11.97% up to and excluding 29 September 2026. The maturity date is 29 September 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 29 September 2021.

IV042 variable rate subordinated unsecured callable bonds

R50 million Investec Bank Limited IV042 locally registered subordinated unsecured callable bonds are due in November 2026. Interest is payable quarterly on 18 February, 18 May, 18 August and 18 November at a rate equal to the three-month JIBAR plus 4.25% up to and excluding 18 November 2026. The maturity date is 18 November 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 18 November 2021.

IV043 fixed rate subordinated unsecured callable bonds

R150 million Investec Bank Limited IV042 locally registered subordinated unsecured callable bonds are due in November 2026. Interest is payable quarterly on 21 February, 21 May, 21 August and 21 November at a rate of 12.50% up to and excluding 21 November 2026. The maturity date is 21 November 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 21 November 2021.

IV044 variable rate subordinated unsecured callable bonds

R240 million Investec Bank Limited IV044 locally registered subordinated unsecured callable bonds are due in January 2027. Interest is payable quarterly on 31 January, 30 April, 31 July and 31 October at a rate equal to the three-month JIBAR plus 4.15% up to and excluding 31 January 2027. The maturity date is 31 January 2027, but the company has the option to call the bonds upon regulatory capital disqualification or from 31 January 2022.

IV045 indexed rate subordinated unsecured callable bonds

R1 740 million (2018: R1 603 million) Investec Bank Limited IV045 locally registered subordinated unsecured callable bonds are due in January 2027. Interest on these inflation-linked bonds is payable quarterly on 31 January, 30 April, 31 July and 31 October at a rate of 2.75%. The IV045 is a replica of the R212 South African government bond. The maturity date is 31 January 2027, but the company has the option to call the bonds upon regulatory capital disqualification or from 31 January 2022.

IV046 variable rate subordinated unsecured callable bonds

R1 200 million Investec Bank Limited IV046 locally registered subordinated unsecured callable bonds are due in June 2027. Interest is payable quarterly on 21 September, 21 December, 21 March and 21 June at a rate equal to the three-month JIBAR plus 3.90%. The maturity date is 21 June 2027, but the company has the option to call the bonds upon regulatory capital disqualification or from 21 June 2022.

IV047 variable rate subordinated unsecured callable bonds

$116 million Investec Bank Limited IV047 locally registered subordinated unsecured Tier II callable bonds are due in June 2027 and were issued at an issue price of $86 million. The notes will automatically convert from zero coupon notes to floating rate notes on the first optional redemption date, being 30 June 2022. The implied zero coupon yield is 5.915966% nacq (ACT/360) up until; the 30 June 2022. If the issuer does not exercise the option to redeem the notes on 30 June 2022, then interest on the floating rate notes shall commence on 30 June 2022 and is payable quarterly on 30 September, 30 December, 30 June at a rate equal to the three-month USD LIBOR plus 4.5% up to and excluding 30 June 2027. The maturity date is 30 June 2027, but the company has the option to call the bonds upon regulatory capital disqualification or from 30 June 2022.

IV049 variable rate subordinated unsecured callable bonds

R849 million (2018: Rnil) Investec Bank Limited IV049 locally registered subordinated unsecured callable bonds are due in 4 December 2028. Interest is payable quarterly in arrears on 4 March, 4 June and 4 September and 4 December at a rate equal to three-month JIBAR plus 3.413% basis points up to and excluding 4 March 2028. The maturity date is 4 March 2028, but the company has the option to call the bonds upon regulatory capital disqualification or from 4 March 2028.

At 31 March R'million	Group 2019	Group 2018	Company 2019	Company 2018
40. Ordinary share capital				
Authorised				
105 000 000 (2018: 105 000 000) ordinary shares of 50 cents each				
Issued				
63 019 022 (2018: 63 019 022) ordinary shares of 50 cents each, fully paid	32	32	32	32

At 31 March R'million	Group 2019	Group 2018	Company 2019	Company 2018
41. Perpetual preference shares				
Authorised				
70 000 000 (2018: 70 000 000) non-redeemable, non-cumulative, non-participating preference shares of one cent each (perpetual preference shares)				
20 000 000 (2018: 20 000 000) non-redeemable, non-cumulative, non-participating preference shares with a par value of one cent each (non-redeemable programme preference shares)				
49 000 000 (2018: 49 000 000) redeemable, non-participating preference shares with a par value of one cent each (redeemable programme preference shares)				
1 000 000 (2018: 1 000 000) class IBRP1 redeemable, non-participating preference shares with a par value of one cent each				
Issued				
15 447 630 (2018: 15 447 630) non-redeemable, non-cumulative non-participating preference shares of one cent each, issued at a premium of between R96.46 and R99.99 per share.	1 534	1 534	1 534	1 534
– Perpetual preference share capital	*	*	*	*
– Perpetual preference share premium	1 534	1 534	1 534	1 534

* *Less than R1 million.*

Share premium on perpetual preference shares is included in the line item share premium on the balance sheet. Refer to note 42.

Preference shareholders will be entitled to receive dividends, if declared, at a rate limited to 83.33% of the South African prime interest rate on R100 being the deemed value of the issue price of the preference share held.

Preference shareholders receive dividends in priority to any payment of dividends to the holder of any other class of shares in the capital of the company not ranking prior or *pari passu* with the preference shares.

An ordinary dividend will not be declared by Investec Bank Limited unless the preference dividend has been declared. If declared, preference dividends are payable semi-annually at least seven business days prior to the date on which Investec Bank Limited pays its ordinary dividends, if any, but shall be payable no later than 120 business days after 31 March and 30 September, respectively.

At 31 March R'million	Group 2019	Group 2018	Company 2019	Company 2018
42. Share premium				
Share premium on ordinary shares	13 351	13 351	13 351	13 351
Share premium on perpetual preference shares (refer to note 41)	1 534	1 534	1 534	1 534
	14 885	**14 885**	**14 885**	**14 885**

At 31 March R'million	Group 2019	Group 2018	Company 2019	Company 2018
43. Other Additional Tier 1 securities in issue				
IV048 variable rate subordinated unsecured callable bonds	350	350	350	350
IV050 variable rate subordinated unsecured callable bonds	110	–	110	–
	460	**350**	**460**	**350**

IV048 variable rate subordinated unsecured callable bonds.
Investec Bank Limited issued R350 million other Additional Tier 1 floating rate notes on the 22 March 2018. Interest is payable quarterly on 22 June, 22 September, 22 December and 22 March at a rate equal to the three-month JIBAR plus 5.15%. There is no maturity date but the issuer has the option to redeem on 22 March 2023 and on every interest payment date thereafter. The interest is payable at the option of the issuer.

IV050 variable rate subordinated unsecured callable bonds.
Investec Bank Limited issued R93 million and R17 million Other Additional Tier 1 floating rate notes on the 26 March 2019 and 29 March 2019 respectively. Interest is payable quarterly on the 26 June,26 September, 26 December and 26 March at a rate equal to the three-month JIBAR plus 4.55%. There is no maturity date but the issuer has the option to redeem on the 26 June 2024 and on any interest payment date thereafter. The interest is payable at the option of the issuer.

	Group			
	2019		2018	
At 31 March R'million	Total future minimum payments	Present value	Total future minimum payments	Present value
44. Finance lease disclosures				
Finance lease receivables included in loans and advances to customers				
Lease receivables due in:				
Less than one year	1 580	1 337	1 274	1 051
One to five years	1 210	1 060	1 190	1 040
	2 790	**2 397**	**2 464**	**2 091**
Unearned finance income	**393**		**373**	

At 31 March 2019 and 31 March 2018, there were no unguaranteed residual values.

At 31 March R'million	Group **2019**	 2018	Company **2019**	 2018
45. Notes to cash flow statement				
Profit before taxation adjusted for non-cash items is derived as follows:				
Profit before taxation	5 337	4 475	5 562	4 313
Adjustments for non-cash items included in net income before taxation:				
Amortisation of acquired intangible assets	51	51	–	–
Depreciation, amortisation and impairment of property, equipment and intangibles	264	191	233	172
Expected credit loss impairment charges excluding ECL on cash and cash equivalents*	720	–	706	–
Impairment losses on loans and advances*	–	720	–	641
Share of post taxation profit of associates	(1 163)	(777)	(1 193)	(766)
Impairment of goodwill	3	–	–	–
Gain on realisation of available-for-sale assets recycled through the income statement	–	(94)	–	(81)
Financial impact of acquisition of subsidiary	(10)	100	–	–
Profit before taxation adjusted for non-cash items	**5 202**	**4 666**	**5 308**	**4 279**
Increase in operating assets				
Loans and advances to banks	(1 205)	8 805	(1 204)	8 804
Reverse repurchase agreements and cash collateral on securities borrowed	2 059	6 090	2 057	6 741
Sovereign debt securities	1 380	(14 489)	1 662	(14 778)
Bank debt securities	(4 527)	(487)	(4 921)	(107)
Other debt securities	(2 197)	1 642	(2 449)	721
Derivative financial instruments	5 513	(2 950)	5 636	(2 919)
Securities arising from trading activities	(4 184)	(222)	(4 184)	(222)
Investment portfolio	1 028	(597)	(35)	(611)
Loans and advances to customers	(14 794)	(23 937)	(14 119)	(21 467)
Own originated loans and advances to customers securitised	(835)	946	–	–
Other loans and advances	(64)	45	(71)	40
Other securitised assets	9	(141)	–	–
Other assets	(455)	(1 430)	(819)	(515)
Loans to group companies	(5 239)	4 992	(11 437)	2 605
Non-current assets held for sale	–	456	–	456
	(23 511)	**(21 277)**	**(29 884)**	**(21 252)**
Increase in operating liabilities				
Deposits by banks	5 434	(7 771)	5 434	(7 771)
Derivative financial instruments	(4 810)	3 351	(4 810)	3 351
Other trading liabilities	2 163	638	2 163	638
Repurchase agreements and cash collateral on securities lent	6 590	729	6 934	725
Customer accounts (deposits)	17 331	20 021	15 391	23 933
Debt securities in issue	3 039	(2 350)	3 039	(2 335)
Liabilities arising on securitisation of own originated loans and advances	169	878	–	–
Other liabilities	1 560	(1 317)	3 004	(645)
Loans from group companies	(4 747)	1 065	2 060	1 945
	26 729	**15 244**	**33 215**	**19 841**

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

	Group		Company	
At 31 March R'million	**2019**	2018	**2019**	2018
46. Commitments				
Undrawn facilities	55 970	47 531	52 509	45 421
	55 970	**47 531**	**52 509**	**45 421**
The group has entered into forward foreign exchange contracts and loan commitments in the normal course of its banking business for which the fair value is recorded on balance sheet.				
Operating lease commitments				
Future minimum lease payments under non-cancellable operating leases:				
Less than one year	105	209	105	196
One to five years	265	524	265	470
Greater than five years	–	68	–	–
	370	**801**	**370**	**666**

At 31 March 2019, Investec was obligated under a number of operating leases for properties, computer equipment and office equipment for which the future minimum lease payments extend over a number of years. The annual escalation clauses range between 7.0% and 10.0% per annum. The majority of the leases have renewal options. Contingent rent represents payments made to landlords for operating, tax and other escalation expenses.

	2019		2018	
At 31 March R'million	**Carrying amount of pledged asset**	**Carrying value of related liability repurchase agreements and cash collateral on securities lent**	Carrying amount of pledged asset	Carrying value of related liability repurchase agreements and cash collateral on securities lent
Group				
Pledged assets				
Sovereign debt securities	5 977	5 385	5 239	4 977
Bank debt securities	2 259	2 106	2 275	1 803
Other debt securities	–	–	855	645
Securities arising from trading activities	4 542	4 542	94	94
	12 778	**12 033**	**8 463**	**7 519**
Company				
Pledged assets				
Sovereign debt securities	5 977	5 385	5 239	4 977
Bank debt securities	977	993	942	596
Other debt securities	–	–	855	645
Securities arising from trading activities	4 542	4 542	94	94
	11 496	**10 920**	**7 130**	**6 312**

The assets pledged by the group are strictly for the purpose of providing collateral for the counterparty. To the extent that the counterparty is permitted to sell and/or repledge the assets, they are classified on the balance sheet as repurchase agreements and cash collateral on securities borrowed.

At 31 March R'million	Group 2019	Group 2018	Company 2019	Company 2018
47. Contingent liabilities				
Guarantees and assets pledged as collateral security:				
– Guarantees and irrevocable letters of credit	15 327	16 843	16 060	17 682
	15 327	**16 843**	**16 060**	**17 682**

The amounts shown above are intended only to provide an indication of the volume of business outstanding at the balance sheet date.

Guarantees are issued by Investec Bank Limited on behalf of third parties and other group companies. The guarantees are issued as part of the banking business.

Legal proceedings

Investec operates in a legal and regulatory environment that exposes it to litigation risks. As a result, Investec is involved in disputes and legal proceedings which arise in the ordinary course of business. Investec does not expect the ultimate resolution of any of the proceedings to which Investec is a party to have a significant adverse effect on the financial position of the group. These claims, if any, cannot be reasonably estimated at this time.

At 31 March R'million	Group and company 2019	Group and company 2018
48. Related party transactions		
Transactions, arrangements and agreements involving directors and others:		
Transactions, arrangements and agreements with directors and connected persons and companies controlled by them, and with officers of the company, were as follows:		
Directors, key management and connected persons and companies controlled by them:		
Loans		
At the beginning of the year	551	452
Increase in loans	36	193
Repayment of loans	(517)	(88)
Exchange adjustment	(1)	(6)
At the end of the year	**69**	**551**
Guarantees		
At the beginning of the year	7	102
Additional guarantees granted	–	5
Guarantees cancelled	(7)	(103)
Exchange adjustments	–	3
At the end of the year	**–**	**7**
Deposits		
At the beginning of the year	(432)	(604)
Increase in deposits	(150)	(152)
Decrease in deposits	398	324
Exchange adjustment	–	–
At the end of the year	**(184)**	**(432)**

The above transactions were made in the ordinary course of business and on the same terms, including interest rates and security, as for arm's length transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment. None of these loans have been impaired.

At 31 March R'million	2019	2018

48. Related party transactions *(continued)*

	2019	2018
Compensation of key management personnel		
Short-term employee benefits	99	126
Other long-term employee benefits	32	60
Share-based payments	68	45
	199	**231**

For the year to 31 March R'million	Transactions with Investec plc and its subsidiaries 2019	2018	Transactions with Investec Bank (Mauritius) Limited and its subsidiaries 2019	2018
Transactions with fellow subsidiaries				
Assets				
Loans and advances to banks	51	817	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	370	297	–	–
Loans and advances to customers	114	85	–	–
Other debt securities	695	633	3 658	3 063
Derivative financial instruments	405	350	24	42
Other assets	140	222	–	–
Liabilities				
Deposits from banks	342	311	1 322	187
Customer accounts (deposits)	–	–	–	–
Repurchase agreements and cash collateral on securities lent	–	–	–	–
Derivative financial instruments	59	49	247	206
Debt securities in issue	–	–	–	–
Other liabilities	62	42	–	–
Income statement				
Interest income	47	42	144	107
Interest expense	9	9	9	10
Fee and commission income	–	–	15	14
Fee and commission expense	–	–	–	1
Off balance sheet				
Guarantees issued	–	–	48	22

The above outstanding balances arose from the ordinary course of business and are on the same terms, including interest rates and security, as for comparable transactions with third party counterparties.

In the normal course of business, services are rendered between Investec plc and Investec Bank Limited entities. In the year to 31 March 2019, this resulted in a net payment by Investec plc group of R690.9 million (2018: R494.0 million).

	2019	2018
Transactions with associates		
Amounts due from associates and their subsidiaries	**3 535**	**3 197**
Interest income from loans to associates	**88**	**204**
Interest expense from loans from associates	**91**	**22**

The above outstanding balances arose from the ordinary course of business and are on the same terms, including interest rates and security, as for comparable transactions with third party counterparties.

Refer to page 3 for related party relationships and pages 114 to 130 in the directors' remuneration report for other transactions relating to directors.

Refer to note 34 for loans to group companies and loans from group companies and subsidiaries and note 35 for loan advances to subsidiaries.

49. Liquidity analysis of financial liabilities based on undiscounted cash flows

The balances in the below table will not agree directly to the balances in the consolidated balance sheet as the table incorporates all cash flow on an undiscounted basis relating to both principal and those associated with all future coupon payments (except for trading liabilities and trading derivatives). Furthermore, loan commitments are generally not recognised on the balance sheet. Trading liabilities and trading derivatives have been included in the 'Demand' time bucket and not by contractual maturity, because trading liabilities are typically held for short periods of time.

For an unaudited analysis based on discounted cash flows, please refer to page 60.

At 31 March R'million	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	> Five years	**Total**
Group								
2019								
Liabilities								
Deposits by banks	351	8 153	1 796	395	513	19 102	–	30 310
Derivative financial instruments	11 097	–	–	–	–	–	–	11 097
– held-for-trading	11 040	–	–	–	–	–	–	11 040
– held for hedging risk	57	–	–	–	–	–	–	57
Other trading liabilities	4 468	–	–	–	–	–	–	4 468
Repurchase agreements and cash collateral on securities lent	7 742	4 226	566	341	372	870	2 403	16 520
Customer accounts (deposits)	130 828	38 205	43 132	36 005	55 087	41 294	1 096	345 647
Debt securities in issue	–	53	411	431	1 055	4 699	–	6 649
Liabilities arising on securitisation of own originated loans and advances	–	–	75	75	106	21	1 584	1 861
Other liabilities	3 078	430	1 668	65	167	836	21	6 265
Loans from group companies	2 260	–	–	–	–	–	–	2 260
Subordinated liabilities	7	53	135	1 906	1 870	11 525	–	15 496
Total on balance sheet liabilities	**159 831**	**51 120**	**47 783**	**39 218**	**59 170**	**78 347**	**5 104**	**440 573**
Contingent liabilities	3 603	50	4 854	2 058	972	4 638	292	16 467
Commitments	5 037	432	7 681	1 510	4 246	14 040	23 024	55 970
Total liabilities	**168 471**	**51 602**	**60 318**	**42 786**	**64 388**	**97 025**	**28 420**	**513 010**

49. Liquidity analysis of financial liabilities based on undiscounted cash flows *(continued)*

At 31 March R'million	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	> Five years	**Total**
Group								
2018								
Liabilities								
Deposits by banks	423	7 076	2 261	544	6 985	7 488	–	24 777
Derivative financial instruments	15 907	–	–	–	–	–	–	15 907
– held-for-trading	15 851	–	–	–	–	–	–	15 851
– held for hedging risk	56	–	–	–	–	–	–	56
Other trading liabilities	2 305	–	–	–	–	–	–	2 305
Repurchase agreements and cash collateral on securities lent	917	4 737	4	5	606	1 385	741	8 395
Customer accounts (deposits)	118 981	35 102	67 560	25 142	39 906	36 207	2 243	325 141
Debt securities in issue	–	–	86	342	2 190	895	–	3 513
Liabilities arising on securitisation of own originated loans and advances	–	–	64	80	83	1 437	518	2 182
Other liabilities	1 861	442	1 266	2 292	288	582	117	6 848
Loans from group companies	7 007	–	–	–	–	–	–	7 007
Subordinated liabilities	–	469	149	249	449	12 089	851	14 256
Total on balance sheet liabilities	**147 401**	**47 826**	**71 390**	**28 654**	**50 507**	**60 083**	**4 470**	**410 331**
Contingent liabilities	2 797	–	8 194	1 145	2 668	1 792	1 449	18 045
Commitments	5 473	392	5 791	1 750	2 256	12 368	19 501	47 531
Total liabilities	**155 671**	**48 218**	**85 375**	**31 549**	**55 431**	**74 243**	**25 420**	**475 907**

49. Liquidity analysis of financial liabilities based on undiscounted cash flows *(continued)*

At 31 March R'million	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	> Five years	**Total**
Company								
2019								
Liabilities								
Deposits by banks	351	8 153	1 796	395	513	19 102	–	30 310
Derivative financial instruments	11 097	–	–	–	–	–	–	11 097
– held-for-trading	11 040	–	–	–	–	–	–	11 040
– held for hedging risk	57	–	–	–	–	–	–	57
Other trading liabilities	4 468	–	–	–	–	–	–	4 468
Repurchase agreements and cash collateral on securities lent	7 742	4 224	42	43	82	870	2 403	15 406
Customer accounts (deposits)	120 425	36 403	41 987	35 664	53 840	40 987	1 096	330 402
Debt securities in issue	–	53	411	365	901	3 789	–	5 519
Other liabilities	3 360	195	1 161	45	1 659	817	–	7 237
Loans from group companies and subsidiaries	5 912	–	–	–	–	–	–	5 912
Subordinated liabilities	7	53	135	1 906	1 870	11 525	–	15 496
Total on balance sheet liabilities	**153 362**	**49 081**	**45 532**	**38 418**	**58 865**	**77 090**	**3 499**	**425 847**
Contingent liabilities	3 603	–	4 675	2 045	815	4 630	292	16 060
Commitments	5 037	–	7 481	1 105	3 630	12 317	22 939	52 509
Total liabilities	**162 002**	**49 081**	**57 688**	**41 568**	**63 310**	**94 037**	**26 730**	**494 416**

49. Liquidity analysis of financial liabilities based on undiscounted cash flows *(continued)*

At 31 March R'million	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	> Five years	Total
Company								
2018								
Liabilities								
Deposits by banks	423	7 076	2 261	544	6 985	7 488	–	24 777
Derivative financial instruments	15 907	–	–	–	–	–	–	15 907
– held-for-trading	15 851	–	–	–	–	–	–	15 851
– held for hedging risk	56	–	–	–	–	–	–	56
Other trading liabilities	2 305	–	–	–	–	–	–	2 305
Repurchase agreements and cash collateral on securities lent	917	4 736	–	–	596	199	741	7 189
Customer accounts (deposits)	111 571	34 265	66 660	24 591	39 116	35 910	2 243	314 356
Debt securities in issue	–	–	86	342	1 360	695	–	2 483
Other liabilities	1 826	281	1 123	2 272	245	570	90	6 407
Loans from group companies and subsidiaries	3 852	–	–	–	–	–	–	3 852
Subordinated liabilities	–	469	149	249	449	12 089	851	14 256
Total on balance sheet liabilities	**136 801**	**46 827**	**70 279**	**27 998**	**48 751**	**56 951**	**3 925**	**391 532**
Contingent liabilities	2 797	–	7 973	1 078	2 629	1 756	1 449	17 682
Commitments	5 473	–	5 610	1 310	1 981	11 550	19 497	45 421
Total liabilities	**145 071**	**46 827**	**83 862**	**30 386**	**53 361**	**70 257**	**24 871**	**454 635**

50. Hedges

The group uses derivatives for the management of financial risks relating to its asset and liability portfolios, mainly associated with non-trading interest rate risks and exposures to foreign currency risk. Most non-trading interest rate risk is transferred from the originating business to the Central Treasury in the Specialist Bank. Once aggregated and netted, Central Treasury, as the sole interface to the wholesale market for cash and derivative transactions, actively manages the liquidity mismatch and non-trading interest rate risk from our asset and liability portfolios. In this regard, Treasury is required to exercise tight control of funding, liquidity, concentration and non-trading interest rate risk within defined parameters.

The accounting treatment of accounting hedges is dependent on the classification between fair value hedges and cash flow hedges and in particular accounting hedges require the identification of a direct relationship between a hedged item and hedging instrument.

This relationship is established in limited circumstances based on the manner in which the group manages its risk exposure. On the following page is a description of each category of accounting hedges achieved by the group.

50. Hedges *(continued)*

Fair value hedges

Fair value hedges are entered into mainly to hedge the exposure of changes in fair value of fixed-rate financial instruments attributable to interest rates.

At 31 March R'million	Description of financial instrument being hedged	Fair value of hedging instrument	Cumulative fair value losses on hedging instrument	Current year fair value gains or (losses) on hedging instrument	Cumulative fair value gains on hedged item*	Current year fair value gains or (losses) on hedged item
Group						
2019						
Interest rate swap	**Bonds**	**(729)**	**(404)**	**(177)**	**329**	**(13)**
2018						
Interest rate swap	Bonds	75	(210)	33	268	183
Company						
2019						
Interest rate swap	**Bonds**	**(729)**	**(404)**	**(177)**	**329**	**(13)**
2018						
Interest rate swap	Bonds	75	(210)	33	268	183

* *Change in fair value used as the basis recognising hedge effectiveness for the period.*

Hedged items

At 31 March 2019^ R'million	Carrying amount of hedged item
Assets	
Sovereign debt securities	46 181
Bank debt securities	6 515
Other debt securities	8 112

Maturity analysis of hedged item

At 31 March 2019^ R'million	Up to one month	One month to three months	Three months to six months	Six months to one year	One to five years	Greater than five years	Total
Assets – notionals							
Sovereign debt securities	233	573	6 025	5 216	2 801	3 739	18 587
Bank debt securities	–	104	–	–	1 248	1 601	2 953
Other debt securities	170	–	–	–	962	310	1 442

^ *As permitted by IFRS 9, the group has elected not to restate comparative annual financial statements.*

There was no ineffective portion recognised in the income statement in the current year.

There are no accumulated fair value hedge adjustments for the hedged items that have ceased to be adjusted for hedging gains and losses.

50. Hedges *(continued)*

Cash flow hedges

The group is exposed to variability in cash flows on future liabilities arising from changes in base interest rates. The aggregate expected cash flows are hedged based on cash flow forecasts with reference to terms and conditions present in the affected contractual arrangements. Changes in fair value are initially recognised in other comprehensive income and reclassified to the income statement when the cash flow affects the income statement.

At 31 March R'million	Description of financial instrument being hedged	Fair value of hedging instrument	Period cash flows are expected to occur and affect income statement
Group and company			
2019			
Cross-currency swaps	**Bonds**	**(1 251)**	**Three months**
Forward exchange contracts	**Dividends**	**78**	**Three months**
2018			
Cross-currency swaps	Bonds	(518)	Three months
Forward exchange contracts	Dividends	78	Three months

There are cash flow hedges during the year to mitigate interest rate and currency risk. A reconciliation of the cash flow hedge reserve can be found in the statement of changes in equity. There was no ineffective portion recognised in the income statement.

Realisations to the income statement for cash flow hedges of (R490 million) (2018: R1 195 million) are included in net interest income.

There are R78 million accumulated cash flow hedge reserves for hedged items that have ceased to be adjusted for hedging gains and losses.

There was no ineffective portion recognised in the income statement in the current year.

At 31 March R'million	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Net amount
	Amounts subject to enforceable netting arrangements				
	Effects of offsetting on balance sheet			Related amounts not offset	
51. Offsetting					
2019					
Group					
Assets					
Cash and balances at central banks	10 290	–	10 290	–	10 290
Loans and advances to banks	26 988	(7 085)	19 903	–	19 903
Non-sovereign and non-bank cash placements	12 192	–	12 192	–	12 192
Reverse repurchase agreements and cash collateral on securities borrowed	18 552	–	18 552	–	18 552
Sovereign debt securities	60 893	–	60 893	(5 977)	54 916
Bank debt securities	12 526	–	12 526	(2 259)	10 267
Other debt securities	13 553	–	13 553	–	13 553
Derivative financial instruments	11 507	(3 807)	7 700	(3 101)	4 599
Securities arising from trading activities	5 059	–	5 059	(4 542)	517
Investment portfolio	7 664	–	7 664	–	7 664
Loans and advances to customers	264 116	(2 379)	261 737	–	261 737
Own originated loans and advances to customers securitised	7 667	–	7 667	–	7 667
Other loans and advances	329	–	329	–	329
Other securitised assets	232	–	232	–	232
Other assets	8 237	–	8 237	–	8 237
	459 805	**(13 271)**	**446 534**	**(15 879)**	**430 655**
Liabilities					
Deposits by banks	30 832	(791)	30 041	–	30 041
Derivative financial instruments	21 198	(10 101)	11 097	(3 101)	7 996
Other trading liabilities	4 468	–	4 468	–	4 468
Repurchase agreements and cash collateral on securities lent	15 234	–	15 234	(12 034)	3 200
Customer accounts (deposits)	344 089	(2 379)	341 710	–	341 710
Debt securities in issue	6 512	–	6 512	–	6 512
Liabilities arising on securitisation of own originated loans and advances	1 720	–	1 720	–	1 720
Other liabilities	6 263	–	6 263	–	6 263
Subordinated liabilities	13 918	–	13 918	–	13 918
	444 234	**(13 271)**	**430 963**	**(15 135)**	**415 828**

At 31 March R'million	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Net amount
	Amounts subject to enforceable netting arrangements: Effects of offsetting on balance sheet			Related amounts not offset	
51. Offsetting *(continued)*					
2018					
Group					
Assets					
Cash and balances at central banks	9 187	–	9 187	–	9 187
Loans and advances to banks	21 843	(4 578)	17 265	–	17 265
Non-sovereign and non-bank cash placements	9 993	–	9 993	–	9 993
Reverse repurchase agreements and cash collateral on securities borrowed	20 480	–	20 480	–	20 480
Sovereign debt securities	62 403	–	62 403	(5 239)	57 164
Bank debt securities	8 051	–	8 051	(2 275)	5 776
Other debt securities	10 342	–	10 342	(855)	9 487
Derivative financial instruments	18 089	(5 503)	12 586	(4 837)	7 749
Securities arising from trading activities	875	–	875	(94)	781
Investment portfolio	7 943	–	7 943	–	7 943
Loans and advances to customers	249 431	(1 957)	247 474	–	247 474
Own originated loans and advances to customers securitised	6 830	–	6 830	–	6 830
Other loans and advances	265	–	265	–	265
Other securitised assets	241	–	241	–	241
Other assets	6 686	–	6 686	–	6 686
	432 659	**(12 038)**	**420 621**	**(13 300)**	**407 321**
Liabilities					
Deposits by banks	26 782	(2 175)	24 607	–	24 607
Derivative financial instruments	23 813	(7 906)	15 907	(4 837)	11 070
Other trading liabilities	2 305	–	2 305	–	2 305
Repurchase agreements and cash collateral on securities lent	8 395	–	8 395	(5 105)	3 290
Customer accounts (deposits)	323 850	(1 957)	321 893	–	321 893
Debt securities in issue	3 473	–	3 473	–	3 473
Liabilities arising on securitisation of own originated loans and advances	1 551	–	1 551	–	1 551
Other liabilities	6 844	–	6 844	–	6 844
Subordinated liabilities	13 374	–	13 374	–	13 374
	410 387	**(12 038)**	**398 349**	**(9 942)**	**388 407**

	Amounts subject to enforceable netting arrangements				
	Effects of offsetting on balance sheet			Related amounts not offset	
At 31 March R'million	Gross amounts	Amounts offset	**Net amounts reported on the balance sheet**	Financial instruments (including non-cash collateral)	**Net amount**
51. Offsetting *(continued)*					
2019					
Company					
Assets					
Cash and balances at central banks	10 085	–	10 085	–	10 085
Loans and advances to banks	20 813	(7 085)	13 728	–	13 728
Non-sovereign and non-bank cash placements	12 132	–	12 132	–	12 132
Reverse repurchase agreements and cash collateral on securities borrowed	17 829	–	17 829	–	17 829
Sovereign debt securities	60 596	–	60 596	(5 977)	54 619
Bank debt securities	10 966	–	10 966	(977)	9 989
Other debt securities	13 192	–	13 192	–	13 192
Derivative financial instruments	11 333	(3 807)	7 526	(3 101)	4 425
Securities arising from trading activities	5 059	–	5 059	(4 542)	517
Investment portfolio	7 221	–	7 221	–	7 221
Loans and advances to customers	249 487	(2 379)	247 108	–	247 108
Other loans and advances	349	–	349	–	349
Other assets	5 212	–	5 212	–	5 212
	424 274	**(13 271)**	**411 003**	**(14 597)**	**396 406**
Liabilities					
Deposits by banks	30 832	(791)	30 041	–	30 041
Derivative financial instruments	21 198	(10 101)	11 097	(3 101)	7 996
Other trading liabilities	4 468	–	4 468	–	4 468
Repurchase agreements and cash collateral on securities lent	14 121	–	14 121	(10 921)	3 200
Customer accounts (deposits)	328 845	(2 379)	326 466	–	326 466
Debt securities in issue	5 482	–	5 482	–	5 482
Other liabilities	5 731	–	5 731	–	5 731
Subordinated liabilities	13 918	–	13 918	–	13 918
	424 595	**(13 271)**	**411 324**	**(14 022)**	**397 302**

51. Offsetting *(continued)*

At 31 March R'million	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Net amount
	Amounts subject to enforceable netting arrangements				
	Effects of offsetting on balance sheet			Related amounts not offset	
2018					
Company					
Assets					
Cash and balances at central banks	8 989	–	8 989	–	8 989
Loans and advances to banks	16 435	(4 578)	11 857	–	11 857
Non-sovereign and non-bank cash placements	9 993	–	9 993	–	9 993
Reverse repurchase agreements and cash collateral on securities borrowed	19 886	–	19 886	–	19 886
Sovereign debt securities	62 403	–	62 403	(5 239)	57 164
Bank debt securities	6 421	–	6 421	(942)	5 479
Other debt securities	9 984	–	9 984	(855)	9 129
Derivative financial instruments	17 898	(5 503)	12 395	(4 837)	7 558
Securities arising from trading activities	875	–	875	(94)	781
Investment portfolio	7 647	–	7 647	–	7 647
Loans and advances to customers	236 103	(1 957)	234 146	–	234 146
Other loans and advances	278	–	278	–	278
Other assets	3 307	–	3 307	–	3 307
	400 219	**(12 038)**	**388 181**	**(11 967)**	**376 214**
Liabilities					
Deposits by banks	26 782	(2 175)	24 607	–	24 607
Derivative financial instruments	23 813	(7 906)	15 907	(4 837)	11 070
Other trading liabilities	2 305	–	2 305	–	2 305
Repurchase agreements and cash collateral on securities lent	7 187	–	7 187	(6 312)	875
Customer accounts (deposits)	313 064	(1 957)	311 107	–	311 107
Debt securities in issue	2 443	–	2 443	–	2 443
Other liabilities	6 405	–	6 405	–	6 405
Subordinated liabilities	13 374	–	13 374	–	13 374
	395 373	**(12 038)**	**383 335**	**(11 149)**	**372 186**

52. Derecognition

Transfer of financial assets that do not result in derecognition

Investec Bank Limited has been party to securitisation transactions whereby assets continue to be recognised on balance sheet (either fully or partially) although they have been subject to legal transfer to another entity. Securitisations may, depending on the individual arrangement, result in continued recognition of the securitised assets and the recognition of the debt securities issued in the transaction.

R'million	2019 Carrying amount of assets that continue to be recognised	2019 Carrying amount of associated liabilities	2018 Carrying amount of assets that continue to be recognised	2018 Carrying amount of associated liabilities
Company				
No derecognition achieved				
Loans and advances to customers	7 667	7 667	6 830	6 830
	7 667	**7 667**	**6 830**	**6 830**

All the above derecognised assets in the company relate to Fox Street 1 (RF), Fox Street 2 (RF), Fox Street 3 (RF) Ltd, Fox Street 4 (RF) Ltd, Fox Street 5 (RF) and Fox Street 6 (RF) at 31 March 2019 and Fox Street 2 (RF), Fox Street 3 (RF) Ltd, Fox Street 4 (RF) Ltd and Fox Street 5 (RF) at 31 March 2018. For additional information refer to page 50 in risk management report.

For transfer of assets in relation to repurchase agreements see note 18.

53. Transition disclosures

Overview of the group's IFRS 9 transition impact

Group

The adoption of IFRS 9 has resulted in the following day one impact for the group.

Balance sheet impairment allowance and provisions

Total balance sheet impairment allowance and provisions increased by R653 million from R1.5 billion as at 31 March 2018 to R2.2 billion as at 1 April 2018. This is driven by an increase in Stage 1, Stage 2 and Stage 3 impairments of R807 million, partially offset by a reduction of R154 million as a result of the changes in classification and measurement of certain of the bank's financial assets to fair value. The increase in impairment allowance and provisions reduced the common equity tier 1 (CET 1) ratio by approximately 15bps on a fully loaded basis, or 4bps on a day one impact transitional basis.

Changes in classification and measurement of certain financial assets

In addition, changes in classification and measurement of certain of the group's other financial assets resulted in a decrease to equity of R423 million (post taxation), with an 13bps impact on the CET 1 ratio.

Taken together, the adoption of IFRS 9 resulted in a decrease in Investec Bank Limited's transitional CET 1 ratio of 17bps from 10.9% to 10.7%, in line with the group's target and in excess of minimum regulatory requirements. Investec Bank Limited confirmed to the SARB that it will use the transitional arrangements to absorb the full impact permissible of IFRS 9 in regulatory capital calculations.

Company

The adoption of IFRS 9 has resulted in the following day one impact for the company.

Balance sheet impairment allowance and provisions

Total balance sheet impairment allowance and provisions increased by R589 million from R1.2 billion as at 31 March 2018 to R1.8 billion as at 1 April 2018. This is driven by an increase in Stage 1, Stage 2 and Stage 3 impairments of R743 million, partially offset by a reduction of R154 million as a result of the changes in classification and measurement of certain of the bank's financial assets to fair value.

Changes in classification and measurement of certain financial assets

The adoption of IFRS 9 resulted in a decrease in Investec Bank Limited's transitional CET 1 ratio of 22bps from 9.7 to 9.5%, in line with the group's target and in excess of minimum regulatory requirements. Investec Bank Limited confirmed to the SARB that it will use the transitional arrangements to absorb the full impact permissible of IFRS 9 in regulatory capital calculations.

Classification and measurement overview

From 1 April 2018 the group classifies all of its financial assets which fall within the scope of IFRS 9 in the following measurement categories:

- Amortised cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVPL).

The classification into one of these categories is based on the entity's business model for managing the assets and the contractual cash flow characteristics of the assets.

The standard sets out three types of business models:

- **Hold to collect:** it is intended to hold the asset to maturity to earn interest; collecting repayments of principal and interest from the customer. These assets are accounted for at amortised cost.
- **Hold to collect and sell:** this model is similar to the hold to collect model, except that the entity may elect to sell some or all of the assets before maturity as circumstances change. These assets are accounted for at FVOCI.
- **Hold to sell/managed on a fair value basis:** the entity originates or purchases an asset with the intention of disposing of it in the short- or medium-term to benefit from capital appreciation or the portfolio is managed on a fair value basis. These assets are accounted for at FVPL.

53. Transition disclosures *(continued)*

Solely payments of principal and interest (SPPI)

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the group assesses whether the assets' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the group considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related asset is classified and measured at FVPL.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Designation at fair value

The adoption of IFRS 9 also necessitates a review of the designation of financial instruments at fair value. IFRS 9 requires that the designation is revoked where there is no longer an accounting mismatch at 1 April 2018 and permits designations to be revoked or additional designations created at 1 April 2018 if there are accounting mismatches at that date.

As a result:

- Fair value designations for financial liabilities have been created where there is an accounting mismatch, as permitted IFRS 9; and
- Fair value designations have been revoked for certain assets where accounting mismatches no longer exist as a result of the adoption of the classification rules of IFRS 9.

53. Transition disclosures *(continued)*

Reconciliation of movements and revaluation

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

Only assets and liabilities which have changes are shown.

R'million	IAS 39 carrying amount At 31 March 2018	Reclassifications in	Reclassifications out	Remeasurements	ECL	IFRS 9 carrying amount At 1 April 2018
Group						
Assets						
Financial assets at amortised cost (previously loans and receivables and held-to-maturity)						
Cash and balances at central banks	9 187	–	–	–	(7)	9 180
Loans and advances to banks	17 265	–	–	–	(2)	17 263
Non-sovereign and non-bank cash placements	9 419	–	–	–	(21)	9 398
Reverse repurchase agreements and cash collateral on securities borrowed	11 275	–	–	–	*	11 275
Sovereign debt securities	3 463	1 144[2]	–	(37)	(3)	4 567
Bank debt securities	1 916	1 727[2]	–	(16)	(3)	3 624
Other debt securities	1 289	2 255[2]	–	20	(4)	3 560
Loans and advances to customers	230 224	–	(3 625)[1]	–	(652)	225 947
Own originated loans and advances to customers securitised	6 830	–	–	–	(4)	6 826
Other assets	4 939	–	–	–	(13)	4 926
Financial assets at fair value through profit or loss (previously trading and designated at inception)						
Sovereign debt securities	41 050	–	(29 345)[3]	–	–	11 705
Bank debt securities	–	298[4]	–	–	–	298
Other debt securities	–	953[4]	–	–	–	953
Derivative financial instruments	12 586	–	(22)[1]	–	–	12 564
Investment portfolio	4 847	1 641[1]	–	(460)	–	6 028
Loans and advances to customers	17 250	2 004[1]	–	–	(39)	19 215
Financial assets at fair value through other comprehensive income (previously available-for-sale)						
Sovereign debt securities	17 890	29 345[3]	(1 144)[2]	19	(19)	46 091
Bank debt securities	6 135	–	(2 024)[2&4]	7	(7)	4 111
Other debt securities	9 053	–	(3 209)[2&4]	3	(3)	5 844
Liabilities						
Financial liabilities at amortised cost						
Other liabilities	3 377	–	–	–	30	3 407
Financial liabilities at fair value						
Customer accounts (deposits)	39 485	–	–	(32)	–	39 453

1. *Certain loans and advances to customers which were previously classified as amortised cost but which do not meet the SPPI test required for amortised cost classification under IFRS 9 have been reclassified to FVPL.*
2. *Certain debt instruments previously held as available-for-sale under IAS 39, have been reclassified to amortised cost under IFRS 9 as it is the intention to hold these specific assets to collect contractual cash flows which meet the SPPI test.*
3. *Certain sovereign debt securities of R29.3 billion have been reclassified to FVOCI as a dual business model was applicable to these assets.*
4. *Certain debt securities previously held as available-for-sale which do not meet the SPPI test have been reclassified to FVPL.*

* *Less than R1 million.*

53. Transition disclosures *(continued)*

Reconciliation of movements and revaluation (continued)

R'million	IAS 39 carrying amount At 31 March 2018	Reclassifi-cations in	Reclassifi-cations out	Remeasure-ments	ECL	IFRS 9 carrying amount At 1 April 2018
Company						
Assets						
Financial assets at amortised cost (previously loans and receivables)						
Cash and balances at central banks	8 989	–	–	–	(7)	8 982
Loans and advances to banks	11 857	–	–	–	(2)	11 855
Non-sovereign and non-bank cash placements	9 419	–	–	–	(21)	9 398
Reverse repurchase agreements and cash collateral on securities borrowed	10 681	–	–	–	*	10 681
Sovereign debt securities	3 463	1 144[2]	–	(37)	(3)	4 567
Bank debt securities	583	1 726[2]	–	(15)	(1)	2 293
Other debt securities	1 169	2 255[2]	–	20	(2)	3 442
Loans and advances to customers	216 896	–	(1 378)[1]	–	(460)	215 058
Investment in subsidiaries	13 785	–	(1 482)	–	–	12 303
Financial assets at fair value through profit or loss (mandatory and designated)						
Sovereign debt securities	41 050	–	(29 345)[3]	–	–	11 705
Other debt securities	–	714[4]	–	–	–	714
Derivative financial instruments	12 395	–	(22)	–	–	12 373
Investment portfolio	4 551	–	–	–	–	4 551
Loans and advances to customers	17 250	1 400[1]	–	–	(39)	18 611
Investment in subsidiaries	–	1 482	–	(615)	–	867
Financial assets at fair value through other comprehensive income						
Sovereign debt securities	17 890	29 345[3]	(1 144)[2]	19	(19)	46 091
Bank debt securities	5 838	–	(1 726)[2&4]	5	(5)	4 112
Other debt securities	8 815	–	(2 970)[2&4]	3	(3)	5 845
Liabilities						
Financial liabilities at amortised cost						
Other liabilities	3 306	–	–	–	(27)	3 333
Financial liabilities at fair value						
Customer accounts (deposits)	39 485	–	–	(32)	–	39 453

1. *Certain loans and advances to customers which were previously classified as amortised cost but which do not meet the SPPI test required for amortised cost classification under IFRS 9 have been reclassified to FVPL.*
2. *Certain debt instruments previously held as available-for-sale under IAS 39, have been reclassified to amortised cost under IFRS 9 as it is the intention to hold these specific assets to collect contractual cash flows which meet the SPPI test.*
3. *Certain sovereign debt securities of R29.3 billion have been reclassified to FVOCI as a dual business model was applicable to these assets.*
4. *Certain debt securities previously held as available-for-sale which do not meet the SPPI test have been reclassified to FVPL.*

* *Less than R1 million.*

53. Transition disclosures *(continued)*

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

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

R'million	Loan loss allowance and provision IAS 39 and and IAS 37 at 31 March 2018	Reclassification	Remeasurement	**ECL under IFRS 9 at 1 April 2018**	**Total increase in impairment allowances**
Group					
Assets					
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)					
Cash and balances at central banks	–	–	(7)	(7)	(7)
Loans and advances to banks	–	–	(2)	(2)	(2)
Non-sovereign and non-bank cash placements	–	–	(21)	(21)	(21)
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	*	*	*
Sovereign debt securities	–	–	(3)	(3)	(3)
Bank debt securities	–	–	(3)	(3)	(3)
Other debt securities	–	–	(4)	(4)	(4)
Loans and advances to customers	(1 430)	154	(690)	(1 966)	(536)
Own originated loans and advances to customers securitised	(6)	–	(4)	(10)	(4)
Other loans and advances	(25)	–	–	(25)	–
Other assets	(53)	–	(14)	(67)	(14)
Available-for-sale (IAS 39)/Financial assets at FVOCI (IFRS 9)					
Sovereign debt securities	–	–	(19)	(19)	(19)
Bank debt securities	–	–	(7)	(7)	(7)
Other debt securities	–	–	(3)	(3)	(3)
Liabilities					
Loan commitments and financial guarantee contracts	–	–	(30)	(30)	(30)
Total	**(1 514)**	**154**	**(807)**	**(2 167)**	**(653)**

* *Less than R1 million.*

53. Transition disclosures *(continued)*

R'million	Loan loss allowance and provision IAS 39 and and IAS 37 at 31 March 2018	Reclassifi-cation	Remeasure-ment	**ECL under IFRS 9 at 1 April 2018**	**Total increase in impairment allowances**
Company					
Assets					
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)					
Cash and balances at central banks	–	–	(7)	(7)	(7)
Loans and advances to banks	–	–	(2)	(2)	(2)
Non-sovereign and non-bank cash placements	–	–	(21)	(21)	(21)
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	*	*	*
Sovereign debt securities	–	–	(3)	(3)	(3)
Bank debt securities	–	–	(1)	(1)	(1)
Other debt securities	–	–	(2)	(2)	(2)
Loans and advances to customers	(1 140)	–	(499)	(1 639)	(499)
Other loans and advances	(79)	–	–	(79)	–
Available for sale/Financial assets FVOCI (IFRS 9)					
Sovereign debt securities	–	–	(19)	(19)	(19)
Bank debt securities	–	–	(5)	(5)	(5)
Other debt securities	–	–	(3)	(3)	(3)
Liabilities					
Loan commitments and financial guarantee contracts	–	–	(27)	(27)	(27)
Total	**(1 219)**	**–**	**(589)**	**(1 808)**	**(589)**

* *Less than R1 million.*

53. Transition disclosures *(continued)*

The impact of transition to IFRS 9 on equity

Only components of equity which have changed are shown.

Group

	Other reserves			
R'million	Own credit risk reserve	Available-for sale reserve/ Fair value reserve	Retained income	**Total affected equity components**
Closing balance under IAS 39 at 31 March 2018	**–**	**528**	**21 855**	**22 383**
	23	37	(954)	(894)
Recognition of ECL, including those measured at FVOCI	–	29	(653)	(624)
Reclassification of loans from amortised cost to FVPL	–	–	(618)	(618)
Reclassification of debt instruments FVPL to FVOCI	–	29	(29)	–
Reclassification of debt instruments from OCI to FVPL	–	24	(24)	–
Reclassification of debt instruments from OCI to amortised cost	–	(31)	–	(31)
Remeasurement of financial liabilities designated at fair value	–	–	32	32
Transfer of fair value adjustments attributable to own credit risk	32	–	(32)	–
Deferred taxation	(9)	(14)	370	347
Opening balance under IFRS 9 at 1 April 2018	**23**	**565**	**20 901**	**21 489**

Company

	Other reserves			
R'million	Own credit risk reserve	Available-for sale reserve/ Fair value reserve	Retained income	**Total affected equity components**
Closing balance under IAS 39 at 31 March 2018	**–**	**534**	**18 793**	**19 327**
	23	33	(903)	(847)
Recognition of ECL, including those measured at FVOCI	–	28	(588)	(1 984)
Reclassification of loans from amortised cost to FVPL	–	–	(615)	(615)
Reclassification of debt instruments FVPL to FVOCI	–	29	(29)	–
Reclassification of debt instruments from OCI to FVPL	–	22	(22)	–
Reclassification of debt instruments from OCI to amortised cost	–	(33)	–	(33)
Remeasurement of financial liabilities designated at fair value	–	–	32	32
Transfer of fair value adjustments attributable to own credit risk	32	–	(32)	–
Deferred taxation	(9)	(13)	351	329
Opening balance under IFRS 9 at 1 April 2018	**23**	**567**	**17 890**	**18 480**

54. IAS 39 supplementary information

The requirements of IFRS 9 'Financial Instruments' were adopted from 1 April 2018. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The group is not restating comparatives on initial application as permitted by IFRS 9.

The accounting policies related to financial instruments as at 31 March 2018 under IAS 39 'Financial Instruments: Recognition and Measurement' are noted below:

Financial instruments

Financial instruments are initially recognised at their fair value. For financial assets or financial liabilities not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities are included in the initial measurement. All other transaction costs are recorded in the income statement immediately. Regular way purchase and sales transactions in respect of financial assets that require delivery of a financial instrument within the timeframe established by market convention are recorded at settlement date.

Financial assets and liabilities held at fair value through profit or loss

Financial instruments held at fair value through profit or loss include all instruments classified as held-for-trading and those instruments designated as held at fair value through profit or loss. Financial instruments classified as held-for trading or designated as held at fair value through profit or loss are initially recorded at fair value on the balance sheet with changes in fair value subsequently recognised in the income statement. Financial instruments are classified as trading when they are held with the intention of short-term disposal, held with intention of generating short-term profits, or are derivatives which are not designated as part of effective hedges. Financial instruments designated as held at fair value through profit or loss are designated as such on initial recognition of the instrument and remain in this classification until derecognition. Financial assets and liabilities are designated as held at fair value through profit or loss only if:

- It eliminates or significantly reduces an inconsistent measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy and information about the group is provided internally on that basis to the group's key management personnel; or
- A contract contains one or more embedded derivatives (which significantly modifies the cash flows that would be required by the contract and is not clearly prohibited from separation from the host contract) and the group has designated the entire hybrid contract as a financial instrument at fair value through profit or loss.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial instruments with fixed or determinable payments and maturity dates which the group has the intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity assets are measured at amortised cost using the effective interest rate method, less impairment losses. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in interest income in the income statement. The losses arising from impairment of such investments are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and exclude the following:

- Those that the group intends to trade in, which are classified as held-for-trading and those that the group designates as at fair value through profit or loss
- Those that the group designates as available-for-sale
- Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which is accounted for as available-for-sale instruments. Subsequent to initial recognition, loans and receivables are measured at amortised cost, using the effective interest rate method, less impairment losses. The effective interest rate represents the rate that exactly discounts future projected cash flows over the expected life of the financial instrument, to the net carrying amount of the financial instrument. Included in the calculation of the effective interest rate is any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Losses arising from impairment of such investments are recognised in the income statement line 'impairment losses on loans and advances'. Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

54. IAS 39 supplementary information
(continued)

Securitisation/credit investment and trading activities exposures

The group makes use of securitisation vehicles as a source of finance, as a means of risk transfer and to leverage returns through the retention of equity tranches in low default rate portfolios. The group predominately focuses on the securitisation of residential and commercial mortgages. The group also trades in structured credit investments. The structured entities are consolidated under IFRS 10 Consolidated Financial Statements when the group has exposure to or rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Loans and advances that are originated are transferred to structured entities, and the structured entities issue debt securities to external investors to fund the purchase of the securitised assets. When the group consolidates the structured entity, the group recognises the assets and liabilities on a gross basis. When the group does not consolidate the structured entity the impact is that the securitised assets are derecognised and only any position still held by the group in the structured entity is reflected.

Available-for-sale financial assets

Available-for-sale financial assets are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity, or loans and receivables. They include strategically held equity instruments that are not interests in associated undertakings, joint ventures or subsidiaries of the group. Further, certain debt instruments that are held at fair value due to being quoted on an active market, which are neither actively traded nor held-to-maturity instruments, are classified as available-for-sale financial assets. Financial assets classified as available-for-sale are measured at fair value, with unrealised gains or losses recognised directly in other comprehensive income in the available-for-sale reserve. When the asset is disposed of, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to the income statement. Interest earned while holding available-for-sale financial assets is reported in the income statement as interest income using the effective interest rate. Dividends earned while holding available-for-sale financial assets are recognised in the income statement when the right to payment has been established. If an available-for-sale instrument is determined to be impaired, the respective cumulative unrealised losses previously recognised in other comprehensive income are included in the income statement in the period in which the impairment is identified. Impairments on available-for-sale equity instruments are not reversed once recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed, limited to the impairment value previously recognised in the income statement.

Financial liabilities

Financial liabilities are classified as non-trading, held-for-trading or designated as held at fair value through profit or loss. Non-trading liabilities are recorded at amortised cost applying the effective interest rate method. Held-for-trading liabilities or liabilities designated as held at fair value through profit or loss are measured at fair value. All changes in fair value of financial liabilities are recognised in the income statement.

Day 1 profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on the valuation technique whose variables include only data from observable markets, the difference between the transaction price and fair value is recognised immediately in the income statement. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, when the instrument is rerecognised or over the life of the transaction.

Impairments of financial assets held at amortised cost

Financial assets carried at amortised cost are impaired if there is objective evidence that the group would not receive cash flows according to the original contractual terms. Financial assets are assessed for impairment at each balance sheet date and when an indicator of impairment is identified. The test for impairment is based either on specific financial assets or collectively on a portfolio of similar, homogeneous assets. Over and above individual collective impairments raised at specific portfolio levels, the group recognises a collective impairment allowance at a central level that takes into account macro-economic factors, mainly driven by data related to the prevailing credit markets and which indicate incurred but not specifically identified losses across the loan portfolios (i.e. exposures in all business segments). Assets specifically identified as impaired are excluded from the collective assessment. Impairments are credited to an allowance account which is carried against the carrying value of financial assets. Interest continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or transferred to the group. An allowance for impairment is only reversed when there is objective evidence that the credit quality has improved to the extent that there is reasonable assurance of timely collection of principal and interest in terms of the original contractual agreement. The impairment is calculated as the difference between the carrying value of the asset and the expected cash flows (including net expected proceeds on realisation of collateral) discounted at the original effective rate. Impairments of financial assets held at amortised cost are recognised in the income statement.

54. IAS 39 supplementary information
(continued)

To cater for any shortfall between regulatory provision requirements (in the respective jurisdictions) and impairments based on the principles above, a transfer is made from distributable to non-distributable reserves, being the regulatory general risk reserve. The non-distributable regulatory risk reserve ensures that minimum regulatory provisioning requirements are maintained.

Derecognition of financial assets and liabilities

A financial asset, or a portion thereof, is derecognised when the group's rights to cash flows have expired or when the group has transferred its rights to cash flows relating to the financial assets and either (a) the group has transferred substantially all the risks and rewards associated with the financial assets, or (b) the group has neither transferred nor retained substantially all the risks and rewards associated with the financial assets but has transferred control of the assets. A financial liability is derecognised when it is extinguished, i.e. when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced or modified with substantially different terms, such a replacement or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

Reclassification of financial instruments

The group may reclassify, in rare circumstances, non-derivative financial assets out of the held-for-trading category and into the available-for-sale, loans and receivables or held-to-maturity categories. It may also reclassify, in certain circumstances, financial instruments out of the available-for-sale category and into the loans and receivables category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

Derivative financial instruments

All derivative instruments of the group are recorded on the balance sheet at fair value. Positive and negative fair values are reported as assets and liabilities, respectively. Derivative positions are entered into either for trading purposes or as part of the group's asset and liability management activities to manage exposures to interest rate and foreign currency risks. Both realised and unrealised profits or losses arising on derivatives are recognised in the income statement as part of trading income (other than circumstances in which cash flow hedging is applied as detailed below). Derivative instruments entered into as economic hedges which do not qualify for hedge accounting and derivatives that are entered into for trading purposes are treated in the same way as instruments that are held-for-trading. Credit derivatives are entered into largely for trading purposes. Credit derivatives are initially recognised at their fair values, being the transaction price of the derivative. Subsequently the derivatives are carried at fair value, with movements in fair value through profit or loss, based on the remeasured price. The counterparty risk from derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit value adjustment (CVA).

Embedded derivatives

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

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. Where the instrument does not meet the definition of a derivative due to its value being dependent on non-financial variables, it is accounted for as an executory contract.

54. IAS 39 supplementary information *(continued)*

Selected 2018 credit risk disclosures

The credit risk disclosures that follow were included in Investec Bank Limited group and company annual financial statements for 2018. These do not reflect the adoption of IFRS 9. The tables have been shown below and not adjacent to the current 2019 credit risk tables as these tables reflect IAS 39 disclosures and as a result are not directly comparable to the 2019 tables, which are disclosed on an IFRS 9 basis.

An analysis of gross credit and counterparty exposures

R'million	31 March 2018
Cash and balances at central banks	9 165
Loans and advances to banks	17 265
Non-sovereign and non-bank cash placements	9 993
Reverse repurchase agreements and cash collateral on securities borrowed	20 480
Sovereign debt securities	62 403
Bank debt securities	8 051
Other debt securities	10 342
Derivative financial instruments	6 858
Securities arising from trading activities	698
Loans and advances to customers (gross)	248 902
Own originated loans and advances to customers securitised (gross)	6 836
Other loans and advances (gross)	290
Other assets	3 363
Total on-balance sheet exposures	**404 646**
Guarantees^	10 589
Contingent liabilities, committed facilities and other	54 604
Total off-balance sheet exposures	**65 193**
Total gross credit and counterparty exposures pre-collateral other credit enhancements	**469 839**

^ *Excludes guarantees provided to clients which are backed/secured by cash on deposit with the bank.*

54. IAS 39 supplementary information *(continued)*

A further analysis of our on-balance sheet credit and counterparty exposures

	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note reference	Total balance sheet
At 31 March 2018				
Cash and balances at central banks	9 165	22		9 187
Loans and advances to banks	17 265	–		17 265
Non-sovereign and non-bank cash placements	9 993	–		9 993
Reverse repurchase agreements and cash collateral on securities borrowed	20 480	–		20 480
Sovereign debt securities	62 403	–		62 403
Bank debt securities	8 051	–		8 051
Other debt securities	10 342	–		10 342
Derivative financial instruments	6 858	5 728		12 586
Securities arising from trading activities	698	177		875
Investment portfolio	–	7 943	1	7 943
Loans and advances to customers	248 902	(1 428)	2	247 474
Own originated loans and advances to customers securitised	6 836	(6)	2	6 830
Other loans and advances	290	(25)	2	265
Other securitised assets	–	241	3	241
Interest in associated undertakings	–	6 288	1	6 288
Deferred taxation assets	–	586		586
Other assets	3 363	3 323	4	6 686
Property and equipment	–	2 494		2 494
Investment properties	–	1		1
Goodwill	–	171		171
Intangible assets	–	412		412
Loans to group companies	–	13 499		13 499
Total on-balance sheet exposures	**404 646**	**39 426**		**444 072**

1. *Largely relates to exposures that are classified as investment risk in the banking book.*
2. *Largely relates to impairments.*
3. *Largely cash in the securitised vehicles.*
4. *Other assets include settlement debtors where we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

54. IAS 39 supplementary information *(continued)*

An analysis of our core loans and advances, asset quality and impairments

Core loans and advances comprise:

- Loans and advances to customers as per the balance sheet
- Own originated loans and advances to customers securitised as per the balance sheet.

R'million	31 March 2018
Loans and advances to customers as per the balance sheet	247 474
Add: own originated loans and advances to customers securitised as per the balance sheet	6 830
Net core loans and advances to customers	**254 304**

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

R'million	31 March 2018
Gross core loans and advances to customers	**255 738**
Total impairments	**(1 434)**
Specific impairments	(795)
Portfolio impairments	(639)
Net core loans and advances to customers	**254 304**
Average gross core loans and advances to customers	**245 197**
Current loans and advances to customers	251 474
Past due loans and advances to customers (1 – 60 days)	1 040
Special mention loans and advances to customers (1 – 90 days)	367
Default loans and advances to customers	2 857
Gross core loans and advances to customers	**255 738**
Current loans and advances to customers	251 474
Default loans that are current and not impaired	214
Gross core loans and advances to customers that are past due but not impaired	2 181
Gross core loans and advances to customers that are impaired	1 869
Gross core loans and advances to customers	**255 738**
Total income statement charge for impairments on core loans and advances	**(692)**
Gross default loans and advances to customers	2 857
Specific impairments	(795)
Portfolio impairments	(639)
Defaults net of impairments	**1 423**
Aggregate collateral and other credit enhancements on defaults	3 547
Net default loans and advances to customers (limited to zero)	**–**
Ratios	
Total impairments as a % of gross core loans and advances to customers	0.56%
Total impairments as a % of gross default loans	50.19%
Gross defaults as a % of gross core loans and advances to customers	1.12%
Defaults (net of impairments) as a % of net core loans and advances to customers	0.56%
Net defaults as a % of net core loans and advances to customers	–
Credit loss ratio (i.e. income statement impairment charge as a % of average gross loans and advances)	0.28%

54. IAS 39 supplementary information *(continued)*

An age analysis of past due and default core loans and advances to customers

R'million	31 March 2018
Default loans that are current	583
1 – 60 days	1 579
61 – 90 days	158
91 – 180 days	234
181 – 365 days	425
> 365 days	1 285
Past due and default core loans and advances to customers (actual capital exposure)	**4 264**
1 – 60 days	446
61 – 90 days	22
91 – 180 days	34
181 – 365 days	134
> 365 days	1 035
Past due and default core loans and advances to customers (actual amount in arrears)	**1 671**

A further age analysis of past due and default core loans and advances to customers

R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
At 31 March 2018							
Watchlist loans neither past due nor impaired							
Total capital exposure	214	–	–	–	–	–	214
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	1 451	108	76	131	415	2 181
Amount in arrears	–	444	21	6	94	409	974
Gross core loans and advances to customers that are impaired							
Total capital exposure	369	128	50	158	294	870	1 869
Amount in arrears	–	2	1	28	40	626	697

54. IAS 39 supplementary information *(continued)*

An age analysis of past due and default core loans and advances to customers at 31 March 2018 (based on total capital exposure)

R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	–	1 040	–	–	–	–	1 040
Special mention	**–**	**282**	**85**	**–**	**–**	**–**	**367**
Special mention (1 – 90 days)	–	282	2	–	–	–	284
Special mention (61 – 90 days and item well secured)	–	–	83	–	–	–	83
Default	**583**	**257**	**73**	**234**	**425**	**1 285**	**2 857**
Sub-standard	214	129	23	76	131	415	988
Doubtful	369	128	50	158	294	870	1 869
Total	**583**	**1 579**	**158**	**234**	**425**	**1 285**	**4 264**

An age analysis of past due and default core loans and advances to customers at 31 March 2018 (based on actual amount in arrears)

R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	**–**	**417**	**–**	**–**	**–**	**–**	**417**
Special mention	**–**	**10**	**20**	**–**	**–**	**–**	**30**
Special mention (1 – 90 days)	–	10	–	–	–	–	10
Special mention (61 – 90 days and item well secured)	–	–	20	–	–	–	20
Default	**–**	**19**	**2**	**34**	**134**	**1 035**	**1 224**
Sub-standard	–	17	1	6	94	409	527
Doubtful	–	2	1	28	40	626	697
Total	**–**	**446**	**22**	**34**	**134**	**1 035**	**1 671**

54. IAS 39 supplementary information *(continued)*

An analysis of core loans and advances to customers

R'million	Gross core loans and advances neither past due nor impaired	Gross core loans and advances that are past due but not impaired	Gross core loans and advances that are impaired	Total gross core loans and advances (actual capital exposure)	Specific impairments	Portfolio impairments	Total net core loans and advances (actual capital exposure)	Actual amount in arrears
At 31 March 2018								
Current core loans and advances	**251 474**	**–**	**–**	**251 474**	**–**	**(630)**	**250 844**	**–**
Past due (1 – 60 days)	**–**	**1 040**	**–**	**1 040**	**–**	**(4)**	**1 036**	**417**
Special mention	**–**	**367**	**–**	**367**	**–**	**(2)**	**365**	**30**
Special mention (1 – 90 days)	–	284	–	284	–	(2)	282	10
Special mention (61 – 90 days and item well secured)	–	83	–	83	–	–	83	20
Default	**214**	**774**	**1 869**	**2 857**	**(795)**	**(3)**	**2 059**	**1 224**
Sub-standard	214	774	–	988	–	(3)	985	527
Doubtful	–	–	1 869	1 869	(795)	–	1 074	697
Total	**251 688**	**2 181**	**1 869**	**255 738**	**(795)**	**(639)**	**254 304**	**1 671**

An analysis of core loans and advances to customers and impairments by counterparty type

R'million	Private client, professional and high net worth individuals	Corporate sector	Insurance, financial services (excluding sovereign)	Public and government sector (including central banks)	Trade finance and other	Total core loans and advances to customers
At 31 March 2018						
Current core loans and advances	**168 577**	**52 121**	**18 221**	**5 720**	**6 835**	**251 474**
Past due (1 – 60 days)	**870**	**51**	**–**	**–**	**119**	**1 040**
Special mention	**191**	**170**	**–**	**–**	**6**	**367**
Special mention (1 – 90 days)	114	170	–	–	–	284
Special mention (61 – 90 days and item well secured)	77	–	–	–	6	83
Default	**2 229**	**273**	**–**	**119**	**236**	**2 857**
Sub-standard	868	120	–	–	–	988
Doubtful	1 361	153	–	119	236	1 869
Total gross core loans and advances to customers	**171 867**	**52 615**	**18 221**	**5 839**	**7 196**	**255 738**
Total impairments	**(723)**	**(480)**	**(19)**	**(63)**	**(149)**	**(1 434)**
Specific impairments	(487)	(99)	–	(60)	(149)	(795)
Portfolio impairments	(236)	(381)	(19)	(3)	–	(639)
Net core loans and advances to customers	**171 144**	**52 135**	**18 202**	**5 776**	**7 047**	**254 304**

GLOSSARY

The following abbreviations have been used throughout this report:

ALCO	Asset and Liability Committee
ANC	African National Congress
BCBS	Basel Committee of Banking Supervision
BIS	Bank for International Settlements
BOM	Bank of Mauritius
BSE	Botswana Stock Exchange
CA	Chartered Accountant
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
COO	Chief Operating Officer
CRDIV (BASEL III)	Capital Requirements Directive IV
CVA	Credit value adjustment
DLC	Dual listed company
DLC BRCC	DLC Board Risk and Capital Committee
DLC Nomdac	DLC Nominations and Directors Affairs Committee
DLC Remco	DLC Remuneration Committee
DLC SEC	DLC Social and Ethics Committee
EAD	Exposure at default
EBITDA	Earnings before interest, taxes, depreciation and amortisation
ECL	Expected credit losses
ESG	Environmental, social and governance
FCA	Financial Conduct Authority
FIRB	Foundation Internal Ratings-Based
FSB	Financial Services Board
FSCS	Financial Services Compensation Scheme
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit and loss
IASB	International Accounting Standards Board
IASs	International Accounting Standards
IBL	Investec Bank Limited
IBL ERC	IBL Executive Risk Committee
IBP	Investec Bank plc
IFRS	International Financial Reporting Standard
JSE	Johannesburg Stock Exchange
LCR	Liquidity Coverage Ratio
LGD	Loss given default
MD	Managing Director
MiFID	Markets in Financial Instruments Directive
NCI	Non-controlling interests
NSFR	Net Stable Funding Ratio
NSX	Namibian Stock Exchange
OCI	Other comprehensive income
OECD	Organisation for Economic Co-operation and Development
OTC	Over the counter
PCCC	Prudential Conduct and Controls Committee
PD	Probability of default
Policy ERRF	Policy Executive Risk Review Forum
PRA	Prudential Regulation Authority
PRASA	Passenger Rail Agency of South Africa
ROE	Return on equity
S&P	Standard & Poor's
SAA	South African Airways
SARS	South African Revenue Service
SOE	State-Owned Enterprise
South African PA	South African Prudential Authority (previously known as the Banking Supervision Department of the South African Reserve Bank)
SPPI	Solely payments of principal and interest
YES	Youth Employment Service

Alternative performance measures

We supplement our IFRS figures with alternative performance measures used by management internally and which provide valuable, relevant information to readers of the financial statements. The definitions and basis for calculation of these measures are provided on these definitions pages.

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.

Investec's external auditor, Ernst & Young Inc., issued a limited assurance report in respect of the alternative performance measures. The limited assurance report is available for inspection at Investec's registered address.

Annuity income

Net interest income plus net annuity fees and commissions

Cash and near cash

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

Core loans and advances

Net loans and advances to customers plus net own originated securitised assets

Refer to calculation on page 40

Cost to income ratio

Operating costs divided by operating income before ECL (net of depreciation on operating leased assets)

Coverage ratio

ECL divided by gross core loans and advances subject to ECL

Credit loss ratio

Expected credit loss impairment charges (ECL) on gross core loans and advances as a percentage of average gross core loans and advances subject to ECL

Gearing ratio

Total assets excluding intergroup loans to total equity

CONTACT DETAILS

Botswana, Gaborone

Plot 64511, Unit 5
Fairgrounds Gaborone
Telephone (267) 318 0112
Facsimile (267) 318 0114
e-mail info@investec.com

Mauritius, Port Louis

6th Floor Dias Pier Building
Le Caudan Waterfront Caudan
Port Louis
Telephone (230) 207 4000
Facsimile (230) 207 4002
e-mail info@investec.com

Namibia, Windhoek

Office 1 Ground floor
Heritage Square Building
100 Robert Mugabe Avenue Windhoek
Telephone (264 61) 389 500
Facsimile (264 61) 249 689
e-mail info@investec.com

Investec Asset Management
First Floor
6 Thorer Street
Windhoek
Namibia

South Africa, Cape Town

36 Hans Strijdom Avenue
Foreshore Cape Town 8001
PO Box 1826 Cape Town 8000
Telephone (27 21) 416 1000
Facsimile (27 21) 416 1001

South Africa, Durban

5 Richefond Circle
Ridgeside Office Park
Umhlanga Durban 4319
PO Box 25278 Gateway Durban 4321
Telephone (27 31) 575 4000
Facsimile (27 865) 009 901

South Africa, East London

Cube 1
Cedar Square
Bonza Bay Road
Beacon Bay
East London 5241
Telephone (27 43) 709 5700
Facsimile (27 43) 748 1548

South Africa, Johannesburg

100 Grayston Drive
Sandown Sandton 2196
PO Box 785700
Sandton 2146
Telephone (27 11) 286 7000
Facsimile (27 11) 286 7777
e-mail, South African offices

- Recruitment queries: recruitment@investec.co.za
- Client queries:
  - Asset management: comcentre@investecmail.com
  - Institutional Securities: securities@investec.co.za
  - Private Client Securities: iso@investec.co.za
  - Property Group: ipg@investec.co.za
  - Private Bank: privatebank@investec.co.za

South Africa, Knysna

TH24/TH25 Long Street Ext
Thesen Harbour Town Knysna 6571
Telephone (27 44) 302 1800
Facsimile (27 44) 382 4954

South Africa, Pietermaritzburg

48 Bush Shrike Close
Victoria Country Club Estate
Montrose
Pietermaritzburg 3201
PO Box 594 Pietermaritzburg 3200
Telephone (27 33) 264 5800
Facsimile (27 33) 342 1561

South Africa, Port Elizabeth

Waterfront Business Park, Pommern Street
Humerail, Port Elizabeth, 6045
PO Box 13434
Humewood, Port Elizabeth 6057
Telephone (27 41) 396 6700
Facsimile (27 41) 363 1667

South Africa, Pretoria

Cnr Atterbury and Klarinet Streets
Menlo Park Pretoria 0081
PO Box 35209 Menlo Park 0102
Telephone (27 12) 427 8300
Facsimile (27 12) 427 8310

South Africa, Stellenbosch

Office 401, Mill Square
12 Plein Street, Stellenbosch 7600
PO Box 516 Stellenbosch 7599
Telephone (27 21) 809 0700
Facsimile (27 21) 809 0730

Secretary and registered office

Niki van Wyk
100 Grayston Drive
Sandown Sandton 2196
PO Box 785700 Sandton 2146
Telephone (27) 11 286 7000
Facsimile (27) 11 286 7966

Internet address

www.investec.com

Registration number

Registration number 1969/004763/06

Auditors

KPMG Inc.
Ernst & Young Inc.

Sponsors

Investec Bank Limited
100 Grayston Drive
Sandown Sandton 2196
PO Box 785700 Sandton 2146

Transfer secretaries

Computershare Investor Services Proprietary Limited
Rosebank Towers
15 Biermann Avenue
Rosebank 2196
PO Box 61051
Marshalltown 2107
Telephone (27) 11 370 5000

Directorate

Refer to page 112.

Contact details

For contact details for Investec Bank Limited offices refer to page 253.

For queries regarding information in this document

Investor Relations

Telephone (27) 11 286 7070
e-mail: investorrelations@investec.com
Internet address: www.investec.com/en_za/welcome-to-investec/about-us/investor-relations.html

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