

Out of the Ordinary



Investec Limited

Financial information (excludes results of Investec plc)

*Unaudited condensed financial information
for the year ended 31 March 2018*

IFRS – Rand

2018



Overview of results

For the year to 31 March	2018	2017	% change
Total operating income before impairment losses on loans and advances (R'million)	18 217	17 659	3.2%
Operating costs (R'million)	9 619	9 238	4.10%
Operating profit before goodwill and acquired intangibles (R'million)	7 869	7 762	1.4%
Headline earnings attributable to ordinary shareholders (R'million)	5 490	4 350	26.2%
Cost to income ratio	52.8%	52.3%	
Total capital resources (including subordinated liabilities) (R'million)	66 292	60 376	9.8%
Total shareholders equity (R'million)	51 279	46 571	10.1%
Total assets (R'million)	617 710	586 432	5.3%
Net core loans and advances (R'million)	256 702	236 225	8.7%
Customer accounts (deposits) (R'million)	321 823	303 470	6.0%
Cash and near cash balances (R'million)	116 533	117 586	(0.9%)
Funds under management (R'million)	910 215	908 242	0.2%
Capital adequacy ratio	14.6%	14.1%	
Tier 1 ratio	11.0%	10.7%	
Common equity tier 1 ratio	10.2%	9.9%	
Leverage ratio	7.5%	7.3%	
Defaults (net of impairments) as a % of net core loans and advances	0.56%	1.02%	
Net defaults (after collateral and impairments) as a % of net core loans and advances	–	–	
Credit loss ratio (i.e. income statement impairment charge as a % of average core loans and advances)	0.28%	0.29%	
Total gearing ratio (i.e. total assets excluding assurance assets to equity)	9.3x	9.8x	
Loans and advances to customers: customer accounts (deposits)	77.4%	75.0%	

^ The group's expected Basel III 'fully loaded' numbers are provided on page 19.

Consolidated income statement

For the year to 31 March R'million	2018	2017
Interest income	32 509	30 349
Interest expense	(25 240)	(23 242)
Net interest income	7 269	7 107
Fee and commission income	9 245	8 988
Fee and commission expense	(459)	(491)
Investment income	1 000	1 248
Share of post taxation profit of associates	777	306
Trading income/(loss) arising from		
– customer flow	414	492
– balance sheet management and other trading activities	(41)	4
Other operating income	12	5
Total operating income before impairment losses on loans and advances	18 217	17 659
Impairment losses on loans and advances	(729)	(659)
Operating income	17 488	17 000
Operating costs	(9 619)	(9 238)
Operating profit before goodwill and acquired intangibles	7 869	7 762
Impairment of goodwill	–	(26)
Amortisation of acquired intangibles	(51)	(51)
Operating profit	7 818	7 685
Additional costs on acquisition of subsidiary	(100)	–
Profit before taxation	7 718	7 685
Taxation on operating profit before goodwill and acquired intangibles	(367)	(1 440)
Taxation on acquired intangibles	14	14
Profit after taxation	7 365	6 259
Profit attributable to Asset Management non-controlling interests	(156)	(156)
Profit attributable to other non-controlling interests	(907)	(1 039)
Earnings attributable to shareholders	6 302	5 064

Consolidated statement of comprehensive income

For the year to 31 March R'million	2018	2017
Profit after taxation	7 365	6 259
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*	(93)	943
Fair value movements on available-for-sale assets taken directly to other comprehensive income*	245	580
Gain on realisation of available-for-sale assets recycled to the income statement*	(94)	(61)
Foreign currency adjustments on translating foreign operations	(648)	(676)
Total comprehensive income	6 775	7 045
Total comprehensive income attributable to ordinary shareholders	5 254	5 399
Total comprehensive income attributable to non-controlling interests	1 063	1 195
Total comprehensive income attributable to perpetual preferred securities and other Additional Tier 1 securities	458	451
Total comprehensive income	6 775	7 045

* Net of taxation of (R194.0 million) [2017: R371.4 million].

Headline earnings

For the year to 31 March R'million	2018	2017
Earnings attributable to shareholders	6 302	5 064
Dividends paid to perpetual preference shareholders	(458)	(451)
Earnings attributable to ordinary shareholders	5 844	4 613
Headline adjustments:	(354)	(263)
Impairment of goodwill	–	26
Revaluation of investment properties*	(260)	(260)
Gain on realisation of available-for-sale assets recycled to the income statement*	(94)	(61)
Loss on non-current assets held for sale*	–	32
Headline earnings attributable to ordinary shareholders	5 490	4 350

* Taxation on headline earnings adjustments amounted to R88.6 million (2017: R55.1 million) with a R350.5 million (2017: R425.9 million) impact on earnings attributable to non-controlling interests.

Consolidated balance sheet

For the year to 31 March R'million	2018	2017
Assets		
Cash and balances at central banks	9 187	8 353
Loans and advances to banks	19 620	35 026
Non-sovereign and non-bank cash placements	9 993	8 993
Reverse repurchase agreements and cash collateral on securities borrowed	24 217	30 567
Sovereign debt securities	62 403	47 822
Bank debt securities	7 965	7 758
Other debt securities	10 390	12 028
Derivative financial instruments	12 563	9 842
Securities arising from trading activities	12 289	14 320
Investment portfolio	6 928	6 502
Loans and advances to customers	249 072	227 552
Own originated loans and advances to customers securitised	7 630	8 673
Other loans and advances	265	310
Other securitised assets	299	173
Interests in associated undertakings	6 495	5 514
Deferred taxation assets	983	738
Other assets	13 305	12 040
Property and equipment	2 973	762
Investment properties	19 439	18 688
Goodwill	211	211
Intangible assets	412	508
Non-current assets held for sale	–	456
	476 639	456 836
Other financial instruments at fair value through profit or loss in respect of liabilities to customers	141 071	129 596
	617 710	586 432
Liabilities		
Deposits by banks	27 793	35 433
Derivative financial instruments	15 907	12 558
Other trading liabilities	14 238	14 134
Repurchase agreements and cash collateral on securities lent	8 395	7 825
Customer accounts (deposits)	321 823	303 470
Debt securities in issue	6 885	8 938
Liabilities arising on securitisation of own originated loans and advances	2 274	1 511
Current taxation liabilities	551	1 413
Deferred taxation liabilities	171	238
Other liabilities	12 310	10 940
	410 347	396 460
Liabilities to customers under investment contracts	141 013	129 554
Insurance liabilities, including unit-linked liabilities	58	42
	551 418	526 056
Subordinated liabilities	15 013	13 805
	566 431	539 861
Equity		
Ordinary share capital	1	1
Share premium	12 820	11 895
Treasury shares	(1 552)	(1 189)
Other reserves	1 125	1 748
Retained income	26 948	23 045
	39 342	35 500
Shareholders' equity excluding non-controlling interests		
Other Additional Tier 1 securities in issue	900	550
Non-controlling interests	11 037	10 521
– Perpetual preferred securities issued by subsidiaries	1 534	1 534
– Non-controlling interests in partially held subsidiaries	9 503	8 987
	51 279	46 571
Total equity	51 279	46 571
Total liabilities and equity	617 710	586 432

Condensed consolidated statement of changes in equity

For the year to 31 March R'million	2018	2017
Balance at the beginning of the year	46 571	41 851
Total comprehensive income	6 775	7 045
Share-based payments adjustments	656	549
Dividends paid to ordinary shareholders	(2 111)	(1 975)
Dividends paid to other equity holders including other Additional Tier 1 securities	(262)	(256)
Dividends paid to perpetual preference shareholders included in non-controlling interests	(196)	(195)
Dividends paid to non-controlling interests	(842)	(638)
Issue of ordinary shares	925	986
Movement in non-controlling interests due to share issues in subsidiary	210	286
Partial disposal of group operations	188	85
Movement of treasury shares	(985)	(1 165)
Other equity movements	–	(2)
Issue of other Additional Tier 1 security instruments	350	–
Balance at the end of the year	51 279	46 571

Segmental business analysis – income statement

For the year to 31 March 2018 R'million	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Total group
Net interest income	90	95	7 084	–	7 269
Net fee and commission income	3 128	1 472	4 186	–	8 786
Investment income	1	2	997	–	1 000
Share of post taxation profit of associates	–	–	777	–	777
Trading income/(loss) arising from					
– customer flow	–	(9)	423	–	414
– balance sheet management and other trading activities	2	(3)	(40)	–	(41)
Other operating income	1	–	11	–	12
Total operating income before impairment on loans and advances	3 222	1 557	13 438	–	18 217
Impairment losses on loans and advances	–	–	(729)	–	(729)
Operating income	3 222	1 557	12 709	–	17 488
Operating costs	(1 947)	(1 054)	(6 345)	(273)	(9 619)
Operating profit before goodwill, acquired intangibles and non-controlling interests	1 275	503	6 364	(273)	7 869
Profit attributable to non-controlling interests	(156)	–	(907)	–	(1 063)
Profit before goodwill, acquired intangibles, taxation after non-controlling interests	1 119	503	5 457	(273)	6 806
Cost to income ratio	60.4%	67.7%	47.2%	n/a	52.8%
Total assets (R'million)	142 856	15 183	459 671	–	617 710

For the year to 31 March 2017 R'million	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Total group
Net interest income	92	134	6 881	–	7 107
Net fee and commission income	3 233	1 385	3 879	–	8 497
Investment income	2	2	1 244	–	1 248
Share of post taxation profit of associates	–	–	306	–	306
Trading income arising from					
– customer flow	–	5	487	–	492
– balance sheet management and other trading activities	(18)	(3)	25	–	4
Other operating income	5	–	–	–	5
Total operating income before impairment on loans and advances	3 314	1 523	12 822	–	17 659
Impairment losses on loans and advances	–	–	(659)	–	(659)
Operating income	3 314	1 523	12 163	–	17 000
Operating costs	(1 963)	(1 009)	(6 033)	(233)	(9 238)
Operating profit before goodwill, acquired intangibles and non-controlling interests	1 351	514	6 130	(233)	7 762
Profit attributable to non-controlling interests	(156)	–	(1 039)	–	(1 195)
Profit before goodwill, acquired intangibles, taxation after non-controlling interests	1 195	514	5 091	(233)	6 567
Cost to income ratio	59.2%	66.3%	47.1%	n/a	52.3%
Total assets (R'million)	132 057	15 561	438 814	–	586 432

Additional income statement note disclosures

Net interest income

		2018		2017	
For the year to 31 March R'million	Notes	Balance sheet value	Interest income	Balance sheet value	Interest income
Cash, near cash and bank debt and sovereign debt securities	1	133 385	7 315	138 519	7 244
Core loans and advances	2	256 702	23 489	236 225	21 639
Private client		173 299	15 741	157 854	14 529
Corporate, institutional and other clients		83 403	7 748	78 371	7 110
Other debt securities and other loans and advances		10 655	753	12 338	1 060
Other interest-earning assets	3	299	952	173	406
Total interest-earning assets		401 041	32 509	387 255	30 349
		2018		2017	
For the year to 31 March R'million	Notes	Balance sheet value	Interest expense	Balance sheet value	Interest expense
Deposits by banks and other debt-related securities	4	43 073	(2 122)	52 196	(2 151)
Customer accounts (deposits)		321 823	(21 434)	303 470	(19 797)
Other interest-bearing liabilities	5	2 274	(423)	1 511	(240)
Subordinated liabilities		15 013	(1 261)	13 805	(1 054)
Total interest-bearing liabilities		382 183	(25 240)	370 982	(23 242)
Net interest income			7 269		7 107
Net interest margin			1.84%		1.86%

Notes:

1. Comprises (as per the balance sheet) cash and balances at central banks; loans and advances to banks; non-sovereign and non-bank cash placements; reverse repurchase agreements and cash collateral on securities borrowed; sovereign debt securities; bank debt securities.
2. Comprises (as per the balance sheet) loans and advances to customers; own originated loans and advances to customers securitised.
3. Comprises (as per the balance sheet) other securitised assets.
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 balance sheet) liabilities arising on securitisation of own originated loans and advances.

Additional income statement note disclosures

Net fee and commission income

For the year to 31 March R'million	2018	2017
Asset management and wealth management businesses net fee and commission income	4 600	4 618
Fund management fees/fees for assets under management	4 002	4 056
Private client transactional fees	728	717
Fee and commission expense	(130)	(155)
Specialist Banking net fee and commission income	4 186	3 879
Corporate and institutional transactional and advisory services	3 712	3 536
Private client transactional fees	803	679
Fee and commission expense	(329)	(336)
Net fee and commission income	8 786	8 497
Annuity fees (net of fees payable)	7 558	6 945
Deal fees	1 228	1 552

Trust and fiduciary fees amount to R4.7 million (2017: R4.6 million) and is included in private client transactional fees in the group.

Investment income

For the year to 31 March R'million	Investment portfolio (listed and unlisted equities)*	Debt securities (sovereign, bank and other)	Investment properties	Other asset categories	Total
2018					
Realised	705	128	217	20	1 070
Unrealised [^]	(768)	–	445	(3)	(326)
Dividend income	306	–	–	2	308
Funding and other net related (costs)/income	(81)	–	–	29	(52)
Total investment income	162	128	662	48	1 000
2017					
Realised	361	127	373	43	904
Unrealised [^]	(298)	35	354	(83)	8
Dividend income	337	–	–	9	346
Funding and other net related (costs)/income	(68)	–	–	58	(10)
Total investment income	332	162	727	27	1 248

* Including embedded derivatives (warrants and profit shares).

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

Additional IAS 34 disclosures

Analysis of assets and liabilities by measurement basis

At 31 March 2018 R'million	Total instruments at fair value	Total instruments at amortised cost	Insurance- related linked instruments at fair value	Non-financial instruments or scoped out of IAS 39	Total
Assets					
Cash and balances at central banks	–	9 187	–	–	9 187
Loans and advances to banks	1 295	18 325	–	–	19 620
Non-sovereign and non-bank cash placements	574	9 419	–	–	9 993
Reverse repurchase agreements and cash collateral on securities borrowed	12 466	11 751	–	–	24 217
Sovereign debt securities	58 940	3 463	–	–	62 403
Bank debt securities	6 136	1 829	–	–	7 965
Other debt securities	9 161	1 229	–	–	10 390
Derivative financial instruments	12 563	–	–	–	12 563
Securities arising from trading activities	12 289	–	–	–	12 289
Investment portfolio	6 928	–	–	–	6 928
Loans and advances to customers	17 250	231 822	–	–	249 072
Own originated loans and advances to customers securitised	–	7 630	–	–	7 630
Other loans and advances	–	265	–	–	265
Other securitised assets	–	299	–	–	299
Interests in associated undertakings	–	189	–	6 306	6 495
Deferred taxation assets	–	–	–	983	983
Other assets	1 251	8 072	–	3 982	13 305
Property and equipment	–	–	–	2 973	2 973
Investment properties	–	–	–	19 439	19 439
Goodwill	–	–	–	211	211
Intangible assets	–	–	–	412	412
	138 853	303 480	–	34 306	476 639
Other financial instruments at fair value through profit or loss in respect of liabilities to customers	–	–	141 071	–	141 071
	138 853	303 480	141 071	34 306	617 710
Liabilities					
Deposits by banks	–	27 793	–	–	27 793
Derivative financial instruments	15 907	–	–	–	15 907
Other trading liabilities	14 238	–	–	–	14 238
Repurchase agreements and cash collateral on securities lent	917	7 478	–	–	8 395
Customer accounts (deposits)	39 485	282 338	–	–	321 823
Debt securities in issue	–	6 885	–	–	6 885
Liabilities arising on securitisation of own originated loans and advances	–	2 274	–	–	2 274
Current taxation liabilities	–	–	–	551	551
Deferred taxation liabilities	–	–	–	171	171
Other liabilities	291	6 302	–	5 717	12 310
	70 838	333 070	–	6 439	410 347
Liabilities to customers under investment contracts	–	–	141 013	–	141 013
Insurance liabilities, including unit-linked liabilities	–	–	58	–	58
	70 838	333 070	141 071	6 439	551 418
Subordinated liabilities	–	15 013	–	–	15 013
	70 838	348 083	141 071	6 439	566 431

Additional IAS 34 disclosures

(continued)

Financial instruments carried at fair value

The table below analyses recurring fair value measurements for financial assets and financial liabilities. These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to the valuation technique used. The different levels are identified as follows:

Level 1 – quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Assets and liabilities related to the long-term assurance business attributable to policyholders are categorised have been excluded from the analyst as the change in fair value of related assets is attributable to policyholders.

At 31 March 2018 R'million	Total instruments at fair value	Fair value category		
		Level 1	Level 2	Level 3
Assets				
Loans and advances to banks	1 295	1 295	–	–
Non-sovereign and non-bank cash placements	574	–	574	–
Reverse repurchase agreements and cash collateral on securities borrowed	12 466	3 261	9 205	–
Sovereign debt securities	58 940	58 940	–	–
Bank debt securities	6 136	4 884	1 252	–
Other debt securities	9 161	4 145	4 907	109
Derivative financial instruments	12 563	–	12 541	22
Securities arising from trading activities	12 289	12 205	84	–
Investment portfolio	6 928	2 619	1 583	2 726
Loans and advances to customers	17 250	–	17 250	–
Other assets	1 251	1 251	–	–
	138 853	88 600	47 396	2 857
Liabilities				
Derivative financial instruments	15 907	–	15 907	–
Other trading liabilities	14 238	12 625	1 613	–
Repurchase agreements and cash collateral on securities lent	917	–	917	–
Customer accounts (deposits)	39 485	–	39 485	–
Other liabilities	291	–	291	–
	70 838	12 625	58 213	–
Net financial assets/(liabilities) at fair value	68 015	75 975	(10 817)	2 857

Transfers between level 1 and level 2

There were no transfers between level 1 and level 2 of the fair value category in the current year.

Additional IAS 34 disclosures

(continued)

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	2018
Balance as at 1 April 2017	3 814
Total losses recognised in the income statement	(98)
Purchases	732
Sales	(620)
Settlements	(95)
Transfers into level 3	123
Transfers out of level 3	(950)
Foreign exchange adjustments	(49)
Balance as at 31 March 2018	2 857

During the year, a level 3 investment of R950 million has been transferred to level 2 due to a listed share price input to the valuation model becoming available. In addition, R123 million has been transferred into level 3 due to inputs becoming unobservable.

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

For the year to 31 March 2018			
R'million	Total	Realised	Unrealised
Total gains/(losses) included in the income statement for the year			
Net interest income	28	28	–
Investment (loss)/income	(153)	399	(552)
Trading income arising from balance sheet management and other trading activities	27	1	26
	(98)	428	(526)

Sensitivity of fair values to reasonably possible alternative assumptions by level 3 instrument type

The fair values of financial instruments in level 3 are measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable market data. The following table shows the sensitivity of these fair values to reasonably possible alternative assumptions, determined at a transactional level:

At 31 March 2018	Balance sheet value	Valuation method	Significant unobservable input changed	Range which unobservable input has been changed	Reflected in the income statement	
					Favourable changes	Unfavourable changes
Assets						
Derivative financial instruments	22	Price earnings	EBITDA	(10%)/10%	2	(2)
Investment portfolio	2 726	Price earnings	EBITDA	*	1 033	(1 122)
		Discounted cash flow	Precious and industrial metals prices	(10%)/6%	40	(68)
		Discounted cash flow	Cash flows	*	38	(41)
		Discounted cash flow	Property prices	(10%)/10%	34	(34)
Other debt securities	109	Price earnings	Various	**	87	(249)
			EBITDA	(5%)/5%	5	(5)
Total	2 857				1 040	(1 129)

* The EBITDA and cash flows 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 single input.

In determining the value of level 3 financial instruments, the following is a principal input that can require judgement:

Price-earnings multiple

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

EBITDA

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

Property value and precious and industrial metals

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

Additional IAS 34 disclosures

(continued)

Measurement of financial assets and liabilities at level 2

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

	Valuation basis/techniques	Main assumptions
Assets		
Non-sovereign and non-bank cash placements	Discounted cash flow model	Yield curve
Reverse repurchase agreements and cash collateral on securities borrowed	Discounted cash flow model Black-Scholes	Yield curve Volatilities
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	Swap curves and discount rates
Liabilities		
Derivative financial instruments	Discounted cash flow model Black-Scholes	Yield curve Volatilities
Other trading liabilities	Discounted cash flow model	Yield curve
Repurchase agreements and cash collateral on securities lent	Discounted cash flow model	Yield curve
Customer accounts (deposits)	Discounted cash flow model	Yield curve
Other liabilities	Discounted cash flow model	Yield curve

Fair value of financial assets and liabilities at amortised cost

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

At 31 March 2018 R'million	Carrying amount	Fair value
Assets		
Sovereign debt securities	3 463	3 458
Bank debt securities	1 829	1 865
Other debt securities	1 229	1 232
Loans and advances to customers	231 822	231 831
Liabilities		
Deposits by banks	27 793	27 999
Repurchase agreements and cash collateral on securities lent	7 478	7 475
Customer accounts (deposits)	282 338	283 264
Debt securities in issue	6 885	6 891
Subordinated liabilities	15 013	16 363

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.

For the year to 31 March R'million	2018	2017
Loans and advances to customers as per the balance sheet	249 072	227 552
Add: Own originated loans and advances securitised as per the balance sheet	7 630	8 673
Net core loans and advances to customers	256 702	236 225

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

For the year to 31 March R'million	2018	2017
Gross core loans and advances to customers	258 136	237 435
Total impairments	(1 434)	(1 210)
Specific impairments	(795)	(884)
Portfolio impairments	(639)	(326)
Net core loans and advances to customers	256 702	236 225
Average gross core loans and advances to customers	247 786	228 155
Current loans and advances to customers	253 868	232 902
Past due loans and advances to customers (1 – 60 days)	1 040	673
Special mention loans and advances to customers (1 – 90 days)	367	244
Default loans and advances to customers	2 861	3 616
Gross core loans and advances to customers	258 136	237 435
Current loans and advances to customers	253 868	232 902
Default loans that are current and not impaired	214	132
Gross core loans and advances to customers that are past due but not impaired	2 185	1 936
Gross core loans and advances to customers that are impaired	1 869	2 465
Gross core loans and advances to customers	258 136	237 435
Total income statement charge for impairments on core loans and advances	(701)	(661)
Gross default loans and advances to customers	2 861	3 616
Specific impairments	(795)	(884)
Portfolio impairments	(639)	(326)
Defaults net of impairments	1 427	2 406
Aggregate collateral and other credit enhancements on defaults	3 552	4 343
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%	0.51%
Total impairments as a % of gross default loans	50.12%	33.46%
Gross defaults as a % of gross core loans and advances to customers	1.11%	1.52%
Defaults (net of impairments) as a % of net core loans and advances to customers	0.56%	1.02%
Net defaults as a % of net core loans and advances to customers	–	–
Credit loss ratio (i.e. income statement impairment charge on core loans as a % of average gross core loans and advances)	0.28%	0.29%

Risk management

(continued)

An analysis of core loans and advances by risk category at 31 March 2018

R'million	Gross core loans	Gross defaults	Aggregate collateral and other credit enhancements on defaults	Balance sheet impairments	Income statement impairments [^]
Lending collateralised by property	40 616	865	926	(319)	(221)
Commercial real estate	36 772	695	659	(260)	(106)
Commercial real estate – investment	32 940	673	636	(246)	(96)
Commercial real estate – development	3 043	8	11	–	(3)
Commercial vacant land and planning	789	14	12	(14)	(7)
Residential real estate	3 844	170	267	(59)	(115)
Residential real estate – development	3 035	146	255	(40)	(133)
Residential vacant land and planning	809	24	12	(19)	18
High net worth and other private client lending	133 406	1 368	1 929	(168)	(18)
Mortgages	68 068	878	1 080	(102)	(75)
High net worth and specialised lending	65 338	490	849	(66)	57
Corporate and other lending	84 114	628	697	(308)	(138)
Acquisition finance	13 984	117	119	(2)	(68)
Asset-based lending	7 206	236	390	(149)	(9)
Fund finance	4 909	–	–	–	(6)
Other corporate and financial institutions and governments	47 952	160	153	(68)	12
Asset finance	2 678	–	–	–	–
Small ticket asset finance	2 225	–	–	–	–
Large ticket asset finance	453	–	–	–	–
Project finance	6 641	–	–	–	(2)
Resource finance	744	115	35	(89)	(65)
Portfolio impairments				(639)	(324)
Total	258 136	2 861	3 552	(1 434)	(701)

[^] Where a positive number represents a recovery.

An analysis of core loans and advances by risk category at 31 March 2017

R'million	Gross core loans	Gross defaults	Aggregate collateral and other credit enhancements on defaults	Balance sheet impairments	Income statement impairments [^]
Lending collateralised by property	40 546	990	1 158	(214)	(93)
Commercial real estate	36 526	615	781	(151)	(53)
Commercial real estate – investment	33 654	546	653	(133)	(74)
Commercial real estate – development	1 868	–	1	–	11
Commercial vacant land and planning	1 004	69	127	(18)	10
Residential real estate	4 020	375	377	(63)	(40)
Residential real estate – development	2 661	310	313	(42)	(42)
Residential vacant land and planning	1 359	65	64	(21)	2
High net worth and other private client lending	117 889	1 524	2 231	(146)	(284)
Mortgages	61 390	725	998	(60)	(24)
High net worth and specialised lending	56 499	799	1 233	(86)	(260)
Corporate and other lending	79 000	1 102	954	(524)	(182)
Acquisition finance	13 357	582	534	(132)	(55)
Asset-based lending	5 936	176	285	(148)	(41)
Fund finance	5 548	–	–	–	4
Other corporate and financial institutions and governments	43 986	139	135	(72)	(32)
Asset finance	2 697	26	–	–	(9)
Small ticket asset finance	2 142	–	–	–	(9)
Large ticket asset finance	555	26	–	–	–
Project finance	6 414	–	–	–	1
Resource finance	1 062	179	–	(172)	(50)
Portfolio impairments	–	–	–	(326)	(102)
Total	237 435	3 616	4 343	(1 210)	(661)

[^] Where a positive number represents a recovery.

Capital adequacy

Capital structure and capital adequacy

R'million	31 March 2018 [^]	31 March 2017 [^]
Tier 1 capital		
Shareholders' equity	36 159	32 317
Shareholders' equity per balance sheet	39 342	35 500
Perpetual preference share capital and share premium	(3 183)	(3 183)
Non-controlling interests	–	–
Non-controlling interests per balance sheet	9 503	8 987
Non-controlling interests excluded for regulatory purposes	(9 503)	(8 987)
Regulatory adjustments to the accounting basis	993	900
Cash flow hedging reserve	993	900
Deductions	(2 773)	(720)
Goodwill and intangible assets net of deferred tax	(624)	(720)
Investment in financial entity	(2 149)	–
Common equity tier 1 capital	34 379	32 497
Additional tier 1 capital	2 785	2 900
Additional tier 1 instruments	5 617	5 267
Phase out of non-qualifying additional tier 1 instruments	(2 830)	(2 359)
Non-qualifying surplus capital attributable to non-controlling interests	(72)	(69)
Minority interest in non-banking entities	70	61
Tier 1 capital	37 164	35 397
Tier 2 capital	12 348	11 153
Collective impairment allowances	635	321
Tier 2 instruments	15 013	13 805
Phase out of non-qualifying tier 2 instruments	–	–
Non-qualifying surplus capital attributable to non-controlling interests	(3 300)	(2 973)
Total regulatory capital	49 512	46 550
Risk-weighted assets	388 484	329 808
Capital ratios		
Common equity tier 1 ratio	10.2%	9.9%
Tier 1 ratio	11.0%	10.7%
Total capital adequacy ratio	14.6%	14.1%

[^] Investec Limited's capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, Investec Limited's common equity tier 1 ratio would be 25bps lower (March 2017: 24bps lower).

Capital adequacy

(continued)

Capital requirements

R'million	31 March 2018	31 March 2017
Capital requirements	37 656	35 454
Credit risk	29 389	26 008
Equity risk	2 797	4 900
Counterparty credit risk	653	574
Credit valuation adjustment risk	695	195
Market risk	609	500
Operational risk	3 513	3 277
Risk-weighted assets	338 484	329 808
Credit risk	264 171	241 926
Equity risk	25 140	45 583
Counterparty credit risk	5 867	5 344
Credit valuation adjustment risk	6 251	1 817
Market risk	5 477	4 652
Operational risk	31 578	30 486

Leverage ratios

R'million	31 March 2018	31 March 2017
Exposure measure	495 670	483 775
Tier 1 capital	37 164	35 397
Leverage ratio** – current	7.5%[#]	7.3%[#]
Tier 1 capital 'fully loaded'	35 350	33 108
Leverage ratio** – 'fully loaded'^{^^}	7.1%[#]	6.8%[#]

A summary of capital adequacy and leverage ratios

R'million	31 March 2018 [^]	31 March 2017 [^]
Common equity tier 1 (as reported)	10.2%	9.9%
Common equity tier 1 ('fully loaded') ^{^^}	10.2%	9.9%
Tier 1 (as reported)	11.0%	10.7%
Total capital adequacy ratio (as reported)	14.6%	14.1%
Leverage ratio** – current	7.5% [#]	7.3% [#]
Leverage ratio** – ('fully loaded') ^{^^}	7.1% [#]	6.8% [#]

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

[#] Based on revised BIS rules.

[^] Investec Limited's capital information includes unappropriated profits. If unappropriated profits are excluded from the capital information, Investec Limited's common equity tier 1 ratio would be 25bps lower (2017: 24bps lower).

^{^^} The key difference between the 'reported' basis at 31 March 2018 and the 'fully loaded' basis is primarily relating to capital instruments that previously qualified as regulatory capital, but do not fully qualify under the SARB Regulations. These instruments continue to be recognised on a reducing basis in the 'reported' figures until 2022.

The full set of annual financial statements will be available on 30 June 2018.

