INVESTEC BANK LIMITED | 2019

(a subsidiary of Investec Limited)

Financial information

Unaudited condensed consolidated financial information for the year ended 31 March 2019

IFRS – Rand

Investec

Introduction

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

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

The disclosure of the impact and accounting policies is included on pages 17 to 22. Credit disclosures shown on pages 23 to 27 are reported under IFRS 9 with 1 April comparatives.

Throughout the rest of the financial disclosures comparative information is provided as at 31 March 2018 and has been presented on an IAS39 basis and not restated as permitted under IFRS.

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

Overview of results

Investec Bank Limited, a subsidiary of Investec Limited, 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% (1 April 2018: 15.4%), a common equity tier one ratio of 11.2% (1 April 2018: 10.7%) and a leverage ratio of 7.7% (1 April 2018: 7.6%). Investec Bank Limited has received regulatory permission to adopt the Foundation Internal Ratings Based (FIRB) approach, effective 1 April 2019, resulting in a pro-forma CET1 ratio of 12.5% had the FIRB approach been applied as of 31 March 2019.

Key financial statistics	31 March 2019	31 March 2018	% change
Total operating income before expected credit losses/impairment losses (R'million)	12 650	11 446	10.5%
Operating costs (R'million)	6 547	6 100	7.3%
Operating profit before goodwill and acquired intangibles (R'million)	5 381	4 626	16.3%
Headline earnings attributable to ordinary shareholders (R'million)	4 784	4 446	7.6%
Cost to income ratio*	51.7%	53.3%	
Total capital resources (including subordinated liabilities) (R'million)	55 678	51 789	7.5%
Total shareholders equity (R'million)	41 760	38 415	8.7%
Total assets (R'million)	475 603	444 072	7.1%
Net core loans and advances (R'million)	269 404	254 304	5.9%
Customer accounts (deposits) (R'million)	341 710	321 893	6.2%
Loans and advances to customers as a % of customer accounts (deposits)	76.6%	76.9%	
Cash and near cash balances (R'million)	118 365	116 533	1.6%
Total gearing ratio (i.e. total assets excluding intergroup loans to equity)	11.0x	11.2x	

Key asset quality and capital ratios	31 March 2019	1 April 2018
Capital adequacy ratio	15.8%	15.4%
Tier 1 ratio	11.5%	11.0%
Common equity tier 1 ratio	11.2%	10.7%
Leverage ratio – current	7.7%	7.6%
Leverage ratio – 'fully loaded'	7.6%	7.3%
Stage 3 as a % of gross core loans and advances subject to ECL	1.3%	1.1%
Stage 3 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%**

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

** *As at 31 March 2018.*

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

Unless the context indicates otherwise, all comparatives referred to in the financial review relate to the year ended 31 March 2018.

Salient operational features for the year under review include:

Total operating income before expected credit loss impairment charges increased by 10.5% to R12 650 million (2018: R11 446 million). The components of operating income are analysed further below:

- 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
- 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 was offset by lower investment banking and corporate client activity levels
- Investment income decreased 32.1% to R360 million (2018: R530 million) impacted by a weaker performance from the listed and unlisted investment portfolio
- 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
- 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).

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 0.7% (1 April 2018: 0.7%).

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 by the prior-year rental provision release.

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 (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).

CONDENSED CONSOLIDATED INCOME STATEMENT

For the year to 31 March R'million	Reviewed 2019	Audited 2018
Interest income	33 611	31 687
Interest expense	(25 324)	(24 125)
Net interest income	**8 287**	**7 562**
Fee and commission income	2 662	2 458
Fee and commission expense	(401)	(213)
Investment income	360	530
Share of post taxation profit of associates	1 163	777
Trading income/(loss) arising from		
– customer flow	369	356
– balance sheet management and other trading liabilities	210	(26)
Other operating income	–	2
Total operating income before expected credit losses/impairment losses	**12 650**	**11 446**
Expected credit loss impairment charges*	(722)	–
Impairment losses on loans and advances*	–	(720)
Operating income	**11 928**	**10 726**
Operating costs	(6 547)	(6 100)
Operating profit before goodwill and acquired intangibles	**5 381**	**4 626**
Impairment of goodwill	(3)	–
Amortisation of acquired intangibles	(51)	(51)
Operating profit	**5 327**	**4 575**
Financial impact of acquisition of subsidiary	10	(100)
Profit before taxation	**5 337**	**4 475**
Taxation on operating profit before acquired intangibles	(391)	184
Taxation on acquired intangibles	14	14
Profit after taxation	**4 960**	**4 673**
Loss attributable to other non-controlling interests	3	–
Earnings attributable to shareholders	**4 963**	**4 673**

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

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the year to 31 March R'million	Reviewed 2019	Audited 2018
Profit after taxation	4 960	4 673
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*	63	(99)
Fair value movements on available-for-sale assets taken directly to other comprehensive income^*	–	494
Gain on realisation of available-for-sale assets recycled through the income statement^*	–	(94)
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income^*	(119)	–
Gain on realisation of FVOCI recycled through the income statement^*	(89)	–
Foreign currency adjustments on translating foreign operations	903	(637)
Items that will never be reclassified to the income statement		
Fair value movements on equity instruments at FVOCI taken directly to other comprehensive income	(461)	–
Net gain attributable to own credit risk	2	–
Total comprehensive income	**5 259**	**4 337**
Total comprehensive income attributable to ordinary shareholders	5 090	4 204
Total comprehensive loss attributable to non-controlling interests	(3)	–
Total comprehensive income attributable to perpetual preference shareholders and other Additional Tier 1 security holders	172	133
Total comprehensive income	**5 259**	**4 337**

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

* *These amounts are net of taxation of R472.1 million [2018: (R266.1 million)].*

CALCULATION OF HEADLINE EARNINGS

For the year to 31 March R'million	Reviewed 2019	Audited 2018
Earnings attributable to shareholders	4 963	4 673
Dividend paid to perpetual preference shareholders and 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 to 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 (2018: R36.6 million) with no impact on non-controlling interests in the current and prior year.*

CONSOLIDATED BALANCE SHEET

At R'million	Reviewed 31 March 2019	Audited 1 April 2018*	Audited 31 March 2018*
Assets			
Cash and balances at central banks	10 290	9 180	9 187
Loans and advances to banks	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	18 552	20 480	20 480
Sovereign debt securities	60 893	62 363	62 403
Bank debt securities	12 526	8 033	8 051
Other debt securities	13 553	10 357	10 342
Derivative financial instruments	7 700	12 564	12 586
Securities arising from trading activities	5 059	875	875
Investment portfolio	7 664	9 124	7 943
Loans and advances to customers	261 737	245 162	247 474
Own originated loans and advances to customers securitised	7 667	6 826	6 830
Other loans and advances	329	265	265
Other securitised assets	232	241	241
Interests in associated undertakings	6 251	6 288	6 288
Deferred taxation assets	1 514	933	586
Other assets	8 237	6 673	6 686
Property and equipment	2 563	2 494	2 494
Investment properties	1	1	1
Goodwill	171	171	171
Intangible assets	418	412	412
Loans to group companies	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	11 097	15 907	15 907
Other trading liabilities	4 468	2 305	2 305
Repurchase agreements and cash collateral on securities lent	15 234	8 395	8 395
Customer accounts (deposits)	341 710	321 861	321 893
Debt securities in issue	6 512	3 473	3 473
Liabilities arising on securitisation of own originated loans and advances	1 720	1 551	1 551
Current taxation liabilities	542	202	202
Deferred taxation liabilities	78	99	99
Other liabilities	6 263	6 874	6 844
Loans from group companies	2 260	7 007	7 007
	419 925	**392 281**	**392 283**
Subordinated liabilities	13 918	13 374	13 374
	433 843	**405 655**	**405 657**
Equity			
Ordinary share capital	32	32	32
Share premium	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	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.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R'million	Ordinary share capital	Share premium
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 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 IFRS9 on 1 April 2018, the fair value reserve was introduced replacing the available-for-sale reserve.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(continued)

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**

Net interest income

For the year to 31 March R'million		2019 Balance sheet value	2019 Interest income	2018 Balance sheet value	2018 Interest income
Cash, near cash and bank debt and sovereign debt securities	1	134 356	7 472	127 379	7 029
Net core loans and advances	2	269 404	24 392	254 304	23 200
Private Client		183 240	16 852	171 144	15 476
Corporate, institutional and other clients		86 164	7 540	83 160	7 724
Other debt securities and other loans and advances		13 882	883	10 607	753
Other interest-earning assets	3	21 004	864	13 740	705
Total interest-earning assets		**438 646**	**33 611**	**406 030**	**31 687**

For the year to 31 March R'million		2019 Balance sheet value	2019 Interest expense	2018 Balance sheet value	2018 Interest expense
Deposits by banks and other debt related securities	4	51 787	(1 912)	36 475	(1 564)
Customer accounts (deposits)		341 710	(22 035)	321 893	(21 388)
Other interest-bearing liabilities	5	3 980	(289)	8 558	–
Subordinated liabilities		13 918	(1 088)	13 374	(1 173)
Total interest-bearing liabilities		**411 395**	**(25 324)**	**380 300**	**(24 125)**
Net interest income			**8 287**		**7 562**
Net interest margin			**1.96%**		**1.89%**

1. *Comprises (as per the balance sheet) cash and balances at central banks; loans and advances to banks; non-sovereign and non-bank cash placements; reverse repurchase agreements and cash collateral on securities borrowed; sovereign debt securities; bank debt securities.*
2. *Comprises (as per the balance sheet) loans and advances to customers; own originated loans and advances to customers securitised.*
3. *Comprises (as per the balance sheet) other securitised assets; Investec Import Solutions debtors and loans to group companies.*
4. *Comprises (as per the balance sheet) deposits by banks; debt securities in issue; repurchase agreements and cash collateral on securities lent.*
5. *Comprises (as per the balance sheet) liabilities arising on securitisation of own originated loans and advances; loans from group companies.*

Net fee and commission income

For the year to 31 March R'million	2019	2018
Corporate and institutional transactional and advisory services	1 542	1 656
Private client transactional fees	1 120	802
Fee and commission income	2 662	2 458
Fee and commission expense	(401)	(213)
Net fee and commission income	**2 261**	**2 245**
Annuity fees (net of fees payable)	1 616	1 616
Deal fees	645	629

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

Investment income

For the year to 31 March R'million	Investment portfolio (listed and unlisted equities)*	Debt securities (sovereign, bank and other)	Other asset categories	Total
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 item.*

Analysis of financial assets and liabilities by measurement category

At 31 March 2019 R'million	Total instruments at fair value	Financial instruments at amortised cost	Non-financial instruments or scoped out of IFRS 9	Total
Assets				
Cash and balances at central banks	–	10 290	–	10 290
Loans and advances to banks	–	19 903	–	19 903
Non-sovereign and non-bank cash placements	610	11 582	–	12 192
Reverse repurchase agreements and cash collateral on securities borrowed	9 870	8 682	–	18 552
Sovereign debt securities	55 604	5 289	–	60 893
Bank debt securities	5 527	6 999	–	12 526
Other debt securities	8 656	4 897	–	13 553
Derivative financial instruments	7 700	–	–	7 700
Securities arising from trading activities	5 059	–	–	5 059
Investment portfolio	7 664	–	–	7 664
Loans and advances to customers	16 008	245 729	–	261 737
Own originated loans and advances to customers securitised	–	7 667	–	7 667
Other loans and advances	–	329	–	329
Other securitised assets	–	232	–	232
Interests in associated undertakings	–	–	6 251	6 251
Deferred taxation assets	–	–	1 514	1 514
Other assets	440	4 326	3 471	8 237
Property and equipment	–	–	2 563	2 563
Investment properties	–	–	1	1
Goodwill	–	–	171	171
Intangible assets	–	–	418	418
Loans to group companies	115	18 036	–	18 151
	117 253	**343 961**	**14 389**	**475 603**
Liabilities				
Deposits by banks	–	30 041	–	30 041
Derivative financial instruments	11 097	–	–	11 097
Other trading liabilities	4 468	–	–	4 468
Repurchase agreements and cash collateral on securities lent	7 742	7 492	–	15 234
Customer accounts (deposits)	44 606	297 104	–	341 710
Debt securities in issue	2 856	3 656	–	6 512
Liabilities arising on securitisation of own originated loans and advances	–	1 720	–	1 720
Current taxation liabilities	–	–	542	542
Deferred taxation liabilities	–	–	78	78
Other liabilities	828	2 193	3 242	6 263
Loans from group companies	–	2 260	–	2 260
	71 597	**344 466**	**3 862**	**419 925**
Subordinated liabilities	–	13 918	–	13 918
	71 597	**358 384**	**3 862**	**433 843**

Financial instruments carried at fair value

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

The different levels are identified as follows:

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

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

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

		Fair value category		
At 31 March 2019 **R'million**	**Total instruments at fair value**	Level 1	Level 2	Level 3
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**

Transfers between level 1 and level 2

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

Level 3 instruments

R'million	Investment portfolio	Loans and advances to customers	Other level 3 assets	Total
Balance at 31 March 2018	1 961	–	22	**1 983**
Adoption of IFRS 9	1 108	604	(22)	1 690
Balance at 1 April 2018	**3 069**	**604**	**–**	**3 673**
Total losses included 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 at 31 March 2019	**3 219**	**667**	**–**	**3 886**

During the year R282.9 million of level 2 instruments have been transferred into level 3 as a result of inputs to valuation models becoming unobservable in the market.

The group transfers between levels within the fair value hierarchy when the significance of the unobservable inputs change or if the valuation methods change.

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

For the year to 31 March 2019 R'million	Total	Realised	Unrealised
Total gains or (losses) included in the income statement for the year			
Investment income	(758)	49	(807)
	(758)	**49**	**(807)**

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

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

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	 Unfavourable changes R'million
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)
		Discounted cash flow	Cash flows	(50%)/50%	302	(302)
		Price earnings	EBITDA	*	6	(6)
Total	**3 886**				**893**	**(886)**

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

** *The valuation sensitivity for the certain equity investments has been assessed by adjusting various inputs such as expected cash flows, discount rates and earnings multiples rather than a single input. It is deemed appropriate to reflect the outcome on a portfolio basis for the purposes of this analysis as the sensitivity of the investments cannot be determined through the adjustment of a single input.*

^ *Underlying asset values are calculated by reference to a tangible asset.*

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

Price-earnings multiple

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

EBITDA

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

Precious and industrial metals

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

Cash flows

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

Underlying asset value

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

Measurement of financial assets and liabilities at level 2

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

	Valuation basis/techniques	Main inputs
Assets		
Non-sovereign and non-bank cash placements	Discounted cash flow model	Yield curve
Reverse repurchase agreements and cash collateral on securities borrowed	Discounted cash flow model	Yield curve
Bank debt securities	Discounted cash flow model	Yield curve
Other debt securities	Discounted cash flow model	Yield curve
Derivative financial instruments	Discounted cash flow model Black-Scholes	Yield curve Volatilities
Securities arising from trading activities	Discounted cash flow model	Yield curve
Investment portfolio	Adjusted quoted price	Liquidity adjustment
Loans and advances to customers	Discounted cash flow model	Yield curve
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

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 2019 **R'million**	**Carrying amount**	Fair value
Assets		
Reverse repurchase agreements and cash collateral on securities borrowed	8 682	8 684
Sovereign debt securities	5 289	5 097
Bank debt securities	6 999	6 992
Other debt securities	4 897	4 871
Loans and advances to customers	245 729	245 739
Liabilities		
Deposits by banks	30 041	30 544
Repurchase agreements and cash collateral on securities lent	7 492	7 447
Customer accounts (deposits)	297 104	297 692
Debt securities in issue	3 656	3 677
Subordinated liabilities	13 918	15 496

Reconciliation of IAS 39 carrying amount to IFRS 9 carrying amount

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

Only assets and liabilities which have changed are shown.

R'million	IAS 39 carrying amount At 31 March 2018	Reclassifi-cations in	Reclassifi-cations out	Remeasure-ments	ECL	IFRS 9 carrying amount At 1 April 2018
Assets						
Financial assets at amortised cost (previously loans and receivables and held-to-maturity)						
Cash and balances at central banks	9 187	–	–	–	(7)	9 180
Loans and advances to banks	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]	–	(36)	(3)	4 568
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	–	(29 346)[3]	–	–	11 704
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.*

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

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

R'million	Loan loss allowance and provision IAS 39 and and IAS 37 at 31 March 2018	Reclassification	Remeasurement	**ECL under IFRS 9 at 1 April 2018**	**Total increase in impairment allowances**
Assets					
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)					
Cash and balances at central banks	–	–	(7)	(7)	(7)
Loans and advances to banks	–	–	(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					
Off balance sheet exposures (recognised in other liabilities)					
Guarantees	–	–	(5)	(5)	(5)
Committed facilities related to loans and advances to customers	–	–	(25)	(25)	(25)
Total	**(1 514)**	**154**	**(807)**	**(2 167)**	**(653)**

* *Less than R1 million.*

Accounting policies

The group accounting policies related to financial instruments, which have been significantly changed as the result of the implementation of IFRS 9, are applicable with effect from 1 April 2018. The full set of accounting policies will be available in the 2019 integrated annual report, to be released on 28 June 2019.

Standards adopted during the year ending 31 March 2019

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

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

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

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

Financial instruments

Financial instruments are initially recognised at their fair value. For financial assets or financial liabilities not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities are included in the initial measurement. All other transaction costs are recorded in the income statement immediately. Regular way purchase and sales transactions in respect of financial assets that require delivery of a financial instrument within the timeframe established by market convention are recorded at trade date.

Business model assessment

For financial assets, IFRS 9 requires that a business model assessment is carried out which reflects how the group manages the assets in order to generate cash flows. The assessment is at a portfolio level, being the level at which the portfolio is managed. Factors considered by the group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the assets' performance is evaluated and reported and how risks are assessed and managed.

The standard sets out different types of business models:

- Hold to collect: it is intended to hold the asset to maturity to earn interest, collecting repayments of principal and interest from the customer. These assets are accounted for at amortised cost.
- Hold to collect and sell: this model is similar to the hold to collect model, except that the entity may elect to sell some or all of the assets before maturity to achieve the objectives of the business model. These assets are accounted for at FVOCI.
- Hold to sell/managed on a fair value basis: the entity originates or purchases an asset with the intention of disposing of it in the short- or medium- term to benefit from capital appreciation or the portfolio is managed on a fair value basis. These assets are accounted for at FVPL.

However, the group may make the following irrevocable election/ designation at initial recognition of a financial asset on an asset-by-asset basis:

- elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in OCI; and
- a debt instrument that meets the amortised cost or FVOCI criteria as measured at FVPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

The classification into one of these categories is based on the entity's business model for managing the assets and the contractual cash flow characteristics of the assets.

Solely payment of principal and interest (SPPI)

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the group assesses whether the assets' cash flows represent solely payments of principal and interest (the SPPI test). In making this assessment, the group considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related asset is classified and measured at FVPL.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Financial assets and liabilities measured at amortised cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise to cash flows that are solely payments of principal and interest, such as most loans and advances to banks and customers and some debt securities, are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost.

The group may commit to provide a loan which has not yet been drawn. When the loan that arises from the lending commitment is expected to meet the criteria to be measured at amortised cost, the undrawn commitment is also considered and is included in the impairment calculation.

The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs. If the initial fair value is lower than the cash amount advanced, such as in the case of some leveraged finance and syndicated lending activities, the difference is deferred and recognised over the life of the loan through the recognition of interest income, unless the loan is credit impaired.

Financial assets measured at fair value through other comprehensive income (FVOCI)

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. They are recognised on the trade date when the group enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed.

They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Gains less losses arising from derecognition of debt instruments measured at fair value through other comprehensive income'.

Financial assets measured at FVOCI are included in the impairment calculations and impairment is recognised in profit or loss.

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

Impairment of financial assets held at amortised cost or FVOCI

At each balance sheet date each financial asset or portfolio of advances categorised at amortised cost or at fair value through other comprehensive income, issued financial guarantee and loan commitment is measured for ECL impairment. Loss allowances are forward-looking, based on 12-month expected credit losses where there has not been a significant increase in credit risk rating, otherwise allowances are based on lifetime expected losses.

Expected credit losses are a probability-weighted estimate of credit losses. The probability is determined by the risk of default which is applied to the cash flow estimates. On a significant increase in credit risk, credit losses are rebased from 12-month to lifetime expectations. A change in credit risk is typically but not necessarily associated with a change in the expected cash flows.

The costs of loss allowances on assets held at amortised cost are presented as impairments in the income statement. Allowances in respect of financial guarantees and loan commitments are presented as other liabilities and charges recorded within income statement impairments. Financial assets held at amortised cost are presented net of allowances except where the asset has been wholly or partially written off.

Financial assets where 12-month ECL is recognised are considered to be 'Stage 1', financial assets which are considered to have experienced a significant increase in credit risk are in 'Stage 2', and financial assets for which there is objective evidence of impairment or are considered to be in default or otherwise credit-impaired are in 'Stage 3'.

Financial assets and liabilities held at fair value through profit or loss

Financial instruments held at fair value through profit or loss include all instruments classified as held-for-trading, those instruments designated as held at fair value through profit or loss and those financial assets which do not meet the criteria for amortised cost or FVOCI.

Financial instruments classified as FVPL are initially recorded at fair value on the balance sheet with changes in fair value subsequently recognised in the income statement. Financial instruments are classified as trading when they are held with the intention of short-term disposal, held with the intention of generating short-term profit, or are derivatives which are not designated as part of effective hedges. Financial instruments designated as held at fair value through profit or loss are designated as such on initial recognition of the instrument and remain in this classification until derecognition.

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

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

- they eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial liabilities or both financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy and information about the group is provided internally on that basis to the group's key management personnel; or
- a financial liability contract contains one or more embedded derivatives (which significantly modifies the cash flows that would be required by the contract and is not clearly prohibited from separation from the host contract) and the group has designated the entire hybrid contract as a financial instrument at fair value through profit or loss.

Securitisation/credit investment and trading activities exposures

The group makes use of securitisation vehicles as a source of finance, as a means of risk transfer and to leverage returns through the retention of equity tranches in low default rate portfolios. The group predominantly focuses on the securitisation of lease receivables. The group also trades in structured credit investments.

The structured entities are consolidated under IFRS 10 Consolidated Financial Statements when the group has exposure to or rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Loans and advances that are originated are transferred to structured entities, and the structured entities issue debt securities to external investors to fund the purchase of the securitised assets. When the group consolidates the structured entity, the group recognises the assets and liabilities on a gross basis. When the group does not consolidate the structured entity, the securitised assets are derecognised and only any position still held by the group in the structured entity is reflected.

Day-one profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on the valuation technique whose variables include only data from observable markets, the difference between the transaction price and fair value is recognised immediately in the income statement.

In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised or over the life of the transaction.

Derecognition of financial assets and liabilities

A financial asset, or a portion thereof, is derecognised when the group's rights to cash flows have expired or when the group has transferred its rights to cash flows relating to the financial assets and either (a) the group has transferred substantially all the risks and rewards associated with the financial assets or (b) the group has neither transferred nor retained substantially all the risks and rewards associated with the financial assets but has transferred control of the assets.

The treatment of a renegotiation or modification of the contractual cash flows of a financial asset depends upon whether the modification is done for commercial reasons, in which case if they are significant the old asset is derecognised and a new asset recognised, or because of financial difficulties of the borrower.

A financial liability is derecognised when it is extinguished, that is when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced or modified with substantially different terms, such a replacement or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

Reclassification of financial instruments

Financial assets are only reclassified where there has been a change in business model. Financial liabilities cannot be reclassified.

Derivative financial instruments

All derivative instruments of the group are recorded on the balance sheet at fair value. Positive and negative fair values are reported as assets and liabilities respectively.

Derivative positions are entered into either for trading purposes or as part of the group's asset and liability management activities to manage exposures to interest rate and foreign currency risks. Both realised and unrealised profit or losses arising on derivatives are recognised in the income statement as part of trading income (other than circumstances in which cash flow hedging is applied as detailed in the hedge accounting section below).

Derivative instruments entered into as economic hedges which do not qualify for hedge accounting and derivatives that are entered into for trading purposes are treated in the same way as instruments that are held-for-trading.

Credit derivatives are entered into largely for trading purposes. Credit derivatives are initially recognised at their fair values, being the transaction price of the derivative. Subsequently the derivatives are carried at fair value, with movements in fair value through profit or loss, based on the current market price or remeasured price. The counterparty risk from derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit value adjustment (CVA).

Hedge accounting

The group applies either fair value or hedge of net investments in foreign operations accounting when the transactions meet the specified hedge accounting criteria. To qualify for hedge accounting treatment, the group ensures that all of the following conditions are met:

- At inception of the hedge, the group formally documents the relationship between the hedging instrument(s) and hedged item(s) including the risk management objectives and the strategy in undertaking the hedge transaction. Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is expected to be highly effective if the changes in fair value attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%.
- The effectiveness of the hedge can be reliably measured, i.e. the fair value of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.
- The hedge effectiveness is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

For qualifying fair value hedges, the change in fair value of the hedging instrument is recognised in the income statement. Changes in fair value of the hedged item that is attributable to the hedged risk are also recognised in the income statement.

Embedded derivatives

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

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

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset when there is both an intention to settle on a net basis (or simultaneously) and a currently enforceable legal right to offset exists.

Issued debt and equity financial instruments

Financial instruments issued by the group are classified as liabilities if they contain a contractual obligation to deliver cash or another financial asset.

Financial instruments issued by the group are classified as equity where they confer on the holder a residual interest in the group, and the group has no obligation to deliver either cash or another financial asset to the holder. The components of compound issued financial instruments are accounted for separately with the liability component separated first and any residual amount being allocated to the equity component.

Equity instruments 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, at a fixed price or a selling price plus a lender's return, remain on balance sheet. Proceeds received are recorded as a liability on balance sheet under 'repurchase agreements and cash collateral on securities lent'. Securities that are purchased under a commitment to resell the securities at a future date are not recognised on the balance sheet. The consideration paid is recognised as an asset under 'reverse repurchase agreements and cash collateral on securities borrowed'.

The difference between the sale and repurchase prices is treated as interest income/expense and is accrued over the life of the agreement using the effective interest method.

Securities borrowing transactions that are not cash collateralised are not included on the balance sheet. Securities lending and borrowing transactions which are cash collateralised are accounted for in the same manner as securities sold or purchased subject to repurchase commitments.

Financial guarantees

Financial guarantee contracts issued by the group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due, in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at fair value, adjusted for the transaction costs that are directly attributable to the issuance of the guarantee.

Subsequent to initial recognition, the liability under each guarantee is measured at the higher of the amount initially recognised less cumulative revenue and the initial amount less any impairment calculated as set out above. Subsequent to initial measurement, all changes in the balance sheet carrying value are recognised in the income statement.

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

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 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 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 expected credit loss 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 subject to ECL

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 gross core loans and advances by risk category

Lending collateralised by property

	Gross core loans and advances at amortised cost and FVPL (subject to ECL)								Gross core loans and advances at FVPL (not subject to ECL)	Gross core loans and advances
	Stage 1		Stage 2		Stage 3		Total			
R'million	Gross exposure	ECL	Gross exposure	ECL	Gross exposure	ECL	**Gross exposure**	**ECL**		
At 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**

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**

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**

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 D1/2018.

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, increasing 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. As of 1 December 2017, we no longer make 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.

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 01/2018.

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

The minimum NSFR requirement is 100%. This applies to both IBL bank 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.

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

Capital structure and capital adequacy

	Pro-forma FIRB*	Standardised		
R'million	**31 March 2019**	**31 March 2019**	1 April 2018	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 impairments 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.*

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	**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	21 939	21 779	21 779

Leverage

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%#**

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%#

** *The leverage ratios are calculated on an end-quarter basis.*
# *Based on revised BIS rules.*
^^ *The fully loaded ratio assumes full adoption of IFRS 9 and is based on Basel III capital requirements as fully phased in by 2022.*

The full set of annual financial statements will be available on 30 June 2019.