Investec

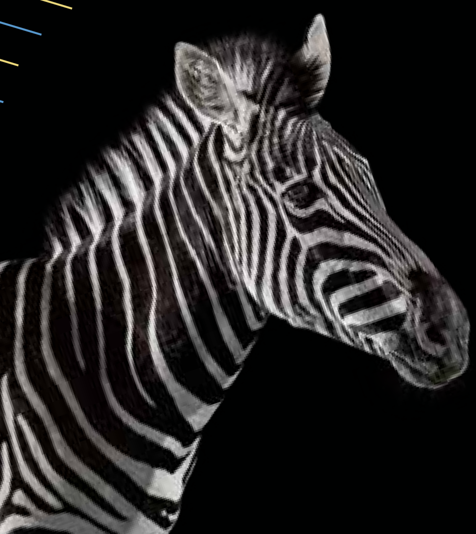
INVESTEC LIMITED | 2019

Financial information (excludes results of Investec plc)

Unaudited condensed financial information

for the year ended 31 March 2019

IFRS – Rand



Introduction

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

Disclosure related to the initial application and the impact of the transition from IAS 39 to IFRS 9 were included in the transition disclosures published on 15 June 2018. The Investec Limited transition disclosures can be accessed via the Investec website at https://www.investec.com/en_int/welcome-to-investec/about-us/investor-relations/financial-information/subsidiary-results.html

The disclosure of the impact and accounting policies is included on pages 16 to 21. Throughout the rest of the disclosures financial comparative information is provided as at 31 March 2018 and has been presented on an IAS 39 basis and not restated as permitted under IFRS 9. Credit risk disclosures shown on pages 22 to 26 are reported under IFRS 9 with 1 April 2018 comparatives.

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

Key financial statistics	**31 March 2019**	31 March 2018	% change
Total operating income before expected credit losses/impairment losses (R'million)	19 086	18 217	4.8%
Operating costs (R'million)	10 188	9 619	5.9%
Operating profit before goodwill and acquired intangibles (R'million)	8 137	7 869	3.4%
Headline earnings attributable to ordinary shareholders (R'million)	5 704	5 490	3.9%
Cost to income ratio*	56.5%	55.6%	
Total capital resources (including subordinated liabilities) (R'million)	71 472	66 292	7.8%
Total shareholders equity (R'million)	55 615	51 279	8.5%
Total assets (R'million)	661 669	617 710	7.1%
Net core loans and advances (R'million)	271 204	256 702	5.6%
Customer accounts (deposits) (R'million)	341 578	321 823	6.1%
Loans and advances to customers as a % of customer accounts (deposits)	77.2%	77.4%	
Cash and near cash balances (R'million)	118 365	116 533	1.6%
Funds under management (R'million)	972 285	896 237	8.5%
Total gearing ratio (i.e. total assets excluding assurance assets to equity)	9.1x	9.3x	

Key asset quality and capital ratios	**31 March 2019**	1 April 2018
Capital adequacy ratio	14.9%	14.5%
Tier 1 ratio	11.2%	10.8%
Common equity tier 1 ratio	10.5%	10.0%
Leverage ratio – current	7.6%	7.4%
Leverage ratio – 'fully loaded'	7.3%	6.9%
Stage 3 as a % of gross core loans and advances subject to ECL	1.4%	1.1%
Stage 3 net of ECL as a % of net core loans and advances subject to ECL	0.8%	0.7%
Credit loss ratio#	0.28%	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.*

CONDENSED CONSOLIDATED INCOME STATEMENT

For the year to 31 March R'million	2019	2018
Interest income	34 099	32 509
Interest expense	(26 229)	(25 240)
Net interest income	**7 870**	**7 269**
Fee and commission income	9 346	9 245
Fee and commission expense	(606)	(459)
Investment income	240	1 000
Share of post taxation profit of associates	1 163	777
Trading income/(loss) arising from		
– customer flow	613	414
– balance sheet management and other trading activities	419	(41)
Other operating income	41	12
Total operating income before expected credit losses/impairment charges	**19 086**	**18 217**
Expected credit loss impairment charges*	(761)	–
Impairment losses on loans and advances*	–	(729)
Operating income	**18 325**	**17 488**
Operating costs	(10 188)	(9 619)
Operating profit before goodwill and acquired intangibles	**8 137**	**7 869**
Impairment of goodwill	(3)	–
Amortisation of acquired intangibles	(51)	(51)
Operating profit	**8 083**	**7 818**
Financial impact of group restructures and acquisition of subsidiaries	(9)	(100)
Profit before taxation	**8 074**	**7 718**
Taxation on operating profit before goodwill and acquired intangibles	(694)	(367)
Taxation on acquired intangibles and group restructures	18	14
Profit after taxation	**7 398**	**7 365**
Profit attributable to Asset Management non-controlling interests	(176)	(156)
Profit attributable to other non-controlling interests	(1 049)	(907)
Earnings attributable to shareholders	**6 173**	**6 302**

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

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the year to 31 March R'million	2019	2018
Profit after taxation	7 398	7 365
Other comprehensive income:		
Items that may be reclassified to the income statement		
Fair value movements on cash flow hedges taken directly to other comprehensive income*	62	(93)
Fair value on movements on debt instruments at FVOCI taken directly to other comprehensive income^*	(201)	–
Gain on realisation of debt instruments at FVOCI recycled to the income statement^*	(89)	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income^*	–	245
Gain on realisation of available-for-sale assets recycled to the income statement^*	–	(94)
Foreign currency adjustments on translating foreign operations	959	(648)
Items that may not be reclassified to the income statement		
Net gain attributable to own credit risk	1	–
Total comprehensive income	**8 130**	**6 775**
Total comprehensive income attributable to ordinary shareholders	6 416	5 254
Total comprehensive income attributable to non-controlling interests	1 225	1 063
Total comprehensive income attributable to perpetual preferred securities and other Additional Tier 1 securities	489	458
Total comprehensive income	**8 130**	**6 775**

^ *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 (R389.9 million) [2018: R194.0 million].*

HEADLINE EARNINGS

For the year to 31 March R'million	2019	2018
Earnings attributable to shareholders	6 173	6 302
Dividends paid to perpetual preference shareholders and other Additional Tier 1 security holders	(489)	(458)
Earnings attributable to ordinary shareholders	**5 684**	**5 844**
Headline adjustments:	20	(354)
Revaluation of investment properties*	17	(260)
Gain on realisation of available-for-sale assets recycled to the income statement*	–	(94)
Impairment of goodwill	3	–
Headline earnings attributable to ordinary shareholders	**5 704**	**5 490**

* *Taxation on headline earnings adjustments amounted to Rnil million (2018: R88.6 million) with a R26.0 million (2018: R350.5 million) impact on earnings attributable to non-controlling interests.*

CONSOLIDATED BALANCE SHEET

At R'million	31 March 2019	1 April 2018*	31 March 2018*
Assets			
Cash and balances at central banks	10 290	9 180	9 187
Loans and advances to banks	22 125	19 617	19 620
Non-sovereign and non-bank cash placements	12 192	9 972	9 993
Reverse repurchase agreements and cash collateral on securities borrowed	21 346	24 217	24 217
Sovereign debt securities	60 893	62 363	62 403
Bank debt securities	12 502	7 947	7 965
Other debt securities	13 580	10 405	10 390
Derivative financial instruments	7 736	12 541	12 563
Securities arising from trading activities	20 079	12 289	12 289
Investment portfolio	10 070	8 110	6 928
Loans and advances to customers	263 537	246 760	249 072
Own originated loans and advances to customers securitised	7 667	7 625	7 630
Other loans and advances	329	265	265
Other securitised assets	294	299	299
Interests in associated undertakings	6 284	6 495	6 495
Deferred taxation assets	1 890	1 331	983
Other assets	14 281	13 292	13 305
Property and equipment	3 043	2 973	2 973
Investment properties	18 425	19 439	19 439
Goodwill	211	211	211
Intangible assets	418	412	412
	507 192	**475 743**	**476 639**
Other financial instruments at fair value through profit or loss in respect of liabilities to customers	154 477	141 071	141 071
	661 669	**616 814**	**617 710**
Liabilities			
Deposits by banks	31 735	27 793	27 793
Derivative financial instruments	11 111	15 907	15 907
Other trading liabilities	11 132	14 238	14 238
Repurchase agreements and cash collateral on securities lent	15 234	8 395	8 395
Customer accounts (deposits)	341 578	321 791	321 823
Debt securities in issue	12 328	6 885	6 885
Liabilities arising on securitisation of own originated loans and advances	1 720	2 274	2 274
Current taxation liabilities	574	551	551
Deferred taxation liabilities	54	171	171
Other liabilities	10 254	12 340	12 310
	435 720	**410 345**	**410 347**
Liabilities to customers under investment contracts	154 422	141 013	141 013
Insurance liabilities, including unit-linked liabilities	55	58	58
	590 197	**551 416**	**551 418**
Subordinated liabilities	15 857	15 013	15 013
	606 054	**566 429**	**566 431**
Equity			
Ordinary share capital	1	1	1
Share premium	13 576	12 820	12 820
Treasury shares	(1 881)	(1 552)	(1 552)
Other reserves	2 055	1 185	1 125
Retained income	29 398	25 994	26 948
Shareholders' equity excluding non-controlling interests	**43 149**	**38 448**	**39 342**
Other Additional Tier 1 securities in issue	1 010	900	900
Non-controlling interests	11 456	11 037	11 037
– Perpetual preferred securities issued by subsidiaries	1 534	1 534	1 534
– Non controlling interests in partially held subsidiaries	9 922	9 503	9 503
Total equity	**55 615**	**50 385**	**51 279**
Total liabilities and equity	**661 669**	**616 814**	**617 710**

* *The 1 April 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	Treasury shares
At 1 April 2017	**1**	**11 895**	**(1 189)**
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	–	–	–
Gains on available-for-sale assets recycled to the income statement	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	–
Total comprehensive income for the year	**–**	**–**	**–**
Issue of ordinary shares	–	925	–
Issue of other Additional Tier 1 security instruments	–	–	–
Movement of treasury shares	–	–	(985)
Share-based payments adjustments	–	–	–
Transfer from share-based payments reserve to treasury shares	–	–	622
Transfer from regulatory general risk reserves	–	–	–
Partial disposal of group operations	–	–	–
Movement in non-controlling interests due to share issues in subsidiary	–	–	–
Dividends declared to other equity holders including other Additional Tier 1 securities	–	–	–
Dividends paid to perpetual preference shareholders included in non-controlling interests and other Additional Tier 1 securities	–	–	–
Dividends paid to ordinary shareholders	–	–	–
Dividends paid to non-controlling interests	–	–	–
At 31 March 2018	**1**	**12 820**	**(1 552)**
Adoption of IFRS 9	–	–	–
At 1 April 2018	**1**	**12 820**	**(1 552)**
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	–	–	–
Net gain attributable to own credit risk	–	–	–
Total comprehensive income for the year	**–**	**–**	–
Issue of ordinary shares	–	756	–
Issue of other Additional Tier 1 security instruments	–	–	–
Net equity movements in interests in associated undertakings	–	–	–
Movement of treasury shares	–	–	(1 119)
Share-based payments adjustments	–	–	–
Transfer from share-based payments reserve to treasury shares	–	–	790
Transfer from regulatory general risk reserves	–	–	–
Acquisition of subsidiary	–	–	–
Issue of equity by subsidiaries	–	–	–
Partial disposal of group operations	–	–	–
Transfer from retained income to non controlling interest	–	–	–
Dividends declared to other equity holders including other Additional Tier 1 securities	–	–	–
Dividends paid to perpetual preference shareholders included in non-controlling interests and other Additional Tier 1 securities	–	–	–
Dividends paid to ordinary shareholders	–	–	–
Dividends paid to non-controlling interests	–	–	–
At 31 March 2019	**1**	**13 576**	**(1 881)**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(continued)

Capital reserve account	Available-for-sale /Fair value reserve*	Regulatory general risk reserve	Cash flow hedge reserve	Own credit reserve	Foreign currency reserve	Retained income	**Shareholders' equity excluding non-controlling interests**	Other additional Tier 1 securities in issue	Non-controlling interests	**Total equity**
	Other reserves									
61	**193**	**660**	**(900)**	**–**	**1 734**	**23 045**	**35 500**	**550**	**10 521**	**46 571**
				–						
–	–	–	–	–	–	6 302	6 302	–	1 063	7 365
–	–	–	(93)	–	–	–	(93)	–	–	(93)
–	245	–	–	–	–	–	245	–	–	245
–	(94)	–	–	–	–	–	(94)	–	–	(94)
–	–	–	–	–	(648)	–	(648)	–	–	(648)
–	**151**	**–**	**(93)**	**–**	**(648)**	**6 302**	**5 712**	**–**	**1 063**	**6 775**
–	–	–	–	–	–	–	925	–	–	925
–	–	–	–	–	–	–	–	350	–	350
–	–	–	–	–	–	–	(985)	–	–	(985)
–	–	–	–	–	–	656	656	–	–	656
–	–	–	–	–	–	(622)	–	–	–	–
–	–	(33)	–	–	–	33	–	–	–	–
–	–	–	–	–	–	103	103	–	85	188
–	–	–	–	–	–	–	–	–	210	210
–	–	–	–	–	–	(458)	(458)	63	133	(262)
–	–	–	–	–	–	–	–	(63)	(133)	(196)
–	–	–	–	–	–	(2 111)	(2 111)	–	–	(2 111)
–	–	–	–	–	–	–	–	–	(842)	(842)
61	**344**	**627**	**(993)**	**–**	**1 086**	**26 948**	**39 342**	**900**	**11 037**	**51 279**
–	36	–	–	24	–	(954)	(894)	–	–	(894)
61	**380**	**627**	**(993)**	**24**	**1 086**	**25 994**	**38 448**	**900**	**11 037**	**50 385**
–	–	–	–	–	–	6 173	6 173	–	1 225	7 398
–	–	–	62	–	–	–	62	–	–	62
–	(201)	–	–	–	–	–	(201)	–	–	(201)
–	(89)	–	–	–	–	–	(89)	–	–	(89)
–	–	–	–	–	959	–	959	–	–	959
–	–	–	–	1	–	–	1	–	–	1
–	**(290)**	**–**	**62**	**1**	**959**	**6 173**	**6 905**	**–**	**1 225**	**8 130**
–	–	–	–	–	–	–	756	–	–	756
–	–	–	–	–	–	–	–	110	–	110
–	–	–	–	–	–	(109)	(109)	–	–	(109)
–	–	–	–	–	–	–	(1 119)	–	–	(1 119)
–	–	–	–	–	–	776	776	–	–	776
–	–	–	–	–	–	(790)	–	–	–	–
–	–	138	–	–	–	(136)	2	–	–	2
–	–	–	–	–	–	–	–	–	(2)	(2)
–	–	–	–	–	–	–	–		81	81
–	–	–	–	–	–	320	320	–	39	359
–	–	–	–	–		(13)	(13)	–	13	–
–	–	–	–	–	–	(489)	(489)	105	130	(254)
–	–	–	–	–	–	–	–	(105)	(130)	(235)
–	–	–	–	–	–	(2 328)	(2 328)	–	–	(2 328)
–	–	–	–	–	–	–	–	–	(937)	(937)
61	**90**	**765**	**(931)**	**25**	**2 045**	**29 398**	**43 149**	**1 010**	**11 456**	**55 615**

CONDENSED CONSOLIDATED SEGMENTAL INFORMATION

For the year to 31 March 2019 R'million	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Total group
Group					
Segmental business analysis – income statement					
Net interest income	92	91	7 687	–	7 870
Net fee and commission income	3 226	1 427	4 087	–	8 740
Investment income	–	5	235	–	240
Share of post taxation profit of associates	–	–	1 163	–	1 163
Trading income arising from					
– customer flow	–	1	612	–	613
– balance sheet management and other trading activities	(1)	1	419	–	419
Other operating income/loss	30	–	11	–	41
Total operating income before expected credit losses	**3 347**	**1 525**	**14 214**	**–**	**19 086**
Expected credit loss impairment charges	–	–	(761)	–	(761)
Operating income	**3 347**	**1 525**	**13 453**	**–**	**18 325**
Operating costs	(2 052)	(1 052)	(6 817)	(267)	(10 188)
Operating profit/(loss) before goodwill, acquired intangibles and non-controlling interests	**1 295**	**473**	**6 636**	**(267)**	**8 137**
Profit attributable to non-controlling interests	(176)	–	(1 049)	–	(1 225)
Profit/(loss) before goodwill acquired intangibles, taxation and after non-controlling interests	**1 119**	**473**	**5 587**	**(267)**	**6 912**
Cost to income ratio*	61.3%	69.0%	51.8%	n/a	**56.5%**
Total assets (R'million)	156 305	9 577	495 787	–	**661 669**

For the year to 31 March 2018 R'million	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Total group
Group					
Segmental business analysis – income statement					
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 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/(loss) 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/(loss) before goodwill acquired intangibles, taxation and after non-controlling interests	**1 119**	**503**	**5 457**	**(273)**	**6 806**
Cost to income ratio*	60.4%	67.7%	47.2%	n/a	**55.6%**
Total assets (R'million)	142 856	15 183	459 671	–	**617 710**

* *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).*

Net interest income

For the year to 31 March R'million	Notes	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	139 348	7 700	133 385	7 315
Net core loans and advances	2	271 204	24 541	256 702	23 489
Private client		184 933	16 984	173 299	15 741
Corporate, institutional and other clients		86 271	7 557	83 403	7 748
Other debt securities and other loans and advances		13 909	883	10 655	753
Other interest-earning assets	3	2 915	974	299	952
Total interest-earning assets		**427 376**	**34 098**	**401 041**	**32 509**

For the year to 31 March R'million	Notes	2019 Balance sheet value	2019 Interest expense	2018 Balance sheet value	2018 Interest expense
Deposits by banks and other debt-related securities	4	59 297	(2 515)	43 073	(2 122)
Customer accounts (deposits)		341 578	(22 049)	321 823	(21 434)
Other interest-bearing liabilities	5	1 720	(429)	2 274	(423)
Subordinated liabilities		15 857	(1 235)	15 013	(1 261)
Total interest-bearing liabilities		**418 452**	**(26 228)**	**382 183**	**(25 240)**
Net interest income			**7 871**		**7 269**
Net interest margin			**1.90%**		**1.84%**

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 and Investec Import Solutions debtors.*
4. *Comprises (as per the balance sheet) deposits by banks; debt securities in issue; repurchase agreements and cash collateral on securities lent.*
5. *Comprises (as per balance sheet) liabilities arising on securitisation of own originated loans and advances.*

Net fee and commission income

For the year to 31 March R'million	2019	2018
Asset management and wealth management businesses net fee and commission income	**4 653**	**4 600**
Fund management fees/fees for assets under management	4 094	4 002
Private client transactional fees	661	728
Fee and commission expense	(102)	(130)
Specialist Banking net fee and commission income	**4 087**	**4 186**
Corporate and institutional transactional and advisory services	3 470	3 712
Private client transactional fees	1 121	803
Fee and commission expense	(504)	(329)
Net fee and commission income	**8 740**	**8 786**
Annuity fees (net of fees payable)	7 615	7 558
Deal fees	1 125	1 228

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

Included in specialist banking corporate and institutional transactional and advisory services is net fee income of R1 717 million (2018: R1 815 million) for operating lease income which is out of the scope of IFRS 15 – Revenue 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)	Investment properties	Other asset categories	Total
The following table analyses investment income generated by the asset portfolio shown on the balance sheet:					
2019					
Realised	947	129	574	13	1 663
Unrealised^	(1 363)	51	(617)	(101)	(2 030)
Dividend income	680	–	–	3	683
Funding and other net related costs	(40)	–	–	(36)	(76)
Total investment income	**224**	**180**	**(43)**	**(121)**	**240**
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**

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

Analysis of assets and liabilities by measurement category

At 31 March 2019 R'million	Total instruments at fair value	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	–	22 125	–	22 125
Non-sovereign and non-bank cash placements	610	11 582	–	12 192
Reverse repurchase agreements and cash collateral on securities borrowed	9 870	11 476	–	21 346
Sovereign debt securities	55 604	5 289	–	60 893
Bank debt securities	5 599	6 903	–	12 502
Other debt securities	8 771	4 809	–	13 580
Derivative financial instruments	7 736	–	–	7 736
Securities arising from trading activities	20 079	–	–	20 079
Investment portfolio	10 070	–	–	10 070
Loans and advances to customers	16 102	247 435	–	263 537
Own originated loans and advances to customers securitised	–	7 667	–	7 667
Other loans and advances	–	329	–	329
Other securitised assets	–	294	–	294
Interests in associated undertakings	–	–	6 284	6 284
Deferred taxation assets	–	–	1 890	1 890
Other assets	1 090	7 035	6 156	14 281
Property and equipment	–	–	3 043	3 043
Investment properties	–	–	18 425	18 425
Goodwill	–	–	211	211
Intangible assets	–	–	418	418
	135 531	**335 234**	**36 427**	**507 192**
Other financial instruments at fair value through profit or loss in respect of liabilities to customers	154 477	–	–	154 477
	290 008	**335 234**	**36 427**	**661 669**
Liabilities				
Deposits by banks	–	31 735	–	31 735
Derivative financial instruments	11 111	–	–	11 111
Other trading liabilities	11 132	–	–	11 132
Repurchase agreements and cash collateral on securities lent	7 742	7 492	–	15 234
Customer accounts (deposits)	44 606	296 972	–	341 578
Debt securities in issue	2 856	9 472	–	12 328
Liabilities arising on securitisation of own originated loans and advances	–	1 720	–	1 720
Current taxation liabilities	–	–	574	574
Deferred taxation liabilities	–	–	54	54
Other liabilities	896	3 984	5 374	10 254
	78 343	**351 375**	**6 002**	**435 719**
Liabilities to customers under investment contracts	154 422	–	–	154 422
Insurance liabilities, including unit–linked liabilities	55	–	–	55
	232 820	**351 375**	**6 002**	**590 196**
Subordinated liabilities	–	15 857	–	15 857
	232 820	**367 232**	**6 002**	**606 053**

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).

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	5 599	2 799	2 800	–
Other debt securities	8 771	4 187	4 469	115
Derivative financial instruments	7 736	–	7 736	–
Securities arising from trading activities	20 079	19 925	154	–
Investment portfolio	10 070	3 014	354	6 702
Loans and advances to customers	16 102	–	15 342	760
Other assets	1 090	1 090	–	–
Other financial instruments at fair value through profit or loss in respect of liabilities to customers	154 477	154 477	–	–
	290 008	**241 096**	**41 335**	**7 577**
Liabilities				
Derivative financial instruments	11 111	–	11 111	–
Other trading liabilities	11 132	8 946	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	896	–	828	68
Liabilities to customers under investment contracts	154 422	–	154 422	–
Insurance liabilities, including unit-linked liabilities	55	–	55	–
	232 820	**8 946**	**223 806**	**68**
Net financial assets/(liabilities) at fair value	**57 188**	**232 150**	**(182 471)**	**7 509**

Transfers between level 1 and level 2

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

Level 3 instruments

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

R'million	Investment portfolio	Loans and advances to customers	Other level 3 assets	Total
Balance as at 31 March 2018	2 726	–	131	2 857
Adoption of IFRS 9	1 109	604	(22)	1 690
Balance at 1 April 2018	**3 835**	**604**	**109**	**4 547**
Total losses recognised in the income statement	(395)	(1)	–	(396)
Purchases	3 698*	94	–	3 792
Sales	(640)	–	–	(640)
Settlements	(4)	–	–	(4)
Transfers into level 3	220	63	–	283
Foreign exchange adjustments	(12)	–	6	(6)
Balance as at 31 March 2019	**6 702**	**760**	**115**	**7 576**

* *Includes investments acquired by the Investec Property Fund, a subsidiary of Investec Limited.*

Liabilities

For the period to 31 March R'million	Other liabilities	Total
At 1 April 2018	–	–
Purchases	(68)	(68)
Balance as at 31 March 2019	**(68)**	**(68)**

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 following table quantifies the gains/(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/(losses) included in the income statement for the year			
Investment (loss)/income	(667)	140	(807)
Trading income arising from balance sheet management and other trading activities	271	–	271
	(396)	**140**	**(536)**

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 2019	Level 3 balance sheet value R'million	Valuation method	Significant unobservable input changed	Range which unobservable input has been changed	Favourable changes R'million	Unfavourable changes R'million
Assets						
Investment portfolio	6 702				940	(1 044)
		Price earnings	EBITDA	*	404	(396)
		Discounted cash flow	Precious and industrial metals prices	(10%)/6%	41	(41)
		Discounted cash flow	Cash flows	(50%)/50%	199	(180)
		Discounted cash flow	Property values	(5%)/5%	191	(191)
		Other	Various	**	90	(212)
		Net asset value	Underlying asset value	^	15	(24)
Loans and advances to customers	760				310	(310)
		Discounted cash flow	Cash flows	(50%)/50%	302	(302)
		Price earnings	EBITDA	*	6	(6)
		Discounted cash flow	Property values	(5%)/5%	2	(2)
Other debt securities	115	Price earnings	EBITDA	(5%)/5%	6	(6)
					1 256	**(1 360)**
Liabilities						
Other liabilities	68	Discounted cash flow	Property values	(5%)/5%	**9**	**(9)**

* *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. Its 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.*

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

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

Price-earnings multiple

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

EBITDA

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

Price of property value and precious and industrial metal prices

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

Measurement of financial assets and liabilities at level 2

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

	Valuation basis/techniques	Main assumptions
Assets		
Non-sovereign and non-bank cash placements	Discounted cash flow model	Yield curve
Reverse repurchase agreements and cash collateral on securities borrowed	Discounted cash flow model	Yield curve
Bank debt securities	Discounted cash flow model	Yield curve
Other debt securities	Discounted cash flow model	Yield curve
Derivative financial instruments	Discounted cash flow model Black-Scholes	Yield curve Volatilities
Securities arising from trading activities	Discounted cash flow model	Yield curve
Investment portfolio	Adjusted quoted price	Liquidity adjustment
Loans and advances to customers	Discounted cash flow model	Yield curve
Liabilities		
Derivative financial instruments	Discounted cash flow model Black-Scholes	Yield curve Volatilities
Other trading liabilities	Discounted cash flow model	Yield curve
Repurchase agreements and cash collateral on securities lent	Discounted cash flow model	Yield curve
Customer accounts (deposits)	Discounted cash flow model	Yield curve
Debt securities in issue	Discounted cash flow	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	11 476	11 478
Sovereign debt securities	5 289	5 097
Bank debt securities	6 903	6 896
Other debt securities	4 809	4 782
Loans and advances to customers	247 435	247 446
Liabilities		
Deposits by banks	31 735	32 238
Repurchase agreements and cash collateral on securities lent	7 492	7 447
Customer accounts (deposits)	296 972	297 561
Debt securities in issue	9 472	9 493

Reconciliation of IAS 39 carrying amount to IFRS 9 carrying amount

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

Only assets and liabilities which have changed are shown.

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

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

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

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

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

* *Less than R1 million.*

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

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

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

* *Less than R1 million.*

Accounting policies

Basis of preparation

The group accounting policies related to financial instruments, which have been significantly changed as the result of the implementation of IFRS 9, are applicable with effect from 1 April 2018. The full set of accounting policies 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 issued by subsidiaries of Investec Limited are recorded as non-controlling interests on the balance sheet.

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

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

Sale and repurchase agreements (including securities borrowing and lending)

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

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

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

Financial guarantees

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

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

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	263 537	246 759
Add: own originated loans and advances per the balance sheet	7 667	7 626
Net core loans and advances	**271 204**	**254 385**
Of which subject to ECL*	269 158	252 381
Net core loans and advances at amortised cost	255 102	235 131
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)	2 046	2 004
Add: ECLs	2 701	1 978
Gross core loans and advances	**273 905**	**256 363**
of which subject to ECL*	271 859	254 359
of which FVPL (excluding fixed rate loans above)	2 046	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	**271 859**	**254 359**
Stage 1	257 297	242 048
Stage 2	10 768	9 450
of which past due greater than 30 days	*354*	*313*
Stage 3	3 794	2 861
Gross core loans and advances subject to ECL (%)		
Stage 1	94.6%	95.2%
Stage 2	4.0%	3.7%
Stage 3	1.4%	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	(738)	n/a
Average gross core loans and advances subject to ECL	263 109	n/a
Income statement charge for impairments on core loans and advances	n/a	(701)
Average gross core loans and advances	n/a	247 786
Credit loss ratio	**0.28%**	**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 an expected credit loss methodology.*

R’million	31 March 2019	1 April 2018
ECL	**(2 701)**	**(1 978)**
Stage 1	(538)	(593)
Stage 2	(441)	(269)
Stage 3	(1 722)	(1 116)
ECL coverage ratio (%)		
Stage 1	0.2%	0.2%
Stage 2	4.1%	2.8%
Stage 3	45.4%	39.0%

A further analysis of Stage 3 gross core loans and advances

R’million	31 March 2019	1 April 2018
Stage 3 net of ECLs	2 072	1 745
Aggregate collateral and other credit enhancements on Stage 3	3 055	3 552
Stage 3 net of ECL and collateral	–	–
Stage 3 as a % gross core loans and advances subject to ECL	1.4%	1.1%
Total ECL impairments as a % of Stage 3 exposure	71.2%	69.1%
Stage 3 net of ECL as a % of net core loans and advances subject to ECL	0.8%	0.7%

An analysis of gross core loans and advances by risk category

Lending collateralised by property

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										
Commercial real estate	**39 682**	**(63)**	**2 423**	**(25)**	**1 116**	**(351)**	**43 221**	**(439)**	**94**	**43 315**
Commercial real estate – investment	35 494	(49)	1 132	(17)	1 021	(256)	37 647	(322)	94	37 741
Commercial real estate – development	3 604	(11)	1 288	(8)	–	–	4 892	(19)	–	4 892
Commercial vacant land and planning	584	(3)	3	–	95	(95)	682	(98)	–	682
Residential real estate	**2 859**	**(44)**	**531**	**(11)**	**260**	**(150)**	**3 650**	**(205)**	**–**	**3 650**
Residential real estate – 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)**	**1 376**	**(501)**	**46 871**	**(644)**	**94**	**46 965**
At 1 April 2018										
Commercial real estate	**34 155**	**(55)**	**1 670**	**(8)**	**695**	**(272)**	**36 520**	**(335)**	**252**	**36 772**
Commercial real estate – investment	30 562	(43)	1 453	(8)	673	(256)	32 688	(307)	252	32 940
Commercial real estate – development	2 905	(7)	130	–	8	(2)	3 043	(9)	–	3 043
Commercial vacant land and planning	688	(5)	87	–	14	(14)	789	(19)	–	789
Residential real estate	**3 452**	**(53)**	**222**	**(8)**	**170**	**(80)**	**3 844**	**(141)**	**–**	**3 844**
Residential real estate – investment	–	–	–	–	–	–	–	–	–	–
Residential real estate – development	2 819	(35)	70	–	146	(59)	3 035	(94)	–	3 035
Residential vacant land and planning	633	(18)	152	(8)	24	(21)	809	(47)	–	809
Total lending collateralised by property	**37 607**	**(108)**	**1 892**	**(16)**	**865**	**(352)**	**40 364**	**(476)**	**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	64 693	(134)	671	(23)	540	(456)	65 904	(613)	–	65 904
Total high net worth and other private client lending	**134 975**	**(220)**	**3 004**	**(84)**	**1 638**	**(701)**	**139 617**	**(1 005)**	**–**	**139 617**
At 1 April 2018										
Mortgages	66 536	(45)	659	(18)	874	(188)	68 069	(251)	–	68 069
High net worth and specialised lending	64 061	(152)	783	(21)	494	(264)	65 338	(437)	–	65 338
Total high net worth and other private client lending	**130 597**	**(197)**	**1 442**	**(39)**	**1 368**	**(452)**	**133 407**	**(688)**	**–**	**133 407**

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	46 699	(128)	2 671	(305)	460	(331)	49 830	(764)	1 952	51 782
Asset finance	3 844	(5)	18	(1)	8	–	3 870	(6)	–	3 870
Small ticket asset finance	1 962	(1)	18	(1)	8	–	1 988	(2)	–	1 988
Large ticket asset finance	1 882	(4)	–	–	–	–	1 882	(4)	–	1 882
Project finance	5 076	(9)	1 792	(11)	–	–	6 868	(20)	–	6 868
Resource finance	555	(1)	–	–	–	–	555	(1)	–	555
Total corporate and other lending	**79 781**	**(211)**	**4 810**	**(321)**	**780**	**(520)**	**85 371**	**(1 052)**	**1 952**	**87 323**
At 1 April 2019										
Acquisition finance	12 671	(74)	1 216	(21)	97	(2)	13 984	(97)	–	13 984
Asset-based lending	4 056	(41)	515	(10)	236	(149)	4 807	(200)	603	5 410
Fund finance	4 909	(5)	–	–	–	–	4 909	(5)	–	4 909
Other corporate and financial institutions and governments	43 489	(148)	3 181	(165)	156	(72)	46 826	(385)	1 149	47 975
Asset finance	2 596	(8)	57	(7)	24	–	2 677	(15)	–	2 677
Small ticket asset finance	2 184	(5)	41	(7)	–	–	2 225	(12)	–	2 225
Large ticket asset finance	412	(3)	16	–	24	–	452	(3)	–	452
Project finance	5 494	(11)	1 147	(11)	–	–	6 641	(22)	–	6 641
Resource finance	629	(1)	–	–	115	(89)	744	(90)	–	744
Total corporate and other lending	**73 844**	**(288)**	**6 116**	**(214)**	**628**	**(312)**	**80 588**	**(814)**	**1 752**	**82 340**

Capital structure and capital adequacy

R'million	Pro-forma FIRB*	Standardised		
	31 March 2019	**31 March 2019**	1 April 2018	31 March 2018
Tier 1 capital				
Shareholders' equity	39 966	39 966	35 265	36 159
Shareholders' equity per balance sheet	43 149	43 149	38 448	39 342
Perpetual preference share capital and share premium	(3 183)	(3 183)	(3 183)	(3 183)
Non-controlling interests	–	–	–	–
Non-controlling interests per balance sheet	9 922	9 922	9 503	9 503
Non-controlling interests excluded for regulatory purposes	(9 922)	(9 922)	(9 503)	(9 503)
Regulatory adjustments to the accounting basis	931	1 155	1 358	993
Cash flow hedging reserve	931	931	993	993
Adjustments under IFRS 9 transitional arrangements	–	224	365	–
Deductions	(3 825)	(2 971)	(2 773)	(2 773)
Goodwill and intangible assets net of deferred tax	(629)	(629)	(624)	(624)
Investment in financial entity	(2 221)	(2 138)	(2 149)	(2 149)
Shortfall of eligible provisions compared to expected loss	(604)	–	–	–
Other regulatory deductions	(371)	(204)	–	–
Common equity tier 1 capital	**37 072**	**38 150**	**33 850**	**34 379**
Additional tier 1 capital	**2 374**	**2 432**	**2 785**	**2 785**
Additional tier 1 instruments	5 727	5 727	5 617	5 617
Phase out of non-qualifying additional tier 1 instruments	(3 302)	(3 302)	(2 830)	(2 830)
Non-qualifying surplus capital attributable to non-controlling interests	(136)	(78)	(72)	(72)
Non-controlling interest in non-banking entities	85	85	70	70
Tier 1 capital	**39 446**	**40 582**	**36 635**	**37 164**
Tier 2 capital	**11 566**	**13 165**	**12 429**	**12 348**
Collective impairment allowances	483	876	716	635
Tier 2 instruments	15 857	15 857	15 013	15 013
Non-qualifying surplus capital attributable to non-controlling interests	(4 774)	(3 568)	(3 300)	(3 300)
Total regulatory capital	**51 012**	**53 747**	**49 064**	**49 512**
Risk-weighted assets	**318 533**	**361 750**	**337 892**	**338 484**
Capital ratios				
Common equity tier 1 ratio	11.6%	10.5%	10.0%	10.2%
Tier 1 ratio	12.4%	11.2%	10.8%	11.0%
Total capital adequacy ratio	16.0%	14.9%	14.5%	14.6%

* *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	**41 703**	**37 590**	**37 656**
Credit risk	33 649	29 323	29 389
Equity risk	2 701	2 797	2 797
Counterparty credit risk	711	653	653
Credit valuation adjustment risk	356	695	695
Market risk	641	609	609
Operational risk	3 645	3 513	3 513
Risk-weighted assets	**361 750**	**337 892**	**338 484**
Credit risk	291 886	263 579	264 171
Equity risk	23 433	25 140	25 140
Counterparty credit risk	6 166	5 867	5 867
Credit valuation adjustment risk	3 090	6 251	6 251
Market risk	5 558	5 477	5 477
Operational risk	31 617	31 578	31 578

Leverage

R'million	31 March 2019	1 April 2018	31 March 2018
Exposure measure	**534 230**	**495 349**	**495 670**
Tier 1 capital	40 582	36 635	37 164
Leverage ratio – current**	**7.6%#**	**7.4%#**	**7.5%#**
Tier 1 capital fully loaded^^	38 889	34 179	35 350
Leverage ratio – fully loaded^^**	**7.3%#**	**6.9%#**	**7.1%#**

A summary of capital adequacy and leverage ratios

	31 March 2019	1 April 2018	31 March 2018
Common equity tier 1 (as reported)	10.5%	10.0%	10.2%
Common equity tier 1 (fully loaded)^^	10.5%	9.8%	10.2%
Tier 1 (as reported)	11.2%	10.8%	11.0%
Total capital adequacy ratio (as reported)	14.9%	14.5%	14.6%
Leverage ratio** – current	7.6%#	7.4%#	7.5%#
Leverage ratio** – fully loaded^^	7.3%#	6.9%#	7.1%#

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

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