INVESTEC BANK LIMITED | 2020

(a subsidiary of Investec Limited)

Financial information

Unaudited condensed consolidated financial information for the year ended 31 March 2020

IFRS – Rand

Investec

Overview of results

The tough operating environment in the first six months of the financial year continued through the second half, exacerbated in quick succession by a technical recession, South African sovereign credit rating downgrades by Moody's and Fitch, a rising public sector debt trajectory and the sudden and extreme COVID-19 related dislocation in global markets during the last quarter of the financial year.

Against this backdrop, Investec Bank Limited, a subsidiary of Investec Limited, posted a decrease in headline earnings attributable to ordinary shareholders of 19.6% to R3 844 million (2019: R4 784 million).

The balance sheet remains sound with a total capital adequacy ratio of 16.4% (31 March 2019: 15.8% standardised, 17.7% *pro-forma* FIRB^), a common equity tier one ratio of 12.1% (31 March 2019: 11.2% standardised, 12.5% *pro-forma* FIRB) and a leverage ratio of 6.9% (31 March 2019: 7.7% standardised, 7.6% *pro-forma* FIRB) at 31 March 2020.

^Investec Bank Limited received regulatory permission to adopt the Foundation Internal Ratings Based (FIRB) approach, effective 1 April 2019. The pro-forma FIRB comparatives demonstrate the uplift in the capital ratios had the FIRB approach been applied as of 31 March 2019.

For full information on the Investec Group results, refer to the combined results of Investec plc and Investec Limited on the group's website http://www.investec.com.

Certain financial information presented in this results announcement constitutes *pro-forma* financial information in terms of the JSE Limited Listings Requirements. The applicable criteria on the basis of which this *pro-forma* financial information has been prepared is set out in IBL web booklet. The *pro forma* financial information is the responsibility of the group's Board of Directors. *Pro-forma* financial information was prepared for illustrative purposes only and that because of its nature, it may not fairly present the issuer's financial position, changes in equity, results of operations or cash flows. The external auditors performed a review of the *pro-forma* financial information and the review report is available for inspection at the registered office of Investec upon request.

Key financial statistics	**31 March 2020**	31 March 2019	% change
Total operating income before expected credit loss impairment charges (R'million)	12 603	12 650	(0.4%)
Operating costs (R'million)	6 632	6 547	1.3%
Operating profit before goodwill and acquired intangibles (R'million)	4 883	5 381	(9.3%)
Headline earnings attributable to ordinary shareholders (R'million)	3 844	4 784	(19.6%)
Cost to income ratio	52.6%	51.7%	
Total capital resources (including subordinated liabilities) (R'million)	53 785	55 678	(3.4%)
Total equity (R'million)	41 748	41 760	0.0%
Total assets (R'million)	535 970	475 603	12.7%
Net core loans and advances (R'million)	283 946	269 404	5.4%
Customer accounts (deposits) (R'million)	375 948	341 710	10.0%
Loans and advances to customers as a % of customer accounts (deposits)	73.6%	76.6%	
Cash and near cash balances (R'million)	147 169	118 365	24.3%
Total gearing ratio (i.e. total assets excluding assurance assets to equity)	12.4x	11.0x	
Total capital adequacy ratio	16.4%	17.7%	
Tier 1 ratio	12.3%	12.8%	
Common equity tier 1 ratio	12.1%	12.5%	
Leverage ratio – current	6.9%	7.6%	
Leverage ratio – 'fully loaded'	6.8%	7.5%	
Stage 3 as a % of gross core loans and advances subject to ECL	1.5%	1.3%	
Stage 3 net of ECL as a % of net core loans and advances subject to ECL	0.9%	0.7%	
Credit loss ratio	0.37%	0.27%	

Financial review

Unless the context indicates otherwise, all comparatives referred to in the financial review relate to the year ended 31 March 2019.

Salient operational features for the year under review include:

Total operating income before expected credit loss (ECL) impairment charges remained broadly flat year on year at R12 603 million (2019: R12 650 million). The components of operating income are analysed further below:

- Net interest income increased 7.9% to R8 943 million (2019: R8 287 million) and net fee and commission income increased 3.8% to R2 346 million (2019: R2 261 million), primarily supported by private client lending and transactional activity
- Investment income increased to R601 million (2019: R360 million). The non-repeat of certain investment write downs in the prior year was partially offset by higher negative fair value adjustments on the listed equity portfolio and lower realisations given the prevailing economic backdrop during the year under review
- Share of post taxation profit of associates reflects earnings in relation to the group's investment in the IEP Group. The decrease year on year is as a result of a large realisation in the prior year
- Total trading income declined 32.1% year on year. Reasonable activity levels were offset by COVID-19 related losses on certain trading portfolios and translation gains on foreign currency assets in the prior year which did not repeat in the current year.

ECL impairment charges for the year increased to R1 088 million (2019: R722 million) driven primarily by a deterioration of the macroeconomic scenarios applied. As a result, the credit loss ratio increased to 0.37% (2019: 0.27%). Pre COVID-19, the credit loss ratio was calculated at 0.21% for 31 March 2020. Since 31 March 2019 gross core loan Stage 3 assets increased by R768 million to R4 353 million. Net Stage 3 exposures as a percentage of net core loans subject to ECL was 0.9% (31 March 2019: 0.7%).

Operating costs increased by 1.3% year on year. Taken together with broadly flat revenue as described above, the cost to income ratio increased to 52.6% (2019: 51.7%).

As a result of the foregoing factors, operating profit before goodwill and acquired intangibles decreased by 9.3% to R4 883 million (2019: R5 381 million).

Management critically evaluated the equity accounted value of the group's investment in the IEP Group (IEP) and resultantly recognised an impairment of R937 million in the current year. The recoverable amount of the investment in IEP was determined by calculating Investec's stake of the sum of the fair values of the underlying investments held by IEP. This was done by determining the best estimates of the cash flows to be generated from the ultimate realisation of the underlying investments considering management's strategy with the investments, returns generated by the underlying investments, the nature of the assets and market considerations.

The taxation charge increased year on year due to the prior year release of provisions associated with tax settlements.

This resulted in overall profit after taxation decreasing by 37.7% to R3 090 million (2019: R4 960 million).

Outlook

Global social containment measures in the face of COVID-19 have caused unprecedented turmoil in financial markets, businesses and the economy. The length and depth of the pandemic is not yet known; however, it is expected to further reduce corporate activity, increase business failures and materially depress capital markets and asset values.

We will continue to do our part to support South African businesses and the communities around us, and as a member of the Banking Association of South Africa, we are proud to partner with government and other South African banks to provide COVID-19 relief measures as we attempt to safeguard the sustainability of our economy and do right by society.

As with the Global Financial Crisis, we remain confident that the value of our brand, market positioning and client base will sustain us. Our clients have a track record of resilience in difficult operating environments and together with the diversified international opportunities we can offer them, a continued focus on asset quality and capital preservation, our business is well positioned to weather the storm.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the year to 31 March **R'million**	**2020**	2019
Interest income	35 549	33 611
Interest expense	(26 606)	(25 324)
Net interest income	**8 943**	**8 287**
Fee and commission income	2 836	2 662
Fee and commission expense	(490)	(401)
Investment income	601	360
Share of post taxation profit of associates	320	1 163
Trading income/(loss) arising from		
– customer flow	443	369
– balance sheet management and other trading activities	(50)	210
Total operating income before expected credit loss impairment charges	**12 603**	**12 650**
Expected credit loss impairment charges	(1 088)	(722)
Operating income	**11 515**	**11 928**
Operating costs	(6 632)	(6 547)
Operating profit before goodwill and acquired intangibles	**4 883**	**5 381**
Impairment of goodwill	(3)	(3)
Amortisation of acquired intangibles	(51)	(51)
Impairment of associates	(937)	–
Operating profit	**3 892**	**5 327**
Financial impact of acquisition of subsidiary	–	10
Profit before taxation	**3 892**	**5 337**
Taxation on operating profit before acquired intangibles	(816)	(391)
Taxation on acquired intangibles	14	14
Profit after taxation	**3 090**	**4 960**
Loss attributable to non-controlling interests	–	3
Earnings attributable to shareholders	**3 090**	**4 963**

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the year to 31 March R'million	2020	2019
Profit after taxation	3 090	4 960
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*	(619)	63
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income*	(1 927)	(119)
Gain on realisation of debt instruments at FVOCI recycled through the income statement*	(79)	(89)
Foreign currency adjustments on translating foreign operations	1 290	903
Items that will never be reclassified to the income statement		
Fair value movements on equity instruments at FVOCI taken directly to other comprehensive income*	(1 168)	(461)
Gain attributable to own credit risk	1	2
Total comprehensive income	**588**	**5 259**
Total comprehensive income attributable to ordinary shareholders	402	5 090
Total comprehensive loss attributable to non-controlling interests	–	(3)
Total comprehensive income attributable to perpetual preference shareholders and other Additional Tier 1 security holders	186	172
Total comprehensive income	**588**	**5 259**

* *These amounts are net of taxation of (R1.6 billion) [2019: (R472.1 million)].*

HEADLINE EARNINGS

For the year to 31 March R'million	2020	2019
Earnings attributable to shareholders	3 090	4 963
Dividends paid to perpetual preference shareholders and other Additional Tier 1 security holders	(186)	(172)
Earnings attributable to ordinary shareholders	**2 904**	**4 791**
Headline adjustments, net of taxation*	940	(7)
Impairment of goodwill	3	3
Impairment of associates	937	–
Financial impact of acquisition of subsidiary	–	(10)
Headline earnings attributable to ordinary shareholders	**3 844**	**4 784**

* *These amounts are net of taxation of Rnil (2019: Rnil), with no impact on non-controlling interests in the current and prior year.*

CONSOLIDATED BALANCE SHEET

At 31 March R'million	2020	2019
Assets		
Cash and balances at central banks	36 656	10 290
Loans and advances to banks	18 050	19 903
Non-sovereign and non-bank cash placements	14 014	12 192
Reverse repurchase agreements and cash collateral on securities borrowed	26 426	18 552
Sovereign debt securities	64 358	60 893
Bank debt securities	12 265	12 526
Other debt securities	17 416	13 553
Derivative financial instruments	17 434	7 700
Securities arising from trading activities	3 178	5 059
Investment portfolio	5 801	7 664
Loans and advances to customers	276 754	261 737
Own originated loans and advances to customers securitised	7 192	7 667
Other loans and advances	242	329
Other securitised assets	416	232
Interests in associated undertakings	5 662	6 251
Deferred taxation assets	2 903	1 514
Other assets	6 156	8 237
Property and equipment	3 008	2 563
Investment properties	1	1
Goodwill	178	171
Intangible assets	318	418
Loans to group companies	17 542	18 151
	535 970	**475 603**
Liabilities		
Deposits by banks	37 277	30 041
Derivative financial instruments	22 097	11 097
Other trading liabilities	4 521	4 468
Repurchase agreements and cash collateral on securities lent	26 626	15 234
Customer accounts (deposits)	375 948	341 710
Debt securities in issue	3 258	6 512
Liabilities arising on securitisation of own originated loans and advances	1 699	1 720
Current taxation liabilities	315	542
Deferred taxation liabilities	47	78
Other liabilities	7 590	6 263
Loans from group companies	2 807	2 260
	482 185	**419 925**
Subordinated liabilities	12 037	13 918
	494 222	**433 843**
Equity		
Ordinary share capital	32	32
Share premium	15 784	14 885
Other reserves	(787)	1 790
Retained income	26 259	24 597
Shareholders' equity excluding non-controlling interests	**41 288**	**41 304**
Other Additional Tier 1 securities in issue	460	460
Non-controlling interests	–	(4)
Total equity	**41 748**	**41 760**
Total liabilities and equity	**535 970**	**475 603**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R'million	Ordinary share capital	Share premium
Group		
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	–	–
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 1 April 2019	**32**	**14 885**
Movement in reserves 1 April 2019 – 31 March 2020		
Profit after taxation	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income	–	–
Gain on realisation of debt instruments at FVOCI recycled through the income statement	–	–
Foreign currency adjustments on translating foreign operations	–	–
Fair value movements on equity instruments at FVOCI taken directly to other comprehensive income	–	–
Net loss attributable to own credit risk	–	–
Total comprehensive income for the year	–	–
Issue of ordinary shares	–	899
Dividends paid to ordinary shareholders	–	–
Dividends paid to perpetual preference shareholders and other Additional Tier 1 security holders	–	–
Disposal of group operations	–	–
Net equity movements of interest in associated undertaking	–	–
Capital contribution to group companies	–	–
Employee benefit liability recognised	–	–
Other equity movements	–	–
At 31 March 2020	**32**	**15 784**

Other reserves: Fair value reserve	Other reserves: Regulatory general risk reserve	Other reserves: Cash flow hedge reserve	Other reserves: Own credit risk reserve	Other reserves: Foreign currency reserve	Retained income	**Shareholders' equity excluding non-controlling interests**	Other Additional Tier 1 securities in issue	Non-controlling interests	**Total equity**
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**
–	–	–	–	–	3 090	3 090	–	–	3 090
–	–	(619)	–	–	–	(619)	–	–	(619)
(1 927)	–	–	–	–	–	(1 927)	–	–	(1 927)
(79)	–	–	–	–	–	(79)	–	–	(79)
–	–	–	–	1 290	–	1 290	–	–	1 290
(1 168)	–	–	–	–	–	(1 168)	–	–	(1 168)
–	–	–	1	–	–	1	–	–	1
(3 174)	**–**	**(619)**	**1**	**1 290**	**3 090**	**588**	**–**	**–**	**588**
–	–	–	–	–	–	899	–	–	899
–	–	–	–	–	(1 050)	(1 050)	–	–	(1 050)
–	–	–	–	–	(186)	(186)	–	–	(186)
–	–	–	–	–	(4)	(4)	–	4	–
–	–	–	–	–	(44)	(44)	–	–	(44)
–	–	–	–	–	(86)	(86)	–	–	(86)
–	–	–	–	–	(133)	(133)	–	–	(133)
–	(75)	–	–	–	75	–	–	–	–
(3 278)	**695**	**(1 551)**	**26**	**3 321**	**26 259**	**41 288**	**460**	**–**	**41 748**

Net interest income

For the year to 31 March R'million	Notes	2020 Balance sheet value	2020 Interest income	2019 Balance sheet value	2019 Interest income
Cash, near cash and bank debt and sovereign debt securities	1	171 769	7 884	134 356	7 472
Loans and advances	2	283 946	26 432	269 404	24 392
Private client		194 699	18 373	183 240	16 852
Corporate, institutional and other clients		89 247	8 059	86 164	7 540
Other debt securities and other loans and advances		17 658	812	13 882	883
Other interest-earning assets	3	17 958	421	21 004	864
Total interest-earning assets		**491 331**	**35 549**	**438 646**	**33 611**

For the year to 31 March R'million	Notes	2020 Balance sheet value	2020 Interest expense	2019 Balance sheet value	2019 Interest expense
Deposits by banks and other debt related securities	4	67 161	(1 861)	51 787	(1 912)
Customer accounts (deposits)		375 948	(23 337)	341 710	(22 035)
Other interest-bearing liabilities	5	4 506	(337)	3 980	(289)
Subordinated liabilities		12 037	(1 020)	13 918	(1 088)
Lease liabilities*		592	(51)	–	–
Total interest-bearing liabilities		**460 244**	**(26 606)**	**411 395**	**(25 324)**
Net interest income			**8 943**		**8 287**
Net interest margin			**1.92%**		**1.96%**

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 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.*

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

Net fee and commission income

For the year to 31 March R'million	2020	2019
Corporate and institutional transactional and advisory services	1 448	1 542
Private client transactional fees	1 388	1 120
Fee and commission income	2 836	2 662
Fee and commission expense	(490)	(401)
Net fee and commission income	**2 346**	**2 261**
Annuity fees (net of fees payable)	1 699	1 616
Deal fees	647	645

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

Investment income

For the year to 31 March R'million	Listed equities	Unlisted equities	Fair value loan investments	Warrants and profit shares	Investment portfolio	Debt securities (sovereign, bank and other)	Trading properties	Other	Total
The following table analyses investment income generated by the asset portfolio shown on the balance sheet									
2020									
Realised	(13)	45	–	162	194	110	11	(3)	312
Unrealised^	(86)	(93)	(131)	1	(309)	111	–	(53)	(251)
Dividend income	351	224	–	–	575	–	–	–	575
Funding and other net related costs	–	(36)	–	–	(36)	–	1	–	(35)
	252	**140**	**(131)**	**163**	**424**	**221**	**12**	**(56)**	**601**
2019									
Realised	398	404	–	221	1 023	129	(1)	(1)	1 150
Unrealised^	(581)	(674)	(89)	(18)	(1 362)	51	–	114	(1 197)
Dividend income	332	106	–	–	438	–	–	–	438
Funding and other net related costs	–	(30)	–	–	(30)	–	–	(1)	(31)
	149	**(194)**	**(89)**	**203**	**69**	**180**	**(1)**	**112**	**360**

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

Analysis of assets and liabilities by measurement category

At 31 March 2020 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	–	36 656	–	36 656
Loans and advances to banks	–	18 050	–	18 050
Non-sovereign and non-bank cash placements	545	13 469	–	14 014
Reverse repurchase agreements and cash collateral on securities borrowed	18 249	8 177	–	26 426
Sovereign debt securities	60 021	4 337	–	64 358
Bank debt securities	7 381	4 884	–	12 265
Other debt securities	10 373	7 043	–	17 416
Derivative financial instruments	17 434	–	–	17 434
Securities arising from trading activities	3 178	–	–	3 178
Investment portfolio	5 801	–	–	5 801
Loans and advances to customers	22 869	253 885	–	276 754
Own originated loans and advances to customers securitised	–	7 192	–	7 192
Other loans and advances	–	242	–	242
Other securitised assets	–	416	–	416
Interests in associated undertakings	–	–	5 662	5 662
Deferred taxation assets	–	–	2 903	2 903
Other assets	744	2 566	2 846	6 156
Property and equipment	–	–	3 008	3 008
Investment properties	–	–	1	1
Goodwill	–	–	178	178
Intangible assets	–	–	318	318
Loans to group companies	460	17 082	–	17 542
	147 055	**373 999**	**14 916**	**535 970**
Liabilities				
Deposits by banks	–	37 277	–	37 277
Derivative financial instruments	22 097	–	–	22 097
Other trading liabilities	4 521	–	–	4 521
Repurchase agreements and cash collateral on securities lent	3 175	23 451	–	26 626
Customer accounts (deposits)	44 601	331 347	–	375 948
Debt securities in issue	–	3 258	–	3 258
Liabilities arising on securitisation of own originated loans and advances	–	1 699	–	1 699
Current taxation liabilities	–	–	315	315
Deferred taxation liabilities	–	–	47	47
Other liabilities	924	2 837	3 829	7 590
Loans from group companies	–	2 807	–	2 807
	75 318	**402 676**	**4 191**	**482 185**
Subordinated liabilities	–	12 037	–	12 037
	75 318	**414 713**	**4 191**	**494 222**

Financial instruments at fair value

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

The different levels are identified as follows:

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

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

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

		Fair value category		
At 31 March 2020 **R'million**	**Total instruments at fair value**	Level 1	Level 2	Level 3
Assets				
Non-sovereign and non-bank cash placements	545	–	545	–
Reverse repurchase agreements and cash collateral on securities borrowed	18 249	–	18 249	–
Sovereign debt securities	60 021	60 021	–	–
Bank debt securities	7 381	5 543	1 838	–
Other debt securities	10 373	5 869	4 504	–
Derivative financial instruments	17 434	80	17 354	–
Securities arising from trading activities	3 178	3 111	67	–
Investment portfolio	5 801	2 570	51	3 180
Loans and advances to customers	22 869	–	22 204	665
Other assets	744	744	–	–
Loans to group companies	460	–	460	–
	147 055	**77 938**	**65 272**	**3 845**
Liabilities				
Derivative financial instruments	22 097	–	22 097	–
Other trading liabilities	4 521	50	4 471	–
Repurchase agreements and cash collateral on securities lent	3 175	–	3 175	–
Customer accounts (deposits)	44 601	–	44 601	–
Other liabilities	924	–	924	–
	75 318	**50**	**75 268**	**–**
Net financial assets/(liabilities) at fair value	**71 737**	**77 888**	**(9 996)**	**3 845**

Transfers between level 1 and level 2

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

Level 3 instruments

The following table shows a reconciliation of the opening balances to the closing balances for level 3 financial instruments. All instruments are at fair value through profit or loss.

R'million	Investment portfolio	Loans and advances to customers	Total
Balance as at 1 April 2019	**3 219**	**667**	**3 886**
Net losses recognised in the income statement	(107)	(4)	(111)
Purchases	429	6	435
Sales	(383)	–	(383)
Settlements	(245)	(4)	(249)
Transfers into level 3	245	–	245
Foreign exchange adjustments	22	–	22
Balance as at 31 March 2020	**3 180**	**665**	**3 845**

During the year, R245 million of level 2 instruments have been transferred into level 3 due to delisting of instruments.

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 2020 R'million	Total	Realised	Unrealised
Total gains or (losses) included in the income statement for the year			
Investment (loss)/income	(111)	55	(166)
	(111)	**55**	**(166)**

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 below valuations have been considered taking the global pandemic of COVID-19 into consideration. The following table shows the sensitivity of these fair values to reasonably possible alternative assumptions, determined at a transactional level:

At 31 March 2020	Level 3 balance sheet value R'million	Valuation method	Significant unobservable input changed	Range which unobservable input has been changed	Potential impact on the income statement: Favourable changes R'million	Potential impact on the income statement: Unfavourable changes R'million
Assets						
Investment portfolio	3 180				428	(555)
		Price earnings	EBITDA	*	293	(290)
		Discounted cash flow	Discount rate	(0.1%)/1.9%	7	(67)
		Discounted cash flow	Cash flows	*	25	(25)
		Net asset value	Underlying asset value	^	24	(67)
		Discounted cash flow	Precious and industrial metal prices	(6%)/6%	16	(27)
		Other	Various	**	63	(79)
Loans and advances to customers	665				48	(76)
		Discounted cash flow	Cash flows	*	42	(70)
		Net asset value	Underlying asset value	^	6	(6)
Total	**3 845**				**476**	**(631)**

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

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

EBITDA

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

Discount rates

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

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.

Price of precious and industrial metals

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 INPUTS
Assets		
Non-sovereign and non-bank cash placements	Discounted cash flow model	Yield curve
Reverse repurchase agreements and cash collateral on securities borrowed	Discounted cash flow model	Yield curve
Bank debt securities	Discounted cash flow model	Yield curve
Other debt securities	Discounted cash flow model	Yield curve
Derivative financial instruments	Discounted cash flow model Black-Scholes	Yield curve Volatilities
Securities arising from trading activities	Adjusted quoted price Discounted cash flow model	Liquidity adjustment 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
Other liabilities	Discounted cash flow model	Yield curve
Loans from group companies	Discounted cash flow model	Yield curve

Fair value of financial instruments at amortised cost

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

At 31 March 2020 **R'million**	**Carrying amount**	Fair value
Assets		
Reverse repurchase agreements and cash collateral on securities borrowed	8 177	8 175
Sovereign debt securities	4 337	5 077
Bank debt securities	4 884	4 783
Other debt securities	7 043	6 342
Loans and advances to customers	253 885	253 917
Liabilities		
Deposits by banks	37 277	37 768
Repurchase agreements and cash collateral on securities lent	23 451	23 281
Customer accounts (deposits)	331 347	331 928
Debt securities in issue	3 258	3 293
Subordinated liabilities	12 037	13 455

Changes in accounting policies

Implementation of IFRS 16

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

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

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

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

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

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

The impact on adoption was the recognition of ROU assets of R653 million and lease liabilities of R736 million, with no impact on retained income. An existing accrual of R83 million was adjusted against the ROU assets.

Events after the reporting date

The significant judgements and estimates applied to prepare the financial statements as at 31 March 2020 reflected the impact of COVID-19 and the resulting lockdown as at the reporting date.

These judgments, specifically those relating to the impairment of loans and advances and valuation of fair value instruments were determined by considering a range of economic scenarios including the adverse impact of the lockdown and by applying the guidance issued by various international regulators and standard-setting bodies.

The action of various governments and central banks, in particular in South Africa, provides an indication of the potential severity of the downturn and that the recovery environment could be significantly different from past crises with a duration which is also difficult to predict.

Subsequent to the reporting date, extensions to lockdown periods have been announced and there has been further deterioration in certain macro-economic forecasts. In South Africa various government and social programmes were launched, aimed at reducing the impact of COVID-19 and to stimulate the economy.

Some of the markets in which we operate are showing signs of recovery with less new COVID-19 cases being reported, lockdown rules beginning to ease and economic activity starting to increase slightly. The Group believes that the significant judgements and estimates made at the reporting date incorporated the impact of COVID-19 and that the level of uncertainty relating to the deterioration in macro-economic forecasts and the positive impact of government assistance is currently too uncertain to be able to quantify a subsequent impact. However, should the COVID-19 crisis cause disruption to global economic activity for an extended period than forecasted this could put upward pressure on our ECLs and downward pressure on other valuations.

The Group is not aware of any other events after the reporting date as defined by IAS 10 Events after the Reporting Period, that would require the financial statements to be adjusted or that would require additional disclosures.

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

Composition of core loans and advances

R'million	31 March 2020	31 March 2019
Loans and advances to customers per the balance sheet	276 754	261 737
Add: own originated loans and advances to customers per the balance sheet	7 192	7 667
Net core loans and advances	**283 946**	**269 404**
*of which subject to ECL**	281 779	267 452
Net core loans and advances at amortised cost	261 077	253 396
Net fixed rate loans designated at FVPL (on which ECL is calculated for management purposes)^	20 702	14 056
of which FVPL (excluding fixed rate loans above)	2 167	1 952
Add: ECL	3 359	2 670
Gross core loans and advances	**287 305**	**272 074**
*of which subject to ECL**	285 138	270 122
of which FVPL (excluding fixed rate loans above)	2 167	1 952

^ *These are fixed rate loans which have passed the solely payments of principal and interest test (SPPI) and are held in a business model to collect contractual cash flows but have been designated at FVPL to eliminate accounting mismatches (interest rate risk is being economically hedged). The underlying loans have been fair valued and management performs an ECL calculation in order to obtain a reasonable estimate of the credit risk component. The portfolio is managed on the same basis as gross core loans and advances measured at amortised cost. The drawn exposure (R21 billion) falls predominantly into Stage 1 (consistent throughout the period) (31 March 2019: R14 billion). The ECL on the portfolio is R67 million (31 March 2019: R29 million).*

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

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

R'million	31 March 2020	31 March 2019
Gross core loans and advances subject to ECL	**285 138**	**270 122**
Stage 1	265 674	255 769
Stage 2	15 111	10 768
of which past due greater than 30 days	*1 297*	*354*
Stage 3	4 353	3 585
Gross core loans and advances subject to ECL (%)		
Stage 1	93.2%	94.7%
Stage 2	5.3%	4.0%
Stage 3	1.5%	1.3%

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

R'million	31 March 2020	31 March 2019
ECL impairment charges on core loans and advances	(1 021)	(699)
Average gross core loans and advances subject to ECL	277 630	261 041
Credit loss ratio	**0.37%**	**0.27%**

R'million	31 March 2020	31 March 2019
ECL	**(3 359)**	**(2 670)**
Stage 1	(1 056)	(538)
Stage 2	(423)	(441)
Stage 3	(1 880)	(1 691)
Coverage ratio (%)		
Stage 1	0.4%	0.2%
Stage 2	2.8%	4.1%
Stage 3	43.2%	47.2%

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

R'million	31 March 2020	31 March 2019
Stage 3 net of ECL	2 473	1 894
Aggregate collateral and other credit enhancements on Stage 3	2 696	3 055
Stage 3 net of ECL and collateral	–	–
Stage 3 as a % of gross core loans and advances subject to ECL	1.5%	1.3%
Total ECL as a % of Stage 3 exposure	77.2%	74.5%
Stage 3 net of ECL as a % of net core loans and advances subject to ECL	0.9%	0.7%

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

	Gross core loans and advances at amortised cost and FVPL (subject to ECL)								Gross core loans and advances at FVPL (not subject to ECL)	Gross core loans and advances
	Stage 1		Stage 2		Stage 3		Total			
R'million	Gross exposure	ECL	Gross exposure	ECL	Gross exposure	ECL	**Gross exposure**	**ECL**		
At 31 March 2020										
Commercial real estate	**43 464**	**(305)**	**1 315**	**(4)**	**543**	**(100)**	**45 322**	**(409)**	**–**	**45 322**
Commercial real estate – investment	38 249	(280)	1 305	(4)	542	(99)	40 096	(383)	–	40 096
Commercial real estate – development	4 369	(21)	–	–	–	–	4 369	(21)	–	4 369
Commercial vacant land and planning	846	(4)	10	–	1	(1)	857	(5)	–	857
Residential real estate	**3 974**	**(33)**	**51**	**(2)**	**20**	**(10)**	**4 045**	**(45)**	**–**	**4 045**
Residential real estate – investment	–	–	–	–	–	–	–	–	–	–
Residential real estate – development	3 353	(24)	31	–	–	–	3 384	(24)	–	3 384
Residential vacant land and planning	621	(9)	20	(2)	20	(10)	661	(21)	–	661
Total lending collateralised by property	**47 438**	**(338)**	**1 366**	**(6)**	**563**	**(110)**	**49 367**	**(454)**	**–**	**49 367**
Coverage ratio	**0.71%**		**0.44%**		**19.54%**		**0.92%**			
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**
Coverage ratio	**0.25%**		**1.22%**		**40.27%**		**1.31%**			

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

	Gross core loans and advances at amortised cost and FVPL (subject to ECL)								Gross core loans and advances at FVPL (not subject to ECL)	Gross core loans and advances
	Stage 1		Stage 2		Stage 3		Total			
R'million	Gross exposure	ECL	Gross exposure	ECL	Gross exposure	ECL	**Gross exposure**	**ECL**		
At 31 March 2020										
Mortgages	76 473	(93)	2 454	(56)	1 204	(290)	80 131	(439)	–	80 131
High net worth and specialised lending	64 342	(261)	2 061	(126)	499	(421)	66 902	(808)	–	66 902
Total high net worth and other private client lending	**140 815**	**(354)**	**4 515**	**(182)**	**1 703**	**(711)**	**147 033**	**(1 247)**	**–**	**147 033**
Coverage ratio	**0.25%**		**4.03%**		**41.75%**		**0.85%**			
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**
Coverage ratio	**0.16%**		**2.80%**		**42.80%**		**0.73%**			

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

	Gross core loans and advances at amortised cost and FVPL (subject to ECL)								Gross core loans and advances at FVPL (not subject to ECL)	Gross core loans and advances
	Stage 1		Stage 2		Stage 3		Total			
R'million	Gross exposure	ECL	Gross exposure	ECL	Gross exposure	ECL	**Gross exposure**	**ECL**		
At 31 March 2020										
Acquisition finance	11 110	(36)	823	(32)	82	(19)	12 015	(87)	–	12 015
Asset-based lending	6 122	(44)	803	(28)	1 136	(951)	8 061	(1 023)	–	8 061
Fund finance	8 408	(26)	–	–	–	–	8 408	(26)	–	8 408
Other corporate and financial institutions and governments	43 024	(238)	5 982	(164)	541	(89)	49 547	(491)	2 167	51 714
Asset finance	3 288	(6)	42	–	328	–	3 658	(6)	–	3 658
Small ticket asset finance	1 953	(2)	42	–	–	–	1 995	(2)	–	1 995
Large ticket asset finance	1 335	(4)	–	–	328	–	1 663	(4)	–	1 663
Power and Infrastructure finance	5 430	(14)	1 481	(11)	–	–	6 911	(25)	–	6 911
Resource finance	39	–	99	–	–	–	138	–	–	138
Total corporate and other lending	**77 421**	**(364)**	**9 230**	**(235)**	**2 087**	**(1 059)**	**88 738**	**(1 658)**	**2 167**	**90 905**
Coverage ratio	**0.47%**		**2.55%**		**50.74%**		**1.87%**			
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
Power and infrastructure 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**
Coverage ratio	**0.26%**		**6.67%**		**66.67%**		**1.23%**			

Liquidity coverage ratio (LCR)

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

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

The values in the table are calculated as the simple average of the 91 calendar daily values over the period 1 January 2020 to 31 March 2020 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 2020 month-end values.

The minimum LCR requirement is 100% for both IBL bank solo and IBL consolidated group.

The Bank of Mauritius requires banks to comply with a combined-currency LCR minimum of 100% from 1 January 2020.

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 PA repo
- On average, Level 2 assets contributed 5% of total HQLA. Since 1 December 2017, we have not made use of the South African PA's committed liquidity facility (CLF)
- Some foreign denominated government securities are included in the HQLA, subject to regulatory limitations.

Changes since December 2019 quarter-end:

The average LCR increased by 10%, and remains fully compliant with regulatory requirements, and within the target range as set by the Board.

Investec Bank Limited Consolidated group

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

At 31 March 2020 R'million	**Investec Bank Limited Bank solo – Total weighted value**	**Investec Bank Limited consolidated group- Total weighted value**
High quality liquid assets (HQLA)	83 775	85 606
Net cash outflows	63 002	60 149
Actual LCR (%)	**133.2%**	**142.6%**
Required LCR (%)	100%	100%

Net stable funding ratio (NSFR)

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

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

The values in the table are calculated as at 31 March 2020.

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

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

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 99% of the group's combined available and required stable funding. The consolidated group NSFR is slightly higher than IBL solo's with the contribution of IBM's capital to available stable funding.

At 31 March 2020 R'million	**Investec Bank Limited Bank solo – Total weighted value**	**Investec Bank Limited consolidated group – Total weighted value**
Available stabe funding (ASF)	327 055	347 520
Required stabe funding (RSF)	281 519	296 543
Actual NSFR (%)	**116.2%**	**117.2%**
Required NSFR (%)	100%	100%

Capital structure and capital adequacy

R'million	FIRB 31 March 2020	Pro forma FIRB* 31 March 2019	Standardised 31 March 2019
Shareholders' equity	**39 754**	**39 770**	**39 770**
Shareholders' equity per balance sheet	41 288	41 304	41 304
Perpetual preference share capital and share premium	(1 534)	(1 534)	(1 534)
Regulatory adjustments to the accounting basis	**1 518**	**896**	**1 122**
Prudential valuation adjustment	(6)	(9)	(9)
Gains or losses on liabilities at fair value resulting from changes in our credit standing	(26)	(26)	(26)
Cash flow hedging reserve	1 550	931	931
Adjustment under IFRS 9 transitional arrangement	–	–	226
Deductions	**(2 721)**	**(3 426)**	**(2 741)**
Goodwill and intangible assets net of deferred tax	(496)	(588)	(588)
Investment in financial entity	(1 596)	(2 236)	(2 153)
Shortfall of eligible provisions compared to expected loss	(629)	(602)	–
Common equity tier 1 capital	**38 551**	**37 240**	**38 151**
Additional tier 1 capital	**751**	**920**	**920**
Additional tier 1 instruments	1 994	1 994	1 994
Phase out of non-qualifying additional tier 1 instruments	(1 227)	(1 074)	(1 074)
Investment in capital of financial entities above 10% threshold	(16)	–	–
Tier 1 capital	**39 302**	**38 160**	**39 071**
Tier 2 capital	**12 905**	**14 401**	**14 795**
Collective impairment allowances	895	483	877
Tier 2 instruments	12 037	13 918	13 918
Regulatory deductions	(27)	–	–
Total regulatory capital	**52 207**	**52 561**	**53 866**
Risk-weighted assets	**319 090**	**297 506**	**340 315**
Capital ratios			
Common equity tier 1 ratio	12.1%	12.5%	11.2%
Tier 1 ratio	12.3%	12.8%	11.5%
Total capital adequacy ratio	16.4%	17.7%	15.8%

Capital requirements

R'million	FIRB 31 March 2020	Pro forma FIRB* 31 March 2019	Standardised 31 March 2019
Capital requirements	**36 695**	**34 301**	**39 237**
Credit risk	30 653	28 546	33 341
Equity risk	1 726	1 863	1 863
Counterparty credit risk	1 016	600	732
Credit valuation adjustment risk	273	382	391
Market risk	478	381	381
Operational risk	2 549	2 529	2 529
Risk weighted assets	**319 090**	**297 506**	**340 315**
Credit risk	266 552	247 584	289 168
Equity risk	15 010	16 159	16 159
Counterparty credit risk	8 837	5 206	6 349
Credit valuation adjustment risk	2 371	3 310	3 392
Market risk	4 158	3 308	3 308
Operational risk	22 162	21 939	21 939

Leverage

R'million	FIRB 31 March 2020	Pro forma FIRB* 31 March 2019	Standardised 31 March 2019
Exposure measure	**571 144**	**504 383**	**505 070**
Tier 1 capital	39 302	38 160	39 071
Leverage ratio – current**	**6.9%**	**7.6%**	**7.7%**
Tier 1 capital 'fully loaded'^^	38 995	37 699	38 364
Leverage ratio – 'fully loaded'^^**	**6.8%**	**7.5%**	**7.6%**

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

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

^^ *The key difference between the 'reported' basis at 31 March 2020 and the 'fully loaded' basis primarily relates to capital instruments that previously qualified as regular capital, but do not fully qualify under South African Prudential Authority regulations. These instruments continue to be registered on a reducing basis in the 'reported' figures until 2022.*

A summary of capital adequacy and leverage ratios

	FIRB	Pro forma FIRB*	Standardised
R'million	**31 March 2020**	31 March 2019	31 March 2019
Common equity tier 1 (as reported)	12.1%	12.5%	11.2%
Common equity tier 1 ('fully loaded')^^	12.1%	12.5%	11.1%
Tier 1 (as reported)	12.3%	12.8%	11.5%
Total capital ratio (as reported)	16.4%	17.7%	15.8%
Leverage ratio** – current	6.9%	7.6%	7.7%
Leverage ratio** – 'fully loaded'^^	6.8%	7.5%	7.6%

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

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

^^ *The key difference between the 'reported' basis at 31 March 2020 and the 'fully loaded' basis primarily relates to capital instruments that previously qualified as regular capital, but do not fully qualify under South African Prudential Authority regulations. These instruments continue to be registered on a reducing basis in the 'reported' figures until 2022.*

The full set of annual financial statements will be available on 30 June 2020.

ALTERNATIVE PERFORMANCE MEASURES

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

Alternative performance measures constitute *pro forma* financial information. The *pro forma* financial information is the responsibility of the board of directors and is presented for illustrative purposes only and because of its nature may not fairly present the group's financial position, changes in equity, and results in operations or cash flows. Alternative performance measures disclosed, was subject to a review from the external auditors. The review opinion is available for inspection at the registered office of Investec upon request.

Annualised net interest margin	Interest income net of interest expense multiplied by two, divided by average interest-earning assets. Refer to calculation on page 10
Annuity income	Net interest income (refer to page 10) plus net annuity fees and commissions (refer to page 11)
Cost to income ratio	Operating costs divided by operating income before ECL impairment charges (net of depreciation on operating leased assets and net of operating profits or losses attributable to other non-controlling interests) Refer to calculation below

R'million	**31 March 2020**	31 March 2019
Operating costs (A)	6 632	6 547
Total operating income before expected credit losses	12 603	12 650
Less: Profit attributable to other non-controlling interests	–	3
Total (B)	**12 603**	**12 653**
Cost to income ratio (A/B)	**52.6%**	**51.7%**

Coverage ratio	ECL as a percentage of gross core loans and advances subject to ECL
Credit loss ratio	ECL impairment charges on core loans and advances as a percentage of average gross core loans and advances subject to ECL
Gearing ratio	Total assets excluding intergroup divided by total equity
Gross core loans and advances	Refer to calculation on page 18
Loans and advances to customers as a % of customer accounts	Loans and advances to customers as a percentage of customer accounts (deposits)
Net core loans and advances	Refer to calculation on page 18

Cash and near cash

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

ECL

Expected credit loss

FVOCI

Fair value through other comprehensive income

FVPL

Fair value through profit and loss

Interest-earning assets

Cash and near cash, bank debt securities, sovereign debt securities, core loans and advances, other debt securities, other loans and advances and other securitised assets. Refer to page 10 for calculation

Interest-bearing liabilities

Deposits by banks, debt securities in issue, repurchase agreements and cash collateral on securities lent, customer accounts (deposits), liabilities arising on securitisation of own originated loans and advances and loans from group companies. Refer to page 10 for calculation