Out of the Ordinary

Investec

Disclosure Report
Investec Bank plc pillar 3 annual disclosure report

2018

Contents

Tables

Cross reference tools

Page reference

Refers readers to information included in the Investec Bank plc Annual Report 2018

Website

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

Abbreviations

In the sections that follow, the following abbreviations are used on numerous occasions:

AT1	Additional tier 1
Bank	Investec Bank plc and its subsidiaries
BCBS	Basel Committee on Banking Supervision
BoE	Bank of England
BRCC	Board Risk and Capital Committee
CCB	Capital conservation buffer
CCP	Central counterparty
CCR	Counterparty credit risk
CCyB	Countercyclical capital buffer
CDS	Credit default swap
CET1	Common equity tier 1
CRD IV	Capital Requirements Directive IV
CRR	Capital Requirements Regulation
CRR II/ CRD V	Revisions to the CRD IV package
CVA	Credit valuation adjustment
DLC	Dual listed companies
EBA	European Banking Authority
EC	European Commission
EU	European Union
ECL	Expected credit loss
ERC	Executive Risk Committee
ERRF	Executive Risk Review Forum
FCA	Financial Conduct Authority
FPC	Financial Policy Committee
GRCC	Group Risk and Capital Committee
Group	Investec Bank plc and its subsidiaries
G-SIB	Global systemically important bank
G-SII	Global systemically important institution
IBP	Investec Bank plc
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ISDA	International Swaps and Derivatives Association Master Agreement
MDB	Multilateral Development Bank
MREL	Minimum requirement for own funds and eligible liabilities
OTC	Over-the-counter
PRA	Prudential Regulation Authority
RWA	Risk-weighted asset
SFT	Securities financing transaction
SME	Small and medium-sized enterprise
SPE	Special Purpose Entity
SREP	Supervisory Review and Evaluation Process
T1	Tier 1
T2	Tier 2

Introduction

Investec is an international specialist bank and asset manager that provides a diverse range of financial products and services to a select client base in three principal markets; the UK and Europe, South Africa and Asia/Australia. Investec focuses on delivering distinct profitable solutions for its clients in three core areas of activity namely: Asset Management, Wealth & Investment and Specialist Banking.

In July 2002, the Investec group implemented a dual listed companies (DLC) structure with linked companies listed in London and Johannesburg. Investec plc is a FTSE 250 company.

Investec plc (housing the non-Southern African operations) and Investec Limited (housing the Southern African operations) form a single economic enterprise where shareholders have common economic and voting interests. Creditors, however, are ring-fenced to either Investec plc or Investec Limited as there are no cross guarantees between the companies.

Investec Bank plc (IBP) is the main banking subsidiary of Investec plc and operates as a specialist bank and wealth manager.

Regulation and supervision

IBP is authorised by the Prudential Regulation Authority (PRA) and is regulated by the Financial Conduct Authority (FCA) and PRA on a solo-consolidated basis. IBP applies the provisions laid down in article 9 (solo-consolidation waiver) of the Capital Requirements Regulation (CRR) and therefore includes Investec Investments (UK) Limited in the solo-consolidation. IBP calculates capital resources and requirements using the Basel III framework of the Basel Committee on Banking Supervision (BCBS), as implemented in the European Union (EU) through the Capital Requirements Regulation and Directive IV (CRR and CRD IV), and in the PRA's Rulebook for the UK banking industry.

The Basel III framework is structured around three 'pillars' namely Pillar I minimum capital requirements, Pillar II supervisory review process and Pillar III market discipline. Pillar III aims to complement the other two pillars, by developing a set of disclosure requirements which will allow market participants to gauge the capital adequacy of a firm.

Policy

In accordance with Article 13 and part 8 of the CRR, a sub-set of Pillar III disclosures covering own funds, capital requirements, credit risk, leverage and remuneration have to be published by significant subsidiaries on an individual or sub-consolidated basis. The Pillar III disclosures in this document are prepared in accordance with these disclosure requirements at the IBP sub-consolidated level which includes IBP and its subsidiaries (Group or Bank) as at 31 March 2018, with comparative figures for 31 March 2017 provided, where relevant.

For the first time, the Pillar III disclosures are published in a standalone disclosure report and will be available to view on the Investec website www.investec.com. These disclosures are published annually and are released, simultaneously with the Annual Report. The Pillar III disclosures are governed by the IBP Pillar III disclosure policy, which is approved by the IBP board. The board delegates responsibility for review and approval of these disclosures to the Board Risk and Capital Committee (BRCC), a delegated sub-committee of the Investec plc Board.

Where Pillar III requirements are included in other disclosure reports, references are provided to the relevant pages and or location.

Philosophy and approach to capital and liquidity

The Bank holds capital in excess of regulatory requirements and intends to perpetuate this philosophy to ensure it remains well capitalised. At 31 March 2018, the common equity tier 1 (CET 1) ratio of the Group was 11.8% and leverage ratio was 8.5%. These disclosures incorporate the deduction of foreseeable charges and dividends as required by the regulations. Excluding this deduction, the CET 1 ratio would be 13bps higher. The Bank applies the Standardised Approach to calculate credit and counterparty credit risk, securitisation, market risk and operational risk capital requirements.

The Bank has a liquidity management philosophy that has been in place for many years and continues to focus on maintaining a high level of readily available high-quality liquid assets targeting a minimum cash to customer deposit ratio of 25%. At 31 March 2018, the Bank had £5.6 billion of cash and near cash balances representing 46.8% of customer deposits to support its activities. Furthermore the Bank maintains an appropriate mix of term funding, placing a low reliance on interbank wholesale funding to fund core lending asset growth.

Regulatory environment

The regulatory environment has continued to evolve during 2018, with a vast number of new consultations, regulatory technical standards, implementing technical standards and other proposals being published or adopted, notably by the PRA, the BCBS and the European Banking Authority (EBA).

International

In December 2017 the Basel Committee's oversight body, the Group of Central Bank Governors and Heads of Supervision endorsed the outstanding Basel III post-crisis regulatory reforms. The package of reforms endorsed now completes the global reform of the regulatory framework, which began following the onset of the financial crisis. The aim of these reforms is to reduce excess variability in RWAs and improve comparability and transparency of banks' capital ratios. The endorsed package includes the following elements:

- A revised standardised approach for credit risk;
- Revisions to the internal ratings-based approach for credit risk and limiting the use of advanced internally modelled approaches for low-default portfolios;
- Revisions to the credit valuation adjustment (CVA) framework, including the introduction of a revised standardised approach;
- A revised standardised approach for operational risk, which replaces the existing standardised approach and the advanced measurement approaches;

- The measurement of the leverage ratio and leverage ratio buffer for globally systemically important banks (G-SIBs), which will take the form of a Tier 1 capital buffer set at 50% of a G-SIB's risk-weighted capital buffer; and

- An aggregate output floor of 72.5% of risk-weighted assets (RWAs) as calculated using the Basel III standardised approaches for banks applying internal models. These banks will also be required to disclose their RWAs based on these standardised approaches.

The revised standards will take effect from 1 January 2022, with some standards subject to a five year phase in arrangement. In addition, at the same meeting, it was agreed that the implementation date for the revised minimum capital requirements for market risk should be extended from 2019 to 1 January 2022. Deferring the implementation date for the revised market risk framework will align its start date with the revised reforms set out above. The EU and domestic implementation date for these reforms are yet to be confirmed.

In addition, during the year, the BCBS issued a number of other revisions or proposals, the following of which are relevant to IBP:

- Final guidelines on the identification and management of step-in risk, to be implemented in member jurisdictions by 2020;

- The final phase two Pillar III standards and the proposed phase three revisions and/ or new disclosure requirements driven by the finalisation of the Basel III post-crisis regulatory reforms; and

- A discussion paper on the regulatory treatment of sovereign exposures.

United Kingdom

IBP's resolution strategy, set by the Bank of England (BoE), remains set as modified insolvency with the minimum requirement for own funds and eligible liabilities (MREL) requirement equal to the Pillar I + Pillar IIA regulatory capital requirement. As noted in the statement of policy on the BoE approach to setting MREL, the actual approach taken to resolve an institution will depend on the circumstances at the time of its failure. The preferred resolution strategy may not necessarily be followed, if a different approach would better meet the resolution objective at the time.

In addition, during the year, the BoE and the PRA issued a number of other revisions to the regulatory framework. In particular:

- The PRA policy on refining the Pillar IIA capital framework, in particular the PRA's approach for firms using the standardised approach for credit risk;

- Changes to the group policy and double leverage framework; and

- The 'Dear CEO' letter setting out the PRA's views on the transitional arrangements to be applied to the impact of the IFRS 9 expected credit loss (ECL) accounting on regulatory capital and the requirement to notify the PRA of the firm's decision to apply the transitional arrangements.

IBP will be applying the International Financial Reporting Standards (IFRS) 9 transitional arrangements applicable to ECL accounting on regulatory capital. The transitional arrangements take effect from 1 April 2018.

Europe

Changes to the BCBS framework are being implemented in Europe through changes to the Capital Requirements Directive and Regulation. Together, these changes are known as the 'CRRII/CRDV' package. The key CRRII/CRDV changes applicable to IBP include:

- A new standardised approach for calculating counterparty credit risk;

- Changes to the market risk framework under the Fundamental Review of the Trading Book; and

- The introduction of a 3% binding leverage ratio for all banks.

The CRRII/CRDV package is expected to be agreed during 2018 and will apply two years after the date of its entry into the EU Official Journal.

In December 2017 the EU issued the final regulation setting out the IFRS 9 transitional arrangements firms may apply to minimise the impact of the IFRS 9 ECL accounting on regulatory capital. The arrangements will be phased in over five years, and will take effect from 1 April 2018. In January 2018, the EBA issued final guidelines specifying the uniform template firms should use to disclose the effect of the IFRS 9 transitional arrangements on own funds, RWAs and capital and leverage ratios.

On the 12 December 2017 the EU formally adopted the new securitisation rules. These rules are expected to apply from 1 January 2019.

Table 1: Capital Structure

£'million	Ref^	31 March 2018	31 March 2017
Tier 1 capital			
Shareholder's equity		1,989	1,938
Shareholder's equity excluding non-controlling interests	d	2,012	1,982
Foreseeable charges and dividends^^		(18)	(35)
Deconsolidation of special purpose entities	d	(5)	(9)
Non-controlling interests		(3)	(2)
Non-controlling interest per balance sheet	f	(3)	(2)
Regulatory adjustments to the accounting basis		(4)	(4)
Additional value adjustments		(4)	(4)
Deductions		(361)	(380)
Goodwill and intangible assets net of deferred taxation	b	(348)	(366)
Deferred taxation assets that rely on future profitability excluding those arising from temporary differences	a	(9)	(10)
Securitisation positions		(3)	(3)
Debit valuation adjustment		(1)	(1)
Common equity tier 1 capital		**1,621**	**1,552**
Additional tier 1 instruments	e	200	–
Tier 1 capital		**1,821**	**1,552**
Tier 2 capital		**445**	**560**
Tier 2 instrument	c	445	560
Total regulatory capital		**2,266**	**2,112**
Risk-weighted assets		**13,744**	**12,716**
Capital and leverage ratios			
Common equity tier 1 (as reported)		11.8%	12.2%
Common equity tier 1 ('fully loaded')^^^		11.8%	12.2%
Tier 1 (as reported)		13.2%	12.2%
Total capital adequacy ratio (as reported)		16.5%	16.6%
Leverage ratio exposure measure		**21,335**	**19,417**
Leverage ratio* - current		8.5%	8.0%
Leverage ratio* - 'fully loaded'^^^		8.5%	8.0%
Leverage ratio** - current UK leverage ratio framework		10.2%	9.3%

^ *The references refer to those included in the reconciliation of the regulatory scope balance sheet (table 2).*

^^ *The capital adequacy disclosures include the deduction of foreseeable charges and dividends when calculating CET 1 capital as required under CRR and EBA technical standards. These disclosures are different to the capital adequacy disclosures included in Investec's 2018 and 2017 Integrated Annual Report, which follow our normal basis of presentation and do not include this deduction when calculating CET 1 capital. IBP's CET 1 ratio would be 13bps (31 March 2017: 28bps) higher on this basis.*

^^^ *There is no difference between the 'reported' basis and the 'fully loaded' basis.*

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

** *IBP is not subject to the UK leverage ratio framework. However, due to recent changes to the UK leverage ratio framework to exclude from the calculation of the total exposure measure those assets constituting claims on central banks where they are matched by deposits accepted by the firm that are denominated in the same currency and of identical or longer maturity, this has been included for comparative purposes.*

Current regulatory framework

In the UK banks are required to meet minimum capital requirements as prescribed by CRD IV for Pillar I, namely a CET 1 capital requirement of 4.5% of RWAs, a tier 1 capital requirement of 6% of RWAs and a total capital requirement of 8% of RWAs. In addition banks are required to meet their individual capital guidance, as determined by the internal capital adequacy assessment process (ICAAP) and Supervisory Review and Evaluation process (SREP), with at least 56% CET 1 capital. The PRA buffer which is also determined as part of the SREP must be supported with CET 1 capital and will be transitioned in at 25% per annum, until fully phased in by January 2019.

In line with CRD IV, UK firms are required to meet a combined buffer requirement, which is in addition to the Pillar I and Pillar IIA capital requirements. The combined buffer includes the capital conservation buffer (CCB) and the countercyclical capital buffer (CCyB) and must be met with CET1 capital. The buffer for global systemically important institutions (G-SIIs) and the systemic risk buffer do not apply to IBP and will not be included in the combined buffer requirement.

From 1 January 2016 IBP began phasing in the CCB at 0.625% of RWAs. An additional 0.625% of RWAs is phased-in each year until fully implemented on 1 January 2019 at 2.5% of RWAs. As at 31 March 2018

IBP holds a CCB, which is met with CET 1 capital, of 1.875% of RWAs.

At 31 March 2018 IBP is holding an institution specific CCyB of 0.02% of RWAs. The institution specific CCyB requirement is calculated based on the relevant exposures held in jurisdictions in which a buffer rate has been set. In the UK, the Financial Policy Committee (FPC) confirmed in June 2017 the UK rate would increase from 0% to 0.5% effective from June 2018. Then in November 2017 the FPC confirmed that the rate would rise a further 0.5% to 1.0% effective November 2018.

The Group continues to hold capital in excess of all the capital and buffer requirements.

The Bank applies the standardised approach to calculate credit and counterparty credit risk, securitisation and operational risk capital requirements. The mark-to-market method is used to calculate the counterparty credit risk exposure amount. The market risk capital requirement is calculated using the standardised approach. For certain options, the Group has obtained an article 329 permission from the PRA to use an internal model to calculate the delta for these positions. In addition the Group was granted an article 331 permission in January 2018 which allows sensitivity models to be used when calculating the market risk position for certain instruments.

Subsidiaries of IBP may be subject to additional regulations as implemented by local regulators in other relevant jurisdictions. Where capital is a relevant consideration, management within each regulated entity pays close attention to prevailing local regulatory rules as determined by their respective regulators. For capital management purposes, it is the prevailing rules applied to the consolidated Group that are monitored closely. With the support of the Bank's prudential advisory and reporting team, local management of each regulated entity ensures that capital remains prudently above minimum regulatory requirements at all times.

Capital and leverage ratio targets

Capital

Over recent years, capital adequacy standards for banks have been raised as part of attempts to increase the stability and resilience of the global banking sector. IBP has always held capital in excess of regulatory requirements and continues to remain well capitalised. Accordingly, we are targeting a minimum CET 1 capital ratio of above 10%, a tier 1 capital ratio of above 11% and a total capital adequacy ratio target in the range of 14% to 17%. These targets are set on a DLC basis and exclude the deduction of foreseeable charges and dividends as required under the CRR and EBA technical standards. These targets are continuously assessed for appropriateness.

Leverage

IBP is currently targeting a leverage ratio above 6%.

Basis of consolidation

The regulatory basis of consolidation differs from the basis of consolidation used for financial reporting purposes. The financial accounting position of the Group is reported under IFRS and is described on page 160 of the IBP Annual Report 2018.

The regulatory consolidation includes all financial sector subsidiaries, the majority of which are wholly-owned by the relevant parent company. Investments in financial sector associates are equity accounted in the financial accounting consolidation. In the regulatory consolidation, exposures to financial sector associates are proportionally consolidated. Subsidiaries and associates engaged in non-financial activities are excluded from the regulatory consolidation. In addition special purpose entities (SPEs) are not consolidated for regulatory purposes, where significant credit risk has been transferred to third parties. The positions the Bank continues to hold in these securitisation SPEs will either be risk-weighted and/or deducted from CET 1 capital. The principal SPE excluded from the regulatory scope of consolidation is Tamarin Securities Limited.

Table 2 which follows reconciles the Group's financial accounting balance sheet to the regulatory scope balance sheet. The alphabetic references included in the reconciliation provide a mapping of the balance sheet items to elements included in the capital structure table (table 1), set out on page 5.

Regulatory capital requirements are driven by the regulatory balance sheet and not the financial accounting balance sheet.

Table 2: Reconciliation of the financial accounting balance sheet to the regulatory scope of consolidation

At 31 March 2018 £'million	Ref^	Accounting balance sheet	Decon-solidation of non-financial/ other entities	Con-solidation of banking associates	Regulatory balance sheet
Cash and balances at central banks		3,488	–	–	3,488
Loans and advances to banks		774	(69)	1	706
Reverse repurchase agreements and cash collateral on securities borrowed		750	–	–	750
Sovereign debt securities		1,155	–	–	1,155
Bank debt securities		108	–	–	108
Other debt securities		288	2	–	290
Derivative financial instruments		610	–	–	610
Securities arising from trading activities		702	(7)	–	695
Investment portfolio		472	(3)	–	469
Loans and advances to customers		9,663	–	–	9,663
Other loans and advances		418	91	–	509
Other securitised assets		132	–	–	132
Interests in associated undertakings		6	–	(1)	5
Deferred taxation assets		85	–	–	85
of which:					
- relates to losses carried forward	a	9	–	–	9
Other assets		1,013	(15)	–	998
Property and equipment		53	(23)	–	30
Investment properties		15	(15)	–	–
Goodwill	b	261	–	–	261
Intangible assets	b	104	–	–	104
Investment in subsidiary companies		–	8	–	8
Total assets		**20,097**	**(31)**	**–**	**20,066**
Deposits by banks		1,296	(78)	–	1,218
Derivative financial instruments		533	–	–	533
Other trading liabilities		103	–	–	103
Repurchase agreements and cash collateral on securities lent		169	–	–	169
Customer deposits (deposits)		11,969	84	–	12,053
Debt securities in issue		1,943	(38)	–	1,905
Liabilities arising on securitisation of other assets		128	9	–	137
Current taxation liabilities		136	–	–	136
Deferred taxation liabilities		22	(2)	–	20
of which:					
- in respect of acquired intangibles	b	16	–	–	16
Other liabilities		1,009	(1)	–	1,008
Subordinated liabilities		580	–	–	580
of which:					
- term subordinated debt included in tier 2 capital	c	580	–	–	580
Total liabilities		**17,888**	**(26)**	**–**	**17,862**
Shareholder's equity excluding non-controlling interests	d	2,012	(5)	–	2,007
Additional tier 1 securities in issue	e	200	–	–	200
Non-controlling interests	f	(3)	–	–	(3)
Total equity		**2,209**	**(5)**	**–**	**2,204**
Total liabilities and equity		**20,097**	**(31)**	**–**	**20,066**

^ The references identify balance sheet components which are used in the calculation of regulatory capital (refer to table 1).

Table 2: Reconciliation of the financial accounting balance sheet to the regulatory scope of consolidation (continued)

At 31 March 2017 £'million	Ref^	Accounting balance sheet	Deconsolidation of non-financial/ other entities	Consolidation of banking associates	Regulatory balance sheet
Cash and balances at central banks		2,854	-	-	2,854
Loans and advances to banks		923	(69)	4	858
Reverse repurchase agreements and cash collateral on securities borrowed		536	-	-	536
Sovereign debt securities		953	-	-	953
Bank debt securities		185	-	-	185
Other debt securities		408	2	-	410
Derivative financial instruments		610	-		610
Securities arising from trading activities		523	(6)	--	517
Investment portfolio		454	1		455
Loans and advances to customers		8,599	-	--	8,599
Other loans and advances		556	61	-	617
Other securitised assets		139	-	-	139
Interests in associated undertakings		23	(1)	(12)	10
Deferred taxation assets		79	-	-	79
of which:					
- relates to losses carried forward	a	10	-	-	10
Other assets		1,089	(23)	10	1,076
Property and equipment		59	(29)	-	30
Investment properties		15	(15)	-	-
Goodwill	b	260	-	7	267
Intangible assets	b	116	-	-	116
Investment in subsidiary companies		-	7	-	7
Total assets		**18,381**	**(72)**	**9**	**18,318**
				-	
Deposits by banks		673	(86)	-	587
Derivative financial instruments		583	-	-	583
Other trading liabilities		136	-	-	136
Repurchase agreements and cash collateral on securities lent		224	-	-	224
Customer deposits (deposits)		11,289	90	-	11,379
Debt securities in issue		1,641	(77)	-	1,564
Liabilities arising on securitisation of other assets		129	13	-	142
Current taxation liabilities		147	-	-	147
Deferred taxation liabilities		27	(3)	-	24
of which:				-	
- in respect of acquired intangibles	b	18	-	-	18
Other liabilities		973	-	9	982
Subordinated liabilities		579	-	-	579
of which:					
- term subordinated debt included in tier 2 capital	c	579	-	-	579
Total liabilities		**16,401**	**(63)**	**9**	**16,347**
Shareholder's equity excluding non-controlling interests	d	1,982	(9)	-	1,973
Non-controlling interests	f	(2)	-	-	(2)
Total equity	g	**1,980**	**(9)**	**-**	**1,971**
Total liabilities and equity		**18,381**	**(72)**	**9**	**18,318**

^ The references identify balance sheet components which are used in the calculation of regulatory capital (refer to table 1).

Capital adequacy and capital requirements

Capital management

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

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

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

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

The Investec plc and IBP capital committee and DLC capital committee seek to optimise the balance sheet such that capital held is in excess of internal capital. Internal capital performs a critical role in:

- Investment decision-making and pricing that is commensurate with the risk being taken;
- Allocating capital according to the greatest expected marginal risk-based return, and tracking performance on this basis;
- Determining transactional risk-based returns on capital;
- Rewarding performance, taking into account the relative levels of risk adopted by forming a basis for the determination of economic value added at a transactional level, and hence the basis for discretionary variable remuneration; and
- Comparing risk-based performance across business areas.

The framework has been approved by the board and is managed by the Investec plc and IBP capital committee and the DLC capital committee, which are responsible for oversight of the management of capital on a regulatory and an internal capital basis.

In order to achieve these objectives, the internal capital framework describes the following approach to the integration of risk and capital management.

Risk modelling and quantification
Internal capital requirements are quantified by analysis of the potential impact of key risks to a degree consistent with our risk appetite. Internal capital requirements are supported by the board-approved risk assessment process described above. Quantification of all risks is based on analysis of internal data, management expertise and judgement, and external benchmarking.

The following risks are included within the internal capital framework and quantified for capital allocation purposes:

- Credit and counterparty risk, including:
  – underlying counterparty risk;
  – concentration risk; and
  – securitisation risk.
- Market risk;
- Equity and investment risk held in the banking book ;
- Banking book interest rate risk;
- Pension risk; and
- Operational risk, which is considered as an umbrella term and covers a range of independent risks including, but not limited to fraud, litigation, business continuity, cyber security, information security, outsourcing and out of policy trading.

The specific risks covered are assessed dynamically through constant review of the underlying business environment.

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

Three month capital plans are prepared monthly, with regulatory capital being the key driver of decision-making.

The goal of capital planning is to provide insight into potential sources of vulnerability of capital adequacy by way of market, economic or internal events. As such, the 3 year capital plans are stressed based on conditions most likely to cause duress.

The conditions themselves are agreed by the Investec plc and IBP capital committee and the DLC capital committee after the key vulnerabilities have been determined through the stress testing workshops. Such plans are used by management to formulate balance sheet strategy and agree management actions, trigger points and influence the determination of our risk appetite.

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

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

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

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

Pricing and performance measurement

The use of internal capital as an allocation tool means that all transactions are considered in the context of their contribution to return on risk-adjusted capital. This ensures that expected returns are sufficient after taking recognition of the inherent risk generated for a given transaction. This approach allows us to embed risk and capital discipline at the level of deal initiation. Using expectations of risk-based returns as the basis for pricing and deal acceptance ensures that risk management retains a key role in ensuring the portfolio is appropriately managed for that risk.

In addition to pricing, returns on internal capital are monitored and relative performance is assessed on this basis. Assessment of performance in this way is a fundamental consideration used in setting strategy and risk appetite as well as rewarding performance.

These processes have been embedded across the business with the process designed to ensure that risk and capital management form the basis for key decisions, at both a Group and at a transactional level. Responsibility for oversight for each of these processes ultimately falls to the BRCC.

The (simplified) integration of risk and capital management

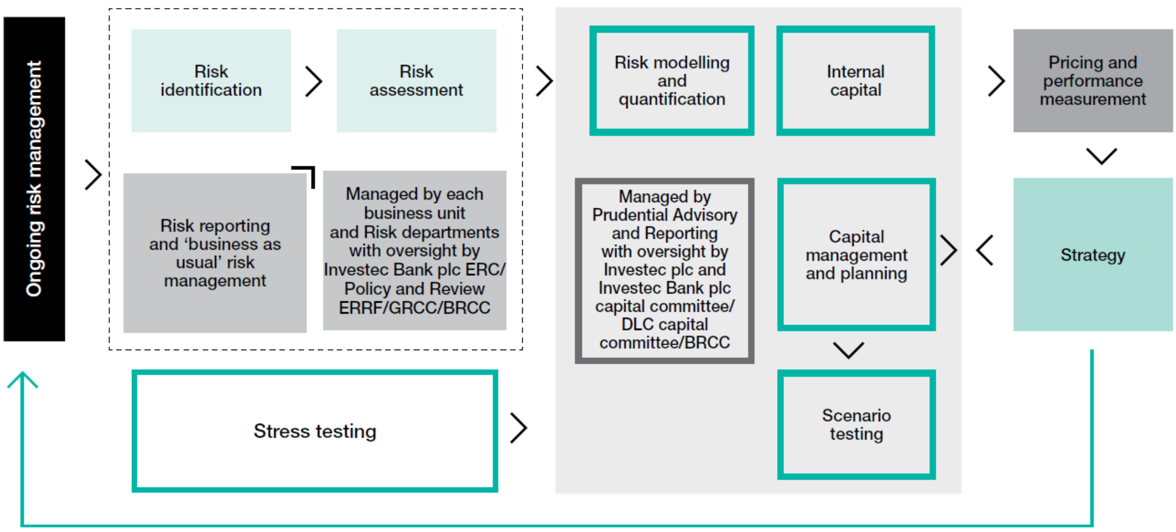

Table 3: Own funds disclosure

Ref^	£'millions Common equity tier 1 capital: Instruments and reserves	31 March 2018	31 March 2017
1	**Capital instruments and the related share premium accounts**	1,330	1,330
	of which: Ordinary shares	1,330	1,330
2	Retained earnings	408	339
3	Accumulated other comprehensive income (and other reserves)	167	178
5	Minority interests (amount allowed in consolidated CET1)	(3)	(2)
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	84	91
6	**Common equity tier 1 capital before regulatory adjustments**	1,986	1,936
Common equity tier 1 capital: regulatory adjustments			
7	Additional value adjustments	(4)	(4)
8	Intangible assets (net of related tax liability)	(348)	(366)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38(3) are met)	(9)	(10)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	(1)	(1)
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	(3)	(3)
20c	of which: securitisation positions	(3)	(3)
28	**Total regulatory adjustments to Common equity tier 1**	(365)	(384)
29	**Common equity tier 1 capital**	1,621	1,552
Additional tier 1 capital: instruments			
44	**Additional Tier 1 (AT1) capital**	200	–
45	**Tier 1 capital (T1 = CET1 + AT1)**	1,821	1,552
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	445	560
58	**Tier 2 (T2) capital**	**445**	560
59	**Total capital (TC = T1 + T2)**	**2,266**	2,112
60	**Total risk weighted assets**	**13,744**	12,716
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	11.8%	12.2%
62	Tier 1 (as a percentage of risk exposure amount)	13.2%	12.2%
63	Total capital (as a percentage of risk exposure amount)	16.5%	16.6%
64	Institution specific buffer requirement (expressed as a percentage of risk exposure amount))	1.90%	1.27%
65	of which: capital conservation buffer requirement	1.88%	1.25%
66	of which: countercyclical buffer requirement	0.02%	0.02%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	7.3%	6.2%
Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	83	57
73	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	11	29
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	42	33
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)			
84	Current cap on T2 instruments subject to phase out arrangements	20	26

^ *The references identify the lines prescribed in the EBA template. Lines represented in this table are those lines which are applicable and have a value assigned to it. All other lines have been suppressed.*

Regulatory capital instruments

Regulatory capital is divided into three main categories, namely CET 1, tier 1 and tier 2 capital and comprise the following:

- CET 1 capital comprises shareholders' equity and related eligible non-controlling interests after giving effect to deductions for disallowed items (for example, goodwill and intangible assets) and other adjustments;
- Additional tier 1 (AT1) capital includes qualifying capital instruments that are capable of being fully and permanently written down or converted into CET 1 capital at the point of non-viability of the Bank, and other additional tier 1 instruments, which no longer qualify as additional tier 1 capital and are subject to grandfathering provisions and related eligible non-controlling interests ; and
- Tier 2 capital comprises qualifying subordinated debt and related eligible non-controlling interests and other tier 2 instruments, which no longer qualify as tier 2 capital and are subject to grandfathering provisions.

Table 4 provides a description of the terms and conditions of all capital instruments, including an indication of which instruments are not CRD IV compliant and are subject to transitional arrangements. In order to optimise the capital structure in line with the CRD IV and PRA capital requirements, IBP issued to Investec plc an inaugural internal £200 million Perpetual 6.75% Non- Call 2024 AT1 capital instrument in October 2017. This instrument is structured with a permanent write-down mechanism.

Table 4: Summary of capital instruments' main features

31 March 2018				
Ref	**Terms and conditions**	**Ordinary shares**	**Fixed rate reset perpetual additional tier 1 write down capital instrument**	**Subordinated fixed rate medium-term note**
1	Issuer	Investec Bank plc	Investec Bank plc	Investec Bank plc
2	Unique identifier	n/a	n/a	XS0593062788
3	Governing law(s) of the instrument	English Law	English Law	English Law
	Regulatory treatment			
4	Transitional CRR rules	CET1	Additional tier 1	Tier 2
5	Post-transitional rules	CET1	Additional tier 1	Tier 2
6	Eligible at solo/(sub-) consolidated/ solo & (sub-) consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated
7	Instrument type	Ordinary shares	Additional tier 1 instrument	Tier 2 instrument
8	Amount recognised in regulatory capital*	£1,187	£200m	£445m
9	Nominal amount of instrument	£1,187	£200m	£575m
9a	Issue price	n/a	100.00%	99.981%
9b	Redemption price	n/a	Redemption at principal amount plus accrued and unpaid interest to date of redemption	Par plus accrued but unpaid interest
10	Accounting classification	Shareholders' equity	Shareholders' equity	Liability - amortised cost
11	Original date of issuance	n/a	16 October 2017	17 February 2011 (29 June 2011 tap)
12	Perpetual or dated	Perpetual	Perpetual	Dated
13	Original maturity date	No maturity	No maturity	17 February 2022
14	Issuer call subject to prior supervisory approval	n/a	Yes	n/a
15	Optional call date, contingent call dates and redemption amount	n/a	05 December 2024, subject to supervisory approval; Subject to tax and capital disqualification event at any time; Redemption at principal amount plus accrued and unpaid interest to date of redemption	n/a: subject to tax and regulatory call; redemption at par plus accrued but unpaid interest
16	Subsequent call dates, if applicable	n/a	On each quarterly interest payment date after first call	n/a
	Coupons/ dividends			
17	Fixed or floating dividend/coupon	Floating	Fixed	Fixed
18	Coupon rate and any related index	n/a	6.75%	9.625%
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timings)	Fully discretionary	Fully discretionary	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	n/a	n/a	n/a
25	If convertible, fully or partially	n/a	n/a	n/a

* *Amount recognised in regulatory capital at 31 March 2018 is after amortisation adjustments, but before the annual phase-out of non-qualifying instruments and the allocation of surplus capital attributable.*

Table 4: Summary of capital instruments' main features (continued)

31 March 2018 Ref	Terms and conditions	Ordinary shares	Fixed rate reset perpetual additional tier 1 write down capital instrument	Subordinated fixed rate medium-term note
26	If convertible, conversion rate	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a	n/a
30	Write-down features	n/a	Yes	n/a
31	If write-down, write-down triggers(s)	n/a	CET1 Ratio of the Issuer and / or the Investec plc Group has fallen below 7.00% - contractual/ point of non-viability - UK PRA-statutory	n/a
32	If write-down, full or partial	n/a	Full	n/a
33	If write-down, permanent or temporary	n/a	Permanent	n/a
34	If temporary write-down, description of write-up mechanism	n/a	n/a	n/a
35	Position in subordinated hierarchy in liquidation (specify instrument type immediately senior to instrument)	Represents the most subordinate claim in liquidation of the Bank	Tier 2 instruments	Subordinated to payments of any amounts due and payable to Senior Creditors
36	Non-compliant transitioned features	n/a	No	No
37	If yes, specify non-compliant features	n/a	n/a	n/a

Overview of RWAs

IBP uses the standardised approach to calculate its credit and counterparty credit risk, securitisation, market risk and operational risk capital requirements. The mark-to-market method is used to calculate the counterparty credit risk exposure amount. For certain options, the Group has obtained an article 329 permission from the PRA to use an internal model to calculate the delta for these positions. In addition the Group was granted an article 331 permission in January 2018 which allows sensitivity models to be used when calculating the market risk position for certain derivative instruments.

Total RWAs have increased by 8.1% over the period, predominantly within credit risk RWAs.

Credit risk RWAs

Credit risk RWAs, which include equity risk, increased by £608 million. The increase is primarily attributable to a growth in secured corporate lending.

Counterparty credit risk RWAs and CVA

Counterparty credit risk and CVA RWAs increased by £201 million mainly due to increased facilitation of client activity within the Financial Products business.

Market risk RWAs

Market risk RWAs increased by £109 million primarily driven by increased facilitation of client activity within the Financial Products business

Operational risk RWAs

Operational risk RWAs increased by £135 million. The increase is due to a higher three year average operating income.

Table 5: Overview of RWAs

£'millions Ref^		RWA 31 March 2018	 31 March 2017	Minimum capital requirements* 31 March 2018
1	Credit risk (excluding counterparty credit risk)	10,275	9,667	822
2	Of which standardised approach	10,275	9,667	822
6	Counterparty credit risk (CCR)	773	572	62
7	Of which mark to market	651	494	52
11	Of which risk exposure amount for contributions to the default fund of a CCP	1	–	–
12	Of which credit valuation adjustment (CVA) risk	121	78	10
13	Settlement risk	1	–	–
14	Securitisation exposures in banking book (after cap)	74	100	6
18	Of which standardised approach	74	100	6
19	Market risk	965	856	77
20	Of which the standardised approach	965	856	77
23	Operational risk	1,656	1,521	132
25	Of which standardised approach	1,656	1,521	132
27	Amounts below the thresholds for deduction (subject to 250% RWAs)**	132	155	11
29	Total (1+6+13+14+19+23)	**13,744**	**12,716**	**1,099**

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*

* *Minimum capital requirements of 8% of RWAs.*

** *The RWAs are already included in total credit risk.*

Leverage ratio

The leverage ratio is calculated using the CRR definition of leverage which was adopted by the European Commission (EC) via a delegated Act in October 2014 and came into force from 1 January 2015. In the UK, the leverage ratio was subject to a mandatory monitoring period from 1 January 2014 to 30 June 2016, at which point the EBA reported to the EC suggesting a 3% leverage ratio was adequate. At the same time appropriate adjustments to the capital and total exposure measure were proposed. The latest proposal in the CRRII/CRDV implements a 3% leverage ratio which will come into effect two years from publication in the EU Official Journal.

As with the governance of capital management, the Investec plc and IBP capital committee and DLC capital committee are responsible for ensuring that the impact of any regulatory changes on the leverage ratio is calculated, analysed and understood at all reporting levels. The leverage exposure measure is calculated on a monthly and quarterly basis and is presented to these committees on a regular basis. These committees are responsible for monitoring the risk of excessive leverage.

The Group's leverage ratio was 8.5% at 31 March 2018, up from 8.0% at 31 March 2017. The increase is mainly attributable to an increase in capital due to the AT1 capital issuance in October 2017, partially offset by increased exposures to loans and advances to customers and cash and balances at central banks.

The UK leverage ratio framework is relevant to PRA-regulated banks and building societies with retail deposits equal to or greater than £50 billion. Firms subject to this framework are allowed to exclude from the calculation of the total exposure measure those assets constituting claims on central banks where they are matched by deposits accepted by the firm that are denominated in the same currency and of identical or longer maturity. Although IBP is not subject to the UK leverage ratio framework, the leverage ratio calculated on this basis, has been included in table 1 for comparative purposes.

Table 6: Summary reconciliation of accounting assets and leverage ratio exposure

£'millions Ref^		31 March 2018	31 March 2017
1	Total assets as per published financial statements	20,097	18,381
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(31)	(63)
4	Adjustments for derivative financial instruments	1,005	749
5	Adjustment for securities financing transactions (SFTs)	73	39
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	556	693
7	Other adjustments	(365)	(382)
8	Leverage ratio total exposure measure	**21,335**	19,417

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*

Table 7: Leverage ratio common disclosure

£'millions Ref^		CRR leverage ratio exposures 31 March 2018	31 March 2017
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	18,706	17,172
2	(Asset amounts deducted in determining Tier 1 capital)	(365)	(382)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**18,341**	16,790
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	741	567
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	871	789
9	Adjusted effective notional amount of written credit derivatives	475	498
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	(472)	(495)
11	**Total derivatives exposures**	**1,615**	**1,359**
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	750	536
14	Counterparty credit risk exposure for SFT assets	73	39
16	**Total securities financing transaction exposures**	**823**	575
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	1,256	1,584
18	(Adjustments for conversion to credit equivalent amounts)	(700)	(891)
19	**Other off-balance sheet exposures**	**556**	693
	Capital and total exposure measure		
20	Tier 1 capital	1,821	1,552
21	Leverage ratio exposure measure	**21,335**	19,417
	Leverage ratio		
22	Leverage ratio	**8.5%**	8.0%
	Choice on transitional arrangements and amount of derecognised fiduciary items	Tier 1 transitional	Tier 1 transitional
EU-23	Choice on transitional arrangements for the definition of the capital measure	N/A	N/A

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*

Table 8: Split of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

£'millions Ref^		CRR leverage ratio exposures 31 March 2018	31 March 2017
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	18,341	16,790
EU-2	Trading book exposures	655	372
EU-3	Banking book exposures, of which:	17,686	16,418
EU-5	Exposures treated as sovereigns	4,637	3,815
EU-6	Exposures to regional governments, multilateral development banks, international organisations and public sector entities not treated as sovereigns	55	73
EU-7	Institutions	750	1,019
EU-8	Secured by mortgages of immovable properties	2,707	3,112
EU-9	Retail exposures	1,064	905
EU-10	Corporate	5,987	5,371
EU-11	Exposures in default	320	241
EU12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	2,166	1,882

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*

Capital buffers

The Group is subject to a CCB and an institution specific CCyB. The CCB is phased in at 0.625% of RWAs, commencing 1 January 2016. As at 31 March 2018, the Group currently holds a CCB, which must be met with CET 1 capital, of 1.875%.

At the 31 March 2018 the Group is holding an institution specific CCyB of 0.02% of RWAs. The institution specific CCyB requirement is calculated based on the relevant exposures held in jurisdictions in which a buffer rate has been set. In the UK, the FPC confirmed in June 2017 the UK rate would increase from 0% to 0.5% effective from June 2018. Then in November 2017 the FPC confirmed that the rate would rise a further 0.5% to 1.0% effective November 2018. As at 31 March 2018, six jurisdictions have implemented countercyclical buffer rates: Norway 2.0%, Sweden 2.0%, Hong Kong 1.875%, Czech Republic 0.5%, Iceland 1.25% and Slovakia 0.5%. The Czech Republic rate is expected to rise to 1.0% from 1 July 2018 and the Slovakia rate will rise to 1.25%, effective 1 August 2018.

The table which follows shows the geographical distribution of credit exposures relevant to the calculation of the CCyB.

Table 9: Geographical distribution of credit exposures

	General credit exposure	Trading book exposure	Securiti-sation exposure	Own funds requirements					
At 31 March 2018 £'million Ref^	**Exposure value for SA**	**Sum of long and short position of trading book**	**Expo-sure value for SA**	**Of which: General credit exposures**	**Of which: Trading book exposures**	**Of which: Securiti-sation exposures**	**Total**	**Own funds require-ment weights**	**Counter-cyclical capital buffer rate**
010 **Breakdown by country**									
Hong Kong	33	4	–	2	–	–	2	0.23%	1.88%
Norway	73	–	–	6	–	–	6	0.70%	2.00%
Sweden	2	5	–	–	–	–	–	–%	2.00%
Czech Republic	–	–	–	–	–	–	–	–%	0.50%
Slovakia	–	–	–	–	–	–	–	–%	0.50%
Iceland	–	–	–	–	–	–	–	–%	1.25%
Total countries with existing CCyB rates	108	9	–	8	–	–	8	0.93%	
United Kingdom	6,201	415	124	402	15	3	420	48.67%	
United States of America	511	12	45	39	–	1	40	4.63%	
Ireland	669	3	5	52	–	–	52	6.03%	
Luxembourg	424	15	–	34	1	–	35	4.06%	
Australia	437	2	–	36	–	–	36	4.17%	
British Virgin Islands	437	–	–	32	–	–	32	3.71%	
Netherlands	431	–	–	34	–	–	34	3.94%	
Cayman Islands	337	–	95	28	–	2	30	3.48%	
Jersey	430	–	–	29	–	–	29	3.36%	
Guernsey	461	–	–	32	–	–	32	3.71%	
Germany	135	15		10	–	–	10	1.16%	
Spain	128	3	–	11	–	–	11	1.27%	
South Africa	139	20	–	8	2	–	10	1.16%	
Isle of Mann	117	–	–	9	–	–	9	1.04%	
Total countries with own funds requirements weights 1% or above	10,857	485	269	756	18	6	780	90.38%	
Total countries with own funds requirements weights below 1% and without an existing CCyB rate	896	81	–	70	5	–	75	8.69%	
Total	11,761	575	269	834	23	6	863	100.00%	

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*

Table 10: Amount of institution specific countercyclical capital buffer

Ref^ Row		At 31 March 2018
010	Total risk exposure amount	13,744
020	Institution specific countercyclical buffer rate	0.02%
030	Institution specific countercyclical buffer requirement	3

Credit risk

The Group applies the standardised approach for calculating capital requirements in the assessment of its credit exposures. The tables below set out details of the Group's credit risk exposures by exposure class and broken down further by geography, counterparty type and maturity.

Table 11: Total and average net amount of exposures

31 March 2018 £'millions Ref^		Net value of exposures*	Average net exposures
16	Central governments or central banks	4,605	3,701
17	Regional governments or local authorities	4	3
18	Public sector entities	45	45
21	Institutions	757	989
22	Corporates	7,177	6,891
24	Retail	1,079	1,038
26	Secured by mortgages on immovable property	2,792	2,827
28	Exposures in default	320	271
29	Items associated with particularly high risk	479	484
33	Equity exposures	79	76
34	Other exposures	382	371
35	**Total standardised approach**	**17,719**	**16,697**

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*

* *The net value of exposures is the gross carrying value of the exposure less impairment allowances or provisions.*

Table 12: Geographical breakdown of exposures

31 March 2018		Net value*					
£'millions Ref^		United Kingdom	Europe (excluding UK)	Australia	North America	Other	Total
7	Central governments and central banks	4,246	136	–	223	–	4,605
8	Regional governments or local authorities	4	–	–	–	–	4
9	Public sector entities	45	–	–	–	–	45
12	Institutions	522	110	74	34	17	757
13	Corporates	3,465	1,757	377	1,226	352	7,177
14	Retail	1,053	12	–	3	11	1,079
15	Secured by mortgages on immovable property	2,206	205	24	224	133	2,792
16	Exposures in default	205	114	–	–	1	320
17	Items associated with particularly high risk	216	28	25	114	96	479
21	Equity exposures	32	1	3	8	35	79
22	Other exposures	344	28	5	4	1	382
23	**Total standardised approach**	**12,338**	**2,391**	**508**	**1,836**	**646**	**17,719**

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*

* *The net value is the gross carrying value of the exposure less impairment allowances or provisions.*

Table 13: Concentration of exposures by counterparty type

At 31 March 2018 £'millions Ref^		Financial sector	Non-financial sector	Total
7	Central governments and central banks	4,119	486	4,605
8	Regional governments or local authorities	–	4	4
9	Public sector entities	–	45	45
12	Institutions	757	–	757
13	Corporates	166	7,011	7,177
14	Retail	–	1,079	1,079
15	Secured by mortgages on immovable property	–	2,792	2,792
16	Exposures in default	–	320	320
17	Items associated with particularly high risk	–	479	479
21	Equity exposures	18	61	79
22	Other exposures	–	382	382
23	**Total standardised approach**	**5,060**	**12,659**	**17,719**

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*

Table 14: Maturity of exposures

At 31 March 2018 £'millions Ref^		Net exposure value ^^ <= 1 year	> 1 year < = 5 years	> 5 years	No stated maturity	Total
7	Central governments and central banks	4,402	20	183	–	4,605
8	Regional governments or local authorities	–	4	–	–	4
9	Public sector entities	3	41	1	–	45
12	Institutions	585	134	27	11	757
13	Corporates	1,896	3,497	1,771	13	7,177
14	Retail	75	929	75	–	1,079
15	Secured by mortgages on immovable property	353	1,429	1,010	–	2,792
16	Exposures in default	55	89	176	–	320
17	Items associated with particularly high risk	36	9	33	401	479
21	Equity exposures	–	–	–	79	79
22	Other exposures	73	3	–	306	382
23	**Total standardised approach**	**7,478**	**6,155**	**3,276**	**810**	**17,719**

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*

^^ *The net exposure value is the gross carrying value of the exposure less impairment allowances or provisions, reported by residual contractual maturity.*

Credit risk adjustments

Approach

It is a policy requirement overseen by credit risk management that each operating division makes provision for specific impairments and calculates the appropriate level of portfolio impairments. This is in accordance with established Group guidelines and in conjunction with the watchlist committee process. In the annual financial statements, credit losses and impairments are reported in accordance with IFRS.

Specific impairments are evaluated on a case-by-case basis where objective evidence of impairment has arisen. In determining specific impairments, the following factors are considered:

- Capability of the client to generate sufficient cash flow to service debt obligations and the ongoing viability of the client's business
- Likely dividend or amount recoverable on liquidation or bankruptcy or business rescue
- Nature and extent of claims by other creditors
- Amount and timing of expected cash flows
- Realisable value of security held (or other credit mitigants)
- Ability of the client to make payments in the foreign currency, for foreign currency denominated accounts.

For assets which form part of a homogeneous portfolio, a portfolio impairment is required which recognises asset impairments that have not been individually identified.

The portfolio impairment takes into account past events and does not cover impairments to exposures arising out of uncertain future events.

By definition, this impairment is only calculated for credit exposures which are managed on a portfolio basis and only for assets where a loss trigger event has occurred.

For regulatory reporting purposes specific impairments and portfolio impairments are treated as specific credit risk adjustments. Credit risk adjustments are defined as the amount of specific and general loan loss provisions for credit risk that has been recognised in the financial statements of the institution in accordance with the applicable accounting framework.

IFRS 9 is effective and has been implemented by IBP from 1 April 2018. IFRS 9 replaces International Accounting Standards 39 and sets out the new requirements for the recognition and measurement of financial instruments.

These requirements focus primarily on the classification and measurement of financial instruments and measurement of impairment losses based on an ECL model. The Group has published its detailed IFRS 9 transitional disclosures on 29 June 2018 separately from its annual report.

Performing assets and assets in default (non-performing assets)

The accounting definitions of performing assets and assets in default (non-performing assets) are explained on pages 47 and 48 of the IBP Annual Report 2018. The accounting definition of assets in default and the regulatory definition of exposures in default are aligned i.e. it includes credit exposures which are more than 90 days overdue or are otherwise classified as impaired. The Investec provisioning policy further classifies assets in default as either sub-standard, doubtful or loss. Performing assets, which are less than 90 days past due the contractual/credit agreed payment due date are classified as either past due or special mention.

Forbearance

Forbearance measures refer to concessions such as modification of the terms and conditions or refinancing that has been granted to a debtor in financial difficulties. These modifications are on terms that would be more advantageous compared with what other debtors with a similar risk profile could have obtained from the Bank. The credit committee will assess each application to determine whether the proposed modifications will be considered as forbearance.

Forbearance is distinguished from commercial renegotiations which take place as part of normal business activity and standard banking practice.

Table 15: Credit quality of exposures by exposure class

At 31 March 2018 £'millions Ref^		Gross carrying value					
		Defaulted exposures	Non defaulted exposures	Specific credit risk adjustments	Accumulated write-offs	Credit risk adjustment charge of the period	Net values^^
16	Central governments and central banks	–	4,605	–	–	–	4,605
17	Regional governments or local authorities	–	4	–	–	–	4
18	Public sector entities	–	45	–	–	–	45
21	Institutions	–	757	–	–	–	757
22	Corporates	313	7,243	133	71	93	7,423
24	Retail	47	1,079	9	5	6	1,117
26	Secured by mortgages on immovable property	–	2,792	–	–	–	2,792
28	Exposures in default	412	–	92	84	110	320
29	Items associated with particularly high risk	52	479	16	8	11	515
33	Equity exposures	–	79	–	–	–	79
34	Other exposures	–	382	–	–	–	382
35	**Total standardised approach***	**412**	**17,465**	**158**	**84**	**110**	**17,719**
36	Of which: Loans	412	13,830	153	84	110	14,089
37	Of which: Debt securities	–	1,509	5	–	–	1,504
38	Of which: Off-balance sheet exposures	–	1,259	–	–	–	1,259

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*

^^ *The net value is equal to the gross carrying value (including defaulted and non-defaulted exposures) less specific credit risk adjustments.*

* *The totals reported in line 35 do not take into account figures disclosed in row 28 'exposures in default'.*

Table 16: Credit quality of exposures by sector

At 31 March 2018 £'millions Ref^		Gross carrying value					
		Defaulted exposures	Non defaulted exposures	Specific credit risk adjustments	Accumulated write-offs	Credit risk adjustment charge of the period	Net values^^
1	Financial sector	–	5,063	3	–	–	5,060
2	Non-financial sector	412	12,402	155	84	110	12,659
19	Total	**412**	**17,465**	**158**	**84**	**110**	**17,719**

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*

^^ *The net value is equal to the gross carrying value (including defaulted and non-defaulted exposures) less specific credit risk adjustments.*

Table 17: Credit quality of exposures by geography

At 31 March 2018 £'millions Ref^		Gross carrying value					
		Defaulted exposures	Non defaulted exposures	Specific credit risk adjustments	Accumulated write-offs	Credit risk adjustment charge of the period	Net values^^
1	United Kingdom	265	12,195	122	70	81	12,338
2	Europe (excluding United Kingdom)	143	2,277	29	14	29	2,391
3	Australia	–	508	–	–	–	508
4	North America	–	1,839	3	–	–	1,836
5	Other geographies	4	646	4	–	–	646
6	Total	**412**	**17,465**	**158**	**84**	**110**	**17,719**

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*

^^ *The net value is equal to the gross carrying value (including defaulted and non-defaulted exposures) less specific credit risk adjustments.*

Tables 18 to 21 analyse past due, performing and non-performing exposures and movement in credit risk adjustments. These tables are populated with accounting values, but following the regulatory basis of consolidation.

Table 18: Ageing of past due exposures

At 31 March 2018 £'millions Ref^		Gross carrying values					
		≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
1	Loans	69	55	38	52	57	104
3	**Total exposures**	**69**	**55**	**38**	**52**	**57**	**104**

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*

Table 19: Changes in the stock of specific credit risk adjustments

At 31 March 2018 £'million Ref ^		Accumulated specific credit risk adjustments
1	**Opening balance**	134
2	Increases due to amounts set aside for estimated loan losses during the period	87
3	Decreases due to amounts reversed for estimated loan losses during the period	(13)
4	Decreases due to amounts taken against accumulated credit risk adjustments	(49)
8	Other adjustments	(1)
9	**Closing balance**	**158**

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*

Table 20: Changes in stock of defaulted and impaired loans and debt securities

At 31 March 2018 £'million Ref ^		Gross carrying value of defaulted exposures
1	**Opening balance**	327
2	Loans and debt securities that have defaulted or impaired since the last reporting period	217
3	Returned to non-defaulted status	(28)
4	Amounts written off	(84)
5	Other changes	(20)
6	**Closing balance**	**412**

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*

Table 21: Non-performing and forborne exposures

At 31 March 2018 £'million Ref ^		Gross carrying amount of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
					of which: non-performing				On performing exposures		On non-performing exposures			
			of which performing but past due > 30 days and ≤ 90 days	of which performing forborne		of which: defaulted	of which: impaired	of which: forborne		of which: forborne		of which: forborne	On non-performing exposures	Of which: forborne exposures
010	Debt securities	1,509	–	–	–	–	–	–	(3)	–	–	–	–	–
020	Loans and advances	14,242	57	229	412	412	258	115	(61)	–	(92)	(2)	33	61
030	Off-balance sheet exposures	1,259	–	–	–	–	–	–	–	–	–	–	–	–

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*

Credit risk mitigation

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

Collateral

As Investec has a limited appetite for unsecured debt, the credit risk mitigation technique most commonly used is the taking of collateral, with a strong preference for tangible assets. Collateral is assessed with reference to the sustainability of value and the likelihood of realisation. Acceptable collateral generally exhibits characteristics that allow for it to be easily identified and appropriately valued and ultimately allowing Investec to recover any outstanding exposures.

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

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

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

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

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

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

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

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

Investec places minimal reliance on credit derivatives in its credit risk mitigation techniques. Periodically the Bank will enter into Credit Default Swaps (CDS) in order to hedge a specific asset held or to create a more general or macro hedge against a group of exposures in one industry or geography. In these instances, the Bank is deemed to be ‘buying protection’ against the assets. Depending on the perceived risk, or ‘spread’, of the underlying exposure, the CDS will fluctuate in value; increasing in value when the asset has become more risky and decreasing when risk has reduced. Occasionally, the Bank will enter into trading/investment CDS positions where we buy protection or sell protection without owning the underlying asset. The total amount of net credit derivatives outstanding at 31 March 2018 amounts to £2.7million, of which all is used for credit mitigation purposes. Total protection bought amounts to £1.9 million and total protection sold amounts to £0.8 million relating to credit derivatives used in credit mitigation. Table 30 provides more information on credit derivative exposures.

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

Recognition of credit risk mitigation under the standardised approach

For regulatory reporting purposes, credit risk mitigation is used to reduce credit risk associated with an exposure, which may reduce potential losses in the event of a client default or other credit event. Credit risk mitigation that meets certain regulatory criteria may be used to reduce the RWAs held against a given client. Collateral that meets the regulatory conditions is referred to as 'eligible' collateral. Collateral eligibility rules are specified in the CRR.

Under the standardised approach credit risk mitigation can be achieved through either funded or unfunded credit protection.

Where unfunded credit protection is relied upon for mitigation purposes, the exposure to the borrower is substituted with an exposure to the protection provider, after applying a ‘haircut’ to the value of the collateral due to currency and/or maturity mismatches between the original exposure and the collateral provided. Unfunded credit protection includes eligible guarantees and credit derivatives.

Where we rely on funded protection in the form of financial collateral, the value of collateral is adjusted using the financial collateral comprehensive method. This method applies supervisory volatility adjustments to the value of the collateral, and includes the currency and maturity haircuts discussed above.

Tables 22 to 24 analyse regulatory credit risk mitigation. Only 'eligible' collateral as defined in the CRR has been included in the tables. The exposure values reported in the Collateral table included in the IBP Annual Report 2018 on page 67 of the Risk Management section includes all collateral assessed by credit risk management, in line with our policy set out above, and not only 'eligible' collateral which is used to reduce RWAs from a regulatory perspective.

Table 29 shows the impact of netting and collateral on counterparty credit risk exposures.

Table 22: Credit risk mitigation techniques

At 31 March 2018 £'millions Ref		Exposures unsecured - carrying amount	Exposures secured- carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
1	Total loans	11,048	3,041	2,976	65	–
2	Total debt securities	1,442	62	14	–	48
3	Total exposures	**12,490**	**3,103**	**2,990**	**65**	**48**
4	Of which defaulted	212	108	108	–	–

Table 23: Standardised approach - credit risk exposure and credit risk mitigation effects

At 31 March 2018 £'millions Ref^		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density		
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density	Capital require-ments
1	Central governments and central banks	4,594	11	4,637	–	24	1%	2
2	Regional governments or local authorities	4	–	4	–	1	25%	–
3	Public sector entities	45	–	51	5	11	20%	1
6	Institutions	751	6	755	2	217	29%	17
7	Corporates	6,035	1,142	5,820	492	6,277	99%	502
8	Retail	1,064	15	1,052	6	651	62%	52
9	Secured by mortgages on immovable property	2,707	85	2,707	38	1,446	53%	116
10	Exposures in default	320	–	320	–	405	127%	32
11	Items associated with particularly high risk	479	–	479	–	719	150%	57
15	Equity exposures	79	–	79	–	79	100%	6
16	Other exposures	382	–	382	–	445	116%	36
17	**Total**	**16,460**	**1,259**	**16,286**	**543**	**10,275**	**61%**	822

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*

Table 24: Standardised approach

At 31 March 2018 £'millions Ref^		Risk weight^^									
		0%	2%	20%	35%	50%	75%	100%	150%	250%	Total
1	Central governments and central banks	4,589	–	–	–	48	–	–	–	–	4,637
2	Regional governments or local authorities	–	–	4	–	–	–	–	–	–	4
3	Public sector entities	–	–	56	–	–	–	–	–	–	56
6	Institutions	–	7	604	–	133	–	2	–	11	757
7	Corporates	–	–	45	–	1	–	6,240	26	–	6,312
8	Retail	–	–	–	–	–	1,058	–	–	–	1,058
9	Secured by mortgages on immovable property	–	–	–	1,918	97	–	730	–	–	2,745
10	Exposures in default	–	–	–	–	–	–	151	169	–	320
11	Items associated with particularly high risk	–	–	–	–	–	–	–	479	–	479
15	Equity exposures	–	–	–	–	–	–	79	–	–	79
16	Other exposures	–	–	–	–	–	–	340	–	42	382
17	**Total**	**4,589**	**7**	**709**	**1,918**	**279**	**1,058**	**7,542**	**674**	**53**	**16,829**

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*

^^ *The above table does not take into account the impact of the small and medium-sized enterprise (SME) reducing factor of 0.7619 applicable to SME's meeting the conditions set out in Article 501 of the CRR.*

Counterparty credit risk

Regulatory approach

Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. It arises on derivative instruments and securities financing transactions held in both the banking and trading book. IBP applies the mark-to-market approach to calculate counterparty credit risk.

Wrong-way risk

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

CVA

CVA means an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty. This adjustment reflects the current market value of the credit risk of the counterparty to Investec but does not reflect the current market value of the credit risk of Investec to the counterparty. IBP uses the standardised approach to calculate CVA risk on all OTC derivatives, but as per the CRR the Group exempts transactions to non-financial counterparties and OTC derivatives cleared via central counterparties (CCPs) from CVA risk.

Table 25: Analysis of counterparty credit risk by approach

t 31 March 2018 £'millions Ref^		Replacement cost/ current market value	Potential future exposure	EAD post-CRM	RWA
1	Mark to market	479	781	956	613
9	Financial collateral comprehensive method (for SFTs)			173	32
11	**Total**				**645**

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed. This table excludes the CVA charge and exposures cleared through a CCP. Refer to table 26 and 27 for more information.*

Table 26: Analysis of capital requirements for CVA

At 31 March 2018 £'millions Ref^		Exposure value	RWAs
1	All portfolios subject to the standardised method	400	121
5	Total subject to the CVA capital charge	**400**	**121**

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*

Table 27: Analysis of exposures to CCPs

At 31 March 2018 £'millions Ref^		EAD post CRM	RWAs
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions) of which	182	4
3	(i) OTC derivatives	25	1
4	(ii) Exchange-traded derivatives	157	3
7	Segregated initial margin	114	2
9	Prefunded default fund contributions	7	1

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*

Table 28: Analysis of CCR exposures by regulatory portfolio and risk

At 31 March 2018 £'millions Ref^		Risk weight 0%	2%	20%	50%	75%	100%	150%	Total
1	Central governments and central banks	23	–	–	–	–	–	–	23
6	Institutions	–	296	330	400	–	1	–	1,027
7	Corporates	–	–	–	1	–	347	16	364
8	Retail	–	–	–	–	11	–	–	11
11	**Total**	**23**	**296**	**330**	**401**	**11**	**348**	**16**	**1,425**

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*

Table 29: Impact of netting and collateral held on exposures

At 31 March 2018 £'millions Ref^		Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
1	Derivatives	2,895	1,282	1,613	361	1,252
2	SFTs	1,233	–	1,233	1,060	173
4	Total	**4,128**	**1,282**	**2,846**	**1,421**	**1,425**

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*

Table 30: Credit derivatives exposures

At 31 March 2018 £'millions Ref^	Credit derivative hedges	
	Protection bought	Protection sold
Notionals		
Single name credit default swaps	282	416
Index credit default swaps	20	20
Total return swaps	–	322
Total notionals	**302**	**758**
Positive fair value (assets)	**3**	**12**
Negative fair value (liability)	**4**	**17**

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*

Market risk

Regulatory approach

For regulatory purposes, the trading book includes all positions in CRD financial instruments and commodities held by the firm with trading intent, or in order to hedge positions held with trading intent. A CRD financial instrument is defined as a contract that gives rise to both a financial asset of one party and a financial liability or equity of another party.

IBP maintains a trading book policy which defines the policies and procedures followed when determining which positions to include in the trading book for the purposes of calculating regulatory capital requirements. Positions which cannot be included in the trading book, will be assigned to the banking book and will attract capital requirements in line with this treatment. All trading book positions will be subject to prudent valuation standards. The Group applies the Simplified Approach when calculating additional valuation adjustments to adjust the fair value of trading book assets to their prudent value.

The market risk capital requirement is calculated using the standardised approach. For certain options, the Bank has obtained an article 329 permission from the PRA to use an internal model to calculate the delta for these positions. In addition the Bank was granted an article 331 permission in January 2018 which allows sensitivity models to be used when calculating the market risk position for certain instruments.

Table 31: Capital requirements for market risk

£'millions Ref^		RWAs	Capital requirements	RWAs	Capital requirements
		31 March 2018		31 March 2017	
1	Interest rate risk (general and specific)	197	16	360	29
2	Equity risk (general and specific)	259	21	248	20
3	Foreign exchange risk	105	8	106	8
	Options				
7	Scenario approach	404	32	142	11
9	Total	**965**	**77**	**856**	**68**

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*

Remuneration

The Pillar III qualitative and quantitative disclosures are included in the IBP Annual Report 2018, on pages 124 to 140.

Appendix A - CRR references

Significant subsidiaries are required to provide limited Pillar 3 disclosures. The below table lists only the requirements applicable to significant subsidiaries.

CRR ref	High-level summary	Compliance reference
Own funds		
437(1)	Disclose the following information regarding own funds:	
437(1)(a)	full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution;	Tables 1 and 2 on pages 6 - 8.
437(1)(b)	a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution;	Refer to 'Regulatory capital instruments' on page 12 and table 4 on pages 13 – 14.
437(1)(c)	the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments;	Table 4 on pages 13 - 14.
437(1)(d)	Disclosure of the nature and amounts of the following:	
437(1)(d) (i)	each prudential filter applied pursuant to Articles 32 to 35;	
437(1)(d) (ii)	each deduction made pursuant to Articles 36, 56 and 66;	
437(1)(d) (iii)	items not deducted in accordance with Articles 47, 48, 56, 66 and 79;	
437(1)(e)	A description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply;	Table 3 on pages 12.
437(1)(f)	Where institutions disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in this Regulation, a comprehensive explanation of the basis on which those capital ratios are calculated.	Not applicable
437(2)	EBA to publish implementation standards for points above.	The Group follows the implementing standards.
Capital requirements		
438(a)	Summary of the institution's approach to assessing the adequacy of its internal capital to support current and future activities.	Refer to 'Capital adequacy and capital requirements on pages 10 - 11.
438(b)	Upon demand from the relevant competent authority, the result of the institution's internal capital adequacy assessment process.	This request has not been received from the regulator.
438(c)	Capital requirements for each Standardised approach credit risk exposure class.	Table 5 on page 15.
438(d)	Capital requirements for each Internal Ratings Based Approach credit risk exposure class.	Not applicable.
438(e)	Capital requirements for market risk or settlement risk.	
438(f)	Capital requirements for operational risk, separately for the Basic Indicator Approach, the Standardised Approach, and the Advanced Measurement Approaches as applicable.	Table 5 on page 15.
438(end note)	Requirement to disclose specialised lending exposures and equity exposures in the banking book falling under the simple risk weight approach.	Not applicable.
Capital buffers		
440(1)(a)	Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer.	Refer to table 9 on page 17.
440(1)(b)	The amount of its institution specific countercyclical capital buffer.	Refer to table 10 on page 17.
440(2)	EBA to publish technical standards specifying the disclosure requirements above.	The Group follows the technical standards.

Appendix A - CRD IV references (continued)

CRR ref	High-level summary	Compliance reference
Credit risk adjustments		
442(a)	The definitions for accounting purposes of 'past due' and 'impaired'.	Refer to 'Performing assets and assets in default' on page 19.
442(b)	A description of the approaches and methods adopted for determining specific and general credit risk adjustments.	Refer to 'Approach' on page 19.
442(c)	Disclosure of pre-CRM EAD by exposure class.	Refer to table 11 on page 18.
442(d)	Disclosure of pre-CRM EAD by geography and exposure class.	Refer to table 12 on page 18.
442(e)	Disclosure of pre-CRM EAD by industry and exposure class.	Refer to table 13 on page 18.
442(f)	Disclosure of pre-CRM EAD by residual maturity and exposure class.	Refer to table 14 on page 19.
442(g)	Breakdown of impaired, past due, specific and general credit risk adjustments, and impairment charges for the period, by industry or counterparty type.	Refer to table 15 and 16 on page 20. We have also included table 18 on page 21 and table 21 on page 22 to supplement the disclosures.
442(h)	Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography.	Refer to table 17 on page 20. We have also included table 18 on page 21 and table 21 on page 22 to supplement the disclosures.
442(i)	Reconciliation of changes in specific and general credit risk adjustments for impaired exposures.	
442 (endnote)	Specific credit risk adjustments recorded to income statement are disclosed separately.	Refer to table 19 and 20 on page 21.
Remuneration policy		
450	Remuneration disclosures	Refer to the IBP Annual Report 2018 pages 124 to 140.
Leverage		
451(1)(a) 451(1)(b) 451(1)(c)	Leverage ratio, and breakdown of total exposure measure, including reconciliation to financial statements, and derecognised fiduciary items.	Refer to tables 6 to 8 on pages 15 and 16.
451(1)(d) 451(1)(e)	Description of the processes used to manage the risk of excessive leverage, and factors that impacted the leverage ratio during the year.	Refer to 'Leverage ratio' on page 15.
451(2)	EBA to publish technical standards specifying the uniform disclosure templates for the requirements above.	IBP applies with the standards.
Use of credit risk mitigation techniques		
453(a)	Policies and processes for use of on and off-balance sheet netting.	Refer to 'Collateral' on page 22 - 23.
453(b)	Policies and processes for collateral valuation and management.	Refer to 'Collateral' on page 22 - 23.
453(c)	A description of the main types of collateral taken by the institution.	Refer to 'Collateral' on page 22 - 23.
453(d)	The main types of guarantor and credit derivative counterparty and their creditworthiness.	Refer to 'Collateral' on page 22 - 23.
453(e)	Market or credit risk concentrations within risk mitigation exposures.	Refer to 'Concentration risk' and 'Country risk' on page 43 of the IBP Annual Report 2018.
453(f)	Standardised or Foundation IRB Approach, exposure value covered by eligible collateral.	
453(g)	Exposures covered by guarantees or credit derivatives.	Refer to table 22 on page 24.