Out of the Ordinary

Investec

Disclosure Report

Investec plc pillar 3
annual disclosure report

2018

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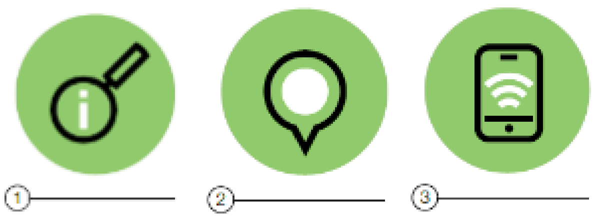


Remuneration reference

Refers readers to information included in the Investec Integrated Annual Report 2018 Volume 1

Page reference

Refers readers to information included in the Investec 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:

AFG	Asset Finance Group
ALCO	Asset and Liability Management Committee
ALM	Asset and Liability Management
AT1	Additional tier 1
AVA	Additional value adjustment
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
CET 1	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
ECAI	External Credit Assessment Institution
ECL	Expected credit loss
ERC	Executive Risk Committee
ERRF	Executive Risk Review Forum
EU	European Union
FCA	Financial Conduct Authority
Fitch	Fitch Ratings
FPC	Financial Policy Committee
GRCC	Group Risk and Capital Committee
Group	Investec plc and its subsidiaries
G-SIB	Globally 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
LCR	Liquidity coverage ratio
MREL	Minimum requirement for own funds and eligible liabilities
OTC	Over-the-counter
PFE	Potential future exposure
PRA	Prudential Regulation Authority
RWA	Risk-weighted asset
SFT	Securities financing transaction
S&P	Standard and Poor's rating agency
SME	Small and medium-sized enterprise
SPE	Special purpose entity
SREP	Supervisory review and evaluation process
TFS/FLS	Term Funding Scheme/ Funding for Lending Schemes
UK	United Kingdom

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 United Kingdom (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.

Regulation and supervision

Investec plc is authorised by the Prudential Regulation Authority (PRA) and is regulated by the Financial Conduct Authority (FCA) and PRA on a consolidated basis. Investec plc 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. Subsidiaries of Investec plc may be subject to additional regulations, as implemented in other relevant jurisdictions.

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

The Pillar 3 disclosures in this document are prepared in accordance with Part 8 of the CRR at the Investec plc consolidated group level which includes Investec plc and its subsidiaries (Group) and comprise both quantitative and qualitative information 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 Investec plc Pillar III disclosure policy, which is approved by the Board Risk and Capital Committee (BRCC), a delegated sub-committee of the Investec plc board. The board delegates responsibility for review and approval of these disclosures to BRCC.

Investec Bank plc (IBP), the principal banking subsidiary of the Investec plc Group publishes a sub-set of Pillar III disclosures in accordance with Article 13 of the Capital Requirements Regulation. These disclosures are published separately on the Investec website.

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 Group has maintained a conservative approach to liquidity and capital for many years, long before many of the regulations came into effect. The Group 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 10.6%. As we are on the Standardised Approach in terms of CRD IV our risk-weighted assets (RWAs) represent a large portion of our total assets. As a result we inherently hold more capital than firms who apply the Advanced Internal Ratings Based Approach.

The bank has never required shareholder or government support throughout the crisis and retains one of the highest leverage ratios amongst its peers, whilst meeting the Basel III liquidity requirements for some time. The leverage ratio - calculated as regulatory capital over regulatory balance sheet assets – for the Group was 8.2% at 31 March 2018.

Investec plc 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 Group had £5.8 billion of cash and near cash balances representing 50% of customer deposits to support its activities.

We have aligned our business model over the past few years focussing on growing our capital light businesses. We have significantly increased our third party assets under management, a key capital light annuity income driver, in the Asset Management and Wealth & Investment businesses.

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 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 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 star 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 Investec plc:

- 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.

UK

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.

Investec plc 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 Investec plc 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 European Union 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 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			
Shareholders' equity		1,977	1,921
Shareholders' equity excluding non-controlling interests	e	2,075	2,017
Foreseeable charges and dividends^^		(65)	(60)
Perpetual preference share capital and share premium	f	(25)	(25)
Deconsolidation of special purpose entities	e	(8)	(11)
Non-controlling interests		12	11
Non-controlling interest per balance sheet	h	16	15
Surplus non-controlling interest disallowed in common equity tier 1		(4)	(4)
Regulatory adjustments to the accounting basis		(7)	(6)
Defined benefit pension fund adjustment	b	(3)	(2)
Additional value adjustments		(4)	(4)
Deductions		(460)	(478)
Goodwill and intangible assets net of deferred taxation	c	(447)	(464)
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		**1,522**	**1,448**
Additional tier 1 instruments	f;g	274	24
Tier 1 capital		**1,796**	**1,472**
Tier 2 capital		**359**	**475**
Tier 2 instrument	d	446	560
Non-qualifying surplus capital attributable to non-controlling interests		(87)	(85)
Total regulatory capital		**2,155**	**1,947**
Risk-weighted assets		**14,411**	**13,312**
Capital and leverage ratios			
Common equity tier 1 (as reported)^^		10.6%	10.9%
Common equity tier 1 ('fully loaded')^^^		10.6%	10.9%
Tier 1 (as reported)		12.5%	11.1%
Total capital adequacy ratio (as reported)		15.0%	14.6%
Leverage ratio exposure measure		**21,772**	**19,689**
Leverage ratio* - current		8.2%	7.5%
Leverage ratio* - 'fully loaded'^^^		8.1%	7.4%
Leverage ratio** - current UK leverage ratio framework		9.8%	8.7%

^ *The references refer to those included in the reconciliation of the regulatory scope balance sheet*

^^ *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. Investec plc's CET 1 ratio would be 45bps (31 March 2017: 45bps) higher on this basis.*

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

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

** *Investec plc 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 August 2017, the PRA issued Investec plc with a revised Pillar IIA requirement of 1.51 % of risk- weighted assets, of which 0.84 % has to be met with CET 1 capital. In addition Investec plc continues to meet its PRA buffer, of which 75% is currently met with CET 1 capital.

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 CET 1 capital. The buffer for global systemically important institutions (G-SIIs) and the systemic risk buffer do not apply to Investec plc and will not be included in the combined buffer requirement.

From 1 January 2016 Investec plc 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 Investec plc holds a CCB, which is met with CET 1 capital, of 1.875% of RWAs.

At 31 March 2018 Investec plc 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 Investec plc Group continues to hold capital in excess of all the capital and buffer requirements.

Investec plc applies the standardised approach to calculate credit and counterparty credit risk (CCR), 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 Investec plc 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 Investec plc Group that are monitored closely. With the support of the Group'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. Investec plc 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

Investec plc 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 180 of the Investec plc 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 firm 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 7.

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	Deconsolidation of non-financial/ other entities	Consolidation of banking associates	Regulatory balance sheet
Cash and balances at central banks		3,488	–	–	3,488
Loans and advances to banks		1,004	(68)	12	948
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		278	2	–	280
Derivative financial instruments		597	–	–	597
Securities arising from trading activities		702	(7)	–	695
Investment portfolio		478	(3)	50	525
Loans and advances to customers		9,688	–	–	9,688
Other loans and advances		361	90	–	451
Other securitised assets		132	–	–	132
Interests in associated undertakings		77	–	(71)	6
Deferred taxation assets		98	–	–	98
of which:					
- relates to losses carried forward	a	9	–	–	9
Other assets		1,170	(15)	3	1,158
of which:					
- pension assets	b	3	–	–	3
Property and equipment		54	(23)	–	31
Investment properties		15	(15)	–	–
Goodwill	c	356	–	6	362
Intangible assets	c	101	–	–	101
Investment in subsidiary companies		–	10	–	10
Total assets		**20,612**	**(29)**	**–**	**20,583**
Deposits by banks		1,308	(78)	–	1,230
Derivative financial instruments		533	–	–	533
Other trading liabilities		103	–	–	103
Repurchase agreements and cash collateral on securities lent		169	–	–	169
Customer deposits (deposits)		11,638	90	–	11,728
Debt securities in issue		2,341	(38)	–	2,303
Liabilities arising on securitisation of other assets		128	9	–	137
Current taxation liabilities		152	–	–	152
Deferred taxation liabilities		22	(2)	–	20
of which:					
- in respect of acquired intangibles	b	15	–	–	15
Other liabilities		1,297	(2)	–	1,295
Subordinated liabilities		580	–	–	580
of which:					
- term subordinated debt included in tier 2 capital	d	580	–	–	580
Total liabilities		**18,271**	**(21)**	**–**	**18,250**
Shareholders' equity excluding non-controlling interests	e	2,075	(8)	–	2,067
of which:					
- perpetual shares included in additional tier 1 capital	f,	24	–	–	24
Additional tier 1 securities in issue	g	250	–	–	250
Non-controlling interests	h	16	–	–	16
Total equity		**2,341**	**(8)**	**–**	**2,333**
Total liabilities and equity		**20,612**	**(29)**	**–**	**20,583**

^ 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		1,131	(69)	4	1,066
Reverse repurchase agreements and cash collateral on securities borrowed		536	–	–	536
Sovereign debt securities		953	–	–	953
Bank debt securities		185	–	–	185
Other debt securities		398	2	–	400
Derivative financial instruments		604	–	–	604
Securities arising from trading activities		523	(6)	–	517
Investment portfolio		460	(1)	30	489
Loans and advances to customers		8,621	–	–	8,621
Other loans and advances		413	62	–	475
Other securitised assets		139	–	–	139
Interests in associated undertakings		63	–	(52)	11
Deferred taxation assets		90	–	–	90
of which:					
- relates to losses carried forward	a	10	–	–	10
Other assets		1,276	(23)	3	1,266
of which:					
- pension assets	b	2	–	–	2
Property and equipment		61	(30)	–	31
Investment properties		14	(14)	–	-
Goodwill	c	355	–	14	369
Intangible assets	c	113	–	–	113
Investment in subsidiary companies		–	9	–	9
Total assets		**18,789**	**(70)**	**9**	**18,728**
Deposits by banks		691	(86)	–	605
Derivative financial instruments		583	–	–	583
Other trading liabilities		136	–	–	136
Repurchase agreements and cash collateral on securities lent		224	–	–	224
Customer deposits (deposits)		11,021	95	–	11,116
Debt securities in issue		1,955	(77)	–	1,878
Liabilities arising on securitisation of other assets		129	13	–	142
Current taxation liabilities		144	–	–	144
Deferred taxation liabilities		26	(2)	–	24
of which:					
- in respect of acquired intangibles	b	18	–	–	18
Other liabilities		1,269	–	7	1,276
Subordinated liabilities		579	–	–	579
of which:					
- term subordinated debt included in tier 2 capital	d	579	–	–	579
Total liabilities		**16,757**	**(57)**	**7**	**16,707**
Shareholders' equity excluding non-controlling interests	e	2,017	(13)	2	2,006
of which:					
- perpetual shares included in additional tier 1 capital	f,d	24	–	–	24
Non-controlling interests	h	15	–	–	15
Total equity		**2,032**	**(13)**	**2**	**2,021**
Total liabilities and equity		**18,789**	**(70)**	**9**	**18,728**

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

Mapping of financial statement categories with regulatory risk categories

Table 3 shows how the financial statement categories map to the regulatory risk categories. The carrying value under the regulatory scope of consolidation will not equal the sum of the amounts reported in the regulatory risk categories as some exposures will attract both a counterparty credit risk and market risk charge.

The regulatory risk categories are expanded further in table 4 to take into account the key differences between the regulatory exposure value and value reported in the financial statements.

Table 3: Mapping of financial statement categories with regulatory risk categories

At 31 March 2018 £'million**	Carrying values as reported in published financial statements	Carrying value under scope of regulatory consolidation^	Carrying values of items*				
			Subject to credit risk framework	Subject to CCR framework	Subject to securitisation framework	Subject to market risk framework	Not subject to capital requirements or is subject to deduction from capital
Assets							
Cash and balances at central banks	3,488	3,488	3,488	–	–	–	–
Loans and advances to banks	1,004	948	832	116	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	750	750	–	750	–	750	–
Sovereign debt securities	1,155	1,155	1,155	–	–	–	–
Bank debt securities	108	108	108	–	–	–	–
Other debt securities	278	280	211	–	66	–	3
Derivative financial instruments	597	597	24	573	–	458	–
Securities arising from trading activities	702	695	15	–	24	655	–
Investment portfolio	478	525	525	–	–	–	–
Loans and advances to customers	9,687	9,687	9,687	–	–	–	–
Other loans and advances	362	452	190	61	201	–	–
Other securitised assets	132	132	132	–		–	–
Interest in associated undertakings	77	6	6	–	–	–	–
Deferred taxation assets	98	98	89	–	–	–	9
Other assets	1,170	1,158	335	57	–	–	766
Property and equipment	54	31	31	–	–	–	–
Investment property	15	–	–	–	–	–	–
Goodwill	356	362	–	–	–	–	362
Intangible assets	101	101	–	–	–	–	101
Investment in subsidiary company	–	10	10	–	–	–	–
Total Assets	**20,612**	**20,583**	**16,838**	**1,557**	**291**	**1,863**	**1,241**

^ The numbers disclosures in this column do not equal the sum of the amounts reported in the remaining columns as some exposures will attract both CCR and Market risk.

** The carrying value is the accounting balance reported in the regulatory risk types and excludes off-balance sheet items.*

*** Refer to table 2 on page 9 for an explanation of the difference between the financial and regulatory scope of consolidation.*

Table 3: Mapping of financial statement categories with regulatory risk categories *(continued)*

At 31 March 2018 £'million	Carrying values as reported in published financial statements	Carrying value under scope of regulatory consolidation^	Carrying values of items*: Subject to credit risk framework	Subject to CCR framework	Subject to securitisation framework	Subject to market risk framework	Not subject to capital requirements or is subject to deduction from capital
Liabilities							
Deposits by banks	1,309	1,231	–	–	–	–	1,231
Derivative financial instruments	533	533	–	–	–	498	–
Other trading liabilities	103	103	–	–	–	103	–
Repurchase agreements and cash collateral on securities lent	169	169	–	169	–	169	–
Customer accounts (deposits)	11,637	11,727	–	–	–	–	11,727
Debt securities in issue	2,341	2,303	–	–	–	–	2,303
Liabilities arising on securitisation of other assets	128	137	–	–		–	137
Current taxation liabilities	152	153	–	–	–	–	153
Deferred taxation liabilities	22	19	–	–	–	–	19
Other liabilities	1,297	1,295	–	–	–	–	1,295
Subordinated liabilities	580	580	–	–	–	–	580
Total liabilities	**18,271**	**18,250**	**–**	**169**	**–**	**770**	**17,445**
Shareholders' equity excluding minority interests	2,075	2,067	–	–	–	–	2,067
Additional tier 1 securities in issue	250	250	-	-	-	-	250
Non-controlling interests	16	16	–	–	–	–	16
Total equity	**2,341**	**2,333**	**–**	**–**	**–**	**–**	**2,333**

^ The numbers disclosed in this column do not equal the sum of the amounts reported in the remaining columns as some exposures will attract both CCR and Market risk.

** The carrying value is the accounting balance reported in the regulatory risk types and exclude off-balance sheet items.*

Differences between the financial accounting and regulatory exposure amounts

Table 4 sets out the main sources of differences between the regulatory exposure amount and the carrying values in the financial statements applying the regulatory scope of consolidation. The key differences are as follows:

- Off-balance sheet amounts - the regulatory exposure amount includes off-balance sheet exposure amounts which are subject to regulatory defined credit conversion factors depending on the maturity and type of exposure;. Off-balance sheet exposures primarily include undrawn credit facilities;
- Netting rules - under IFRS, in order to net on an accounting basis, a legally enforceable right to set-off the recognised amounts must exist and the entity has the intention to settle the asset and liability on a net basis, or to realise the assets and settle the liabilities simultaneously. From a regulatory perspective we are able to recognise greater netting, provided the agreements are legally effective and enforceable, including in the event of the bankruptcy or insolvency of the counterparty and the exposures are monitored and controlled on a net basis;
- Market risk - the difference is driven by the standardised market risk methodology applied when calculating market risk capital requirements;
- Potential future exposure (PFE) add-ons - the majority of the difference is due to the inclusion of the PFE applicable to derivative exposures and including off-balance sheet stock borrowing transactions, subject to CCR;
- Prudential filters - all fair valued instruments are subject to prudent valuation standards. Investec plc applies the simplified approach when calculating additional valuation adjustments (AVA). This

adjustment is applied to CET 1 capital and therefore is deducted from the regulatory exposure amount.

Table 4: Main sources of differences between regulatory exposure amounts and carrying values in the financial statements

At 31 March 2018 £'million^	Items subject to:			
	Credit risk framework	CCR framework	Securitisation framework	Market risk framework
Assets carrying value amount under scope of regulatory consolidation	16,838	1,557	291	1,863
Liabilities carrying value amount under regulatory scope of consolidation	–	169	–	770
Total net amount under regulatory scope of consolidation	16,838	1,726	291	2,633
Off-balance sheet amounts	563	–	–	–
Differences due to different netting rules	–	(221)	–	–
Differences in regulatory market risk exposure amounts	–	–	–	(453)
Differences due to potential future credit exposures and off-balance sheet stock borrowing trades	–	1,330	–	–
Differences due to prudential filters	(5)	–	–	–
Other	5	–	–	–
Exposure amounts considered for regulatory purposes	**17,401**	**2,835**	**291**	**2,180**

^ *The total column has been removed as it does not represent a meaningful exposure number.*

Risk Management

Philosophy and approach to risk management

The BRCC (comprising both executive and non-executive directors, the majority of whom are non-executive directors), meets six times per annum and approves the overall risk appetite for the Investec group. The Group risk and capital committee (GRCC), comprising of executive directors and executive management is chaired by the Chief Executive Officer. All members and chairman are appointed by the BRCC. The Group's risk appetite statement sets broad parameters relating to the board's expectations around performance, business stability and risk management. The board ensures that there are appropriate resources to manage the risk arising from running our businesses.

Our comprehensive risk management process involves identifying, quantifying, managing and mitigating the risks associated with each of our businesses.

Risk awareness, control and compliance are embedded in all our day-to-day activities. As fundamental to our values, we have a strong and embedded risk and capital management culture.

Risk management monitors, manages and reports on our risks to ensure that they are within the stated risk appetite mandated by the board of directors through the BRCC.

We monitor and control risk exposure through independent credit, market, liquidity, operational, legal risk, internal audit and compliance teams. This approach is core to assuming a tolerable risk and reward profile, helping us to pursue controlled growth across our business.

Risk management operates within an integrated geographical and divisional structure, in line with our management approach, ensuring that the appropriate processes are used to address all risks across the Group. There are specialist divisions in the UK and smaller risk divisions in other regions tasked with promoting sound risk management practices.

Risk management units are locally responsive yet globally aware. This helps to ensure that all initiatives and businesses operate within our defined risk parameters and objectives, continually seeking new ways to enhance techniques.

We believe that the risk management systems and processes we have in place are adequate to support the Group's strategy and allow the Group to operate within its risk appetite tolerance.

Risk management objectives are to:

- Ensure adherence to our risk management culture
- Ensure the business operates within the board-approved risk appetite
- Support the long-term sustainability of the group by providing an established, independent framework for identifying, evaluating, monitoring and mitigating risk
- Set, approve and monitor adherence to risk parameters and limits across the group and ensure they are implemented and adhered to consistently
- Aggregate and monitor our exposure across risk classes
- Coordinate risk management activities across the organisation, covering all legal entities and jurisdictions
- Give the boards reasonable assurance that the risks we are exposed to are identified and appropriately managed and controlled
- Run appropriate risk committees, as mandated by the board.

Risk appetite framework

The Group has a number of board-approved risk appetite statements and policy documents covering our risk tolerance and approach to our principal aspects of risk. In addition, a number of committees and forums identify and manage risk at a Group level.

The Group risk appetite statement and framework sets out the board's mandated risk appetite. The Group risk appetite framework acts as a guide to determine the acceptable risk profile of the Group by the owners of the Group's capital. The Group risk appetite statement ensures that limits/targets are applied and monitored across all key operating jurisdictions and legal entities. The Group risk appetite statement is a high-level, strategic framework that supplements and does not replace the detailed risk policy documents at each entity and geographic level. The Group risk appetite framework is a function of business strategy, budget and capital processes, our stress testing reviews and the regulatory and economic environment in which the Group is operating. The Group risk appetite framework is reviewed (in light of the above aspects) and approved at least annually or as business needs dictate.

A documented process exists where our risk profile is measured against our risk appetite and this positioning is presented to the GRCC, BRCC and the board.

A high-level summary of the Group's overall risk tolerance framework can be found on page 49 of the Investec plc Annual Report 2018.

Our viability statement is provided on pages 152 and 153 of the Investec plc Annual Report 2018.

Stress testing framework

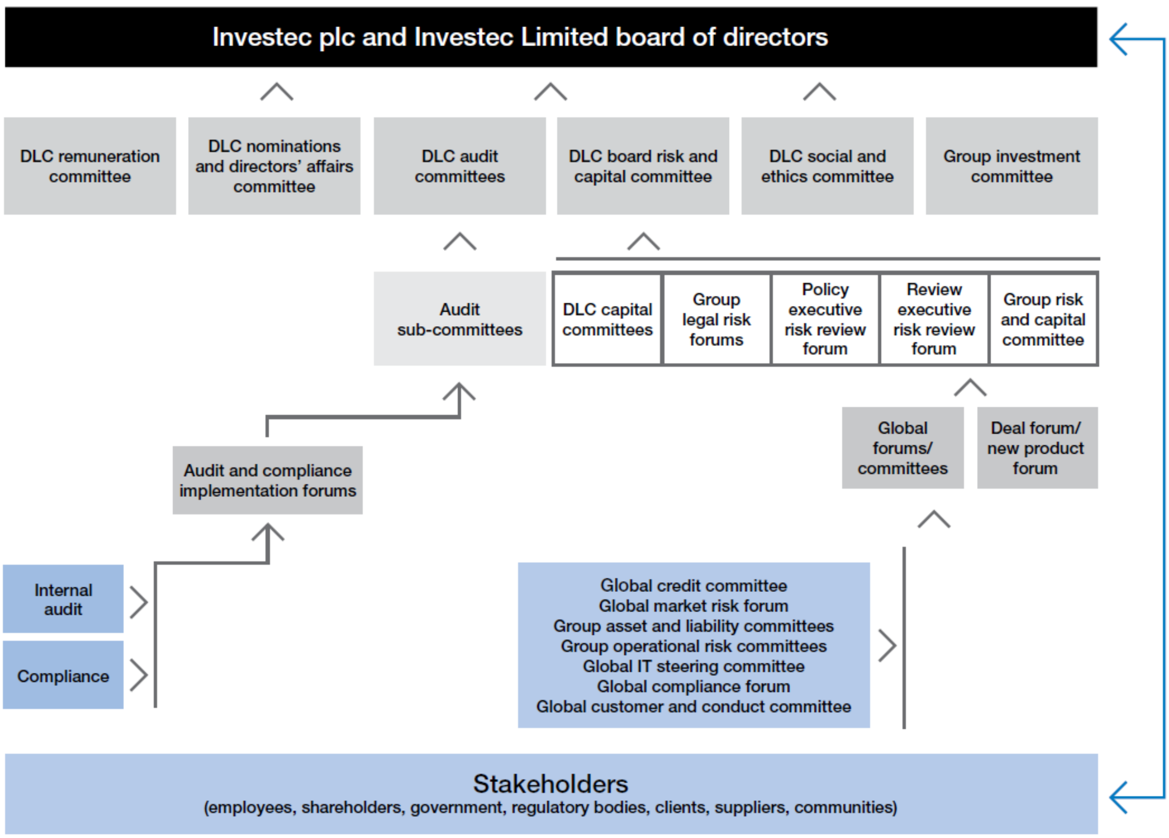
Investec has embedded its stress testing framework which is a repeatable stress testing process, designed to identify and regularly test the bank's key 'vulnerabilities under stress'.

A fundamental part of the stress testing process is a full and comprehensive analysis of all the bank's material business activities, incorporating views from risk, the business and the executive – a process called the 'bottom-up' analysis. Resulting from the 'bottom-up' analysis, the Investec specific stress scenarios are designed to specifically test the unique attributes of the Group's portfolio. The key is to understand the potential threats to our sustainability and profitability and thus a number of risk scenarios are developed and assessed. These Investec specific stress scenarios form an integral part of our capital planning process. The stress testing process also informs the risk appetite review process and the management of risk appetite limits and is a key risk management tool of the Group. This process allows the Group to proactively identify underlying risks and manage them accordingly.

Notwithstanding the form of the stress testing process, the framework should not impede the Group from being able to be flexible and perform ad hoc stress tests, which by their nature need to be completed on request and in response to emerging risk issues.

Governance

A number of committees and forums identify and manage risk at Group level, as shown in the diagram below. These committees and forums operate together with risk management and are mandated by the board.



Capital adequacy and capital requirements

Capital management

Philosophy and approach
The Group operate 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 Group'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 SREP.

The DLC capital committee seeks 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 DLC capital committee, which is 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)
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
- 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, 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 the Group and 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 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 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

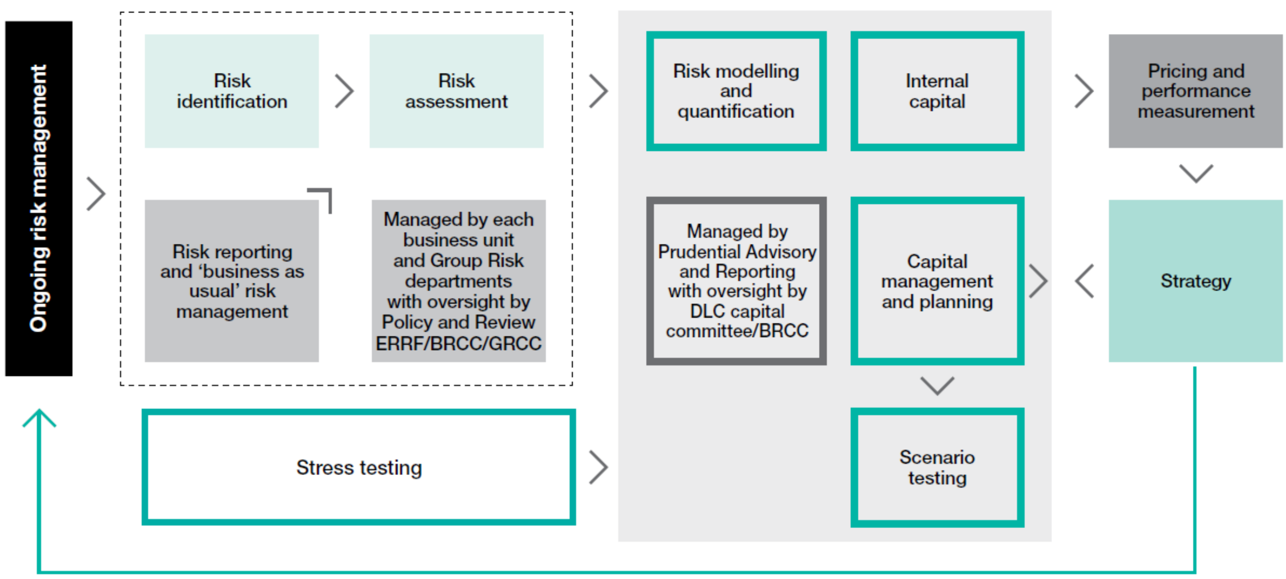


Table 5: Own funds disclosure

Ref^	Common equity tier 1 capital: Instruments and reserves	31 March 2018	31 March 2017
1	**Capital instruments and the related share premium accounts**	1,293	1,221
	of which: Ordinary shares	1,293	1,221
2	Retained earnings	782	693
3	Accumulated other comprehensive income (and other reserves)	(69)	(12)
5	Minority interests (amount allowed in consolidated CET1)	11	11
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	74	109
6	**Common equity tier 1 capital before regulatory adjustments**	2,091	2,022
Common equity tier 1 capital: regulatory adjustments			
7	Additional value adjustments	(4)	(4)
8	Intangible assets (net of related tax liability)	(447)	(464)
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)
15	Defined benefit pension fund assets	(3)	(2)
16	Direct and indirect holdings by the institution of the CET1 instruments	(103)	(90)
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**	(569)	(574)
29	**Common equity tier 1 capital**	1,522	1,448
Additional tier 1 capital: instruments			
30	Capital instruments and the related share premium accounts	250	–
31	of which: classified as equity under applicable accounting standards	250	–
33	Amount of qualifying items referred to in Article 484(4) and the related share premium accounts subject to phase out from AT1	24	24
44	**Additional Tier 1 (AT1) capital**	274	24
45	**Tier 1 capital (T1 = CET1 + AT1)**	1,796	1,472
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	1	1
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	358	474
49	of which: instruments issued by subsidiaries subject to phase out	–	–
58	**Tier 2 (T2) capital**	**359**	475
59	**Total capital (TC = T1 + T2)**	**2,155**	1,947
60	**Total risk weighted assets**	**14,411**	13,312
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	10.6%	10.9%
62	Tier 1 (as a percentage of risk exposure amount)	12.5%	11.1%
63	Total capital (as a percentage of risk exposure amount)	15.0%	14.6%
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)	6.1%	5.9%
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 by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	11	31
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	34
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)			
82	Current cap on AT1 instruments subject to phase out arrangements	117	176
84	Current cap on T2 instruments subject to phase out arrangements	37	46

^ 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 Group, and other AT1 instruments, which no longer qualify as AT1 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 6 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, Investec plc issued an inaugural £250 million Perpetual 6.75% non- all 2024 AT1 capital instrument in October 2017. This instrument is structured with a permanent write-down mechanism.

Table 6: Summary of capital instruments' main features

31 March 2018						
Ref	**Terms and conditions**	**Ordinary shares**	**Fixed rate reset perpetual AT1 write down capital instrument**	**Perpetual preference shares non-cumulative**	**Non-redeemable, non-cumulative, non-participating perpetual preference shares - Rand denominated**	**Subordinated fixed rate medium-term note**
1	Issuer	Investec plc	Investec plc	Investec plc	Investec plc	Investec Bank plc
2	Unique identifier	GB00B17BBQ50	XS1692045864	GB00B1N73946	GB00B4B0Q974	XS0593062788
3	Governing law(s) of the instrument	English Law	English Law	English Law	English Law	English Law
	Regulatory treatment					
4	Transitional CRR rules	CET1	AT1	AT1	Tier 2	Tier 2
5	Post-transitional rules	CET1	AT1	Ineligible	Tier 2	Tier 2
6	Eligible at solo/(sub-) consolidated/ solo & (sub-) consolidated	Consolidated	Consolidated	Consolidated	Consolidated	Solo and Consolidated
7	Instrument type	Ordinary shares	AT1 instrument	AT1 instrument	Tier 2 instrument	Tier 2 instrument
8	Amount recognised in regulatory capital*	£190,406	£250m	£24m	£1m	£358m
9	Nominal amount of instrument	£190,406	£250m	£24m	ZAR13.145m (£1m equivalent)	£575m
9a	Issue price	n/a	100%	£8.87	ZAR100	99.981%
9b	Redemption price	n/a	Redemption at principal amount plus accrued and unpaid interest to date of redemption	n/a	n/a	Par plus accrued but unpaid interest
10	Accounting classification	Shareholders' equity	Shareholders' equity	Shareholders' equity	Shareholders' equity	Liability - amortised cost
11	Original date of issuance	n/a	5 October 2017	22 February 2007	29 June 2011 & 11 August 2011	17 February 2011 (29 June 2011 tap)
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	Dated

* *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 6: Summary of capital instruments' main features (continued)

31 March 2018						
Ref	**Terms and conditions**	**Ordinary shares**	**Fixed rate reset perpetual AT1 write down capital instrument**	**Perpetual preference shares non-cumulative**	**Non-redeemable, non-cumulative, non-participating perpetual preference shares - Rand denominated**	**Subordinated fixed rate medium-term note**
13	Original maturity date	No maturity	No maturity	No maturity	No maturity	17 February 2022
14	Issuer call subject to prior supervisory approval	n/a	Yes	n/a	n/a	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	n/a	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	n/a	n/a
	Coupons/ dividends					
17	Fixed or floating dividend/coupon	Floating	Fixed	Floating	Floating	Fixed
18	Coupon rate and any related index	n/a	6.75%	BoE Base rate plus 1%	South African prime lending rate multiplied by 95%	9.625%
19	Existence of a dividend stopper	No	No	Yes	Yes	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timings)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Mandatory	Fully discretionary	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	n/a	n/a	n/a	n/a	n/a
25	If convertible, fully or partially	n/a	n/a	n/a	n/a	n/a
26	If convertible, conversion rate	n/a	n/a	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a	n/a	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a	n/a	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a	n/a	n/a	n/a
30	Write-down features	n/a	Yes	n/a	n/a	n/a

Table 6: Summary of capital instruments' main features (continued)

31 March 2018 Ref	Terms and conditions	Ordinary shares	Fixed rate reset perpetual AT1 write down capital instrument	Perpetual preference shares non-cumulative	Non-redeemable, non-cumulative, non-participating perpetual preference shares - Rand denominated	Subordinated fixed rate medium-term note
31	If write-down, write-down triggers(s)	n/a	CET1 Ratio of the issuer Group has fallen below 7.00% - contractual/ Point of non-viability - UK PRA - statutory	n/a	n/a	n/a
32	If write-down, full or partial	n/a	Full	n/a	n/a	n/a
33	If write-down, permanent or temporary	n/a	Permanent	n/a	n/a	n/a
34	If temporary write-down, description of write-up mechanism	n/a	n/a	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 Group	Tier 2 instruments	Tier 2 instruments	Subordinated to payments of any amounts due and payable to Senior Creditors	Subordinated to payments of any amounts due and payable to Senior Creditors
36	Non-compliant transitioned features	n/a	No	Yes	No	No
37	If yes, specify non-compliant features	n/a	n/a	No point of non-viability triggers	n/a	n/a

Overview of RWAs

Investec plc 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 instruments.

Total RWAs have increased by 8.3% over the period, predominantly within credit risk RWAs.

Credit risk RWAs

Credit risk RWAs, which include equity risk, increased by £672 million. The increase is primarily attributable to a growth in secured corporate lending.

Counterparty credit risk RWAs and CVA risk

Counterparty credit risk and CVA RWAs increased by £188 million mainly due to increased facilitation of client activity within the Financial Products business.

Market risk RWAs

Market risk RWAs increased by £83 million primarily driven by increased facilitation of client activity within the Financial Products business.

Operational risk RWAs

Operational risk RWAs increased by £182 million. The increase is due to a higher three year average operating income.

Table 7: Overview of RWAs

£'millions Ref^		RWA 31 March 2018	RWA 31 March 2017	Minimum capital requirements * 31 March 2018
1	Credit risk (excluding counterparty credit risk)	10,522	9,850	842
2	Of which standardised approach	10,522	9,850	842
6	Counterparty credit risk (CCR)*	760	572	61
7	Of which mark to market	638	494	51
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	3	3	–
14	Securitisation exposures in banking book (after cap)	74	100	6
18	Of which standardised approach	74	100	6
19	Market risk	965	882	77
20	Of which the standardised approach	965	882	77
23	Operational risk	2,087	1,905	167
25	Of which standardised approach	2,087	1,905	167
27	Amounts below the thresholds for deduction (subject to 250% risk-weight)**	140	163	11
29	Total (1+6+13+14+19+23)	**14,411**	**13,312**	**1,153**

^ *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 risk-weighted assets.*

** *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 DLC capital committee is 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 the DLC capital committee on a regular basis. The DLC capital committee is responsible for monitoring the risk of excessive leverage.

The Group's leverage ratio was 8.2% at 31 March 2018, up from 7.5% at 31 March 2017. The increase is mainly attributable to an increase in tier 1 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 the Group 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 8: 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	20,612	18,789
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(29)	(61)
4	Adjustments for derivative financial instruments	1,006	758
5	Adjustment for securities financing transactions (SFTs)	73	40
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	576	737
7	Other adjustments	(466)	(574)
8	Leverage ratio total exposure measure	**21,772**	19,689

^ *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 9: 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)	19,236	17,587
2	(Asset amounts deducted in determining Tier 1 capital)	(466)	(574)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**18,770**	17,013
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	729	567
5	Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)	871	793
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**	**1,603**	1,363
	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	40
16	**Total securities financing transaction exposures**	**823**	576
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	1,298	1,665
18	(Adjustments for conversion to credit equivalent amounts)	(722)	(928)
19	**Other off-balance sheet exposures**	**576**	737
	Capital and total exposure measure		
20	Tier 1 capital	1,796	1,472
21	Leverage ratio exposure measure	**21,772**	19,689
	Leverage ratio		
22	Leverage ratio	**8.2%**	7.5%
	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 10: 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:	18,770	17,013
EU-2	Trading book exposures	655	372
EU-3	Banking book exposures, of which:	18,115	16,641
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	57
EU-7	Institutions	827	1,130
EU-8	Secured by mortgages of immovable properties	2,707	3,000
EU-9	Retail exposures	1,064	909
EU-10	Corporate	5,999	4,982
EU-11	Exposures in default	320	242
EU12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	2,506	2,506

^ *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. From 1 January 2016 the Group began phasing in the CCB at 0.625% of RWAs. An additional 0.625% of RWAs will be phased-in each year until fully implemented by 1 January 2019. As at 31 March 2018 the Group holds a CCB, which must be met with CET 1 capital, of 1.875%.

The Group is also subject to the CCyB requirement, which 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 rate would increase from 0% to 0.5% effective June 2018. 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. As at 31 March 2018 the Group holds a countercyclical capital buffer of 0.02%. The table which follows shows the geographical distribution of credit exposures relevant to the calculation of the CCyB.

Table 11: Geographical distribution of credit exposures

At 31 March 2018 £'million Ref^	General credit exposure	Trading book exposure	Securitisation exposure	Own funds requirements					
	Exposure value for SA	Sum of long and short position of trading book	Exposure value for SA	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total	Own funds requirement weights	Countercyclical capital buffer rate
010 **Breakdown by country**									
Hong Kong	33	–	–	2	–	–	2	0.23%	1.88%
Norway	73	1	–	6	–	–	6	0.68%	2.00%
Sweden	2	16	–	–	–	–	–	–%	2.00%
Czech Republic	–	–	–	–	–	–	–	–%	0.50%
Slovakia	–	–	–	–	–	–	–		0.50%
Iceland	–	–	–	–	–	–	–	–%	1.25%
Total countries with existing CCyB rates	108	17	–	8	–	–	8	0.91%	
United Kingdom	6,321	4	124	421	15	3	439	49.83%	
Ireland	669	1	5	52	–	–	52	5.90%	
United States of America	516	–	45	40	–	1	41	4.65%	
Luxembourg	582	–	–	36	1	–	37	4.20%	
Australia	437	–	–	36	–	–	36	4.09%	
Netherlands	431	–	–	34	–	–	34	3.86%	
British Virgin Islands	439	12	–	33	–	–	33	3.75%	
Guernsey	461	–	–	32	–	–	32	3.63%	
Cayman Islands	337	–	95	28	–	2	30	3.41%	
Jersey	430	–	–	29	–	–	29	3.29%	
South Africa	165	–	–	10	2	–	12	1.36%	
Spain	128	–	–	11	–	–	11	1.25%	
Germany	135	16	–	10	–	–	10	1.14%	
Total countries with own funds requirements weights 1% or above	11,051	33	269	772	18	6	796	90.35%	
Total countries with own funds requirements weights below 1% and without an existing CCyB rate	913	525	–	72	5	–	77	8.74%	
Total	12,072	575	269	852	23	6	881	100.0%	

^ *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 12: Amount of institution specific countercyclical capital buffer

At 31 March 2018 Ref^ Row		
010	Total risk exposure amount	14,411
020	Institution specific countercyclical buffer rate	0.02%
030	Institution specific countercyclical buffer requirement	3

Credit and counterparty risk

Overview and responsibility

Credit and counterparty risk is defined as the risk arising from an obligor's (typically a client or counterparty) failure to meet the terms of any agreement.

Credit and counterparty risk arises when funds are extended, committed, invested, or otherwise exposed through contractual agreements, whether reflected on- or off-balance sheet.

Credit and counterparty risk arises primarily from three types of transactions:

- Lending transactions through loans and advances to clients and counterparties creates the risk that an obligor will be unable or unwilling to repay capital and/or interest on loans and advances granted to them. This category includes bank placements, where we have placed funds with other financial institutions
- Issuer risk on financial instruments where payments due from the issuer of a financial instrument may not be received
- Trading transactions, giving rise to settlement and replacement risk (collectively counterparty risk):
    - Settlement risk is the risk that the settlement of a transaction does not take place as expected, with one party effecting required settlements as they fall due but not receiving the performance to which they are entitled.
    - Replacement risk is the risk following defaults by the original counterparty resulting in the contract holder having to enter into a replacement contract with a second counterparty in order to fulfil the transaction.

The relevant credit committees within Investec 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 over-the-counter (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.

Credit and counterparty risk may also arise in other ways and it is the role of the global risk management functions and the various independent credit committees to identify risks falling outside these definitions.

To manage, measure, monitor and mitigate credit and counterparty risk, independent credit committees exist in each geography where we assume credit risk. These committees operate under board-approved delegated limits, policies and procedures. There is a high level of executive involvement and non-executive review and oversight in the credit decision making forums depending on the size and complexity of the deal. It is our policy that all centralised credit committees are comprised of voting members who are independent of the originating business unit. All decisions to enter into a transaction are based on unanimous consent.

In addition to the credit committees, the following processes assist in managing, measuring and monitoring credit and counterparty risk:

- Day-to-day arrears management and regular arrears reporting ensure that individual positions and any potential trends are dealt with in a timely manner.
- Watchlist committees, which review the management of distressed loans, potential problem loans and exposures in arrears that require additional attention and supervision. Credit watchlist forum, which reviews and manages exposures that may potentially become distressed as a result of changes in the economic environment or adverse share price movements, or that are vulnerable to volatile exchange rate or interest rate movements or idiosyncratic financial distress.
- Arrears, default and recoveries forums specifically reviews and manages distressed loans and potentially distressed loans for private clients and corporates. This forum also reviews and monitors counterparties who have been granted forbearance measures.

Governance and risk appetite

The board has set a Group risk appetite limit framework which regulates the maximum exposures we would be comfortable to tolerate in order to diversify and mitigate risk. This limit framework is monitored on an ongoing basis and reported to the GRCC, BRCC and the board on a regular basis. Should there be any breaches to limits, or where exposures are nearing limits, these exceptions are specifically highlighted for attention, and any remedial actions agreed.

There is a preference for primary exposure in the Group's main operating geographies (i.e. the UK). The Group will accept exposures where we have a branch or local banking subsidiary (as explained on following page) and tolerate exposures to other countries where we have a developed and local understanding and capability or we are facilitating a transaction for a client who requires facilities in a foreign geography.

Our assessment of our clients and counterparties includes consideration of their character and integrity, core competencies, track record and financial strength. A strong emphasis is placed on the historic and ongoing stability of income and cash flow streams generated by the clients. Our primary assessment method is therefore the ability of the client to meet their payment obligations.

Target clients include high net worth and/ or high-income individuals, established corporates, small and medium enterprises, financial institutions and sovereigns. Corporates must have scale and relevance in their market, an experienced management team, able board members, strong earnings and cash flow.

We are client-centric in our approach and originate loans with the intent of holding these assets to maturity, thereby developing a ‘hands-on’ and long-standing relationship.

Interbank lending is largely reserved for those banks and institutions in the Group’s core geographies of activity which are systemic and highly rated. Direct exposures to cyclical industries and start-up ventures are generally avoided.

Management and measurement

Fundamental principles employed in the management of credit and counterparty risk are:

- A clear definition of our target market
- A quantitative and qualitative assessment of the creditworthiness of our counterparties
- Analysis of risks, including concentration risk (concentration risk considerations include asset class, industry, counterparty and geographical concentration)
- Decisions are made with reference to risk appetite limits
- Prudential limits
- Regular monitoring and review of existing and potential exposures once facilities have been approved
- A high level of executive involvement in decision-making with non-executive review and oversight.

Regular reporting of credit and counterparty risk exposures within our operating units is made to management, the executives and the board at the GRCC and BRCC. The board regularly reviews and approves the appetite for credit and counterparty risk, which is documented in risk appetite statements and policy documents. This is implemented and reviewed by Credit.

Despite strict adherence to the above principles, increased default risk may arise from unforeseen circumstances particularly in times of extreme market volatility and weak economic conditions.

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A large proportion of the bank’s portfolio is not rated by external rating agencies. We place reliance upon internal consideration of counterparties and borrowers, and use ratings prepared externally where available as support in our decision-making process. Within the credit approval process, internal and external ratings are included in the assessment of the client quality. Internal credit rating models have been developed to cover all material asset classes.

In the Investec plc Annual Report 2018 exposures are classified to reflect the Group’s risk appetite and strategy. In the Pillar III disclosure, exposures are classified according to the CRD IV exposure classes. The nature of our activities and appetite to specific types of exposures are described on pages 53 to 55 of the Investec plc Annual Report 2018.

Regulatory approach

Under the standardised approach ratings assigned by External Credit Assessment Institutions (ECAIs) are used in the calculation of RWAs. Investec plc complies with the standard association of external ratings with credit quality steps prescribed in the CRR and as published by the PRA and the EBA.

Investec plc has nominated Fitch Ratings (Fitch), Standard & Poor's (S&P) and Moody’s as eligible ECAIs for the purposes of determining external credit ratings. No changes to nominated ECAIs has taken place during the year. The following elections have been made:

- In relation to sovereign and securitisation exposures, Fitch, Moody’s and S&P have been selected by Investec as eligible ECAIs
- In relation to bank, corporate and debt security exposures, Fitch, Moody’s and S&P are recognised as eligible ECAIs

If two external credit assessments are available for a counterparty, the more conservative assessment will be applied. Where there are three or more credit assessments with different ratings, the credit assessments corresponding to the two lowest credit ratings should be referred to and the higher of those two credit ratings should be applied to the exposure.

Credit risk

Table 13: Total and average net amount of exposures

At 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	823	1,091
22	Corporates	7,240	6,964
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	536	530
32	Collective Investments undertakings	158	95
33	Equity exposures	78	75
34	Other exposures	456	446
35	**Total standardised approach**	**18,136**	**17,086**

^ *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 14: Geographical breakdown of exposures

At 31 March 2018 £'millions Ref^		Net value*					
		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	460	209	98	34	22	823
13	Corporates	3,499	1,757	377	1,227	380	7,240
14	Retail	1,054	12	–	3	10	1,079
15	Secured by mortgages on immovable property	2,206	205	24	224	133	2,792
16	Exposures in default	204	114	–	–	2	320
17	Items associated with particularly high risk	293	12	19	115	97	536
20	Collective Investments undertakings	–	158	–	–	–	158
21	Equity exposures	31	1	3	8	35	78
22	Other exposures	415	28	5	7	1	456
23	**Total standardised approach**	**12,457**	**2,632**	**526**	**1,841**	**680**	**18,136**

^ *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.*

Table 15: 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	823	–	823
13	Corporates	166	7,074	7,240
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	53	483	536
20	Collective Investments undertakings	158	–	158
21	Equity exposures	18	60	78
22	Other exposures	–	456	456
23	**Total standardised approach**	**5,337**	**12,799**	**18,136**

^ *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 16: 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	662	134	27	–	823
13	Corporates	1,929	3,487	1,797	27	7,240
14	Retail	75	928	76	–	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	34	457	536
20	Collective Investments undertakings	158	–	–	–	158
21	Equity exposures	–	–	–	78	78
22	Other exposures	87	3	1	365	456
23	**Total standardised approach**	**7,760**	**6,144**	**3,305**	**927**	**18,136**

^ *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 the Group 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 56 and 57 of the Investec plc 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 17: 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	Write-offs for the year	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	–	823	–	–	–	823
22	Corporates	313	7,305	133	71	93	7,485
24	Retail	47	1,080	9	5	6	1,118
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	536	16	8	11	572
32	Collective Investments undertakings	–	158	–	–	–	158
33	Equity exposures	–	78	–	–	–	78
34	Other exposures	–	456	–	–	–	456
35	**Total standardised approach***	**412**	**17,882**	**158**	**84**	**110**	**18,136**
36	Of which: Loans	412	14,027	153	84	110	14,286
37	Of which: Debt securities	–	1,498	5	–	–	1,493
38	Of which: Off-balance sheet exposures	–	1,298	–	–	–	1,298

^ *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 18: Credit quality of exposures by sector

At 31 March 2018 £'millions Ref^		Gross carrying value					
		Defaulted exposures	Non defaulted exposures	Specific credit risk adjustments	Write-offs for the year	Credit risk adjustment charge of the period	Net values^^
1	Financial sector	–	5,340	3	–	–	5,337
2	Non-financial sector	412	12,542	155	84	110	12,799
19	Total	**412**	**17,882**	**158**	**84**	**110**	**18,136**

^ *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 19: Credit quality of exposures by geography

At 31 March 2018 £'millions Ref^		Gross carrying value					
		Defaulted exposures	Non defaulted exposures	Specific credit risk adjustments	Write-offs for the year	Credit risk adjustment charge of the period	Net values
1	United Kingdom	265	12,314	122	70	81	12,457
2	Europe (excluding UK)	143	2,518	29	14	29	2,632
3	Australia	–	526	–	–	–	526
4	North America	–	1,844	3	–	–	1,841
5	Other geographies	4	680	4	–	–	680
6	Total	**412**	**17,882**	**158**	**84**	**110**	**18,136**

^ *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 20 to 23 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 20: 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 21: 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 22: 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 23: Non-performing and forborne exposures

At 31 March 2018 £'million Ref ^		Gross carrying amount of performing and non-performing exposures	of which performing but past due > 30 days and ≤ 90 days	of which performing forborne	of which: non-performing	of which: defaulted	of which: impaired	of which: forborne	Accumulated impairment and provisions and negative fair value adjustments due to credit risk: On performing exposures	of which: forborne	On non-performing exposures	of which: forborne	Collaterals and financial guarantees received: On non-performing exposures	Of which: forborne exposures
010	Debt securities	1,498	–	–	–	–	–	–	(5)	–	–	–	–	–
020	Loans and advances	14,439	57	229	412	412	258	115	(61)	–	(92)	(2)	33	61
030	Off-balance sheet exposures	1,298	–	–	–	–	–	–	–	–	–	–	–	–

^ *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 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.

Note not all of the above collateral will be 'eligible' collateral from a regulatory perspective.

On- and off-balance sheet netting
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.

For this reason there will be instances where credit and counterparty exposures are displayed on a net basis in the annual financial statements but reported on a gross basis to regulators.

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 £2.7 million, 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 32 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 24 to 25 analyse regulatory credit risk mitigation. This means that 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 Investec plc Annual Report 2018 on page 76 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 31 shows the impact of netting and collateral on counterparty credit risk exposures.

Table 24: Credit risk mitigation techniques

At 31 March 2018 £'millions Ref		Exposure unsecured - carrying amount	Exposure secured - carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
1	Total loans	11,251	3,035	2,970	65	–
2	Total debt securities	1,431	62	14	–	48
3	**Total exposures**	**12,682**	**3,097**	**2,984**	**65**	**48**
4	Of which defaulted	212	108	108	–	–

Table 25: Standardised approach - credit risk exposure and credit risk mitigation effects

		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density		
At 31 March 2018 £'millions Ref^		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	4,595	10	4,637	–	24	1%	2
2	Regional governments or local authorities	4	–	4	–	1	20%	–
3	Public sector entities	45	–	51	5	11	20%	1
6	Institutions	817	6	823	2	205	25%	16
7	Corporates	6,058	1,182	5,847	512	6,345	100%	508
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	536	–	536	–	804	150%	64
14	Collective Investments undertakings	158	–	158	–	32	20%	3
15	Equity exposures	78	–	78	–	78	100%	6
16	Other exposures	456	–	456	–	520	114%	42
17	**Total**	**16,838**	**1,298**	**16,669**	**563**	**10,522**	**61%**	**842**

^ *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 26: 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	4,588	-	–	–	49	–	–	–	–	4,637
2	Regional governments or local authorities	–	-	4	–	–	–	–	–	–	4
3	Public sector entities	–	-	56	–	–	–	–	–	–	56
6	Institutions	–	7	683	–	133	–	2	–	–	825
7	Corporates	–	-	45	–	1	–	6,274	26	13	6,359
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	–	-	–	–	–	–	–	536	–	536
14	Collective Investments undertakings	–	-	158	–	–	–	–	–	–	158
15	Equity exposures	–	-	–	–	–	–	78	–	–	78
16	Other exposures	–	-	–	–	–	–	414	–	42	456
17	**Total**	**4,588**	**7**	**946**	**1,918**	**280**	**1,058**	**7,649**	**731**	**55**	**17,232**

^ *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 or medium-sized enterprise (SME) reducing factor of 0.7619 applicable to SMEs 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. Investec plc applies the mark-to-market approach to calculate counterparty credit risk.

Wrong-way risk

The relevant credit committees within Investec 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 plc but does not reflect the current market value of the credit risk of Investec to the counterparty. Investec plc 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 27: Analysis of counterparty credit risk by approach

At 31 March 2018 £'millions Ref^		Replacement cost/ current market value	Potential future exposure	EAD post-CRM	RWA
1	Mark to market	466	783	942	600
9	Financial collateral comprehensive method (for SFTs)			173	32
11	**Total**				**632**

^ *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 28 and 29 for more information.*

Table 28: 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 29: Analysis of exposures to CCPs

At 31 March 2018 £'millions Ref^		EAD post CRM	RWAs
2	Exposures for trades at Qualifying CCPs (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 30: 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	–	333	16	350
8	Retail	–	–	–	–	11	–	–	11
11	**Total**	**23**	**296**	**330**	**401**	**11**	**334**	**16**	**1,411**

^ *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 31: 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	2,880	1,279	1,601	363	1,238
2	SFTs	1,233	–	1,233	1,060	173
4	Total	**4,113**	**1,279**	**2,834**	**1,423**	**1,411**

^

Table 32: 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.*

Securitisation risk

Overview and approach

The Group's definition of securitisation/ structured credit activities is wider than the definition as applied for regulatory capital purposes, which largely focuses on those in which the Group has achieved significant risk transfer. We, however, believe that the information provided below is meaningful in that it groups all these related activities in order for a reviewer to obtain a fuller picture of the activities that we have conducted in this space. Some of the information provided below overlaps with the Group's credit and counterparty exposure information.

Risk management and governance

All existing or proposed exposures to a securitisation or a re-securitisation are analysed on a case-by-case basis, with final approval typically required from the relevant credit committee. The analysis looks through to the historical and expected future performance of the underlying assets, the position of the relevant tranche in the capital structure as well as analysis of the cash flow waterfall under a variety of stress scenarios.

External ratings are presented, but only for information purposes since the bank principally relies on its own internal risk assessment. Overarching these transaction level principles is the board-approved risk appetite policy, which details the Group's appetite for such exposures, and each exposure is considered relative to the Group's overall risk appetite. We can use explicit credit risk mitigation techniques where required, however, the Group prefers to address and manage these risks by only approving exposures to which the Group has explicit appetite through the constant and consistent application of the risk appetite policy.

Regulatory approach

The Group applies the standardised approach when calculating the regulatory capital for securitisation exposures within its banking book and trading book. The trading book exposures at 31 March 2018 are immaterial, and therefore no further information is included in this disclosure report.

The primary focus for new securitisation transactions remains to provide a cost effective, alternative source of financing to the bank.

During the year we did not undertake any new securitisation transactions.

We hold rated structured credit instruments, largely issued in the UK and in the United States. These positions will be risk-weighted for capital calculation purposes.

The tables which follow provide information on our securitisation portfolio in terms of regulatory definitions and requirements. As we have not originated any new securitisations and have no outstanding originated securitisations, we have only disclosed purchased positions which include positions we hold as sponsor or investor.

Accounting policies

The accounting policies applied to securitisation/ structure credit activities are explained on page 183 of the Investec plc Annual Report 2018

Table 33: Aggregate amount of securitisation positions purchased

£'million	Banking book Purchased positions^ 31 March 2018	31 March 2017
Residential mortgages	122	158
Commercial mortgages	–	4
Loans to corporates	169	178
	291	**340**

^ Purchased positions include positions we hold as sponsor or investor.

Table 34: Securitisation positions purchased by risk-weight bands

	Banking book Purchased positions^			
	Exposure values	Capital requirement	Exposure values	Capital requirement
£'million	31 March 2018		31 March 2017	
Greater than 0% and less than or equal to 40%	222	3	249	4
Greater than 40% but less than or equal to 100%	66	3	88	4
Greater than 1,250% / deduction	3	–	3	–
	291	**6**	**340**	**8**

^ Purchased positions include positions we hold as sponsor or investor.

Market Risk

Overview

Traded Market Risk is the risk of potential changes in the value of the trading book as a result of changes in market risk factors such as interest rates, equity prices, exchange rates, commodity prices, credit spreads and their underlying volatilities where derivatives are traded. The trading book is defined as positions in financial instruments and commodities, including derivative products and other off-balance sheet instruments that are held within the trading businesses.

The focus of our trading activities is primarily on supporting client activity. Our strategic intent is that proprietary trading should be limited and that trading should be conducted largely to facilitate clients in deal execution. Within our trading activities, we act as principal with clients or the market. Market risk exists where we have taken on principal positions resulting from market making, underwriting and facilitation of client business in the foreign exchange, interest rate, equity, credit and commodity markets.

Governance of traded market risk

Traded market risk is governed by policies that cover the management, identification, measurement and monitoring of market risk. We have independent market risk teams in each jurisdiction where we assume market risk to identify, measure, monitor and manage market risk. These teams report into local risk management and Group Risk in the UK. All limits are approved, managed and monitored centrally by risk management.

The market risk teams have reporting lines that are separate from the trading function, thereby ensuring independent oversight. A global market risk forum, mandated by the BRCC, manages market risk in accordance with approved principles, policies and risk appetite. Risk limits across all trading desks are reviewed and agreed at the global market risk forum and recommended for approval at Executive Risk Committee (ERC) in accordance with the risk appetite defined by the board. Limit reviews approved at ERC are noted at Policy Executive Risk Review Forum (ERRF) with significant changes to limits presented to Policy ERRF for review and approval. The appropriateness of limits is continually re-assessed, with limits reviewed at least annually, in the event of a significant market event or at the discretion of senior management.

Measurement of traded market risk

A number of quantitative measures are used to monitor and limit exposure to traded market risk. These measures include:

- Value at Risk and Expected shortfall as portfolio measures of market risk exposure
- Scenario analysis, stress tests and tools based on extreme value theory that measure the potential impact on portfolio values of extreme moves in markets
- Sensitivity analysis that measures the impact of individual market risk factor movements on specific instruments or portfolios, including interest rates, foreign exchange rates, equity prices, credit spreads and commodity prices, such as the effect of a one basis point change in interest rates. We use sensitivity measures to monitor and limit exposure across portfolios, products and risk types.

Stress and scenario analysis are used to add insight into the possible outcomes under severe market disruptions. The stress-testing methodology assumes that all market factors move adversely at the same time and that no actions are taken during the stress events to mitigate risk. Stress scenarios based on historical experience as well as hypothetical scenarios are considered and are reviewed regularly for relevance in ever-changing market environments. Stress scenarios are run daily with analysis presented weekly to Review ERRF or more often depending on market conditions.

Traded market risk management, monitoring and control

Market risk limits are set according to guidelines set out in our risk appetite policy. Limits are set at trading desk level with aggregate risk across all desks also monitored against overall market risk appetite limits. Current market conditions as well as stressed market conditions are taken into account when setting and reviewing these limits.

Market Risk teams review the market risks in the trading book with detailed risk reports produced daily for each trading desk and for the aggregate risk of the trading book. The material risks identified are summarised in daily reports that are distributed to, and discussed with senior management. The production of risk reports allows for the monitoring of all positions in the trading book against prescribed limits. Documented policies and procedures are in place to ensure there is a formal process for recognition and authorisation for risk excesses incurred.

The risk management software is fully integrated with source trading systems, allowing valuation in risk and trading systems to be fully aligned. All valuation models are subject to independent validation by Market Risk ensuring models used for valuation and risk are validated independently of the front office.

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.

Investec plc 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 requirements. The Group applies the Simplified Approach when calculating AVAs 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 Group has obtained permission from the PRA to use an internal model to calculate the delta for these positions. In addition the Group has obtained permission to use an internal interest rate sensitivity model for general interest rate risk.

Table 35: 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	132	11
	Options				
7	Scenario approach	404	32	142	11
9	Total	**965**	**77**	**882**	**71**

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

Non-trading interest rate risk

Overview

Non-trading interest rate risk, otherwise known as interest rate risk in the banking book, arises from the impact of adverse movements in interest rates on both net interest earnings and economic value of equity.

Sources of interest rate risk include:

- **Repricing risk**: arises from the timing differences in the fixed rate maturity and floating rate repricing of bank assets, liabilities and off-balance sheet derivative positions. This affects the interest rate margin realised between lending income and borrowing costs when applied to our rate sensitive portfolios.
- **Yield curve risk**: repricing mismatches also expose the bank to changes in the slope and shape of the yield curve.
- **Basis risk**: arises from imperfect correlation in the adjustments of the rates earned and paid on different instruments with otherwise similar repricing characteristics.
- **Embedded option risk**: arises from optional elements embedded in items where the bank or its customers can alter the level and timing of their cash flows.
- **Endowment risk**: refers to the interest rate risk exposure arising from the net differential between interest rate insensitive assets, interest rate insensitive liabilities and capital.

The above sources of interest rate risk affect the interest rate margin realised between lending income and borrowing costs, when applied to our rate sensitive asset and liability portfolios, which has a direct effect on future net interest income and the economic value of equity.

Management and measurement

Non-trading interest rate risk in the banking book is an inherent consequence of conducting banking activities, and arises from the provision of retail and wholesale (non-trading) banking products and services. The Group considers the management of banking margin of importance, and our core non-trading interest rate risk philosophy is reflected in day-to-day practices.

The aim of non-trading interest rate risk management is to protect and enhance net interest income and economic value of equity in accordance with the board-approved risk appetite, and to ensure a high degree of stability of the net interest margin over an interest rate cycle. Non-trading interest rate risk is measured and analysed by utilising standard tools of traditional interest rate repricing mismatch and net present value sensitivity to changes in interest rate risk factors:

- Income metrics capture the change in accruals expected over a specified time horizon in response to a change in interest rates
- Economic value metrics capture all future cash flows in order to calculate the bank's net worth and therefore can highlight risks beyond the short term-earnings time horizon.

These metrics are used to assess and to communicate to senior management the financial impact of possible future interest rate scenarios, covering (i) interest rate expectations and perceived risks to the central view (ii) standard shocks to levels and shapes of interest rates and yield curves (iii) historically-based yield curve changes.

The repricing gap provides a simple representation of the balance sheet, with the sensitivity of fair values and earnings to changes to interest rates calculated off the repricing gap. This also allows for the detection of interest rate risk concentration in specific repricing buckets. Net interest income sensitivity measures the change in accruals expected over the specified horizon in response to a shift in the yield curve, while economic value sensitivity and stress testing to macro-economic movement or changes to the yield curve measures the interest risk implicit change in net worth as a result of a change in interest rates on the current values of financial assets and liabilities. Economic value measures have the advantage that all future cash flows are considered and therefore can highlight risk beyond the earnings horizon.

Each geographic entity has its own board-approved non-trading interest rate risk policy and risk appetite, which is clearly defined in relation to both income risk and economic value risk. The policy dictates that long-term (>1 year) non-trading interest rate risk is materially eliminated. Where natural hedges between banking book items do not suffice to reduce the exposure within defined limits, interest rate swaps re used to transform fixed rate assets and liabilities into variable rate items.

Operationally, daily management of interest rate risk is centralised within the Treasury of each geographic entity and is subject to local independent risk and Asset and liability committee (ALCO) review. Treasury mitigates any residual undesirable risk where possible, by changing the duration of the banking Group's discretionary liquid asset portfolio, or through derivative transactions. The Treasury mandate allows for a tactical response to market volatility which may arise during changing interest rate cycles in order to hedge residual exposures. Any resultant interest rate position is managed under the market risk limits. Balance sheet risk management independently monitors a broad range of interest rate risk metrics to changes in interest rate risk factors, detailing the sources of interest rate exposure.

We are exposed to automatic optionality risk for those lending products where the bank applies a minimum lending rate. This is an income protection mechanism allowing for upward potential and no downside risk. We are not materially exposed to behavioural embedded option risk, as contract breakage penalties on fixed-rate items specifically cover this risk, while early termination of variable rate contracts has negligible impact on interest rate risk.

Investec has a relatively small endowment risk due to paying market rates on all deposits, compared to banks with significant low or non-interest-bearing current and cheque accounts. Endowment risk due to free funding, comprising mainly ordinary share capital and reserves, is managed passively, with the focus on measuring and monitoring. The endowment risk is included within our non-trading interest rate risk measures.

The Group complies with the BCBS 108 framework which is currently in force for assessing banking book (non-trading) interest rate risk, and is in the process of enhancing its existing framework to adhere to the new BCBS 368 principles which come into effect in 2020.

Internal capital is allocated for non-trading interest rate risk.

Our interest rate sensitivity gap analysis and economic value sensitivity is disclosed in the Investec plc Annual Report 2018 on page 93.

Non-trading equity risk

Overview

Non-trading equity risk known as Investment risk in the banking book arises primarily from the following activities conducted within the Group:

- **Principal Investments**: Principal investments are normally undertaken in support of a client requiring equity to grow and develop an existing business, or the acquisition of a business from third parties. Investments are selected based on the track record of management, the attractiveness of the industry and the ability to build value for the existing business by implementing an agreed strategy. Investments in listed shares may arise on the initial public offering of one of our Investments. Additionally, listed investments may be considered where we believe that the market is mispricing the value of the underlying security
- **Lending transactions**: The manner in which we structure certain transactions results in equity, warrant and profit shares being held, predominantly within unlisted companies

- **Property activities**: We source development, investment and trading opportunities to create value and trade for profit within agreed risk parameters.

Management framework and risk appetite

As investment risk arises from a variety of activities conducted by the Group, the monitoring and measurement thereof varies across transactions and/or type of activity. Independent credit and investment committees exist in each geography where we assume investment risk.

Risk appetite limits and targets are set to manage our exposure to equity and investment risk. An assessment of exposures against limits and targets as well as stress testing scenario analysis are performed and reported to GRCC and BRCC. As a matter of course, concentration risk is avoided and investments are well spread across geographies and industries.

For more information on our valuation principles and methodologies please refer to page 77 of the Investec plc Annual Report 2018.

Regulatory approach

For regulatory purposes listed and unlisted equities within the banking book are included in the credit risk capital calculations. Where an equity investment is deemed high risk, it will be included in the exposure category 'items associated with particularly high risk'.

For a breakdown of the investment portfolio and analysis of income and revaluations recorded refer to pages 78 and 79 of Investec plc Annual Report 2018.

Operational risk

Overview

Operational risk is defined as the potential or actual impact to the Group as a result of failures relating to internal processes, people, systems, or from external events. The impacts can be financial as well as non-financial such as customer detriment, reputational or regulatory consequences.

Operational risk is an inherent risk in the ordinary course of business activity. The Group aims to appropriately identify and manage operational risk within acceptable levels by adopting sound operational risk management practices which are fit for purpose.

Operational risk governance

The Group's approach to manage operational risk operates in terms of a levels of defence model which reinforces accountability by setting roles and responsibilities for managing operational risk.

The levels of defence model is applied as follows:

- Level 1 – Business line management: responsible for identifying and managing risks inherent in the products, activities, processes and systems for which it is accountable
- Level 2 – Independent operational risk function: responsible for challenging the business lines' inputs to, and outputs from, the Group's risk management, risk measurement and reporting activities
- Level 3 – Independent review and challenge: responsible for reviewing and testing the application and effectiveness of operational risk management procedures and practices.

Risk appetite

Operational risk appetite is defined as the level of risk exposure that is acceptable to the board in order to achieve its business and strategic objectives. The board is responsible for setting and regularly reviewing risk appetite. The Operational Risk Tolerance policy defines the amount of operational risk exposure, or potential adverse impact of a risk event, that the Group is willing to accept.

Operational risks are managed in accordance with the level of risk appetite. Any breaches of limits are escalated to the GRCC and the BRCC on a regular basis.

Operational risk management framework

The operational risk management framework is embedded at all levels of the Group, supported by the risk culture and enhanced on a continual basis in line with regulatory developments. Included in the framework are policies, practices and processes which facilitate the identification, assessment, mitigation, monitoring and reporting of operational risk.

The Group's operational risk profile is reported on a regular basis to various operational risk forums and governance committees responsible for oversight.

Risk reports are used for ongoing monitoring of the operational risk profile which contributes to sound risk management and decision-making by the board and management.

More information on our operational risk practices and risk consideration for the year ahead are set out on pages 94 to 96 of the Investec plc Annual Report 2018.

Regulatory approach

For regulatory purposes we apply the standardised approach to calculate operational risk capital requirements. The capital requirements are calculated as a percentage of income (per the regulatory definitions) averaged over the last three years. The operational risk charge is updated on an annual basis. Please refer to table 7 for disclosure of the Operational risk capital requirements and RWAs.

Asset encumbrance

Overview

An asset is defined as encumbered if it has been pledged as collateral and, as a result, is no longer available to the Investec plc to secure funding, satisfy collateral needs or be sold to reduce the funding requirement.

Risk management monitors and manages total balance sheet asset encumbrance within a board-approved risk appetite limit. Asset encumbrance is one of the factors considered in the discussion of new products or new funding structures, and the impact on risk appetite assessed.

Encumbered assets are identified in accordance with the reporting requirements under the CRR, and regular reporting is provided to the EBA and PRA. The figures included in the tables below are median values of these quarterly returns and therefore will not be reconcilable to balances reported in the Investec plc Annual Report 2018.

Encumbered Assets

The median volume of assets encumbered in the year leading up to 31 March 2018 was £2.8 billion. This encumbrance primarily relates to assets encumbered within the BoE's Term Funding and Funding for Lending Schemes (TFS/FLS), collateral posted as derivative margin, and assets encumbered as part of reverse repurchases, stock lending and collateralised notes. In addition, Investec plc utilises securitisation in order to raise external term funding as part of its diversified liability base.

IBP is the primarily entity which encumbers assets within Investec plc. The most material intragroup encumbrance is related to assets encumbered within the Asset Finance Group (AFG) - £650 million of equipment leases originated by AFG have been used as collateral for a retained securitisation. £520 million of senior notes from this securitisation have been used as collateral in the TFS/FLS with the remaining notes retained within the Group.

Unencumbered Assets

Of the assets which are not currently encumbered, it would not be possible to encumber around 10% - this includes assets such as goodwill, interests in associate undertakings, deferred tax assets, property, plant and equipment, and client assets.

Table 36: Encumbered and unencumbered assets

At 31 March 2018 £'millions Ref^*		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
010	**Assets of the reporting institution***	**2,235**	**–**	**17,029**	**–**
030	Equity instruments	154	–	768	–
040	Debt securities	517	517	1,923	1,923
060	of which: asset-backed securities	19	19	779	779
070	of which: issued by general governments	335	335	842	842
080	of which: issued by financial corporations	106	106	180	180
090	of which: issued by non-financial corporations	51	51	160	160
120	Other assets	1,565	–	14,384	–
121	of which: TFS/FLS collateral	885	–	–	–

^ *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 values included in the tables represent the median values over four quarters.*

Table 37: Collateral received

At 31 March 2018 £'millions Ref^*		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
130	**Collateral received by the reporting institution***	**467**	**958**
140	Loans on demand	–	178
150	Equity instruments	–	85
160	Debt securities	467	566
180	of which: asset-backed securities	–	58
190	of which: issued by general governments	467	226
200	of which: issued by financial corporations	–	126
210	of which: issued by non-financial corporations	–	10
230	Other collateral received	–	145
250	**Total assets, collateral, received and own debt securities**	**2,766**	

^ *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 values included in the table represent the median values over four quarters.*

Table 38: Sources of encumbrance

At 31 March 2018 £'millions Ref^*		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
010	Carrying amount of selected financial liabilities	1,855	1,768

^ *Row and column references included in the above tables reference the reporting instructions specified in the asset encumbrance disclosure requirements which were published in the EU Official Journal in September 2017.*

* *The values included in the table represent the median values over four quarters.*

Liquidity risk

Overview

Liquidity risk refers to the possibility that, despite being solvent, we have insufficient capacity to fund increases in assets, or are unable to meet our payment obligations as they fall due, without incurring unacceptable losses. This includes repaying depositors or maturing wholesale debt. This risk arises from mismatches in the timing of cash-flows, and is inherent in all banking operations and can be impacted by a range of institution-specific and market-wide events.

Liquidity risk is further broken down into:

- Funding liquidity: this relates to the risk that Investec plc will be unable to meet current and/or future cash flow or collateral requirements in the normal course of business, without adversely affecting its financial position or its reputation.
- Market liquidity: this relates to the risk that Investec plc may be unable to trade in specific markets or that it may only be able to do so with difficulty due to market disruptions or a lack of market liquidity.

Management and measurement

Cohesive liquidity management is vital for protecting our depositors, preserving market confidence, safeguarding our reputation and ensuring sustainable growth with established funding sources. Through active liquidity management, we seek to preserve stable, reliable and cost-effective sources of funding. As such, Investec plc considers ongoing access to appropriate liquidity for all its operations to be of paramount importance, and our core liquidity philosophy is reflected in day-to-day practices which encompass the following robust and comprehensive set of policies and procedures for assessing, measuring and controlling the liquidity risk:

- Our liquidity management processes encompass requirements set out within BCBS guidelines, and by the regulatory authorities in each jurisdiction, namely the PRA, Guernsey Financial Services Commission and Swiss Financial Market Supervisory Authority
- The risk appetite is clearly defined by the board and each geographic entity must have its own board-approved policies with respect to liquidity risk management
- We maintain a liquidity buffer in the form of unencumbered cash, government or rated securities (typically eligible for repurchase with the central bank), and near cash well in excess of the regulatory requirements as protection against unexpected disruptions in cash flows
- Funding is diversified with respect to currency, term, product, client type and counterparty to ensure a varied overall funding mix
- The Asset & Liability Monitoring (ALM) team independently monitors key daily funding metrics and liquidity ratios to assess potential risks to the liquidity position, which further act as early warning indicators of potential market disruptions
- The maintenance of sustainable prudent liquidity resources takes precedence over profitability
- Investec plc maintains adequate contingency funding plans designed to protect depositors, creditors and shareholders and maintain market confidence during adverse liquidity conditions.

We measure liquidity risk by quantifying and calculating various liquidity risk metrics and ratios to assess potential risks to the liquidity position. These include:

- Internal 'survival horizon' metric which models how many days it takes before Investec plc's cash position turns negative under an internally defined worst-case liquidity stress ;
- Regulatory metrics for liquidity measurement:
  - Liquidity Coverage Ratio (LCR) and ;
  - Net Stable Funding Ratio ;
- Modelling a 'business as usual' normal environment where we apply rollover and reinvestment assumptions under benign market conditions;
- An array of further liquidity stress tests, based on a range of scenarios and using historical analysis, documented experience and prudent judgement to model the impact on the balance sheet;
- Contractual run-off based on actual cash flows with no modelling adjustments;
- Additional internally defined funding and balance sheet ratios; and

- Any other local regulatory requirements.

This suite of metrics ensures the smooth management of the day-to-day liquidity position within conservative parameters, and further validates that we are able to generate sufficient liquidity to withstand a range of short-term liquidity stresses or market disruptions.

The parameters used in stress scenarios are reviewed at least annually, taking into account changes in the business environments and input from business units. The objective is to analyse the possible impact of an economic event on cash flow, liquidity, profitability and solvency position, so as to maintain sufficient liquidity and to continue to operate for a minimum period as detailed in the board-approved risk appetite.

We further carry out reverse stress tests to identify business model vulnerabilities which tests 'tail risks' that can be missed in normal stress tests. Investec plc has calculated the severity of stress required to breach the liquidity requirements. This scenario is considered highly unlikely given Investec plc's strong liquidity position, as it requires an extreme withdrawal of deposits combined with the inability to take any management actions to breach liquidity minima that threatens Investec's liquidity position.

Investec plc operates an industry-recognised third party risk modelling system in addition to custom-built management information systems designed to measure and monitor liquidity risk on both a current and forward looking basis. The system is reconciled to the general ledger and audited by internal and external audit, thereby ensuring integrity of the process.

Under delegated authority of the boards, the Group has established ALCOs within each core geography in which it operates, using regional expertise and local market access as appropriate. The ALCOs are mandated to ensure independent supervision of liquidity risk within the risk appetite.

ALCOs meet on a monthly basis to review the exposures that lie within the balance sheet together with market conditions, and decide on strategies to mitigate any undesirable liquidity risk.

The Treasury function within each region is mandated to holistically manage the liquidity mismatch arising from our asset and liability portfolios on a day-to-day basis.

The Treasury function within each jurisdiction is required to exercise tight control of liquidity, funding and encumbrance within the board-approved risk appetite limits. The ALM team provides independent oversight of Investec plc's liquidity and reports to the Chief Risk Officer.

Liquidity buffer

To protect against potential shocks, we hold a liquidity buffer in the form of cash, unencumbered high quality liquid assets (typically in the form of government or rated securities eligible for repurchase with the central bank), and near cash, well in excess of the regulatory requirements as protection against disruptions in cash flows.

These portfolios are managed within board-approved targets, and as well as providing a buffer under going concern conditions, also form an integral part of the broader liquidity generation strategy. Investec plc remains a net liquidity provider to the interbank market, placing significantly more funds with other banks than our short-term interbank borrowings. We do not rely on interbank deposits to fund term lending.

Liquidity coverage ratio

In response to the global financial crisis, the BCBS introduced a series of reforms designed to both strengthen and harmonise global liquidity standards and to ensure strong financial risk management and a safer global economy.

The LCR is designed to ensure that banks have sufficient high quality liquid assets to meet their liquidity needs throughout a 30 calendar day severe stress.

Within the EU, the LCR has been translated into law under the European Commission Delegated Regulation 2015/61 and has been introduced on a phased basis. Banks have been required to maintain a minimum ratio of 100% from 1 January 2018.

The Investec plc LCR is calculated using the Delegated Act and our own interpretations where the regulation calls for it. The reported LCR may change over time with updates to our methodologies and interpretations.

Investec plc strives to ensure access to multiple funding sources and mitigates funding concentration risk by setting limits on specific counterparty types, products, maturity profiles and individual counterparties. The purpose of funding diversification is to ensure that Investec plc has in place alternative sources of funding that strengthen its capacity to survive liquidity shocks.

All main operating entities within Investec plc has its own board-approved Liquidity Management Policy. Each material entity has its own senior risk committee which is responsible for the measurement and management of the liquidity risk arising within that entity. Senior risk management individuals from each subsidiary are required attendees at the IBP and Investec plc ALCOs, ensuring a holistic approach to liquidity risk management.

Operating entities within Investec plc may be required to post incremental derivatives margin during periods of increased market volatility. To manage this risk, we model and provide for potential additional margin calls as part of both our internal stress testing and in the LCR.

Investec plc conducts business in three material currencies: GBP, EUR and USD, with the main currency being GBP. We aim to match fund assets and liabilities by currency. The active management of currency liquidity risk is driven by internal stress testing and the associated currency level risk appetite limits.

The table below is as prescribed in the final EBA guidelines on LCR Disclosure (EBA/GL/2017/01) and is completed on a Group basis. As required within the guidelines, the table shows the simple averages of month-end reported observations over the 12 months preceding the quarter end date.

Liquidity Buffer represents the amount of Investec plc's liquidity resources which meet the regulatory requirements, after the application of any prescribed haircuts. The majority of these resources represent central bank balances, primarily held at the BoE.

Total net cash outflows represent the total expected cash outflows and inflows for the subsequent 30 days, after the prescribed LCR weightings have been applied.

Table 39: Liquidity coverage ratio

£'millions Ref^ Quarter ending on		Total adjusted value (12 month average) 30 June 2017	 30 September 2017	 31 December 2017	 31 March 2018
Number of data points used in calculation of averages		**12**	**12**	**12**	**12**
21	Liquidity buffer	3,511	3,324	2,930	**2,941**
22	Total net cash outflows	531	543	569	**655**
23	Liquidity coverage ratio	667%	618%	521%	**470%**

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

Other risks

In addition to the risks explained in this Pillar III document, we also have other material and significant risks, which the board and senior management believe could have an impact on our operations, financial performance, viability and prospects. The Board, through its various sub-committees, has performed a robust assessment of these principal risks. Regular reporting of these risks is made to senior management, the executives and the board at the GRCC and BRCC. These risks are summarised in more detail on pages 22 to 28 of the Investec plc 2018 Annual Report.

Remuneration

The Pillar III qualitative and quantitative disclosures are included in the Investec Integrated Annual Report 2018, volume 1 on pages 185 to 242.

Appendix A - CRR references

CRR ref	High-level summary	Compliance reference
Scope of disclosure requirements		
431(1)	Publicly disclose Pillar 3 information.	Investec plc publishes Pillar 3 disclosures.
431(2)	Firms with permission to use specific operational risk methodologies must disclose operational risk information.	Not applicable.
431(3)	Institutions must have a formal policy to comply with the disclosure requirements and have policies for assessing the appropriateness of their disclosures, including their verification and frequency. Institutions shall also have policies for assessing whether their disclosures convey their risk profile comprehensively to market participants.	Investec plc has a dedicated Pillar 3 policy.
431(4)	Explanation of ratings decision upon request.	Not applicable.
Non-material, proprietary or confidential information		
432(1)	Institutions may omit information that is not regarded as material if certain conditions are respected.	Compliance is governed by the Pillar 3 policy.
432(2)	Institutions may omit information that is proprietary or confidential if certain conditions are respected.	Compliance is governed by the Pillar 3 policy.
432(3)	Where 432 (2) applies this must be stated in the disclosures, and more general information must be disclosed.	This table indicates where disclosures are omitted.
432(4)	Use of 432 (1), (2) or (3) is without prejudice to scope of liability for failure to disclose material information.	Material information has been disclosed.
Frequency of disclosure		
433	Disclosures must be published once a year at a minimum and more frequently if necessary.	Refer to 'Policy' on page 5.
Means of disclosure		
434(1)	To include all disclosures in one appropriate medium, or provide clear cross-references.	Most of the disclosures are contained in this document, with the exception of the Remuneration disclosures which are included in the Investec Integrated Annual Report 2018, volume 1 pages 185 to 242.
434(2)	Disclosures made under other requirements (e.g. accounting) can be used to satisfy Pillar 3 if appropriate.	Any cross-references to accounting or other disclosures are clearly signposted in this document.
Risk management objectives and policies		
435(1)	Disclose information on:	Risk management: pages 13 -14. Credit and counterparty risk – pages 24 - 25. Securitisation risk - page 34. Market risk - pages 35 - 36. Non-trading interest rate risk - pages 36 - 37. Non-trading equity risk – pages 37 – 38. Operational risk - page 38 Liquidity risk - page 40 - 41 Other risks - page 42.
435(1)(a)	The strategies and processes to manage risks.	
435(1)(b)	Structure and organisation of risk management functions.	
435(1)(c)	Scope and nature of risk reporting and measurement systems.	
435(1)(d)	Policies for hedging and mitigating risk and strategies and processes for monitoring effectiveness.	
435(1)(e)	Declaration approved the management body on the adequacy of risk management arrangements.	Refer to page 13.
435(1)(f)	Concise risk statement approved by the management body succinctly describing the institution's overall risk profile associated with the business strategy.	Refer to page 13.
435(2)	Information on governance arrangements, including information on Board composition and recruitment and risk committees.	Refer to Investec plc Annual Report 2018 page 124 to 151.
435(2)(a)	Number of directorships held by members of the management body.	Refer to Investec plc Annual Report 2018 page 118 to 123.
435(2)(b)	Recruitment policy for the selection of members of the management body.	Refer to Investec Integrated Annual Report 2018, volume 1 page 226.
435(2)(c)	Policy on diversity of members of the management body	Refer to Investec plc Annual Report 2018 page 134 to 135.
435(2)(d)	Disclosure of whether a dedicated risk committee is in place, and number of meetings held in the year.	Refer to Investec plc Annual Report 2018 page 148 to 150.
435(2)(e)	Description of information flow on risk to the management body.	Refer to Investec plc Annual Report 2018 page 126 to 130 and page 141 to 150.

Appendix A - CRR references (continued)

CRR ref	High-level summary	Compliance reference
Scope of application		
436(a)	Name of institution	Refer to 'Policy' page 5.
436(b)	Difference in basis of consolidation for accounting and prudential purposes, describing entities that are:	
436(b)(i)	fully consolidated;	
436(b)(ii)	proportionally consolidated;	
436(b)(iii)	deducted from own funds;	
436(b)(iv)	neither consolidated nor deducted.	Refer to 'Basis of consolidation' page 8 and tables 2-4 on pages 9 - 13.
436(c)	Impediments to transfer of own funds between parent and subsidiaries.	There are no current or foreseen material practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities among the parent undertaking and its subsidiary undertakings.
436(d)	Capital shortfalls in any subsidiaries outside the scope of consolidation.	Entities outside the scope of consolidation are appropriately capitalised.
436(e)	Making use of the provisions laid down in Articles 7 and 9.	IBP, the main regulated subsidiary of the Group, applies the provisions in article 9 of the CRR (solo-consolidation waiver) and reports to the PRA on a solo-consolidation basis, including Investec Investments (UK) Limited.
Non-material, proprietary or confidential information		
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 7 and 9.
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' page 18.
437(1)(c)	the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments;	Table 6 on pages 18 - 20.
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 5 on pages 17.
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 15 and 16.
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 7 on page 21 and table 26 on page 32.
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.	Table 7 on page 21 and table 35 on page 36.
438(f)	Capital requirements for operational risk, separately for the Basic Indicator Approach, the Standardised Approach, and the Advanced Measurement Approaches as applicable.	Table 7 on page 21.
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.

Appendix A – CRR references (continued)

CRR ref	High-level summary	Compliance reference
Exposures to counterparty credit risk		
439(a)	A discussion of the methodology used to assign internal capital and credit limits for counterparty credit exposures.	Refer to 'Capital adequacy and capital requirements on pages 15 and 16.
439(b)	A discussion of policies for securing collateral and establishing credit reserves.	Refer to 'Credit risk mitigation' on page 30 and 31
439(c)	A discussion of policies with respect to wrong-way risk exposures.	Refer to 'Wrong-way risk' on page 33.
439(d)	A discussion of the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating.	The Group does not have any funding deals containing credit rating downgrade triggers.
439(e)	Derivation of net derivative credit exposure.	Refer to table 32 on page 34.
439(f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods.	Refer to table 27 on page 33.
439(g)	The notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure.	
439(h)	The notional amounts of credit derivative transactions, segregated between use for the institution's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used, broken down further by protection bought and sold within each product group.	Refer to table 32 on page 34.
439(i)	Estimate of alpha, if applicable.	Not applicable.
Capital buffers		
440(1)(a)	Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer.	Refer to table 11 on page 23.
440(1)(b)	The amount of its institution specific countercyclical capital buffer.	Refer to table 12 on page 23.
440(2)	EBA to publish technical standards specifying the disclosure requirements above.	Investec plc applies with the standards.
Indicators of global systemic importance		
441	Disclosure indicators of global systemic importance.	Not applicable.
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 27. Further disclosure is provided in table 20 on page 29 and table 23 on page 30.
442(b)	A description of the approaches and methods adopted for determining specific and general credit risk adjustments.	Refer to 'Approach' on page 27.
442(c)	Disclosure of pre-CRM EAD by exposure class.	Refer to table 13 on page 26.
442(d)	Disclosure of pre-CRM EAD by geography and exposure class.	Refer to table 14 on page 26.
442(e)	Disclosure of pre-CRM EAD by industry and exposure class.	Refer to table 15 on page 26.
442(f)	Disclosure of pre-CRM EAD by residual maturity and exposure class.	Refer to table 16 on page 27.
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 17 and 18 on page 28.
442(h)	Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography.	Refer to table 19 on page 28.
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 21 and 22 on page 29.
Unencumbered assets		
443	Disclosure of unencumbered assets	Refer to 'Asset encumbrance' on page 38 and 39; tables 36 and 37 on page 39 and table 38 on page 40.
Use of ECAIs		
444(a)	The names of the nominated ECAIs and ECAs and the reasons for any changes.	Refer to 'Regulatory approach' on page 25.

Appendix A - CRR references (continued)

CRR ref	High-level summary	Compliance reference
Use of ECAIs		
444(b)	The exposure classes for which each ECAI or ECA is used.	Refer to 'Regulatory approach' on page 25.
444(c)	A description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book.	Refer to 'Regulatory approach' on page 25.
444(d)	Mapping of external rating to CQS.	Investec plc complies with the standard association published by the EBA.
444(e)	Exposure value pre and post-credit risk mitigation, by CQS.	Refer to table 25 and 26 on page 32.
Exposure to market risk		
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	Refer to table 35 on page 36.
Operational risk		
446	Scope of approaches used to calculate operational risk.	Refer to 'Operational risk' on page 38.
Exposures in equities not included in the trading book		
447(a)	Differentiation of exposures based on objectives and an overview of accounting techniques and valuation methodologies.	
447(b)	The balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value.	
447(c)	The types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures.	
447(d)	Realised cumulative gains or losses arising from sales and liquidations in the period.	
447(e)	Total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in CET1 capital.	Refer to 'Management of Investment risk' on page 37 and 38.
Exposure to interest rate risk on positions not included in the trading book		
448(a)	The nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk.	Refer to 'Non-trading interest rate risk' on page 36 and 37.
448(b)	The variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency.	Refer to Investec plc Annual Report 2018 page 93.
Exposures to securitisation positions		
449(a)	Objectives in relation to securitisation activity.	
449(b)	Nature of other risks in securitised assets, including liquidity.	
449(c)	Risks in re-securitisation activity stemming from seniority of underlying securitisations and ultimate underlying assets.	
449(d)	The roles played by the institution in the securitisation process.	
449(e)	Indication of the extent of involvement in roles.	
449(f)	Processes in place to monitor changes in credit and market risks of securitisation exposures, and how the processes differ for re- securitisation exposures.	
449(g)	Description of the institution’s policies with respect to hedging and unfunded protection, and identification of material hedge counterparties.	
449(h)	Approaches to the calculation of risk-weighted assets for securitisations mapped to types of exposures.	
449(i)	Types of SSPEs used to securitise third-party exposures as a sponsor.	Business in this area has been curtailed, refer to 'Securitisation risk' on page 34.
449(j)	Summary of accounting policies for securitisations.	Refer to 'Accounting policies' on page 34.
449(k)	Names of ECAIs used for securitisations and type.	Refer to 'Regulatory approach' on page 25.
449(l)	Full description of Internal Assessment Approach.	Not applicable.
449(m)	Explanation of significant changes in quantitative disclosures in points (n) to (q).	No change in quantitative disclosure compared to the prior year. Refer to 'Securitisation risk' on page 34.

Appendix A - CRR references (continued)

CRR ref	High-level summary	Compliance reference
Exposures to securitisation positions continued		
449(n)	For Banking and trading book securitisation exposures:	
449(n)(i)	Amount of outstanding exposures securitised.	
449(n)(ii)	On balance sheet securitisation retained or purchased, and off balance sheet exposures.	Refer to table 33 on page 35.
449(n)(iii)	Amount of assets awaiting securitisation.	No assets awaiting securitisation.
449(n)(iv)	Early amortisation treatment; aggregate drawn exposures, capital requirements.	Not applicable.
449(n)(v)	Deducted or 1,250%-weighted securitisation positions.	
449(n)(vi)	Securitisation activity including the amount of exposures securitised and recognised gains or losses on sales.	
449(o)	Disclose separately for Banking and trading book securitisations:	
449(o)(i)	Retained and purchased positions and associated capital requirements, broken down by risk-weight bands.	
449(o)(ii)	Retained and purchased re-securitisation positions before and after hedging and insurance; exposure to financial guarantors broken down by guarantor credit worthiness.	Refer to table 34 on page 35.
449(p)	Impaired assets and recognised losses related to banking book securitisations, by exposure type.	Immaterial, no further disclosure provided.
449(q)	Exposure and capital requirements for trading book securitisations, separated into traditional and synthetic.	Trading Book exposures are not material and therefore no further disclosures is provided.
449(r)	Whether the institution has provided non-contractual financial support to securitisation vehicles.	No non-contractual financial support has been provided to securitisation vehicles.
Remuneration policy		
450	Remuneration disclosures	Refer to the Investec Integrated Annual Report 2018, volume 1 on pages 185 to 242.
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 table 8, 9, and 10 on pages 21 and 22.
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 21.
451(2)	EBA to publish technical standards specifying the uniform disclosure templates for the requirements above.	Investec plc applies with the standards.
Use of IRB Approach to credit risk		
452	IRB Approach	Not applicable.
Use of credit risk mitigation techniques		
453(a)	Policies and processes for use of on and off-balance sheet netting.	Refer to 'On-and off-balance sheet netting' on page 31.
453(b)	Policies and processes for collateral valuation and management.	
453(c)	A description of the main types of collateral taken by the institution.	
453(d)	The main types of guarantor and credit derivative counterparty and their creditworthiness.	Refer to 'Collateral' on page 30 - 31.
453(e)	Market or credit risk concentrations within risk mitigation exposures.	Refer to Investec plc Annual Report 2018 page 52.
453(f)	Standardised or Foundation IRB Approach, exposure value covered by eligible collateral.	Refer to table 24 on page 32.
453(g)	Exposures covered by guarantees or credit derivatives.	Refer to table 24 on page 32.
Use of the Advanced Measurement Approaches to operational risk		
454	Description of the use of insurance or other risk transfer mechanisms to mitigate operational risk.	Not applicable.
Use of Internal Market Risk Models		
455	Use of internal market risk models	Not applicable.