Investec

DISCLOSURE REPORT 2019

Investec Bank plc pillar 3 annual disclosure report

Cross reference tools

PAGE REFERENCES
Refers readers to information elsewhere in this report

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

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TABLES

ABBREVIATIONS

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

AT1	Additional tier 1
Bank	Investec Bank plc and its subsidiaries
BCBS	Basel Committee on Banking Supervision
BoE	Bank of England
CCB	Capital conservation buffer
CCP	Central counterparty
CCR	Counterparty credit risk
CCyB	Countercyclical capital buffer
CDS	Credit default swap
CET1	Common equity tier 1
CRD IV	Capital Requirements Directive IV
CRR	Capital Requirements Regulation
CRR II/CRD V	Revisions to the CRD IV package
CVA	Credit valuation adjustment
DLC	Dual listed companies
DLC BRCC	DLC Board Risk and Capital Committee
EBA	European Banking Authority
EC	European Commission
EU	European Union
ECL	Expected credit loss
ERC	Executive Risk Committee
ERRF	Executive Risk Review Forum
FCA	Financial Conduct Authority
FPC	Financial Policy Committee
FRTB	Fundamental Review of the Trading Book
GRCC	Group Risk and Capital Committee
Group	Investec Bank plc and its subsidiaries
G-SIB	Global systemically important bank
G-SII	Global systemically important institution
HMT	Her Majesty's Treasury
IBP	Investec Bank plc
IBP BRCC	IBP Board Risk and Capital Committee
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ISDA	International Swaps and Derivatives Association Master Agreement
MDB	Multilateral Development Bank
MREL	Minimum requirement for own funds and eligible liabilities
OTC	Over-the-counter
PD	Probability of default
PRA	Prudential Regulation Authority
RWA	Risk-weighted asset
SA	Standardised approach
SFT	Securities financing transaction
SME	Small and medium-sized enterprise
SPE	Special Purpose Entity
SREP	Supervisory Review and Evaluation Process
STS	Simple, Transparent and Standardised
TC	Total capital
T1	Tier 1 capital
T2	Tier 2 capital
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 UK and Europe, South Africa and Asia/Australia. Investec focuses on delivering distinct profitable solutions for its clients in three core areas of activity namely: Asset Management, Wealth & Investment and Specialist Banking.

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

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

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

Regulation and supervision

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

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

Policy

www

In accordance with Article 13 and part 8 of the CRR, a sub-set of Pillar III disclosures covering own funds, capital requirements, credit risk, leverage and remuneration have to be published by significant subsidiaries on an individual or sub-consolidated basis. The Pillar III disclosures in this document are prepared in accordance with these disclosure requirements at the IBP sub-consolidated level which includes IBP and its subsidiaries (group or bank) as at 31 March 2019, with comparative figures for 31 March 2018 provided, where relevant.

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

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

Philosophy and approach to capital and liquidity

The bank holds capital in excess of regulatory requirements and intends to perpetuate this philosophy to ensure it remains well capitalised. At 31 March 2019, the common equity tier 1 (CET1) ratio of the group was 11.2% and leverage ratio was 7.9%. These disclosures incorporate the deduction of foreseeable charges and dividends as required by the regulations. Excluding this deduction, the CET1 ratio would be 13bps higher. The bank applies the Standardised Approach (SA) to calculate credit and counterparty credit risk, securitisation, market risk and operational risk capital requirements.

The bank has a liquidity management philosophy that has been in place for many years and continues to focus on maintaining a high level of readily available high-quality liquid assets targeting a minimum cash to customer deposit ratio of 25%. At 31 March 2019, the bank had £6.8 billion of cash and near cash balances representing 50.3% of customer deposits to support its activities. Furthermore the bank maintains an appropriate mix of term funding, placing a low reliance on interbank wholesale funding to fund core lending asset growth.

Regulatory environment

The regulatory environment has continued to evolve during 2019, 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 issued the final document of "Basel III: Finalising post-crisis reforms". The revisions to the regulatory framework will help restore credibility in the calculation of Risk weighted assets (RWA's) by:

- Enhancing the robustness and risk sensitivity of the standardised approaches for credit risk and operational risk
- Constraining the use of internal model approaches
- Complementing the risk-weighted capital ratio with a finalised leverage ratio and a revised capital floor The changes are expected to come into force at a Basel level on 1 January 2022. However it has yet to enter into EU law and the EU has not set the expected implementation date.

  In January 2019, the Basel committee on banking supervision issued a revised standard on the minimum requirements for market risk (Fundamental Review of the Trading Book (FRTB)), which replaced the earlier version of the standard which was published in January 2016.

As in the January 2016 framework, the core features of the standard include:

- a clearly defined boundary between the trading book and the banking book
- an internal models approach that relies upon the use of expected shortfall models and sets out separate capital requirements for risk factors that are deemed non-modelable; and
- a standardised approach that is risk-sensitive and is designed and calibrated to serve as a credible fallback to the internal models approach.

At a Basel level the revised standard will take effect from 1 January 2022, together with the revised standards on credit risk, leverage ratio and operational risk which were published in December 2017. The EU and domestic implementation date for these reforms have not yet been set.

The Basel committee has also published its final standards on the securitisation framework, which came into effect in the EU on 1 January 2019 with a one year grandfathering period for transactions issued pre 1 January 2019.

In addition, the BCBS issued a number of other guidelines and proposals during the year, of which the following are relevant to Investec plc:

- Leverage ratio treatment of client cleared derivatives
- The final guidelines for stress testing
- Pillar 3 disclosure requirements – updated framework; and
- Further refinements to the leverage ratio exposure measure for centrally cleared derivatives and disclosure of daily-average exposure measures are also under consideration.

United Kingdom

UK's withdrawal from the EU

In August 2018, Her Majesty's Treasury (HMT) commenced the process of 'on-shoring' the current EU legislation to ensure that there is legal continuity after the UK's departure from the EU. One of the key effects of on-shoring will be to treat the EU in the same manner as any of the non EU counterparts. Under the draft provisions published by HMT, the PRA will be given the power to grant transitional provisions to delay the implementation of these changes for up to two years, should the UK leave the EU without an agreement on 31 October 2019.

Regulatory development

In November 2018, the PRA issued a "general requirements and the revised capital framework on securitisation positions" supervisory statement. The policy, which came into force on 1 January 2019, sets out the general expectations of firms and processes under the securitisation regulation; expectations of firms seeking to become sponsors of Simple, Transparent and Standardised (STS) asset backed commercial paper programme. It also sets out the revised capital framework for the securitisation positions. The new framework amends the capital requirements for securitisation positions by introducing a new standardised approach and an external ratings based approach. It also sets out the grandfathering provisions which apply in 2019 for assets that were securitised before 1 January 2019. In addition, during the year, the Bank of England (BoE) and the PRA issued a number of other revisions to the regulatory framework. In particular:

- The PRA statement of policy sets out the methodologies that the PRA use to inform the setting of Pillar II capital for firms. The Pillar IIA methodologies sets out Pillar IIA capital requirement for credit risk, market risk, operational risk, counterparty credit risk, credit concentration risk, interest rate risk in the banking book, pension obligation risk and group risk.
- The PRA's approach to supervising liquidity and funding risks. The PRA expects firms to adhere to the EBA supervisory review and evaluation process (SREP) guidelines which detail the PRA's expectations regarding liquidity and funding risk management and control.
- The PRA's supervisory statement on the internal capital adequacy assessment process (ICAAP) and the SREP. It sets out the PRA's expectations in relation to the ICAAP requirements, stress testing, scenario analysis, capital planning and reverse stress testing requirements.
- International Financial Reporting Standards (IFRS) 9 was adopted into EU law and came into force on 1 January 2018. For regulatory reporting purposes Investec plc has adopted the transitional arrangements published by the EU on 27 December 2017 (article 473a of the CRR). These permit the bank to phase in the impact over five years post the introduction of IFRS 9. The proportion that the banks may add back starts at 95% in 2018 and is fully deducted by the end of the phasing period. The transitional arrangements took effect from 1 April 2018 for the Investec plc group.

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 the bank 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 compromise text of CRRII/CRDV package was agreed by the European parliament and council on 4 December 2018 and the final text was approved by the parliament and council on 14 February 2019 and was passed by plenary vote on 15 April 2019 and was adopted by the parliament at the end of April 2019. The final implementation date has not yet been set.

Table 1: Capital Structure

£'million	Ref^	31 March 2019^^	31 March 2018^^
Tier 1 capital			
Shareholder's equity		**1 889**	**1 989**
Shareholder's equity excluding non-controlling interests	d	1 921	2 012
Foreseeable charges and dividends^^		(19)	(18)
Deconsolidation of special purpose entities	d	(13)	(5)
Non-controlling interests		**(8)**	**(3)**
Non-controlling interest per balance sheet	f	(8)	(3)
Regulatory adjustments to the accounting basis		**110**	**(4)**
Additional value adjustments		(5)	(4)
Gains or losses on liabilities at fair value resulting from changes in our credit standing		21	–
Adjustment under IFRS 9 transitional arrangement		94	–
Deductions		**(348)**	**(361)**
Goodwill and intangible assets net of deferred taxation	b	(335)	(348)
Deferred taxation assets that rely on future profitability excluding those arising from temporary differences	a	(13)	(9)
Securitisation positions		–	(3)
Debit valuation adjustment		–	(1)
Common equity tier 1 capital		**1 643**	**1 621**
Additional tier 1 instruments	e	250	200
Tier 1 capital		**1 893**	**1 821**
Tier 2 capital		**596**	**445**
Tier 2 instrument	c	596	445
Total regulatory capital		**2 489**	**2 266**
Risk-weighted assets		**14 631**	**13 744**
Capital and leverage ratios			
Common equity tier 1 (as reported)°		11.2%	11.8%
Common equity tier 1 ('fully loaded')^^^		10.8%	11.8%
Tier 1 (as reported)°		12.9%	13.2%
Total capital (as reported)°		17.0%	16.5%
Leverage ratio exposure measure		**23 849**	**21 335**
Leverage ratio* – current		7.9%	8.5%
Leverage ratio* – 'fully loaded'^^^		7.7%	8.5%
Leverage ratio** – current UK leverage ratio framework		10.0%	10.2%

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

^^ *The capital adequacy disclosures include the deduction of foreseeable charges and dividends when calculating CET1 capital as required under CRR and EBA technical standards. These disclosures are different to the capital adequacy disclosures included in Investec's 2019 and 2018 Integrated Annual Report, which follow our normal basis of presentation and do not include this deduction when calculating CET1 capital. IBP' CET1 ratio would be 13bps (31 March 2018: 13bps) higher on this basis.*

^^^ *Based on the group's understanding of current regulations, 'fully loaded' is based on CRR requirements as fully phased in by 2022, including full adoption of IFRS 9. As a result of the adoption of IFRS 9 Investec Bank plc elected to designate its subordinated fixed rate medium-term notes due in 2022 at fair value. By the time of full adoption of IFRS 9 in 2023, these subordinated liabilities will have reached final maturity and will be redeemed at par value. The remaining interest rate portion of the fair value adjustment at 31 March 2019 of £17.7 million (post-taxation), has therefore been excluded from the fully loaded ratios as it will be released into profit and loss over the remaining life of the instrument.*

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

** *IBP is not subject to the UK leverage ratio framework. However, due to 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.*

° *The reported CET1, T1 and total capital ratios are calculated applying the IFRS 9 transitional arrangements.*

Current regulatory framework

In the UK banks are required to meet minimum capital requirements as prescribed by CRD IV for Pillar I, namely a CET1 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 ICAAP and SREP, with at least 56% CET1 capital. The PRA buffer which is also determined as part of the SREP must be supported with CET1 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 CET1 capital. The buffer for global systemically important institutions (G-SIIs) and the systemic risk buffer do not apply to IBP and will not be included in the combined buffer requirement.

From 1 January 2016 IBP began phasing in the CCB at 0.625% of RWAs. An additional 0.625% of RWAs was phased-in each year until fully implemented on 1 January 2019 at 2.5% of RWAs. As at 31 March 2019 IBP holds a CCB, which is met with CET1 capital, of 2.5% of RWAs.

At 31 March 2019 IBP is holding an institution specific CCyB of 0.55% 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 November 2018, the UK countercyclical buffer rate has increased from 0.5% (June 2018) to 1%. The Hong Kong rate has increased from 1.875% to 2.5% in January 2019.

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

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

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

Capital and leverage ratio targets

Capital

Over recent years, capital adequacy standards for banks have been raised as part of attempts to increase the stability and resilience of the global banking sector. IBP has always held capital in excess of regulatory requirements and continues to remain well capitalised. Accordingly, the bank targets 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 Investec group 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

The bank targets 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 Financial Reporting Standard (IFRS) and is described on page 160 of the IBP Annual Report 2019.

The regulatory consolidation includes all financial sector subsidiaries, the majority of which are wholly-owned by the relevant parent company. Investments in financial sector associates are equity accounted in the financial accounting consolidation. In the regulatory consolidation, exposures to financial sector associates are proportionally consolidated. Subsidiaries and associates engaged in non-financial activities are excluded from the regulatory consolidation. In addition special purpose entities (SPEs) are not consolidated for regulatory purposes, where significant credit risk has been transferred to third parties. The positions the bank continues to hold in these securitisation SPEs will either be risk-weighted and/or deducted from CET1 capital. The principal SPE excluded from the regulatory scope of consolidation is Tamarin Securities Limited.

Table 2 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 6.

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

31 March 2019 £'million	Ref^	Accounting balance sheet	Decon-solidation of non-financial/ other entities	Consolidation of banking associates	Regulatory balance sheet
Cash and balances at central banks		4 445	–	–	4 445
Loans and advances to banks		956	(69)	–	887
Reverse repurchase agreements and cash collateral on securities borrowed		633	–	–	633
Sovereign debt securities		1 299	–	–	1 299
Bank debt securities		52	–	–	52
Other debt securities		508	–	–	508
Derivative financial instruments		643	–	–	643
Securities arising from trading activities		798	(7)	–	791
Investment portfolio		486	(5)	–	481
Loans and advances to customers		10 488	16	–	10 504
Other loans and advances		246	100	–	346
Other securitised assets		118	–	–	118
Interests in associated undertakings		9	–	(1)	8
Deferred taxation assets of which:		133	–	–	133
– relates to losses carried forward	a	13	–	–	13
Other assets		848	(42)	–	806
Property and equipment		95	(26)	–	69
Investment properties		15	(15)	–	–
Goodwill	b	261	–	–	261
Intangible assets	b	88	–	–	88
Investment in subsidiary companies		–	22	–	22
Total assets		**22 121**	**(26)**	**–**	**22 095**
Deposits by banks		1 320	(84)	–	1 236
Derivative financial instruments		719	–	–	719
Other trading liabilities		80	–	–	80
Repurchase agreements and cash collateral on securities lent		314	–	–	314
Customer deposits (deposits)		13 499	94	–	13 593
Debt securities in issue		2 050	(37)	–	2 013
Liabilities arising on securitisation of other assets		114	8	–	122
Current taxation liabilities		137	–	–	137
Deferred taxation liabilities of which:		21	(2)	–	19
– in respect of acquired intangibles	b	14	–	–	14
Other liabilities		900	8	–	908
Subordinated liabilities of which:		804	–	–	804
– term subordinated debt included in tier 2 capital	c	804	–	–	804
Total liabilities		**19 958**	**(13)**	**–**	**19 945**
Shareholder's equity excluding non-controlling interests	d	1 921	(13)	–	1 908
Additional tier 1 securities in issue	e	250	–	–	250
Non-controlling interests	f	(8)	–	–	(8)
Total equity		**2 163**	**(13)**	**–**	**2 150**
Total liabilities and equity		**22 121**	**(26)**	**–**	**22 095**

^ *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*

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

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

Capital adequacy and capital requirements

Capital management

Philosophy and approach

IBP's approach to capital management utilise 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 IBP's 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. IBP's internal capital framework is designed to manage and achieve this balance.

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

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

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

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

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

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

Risk modelling and quantification

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

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

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

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

Capital planning and stress/scenario testing

A capital plan is prepared for IBP and is maintained to facilitate discussion of the impact of business strategy and market conditions on capital adequacy. This plan is designed to assess capital adequacy under a range of economic and internal conditions over the medium term (three years), with the impact on earnings, asset growth, risk appetite and liquidity considered. The plan provides the board (via the IBP 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 three year capital plans are stressed based on conditions most likely to cause duress.

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

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

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

- Changes to capital demand caused by the 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 the capital adequacy in an expected case and in downturn scenarios. On the basis of the results of this analysis, the Investec plc and IBP Capital Committee, the DLC Capital Committee and the IBP 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 IBP BRCC.

The (simplified) integration of risk and capital management

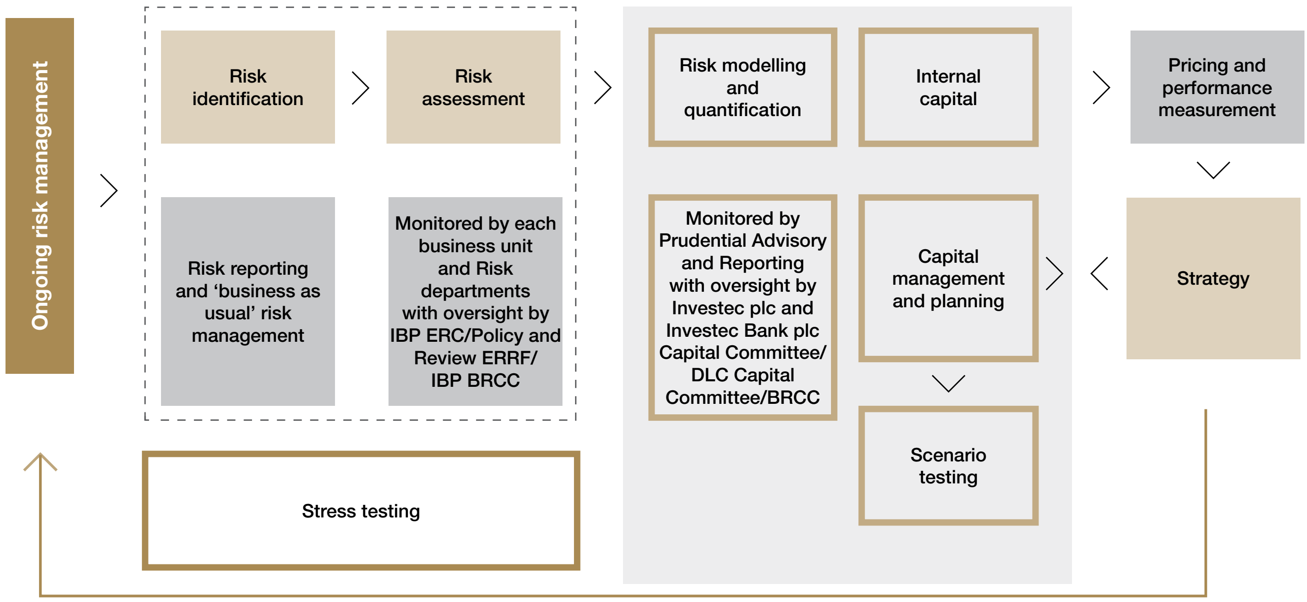

Table 3: Own funds disclosure

Ref^	£'million Common equity tier 1 capital: Instruments and reserves	31 March 2019	31 March 2018
1	**Capital instruments and the related share premium accounts**	1 330	1 330
	of which: ordinary shares	1 330	1 330
2	Retained earnings	465	408
3	Accumulated other comprehensive income (and other reserves)	(38)	167
5	Minority interests (amount allowed in consolidated CET1)	(8)	(3)
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	132	84
6	**Common equity tier 1 capital before regulatory adjustments**	**1 881**	**1 986**
	Common equity tier 1 capital: regulatory adjustments		
7	Additional value adjustments	(5)	(4)
8	Intangible assets (net of related tax liability)	(335)	(348)
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)	(13)	(9)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	21	(1)
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	–	(3)
20c	of which: securitisation positions	–	(3)
	Adjustment under IFRS 9 transitional arrangements	94	–
28	**Total regulatory adjustments to Common equity tier 1**	**(238)**	**(365)**
29	**Common equity tier 1 capital**	**1 643**	**1 621**
	Additional tier 1 capital: instruments		
44	**Additional Tier 1 (AT1) capital**	**250**	**200**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**1 893**	**1 821**
	Tier 2 (T2) capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	596	445
58	**Tier 2 (T2) capital**	**596**	**445**
59	**Total capital (TC = T1 + T2)**	**2 489**	**2 266**
60	**Total risk weighted assets**	**14 631**	**13 744**
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	11.2%	11.8%
62	Tier 1 (as a percentage of risk exposure amount)	12.9%	13.2%
63	Total capital (as a percentage of risk exposure amount)	17.0%	16.5%
64	Institution specific buffer requirement (expressed as a percentage of risk exposure amount))	3.05%	1.90%
65	of which: capital conservation buffer requirement	2.50%	1.88%
66	of which: countercyclical buffer requirement	0.55%	0.02%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	6.7%	7.3%
	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)	75	83
73	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	11	11
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)	36	42
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)		
84	Current cap on T2 instruments subject to phase out arrangements	15	20

^ *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 CET1, tier 1 (T1) and tier 2 (T2) capital and comprise the following:

- CET1 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 CET1 capital at the point of non-viability of the bank, and other additional tier 1 instruments, which no longer qualify as additional tier 1 capital and are subject to grandfathering provisions and related eligible non-controlling interests ; and
- T2 capital comprises of qualifying subordinated debt and related eligible non-controlling interests.

Table 4 provides a description of the terms and conditions of all capital instruments, including an indication of which instruments are not CRD IV compliant and are subject to transitional arrangements. In order to optimise the capital structure in line with the CRD IV and PRA capital requirements, IBP issued a further £50 million of inaugural perpetual 6.75% non call 2014 ATI in January 2019. This is in addition to the £200 million inaugural perpetual notes issued in October 2017. This instrument is structured with a permanent write-down mechanism.

Table 4: Summary of capital instruments' main features

	Capital instruments' main features template	Ordinary shares
1	Issuer	Investec Bank plc
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	n/a
3	Governing law(s) of the instrument	English Law
	Regulatory treatment	
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional rules	Common Equity Tier 1
6	Eligible at solo/(sub-) consolidated / solo and (sub-) consolidated	Solo and Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)[1]	£1 187m
9	Nominal amount of instrument	£1 187m
9a	Issue price	n/a
9b	Redemption price	n/a
10	Accounting classification	Shareholders' equity
11	Original date of issuance	n/a
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	n/a
15	Optional call date, contingent call dates and redemption amount	n/a
16	Subsequent call dates, if applicable	n/a
	Coupons/dividends	
17	Fixed or floating dividend / coupon	Floating
18	Coupon rate and any related index	n/a
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timings)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step-up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	n/a
25	If convertible, fully or partially	n/a
26	If convertible, conversion rate	n/a
27	If convertible, mandatory or optional conversion	n/a
28	If convertible, specify instrument type convertible into	n/a
29	If convertible, specify issuer of instrument it converts into	n/a
30	Write-down features	n/a
31	If write-down, write-down triggers(s)	n/a
32	If write-down, full or partial	n/a
33	If write-down, permanent or temporary	n/a
34	If temporary write-down, description of write-up mechanism	n/a
35	Position in subordinated hierarchy in liquidation (specify instrument type immediately senior to instrument)	Represents the most subordinate claim in liquidation of the bank
36	Non-compliant transitioned features	n/a
37	If yes, specify non-compliant features	n/a

Note 1: Amount recognised in regulatory capital at 31 March 2019 takes into account the amortisation of the tier 2 instrument

Fixed Rate Reset Perpetual Additional Tier 1 Write-Down Capital Securities	Fixed Rate Reset Perpetual Additional Tier 1 Write-Down Capital Securities	Subordinated fixed rate medium-term note	Fixed rate reset callable subordinated notes due 2028
Investec Bank plc	Investec Bank plc	Investec Bank plc	Investec Bank plc
Unlisted	Unlisted	XS0593062788	XS1859228634
English Law	English Law	English Law	English Law
Additional Tier 1	Additional Tier 1	Tier 2	Tier 2
Additional Tier 1	Additional Tier 1	Tier 2	Tier 2
Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated
Additional tier 1 instrument	Additional Tier 1 instrument	Tier 2 instruments	Tier 2 instruments
£200m	£50m	£178m	£418m
£200m	£50m	£308m	£420m
100%	100%	99.981%	99.47%
Redemption at principal amount plus accrued and unpaid interest to date of redemption	Redemption at principal amount plus accrued and unpaid interest to date of redemption	Par plus accrued but unpaid interest	Par plus accrued interest
Shareholders' equity	Shareholders' equity	Liability – fair value	Liability – amortised cost
16 October 2017	22 January 2019	17 February 2011 (29 June 2011 tap)	Tuesday, 24 July 2011
Perpetual	Perpetual	Dated	Dated
No maturity	No maturity	Thursday, 17 February 2022	Monday, 24 July 2028
Yes	Yes	n/a	Yes
5 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	5 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	NA; Subject to tax and regulatory call; Redemption at par plus accrued but unpaid interest	24 July 2023 subject to supervisory approval; subject to tax and regulatory call; redemption at par plus accrued interest
On each quarterly interest payment date after first call	On each quarterly interest payment date after first call	n/a	n/a
Fixed	Fixed	Fixed	Fixed
6.750%	6.750%	9.625%	4.25%
No	No	No	No
Fully discretionary	Fully discretionary	Mandatory	Mandatory
Fully discretionary	Fully discretionary	Mandatory	Mandatory
No	No	No	No
Non-cumulative	Non-cumulative	Cumulative	Cumulative
Non-convertible	Non-convertible	Non-convertible	Non-convertible
n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a
CET1 ratio of the issuer and / or the Investec plc group has fallen below 7% – contractual / point of non viability – UK PRA statutory	CET1 ratio of the issuer and / or the Investec plc group has fallen below 7% – contractual / point of non viability – UK PRA statutory	n/a	n/a
Full	Full	n/a	n/a
Permanent	Permanent	n/a	n/a
n/a	n/a	n/a	n/a
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
No	No	No	No
n/a	n/a	n/a	n/a

Overview of RWAs

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

Total RWAs have increased by 6.5% over the period, predominantly within credit risk RWAs.

Credit risk RWAs

IBP have adopted the standardised approach for calculating credit risk RWAs. Credit risk RWAs, which include equity risk but exclude securitisation exposures, increased by £910 million. The increase is primarily driven by diversified growth across the corporate and retail portfolio coupled with continued mortgage loan growth.

Counterparty credit risk RWAs and CVA risk

Counterparty credit risk and Credit Valuation Adjustment (CVA) RWAs decreased by £86 million mainly due to increased equity options cleared through a central counterparty, which benefits from a lower risk weight.

Market risk RWAs

IBP apply the standardised approach for calculating market risk. Market risks RWAs decreased by £132 million primarily driven by equity market movements and hedging activities.

Operational risk RWAs

Operational risk RWAs are calculated using the standardised approach and increased by £166 million. The increase is due to a higher three year average operating income.

Table 5: Overview of RWAs

		RWA		**Minimum capital requirements***
Ref^	**£'million**	**31 March 2019**	31 March 2018	**31 March 2019**
1	Credit risk (excluding counterparty credit risk)	11 185	10 275	894
2	Of which standardised approach	11 185	10 275	894
6	Counterparty credit risk (CCR)	687	773	55
7	Of which mark to market	609	651	49
11	Of which risk exposure amount for contributions to the default fund of a CCP	2	1	0
12	Of which credit valuation adjustment (CVA) risk	76	121	6
13	Settlement risk	–	1	–
14	Securitisation exposures in banking book (after cap)	104	74	8
18	Of which standardised approach	104	74	8
19	Market risk	833	965	67
20	Of which the standardised approach	833	965	67
23	Operational risk	1 822	1 656	146
25	Of which standardised approach	1 822	1 656	146
27	Amounts below the thresholds for deduction (subject to 250% RWAs)**	117	132	9
29	Total (1+6+13+14+19+23)	**14 631**	**13 744**	**1 170**

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*
* *Minimum capital requirements of 8% of RWAs.*
** *The RWAs are already included in total credit risk.*

Leverage ratio

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

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

The group's leverage ratio was 7.9% at 31 March 2019, down from 8.5% at 31 March 2018. The decrease is mainly attributable to an increase in assets on the balance sheet

The UK leverage ratio framework is relevant to PRA regulated banks and building societies with retail deposits equal to or greater than £50 billion. Firms subject to this framework are allowed to exclude from the calculation of the total exposure measure those assets constituting claims on central banks where they are matched by deposits accepted by the firm that are denominated in the same currency and of identical or longer maturity. Although IBP is not subject to the UK leverage ratio framework, the leverage ratio calculated on this basis, has been included in table 1 on page 8 for comparative purposes.

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

Ref^	£'million	31 March 2019	31 March 2018
1	Total assets as per published financial statements	22 121	20 097
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(26)	(31)
4	Adjustments for derivative financial instruments	964	1 005
5	Adjustment for securities financing transactions (SFTs)	131	73
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	898	556
7	Other adjustments	(239)	(365)
8	Leverage ratio total exposure measure	**23 849**	**21 335**

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

Table 7: Leverage ratio common disclosure

Ref^	£'million	CRR leverage ratio exposures 31 March 2019	31 March 2018
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	20 820	18 706
2	(Asset amounts deducted in determining Tier 1 capital)	(239)	(365)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**20 581**	**18 341**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	447	741
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	824	871
9	Adjusted effective notional amount of written credit derivatives	394	475
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	(59)	(472)
11	**Total derivatives exposures**	**1 606**	**1 615**
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	633	750
14	Counterparty credit risk exposure for SFT assets	131	73
16	**Total securities financing transaction exposures**	**764**	**823**
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	2 015	1 256
18	(Adjustments for conversion to credit equivalent amounts)	(1 117)	(700)
19	**Other off-balance sheet exposures**	**898**	**556**
	Capital and total exposure measure		
20	Tier 1 capital	1 893	1 821
21	Leverage ratio exposure measure	**23 849**	**21 335**
	Leverage ratio		
22	**Leverage ratio**	**7.9%**	**8.5%**
	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	NA	N/A

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

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

Ref^	£'million	CRR leverage ratio exposures 31 March 2019	31 March 2018
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	20 581	18 341
EU-2	Trading book exposures	791	655
EU-3	Banking book exposures, of which:	19 790	17 686
EU-5	Exposures treated as sovereigns	5 780	4 637
EU-6	Exposures to regional governments, multilateral development banks, international organisations and public sector entities not treated as sovereigns	117	55
EU-7	Institutions	834	750
EU-8	Secured by mortgages of immovable properties	3 131	2 707
EU-9	Retail exposures	1 249	1 064
EU-10	Corporate	6 136	5 987
EU-11	Exposures in default	406	320
EU12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	2 137	2 166

^ *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 the Capital conservation buffer (CCB) and an institution specific countercyclical capital buffer (CCyB). The CCB was phased in at 0.625% of RWAs, commencing 1 January 2016. As at 31 March 2019, the group holds the fully phased in CCB of 2.5% which must be met fully with CET1 Capital.

The group is also subject to CCyB requirement, which is calculated based on the relevant exposures held in jurisdictions in which a buffer rate has been set. In November 2018, the UK countercyclical capital buffer rate has gone up from 0.5% (June 2018) to 1%. The Hong Kong rate increased from 1.875% to 2.5% in January 2019. At 31 March 2019 the group holds a CCyB of 0.55%.

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

Table 9: Geographical distribution of credit exposures

		General credit exposure	Trading book exposure	Securitisation exposure	Own funds requirements					
Ref^	**31 March 2019 £'million**	**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	55	2	–	4	–	–	4	0.43%	2.50%
	Norway	55	–	–	6	–	–	6	0.64%	2.00%
	Sweden	1	34	–	–	3	–	3	0.32%	2.00%
	United Kingdom	7 033	234	238	465	11	4	480	51.57%	1.00%
	Denmark	30	–	–	2	–	–	2	0.21%	0.50%
	Slovakia	–	–	–	–	–	–	–	0.00%	1.25%
	Iceland	–	–	–	–	–	–	–	0.00%	1.25%
	Total countries with existing CCyB rates	7 174	270	238	477	14	4	495	53.18%	
	United States of America	591	12	24	47	–	–	47	5.04%	n/a
	Ireland	475	1	20	38	–	–	38	4.08%	n/a
	Luxembourg	429	6	–	35	–	–	35	3.76%	n/a
	Australia	668	–	–	55	–	–	55	5.90%	n/a
	British Virgin Islands	450	–	–	33	–	–	33	3.54%	n/a
	Netherlands	271	–	–	22	–	–	22	2.36%	n/a
	Cayman Islands	499	–	173	40	–	3	43	4.61%	n/a
	Jersey	518	–	5	35	–	–	35	3.76%	n/a
	Guernsey	380	–	–	24	–	–	24	2.58%	n/a
	Germany	161	11	–	12	–	–	12	1.29%	n/a
	Mauritius	163	–	–	13	–	–	13	1.40%	n/a
	Total countries with own funds requirements weights 1% or above	4 605	30	222	354	–	3	357	38.31%	n/a
	Total countries with own funds requirements weights below 1% and without an existing CCyB rate	1 072	45	–	76	2	1	79	8.51%	n/a
	Total	12 851	345	460	907	16	8	932	100.00%	

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

Table 10: Amount of institution specific countercyclical capital buffer

Ref^	£'million	31 March 2019	31 March 2018
010	Total risk exposure amount	14 631	13 744
020	Institution specific countercyclical buffer rate	0.55%	0.02%
030	Institution specific countercyclical buffer requirement	**80**	3

Credit risk

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

Table 11: Total and average net amount of exposures

Ref^	£'million	31 March 2019 Net value of exposures*	31 March 2019 Average net exposures	31 March 2018 Net value of exposures*	31 March 2018 Average net exposures*
16	Central governments or central banks	5 784	5 112	4 605	3 701
17	Regional governments or local authorities	1	4	4	3
18	Public sector entities	74	60	45	45
19	Multilateral Development Banks	49	26	45	45
21	Institutions	858	903	757	989
22	Corporates	7 973	7 869	7 177	6 891
24	Retail	1 266	1 269	1 079	1 038
26	Secured by mortgages on immovable property	3 229	2 773	2 792	2 827
28	Exposures in default	414	472	320	271
29	Items associated with particularly high risk	516	472	479	484
33	Equity exposures	98	97	79	76
34	Other exposures	320	418	382	371
35	**Total standardised approach**	**20 582**	**19 474**	**17 719**	**16 697**

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*
* *The net value of exposures is the gross carrying value of the exposure less impairment allowances or provisions.*

Table 12: Geographical breakdown of exposures

		Net value*					
Ref^	**31 March 2019 £'million**	**United Kingdom**	**Europe (excluding UK)**	**Australia**	**North America**	**Other**	**Total**
7	Central governments or central banks	5 525	54	–	187	18	5 784
8	Regional governments or local authorities	1	–	–	–	–	1
9	Public sector entities	68	6	–	–	–	74
10	Multilateral Development Banks	–	–	–	–	49	49
12	Institutions	425	247	85	64	37	858
13	Corporates	3 907	1 528	592	1 486	460	7 973
14	Retail	1 231	12	3	2	18	1 266
15	Secured by mortgages on immovable property	2 520	162	27	309	211	3 229
16	Exposures in default	253	106	16	2	37	414
17	Items associated with particularly high risk	246	21	21	105	123	516
21	Equity exposures	76	3	8	8	3	98
22	Other exposures	225	23	9	4	59	320
23	**Total standardised approach**	**14 477**	**2 162**	**761**	**2 167**	**1 015**	**20 582**

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

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*
* *The net value is the gross carrying value of the exposure less impairment allowances or provisions.*

Table 13: Concentration of exposures by counterparty type

Ref^	31 March 2019 £'million	Financial sector	Non-financial sector	Total
7	Central governments or central banks	5 308	476	5 784
8	Regional governments or local authorities	–	1	1
9	Public sector entities	–	74	74
10	Multilateral Development Banks	49	–	49
12	Institutions	858	–	858
13	Corporates	184	7 789	7 973
14	Retail	–	1 266	1 266
15	Secured by mortgages on immovable property	–	3 229	3 229
16	Exposures in default	–	414	414
17	Items associated with particularly high risk	–	516	516
21	Equity exposures	11	87	98
22	Other exposures	–	320	320
23	**Total standardised approach**	**6 410**	**14 172**	**20 582**

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

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

Table 14: Maturity of exposures

Ref^	31 March 2019 £'million	Net exposure value ^^ < = 1 year	> 1 year < = 5 years	> 5 years	No stated maturity	Total
7	Central governments or central banks	5 409	87	288	–	5 784
8	Regional governments or local authorities	–	1	–	–	1
9	Public sector entities	3	62	9	–	74
10	Multilateral Development Banks	–	49	–	–	49
12	Institutions	768	74	16	–	858
13	Corporates	2 113	4 287	1 573	–	7 973
14	Retail	126	1 056	84	–	1 266
15	Secured by mortgages on immovable property	406	1 866	957	–	3 229
16	Exposures in default	36	131	247	–	414
17	Items associated with particularly high risk	68	27	2	419	516
21	Equity exposures	–	–	–	98	98
22	Other exposures	–	–	–	320	320
23	**Total standardised approach**	**8 929**	**7 640**	**3 176**	**837**	**20 582**

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

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*
^^ *The net exposure value is the gross carrying value of the exposure less impairment allowances or provisions, reported by residual contractual maturity.*

Credit risk adjustments

IFRS 9 requirements have been embedded into our bank credit risk classification and provisioning policy. A framework has been established to incorporate both quantitative and qualitative measures. Policies for financial assets at amortised cost and at fair value through other comprehensive income (FVOCI), in accordance with IFRS 9, have been developed as described below:

Definition of default

The bank has aligned the IFRS 9 and regulatory definitions of default, credit impaired and non-performing exposure. Assets that are more than 90 days past due, or considered by management as unlikely to pay their obligations in full without realisation of collateral are considered as exposures in default.

Stage 1

All assets that are considered performing and have not had a significant increase in credit risk are reported as Stage 1 assets. Under IFRS 9 these Stage 1 financial assets have loss allowances measured at an amount equal to 12-month Expected Credit loss (ECL).

Stage 2

Financial assets are considered to be in Stage 2 when their credit risk has increased significantly since initial recognition. A loss allowance equivalent to a lifetime ECL is required to be held.

The bank's primary indicator for Stage 2 assets are distressed loans, potential problem loans and exposures in arrears that require additional attention and supervision from watchlist committees and are under management review.

Assets in forbearance are considered to be, at a minimum, Stage 2. Forbearance measures refer to concessions such as modification of the terms and conditions or refinancing that has been granted to a debtor in financial difficulty amongst other indicators of financial stress. These exposures are assessed on a case by case basis to determine whether the proposed modifications will be considered as forbearance. Where the Credit Committee considers it likely that the client will be able to return to perform against the original contractual obligations within a reasonable time frame these assets will be considered performing and in Stage 2. Forbearance is distinguished from commercial renegotiations which take place as part of normal business activity and standard banking practice. The total amount of exposure forborne within Stage 2 and Stage 3 represents 1.2% of the total gross credit and counterparty exposures (31 March 2018: 1.8%)

In addition to loans under management review, an asset may also move from Stage 1 to Stage 2 if the model calculated probability of default (PD) has significantly increased since origination. This is tested on both a relative and absolute basis to assess whether a significant deterioration in lifetime risk of default has occurred. Currently there is a common definition across all exposures regarding what constitutes a significant probability of default (PD) movement. The test involves both an absolute and relative movement threshold. An asset is considered to have been subjected to a significant increase in credit risk if the appropriate PD has doubled relative to the value at origination, and on an absolute basis has increased by more than 1%. Any asset with an original rating that is classified as investment grade will be judged to have had a significant movement if the new PD would classify it as sub-investment grade and the equivalent rating has moved by more than three notches.

The bank assumes that all financial assets that are more than 30 days past due have experienced a significant increase in credit risk.

Exposures move back to Stage 1 once they no longer meet the criteria above for a significant increase in credit risk and as cure periods (specifically relating to forborne exposures) are met.

Stage 3

Financial assets are included in Stage 3 when there is objective evidence of credit impairment. As required under IFRS 9, the bank assesses a loan as Stage 3 when contractual payments of either principal or interest are past due for more than 90 days, the debtor is assessed as unlikely to pay and credit impaired, or the loan is otherwise considered to be in default, for example due to the appointment of an administrator or the client is in receivership. Forborne loans that are considered non-performing, for example if a loan is not expected to meet the original contractual obligations in a reasonable time frame, the loan will be classified as Stage 3.

Loans which are more than 90 days past due are considered to be in default.

ECL

The assessment of credit risk and the estimation of ECL are required to be unbiased, probability-weighted and incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39, and the resulting impairment charge may be more volatile.

A management overlay of £8 million (£25 million at 1 April 2018) has been considered appropriate in addition to the bank's calculated model-driven ECL. This was due to bank's limited experience of utilising model output for reporting purposes and uncertainty over the models' predictive capability. The overlays have been designed to capture specific areas of model uncertainty during the initial adoption of IFRS 9. The model methodologies have been enhanced during the period and therefore the management overlay has been commensurately reduced at 31 March 2019 to reflect the lower level of model uncertainty. The bank will continue to assess the appropriateness of this management overlay and expect that it will continue to be unwound as the uncertainty of the models predictive capability reduces.

Write-offs

The bank's policy on the timing of write-off of financial assets has not significantly changed on the adoption of IFRS 9. A loan or advance is normally written off in full against the related ECL impairment allowance when the proceeds from realising any available security have been received or there is a reasonable amount of certainty that the exposure will not be recovered. This is considered on a case-by-case basis. Similarly the treatment and recognition of recoveries is unaffected by the implementation of IFRS 9. Any recoveries of amounts previously written off decrease the amount of impairment losses.

Table 15: Credit quality of exposures by exposure class

Ref^	31 March 2019 £'million	Gross carrying value: Defaulted exposures	Gross carrying value: Non defaulted exposures	Specific credit risk adjust-ments	Accumu-lated write-offs	Credit risk adjust-ment charge of the period	Net values^^
16	Central governments and central banks	–	5 784	–	–	–	5 784
17	Regional governments or local authorities–	–	1	–	–	–	1
18	Public sector entities	1	73	–	–	–	74
19	Multilateral Development Banks	–	49	–	–	–	49
21	Institutions	–	858	–	–	–	858
22	Corporates	333	7 983	35	31	6	8 281
24	Retail	63	1 268	5	1	–	1 326
26	Secured by mortgages on immovable property	–	3 233	–	–	–	3 233
28	Exposures in default	444	–	30	104	21	414
29	Items associated with particularly high risk	47	516	5	4	1	558
33	Equity exposures	–	98	–	–	–	98
34	Other exposures	–	320	–	–	–	320
35	**Total standardised approach***	**444**	**20 183**	**45**	**140**	**28**	**20 582**
36	Of which: Loans	435	15 663	44	140	28	16 054
37	Of which: Debt securities	1	1 575	–	–	–	1 576
38	Of which: Off-balance sheet exposures	8	2 007	1	–	–	2 014

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

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*
^^ *The net value is equal to the gross carrying value (including defaulted and non-defaulted exposures) less specific credit risk adjustments.*
* *The totals reported in line 35 do not take into account figures disclosed in row 28 'exposures in default'.*

Table 16: Credit quality of exposures by sector

Ref^	31 March 2019 £'million	Gross carrying value: Defaulted exposures	Gross carrying value: Non-defaulted exposures	Specific credit risk adjust-ments	Accumul-ated write-offs	Credit risk adjust-ment charge of the period	Net values^^
1	Financial sector	–	6 410	–	–	–	6 410
2	Non-financial sector	444	13 773	45	140	28	14 172
19	**Total**	**444**	**20 183**	**45**	**140**	**28**	**20 582**

Ref^	31 March 2018 £'million	Gross carrying value: Defaulted exposures	Gross carrying value: Non-defaulted exposures	Specific credit risk adjust-ments	Accumul-ated write-offs	Credit risk adjust-ment charge of the period	Net values^^
1	Financial sector	–	5 063	3	–	–	5 060
2	Non-financial sector	412	12 402	155	84	110	12 659
19	**Total**	**412**	**17 465**	**158**	**84**	**110**	**17 719**

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*
^^ *The net value is equal to the gross carrying value (including defaulted and non-defaulted exposures) less specific credit risk adjustments.*

Table 17: Credit quality of exposures by geography

Ref^	31 March 2019 £'million	Gross carrying value: Defaulted exposures	Gross carrying value: Non-defaulted exposures	Specific credit risk adjust-ments	Accumul-ated write-offs	Credit risk adjust-ment charge of the period	Net values^^
1	United Kingdom	275	14 233	31	117	23	14 477
2	Europe (excluding United Kingdom)	112	2 058	8	17	4	2 162
3	Australia	16	746	1	–	–	761
4	North America	3	2 168	4	–	–	2 167
5	Other geographies	38	978	1	6	1	1 015
6	**Total**	**444**	**20 183**	**45**	**140**	**28**	**20 582**

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

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*
^^ *The net value is equal to the gross carrying value (including defaulted and non-defaulted exposures) less specific credit risk adjustments.*

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

Table 18: Ageing of past due exposures

Ref^	31 March 2019 £'million	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	201	11	19	62	75	69
3	**Total exposures**	**201**	**11**	**19**	**62**	**75**	**69**

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

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

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

Ref ^	£'million	At March 2019 Accumulated specific credit risk adjustments	At March 2018 Accumulated specific credit risk adjustments
1	**Opening balance**	158	134
	IFRS 9 day 1 impact	5	–
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)
5	Transfers between credit risk adjustments	18	–
7	Business combinations, including acquisitions and disposals of subsidiaries	(5)	–
	Decrease in allowance account due to write-offs	(121)	–
8	Other adjustments	(10)	(1)
9	**Closing balance**	**45**	**158**

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

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

Ref ^	£'million	At 31 March 2019 Gross carrying value of defaulted exposures	At 31 March 2018 Gross carrying value of defaulted exposures
1	**Opening balance**	412	327
2	Loans and debt securities that have defaulted or impaired since the last reporting period	294	217
3	Returned to non-defaulted status	(53)	(28)
4	Amounts written off	(140)	(84)
5	Other changes	(69)	(20)
6	**Closing balance**	**444**	**412**

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

Table 21: Non-performing and forborne exposures

Ref ^	31 March 2019 £'million	Gross carrying amount of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
					of which: non-performing				On performing exposures		On non-performing exposures			
			of which performing but past due > 30 days and < 90 days	of which performing forborne		of which: defaulted	of which: impaired	of which: forborne		of which: forborne		of which: forborne	On non-performing exposures	Of which: forborne exposures
010	Debt securities	1 576	–	–	1	1	–	–	–	–	–	–	–	–
020	Loans and advances	15 722	55	113	441	435	331	63	(17)	(1)	(27)	(7)	209	58
030	Off-balance sheet exposures	2 014	–	–	8	8	–	–	–	–	(1)	–	6	–

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

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

Credit risk mitigation

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

Collateral

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

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

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

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

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

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

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

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

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

Investec places minimal reliance on credit derivatives in its credit risk mitigation techniques. Periodically the bank will enter into Credit Default Swaps (CDS) in order to hedge a specific asset held or to create a more general or macro hedge against a group of exposures in one industry or geography. In these instances, the bank is deemed to be 'buying protection' against the assets. Depending on the perceived risk, or 'spread', of the underlying exposure, the CDS will fluctuate in value; increasing in value when the asset has become more risky and decreasing when risk has reduced. Occasionally, the bank will enter into trading/ investment CDS positions where we buy protection or sell protection without owning the underlying asset. The total amount of net credit derivatives (including total return swap) outstanding at 31 March 2019 amounts to £6.5million, of which all is used for credit mitigation purposes. Total protection bought amounts to £0.5 million and total protection sold amounts to £6 million relating to credit derivatives used in credit mitigation. Table 30 provides more information on credit derivative exposures.

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

Recognition of credit risk mitigation under the standardised approach

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

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

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

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

Tables 22 to 24 analyse regulatory credit risk mitigation. Only ‘eligible’ collateral as defined in the CRR has been included in the tables. The exposure values reported in the Collateral table included in the IBP Annual Report 2019 on page 39 of the risk management section includes all collateral assessed by credit risk management, in line with our policy set out above, and not only ‘eligible’ collateral which is used to reduce RWAs from a regulatory perspective.

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

Table 22: Credit risk mitigation techniques

Ref	31 March 2019 £'million	Exposures unsecured-carrying amount	Exposures secured-carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
1	Total loans	12 533	3 521	3 442	79	–
2	Total debt securities	1 557	19	19	–	–
3	**Total exposures**	**14 090**	**3 540**	**3 461**	**79**	**–**
4	Of which defaulted	231	175	175	–	–

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

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

Ref^	31 March 2019 £'million	Exposures before CCF and CRM On-balance sheet amount	Exposures before CCF and CRM Off-balance sheet amount	Exposures post-CCF and CRM On-balance sheet amount	Exposures post-CCF and CRM Off-balance sheet amount	RWA and RWA density RWA	RWA and RWA density RWA density	Capital require-ments
1	Central governments and central banks	5 780	4	5 816	–	25	0%	2
2	Regional governments or local authorities	1	–	1	–	–	0%	–
3	Public sector entities	67	7	81	2	17	20%	1
4	Multilateral Development Banks	49	–	49	–	–		–
6	Institutions	834	24	844	2	188	22%	15
7	Corporates	6 136	1 837	5 949	784	6 720	100%	538
8	Retail	1 249	17	1 198	6	756	63%	60
9	Secured by mortgages on immovable property	3 131	98	3 131	49	1 705	54%	136
10	Exposures in default	406	8	406	4	507	124%	41
11	Items associated with particularly high risk	497	19	497	19	774	150%	62
15	Equity exposures	98	–	98	–	115	117%	9
16	Other exposures	320	–	323	–	376	116%	30
17	**Total**	18 568	2 014	18 393	866	11 183	58%	894

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

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

Table 24: Standardised approach

Ref^	31 March 2019 £'million	0%	2%	20%	35%	50%	75%	100%	150%	250%	Total
		Risk weight^^									
1	Central government or central banks	5 766	–	–	–	50	–	–	–	–	5 816
2	Regional governments or local authorities	–	–	1	–	–	–	–	–	–	1
3	Public sector entities	–	–	83	–	–	–	–	–	–	83
4	Multilateral Development Banks	49	–	–	–	–	–	–	–	–	49
6	Institutions	–	7	775	–	62	–	2	–	–	846
7	Corporates	–	–	10	–	–	–	6 718	5	–	6 733
8	Retail	–	–	–	–	–	1 204	–	–	–	1 204
9	Secured by mortgages on immovable property	–	–	–	2 230	45	–	905	–	–	3 180
10	Exposures in default	–	–	–	–	–	–	216	194	–	410
11	Items associated with particularly high risk	–	–	–	–	–	–	–	516	–	516
15	Equity exposures	–	–	–	–	–	–	86	–	12	98
16	Other exposures	–	–	–	–	–	–	287	–	36	323
17	**Total**	5 815	7	869	2 230	157	1 204	8 214	715	48	19 259

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

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*
^^ *The above table does not take into account the impact of the small and medium-sized enterprise (SME) reducing factor of 0.7619 applicable to SME's meeting the conditions set out in Article 501 of the CRR.*

Counterparty credit risk

Regulatory approach

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

Wrong-way risk

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

CVA

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

Table 25: Analysis of counterparty credit risk by approach

Ref^	**31 March 2019 £'million**	**Replacement cost/current market value**	**Potential future exposure**	**EAD post-CRM**	**RWA**
1	Mark to market	527	633	846	558
9	Financial collateral comprehensive method (for SFTs)			194	39
11	**Total**				**597**

Ref^	**31 March 2018 £'million**	Replacement cost/current market value	Potential future exposure	EAD post-CRM	RWA
1	Mark to market	479	781	956	613
9	Financial collateral comprehensive method (for SFTs)			173	32
11	**Total**				**645**

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

Table 26: Analysis of capital requirements for CVA

Ref^	**31 March 2019 £'million**	**Exposure value**	**RWAs**
1	All portfolios subject to the standardised method	363	76
5	Total subject to the CVA capital charge	**363**	**76**

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

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

Table 27: Analysis of exposures to CCPs

Ref^	31 March 2019 £'million	EAD post-CRM	RWAs
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions) of which	386	11
3	(i) OTC derivatives	54	1
4	(ii) Exchange-traded derivatives	332	10
7	Segregated initial margin	76	2
8	Non-segregated initial margin	41	2
9	Prefunded default fund contributions	28	2

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

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

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

		Risk weight								
Ref^	**31 March 2019 £'million**	**0%**	**2%**	**4%**	**50%**	**75%**	**75%**	**100%**	**150%**	**Total**
1	Central governments and central banks	2	–	–	–	–	–	–	–	2
6	Institutions	–	294	209	383	262	–	1	–	1 149
7	Corporates	–	–	–	–	–	–	372	8	380
8	Retail	–	–	–	–	–	8	–	–	8
11	**Total**	**2**	**294**	**209**	**387**	**262**	**8**	**373**	**8**	**1 543**

		Risk weight								
Ref^	**31 March 2018 £'million**	0%	2%	4%	20%	50%	75%	100%	150%	Total
1	Central governments and central banks	23	–	–	–	–	–	–	–	23
6	Institutions	–	296	–	330	400	–	1	–	1 027
7	Corporates	–	–	–	–	1	–	347	16	364
8	Retail	–	–	–	–	–	11	–	–	11
11	**Total**	**23**	**296**	**–**	**330**	**401**	**11**	**348**	**16**	**1 425**

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

Table 29: Impact of netting and collateral held on exposures

Ref^	31 March 2019 £'million	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
1	Derivatives	3 233	1 575	1 658	309	1 349
2	SFTs	1 208	–	1 208	1 014	194
4	Total	**4 441**	**1 575**	**2 866**	**1 324**	**1 543**

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

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

Table 30: Credit derivatives exposures

	Credit derivative hedges	
31 March 2019 £'million	**Protection bought**	**Protection sold**
Notionals		
Single name credit default swaps	58	377
Index credit default swaps	20	20
Total return swaps	282	–
Total notionals	**360**	**397**
Positive fair value (assets)	1	6
Negative fair value (liability)	26	6

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

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

Market risk

Regulatory approach

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

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

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

Table 31: Capital requirements for market risk

		RWAs	Capital requirements	RWAs	Capital requirements
Ref^	**£'million**	**31 March 2019**		31 March 2018	
1	Interest rate risk (general and specific)	173	14	197	16
2	Equity risk (general and specific)	210	17	259	21
3	Foreign exchange risk	163	13	105	8
	Options				
7	Scenario approach	287	23	404	32
9	**Total**	**833**	**67**	**965**	**77**

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

Remuneration

The Pillar III qualitative and quantitative disclosures are included in the IBP Annual Report 2019, on pages 117 to 136.

Appendix A – CRR references

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

CRR ref	HIGH-LEVEL SUMMARY	COMPLIANCE REFERENCE
Own funds		
437(1)	Disclose the following information regarding own funds:	
437(1)(a)	full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution;	Tables 1 and 2 on pages 6 – 8.
437(1)(b)	a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution;	Refer to 'Regulatory capital instruments' on page 13 and table 4 on pages 14 – 15.
437(1)(c)	the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments;	Table 4 on pages 14 – 15.
437(1)(d)	Disclosure of the nature and amounts of the following:	Table 3 on pages 12.
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;	
437(1)(f)	Where institutions disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in this Regulation, a comprehensive explanation of the basis on which those capital ratios are calculated.	Not applicable
437(2)	EBA to publish implementation standards for points above.	The group follows the implementing standards.
Capital requirements		
438(a)	Summary of the institution's approach to assessing the adequacy of its internal capital to support current and future activities.	Refer to 'Capital adequacy and capital requirements on pages 10 – 11.
438(b)	Upon demand from the relevant competent authority, the result of the institution's internal capital adequacy assessment process.	This request has not been received from the regulator.
438(c)	Capital requirements for each Standardised approach credit risk exposure class.	Table 5 on page 16.
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 5 on page 16.
438(f)	Capital requirements for operational risk, separately for the Basic Indicator Approach, the Standardised Approach, and the Advanced Measurement Approaches as applicable.	
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
Capital requirements *(continued)*		
440(1)(a)	Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer.	Refer to table 9 on page 20.
440(1)(b)	The amount of its institution specific countercyclical capital buffer.	Refer to table 10 on page 21.
440(2)	EBA to publish technical standards specifying the disclosure requirements above.	The group follows the technical standards.
Credit risk adjustments		
442(a)	The definitions for accounting purposes of 'past due' and 'impaired'.	Refer to 'definition of default' on page 25.
442(b)	A description of the approaches and methods adopted for determining specific and general credit risk adjustments.	Refer to 'Credit risk adjustment' on page 25.
442(c)	Disclosure of pre-CRM EAD by exposure class.	Refer to table 11 on page 21.
442(d)	Disclosure of pre-CRM EAD by geography and exposure class.	Refer to table 12 on page 22.
442(e)	Disclosure of pre-CRM EAD by industry and exposure class.	Refer to table 13 on page 23.
442(f)	Disclosure of pre-CRM EAD by residual maturity and exposure class.	Refer to table 14 on page 24.
442(g)	Breakdown of impaired, past due, specific and general credit risk adjustments, and impairment charges for the period, by industry or counterparty type.	Refer to table 15 and 16 on pages 26 and 27. We have also included table 18 on page 28 and table 21 on page 30 to supplement the disclosures.
442(h)	Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography.	Refer to table 17 on page 28. We have also included table 18 on page 28 and table 21 on page 30 to supplement the disclosures.
442(i)	Reconciliation of changes in specific and general credit risk adjustments for impaired exposures.	Refer to table 19 and 20 on page 29.
442 (endnote)	Specific credit risk adjustments recorded to income statement are disclosed separately.	
Remuneration policy		
450	Remuneration disclosures	Refer to the IBP Annual Report 2019 pages 117 to 136.
Leverage		
451(1)(a) 451(1)(b)		
451(1)(c)	Leverage ratio, and breakdown of total exposure measure, including reconciliation to financial statements, and derecognised fiduciary items.	Refer to tables 6 to 8 on pages 17 and 19.
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 17.
451(2)	EBA to publish technical standards specifying the uniform disclosure templates for the requirements above.	IBP applies with the standards.

Appendix A – CRR references *(continued)*

CRR ref	HIGH-LEVEL SUMMARY	COMPLIANCE REFERENCE
Use of credit risk mitigation techniques		
453(a)	Policies and processes for use of on and off-balance sheet netting.	Refer to 'Collateral' on page 31.
453(b)	Policies and processes for collateral valuation and management.	Refer to 'Collateral' on page 31.
453(c)	A description of the main types of collateral taken by the institution.	Refer to 'Collateral' on page 31.
453(d)	The main types of guarantor and credit derivative counterparty and their creditworthiness.	Refer to 'Collateral' on page 31.
453(e)	Market or credit risk concentrations within risk mitigation exposures.	Refer to 'Concentration risk' and 'Country risk' on page 34 of the IBP Annual Report 2019.
453(f)	Standardised or Foundation IRB Approach, exposure value covered by eligible collateral.	Refer to table 22 on page 33.
453(g)	Exposures covered by guarantees or credit derivatives.	Refer to table 22 on page 33.