Out of the Ordinary

Investec

Annual Report

Investec risk disclosures

Volume 2

2018

The 2018 integrated annual report covers the period 1 April 2017 to 31 March 2018 and provides an overview of the Investec group.

This report covers all our operations across the various geographies in which we operate and has been structured to provide stakeholders with relevant financial and non-financial information.

Volume 1

Strategic report incorporating governance, corporate responsibility and remuneration report

Volume 2

Risk disclosures

Volume 3

Annual financial statements

Feedback

We value feedback and invite questions and comments on our reporting. To give feedback or request hard copies of our reports, please contact our Investor Relations division.

For queries regarding information in this document

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Cross reference tools

1

Audited information

Denotes information in the risk and remuneration reports that forms part of the group's audited annual financial statements

2

Page references

Refers readers to information elsewhere in this report

3

Website

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

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Corporate responsibility

Refers readers to further information in our corporate responsibility report available on our website: www.investec.com

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Reporting standard

Denotes our consideration of a reporting standard

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Corporate information

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Registration number 3633621

Investec Limited

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Refer to page 133 in volume one of the integrated annual report.

Risk disclosures

Group risk management objectives are to:

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

Overview of disclosure requirements

Risk disclosures provided in line with the requirements of International Financial Reporting Standard 7 Financial Instruments: Disclosures (IFRS 7) and disclosures on capital required by International Accounting Standard 1 Presentation of Financial Statements (IAS 1) are included within this section of the integrated annual report on pages 9 to 92 with further disclosures provided within the annual financial statements section in volume three.

All sections, paragraphs, tables and graphs on which an audit opinion is expressed are marked as audited.

Information provided in this section of the integrated annual report is prepared on an Investec DLC consolidated basis (i.e. incorporating the results of Investec plc and Investec Limited), unless otherwise stated.

The group also publishes risk information for its 'silo' entity holding companies and its significant banking subsidiaries on a consolidated basis. This information is contained in the respective annual financial statements for those respective entities.

Furthermore, the group publishes separate Pillar III disclosure reports for Investec Limited, Investec plc, Investec Bank Limited and Investec Bank plc as required in terms of Regulation 43 of the regulations relating to banks in Southern Africa and Part 8 of the Capital Requirements Regulation pertaining to banks in the UK.

Statement from the chairman of the group risk and capital committee

Philosophy and approach to risk management

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

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

Risk awareness, control and compliance are embedded in all our day-to-day activities.

As fundamental to our values, we have a strong and embedded risk and capital management culture.

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

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

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

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

We believe that the risk management systems and processes we have in place are adequate to support the group's strategy (as explained on page 20 in volume one) and allow the group to operate within its risk appetite tolerance as set out on page 11.

This volume of our integrated annual report explains in detail our approach to managing our business within our risk appetite tolerance, across all principal aspects of risk.

A summary of the year in review from a risk perspective

Our executive management are integrally involved in ensuring stringent management of risk, liquidity, capital and conduct. The primary aim is to achieve a suitable balance between risk and reward in our business, particularly in the context of prevailing market conditions and group strategy.

Succession of the group's executive management team has been an ongoing focus area for the board with the group's initial announcement in this regard made in November 2015. Since that date, the board has implemented a number of processes to ensure an orderly management succession process. Leadership and talent development remain high priority areas for the board and management of Investec.

As part of the group's orderly succession plan to move from founding members to the next generation of leadership, a number of board and management changes have been announced. These are disclosed in detail on pages 5 to 8 in volume one of the group's integrated annual report.

The process has been well managed and there has been no negative impact on the group's operations.

Although the macro-environment continues to present challenges, the group was able to maintain sound asset performance and risk metrics throughout the year in review. Our risk appetite framework as set out on page 11 continues to be assessed in light of prevailing market conditions and group strategy.

In the year under review, the UK continued to negotiate the terms under which it would leave the European Union. The UK economy continues to be resilient, reflected in the levels of client activity we continue to see. Certain areas of the UK economy are beginning to signal signs of pressure. We are able to adjust our risk appetite and closely monitor any new lending in areas that may come under pressure in the medium-term. We are closely monitoring political developments with respect to Brexit and have continued to evaluate any changes we may need to make to adapt to the new legal and regulatory landscape that emerges.

In September 2017, Investec Bank plc's long-term deposit rating was upgraded by Fitch to BBB+ (stable outlook) and Moody's changed both the outlook on the bank to positive (A2, positive outlook) and also the outlook on Investec plc's ratings to positive (Baa1, positive outlook).

In South Africa the economy faced major headwinds throughout 2017, driven by escalating political risks, which had negative effects on the real economy. Concerns over the South African economy persisted throughout the year and peaked ahead of the ANC National Elective Conference in December 2017. Subsequent to that, Cyril Ramaphosa was elected President of the ANC, the ruling party. The announcement of a change of leadership within the ruling party was favourably received by investors. In response to these developments, Moody's left Southern Africa's international long-term credit ratings unchanged at investment grade (Baa3), upgrading the sovereign's outlook from negative to stable, ending the review for downgrade that started in November 2017.

Investec Bank Limited's ratings continued to track rating adjustments to the South African sovereign rating during the course of the year. The bank's national long-term ratings remain sound at Aa1.za from Moody's, AA(zaf) from Fitch and za.AA- from Standard & Poor's.

Our core loan book growth over the year in home currencies was 8.7% in South Africa, and 12.4% in the UK. Growth in our books has been well diversified across our residential owner-occupied mortgage portfolios, private client and corporate client lending portfolios as well as selective lending collateralised by property, with loan to values at conservative levels.

Our credit exposures are to a select target market, comprising high-income and high net worth individuals, established corporates, and medium-sized enterprises. Our risk appetite continues to favour lower risk, income-based lending, with exposures well collateralised and credit risk taken over a short to medium term.

Our focus over the past few years to realign and rebalance our portfolios in line with our risk appetite framework is reflected in the relative changes in asset classes on our balance sheet; showing an increase in private client and corporate and other lending, and a reduction in lending collateralised by property as a proportion of our book. Our core loan book remains well diversified with commercial rent producing property loans comprising approximately 12% of the book, other lending collateralised by property 6%, high net worth and private client lending 39.5% and corporate lending 43% (with most industry concentrations well below 5%).

The group has minimal exposure to the agriculture and construction sectors in South Africa, and our overall group exposure to mining and resources amounts to 2% of our credit and counterparty exposures.

Overall net defaults of the group are at a manageable level, amounting to 3.8% and 11.2% of our tier 1 equity in Investec Limited and Investec plc respectively, with total impairments amounting to 19.6% of the group's pre-provision operating profit. The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounted to 1.17% (2017: 1.22%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.72 times (2017: 1.35 times).

We reported an increase in the level of impairments taken on our South African portfolio, but remain comfortable with the overall performance of the book, as the credit loss ratio amounted to 0.28% (2017: 0.29%). Default loans (net of impairments) as a percentage of core loans and advances improved from 1.02% to 0.56% with absolute levels of defaults decreasing year on year due to asset write-offs mainly in the corporate portfolio.

In the UK, ongoing asset quality continues to reflect the solid performance of the book. The credit loss ratio on an ongoing basis amounted to 0.24% (2017: 0.27%). The legacy portfolio makes up 3.2% of net core loan exposures at 31 March 2018 (31 March 2017: 5.5%). Gross defaults on the overall UK book including legacy and ongoing totalled £360.6 million at 31 March 2018 (31 March 2017: £260.3 million) largely due to legacy loans. Defaulted exposures are well covered by impairments. The credit loss ratio on the overall UK book amounted to 1.14% (2017: 0.90%, 2016: 1.13%) in anticipation of accelerated exits on certain assets in the legacy portfolio.

Legacy exposures have reduced by 34.3% to £313 million (net of impairments) at 31 March 2018. Non-performing exposures are well covered by impairments and total net defaults in the legacy book amounted to £90 million.

Our client-driven private equity portfolios in the UK and Southern Africa delivered a sound performance. Overall, we remain comfortable with the performance of our investment and equity risk exposures which comprise 4.1% of total assets.

Market risk within our trading portfolio remains modest with value at risk and stress testing scenarios remaining at prudent levels. Proprietary risk is limited.

We continue to spend much time and effort focusing on conduct, reputational, operational, recovery and resolution risks. Financial and cyber crime remain high priorities, and Investec continually aims to strengthen its systems and controls in order to manage cyber risk as well as meet its regulatory obligations to combat money laundering, bribery and corruption.

Investec has continued to maintain a sound balance sheet with a low gearing ratio of 9.1 times and a core loans to equity ratio of 4.6 times. Our current leverage ratios for Investec Limited and Investec plc are at 7.5% and 8.5% respectively, ahead of the group's minimum 6% target level.

We have always held capital well in excess of regulatory requirements and we intend to perpetuate this philosophy. Investec plc's common equity tier 1 ratio is at 11.0% at 31 March 2018 and Investec Limited's improved to 10.2% ahead of our group CET 1 target of greater than 10% and in excess of regulatory minimums. Capital continued to grow and we are comfortable that credit growth is in line with our risk appetite framework and supported by sound risk metrics. We believe that a common equity tier 1 ratio in excess of 10% is appropriate for our businesses, given our sound leverage ratios and significant capital light revenues, and we will continue to build our business in a manner that achieves this target.

In South Africa, we have applied to the South African Prudential Authority (previously known as the Banking Supervision Division of the South African Reserve Bank) for approval to implement the Foundation Internal Ratings-Based (FIRB) approach for certain wholesale portfolios, a transitional step to implementing the Advanced Internal Ratings-Based (AIRB) approach. Subject to approval from the South African Prudential Authority, we expect to implement FIRB in 2019 in the calculation of credit risk regulatory capital. Through the preparation process for the application Investec has enhanced a number of rating systems and risk quantification models. In addition, once approved, we are expecting a positive impact on capital ratios in applying this approach.

Risk management

(continued)

In December 2017, the Bank of England (BoE) re-confirmed the preferred resolution strategy for Investec Bank plc as the bank insolvency (special administration) procedure under the Investment Bank Special Administration Regulations 2011 – otherwise known as 'modified insolvency'. As the resolution strategy is 'modified insolvency', the BoE has therefore set Investec Bank plc's minimum requirement for own funds and eligible liabilities (MREL) requirement as equal to its regulatory capital requirements.

Holding a high level of readily available, high quality liquid assets remains paramount in the management of our balance sheet. We continue to maintain a low reliance on interbank wholesale funding to fund core lending asset growth. Cash and near cash balances amounted to £12.8 billion at year end, representing 41.4% of customer deposits.

In the UK, a strong liquidity position has continued to be maintained throughout the year with liabilities growing to support strong asset growth. Funding rates have continued to reduce as we benefitted from additional cost-effective term funding including drawings on the BoE's Term Funding Scheme. For Investec plc and Investec Bank plc (solo basis), the Liquidity Coverage Ratio (LCR) is calculated using our own interpretations of the EU Delegated Act. The LCR reported to the Prudential Regulation Authority (PRA) at 31 March 2018 was 306% for Investec plc and 301% for Investec Bank plc (solo basis) which is well ahead of the regulatory minimum of 100%. Ahead of the implementation of the final Net Stable Funding Ratio (NSFR) rules, the group has applied its own interpretations of regulatory guidance and definitions from the Basel Committee of Banking Supervision (BCBS) final guidelines, to calculate the NSFR which was 142% for Investec plc and 133% for Investec Bank plc (solo basis), well ahead of the future regulatory minimum of 100%. The reported LCR and NSFR may change over time with regulatory developments and guidance.

In South Africa, we maintained a strong liquidity position and continued to hold high levels of surplus liquid assets. During the past financial year Investec Bank Limited responded to external political uncertainty by concluding its \$600 million long-term foreign currency funding programme in September 2017. It raised a further \$550 million using a combination of repos, sub-debt issuances and long-term cross currency swaps. The majority of our foreign currency funding is used to augment our already strong cash balances. Investec grew its total customer deposits by 6.1% from R303 billion to R322 billion as at 31 March 2018. Cash and near cash balances amounted to R116.5 billion at 31 March 2018 (31 March 2017: R117.6 billion).

Investec Bank Limited (solo basis) ended the financial year with the three-month average of its LCR at 133.9%, which is well ahead of the minimum regulatory level of 90% required. The NSFR has become a regulatory requirement as of January 2018. The NSFR for Investec Bank Limited (solo basis) amounted to 108.4% as at 31 March 2018, comfortably above the 100% regulatory minimum.

On 11 December 2017 the group released an announcement on the Johannesburg Stock Exchange in relation to its exposures to Steinhoff International Holdings NV (Steinhoff), its subsidiaries and related entities. Trading and investment losses incurred in respect of these exposures amounted to R220 million (approximately £13 million) in the current financial year, less than the estimate referred to in the December announcement. As noted in that announcement, Investec has credit exposures largely to Steinhoff Africa Holdings Proprietary Limited subsidiaries and Steinhoff Africa Retail Limited, which represent a small portion of the group's balance sheet. Based on the information currently available to the group, Investec is not expecting to suffer any losses on these exposures.

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

During the year, a number of stress scenarios were considered and incorporated into our processes. These included, for example, the impact of a corporate stress and protracted weak growth; and a potential domestic political and household shock.

The board, through its various risk and capital committees, continued to assess the impact of its principal risks and the above mentioned stress scenarios on its business. The board has concluded that the group has robust systems and processes in place to manage these risks and that, while under a severe stress scenario business activity would be very subdued, the group would continue to maintain adequate liquidity and capital balances to support the continued operation of the group.

Our viability statement is provided in volume one on pages 163 to 165.

IFRS 9 is effective from 1 April 2018. IFRS 9 replaces IAS 39 and sets out the new requirements for the recognition and measurement of financial instruments. These requirements focus primarily on the classification and measurement of financial instruments and measurement of impairment losses based on an expected credit loss (ECL) model. Investec plc confirmed to the PRA and Investec Limited confirmed to the South African Prudential Authority that each will use the transitional arrangements to absorb the full impact permissible of IFRS 9 in regulatory capital calculations. Further information on the impact of IFRS 9 is provided in the accounting policies section in volume three of the group's integrated annual report on page 39. In addition, the group has published its detailed transitional disclosures on 29 June 2018 separately from its annual report and these can be found on the group's website.

Conclusion

The group has achieved a satisfactory operating performance, supported by solid levels of client activity and a robust recurring income base. We are comfortable that we have robust risk management processes and systems in place. Whilst the complexities of Brexit continue to cause uncertainty in the UK economy, the underlying book continues to perform well and in line with our risk appetite tolerance. The final quarter of the 2018 financial year has started to see an uplift in the South African economic outlook.

Signed on behalf of the board

Stephen Koseff
Chairman of the group risk and capital committee

12 June 2018

The group maintained a strong liquidity position well in excess of regulatory and internal policy requirements throughout the year

Geographic summary of the year in review from a risk perspective

This section should be read in conjunction with, and against the background provided in, the overview of the operating environment section on pages 34 to 39 in volume one.

Detailed information on key developments during the financial year in review is provided in the sections that follow:

Refer to page 24, page 61 and pages 69 and 70, with a high-level geographic summary of the most salient aspects provided below.

UK and Other

Credit risk

Underlying core assets continue to perform well. Net core loans and advances increased by 12.4% from £8.6 billion at 31 March 2017 to £9.7 billion at 31 March 2018, driven by our strategy to support corporate and private client lending activities. Growth has been well diversified across asset classes and we continue to remain client-focused in our approach.

Default loans (net of impairments) have increased from 1.55% to 2.16% of core loans and advances. The credit loss ratio amounted to 1.14% (2017: 0.90%), in anticipation of accelerated exits on certain assets in the legacy portfolio. Ongoing asset quality continues to reflect the quality of the underlying book. The credit loss ratio on an ongoing basis amounted to 0.24% included in the 1.14% above (2017: 0.27%).

Traded market risk

We continue to manage to a very low level of market risk with VaR at £0.5 million at 31 March 2018. Trading revenues were impacted by lower volatility in equity markets through 2017, however, there was continued growth in client activity particularly within the Financial Product business. Market risk exposures across all desks remained low throughout the year.

Balance sheet risk

Cash and near cash balances at 31 March 2018 amounted to £5.8 billion (2017: £5.0 billion) with total customer deposits increasing by 5.6% to £11.6 billion (2017: £11.0 billion). For Investec plc and Investec Bank plc (solo basis), the LCR is calculated using our own interpretations of the EU Delegated Act. The LCR reported to the PRA at 31 March 2018 was 306% for Investec plc and 301% for Investec Bank plc (solo basis) which is well ahead of the regulatory minimum of 100%. Ahead of the implementation of the final NSFR rules, the group has applied its own interpretations of regulatory guidance and definitions from the BCBS final guidelines, to calculate the NSFR which was 142% for Investec plc and 133% for Investec Bank plc (solo basis), well ahead of the future regulatory minimum of 100%. The reported LCR and NSFR may change over time with regulatory developments and guidance.

Southern Africa

Credit risk

Net core loans and advances grew by 8.7% to R257 billion (31 March 2017: R236 billion) with private client lending and corporate portfolios representing the majority of the growth for the financial year in review.

Default loans (net of impairments) as a percentage of core loans and advances improved from 1.02% to 0.56% with absolute levels of defaults decreasing year on year due to asset write-offs mainly in the corporate portfolio.

We reported an increase in the level of impairments taken, however, the credit loss ratio reduced to 0.28% (2017: 0.29%), remaining at the lower end of its long-term average trend.

Traded market risk

The local markets were impacted by various local factors, in particular, political policy uncertainty prior to the ANC elective conference in December 2017. The primary focus of the trading desks remains to facilitate the demand of our clients, with limited proprietary risk taken. This is reflected by the low levels of market risk exposures as well as VaR throughout the year. The 95% one-day VaR ended the year at R3.4 million, down R1.1 million from the previous year. Market risk exposures across all trading desks remained low throughout the year.

Balance sheet risk

During the past financial year, Investec Bank Limited responded to external political uncertainty by concluding its $600 million long-term foreign currency funding programme in September 2017. It raised a further $550 million using a combination of repos, sub-debt issuances and long-term cross currency swaps. The majority of our foreign currency funding is used to augment our already strong cash balances. Investec grew its total customer deposits by 6.1% from R303 billion to R322 billion as at 31 March 2018. Cash and near cash balances amounted to R116.5 billion (31 March 2017: R117.6 billion). Investec Bank Limited (solo basis) ended the financial year with the three-month average of its LCR at 133.9%, which is well ahead of the minimum regulatory level of 90% required. The NSFR has become a regulatory requirement as of January 2018. The NSFR for Investec Bank Limited (solo basis) amounted to 108.4% as at 31 March 2018, comfortably above the 100% regulatory minimum.

Salient features

A summary of key risk indicators is provided in the table below.

	UK and Other		Southern Africa		Investec group	
Year to 31 March	**2018 £**	**2017 £**	**2018 R**	**2017 R**	**2018 £**	**2017 £**
Net core loans and advances (million)	9 687	8 621	256 702	236 225	25 132	22 707
Total assets (excluding assurance assets) (million)	20 547	18 652	476 639	456 836	49 129	45 807
Total risk-weighted assets (million)	14 411	13 312	338 484	329 808	34 777^	32 979^
Total equity (million)	2 341	2 032	51 279	46 571	5 428	4 809
Cash and near cash (million)	5 813	5 026	116 533	117 586	12 825	12 038
Customer accounts (deposits) (million)	11 624	11 013	321 823	303 470	30 987	29 109
Gross defaults as a % of gross core loans and advances	3.67%	2.98%	1.11%	1.52%	2.10%	2.08%
Defaults (net of impairments) as a % of net core loans and advances	2.16%	1.55%	0.56%	1.02%	1.17%	1.22%
Net defaults (after collateral and impairments) as a % of net core loans and advances	–	–	–	–	–	–
Credit loss ratio*	1.14%	0.90%	0.28%	0.29%	0.61%	0.54%
Credit loss ratio – ongoing book	0.24%	0.27%	0.28%	0.29%	0.26%	0.29%
Structured credit as a % of total assets**	1.34%	1.87%	0.24%	0.40%	0.70%	1.00%
Banking book investment and equity risk exposures as a % of total assets**	2.98%	3.33%	4.87%	4.75%	4.07%	4.15%
Level 3 (fair value assets) as a % of total assets**	3.64%	3.65%	0.60%	0.83%	1.87%	1.99%
Traded market risk: one-day value at risk (million)	0.5	0.5	3.4	4.5	n/a	n/a
Core loans to equity ratio	4.1x	4.2x	5.0x	5.1x	4.6x	4.7x
Total gearing ratio^^	8.8x	9.2x	9.3x	9.8x	9.1x	9.5x
Loans and advances to customers to customer deposits	83.2%	78.2%	77.4%	75.0%	79.6%	76.2%
Capital adequacy ratio##	15.4%	15.1%	14.6%	14.1%	n/a	n/a
Tier 1 ratio##	12.9%	11.5%	11.0%	10.7%	n/a	n/a
Common equity tier 1 ratio##	11.0%	11.3%	10.2%	9.9%	n/a	n/a
Leverage ratio – current##	8.5%	7.8%	7.5%	7.3%	n/a	n/a
Return on average assets#	0.71%	0.92%	1.28%	1.04%	1.03%	1.02%
Return on average risk-weighted assets#	1.00%	1.36%	1.79%	1.46%	1.45%	1.45%

* *Income statement impairment charge on core loans as a percentage of average advances.*
** *Total assets excluding assurance assets.*
^ *The group numbers have been 'derived' by adding Investec plc and Investec Limited (Rand converted into Pounds Sterling) numbers together.*
^^ *Total assets excluding assurance assets to total equity.*
\# *Where return represents operating profit after taxation and non-controlling interests and after deducting preference dividends, but before goodwill, acquired intangibles and non-operating items. Average balances are calculated on a straight-line average.*
\## *The capital adequacy disclosures follow Investec's normal basis of presentation so as to show a consistent basis of calculation across the jurisdictions in which the group operates. For Investec plc and IBP this does not include the deduction of foreseeable charges and dividends when calculating the CET 1 ratio as required under the Capital Requirements Regulation and European Banking Authority technical standards. The impact of this deduction totalling £65 million for Investec plc and £18 million for IBP would lower the CET 1 ratio by 45bps and 13bps respectively.*

Certain information is denoted as n/a as these statistics are not applicable at a consolidated group level and are best reflected per banking entity.

Overall group risk appetite

The group has a number of board-approved risk appetite statements and policy documents covering our risk tolerance and approach to our principal aspects of risk. In addition, a number of committees and forums identify and manage risk at a group level. The group risk appetite statement and framework sets out the board's mandated risk appetite. The group risk appetite framework acts as a guide to determine the acceptable risk profile of the group by the owners of the group's capital. The group risk appetite statement ensures that limits/targets are applied and monitored across all key operating jurisdictions and legal entities. The group risk appetite statement is a high-level, strategic framework that supplements and does not replace the detailed risk policy documents at each entity and geographic level. The group risk appetite framework is a function of business strategy, budget and capital processes, our stress testing reviews and the regulatory and economic environment in which the group is operating. The group risk appetite framework is reviewed (in light of the above aspects) and approved at least annually or as business needs dictate. A documented process exists where our risk profile is measured against our risk appetite and this positioning is presented to the group risk and capital committee, board risk and capital committee and the board.

The table below provides a high-level summary of the group's overall risk tolerance framework.

Risk appetite and tolerance metrics	Positioning at 31 March 2018
• We seek to maintain an appropriate balance between revenue earned from capital light and capital intensive activities. Ideally capital light revenue should exceed 50% of total operating income, dependent on prevailing market conditions	Capital light activities contributed 56% to total operating income and capital intensive activities contributed 44%
• We have a solid annuity income base supported by diversified revenue streams, and target an annuity income ratio in excess of 65%	Annuity income amounted to 76.2% of total operating income. Refer to page 30 in volume one for further information
• We seek to maintain strict control over fixed costs and target a group cost to income ratio of below 65%	The cost to income ratio amounted to 66.9%. Refer to page 33 in volume one for further information
• We aim to build a sustainable business generating sufficient return to shareholders over the longer term, and target a long-term return on equity ratio range of between 12% and 16%, and a return on risk-weighted assets in excess of 1.2%	The return on equity amounted to 12.1% and our return on risk-weighted assets amounted to 1.45%. Refer to pages 33 and 64 in volume one for further information
• We are a lowly leveraged firm and target a leverage ratio in all our banking subsidiaries in excess of 6.0%	We achieved this internal target; refer to page 91 for further information
• We intend to maintain a sufficient level of capital to satisfy regulatory requirements and our internal target ratios. We target a capital adequacy ratio range of between 14% and 17% on a consolidated basis for Investec plc and Investec Limited and we target a minimum tier 1 ratio of 11% and a common equity tier 1 ratio above 10%	Investec plc and Investec Limited meet all these targets. Capital has grown over the period. Refer to page 91 for further information
• We target a diversified loan portfolio, lending to clients we know and understand. We limit our exposure to a single/connected individual or company to 7.5% for Investec plc total common equity tier 1 and 5% of tier 1 capital for Investec Limited (up to 10% if approved by the relevant board committee). We also have a number of risk tolerance limits and targets for specific asset classes	We maintained this risk tolerance level in place throughout the year
• There is a preference for primary exposure in the group's main operating geographies (i.e. Southern Africa and UK). The group will accept exposures where we have a branch or local banking subsidiary and tolerate exposures to other countries where we have developed a local understanding and capability or we are facilitating a transaction for a client who requires facilities in a foreign geography	Refer to page 17 for further information
• We target a credit loss ratio on core loans of less than 0.5% of average core advances, and we target defaults net of impairments less than 2% and 1.5% of total net core loans for Investec plc and Investec Limited respectively	The credit loss ratio on core loans amounted to 0.61% (0.26% excluding the legacy portfolio) and defaults net of impairments amounted to 1.17% of total core loans (1.02% excluding the legacy portfolio). Refer to page 35 for further information
• We carry a high level of liquidity in all our banking subsidiaries in order to be able to cope with shocks to the system, targeting a minimum cash to customer deposit ratio of 25%	Total cash and near cash balances amounted to £12.8 billion at year end representing 41.4% of customer deposits. Refer to page 65 for further information
• We have modest market risk as our trading activities primarily focus on supporting client activity and our appetite for proprietary trading is limited. We set an overall tolerance level of a one-day 95% VaR of less than R15 million for Investec Limited and less than £5 million for Investec plc	We meet these internal limits; one-day 95% VaR was £0.5 million for Investec plc and R3.4 million for Investec Limited at 31 March 2018; refer to page 57 for further information
• We have moderate appetite for investment risk, and set a risk tolerance of less than 30% of common equity tier 1 capital for our unlisted principal investment portfolio for Investec plc. For Investec Limited, a risk tolerance of less than 12.5% has been set, excluding the group's holding in the IEP Group Proprietary Limited (IEP Group)	Our unlisted investment portfolios amounted to R3 940 million and £417 million for Investec Limited (excluding the IEP group) and Investec plc respectively, representing 10.6% of total tier 1 for Investec Limited and 27.4% of common equity tier 1 for Investec plc. Refer to page 53 for further information
• Our operational risk management teams focus on improving business performance and compliance with regulatory requirements through review, challenge and escalation. We have heightened focus on financial and cyber crime	Refer to pages 74 to 77 for further information
• We have a number of policies and practices in place to mitigate reputational, legal and conduct risks	Refer to pages 77 and 78 for further information

An overview of our principal risks

In our daily business activities, the group enters into a number of risks that could have the potential to affect our business operations, financial performance and prospects.

These principal risks have been highlighted on pages 42 to 48 in volume one.

The sections that follow provide information on a number of these risk areas and how the group manages these risks.

Additional risks and uncertainties that are currently considered immaterial and not included in this report may in the future impact our business operations and financial performance.

Risk management framework, committees and forums

A number of committees and forums identify and manage risk at group level, as described more fully below. These committees and forums operate together with Group risk management and are mandated by the board.

A diagram of our governance and risk framework is provided on page 120 in volume one.

The group committees and forums listed below have mandated certain committees and forums within the jurisdictions in which the group operates to support them in their objectives:

Committee	Function
Audit committees Members: Independent non-executive directors Chairman: Zarina Bassa (Independent non-executive director) Frequency: • DLC audit committee – four times a year • Investec Limited and Investec Bank Limited audit committee – four times a year • Investec plc audit committee – four times a year	• See pages 153 and 154 in volume one • The Internal Audit, Compliance and Operational Risk departments report to the audit committees
Board risk and capital committee (BRCC) Members: Executive and non-executive directors (senior management by invitation) Chairman: David Friedland (non-executive director) Frequency: Six times a year	• See pages 159 to 161 in volume one
Group risk and capital committee (GRCC) Members: Executive directors and senior management (non-executive directors by invitation) Chairman: Stephen Koseff (CEO) Frequency: Six times a year	• The purpose of the GRCC is to supplement the BRCC
DLC capital committee Members: Executive and non-executive directors and senior management Chairman: Stephen Koseff (CEO) Frequency: At least four times a year	• The DLC Capital Committee is mandated by BRCC to be the Capital Committee of Investec Limited and Investec plc and their subsidiaries as regards: – Capital allocation and structuring – Capital planning and models – Performance measurement – Capital-based incentivisation
Global credit committee Members: Executive directors and senior management Non-executive directors have a level of oversight which is exercised within the applicable committee Chairman: Glynn Burger (group risk and finance director) Frequency: Twice a week	• Considers and approves the granting of credit to counterparties in excess of the mandates granted to divisional and other credit forums on a global basis • Considers the level of acceptable counterparty and geographical exposures within the board-approved risk appetite framework • Reviews and approves changes to credit policies and methodologies
Group investment committee Members: Executive directors and senior management Chairman: Stephen Koseff (CEO) Frequency: Weekly	• Is responsible for reviewing and approving: – acquisitions or disposals of strategic investments in which we act as principal and retain an equity interest (above predetermined thresholds) – capital expenditure or disposals (above predetermined thresholds)

Committee	Function
New product and deal forum Members: Executive directors, senior management and representatives from the following BU's: ICIB Equity Structuring, Group Risk (including Credit Risk, ALCO, Credit Risk Operations), Compliance, Treasury, Group Legal, Exchange Control, Specialist Bank, Global Head of Corporate Governance/Compliance, ICIB Operational Risk and Tax Chairman: Glynn Burger (alternative: Justin Cowley) (South Africa) and Ruth Leas (alternative: Ian Wohlman/ Gary Laughton) (UK) Frequency: Weekly	• Consideration of new products • Consideration of large and non-standard transactions of significance to the group e.g. major mining or project finance transactions • Consideration of structured finance, financial products or specialised finance transactions where products are specifically tailored to be unique for the requirements of the client
Group market risk forum Members: Global heads of risk, market risk and the trading desks; senior management; members of the market risk teams and other members of Group risk management Chairman: Anant Patel and Rishaan Ramnarain Frequency: Weekly	• Reviews and recommends limit adjustments in all existing products and markets across all desks in the group • Recommends limits for new products and new markets • Recommends methodology as to how risks are measured
Global compliance forum Members: Compliance representatives of the Investec Limited and Investec plc businesses Chairman: Bradley Tapnack; Alternate: Kathryn Farndell and Noel Sumner Frequency: Half-yearly and on *ad hoc* request	• Review and approval of all group compliance policies across Investec Limited and Investec plc businesses • Establishing and standardising of group standards where applicable • Escalation of policies to Policy ERRF and the board for approval as required
Asset and liability committee (ALCO) Members: Executive directors, senior management, economist, treasurer, business heads and head of asset and liability monitoring Chairman: Glynn Burger (alternate: Kevin Kerr) (South Africa), Ruth Leas (UK) and Craig McKenzie (Mauritius) Frequency: Monthly (or *ad hoc* if required)	• Recommends and monitors our funding and liquidity policy and non-trading interest rate risk policy, which translates into a suite of limits that define our risk appetite • Directs the implementation of the methodology, techniques, models and risk measures for liquidity and non-trading interest rate risk management (in the banking book) • Reviews the structure of our balance sheet and business strategies, taking into account market conditions, including stress tests • Maintains liquidity contingency plans • The responsibilities of the liability product and pricing forum (a sub-committee of ALCO chaired by the Treasurer) are: – to consider and approve pricing of all liabilities issued and other group funding entities so as to achieve the most appropriate funding mix at the best possible cost within the balance sheet targets as set by ALCO – to review the liquidity, interest rate and concentration characteristics of all new products and approve their issuance – to monitor existing products, terms and rates – to reprice or close products where appropriate – to evaluate continuously the external rates environment including competitor analysis – to escalate to ALCO any information deemed to be relevant to ALCO's ability to fulfil its mandate – to consider the impact on the overall liquidity of all new liabilities to be issued by group funding entities and approve the issuance of such products

Risk management

(continued)

Committee	Function
Global operational risk committee Members: Heads of operational risk, heads of risk, specialist banking, asset management and wealth and investment senior management Chairman: Bradley Tapnack (global head of corporate governance and compliance) Frequency: At a minimum half-yearly	• Provides support to BRCC and Policy ERRF in the management of operational risk • Reviews and approves the operational risk management framework, policies and appetite • Aligns operational risk policies, practices and reporting across the group • Challenge and recommend the Operational Risk Management Framework (ORMF) and promote jurisdictional alignment of practices relating to the framework • Approve policies as mandated and ensure, as far as possible, alignment of policies between jurisdictions • Recommend policies that require approval by Policy ERRF and BRCC • Consider matters relating to operational risk regulatory requirements as it pertains to policy development and approval • Consider opportunities to leverage skills across the group • The Committee has authority to: – request internal/external reports – investigate any matters within its terms of reference – mandate actions to be taken
Group legal risk forum Members: Executive directors, senior management and divisional legal managers Chairman: David Nurek (global head of legal risk) Frequency: *Ad hoc* if required	• Considers and manages legal risks throughout the group
Social and ethics committee Members: Executive and non-executive directors Chairman: Fani Titi Frequency: Quarterly	• See pages 148 to 150 in volume one.
Policy executive risk review forum (Policy ERRF) Members: Executive directors and senior management Chairman: Stephen Koseff (CEO) Frequency: Weekly	Policy ERRF is mandated to: • Consider and recommend for approval relevant policies, which require board approval in terms of legislation or review by the executives • Consider and approve: – Proposed amendments to various risk appetite limits should these differ from the risk appetite framework – New business initiatives – Limit reviews approved at ERC (UK) and Review ERRF (South Africa) are noted at Policy ERRF, with significant changes to limits presented to Policy ERRF for review and approval – Investec Bank plc and Investec Bank Limited New Product and Deal Forum proposals, when the proposal is outside of the ordinary course of business and/or if referred to the Forum by Review ERRF or ERC for approval where deemed necessary – Terms of reference of global forums/committees – Systems, infrastructure and capital expenditure in excess of R30 million or £2 million – Funding plans and initiatives – Securitisation vehicles – Financial covenants provided by members of the group to third parties – Matters that could give rise to reputational risk – Group Insurance Cover, if referred by Review ERRF

Committee	Function
Review executive risk review forum (Review ERRF) Members: Executive directors, heads of market risk and heads of asset and liability monitoring Chairman: Kevin Kerr (South Africa) and Ruth Leas (UK) Frequency: Weekly	• See page 162 in volume one Review ERRF is mandated to: • Measure and monitor the enterprise wide risk of the group and ensure the necessary processes are in place to mitigate any risks • Approve of Investec Bank Limited New Product and Deal Forum proposals which are in the ordinary course of business • Review of group Insurance Policies • Consider and approve any other matter as requested by the group's CEO, as delegated to him under the Investec Limited and Investec plc board • The following key risk types that are considered by Review ERRF on a weekly basis are: – Market risk – Balance sheet liquidity and non-trading interest rate risk
Executive Risk Committee (ERC) Members: Executive directors and senior management Chairman: David van der Walt Frequency: Weekly	ERC is mandated to: • To evaluate the most significant risks faced by IBP in the ordinary course of business • To review the risk models (including, but not limited to, credit models) which need to be incorporated by IBP appropriately into the allocation of capital • Review and approve the annual review of market risk limit letters for IBP, as well as any *ad hoc* requests to change such limits • To ensure that limits are adhered to by the relevant IBP divisions and that agreed recommendations to mitigate risk are implemented appropriately • To act as an agent of the IBP Board to ensure that all decisions of the IBP Board on risk management policies and procedures are implemented and monitored • To ensure that there is an ongoing process of risk and control identification within IBP, particularly in line with any changes to business objectives, such as the commencement of a new trading area or product stream • To review key decisions from Asset and Liability Management, Market Risk, New Product and Deal Forum and new business strategies • To consider and provide a recommendation to Policy ERRF on the Bank's adoption of Category A policies and terms of reference • To note key decisions from the IBP Policy Review Committee

Integrated global risk management structure

Group risk and finance director	Glynn Burger
Head of risk Southern Africa	Kevin Kerr
Head of risk UK	Ruth Leas

Divisional and geographic roles	Global	UK and Other	South Africa
Credit Risk	Ruth Leas/Kevin Kerr	Gary Laughton	Justin Cowley/Adriann Bergh
Traded Market Risk	Anant Patel/Rishaan Ramnarain	Anant Patel	Rishaan Ramnarain
Balance Sheet Risk Management	Cyril Daleski	Jana Moore	Cyril Daleski
Operational Risk	Chandre Griesel	Aaron McIntyre	Chandre Griesel
Legal Risk	David Nurek	Lauren Ekon	David Nurek
Internal Audit	Bradley Tapnack	Elizabeth Broughton	Stuart Mansfield
Compliance	Bradley Tapnack	Noel Sumner	Kathryn Farndell

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

ALCO	Asset and liability committee	FCA	Financial Conduct Authority
BCBS	Basel Committee of Banking Supervision	FSB	Financial Services Board
BIS	Bank for International Settlements	GRCC	Group risk and capital committee
BoE	Bank of England	PCCC	Prudential conduct and controls committee
BOM	Bank of Mauritius	Policy ERRF	Policy executive risk review forum
BRCC	Board risk and capital committee	PRA	Prudential Regulation Authority
EBA	European Banking Authority	Review ERRF	Review executive risk review forum
ECB	European Central Bank	South African Prudential Authority	South African Prudential Authority (previously known as the Banking Supervision Division of the South African Reserve Bank)
ERC	Executive risk committee		

Credit and counterparty risk management

Credit and counterparty risk description

Credit and counterparty risk is defined as the risk arising from an obligor's (typically a client or counterparty) failure to meet the terms of any agreement. Credit and counterparty risk arises when funds are extended, committed, invested, or otherwise exposed through contractual agreements, whether reflected on- or off-balance sheet.

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

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

The relevant credit committees 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.

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

Credit and counterparty risk governance structure

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

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

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

Credit and counterparty risk appetite

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

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

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

We have little appetite for unsecured debt and require good quality collateral in support of obligations (refer to page 49 for further information).

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

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

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

Concentration risk

Concentration risk is when large exposures exist to a single client or counterparty, group of connected counterparties, or to a particular geography, asset class or industry. An example of this would be where a number of counterparties are affected by similar economic, legal, regulatory or other factors that could mean their ability to meet contractual obligations are correlated.

Concentration risk can also exist where portfolio loan maturities are clustered to single periods in time. Loan maturities are monitored on a portfolio and a transaction level by Group risk management, Group Lending Operations as well as the originating business units.

Credit and counterparty risk is always assessed with reference to the aggregate exposure to a single counterparty or group of related parties to manage concentration risk.

Country risk

Country risk refers to the risk of lending to a counterparty operating in a particular country or the risk inherent in sovereign exposure, i.e. the risk of exposure to loss caused by events in other countries. Country risk covers all forms of lending or investment activity whether to/with individuals, corporates, banks or governments. This can include geopolitical risks, transfer and convertibility risks, and the impact on the borrower's credit profile due to local economic and political conditions.

To mitigate country risk, there is a preference for primary exposure in the group's main operating geographies. The group will accept exposures where we have a branch or local banking subsidiary, and tolerate exposures to other countries where we are facilitating a transaction for a client who requires facilities in a foreign geography and where we have developed a local understanding and capability.

Investec's credit risk appetite with regard to country risk is characterised by the following principles:

- Preference is to have exposure only to politically stable jurisdictions that we understand and have preferably operated in before
- There is no specific appetite for exposures outside of the group's pre-existing core geographies or target markets
- The legal environment should be tested, have legal precedent in line with OECD standards and have good corporate governance
- In certain cases, country risk can be mitigated by taking out political risk insurance with suitable counterparties, where deemed necessary and where considered economic.

While we do not have a separate country risk committee, the relevant credit committees as well as investment committees and Policy ERRF will consider, analyse and assess the appropriate limits to be recorded when required, to assume exposure to foreign jurisdictions.

Corporate responsibility considerations

Investec has a holistic approach to corporate responsibility, which runs beyond recognising our own footprint on the environment and includes our many corporate social investment activities and our lending and investing activities. This is not merely for business reasons, but based on a broader responsibility to our environment and society. Accordingly, corporate responsibility risk considerations are considered by the credit committee and investment committee when making lending or investment decisions. There is also oversight by the social and ethics committee (board committee) on social and environmental issues including climate related impact considerations. In particular the following factors are taken into account when assessing a transaction based on the outcome of the corporate responsibility considerations:

- Environmental considerations (including animal welfare and climate – related impacts)
- Social considerations (including human rights)
- Macro-economic considerations.

Refer to our corporate responsibility report on our website.

Management and measurement of credit and counterparty risk

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

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

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

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

The group applies the standardised approach for calculating capital requirements in the assessment of its credit and counterparty exposures. The group's banking subsidiaries conduct their mapping of credit and counterparty exposures in accordance with the mapping procedures specified by the Central Bank, in the respective geographies in which the group operates.

A large proportion of the group's portfolios are not rated by external rating agencies. We place reliance upon internal consideration of counterparties and borrowers, and use ratings prepared externally, where available as support in our decision-making process. Within the credit approval process, internal and external ratings are included in the assessment of the client quality.

Exposures are classified to reflect the group's risk appetite and strategy. In our Pillar III disclosure, exposures are classified according to the Basel asset classes which include sovereign, bank, corporate, retail, equity, securitisation and specialised lending (which is further categorised into project finance; commodities finance; high volatility commercial real estate; and income-producing commercial real estate).

Internal credit rating models have been developed to cover all material asset classes.

In South Africa, internal credit rating models continue to be developed to cover all material asset classes. We have applied to the South African Prudential Authority for approval of the Foundation Internal Ratings-Based (FIRB) approach, a transitional step to implementing the Advanced Internal Ratings-Based (AIRB) approach. Subject to approval from the South African Prudential Authority, we expect to implement FIRB in the calculation of credit risk regulatory capital. Through the preparation process for the application Investec has enhanced a number of rating systems and risk quantification models. In addition, once approved, we are expecting a positive impact on capital ratios in applying this approach.

Stress testing and portfolio management

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

A fundamental part of the stress testing process is a full and comprehensive analysis of all the group's material business activities, incorporating views from risk, the business and the executive – a process called the 'bottom-up' analysis. Out of the 'bottom-up' analysis the Investec-specific stress scenarios are designed to specifically test the unique attributes of the bank's portfolio.

These Investec-specific stress scenarios form an integral part of our capital planning process. The stress testing process also informs the risk appetite review process, and the management of risk appetite limits and is a key risk management tool of the bank. This process allows the bank to identify underlying risks and manage them accordingly.

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

Reviews are also undertaken on all material businesses, where the portfolios are analysed to assess any migration in portfolio quality, highlight any vulnerabilities, identify portfolio concentrations and make appropriate recommendations, such as a reduction in risk appetite limits or specific exposures.

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

Credit and counterparty risk – nature of activities

Credit and counterparty risk is assumed through a range of client-driven lending activities to private and corporate clients and other counterparties, such as financial institutions and sovereigns. These activities are diversified across a number of business activities.

Lending collateralised by property

Client quality and expertise are at the core of our credit philosophy. Our exposure to the property market is well diversified with strong bias towards prime locations for residential exposure and focus on tenant quality for commercial assets. Debt service cover ratios are a key consideration in the lending process supported by reasonable loan to security value ratios.

We provide senior debt and other funding for property transactions, with a strong preference for income producing assets supported by an experienced sponsor providing a material level of cash equity investment into the asset.

An analysis of the lending collateralised by property portfolio and asset quality information is provided on pages 42 to 45.

Private client activities

Our private banking activities target high net worth individuals, active wealthy entrepreneurs, high-income professionals, newly qualified professionals with high-income earning potential, self-employed entrepreneurs, owner managers in small to mid-cap corporates and sophisticated investors.

Lending products are tailored to meet the requirements of our clients. Central to our credit philosophy is ensuring the sustainability of cash flow and income throughout the cycle. As such, the client base has been defined to include high net worth clients (who, through diversification of income streams, will reduce income volatility) and individuals with a profession which has historically supported a high and sustainable income stream, irrespective of the stage in the economic cycle.

Credit risk arises from the following activities:

- **Personal Banking** delivers products to enable target clients to create and manage their wealth. This includes private client mortgages, transactional banking, high net worth lending, offshore banking and foreign exchange
- **Residential Mortgages** provides mortgage loan facilities for high-income professionals and high net worth individuals tailored to their individual needs
- **Specialised Lending** provides tailored credit facilities to high net worth individuals and their controlled entities
- **Portfolio Lending** provides loans to high net worth clients against their investment portfolio, typically managed by Investec Wealth & Investment.

An analysis of the private client loan portfolio and asset quality information is provided on pages 42 to 45.

Corporate client activities

We focus on traditional client-driven corporate lending activities, in addition to customer flow related treasury and trading execution services.

Within the corporate lending businesses, credit risk can arise from corporate loans, acquisition finance, asset finance, power and infrastructure finance, asset-based lending, fund finance and resource finance. We also undertake debt origination activities for corporate clients.

The credit risk management functions approve specific credit and counterparty limits that govern the maximum credit exposure to each individual counterparty. In addition, further risk management limits exist through industry and country limits to manage concentration risk. The credit appetite for each counterparty is based on the financial strength of the principal borrower, its business model and market positioning, the underlying cash flow to the transaction, the substance and track record of management, and the security package. Political risk insurance, and other insurance is taken where they are deemed appropriate.

Investec has limited appetite for unsecured credit risk and facilities are typically secured on the assets of the underlying borrower as well as shares in the borrower.

A summary of the nature of the lending and/or credit risk assumed within some of the key areas within our corporate lending business is provided below:

- **Corporate Loans:** provides senior secured loans to mid-to-large cap companies. Credit risk is assessed against debt serviceability based upon robust cash generation of the business based on both historical and forecast information. We typically act as transaction lead or arranger, and have a close relationship with management and sponsors
- **Corporate Debt Securities:** these are tradable corporate debt instruments, based on acceptable credit fundamentals typically with a medium-term hold strategy where the underlying risk is to UK, European and South African corporates. This is a highly diversified, granular portfolio that is robust, and spread across a variety of geographies and industries
- **Acquisition Finance:** provides debt funding to proven management teams and sponsors, running small to mid-cap sized companies. Credit risk is assessed against debt serviceability based upon robust cash generation of the business based on both historical and forecast information. We typically lend on a bilateral basis and benefit from a close relationship with management and sponsors
- **Asset Based Lending:** provides working capital and secured corporate loans to mid-caps. These loans are secured by the assets of the business, for example, the accounts receivable, inventory and plant and machinery. In common with our corporate lending activities, strong emphasis is placed on supporting companies with scale and relevance in their industry, stability of cash flow, and experienced management
- **Fund Finance:** provides debt facilities to asset managers and fund vehicles, principally in private equity. The geographical focus is the UK, Western Europe, North America, Australia and Southern Africa where Investec can support experienced asset managers and their funds which show strong, long-term value creation and good custodianship of investors' money. Debt facilities to fund vehicles are secured against undrawn limited partner commitments and/

or the funds underlying assets. Fund manager loans are structured against committed fund management cash flows, the managers' investment stake in their own funds and when required managers' personal guarantees

- **Small Ticket Asset Finance:** provides funding to small and medium-sized corporates to support asset purchases and other business requirements. The portfolio is highly diversified by industry and number of clients and is secured against the asset being financed and is a direct obligation of the company
- **Large Ticket Asset Finance:** provides the finance and structuring expertise for aircraft and larger lease assets, the majority of which are senior secured loans with a combination of corporate, cash flow and asset-backed collateral against the exposure
- **Power and Infrastructure Finance:** arranges and provides typically long-term financing for infrastructure assets, in particular renewable and traditional power projects as well as transportation assets, against contracted future cash flows of the project(s) from well-established and financially sound off-take counterparties. There is a requirement for a strong upfront equity contribution from an experienced sponsor
- **Resource Finance:** debt arranging and underwriting together with structured hedging solutions mainly within the mining sectors. The underlying commodities are mainly precious and base metals and coal. Our clients in this sector are established mining companies which are typically domiciled and publicly listed in one of the following geographies – the UK, North America and Australia as well as other countries where we are facilitating a transaction for a client who requires facilities in a foreign geography. All facilities are secured by the borrower's assets and repaid from mining cash flows
- **Structured Credit:** these are bonds secured against a pool of assets, mainly UK residential mortgages or European or US corporate leverage loans. The bonds are typically investment grade rated, which benefit from a high-level of credit subordination and can withstand a significant level of portfolio defaults
- **Treasury Placements:** the treasury function, as part of the daily management of the bank's liquidity, places funds with central banks and other commercial banks and financial institutions. These transactions are typically short-term (less than one month) money market placements or secured repurchase agreements. These market counterparties are mainly investment grade rated entities that occupy dominant and systemic positions in their domestic banking markets and internationally. These counterparties are located in the UK, Western Europe, North America, Southern Africa and Australia
- **Corporate advisory and investment banking activities:** counterparty risk in this area is modest. The business also trades approved shares on an approved basis and, in the UK, makes markets in shares where we are appointed corporate broker under pre-agreed market risk limits. Settlement trades are largely on a delivery versus payment basis, through major stock exchanges. Credit risk only occurs in the event of counterparty failure and would be linked to any fair value losses on the underlying security
- **Customer trading activities to facilitate client lending and hedging:** our customer trading portfolio consists of derivative contracts in interest rates, foreign exchange, commodities, credit derivatives and equities that are entered into, to facilitate a client's hedging requirements. The counterparties to such transactions are typically corporates, in particular where they have an exposure to foreign exchange due to operating in sectors that include imports and exports of goods and services. These positions are marked to market, typically with daily margin calls to mitigate credit exposure in the event of counterparty default.

An analysis of the corporate client loan portfolio and asset quality information is provided on pages 42 to 45.

Wealth & Investment

Investec Wealth & Investment provides investment management services to private clients, charities, intermediaries, pension schemes and trusts. Wealth & Investment is primarily an agency business with a limited amount of principal risk. Its core business is discretionary and non-discretionary investment management services.

Settlement risk can arise due to undertaking transactions in an agency capacity on behalf of clients. However, the risk is not considered to be material as most transactions are undertaken with large institutional clients, monitored daily, and trades are usually settled within two to three days.

Asset Management

Through the course of its normal business, Investec Asset Management is constantly transacting with market counterparties. A list of approved counterparties is maintained and procedures are in place to ensure appointed counterparties meet certain standards in order to safeguard client assets being transacted with or undertaken with approved counterparties and this is enforced through system controls where possible. In addition to due diligence, other forms of risk management are employed to reduce the impact of a counterparty failure. These measures include market conventions such as 'Delivery versus Payment' (DVP), and where appropriate; use of collateral or contractual protection (e.g. under ISDA). Net exposure to counterparties is monitored by Investec Asset Management's Investment Risk Committee, and day-to-day monitoring is undertaken by a dedicated and independent Investment Risk Team.

Asset quality analysis – credit risk classification and provisioning policy

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

Regulatory and economic capital classification	IFRS impairment treatment	Arrears, default and recoveries classification category	Description
Performing assets	For assets which form part of a homogeneous portfolio, a portfolio impairment is required which recognises asset impairments that have not been individually identified. The portfolio impairment takes into account past events and does not cover impairments to exposures arising out of uncertain future events. By definition, this impairment is only calculated for credit exposures which are managed on a portfolio basis and only for assets where a loss trigger event has occurred.	Past due	An account is considered to be past due when it is greater than zero and less than or equal to 60 days past due the contractual/credit agreed payment date. Management however is not concerned and there is confidence in the counterparty's ability to repay the past due obligations.
		Special mention	The counterparty is placed in special mention when that counterparty is considered to be experiencing difficulties that may threaten the counterparty's ability to fulfil its credit obligation to the group (i.e. watchlist committee is concerned) for the following reasons: • Covenant breaches • There is a slowdown in the counterparty's business activity • An adverse trend in operations that signals a potential weakness in the financial strength of the counterparty • Restructured credit exposures until appropriate watchlist committee decides otherwise. Ultimate loss is not expected, but may occur if adverse conditions persist. Reporting categories: • Credit exposures overdue 1 – 60 days • Credit exposures overdue 61 – 90 days.

Asset quality analysis – credit risk classification and provisioning policy *(continued)*

Regulatory and economic capital classification	IFRS impairment treatment	Arrears, default and recoveries classification category	Description
Assets in default (non-performing assets)	Specific impairments are evaluated on a case-by-case basis where objective evidence of impairment has arisen. In determining specific impairments, the following factors are considered: • Capability of the client to generate sufficient cash flow to service debt obligations and the ongoing viability of the client's business • Likely dividend or amount recoverable on liquidation or bankruptcy or business rescue • Nature and extent of claims by other creditors • Amount and timing of expected cash flows • Realisable value of security held (or other credit mitigants) • Ability of the client to make payments in the foreign currency, for foreign currency denominated accounts.	Sub-standard	The counterparty is placed in sub-standard when the credit exposure reflects an underlying, well defined weakness that may lead to probable loss if not corrected: • The risk that such credit exposure may become an impaired asset is probable, • The bank is relying, to a large extent, on available collateral, or • The primary sources of repayment are insufficient to service the remaining contractual principal and interest amounts, and the bank has to rely on secondary sources for repayment. These secondary sources may include collateral, the sale of a fixed asset, refinancing and further capital. Credit exposures overdue for more than 90 days will at a minimum be included in 'sub-standard' (or a lower quality category).
		Doubtful	The counterparty is placed in doubtful when the credit exposure is considered to be impaired, but not yet considered a final loss due to some pending factors such as a merger, new financing or capital injection which may strengthen the quality of the relevant exposure.
		Loss	A counterparty is placed in the loss category when: • The credit exposure is considered to be uncollectible once all efforts, such as realisation of collateral and institution of legal proceedings, have been exhausted, or • Assets in this category are expected to be written off in the short-term since the likelihood of future economic benefits resulting from such assets are remote.

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.

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

An analysis of collateral is provided on page 49.

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. 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 (GMSLA) and Global Master Repurchase Agreement (GMRA). In addition to having ISDA documentation in place with market and trading counterparties in over-the-counter (OTC) derivatives, a Credit Support Annex (CSA) 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.

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

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

Further information on credit derivatives is provided on page 62.

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.

Credit and counterparty risk year in review

UK and Other

Underlying core assets continue to perform well. Net core loans and advances increased by 12.4% to £9.7 billion at 31 March 2018 from £8.6 billion at 31 March 2017, driven by our strategy to support corporate and private client lending activities.

Corporate client and other lending increased by 14.0% from £5.2 billion at 31 March 2017 to £5.9 billion at 31 March 2018. Growth has been well diversified across all asset classes. We continue to remain client-focused in our approach, with good quality corporates exhibiting strong cash flows and balance sheets.

High net worth and other private client lending increased by 20.1% year on year, driven by growth in the existing high net worth mortgage book as well as portfolio lending as the bank continues to focus on its holistic private client offering.

Lending collateralised by property has continued to reduce as a proportion of our net core loan exposures and totals £1.9 billion or 20.0% at 31 March 2018 (decrease from 22.0% at 31 March 2017). The bulk of property collateralised assets are located in the UK. Underwriting criteria remains conservative and we are committed to following a client-centric approach to lending, only supporting counterparties with strong balance sheets and requisite expertise.

Gross defaults, predominantly comprised of legacy exposures, totalled £360.6 million at 31 March 2018 (£260.3 million at 31 March 2017). Default loans (net of impairments) have increased to £208.8 million or 2.16% as a percentage of core loans and advances, up from 1.55% at 31 March 2017. The credit loss ratio is at 1.14% (2017: 0.90%, 2016: 1.13%) in anticipation of accelerated exits on certain assets in the legacy portfolio.

Ongoing asset quality continues to reflect the quality of the underlying book. The credit loss ratio on an ongoing basis amounted to 0.24% (2017: 0.27%). Defaulted exposures are considered well covered by impairments.

We have actively taken advantage of opportunities to further reduce the legacy portfolio. Legacy exposures have reduced by 34.3% to £313 million (net of impairments) or 3.2% of total core loan exposures (31 March 2017: 5.5%). Non-performing exposures are significantly impaired and total net defaults in the legacy book amount to £90 million.

Southern Africa

The financial year in review has seen a combination of trends and factors impacting on the credit quality and assessment of credit and counterparty risk.

Further information is provided in the financial review on pages 34 to 39 in volume one.

The current macro-economic environment remains challenging and volatile with competitive pressure on margins. We have maintained a conservative lending approach. Our lending appetite is based on a client-centric approach with a strong focus on client cash flows underpinned by tangible collateral.

Growth in the core loan book was moderate and grew by 8.7% to R257 billion (31 March 2017: R236 billion) with high net worth and specialised lending and corporate portfolios representing the majority of the growth for the financial year in review.

Default loans (net of impairments) as a percentage of core loans and advances improved from 1.02% to 0.56%, with absolute levels of defaults decreasing year on year due to asset write-offs mainly in the corporate portfolio.

We reported an increase in the level of impairments taken, however, the credit loss ratio reduced to 0.28% (2017: 0.29%), remaining at the lower end of its long-term average trend.

Lending collateralised by property

The majority of the property assets are commercial investment properties and are located in South Africa. This portfolio decreased by 2% during the year. Loan to value remain conservative and transactions are generally supported by strong cash flows. We follow a client-centric approach, backing counterparties with strong balance sheets and requisite expertise.

Private client activities

We have seen continued growth in our private client portfolio and client base as we actively focus on our business strategy to increase our positioning in this space.

Our high net worth client portfolio and residential mortgage book growth in particular has been encouraging with a total increase of 12.6% over the year.

Growth in both of these areas has been achieved with strong adherence to our conservative lending appetite.

Corporate client activities

We grew our corporate book by 6.8% as a result of increased lending activity by our mid-to-large corporate clients across a number of sectors. Our book remains well diversified across sectors and our State Owned Entities (SOEs) exposure is predominantly backed by government support.

Credit and counterparty risk information

Pages 9 to 24 describe where and how credit risk is assumed in our operations.

The tables that follow provide an analysis of the credit and counterparty exposures.

An analysis of gross credit and counterparty exposures

Gross credit and counterparty exposures increased by 5.8% to £48.0 billion largely due to growth in loans and advances to customers as well as cash and near cash. Cash and near cash balances amount to £12.8 billion and are largely reflected in the following line items in the table below: cash and balances at central banks, loans and advances to banks, non-sovereign and non-bank cash placements and sovereign debt securities.

£'000 At 31 March	2018	2017	% change	Average*
Cash and balances at central banks	4 031 077	3 348 778	20.4%	3 689 928
Loans and advances to banks	2 165 533	3 191 041	(32.1%)	2 678 287
Non-sovereign and non-bank cash placements	601 243	536 259	12.1%	568 751
Reverse repurchase agreements and cash collateral on securities borrowed	2 207 477	2 358 970	(6.4%)	2 283 224
Sovereign debt securities	4 910 027	3 804 627	29.1%	4 357 327
Bank debt securities	587 164	639 189	(8.1%)	613 177
Other debt securities	903 603	1 115 558	(19.0%)	1 009 581
Derivative financial instruments	926 443	933 881	(0.8%)	930 162
Securities arising from trading activities	538 490	359 324	49.9%	448 907
Loans and advances to customers (gross)	24 910 776	22 388 641	11.3%	23 649 709
Own originated loans and advances to customers securitised (gross)	459 472	517 524	(11.2%)	488 498
Other loans and advances (gross)	350 158	363 087	(3.6%)	356 623
Other securitised assets (gross)	8 668	12 851	(32.5%)	10 760
Other assets	247 040	214 277	15.3%	230 659
Total on-balance sheet exposures	**42 847 171**	**39 784 007**	**7.7%**	**41 315 589**
Guarantees^	658 858	966 539	(31.8%)	812 699
Contingent liabilities, committed facilities and other	4 518 292	4 651 733	(2.9%)	4 585 013
Total off-balance sheet exposures	**5 177 150**	**5 618 272**	**(7.9%)**	**5 397 711**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**48 024 321**	**45 402 279**	**5.8%**	**46 713 300**

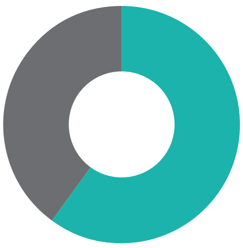
* *Where the average is based on a straight-line average.*
^ *Excludes guarantees provided to clients which are backed/secured by cash on deposit with the bank.*

An analysis of gross credit and counterparty exposures by geography

£'000 At 31 March	UK and Other 2018	UK and Other 2017	Southern Africa 2018	Southern Africa 2017	Total 2018	Total 2017
Cash and balances at central banks	3 479 639	2 850 664	551 438	498 114	4 031 077	3 348 778
Loans and advances to banks	985 069	1 102 353	1 180 464	2 088 688	2 165 533	3 191 041
Non-sovereign and non-bank cash placements	–	–	601 243	536 259	601 243	536 259
Reverse repurchase agreements and cash collateral on securities borrowed	750 428	536 173	1 457 049	1 822 797	2 207 477	2 358 970
Sovereign debt securities	1 155 472	952 902	3 754 555	2 851 725	4 910 027	3 804 627
Bank debt securities	107 938	176 559	479 226	462 630	587 164	639 189
Other debt securities	278 474	398 278	625 129	717 280	903 603	1 115 558
Derivative financial instruments	513 836	554 710	412 607	379 171	926 443	933 881
Securities arising from trading activities	496 498	331 705	41 992	27 619	538 490	359 324
Loans and advances to customers (gross)	9 839 064	8 747 618	15 071 712	13 641 023	24 910 776	22 388 641
Own originated loans and advances to customers securitised (gross)	–	–	459 472	517 524	459 472	517 524
Other loans and advances (gross)	332 672	343 090	17 486	19 997	350 158	363 087
Other securitised assets (gross)	8 668	12 851	–	–	8 668	12 851
Other assets	44 707	49 894	202 333	164 383	247 040	214 277
Total on-balance sheet exposures	**17 992 465**	**16 056 797**	**24 854 706**	**23 727 210**	**42 847 171**	**39 784 007**
Guarantees^	21 709	27 204	637 149	939 335	658 858	966 539
Contingent liabilities, committed facilities and other	1 213 360	1 524 436	3 304 932	3 127 297	4 518 292	4 651 733
Total off-balance sheet exposures	**1 235 069**	**1 551 640**	**3 942 081**	**4 066 632**	**5 177 150**	**5 618 272**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**19 227 534**	**17 608 437**	**28 796 787**	**27 793 842**	**48 024 321**	**45 402 279**

^ *Excludes guarantees provided to clients which are backed/secured by cash on deposit with the bank.*

An analysis of gross credit and counterparty exposures by geography



31 March 2018
£48 024 million

Southern Africa	60.0%
UK and Other	40.0%

31 March 2017
£45 402 million

Southern Africa	61.2%
UK and Other	38.8%

A further analysis of our on-balance sheet credit and counterparty exposures

The table below indicates in which class of asset (on the face of the consolidated balance sheet) our on-balance sheet credit and counterparty exposures are reflected. Not all assets included in the balance sheet bear credit and counterparty risk.

£'000	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note reference	Total balance sheet
At 31 March 2018				
Cash and balances at central banks	4 031 077	9 435		4 040 512
Loans and advances to banks	2 165 533	–		2 165 533
Non-sovereign and non-bank cash placements	601 243	–		601 243
Reverse repurchase agreements and cash collateral on securities borrowed	2 207 477	–		2 207 477
Sovereign debt securities	4 910 027	–		4 910 027
Bank debt securities	587 164	–		587 164
Other debt securities	903 603	–		903 603
Derivative financial instruments	926 443	425 965		1 352 408
Securities arising from trading activities	538 490	895 901		1 434 391
Investment portfolio	–	885 499	1	885 499
Loans and advances to customers	24 910 776	(237 767)	2	24 673 009
Own originated loans and advances to customers securitised	459 472	(384)	2	459 088
Other loans and advances	350 158	(2 349)	2	347 809
Other securitised assets	8 668	139 719	3	148 387
Interest in associated undertakings	–	467 852	1	467 852
Deferred taxation assets	–	157 321		157 321
Other assets	247 040	1 629 076	4	1 876 116
Property and equipment	–	233 340		233 340
Investment properties	–	1 184 097		1 184 097
Goodwill	–	368 803		368 803
Intangible assets	–	125 389		125 389
Other financial instruments at fair value through profit and loss in respect of liabilities to customers	–	8 487 776		8 487 776
Total on-balance sheet exposures	**42 847 171**	**14 769 673**		**57 616 844**

1. *Largely relates to exposures that are classified as investment risk in the banking book. Further information is provided on pages 50 to 53.*
2. *Largely relates to impairments.*
3. *While the group manages all risks (including credit risk) from a day-to-day operational perspective, certain assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicles that the group has reflected in the 'total credit and counterparty exposure' with the maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'. This also includes cash in the securitised vehicles.*
4. *Other assets include settlement debtors which we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

A further analysis of our on-balance sheet credit and counterparty exposures *(continued)*

£'000	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note reference	Total balance sheet
At 31 March 2017				
Cash and balances at central banks	3 348 778	2 924		3 351 702
Loans and advances to banks	3 191 041	–		3 191 041
Non-sovereign and non-bank cash placements	536 259	–		536 259
Reverse repurchase agreements and cash collateral on securities borrowed	2 358 970	–		2 358 970
Sovereign debt securities	3 804 627	–		3 804 627
Bank debt securities	639 189	–		639 189
Other debt securities	1 115 558	–		1 115 558
Derivative financial instruments	933 881	251 967		1 185 848
Securities arising from trading activities	359 324	1 017 344		1 376 668
Investment portfolio	–	835 899	1	835 899
Loans and advances to customers	22 388 641	(198 666)	2	22 189 975
Own originated loans and advances to customers securitised	517 524	(362)	2	517 162
Other loans and advances	363 087	(7 839)	2	355 248
Other securitised assets	12 851	136 113	3	148 964
Interest in associated undertakings	–	392 213	1	392 213
Deferred taxation assets	–	133 972		133 972
Other assets	214 277	1 686 203	4	1 900 480
Property and equipment	–	105 939		105 939
Investment properties	–	1 128 930		1 128 930
Goodwill	–	367 579		367 579
Intangible assets	–	143 261		143 261
Non-current assets held for sale	–	27 218	1	27 218
Other financial instruments at fair value through profit and loss in respect of liabilities to customers	–	7 728 130		7 728 130
Total on-balance sheet exposures	**39 784 007**	**13 750 825**		**53 534 832**

1. *Largely relates to exposures that are classified as investment risk in the banking book. Further information is provided on pages 50 to 53.*
2. *Largely relates to impairments.*
3. *While the group manages all risks (including credit risk) from a day-to-day operational perspective, certain assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicles that the group has reflected in the 'total credit and counterparty exposure' with the maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'. This also includes cash in the securitised vehicles.*
4. *Other assets include settlement debtors which we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

Gross credit and counterparty exposures by residual contractual maturity at 31 March 2018

£'000	Up to three months	Three to six months	Six months to one year	One to five years	Five to 10 years	>10 years	Total
Cash and balances at central banks	4 031 077	–	–	–	–	–	4 031 077
Loans and advances to banks	2 083 052	31 025	14 070	37 386	–	–	2 165 533
Non-sovereign and non-bank cash placements	601 243	–	–	–	–	–	601 243
Reverse repurchase agreements and cash collateral on securities borrowed	1 784 635	72 048	146 866	145 699	55 084	3 145	2 207 477
Sovereign debt securities	1 222 186	1 346 553	1 008 263	326 384	383 950	622 691	4 910 027
Bank debt securities	13 568	8 500	3 667	378 320	152 217	30 892	587 164
Other debt securities	12 485	5 421	49 271	517 085	99 980	219 361	903 603
Derivative financial instruments	261 962	111 287	125 520	297 302	59 245	71 127	926 443
Securities arising from trading activities	453	256	5 385	108 852	91 558	331 986	538 490
Loans and advances to customers (gross)	2 992 326	1 519 133	2 545 669	12 587 460	3 060 065	2 206 123	24 910 776
Own originated loans and advances to customers securitised (gross)	9	367	679	1 655	37 470	419 292	459 472
Other loans and advances (gross)	3 530	598	17 625	12 611	86 292	229 502	350 158
Other securitised assets (gross)	–	–	–	–	–	8 668	8 668
Other assets	247 040	–	–	–	–	–	247 040
Total on-balance sheet exposures	**13 253 566**	**3 095 188**	**3 917 015**	**14 412 754**	**4 025 861**	**4 142 787**	**42 847 171**
Guarantees^	347 564	65 634	105 613	110 117	16 104	13 826	658 858
Contingent liabilities, committed facilities and other	878 211	182 044	327 431	1 736 282	243 330	1 150 994	4 518 292
Total off-balance sheet exposures	**1 225 775**	**247 678**	**433 044**	**1 846 399**	**259 434**	**1 164 820**	**5 177 150**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**14 479 341**	**3 342 866**	**4 350 059**	**16 259 153**	**4 285 295**	**5 307 607**	**48 024 321**

^ *Excludes guarantees provided to clients which are backed/secured by cash on deposit with the group.*

Detailed analysis of gross credit and counterparty exposures by industry at 31 March 2018

£'000	High net worth and other professional individuals	Lending collateralised by property – largely to private clients	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services	Finance and insurance
Cash and balances at central banks	–	–	–	–	4 031 077	–	–
Loans and advances to banks	–	–	–	–	–	–	2 165 533
Non-sovereign and non-bank cash placements	–	–	1 062	–	–	110 914	132 466
Reverse repurchase agreements and cash collateral on securities borrowed	39 583	–	–	–	–	5 329	2 104 291
Sovereign debt securities	–	–	–	–	4 910 027	–	–
Bank debt securities	–	–	–	–	–	–	587 164
Other debt securities	–	–	–	60 448	85 217	–	232 754
Derivative financial instruments	22 249	–	2 894	118 094	131	14 775	603 068
Securities arising from trading activities	–	–	–	5 141	381 490	2 881	113 097
Loans and advances to customers (gross)	9 485 332	4 432 105	181 538	826 553	504 388	1 383 375	2 732 737
Own originated loans and advances to customers securitised (gross)	459 472	–	–	–	–	–	–
Other loans and advances (gross)	–	–	–	–	–	–	119 884
Other securitised assets (gross)	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	529	67 845
Total on-balance sheet exposures	**10 006 636**	**4 432 105**	**185 494**	**1 010 236**	**9 912 330**	**1 517 803**	**8 858 839**
Guarantees^	282 151	59 096	–	56 941	36	67 184	10 339
Contingent liabilities, committed facilities and other	2 171 003	574 230	47 426	211 450	84 385	121 725	486 006
Total off-balance sheet exposures	**2 453 154**	**633 326**	**47 426**	**268 391**	**84 421**	**188 909**	**496 345**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**12 459 790**	**5 065 431**	**232 920**	**1 278 627**	**9 996 751**	**1 706 712**	**9 355 184**

^ *Excludes guarantees provided to clients which are backed/secured by cash on deposit with the group.*

Risk management

(continued)

	Retailers and wholesalers	Manufacturing and commerce	Construction	Corporate commercial real estate	Other residential mortgages	Mining and resources	Leisure, entertainment and tourism	Transport	Communication	Total
	–	–	–	–	–	–	–	–	–	4 031 077
	–	–	–	–	–	–	–	–	–	2 165 533
	103 944	123 238	30 352	12 116	–	23 838	1 814	9 342	52 157	601 243
	–	56 225	–	–	–	–	–	2 049	–	2 207 477
	–	–	–	–	–	–	–	–	–	4 910 027
	–	–	–	–	–	–	–	–	–	587 164
	320	119 912	19 011	57 447	39 751	147 183	–	73 704	67 856	903 603
	43 441	27 883	3 241	26 434	–	25 259	3 695	31 946	3 333	926 443
	3 477	–	–	–	–	1 536	–	–	30 868	538 490
	577 323	1 339 719	182 006	541 846	–	297 026	411 187	1 545 104	470 537	24 910 776
	–	–	–	–	–	–	–	–	–	459 472
	–	–	–	–	230 274	–	–	–	–	350 158
	–	–	–	–	8 668	–	–	–	–	8 668
	120 588	27 438	8 166	–	–	451	4 322	82	17 619	247 040
	849 093	**1 694 415**	**242 776**	**637 843**	**278 693**	**495 293**	**421 018**	**1 662 227**	**642 370**	**42 847 171**
	4 887	63 687	7 719	28 051	–	62 977	8 736	3 152	3 902	658 858
	131 029	113 300	25 498	13 786	–	231 084	24 162	97 107	186 101	4 518 292
	135 916	**176 987**	**33 217**	**41 837**	**–**	**294 061**	**32 898**	**100 259**	**190 003**	**5 177 150**
	985 009	**1 871 402**	**275 993**	**679 680**	**278 693**	**789 354**	**453 916**	**1 762 486**	**832 373**	**48 024 321**

Detailed analysis of gross credit and counterparty exposures by industry at 31 March 2017

£'000	High net worth and other professional individuals	Lending collateralised by property – largely to private clients	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services	Finance and insurance
Cash and balances at central banks	–	–	–	–	3 348 778	–	–
Loans and advances to banks	–	–	–	–	–	–	3 191 041
Non-sovereign and non-bank cash placements	10	–	33	–	4 011	37 874	126 993
Reverse repurchase agreements and cash collateral on securities borrowed	34 965	–	–	–	–	9 790	2 264 943
Sovereign debt securities	–	–	–	–	3 804 627	–	–
Bank debt securities	–	–	–	–	–	–	639 189
Other debt securities	–	–	–	48 297	107 204	551	322 303
Derivative financial instruments	13 638	–	439	100 925	18	19 246	661 652
Securities arising from trading activities	–	–	–	26 364	151 477	–	154 677
Loans and advances to customers (gross)	8 111 205	4 381 588	178 181	806 932	501 071	939 860	2 373 580
Own originated loans and advances to customers securitised (gross)	517 524	–	–	–	–	–	–
Other loans and advances (gross)	–	–	–	–	–	–	118 507
Other securitised assets (gross)	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	3 676	87 820
Total on-balance sheet exposures	**8 677 342**	**4 381 588**	**178 653**	**982 518**	**7 917 186**	**1 010 997**	**9 940 705**
Guarantees^	225 219	65 961	10 674	38 656	103 973	41 060	224 730
Contingent liabilities, committed facilities and other	2 017 395	589 798	17 922	538 565	77 230	95 568	452 205
Total off-balance sheet exposures	**2 242 614**	**655 759**	**28 596**	**577 221**	**181 203**	**136 628**	**676 935**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**10 919 956**	**5 037 347**	**207 249**	**1 559 739**	**8 098 389**	**1 147 625**	**10 617 640**

^ *Excludes guarantees provided to clients which are backed/secured by cash on deposit with the group.*

Retailers and wholesalers	Manufacturing and commerce	Construction	Corporate commercial real estate	Other residential mortgages	Mining and resources	Leisure, entertainment and tourism	Transport	Communication	Total
–	–	–	–	–	–	–	–	–	3 348 778
–	–	–	–	–	–	–	–	–	3 191 041
93 070	149 321	14 730	11 991	–	45 205	–	32 962	20 059	536 259
–	46 832	–	–	–	–	–	–	2 440	2 358 970
–	–	–	–	–	–	–	–	–	3 804 627
–	–	–	–	–	–	–	–	–	639 189
195	137 851	–	42 247	74 338	184 769	2 775	43 434	151 594	1 115 558
23 646	53 399	704	21 618	–	15 412	6 821	12 585	3 778	933 881
2 313	1 771	–	–	2 892	–	1 958	3 037	14 835	359 324
582 349	1 327 533	288 548	444 365	–	314 266	381 762	1 228 453	528 948	22 388 641
–	–	–	–	–	–	–	–	–	517 524
–	–	–	48	244 532	–	–	–	–	363 087
–	–	–	–	12 851	–	–	–	–	12 851
87 658	16 305	15 968	–	–	–	2 363	9	478	214 277
789 231	**1 733 012**	**319 950**	**520 269**	**334 613**	**559 652**	**395 679**	**1 320 480**	**722 132**	**39 784 007**
59 008	58 763	5 598	5 134	–	110 676	7 454	3 815	5 818	966 539
195 699	116 151	32 105	24 343	–	309 786	24 046	118 571	42 349	4 651 733
254 707	**174 914**	**37 703**	**29 477**	**–**	**420 462**	**31 500**	**122 386**	**48 167**	**5 618 272**
1 043 938	**1 907 926**	**357 653**	**549 746**	**334 613**	**980 114**	**427 179**	**1 442 866**	**770 299**	**45 402 279**

Private client loans account for 56.7% of total gross core loans and advances, as represented by the industry classification 'high net worth and professional individuals and lending collateralised by property'

Summary analysis of gross credit and counterparty exposures by industry

A description of the type of private client lending and lending collateralised by property we undertake is provided on page 19, and a more detailed analysis of these loan portfolios are provided on pages 42 to 45.

The remainder of core loans and advances largely relate to corporate client lending and are evenly spread across industry sectors.

Other credit and counterparty exposures are largely reflective of cash and near cash balances held with institutions and central banks, thus the large balance reflected in the 'public and non-business services' and 'finance and insurance' sectors. These exposures also include off-balance sheet items such as guarantees, committed facilities and contingent liabilities, diversified across several industries.

A description of the type of corporate client lending we undertake is provided on pages 19 and 20, and a more detailed analysis of the corporate client loan portfolio is provided on pages 42 to 45.

	Gross core loans and advances		Other credit and counterparty exposures		Total	
£'000 At 31 March	2018	2017	2018	2017	2018	2017
High net worth and professional individuals	9 944 804	8 628 729	2 514 986	2 291 227	12 459 790	10 919 956
Lending collateralised by property – largely to private clients	4 432 105	4 381 588	633 326	655 759	5 065 431	5 037 347
Agriculture	181 538	178 181	51 382	29 068	232 920	207 249
Electricity, gas and water (utility services)	826 553	806 932	452 074	752 807	1 278 627	1 559 739
Public and non-business services	504 388	501 071	9 492 363	7 597 318	9 996 751	8 098 389
Business services	1 383 375	939 860	323 337	207 765	1 706 712	1 147 625
Finance and insurance	2 732 737	2 373 580	6 622 447	8 244 060	9 355 184	10 617 640
Retailers and wholesalers	577 323	582 349	407 686	461 589	985 009	1 043 938
Manufacturing and commerce	1 339 719	1 327 533	531 683	580 393	1 871 402	1 907 926
Construction	182 006	288 548	93 987	69 105	275 993	357 653
Corporate commercial real estate	541 846	444 365	137 834	105 381	679 680	549 746
Other residential mortgages	–	–	278 693	334 613	278 693	334 613
Mining and resources	297 026	314 266	492 328	665 848	789 354	980 114
Leisure, entertainment and tourism	411 187	381 762	42 729	45 417	453 916	427 179
Transport	1 545 104	1 228 453	217 382	214 413	1 762 486	1 442 866
Communication	470 537	528 948	361 836	241 351	832 373	770 299
Total	**25 370 248**	**22 906 165**	**22 654 073**	**22 496 114**	**48 024 321**	**45 402 279**

An analysis of our core loans and advances, asset quality and impairments

Core loans and advances comprise:

- Loans and advances to customers as per the balance sheet
- Own originated loans and advances to customers securitised as per the balance sheet.

£'000 At 31 March	2018	2017
Loans and advances to customers as per the balance sheet	24 673 009	22 189 975
Add: own originated loans and advances securitised as per the balance sheet	459 088	517 162
Net core loans and advances to customers	**25 132 097**	**22 707 137**

The tables that follow provide information with respect to the asset quality of our core loans and advances to customers.

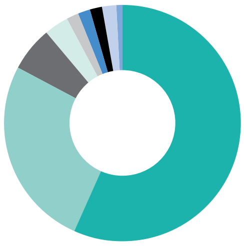
An overview of developments during the financial year is provided on page 24.

£'000 At 31 March	2018	2017
Gross core loans and advances to customers	**25 370 248**	**22 906 165**
Total impairments	**(238 151)**	**(199 028)**
Specific impairments	(137 711)	(136 177)
Portfolio impairments	(100 440)	(62 851)
Net core loans and advances to customers	**25 132 097**	**22 707 137**
Average gross core loans and advances to customers	**24 138 207**	**20 605 765**
Current loans and advances to customers	24 675 378	22 304 938
Past due loans and advances to customers (1 – 60 days)	102 983	88 167
Special mention loans and advances to customers (1 – 90 days)	59 165	37 080
Default loans and advances to customers	532 722	475 980
Gross core loans and advances to customers	**25 370 248**	**22 906 165**
Current loans and advances to customers	24 675 378	22 304 938
Default loans that are current and not impaired	63 091	14 836
Gross core loans and advances to customers that are past due but not impaired	267 372	221 041
Gross core loans and advances to customers that are impaired	364 407	365 350
Gross core loans and advances to customers	**25 370 248**	**22 906 165**
Total income statement charge for impairments on core loans and advances	**(146 652)**	**(111 575)**
Gross default loans and advances to customers	532 722	475 980
Specific impairments	(137 711)	(136 177)
Portfolio impairments	(100 440)	(62 851)
Defaults net of impairments	**294 571**	**276 952**
Aggregate collateral and other credit enhancements on defaults	505 610	451 817
Net default loans and advances to customers (limited to zero)	**–**	**–**
Ratios		
Total impairments as a % of gross core loans and advances to customers	0.94%	0.87%
Total impairments as a % of gross default loans	44.70%	41.81%
Gross defaults as a % of gross core loans and advances to customers	2.10%	2.08%
Defaults (net of impairments) as a % of net core loans and advances to customers	1.17%	1.22%
Net defaults as a % of net core loans and advances to customers	–	–
Credit loss ratio (i.e. income statement impairment charge on core loans as a % of average gross core loans and advances)	0.61%	0.54%

An analysis of core loans and advances to customers and asset quality by geography

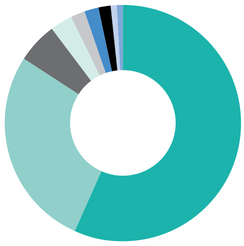
£'000 At 31 March	UK and Other 2018	UK and Other 2017	Southern Africa 2018	Southern Africa 2017	Total group 2018	Total group 2017
Gross core loans and advances to customers	**9 839 064**	**8 747 618**	**15 531 184**	**14 158 547**	**25 370 248**	**22 906 165**
Total impairments	**(151 840)**	**(126 876)**	**(86 311)**	**(72 152)**	**(238 151)**	**(199 028)**
Specific impairments	(89 863)	(83 488)	(47 848)	(52 689)	(137 711)	(136 177)
Portfolio impairments	(61 977)	(43 388)	(38 463)	(19 463)	(100 440)	(62 851)
Net core loans and advances to customers	**9 687 224**	**8 620 742**	**15 444 873**	**14 086 395**	**25 132 097**	**22 707 137**
% of total net core loans and advances to customers	38.5%	38.0%	61.5%	62.0%	100.0%	100.0%
% change of net core loans and advances to customers since March 2017	12.4%		9.6%		10.7%	
Average gross core loans and advances to customers	**9 293 341**	**8 347 205**	**14 844 866**	**12 258 560**	**24 138 207**	**20 605 765**
Current loans and advances to customers	9 401 028	8 416 683	15 274 350	13 888 255	24 675 378	22 304 938
Past due loans and advances to customers (1 – 60 days)	40 315	48 003	62 668	40 164	102 983	88 167
Special mention loans and advances to customers (1 – 90 days)	37 085	22 585	22 080	14 495	59 165	37 080
Default loans and advances to customers	360 636	260 347	172 086	215 633	532 722	475 980
Gross core loans and advances to customers	**9 839 064**	**8 747 618**	**15 531 184**	**14 158 547**	**25 370 248**	**22 906 165**
Current loans and advances to customers	9 401 028	8 416 683	15 274 350	13 888 255	24 675 378	22 304 938
Default loans that are current and not impaired	50 224	6 993	12 867	7 843	63 091	14 836
Gross core loans and advances to customers that are past due but not impaired	135 830	105 645	131 542	115 396	267 372	221 041
Gross core loans and advances to customers that are impaired	251 982	218 297	112 425	147 053	364 407	365 350
Gross core loans and advances to customers	**9 839 064**	**8 747 618**	**15 531 184**	**14 158 547**	**25 370 248**	**22 906 165**
Total income statement charge for impairments on core loans and advances	**(105 864)**	**(74 995)**	**(40 788)**	**(36 580)**	**(146 652)**	**(111 575)**
Gross default loans and advances to customers	360 636	260 347	172 086	215 633	532 722	475 980
Specific impairments	(89 863)	(83 488)	(47 848)	(52 689)	(137 711)	(136 177)
Portfolio impairments	(61 977)	(43 388)	(38 463)	(19 463)	(100 440)	(62 851)
Defaults net of impairments	**208 796**	**133 471**	**85 775**	**143 481**	**294 571**	**276 952**
Aggregate collateral and other credit enhancements	291 834	192 760	213 776	259 057	505 610	451 817
Net default loans and advances to customers (limited to zero)	**–**	**–**	**–**	**–**	**–**	**–**
Ratios						
Total impairments as a % of gross core loans and advances to customers	1.54%	1.45%	0.56%	0.51%	0.94%	0.87%
Total impairments as a % of gross default loans	42.10%	48.73%	50.12%	33.46%	44.70%	41.81%
Gross defaults as a % of gross core loans and advances to customers	3.67%	2.98%	1.11%	1.52%	2.10%	2.08%
Defaults (net of impairments) as a % of net core loans and advances to customers	2.16%	1.55%	0.56%	1.02%	1.17%	1.22%
Net defaults as a % of net core loans and advances to customers	–	–	–	–	–	–
Credit loss ratio (i.e. income statement impairment charge on core loans as a % of average gross core loans and advances)	1.14%	0.90%	0.28%	0.29%	0.61%	0.54%

An analysis of gross core loans and advances to customers by country of exposure



31 March 2018
£25 370 million

South Africa	56.5%
United Kingdom	26.4%
Europe (excluding UK)	6.0%
North America	3.4%
Australia	1.8%
Africa (excluding RSA)	1.6%
Asia	1.7%
Europe (Non-EU)	1.9%
Other	0.7%



31 March 2017
£22 906 million

South Africa	56.9%
United Kingdom	27.5%
Europe (excluding UK)	5.5%
North America	3.1%
Australia	1.9%
Africa (excluding RSA)	1.8%
Asia	1.7%
Europe (Non-EU)	0.8%
Other	0.8%

An age analysis of past due and default core loans and advances to customers

£'000 At 31 March	2018	2017
Default loans that are current	173 487	142 810
1 – 60 days	182 725	194 221
61 – 90 days	37 568	15 097
91 – 180 days	54 129	92 027
181 – 365 days	72 719	58 985
>365 days	174 242	98 087
Past due and default core loans and advances to customers (actual capital exposure)	**694 870**	**601 227**
1 – 60 days	29 114	17 036
61 – 90 days	4 886	1 520
91 – 180 days	7 740	7 318
181 – 365 days	21 491	35 934
>365 days	95 051	68 437
Past due and default core loans and advances to customers (actual amount in arrears)	**158 282**	**130 245**

A further age analysis of past due and default core loans and advances to customers

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
At 31 March 2018							
Watchlist loans neither past due nor impaired							
Total capital exposure	63 091	–	–	–	–	–	63 091
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	164 748	23 502	8 852	28 510	41 760	267 372
Amount in arrears	–	28 969	1 550	838	6 176	33 970	71 503
Gross core loans and advances to customers that are impaired							
Total capital exposure	110 396	17 977	14 066	45 277	44 209	132 482	364 407
Amount in arrears	–	145	3 336	6 902	15 315	61 081	86 779
At 31 March 2017							
Watchlist loans neither past due nor impaired							
Total capital exposure	14 836	–	–	–	–	–	14 836
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	156 577	13 207	8 623	28 781	13 853	221 041
Amount in arrears	–	13 969	1 204	2 034	26 529	11 594	55 330
Gross core loans and advances to customers that are impaired							
Total capital exposure	127 974	37 644	1 890	83 404	30 204	84 234	365 350
Amount in arrears	–	3 067	316	5 284	9 405	56 843	74 915

An age analysis of past due and default core loans and advances to customers at 31 March 2018 (based on total capital exposure)

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	**–**	**102 983**	**–**	**–**	**–**	**–**	**102 983**
Special mention	**–**	**37 147**	**22 018**	**–**	**–**	**–**	**59 165**
Special mention (1 – 90 days)	–	37 147	6 317	–	–	–	43 464
Special mention (61 – 90 days and item well secured)	–	–	15 701	–	–	–	15 701
Default	**173 487**	**42 595**	**15 550**	**54 129**	**72 719**	**174 242**	**532 722**
Sub-standard	141 772	28 179	12 553	30 573	44 428	95 391	352 896
Doubtful	31 715	14 407	2 997	21 541	26 505	73 526	170 691
Loss	–	9	–	2 015	1 786	5 325	9 135
Total	**173 487**	**182 725**	**37 568**	**54 129**	**72 719**	**174 242**	**694 870**

An age analysis of past due and default core loans and advances to customers at 31 March 2018 (based on actual amount in arrears)

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	**–**	**26 940**	**–**	**–**	**–**	**–**	**26 940**
Special mention	**–**	**672**	**1 480**	**–**	**–**	**–**	**2 152**
Special mention (1 – 90 days)	–	672	44	–	–	–	716
Special mention (61 – 90 days and item well secured)	–	–	1 436	–	–	–	1 436
Default	**–**	**1 502**	**3 406**	**7 740**	**21 491**	**95 051**	**129 190**
Sub-standard	–	1 363	3 357	2 256	13 804	39 651	60 431
Doubtful	–	130	49	3 471	5 906	50 076	59 632
Loss	–	9	–	2 013	1 781	5 324	9 127
Total	**–**	**29 114**	**4 886**	**7 740**	**21 491**	**95 051**	**158 282**

An age analysis of past due and default core loans and advances to customers at 31 March 2017 (based on total capital exposure)

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	**–**	**88 167**	**–**	**–**	**–**	**–**	**88 167**
Special mention	**–**	**29 017**	**7 831**	**50**	**23**	**159**	**37 080**
Special mention (1 – 90 days)	–	29 017	51	50*	23*	159*	29 300
Special mention (61 – 90 days and item well secured)	–	–	7 780	–	–	–	7 780
Default	**142 810**	**77 037**	**7 266**	**91 977**	**58 962**	**97 928**	**475 980**
Sub-standard	47 404	45 097	5 377	56 142	39 276	55 888	249 184
Doubtful	94 868	31 927	1 886	34 291	18 788	34 198	215 958
Loss	538	13	3	1 544	898	7 842	10 838
Total	**142 810**	**194 221**	**15 097**	**92 027**	**58 985**	**98 087**	**601 227**

An age analysis of past due and default core loans and advances to customers at 31 March 2017 (based on actual amount in arrears)

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	–	**9 417**	**–**	**–**	**–**	**–**	**9 417**
Special mention	**–**	**472**	**885**	**3**	**16**	**21**	**1 397**
Special mention (1 – 90 days)	–	472	2	3*	16*	21*	514
Special mention (61 – 90 days and item well secured)	–	–	883	–	–	–	883
Default	**–**	**7 147**	**635**	**7 315**	**35 918**	**68 416**	**119 431**
Sub-standard	–	4 088	319	2 663	30 053	48 484	85 607
Doubtful	–	3 048	313	3 118	4 967	12 102	23 548
Loss	–	11	3	1 534	898	7 830	10 276
Total	**–**	**17 036**	**1 520**	**7 318**	**35 934**	**68 437**	**130 245**

* *Largely relates to solvent deceased estates and bonds under registration at the deeds office. Due to the lengthy external process with respect to these exposures, which is outside of Investec's control, these exposures have been classified as special mention and will remain there until settled or their credit quality deteriorates.*

An analysis of core loans and advances to customers

£'000	Gross core loans and advances that are neither past due nor impaired	Gross core loans and advances that are past due but not impaired	Gross core loans and advances that are impaired	Total gross core loans and advances (actual capital exposure)	Specific impairments	Portfolio impairments	Total net core loans and advances (actual capital exposure)	Actual amount in arrears
At 31 March 2018								
Current core loans and advances	**24 675 378**	**–**	**–**	**24 675 378**	**–**	**(99 863)**	**24 575 515**	**–**
Past due (1 – 60 days)	**–**	**102 983**	**–**	**102 983**	**–**	**(238)**	**102 745**	**26 940**
Special mention	**–**	**59 165**	**–**	**59 165**	**–**	**(108)**	**59 057**	**2 152**
Special mention (1 – 90 days)	–	43 464	–	43 464	–	(96)	43 368	716
Special mention (61 – 90 days and item well secured)	–	15 701	–	15 701	–	(12)	15 689	1 436
Default	**63 091**	**105 224**	**364 407**	**532 722**	**(137 711)**	**(231)**	**394 780**	**129 190**
Sub-standard	63 091	105 119	184 686	352 896	(51 739)	(231)	300 926	60 431
Doubtful	–	105	170 586	170 691	(79 069)	–	91 622	59 632
Loss	–	–	9 135	9 135	(6 903)	–	2 232	9 127
Total	**24 738 469**	**267 372**	**364 407**	**25 370 248**	**(137 711)**	**(100 440)**	**25 132 097**	**158 282**
At 31 March 2017								
Current core loans and advances	**22 304 938**	**–**	**–**	**22 304 938**	**–**	**(62 419)**	**22 242 519**	**–**
Past due (1 – 60 days)	**–**	**88 167**	**–**	**88 167**	**–**	**(132)**	**88 035**	**9 417**
Special mention	**–**	**37 080**	**–**	**37 080**	**–**	**(91)**	**36 989**	**1 397**
Special mention (1 – 90 days)	–	29 300	–	29 300	–	(68)	29 232	514
Special mention (61 – 90 days and item well secured)	–	7 780	–	7 780	–	(23)	7 757	883
Default	**14 836**	**95 794**	**365 350**	**475 980**	**(136 177)**	**(209)**	**339 594**	**119 431**
Sub-standard	14 836	95 794	138 554	249 184	(38 237)	(209)	210 738	85 607
Doubtful	–	–	215 958	215 958	(90 119)	–	125 839	23 548
Loss	–	–	10 838	10 838	(7 821)	–	3 017	10 276
Total	**22 319 774**	**221 041**	**365 350**	**22 906 165**	**(136 177)**	**(62 851)**	**22 707 137**	**130 245**

An analysis of core loans and advances to customers and impairments by counterparty type

£'000	Private client professional and high net worth individuals	Corporate sector	Insurance, financial services (excluding sovereign)	Public and government sector (including central banks)	Trade finance and other	Total core loans and advances to customers
At 31 March 2018						
Current core loans and advances	**13 855 753**	**7 159 300**	**2 729 759**	**495 264**	**435 302**	**24 675 378**
Past due (1 – 60 days)	**80 741**	**11 928**	**2 087**	**1 044**	**7 183**	**102 983**
Special mention	**46 923**	**11 225**	**586**	**69**	**362**	**59 165**
Special mention (1 – 90 days)	33 211	10 253	–	–	–	43 464
Special mention (61 – 90 days and item well secured)	13 712	972	586	69	362	15 701
Default	**393 492**	**116 734**	**305**	**8 011**	**14 180**	**532 722**
Sub-standard	257 526	95 057	133	180	–	352 896
Doubtful	131 884	16 935	119	7 573	14 180	170 691
Loss	4 082	4 742	53	258	–	9 135
Total gross core loans and advances to customers	**14 376 909**	**7 299 187**	**2 732 737**	**504 388**	**457 027**	**25 370 248**
Total impairments	**(164 319)**	**(59 759)**	**(1 232)**	**(3 863)**	**(8 978)**	**(238 151)**
Specific impairments	(88 205)	(36 730)	(119)	(3 679)	(8 978)	(137 711)
Portfolio impairments	(76 114)	(23 029)	(1 113)	(184)	–	(100 440)
Net core loans and advances to customers	**14 212 590**	**7 239 428**	**2 731 505**	**500 525**	**448 049**	**25 132 097**
At 31 March 2017						
Current core loans and advances	**12 504 888**	**6 577 096**	**2 371 037**	**491 441**	**360 476**	**22 304 938**
Past due (1 – 60 days)	**77 919**	**5 625**	**211**	**636**	**3 776**	**88 167**
Special mention	**31 558**	**5 123**	**3**	**69**	**327**	**37 080**
Special mention (1 – 90 days)	24 579	4 721	–	–	–	29 300
Special mention (61 – 90 days and item well secured)	6 979	402	3	69	327	7 780
Default	**395 952**	**58 290**	**2 329**	**8 925**	**10 484**	**475 980**
Sub-standard	235 645	11 080	2 172	192	95	249 184
Doubtful	153 199	43 946	119	8 305	10 389	215 958
Loss	7 108	3 264	38	428	–	10 838
Total gross core loans and advances to customers	**13 010 317**	**6 646 134**	**2 373 580**	**501 071**	**375 063**	**22 906 165**
Total impairments	**(142 841)**	**(41 943)**	**(1 168)**	**(4 277)**	**(8 799)**	**(199 028)**
Specific impairments	(98 216)	(24 935)	(99)	(4 128)	(8 799)	(136 177)
Portfolio impairments	(44 625)	(17 008)	(1 069)	(149)	–	(62 851)
Net core loans and advances to customers	**12 867 476**	**6 604 191**	**2 372 412**	**496 794**	**366 264**	**22 707 137**

An analysis of core loans and advances by risk category at 31 March 2018

	UK and Other					Southern Africa				
£'000	Gross core loans	Gross defaults	Aggregate collateral and other credit enhance-ments on defaults	Balance sheet impair-ments	Income state-ment impair-ments^	Gross core loans	Gross defaults	Aggregate collateral and other credit enhance-ments on defaults	Balance sheet impair-ments	Income state-ment impair-ments^
Lending collateralised by property	**1 988 385**	**248 008**	**207 059**	**(54 089)**	**(56 048)**	**2 443 720**	**52 057**	**55 755**	**(19 196)**	**(12 817)**
Commercial real estate	**1 149 140**	**74 714**	**43 681**	**(31 060)**	**(29 235)**	**2 212 426**	**41 818**	**39 667**	**(15 634)**	**(6 142)**
Commercial real estate – investment	953 388	48 495	35 199	(13 296)	(22 442)	1 981 913	40 511	38 290	(14 792)	(5 589)
Commercial real estate – development	140 222	–	–	–	–	183 070	488	646	–	(163)
Commercial vacant land and planning	55 530	26 219	8 482	(17 764)	(6 793)	47 443	819	731	(842)	(390)
Residential real estate	**839 245**	**173 294**	**163 378**	**(23 029)**	**(26 813)**	**231 294**	**10 239**	**16 088**	**(3 562)**	**(6 675)**
Residential real estate – investment	243 675	46 937	42 205	(5 880)	(15 918)	–	–	–	–	–
Residential real estate – development	524 893	97 475	90 151	(10 813)	(5 865)	182 608	8 778	15 357	(2 409)	(7 732)
Residential vacant land and planning	70 677	28 882	31 022	(6 336)	(5 030)	48 686	1 461	731	(1 153)	1 057
High net worth and other private client lending	**1 918 168**	**11 186**	**13 277**	**(4 736)**	**(3 185)**	**8 026 636**	**82 241**	**116 070**	**(10 184)**	**(1 123)**
Mortgages	1 481 355	6 601	10 069	(1 856)	(130)	4 095 474	52 782	64 971	(6 225)	(4351)
High net worth and specialised lending	436 813	4 585	3 208	(2 880)	(3 055)	3 931 162	29 459	51 099	(3 959)	3 228
Corporate and other lending	**5 932 511**	**101 442**	**71 498**	**(31 038)**	**(26 498)**	**5 060 828**	**37 788**	**41 951**	**(18 468)**	**(7 989)**
Corporate and acquisition finance	1 534 815	18 102	14 202	(4 000)	(3 983)	841 345	7 063	7 150	(90)	(3 934)
Asset-based lending	354 872	–	–	–	–	433 578	14 180	23 440	(8 981)	(487)
Fund finance	1 030 450	–	–	–	–	295 336	–	–	–	(366)
Other corporates and financial institutions and governments	650 312	–	–	–	(61)	2 885 198	9 641	9 255	(4 063)	685
Asset finance	1 872 821	79 272	53 589	(26 677)	(25 436)	161 089	–	–	–	(7)
Small ticket asset finance	1 386 610	15 177	6 320	(8 857)	(7 616)	133 845	–	–	–	–
Large ticket asset finance	486 211	64 095	47 269	(17 820)	(17 820)	27 244	–	–	–	(7)
Project finance	483 788	4 068	3 707	(361)	2 982	399 545	–	–	–	(121)
Resource finance	5 453	–	–	–	–	44 737	6 904	2 106	(5 334)	(3 759)
Portfolio impairments				**(61 977)**	**(20 133)**				**(38 463)**	**(18 859)**
Total	**9 839 064**	**360 636**	**291 834**	**(151 840)**	**(105 864)**	**15 531 184**	**172 086**	**213 776**	**(86 311)**	**(40 788)**

^ *Where a positive number represents a recovery.*

Total group				
Gross core loans	Gross defaults	Aggregate collateral and other credit enhancements on defaults	Balance sheet impairments	Income statement impairments^
4 432 105	**300 065**	**262 814**	**(73 285)**	**(68 865)**
3 361 566	**116 532**	**83 348**	**(46 694)**	**(35 377)**
2 935 301	89 006	73 489	(28 088)	(28 031)
323 292	488	646	–	(163)
102 973	27 038	9 213	(18 606)	(7 183)
1 070 539	**183 533**	**179 466**	**(26 591)**	**(33 488)**
243 675	46 937	42 205	(5 880)	(15 918)
707 501	106 253	105 508	(13 222)	(13 597)
119 363	30 343	31 753	(7 489)	(3 973)
9 944 804	**93 427**	**129 347**	**(14 920)**	**(4 308)**
5 576 829	59 383	75 040	(8 081)	(4481)
4 367 975	34 044	54 307	(6 839)	173
10 993 339	**139 230**	**113 449**	**(49 506)**	**(34 487)**
2 376 160	25 165	21 352	(4 090)	(7 917)
788 450	14 180	23 440	(8 981)	(487)
1 325 786	–	–	–	(366)
3 535 510	9 641	9 255	(4 063)	624
2 033 910	79 272	53 589	(26 677)	(25 443)
1 520 455	15 177	6 320	(8 857)	(7 616)
513 455	64 095	47 269	(17 820)	(17 827)
883 333	4 068	3 707	(361)	2 861
50 190	6 904	2 106	(5 334)	(3 759)
			(100 440)	**(38 992)**
25 370 248	**532 722**	**505 610**	**(238 151)**	**(146 652)**

An analysis of default core loans and advances as at 31 March 2017

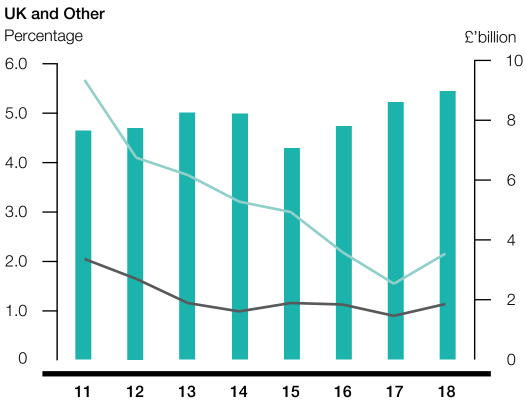
£'000	UK and Other					Southern Africa				
	Gross core loans	Gross defaults	Aggregate collateral and other credit enhance-ments on defaults	Balance sheet impair-ments	Income state-ment impair-ments^	Gross core loans	Gross defaults	Aggregate collateral and other credit enhance-ments on defaults	Balance sheet impair-ments	Income state-ment impair-ments^
Lending collateralised by property	**1 963 754**	**227 515**	**167 972**	**(70 633)**	**(45 114)**	**2 418 834**	**59 059**	**69 096**	**(12 727)**	**(5 215)**
Commercial real estate	**1 190 836**	**80 987**	**48 998**	**(31 989)**	**(21 748)**	**2 178 087**	**36 678**	**46 588**	**(8 999)**	**(2 947)**
Commercial real estate – investment	934 117	40 120	30 773	(9 347)	(12 373)	2 006 842	32 563	38 961	(7 943)	(4 173)
Commercial real estate – development	149 188	4 768	1 680	(3 088)	–	111 401	26	36	–	651
Commercial vacant land and planning	107 531	36 099	16 545	(19 554)	(9 375)	59 844	4 089	7 591	(1 056)	575
Residential real estate	**772 918**	**146 528**	**118 974**	**(38 644)**	**(23 366)**	**239 747**	**22 381**	**22 508**	**(3 728)**	**(2 268)**
Residential real estate – investment	262 844	46 841	43 018	(9 222)	(11 126)	–	–	–	–	–
Residential real estate – development	458 441	77 250	61 727	(19 754)	(10 615)	158 677	18 504	18 684	(2 501)	(2 375)
Residential vacant land and planning	51 633	22 437	14 229	(9 668)	(1 625)	81 070	3 877	3 824	(1 227)	107
High net worth and other private client lending	**1 598 801**	**18 458**	**17 139**	**(6 130)**	**(1 928)**	**7 029 928**	**90 920**	**133 041**	**(8 726)**	**(15 938)**
Mortgages	1 228 877	4 906	6 957	(1 237)	(637)	3 660 780	43 244	59 486	(3 575)	(1 330)
High net worth and specialised lending	369 924	13 552	10 182	(4 893)	(1 291)	3 369 148	47 676	73 555	(5 151)	(14 608)
Corporate and other lending	**5 185 063**	**14 374**	**7 649**	**(6 725)**	**(5 965)**	**4 710 785**	**65 654**	**56 920**	**(31 236)**	**(10 219)**
Corporate and acquisition finance	1 309 335	–	–	–	(1 951)	796 403	34 719	31 861	(7 866)	(3 084)
Asset-based lending	333 731	–	–	–	–	353 956	10 485	16 991	(8 799)	(2 294)
Fund finance	861 140	–	–	–	–	330 847	–	–	–	234
Other corporates and financial institutions and governments	718 760	–	–	–	–	2 622 977	8 266	8 068	(4 309)	(1 785)
Asset finance	1 488 142	10 483	3 942	(6 541)	(5 630)	160 799	1 536	–	–	(515)
Small ticket asset finance	1 062 069	10 483	3 942	(6 541)	(5 630)	127 724	–	–	–	(515)
Large ticket asset finance	426 073	–	–	–	–	33 075	1 536	–	–	–
Project finance	464 142	3 891	3 707	(184)	(176)	382 436	–	–	–	35
Resource finance	9 813	–	–	–	1 792	63 367	10 648	–	(10 262)	(2 810)
Portfolio impairments				**(43 388)**	**(21 988)**				**(19 463)**	**(5 208)**
Total	**8 747 618**	**260 347**	**192 760**	**(126 876)**	**(74 995)**	**14 158 547**	**215 633**	**259 057**	**(72 152)**	**(36 580)**

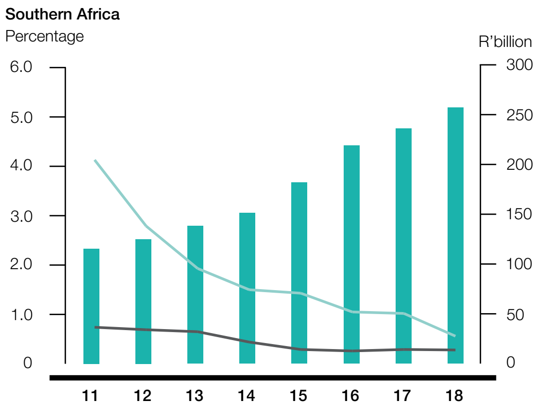
^ *Where a positive number represents a recovery.*

Total group				
Gross core loans	**Gross defaults**	**Aggregate collateral and other credit enhancements on defaults**	**Balance sheet impairments**	**Income statement impairments^**
4 381 588	**286 574**	**237 068**	**(83 360)**	**(50 329)**
3 368 923	**117 665**	**95 586**	**(40 988)**	**(24 695)**
2 940 959	72 683	69 734	(17 290)	(16 546)
260 589	4 794	1 716	(3 088)	651
167 375	40 188	24 136	(20 610)	(8 800)
1 012 665	**168 909**	**141 482**	**(42 372)**	**(25 634)**
262 844	46 841	43 018	(9 222)	(11 126)
617 118	95 754	80 411	(22 255)	(12 990)
132 703	26 314	18 053	(10 895)	(1 518)
8 628 729	**109 378**	**150 180**	**(14 856)**	**(17 866)**
4 889 657	48 150	66 443	(4 812)	(1 967)
3 739 072	61 228	83 737	(10 044)	(15 899)
9 895 848	**80 028**	**64 569**	**(37 961)**	**(16 184)**
2 105 738	34 719	31 861	(7 866)	(5 035)
687 687	10 485	16 991	(8 799)	(2 294)
1 191 987	–	–	–	234
3 341 737	8 266	8 068	(4 309)	(1 785)
1 648 941	12 019	3 942	(6 541)	(6 145)
1 189 793	10 483	3 942	(6 541)	(6 145)
459 148	1 536	–	–	–
846 578	3 891	3 707	(184)	(141)
73 180	10 648	–	(10 262)	(1 018)
			(62 851)	**(27 196)**
22 906 165	**475 980**	**451 817**	**(199 028)**	**(111 575)**

Additional information

Asset quality trends





Credit loss ratio (LHS) Defaults (net of impairments) as a % of net core advances (LHS) Net core loans (RHS)

An analysis of core loans and advances to customers and asset quality by geography – ongoing business

	UK and Other		Southern Africa		Total group	
£'000	**31 March 2018**	**31 March 2017**	**31 March 2018**	**31 March 2017**	**31 March 2018**	**31 March 2017**
Gross core loans and advances to customers	**9 412 611**	**8 169 901**	**15 531 184**	**14 158 547**	**24 943 795**	**22 328 448**
Total impairments	**(38 434)**	**(25 356)**	**(86 311)**	**(72 152)**	**(124 745)**	**(97 508)**
Specific impairments	(37 357)	(12 393)	(47 848)	(52 689)	(85 205)	(65 082)
Portfolio impairments	(1 077)	(12 963)	(38 463)	(19 463)	(39 540)	(32 426)
Net core loans and advances to customers	**9 374 177**	**8 144 545**	**15 444 873**	**14 086 395**	**24 819 050**	**22 230 940**
% change of net core loans and advances to customers since March 2017	15.1%		9.6%		11.6%	
Average gross core loans and advances to customers	**8 791 256**	**7 706 123**	**14 844 866**	**12 258 560**	**23 636 122**	**19 964 683**
Total income statement charge for impairments on core loans and advances	**(21 198)**	**(20 690)**	**(40 788)**	**(36 580)**	**(61 986)**	**(57 270)**
Gross default loans and advances to customers	157 203	34 166	172 086	215 633	329 289	249 799
Specific impairments	(37 357)	(12 393)	(47 848)	(52 689)	(85 205)	(65 082)
Portfolio impairments	(1 077)	(12 963)	(38 463)	(19 463)	(39 540)	(32 426)
Defaults net of impairments before collateral held	**118 769**	**8 810**	**85 775**	**143 481**	**204 544**	**152 291**
Collateral and other credit enhancements	130 498	25 948	213 776	259 057	344 274	285 005
Net default loans and advances to customers (limited to zero)	**–**	**–**	**–**	**–**	**–**	**–**
Ratios:						
Total impairments as a % of gross core loans and advances to customers	0.41%	0.31%	0.56%	0.51%	0.50%	0.44%
Total impairments as a % of gross default loans	24.45%	74.21%	50.12%	33.46%	37.88%	39.03%
Gross defaults as a % of gross core loans and advances to customers	1.67%	0.42%	1.11%	1.52%	1.32%	1.12%
Defaults (net of impairments) as a % of net core loans and advances to customers	1.27%	0.11%	0.56%	1.02%	0.82%	0.69%
Net defaults as a % of net core loans and advances to customers	–	–	–	–	–	–
Credit loss ratio (i.e. income statement impairment charge on core loans as a % of average gross core loans and advances)	0.24%	0.27%	0.28%	0.29%	0.26%	0.29%

A reconciliation of core loans and advances: statutory basis and ongoing basis

		Removal of:	
	Statutory as disclosed^	**UK Legacy business**	**Ongoing business**
31 March 2018 (£'000)			
Gross core loans and advances to customers	**25 370 248**	**426 453**	**24 943 795**
Total impairments	**(238 151)**	**(113 406)**	**(124 745)**
Specific impairments	(137 711)	(52 506)	(85 205)
Portfolio impairments	(100 440)	(60 900)	(39 540)
Net core loans and advances to customers	**25 132 097**	**313 047**	**24 819 050**
31 March 2017 (£'000)			
Gross core loans and advances to customers	**22 906 165**	**577 717**	**22 328 448**
Total impairments	**(199 028)**	**(101 520)**	**(97 508)**
Specific impairments	(136 177)	(71 095)	(65 082)
Portfolio impairments	(62 851)	(30 425)	(32 426)
Net core loans and advances to customers	**22 707 137**	**476 197**	**22 230 940**

^ *Refer to page 35.*

Collateral

A summary of total collateral is provided in the table below.

£'000	Collateral held against: Core loans and advances	Collateral held against: Other credit and counterparty exposures*	Total
At 31 March 2018			
Eligible financial collateral	**4 758 573**	**1 800 827**	**6 559 400**
Listed shares	4 519 966	1 118 074	5 638 040
Cash	238 607	121 868	360 475
Debt securities issued by sovereigns	–	560 885	560 885
Property charge	**26 953 249**	**221 232**	**27 174 481**
Residential property	14 732 804	218 260	14 951 064
Residential development	877 827	–	877 827
Commercial property developments	655 829	2 972	658 801
Commercial property investments	10 686 789	–	10 686 789
Other collateral	**8 424 661**	**347 302**	**8 771 963**
Unlisted shares^	1 075 757	–	1 075 757
Charges other than property	584 838	297 549	882 387
Debtors, stock and other corporate assets	3 921 474	–	3 921 474
Guarantees	2 069 015	–	2 069 015
Other	773 577	49 753	823 330
Total collateral	**40 136 483**	**2 369 361**	**42 505 844**
At 31 March 2017			
Eligible financial collateral	**4 572 543**	**2 156 905**	**6 729 448**
Listed shares	4 260 613	1 019 427	5 280 040
Cash	311 930	195 295	507 225
Debt securities issued by sovereigns	–	942 183	942 183
Property charge	**24 747 171**	**237 020**	**24 984 191**
Residential property	12 818 367	228 102	13 046 469
Residential development	961 844	–	961 844
Commercial property developments	1 206 059	8 918	1 214 977
Commercial property investments	9 760 901	–	9 760 901
Other collateral	**8 875 334**	**250 705**	**9 126 039**
Unlisted shares^	1 120 814	1 312	1 122 126
Charges other than property	879 959	199 809	1 079 768
Debtors, stock and other corporate assets	3 542 058	–	3 542 058
Guarantees	2 382 407	–	2 382 407
Other	950 096	49 584	999 680
Total collateral	**38 195 048**	**2 644 630**	**40 839 678**

* *A large percentage of these exposures (e.g. bank placements) are to highly rated financial institutions where limited collateral would be required due to the nature of the exposure.*

^ *Unlisted shares taken as collateral can include shares in companies in which the group also has an equity investment. Refer to pages 50 to 53 for additional information on the unlisted equity investments held at fair value.*

Investment risk in the banking book represents a moderate percentage of our total assets and is managed within appropriate risk limits

Investment risk in the banking book

Investment risk description

Investment risk in the banking book arises primarily from the following activities conducted within the group:

- **Principal Investments:** Principal Investments are normally undertaken in support of a client requiring equity to grow and develop an existing business, or the acquisition of a business from third parties. Investments are selected based on the track record of management, the attractiveness of the industry and the ability to build value for the existing business by implementing an agreed strategy. Investments in listed shares may arise on the IPO, or sale of one of our investments. Additionally, listed investments may be considered where we believe that the market is mispricing the value of the underlying security
- **IEP Group:** Investec Bank Limited holds a 45.7% stake alongside third party investors and senior management of the business who hold the remaining 54.3%. The investment in the IEP Group is reflected as an investment in an associate.
- **Lending transactions:** The manner in which we structure certain transactions results in equity, warrant and profit shares being held, predominantly within unlisted companies
- **Property activities:** We source development, investment and trading opportunities to create value and trade for profit within agreed risk parameters.

Management of investment risk

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

Nature of investment risk	Management of risk
Principal Investments	Investment committee, BRCC and GRCC
Listed equities	Investment committee, market risk management, BRCC and GRCC
Embedded derivatives, profit shares and investments arising from lending transactions	Credit risk management committees, BRCC and GRCC
Investment and trading properties	Investment committee, Investec Property group investment committee in South Africa, BRCC and GRCC
IEP Group	A number of our executive are on the board of the IEP Group, BRCC and GRCC

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

Valuation and accounting methodologies

For a description of our valuation principles and methodologies refer to pages 34 and 35 in volume three and pages 70 to 79 in volume three for factors taken into consideration in determining fair value.

We have a low level of assets exposed to the volatility of IFRS fair value accounting with level 3 assets amounting to 1.9% of total assets (excluding assurance assets).

Refer to page 66 in volume three for further information.

The tables below provide an analysis of income and revaluations recorded with respect to these investments.

	Income/(loss) (pre-funding costs)					
For the year to 31 March 2018 £'000 Country/category	**Unrealised°**	**Realised°**	**Dividends**	**Other**	**Total**	**Fair value through equity**
Unlisted investments	**2 211**	**57 807**	**16 736**	**–**	**76 754**	**(882)**
UK and Other	17 471	32 981	10 169	–	60 621	(786)
Southern Africa	(15 260)	24 826	6 567	–	16 133	(96)
Listed equities	**(36 490)**	**1 744**	**11 421**	**–**	**(23 325)**	**2 214**
UK and Other	(9 716)	(1 667)	2	–	(11 381)	2 214
Southern Africa	(26 774)	3 411	11 419	–	(11 944)	–
Investment and trading properties	**14 877**	**15 564**	**–**	**–**	**30 441**	**–**
UK and Other	(10 977)	1 650	–	–	(9 327)	–
Southern Africa^	25 854	13 914	–	–	39 768	–
Warrants, profit shares and other embedded derivatives	**5 169**	**20 035**	**–**	**–**	**25 204**	**–**
UK and Other	5 664	7 202	–	–	12 866	–
Southern Africa	(495)	12 833	–	–	12 338	–
IEP Group^^	**–**	**–**	**–**	**44 523**	**44 523**	**–**
Southern Africa	–	–	–	44 523	44 523	–
Total	**(14 233)**	**95 150**	**28 157**	**44 523**	**153 597**	**1 332**

^ *For the purposes of the above analysis, the exposures arising from the consolidation of the Investec Property Fund have been reflected at the level of our economic ownership, being 26.8% in 2018. It is noted that the ultimate impact on the income statement reflects the group's net attributable earnings from the investment.*

^^ *As explained on page 50.*

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

Risk management

(continued)

For the year to 31 March 2017 £'000 Country/category	Unrealised°	Realised°	Dividends	Other	Total	Fair value through equity
Unlisted investments	**19 579**	**44 430**	**24 258**	**–**	**88 267**	**529**
UK and Other	24 391	38 512	11 066	–	73 969	624
Southern Africa	(4 812)	5 918	13 192	–	14 298	(95)
Listed equities	**(28 157)**	**(162)**	**6 183**	**–**	**(22 136)**	**(5 451)**
UK and Other	(20 442)	21	1 273	–	(19 148)	(2 831)
Southern Africa	(7 715)	(183)	4 910	–	(2 988)	(2 620)
Investment and trading properties	**(21 539)**	**37 450**	**–**	**–**	**15 911**	**–**
UK and Other	(14 892)	17 504	–	–	2 612	–
Southern Africa^	(6 647)	19 946	–	–	13 299	–
Warrants, profit shares and other embedded derivatives	**(8 012)**	**14 748**	**–**	**–**	**6 736**	**–**
UK and Other	(7 035)	–	–	–	(7 035)	–
Southern Africa	(977)	14 748	–	–	13 771	–
IEP Group^^	**–**	**–**	**–**	**16 453**	**16 453**	**–**
Southern Africa	–	–	–	16 453	16 453	–
Total	**(38 129)**	**96 466**	**30 441**	**16 453**	**105 231**	**(4 922)**

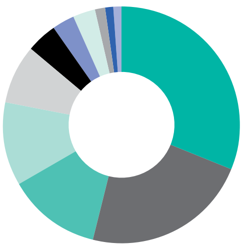
^ *For the purposes of the above analysis, the exposures arising from the consolidation of the Investec Property Fund have been reflected at the level of our economic ownership, being 27.9% in 2017. It is noted that the ultimate impact on the income statement reflects the group's net attributable earnings from the investment.*

^^ *As explained on page 50.*

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

Additional information

An analysis of the investment portfolio, warrants, profit shares and other embedded derivatives



31 March 2018
£920 million

Real estate	31.3%
Manufacturing and commerce	22.7%
Mining and resources	12.7%
Finance and insurance	11.5%
Communication	8.0%
Retailers and wholesalers	4.3%
Transport	3.1%
Electricity, gas and water (utility services)	2.8%
Other	1.5%
Business services	1.2%
Agriculture	0.9%

Summary of investments held and stress testing analyses

The balance sheet value of investments is indicated in the table below.

£'000 Country/category	On-balance sheet value of investments 2018	Valuation change stress test 2018*	On-balance sheet value of investments 2017	Valuation change stress test 2017*
Unlisted investments	**653 906**	**98 086**	**625 748**	**93 862**
UK and Other	416 835	62 525	383 267	57 490
Southern Africa	237 071	35 561	242 481	36 372
Listed equities	**231 593**	**57 898**	**237 369**	**59 342**
UK and Other	61 084	15 271	76 478	19 120
Southern Africa	170 509	42 627	160 891	40 222
Total listed equities and unlisted investments	**885 499**	**155 984**	**863 117**	**153 204**
UK and Other	477 919	77 796	459 745	76 610
Southern Africa	407 580	78 188	403 372	76 594
Investment and trading properties	**708 007**	**98 311**	**685 519**	**96 556**
UK and Other	113 461	21 242	143 648	27 280
Southern Africa^	594 546	77 069	541 871	69 276
Warrants, profit shares and other embedded derivatives	**34 400**	**12 040**	**31 365**	**10 978**
UK and Other	21 611	7 564	18 194	6 368
Southern Africa	12 789	4 476	13 171	4 610
IEP Group^^	**371 810**	**55 771**	**322 804**	**48 421**
Southern Africa	371 810	55 771	322 804	48 421
Total	**1 999 716**	**322 106**	**1 902 805**	**309 159**

* *In order to assess our earnings sensitivity to a movement in the valuation of these investments, the stress testing parameters detailed below are applied.*
^ *For the purposes of the above analysis, the exposures arising from the consolidation of the Investec Property Fund have been reflected at the level of our economic ownership, being 26.8% in 2018 and 27.9% in 2017.*
^^ *As explained on page 50.*

Stress test values applied	
Unlisted investments and the IEP Group	15%
Listed equities	25%
Trading properties	20%
Investment properties	10%
Warrants, profit shares and other embedded derivatives	35%

Stress testing summary

Based on the information at 31 March 2018, as reflected above, we could have a £322 million reversal in revenue (which assumes a year in which there is a 'severe stress scenario' simultaneously across all asset classes). This would not necessarily cause the group to report a loss, but could have a significantly negative impact on earnings for that period. The probability of all these asset classes in all geographies in which we operate being negatively impacted at the same time is very low, although the probability of listed equities being negatively impacted at the same time is very high.

Capital requirements

In terms of Basel III capital requirements for Investec Limited, unlisted and listed equities within the banking book are represented under the category of 'equity risk' and investment properties, profit shares and embedded derivatives are considered in the calculation of capital required for credit risk. In terms of CRD IV capital requirements for Investec plc, unlisted and listed equities within the banking book, investment properties, profit shares and embedded derivatives are all considered in the calculation of capital required for credit risk. In the UK, the equity risk category is an exposure category within credit risk.

Refer to page 86 for further detail.

Securitisation/structured credit activities exposures

Overview

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

Refer to page 27 for the balance sheet and credit risk classification.

The group applies the standardised approach in the assessment of regulatory capital for securitisation.

UK and Other

The primary focus for new securitisation transactions remains to provide a cost effective, alternative source of financing to the bank. During the year we did not undertake any new securitisation transactions.

We hold rated structured credit instruments. These exposures are largely in the UK and US and amount to £266 million at 31 March 2018 (31 March 2017: £339 million).

South Africa

In Southern Africa we engage in transactions that involve the use of both special purpose entities and asset securitisation structures. Securitisation represents a small proportion of our current funding profile, but provides additional flexibility and a source of liquidity. We do not depend on special purpose vehicles for funding in the normal course of business. These entities form part of the consolidated group balance sheet as reported.

We have securitised assets originated by our Private Client business in South Africa. The primary motivations for the securitisation of these assets are to:

- Provide an alternative source of funding
- Act as a mechanism to transfer risk
- Leverage returns through the retention of equity tranches in low default rate portfolios
- Continue to create marketable instruments through self-securitisation.

Total assets that have been originated and securitised by the Private Client division amount to R7.6 billion at 31 March 2018 (31 March 2017: R8.7 billion) and consist of residential mortgages. Within these securitisation vehicles loans greater than 90 days in arrears amounted to R37.6 million.

Further details of our various securitisation vehicles are highlighted below:

- Fox Street 1: R0.7 billion notes of the original R1.5 billion are still in issue. No notes are held internally
- Fox Street 2: R0.8 billion notes of the original R1.5 billion are still in issue. R246 million of the notes are held internally
- Fox Street 3: R1.2 billion notes of the original R2.0 billion are still in issue. R209 million of the notes are held internally
- Fox Street 4: R2.3 billion notes of the original R3.7 billion are still in issue. All notes are held internally
- Fox Street 5: R2.3 billion notes of the original R2.9 billion are still in issue. All notes are held internally.
- There is a clean-up call option that can be exercised at 10% of original notes issued. The margin on the notes increases at pre-specified intervals and coincides with the originator call option dates.

Refer to page 55.

We have also sought out select opportunities in the credit/debt markets and traded in and purchased structured credit. These have largely been rated UK and European Residential mortgage backed securities (RMBS), totalling R0.2 billion at 31 March 2018 (31 March 2017: R0.9 billion) and unrated South African RMBS totalling R1.0 billion at 31 March 2018 (31 March 2017: R0.9 billion).

Accounting policies

Refer to page 35 in volume three.

Risk management

All existing or proposed exposures to a securitisation or a resecuritisation are analysed on a case-by-case basis, with final approval typically required from the relevant credit committee. The analysis looks through to the historical and expected future performance of the underlying assets, the position of the relevant tranche in the capital structure as well as analysis of the cash flow waterfall under a variety of stress scenarios. External ratings are presented, but only for information purposes since the bank principally relies on its own internal risk assessment. Overarching these transaction level principles is the board-approved risk appetite policy, which details the group's appetite for such exposures, and each exposure is considered relative to the group's overall risk appetite. We can use explicit credit risk mitigation techniques where required, however, the group prefers to address and manage these risks by only approving exposures to which the group has explicit appetite through the constant and consistent application of the risk appetite policy.

In addition, securitisations of Investec own originated assets are assessed in terms of the credit risk management philosophies and principles as set out above.

Credit analysis

In terms of our analysis of our credit and counterparty risk, exposures arising from securitisation/structured credit activities reflect only those exposures to which we consider ourselves to be at risk. Assets that have been securitised by our Private Client division in Southern Africa are reflected as part of our core lending exposures and not our securitisation/structured credit exposures as we believe this reflects the true nature and intent of these exposures and activities.

At 31 March Nature of exposure/activity	Exposure 2018 £'million	Exposure 2017 £'million	Balance sheet and credit risk classification	Asset quality – relevant comments
Structured credit (gross exposure)*	345	457	Other debt securities and other loans and advances	
Rated	276	390		
Unrated	69	67		
Loans and advances to customers and third party intermediary originating platforms (mortgage loans) – (net exposure)	146	160	Other loans and advances	
Southern Africa – Private Client division assets which have been securitised	459	517	Own originated loans and advances to customers	Analysed as part of the group's overall asset quality on core loans and advances as reflected on page 35

* *Analysed further below.*

*Analysis of structured credit

At 31 March £'million	2018 Rated**	2018 Unrated	2018 Total	2017 Rated	2017 Unrated	2017 Total
US corporate loans	135	–	135	136	–	136
UK and European ABS	–	–	–	4	–	4
UK and European RMBS	129	10	139	209	10	219
UK and European corporate loans	10	–	10	36	–	36
Australian RMBS	2	–	2	5	–	5
South African RMBS	–	59	59	–	57	57
Total	**276**	**69**	**345**	**390**	**67**	**457**
Investec plc	266	10	276	339	10	349
Investec Limited	10	59	69	51	57	108

**Further analysis of rated structured credit at 31 March 2018

£'million	AAA	AA	A	BBB	BB	B	CCC and below	Total
US corporate loans	54	65	16	–	–	–	–	135
UK and European RMBS	17	55	47	–	10	–	–	129
UK and European corporate loans	1	5	4	–	–	–	–	10
Australian RMBS	–	2	–	–	–	–	–	2
Total at 31 March 2018	**72**	**127**	**67**	**–**	**10**	**–**	**–**	**276**
Total at 31 March 2017	**107**	**175**	**92**	**5**	**11**	**–**	**–**	**390**

Market risk in the trading book

Traded market risk description

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

Traded market risk profile

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

Traded market risk governance structure

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

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

Measurement of traded market risk

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

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

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

Traded market risk management, monitoring and control

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

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

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

Value at Risk

VaR is a technique that estimates the potential losses as a result of movements in market rates and prices over a specified time horizon at a given level of confidence. The VaR model derives future scenarios from past time series of market rates and prices, taking into account inter-relationships between the different markets such as interest rates and foreign exchange rates. The VaR model used is based on full revaluation historical simulation and incorporates the following features:

- Two-year historical period based on an unweighted time series
- Daily movements in each risk factor e.g. foreign exchange rates, interest rates, equity prices, credit spreads and associated volatilities are simulated with reference to historical market rates and prices, with proxies only used when no or limited historical market data is available, and the resultant one-day VaR is scaled up using the square root of time for regulatory purposes
- Risk factor movements are based on both absolute and relative returns as appropriate for the different types of risk factors.

VaR numbers using a one-day holding period are monitored daily at the 95% and 99% confidence intervals, with limits set at the 95% confidence interval. Expected Shortfalls are also monitored daily at the 95% and 99% levels as is the worst case loss in the VaR distribution.

The table below contains the 95% one-day VaR figures for the trading businesses.

	31 March 2018				31 March 2017			
	Year end	Average	High	Low	Year end	Average	High	Low
UK and Other (using 95% VaR)								
Equities (£'000)	495	519	746	345	503	547	1 317	340
Foreign exchange (£'000)	18	17	80	1	13	34	162	1
Interest rates (£'000)	81	84	147	67	88	191	287	83
Credit (£'000)	23	90	184	16	179	171	232	136
Consolidated (£'000)*	**502**	**509**	**740**	**311**	**547**	**586**	**1 364**	**373**
Southern Africa (using 95% VaR)								
Commodities (R'million)	–	0.1	1.5	–	0.1	0.1	0.5	–
Equities (R'million)	3.6	3.4	7.4	2.0	2.4	3.6	22.8	1.9
Foreign exchange (R'million)	1.7	2.9	9.1	0.9	3.7	1.7	5.3	0.9
Interest rates (R'million)	2.4	2.2	4.7	0.3	0.8	1.6	3.2	0.6
Consolidated (R'million)*	**3.4**	**5.0**	**13.7**	**2.4**	**4.5**	**4.2**	**21.8**	**2.1**

* *The consolidated VaR for each entity is lower than the sum of the individual VaRs. This arises from the consolidation offset between various asset classes (diversification).*

Expected shortfall

The ES measure overcomes some of VaR's shortcomings. ES seeks to quantify losses encountered in the tail beyond the VaR level. The 95% one-day ES is the average loss given that the 95% one-day VaR level has been exceeded. The table below contains the 95% one-day ES figures.

	31 March 2018 Year end	31 March 2017 Year end
UK and Other 95% (one-day)		
Equities (£'000)	655	731
Foreign exchange (£'000)	26	24
Interest rates (£'000)	113	118
Credit (£'000)	35	396
Consolidated (£'000)*	**661**	**764**
Southern Africa 95% (one-day)		
Commodities (R'million)	0.1	0.1
Equities (R'million)	7.1	6.6
Foreign exchange (R'million)	3.7	4.6
Interest rates (R'million)	4.1	1.5
Consolidated (R'million)*	**8.8**	**7.9**

* *The consolidated ES for each entity is lower than the sum of the individual ESs. This arises from the correlation offset between various asset classes (diversification).*

Stressed VaR

Stressed VaR (sVaR) is calculated using the VaR model but based on a one year period through which the relevant market factors experienced stress. The information in the table below contains the 99% one-day sVaR as at 31 March 2018.

	31 March 2018 Year end	31 March 2017 Year end
UK and Other (£'000)		
99% 1-day sVaR	**1 541**	**1 322**
Southern Africa (R'million)		
99% 1-day sVaR	**13.3**	**9.6**

Backtesting

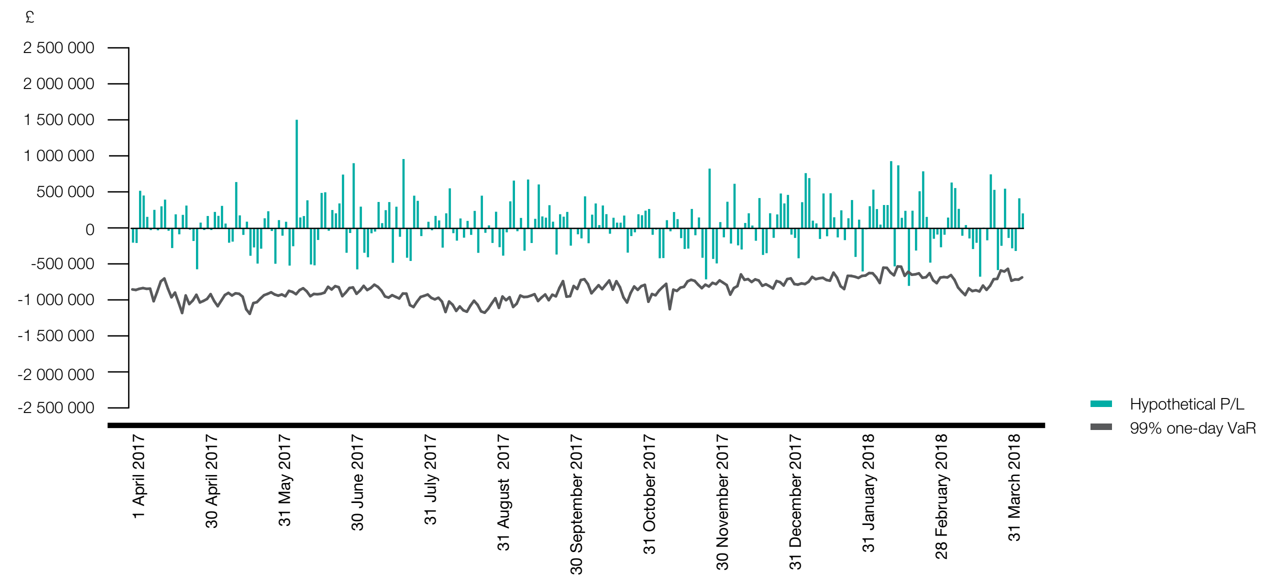
The performance of the VaR model is regularly monitored through backtesting. This is done by comparing daily hypothetical profit and loss against one-day VaR based on a 99% confidence level. Hypothetical profit and loss excludes items such as fees, commissions, valuation adjustments, provisions, recoveries and intra-day transactions. If a loss exceeds the one-day VaR, a backtesting exception is considered to have occurred. Over time we expect the average rate of observed backtesting exceptions to be consistent with the percentile of the VaR statistic being tested. This is conducted at an aggregate and desk level on a daily basis.

The graphs that follow show the result of backtesting the total daily 99% one-day VaR against the hypothetical profit and loss figures for our trading activities over the reporting period. Based on these graphs, we can gauge the accuracy of the VaR figures i.e. 99% of the time, the total trading activities are not expected to lose more than the 99% one-day VaR.

UK and Other

The average VaR for the year ended March 2018 was lower than the previous year, largely as a result of a reduction in risk in interest rates and credit. Using hypothetical profit and loss data for backtesting resulted in one exception over the year at the 99% confidence level, i.e. where the loss was greater than the 99% one-day VaR. This is less than expected at the 99% level and is due to modest volatility levels experienced in 2017.

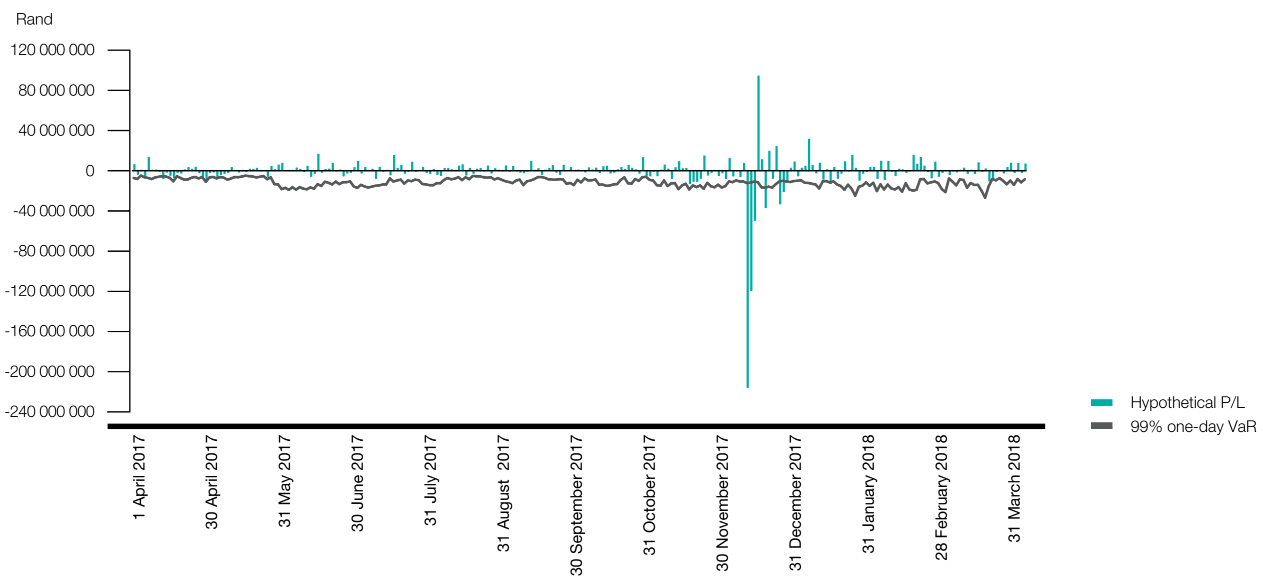
99% one-day VaR backtesting



Southern Africa

Average VaR for the year ended March 2018 was higher than the previous year, primarily due to higher VaR utilisation on the foreign exchange and interest rate trading desks. The graph below is for the consolidated South African trading book and is based on hypothetical profit and loss, which excludes items such as fees, commissions, valuation adjustments, provisions, recoveries and intra-day transactions. The nine exceptions were primarily as a result of the Steinhoff share price collapse in December 2017 (refer to page 8 for additional information).

99% one-day VaR backtesting



Stress testing

The table below indicates the potential losses that could arise if the portfolio is stress tested under extreme market conditions. The method used is known as extreme value theory (EVT), the reported stress scenario below calculates the 99% EVT which is a 1-in-8 year possible loss event. These numbers do not assume normality but rather rely on fitting a distribution to the tails of the VaR distribution.

	31 March 2018 Year end	31 March 2017 Year end
UK and Other (using 99% EVT)		
Equities (£'000)	1 475	1 638
Foreign exchange (£'000)	66	114
Interest rates (£'000)	226	264
Credit (£'000)	83	1 223
Consolidated (£'000)#	**1 441**	**1 949**
Southern Africa (using 99% EVT)		
Commodities (R'million)	0.2	0.2
Equities (R'million)	13.9	26.6
Foreign exchange (R'million)	20.1	8.1
Interest rates (R'million)	13.5	7.7
Consolidated (R'million)#	**29.6**	**26.4**

The consolidated stress testing for each entity is lower than the sum of the individual stress test numbers. This arises from the correlation offset between various asset classes (diversification).

Capital

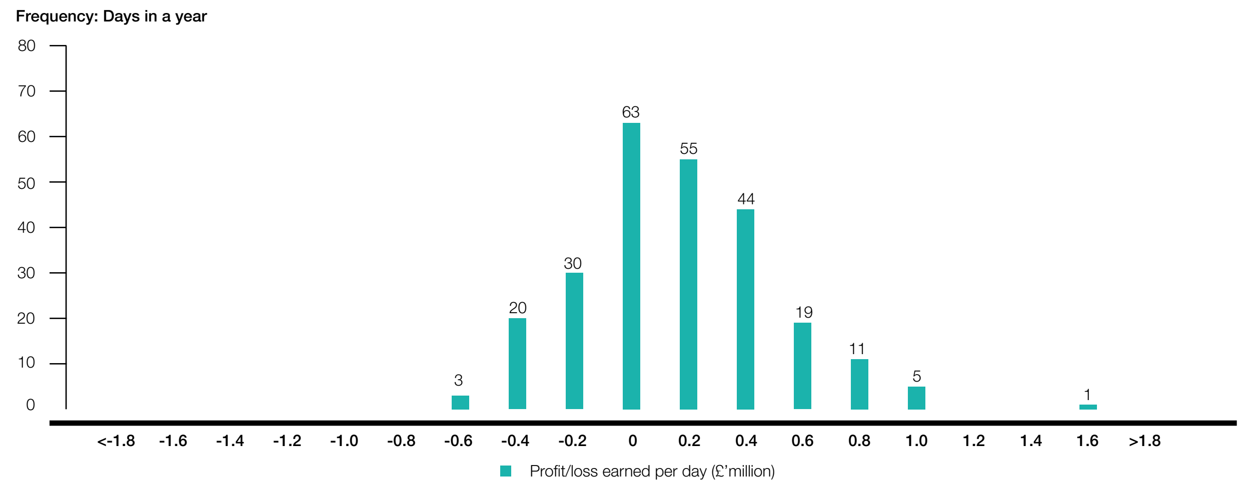
In the UK, the market risk capital requirement is calculated using the standardised approach. For certain options, the group has obtained an article 329 permission from the PRA to use an internal model to calculate the delta for these positions. In addition the group was granted article 331 permission in January 2018 which allows sensitivity models to be used when calculating the market risk position for certain instruments. In South Africa, we have internal model approval from the South African Prudential Authority for general market risk for all trading desks and therefore trading capital is calculated as a function of the 99% 10-day VaR as well as the 99% 10-day sVaR together with standardised specific risk capital for issuer risk.

Profit and loss histograms

UK and Other

The histogram below illustrates the distribution of hypothetical profit and loss during the financial year for our trading businesses. The distribution is skewed to the profit side and the graph shows that positive trading revenue was realised on 135 days out of a total of 251 days in the trading business. The average daily trading revenue generated for the year to 31 March 2018 was £61 232 (2017: £88 299).

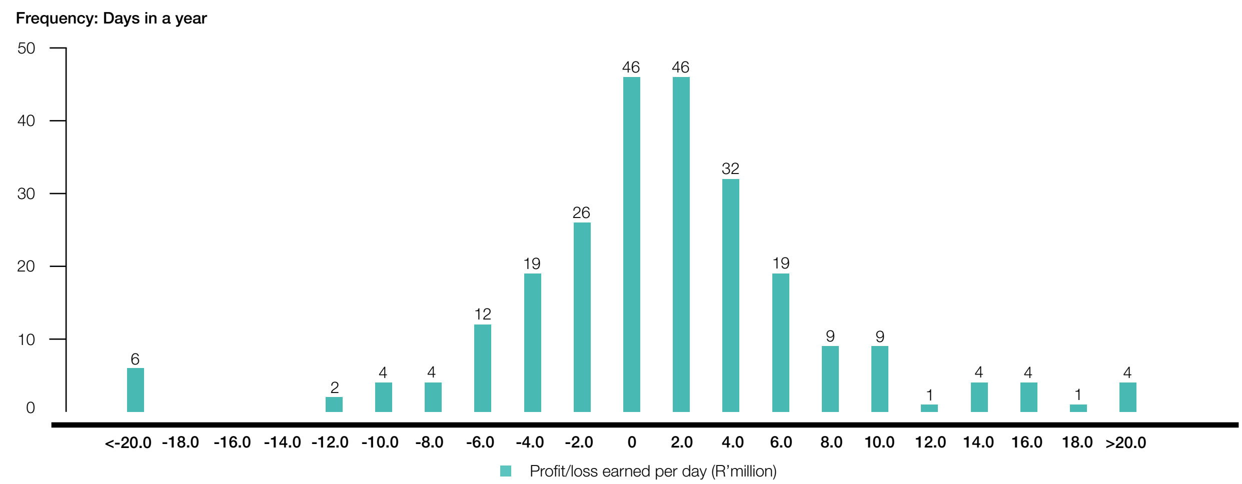
Profit and loss



Southern Africa

The histogram below illustrates the distribution of hypothetical profit and loss during the financial year for our trading businesses. The distribution is skewed to the profit side and the graph shows that positive trading revenue was realised on 129 days out of a total of 248 days in the trading business. The average daily trading revenue generated for the year to 31 March 2018 was – R0.7 million (2017: R4.5 million) due to a higher number of tail losses at the end of 2017.

Profit and loss

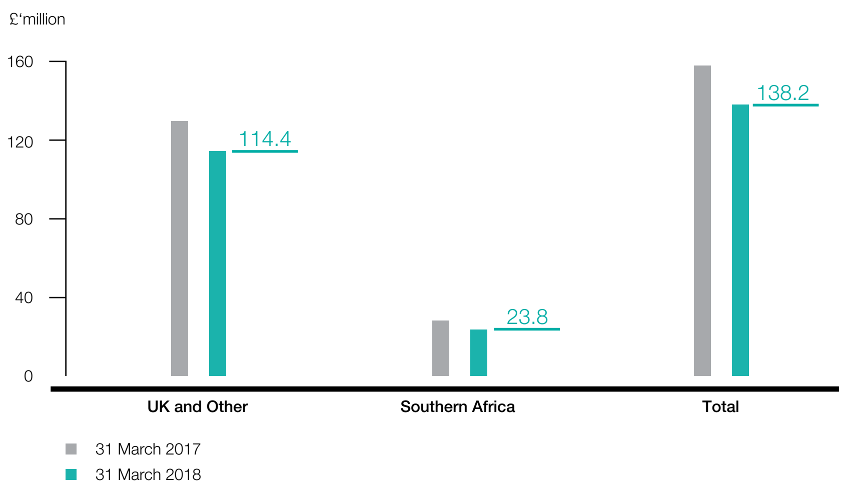


Traded market risk year in review

In the UK, trading revenues were impacted by lower volatility in equity markets through 2017, however, there was continued growth in client activity particularly within the financial products business. Market risk exposures across all trading desks remained low throughout the year.

In South Africa, during the year the markets were impacted by local factors, in particular, political policy uncertainty prior to the ANC elective conference in December. The primary focus of the bank's trading desks remains to facilitate the demand of our clients with limited proprietary risk taken. This is reflected by the low levels of market risk exposures as well as VaR throughout the year. The 95% one-day VaR ended the year at R3.4 million, down R1.1 million from the previous year. Market risk exposures across all trading desks remained low throughout the year.

Revenue arising from customer flow trading activities



Market risk – derivatives

Investec enters into various derivatives contracts, largely on the back of customer flow for hedging foreign exchange, interest rates, commodity, equity and credit exposures and to a small extent as principal for trading purposes. These include financial futures, options, swaps and forward rate agreements.

Information showing our derivative trading portfolio over the reporting period on the basis of the notional principal and the fair value of all derivatives can be found on page 84 in volume three.

The notional principal indicates our activity in the derivatives market and represents the aggregate size of total outstanding contracts at year end. The fair value of a derivative financial instrument represents the present value of the positive or negative cash flows which would have occurred had we closed out the rights and obligations arising from that instrument in an orderly market transaction at year end. Both these amounts reflect only derivatives exposure and exclude the value of the physical financial instruments used to hedge these positions.

Balance sheet risk management

Balance sheet risk description

Balance sheet risk encompasses the financial risks relating to our asset and liability portfolios, comprising liquidity, funding, concentration, encumbrance and non-trading interest rate risk.

Balance sheet risk governance structure and risk mitigation

Investec plc (and its subsidiaries) are ring-fenced from Investec Limited (and its subsidiaries), and *vice versa*. Both legal entities are therefore required to be self-funded, and manage their funding and liquidity as separate entities.

Risk appetite limits are set at board level and reviewed at least on an annual basis. The size, materiality, complexity, maturity and depth of the market as well as access to stable funds are all inputs considered when establishing the liquidity and non-trading interest rate risk appetite for each geographic region. Specific regulatory requirements may further dictate additional restrictions to be adopted in a region.

Under delegated authority of the boards, the group has established Asset and Liability Committees (ALCOs) within each core geography in which it operates, using regional expertise and local market access as appropriate. The ALCOs are mandated to ensure independent supervision of liquidity risk and non-trading interest rate risk within the risk appetite.

ALCOs meet on at least a monthly basis to review the exposures that lie within the balance sheet together with market conditions, and decide on strategies to mitigate any undesirable liquidity and interest rate risk. The Treasury function within each region is mandated to holistically manage the liquidity mismatch and non-trading interest rate risk arising from our asset and liability portfolios on a day-to-day basis.

The Treasury function within each jurisdiction is required to exercise tight control of liquidity, funding, concentration, encumbrance and non-trading interest rate risk within the board-approved risk appetite limits. Non-trading interest rate risk and asset funding requirements are transferred from the originating business to the Treasury function.

The Treasury function, by core geography, directs pricing for all deposit products, establishes and maintains access to stable wholesale funds with the appropriate tenor and pricing characteristics, and manages liquid securities and collateral, thus providing prudential management and a flexible response to volatile market conditions. The Treasury function is the sole interface to the wholesale money market for both cash and derivative transactions.

We maintain an internal funds transfer pricing system based on prevailing market rates. Our funds transfer pricing system charges the businesses the price of short-term and long-term liquidity taking into account the behavioural duration of the asset. The costs and risks of liquidity are clearly and transparently attributed to business lines thereby ensuring that price of liquidity is integrated into business level decision-making and drives the appropriate mix of sources and uses of funds.

Balance sheet risk management teams are based within Group risk management in their respective geographies, and are responsible for independently identifying, quantifying and monitoring risks; providing daily independent governance and oversight of the treasury activities and the execution of the bank's policies.

There is a regular audit of the balance sheet risk management function, the frequency of which is determined by the independent audit committees.

Daily, weekly and monthly reports are independently produced highlighting bank activity, exposures and key measures against thresholds and limits and are distributed to management, ALCO, Treasury, Review ERRF, GRCC and BRCC as well as summarised reports for board meetings.

Liquidity risk

Liquidity risk description

Liquidity risk refers to the possibility that, despite being solvent, we have insufficient capacity to fund increases in assets, or are unable to meet our payment obligations as they fall due in normal and stressed conditions. This includes repaying depositors or maturing wholesale debt. This risk arises from mismatches in the timing of cash-flows, and is inherent in all banking operations and can be impacted by a range of institution-specific and market-wide events.

Liquidity risk is further broken down into:

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

Management and measurement of liquidity risk

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

- Our liquidity management processes encompass requirements set out within Basel Committee on Banking Supervision (BCBS) guidelines and by the regulatory authorities in each jurisdiction, namely the PRA, EBA, South African Prudential Authority, BOM, GFSC and FINMA
- The risk appetite is clearly defined by the board and each geographic entity must have its own board-approved policies with respect to liquidity risk management
- We maintain a liquidity buffer in the form of unencumbered cash, government or rated securities (typically eligible for repurchase with the central bank), and near cash well in excess of the regulatory requirements as protection against unexpected disruptions in cash flows
- Funding is diversified with respect to currency, term, product, client type and counterparty to ensure a varied overall funding mix
- We monitor and evaluate each banking entity's maturity ladder and funding gap (cash flow maturity mismatch) on a 'liquidation', 'going concern' and 'stress' basis
- The asset and liability team independently monitors key daily funding metrics and liquidity ratios to assess potential risks to the liquidity position, which further act as early warning indicators of potential market disruptions
- The maintenance of sustainable prudent liquidity resources takes precedence over profitability
- The group maintains adequate contingency funding plans designed to protect depositors, creditors and shareholders and maintain market confidence during adverse liquidity conditions.

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

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

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

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

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

The group operates an industry-recognised third party risk modelling system in addition to custom-built management information systems designed to measure and monitor liquidity risk on both a current and forward-looking basis. The system is audited by Internal Audit thereby ensuring integrity of the process.

Funding strategy

We maintain a funding structure of stable customer deposits and long-term wholesale funding well in excess of illiquid assets. We target a diversified funding base, avoiding undue concentrations by investor type, maturity, market source, instrument and currency. As a result, we are able to generate funding from a broad range of sources in each geographic location, which ensures a varied overall funding mix to support loan growth.

We acknowledge the importance of our retail deposit client base as the principal source of stable and well diversified funding. We continue to develop products to attract and service the investment needs of our client base.

Entities within the group actively participate in global financial markets and our relationship is continuously enhanced through regular investor presentations internationally. Entities are only allowed to have funding exposure to wholesale markets where they can demonstrate that the market is sufficiently deep and liquid, and then only relative to the size and complexity of their business.

The group's ability to access funding at cost-effective levels is influenced by maintaining or improving the entity's credit rating. A reduction in these ratings could have an adverse effect on the group's funding costs, and access to wholesale term funding. Credit ratings are dependent on multiple factors, including operating environment, business model, strategy, capital adequacy levels, quality of earnings, risk appetite and exposure, and control framework.

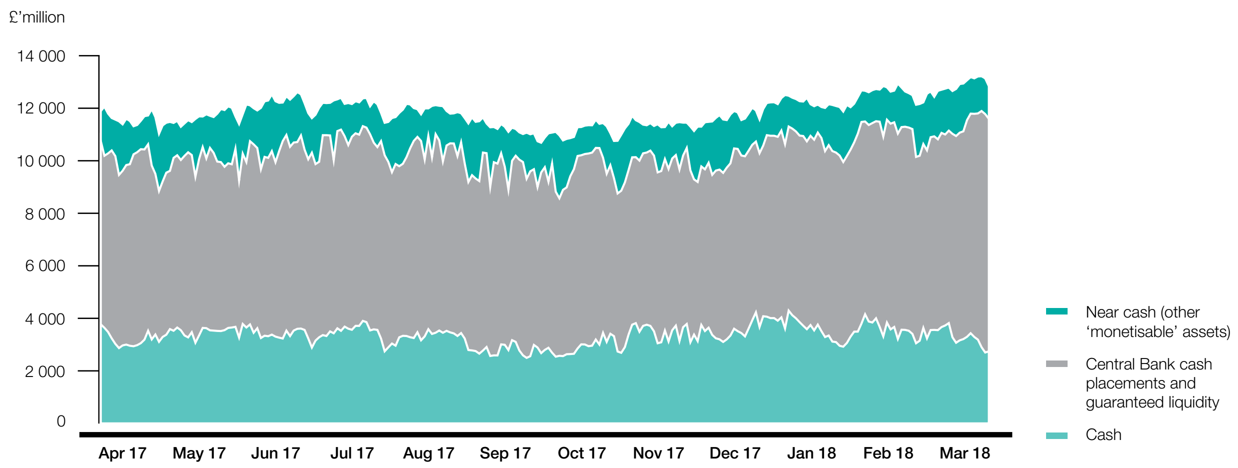
We remain confident in our ability to raise funding appropriate to our needs.

Liquidity buffer

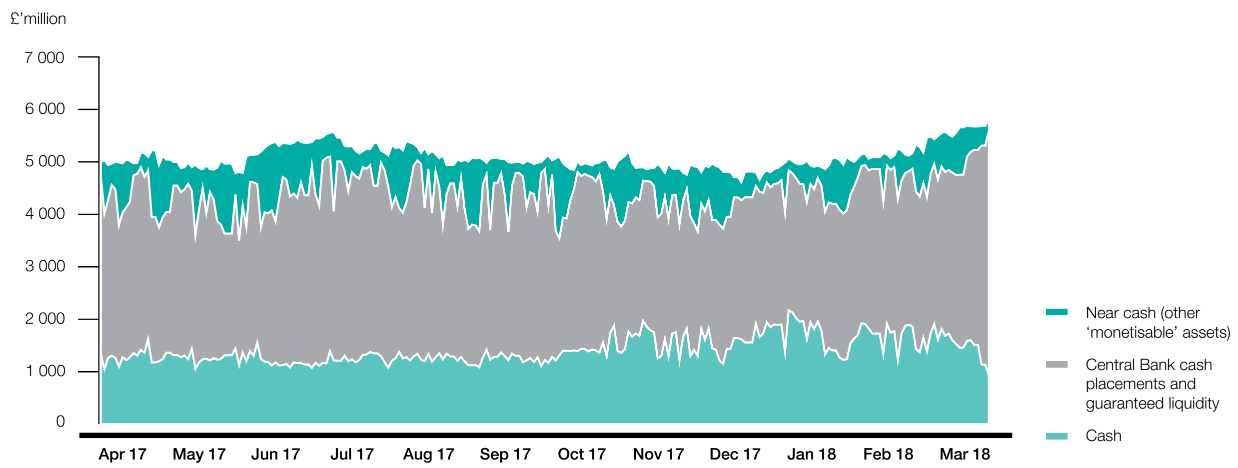
To protect against potential shocks, we hold a liquidity buffer in the form of cash, unencumbered high quality liquid assets (typically in the form of government or rated securities eligible for repurchase with the central bank), and near cash, well in excess of the regulatory requirements as protection against disruptions in cash flows. These portfolios are managed within board-approved targets, and as well as providing a buffer under going concern conditions, also form an integral part of the broader liquidity generation strategy. Investec remains a net liquidity provider to the interbank market, placing significantly more funds with other banks than our short-term interbank borrowings. We do not rely on overnight interbank deposits to fund term lending.

From 1 April 2017 to 31 March 2018 average cash and near cash balances over the period amounted to £11.9 billion (£5.1 billion in UK and Other; R116.5 billion in South Africa).

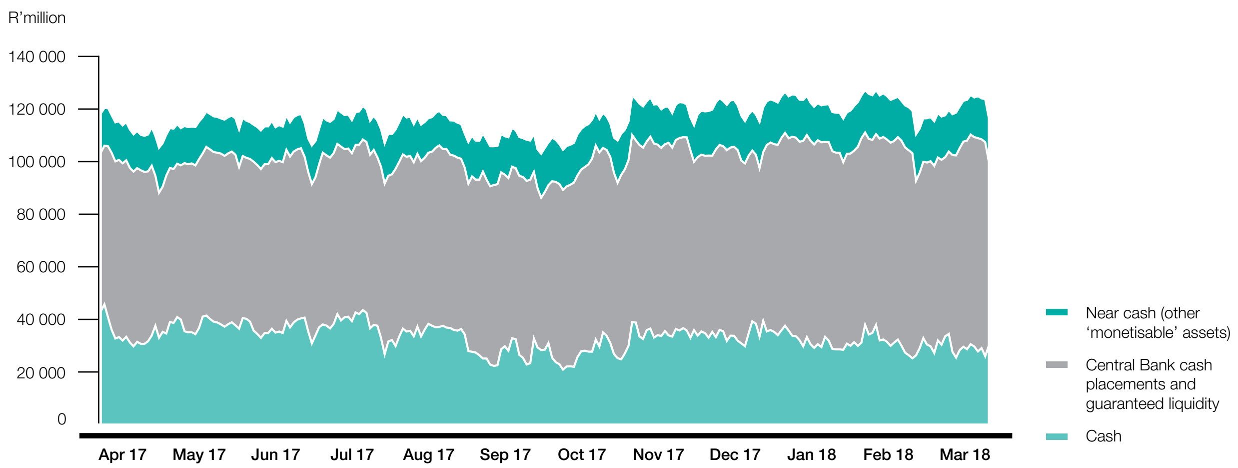
Total Investec group cash and near cash trend



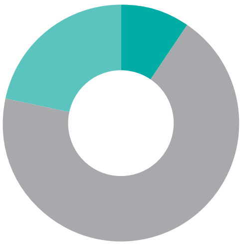
Investec plc cash and near cash trend



Investec Limited cash and near cash trend

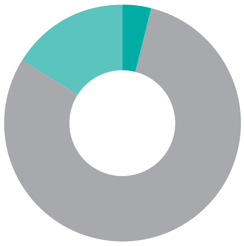


An analysis of cash and near cash at 31 March 2018



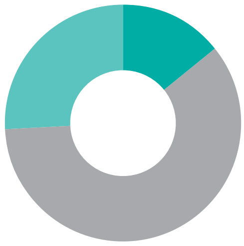
Total group
£12 825 million

Near cash (other 'monetisable' assets)	9.7%
Central Bank cash placements and guaranteed liquidity	68.9%
Cash	21.4%



Investec plc
£5 813 million

Near cash (other 'monetisable' assets)	4.1%
Central Bank cash placements and guaranteed liquidity	79.8%
Cash	16.1%



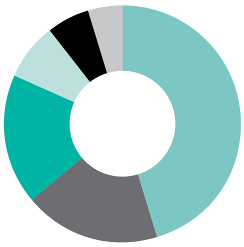
Investec Limited
R116 533 million

Near cash (other 'monetisable' assets)	14.3%
Central Bank cash placements and guaranteed liquidity	59.9%
Cash	25.8%

Bank and non-bank depositor concentration by type at 31 March 2018

UK and Other
£12 945 million

Individuals	50.1%
Non-financial corporates	34.7%
Banks	10.1%
Small business	5.1%



Southern Africa
R349 616 million

Other financials	45.5%
Non-financial corporates	18.6%
Individuals	17.6%
Banks	7.9%
Small business	5.9%
Public sector	4.5%

The liquidity position of the group remained sound with total cash and near cash balances amounting to £12.8 billion at year end

Contingency planning

The group maintains contingency funding plans which detail the course of actions that can be taken in the event of a liquidity stress. The plans help to ensure that cash flow estimates and commitments can be met in the event of general market disruption or adverse bank-specific events, while minimising detrimental long-term implications for the business. The plans include:

- Details on the required daily monitoring of the liquidity position;
- Description of the early warning indicators to be monitored, and process of escalation if required;
- Liquidity stress scenarios to be modelled for Contingency Funding Plan (CFP) purposes (over and above daily stress testing scenarios);
- Funding and management actions available for use in a stress situation;
- Roles and responsibilities;
- Details of specific escalation bodies and key contacts; and
- Internal and external communication plans.

Asset encumbrance

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

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

The group uses secured transactions to manage short-term cash and collateral needs, and utilises securitisations in order to raise external term funding as part of its diversified liability base. Securitisation notes issued are also retained by the group which are available to provide a pool of collateral eligible to support central bank liquidity facilities, including the Bank of England's Funding for Lending and Term Funding Schemes.

Encumbered assets are identified in Investec plc in accordance with the reporting requirements under European Capital Requirements Regulation (CRR), and regular reporting is provided to the EBA and PRA. Further disclosures on encumbered and unencumbered assets can be found within the Investec plc Pillar 3 document.

On page 81 in volume three we disclose further details of assets that have been received as collateral under reverse repurchase agreements and securities borrowing transactions where the assets are allowed to be resold or pledged.

Liquidity mismatch

The tables that follow show the liquidity mismatch across our core geographies.

With respect to the contractual liquidity table below, we record all assets and liabilities with the underlying contractual maturity as determined by the cash flow profile for each deal.

With respect to the behavioural liquidity gap, we adjust the contractual profile of certain assets and liabilities:

- *Liquidity buffer*: the actual contractual profile of the assets in the liquidity buffer is of little consequence, as practically Investec would meet any unexpected net cash outflows by repo'ing or selling these highly liquid securities. Consequently, for the liquidity buffer:
  - The time horizon to monetise our regulatory liquid assets which are guaranteed by the central bank has been adjusted to 'on demand'; and
  - The time horizon for the cash and near cash portfolio of 'available-for-sale' discretionary treasury assets has been set to one month where there are deep secondary markets for this elective asset class.
- *Customer deposits*: the contractual repayments of many deposits are on demand, or at notice, but in reality withdrawals vary significantly from this. Historical observations of the products are used to model the behavioural lives, and this analysis has identified significant additional sources of structural liquidity in the form of core deposits that exhibit stable behaviour.

UK and Other
Contractual liquidity at 31 March 2018

£'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	> Five years	Total
Cash and short-term funds – banks	4 081	344	22	14	9	22	–	4 492
Investment/trading assets	439	554	244	338	258	942	1 371	4 146
Securitised assets	–	2	–	–	1	11	118	132
Advances	94	554	535	817	1 440	4 541	2 067	10 048
Other assets	218	811	82	88	60	76	459	1 794
Assets	**4 832**	**2 265**	**883**	**1 257**	**1 768**	**5 592**	**4 015**	**20 612**
Deposits – banks	(131)	–	(17)	–	(82)	(1 078)	–	(1 308)
Deposits – non-banks	(3 509)	(785)	(2 555)	(1 137)	(1 269)	(2 256)	(126)	(11 637)
Negotiable paper	–	–	(25)	(24)	(32)	(1 434)	(826)	(2 341)
Securitised liabilities	–	–	(3)	(3)	(6)	(46)	(70)	(128)
Investment/trading liabilities	(54)	(87)	(26)	(9)	(28)	(199)	(402)	(805)
Subordinated liabilities	–	–	–	–	–	(580)	–	(580)
Other liabilities	(133)	(748)	(288)	(66)	(78)	(110)	(49)	(1 472)
Liabilities	**(3 827)**	**(1 620)**	**(2 914)**	**(1 239)**	**(1 495)**	**(5 703)**	**(1 473)**	**(18 271)**
Total equity	–	–	–	–	–	–	(2 341)	(2 341)
Contractual liquidity gap	**1 005**	**645**	**(2 031)**	**18**	**273**	**(111)**	**201**	**–**
Cumulative liquidity gap	1 005	1 650	(381)	(363)	(90)	(201)	–	

Behavioural liquidity

As discussed on page 66.

£'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	> Five years	Total
Behavioural liquidity gap	**3 704**	**641**	**(125)**	**(109)**	**269**	**(4 366)**	**(14)**	**–**
Cumulative	3 704	4 345	4 220	4 111	4 380	14	–	

Southern Africa

Contractual liquidity at 31 March 2018

R'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	> Five years	Total
Cash and short-term funds – banks	23 724	3 487	940	–	165	491	–	28 807
Cash and short-term funds – non-banks	9 418	304	271	–	–	–	–	9 993
Investment/trading assets and statutory liquids	63 695	26 941	4 372	3 127	2 307	37 408	24 839	162 689
Securitised assets	60	9	48	104	166	1 717	5 825	7 929
Advances	7 200	5 257	11 779	15 676	25 543	121 239	62 643	249 337
Other assets	698	1 243	2 943	80	211	4 574	8 135	17 884
Assets	**104 795**	**37 241**	**20 353**	**18 987**	**28 392**	**165 429**	**101 442**	**476 639**
Deposits – banks	(868)	(1 140)	(2 196)	(396)	(7 389)	(15 229)	(575)	(27 793)
Deposits – non-banks	(135 962)^	(21 961)	(65 423)	(24 505)	(37 762)	(33 810)	(2 400)	(321 823)
Negotiable paper	(1)	(3)	(129)	(358)	(3 306)	(3 088)	–	(6 885)
Securitised liabilities	–	–	–	–	–	–	(2 274)	(2 274)
Investment/trading liabilities	(838)	(16 086)	(1 418)	(1 825)	(4 765)	(12 753)	(855)	(38 540)
Subordinated liabilities	–	(871)	(17)	(9)	–	(4 601)	(9 515)	(15 013)
Other liabilities	(2 507)	(916)	(700)	(125)	(1 129)	(155)	(7 500)	(13 032)
Liabilities	**(140 176)**	**(40 977)**	**(69 883)**	**(27 218)**	**(54 351)**	**(69 636)**	**(23 119)**	**(425 360)**
Total equity	–	–	–	–	(213)	–	(51 066)	(51 279)
Contractual liquidity gap	**(35 381)**	**(3 736)**	**(49 530)**	**(8 231)**	**(26 172)**	**95 793**	**27 257**	**–**
Cumulative liquidity gap	(35 381)	(39 117)	(88 647)	(96 878)	(123 050)	(27 257)	–	

^ *Includes call deposits of R126 billion and the balance reflects term deposits which have finally reached/are reaching contractual maturity.*

Behavioural liquidity

As discussed on page 66.

R'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	> Five years	Total
Behavioural liquidity gap	**58 207**	**650**	**5 388**	**(520)**	**(8 605)**	**(147 399)**	**92 279**	**–**
Cumulative	58 207	58 857	64 245	63 726	55 120	(92 279)	–	

Regulatory requirements

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

Two minimum standards for funding liquidity were introduced:

- The liquidity coverage ratio (LCR) is designed to ensure that banks have sufficient high quality liquid assets to meet their liquidity needs throughout a 30-calendar day severe stress
- The net stable funding ratio (NSFR) is designed to capture structural issues over a longer time horizon by requiring banks to have a sustainable maturity structure of assets and liabilities.

UK and other

Since 1 January 2018, banks within the EU have been required to maintain a minimum LCR ratio of 100%. For both Investec plc and Investec Bank plc (solo basis), the LCR is calculated following the European Commission Delegated Regulation 2015/61 and our own interpretations where the regulation calls for it. The reported LCR may change over time with updates to our methodologies and interpretations.

The BCBS published their final paper on NSFR in October 2014. In November 2016, the European Commission released a number of proposals amending the CRR referred to as the 'CRR2/CRDV' package. This includes a number of EU specificities with respect to the NSFR. The implementation date of the ratio will be two years after the date entry into force of the proposed regulation, at which point banks will be required to maintain a minimum NSFR of 100%. The NSFR therefore remains subject to an observation period in advance of such implementation and we will continue to monitor these rules until final implementation. The internally calculated NSFR for Investec plc and Investec Bank plc (solo basis) is based upon the BCBS paper and our own internal interpretations, as such, it is subject to change in response to regulatory updates and our methodologies.

Investec plc undertakes an annual Individual Liquidity Adequacy Assessment Process (ILAAP) which documents the approach to liquidity management across the firm. This document is reviewed and approved by the board before being provided to the PRA for use, alongside the Liquidity Supervisory Review and Evaluation Process, to determine the bank's Individual Liquidity Guidance, also known as a Pillar 2 requirement.

Southern Africa

South Africa, a member of the G20, has adopted the published BCBS guidelines for 'liquidity risk measurement standards and monitoring'.

There are certain shortcomings and constraints in the South African environment and the banking sector in Southern Africa is characterised by certain structural features such as:

- A low discretionary savings rate and a higher degree of contractual savings that are captured by institutions such as pension funds, provident funds and providers of asset management services
- There is currently no 'deposit protection scheme' in South Africa. However, the regulators plan to incorporate a deposit protection scheme within the broader amendments to the recovery and resolution framework
- Southern Africa has an insufficient supply of level 1 assets in domestic currency to meet the aggregate demand.

There are various regulatory and economic barriers that prevent liquidity from flowing out of the domestic economy. Namely, Southern Africa has exchange control that limits capital flows, along with prudential requirements on financial corporates.

A positive consequence of the above is that the Rand funding that the South African banks use is contained within the financial system and therefore the Rand is unlikely to be drained by currency withdrawal from offshore sources, or placements in offshore accounts.

To address this systemic challenge, the South African Prudential Authority exercised national discretion and has announced:

- The introduction of a Committed Liquidity Facility (CLF) whereby South African banks can apply to the Reserve Bank for the CLF against eligible collateral for a prescribed commitment fee. The CLF is limited to 40% of Net Outflows under the LCR. Investec Bank Limited does not make use of the CLF offered by the South African Prudential Authority
- A change to the available stable funding factor as applied to less than six months term deposits from the financial sector. The change recognises 35% of less than six months financial sector deposits which has the impact of reducing the amount of greater than six months term deposits required by local banks to meet the NSFR, and will therefore mitigate any increases in the overall cost of funds.

Despite the above constraints, Investec Bank Limited comfortably exceeds the LCR and NSFR liquidity ratio requirements, having embedded these ratio into our processes.

Balance sheet risk year in review

- Investec maintained its strong liquidity position and continued to hold high levels of surplus liquid assets
- Our liquidity risk management process remains robust and comprehensive.

UK and other

A strong liquidity position has continued to be maintained throughout the year with liabilities growing to support strong asset growth. Funding and liquidity continued to be raised through a diverse mix of customer liabilities by customer type, currency, channel and tenor, avoiding reliance on any particular channel and ensuring continued access to a wide range of deposits.

Additional cost-effective term funding has been raised during the year whilst limiting refinancing risks. In 2017/18, these have included drawings on the Bank of England Term Funding Scheme, refinancing and upsizing of syndicated term loans and the issuance of new Investec plc senior and Additional Tier 1 notes in the debt capital markets.

Funding costs have continued to fall, despite overall growth in liabilities, through ongoing active management of the liability channels and the deployment of a diverse range of funding channels.

The overall liquidity position at the year-end remains strong across a range of metrics in line with our overall conservative approach to balance sheet risk management and is well positioned to support asset growth in the new financial year.

In September 2017, Investec Bank plc's long-term deposit rating was upgraded by Fitch to BBB+ (stable outlook) and the outlook was changed to positive by

Moody's (A2, positive outlook). The outlook was also changed to positive on Investec plc's long-term issuer rating (Baa1, positive outlook) by Moody's.

Cash and near cash balances at 31 March 2018 amounted to £5.8 billion (2017: £5.0 billion). Total UK and Other customer deposits was £11.6 billion at 31 March 2018 (2017: £11.0 billion).

For Investec plc and Investec Bank plc (solo basis), the LCR is calculated using our own interpretations of the EU Delegated Act. The LCR reported to the PRA at 31 March 2018 was 306% for Investec plc and 301% for Investec Bank plc (solo basis) which is well ahead of the regulatory minimum of 100%. Ahead of the implementation of the final NSFR rules, the group has applied its own interpretations of regulatory guidance and definitions from the BCBS final guidelines, to calculate the NSFR which was 142% for Investec plc and 133% for Investec Bank plc (solo basis), well ahead of the future regulatory minimum of 100%. The reported LCR and NSFR may change over time with regulatory developments and guidance.

Southern Africa

The economy faced major headwinds throughout 2017, driven by escalating political risks, which had negative effects on the real economy. Certain ratings agencies responded to these risks by downgrading South Africa's local and foreign currency credit ratings to junk status. Concerns over the South African economy persisted throughout the year and peaked ahead of the ANC National Elective Conference in December 2017. Subsequent to that, Cyril Ramaphosa was elected President of the ANC, the ruling party. The announcement of a change of leadership within the ruling party was favourably received by investors. In response to these developments, Moody's left South Africa's key credit ratings at investment grade (Baa3) upgrading the sovereign's outlook from negative to stable.

Investec Bank Limited responded to these external challenges by concluding its $600 million long-term foreign currency funding programme in September 2017. It raised a further $550 million using a combination of repos, sub-debt issuances and long-term cross currency swaps. The majority of our foreign currency funding is used to augment our already strong cash balance. Investec grew its total customer deposits by 6.1% from R303 billion to R322 billion as at 31 March 2018. Our Private Bank and Cash Investments fundraising channels grew deposits by 6.5% to R132 billion over the financial year. Over the same period the wholesale ZAR only channels increased funding from R179 billion to R190 billion.

Our liquidity position is sound. Its health is evidenced by strong liquidity ratios which are monitored daily and managed to levels well above the regulatory requirement. The three-month average LCR for Investec Bank solo ended the financial year at 133.9% which is well above the current minimum level of 90% required. The NSFR has become a regulatory requirement as of January 2018. The NSFR for Investec Bank solo amounted to 108.4% as of 31 March 2018, comfortably above the 100% regulatory minimum. We are confident of our ability to meet and exceed both of these ratios whilst continuing to meet planned asset growth targets.

We foresee a period of improved market sentiment in the 2018/19 financial year. We are well positioned to take advantage of a positive political and investment climate which will likely drive asset growth in our geography. We have worked hard to build a robust retail and wholesale funding structure which is well diversified and sufficiently malleable to meet potential challenges which may test our view over the course of the new financial year.

Non-trading interest rate risk

Non-trading interest rate risk description

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

Sources of interest rate risk include:

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

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

Measurement and management of non-trading interest rate risk

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

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

- Income metrics capture the change in accruals expected over a specified time horizon in response to a change in interest rates
- Economic value metrics capture all future cash flows in order to calculate

the bank's net worth and therefore can highlight risks beyond the short-term earnings time horizon.

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

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

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

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

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

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

The group complies with the BCBS108 framework which is currently in force for assessing banking book (non-trading) interest rate risk, and is in the process of enhancing its existing framework to adhere to the new BCBS368 principles which come into effect in 2020.

Interest rate sensitivity gap

The tables below show our non-trading interest rate mismatch. These exposures affect the interest rate margin realised between lending income and borrowing costs assuming no management intervention.

UK and Other – interest rate sensitivity gap at 31 March 2018

£'million	Not > three months	> Three months but < six months	> Six months but < one year	> One year but < five years	> Five years	Non-rate	Total non-trading
Cash and short-term funds – banks	4 482	7	–	–	–	–	4 489
Investment/trading assets	1 371	193	77	224	66	471	2 402
Securitised assets	132	–	–	–	–	–	132
Advances	7 435	573	284	1 368	388	–	10 048
Other assets	–	–	–	–	–	1 743	1 743
Assets	**13 420**	**773**	**361**	**1 592**	**454**	**2 214**	**18 814**
Deposits – banks	(1 299)	(6)	–	(1)	–	–	(1 306)
Deposits – non-banks	(9 289)	(345)	(1 205)	(796)	(2)	–	(11 637)
Negotiable paper	(1 908)	(13)	–	(420)	–	–	(2 341)
Securitised liabilities	(128)	–	–	–	–	–	(128)
Investment/trading liabilities	(29)	(11)	(6)	–	–	–	(46)
Subordinated liabilities	–	–	–	(575)	–	(5)	(580)
Other liabilities	–	–	–	–	–	(435)	(435)
Liabilities	**(12 653)**	**(375)**	**(1 211)**	**(1 792)**	**(2)**	**(440)**	**(16 473)**
Total equity	–	–	–	–	–	(2 341)	(2 341)
Balance sheet	**767**	**398**	**(850)**	**(200)**	**452**	**(567)**	**–**
Off-balance sheet	(63)	–	–	378	(315)	–	–
Repricing gap	**704**	**398**	**(850)**	**178**	**137**	**(567)**	**–**
Cumulative repricing gap	704	1 102	252	430	567	–	

Southern Africa – interest rate sensitivity gap at 31 March 2018

R'million	Not > three months	> Three months but < six months	> Six months but < one year	> One year but < five years	> Five years	Non-rate	Total non-trading
Cash and short-term funds – banks	19 236	–	159	–	–	8 240	27 635
Cash and short-term funds – non-banks	9 785	–	–	–	–	208	9 993
Investment/trading assets and statutory liquids	46 587	27 818	16 566	7 390	5 959	31 904	136 224
Securitised assets	7 929	–	–	–	–	–	7 929
Advances	222 260	4 791	1 745	15 217	2 302	3 022	249 337
Other assets	–	–	–	–	–	17 884	17 884
Assets	**305 797**	**32 609**	**18 470**	**22 607**	**8 261**	**61 258**	**449 002**
Deposits – banks	(27 428)	(355)	–	(10)	–	–	(27 793)
Deposits – non-banks	(269 525)	(16 383)	(23 583)	(9 163)	(2 180)	(924)	(321 758)
Negotiable paper	(5 943)	(321)	(518)	(103)	–	–	(6 885)
Securitised liabilities	(2 272)	–	–	–	–	(2)	(2 274)
Investment/trading liabilities	(1 753)	–	–	(197)	(686)	(12 756)	(15 392)
Subordinated liabilities	(11 847)	(1 943)	–	(697)	–	(526)	(15 013)
Other liabilities	–	–	–	(57)	(27)	(12 948)	(13 032)
Liabilities	**(318 768)**	**(19 002)**	**(24 101)**	**(10 227)**	**(2 893)**	**(27 156)**	**(402 147)**
Intercompany loans	10 437	(1 381)	(2 884)	(898)	(96)	663	5 841
Total equity	–	–	(213)	–	(5 363)	(45 703)	(51 279)
Balance sheet	**(2 534)**	**12 226**	**(8 728)**	**11 482**	**(91)**	**(10 938)**	**1 417**
Off-balance sheet	3 429	33	9 275	(9 303)	(4 851)	–	(1 417)
Repricing gap	**895**	**12 259**	**547**	**2 179**	**(4 942)**	**(10 938)**	**–**
Cumulative repricing gap	895	13 154	13 701	15 880	10 938	–	

Economic value sensitivity at 31 March 2018

As outlined above, non-trading interest rate risk is measured and monitored using an economic value sensitivity approach. The tables below reflect our economic value sensitivity to a 2% parallel shift in interest rates assuming no management intervention. The numbers represent the change to the value of the interest rate sensitive portfolios should such a hypothetical scenario arise. This sensitivity effect does not have a significant direct impact on our equity.

UK and Other

	Sensitivity to the following interest rates (expressed in original currencies)						
million	GBP	USD	EUR	AUD	ZAR	Other (GBP)	All (GBP)
200bps down	(8.0)	(3.2)	3.5	0.3	–	(0.1)	(5.0)
200bps up	7.3	2.9	(3.2)	(0.3)	–	0.1	4.5

Southern Africa

	Sensitivity to the following interest rates (expressed in original currencies)						
million	ZAR	GBP	USD	EUR	AUD	Other (ZAR)	All (ZAR)
200bps down	607.9	9.6	1.8	1.1	1.2	(1.8)	813.9
200bps up	(345.9)	(9.1)	(1.9)	(1.4)	(0.6)	–	(545.2)

Operational risk

Operational risk description

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

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

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

The levels of defence model is applied as follows:

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

Risk appetite

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

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

Management and measurement of operational risk

Regulatory capital

The group applies the standardised approach (TSA) for the assessment of regulatory capital.

As part of the 2017 Basel III Reforms, The Basel Committee has announced revisions to the calculations of capital requirements for operational risk. A single standardised approach will replace all existing approaches for the calculation of regulatory capital from January 2022.

The group will continue to work closely with regulators and industry bodies on the implementation of the revisions.

Operational risk management framework and governance

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

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

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

Operational risk practices consist of the following:

	Risk and control assessments	Internal risk events	External risk events	Key risk indicators	Scenario analysis and capital calculation
Description	Forward-looking qualitative assessments performed on key business processes. These assessments allow business units to identify, manage and monitor operational risks and controls	Internal risk events are analysed to enable business to identify and monitor trends in addition to addressing control weaknesses	An external data service is used to provide operational risk events from other organisations. These events are analysed to enhance our control environment. The external risk events also informs operational risk scenarios	Metrics are used to monitor risk exposures against identified thresholds. The output provides predictive capability in assessing the risk profile of the business	Extreme, but plausible scenarios are assessed to identify and manage significant operational risk exposures. The output of this evaluation provides input to determine internal operational risk capital requirements

Operational risk year in review

The group continued to enhance its operational risk framework in line with regulatory developments and sound practices. Regular interaction with regulators promotes an understanding of regulatory expectations and informs the approach to regulatory developments and requirements. The awareness of sound practice is achieved through interaction with industry counterparts at formal industry forums.

Operational risk events

Overall risk events and losses are managed within appetite. The majority of operational risk events occurred in the process failure risk event category. The value of these events is driven by a few events which are significant in value.

The second largest risk event category was external fraud, mainly driven by credit card fraud. These losses remained within risk appetite despite an increase in credit card fraud across the industry.

Mitigation required to minimise the occurrence of these events remains an area of focus.

Looking forward

Key operational risk considerations for the year ahead

Definition of risk	Management, mitigation approach and priorities for 2018/2019
Business continuity	
Risk associated with disruptive incidents which can impact premises, staff, equipment, systems, and key business processes	• Maintain continuity through appropriate resilience strategies that cater for all disruptions, irrespective of the cause. The strategies include, but are not limited to relocating impacted business to alternate processing sites, the application of high availability technology solutions and ensuring physical solutions for critical infrastructure components • Enhance the group's global resilience capability through a team of dedicated resources and robust governance processes • Incorporate resilience into business operations to lessen the impact of disruptions • Conduct ongoing validation of recovery strategies to ensure they remain effective and appropriate • Participate in regulatory and financial industry resilience activities to collaboratively minimise national systemic continuity risks
Cyber security	
Risk associated with cyber attacks which can interrupt client services or business processes, or result in financial losses	• Maintain a risk-based cyber security strategy to ensure the group is adequately protected against advanced and targeted cyber attacks • Manage an adaptive cyber security architecture, supported by relevant policies and ongoing staff awareness • Continue to expand visibility, coverage, and proactive reporting of cyber controls to ensure they are effective and consistent • Improve and mature evolving cyber security prediction, prevention, detection and response capabilities • Establish secure IT system development and testing practices to ensure they are secure both by design and in operation • Enhance cyber resilience through effective, co-ordinated security incident response, aligned to disaster recovery and business continuity processes
Financial crime	
Risk associated with fraud, bribery, corruption, theft, money laundering, terrorist financing, tax evasion, forgery and integrity misconduct by staff, clients, suppliers and other stakeholders	**Anti-Money Laundering (AML), Terrorist Financing and Sanctions** • Enhancement of AML and Sanctions control systems across the group • Policies, procedures and minimum standards are reviewed regularly to ensure they remain relevant, robust and current to prevent and detect AML related activities • Continuous monitoring of adherence to AML policies and legislative requirements • AML awareness remains a key component of the control environment. The awareness is supported by mandatory training for all staff and specialist training for AML roles • Participate at industry bodies to manage legislative requirements through engagements with regulators **Fraud** • Enhance the group's global approach to fraud management through a holistic framework and consistent policies, standards and methodologies • Maintain the Integrity Line to ensure staff is able to report regulatory breaches, allegations of bribery, fraud and corruption, and non-compliance with policies • Proactive monitoring of adherence to fraud prevention policies and embedding of practices which comply with regulations, industry guidance and best practice • Continue to focus on training staff and clients on fraud prevention and detection • Participate in industry working groups to gain an understanding of current trends in order to enhance the control environment

Risk management

(continued)

Definition of risk	Management, mitigation approach and priorities for 2018/2019
Information security	
Risk associated with the compromise of information assets which can impact their confidentiality, integrity, or availability	• Identify high-value information assets based on confidentiality and business criticality • Implement strong security controls to protect information against unauthorised access or disclosure from both internal and external threats • Manage role-based access to systems and data in support of least-privilege and segregation of duty principles • Develop mechanisms to monitor for, identify, and guard against data loss • Establish effective security monitoring to proactively identify and swiftly respond to suspicious activity • Align practices and controls to ensure compliance with the rapidly changing legal and regulatory privacy requirements • Safeguard and monitor information flows to enhance visibility and to ensure that data remains accurate, relevant, and protected
Outsourcing and third party	
Risk associated with the reliance on, and use of a service provider to provide services to the group	• Governance structures are in place to approve outsource and third-party arrangements • Policies and practices include adequate guidance over the assessment, selection, suitability and oversight of the outsource and third party providers • Continue to strengthen governance processes and relevant policies relating to how we identify, assess, mitigate and manage risks across the range of outsource and third party providers
Process failure	
Risk associated with inadequate internal processes, including human errors and control failures within the business. This includes process origination, execution and operations	• Proactive assessment relating to new products and projects to implement adequate and effective controls including the management of change • Address human errors through training and continuous automation of processes • Segregation of incompatible duties and appropriate authorisation controls • Causal analysis is used to identify weaknesses in controls following the occurrence of risk events • Risk and performance indicators are used to monitor the effectiveness of controls across business units • Thematic reviews across business units to ensure consistent and efficient application of controls
Regulatory compliance	
Risk associated with identification, implementation and monitoring of compliance with regulations	• Group Compliance and Group Legal assist in the management of regulatory and compliance risk which includes the identification and adherence to legal and regulatory requirements • Align regulatory and compliance approach to reflect new regulatory landscapes particularly the change of regulatory structures • Manage business impact and implementation challenges as a result of significant volumes of statutory and regulatory changes and developments (Refer to the Compliance section pages 94 to 95) • Monitoring remains focused appropriately as areas of conduct and regulatory risk develop • Ensure that the business is appropriately positioned to cope with the regulatory changes resulting from Brexit
Technology	
Risk associated with the disruptions to the IT systems which underpin our critical business processes and client services	• Align architecture across the group to reduce technical complexity and leverage common functions and processes • Enhance operational processes to better control IT changes in order to minimise business impact and recurrence • Drive automation and proactive monitoring of the technology environment to reduce human error whilst enhancing efficiency • Implement strategic infrastructure and application roadmaps to improve technology capacity, scalability and resilience • Maintain and test IT recovery capabilities to withstand system failures and safeguard against service disruptions • Establish effective technology and operational monitoring for oversight of the adequacy and effectiveness of IT systems and processes

Insurance

The group maintains adequate insurance to cover key insurable risks. The insurance process and requirements are managed by the group insurance risk manager. Regular interaction between group operational risk management and group insurance risk management ensures that there is an exchange of information in order to enhance the mitigation of operational risk.

Recovery and resolution planning

The purpose of the recovery plans are to document how the board and management will recover from extreme financial stress to avoid liquidity and capital difficulties in Investec plc and Investec Limited. The plans are reviewed and approved by the board on an annual basis.

The recovery plans for Investec plc and Investec Limited:

- Integrate with existing contingency planning
- Analyse the potential for severe stress in the group
- Identify roles and responsibilities
- Identify early warning indicators and trigger levels
- Analyse how the group could be affected by the stresses under various scenarios
- Include potential recovery actions available to the board and management to respond to the situation, including immediate, intermediate and strategic actions
- Assess how the group might recover as a result of these actions to avoid resolution.

UK and Other

A significant addition to the EU legislative framework for financial institutions has been the Bank Recovery and Resolution Directive (BRRD) which establishes a framework for the recovery and resolution of EU credit institutions and investment firms.

As implemented, the BRRD gives resolution authorities powers to intervene in and resolve a financial institution that is no longer viable, including through the transfers of business and, when implemented in relevant member states, creditor financed recapitalisation (bail-in within resolution) that allocates losses to shareholders and unsecured and uninsured creditors in their order of seniority, at a regulator determined point of non-viability that may precede insolvency. The concept of bail-in will affect the rights of unsecured creditors subject to any bail-in in the event of a resolution of a failing bank.

The BRRD also requires competent authorities to impose a Minimum Requirement for own funds and Eligible Liabilities (MREL) on financial institutions to facilitate the effective exercise of the bail-in tool.

For more detail on MREL, please refer to page 80.

The BRRD also requires the development of recovery and resolution plans at group and firm level. The BRRD sets out a harmonised set of resolution tools across the European Union, including the power to impose a temporary stay on the rights of creditors to terminate, accelerate or close out contracts.

The PRA has made rules that require authorised firms to draw up recovery plans and resolution packs. Recovery plans are designed to outline credible recovery actions that authorised firms could implement in the event of severe stress in order to restore their business to a stable and sustainable condition. The resolution pack contains detailed information on the authorised firm in question which will be used to develop resolution strategies for that firm, assess its current level of resolvability against the strategy, and to inform work on identifying barriers to the implementation of operational resolution plans.

In line with PRA and EU requirements, Investec plc maintains a resolution pack and a recovery plan.

Southern Africa

Financial Stability Board member countries are required to have recovery and resolution plans in place for all systemically significant financial institutions. The South African Prudential Authority has adopted this requirement and has to date required South African domestically significant banking institutions to develop recovery plans. Guidance issued by the Financial Stability Board and the South African Prudential Authority has been incorporated into Investec's recovery plan.

The South African Prudential Authority has continued to focus on finalising the recovery plans for the local banks and together with the South African Treasury are considering legislation to adopt a resolution framework. We will be subject to this legislation once it is adopted.

Reputational and strategic risk

Reputational risk is damage to our reputation, name or brand. Reputational risk is often associated with strategic decisions made and also arises as a result of other risks manifesting and not being appropriately mitigated.

The group aspires to maintain an excellent reputation for entrepreneurship, strong risk management discipline, a client-centric approach and an ability to be flexible and innovative. The group recognises the serious consequences of any adverse publicity or damage to reputation, whatever the underlying cause.

We have various policies and practices to mitigate reputational risk, including strong values that are regularly and proactively reinforced. We also subscribe to sound corporate governance practices, which require that activities, processes and decisions are based on carefully considered principles. We are aware of the impact of practices that may result in a breakdown of trust and confidence in the organisation. The group's policies and practices are regularly reinforced through transparent communication, accurate reporting, continuous group culture and values assessment, internal audit and regulatory compliance review, and risk management practices. Strategic and reputational risk is mitigated as much as possible through these detailed processes and governance/escalation procedures from business units to the board, and from regular, clear communication with shareholders, customers and all stakeholders. In addition, Investec's policy is to avoid any transaction, service or association which may bring with it the risk of potential damage to our reputation. Transaction approval governance structures such as credit, engagement and new product committees have therefore been tasked with this responsibility in relation to all new business undertaken. A disclosure and public communications policy has also been approved by the board.

Pension risk

Pension risk arises from obligations arising from defined benefit pension schemes, where Investec plc is required to fund any deficit in the schemes.

There is one remaining defined benefit scheme within Investec plc at 31 March 2018, which is closed to new business.

During the year the second defined benefit scheme entered into a buy-out with the assets and liabilities of the scheme being transferred to a third party insurer. Members now receive their pension from the third party insurer and Investec has no remaining liability relating to this scheme.

Pension risk arises if the net present value of future cash outflows is greater than the current value of the asset pool set aside to cover those payments.

Primary sources of risk include:

- A mismatch in the duration of the assets relative to the liabilities
- Market-driven asset price volatility
- Increased life expectancy of individuals leading to increased liabilities.

Investec plc monitors the position of the funds closely and regularly assesses potential adverse movements in the schemes in close conjunction with external independent advisers.

Further information is provided on pages 97 to 100 in volume three.

Legal risk management

Legal risk is the risk of loss resulting from any of our rights not being fully enforceable or from our obligations not being properly performed. This includes our rights and obligations under contracts entered into with counterparties. Such risk is especially applicable where the counterparty defaults and the relevant documentation may not give rise to the rights and remedies anticipated when the transaction was entered into.

Our objective is to identify, manage, monitor and mitigate legal risks throughout the group. We seek to actively mitigate these risks by identifying them, setting minimum standards for their management and allocating clear responsibility for such management to legal risk managers, as well as ensuring compliance through proactive monitoring.

The scope of our activities is continuously reviewed and includes, among other things, the following areas:

- Relationship contracts
- Legislation/governance
- Litigation
- Corporate events
- Incident or crisis management
- Ongoing quality control.

The legal risk policy is implemented through:

- Identification and ongoing review of areas where legal risk is found to be present
- Allocation of responsibility for the development of procedures for management and mitigation of these risks
- Installation of appropriate segregation of duties, so that legal documentation is reviewed and executed with the appropriate level of independence from the persons involved in proposing or promoting the transaction
- Ongoing examination of the inter-relationship between legal risk and other areas of risk management, so as to ensure that there are no 'gaps' in the risk management process
- Establishing minimum standards for mitigating and controlling each risk. This is the nature and extent of work to be undertaken by our internal and external legal resources
- Establishing procedures to monitor compliance, taking into account the required minimum standards
- Establishing legal risk forums (bringing together the various legal risk managers) to ensure we keep abreast of developments and changes in the nature and extent of our activities, and to benchmark our processes against best practice.

Overall responsibility for this policy rests with the board. The board delegates responsibility for implementation of the policy to the global head of legal risk. The global head assigns responsibility for controlling these risks to the managers of appropriate departments and focused units throughout the group.

Conduct risk

UK and Other

The FCA in the UK has outlined its approach to managing firms' conduct.

By conduct risk we mean the risk that detriment is caused to the bank, its customers, its counterparties or the market, as a result of inappropriate execution of business activities.

The focus on conduct risk is intended to go beyond the current compliance monitoring frameworks in order to move away from the culture of 'tick box' compliance. As a result, firms are expected to look across their business models and strategies and assess how to balance the pursuit of profits with good outcomes for clients and proper standards of market conduct. All firms will be expected to take a holistic approach to assessing their key conduct risks and to ensure that these are being managed in accordance with FCA's strategic objectives of protecting clients, ensuring markets function effectively and promoting competition.

The group's work on conduct risk, includes assessing key risks across the business, identifying key controls and ensuring that the board is receiving the right information to enable it to challenge effectively the management of such risks by the business.

South Africa

The South African financial sector regulatory landscape has been under review for the last few years. The new Twin Peaks regulatory structure came into effect on 1 April 2018, with the Prudential Authority (PA) being dedicated to prudential supervision and the Financial Sector Conduct Authority (FSCA), previously the Financial Services Board, being the dedicated conduct regulator for all financial institutions. Although the conduct of financial institutions is currently regulated under various pieces of legislation, this will change under the new regulatory structure. The resultant strategic and operational impact is expected to last for the next few years.

Capital management and allocation

Investec Limited (and its subsidiaries) and Investec plc (and its subsidiaries) are managed independently and have their respective capital bases ring-fenced, however, the governance of capital management is consistent across the two groups. The DLC structure requires the two groups to independently manage each group's balance sheet and capital is managed on the same basis. This approach is overseen by the BRCC (via the Investec DLC capital committee) which is a board sub-committee with ultimate responsibility for the capital adequacy of both Investec Limited and Investec plc.

Regulatory capital – Investec Limited

Current regulatory framework – Investec Limited

Investec Limited is regulated by the South African Prudential Authority.

Investec Limited calculates capital resources and requirements using the Basel III framework, as implemented in Southern Africa by the South African Prudential Authority in accordance with the Regulations relating to Banks, Gazette No. 35950, 12 December 2012 – (The Regulations), Banks Act, 1990 (ACT NO. 94 OF 1990) – (The Act) and relevant published Banks Act Circulars, Guidance notes and Directives. In view of the implementation of the Basel III framework on 1 January 2013, the South African capital framework was legislated in Banks Act Directive 6 of 2016 that stipulates the various capital Tiers, together with various related elements specified in the Regulations and in the Basel III framework, including the systemic risk capital requirements (Pillar IIA), the bank-specific individual capital requirement (ICR, also known as Pillar IIB), and the phasing in of the related minimum requirements from 2016 up to 2019 and thereafter. The higher loss absorbency (HLA) requirement for domestic systemically important banks (D-SIB) is regarded as an extension of the capital conservation buffer (CCB) of which the first 50%, up to a maximum of 1% of risk weighted exposures (RWE), must be fully met by CET 1 capital. The South African Prudential Authority continuously assesses Investec Limited's ICR as part of its Supervisory Review and Evaluation Process (SREP) of which ICR may be based on the levels of economic capital Investec Limited holds to cover risks not regarded as Pillar 1 risks, as observed in the internal capital adequacy assessment process (ICAAP). In terms of the Regulations, Investec Limited is required to maintain an additional discretionary capital buffer above the specified minimum requirements to ensure that the execution of internal business objectives or the occurrence of adverse external environmental factors do not prevent the Group from operating above the relevant minima. In line with Banks Act Circular 6 of 2016, banks in South Africa should not disclose to the public their ICR or D-SIB requirements as these are bank-specific requirements that are based on a combination of various qualitative and quantitative factors that are not directly comparable across banks.

South Africa has not announced any CCyB buffer requirements. The institution specific CCyB requirement is calculated based on private sector non-bank exposures held in BCBS member jurisdictions in which a buffer rate has been set. As at 31 March 2018 Investec Limited is holding an institution specific CCyB of 0.016% of RWE. Investec Limited continues to hold capital in excess of relevant capital minima's and capital buffer requirements.

Investec Limited currently uses the standardised approach to calculate its credit and counterparty credit risk and operational risk capital requirements. Capital requirements for equity risk is calculated using the internal ratings-based (IRB) approach by applying the simple risk-weight method. The market risk capital requirement is measured using an internal risk management model, approved by the South African Prudential Authority.

Various subsidiaries of Investec Limited are subject to additional regulation covering various activities or implemented by local regulators in other jurisdictions. For capital management purposes, it is the prevailing rules applied to the consolidated Investec Limited group that are monitored most closely. Nevertheless, 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. Management of each regulated entity, with the support of the group's capital management functions, ensures that capital remains prudently above minimum requirements at all times.

Regulatory capital – Investec plc

Current regulatory framework

Investec plc is authorised by the PRA and is regulated by the FCA and the PRA on a consolidated basis. Investec plc calculates capital resources and requirements using the Basel III framework, as implemented in the European Union through the Capital Requirements Directive IV (CRD IV).

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

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

In line with CRD IV, UK firms are required to meet a combined buffer requirement, which is in addition to the Pillar I and Pillar IIA capital requirements. The combined buffer includes the CCB and the CCyB and must be met with CET 1 capital. The buffer for global systemically important institutions (G-SIIs) and the systemic risk buffer do not apply to Investec plc and will not be included in the combined buffer requirement.

From 1 January 2016 Investec plc began phasing in the CCB at 0.625% of RWAs. An additional 0.625% of RWAs is phased-in each year until fully implemented on 1 January 2019 at 2.5% of RWAs. As at 31 March 2018 Investec plc holds a CCB, which is met with CET 1 capital, of 1.875% of RWAs.

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

The Investec plc group continues to hold capital in excess of all the capital and buffer requirements.

Investec plc applies the standardised approach to calculate credit and counterparty credit risk, securitisation and operational risk capital requirements.

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

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

Regulatory considerations

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

International

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

- A revised standardised approach for credit risk;
- Revisions to the internal ratings-based approach for credit risk and limiting the use of advanced internally modelled approaches for low-default portfolios;
- Revisions to the credit valuation adjustment (CVA) framework, including the introduction of a revised standardised approach;
- A revised standardised approach for operational risk, which replaced the existing standardised approach and the advanced measurement approaches;
- The measurement of the leverage ratio and leverage ratio buffer for G-SIBs, which will take the form of a tier 1 capital buffer set at 50% of a G-SIB's risk-weighted capital buffer; and
- An aggregate output floor of 72.5% of RWAs as calculated using the Basel III standardised approaches for banks applying internal models. These banks will also be required to disclose their RWAs based on these standardised approaches.

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

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

- Final guidelines on the identification and management of step-in risk, to be implemented in member jurisdictions by 2020;
- The final phase two Pillar III standards and the proposed phase three revisions and/or new disclosure requirements driven by the finalisation of the Basel III post-crisis regulatory reforms; and
- A discussion paper on the regulatory treatment of sovereign exposures.

South Africa

Banks Act Directive 5 of 2017 directs South African banks regarding the classification of impairments as either general (GP) or specific (SP) under IFRS 9 during the interim approach, the transitional arrangements of the ECL accounting provisions for regulatory capital purposes, the disclosure requirements relating to such transitional arrangements as well as requirements regarding the auditing of the balances and adjustments that shall be implemented once IFRS 9 becomes effective. Banks that opt for a transition period shall follow a static approach (a once off calculation of the impact) and apply a three year transition period, amortised on a straight-line basis as specified in the Directive. Investec Limited will be applying the IFRS 9 transitional arrangements on regulatory capital from 1 April 2018. In addition, the South African Prudential Authority issued Banks Act Guidance note 3 of 2018 that specifies the proposed implementation dates of BCBS regulatory reforms relevant to Banks in South Africa. The Prudential Authority has agreed to preliminary implementation dates for each regulatory reform, based on industry comments, quantitative impact studies, global considerations and implementation complexity. Reforms that will impact Investec Limited in the short to medium term include: capital requirements for equity investments in funds, revisions to the securitisation framework, standardised approach for measuring counterparty credit risk and the new large exposures framework. The remainder of the regulatory reforms are likely to be implemented in Southern Africa in line with BCBS timelines on 1 January 2022. Investec Limited continues to assess and monitor the impact of new Regulations and regulatory reforms through participation of industry Quantitative Impact Studies (QIS) submissions to the Prudential Authority and presenting updates and impacts of the reforms to senior executives at the DLC Capital Committee and the Board.

UK

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

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

- The PRA policy on refining the Pillar IIA capital framework, in particular the PRA's approach for firms using the standardised approach for credit risk;
- Changes to the group policy and double leverage framework; and
- The 'Dear CEO' letter setting out the PRA's views on the transitional arrangements to be applied to the impact of the IFRS 9 ECL accounting on regulatory capital and the requirement to notify the PRA of the firm's decision to apply the transitional arrangements.

Investec plc will be applying the IFRS 9 transitional arrangements applicable to ECL accounting on regulatory capital. The transitional arrangements are effective from 1 April 2018.

Europe

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

- A new standardised approach for calculating counterparty credit risk;
- Changes to the market risk framework under the Fundamental Review of the Trading Book; and
- The introduction of a 3% binding leverage ratio for all banks.

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

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

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

Capital and leverage ratio targets

Capital

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

Leverage

Investec is currently targeting a leverage ratio above 6%.

Management of capital and leverage

Capital

The DLC capital committee is responsible for ensuring that the impact of any regulatory change is analysed, understood and planned for. To allow the committee to carry out this function, the group's prudential advisory and reporting team closely monitor regulatory developments and regularly present to the committee on the latest developments and proposals. As part of any assessment, the committee is provided with analysis setting out the group's capital adequacy position, taking into account the most up-to-date interpretation of the rule changes. In addition, regular sessions with the board are held to ensure that members are kept up to date with the most salient changes to ensure the impact on the group and its subsidiaries is monitored and understood.

Leverage

As with the governance of capital management, the DLC capital committee is responsible for ensuring that the impact of any regulatory changes on the leverage ratio is calculated, analysed and understood at all reporting levels.

The leverage exposure measure is calculated on a monthly and quarterly basis and is presented to the DLC capital committee on a regular basis. The DLC capital committee is responsible for monitoring the risk of excessive leverage.

Capital management

Philosophy and approach

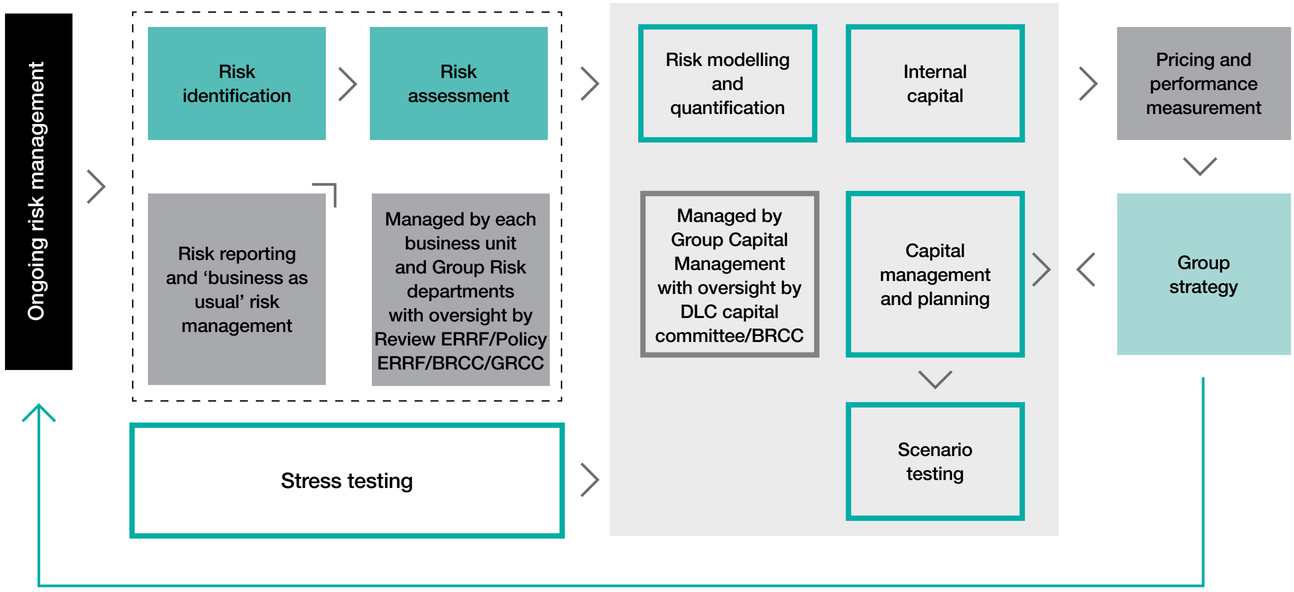
Both the Investec Limited and Investec plc groups operate an approach to capital management that utilises both regulatory capital as appropriate to that jurisdiction and internal capital, which is an internal risk-based assessment of capital requirements. Capital management primarily relates to management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

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

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

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

The (simplified) integration of risk and capital management



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

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

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

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

Capital planning and stress/scenario testing

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

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

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

The conditions themselves are agreed by the DLC capital committee after the key vulnerabilities have been determined through the stress testing workshops.

Such plans are used by management to formulate balance sheet strategy and agree management actions, trigger points and influence the determination of our risk appetite.

Internal capital requirements are quantified by analysis of the potential impact of key risks to a degree consistent with our risk appetite

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

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

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

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

Capital structure and capital adequacy

At 31 March 2018	Investec plc*° £'million	IBP*° £'million	Investec Limited*^ R'million	IBL*^ R'million
Tier 1 capital				
Shareholders' equity	2 042	2 007	36 159	36 531
Shareholders' equity excluding non-controlling interests	2 075	2 012	39 342	38 065
Perpetual preference share capital and share premium	(25)	–	(3 183)	(1 534)
Deconsolidation of special purpose entities	(8)	(5)	–	–
Non-controlling interests	12	(3)	–	–
Non-controlling interests per balance sheet	16	(3)	9 503	–
Non-controlling interests excluded for regulatory purposes	–	–	(9 503)	–
Surplus non-controlling interest disallowed in common equity tier 1	(4)	–	–	–
Regulatory adjustments to the accounting basis	(7)	(4)	993	994
Defined benefit pension fund adjustment	(3)	–	–	–
Additional value adjustments	(4)	(4)	–	–
Cash flow hedging reserve	–	–	993	994
Deductions	(460)	(361)	(2 772)	(2 696)
Goodwill and intangible assets net of deferred tax	(447)	(348)	(624)	(583)
Investment in financial entity	–	–	(2 149)	(2 113)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(9)	(9)	–	–
Securitisation positions	(3)	(3)	–	–
Debit valuation adjustment	(1)	(1)	–	–
Common equity tier 1 capital	**1 587**	**1 639**	**34 379**	**34 829**
Additional tier 1 capital	**274**	**200**	**2 785**	**963**
Additional tier 1 instruments	274	200	5 617	1 884
Phase out of non-qualifying additional tier 1 instruments	–	–	(2 830)	(921)
Non-qualifying surplus capital attributable to non-controlling interest	–	–	(72)	–
Non-controlling interest in non-banking entities	–	–	70	–
Tier 1 capital	**1 861**	**1 839**	**37 164**	**35 792**
Tier 2 capital	**359**	**445**	**12 348**	**14 009**
Collective impairment allowances	–	–	635	635
Tier 2 instruments	446	445	15 013	13 374
Non-qualifying surplus capital attributable to non-controlling interests	(87)	–	(3 300)	–
Total regulatory capital	**2 220**	**2 284**	**49 512**	**49 801**
Risk-weighted assets	**14 411**	**13 744**	**338 484**	**320 607**
Capital ratios				
Common equity tier 1 ratio	11.0%	11.9%	10.2%	10.9%
Tier 1 ratio	12.9%	13.4%	11.0%	11.2%
Total capital adequacy ratio	15.4%	16.6%	14.6%	15.5%

* *Where: IBP is Investec Bank plc consolidated. IBL is Investec Bank Limited. The information for Investec plc includes the information for IBP. The information for Investec Limited includes the information for IBL.*

° *The capital adequacy disclosures follow Investec's normal basis of presentation so as to show a consistent basis of calculation across the jurisdictions in which the group operates. For Investec plc and IBP this does not include the deduction of foreseeable charges and dividends when calculating the CET 1 ratio as required under the Capital Requirements Regulation and European Banking Authority technical standards. The impact of this deduction totalling £65 million for Investec plc and £18 million for IBP would lower the CET 1 ratio by 45bps and 13bps respectively.*

^ *Investec Limited's and IBL's capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, Investec Limited's and IBL's common equity tier 1 ratio would be 25bps and 13bps lower respectively.*

Capital structure and capital adequacy *(continued)*

At 31 March 2017	Investec plc*° £'million	IBP*° £'million	Investec Limited*^ R'million	IBL*^ R'million
Tier 1 capital				
Shareholders' equity	1 981	1 973	32 317	33 631
Shareholders' equity per balance sheet	2 017	1 982	35 500	35 165
Perpetual preference share capital and share premium	(25)	–	(3 183)	(1 534)
Deconsolidation of special purpose entities	(11)	(9)	–	–
Non-controlling interests	11	(2)	–	–
Non-controlling interests per balance sheet	15	(2)	8 987	–
Non-controlling interests excluded for regulatory purposes	–	–	(8 987)	–
Surplus non-controlling interest disallowed in common equity tier 1	(4)	–	–	–
Regulatory adjustments to the accounting basis	(6)	(4)	900	896
Defined benefit pension fund adjustment	(2)	–	–	–
Additional value adjustments	(4)	(4)	–	–
Cash flow hedging reserve	–	–	900	896
Deductions	(478)	(380)	(720)	(679)
Goodwill and intangible assets net of deferred tax	(464)	(366)	(720)	(679)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(10)	(10)	–	–
Securitisation positions	(3)	(3)	–	–
Debit valuation adjustment	(1)	(1)	–	–
Common equity tier 1 capital	**1 508**	**1 587**	**32 497**	**33 848**
Additional tier 1 capital	**24**	**–**	**2 900**	**767**
Additional tier 1 instruments	24	–	5 267	1 534
Phase out of non-qualifying additional tier 1 instruments	–	–	(2 359)	(767)
Non-qualifying surplus capital attributable to non-controlling interest	–	–	(69)	–
Non-controlling interest in non-banking entities	–	–	61	–
Tier 1 capital	**1 532**	**1 587**	**35 397**	**34 615**
Tier 2 capital	**475**	**560**	**11 153**	**13 501**
Collective impairment allowances			321	321
Tier 2 instruments	560	560	13 805	13 180
Non-qualifying surplus capital attributable to non-controlling interests	(85)	–	(2 973)	–
Total regulatory capital	**2 007**	**2 147**	**46 550**	**48 116**
Risk-weighted assets	**13 312**	**12 716**	**329 808**	**313 010**
Capital ratios				
Common equity tier 1 ratio	11.3%	12.5%	9.9%	10.8%
Tier 1 ratio	11.5%	12.5%	10.7%	11.1%
Total capital adequacy ratio	15.1%	16.9%	14.1%	15.4%

* *Where: IBP is Investec Bank plc consolidated. IBL is Investec Bank Limited. The information for Investec plc includes the information for IBP. The information for Investec Limited includes the information for IBL.*

° *The capital adequacy disclosures follow Investec's normal basis of presentation so as to show a consistent basis of calculation across the jurisdictions in which the group operates. For Investec plc and IBP this does not include the deduction of foreseeable charges and dividends when calculating the CET 1 ratio as required under the Capital Requirements Regulation and European Banking Authority technical standards. The impact of this deduction totalling £60 million for Investec plc and £35 million for IBP would lower the CET 1 ratio by 45bps and 28bps respectively.*

^ *Investec Limited's and IBL's capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, Investec Limited's and IBL's common equity tier 1 ratio would be 24bps and 13bps lower respectively.*

Capital requirements

At 31 March 2018	Investec plc* £'million	IBP* £'million	Investec Limited* R'million	IBL* R'million
Capital requirements	**1 153**	**1 099**	**37 656**	**35 668**
Credit risk	842	822	29 389	28 870
Equity risk	6	6	2 797	2 521
Counterparty credit risk	51	52	653	655
Credit valuation adjustment risk	10	10	695	697
Market risk	77	77	609	502
Operational risk	167	132	3 513	2 423
At 31 March 2017				
Capital requirements	**1 064**	**1 017**	**35 454**	**33 649**
Credit risk	790	776	26 008	25 529
Equity risk	6	6	4 900	4 730
Counterparty credit risk	39	39	574	574
Credit valuation adjustment risk	6	6	195	199
Market risk	71	68	500	413
Operational risk	152	122	3 277	2 204

Risk-weighted assets

At 31 March 2018	Investec plc* £'million	IBP* £'million	Investec Limited* R'million	IBL* R'million
Risk-weighted assets	**14 411**	**13 744**	**338 484**	**320 607**
Credit risk	10 521	10 271	264 171	259 494
Equity risk	78	79	25 140	22 663
Counterparty credit risk	639	652	5 867	5 887
Credit valuation adjustment risk	121	121	6 251	6 269
Market risk	965	965	5 477	4 515
Operational risk	2 087	1 656	31 578	21 779
At 31 March 2017				
Risk-weighted assets	**13 312**	**12 716**	**329 808**	**313 010**
Credit risk	9 873	9 687	241 926	237 474
Equity risk	80	80	45 583	44 007
Counterparty credit risk	494	494	5 344	5 335
Credit valuation adjustment risk	78	78	1 817	1 848
Market risk	882	856	4 652	3 847
Operational risk	1 905	1 521	30 486	20 499

* *Where: IBP is Investec Bank plc consolidated and IBL is Investec Bank Limited. The information for Investec plc includes the information for IBP. The information for Investec Limited includes the information for IBL.*

Investec plc

Movement in RWAs

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

Credit risk RWAs

We have adopted the standardised approach for calculating credit risk RWAs. Credit risk RWAs, which include equity risk, increased by £646 million. The increase is primarily attributable to a growth in secured corporate lending.

Counterparty credit risk RWAs and CVA risk

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

Market risk RWAs

We apply the standardised approach for calculating market risk RWAs. Market risk RWAs increased by £83 million primarily due to increased facilitation of client activity within the Financial Products business.

Operational risk RWAs

Operational risk RWAs are calculated using the standardised approach increased by £182 million. The increase is due to a higher three year average operating income.

Investec Limited

Movement in RWAs

Total RWA grew by 2.6% over the period, with the reasons identified in the categories below.

Credit risk RWAs

Credit risk weights grew by R22.2 billion of which R13.1 billion is associated with book growth in the period. The downgrade of Southern Africa's credit rating to sub-investment and associated rating of South African exposures resulted in a further increase in RWA of R3 billion. Our regulatory treatment of certain investments were adjusted to that of an investment holding vehicle resulting in an increase in other asset risk weights (included in credit) of R9.1 billion.

Counterparty credit risk and CVA RWAs

Counterparty credit risk RWAs increased by R523 million, while CVA over the period increased by R4.4 billion. The increase is mainly attributable to a change in the mix of rated entities by external rating agencies in the portfolio. CVA was implemented as part of Basel III in Southern Africa and captures the risk of deterioration in the credit quality of banks OTC derivative counterparties. We currently apply the standardised approach to the calculation of the CVA capital requirement.

Equity risk RWAs

Equity risk decreased by R20.4 billion, mainly influenced by the change in regulatory treatment noted above in credit risk and a portion of exposure being treated as a capital deduction. The remaining movement follows change in net balance sheet equity exposures.

Market risk RWAs

Market risk RWAs are calculated using the Value at Risk (VaR) approach and has shown an increase, the increase is due to higher VaR and stressed VaR figures for the Equity Derivatives and Interest Rate Derivatives desks. The higher VaR and stressed VaR figures were primarily driven by an increase in market volatility.

Operational risk RWAs

Operational risk is calculated using the standardised approach and is driven by the levels of income over a three-year average period, applying specific factors applicable to the nature of the business generating the income.

Leverage ratios

At 31 March 2018	Investec plc £'million*°	IBP £'million*°	Investec Limited R'million*^	IBL R'million*^
Exposure measure	**21 772**	**21 335**	**495 670**	**466 846**
Tier 1 capital	1 861	1 839	37 164	35 792
Leverage ratio – current**	**8.5%**	**8.6%**	**7.5%#**	**7.7%#**
Tier 1 capital fully loaded	1 837	1 839	35 350	35 179
Leverage ratio – 'fully loaded'^^**	**8.4%**	**8.6%**	**7.1%#**	**7.5%#**

At 31 March 2017	Investec plc £'million*°	IBP £'million*°	Investec Limited R'million*^	IBL R'million*
Exposure measure	**19 689**	**19 417**	**483 775**	**457 030**
Tier 1 capital	1 532	1 587	35 397	34 615
Leverage ratio – current**	**7.8%**	**8.2%**	**7.3%#**	**7.6%#**
Tier 1 capital fully loaded	1 508	1 587	33 108	33 848
Leverage ratio – 'fully loaded'^^**	**7.7%**	**8.2%**	**6.8%#**	**7.4%#**

* *Where: IBP is Investec Bank plc consolidated and IBL is Investec Bank Limited. The information for Investec plc includes the information for IBP. The information for Investec Limited includes the information for IBL.*

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

° *The capital adequacy disclosures follow Investec's normal basis of presentation so as to show a consistent basis of calculation across the jurisdictions in which the group operates. For Investec plc and IBP this does not include the deduction of foreseeable charges and dividends when calculating the CET 1 ratio as required under the Capital Requirements Regulation and European Banking Authority technical standards. The impact of this deduction totalling £65 million (31 March 2017: £60 million) for Investec plc and £18 million (31 March 2017: £35 million) for IBP would lower the CET 1 ratio by 45bps (31 March 2017: 45bps) and 13bps (31 March 2017: 28bps) respectively.*

^ *Investec Limited's and IBL's capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, Investec Limited's and IBL's common equity tier 1 ratio would be 25bps and 13bps lower. At 31 March 2017, Investec Limited's and IBL's common equity tier 1 ratio would be 24bps and 13bps lower.*

^^ *The key difference between the 'reported' basis at 31 March 2018 and the 'fully loaded' basis is primarily relating to capital instruments that previously qualified as regulatory capital, but do not fully qualify under the CRD IV rules/South African Prudential Authority regulations. These instruments continue to be recognised on a reducing basis in the 'reported' figures until 2022. For IBP there is no difference between the 'reported' basis and the 'fully loaded' basis.*

Based on revised BIS rules.

Total regulatory capital flow statement

At 31 March 2018	Investec plc* £'million	IBP* £'million	Investec Limited* R'million	IBL* R'million
Opening common equity tier 1 capital	1 508	1 587	32 497	33 848
New capital issues	71	–	925	–
Dividends	(113)	(57)	(2 569)	(1 437)
Profit after taxation	135	98	6 302	4 673
Treasury shares	(64)	–	(985)	–
Non-controlling interest relating to partial disposal of subsidiaries	9	–	–	–
Gain on transfer of non-controlling interest	–	–	103	–
Share-based payment adjustments	31	1	656	–
Movement in other comprehensive income	(9)	(10)	(590)	(336)
Investment in financial entity	–	–	(2 149)	(2 113)
Goodwill and intangible assets (deduction net of related taxation liability)	17	16	96	96
Deferred tax that relies on future profitability (excluding those arising from temporary differences)	1	1	–	–
Deconsolidation of special purpose entities	2	3	–	–
Other, including regulatory adjustments and transitional arrangements	(1)	–	93	98
Closing common equity tier 1 capital	**1 587**	**1 639**	**34 379**	**34 829**
Opening additional tier 1 capital	24	–	2 900	767
New additional tier 1 issues	250	200	350	350
Other, including regulatory adjustments and transitional arrangements	–	–	(475)	(154)
Movement in minority interest in non-banking entities	–	–	10	–
Closing additional tier 1 capital	**274**	**200**	**2 785**	**963**
Closing tier 1 capital	**1 861**	**1 839**	**37 164**	**35 792**
Opening tier 2 capital	475	560	11 153	13 501
New tier 2 capital issues	–	–	3 287	2 273
Redeemed capital	–	–	(2 205)	(2 205)
Collective impairment allowances	–	–	314	314
Amortisation adjustments	(115)	(115)	–	–
Other, including regulatory adjustments and transitional arrangements	(1)	–	(201)	126
Closing tier 2 capital	**359**	**445**	**12 348**	**14 009**
Closing total regulatory capital	**2 220**	**2 284**	**49 512**	**49 801**

* *Where: IBP is Investec Bank plc consolidated and IBL is Investec Bank Limited. The information for Investec plc includes the information for IBP. The information for Investec Limited includes the information for IBL.*

Total regulatory capital flow statement *(continued)*

At 31 March 2017	Investec plc* £'million	IBP* £'million	Investec Limited* R'million	IBL* R'million
Opening common equity tier 1 capital	1 187	1 434	29 524	31 475
New capital issues	174	–	986	–
Gain on preference share redemption	41	–	–	–
Dividends	(108)	(35)	(2 426)	(1 031)
Profit after taxation	160	118	5 064	3 229
Treasury shares	(50)	–	(1 165)	–
Acquisition of non-controlling interests	7	–	–	–
Gain on transfer of non-controlling interests	–	–	73	–
Share-based payment adjustments	26	–	549	–
Movement in other comprehensive income	19	53	786	1 104
Goodwill and intangible assets (deduction net of related taxation liability)	2	9	42	16
Deferred tax that relies on future profitability (excluding those arising from temporary differences)	(1)	(1)	–	–
Deconsolidation of special purpose entities	11	9	–	–
Other, including regulatory adjustments and transitional arrangements	40	–	(936)	(945)
Closing common equity tier 1 capital	**1 508**	**1 587**	**32 497**	**33 848**
Opening additional tier 1 capital	130	–	3 418	920
Redeemed capital	(106)	–	–	–
Other, including regulatory adjustments and transitional arrangements	–	–	(505)	(153)
Movement in minority interest in non-banking entities	–	–	(13)	–
Closing additional tier 1 capital	**24**	**–**	**2 900**	**767**
Closing tier 1 capital	**1 532**	**1 587**	**35 397**	**34 615**
Opening tier 2 capital	535	590	10 253	10 726
New tier 2 capital issues	–	–	4 870	4 870
Redeemed capital	(37)	(18)	(2 519)	(2 519)
Collective impairment allowances	–	–	92	92
Amortisation adjustments	(12)	(12)	–	–
Other, including regulatory adjustments and transitional arrangements	(11)	–	(1 543)	332
Closing tier 2 capital	**475**	**560**	**11 153**	**13 501**
Closing total regulatory capital	**2 007**	**2 147**	**46 550**	**48 116**

* *Where: IBP is Investec Bank plc consolidated and IBL is Investec Bank Limited. The information for Investec plc includes the information for IBP. The information for Investec Limited includes the information for IBL.*

A summary of capital adequacy and leverage ratios

As at 31 March 2018	Investec plc°*	IBP°*	Investec Limited*^	IBL*^
Common equity tier 1 (as reported)	11.0%	11.9%	10.2%	10.9%
Common equity tier 1 ('fully loaded')^^	11.0%	11.9%	10.2%	10.9%
Tier 1 (as reported)	12.9%	13.4%	11.0%	11.2%
Total capital adequacy ratio (as reported)	15.4%	16.6%	14.6%	15.5%
Leverage ratio** – current	8.5%	8.6%	7.5%#	7.7%#
Leverage ratio** – 'fully loaded'^^	8.4%	8.6%	7.1%#	7.5%#

As at 31 March 2017	Investec plc°*	IBP°*	Investec Limited*^	IBL*^
Common equity tier 1 (as reported)	11.3%	12.5%	9.9%	10.8%
Common equity tier 1 ('fully loaded')^^	11.3%	12.5%	9.9%	10.8%
Tier 1 (as reported)	11.5%	12.5%	10.7%	11.1%
Total capital adequacy ratio (as reported)	15.1%	16.9%	14.1%	15.4%
Leverage ratio** – current	7.8%	8.2%	7.3%#	7.6%#
Leverage ratio** – 'fully loaded'^^	7.7%	8.2%	6.8%#	7.4%#

* *Where: IBP is Investec Bank plc consolidated and IBL is Investec Bank Limited. The information for Investec plc includes the information for IBP. The information for Investec Limited includes the information for IBL.*

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

° *The capital adequacy disclosures follow Investec's normal basis of presentation so as to show a consistent basis of calculation across the jurisdictions in which the group operates. For Investec plc and Investec Bank plc this does not include the deduction of foreseeable charges and dividends when calculating the CET 1 ratio as required under the Capital Requirements Regulation and European Banking Authority technical standards. The impact of this deduction totalling £65 million (31 March 2017: £60 million) for Investec plc and £18 million (31 March 2017: £35 million) for IBP would lower the CET 1 ratio by 45bps (31 March 2017: 45bps) and 13bps (31 March 2017: 28bps) respectively.*

^ *Investec Limited's and IBL's capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, Investec Limited's and IBL's common equity tier 1 ratio would be 25bps and 13bps lower. At 31 March 2017, Investec Limited's and IBL's common equity tier 1 ratio would be 24bps and 13bps lower.*

^^ *The key difference between the 'reported' basis at 31 March 2018 and the 'fully loaded' basis is primarily relating to capital instruments that previously qualified as regulatory capital, but do not fully qualify under the CRD IV rules/South African Prudential Authority regulations. These instruments continue to be recognised on a reducing basis in the 'reported' figures until 2022. For IBP there is no difference between the 'reported' basis and the 'fully loaded' basis.*

\# *Based on revised BIS rules.*

Credit ratings

Credit ratings

In terms of our dual listed companies structure, creditors are ring-fenced to either Investec Limited or Investec plc as there are no cross-guarantees between the companies. Capital and liquidity are prohibited from flowing between the two entities and thus capital and liquidity are not fungible. As a result the ratings agencies have assigned separate ratings to the significant banking entities within the group, namely Investec Bank plc and Investec Bank Limited. Rating agencies have also assigned ratings to the holding companies, namely, Investec plc and Investec Limited. Our ratings at 12 June 2018 are as follows:

Rating agency	Investec Limited	Investec Bank Limited – a subsidiary of Investec Limited	Investec plc	Investec Bank plc – a subsidiary of Investec plc
Fitch				
Long-term ratings				
Foreign currency	BB+^	BB+^		BBB+
National		AA(zaf)		
Short-term ratings				
Foreign currency	B^	B^		F2
National		F1+(zaf)		
Viability rating	bb+^	bb+^		bbb+
Support rating	5	3		5
Moody's				
Long-term ratings				
Foreign currency		Baa3	Baa1	A2
National		Aa1.za		
Short-term ratings				
Foreign currency		P-3	P-2	P-1
National		P-1(za)		
Baseline Credit Assessment (BCA) and adjusted BCA		baa3		baa2
S&P				
Long-term ratings				
Foreign currency		BB^		
National		za.AA–		
Short-term ratings				
Foreign currency		B^		
National		za.A-1+		
Global Credit Ratings				
Local currency				
Long-term rating		AA(za)		BBB+
Short-term rating		A1+(za)		A2

^ *Negatively impacted by the downgrade of the South African sovereign rating to non-investment grade.*

Internal Audit

As a result of the regulatory responsibilities arising from the DLC structure, there are two group Internal Audit departments located in London and Johannesburg, responsible for Investec plc and Investec Limited respectively. Investec Bank plc's (Irish branch) has its own Internal Audit function reporting into Investec plc Internal Audit. In combination, the functions cover all the geographies in which Investec operates. These functions use a global risk-based methodology and cooperate technically and operationally.

The heads of Internal Audit report at each audit committee meeting and have a direct reporting line to the chairman of the audit committee as well as the appropriate chief executive officers. They operate independently of executive management, but have regular access to the local chief executive officers and to business unit executives. The heads of Internal Audit are responsible for coordinating internal audit efforts to ensure coverage is global and departmental skills are leveraged to maximise efficiency. For administrative purposes, the heads of internal audit also report to the global head of corporate governance and compliance. The functions comply with the International Standards for the Professional Practice of Internal Auditing, and are subject to an independent Quality Assurance Review (QAR) at appropriate intervals. The most recent independent QAR benchmarked the functions against the July 2013 publication by the Chartered Institute for Internal Auditors entitled *Effective Internal Audit in the Financial Services Sector*. The results were communicated to the audit committees in March 2014 and to the respective regulators. A QAR follow-up review was completed and results issued to the audit committees in January 2015 as well as to the respective regulators.

Annually, Internal Audit conducts a formal risk assessment of the entire business from which a comprehensive risk-based audit plan is derived. The assessment and programme are validated by executive management and approved by the responsible audit committee. Very high risk businesses and processes are audited at least every 12 months, with other areas covered at regular intervals based on their risk profile. There is an ongoing focus on identifying fraud risk as well as auditing technology risks given Investec's dependence on IT systems. Internal Audit also liaises with the external auditors and other assurance providers to enhance efficiencies in terms of integrated assurance. The annual plan is reviewed regularly to ensure it remains relevant and responsive, given changes in the operating environment. The audit committee approves any changes to the plan.

Significant control weaknesses are reported, in terms of an escalation protocol, to the local assurance forums, where remediation procedures and progress are considered and monitored in detail by management. The audit committee receives a report on significant issues and actions taken by management to enhance related controls. An update on the status of previously raised issues is provided by Internal Audit to each audit committee. If there are concerns in relation to overdue issues, these will be escalated to the executive risk review forum to expedite resolution.

Internal Audit proactively reviews its practices and resources for adequacy and appropriateness to meet an increasingly demanding corporate governance and regulatory environment, including the requirements of King IV in South Africa. The audit teams comprise well-qualified, experienced staff to ensure that the function has the competence to match Investec's diverse requirements. Where specific specialist skills or additional resources are required, these are obtained from third parties. Internal Audit resources are subject to review by the respective audit committees.

Internal Audit's activity is governed by an internal audit charter which is approved by the group audit committees and is reviewed annually. The charter defines the purpose, authority and responsibilities of the function

Compliance

Regulatory change continues to be a key challenge in the financial sector with global political events adding to its uncertainty as to the shape of financial services regulation going forward.

Global regulators remain focused on countering market abuse with heightened scrutiny and regulatory attention in this area, including sustained focus on the EU's strengthened Market Abuse Regime.

This year, global regulators have continued to focus on promoting stability and resilience in financial markets, with sustained emphasis on recovery and resolution plans and structural reforms to the banking sector as well as customer and market conduct related reforms.

Investec remains focused on maintaining the highest levels of compliance in relation to regulatory requirements and integrity in each of our jurisdictions. Our culture is central to our compliance framework and is supported by robust policies, processes and talented professionals who ensure that the interests of our customers and shareholders remain at the forefront of everything we do.

Investec plc – year in review

Conduct risk

The FCA has continued to focus on advancing its three operational objectives: securing an appropriate degree of protection for consumers; protecting and enhancing the integrity of the UK financial system; and promoting effective competition in the interest of consumers. The FCA's aim is to ensure that clients' interests are at the forefront of firms' agendas and that their needs are placed at the heart of the firms' strategy. Firms are also expected to behave appropriately in the wholesale markets in which they operate with a view to conduct risk considerations.

The Investec board, along with senior management are ultimately responsible for Investec's conduct risk strategy. Investec has continued to focus over the period on delivering good customer outcomes and effectively managing conduct risk throughout our business. This has included continued and ongoing investment in and enhancement of our conduct risk framework and a sustained focus on maintaining the highest levels of regulatory compliance throughout our businesses.

Consumer protection

The FCA has continued to pursue its consumer protection objective. Over the period this has included issuing of significant fines and performing continued strategic reviews into areas such as: product design and sales practices, provision of advice, treatment of customers who suffered unauthorised transactions and product and service suitability.

Wholesale markets

The FCA continues a proactive and assertive approach, in identifying and addressing risks arising from firm's conduct in the wholesale markets.

This has included an increasingly intensive approach to supervisory activities and thematic reviews as well as several high profile referrals to enforcement.

Wholesale markets have also been the focus of significant regulatory reform over the past 12 months due to the implementation of the MiFID II reforms in the EU which came into effect in January 2018. These reforms represent a significant re-write of the rules applicable to investment firms in the EU and are expected, over time, to drive change across Investec Bank plc, Investec Asset Management and Investec Wealth and Investment.

Financial crime

Financial crime continues to be a regulatory focus with regulators globally encouraging firms to adopt a dynamic approach to the management of risk and to increase efforts around systems and controls to combat both money laundering and bribery and corruption. The FCA has stated that 'we see financial crime as a risk to the wider economy and market integrity'. The FCA Business Plan also highlights financial crime and anti-money laundering as one of their priorities for the regulator.

Brexit

On 29 March 2017, the UK government invoked Article 50 of the Treaty on the European Union starting the process for the UK to leave the European Union (EU) on 29 March 2019.

Prime Minister Theresa May announced that the UK would not seek permanent membership of the single market or the customs union after leaving the EU and promised to repeal the European Communities Act of 1972 and incorporate existing European Union law into UK domestic law. The likely impact of Brexit is that UK firms will lose their ability to 'passport' into the EU from London and will be required to establish a regulatory platform within the EU to maintain access to EU financial services clients and markets. A transition period to December 2020 is expected to be implemented prior to March 2019 which will provide further time for firms and clients to complete their Brexit planning.

Brexit is not likely to have a material impact on the Investec group. However, the group's preparations for Brexit are well under way and on-track to ensure that the group is in a position to continue servicing its clients across the EU in the event of a hard Brexit.

Tax reporting (FATCA/CRS)

The Foreign Account Tax Compliance Act (FATCA) aims to promote cross-border tax compliance by implementing an international standard for the automatic exchange of tax information relating to US investors. The provisions call on tax authorities all over the world to obtain detailed account information from financial institutions relating to US investors and exchange that information automatically with the United States Internal Revenue Service on an annual basis. Australia, Channel Islands, Ireland, India, Hong Kong, Luxembourg, Singapore and the UK have entered into intergovernmental agreements with the USA and each has enacted local law/regulation to implement FATCA. Separately, the intergovernmental agreement between the USA and Switzerland requires Swiss financial institutions to report to the US tax authorities (IRS).

The OECD has recently taken further steps to improve global cross-border tax compliance by releasing the Common Reporting Standard (CRS). The CRS is a set of global standards for the annual exchange of financial information by financial institutions pertaining to customers, to the tax authorities of the jurisdictions in which those customers are resident for tax purposes. CRS took effect on 1 January 2016 in India, Hong Kong, Ireland, the Channel Islands, Luxembourg and the UK with reporting commencing from 2017.

Investec plc is currently compliant with its obligations under FATCA and CRS.

Investec Limited – year in review

Changes to the regulatory landscape in South Africa

The South African financial sector regulatory developments are ongoing with some of the new regulatory structures expected to become effective from April 2018. Existing legislation continues to be applied in tandem with the review of pending legislation and regulatory requirements.

Conduct risk and consumer protection

The Financial Sector Regulation Act (FSRA), which introduces the Twin Peaks regulatory framework was signed into law in August 2017. The consequential amendments contained in the FSRA, become effective in staggered phases during 2018. Draft Regulations to the FSRA were published for public comment in December 2017. The draft Conduct of Financial Institutions Bill (CoFI) is expected to be published for public comment in 2018.

The Financial Advisory and Intermediary Services Act (FAIS) and subordinate legislation is also being amended. In particular, amendments to the Fit and Proper requirements became effective from April 2018. Draft amendments to the FAIS General Code of Conduct were published for comment in November 2017. The amendments to the Insurance Policyholder Protection Rules (PPR) became effective from January 2018. Internal controls established to ensure compliance continue to be implemented.

The Information Regulator established in terms of the Protection of Personal Information Act (PoPIA) has gazetted its draft Regulations in terms of PoPIA. Comments on the Regulations have been submitted. The draft Regulations was tabled at Parliament in the first quarter of 2018, and the anticipated date for publication of the final Regulations is the second quarter of 2018. Once the final Regulations are published in the Government Gazette and the Information Regulator is fully operational, the remaining sections of PoPIA will become effective.

The General Data Protection Regulation (GDPR) applies to organisations in the European Union (EU). The GDPR will also apply to organisations located outside the EU in the context of selling goods or services to or monitoring the behaviour of individuals residing in the EU. Investec Limited will be impacted to the extent that it processes personal data belonging to individuals who reside in the EU. There is an ongoing effort to meet our obligations in terms of data protection and information management.

Financial crime

Financial crime continues to be a regulatory focus for 2018 and beyond. The South African Treasury Department in conjunction with the Financial Intelligence Centre promulgated the FIC amendment Act during May 2017 with a phased implementation period from 2 October 2017 to the 30 April 2019. Strict adherence to the set timeframes has been called for in preparation for the 2019 Financial Action Task Force's (FATF) Mutual evaluation. The South African Treasury Department remains under pressure to ensure that country deficiencies identified during the 2014 FATF country visit are corrected through implementation of the new legislative provisions. Meeting these key requirements will ensure continuation of Southern Africa's status as a FATF member country, dedicating efforts to combat money laundering and terrorist financing in its financial system.

These amendments require substantial changes in the Anti-Money Laundering and Combatting of Financing of Terrorism (AML CFT) regulatory framework with a key focus for Accountable Institutions to define their risk management and control programmes (RMCP). The RMCP requires Investec to understand and articulate its enterprise-wide risk-based approach, allowing the institution to determine its own risk appetite and tolerance levels in relation to client identification and verification. Further changes include the identification and verification of Ultimate Beneficial Ownership structures (UBO), widening the current Political Exposed Person's definition, removal of all exemptions previously applied to reduce documentary requirements for certain classes of clients posing a lesser degree of risk and extending the reporting obligations to all cross border transactions in or out of the Republic of South Africa.

Additionally the Financial Action Task Force Recommendation 16 requires all banks to screen full originator and beneficiary details effective June 2019. This date has been postponed from June 2018 due to the National Payment industry initiative aimed at modernising the South African payment systems to support required changes. These changes will align both FATF global standards to country specific requirements which are a key focus areas for Southern Africa during 2018/19.

Tax reporting (FATCA/CRS)

The aim of FATCA and CRS are set out above in Investec plc's section on "year in review". From an Investec Limited perspective, in relation to FATCA Southern Africa and Mauritius have intergovernmental agreements in place with the USA and each have enacted local law/regulation to implement FATCA locally. This allows Southern Africa and Mauritius to be treated as participating countries. This means that financial institutions in these countries report information annually on US clients (or non-compliant clients) to the South African Revenue Services and the local Mauritian authority respectively. These authorities in turn exchange information with the USA which reciprocates with similar information (on South African and Mauritian tax residents respectively who hold financial accounts in the US). Both Southern Africa and Mauritius are in the process of preparing their fourth annual FATCA reports.

The CRS became effective in Southern Africa on 1 March 2016. Southern Africa opted for the 'wider approach' which means all South African reporting financial institutions are required to collect tax-related information on all clients, rather than only in respect of the 102 countries which have currently opted into CRS. Consistent with the FATCA reporting regime, CRS reportable information is submitted to SARS annually. SARS then exchanges this information with relevant countries in return for reciprocal information on South Africans with financial accounts in those countries. Southern Africa is in the process of preparing its 2nd annual CRS report.

Mauritius has indicated that it will opt into CRS reporting from 2018.

Definitions

Adjusted earnings per ordinary share before goodwill, acquired intangibles and non-operating items

Refer to page 61 in volume three

Adjusted shareholders' equity

Refer to calculation on page 66 in volume one

Core loans and advances

Net loans and advances to customers plus net own originated securitised assets

Refer to calculation on page 35

Cost to income ratio

Operating costs divided by operating income (net of depreciation on leased assets). Depreciation on operating leased assets has been netted off against operating income

Dividend cover

Adjusted earnings per ordinary share before goodwill and non-operating items divided by dividends per ordinary share

Earnings attributable to ordinary shareholders before goodwill, acquired intangibles and non-operating items (i.e. adjusted earnings)

Refer to page 61 in volume three

Effective operational tax rate

Tax on profit on ordinary activities (excluding non-operating items) divided by operating profit (excluding share of post taxation profit of associates)

Market capitalisation

Total number of shares in issue (including Investec plc and Investec Limited) multiplied by the closing share price of Investec plc on the London Stock Exchange

Net tangible asset value per share

Refer to calculation on page 64 in volume one

Non-operating items

Reflects profits and/or losses on termination, restructuring or disposal of group operations and acquisitions made

Operating profit

Operating income less operating costs, impairment losses on loans and advances and depreciation on operating leased assets. This amount is before goodwill, acquired intangibles and non-operating items

Operating profit per employee

Refer to calculation on page 70 in volume one

Annuity income

Net interest income plus net annuity fees and commissions expressed as a percentage of total operating income

Return on average adjusted shareholders' equity

Refer to calculation on page 66 in volume one

Return on average adjusted tangible shareholders' equity

Refer to calculation on page 66 in volume one

Return on risk-weighted assets

Adjusted earnings divided by average risk-weighted assets

Risk-weighted assets

Calculated as the sum of risk-weighted assets for Investec plc and Investec Limited (converted into Pounds Sterling) as reflected on page 64 in volume one

Staff compensation to operating income ratio*

All staff compensation costs expressed as a percentage of operating income

Third party assets under management

Includes third party assets under administration managed by the Wealth & Investment, Asset Management and Property businesses

Total capital resources

Includes shareholders' equity, subordinated liabilities, Other Additional Tier 1 securities in issue and non-controlling interests

Total equity

Total shareholders' equity including Other Additional Tier 1 securities in issue and non-controlling interests

Weighted number of ordinary shares in issue

The number of ordinary shares in issue at the beginning of the year increased by shares issued during the year, weighted on a time basis for the period during which they have participated in the income of the group less treasury shares. Refer to calculation on page 61 in volume three

* *Investec Asset Management (IAM) operates schemes for staff whose bonuses are deferred into collective investment schemes that are managed by IAM. Any resulting profit or loss arising from these schemes is attributable to the employee in respect of whom the investment was made. As such, any rise or fall in the value of the assets held is offset to an equal but opposite degree by the change in the liability (expense) to the employee. Therefore the profit or loss on these investments and the corresponding expense to employees are offset in arriving at the staff compensation ratio for IAM and hence for the group as a whole.*