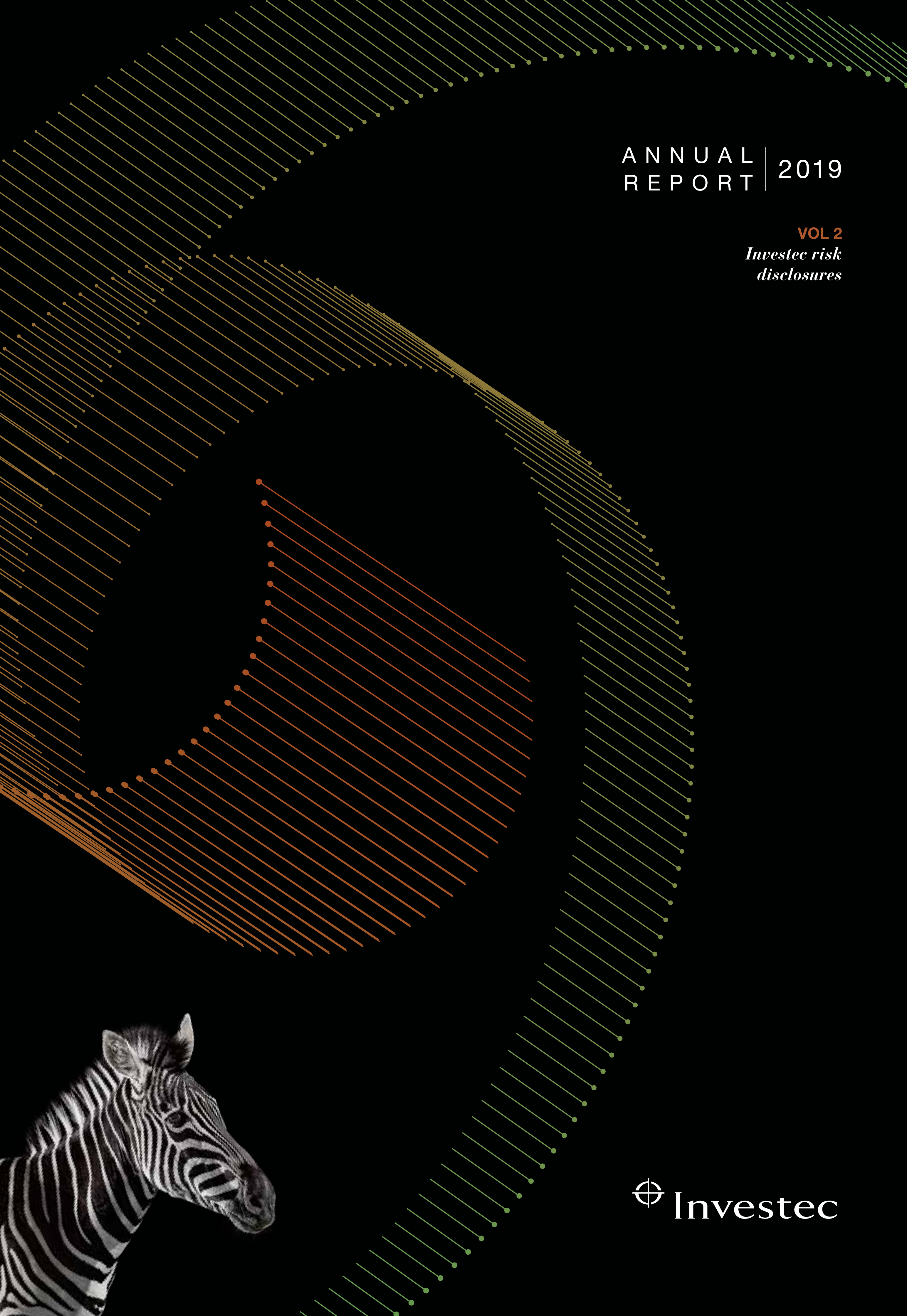
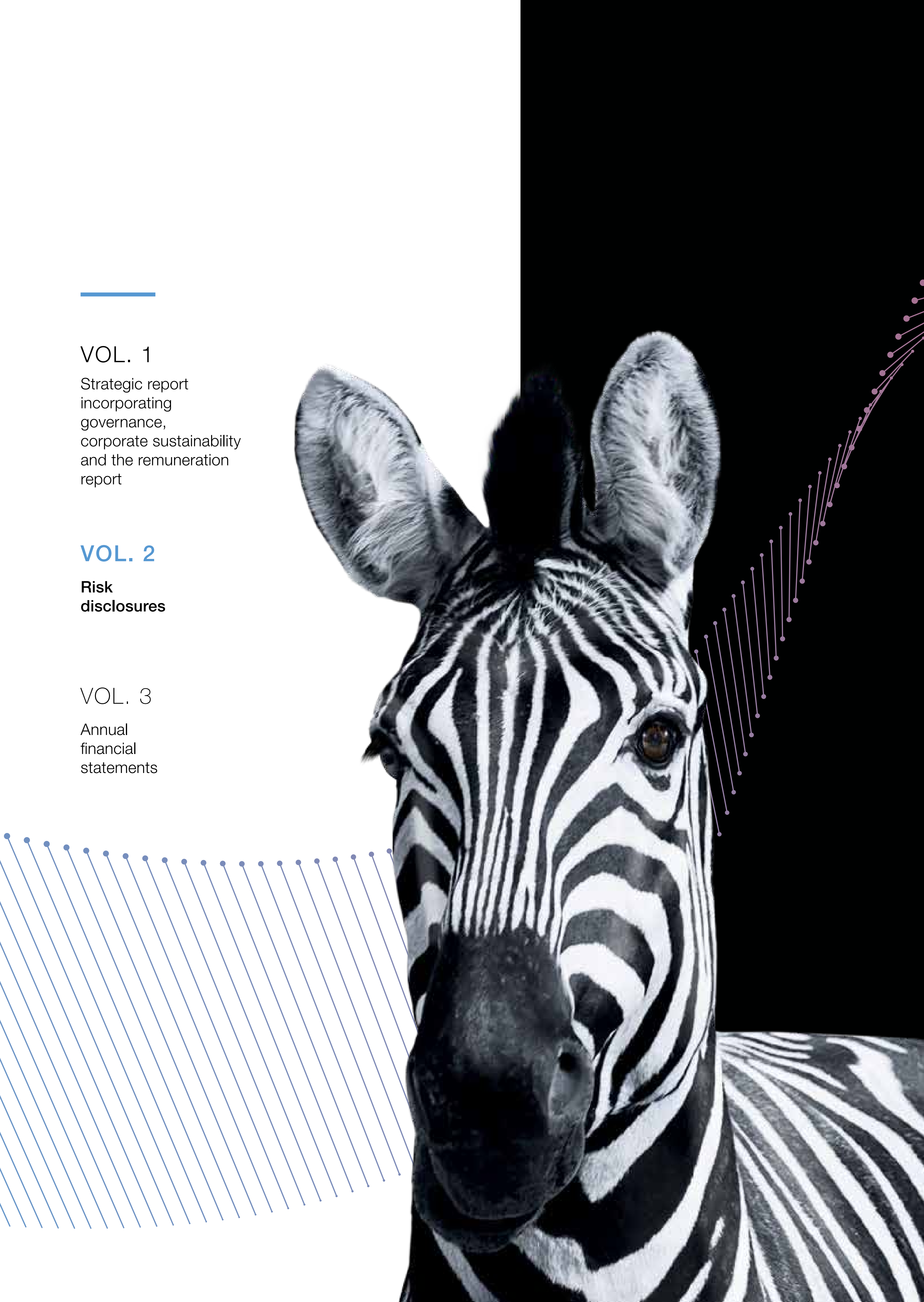


# ANNUAL REPORT 2019

**VOL 2**

***Investec risk disclosures***

Investec


VOL. 1
Strategic report incorporating governance, corporate sustainability and the remuneration report
VOL. 2
Risk disclosures
VOL. 3
Annual financial statements

THE 2019 INTEGRATED ANNUAL REPORT COVERS THE PERIOD 1 APRIL 2018 TO 31 MARCH 2019 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.

*Cross reference tools*

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

**PAGE REFERENCES**
*Refers readers to information elsewhere in this report*

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

**CORPORATE SUSTAINABILITY**
*Refer readers to further information in our corporate sustainability report available on our website: www.investec.com*

**REPORTING STANDARD**
*Denotes our consideration of a reporting standard*

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***Refer to page 121 in volume one.***

# 1 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 with good customer outcomes
- 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.
- Maintain compliance in relation to regulatory requirements

## 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 10 to 91 with further disclosures provided within the annual financial statements section in volume three. Where applicable, throughout the risk disclosures, comparative information is reported under IFRS 9 at 1 April 2018. 31 March 2018 information can be found on pages 151 to 157 of volume three, where it has been presented on a IAS 39 basis and not restated as permitted under IFRS 9.

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

We supplement our IFRS figures with alternative performance measures used by management internally and which provide valuable, relevant information to readers of the financial statements. Where applicable, definitions can be found in the definitions section of this report.

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 joint CEOs

### *Philosophy and approach to risk management*

The DLC board risk and capital committee (DLC BRCC) (comprising both executive and non-executive directors) meet at least six times per annum and approve the overall risk appetite for the Investec group. The group's risk appetite statements set 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, monitoring, mitigating and reporting the risks associated with each of our businesses to ensure the risk remain within the stated risk appetite.

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.

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 8 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 through our risk appetite framework which continues to be assessed in light of prevailing market conditions and group strategy. The primary aim is to achieve a suitable balance between risk and reward in our business. 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 is set out on page 11.

As announced on 14 September 2018 following a strategic review, the group made a decision to demerge and separately list the Investec Asset Management business. The demerger and separate listing of Investec Asset Management is subject to regulatory and shareholder approvals, and is expected to be completed in the second half of 2019.

Succession of the group's executive management team has been an ongoing focus area for the board where a number of processes have been implemented to ensure an orderly management succession process. Leadership and talent development remain high priority areas for the board and management of the group.

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

IFRS 9 became effective from 1 April 2018. IFRS 9 replaced 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. The measurement of ECL under IFRS 9 has increased complexity and reliance on expert credit judgements. Key judgemental areas under the implementation of IFRS 9 are highlighted in this document and are subject to robust governance processes. Investec plc confirmed to the Prudential Regulatory Authority (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.

In the year under review, the UK continued to negotiate the terms under which it would leave the European Union (EU). Certain areas of the UK economy are signalling signs of pressure, particularly in sectors reliant on discretionary spend. In the second half, Brexit uncertainty has dominated and we have seen reduced levels of mid-market M&A and equity capital markets activity and a reluctance from clients to commit to longer term decisions. 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 February 2019, Investec Bank plc's long-term deposit rating was upgraded by Moody's to A1 (stable outlook) and Investec plc's ratings were affirmed at Baa1 (stable outlook) while taking into account the proposed Investec Asset Management demerger. In August 2018, Investec Bank plc's long-term deposit rating was affirmed by Fitch at BBB+ however in March 2019 Fitch placed Investec Bank plc along with nineteen other UK banks Rating outlooks on Rating Watch Negative following Fitch's decision to place the UK sovereign (AA) on Rating Watch Negative, as a result of heightened uncertainty over the outcome of the Brexit process, and an increased risk of a disruptive 'no-deal' Brexit.

In South Africa, there was continued uncertainty in the economic environment for the better part of 2018, following the initial optimism following the ascension of Cyril Ramaphosa to the African National Congress (ANC) Presidency. The challenges facing state owned enterprises (SOEs) and the realities of state capture came to the fore. Risks to the fiscus emanating from SOEs continued to pose major risks. On the global front, trade tensions, slowing economic growth and Brexit uncertainty started becoming a prominent feature of the local economic environment which transitioned us from risk-on sentiment.

Investec Limited and 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.

The group's net core loan growth since 1 April 2018 in home currencies was 6.6% in South Africa and 10.0% in the UK. Growth in net core loans has been well diversified across the residential owner-occupied mortgage portfolio, private client and corporate client lending portfolios as well as selective lending collateralised by property, with loan to values at conservative levels.

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 with 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 movements in asset classes on our balance sheet; showing an increase in private client lending, mortgages and corporate and other lending, and a reduction in lending collateralised by property as a proportion of net core loans. Our net core loan exposures remain well diversified with commercial rent producing property loans comprising approximately 12% of net core loans, other lending collateralised by property 5%, high net worth and private client lending 39% and corporate lending 44% (with most industry concentrations well below 5%).

In South Africa, underlying core assets continue to perform well. There was growth in net core loans of 6.6% to R271.2 billion (1 April 2018: R254.4 billion) with high net worth and specialised lending and corporate portfolios representing the majority of the growth for the financial year in review. We have observed a small percentage increase in our Stage 2 and Stage 3 exposures. Stage 2 exposure amounted to R10.8 billion or 4.0% of gross core loan and advances subject to ECL as at 31 March 2019 (1 April 2018: R9.5 billion or 3.7%). Stage 3 exposure amounted to R3.8 billion or 1.4% of gross core loan and advances subject to ECL as at 31 March 2019 (1 April 2018: R2.9 billion or 1.1%). The credit loss ratio amounted to 0.28% (31 March 2018: 0.28%) remaining at the lower end of its long term average range.

In the UK, asset quality continues to reflect the solid performance of net core loans. The credit loss ratio reduced to a normalised level of 0.38% (31 March 2018: 1.14%) following the removal of the legacy drag. Stage 3 in the ongoing book (excluding Legacy) totalled £149 million or 1.5% of gross core loans subject to ECL at 31 March 2019 reduced from 2.6% at 1 April 2018. Stage 3 (including Legacy and Ongoing) totalled £319 million at 31 March 2019 (3.2% of gross core loans subject to ECL) significantly reduced from £564 million at 1 April 2018 (6.3% of gross core loans subject to ECL) largely due to a number of exits in the legacy portfolio. Stage 3 exposures are well covered by ECLs. Legacy exposures have reduced by 49% since 1 April 2018 to £131 million (net of ECL) at 31 March 2019. These assets are substantially impaired and are largely reported under Stage 3.

Overall Stage 3 net of ECL remains at a manageable level, amounting to 5.4% and 12.8% of our common equity tier 1 capital in Investec Limited and Investec plc respectively, with total ECL impairment charges amounting to 9.1% of the group's pre-provision operating profit. The percentage of Stage 3 loans (net of ECL but before taking collateral into account) to net core loans and advances subject to ECL amounted to 1.3% (1 April 2018: 2.0%). The ratio of collateral to Stage 3 loans (net of ECL) remains satisfactory at 1.22 times (1 April 2018: 1.32 times).

There has been a good performance in the UK investment portfolio, however this has been offset by a weaker performance in Hong Kong portfolio which we are in the process of exiting. South Africa delivered a sound performance. Overall, we remain comfortable with the performance of our investment and equity risk exposures which comprise 3.89% 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. During the year in review, customer-flow sales and trade revenues were impacted by lower client activity in the UK due to uncertainty around Brexit and range-bound foreign exchange markets.

We remain highly focused on conduct, reputational, operational, recovery and resolution risks. Financial and cyber crime are high priorities, and the group 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, fraud and corruption.

The group has continued to maintain a sound balance sheet with a low gearing ratio of 9.4 times and a core loans to equity ratio of 4.8 times. Our current leverage ratios for Investec Limited and Investec plc are at 7.6% and 7.9% 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. There was positive capital generation and risk-weighted assets (RWA) remained measured. We maintain a group target common equity tier 1 ratio in excess of 10% which is currently considered appropriate for our businesses and given our sound leverage ratios and significant capital light revenues. Investec plc's common equity tier 1 ratio is at 10.8% at 31 March 2019 and Investec Limited's improved to 10.5%, both ahead of our group CET 1 target and in excess of regulatory minimums.

In South Africa, the bank has received regulatory permission to adopt the Foundation Internal Ratings Based (FIRB) approach, effective 1 April 2019, resulting in a pro-forma CET 1 ratio of 12.5% had the FIRB approach been applied as of 31 March 2019.

In January 2019, 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 £13.3 billion at year end, representing 42.4% of customer deposits.

In the UK, a strong liquidity position has continued to be maintained throughout the year primarily supported by growth in fixed term and notice retail customer deposits. Cash and near cash balances amounted to £7.0 billion at 31 March 2019 up from £5.8 billion at 31 March 2018. Following the UK's decision to leave the European Union, the UK bank will no longer be able to access deposits from European clients sourced through its Irish branch. The strong liquidity position supports asset growth as well as facilitating the repayment of the Irish deposits ahead of the UK's expected departure. Overall funding costs have continued to decline. 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 PRA at 31 March 2019 was 313% for Investec plc and 291% for Investec Bank plc (solo basis). 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 BCBS final guidelines to calculate the NSFR which was 128% for Investec plc and 126% for Investec Bank plc (solo basis). The reported NSFR and LCR may change over time with regulatory developments and guidance.

In South Africa, the bank comfortably exceeds regulatory liquidity requirements for the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). Investec Bank Limited (solo basis) ended the period to 31 March 2019 with the three-month average of its LCR at 135.6% (31 March 2018: 133.9%). The structural funding ratio represented by the NSFR was adopted officially as a regulatory measure from 1 January 2019 with a minimum of 100%. Investec Bank Limited delivered an NSFR of 115.6% for the period under review. We continue to improve balance sheet efficiency by improving our wholesale and retail funding channels and mix. Our funding channels are characterised by their well-diversified structures and we believe we are able to deal with any disruptions the economy may encounter throughout the year.

The appointment of Mr Cyril Ramaphosa as president along with his cabinet, is seen as a positive development for South Africa, following on from the recent African National Congress (ANC) ruling party majority win in the 2019 Elections.

The group'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 and IFRS 9 macro-economic scenarios. 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 global shock resulting in an asset price correction and corporate stress; and a potential UK domestic shock with a prolonged period of weak investment and growth.

The board, through its respective 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 149 to 151.***

## Conclusion

The group has achieved a good operating performance, supported by low levels of impairments, sound levels of client activity and a solid recurring income base. We are comfortable that we have well established risk management processes and systems in place. Whilst Brexit and political uncertainty remain, the underlying book continues to perform well and in line with our risk appetite tolerance.

Signed on behalf of the board

**Fani Titi** **Hendrik du Toit**
Joint CEOs

13 June 2019

## Salient features

A summary of key risk indicators are provided in the tables below.

| | UK and Other | | Southern Africa | | Investec group | |
|---|---|---|---|---|---|---|
| **Year to 31 March** | **2019 £** | 2018 £ | **2019 R** | 2018 R | **2019 £** | 2018 £ |
| Net core loans and advances (million) | 10 514 | 9 687 | 271 204 | 256 702 | 24 941 | 25 132 |
| Total assets (excluding assurance assets) (million) | 22 565 | 20 547 | 507 192 | 476 639 | 49 507 | 49 129 |
| Total risk-weighted assets (million) | 15 313 | 14 411 | 361 750 | 338 484 | 34 557^ | 34 777^ |
| Total equity (million) | 2 285 | 2 341 | 55 616 | 51 279 | 5 251 | 5 428 |
| Cash and near cash (million) | 6 991 | 5 813 | 118 365 | 116 533 | 13 288 | 12 825 |
| Customer accounts (deposits) (million) | 13 137 | 11 624 | 341 578 | 321 823 | 31 307 | 30 987 |
| Loans and advances to customers to customer deposits | 80.0% | 83.2% | 77.2% | 77.4% | 78.4% | 79.6% |
| Structured credit as a % of total assets* | 2.08% | 1.34% | 0.32% | 0.24% | 1.12% | 0.70% |
| Banking book investment and equity risk exposures as a % of total assets* | 2.58% | 2.98% | 4.99% | 4.87% | 3.89% | 4.07% |
| Traded market risk: one-day value at risk (million) | 0.4 | 0.5 | 3.8 | 3.4 | n/a | n/a |
| Core loans to equity ratio | 4.6x | 4.1x | 4.9x | 5.0x | 4.8x | 4.6x |
| Total gearing ratio^^ | 9.9x | 8.8x | 9.1x | 9.3x | 9.4x | 9.1x |
| Return on average assets# | 0.93% | 0.71% | 1.16% | 1.28% | 1.05% | 1.03% |
| Return on average risk-weighted assets# | 1.36% | 1.00% | 1.64% | 1.79% | 1.50% | 1.45% |

| | **31 March 2019 £** | 1 April 2018 £ | **31 March 2019 R** | 1 April 2018 R | **31 March 2019 £** | 1 April 2018 £ |
|---|---|---|---|---|---|---|
| Stage 3 exposure as a % of gross core loans and advances subject to ECL | 3.2% | 6.3% | 1.4% | 1.1% | 2.1% | 3.0% |
| Stage 3 exposure net of ECL as a % of net core loans and advances subject to ECL | 2.2% | 4.3% | 0.8% | 0.7% | 1.3% | 2.0% |
| Credit loss ratio** | 0.38% | 1.14% | 0.28% | 0.28% | 0.31% | 0.61% |
| Level 3 (fair value assets) as a % of total assets* | 8.37% | 9.74% | 1.49% | 0.96% | 4.63% | 4.64% |
| Total capital adequacy ratio## | 15.7% | 15.0% | 14.9% | 14.5% | n/a | n/a |
| Tier 1 ratio## | 12.6% | 12.4% | 11.2% | 10.8% | n/a | n/a |
| Common equity tier 1 ratio## | 10.8% | 10.5% | 10.5% | 10.0% | n/a | n/a |
| Leverage ratio – current## | 7.9% | 8.3% | 7.6% | 7.4% | n/a | n/a |

* *Total assets excluding assurance assets.*

** *ECL impairment charges on gross core loans and advances as a % of average gross core loans and advances subject to ECL. Credit loss ratio comparatives are as at 31 March 2018 (under IAS 39)*

^ *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 adjusted earnings attributable to ordinary shareholders, as defined on page 96. 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 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 £63 million for Investec plc and £19 million for Investec Bank plc would lower the CET 1 ratio by 41bps and 13bps respectively. The reported ratios are calculated applying the IFRS 9 transitional arrangements.*

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 risk appetite statements and frameworks for Investec plc and Investec Limited set out the board's mandated risk appetite. The risk appetite frameworks act as a guide to determine the acceptable risk profile of the group. The risk appetite statements ensure that limits/targets are applied and monitored across all key operating jurisdictions and legal entities. The risk appetite statements are high-level, strategic frameworks that supplement and do not replace the detailed risk policy documents at each entity and geographic level. The risk appetite frameworks are 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 risk appetite frameworks are 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 DLC BRCC and the board.

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

| *Risk appetite and tolerance metrics* | *Positioning at 31 March 2019* |
|---|---|
| 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 76.9% of total operating income. Refer to page 44 in volume one for further information |
| We seek to maintain strict control over fixed costs. For the 2019 financial year the group had a cost income ratio target of below 65% | The cost to income ratio amounted to 69.9%. Refer to page 43 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 12.9% and our return on risk-weighted assets amounted to 1.50%. Refer to page 62 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% | The current leverage ratios were 7.9% and 7.6% for Investec plc and Investec Limited respectively; refer to page 87 for further information |
| We intend to maintain a sufficient level of capital to satisfy regulatory requirements and our internal target ratios. We target a total 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 met all these targets. Capital has grown over the period. Refer to page 90 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 £120 million or 7.3% of CET 1 (unless specifically supported by the relevant board committee) for Investec plc 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 | Refer to page 17 for further information |
| We target a credit loss ratio of less than 0.5% for both Investec plc and Investec Limited. Stage 3 net of ECL as a % of net core loans and advances subject to ECL to be less than 2% (excluding legacy) and less than 2% for Investec plc and Investec Limited respectively. Investec plc targets Stage 3 net of ECL as a % of CET1 less than 25% | We currently remain within all tolerance levels. The group credit loss ratio amounted to 0.31%. Stage 3 net of ECL as a % net core loans and advances subject to ECL was 1.2% for Investec plc (excluding the legacy portfolio) and 0.8% for Investec Limited. Stage 3 net of ECL as a % of CET 1 is 12.8% for Investec plc. Refer to page 34 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 £13.3 billion at year end representing 42.4% of customer deposits. Refer to page 61 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 met these internal limits; one-day 95% VaR was £0.4 million for Investec plc and R3.8 million for Investec Limited at 31 March 2019; refer to page 53 for further information |
| We have moderate appetite for investment risk, and set a risk tolerance of less than 32.5% 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 R4 144 million and £472 million for Investec Limited (excluding the IEP group) and Investec plc respectively, representing 10.2% of total tier 1 for Investec Limited and 28.6% of common equity tier 1 for Investec plc. Refer to page 49 for further information |
| Our operational risk management teams focus on appropriately identifying and managing operational risk within acceptable levels by adopting sound operational risk practices that are fit for purpose. We have heightened focus on financial and cyber crime | Refer to pages 69 to 73 for further information |
| We have a number of policies and practices in place to mitigate reputational, legal and conduct risks | Refer to pages 73 and 75 for further information |

## An overview of our principal risks

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

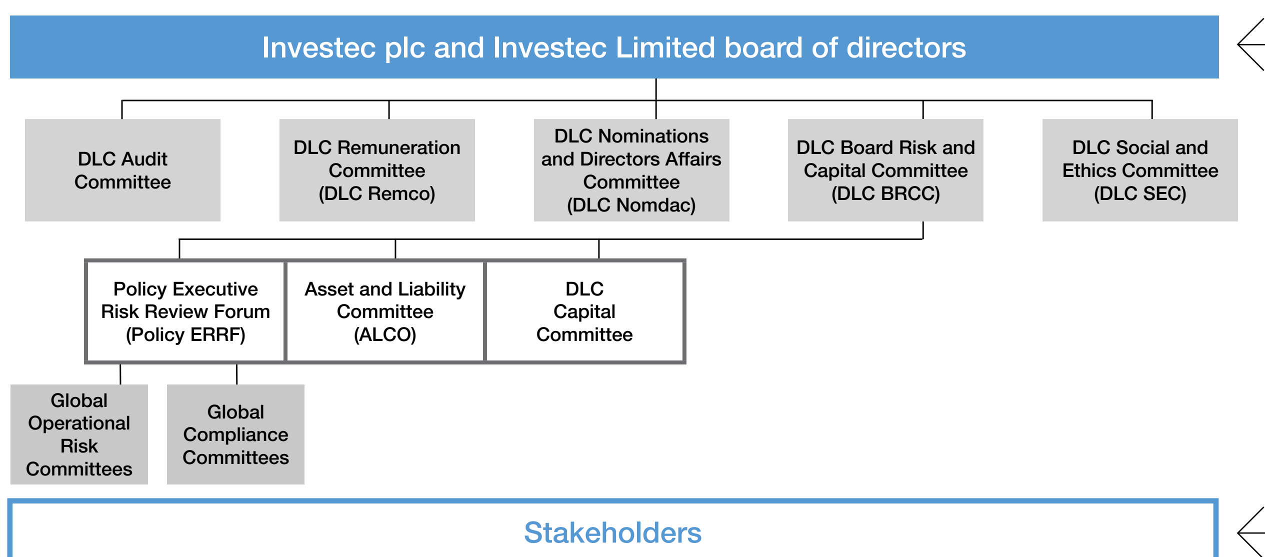
***These principal risks have been highlighted on pages 29 to 36 in volume one.***

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.




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**<br>Members: Independent non-executive directors<br>Chairman: Zarina Bassa (Independent non-executive director)<br>Frequency:<br>• DLC Audit Committee – four times a year<br>• Investec Limited and Investec Bank Limited Audit Committee – four times a year<br>• Investec plc and Investec Bank plc Audit Committee – four times a year | • See pages 132 to 141 in volume one<br>• Assess the appropriateness of accounting policies, practices and disclosures and whether the quality of financial reporting is adequate<br>• Review the scope and results of internal, external and compliance reviews and audits<br>• Maintain open lines of communication between the board and the risk management, internal and external auditors and compliance officers<br>• Assess the adequacy of the group's internal controls based on information provided or obtained<br>• Make informed decisions regarding compliance policies, practices and disclosures<br>• Review any matters of significance affecting the financial safety of the group |
| **DLC Capital Committee**<br>Members: Executive and non-executive directors and senior management<br>Chairman: Fani Titi (Joint CEO)<br>Frequency: At least four times a year | • The DLC Capital Committee is mandated by DLC BRCC to be the Capital Committee of Investec Limited and Investec plc and their subsidiaries as regards:<br>– Capital allocation and structuring<br>– Capital planning and models<br>– Performance measurement<br>– Capital-based incentivisation |

| *Committee* | *Function* |
|---|---|
| **DLC Board Risk and Capital Committee (DLC BRCC)**<br>Members: Executive and non-executive directors (senior management by invitation)<br>Chairman: David Friedland (non-executive director)<br>Frequency: Six times a year | • See pages 142 to 146 in volume one<br>• The DLC BRCC is mandated by the board to be the most senior Risk Management Committee of the group<br>• The purpose of the DLC BRCC with the assistance of the subject matter experts is to ensure all material risks wherever they occur throughout the group are prudently identified and managed. It also strives to ensure there is good conduct in all interactions with customers and regulatory market standards are achieved<br>• The duties of the DLC BRCC shall be to assist the board:<br>– in its evaluation of the adequacy and efficiency of the risk policies, procedures, practices and controls applied within the group in the day-to-day management of its business<br>– in the identification of the build-up of and concentration of the various risks to which the group is exposed<br>– in developing a risk mitigation strategy to ensure that the group manages the risks in an optimal manner<br>– in ensuring that a formal risk assessment is undertaken at least annually<br>– in identifying and regularly monitoring all key risks and key performance indicators to ensure that its decision-making capability and accuracy of its reporting is maintained at a high level<br>– to facilitate and promote communication, through reporting structures, regarding the matters between the board and the executive officers of the group<br>– to establish an independent group risk management function, the head of which shall act as the reference point for all aspects relating to risk management within the group, including the responsibility to arrange training of members of the board in the different risk areas to which the group is exposed<br>– to introduce such measures as may serve to enhance the adequacy and efficiency of the risk management policies, procedures, practices and controls applied within the group<br>– to co-ordinate the monitoring of risk management on a globalised basis<br>– to establish and implement a process of internal controls and reviews to ensure the integrity of the overall risk and capital management process<br>– to establish and implement policies and procedures designed to ensure that the group identifies, measures and reports all material risks<br>– to establish and implement a process that relates capital to the level of risk<br>– to establish and implement a process that states capital adequacy goals with respect to risk, taking account of the group's strategic focus and business plan; and<br>– to perform such further functions as may be prescribed |

<table>
<tr><th>Committee</th><th>Function</th></tr>
<tr><td>Policy Executive Risk Review Forum (Policy ERRF)<br>Members: Executive directors and senior management<br>Chairman: Ciaran Whelan<br>Frequency: Weekly</td><td>Policy ERRF is mandated to:<br>• Consider and recommend for approval relevant policies, which require board approval in terms of legislation or review by the executives<br>• Consider and approve:<br>– Amendments to various group risk appetite limits should these differ from the risk appetite framework<br>– Commencement or closing of business initiatives<br>– Limit reviews approved at Investec Bank plc Executive Risk Committee (IBP ERC) (UK) and Investec Bank Limited Executive Risk Committee (IBL ERC) (SA) are noted at Policy ERRF, with significant changes to limits presented to Policy ERRF for review and approval<br>– 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 IBP ERC and IBL ERC for approval where deemed necessary<br>– Terms of reference of global forums/committees<br>– Systems, infrastructure and capital expenditure in excess of R30 million or £5 million<br>– Annual Funding Plan<br>– Financial covenants provided by members of the group to third parties<br>– Matters that could give rise to reputational risk<br>– Group Insurance Cover</td></tr>
<tr><td>Asset and Liability Committee (ALCO)<br>Members: Executive directors, senior management, economist, treasurer, business heads and head of asset and liability monitoring<br>Chairman: Kevin Kerr (South Africa), Ruth Leas (UK) and Craig McKenzie (Mauritius)<br>Frequency: Monthly (or ad hoc if required)</td><td>• 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<br>• Directs the implementation of the methodology, techniques, models and risk measures for liquidity and non-trading interest rate risk management (in the banking book)<br>• Reviews the structure of our balance sheet and business strategies, taking into account market conditions, including stress tests<br>• Maintains liquidity contingency plans<br>• The responsibilities of the Liability Product and Pricing Forum (a sub-committee of ALCO chaired by the Treasurer) are:<br>– 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<br>– to review the liquidity, interest rate and concentration characteristics of all new products and approve their issuance<br>– to monitor existing products, terms and rates<br>– to reprice or close products where appropriate<br>– to evaluate continuously the external rates environment including competitor analysis<br>– to escalate to ALCO any information deemed to be relevant to ALCO's ability to fulfil its mandate<br>– 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</td></tr>
<tr><td>Global Compliance Committee<br>Members: Compliance representatives of the Investec Limited and Investec plc businesses<br>Chairman: Bradley Tapnack; Alternate: Kathryn Farndell and Noel Sumner<br>Frequency: Three times a year and on ad hoc request</td><td>• Review and approval of all group compliance policies across Investec Limited and Investec plc businesses<br>• Establishing and standardising of group standards where applicable<br>• Escalation of policies to Policy ERRF and the board for approval as required</td></tr>
</table>

| *Committee* | *Function* |
|---|---|
| **Global Operational Risk Committee**<br>Members: Heads of operational risk, heads of risk, specialist banking, asset management and wealth and investment senior management<br>Chairman: Bradley Tapnack (global head of corporate governance and compliance)<br>Frequency: At a minimum half-yearly | • Provides support to DLC BRCC and Policy ERRF in the management of operational risk<br>• Reviews and approves the operational risk management framework, policies and appetite<br>• Aligns operational risk policies, practices and reporting across the group<br>• Challenge and recommend the Operational Risk Management Framework (ORMF) and promote jurisdictional alignment of practices relating to the framework<br>• Approve policies as mandated and ensure, as far as possible, alignment of policies between jurisdictions<br>• Recommend policies that require approval by Policy ERRF and DLC BRCC<br>• Consider matters relating to operational risk regulatory requirements as it pertains to policy development and approval<br>• Consider opportunities to leverage skills across the group<br>• The committee has authority to:<br>– request internal/external reports<br>– investigate any matters within its terms of reference<br>– mandate actions to be taken |
| **Group Legal Risk Forum**<br>Members: Senior management and divisional legal managers<br>Chairman: Lauren Ekon (UK), David Nurek (SA)<br>Frequency: Ad hoc if required | • Considers and manages legal risks throughout the group |
| **Market Risk Forum**<br>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<br>Chairman: Anant Patel (UK), Rishaan Ramnarain (SA)<br>Frequency: Weekly | • Reviews and recommends limit adjustments in all existing products and markets across all desks in the group<br>• Recommends limits for new products and new markets<br>• Recommends methodology as to how risks are measured |
| **DLC Social and Ethics Committee (DLC SEC)**<br>Members: Executive and non-executive directors<br>Chairman: Lord Malloch Brown<br>Frequency: Quarterly | • See pages 129 to 131 in volume one. |

## 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 create 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 making required settlements as they fall due but not receiving the performance to which they are entitled
  - Replacement risk is the risk following default 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 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 the UK and South Africa and to oversight regions 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 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 comprise 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. The scope of these forums and committees have been adjusted where necessary to reflect changes to governance processes arising from IFRS 9 implementation:

- 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 Forums in the UK review the management of distressed loans, potential problem loans and exposures in arrears that require additional attention and supervision. These committees review ECL impairments and staging at an asset level as well as potential fair value adjustments to loans and advances to customers and provide recommendations for the appropriate staging and level of ECL impairment where appropriate
- Credit Watch Forums in South Africa review and manage 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
- Forbearance Forum in the UK reviews and monitors counterparties who have been granted forbearance measures
- In South Africa, Arrears, Default and Recovery Forums specifically review and manage distressed loans and potentially distressed loans for private clients and corporates. These forums also review and monitor counterparties who have been granted forbearance measures
- Impairment Decision Committee in the UK reviews recommendations from underlying watchlist forums and considers and approves the appropriate level of impairments, ECL and staging
- Models Forum in the UK provides an internal screening and validation process for credit models. We have established independent model validation teams who review the models and provide feedback on the accuracy and operation of the model and note items for further development through this forum.

### *Credit and counterparty risk appetite*

The board has set risk appetite limit frameworks which regulates the maximum exposures we would be comfortable to tolerate in order to diversify and mitigate risk. These limit frameworks are monitored on an ongoing basis and reported to IBL BRCC, IBP BRCC, DLC 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.

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 should demonstrate scale and relevance in their market, an experienced management team, able board members, strong earnings and cash flow. Direct exposures to cyclical industries and start-up ventures are generally avoided.

We are client-centric in our approach and originate loans mainly 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.

## 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.

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. In order to manage concentration, we will consider a sell down of exposures to market participants.

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.

## 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 that country. 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.

The group'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 little 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 Organisation for Economic Co-operation (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, IBL ERC, IBP ERC and Policy ERRF will consider, analyse and assess the appropriate limits to be recorded when required, to assume exposure to foreign jurisdictions.

## Sustainability considerations

The group has a holistic approach to corporate sustainability, 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 sustainability risk considerations are considered by the credit committee or investment committee when making lending or investment decisions. There is also oversight by the DLC SEC 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 sustainability considerations:

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

***Refer to our corporate sustainability and ESG supplementary information on our website.***

## Stress testing and portfolio management

The Investec group 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 and IFRS 9 macro-economic scenarios. 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.

The group also performs *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 of 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 risk classification and provisioning policy*

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

### Definition of default

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

### Stage 1

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

### Stage 2

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

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

Assets in forbearance are considered to be, at a minimum, Stage 2. Forbearance measures refer to concessions such as modification of the terms and conditions or refinancing that has been granted to a debtor in financial difficulty amongst other indicators of financial stress. These exposures are assessed on a case by case basis to determine whether the proposed modifications will be considered as forbearance. Where the credit committee considers it likely that the client will be able to return to perform against the original contractual obligations within a reasonable timeframe these assets will be considered performing and in Stage 2. Forbearance is distinguished from commercial renegotiations which take place as part of normal business activity and standard banking practice.

In addition to loans under management review, an asset may also move from Stage 1 to Stage 2 if the model calculated probability of default (PD) has significantly increased since origination. This is tested on both a relative and absolute basis to assess whether a significant deterioration in lifetime risk of default has occurred. Currently in the UK, there is a common definition across the bank's exposures regarding what constitutes a significant PD movement. The test involves both an absolute and relative movement threshold. An asset is considered to have been subjected to a significant increase in credit risk if the appropriate PD has doubled relative to the value at origination and on an absolute basis has increased by more than 1%. Any asset with an original rating that is classified as investment grade will be judged to have had a significant movement if the new PD would classify it as sub-investment grade and the equivalent rating has moved by more than three notches. In South Africa, the change in the lifetime PD from deal origination to the reporting date is monitored monthly. The absolute and relative changes in lifetime PDs are tested against predefined trigger levels. When the change in lifetime PDs exceed the trigger levels, it is considered a significant increase in credit risk and the exposure is migrated to Stage 2. The trigger levels have been defined for each asset class and is a function of the credit rating and the remaining maturity of the exposure.

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

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

### Stage 3

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

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

### ECL

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

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

### Write-offs

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

## *Internal credit rating models and ECL methodology*

Internal credit rating models cover all material asset classes. These internal credit rating models are also used for IFRS 9 modelling after adjusting for key differences. Internal credit models calculate through the economic cycle losses whereas IFRS 9 requires 12-month or lifetime point-in-time losses based on conditions at the reporting date and multiple economic scenario forecasts of the future conditions over the expected lives.

***Further information on internal credit ratings is provided on page 37.***

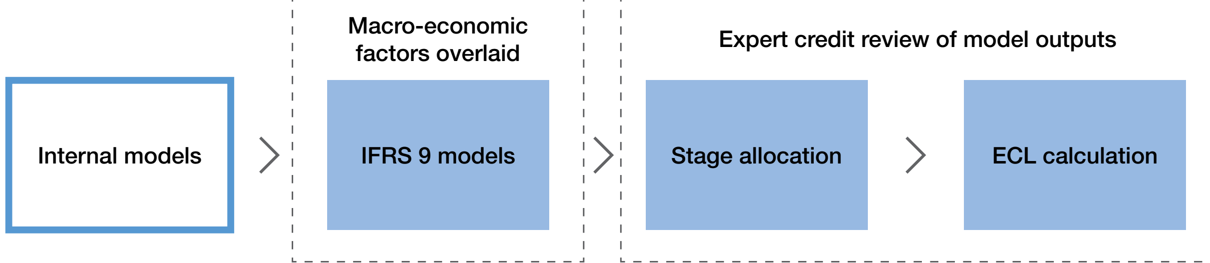
## *Key drivers of measurement uncertainty – subjective elements and inputs*

The measurement of ECL under IFRS 9 has increased complexity and reliance on expert credit judgement. Key judgemental areas under the implementation of IFRS 9 are highlighted in this document and are subject to robust governance processes. Key drivers of measurement uncertainty include:

- the assessment of a significant increase in credit risk;
- the introduction of a range of forward-looking probability weighted macro-economic scenarios; and
- estimations of probabilities of default, loss given default and exposures at default using models.

In addition to these drivers, some initial judgements and assumptions were required in the design and build of the group's ECL methodology, which are not considered to have a material impact. This includes the use of income recognition effective interest rates (EIRs) that are calculated under IAS 39 and used as the discount factor in the ECL calculation as well as the use of contractual maturity to assess behavioural lives. In addition where we have experienced limitations on the availability of probability of default origination data for the historic book, a portfolio average has been used in some instances.

### Process to determine ECL




ECLs are calculated using three main components:

- a probability of default (PD);
- a loss given default (LGD); and
- the exposure at default (EAD).

Under IFRS 9, the 12-month and lifetime PDs represent the probability of a default occurring over the next 12 months or the lifetime of the financial exposures, respectively, based on conditions existing at the balance sheet date and future forecast macro-economic conditions that affect credit risk.

The LGD represents losses expected on default, taking into account the mitigating effect of collateral, its expected value when realised and the time value of money. The forecast value for the collateral is also affected by the range of forward-looking probability weighted macro-economic scenarios.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdown of a committed facility.

The calculation of the 12-month ECL is based on the 12-month PD and LGD along with the EAD and effective interest rate (EIR) for the asset. Lifetime ECL is calculated using the lifetime PD curve, and the appropriate LGDs and EADs and discount rates derived from the EIR based on the remaining life of the financial asset.

Expert judgement models have also been utilised for certain portfolios where the ECL is found to be minimal, either due to the portfolio's small relative size or the low-default nature of these portfolios, such as cash and balances held at central banks.

Management adjustments are made to modelled output to account for situations where additional information and known or expected risk factors have not been captured in the modelling process.

### Forward-looking macro-economic scenarios

The measurement of ECL also requires the use of multiple economic scenarios to calculate a probability weighted forward-looking estimate. These scenarios are updated at least twice a year, or more frequently if there is a macro-economic shock or significant shift in expectations. The weighting of these scenarios for IFRS 9 as well as the scenarios themselves are discussed and approved in DLC Capital Committee, which forms part of the principal governance framework for macro-economic scenarios.

A number of forecast economic scenarios are considered for capital planning, stress testing (including Investec specific stress scenarios) and IFRS 9.

#### UK and Other

For Investec plc, four macro-economic scenarios are used in the measurement of ECL under IFRS 9. These scenarios incorporate a base case, an upside case and two down cases.

The base case scenario envisages a modest pace of UK economic growth over the forecast horizon. This is supported by some recovery in business investment and consumer spending as Brexit related uncertainties clear. The labour market is expected to witness continued tightness with unemployment holding near historic lows and wage growth firming. Meanwhile the housing market is expected to see moderate house price growth. Amidst this environment the Bank of England is expected to undertake a gradual path of interest rate increases. More widely a modest pace of global growth is forecast over the projection horizon. Key points include a moderation of US economic activity, some stabilisation in the Chinese economy and a recovery in the Euro area following its recent weakness.

The down case scenarios are severe but plausible scenarios created based on Investec specific bottom-up stress tests, whilst also considering IFRS 9 specific sensitivities and non-linearity. The focus of each downside case is either a global shock resulting in an asset price correction and corporate stress or UK domestic-specific stress with a prolonged period of weak investment and growth.

The upside case encompasses a scenario where UK productivity growth recovers following the post crisis period of sustained productivity weakness. The scenarios are forecasted over five years. Beyond the forecast period, default rates are assumed to revert over time to an observed long run average.

The scenarios include the same key economic factors shown in the table below, which are relevant for most portfolios. GDP growth is used as an indicator growth variable in the scenarios for all other macro-economic variables.

The table below shows the key factors that form part of the UK and Other macro-economic scenarios and the relative weightings of these scenarios applied as at 31 March 2019:

**Macro-economic scenarios**

| Average 2019 – 2023 | Upside % | Base case % | Downside 1 Global % | Downside 2 Domestic % |
|---|---|---|---|---|
| **UK** | | | | |
| GDP growth | 2.5 | 1.5 | 0.2 | 0.1 |
| Unemployment rate | 3.6 | 3.8 | 6.7 | 4.7 |
| House price growth | 3.4 | 3.3 | (1.9) | (1.3) |
| Bank of England – Bank rate | 2.7 | 1.9 | 0.1 | 0.2 |
| **Euro area** | | | | |
| GDP growth | 2.1 | 1.6 | 0.2 | 1.4 |
| **US** | | | | |
| GDP growth | 2.0 | 1.9 | 0.7 | 1.9 |
| **Scenario weightings** | **13** | **60** | **14** | **13** |

**South Africa**

For Investec Limited, five macro-economic scenarios are used in the measurement of ECL under IFRS 9. These scenarios incorporate a base case, two upside cases and two downside cases. The aim of this economic scenario generation process is to provide a view of the current and projected state of the South African economy and the different economic scenarios that could occur in various stressed or improved environments over the next five years for a number of identified variables/risk drivers. Management's view of the most likely outcome is that a sedate pace of global monetary policy normalisation will occur, with a prolonged, severe global risk-off environment through the period avoided.

The base case scenario foresees higher confidence and investment levels to date, limited negative impact of expropriation without compensation to the economy. Additionally, the rand becomes structurally stronger, nearing its purchasing power parity valuation in 2021. South Africa retains one investment grade (Moody's) rating on its local currency long-term sovereign debt in the year ahead. Sedate global monetary policy normalisation persists in this scenario where a severe global risk-off environment is avoided, and a neutral to global risk-on environment prevails where global growth persists around its trend growth rate.

The downside case scenario shows business confidence and investment relatively depressed, with marked rand weakness, significant strike action and regular electricity load shedding. South Africa is rated sub-investment grade by all three key credit rating agencies, with an increased chance of further credit rating downgrades. Faster than expected global (US) monetary policy normalisation, general market risk-off, a global sharp economic slowdown (commodity slump), marked escalation of the US-China trade war and a short global financial crisis (South Africa V shaped recession) are all characterisations of this scenario.

The extreme downside case has a low probability with the global economy falling into recession and South Africa in economic depression. The probability of this extreme downside case has fallen over the period under review.

The upside encompasses a scenario where South Africa has better governance, growth creating reforms in line with global norms (structural constraints are overcome) and greater socio-economic stability. Strong business confidence occurs, fixed investment growth into double digits, substantial foreign direct investment inflows, a strengthening of property rights and fiscal consolidation are also all characterisations of the upside case. A strengthening in global growth (US-China trade tensions subside) and in the commodity cycle, as well as a stabilisation of credit ratings, also occur. The extreme upside case is a persistence and intensification of the upside case, resulting in credit rating upgrades for South Africa.

The table below shows the key factors that form part of the macro-economic scenarios and the relative weightings of these scenarios applied as at 31 March 2019:

**Macro-economic scenarios**

| Average 2019 – 2023 | Extreme upside % | Upside % | Base case % | Downside % | Extreme Downside % |
|---|---|---|---|---|---|
| **South Africa** | | | | | |
| GDP | 5.2 | 3.9 | 2.4 | 0.7 | (2.0) |
| Repo | 5.5 | 6.2 | 7.3 | 8.4 | 17.2 |
| Bond yield | 7.9 | 8.3 | 9.7 | 10.9 | 14.8 |
| Residential property price | 12.9 | 6.5 | 5.1 | 3.0 | (1.1) |
| Commercial property prices | 5.7 | 3.1 | 1.2 | (1.6) | (6.0) |
| Exchange rates | 8.1 | 9.9 | 13.0 | 16.9 | 24.1 |
| **Scenario weightings** | **1** | **10** | **42** | **37** | **10** |

## Macro-economic sensitivities (unaudited)

IFRS 9 may result in an increase in the volatility of provisions going forward, particularly for Stage 1 and Stage 2 assets as a result of macro-economic scenario changes. Sensitivities to macro-economic scenarios and factors form part of our overall risk monitoring, in particular the group's potential ECLs if each scenario were given a 100% weighting. In these instances all non-modelled ECLs, including credit assessed ECLs and other management judgements remain unchanged. In the UK, the most severe 100% scenario sensitivity is to the downside 1 global scenario, which results in an increase in ECLs, excluding credit assessed ECL and other management judgements, of approximately 16%.

## *Management and measurement of credit and counterparty risk*

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

- 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
- Portfolio reviews and stress testing.

Within the credit approval process, internal and external ratings are included in the assessment of client quality.

A large proportion of the group's portfolio is not rated by external rating agencies. We place reliance upon internal consideration of counterparties and borrowers, and use ratings prepared externally where available to support our decision-making process.

Regular reporting of credit and counterparty risk exposures within our operating units are made to management, the executives and the board through the DLC 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 the credit risk management teams in each jurisdiction. Credit policies have been updated and amended to include changes to reflect the implementation of IFRS 9.

Portfolio reviews and stress testing are undertaken on all material businesses, where the exposures 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 – nature of activities*

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

- **Core loans and advances:** the majority of credit and counterparty risk is through core loans and advances, which account for the material ECL allowances across our portfolio, which are detailed on pages 33 to 46
- **Treasury function:** there are also certain exposures, outside of core loans and advances where we assume credit and counterparty risk. These arise primarily from treasury placements where the treasury function, as part of the daily management of the group'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.

In addition, credit and counterparty risk arises through the following exposures:

- **Customer trading activities to facilitate hedging of client risk positions:** 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 interest rates or 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
- **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 highly rated (single 'A' and above), which benefit from a high-level of credit subordination and can withstand a significant level of portfolio default
- **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
- **Wealth & Investment:** 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
- **Investec 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.

## *Credit risk mitigation*

Credit risk mitigation techniques can be defined as all methods by which the group seeks to decrease the credit risk associated with an exposure. The Investec group 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 group 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 the group has 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 assists the group to recover outstanding exposures.

Where a transaction is supported by a mortgage or charge over property, the primary credit risk is still taken on the borrower. For property backed lending such as residential mortgages, the following characteristics of the property are considered: the type of property; its location; and the ease with which the property could be relet 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.

The group places minimal reliance on credit derivatives in its credit risk mitigation techniques. Periodically the group 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 group 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 group 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 2019 amounts to £0.6 million, of which all is used for credit mitigation purposes. Total protection bought amounts to £0.5 million and total protection sold amounts to £0.1 million relating to credit derivatives used in credit mitigation.

***Further information on credit derivatives is provided on page 58.***

The group endeavours to implement robust processes to minimise the possibility of legal and/or operational risk through good quality tangible collateral. The legal risk function ensures the enforceability of credit risk mitigants within the laws applicable to the jurisdictions in which the group 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 10.0% to £10.5 billion at 31 March 2019 from £9.6 billion at 1 April 2018, driven by our strategy to support corporate and private client lending activities including mortgages. Asset quality continues to reflect the solid performance of core loans. The credit loss ratio reduced to a normalised level at 0.38% (31 March 2018: 1.14%) following the removal of the legacy drag.

Stage 3 in the Ongoing book (excluding Legacy) totalled £149 million or 1.5% of gross core loans subject to ECL at 31 March 2019 from 2.6% at 1 April 2018. Stage 3 (including Legacy and Ongoing) totalled £319 million (3.2% of gross core loans subject to ECL) at 31 March 2019 significantly reduced from £564 million (6.3% of gross core loans subject to ECL) at 1 April 2018 largely due to a number of exits in the legacy portfolio. Stage 3 exposures are well covered by ECLs. Legacy exposures have reduced by 49% to £131 million (net of ECL) at 31 March 2019. These assets are substantially impaired and are largely reported under Stage 3.

### Southern Africa

The current macro-economic environment remains challenging and volatile in the period under review. Growth in the lending activities has slowed given the subdued business and economic outlook. However, 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.

Underlying core assets continue to perform well. There was moderate growth in core loans of 6.6% to R271.2 billion (1 April 2018: R254.4 billion) with high net worth and specialised lending and corporate portfolios representing the majority of the growth for the financial year in review.

We have observed an increase percentage in our Stage 2 and Stage 3 exposures. Stage 2 exposure that amounted to R10.8 billion or 4.0% of gross core loan and advances subject to ECL as at 31 March 2019 (1 April 2018: R9.5 billion or 3.7%). Stage 3 exposure amounted to R3.8 billion or 1.4% of gross core loan and advances subject to ECL as at 31 March 2019 (1 April 2018: R2.9 billion or 1.1%). A weaker economy has resulted in a deterioration in certain client's financial performances resulting in increases in covenant breaches demand for debt restructures. We reported a slight increase in the level of impairments taken, however, the credit loss ratio amounted to 0.28% (31 March 2018: 0.28%) remaining at the lower end of its long term average trend.

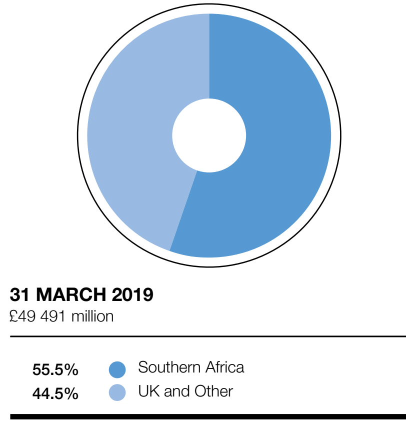
The tables that follow provide an analysis of the group's gross credit and counterparty exposures.

## An analysis of gross credit and counterparty exposures

Gross credit and counterparty exposure totalled £49.5 billion at 31 March 2019. Cash and near cash balances amounted to £13.3 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. These exposures are all Stage 1. There are immaterial Stage 2 and Stage 3 exposures outside of loans and advances to customers which are small relative to the balance sheet, where loans and advances to customers (including committed facilities) account for greater than 97% of overall ECLs.

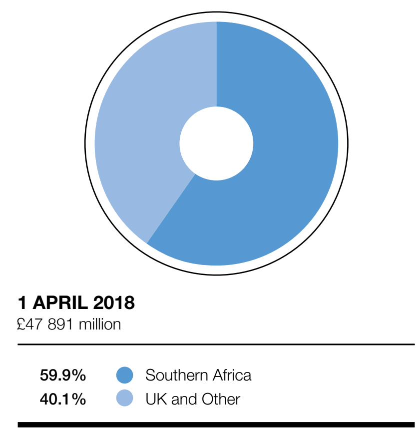
### An analysis of gross credit and counterparty exposures by geography

| | UK and Other | | Southern Africa | | Total | |
|---|---|---|---|---|---|---|
| £'million | 31 March 2019 | 1 April 2018 | 31 March 2019 | 1 April 2018 | 31 March 2019 | 1 April 2018 |
| Cash and balances at central banks | 4 445 | 3 480 | 536 | 551 | 4 981 | 4 031 |
| Loans and advances to banks | 1 146 | 985 | 1 177 | 1 181 | 2 323 | 2 166 |
| Non-sovereign and non-bank cash placements | – | – | 650 | 601 | 650 | 601 |
| Reverse repurchase agreements and cash collateral on securities borrowed | 633 | 750 | 1 136 | 1 457 | 1 769 | 2 207 |
| Sovereign debt securities | 1 299 | 1 155 | 3 239 | 3 754 | 4 538 | 4 909 |
| Bank debt securities | 52 | 113 | 665 | 480 | 717 | 593 |
| Other debt securities | 499 | 278 | 723 | 626 | 1 222 | 904 |
| Derivative financial instruments | 567 | 511 | 294 | 412 | 861 | 923 |
| Securities arising from trading activities | 530 | 496 | 257 | 42 | 787 | 538 |
| Loans and advances to customers | 10 663 | 9 810 | 14 162 | 14 964 | 24 825 | 24 774 |
| Own originated loans and advances to customers securitised | – | – | 409 | 460 | 409 | 460 |
| Other loans and advances | 178 | 332 | 19 | 19 | 197 | 351 |
| Other securitised assets | 8 | 9 | – | – | 8 | 9 |
| Other assets | 46 | 45 | 150 | 202 | 196 | 247 |
| **Total on-balance sheet exposures** | **20 066** | **17 964** | **23 417** | **24 749** | **43 483** | **42 713** |
| Guarantees | 85 | 22 | 636 | 637 | 721 | 659 |
| Committed facilities related to loans and advances to customers | 1 484 | 1 092 | 2 978 | 2 880 | 4 462 | 3 972 |
| Contingent liabilities, letters of credit and other | 413 | 121 | 412 | 426 | 825 | 547 |
| **Total off-balance sheet exposures** | **1 982** | **1 235** | **4 026** | **3 943** | **6 008** | **5 178** |
| **Total gross credit and counterparty exposures** | **22 048** | **19 199** | **27 443** | **28 692** | **49 491** | **47 891** |



**31 MARCH 2019**
£49 491 million

55.5% Southern Africa
44.5% UK and Other



**1 APRIL 2018**
£47 891 million

59.9% Southern Africa
40.1% UK and Other

### A further analysis of our gross credit and counterparty exposures

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

| **At 31 March 2019<br>£'million** | Total gross credit and counterparty exposure | *of which FVPL* | *of which amortised cost and FVOCI* | Expected credit losses^ | Assets that we deem to have no legal credit exposure | **Total assets** |
|---|---|---|---|---|---|---|
| Cash and balances at central banks | 4 981 | – | 4 981 | – | 12 | 4 993 |
| Loans and advances to banks | 2 323 | – | 2 323 | – | – | 2 323 |
| Non-sovereign and non-bank cash placements | 650 | 33 | 617 | (1) | – | 649 |
| Reverse repurchase agreements and cash collateral on securities borrowed | 1 769 | 550 | 1 219 | – | – | 1 769 |
| Sovereign debt securities | 4 538 | 800 | 3 738 | (1) | – | 4 537 |
| Bank debt securities | 717 | 67 | 650 | – | – | 717 |
| Other debt securities | 1 222 | 413 | 809 | (1) | – | 1 221 |
| Derivative financial instruments | 861 | 861 | – | – | 173 | 1 034 |
| Securities arising from trading activities | 787 | 787 | – | – | 1 072 | 1 859 |
| Investment portfolio | – | – | – | – | 1 029* | 1 029 |
| Loans and advances to customers | 24 825 | 1 629 | 23 196 | (292) | – | 24 533 |
| Own originated loans and advances to customers securitised | 409 | – | 409 | (1) | – | 408 |
| Other loans and advances | 197 | – | 197 | (1) | – | 196 |
| Other securitised assets | 8 | 8 | – | – | 126^^ | 134 |
| Interest in associated undertakings | – | – | – | – | 388* | 388 |
| Deferred taxation assets | – | – | – | – | 249 | 249 |
| Other assets | 196 | – | 196 | (5) | 1 545** | 1 736 |
| Property and equipment | – | – | – | – | 262 | 262 |
| Investment properties | – | – | – | – | 995 | 995 |
| Goodwill | – | – | – | – | 367 | 367 |
| Intangible assets | – | – | – | – | 107 | 107 |
| Other financial instruments at fair value through profit or loss in respect of liabilities to customers | – | – | – | – | 8 218 | 8 218 |
| **Total on-balance sheet exposures** | **43 483** | **5 148** | **38 335** | **(302)** | **14 543** | **57 724** |
| Guarantees | 721 | – | 721 | – | 57 | 778 |
| Committed facilities related to loans and advances to customers | 4 462 | 45 | 4 417 | (4) | – | 4 458 |
| Contingent liabilities, letters of credit and other | 825 | 139 | 686 | – | 765 | 1 590 |
| **Total off-balance sheet exposures** | **6 008** | **184** | **5 824** | **(4)** | **822** | **6 826** |
| **Total exposures** | **49 491** | **5 332** | **44 159** | **(306)** | **15 365** | **64 550** |

^ *ECLs include £3.0 million ECL held against financial assets held at FVOCI, which is reported on the balance sheet within reserves. This will result in minor differences between certain balance sheet lines reported above (largely loans and advances to customers and sovereign debt securities) and the statutory balance sheet.*

* *Largely relates to exposures that are classified as investment risk in the banking book.*

^^ *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. This balance reflects the credit exposure to credit providers external to the group. The net credit exposure that the group has in the vehicles is reflected in the 'total credit and counterparty exposure'.*

** *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 gross credit and counterparty exposures** *(continued)*

| At 1 April 2018 £'million | Total gross credit and counterparty exposure | *of which FVPL* | *of which amortised cost and FVOCI* | Expected credit losses^ | Assets that we deem to have no legal credit exposure | Total assets |
|---|---|---|---|---|---|---|
| Cash and balances at central banks | 4 031 | – | 4 031 | (1) | 10 | 4 040 |
| Loans and advances to banks | 2 166 | – | 2 166 | (1) | – | 2 165 |
| Non-sovereign and non-bank cash placements | 601 | 35 | 566 | (1) | – | 600 |
| Reverse repurchase agreements and cash collateral on securities borrowed | 2 207 | 788 | 1 419 | – | – | 2 207 |
| Sovereign debt securities | 4 909 | 869 | 4 040 | (1) | – | 4 908 |
| Bank debt securities | 593 | 73 | 520 | (1) | – | 592 |
| Other debt securities | 904 | 201 | 703 | (6) | – | 898 |
| Derivative financial instruments | 923 | 923 | – | – | 423 | 1 346 |
| Securities arising from trading activities | 538 | 538 | – | – | 896 | 1 434 |
| Investment portfolio | – | – | – | – | 957* | 957 |
| Loans and advances to customers | 24 774 | 2 067 | 22 707 | (366) | – | 24 408 |
| Own originated loans and advances to customers securitised | 460 | – | 460 | (1) | – | 459 |
| Other loans and advances | 351 | 3 | 348 | (5) | – | 346 |
| Other securitised assets | 9 | 9 | – | – | 139^^ | 148 |
| Interest in associated undertakings | – | – | – | – | 468* | 468 |
| Deferred taxation assets | – | – | – | – | 242 | 242 |
| Other assets | 247 | – | 247 | (3) | 1 631** | 1 875 |
| Property and equipment | – | – | – | – | 233 | 233 |
| Investment properties | – | – | – | – | 1 184 | 1 184 |
| Goodwill | – | – | – | – | 369 | 369 |
| Intangible assets | – | – | – | – | 125 | 125 |
| Other financial instruments at fair value through profit or loss in respect of liabilities to customers | – | – | – | – | 8 488 | 8 488 |
| **Total on-balance sheet exposures** | **42 713** | **5 506** | **37 207** | **(386)** | **15 165** | **57 492** |
| Guarantees | 659 | – | 659 | (1) | 66 | 724 |
| Committed facilities related to loans and advances to customers | 3 972 | 3 | 3 969 | (7) | – | 3 965 |
| Contingent liabilities, letters of credit and other | 547 | 86 | 461 | – | 1 191 | 1 738 |
| **Total off-balance sheet exposures** | **5 178** | **89** | **5 089** | **(8)** | **1 257** | **6 427** |
| **Total exposures** | **47 891** | **5 595** | **42 296** | **(394)** | **16 422** | **63 919** |

^ *ECLs include £3.9 million ECL held against financial assets held at FVOCI, which is reported on the balance sheet within reserves. This will result in minor differences between certain balance sheet lines reported above (largely loans and advances to customers and sovereign debt securities) and the statutory balance sheet.*

* *Largely relates to exposures that are classified as investment risk in the banking book.*

^^ *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. This balance reflects the credit exposure to credit providers external to the group. The net credit exposure that the group has in the vehicles is reflected in the 'total credit and counterparty exposure'.*

** *Other assets include settlement debtors which we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

**Detailed analysis of gross credit and counterparty exposures by industry**

| At 31 March 2019 £'million | 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 | – | – | – | – | 4 981 | – | – |
| Loans and advances to banks | – | – | – | – | – | – | 2 323 |
| Non-sovereign and non-bank cash placements | – | – | 67 | – | 2 | 83 | 101 |
| Reverse repurchase agreements and cash collateral on securities borrowed | 28 | – | – | – | – | – | 1 698 |
| Sovereign debt securities | – | – | – | – | 4 538 | – | – |
| Bank debt securities | – | – | – | – | – | – | 717 |
| Other debt securities | – | – | – | 169 | 7 | 76 | 403 |
| Derivative financial instruments | 12 | 1 | 4 | 100 | 8 | 13 | 576 |
| Securities arising from trading activities | – | – | – | 5 | 669 | – | 110 |
| Loans and advances to customers | 9 350 | 4 457 | 160 | 822 | 387 | 1 425 | 2 739 |
| Own originated loans and advances to customers securitised | 409 | – | – | – | – | – | – |
| Other loans and advances | – | – | – | – | – | – | 103 |
| Other securitised assets | – | – | – | – | – | – | – |
| Other assets | – | – | 1 | – | – | 3 | 46 |
| **Total on-balance sheet exposures** | **9 799** | **4 458** | **232** | **1 096** | **10 592** | **1 600** | **8 816** |
| Guarantees | 233 | 55 | – | 93 | – | 50 | 95 |
| Committed facilities related to loans and advances to customers | 1 970 | 593 | 93 | 186 | 69 | 162 | 584 |
| Contingent liabilities, letters of credit and other | 169 | 92 | – | 318 | 62 | 1 | 37 |
| **Total off-balance sheet exposures** | **2 372** | **740** | **93** | **597** | **131** | **213** | **716** |
| **Total gross credit and counterparty exposures** | **12 171** | **5 198** | **325** | **1 693** | **10 723** | **1 813** | **9 532** |

| Retailers and wholesalers | Manufac-turing and commerce | Construc-tion | Corporate commercial real estate | Other residential mortgages | Mining and resources | Leisure, entertain-ment and tourism | Transport | Com-munication | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| – | – | – | – | – | – | – | – | – | 4 981 |
| – | – | – | – | – | – | – | – | – | 2 323 |
| 81 | 139 | 18 | 25 | – | 33 | 1 | 31 | 69 | 650 |
| – | – | – | 2 | – | – | 3 | 38 | – | 1 769 |
| – | – | – | – | – | – | – | – | – | 4 538 |
| – | – | – | – | – | – | – | – | – | 717 |
| – | 81 | 19 | 85 | 166 | 8 | – | 124 | 84 | 1 222 |
| 19 | 26 | 3 | 30 | – | 20 | 2 | 45 | 2 | 861 |
| – | – | – | – | – | – | – | 3 | – | 787 |
| 552 | 1 202 | 172 | 657 | – | 367 | 401 | 1 546 | 588 | 24 825 |
| – | – | – | – | – | – | – | – | – | 409 |
| – | 6 | – | – | 88 | – | – | – | – | 197 |
| – | – | – | – | 8 | – | – | – | – | 8 |
| 113 | 26 | 2 | – | – | – | 3 | – | 2 | 196 |
| **765** | **1 480** | **214** | **799** | **262** | **428** | **410** | **1 787** | **745** | **43 483** |
| 57 | 73 | 12 | 3 | – | 22 | 1 | 12 | 15 | 721 |
| 107 | 136 | 3 | 127 | – | 201 | 69 | 116 | 46 | 4 462 |
| 10 | 48 | 1 | 1 | – | 28 | 4 | – | 54 | 825 |
| **174** | **257** | **16** | **131** | **–** | **251** | **74** | **128** | **115** | **6 008** |
| **939** | **1 737** | **230** | **930** | **262** | **679** | **484** | **1 915** | **860** | **49 491** |

### Detailed analysis of gross credit and counterparty exposures by industry *(continued)*

| **At 1 April 2018** **£'million** | 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 | – | – |
| Loans and advances to banks | – | – | – | – | – | – | 2 166 |
| Non-sovereign and non-bank cash placements | – | – | 1 | – | – | 111 | 133 |
| Reverse repurchase agreements and cash collateral on securities borrowed | 40 | – | – | – | – | 5 | 2 104 |
| Sovereign debt securities | – | – | – | – | 4 909 | – | – |
| Bank debt securities | – | – | – | – | – | – | 593 |
| Other debt securities | – | – | – | 60 | 85 | – | 234 |
| Derivative financial instruments | 22 | – | 3 | 118 | – | 15 | 601 |
| Securities arising from trading activities | – | – | – | 5 | 381 | 3 | 113 |
| Loans and advances to customers | 9 483 | 4 411 | 182 | 826 | 504 | 1 383 | 2 733 |
| Own originated loans and advances to customers securitised | 460 | – | – | – | – | – | – |
| Other loans and advances | – | – | – | – | – | – | 121 |
| Other securitised assets | – | – | – | – | – | – | – |
| Other assets | – | – | – | – | – | 1 | 68 |
| **Total on-balance sheet exposures** | **10 005** | **4 411** | **186** | **1 009** | **9 910** | **1 518** | **8 866** |
| Guarantees | 282 | 59 | – | 57 | – | 67 | 10 |
| Committed facilities related to loans and advances to customers | 1 926 | 491 | 47 | 139 | 42 | 121 | 453 |
| Contingent liabilities, letters of credit and other | 245 | 83 | – | 72 | 43 | – | 35 |
| **Total off-balance sheet exposures** | **2 453** | **633** | **47** | **268** | **85** | **188** | **498** |
| **Total gross credit and counterparty exposures** | **12 458** | **5 044** | **233** | **1 277** | **9 995** | **1 706** | **9 364** |

| 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 |
| – | – | – | – | – | – | – | – | – | 2 166 |
| 104 | 123 | 30 | 12 | – | 24 | 2 | 9 | 52 | 601 |
| – | 56 | – | – | – | – | – | 2 | – | 2 207 |
| – | – | – | – | – | – | – | – | – | 4 909 |
| – | – | – | – | – | – | – | – | – | 593 |
| – | 120 | 19 | 57 | 40 | 147 | – | 74 | 68 | 904 |
| 43 | 28 | 3 | 26 | – | 25 | 4 | 32 | 3 | 923 |
| 3 | – | – | – | – | 2 | – | – | 31 | 538 |
| 577 | 1 231 | 182 | 542 | – | 297 | 411 | 1 541 | 471 | 24 774 |
| – | – | – | – | – | – | – | – | – | 460 |
| – | – | – | – | 230 | – | – | – | – | 351 |
| – | – | – | – | 9 | – | – | – | – | 9 |
| 121 | 27 | 8 | – | – | – | 4 | – | 18 | 247 |
| **848** | **1 585** | **242** | **637** | **279** | **495** | **421** | **1 658** | **643** | **42 713** |
| 5 | 64 | 8 | 28 | – | 63 | 9 | 3 | 4 | 659 |
| 112 | 112 | 25 | 14 | – | 230 | 20 | 97 | 143 | 3 972 |
| 19 | 1 | 1 | – | – | 1 | 4 | – | 43 | 547 |
| **136** | **177** | **34** | **42** | **–** | **294** | **33** | **100** | **190** | **5 178** |
| **984** | **1 762** | **276** | **679** | **279** | **789** | **454** | **1 758** | **833** | **47 891** |

### Gross credit and counterparty exposures by residual contractual maturity

| At 31 March 2019<br>£'million | 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 | 4 981 | – | – | – | – | – | 4 981 |
| Loans and advances to banks | 2 286 | – | 36 | – | 1 | – | 2 323 |
| Non-sovereign and non-bank cash placements | 650 | – | – | – | – | – | 650 |
| Reverse repurchase agreements and cash collateral on securities borrowed | 1 466 | 117 | 91 | 41 | 54 | – | 1 769 |
| Sovereign debt securities | 1 193 | 1 102 | 622 | 575 | 496 | 550 | 4 538 |
| Bank debt securities | 127 | 21 | 12 | 257 | 298 | 2 | 717 |
| Other debt securities | 58 | 11 | 76 | 531 | 163 | 383 | 1 222 |
| Derivative financial instruments | 205 | 101 | 158 | 258 | 77 | 62 | 861 |
| Securities arising from trading activities | – | – | 2 | 83 | 51 | 651 | 787 |
| Loans and advances to customers | 2 638 | 1 598 | 2 760 | 13 498 | 2 992 | 1 339 | 24 825 |
| Own originated loans and advances to customers securitised | – | – | – | 3 | 34 | 372 | 409 |
| Other loans and advances | 20 | – | – | – | 30 | 147 | 197 |
| Other securitised assets | – | – | – | – | – | 8 | 8 |
| Other assets | 185 | 11 | – | – | – | – | 196 |
| **Total on-balance sheet exposures** | **13 809** | **2 961** | **3 757** | **15 246** | **4 196** | **3 514** | **43 483** |
| Guarantees | 72 | 77 | 238 | 283 | 20 | 31 | 721 |
| Committed facilities related to loans and advances to customers | 1 054 | 94 | 268 | 1 619 | 319 | 1 108 | 4 462 |
| Contingent liabilities, letters of credit and other | 38 | 129 | 57 | 496 | 35 | 70 | 825 |
| **Total off-balance sheet exposures** | **1 164** | **300** | **563** | **2 398** | **374** | **1 209** | **6 008** |
| **Total gross credit and counterparty exposures** | **14 973** | **3 261** | **4 320** | **17 644** | **4 570** | **4 723** | **49 491** |

The tables that follow provide information on gross core loans and advances.

## *Composition of core loans and advances*

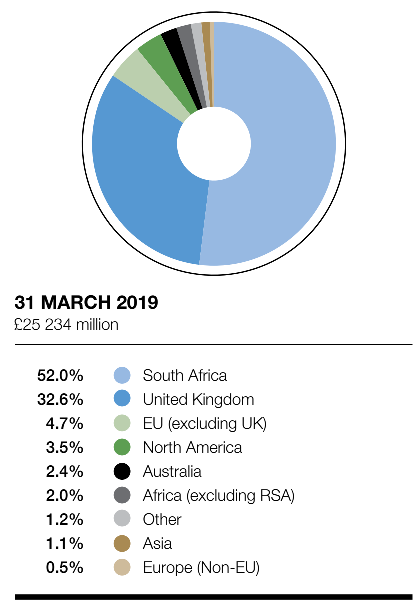
The table below describes the differences between 'loans and advances to customers' as per the balance sheet and gross core loans and advances.

| | UK and Other | | Southern Africa | | Total group | |
|---|---|---|---|---|---|---|
| **£'million** | **31 March 2019** | 1 April 2018 | **31 March 2019** | 1 April 2018 | **31 March 2019** | 1 April 2018 |
| Loans and advances to customers per the balance sheet | 10 516 | 9 564 | 14 019 | 14 846 | 24 535 | 24 410 |
| Add: own originated loans and advances to customers per the balance sheet | – | – | 408 | 459 | 408 | 459 |
| Add: ECL held against FVOCI loans reported on the balance sheet within reserves | (2) | (2) | – | – | (2) | (2) |
| **Net core loans and advances** | **10 514** | **9 562** | **14 427** | **15 305** | **24 941** | **24 867** |
| *of which subject to ECL** | 9 742 | 8 653 | 14 318 | 15 186 | 24 060 | 23 839 |
| Net core loans and advances at amortised cost and FVOCI | 9 742 | 8 653 | 13 570 | 14 151 | 23 312 | 22 804 |
| Net fixed rate loans designated at FVPL (on which ECL is calculated for management purposes)^ | – | – | 748 | 1 035 | 748 | 1 035 |
| *of which FVPL (excluding fixed rate loans above)* | 772 | 909 | 109 | 119 | 881 | 1 028 |
| Add: ECL | 149 | 248 | 144 | 119 | 293 | 367 |
| **Gross core loans and advances** | **10 663** | **9 810** | **14 571** | **15 424** | **25 234** | **25 234** |
| *of which subject to ECL** | 9 891 | 8 901 | 14 462 | 15 305 | 24 353 | 24 206 |
| *of which FVPL (excluding fixed rate loans above)* | 772 | 909 | 109 | 119 | 881 | 1 028 |

^ *These are fixed rate loans which have passed the solely payments of principal and interest test (SPPI) and are held in a business model to collect contractual cash flows but have been designated at FVPL to eliminate accounting mismatches (interest rate risk is being economically hedged). The underlying loans have been fair valued and management performs an ECL calculation in order to obtain a reasonable estimate of the credit risk component. The portfolio is managed on the same basis as gross core loans and advances measured at amortised cost. The drawn (£0.7 billion) exposure falls predominantly into Stage 1 (consistent throughout the period) (1 April 2018: £1.0 billion). The ECL on the portfolio is £1.5 million (1 April 2018: £3.2 million).*

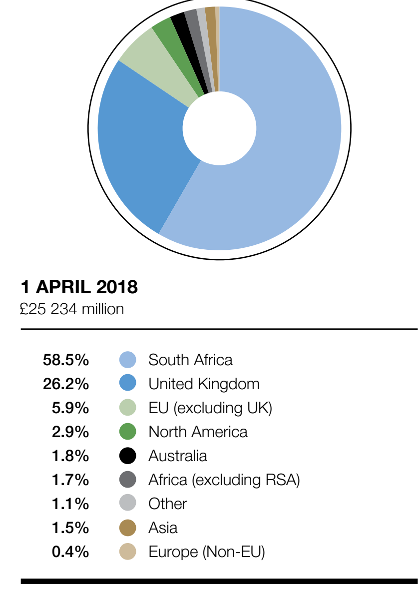
* *Includes portfolios for which ECL is not required for IFRS purposes but for which management evaluates on this basis.*

## *An analysis of total gross core loans and advances by country of exposure*



**31 MARCH 2019**
£25 234 million

| | |
|---|---|
| 52.0% | South Africa |
| 32.6% | United Kingdom |
| 4.7% | EU (excluding UK) |
| 3.5% | North America |
| 2.4% | Australia |
| 2.0% | Africa (excluding RSA) |
| 1.2% | Other |
| 1.1% | Asia |
| 0.5% | Europe (Non-EU) |



**1 APRIL 2018**
£25 234 million

| | |
|---|---|
| 58.5% | South Africa |
| 26.2% | United Kingdom |
| 5.9% | EU (excluding UK) |
| 2.9% | North America |
| 1.8% | Australia |
| 1.7% | Africa (excluding RSA) |
| 1.1% | Other |
| 1.5% | Asia |
| 0.4% | Europe (Non-EU) |

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

The tables that follow provide information with respect to the asset quality of our gross core gross loans and advances on a statutory basis. Our exposure (net of ECL) to the UK Legacy portfolio* has further reduced from £256 million at 1 April 2018 to £131 million at 31 March 2019. These assets are substantially impaired and are largely reported under Stage 3 as indicated below.

**Stage 1:** 93.2% of gross exposure subject to ECL is in Stage 1 and has not experienced a significant increase in credit risk since origination. ECL is calculated based on a 12-month expected loss. Coverage for these performing, non-deteriorated assets is 0.2%.

**Stage 2:** 4.7% of gross exposure is in Stage 2 and has seen a significant increase in credit risk since origination. These assets require a lifetime expected loss to be held. Only £33 million or 0.1% of gross core loans and advances subject to ECL shown in Stage 2 are greater than 30 days past due. An asset reported in Stage 2 does not imply we expect a loss on these assets. Stage 2 assets are assessed relative to their expected performance at the point of origination. While assets may underperform original expectations, the level of ECL indicates that our expected losses from these positions remain low.

**Stage 3:** 2.1% of gross exposure is in Stage 3 which is made up of assets that are credit impaired. This has reduced from 3.0% at 1 April 2018 as we continue to make progress in reducing UK legacy loans. The coverage ratio totals 38.4% and the remaining net exposure is considered well covered by collateral. In the UK, the legacy portfolio is predominantly reported in stage 3 and makes up 53.3% of UK and Other Stage 3 gross loans. These assets have been significantly provided for and coverage for these assets remains high at 42.9%. Excluding Legacy, UK Ongoing stage 3 exposures total £149 million or 1.5% of gross core loans and advances subject to ECL. This has reduced from 2.6% at 1 April 2018.

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

| | UK and Other | | Southern Africa | | Total group | |
|---|---|---|---|---|---|---|
| **£'million** | **31 March 2019** | 1 April 2018 | **31 March 2019** | 1 April 2018 | **31 March 2019** | 1 April 2018 |
| **Gross core loans and advances subject to ECL** | **9 891** | **8 901** | **14 462** | **15 305** | **24 353** | **24 206** |
| Stage 1 | 8 996 | 7 743 | 13 687 | 14 564 | 22 683 | 22 307 |
| Stage 2 | 576 | 594 | 573 | 569 | 1 149 | 1 163 |
| *of which past due greater than 30 days* | *13* | *18* | *20* | *19* | *33* | *37* |
| Stage 3 | 319 | 564 | 202 | 172 | 521 | 736 |
| *of which Ongoing (excluding Legacy) Stage 3** | *149* | *221* | *202* | *172* | *351* | *393* |
| **Gross core loans and advances subject to ECL (%)** | | | | | | |
| Stage 1 | 91.0% | 87.0% | 94.6% | 95.2% | 93.2% | 92.2% |
| Stage 2 | 5.8% | 6.7% | 4.0% | 3.7% | 4.7% | 4.8% |
| Stage 3 | 3.2% | 6.3% | 1.4% | 1.1% | 2.1% | 3.0% |
| *of which Ongoing (excluding Legacy) Stage 3** | *1.5%* | *2.6%* | *1.4%* | *1.1%* | *1.4%* | *1.6%* |

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

| | UK and Other | | Southern Africa | | Total group | |
|---|---|---|---|---|---|---|
| **£'million** | **31 March 2019** | 31 March 2018^ | **31 March 2019** | 31 March 2018^ | **31 March 2019** | 31 March 2018^ |
| ECL impairment charges on core loans and advances | (35) | – | (41) | – | (76) | – |
| Income statement charge for impairments on core loans and advances | – | (106) | – | (41) | – | (147) |
| Average gross core loans and advances subject to ECL | 9 396 | – | 14 884 | – | 24 280 | – |
| Average gross core loans and advances | – | 9 293 | – | 14 845 | – | 24 138 |
| **Credit loss ratio** | **0.38%** | **1.14%** | **0.28%** | **0.28%** | **0.31%** | **0.61%** |

* *Refer to definitions on page 96.*

^ *Comparative information has been presented on an IAS 39 basis. On adoption of IFRS 9 there is a move from incurred loss model to an ECL methodology.*

## An analysis of ECL impairments on gross core loans and advances subject to ECL *(continued)*

| £'million | UK and Other 31 March 2019 | UK and Other 1 April 2018 | Southern Africa 31 March 2019 | Southern Africa 1 April 2018 | Total group 31 March 2019 | Total group 1 April 2018 |
|---|---|---|---|---|---|---|
| **ECL** | **(149)** | **(248)** | **(144)** | **(119)** | **(293)** | **(367)** |
| Stage 1 | (14) | (15) | (29) | (36) | (43) | (51) |
| Stage 2 | (27) | (41) | (23) | (16) | (50) | (57) |
| Stage 3 | (108) | (192) | (92) | (67) | (200) | (259) |
| *of which Ongoing (excluding Legacy) Stage 3** | *(35)* | *(45)* | *(92)* | *(67)* | *(127)* | *(112)* |
| **ECL coverage ratio (%)** | | | | | | |
| Stage 1 | 0.2% | 0.2% | 0.2% | 0.2% | 0.2% | 0.2% |
| Stage 2 | 4.7% | 6.9% | 4.1% | 2.8% | 4.4% | 4.9% |
| Stage 3 | 33.9% | 34.0% | 45.4% | 39.0% | 38.4% | 35.2% |
| *of which Ongoing (excluding Legacy) Stage 3** | *23.5%* | *20.4%* | *45.4%* | *39.0%* | *36.2%* | *28.5%* |

* *Refer to definitions on page 96.*

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

| £'million | UK and Other 31 March 2019 | UK and Other 1 April 2018 | Southern Africa 31 March 2019 | Southern Africa 1 April 2018 | Total group 31 March 2019 | Total group 1 April 2018 |
|---|---|---|---|---|---|---|
| Stage 3 net of ECL | 211 | 372 | 110 | 105 | 321 | 477 |
| *of which Ongoing (excluding Legacy) Stage 3** | *114* | *176* | *110* | *105* | *224* | *281* |
| Aggregate collateral and other credit enhancements on Stage 3 | 228 | 414 | 163 | 214 | 391 | 628 |
| Stage 3 net of ECL and collateral | – | – | – | – | – | – |
| Stage 3 as a % of gross core loans and advances subject to ECL | 3.2% | 6.3% | 1.4% | 1.1% | 2.1% | 3.0% |
| *of which Ongoing (excluding Legacy) Stage 3** | *1.5%* | *2.6%* | *1.4%* | *1.1%* | *1.4%* | *1.6%* |
| Total ECL as a % of Stage 3 exposure | 46.7% | 44.0% | 71.2% | 69.1% | 56.2% | 49.9% |
| Stage 3 net of ECL as a % of net core loans and advances subject to ECL | 2.2% | 4.3% | 0.8% | 0.7% | 1.3% | 2.0% |
| *of which Ongoing (excluding Legacy) Stage 3** | *1.2%* | *2.0%* | *0.8%* | *0.7%* | *0.9%* | *1.2%* |

* *Refer to definitions on page 96.*

### An analysis of staging and ECL movements for core loans and advances subject to ECL

The table below indicates underlying movements in gross core loans and advances to customers subject to ECL from 1 April 2018 to 31 March 2019. The transfers between stages of gross core loans indicates the impact of stage transfers upon the gross exposure and associated opening ECL. The net remeasurement of ECL arising from stage transfers represents the (increase)/decrease in ECL due to these transfers. New lending net of repayments comprises new originations, further drawdowns, repayments and sell-downs as well as ECLs in Stage 3 that have been written off, typically when an asset has been sold. Foreign exchange and other category largely comprises impact on the closing balance as a result of movements and translations in foreign exchange rates since the opening date, 1 April 2018. Further analysis as at 31 March 2019 of gross core loans and advances to customers subject to ECL and their ECL balances is shown in 'An analysis of core loans and advances by risk category' on the following pages.

| | Stage 1 | | Stage 2 | | Stage 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| **£'million** | Gross exposure | ECL | Gross exposure | ECL | Gross exposure | ECL | **Gross exposure** | **ECL** |
| **At 1 April 2018** | **22 307** | **(51)** | **1 163** | **(57)** | **736** | **(259)** | **24 206** | **(367)** |
| Transfer from Stage 1 | (580) | 19 | 503 | (6) | 77 | (13) | – | – |
| Transfer from Stage 2 | 377 | (6) | (480) | 15 | 103 | (9) | – | – |
| Transfer from Stage 3 | 30 | (5) | 15 | (2) | (45) | 7 | – | – |
| ECL remeasurement arising from transfer of stage | – | 7 | – | (9) | – | (32) | – | (34) |
| New lending net of repayments (includes assets written off) | 2 128 | (16) | (7) | (3) | (330) | 93 | 1 791 | 74 |
| Changes to risk parameters and models | – | 6 | – | 10 | – | 5 | – | 21 |
| Foreign exchange and other | (1 579) | 3 | (45) | 2 | (20) | 8 | (1 644) | 13 |
| **At 31 March 2019** | **22 683** | **(43)** | **1 149** | **(50)** | **521** | **(200)** | **24 353** | **(293)** |

## *An analysis of credit quality by internal rating grade*

The group uses a 25-grade internal rating scale which measures the risk of default to an exposure without taking into account any credit mitigation, such as collateral. This internal rating scale allows the group to measure credit risk consistently across portfolios. The internal rating scale is derived from a mapping to default probabilities (PDs) and can also be mapped to external rating agency scales to enhance comparability for ease of reference.

| *Investec internal rating scale* | *Indicative external rating scale* |
|---|---|
| IB01 – IB12 | AAA to BBB- |
| IB13 – IB19 | BB+ to B- |
| IB20 – IB25 | B- and below |
| Stage 3 | D |

The internal credit rating distribution below is based on the 12-month PD at 31 March 2019 for gross core loans and advances subject to ECL by stage. The staging classifications are not only driven by the absolute PD, but on factors that determine a significant increase in credit risk, including relative movement in PD since origination. There is therefore no direct correlation between the credit quality of an exposure and its stage classification as shown in the table below:

| **At 31 March 2019**<br>**£'million** | IB01 – IB12 | IB13 – IB19 | IB20 – IB25 | Stage 3 | **Total** |
|---|---|---|---|---|---|
| **Gross core loans and advances subject to ECL** | **12 877** | **9 715** | **1 240** | **521** | **24 353** |
| Stage 1 | 12 658 | 8 970 | 1 055 | – | 22 683 |
| Stage 2 | 219 | 745 | 185 | – | 1 149 |
| Stage 3 | – | – | – | 521 | 521 |
| **ECL** | **(8)** | **(70)** | **(15)** | **(200)** | **(293)** |
| Stage 1 | (5) | (31) | (7) | – | (43) |
| Stage 2 | (3) | (39) | (8) | – | (50) |
| Stage 3 | – | – | – | (200) | (200) |
| **Coverage ratio (%)** | **0.1%** | **0.7%** | **1.2%** | **38.4%** | **1.2%** |

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

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

### Year in review

In the UK, lending collateralised by property has continued to reduce as a proportion of our net core loan exposures and totals £1.9 billion or 17.8% at 31 March 2019. New lending is largely against income-producing commercial and residential properties at conservative loan-to-values. 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.

In South Africa, the majority of the property assets are commercial investment properties and are located in South Africa. This portfolio continues to grow as a proportion of our net core loans exposures and totals R37.4 billion or 14.7% as at 31 March 2019. Loan-to-values 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.

## Lending collateralised by property – Total group

| £'million | Gross core loans and advances at amortised cost, FVOCI and FVPL (subject to ECL) | | | | | | | | Gross core loans and advances at FVPL (not subject to ECL) | Gross core loans and advances |
|---|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | | Stage 2 | | Stage 3 | | Total | | | |
| | Gross exposure | ECL | Gross exposure | ECL | Gross exposure | ECL | Gross exposure | ECL | | |
| **At 31 March 2019** | | | | | | | | | | |
| **Commercial real estate** | **3 019** | **(5)** | **287** | **(12)** | **165** | **(41)** | **3 471** | **(58)** | **16** | **3 487** |
| Commercial real estate – investment | 2 678 | (4) | 209 | (11) | 158 | (36) | 3 045 | (51) | 15 | 3 060 |
| Commercial real estate – development | 310 | (1) | 72 | – | – | – | 382 | (1) | 1 | 383 |
| Commercial vacant land and planning | 31 | – | 6 | (1) | 7 | (5) | 44 | (6) | – | 44 |
| **Residential real estate** | **751** | **(2)** | **43** | **(1)** | **136** | **(61)** | **930** | **(64)** | **40** | **970** |
| Residential real estate – investment | 330 | – | 9 | – | 29 | (11) | 368 | (11) | 35 | 403 |
| Residential real estate – development | 388 | (1) | 28 | (1) | 68 | (30) | 484 | (32) | 3 | 487 |
| Residential vacant land and planning | 33 | (1) | 6 | – | 39 | (20) | 78 | (21) | 2 | 80 |
| **Total lending collateralised by property** | **3 770** | **(7)** | **330** | **(13)** | **301** | **(102)** | **4 401** | **(122)** | **56** | **4 457** |
| **At 1 April 2018** | | | | | | | | | | |
| **Commercial real estate** | **2 641** | **(4)** | **355** | **(21)** | **267** | **(81)** | **3 263** | **(106)** | **87** | **3 350** |
| Commercial real estate – investment | 2 315 | (4) | 326 | (19) | 217 | (55) | 2 858 | (78) | 74 | 2 932 |
| Commercial real estate – development | 285 | – | 18 | – | 17 | (7) | 320 | (7) | 3 | 323 |
| Commercial vacant land and planning | 41 | – | 11 | (2) | 33 | (19) | 85 | (21) | 10 | 95 |
| **Residential real estate** | **704** | **(4)** | **54** | **(2)** | **211** | **(85)** | **969** | **(91)** | **92** | **1 061** |
| Residential real estate – investment | 135 | – | 17 | (1) | 39 | (15) | 191 | (16) | 46 | 237 |
| Residential real estate – development | 526 | (2) | 28 | (1) | 121 | (47) | 675 | (50) | 33 | 708 |
| Residential vacant land and planning | 43 | (2) | 9 | – | 51 | (23) | 103 | (25) | 13 | 116 |
| **Total lending collateralised by property** | **3 345** | **(8)** | **409** | **(23)** | **478** | **(166)** | **4 232** | **(197)** | **179** | **4 411** |

**Lending collateralised by property – UK and Other**

| £'million | Gross core loans and advances at amortised cost and FVOCI | | | | | | | | Gross core loans and advances at FVPL | Gross core loans and advances |
|---|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | | Stage 2 | | Stage 3 | | Total | | | |
| | Gross exposure | ECL | Gross exposure | ECL | Gross exposure | ECL | **Gross exposure** | **ECL** | | |
| **At 31 March 2019** | | | | | | | | | | |
| **Commercial real estate** | **908** | **(1)** | **158** | **(11)** | **106** | **(22)** | **1 172** | **(34)** | **11** | **1 183** |
| Commercial real estate – investment | 790 | (1) | 149 | (10) | 104 | (22) | 1 043 | (33) | 10 | 1 053 |
| Commercial real estate – development | 118 | – | 3 | – | – | – | 121 | – | 1 | 122 |
| Commercial vacant land and planning | – | – | 6 | (1) | 2 | – | 8 | (1) | – | 8 |
| **Residential real estate** | **599** | **–** | **14** | **–** | **122** | **(53)** | **735** | **(53)** | **40** | **775** |
| Residential real estate – investment | 330 | – | 9 | – | 29 | (11) | 368 | (11) | 35 | 403 |
| Residential real estate – development | 268 | – | 2 | – | 57 | (24) | 327 | (24) | 3 | 330 |
| Residential vacant land and planning | 1 | – | 3 | – | 36 | (18) | 40 | (18) | 2 | 42 |
| **Total lending collateralised by property** | **1 507** | **(1)** | **172** | **(11)** | **228** | **(75)** | **1 907** | **(87)** | **51** | **1 958** |
| **At 1 April 2018** | | | | | | | | | | |
| **Commercial real estate** | **586** | **(1)** | **255** | **(21)** | **225** | **(65)** | **1 066** | **(87)** | **72** | **1 138** |
| Commercial real estate – investment | 476 | (1) | 239 | (19) | 176 | (40) | 891 | (60) | 59 | 950 |
| Commercial real estate – development | 110 | – | 10 | – | 17 | (7) | 137 | (7) | 3 | 140 |
| Commercial vacant land and planning | – | – | 6 | (2) | 32 | (18) | 38 | (20) | 10 | 48 |
| **Residential real estate** | **496** | **–** | **41** | **(2)** | **201** | **(80)** | **738** | **(82)** | **92** | **830** |
| Residential real estate – investment | 135 | – | 17 | (1) | 39 | (15) | 191 | (16) | 46 | 237 |
| Residential real estate – development | 356 | – | 24 | (1) | 112 | (43) | 492 | (44) | 33 | 525 |
| Residential vacant land and planning | 5 | – | – | – | 50 | (22) | 55 | (22) | 13 | 68 |
| **Total lending collateralised by property** | **1 082** | **(1)** | **296** | **(23)** | **426** | **(145)** | **1 804** | **(169)** | **164** | **1 968** |

## Lending collateralised by property – Southern Africa

| | Gross core loans and advances at amortised cost and FVPL (subject to ECL) | | | | | | | | Gross core loans and advances at FVPL (not subject to ECL) | Gross core loans and advances |
|---|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | | Stage 2 | | Stage 3 | | Total | | | |
| **£'million** | Gross exposure | ECL | Gross exposure | ECL | Gross exposure | ECL | **Gross exposure** | **ECL** | | |
| **At 31 March 2019** | | | | | | | | | | |
| **Commercial real estate** | **2 111** | **(4)** | **129** | **(1)** | **59** | **(19)** | **2 299** | **(24)** | **5** | **2 304** |
| Commercial real estate – investment | 1 888 | (3) | 60 | (1) | 54 | (14) | 2 002 | (18) | 5 | 2 007 |
| Commercial real estate – development | 192 | (1) | 69 | – | – | – | 261 | (1) | – | 261 |
| Commercial vacant land and planning | 31 | – | – | – | 5 | (5) | 36 | (5) | – | 36 |
| **Residential real estate** | **152** | **(2)** | **29** | **(1)** | **14** | **(8)** | **195** | **(11)** | **–** | **195** |
| Residential real estate – investment | – | – | – | – | – | – | – | – | – | – |
| Residential real estate – development | 120 | (1) | 26 | (1) | 11 | (6) | 157 | (8) | – | 157 |
| Residential vacant land and planning | 32 | (1) | 3 | – | 3 | (2) | 38 | (3) | – | 38 |
| **Total lending collateralised by property** | **2 263** | **(6)** | **158** | **(2)** | **73** | **(27)** | **2 494** | **(35)** | **5** | **2 499** |
| **At 1 April 2018** | | | | | | | | | | |
| **Commercial real estate** | **2 055** | **(3)** | **100** | **–** | **42** | **(16)** | **2 197** | **(19)** | **15** | **2 212** |
| Commercial real estate – investment | 1 839 | (3) | 87 | – | 41 | (15) | 1 967 | (18) | 15 | 1 982 |
| Commercial real estate – development | 175 | – | 8 | – | – | – | 183 | – | – | 183 |
| Commercial vacant land and planning | 41 | – | 5 | – | 1 | (1) | 47 | (1) | – | 47 |
| **Residential real estate** | **208** | **(4)** | **13** | **–** | **10** | **(5)** | **231** | **(9)** | **–** | **231** |
| Residential real estate – investment | – | – | – | – | – | – | – | – | – | – |
| Residential real estate – development | 170 | (2) | 4 | – | 9 | (4) | 183 | (6) | – | 183 |
| Residential vacant land and planning | 38 | (2) | 9 | – | 1 | (1) | 48 | (3) | – | 48 |
| **Total lending collateralised by property** | **2 263** | **(7)** | **113** | **–** | **52** | **(21)** | **2 428** | **(28)** | **15** | **2 443** |

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

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 and delivers solutions 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. 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:

- **Mortgages:** provides residential mortgage loan facilities to high-income professionals and high net worth individuals tailored to their individual needs
- **High net worth and specialised lending:** provides tailored credit facilities to high net worth individuals and their controlled entities as well as portfolio loans to high net worth clients against their investment portfolio typically managed by Investec Wealth & Investment.

### Year in review

In the UK, high net worth and other private client lending increased by 22.2% year on year, driven by strong targeted growth in mortgages for the bank's high net worth target market clients following the investment in our UK private banking platform and franchise.

In South Africa ,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 4.4% to R138.6 billion at 31 March 2019. Growth in both of these areas has been achieved with strong adherence to our conservative lending appetite.

### High net worth and other private client lending – Total group

| | Gross core loans and advances at amortised cost, FVOCI and FVPL (subject to ECL) | | | | | | | | Gross core loans and advances at FVPL (not subject to ECL) | Gross core loans and advances |
|---|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | | Stage 2 | | Stage 3 | | Total | | | |
| **£'million** | Gross exposure | ECL | Gross exposure | ECL | Gross exposure | ECL | **Gross exposure** | **ECL** | | |
| **At 31 March 2019** | | | | | | | | | | |
| Mortgages | 5 517 | (5) | 146 | (4) | 83 | (14) | 5 746 | (23) | – | 5 746 |
| High net worth and specialised lending | 3 915 | (7) | 50 | (2) | 33 | (27) | 3 998 | (36) | 15 | 4 013 |
| **Total high net worth and other private client lending** | **9 432** | **(12)** | **196** | **(6)** | **116** | **(41)** | **9 744** | **(59)** | **15** | **9 759** |
| **At 1 April 2018** | | | | | | | | | | |
| Mortgages | 5 433 | (4) | 73 | (3) | 71 | (14) | 5 577 | (21) | – | 5 577 |
| High net worth and specialised lending | 4 265 | (10) | 50 | (1) | 38 | (22) | 4 353 | (33) | 13 | 4 366 |
| **Total high net worth and other private client lending** | **9 698** | **(14)** | **123** | **(4)** | **109** | **(36)** | **9 930** | **(54)** | **13** | **9 943** |

### High net worth and other private client lending – UK and Other

| | Gross core loans and advances at amortised cost and FVOCI | | | | | | | | Gross core loans and advances at FVPL | Gross core loans and advances |
|---|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | | Stage 2 | | Stage 3 | | Total | | | |
| **£'million** | Gross exposure | ECL | Gross exposure | ECL | Gross exposure | ECL | **Gross exposure** | **ECL** | | |
| **At 31 March 2019** | | | | | | | | | | |
| Mortgages | 1 778 | – | 22 | (1) | 25 | (1) | 1 825 | (2) | – | 1 825 |
| High net worth and specialised lending | 474 | – | 14 | (1) | 4 | (3) | 492 | (4) | 15 | 507 |
| **Total high net worth and other private client lending** | **2 252** | **–** | **36** | **(2)** | **29** | **(4)** | **2 317** | **(6)** | **15** | **2 332** |
| **At 1 April 2018** | | | | | | | | | | |
| Mortgages | 1 430 | (1) | 33 | (2) | 18 | (3) | 1 481 | (6) | – | 1 481 |
| High net worth and specialised lending | 411 | (1) | 3 | – | 8 | (6) | 422 | (7) | 13 | 435 |
| **Total high net worth and other private client lending** | **1 841** | **(2)** | **36** | **(2)** | **26** | **(9)** | **1 903** | **(13)** | **13** | **1 916** |

### High net worth and other private client lending – Southern Africa

| | Gross core loans and advances at amortised cost and FVPL (subject to ECL) | | | | | | | | Gross core loans and advances at FVPL (not subject to ECL) | Gross core loans and advances |
|---|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | | Stage 2 | | Stage 3 | | Total | | | |
| **£'million** | Gross exposure | ECL | Gross exposure | ECL | Gross exposure | ECL | **Gross exposure** | **ECL** | | |
| **At 31 March 2019** | | | | | | | | | | |
| Mortgages | 3 739 | (5) | 124 | (3) | 58 | (13) | 3 921 | (21) | – | 3 921 |
| High net worth and specialised lending | 3 441 | (7) | 36 | (1) | 29 | (24) | 3 506 | (32) | – | 3 506 |
| **Total high net worth and other private client lending** | **7 180** | **(12)** | **160** | **(4)** | **87** | **(37)** | **7 427** | **(53)** | **–** | **7 427** |
| **At 1 April 2018** | | | | | | | | | | |
| Mortgages | 4 003 | (3) | 40 | (1) | 53 | (11) | 4 096 | (15) | – | 4 096 |
| High net worth and specialised lending | 3 854 | (9) | 47 | (1) | 30 | (16) | 3 931 | (26) | – | 3 931 |
| **Total high net worth and other private client lending** | **7 857** | **(12)** | **87** | **(2)** | **83** | **(27)** | **8 027** | **(41)** | **–** | **8 027** |

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

We focus on traditional client-driven corporate lending activities. 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.

The group 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 and acquisition finance:** provides senior secured loans to proven management teams and sponsors running mid cap, as well as some large cap companies. Credit risk is assessed against debt serviceability based upon robust cash generation of the business demonstrated by both historical and forecast information. We typically act as transaction lead arranger or on a bi-lateral basis, and have 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 the group 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
- **Other corporate and financial institutions and governments:** provides senior secured loans to mid-large cap companies where credit risk is typically considered with respect to robust cash generation from an underlying asset and supported by performance of the overall business based on both historical and forecast information
- **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
- **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
- **Project finance:** arranges and provides typically long-term financing for power and infrastructure assets, in particular renewable and traditional power projects as well as transportation assets, typically 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, Canada 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

### Year in review

In the UK, corporate client and other lending increased by 7.8% from £5.9 billion at 1 April 2018 to £6.3 billion at 31 March 2019. Growth has been well diversified across several asset classes and industries. We continue to remain client-focused in our approach, with good quality corporates exhibiting strong cash flows and balance sheets.

In South Africa, the corporate book increased by 5.8% to R86.3 billion as at 31 March 2019 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 SOEs exposure is predominantly backed by government support.

## Corporate and other lending – Total group

| £'million | Gross core loans and advances at amortised cost, FVOCI and FVPL (subject to ECL) | | | | | | | | Gross core loans and advances at FVPL (not subject to ECL) | Gross core loans and advances |
|---|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | | Stage 2 | | Stage 3 | | Total | | | |
| | Gross exposure | ECL | Gross exposure | ECL | Gross exposure | ECL | **Gross exposure** | **ECL** | | |
| **At 31 March 2019** | | | | | | | | | | |
| Corporate and acquisition finance | 2 014 | (7) | 140 | (3) | 2 | – | 2 156 | (10) | 212 | 2 368 |
| Asset-based lending | 640 | (1) | 56 | (1) | 15 | (10) | 711 | (12) | – | 711 |
| Fund finance | 1 427 | (1) | – | – | – | – | 1 427 | (1) | 55 | 1 482 |
| Other corporate and financial institutions and governments | 2 880 | (9) | 168 | (17) | 25 | (18) | 3 073 | (44) | 323 | 3 396 |
| Asset finance | 1 803 | (6) | 109 | (6) | 56 | (28) | 1 968 | (40) | 171 | 2 139 |
| Small ticket asset finance | 1 555 | (6) | 87 | (5) | 26 | (14) | 1 668 | (25) | – | 1 668 |
| Large ticket asset finance | 248 | – | 22 | (1) | 30 | (14) | 300 | (15) | 171 | 471 |
| Project finance | 674 | – | 150 | (4) | 6 | (1) | 830 | (5) | 37 | 867 |
| Resource finance | 43 | – | – | – | – | – | 43 | – | 12 | 55 |
| **Total corporate and other lending** | **9 481** | **(24)** | **623** | **(31)** | **104** | **(57)** | **10 208** | **(112)** | **810** | **11 018** |
| **At 1 April 2018** | | | | | | | | | | |
| Corporate and acquisition finance | 2 024 | (9) | 112 | (2) | 25 | (6) | 2 161 | (17) | 213 | 2 374 |
| Asset-based lending | 545 | (3) | 74 | (3) | 25 | (10) | 644 | (16) | 36 | 680 |
| Fund finance | 1 312 | (1) | 13 | (1) | – | – | 1 325 | (2) | – | 1 325 |
| Other corporate and financial institutions and governments | 3 036 | (10) | 205 | (12) | 9 | (5) | 3 250 | (27) | 284 | 3 534 |
| Asset finance | 1 578 | (4) | 103 | (8) | 79 | (31) | 1 760 | (43) | 272 | 2 032 |
| Small ticket asset finance | 1 425 | (3) | 81 | (7) | 14 | (9) | 1 520 | (19) | – | 1 520 |
| Large ticket asset finance | 153 | (1) | 22 | (1) | 65 | (22) | 240 | (24) | 272 | 512 |
| Project finance | 731 | (2) | 124 | (4) | 4 | – | 859 | (6) | 26 | 885 |
| Resource finance | 38 | – | – | – | 7 | (5) | 45 | (5) | 5 | 50 |
| **Total corporate and other lending** | **9 264** | **(29)** | **631** | **(30)** | **149** | **(57)** | **10 044** | **(116)** | **836** | **10 880** |

### Corporate and other lending – UK and Other

| £'million | Stage 1 Gross exposure | Stage 1 ECL | Stage 2 Gross exposure | Stage 2 ECL | Stage 3 Gross exposure | Stage 3 ECL | Total Gross exposure | Total ECL | Gross core loans and advances at FVPL | Gross core loans and advances |
|---|---|---|---|---|---|---|---|---|---|---|
| | Gross core loans and advances at amortised cost and FVOCI | | | | | | | | | |
| **At 31 March 2019** | | | | | | | | | | |
| Corporate and acquisition finance | 1 328 | (5) | 125 | (3) | – | – | 1 453 | (8) | 212 | 1 665 |
| Asset-based lending | 341 | – | 53 | (1) | – | – | 394 | (1) | – | 394 |
| Fund finance | 1 156 | (1) | – | – | – | – | 1 156 | (1) | 55 | 1 211 |
| Other corporate and financial institutions and governments | 396 | (1) | 27 | (1) | – | – | 423 | (2) | 219 | 642 |
| Asset finance | 1 599 | (6) | 108 | (6) | 56 | (28) | 1 763 | (40) | 171 | 1 934 |
| Small ticket asset finance | 1 451 | (6) | 86 | (5) | 26 | (14) | 1 563 | (25) | – | 1 563 |
| Large ticket asset finance | 148 | – | 22 | (1) | 30 | (14) | 200 | (15) | 171 | 371 |
| Project finance | 404 | – | 55 | (3) | 6 | (1) | 465 | (4) | 37 | 502 |
| Resource finance | 13 | – | – | – | – | – | 13 | – | 12 | 25 |
| **Total corporate and other lending** | **5 237** | **(13)** | **368** | **(14)** | **62** | **(29)** | **5 667** | **(56)** | **706** | **6 373** |
| **At 1 April 2018** | | | | | | | | | | |
| Corporate and acquisition finance | 1 262 | (5) | 39 | (1) | 19 | (6) | 1 320 | (12) | 213 | 1 533 |
| Asset-based lending | 301 | (1) | 43 | (2) | 11 | (1) | 355 | (4) | – | 355 |
| Fund finance | 1 017 | (1) | 13 | (1) | – | – | 1 030 | (2) | – | 1 030 |
| Other corporate and financial institutions and governments | 418 | – | 13 | (1) | – | – | 431 | (1) | 216 | 647 |
| Asset finance | 1 422 | (4) | 100 | (8) | 78 | (31) | 1 600 | (43) | 272 | 1 872 |
| Small ticket asset finance | 1 294 | (3) | 79 | (7) | 14 | (9) | 1 387 | (19) | – | 1 387 |
| Large ticket asset finance | 128 | (1) | 21 | (1) | 64 | (22) | 213 | (24) | 272 | 485 |
| Project finance | 400 | (1) | 54 | (3) | 4 | – | 458 | (4) | 26 | 484 |
| Resource finance | – | – | – | – | – | – | – | – | 5 | 5 |
| **Total corporate and other lending** | **4 820** | **(12)** | **262** | **(16)** | **112** | **(38)** | **5 194** | **(66)** | **732** | **5 926** |

## Corporate and other lending – Southern Africa

| £'million | Gross core loans and advances at amortised cost and FVPL (subject to ECL) | | | | | | | | Gross core loans and advances at FVPL (not subject to ECL) | Gross core loans and advances |
|---|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | | Stage 2 | | Stage 3 | | Total | | | |
| | Gross exposure | ECL | Gross exposure | ECL | Gross exposure | ECL | **Gross exposure** | **ECL** | | |
| **At 31 March 2019** | | | | | | | | | | |
| Acquisition finance | 686 | (2) | 15 | – | 2 | – | 703 | (2) | – | 703 |
| Asset-based lending | 299 | (1) | 3 | – | 15 | (10) | 317 | (11) | – | 317 |
| Fund finance | 271 | – | – | – | – | – | 271 | – | – | 271 |
| Other corporate and financial institutions and governments | 2 484 | (8) | 141 | (16) | 25 | (18) | 2 650 | (42) | 104 | 2 754 |
| Asset finance | 204 | – | 1 | – | – | – | 205 | – | – | 205 |
| Small ticket asset finance | 104 | – | 1 | – | – | – | 105 | – | – | 105 |
| Large ticket asset finance | 100 | – | – | – | – | – | 100 | – | – | 100 |
| Project finance | 270 | – | 95 | (1) | – | – | 365 | (1) | – | 365 |
| Resource finance | 30 | – | – | – | – | – | 30 | – | – | 30 |
| **Total corporate and other lending** | **4 244** | **(11)** | **255** | **(17)** | **42** | **(28)** | **4 541** | **(56)** | **104** | **4 645** |
| **At 1 April 2018** | | | | | | | | | | |
| Acquisition finance | 762 | (4) | 73 | (1) | 6 | – | 841 | (5) | – | 841 |
| Asset-based lending | 244 | (2) | 31 | (1) | 14 | (9) | 289 | (12) | 36 | 325 |
| Fund finance | 295 | – | – | – | – | – | 295 | – | – | 295 |
| Other corporate and financial institutions and governments | 2 618 | (10) | 192 | (11) | 9 | (5) | 2 819 | (26) | 68 | 2 887 |
| Asset finance | 156 | – | 3 | – | 1 | – | 160 | – | – | 160 |
| Small ticket asset finance | 131 | – | 2 | – | – | – | 133 | – | – | 133 |
| Large ticket asset finance | 25 | – | 1 | – | 1 | – | 27 | – | – | 27 |
| Project finance | 331 | (1) | 70 | (1) | – | – | 401 | (2) | – | 401 |
| Resource finance | 38 | – | – | – | 7 | (5) | 45 | (5) | – | 45 |
| **Total corporate and other lending** | **4 444** | **(17)** | **369** | **(14)** | **37** | **(19)** | **4 850** | **(50)** | **104** | **4 954** |

## Investment risk in the banking book

### *Investment risk description*

Investment risk in the banking book comprises of 3.8% of total assets and arises primarily from the following activities conducted within the group:

- **Principal Investments:** Principal Investments are focused on providing capital to entrepreneurs and management teams to further their growth ambitions as well as leverage third party capital into funds that are relevant to our client base. 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 an IPO, or sale of one of our investments to a listed company. We have limited appetite for listed investments.
- **IEP Group:** Investec Bank Limited holds a 45.9% stake alongside third party investors and senior management of the business who hold the remaining 54.1%. 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 in 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 investment committees exist in the UK and South Africa and to oversight regions where we assume investment risk.

| *Nature of investment risk* | *Management of risk* |
|---|---|
| Principal Investments | Investment committees, IBL, IBP and DLC BRCCs |
| Listed equities | Investment committees, market risk management, IBL, IBP and DLC BRCCs |
| Profit shares and investments arising from lending transactions | Credit risk management committees, IBL, IBP and DLC BRCCs |
| Investment and trading properties | Investment committees, Investec Property Group Investment Committee in South Africa, IBL, IBP and DLC BRCCs |
| IEP Group | A number of our executive are on the board of the IEP Group, IBL, IBP and DLC BRCCs |

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 IBL, IBP and DLC BRCCs. 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 43 and 44 in volume three and pages 82 to 90 in volume three for factors taken into consideration in determining fair value.***

### *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 and profit shares 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, warrants and profit shares 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 85 for further detail.***

The tables below provide an analysis of income and revaluations of these investments.

| | Income/(loss) (pre-funding costs) | | | | | |
|---|---|---|---|---|---|---|
| **£'000<br>Country/category** | Unrealised° | Realised° | Dividends | Other | **Total** | Fair value through OCI/equity |
| **Year to 31 March 2019** | | | | | | |
| **Unlisted investments** | **(28 336)** | **48 061** | **32 927** | **–** | **52 653** | **–** |
| UK and Other | 28 542 | 25 393 | 4 161 | – | 58 096 | – |
| Southern Africa | (56 878) | 22 668 | 28 766 | – | (5 443) | – |
| **Listed equities** | **(44 813)** | **13 116** | **10 608** | **–** | **(21 089)** | **–** |
| UK and Other | (26 762) | (7 566) | 95 | – | (34 233) | – |
| Southern Africa | (18 051) | 20 682 | 10 513 | – | 13 144 | – |
| **Investment and trading properties** | **(32 508)** | **26 205** | **–** | **–** | **(6 303)** | **–** |
| UK and Other | 13 266 | (7 231) | – | – | 6 035 | – |
| Southern Africa^ | (45 774) | 33 436 | – | – | (12 338) | – |
| **Warrants and profit shares** | **(8 819)** | **30 463** | **–** | **–** | **21 643** | **–** |
| UK and Other | (7 906) | 18 374 | – | – | 10 468 | – |
| Southern Africa | (913) | 12 089 | – | – | 11 175 | – |
| **IEP Group^^** | **–** | **–** | **–** | **66 757** | **66 757** | **–** |
| Southern Africa | – | – | – | 66 757 | 66 757 | – |
| **Total** | **(114 476)** | **117 845** | **43 535** | **66 757** | **113 661** | **–** |
| **Year to 31 March 2018** | | | | | | |
| **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 26.6% (31 March 2018: 26.8%). It is noted that the ultimate impact on the income statement reflects the group's net attributable earnings from the investment.*

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

^^ *As explained on page 47.*

## *Summary of investments held and stress testing analyses*

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

| £'million<br>Country/category | On-balance sheet value of investments 31 March 2019 | Valuation change stress test 31 March 2019* | On-balance sheet value of investments 1 April 2018 | Valuation change stress test 1 April 2018* |
|---|---|---|---|---|
| **Unlisted investments** | **846** | **127** | **725** | **109** |
| UK and Other | 472 | 71 | 417 | 63 |
| Southern Africa** | 374 | 56 | 308 | 46 |
| **Listed equities** | **183** | **45** | **232** | **58** |
| UK and Other | 21 | 5 | 61 | 15 |
| Southern Africa | 162 | 40 | 171 | 43 |
| **Investment and trading properties** | **542** | **74** | **708** | **98** |
| UK and Other | 70 | 13 | 113 | 21 |
| Southern Africa^ | 472 | 61 | 595 | 77 |
| **Warrants and profit shares** | **28** | **9** | **35** | **12** |
| UK and Other | 19 | 6 | 22 | 8 |
| Southern Africa | 9 | 3 | 13 | 4 |
| **IEP Group^^** | **329** | **49** | **372** | **56** |
| Southern Africa | 329 | 49 | 372 | 56 |
| **Total** | **1 928** | **304** | **2 072** | **333** |

* *In order to assess our earnings sensitivity to a movement in the valuation of these investments, the stress testing parameters detailed below are applied.*
** *Includes the fair value loans investments of £154 million, as referred to on page 98 in volume three.*
^ *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 26.6% (1 April 2018: 26.8%).*
^^ *As explained on page 47.*

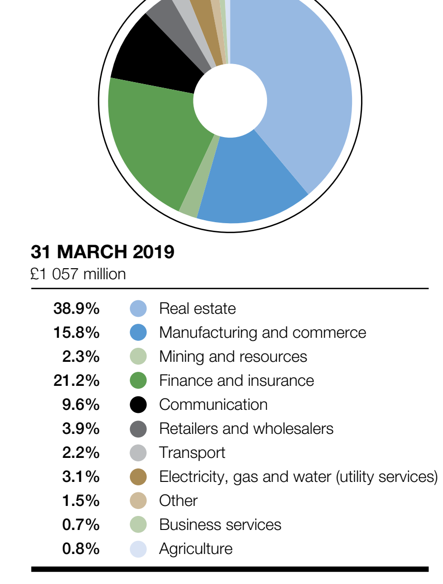
### *Stress test values applied*

| | |
|---|---|
| Unlisted investments and the IEP Group | 15% |
| Listed equities | 25% |
| Trading properties | 20% |
| Investment properties | 10% |
| Warrants and profit shares | 35% |

### *Stress testing summary*

Based on the information at 31 March 2019, as reflected above, we could have a £304 million reversal in revenue (which assumes a year in which there is a 'severe stress scenario' simultaneously across all asset classes). This would not 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 low, although the probability of listed equities being negatively impacted at the same time is high.

### *An analysis of the unlisted investments, listed equities, warrants and profit shares*



**31 MARCH 2019**
£1 057 million

| | |
|---|---|
| 38.9% | Real estate |
| 15.8% | Manufacturing and commerce |
| 2.3% | Mining and resources |
| 21.2% | Finance and insurance |
| 9.6% | Communication |
| 3.9% | Retailers and wholesalers |
| 2.2% | Transport |
| 3.1% | Electricity, gas and water (utility services) |
| 1.5% | Other |
| 0.7% | Business services |
| 0.8% | Agriculture |

## 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 full 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 26 for the balance sheet and credit risk classification.***

The group applies the standardised approach in the assessment of regulatory capital for securitisation. In July 2016, the BCBS published the final standards on the securitisation framework which were implemented in the EU on 1 January 2019. The framework amended the regulatory capital requirements for securitisation, introducing both a new standardised approach and external ratings approach and setting out the grandfathering provisions which apply in the 2019 year for assets that were securitised before 1 January 2019.

#### 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 £462 million at 31 March 2019 (1 April 2018: £266 million) with 90.0% being AAA and AA rated and 9.5% being A rated.

#### South Africa

In South 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 R7.7 billion at 31 March 2019 (1 April 2018: R7.6 billion) and consist of residential mortgages.

Within these securitisation vehicles loans greater than 90 days in arrears amounted to R31.1 million.

Further details of our various securitisation vehicles are highlighted below:

- Fox Street 1: R0.6 billion notes of the original R1.5 billion are still in issue. All notes are held internally
- Fox Street 2: R0.7 billion notes of the original R1.5 billion are still in issue. R593 million of the notes are held internally
- Fox Street 3: R1.0 billion notes of the original R2.0 billion are still in issue. R192 million of the notes are held internally
- Fox Street 4: R1.9 billion notes of the original R3.7 billion are still in issue. All notes are held internally
- Fox Street 5: R1.9 billion notes of the original R2.9 billion are still in issue. All notes are held internally.
- Fox Street 6: R1.3 billion notes of the original R1.3 billion are still in issue. R475 million of the 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 51.***

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 Residential mortgage backed securities (RMBS), totalling R0.2 billion at 31 March 2019 (1 April 2018: R0.2 billion), unrated South African RMBS totalling R1.1 billion at 31 March 2019 (1 April 2018: R1.0 billion) and unrated South African Commercial mortgage backed securities (CMBS) totalling R0.3 billion (1 April 2018: R nil).

### *Accounting policies*

***Refer to page 44 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 group 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. These assets are reflected on the balance sheet line item 'own originated loans and advances to customers' totalling £408 million at 31 March 2019 (1 April 2018: £459 million.)

| **Nature of exposure/activity** | **Exposure 31 March 2019 £'million** | Exposure 1 April 2018 £'million | Balance sheet and credit risk classification | Asset quality – relevant comments |
|---|---|---|---|---|
| Structured credit (gross exposure) | 555 | 345 | Other debt securities and other loans and advances | |
| Rated | 470 | 276 | | |
| Unrated | 85 | 69 | | |
| Loans and advances to customers and third party intermediary originating platforms (mortgage loans) (net exposure) | 12 | 146 | Other loans and advances | |
| Private Client division assets which have been securitised | 408 | 459 | 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 pages 33 to 35 |

### Analysis of gross structured credit exposure

| **£'million** | AAA | AA | A | BBB | BB | B and below | Total rated | Total unrated | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| US corporate loans | 84 | 117 | 11 | – | – | – | 212 | – | 212 |
| UK RMBS | 108 | 97 | 33 | – | 9 | – | 247 | 7 | 254 |
| European corporate loans | – | 10 | – | – | – | – | 10 | – | 10 |
| Australian RMBS | – | 1 | – | – | – | – | 1 | – | 1 |
| South African RMBS | – | – | – | – | – | – | – | 60 | 60 |
| South African CMBS | – | – | – | – | – | – | – | 18 | 18 |
| **Total at 31 March 2019** | **192** | **225** | **44** | **–** | **9** | **–** | **470** | **85** | **555** |
| Investec plc | 192 | 224 | 44 | – | 2 | – | 462 | 7 | **469** |
| Investec Limited | – | 1 | – | – | 7 | – | 8 | 78 | **86** |
| **Total at 1 April 2018** | **72** | **127** | **67** | **–** | **10** | **–** | **276** | **69** | **345** |
| Investec plc | 72 | 125 | 67 | – | 2 | – | 266 | 10 | **276** |
| Investec Limited | – | 2 | – | – | 8 | – | 10 | 59 | **69** |

## 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 risk management in either the UK or South Africa where limits are approved, managed and monitored.

The market risk teams have reporting lines that are separate from the trading function, thereby ensuring independent oversight. A Market Risk Forum, mandated by the IBP and IBL BRCC, manages market risk in accordance with approved principles, policies and risk appetite. Risk limits across all trading desks are reviewed by the Market Risk Forum and recommended for approval at review ERRF or IBL ERC in South Africa and at IBP ERC in the UK in accordance with the risk appetite defined by the board. Limit reviews approved and any significant change would also be take 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. 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 to review ERRF weekly as well as IBL BRCC and IBP BRCC when the committees meet or more often should market conditions require this.

### *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 when required. 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 2019 | | | | 31 March 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Year end** | Average | High | Low | **Year end** | Average | High | Low |
| **UK and Other (using 95% VaR)** | | | | | | | | |
| Equities (£'000) | 415 | 490 | 748 | 327 | 495 | 519 | 746 | 345 |
| Foreign exchange (£'000) | 20 | 13 | 117 | 1 | 18 | 17 | 80 | 1 |
| Interest rates (£'000) | 133 | 94 | 156 | 70 | 81 | 84 | 147 | 67 |
| Credit (£'000)# | 1 | 55 | 123 | 1 | 23 | 90 | 184 | 16 |
| **Consolidated (£'000)*** | **417** | **484** | **739** | **350** | **502** | **509** | **740** | **311** |
| **Southern Africa (using 95% VaR)** | | | | | | | | |
| Commodities (R'million) | 0.1 | 0.1 | 0.4 | – | – | 0.1 | 1.5 | – |
| Equities (R'million) | 3.8 | 3.6 | 7.5 | 1.5 | 3.6 | 3.4 | 7.4 | 2.0 |
| Foreign exchange (R'million) | 1.4 | 2.1 | 6.5 | 0.9 | 1.7 | 2.9 | 9.1 | 0.9 |
| Interest rates (R'million) | 1.2 | 2.1 | 9.0 | 0.4 | 2.4 | 2.2 | 4.7 | 0.3 |
| **Consolidated (R'million)*** | **3.8** | **4.7** | **9.7** | **1.7** | **3.4** | **5.0** | **13.7** | **2.4** |

* *The consolidated VaR for each entity is lower than the sum of the individual VaRs. This arises from the correlation offset between various asset classes.*
\# *The reduction in credit VaR as at 31 March 2019 was due to a strategic decision to reduce positions.*

## *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 2019 Year end** | 31 March 2018 Year end |
|---|---|---|
| **UK and Other 95% (one-day)** | | |
| Equities (£'000) | 638 | 655 |
| Foreign exchange (£'000) | 29 | 26 |
| Interest rates (£'000) | 179 | 113 |
| Credit (£'000) | 1 | 35 |
| **Consolidated (£'000)*** | **618** | **661** |
| **Southern Africa 95% (one-day)** | | |
| Commodities (R'million) | 0.2 | 0.1 |
| Equities (R'million) | 7.1 | 7.1 |
| Foreign exchange (R'million) | 2.2 | 3.7 |
| Interest rates (R'million) | 1.7 | 4.1 |
| **Consolidated (R'million)*** | **6.6** | **8.8** |

* *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.*

## *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.

| | **31 March 2019 Year end** | 31 March 2018 Year end |
|---|---|---|
| **UK and Other (£'000)** | | |
| 99% 1-day sVaR | **2 594** | **1 541** |
| **Southern Africa (R'million)** | | |
| 99% 1-day sVaR | **9.5** | **13.3** |

## *Backtesting*

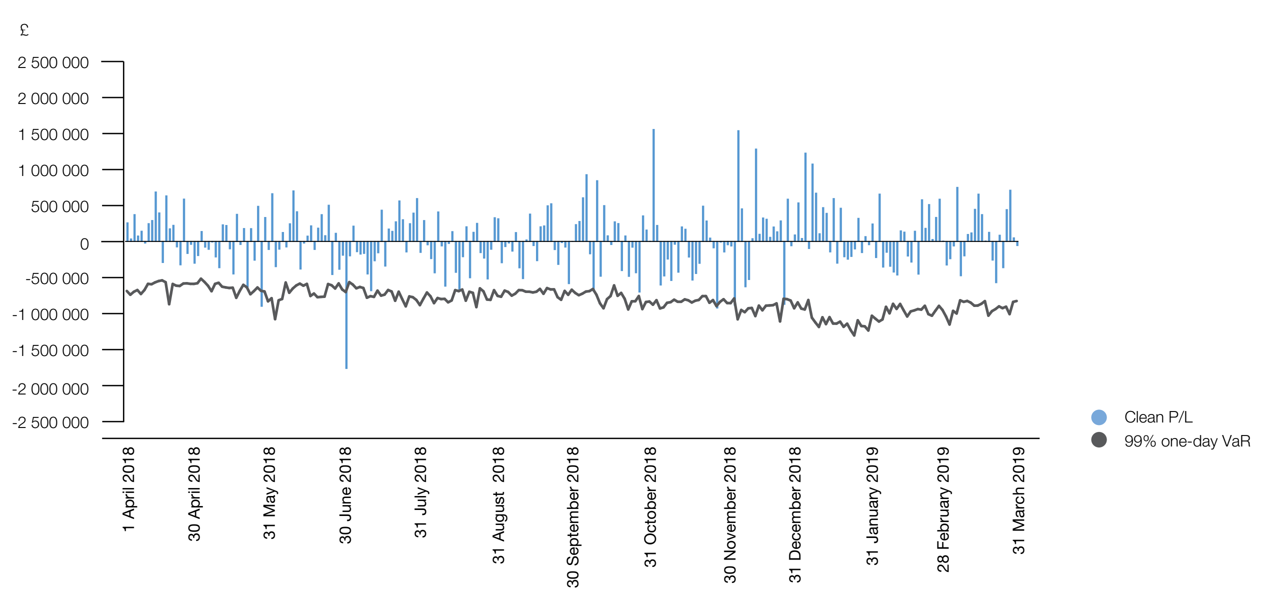
The performance of the VaR model is regularly monitored through backtesting. This is done by comparing daily clean profit and loss against one-day VaR based on a 99% confidence level. Clean profit and loss excludes items such as intra-day transactions, valuation adjustments, provisions, recoveries, commission, fees and hedge costs included in the new trade revenue. 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 clean 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, losses are not expected to exceed the 99% one-day VaR.

## UK and Other

The average VaR for the year ended March 2019 was slightly lower than the previous year. Using clean profit and loss data for backtesting resulted in six exceptions over the year at the 99% confidence level, i.e. where the loss was greater than the 99% one-day VaR. This is more than expected at this confidence level and is due to increased market volatility in the last quarter of 2018 as well as an increase in idiosyncratic risk in the equity portfolio.

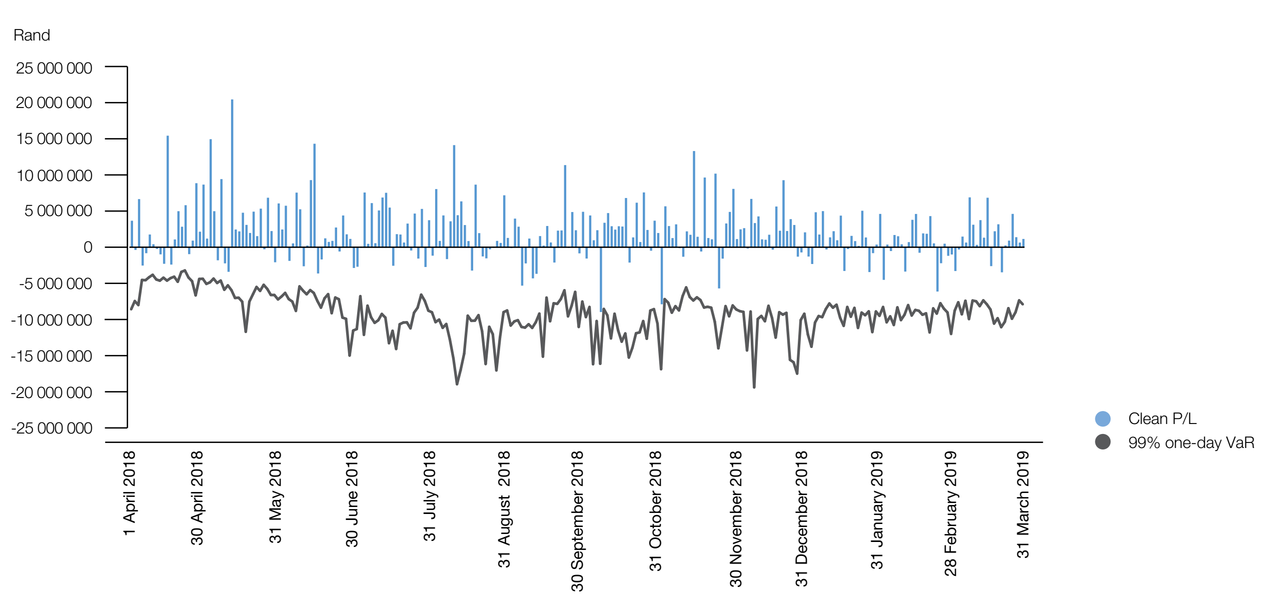
*99% one-day VaR backtesting*




## Southern Africa

Average VaR for the year ended March 2019 was lower than the previous year, primarily due to lower VaR utilisation across most trading desks. The graph below is based on clean profit and loss, which excludes items such as fees, commissions, valuation adjustments, provisions, recoveries and intra-day transactions. This back testing resulted in zero exceptions which is below the expected number of two to three exceptions as implied by the 99% VaR model.

*99% one-day VaR backtesting*



## *Stress testing*

The table below indicates the potential losses that could arise in the trading book portfolio per extreme value theory (EVT) at the 99% confidence level. EVT is a methodology widely used to estimate tail-event losses beyond the 95% 1-day VaR. These numbers do not assume normality but rather rely on fitting a distribution to the tails of the VaR distribution.

| | **31 March 2019 Year end** | 31 March 2018 Year end |
|---|---|---|
| **UK and Other (using 99% EVT)** | | |
| Equities (£'000) | 1 114 | 1 475 |
| Foreign exchange (£'000) | 77 | 66 |
| Interest rates (£'000) | 339 | 226 |
| Credit (£'000) | 3 | 83 |
| **Consolidated (£'000)#** | **1 190** | **1 441** |
| **Southern Africa (using 99% EVT)** | | |
| Commodities (R'million) | 1.4 | 0.2 |
| Equities (R'million) | 25.6 | 13.9 |
| Foreign exchange (R'million) | 8.9 | 20.1 |
| Interest rates (R'million) | 3.9 | 13.5 |
| **Consolidated (R'million)#** | **18.0** | **29.6** |

# *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.*

## *Capital*

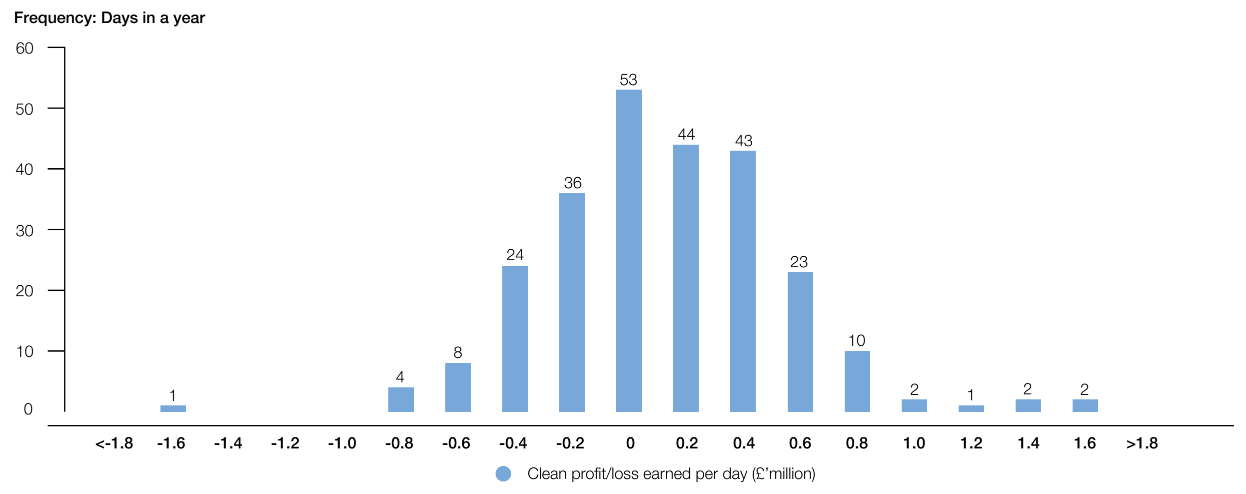
In the UK, the market risk capital requirement is calculated using the standardised approach. For certain options, the group has an article 329 permission from the PRA to use an internal model to calculate the delta for these positions. In addition the group has an article 331 permission which allows 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 the above trading desks and accordingly 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.

## *Clean profit and loss histograms*

### UK and Other

The histogram below illustrates the distribution of clean profit and loss during the financial year for our trading businesses. The distribution is skewed to the profit side and the graph shows that a clean profit was realised on 127 days out of a total of 253 days in the trading business. The average daily clean profit and loss generated for the year to 31 March 2019 was £25 196 (2018: £61 232).

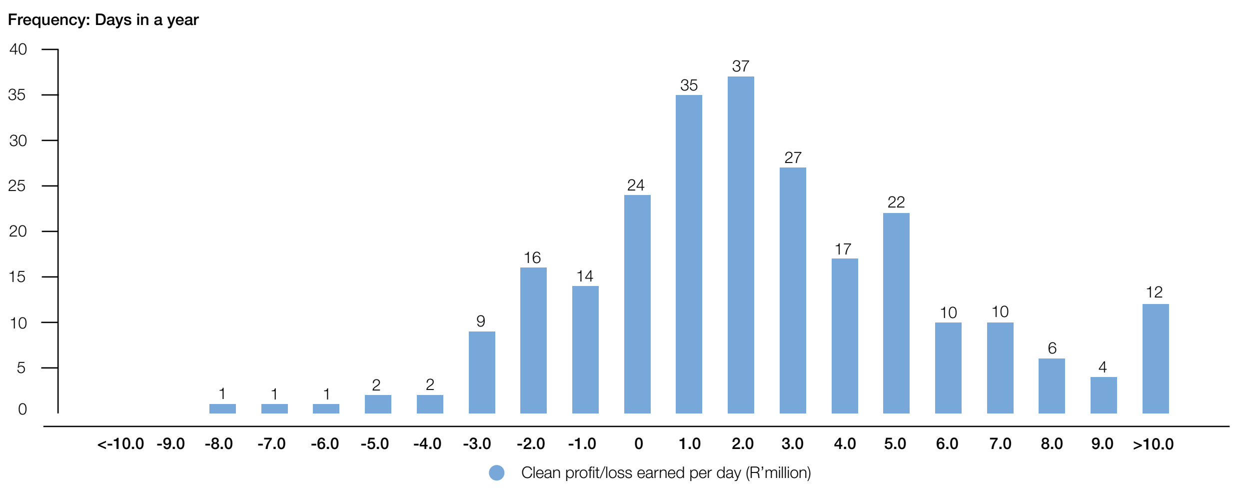
### *Clean profit and loss (excluding fees and hedge costs included in new trade revenue)*



## Southern Africa

The histogram below illustrates the distribution of clean profit and loss during the financial year for our trading businesses. The distribution is skewed to the profit side and the graph shows that a clean profit was realised on 180 days out of a total of 250 days in the trading business. The average daily clean profit and loss generated for the year to 31 March 2019 was R2.0 million (2018: -R0.7 million).

### *Clean profit and loss (excluding fees and hedge costs included in new trades revenue)*

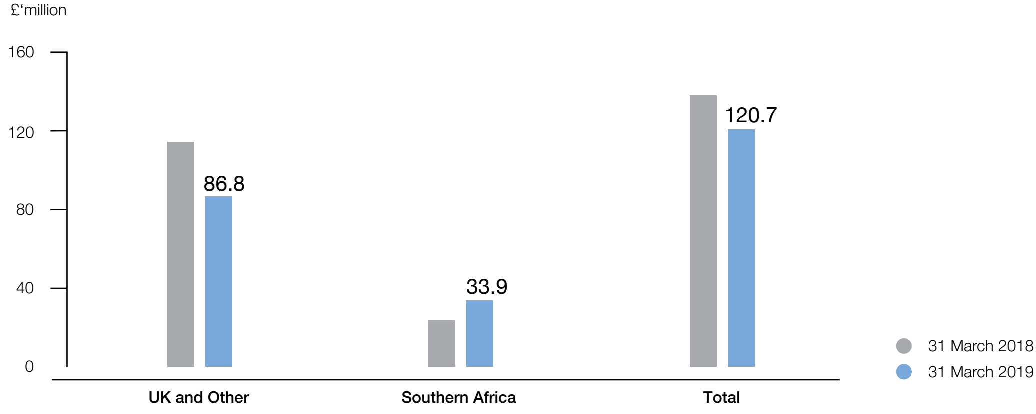



## *Traded market risk year in review*

In the UK, sales and trading revenue were impacted by lower client activity due to uncertainty around Brexit and range bound foreign exchange markets. The sell-off in equity markets during the latter half of 2018 also gave rise to a difficult trading environment. The primary focus of the bank's trading desks remains to facilitate the hedging of client activity with limited proprietary risk taken. This is reflected by the low level of market risk exposures as well as VaR, including the 95% one-day VaR which was £0.4 million at 31 March 2019 down from £0.5 million at 31 March 2018. VaR exposure across all trading desks remained low throughout the year.

In South Africa, the optimism experienced during early 2018 was replaced by concerns over the financial health of state-owned enterprises and policy uncertainty surrounding the expropriation of land without compensation (EWC). South Africa's credit rating has remained under the spotlight. The Rand was under pressure during the period, down 22% year-on-year against the US Dollar. Globally, the ongoing US-China Trade war impacted emerging-market economies whilst further Brexit uncertainty added to volatile markets. Against this challenging economic backdrop, the trading desks have performed well, primarily focusing on client facilitation whilst maintaining low levels of open risk. This is reflected in a decrease in average VaR utilisation as compared to the previous year.

### *Revenue arising from customer flow trading activities*



## *Market risk – derivatives*

The group 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 97 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 (and their subsidiaries) 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 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 group'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 group activity, exposures and key measures against thresholds and limits and are distributed to management, ALCO, Treasury, DLC BRCC, review ERRF, IBL ERC, IBP ERC, IBL BRCC and IBP 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 group 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 group 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 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 group'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 group'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 the group'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.

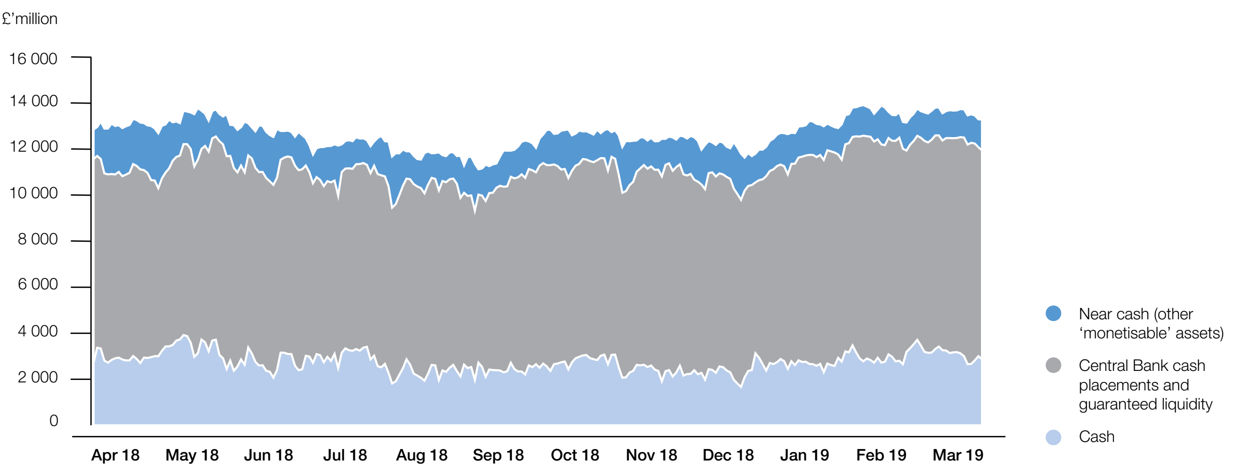
We remain confident in our ability to raise funding appropriate to our needs.

## Liquidity buffer

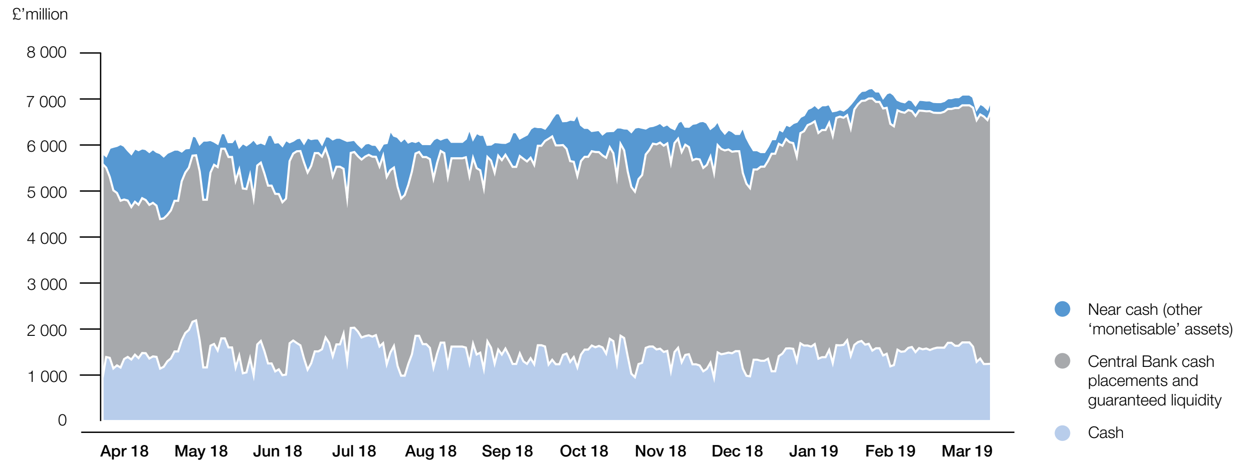
To protect against potential shocks, we hold a liquidity buffer in the form of cash, unencumbered high quality liquid assets (typically in the form of government or rated securities eligible for repurchase with the central bank), and near cash, well in excess of the regulatory requirements as protection 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. The group 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 2018 to 31 March 2019 average cash and near cash balances over the period amounted to £12.7 billion (£6.3 billion in UK and Other; R114.3 billion in South Africa).

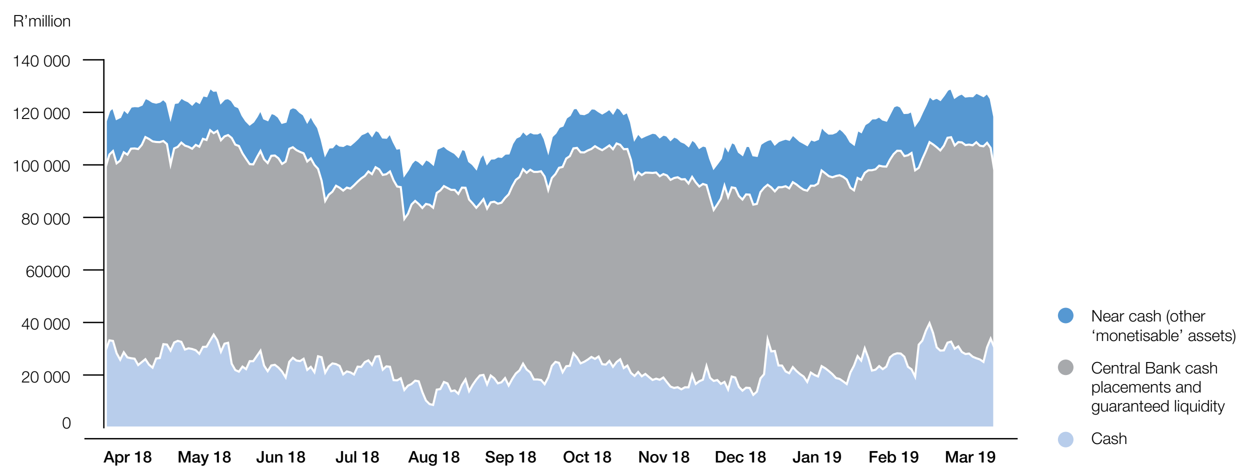
### *Investec group cash and near cash trend*



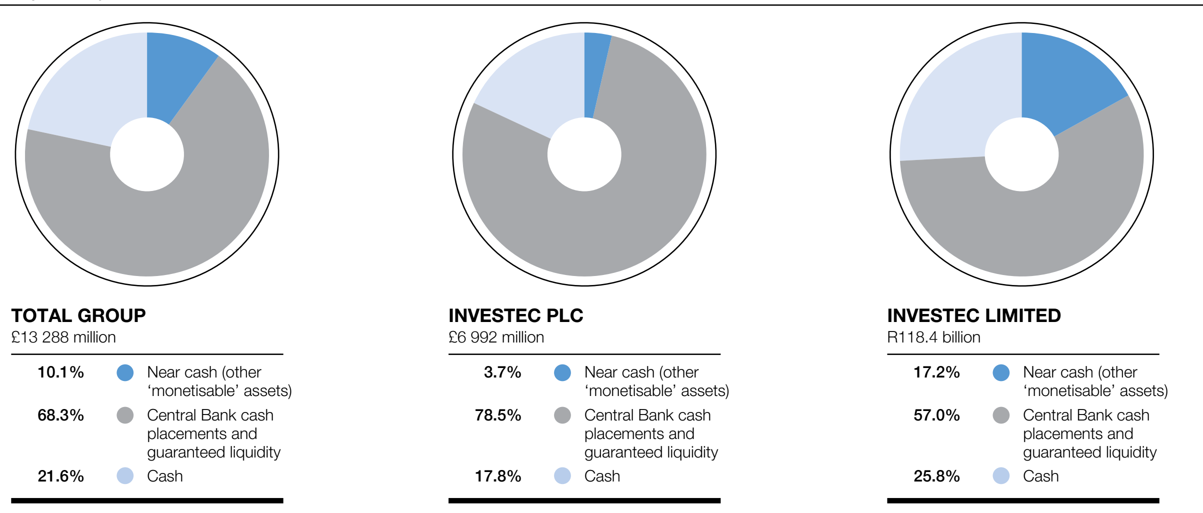

### *Investec plc cash and near cash trend*



### *Investec Limited cash and near cash trend*




### *An analysis of cash and near cash at 31 March 2019*



**TOTAL GROUP**
£13 288 million

| | |
|---|---|
| 10.1% | Near cash (other 'monetisable' assets) |
| 68.3% | Central Bank cash placements and guaranteed liquidity |
| 21.6% | Cash |

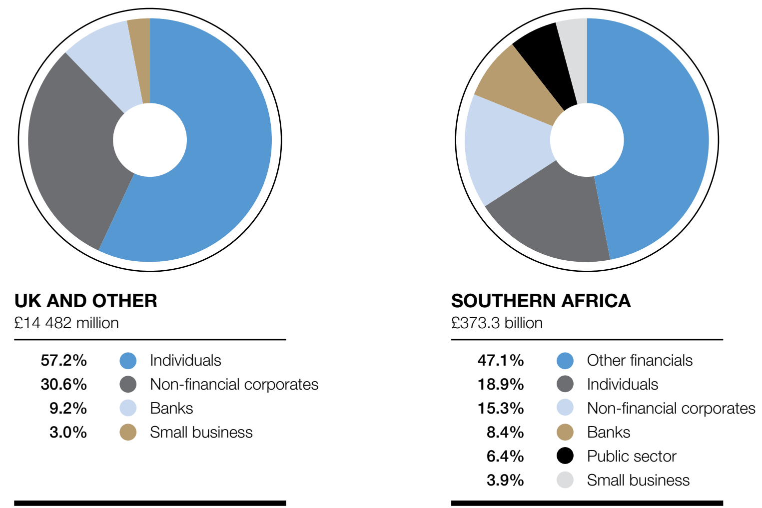
**INVESTEC PLC**
£6 992 million

| | |
|---|---|
| 3.7% | Near cash (other 'monetisable' assets) |
| 78.5% | Central Bank cash placements and guaranteed liquidity |
| 17.8% | Cash |

**INVESTEC LIMITED**
R118.4 billion

| | |
|---|---|
| 17.2% | Near cash (other 'monetisable' assets) |
| 57.0% | Central Bank cash placements and guaranteed liquidity |
| 25.8% | Cash |

### *Bank and non-bank depositor concentration by type at 31 March 2019*



**UK AND OTHER**
£14 482 million

| | |
|---|---|
| 57.2% | Individuals |
| 30.6% | Non-financial corporates |
| 9.2% | Banks |
| 3.0% | Small business |

**SOUTHERN AFRICA**
£373.3 billion

| | |
|---|---|
| 47.1% | Other financials |
| 18.9% | Individuals |
| 15.3% | Non-financial corporates |
| 8.4% | Banks |
| 6.4% | Public sector |
| 3.9% | Small business |

**The liquidity position of the group remained sound with total cash and near cash balances amounting to £13.3 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 94 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 tables 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 the group 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 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 2019**

| £'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 | 5 125 | 355 | – | 22 | 30 | 77 | – | 5 609 |
| Investment/trading assets and statutory liquids | 564 | 258 | 457 | 469 | 106 | 930 | 1 668 | 4 452 |
| Securitised assets | – | 3 | – | – | – | 12 | 103 | 118 |
| Advances | 66 | 296 | 652 | 662 | 1 405 | 5 621 | 2 022 | 10 724 |
| Other assets | 204 | 515 | 70 | 81 | 20 | 79 | 765 | 1 734 |
| **Assets** | **5 959** | **1 427** | **1 179** | **1 234** | **1 561** | **6 719** | **4 558** | **22 637** |
| Deposits – banks | (51) | (114) | – | – | (346) | (800) | (20) | (1 331) |
| Deposits – non-banks | (4 002) | (606) | (2 556) | (2 551) | (1 564) | (1 683) | (189) | (13 151) |
| Negotiable paper | (38) | (10) | (36) | (41) | (88) | (1 682) | (560) | (2 455) |
| Securitised liabilities | – | – | (2) | (2) | (4) | (36) | (70) | (114) |
| Investment/trading liabilities | (308) | (100) | (169) | (15) | (38) | (262) | (210) | (1 102) |
| Subordinated liabilities | – | – | – | – | – | (393) | (411) | (804) |
| Other liabilities | (340) | (534) | (242) | (56) | (103) | (80) | (40) | (1 395) |
| **Liabilities** | **(4 739)** | **(1 364)** | **(3 005)** | **(2 665)** | **(2 143)** | **(4 936)** | **(1 500)** | **(20 352)** |
| Total equity | – | – | – | – | – | – | (2 285) | (2 285) |
| **Contractual liquidity gap** | **1 220** | **63** | **(1 826)** | **(1 431)** | **(582)** | **1 783** | **773** | **–** |
| Cumulative liquidity gap | 1 220 | 1 283 | (543) | (1 974) | (2 556) | (773) | – | |

**Behavioural liquidity**

***As discussed on page 62.***

| £'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** | **4 012** | **63** | **30** | **(1 692)** | **(583)** | **(2 585)** | **755** | **–** |
| Cumulative | 4 012 | 4 075 | 4 105 | 2 413 | 1 830 | (755) | – | |

**Southern Africa**
**Contractual liquidity at 31 March 2019**

| **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 | 28 547 | 840 | 370 | – | 98 | – | 2 560 | 32 415 |
| Cash and short-term funds – non-banks | 11 580 | 271 | 338 | – | – | – | 3 | 12 192 |
| Investment/trading assets and statutory liquids | 48 474 | 45 461 | 10 668 | 3 271 | 4 587 | 29 520 | 28 934 | 170 915 |
| Securitised assets | – | – | – | – | – | 3 833 | 4 128 | 7 961 |
| Advances | 4 773 | 6 314 | 11 622 | 12 537 | 17 574 | 109 005 | 102 041 | 263 866 |
| Other assets | (163) | 544 | 812 | 173 | 40 | 3 680 | 14 757 | 19 843 |
| **Assets** | **93 211** | **53 430** | **23 810** | **15 981** | **22 299** | **146 038** | **152 423** | **507 192** |
| Deposits – banks | (366) | – | (1 268) | (598) | (349) | (28 747) | (407) | (31 735) |
| Deposits – non-banks | (146 327)^ | (20 160) | (58 278) | (31 857) | (42 945) | (39 247) | (2 764) | (341 578) |
| Negotiable paper | – | (288) | (885) | (938) | (1 519) | (6 337) | (2 361) | (12 328) |
| Securitised liabilities | – | – | – | – | – | (859) | (861) | (1 720) |
| Investment/trading liabilities | (2 076) | (17 999) | (2 340) | (1 290) | (1 494) | (9 853) | (2 425) | (37 477) |
| Subordinated liabilities | – | (19) | (4) | – | – | (4 202) | (11 632) | (15 857) |
| Other liabilities | (2 157) | (717) | (1 411) | (93) | (453) | (563) | (5 488) | (10 882) |
| **Liabilities** | **(150 926)** | **(39 183)** | **(64 186)** | **(34 776)** | **(46 760)** | **(89 808)** | **(25 938)** | **(451 577)** |
| Total equity | – | – | – | – | – | – | (55 615) | (55 615) |
| **Contractual liquidity gap** | **(57 715)** | **14 247** | **(40 376)** | **(18 795)** | **(24 461)** | **56 230** | **70 870** | **–** |
| Cumulative liquidity gap | (57 715) | (43 468) | (83 844) | (102 639) | (127 100) | (70 870) | – | |

^ *Includes call deposits of R137 billion and the balance reflects term deposits which have finally reached/are reaching contractual maturity.*

**Behavioural liquidity**

***As discussed on page 62.***

| **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** | **35 248** | **3 762** | **2 479** | **(5 744)** | **(8 128)** | **(167 257)** | **139 640** | **–** |
| Cumulative | 35 248 | 39 010 | 41 489 | 35 745 | 27 617 | (139 640) | – | |

## *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

Banks within the EU are 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 IBP BRCC, DLC BRCC and by the IBP and DLC boards 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 currently 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*

- The group 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 primarily supported by robust growth in fixed term and notice retail deposits in the UK business.

Cash and near cash balances at 31 March 2019 amounted to £7.0 billion (31 March 2018: £5.8 billion). Total UK and Other customer deposits was £13.2 billion at 31 March 2019 (31 March 2018: £11.6 billion).

Following the UK's decision to leave the European Union, Investec Bank plc will no longer be able to access deposits from European clients sourced through its Irish branch. The strong liquidity position has enabled asset growth as well as facilitating the repayment of these Irish deposits ahead of the UK's expected departure.

Funding and liquidity continue 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.

Growth in these customer channels is also supported through funding raised in the wholesale markets. In 2018/19, these have included the refinancing and upsizing of syndicated term loans and the net positive issuance, through a liability management exercise, of Investec Bank plc Tier 2 subordinated notes in the debt capital markets.

Overall funding costs have continued to decline through ongoing active management of the liability channels and the deployment of a diverse range of funding channels.

Despite the continuing market uncertainty over the UK's departure from the European Union, 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 February 2019, Investec Bank plc's long-term deposit rating was upgraded by Moody's to A1 (stable outlook) and Investec plc's ratings were affirmed at Baa1 (stable outlook) taking into account the proposed Investec Asset Management demerger. In August 2018, Investec Bank plc's long-term deposit rating was affirmed by Fitch at BBB+ however in March 2019 Fitch placed Investec Bank plc along with other nineteen UK banks Rating outlooks on Rating Watch Negative following Fitch's decision to place the UK sovereign (AA) on Rating Watch Negative, as a result of heightened uncertainty over the outcome of the Brexit process, and an increased risk of a disruptive 'no-deal' Brexit.

The LCR reported to the PRA at 31 March 2019 was 313% for Investec plc and 291% 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 128% for Investec plc and 126% 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 country continued to confront an uncertain economic environment for the better part of 2018, following the initial optimism following the ascension of Cyril Ramaphosa to the ANC Presidency.

The problems facing SOEs and the realities of state capture came to the fore. Risks to the fiscus emanating from SOEs like Eskom, Transnet, SAA, SARS and PRASA continued to pose major challenges.

On the global front, trade tensions, slowing economic growth and Brexit uncertainty started becoming a prominent feature of the local economic environment which transitioned us from risk-on sentiment.

In line with its strategic objectives, Investec Bank Limited took actions to improve the stability and structural shape of its funding profile. We elected to early refinance long term non-ZAR funding in an effort to take advantage of favourable funding spreads, Investec Bank Limited grew its total customer deposits by 6.2% from R321.9 billion to R341.7 billion as at 31 March 2019. Our private client funding initiatives had a strong year growing by 10.5% to close the year at R145.9 billion positively contributing to Investec Bank Limited's strategic funding objective. We continue to derive funding growth out of our Private Banking franchise achieving 13.5% growth from our core franchise client base.

Over the same period ZAR Wholesale funding channels grew by 3.1% to R195.8 billion with a strong focus on lengthening tenor. We are cognisant of the cost implications of long-term funding and will continue to opportunistic in our efforts to fetch this class of deposits.

We continue to run a strong liquidity position in the face of both macro and micro economic uncertainty. We delivered liquidity ratios well in excess of regulatory requirements. The 90-day simple average LCR ended the financial year at 135.6%. The structural funding ratio represented by the NSFR was adopted officially as a regulatory measure from 1 January 2019 with a minimum of 100%. Investec Bank Limited delivered a NSFR of 115.6% over the period under review.

We continue to improve balance sheet efficiency by improving our wholesale and retail funding channels and mix. Our funding channels are characterised by their well diversified structure and are robust enough to meet and we believe we are able to deal with any disruptions the economy may encounter throughout the 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 in the banking book include:

- **Repricing risk:** arises from the timing differences in the fixed rate maturity and floating rate repricing of group 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 group 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 group 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 group has limited appetite for non-trading interest rate risk.

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 group 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.

The group 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.

### 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 2019**

| £'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 | 5 609 | – | – | – | – | – | 5 609 |
| Investment/trading assets | 2 231 | 402 | 51 | 153 | 15 | – | 2 852 |
| Securitised assets | 118 | – | – | – | – | – | 118 |
| Advances | 6 269 | 1 769 | 408 | 2 100 | 178 | – | 10 724 |
| Other assets | – | – | – | – | – | 1 734 | 1 734 |
| **Assets** | **14 227** | **2 171** | **459** | **2 253** | **193** | **1 734** | **21 037** |
| Deposits – banks | (1 317) | (14) | – | – | – | – | (1 331) |
| Deposits – non-banks | (9 187) | (878) | (1 635) | (1 447) | (4) | – | (13 151) |
| Negotiable paper | (2 055) | – | – | (400) | – | – | (2 455) |
| Securitised liabilities | (114) | – | – | – | – | – | (114) |
| Investment/trading liabilities | (154) | – | – | – | – | – | (154) |
| Subordinated liabilities | (76) | – | – | (728) | – | – | (804) |
| Other liabilities | – | – | – | – | – | (743) | (743) |
| **Liabilities** | **(12 903)** | **(892)** | **(1 635)** | **(2 575)** | **(4)** | **(743)** | **(18 752)** |
| Total equity | – | – | – | – | – | (2 285) | (2 285) |
| **Balance sheet** | **1 324** | **1 279** | **(1 176)** | **(322)** | **189** | **(1 294)** | **–** |
| Off-balance sheet | 457 | (54) | (142) | (143) | (118) | – | – |
| **Repricing gap** | **1 781** | **1 225** | **(1 318)** | **(465)** | **71** | **(1 294)** | **–** |
| Cumulative repricing gap | 1 781 | 3 006 | 1 688 | 1 223 | 1 294 | – | |

**Southern Africa – interest rate sensitivity gap at 31 March 2019**

| 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 | 19 126 | – | – | – | – | 11 504 | 30 630 |
| Cash and short-term funds – non-banks | 12 183 | – | – | – | – | 9 | 12 192 |
| Investment/trading assets and statutory liquids | 49 562 | 16 446 | 10 842 | 12 535 | 11 547 | 47 699 | 148 631 |
| Securitised assets | 7 728 | – | – | – | – | 233 | 7 961 |
| Advances | 252 956 | 3 287 | 765 | 4 679 | 1 150 | 856 | 263 693 |
| Other assets | 2 293 | 177 | (5 133) | 1 917 | (219) | 13 830 | 12 865 |
| **Assets** | **343 848** | **19 910** | **6 474** | **19 131** | **12 478** | **74 131** | **475 972** |
| Deposits – banks | (30 965) | (275) | (406) | (17) | – | (72) | (31 735) |
| Deposits – non-banks | (266 705) | (24 953) | (33 360) | (10 477) | (727) | (4 790) | (341 012) |
| Negotiable paper | (7 678) | (355) | (789) | (570) | – | (80) | (9 472) |
| Securitised liabilities | (1 720) | – | – | – | – | – | (1 720) |
| Investment/trading liabilities | (1 233) | – | – | (197) | – | (7 231) | (8 661) |
| Subordinated liabilities | (15 413) | – | – | – | (441) | (3) | (15 857) |
| Other liabilities | – | – | – | – | – | (9 187) | (9 187) |
| **Liabilities** | **(323 714)** | **(25 583)** | **(34 555)** | **(11 261)** | **(1 168)** | **(21 363)** | **(417 644)** |
| Total equity | (953) | – | – | – | – | (54 662) | (55 615) |
| **Balance sheet** | **19 181** | **(5 673)** | **(28 081)** | **7 870** | **11 310** | **(1 894)** | **2 713** |
| Off-balance sheet | (21 085) | 16 374 | 23 363 | (15 341) | (6 024) | – | (2 713) |
| **Repricing gap** | **(1 904)** | **10 701** | **(4 718)** | **(7 471)** | **5 286** | **(1 894)** | **–** |
| Cumulative repricing gap | (1 904) | 8 797 | 4 079 | (3 392) | 1 894 | – | |

### Economic value sensitivity at 31 March 2019

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 | (9.7) | 3.4 | (5.0) | (0.9) | (0.1) | 0.2 | (11.6) |
| 200bps up | 10.1 | (3.6) | 5.2 | 0.9 | 0.1 | (0.2) | 12.1 |

**Southern Africa**

| | Sensitivity to the following interest rates (expressed in original currencies) | | | | | | |
|---|---|---|---|---|---|---|---|
| **million** | ZAR | GBP | USD | EUR | AUD | Other (ZAR) | **All (ZAR)** |
| 200bps down | (871.0) | (0.4) | 19.0 | (0.3) | 0.1 | – | (607.0) |
| 200bps up | 707.9 | 0.7 | (11.4) | (2.8) | 0.1 | – | 511.5 |

## 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 impact could 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.

### *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 DLC 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 Basel III Reforms, the BCBS 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 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 building and embedding the operational risk framework, 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.

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* | *Scenarios 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 inform 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, unexpected, but plausible scenarios are assessed to identify and manage significant operational risk exposures. The results of this evaluation provide 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

The group aims to manage all risk events within the agreed operational risk appetite levels. In 2019, the majority of operational risk losses occurred in the following categories: execution, delivery and process management event, employment practises and workplace safety and fraud.

The value of these losses are largely driven by a small number of isolated events. Root cause analyses are performed on risk events to ensure steps are taken to mitigate against re-occurrence and to protect our customers and shareholders.

## *Looking forward*

Key operational risk considerations for the year ahead

| DEFINITION OF RISK | MANAGEMENT, MITIGATION APPROACH AND PRIORITIES FOR 2019/2020 |
|---|---|
| ***Business resilience*** | |
| Risk associated with disruptive incidents which can impact premises, staff, equipment, systems, and key business processes | • Maintain business operations during adverse events, through appropriate continuity capabilities that minimise impact to clients and the broader financial system<br>• Establish fit-for-purpose resilience strategies including, but not limited to, relocating impacted businesses to alternate processing sites, implementation of high availability technology solutions, and ensuring physical resilience for critical infrastructure components<br>• Conduct validation of recovery strategies at least annually to ensure they remain effective and appropriate<br>• Enhance the group's global resilience capability through a team of dedicated resources and robust governance processes<br>• 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 strategy to ensure the group is adequately protected against advanced cyber-attacks, incorporating prediction, prevention, detection and response capabilities<br>• Manage an adaptive cyber security architecture, ensuring consistent coverage of baseline cyber controls, with continual monitoring for visibility and proactive response to evolving cyber threats<br>• Enhance cyber resilience by aligning security incident response with crisis management and business resilience processes<br>• Validate the effectiveness of cyber controls through regular penetration testing and targeted attack simulations, run both internally and in conjunction with independent external specialists<br>• Embed secure software development and testing practices to ensure IT systems are secure by design<br>• Provide ongoing security training to staff to ensure high levels of awareness and vigilance |

| DEFINITION OF RISK | MANAGEMENT, MITIGATION APPROACH AND PRIORITIES FOR 2019/2020 |
|---|---|
| ***Anti-Money Laundering (AML), terrorist financing and sanctions*** | |
| Risk associated with money laundering, terrorist financing, bribery and tax evasion | • Continuous enhancement of AML and sanctions control systems across the group<br>• Refinement of risk management methodology with the aim to risk rate clients better allowing more effective resource allocation based on the risk posed to the group<br>• Further enhancing the transaction monitoring environments with an aim to detect AML related activities<br>• Continuous monitoring of adherence to AML policies and legislative requirements<br>• 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<br>• Participate at industry body level to manage legislative requirements through engagement with regulators |
| ***Fraud*** | |
| Risk associated with fraud, corruption, theft, forgery and integrity misconduct by staff, clients, suppliers and other stakeholders | • Enhance the group's global approach to fraud management through a holistic framework and consistent policies, standards and methodologies<br>• Maintain an independent integrity line to ensure staff is able to report regulatory breaches, allegations of fraud, bribery and corruption, and non-compliance with policies<br>• Proactive monitoring of adherence to fraud prevention policies and embedding of practices which comply with updated regulations, industry guidance and best practice<br>• Continue to focus on training staff, educating clients and intermediaries on fraud prevention and detection<br>• Participate in industry working groups to gain an understanding of current trends in order to enhance the control environment |
| ***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<br>• Manage role-based access to business systems and data, in support of least-privilege and segregation of duty principles<br>• Implement strong security controls to protect information against unauthorised access or disclosure, and reduce opportunity for data compromise<br>• Maintain safeguards to protect confidential physical documents and facilitate secure destruction<br>• Develop mechanisms to monitor for and respond to data breaches in line with relevant privacy laws<br>• Protect and monitor internal and external information flows to ensure data completeness and integrity<br>• Develop data retention and destruction processes based on business needs, whilst meeting applicable regulatory compliance obligations |
| ***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<br>• Policies and practices include adequate guidance over the assessment, selection, suitability and oversight of the outsource and third party providers<br>• 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<br>• Repeatable processes to facilitate both upfront and periodic evaluation based on the size, materiality, security and service provision of the third party |
| ***Process failure*** | |
| Risk associated with inadequate internal processes, including human error and control failure 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<br>• Address human errors through training, improvement of processes and controls, including automation of processes where possible<br>• Segregation of duties and appropriate authorisation controls<br>• Causal analysis is used to identify weaknesses in controls following the occurrence of risk events<br>• Risk and performance indicators are used to monitor the effectiveness of controls across business units<br>• Thematic reviews across business units to ensure consistent and efficient application of controls |

| DEFINITION OF RISK | MANAGEMENT, MITIGATION APPROACH AND PRIORITIES FOR 2019/2020 |
|---|---|
| ***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<br>• Align regulatory and compliance approach to reflect new regulatory landscapes particularly the change of regulatory structures<br>• 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 93 and 94)<br>• Monitoring remains focused appropriately as areas of conduct and regulatory risk develop<br>• Ensure that the business is appropriately positioned to cope with the regulatory changes resulting from geopolitical risk (e.g. Brexit) |
| ***Technology availability*** | |
| Risk associated with disruption to the IT systems which underpin our critical business processes and client services | • Continue to align IT architecture and standards across the group, to reduce technical complexity and leverage common functions and services<br>• Further enhance IT operational processes, including management of IT changes to minimise adverse impact, and response to IT incidents for swift resolution and root cause analysis<br>• Drive automation to reduce human error whilst enhancing efficiency<br>• Implement strategic infrastructure and application roadmaps, leveraging new technologies to enhance capacity, scalability, security, and reduce reliance on legacy IT systems<br>• Establish effective, proactive monitoring of the technology environment, providing continual visibility of the health and performance of IT systems and processes<br>• Maintain and test IT resilience capabilities to withstand failure and minimise service disruption |

### 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 operational risk management and 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
- Analyses the recovery potential 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.

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 options 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. Even though the recovery plan is framed at Investec plc level, the primary focus of this document is the recovery of Investec Bank plc and the protection of its depositors and customers.

### 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 the group'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, the group'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 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 2019, which is closed to new business.

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 fund closely and regularly assesses potential adverse movements in the schemes in close conjunction with external independent advisers.

***Further information is provided on pages 111 to 113 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 support the anticipated rights and remedies in the transaction.

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 SA and UK head of legal risk respectively.

## Conduct risk

### *UK and Other*

The FCA has maintained its focus and approach to managing firms' conduct. By conduct risk we mean the risk that harm is caused to the group, its customers, its counterparties or the wider market, as a result of inappropriate execution of business activities.

The FCA expects all firms to have a robust conduct risk framework in place to facilitate a culture that delivers good outcomes both for consumers and the markets. 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.

Culture and good governance are ongoing themes which underlie much of the FCA's approach with focus on the role of the individual as well as the firm. The FCA has considered the role of leaders, incentives and capabilities, and governance of decision making. It expects firms to foster a culture which supports the spirit of regulation in preventing harm to consumers and markets.

The board, along with senior management are ultimately responsible for Investec's culture and conduct risk frameworks. 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 business.

### *South Africa*

The Financial Sector Regulation Act (Twin Peaks), which became effective in April 2018, transformed the Financial Services Board into the Financial Sector Conduct Authority (FSCA). The FSCA has jurisdiction to regulate the conduct of all financial institutions. National Treasury and the FSCA are reviewing the legislative framework to align to the mandate of the new conduct regulator. The draft Conduct of Financial Institutions Bill (COFI) was published for comment in December 2018. The intention is that the COFI Bill, once enacted, will consolidate and strengthen conduct laws and ensure financial inclusion and transformation of the financial sector.

Investec Limited continues to align its conduct framework to developing legislative requirements and applicable best practice.

## Climate related financial disclosures (TCFD)

We recognise and support the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) to disclose clear, comparable and consistent information. This is the start of a long-term process to build a better understanding of environmental, social and governance (ESG) and climate-related risks and opportunities and consequently improve our disclosures in this regard.

### Governance

Climate related risk considerations are integrated into multidisciplinary, companywide management processes throughout the group. We are guided by our climate change statement and policies on environmental and social risk. The board has the ultimate responsibility to monitor that the group is operating as a responsible corporate. The DLC SEC takes overall responsibility for reviewing ESG aspects, including policy and strategic intent, and meets four times a year. The DLC SEC supports the board in its duties to protect and endorse Investec's reputation for responsible corporate conduct. In the past year the board discussed and monitored the various elements of good corporate citizenship including, but not limited to, environmental (including climate change related risks and opportunities), health and public safety, including the impact of the group's activities and of its products and services. The board satisfied itself that the Investec group's standing and commitment to the various elements of good corporate citizenship remained in place and was actively enforced.

A variety of environmental, social and macro-economic risk considerations are considered by the credit and investment committees when making lending or investment decisions. Divisional risk forums assess new deals for financial soundness including ESG due diligence.

We engage with our clients on sustainability issues in order to minimise the risks and require clients to meet appropriate technical, governance, transparency, social and environmental standards.

In view of the increasing challenges globally, financial risks along with environmental and social risks are regularly monitored and reviewed to ensure our policies and practices remain relevant and appropriate for the group.

### Strategy

As a distinctive financial institution, we are aware of our broader social responsibility and play a critical role in funding a stable and sustainable economy that contributes to our communities and is cognisant of climate change and our planet's limited natural resources.

We recognise the need to move as quickly and smoothly as possible towards a low-carbon economy while always being mindful of the socio-economic consequences of this transition. We also recognise the importance of various industries, including the energy sector, for the global economy. At the same time, their potential impacts on local communities and the environment needs to be taken into account. All these socio-economic and environmental factors need to be assessed in order to ensure an orderly transition.

Our strategy is based on the following:

- we believe that the widest and most positive influence we can have is for our businesses to use their specialist skills in advisory, lending and investing to support our clients and stakeholders. This not only navigates risks, but also takes advantage of the opportunities that sustainable growth presents. An important aspect of our approach is a deliberate focus on financing infrastructure solutions that promote renewable and clean energy and we have developed strong expertise in this sector
- we embrace our responsibility to understand and manage our own carbon footprint. Our approach is to limit and minimise our direct carbon impact and create awareness to encourage positive sustainable behaviour. We are exploring various opportunities as we work towards our ultimate goal of becoming carbon neutral in our operations
- where appropriate, we will share resources and intelligence to support global efforts to combat illegal wildlife trade. We are signatories to the United for Wildlife Financial Taskforce which leverages the existing global financial crime architectures to support efforts to combat illegal wildlife trade.

### Risk management

Investec supports international best practices regarding the responsibilities of the financial sector in financing and investing transactions. Social, environmental and ethical risk considerations are implicit in our values, culture and code of conduct and are applied as part of our ESG risk framework.

In particular, the following factors are taken into account when a transaction is evaluated and approved or declined based on sustainability considerations:

- Climate change and environmental considerations (including animal welfare)
- Social considerations
- Ethical considerations (including human rights)
- Macro-economic considerations

We have a policy on environmental and social risk practices for both our lending and financing activities as well as our investment activities (including more detailed guidance for certain high-risk industries). This policy guides us in identifying and managing potential adverse impacts to the environment and to human rights, as well as the associated risks affecting our clients and our business. We have identified certain controversial activities we will not engage in, or will only participate under stringent criteria. As part of this commitment, we also engage with clients and suppliers to further understand their processes and policies and to explore how environmental and social risks may be mitigated. The objective of the ESG risk framework is to enable the business to identify, assess and manage a number of relevant risks at various stages of the lending and the investment process.

The group will avoid exposures to any lending and investments that involve:

- Undue damage to high conservation and/or protected environmental areas
- Forced labour or child labour
- The production and trade of controversial or military weapons or ammunitions
- The production or trade in any product or activity deemed illegal under the country of operation's laws and regulations.

Any lending or investment activities with a corporate involved in transactions in the following activities requires stringent escalation to Policy ERRF:

- The production and trade in radioactive materials
- The production of harmful or addictive substances
- Activities that involve early drug testing on humans
- Activities that involve any form of testing on animals.

We follow the guidelines supplied by the International Finance Corporation (IFC) to categorise our general finance, lending and investing activities, into high, medium and low risk.

- **High risk:** Proposed funding or investment is likely to have significant adverse social or environmental impacts that are diverse, irreversible or unprecedented
- **Medium risk:** Proposed funding or investment likely to have potential limited adverse social or environmental impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures
- **Low risk:** Proposed funding or investment is likely to have minimal or no social or environmental impacts. Primarily services, consulting, training and education, trading, retail sales, etc.

We provide training on ESG risks and opportunities to staff through our credit college and have an ESG guideline handbook that is available to assist all staff in assessing ESG matters.

***For more information, please refer to our climate change, environmental and social risk policy on our website.***

## *Metrics and targets*

We recognise that effective environmental management is an essential part of managing our carbon impact and are committed to operating an effective environmental management system (EMS) compliant with King IV in South Africa and ISO 14001 in the UK head office. Further to this, our EMS reporting tool allows us to track and manage our direct operational impact.

***For details on our commitment please refer to our environmental policy statement on our website.***

In terms of our business impact, there is still a large degree of uncertainty around climate scenario analysis for the financial sector. We have embarked on a process to collect and disclose the relevant metrics and targets for potential climate risks and opportunities for our business and will enhance these disclosures within the five-year pathway, as outlined by the Financial Stability Board's Task Force on Climate-related Financial Disclosures.

We also participate in the Sustainable Finance Committee (a sub-committee of the South African Banking Association) where climate change and climate related scenario analysis are regularly discussed and will continue to monitor our reporting in terms of industry best practice.

# 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*

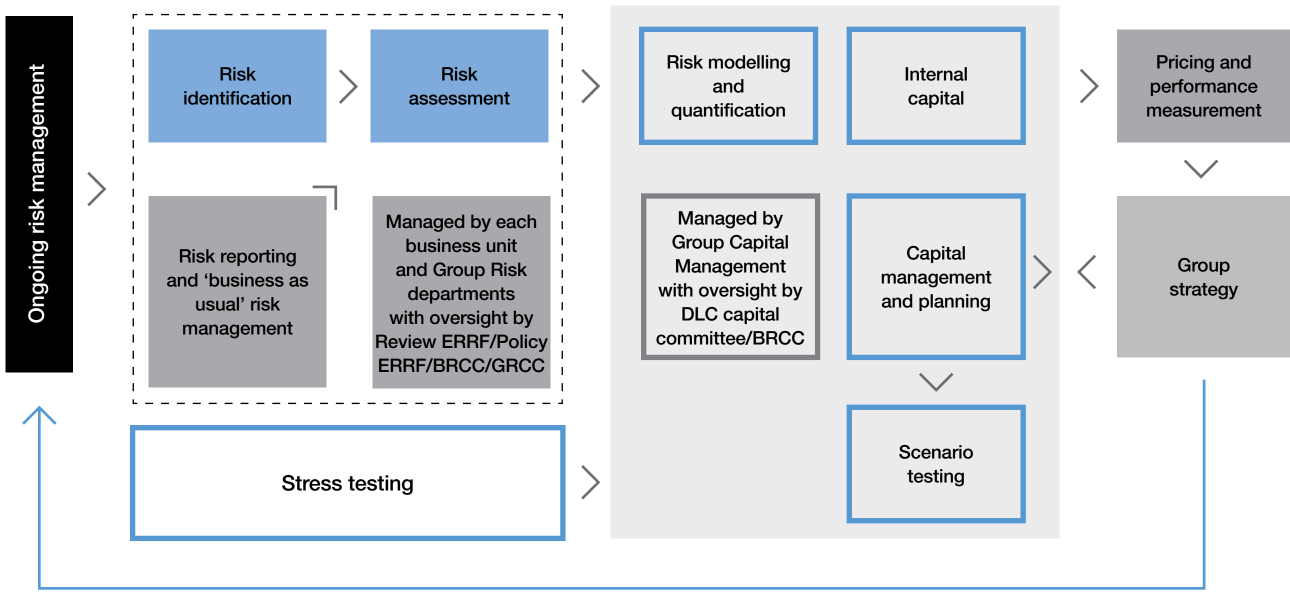
### Current regulatory framework – Investec Limited

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. 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). Investec Limited maintains 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 Counter Cyclical Capital Buffer (CCyB) requirements. The institution specific CCyB requirement, held for purposes of the reciprocity requirement, is

## The (simplified) integration of risk and capital management




calculated based on private sector non-bank exposures held in the Basel member jurisdictions in which a buffer rate has been set. As at 31 March 2019 Investec Limited is holding an institution specific CCyB of 0.028% of RWE. Investec Limited continues to hold capital in excess of relevant capital minima's and capital buffer requirements.

For the year ended 31 March 2019, Investec Limited applied the standardised approach to calculate its credit risk, 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.

Investec Bank Limited was granted approval by the Prudential Authority in March 2019 to calculate its minimum capital requirements in respect of credit risk for the retail portfolios using the Advanced Internal Ratings Based Approach (AIRB); and for wholesale portfolios using the Foundation Internal Ratings Based Approach (FIRB) effective 1 April 2019. In this regard, we have provided pro-forma (unaudited) amounts of the impact of our IRB approvals as at 31 March 2019.

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% of CET 1 capital. The PRA buffer, which is also determined as part of the ICAAP, must be supported with CET 1 capital.

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 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 was phased-in each year until fully implemented on 1 January 2019 at 2.5% of RWAs. As at 31 March 2019 Investec plc holds a CCB, which is met with CET 1 capital, of 2.5% of RWAs.

At the 31 March 2019 Investec plc is holding an institution specific CCyB of 0.55% of RWAs. The institution specific CCyB requirement is calculated based on the relevant exposures held in jurisdictions in which a buffer rate has been set. In November 2018, the UK countercyclical capital buffer rate has increased from 0.5% (June 2018) to 1%. The Hong Kong rate has increased from 1.875% to 2.5% in January 2019.

The 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 their respective 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 2019, with a vast number of new consultations, regulatory technical standards, implementing technical standards and other proposals being published or adopted, notably by the PRA, the BCBS and the European Banking Authority (EBA) and the South African Prudential Authority.

### International

In December 2017, the Basel Committee issued the final document of "Basel III: Finalising post-crisis reforms". The revisions to the regulatory framework will help restore credibility in the calculation of RWAs by:

- Enhancing the robustness and risk sensitivity of the standardised approaches for credit risk and operational risk
- Constraining the use of internal model approaches
- Complementing the risk-weighted capital ratio with a finalised leverage ratio and a revised capital floor The changes are expected to come into force at a Basel level on 1 January 2022. However it has yet to enter into the EU law and the EU has not yet set the implementation date. In January 2019, the Basel committee on banking supervision issued a revised standard on the minimum requirements for market risk (Fundamental Review of the Trading Book (FRTB)), which replaced the earlier version of the standard which was published in January 2016. As in the January 2016 framework, the core features of the standard include:
- a clearly defined boundary between the trading book and the banking book
- an internal models approach that relies upon the use of expected shortfall models and sets out separate capital requirements for risk factors that are deemed non-modelable; and
- a standardised approach that is risk-sensitive and is designed and calibrated to serve as a credible fallback to the internal models approach.

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

  The Basel committee has also published its final standards on the securitisation framework, which came into effect in the EU on 1 January 2019 with a one year grandfathering period for transactions issued pre 1 January 2019. In addition, the BCBS issued a number of other guidelines and proposals during the year, of which the following are relevant to Investec plc:

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

### South Africa

The South African Prudential Authority issued Banks Act Guidance note 6 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 and bank exposures to central counterparties, revisions to the securitisation framework, standardised approach for measuring counterparty credit risk and the new large exposures framework. The PA is in the process of amending the Banks Regulations to incorporate regulatory reforms that will be implemented in South Africa in Q4 of 2019 together with a statement of the expected impact.

The remainder of the regulatory reforms are likely to be implemented in Southern Africa in line with BCBS timelines on 1 January 2022.

In addition, the Prudential Authority is in the process to consult with Banks in anticipation of the promulgation of the resolution bill that will provide the resolution authority the powers to resolve the failure of financial institutions in a way that will mitigate any negative impact on South Africa's financial stability and minimise macroeconomic cost. The resolution bill, as enacted in the Financial Sector Regulation Act (9/2017) of which commencement dates are stipulated in government gazette No 41549, will impact the way which the Group will treat existing and future regulatory capital instruments for purposes of the loss absorbency requirements.

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

## *The UKs' withdrawal from the EU*

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

## *Regulatory development*

In November 2018, the PRA issued a "general requirements and the revised capital framework on securitisation positions" supervisory statement. The policy, which came into force on 1 January 2019, sets out the general expectations of firms and processes under the securitisation regulation; expectations of firms seeking to become sponsors of Simple, Transparent and Standardised (STS) asset backed commercial paper programme. It also sets out the revised capital framework for the securitisation positions.

The new framework amends the capital requirements for securitisation positions by introducing a new standardised approach (SEC-SA) and an external ratings based approach. It also sets out the grandfathering provisions which apply in 2019 for assets that were securitised before 1 January 2019. In addition, during the year, the Bank of England (BoE) and the PRA issued a number of other revisions to the regulatory framework. In particular:

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

### Europe

Changes to the BCBS framework are being implemented in Europe through changes to the Capital Requirements Directive and Regulation. Together, these changes are known as the 'CRRII/CRDV' package. The key CRRII/CRDV changes applicable to 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 compromise text of CRRII/CRDV package was agreed by the European parliament and council on 4 December 2018 and the final text was approved by the parliament and council on 14 February 2019 and was passed by plenary vote on 15 April 2019 and was adopted by the parliament at end of April 2019. The final implementation date has not yet been set.

## *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, the Investec group targets a minimum CET 1 capital ratio of above 10%, a tier 1 capital ratio of above 11% and a total capital ratio target in the range of 14% to 17%. These targets are set on a DLC basis and exclude the deduction of foreseeable charges and dividends as required under the CRR and EBA technical standards. These targets are continuously assessed for appropriateness.

### Leverage

Investec targets 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' approach to capital management 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 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 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 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 in an expected case and in downturn scenarios. On the basis of the results of this analysis, the DLC Capital Committee and the DLC BRCC are presented with the potential variability in capital adequacy and are responsible, in consultation with the board, for considering the appropriate response.

## Capital disclosures

The composition of our regulatory capital under a Basel III/CRD IV basis is provided in the table below.

### Capital structure and capital adequacy

| At 31 March 2019 | Investec plc*º £'million | IBP*º £'million | Standardised: Investec Limited*^ R'million | Standardised: IBL*^ R'million | Pro-forma** FIRB: Investec* Limited R'million | Pro-forma** FIRB: IBL* R'million |
|---|---|---|---|---|---|---|
| **Tier 1 capital** | | | | | | |
| Shareholders' equity | 1 981 | 1 908 | 39 966 | 39 770 | 39 966 | 39 770 |
| Shareholders' equity excluding non-controlling interests | 2 022 | 1 921 | 43 149 | 41 304 | 43 149 | 41 304 |
| Perpetual preference share capital and share premium | (25) | – | (3 183) | (1 534) | ( 3 183) | (1 534) |
| Deconsolidation of special purpose entities | (16) | (13) | – | – | – | – |
| Non-controlling interests | 7 | (8) | – | – | – | – |
| Non-controlling interests per balance sheet | 13 | (8) | 9 922 | – | 9 922 | – |
| Non-controlling interests excluded for regulatory purposes | – | – | (9 922) | – | (9 922) | – |
| Surplus non-controlling interest disallowed in common equity tier 1 | (6) | – | – | – | – | – |
| Regulatory adjustments to the accounting basis | 110 | 110 | 1 155 | 1 157 | 931 | 931 |
| Additional value adjustments | (5) | (5) | – | – | – | – |
| Gains or losses on liabilities at fair value resulting from changes in our credit standing | 21 | 21 | – | – | – | – |
| Cash flow hedging reserve | – | – | 931 | 931 | 931 | 931 |
| Adjustment under IFRS 9 transitional arrangement | 94 | 94 | 224 | 226 | – | – |
| Deductions | (447) | (348) | (2 971) | (2 776) | (3 825) | (3 461) |
| Goodwill and intangible assets net of deferred tax | (434) | (335) | (629) | (588) | (629) | (588) |
| Investment in financial entity | – | – | (2 138) | (2 153) | (2 221) | (2 236) |
| Deferred tax assets that rely on future profitability excluding those arising from temporary differences | (13) | (13) | – | – | – | – |
| Shortfall of eligible provisions compared to expected loss | – | – | – | – | (604) | (602) |
| Other regulatory adjustments | – | – | (204) | (35) | (371) | (35) |
| **Common equity tier 1 capital** | **1 651** | **1 662** | **38 150** | **38 151** | **37 072** | **37 240** |
| **Additional tier 1 capital** | 274 | 250 | 2 432 | 920 | 2 374 | 920 |
| Additional tier 1 instruments | 274 | 250 | 5 727 | 1 994 | 5 727 | 1 994 |
| Phase out of non-qualifying additional tier 1 instruments | – | – | (3 302) | (1 074) | (3 302) | (1 074) |
| Non-qualifying surplus capital attributable to non-controlling interest | – | – | (78) | – | (136) | – |
| Non-controlling interest in non-banking entities | – | – | 85 | – | 85 | – |
| **Tier 1 capital** | **1 925** | **1 912** | **40 582** | **39 071** | **39 446** | **38 160** |
| **Tier 2 capital** | 485 | 596 | **13 165** | **14 795** | **11 566** | **14 401** |
| Collective impairment allowances | – | – | 876 | 877 | 483 | 483 |
| Tier 2 instruments | 597 | 596 | 15 857 | 13 918 | 15 857 | 13 918 |
| Phase out of non-qualifying tier 2 instruments | (1) | – | – | – | – | – |
| Non-qualifying surplus capital attributable to non-controlling interests | (111) | – | (3 568) | – | (4 774) | – |
| **Total regulatory capital** | **2 410** | **2 508** | **53 747** | **53 866** | **51 012** | **52 561** |
| **Risk-weighted assets** | **15 313** | **14 631** | **361 750** | **340 315** | **318 533** | **297 506** |
| **Capital ratios^^** | | | | | | |
| Common equity tier 1 ratio | 10.8% | 11.4% | 10.5% | 11.2% | 11.6% | 12.5% |
| Tier 1 ratio | 12.6% | 13.1% | 11.2% | 11.5% | 12.4% | 12.8% |
| Total capital ratio | 15.7% | 17.1% | 14.9% | 15.8% | 16.0% | 17.7% |

* *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.*

º *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 £63 million for Investec plc and £19 million for IBP would lower the CET 1 ratio by 41bps 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 27bps and14bps lower respectively.*

^^ *CET 1,T1, total capital ratios and RWAs are calculated applying the IFRS 9 transitional arrangements.*

** *We have approval to adopt the Foundation Internal Ratings Based (FIRB) approach, effective 1 April 2019. We present numbers on a pro-forma basis for 31 March 2019.*

## *Capital structure and capital adequacy* *(continued)*

| At 1 April 2018 | Investec plc*° £'million | IBP*° £'million | Investec Limited*^ R'million | IBL*^ R'million |
|---|---|---|---|---|
| **Tier 1 capital** | | | | |
| Shareholders' equity | 1 830 | 1 795 | 35 265 | 35 637 |
| Shareholders' equity per balance sheet | 1 863 | 1 800 | 38 448 | 37 171 |
| 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 transferred to tier 1 | – | – | (9 503) | – |
| Surplus non-controlling interest disallowed in CET 1 | (4) | – | – | – |
| **Regulatory adjustments to the accounting basis** | 142 | 145 | 1 358 | 1 345 |
| Defined benefit pension fund adjustment | (3) | – | – | – |
| Additional value adjustments | (4) | (4) | – | – |
| Cash flow hedging reserve | – | – | 993 | 994 |
| Gains or losses on liabilities valued at fair value resulting from changes in own credit standing | 55 | 55 | – | – |
| Adjustments under IFRS 9 transitional arrangements | 94 | 94 | 365 | 351 |
| **Deductions** | (460) | (361) | (2 773) | (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** | **1 524** | **1 576** | **33 850** | **34 286** |
| **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 interests | – | – | (72) | – |
| Minority interest in non banking entities | – | – | 70 | – |
| **Tier 1 capital** | **1 798** | **1 776** | **36 635** | **35 249** |
| **Tier 2 capital** | **368** | **445** | **12 429** | **14 090** |
| Collective impairment allowances | – | – | 716 | 716 |
| Tier 2 instruments | 446 | 445 | 15 013 | 13 374 |
| Non-qualifying surplus capital attributable to non-controlling interests | (78) | – | (3 300) | – |
| **Total regulatory capital** | **2 166** | **2 221** | **49 064** | **49 339** |
| **Risk-weighted assets** | **14 444** | **13 777** | **337 892** | **320 475** |
| **Capital ratios** | | | | |
| Common equity tier 1 (as reported) | 10.5% | 11.4% | 10.0% | 10.7% |
| Tier 1 (as reported) | 12.4% | 12.9% | 10.8% | 11.0% |
| Total capital ratio (as reported) | 15.0% | 16.1% | 14.5% | 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 £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 2018 | Investec plc*º £'million | IBP*º £'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) | (2 773) | (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 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.*

º *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 requirements

| | Investec plc* £'million | IBP* £'million | Investec Limited* R'million | IBL* R'million |
|---|---|---|---|---|
| **At 31 March 2019** | | | | |
| **Capital requirements** | **1 225** | **1 170** | **41 703** | **39 237** |
| Credit risk | 909 | 893 | 33 649 | 33 341 |
| Equity risk | 10 | 9 | 2 701 | 1 863 |
| Counterparty credit risk | 48 | 49 | 711 | 732 |
| Credit valuation adjustment risk | 6 | 6 | 356 | 391 |
| Market risk | 68 | 67 | 641 | 381 |
| Operational risk | 184 | 146 | 3 645 | 2 529 |
| **At 1 April 2018** | | | | |
| **Capital requirements** | **1 156** | **1 101** | **37 590** | **35 653** |
| Credit risk | 845 | 824 | 29 323 | 28 855 |
| 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 2018** | | | | |
| **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 |

## Investec plc

### Movement in risk-weighted assets

Total RWAs have increased by 6% over the period, predominantly within credit risk RWAs.

### Credit risk RWAs

Investec plc have adopted the standardised approach for calculating credit risk RWAs. Credit risk RWAs, which include equity risk, increased by £883 million. The increase is primarily driven by diversified growth across the corporate and retail portfolio coupled with continued mortgage loan growth.

### Counterparty credit risk RWAs and CVA risk

Counterparty credit risk and CVA RWAs decreased by £80 million mainly due to increased equity options cleared through a central counterparty which benefits from a lower risk weight.

### Market risk RWAs

Investec plc apply the standardised approach for calculating market risks. Market risks RWAs decreased by £110 million primarily driven by equity market movements and hedging activities.

### Operational risk RWAs

Operational risk RWAs are calculated using the standardised approach increased by £209 million. The increase is due to a higher three year average operating income.

## *Risk-weighted assets*

| | **Investec plc* £'million** | IBP* £'million | **Investec Limited* R'million** | IBL* R'million |
|---|---|---|---|---|
| **At 31 March 2019** | | | | |
| **Risk-weighted assets** | **15 313** | **14 631** | **361 750** | **340 315** |
| Credit risk | 11 361 | 11 174 | 291 886 | 289 168 |
| Equity risk | 121 | 115 | 23 433 | 16 159 |
| Counterparty credit risk | 605 | 611 | 6 166 | 6 349 |
| Credit valuation adjustment risk | 75 | 76 | 3 090 | 3 392 |
| Market risk | 855 | 833 | 5 558 | 3 308 |
| Operational risk | 2 296 | 1 822 | 31 617 | 21 939 |
| **At 1 April 2018** | | | | |
| **Risk-weighted assets** | **14 444** | **13 777** | **337 892** | **320 475** |
| Credit risk | 10 554 | 10 304 | 263 579 | 259 362 |
| 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 2018** | | | | |
| **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 |

* *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 Limited*

### Movement in RWAs

Total RWA grew by 6.9% over the period, with the reasons identified in the categories below.

### Credit risk RWAs

Credit risk weighted assets grew by R27.7 billion which is associated with growth in lending activities as well as an increase in term and short-dated corporate lending.

### Counterparty credit risk and CVA RWAs

Counterparty credit risk and CVA RWAs decreased by R2.9 billion. Over-the-counter (OTC) Derivative exposures are predominantly transacted with high credit quality financial counterparties largely on a collateralised basis. Secured financing transactions (SFT) remained flat over the period.

### Equity risk RWAs

Equity risk decreased by R1.7 billion. The risk weight attributable to equity investments is relatively high, with listed equities attracting an effective 318% and unlisted equities 424%. The impact of this is proportionately much larger movement in RWA than the associated balance sheet equity value.

### Market risk RWAs

Market risk RWAs are calculated using the Value at Risk (VaR) approach. Trading desks took on minimal levels of directional risk while primarily focusing on client facilitation under volatile market conditions.

### 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

| | Investec plc £'million* | IBP £'million* | Investec Limited R'million*^ | IBL R'million*^ |
|---|---|---|---|---|
| **At 31 March 2019** | | | | |
| Exposure measure | 24 282 | 23 849 | 534 230 | 505 070 |
| Tier 1 capital∞ | 1 925 | 1 912 | 40 582 | 39 071 |
| **Leverage ratio** – current** | **7.9%** | **8.0%** | **7.6%#** | **7.7%#** |
| Tier 1 capital fully loaded | 1 824 | 1 835 | 38 889 | 38 364 |
| **Leverage ratio** – fully loaded^^** | **7.5%** | **7.7%** | **7.3%#** | **7.6%#** |
| **At 1 April 2018** | | | | |
| Exposure measure | 21 771 | 21 335 | 495 349 | 466 522 |
| Tier 1 capital∞ | 1 798 | 1 776 | 36 635 | 35 249 |
| **Leverage ratio – current** | **8.3%** | **8.3%** | **7.4%#** | **7.6%#** |
| Tier 1 capital fully loaded | 1 729 | 1 731 | 34 179 | 33 935 |
| **Leverage ratio – fully loaded^^** | **8.0%** | **8.2%** | **6.9%#** | **7.3%#** |
| **At 31 March 2018** | | | | |
| 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%#** |

* *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.*

^ *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 27bps and 14bps lower. At 31 March 2018, Investec Limited's and IBL's common equity tier 1 ratio would be 25bps and 13bps lower.*

\# *Based on revised BIS rules.*

∞ *Tier 1 (T1) capital includes the IFRS 9 transitional arrangements.*

^^ *The fully loaded leverage ratio at 31 March 2019 assumes full adoption of IFRS 9 and full adoption of all CRD IV rules or South African Prudential Authority regulations. As a result of the adoption of IFRS 9 Investec plc and IBP elected to designate its subordinated fixed rate medium-term notes due in 2022 at fair value. By the time of full adoption of IFRS 9 in 2023, these subordinated liabilities will have reached final maturity and will be redeemed at par value. The remaining interest rate portion of the fair value adjustment at 31 March 2019 of £17.7 million (post-taxation), has therefore been excluded from the fully loaded ratios as it will be released into profit and loss over the remaining life of the instrument.*

^^^ *The fully loaded leverage ratio assumes full adoption of all CRD IV rules or South African Prudential Authority regulations.*

## *Total regulatory capital flow statement*

| At 31 March 2019 | Investec plc* £'million | IBP* £'million | Investec Limited* R'million | IBL* R'million |
|---|---|---|---|---|
| **Opening common equity tier 1 capital** | **1 587** | **1 639** | **34 379** | **34 829** |
| New capital issues | 66 | – | 756 | – |
| Dividends | (123) | (46) | (2 817) | (1 022) |
| Profit after taxation | 189 | 159 | 6 175 | 4 963 |
| IFRS 9 adjustment | (213) | (213) | (894) | (894) |
| Treasury shares | (42) | – | (1 119) | – |
| Gain on transfer of non-controlling interest | – | – | 320 | – |
| Share-based payment adjustments | 30 | (2) | 776 | – |
| Net equity impact on non-controlling interest movement | 31 | – | – | – |
| Movement in other comprehensive income | 13 | 14 | 732 | 299 |
| Investment in financial entity | | | 10 | (41) |
| Goodwill and intangible assets (deduction net of related taxation liability) | 13 | 13 | (5) | (5) |
| Deferred tax that relies on future profitability (excluding those arising from temporary differences) | (5) | (4) | – | – |
| Deconsolidation of special purpose entities | (8) | (8) | – | – |
| Gains or losses on liabilities at fair value resulting from changes in own credit standing | 21 | 21 | – | – |
| IFRS 9 Transitional adjustments | 94 | 94 | 225 | 225 |
| Other, including regulatory adjustments and transitional arrangements | (2) | (5) | (388) | (203) |
| **Closing common equity tier 1 capital** | **1 651** | **1 662** | **38 150** | **38 151** |
| **Opening additional tier 1 capital** | **274** | **200** | **2 785** | **963** |
| New additional tier 1 issues | – | 50 | 110 | 110 |
| Other, including regulatory adjustments and transitional arrangements | – | – | (478) | (153) |
| Movement in monthly interest in non-banking entities | | | 15 | – |
| **Closing additional tier 1 capital** | **274** | **250** | **2 432** | **920** |
| **Closing tier 1 capital** | **1 925** | **1 912** | **40 582** | **39 071** |
| **Opening tier 2 capital** | **359** | **445** | **12 348** | **14 009** |
| New tier 2 capital issues | 418 | 418 | 849 | 849 |
| Redeemed capital | (267) | (267) | (1 210) | (1 210) |
| Collective impairment allowances | | | 241 | 242 |
| Other, including regulatory adjustments and other transitional arrangements | (25) | – | 937 | 905 |
| **Closing tier 2 capital** | **485** | **596** | **13 165** | **14 795** |
| **Closing total regulatory capital** | **2 410** | **2 508** | **53 747** | **53 866** |

* *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.*

| 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.*

## A summary of capital adequacy and leverage ratios

| | Investec plc°* | IBP°* | Investec Limited*^ | IBL*^ |
|---|---|---|---|---|
| **As at 31 March 2019** | | | | |
| Common equity tier 1 (as reported)□ | 10.8% | 11.4% | 10.5% | 11.2% |
| Common equity tier 1 fully loaded^^ | 10.4% | 10.9% | 10.5% | 11.1% |
| Tier 1 (as reported)□ | 12.6% | 13.1% | 11.2% | 11.5% |
| Total capital ratio (as reported)° | 15.7% | 17.1% | 14.9% | 15.8% |
| Leverage ratio** – current | 7.9% | 8.0% | 7.6%# | 7.7%# |
| Leverage ratio** – fully loaded^^ | 7.5% | 7.7% | 7.3%# | 7.6%# |
| **As at 1 April 2018** | | | | |
| Common equity tier 1 (as reported)□ | 10.5% | 11.4% | 10.0% | 10.7% |
| Common equity tier 1 fully loaded^^ | 10.3% | 11.2% | 9.8% | 10.6% |
| Tier 1 ( as reported)□ | 12.4% | 12.9% | 10.8% | 11.0% |
| Total capital ratio (as reported)° | 15.0% | 16.1% | 14.5% | 15.4% |
| Leverage ratio – current | 8.3% | 8.3% | 7.4%# | 7.6%# |
| Leverage ratio – fully loaded^^ | 8.0% | 8.2% | 6.9%# | 7.3%# |
| **As at 31 March 2018** | | | | |
| 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 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%# |

* *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 £63 million (31 March 2018: £65 million) for Investec plc and £19 million (31 March 2018: £18 million) for IBP would lower the CET 1 ratio by 41bps (31 March 2018: 45bps) and 13bps (31 March 2018: 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 27bps and 14bps lower. At 31 March 2018, Investec Limited's and IBL's common equity tier 1 ratio would be 25bps and 13bps lower.*

□ *The reported CET 1, T1 and total capital adequacy ratios are calculated applying the IFRS 9 transitional arrangements.*

^^ *The CET 1 fully loaded ratio and the fully loaded leverage ratio assumes full adoption of IFRS 9 and full adoption of all CRDIV rules of South African Prudential Authority regulations. As a result of the adoption of IFRS 9 Investec plc elected to designate its subordinated fixed rate medium-term notes due in 2022 at fair value. By the time of full adoption of IFRS 9 in 2023, these subordinated liabilities will have reached final maturity and will be redeemed at par value. The remaining interest rate portion of the fair value adjustment at 31 March 2019 of £17.7 million (post-taxation), has therefore been excluded from the fully loaded ratios as it will be released into profit and loss over the remaining life of the investment.*

^^^ *The fully loaded CET 1 ratio and leverage ratio assumes full adoption of all CRD IV rules or South African Prudential Authority regulations.*

\# *Based on revised BIS rules.*

# 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 13 June 2019 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 | A1 |
| 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 | | baa1 |
| ***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 |

As a result of the regulatory responsibilities arising from the DLC structure, there are two group Internal Audit functions 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 respective chairs of the audit committees as well as dotted lines to 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 heads 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 publication by the Chartered Institute for Internal Auditors entitled Effective Internal Audit in the Financial Services Sector, final report issued in January 2015. The next QAR review will take place during the 2019/20 financial year.

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 twelve 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. Thematic audits, which cover processes across multiple business units, are part of the audit plan and serve to provide consistent and integrated assurance between group functions and the operating entities. 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 committees receive a report on significant control 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.

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, which is assessed annually by the respective audit committees with no adverse outcomes. 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 to ensure resourcing is appropriate, that the function operates independently and effectively, and appropriate succession planning is in place. Regulatory change continues to be a key challenge in the financial sector with global political events adding uncertainty as to the shape of the financial services regulation going forward. Global regulations 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 forums. The group's remained 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.

**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**

Regulatory change continues to be a key challenge in the financial sector with global political events adding 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.

The group remains focused on maintaining the highest levels of compliance in relation to regulatory requirements and integrity in all 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*

During the period the UK's Financial Conduct Authority (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.

Consistent with these three overall objectives, the FCA has maintained its focus on firms' culture and conduct, establishing a clear expectation that UK regulated banks maintain robust frameworks for managing risk in these key areas. Specifically, UK firms are expected to be able to demonstrate that their culture, governance and approach to rewarding and managing staff are at all times aligned to the interests of customers and the firms' other stakeholders.

The board, along with senior management are ultimately responsible for the group's culture and conduct risk frameworks. The group 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 maintained its ongoing commitment to creating a fair, transparent and well-functioning financial services market for all consumers. It has focused on consumer vulnerability and access to the financial services, which is now a core part of the FCA's work and supervisory approach. Over the period this has included issuing of fines and performing continued strategic reviews into areas such as: culture and governance, retail banking, consumer credit, retail investments and cryptocurrencies.

### *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.

### *Financial crime*

Financial crime continues to be an increasing 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 Business Plan also highlights financial crime (frauds and scams) and anti-money laundering (AML) as one of their key cross-sector priorities with a particular focus on the harm caused by money laundering within capital markets. The group maintains robust due diligence with relevant policies, procedures and training to guard against the risks of financial crime.

### *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.

The details of a Brexit agreement between the EU and the UK and is still subject to material uncertainty. As such, during the period, Investec dedicated resources to ensuring that Investec Asset Management, Investec Bank plc and Investec Wealth & Investments have robust contingency plans in place to maintain access to EU clients and markets in the event of 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. For Australia and Switzerland, CRS took effect from 1 January 2017 with reporting commencing from 2018 for individuals only. The reporting for entities will commence in 2019. 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 becoming effective from April 2018. The Financial Sector Conduct Authority (FSCA) has proceeded with its mandate as the conduct regulator for all financial institutions. The regulatory reform will continue for at least the next five years.

### *Conduct risk and consumer protection*

The draft Conduct of Financial Institutions Bill (COFI) was published for comment in December 2018. The intention is that the COFI legislation, once enacted, will consolidate and strengthen conduct laws and ensure financial inclusion and transformation of the financial sector.

Other significant, relevant regulatory developments impacting Investec include the Insurance Act, Amendments to the Policyholder Protection Rules and the Long Term Insurance Act, the Code of Conduct for Over-The-Counter-Derivatives Providers, Authorisation Criteria for Over-The-Counter-Derivatives Providers, the reports for the Retail Banking Diagnostic and the Wholesale Financial Markets Review, and staggered consultation and implementation of the Retail Distribution Review proposals.

The Information Regulator tabled the draft Regulations relating to the Protection of Personal Information Act (PoPIA) on the 3 December 2018 and the final Regulations were published in the Government Gazette on the 14 December 2018. It is anticipated that the effective date for the Regulations will be aligned to the effective date for the remaining sections of PoPIA.

The General Data Protection Regulation (GDPR) applies since the 25 May 2018. GDPR brings about a single set of data protection rules for all organisations operating in the European Union, regardless of where organisations are based.

In order to ensure that Investec Ltd complies with all applicable data protection legislation, the requirements of PoPIA and GDPR have been aligned.

### *Financial crime*

Financial crime continues to be a regulatory focus for the group both locally and globally especially in the areas of Anti-Money Laundering ("AML"), Combatting the Financing of Terrorism ("CFT"), Sanctions and Anti-Bribery and Corruption practices.

Efforts are focused on increasing system capability, developing and implementing effective controls and ensuring adequate resourcing to improve efficiency and manage and mitigate money laundering, terrorist financing and bribery and corruption risk.

In 2017 the Financial Intelligence Centre (FIC) under the auspices of the South African National Treasury promulgated the revised Financial Intelligence Centre Act 1 of 2017, with the effective date of 2 October 2017. A transitional period from the 2 October 2017 to the 2 April 2019 was provided by the FIC, in order to enable accountable and reporting institutions to implement the necessary requirements. This amendment introduces a number of new requirements, the most significant being the departure from the Rules – Based Approach to a Risk Based Approach ("RBA"). The RBA requires that AML, CFT and sanctions controls adopted are proportionate to the financial crime risks identified. This will ensure that enhanced measures are applied where the financial crime risks are higher and simplified measures are applied where the risks are lower. In this way, an organisation is able to target its resources more effectively, whilst ensuring that these risks are efficiently mitigated and managed.

### *Tax reporting (FATCA/CRS)*

South Africa and Mauritius have inter-governmental agreements in place with the USA and each have enacted local law/ regulation to implement FATCA locally. This allows South 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 South Africa and Mauritius are in the process of preparing their fifth annual FATCA reports.

The CRS became effective in South Africa on 1 March 2016. South Africa opted for the 'wider-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. South Africa is in the process of preparing its 3rd annual CRS report. Mauritius conducted its first exchange of information in 2018 and is in the process of preparing its second annual CRS report.

# GLOSSARY

The following abbreviations have been used throughout this report:

| | |
|---|---|
| ALCO | Asset and Liability Committee |
| ANC | African National Congress |
| BCBS | Basel Committee of Banking Supervision |
| BIS | Bank for International Settlements |
| BoE | Bank of England |
| BOM | Bank of Mauritius |
| CEO | Chief Executive Officer |
| CET1 | Common Equity Tier 1 |
| CLF | Committed liquidity facility |
| CRDIV (BASEL III) | Capital Requirements Directive IV |
| CVA | Credit value adjustment |
| DLC | Dual listed company |
| DLC BRCC | DLC Board Risk and Capital Committee |
| DLC Nomdac | DLC Nominations and Directors Affairs Committee |
| DLC Remco | DLC Remuneration Committee |
| DLC SEC | DLC Social and Ethics Committee |
| EAD | Exposure at default |
| EBA | European Banking Authority |
| ECL | Expected credit losses |
| ESG | Environmental, social and governance |
| EU | European Union |
| FCA | Financial Conduct Authority |
| FINMA | Swiss Financial Market Supervisory Authority |
| FIRB | Foundation Internal Ratings-Based |
| FVOCI | Fair value through other comprehensive income |
| FVPL | Fair value through profit and loss |
| GFSC | Guernsey Financial Services Commission |
| IASs | International Accounting Standards |
| IBL | Investec Bank Limited |
| IBL BRCC | IBL Board Risk and Capital Committee |
| IBL ERC | IBL Executive Risk Committee |
| IBP | Investec Bank plc |
| IBP BRCC | IBP Board Risk and Capital Committee |
| IBP ERC | IBP Executive Risk Committee |
| IFRS | International Financial Reporting Standard |
| LCR | Liquidity Coverage Ratio |
| LGD | Loss given default |
| NSFR | Net Stable Funding Ratio |
| OCI | Other comprehensive income |
| OECD | Organisation for Economic Co-operation and Development |
| OTC | Over the counter |
| PD | Probability of default |
| Policy ERRF | Policy Executive Risk Review Forum |
| PRA | Prudential Regulation Authority |
| PRASA | Passenger Rail Agency of South Africa |
| S&P | Standard & Poor's |
| SAA | South African Airways |
| SARS | South African Revenue Service |
| SME | Small and Medium-sized Enterprises |
| South African PA | South African Prudential Authority (previously known as the Banking Supervision Division of the South African Reserve Bank) |
| SOE | State-Owned Enterprise |
| SPPI | Solely payments of principal and interest |

### *Adjusted earnings attributable to ordinary shareholders*

Earnings attributable to shareholders adjusted to remove impairment of goodwill, amortisation of acquired intangibles, non-operating items, and earnings attributable to perpetual preference shareholders and Other Additional Tier 1 security holders

Refer to page 62 of volume one.

### *Alternative performance measures*

We supplement our IFRS figures with alternative performance measures used by management internally and which provide valuable, relevant information to readers of the financial statements. The definitions and basis for calculation of these measures are provided on these definitions pages.

Alternative performance measures constitute pro forma financial information. The pro forma financial information, is the responsibility of the board of directors and is presented for illustrative purposes only and because of its nature may not fairly present the group's financial position, changes in equity, and results in operations or cash flows.

Investec's external auditor, Ernst & Young Inc., issued a limited assurance report in respect of the alternative performance measures. The limited assurance report is available for inspection at Investec's registered address.

### *Annuity income*

Net interest income plus net annuity fees and commissions

### *Cash and near cash*

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

### *Core loans and advances*

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

Refer to calculation on page 33

### *Cost to income ratio*

Operating costs divided by operating income before ECL (net of depreciation on operating leased assets and net of operating profits or losses attributable to other non-controlling interests)

### *Coverage ratio*

ECL divided by gross core loans and advances subject to ECL

### *Credit loss ratio*

Expected credit loss impairment charges (ECL) on gross core loans and advances as a percentage of average gross core loans and advances subject to ECL

### *Gearing ratio*

Total assets excluding assurance assets to total equity

### *Legacy business in the UK Specialist Bank ('Legacy')*

Legacy, as separately disclosed from 2014 to 2018, comprises pre-2008 assets held on the UK bank's balance sheet, that had very low/negative margins and assets relating to business we are no longer undertaking

### *Ongoing basis*

Ongoing information, as separately disclosed from 2014 to 2018, excludes Legacy assets (refer to definition), as well as the following businesses sold in previous years: Investec Bank (Australia) Limited, Kensington Group plc and Start Mortgage Holdings Limited

### *Return on average ordinary shareholders' equity (ROE)*

Refer to calculation on page 62 of volume one

### *Return on average tangible ordinary shareholders' equity*

Refer to calculation on page 62 of volume one

### *Return on risk-weighted assets*

Adjusted earnings attributable to ordinary shareholders divided by average risk-weighted assets, where risk-weighted assets is calculated as the sum of risk-weighted assets for Investec plc and Investec Limited (converted into Pounds Sterling) as reflected on page 62 of volume one

* *Investec Asset Management operates schemes for staff whose bonuses are deferred into collective investment schemes that are managed by Investec Asset Management. 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 Investec Asset Management and hence for the group as a whole.*

## 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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# NOTES

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