ANNUAL REPORT | 2020

VOL 2
Investec risk disclosures

START HERE ⟶

Investec

VOL. 1

Strategic report incorporating environmental, social and governance (ESG) the remuneration report

VOL. 2

Risk disclosures

VOL. 3

Annual financial statements

THE 2020 INTEGRATED ANNUAL REPORT COVERS THE PERIOD 1 APRIL 2019 TO 31 MARCH 2020 AND PROVIDES AN OVERVIEW OF THE INVESTEC GROUP.

MAIN MENU →

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.

CONTENTS

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

GROUP SUSTAINABILITY
Refer readers to further information in our group sustainability report available on our website: www.investec.com

REPORTING STANDARD
Denotes our consideration of a reporting standard

01 *Risk disclosures*

CORPORATE INFORMATION

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Registration number 3633621

Investec Limited

Registration number 1925/002833/06

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Refer to page 120 in volume one.

RISK
DISCLOSURES

1

Overview of disclosure requirements

The risk disclosures provided are 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 13 to 90 with further disclosures provided within the annual financial statements section in volume three.

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

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. All references in this report to Investec, the Investec group, the group or DLC relate to the combined Investec DLC group comprising Investec plc and Investec Limited.

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.

www

Furthermore, the group publishes separate Pillar III disclosure reports for Investec Limited, Investec plc, Investec Bank Limited (IBL) and Investec Bank plc (IBP) 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 United Kingdom (UK). These can be found on the Investec group's website.

Statement from the CEO

Philosophy and approach to risk management

The DLC Board Risk and Capital Committee (DLC BRCC) (comprising both executive and non-executive directors) meets at least six times per annum and recommends the overall risk appetite for the Investec group to the board for approval. 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 risks arising from running our business.

The board has closely monitored developments as a result of the COVID-19 pandemic and receives regular updates. There has been enhanced governance and additional oversight on areas that have been most exposed to the pandemic to date.

Our comprehensive risk management process involves identifying, quantifying, managing, monitoring, mitigating and reporting the risks associated with each of our businesses to ensure the risks remain within the stated risk appetite.

The group has a strong and embedded risk and capital management culture. Risk awareness, control and compliance are embedded in all our day-to-day activities through a levels of defence model.

We monitor and control risk exposure through independent credit, market, liquidity, operational, legal risk, internal audit, capital 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 and we are continually seeking new ways to enhance risk management 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 pages 6 to 15 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

The executive management is 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 overall Investec group strategy. The primary aim is to achieve a suitable balance between risk and reward in our business. Although the current macro-environment due to the COVID-19 pandemic continues to present significant challenges, the group was able to maintain generally sound asset performance and risk metrics throughout the year in review. Our risk appetite framework is set out on page 11.

In the UK, Brexit heightened political uncertainty and geopolitical tensions sparked by US trade wars adversely impacted activity levels over the past year, making the operating environment very challenging. In South Africa, the financial year was characterised by persistent weak economic fundamentals. Against this backdrop, in the first quarter of 2020, the COVID-19 pandemic combined with an oil price shock stunned global markets resulting in unprecedented market dislocations. The sudden imposition of social containment measures in the UK, South Africa, as well as many countries across the world led to a synchronised slowdown of economic activity, mounting financial pressure on our clients. 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.

On 27 March 2020, Moody's downgraded South Africa's sovereign credit rating by one notch from Baa3 (investment grade) to Ba1, maintaining a negative outlook. Fitch downgraded South Africa's rating further, to BB from BB+. The outlook remains negative. On 29 April 2020, Standard & Poor's (S&P) also downgraded South Africa's sovereign credit outlook by one notch, to BB- with a stable outlook. The downgrades, taken in isolation of any other matters, are expected to have an immaterial impact on Investec's risk-weighted assets (RWAs) and therefore the impact on regulatory capital is also expected to be immaterial. In addition, the downgrades are expected to have a small impact on IBL's cost of funds over time, as a result of IBL being predominantly domiciled in South Africa and raising most of its deposits and funding in the closed rand system, with very little mismatch between foreign denominated funding and foreign denominated assets. The bank's ratings continued to track rating adjustments to the South African sovereign rating during the course of the year. IBL's national long-term ratings remain sound at Aa1.za from Moody's, AA(zaf) from Fitch and za.AA from S&P.

IBP's ratings are in line with the prior year. IBP's long-term Moody's deposit rating is A1 (stable outlook) and Investec plc's rating is Baa1 (stable outlook). IBP's long-term Fitch rating is BBB+ on Rating Watch Negative. Fitch took a number of negative rating actions on 18 UK banking groups in April 2020 to reflect the heightened risk from the global COVID-19 pandemic. IBP's outlook was changed from Stable to Rating Watch Negative but the rating was maintained at BBB+. At 31 March 2019, IBP had been on Rating Watch Negative by Fitch along with a number of other UK banks due to Brexit uncertainty.

The group's net core loan book remained broadly flat at £24.9 billion but increased 9.2% in neutral currency. In the UK, growth in net core loans was driven by the residential owner-occupied mortgage portfolio as we gained good traction in our Private Banking strategy, as well as diversified growth in other private client and corporate client lending portfolios together with selective lending collateralised by property, with loan to values at conservative levels. In South Africa, growth in the net core loans was driven by growth in the high net worth and specialised lending portfolio partially offset by subdued corporate client activity. Credit exposures are focused on secured lending to a select target market, comprising high-income and high net worth individuals, established corporates, and medium-sized enterprises. Our risk appetite continued 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, mortgages and corporate and other lending, and maintaining lending collateralised by property as a smaller proportion of net core loans. The group's net core loan exposures remain well diversified with commercial rent producing property loans comprising approximately 11.4% of net core loans, other lending collateralised by property 5.3%, high net worth and private client lending 39.2% and corporate and other lending 44.1% (with most industry concentrations well below 5%). At 31 March 2020 our exposure to sectors considered vulnerable to COVID-19 in the UK totalled £1.8 billion or 14.6% of gross core loans and advances. This was predominantly through our aviation finance (4.0%) and small ticket asset finance (5.6%) businesses. In South Africa, at 31 March 2020, our exposure to sectors considered vulnerable to COVID-19 excluding property totalled R19.7 billion or 6.7% of gross core loans and advances and include our aviation and trade finance businesses. We, however, remain confident that we have a well-diversified portfolio across sectors. Government stimulus and support measures are expected to mitigate the impact on vulnerable sectors but it remains too early to assess the full impact of this.

Asset quality metrics before the COVID-19 pandemic reflected the solid performance of core loans. Pre COVID-19, the group's credit loss ratio was calculated at 0.28% for 31 March 2020 (31 March 2019: 0.31%) however, after taking into account the impacts of COVID-19 the overall credit loss ratio was 0.52%. This largely reflecting a deterioration in macro-economic scenario forecasts modelled by applying a £19 million expected credit loss (ECL) overlay in the UK as well as an amount that relates to a single name transaction impacted by the COVID-19 pandemic and the deterioration of the macro-economic scenarios in South Africa adjusting for COVID-19 and the South African sovereign downgrades.

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 applies the IFRS 9 transitional arrangements to regulatory capital calculations to absorb the full impact permissible of IFRS 9. Investec Limited absorbed the full impact of IFRS 9 on 1 April 2019, on adoption of the Foundation Internal Rating-Based Approach (FIRB) for credit risk.

Assessing the expected impact from COVID-19 as well as the offsetting effect of the unprecedented levels of government measures required significant judgement. Regulatory bodies have provided guidance on expectations around provisioning and staging treatment of exposures. The basis for the management overlay in the UK was a weighted consideration of two macro-economic scenarios, which were developed by Investec's economists to take account of the COVID-19 pandemic as at 31 March 2020, a COVID-19 short scenario and a COVID-19 long scenario characterised by a 9.4% contraction in gross domestic

product (GDP). In addition, management considered the extent of the expected impact from government measures not captured in the scenarios as well as the expected trajectory of the recovery in applying the £19 million ECL overlay across the performing portfolio to capture risks not yet identified in the models.
In South Africa, the expected impact from COVID-19 as well as the offsetting effect of government relief measures, required significant judgement. Regulatory bodies provided guidance on expectations around provisioning and staging treatment of exposures. The forward looking macro-economic scenarios used in the measurement of ECL were updated to capture the wide-reaching impacts of the sovereign downgrade by Moody's to sub-investment grade as well as the initial impact of COVID-19. A further management ECL overlay of R190 million was introduced as at 31 March 2020 to capture the anticipated impact of South Africa's national lockdown on the commercial real estate portfolio as the calculated model-driven Stage 1 ECL for this portfolio was not considered sufficient. The management ECL overlay was estimated after stressing the probability of default (PD) and loss given default (LGD) for the commercial real estate portfolio. In line with our previous approach Stage 3 ECLs continued to be assessed using expert credit judgement.

Stage 2 exposures totalled £1.3 billion and remained low as a proportion of gross core loans subject to ECL at 5.2% at 31 March 2020, slightly increased from 4.7% at 31 March 2019. Stage 3 totalled £581 million at 31 March 2020 or 2.4% of gross core loans subject to ECL (31 March 2019: 2.1%). Stage 3 exposures are well covered by ECLs. 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 1.6% (31 March 2019: 1.3%). In the UK, Stage 3 in the Ongoing book (excluding Legacy) totalled £249 million or 2.2% of gross core loans subject to ECL at 31 March 2020 (31 March 2019: 1.5%) driven by a small number of idiosyncratic movements into Stage 3. These exposures are adequately provisioned. Legacy exposures have reduced by 15% since 31 March 2019 to £111 million (net of ECL) at 31 March 2020 and now comprised only 0.9% of UK net core loans and advances. These assets were substantially impaired and are largely reported under Stage 3.

In line with regulatory and accounting bodies guidance, exposures that have been granted COVID-19 relief measures such as payment holidays are not automatically considered to have been subject to a significant increase in credit risk and therefore do not alone result in a transfer across stages. £442 million or 1.8% of gross core loans and advances had been granted some form of relief measures at 31 March 2020, of which £425 million are assets reported in Stage 1.

Globally, the onset of the COVID-19 pandemic triggered extreme market movements, along with a lack of trading liquidity in certain markets. This resulted in a challenging risk management environment across the trading businesses. Trading revenue was adversely affected by the losses arising from the hedging of structured products due to the extraordinary market dislocation, increased hedging cost and dividend cancellation. At 31 March 2020, the 95% one-day value at risk (VaR) measure was £1.5 million (31 March 2019: £0.4 million) and R6.9 million (31 March 2019: R3.8 million) in the UK and South Africa respectively, as a result of the increased market volatility.

We have reduced our investment portfolio exposure in line with our objective of optimising capital allocation, reducing income volatility, and aligning the business with our client franchises. The investment portfolio, per the balance sheet, reduced by 2.9% over the year under review to £1.0 billion at 31 March 2020. In the UK, the connected exposure in the Hong Kong direct investments portfolio (as disclosed on page 155 in volume three) was fully written off to £nil at 31 March 2020. As part of a strategic associate investment, Investec retained a 25.0% shareholding in Ninety One (previously known as Investec Asset Management) post the demerger. As a founding shareholder of Ninety One, the boards of both Investec and Ninety One believe that it is appropriate for the Investec to retain a modest shareholding in Ninety One. Investec believes Ninety One is an attractive business with meaningful intrinsic value. Retaining an equity stake allows Investec to participate in future value creation by Ninety One.

The group continued to maintain a sound balance sheet with a low gearing ratio of 10.3 times and a core loans to equity ratio of 5.1 times at 31 March 2020. Our current leverage ratios for Investec Limited and Investec plc were 6.4% and 7.8% respectively, ahead of the group's minimum 6% target level.

The group maintained a sound capital position with a common equity tier 1 (CET1) ratio of 10.7% for Investec plc (standardised approach) and 10.9% for Investec Limited (FIRB approach) at 31 March 2020. The group is targeting a minimum CET1 ratio above 10%, a tier 1 ratio above 11% and a total capital adequacy ratio range of 14% to 17% on a consolidated basis for Investec plc and Investec Limited respectively. We remain ahead of our group targets and in excess of regulatory minimums.

Completion of the demerger and listing of Ninety One (previously Investec Asset Management) resulted in an increase in the CET1 ratio of 40bps for Investec Limited and 59bps for Investec plc. Investec decided not to proceed with the sell down of a 10% stake in Ninety One given market volatility. The lower than guided capital impact is as a result of retaining this 10% stake.

In January 2020, the Bank of England (BoE) re-confirmed the preferred resolution strategy for the bank 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 IBP's minimum requirement for own funds and eligible liabilities (MREL) requirement as equal to its total regulatory capital requirements. In addition, as part of the Prudential Regulation Authority (PRA)'s most recent Internal Capital Adequacy Assessment Process (ICAAP), the Investec plc Pillar IIA capital requirement was reduced from 1.51% to 1.12%. This together with the reduction in the UK Countercyclical Capital Buffer (CCyB) (which was reduced by the Financial Policy Committee (FPC) in light of the current economic environment) has resulted in a lower CET1 regulatory minimum for Investec plc and IBP, substantially increasing our regulatory capital surplus.

Investec Limited adopted the FIRB approach effective 1 April 2019. Investec Limited's application for the conversion to AIRB is under review and if successful is expected to result in a c. 2.0% uplift to the CET1 ratio. Investec Limited's CET1 ratio includes a reduction of 85bps in the current year associated with our High Quality Liquid Assets and credit investment portfolios held at fair value through equity. This was a consequence of the sudden movement in credit

spreads in March 2020, impacting valuations at 31 March 2020. More than half of this impact reversed post year end. In South Africa, on 6 April 2020, the South African Prudential Authority (South African PA) reduced the Pillar IIA capital requirement by 1.0% (0.5% in CET1), thereby increasing our surplus to regulatory requirements

Holding a high level of readily available, high quality liquid assets remains paramount in the management of our balance sheet. We continued to maintain a low reliance on interbank wholesale funding to fund core lending asset growth. A strong liquidity position 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 £12.7 billion at 31 March 2020 (31 March 2019: £13.3 billion). In the UK, average cash balances were significantly surplus to usual levels, largely driven by prefunding ahead of the closure of our Irish deposit raising business as a result of Brexit, as well as the decision to hold higher levels of group cash balances due to the onset of the COVID-19 pandemic. Customer accounts (deposits) totalled £32.2 billion at 31 March 2020 (31 March 2019: £31.3 billion).

Loans and advances to customers as a percentage of customer deposits ratio remained conservative at 76.3%. The group comfortably exceeds Basel liquidity requirements for the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). IBL (solo basis) ended the period to 31 March 2020 with the three-month average of its LCR at 133.2% and NSFR of 116.2%. For Investec plc and IBP (solo basis) the LCR and NSFR are calculated using the relevant EU regulation, applying our own interpretations where required. The LCR reported to the PRA at 31 March 2020 was 396% for Investec plc and 411% for IBP (solo basis). The internally calculated NSFR was 122% for Investec plc and 120% for IBP (solo basis) at 31 March 2020. These may change over time with regulatory developments and guidance.

Looking forward, the focus remains on maintaining a strong liquidity position in light of the impact of the COVID-19 pandemic. Funding continues to be actively raised, particularly in the retail market, in line with the bank's strategic objectives and to insulate the group from further ongoing market uncertainty. We expect to participate in the BoE Term Funding Scheme with additional incentives for Small and Medium Enterprises (TFSME).

We remain highly focused on managing conduct, reputational, operational, recovery and resolution risks. Financial and cyber crime are high priorities, and the group continually aims to strengthen systems and controls in order to manage cyber risk as well as meet regulatory obligations to combat money laundering, fraud and corruption. The operational response of our business to the disruptions caused by COVID-19 has been a robust, agile transition into remote working, enabling a seamless continuation of service to our clients. The group operates in a legal and regulatory environment that exposes it to litigation risks. As a result, the group is involved in disputes and legal proceedings which arise in the ordinary course of business. The group evaluates all facts, the probability of the outcome of legal proceedings and advice from internal and external legal counsel when considering the accounting implications.

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 units 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 reporting.

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 including for assessing the impact of COVID-19. We continue to assess the potential impact from the current uncertain environment and its potential impacts on the group.

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 151 and 152.

Conclusion

Given the unusual and unprecedented economic and market conditions as a result of the COVID-19 pandemic, the risk outlook remains uncertain and it is unclear how our clients will adjust over the coming months. As the pandemic evolves, management is focused on maintaining the integrity of our balance sheet through continuous oversight of credit, liquidity and capital risk with ongoing stress testing, scenario modelling and client engagement, ensuring the business remains operational through resilience strategies implemented, as we continue to support our clients during this period. We are comfortable that we have a strong balance sheet with regard to the high levels of liquidity, strong capital and low leverage as well as established risk management processes and systems in place to navigate through this period of uncertainty.

Signed on behalf of the board

Fani Titi
CEO

16 June 2020

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	2020 £	2019 £	2020 R	2019 R	2020 £	2019 £
Net core loans and advances (million)	11 870	10 514	288 878	271 204	24 911	24 941
Total assets (excluding assurance assets) (million)	24 745	22 565	574 607	507 192	50 621	49 507
Total risk-weighted assets (million)	16 285	15 313	337 755	318 533 ***	31 532 ^	32 258 ^
Total equity (million)	2 389	2 285	56 675	55 616	4 898	5 251
Cash and near cash (million)	6 040	6 991	147 169	118 365	12 683	13 288
Customer accounts (deposits) (million)	15 272	13 137	375 456	341 578	32 221	31 307
Loans and advances to customers to customer deposits	77.7%	80.0%	75.0%	77.2%	76.3%	78.4%
Structured credit as a % of total assets*	2.1%	2.1%	0.6%	0.3%	1.3%	1.1%
Banking book investment and equity risk exposures as a % of total assets*	2.6%	2.6%	4.2%	4.7%	3.4%	3.9%
Traded market risk: 95% one-day value at risk (million)	1.5	0.4	6.9	3.8	n/a	n/a
Core loans to equity ratio	5.0x	4.6 x	5.1x	4.9 x	5.1x	4.8x
Total gearing ratio**	10.4x	9.9 x	10.1x	9.1 x	10.3x	9.4x
Return on average assets#	0.79%	1.19%	0.95%	1.14%	0.88%	1.16%
Return on average risk-weighted assets#	1.19%	1.73%	1.56%	1.70%	1.38%	1.71%
Stage 3 exposure as a % of gross core loans and advances subject to ECL	3.3%	3.2%	1.5%	1.4%	2.4%	2.1%
Stage 3 exposure net of ECL as a % of net core loans and advances subject to ECL	2.4%	2.2%	0.9%	0.8%	1.6%	1.3%
Credit loss ratio	0.69%	0.38%	0.36%	0.28%	0.52%	0.31%
Level 3 (fair value assets) as a % of total assets	6.9%	8.4%	2.1%	1.5%	4.4%	4.6%
Total capital ratio	14.9%	15.7%	15.0%	16.0% ***	n/a	n/a
Tier 1 ratio	12.4% ##	12.6%	11.5%	12.4% ***	n/a	n/a
Common equity tier 1 ratio	10.7% ##	10.8%	10.9%	11.6% ***	n/a	n/a
Leverage ratio - current	7.8%	7.9%	6.4%	7.4% ***	n/a	n/a

* *Total assets excluding assurance assets.*
^ *The group numbers have been 'derived' by adding Investec plc and Investec Limited (Rand converted into Pounds Sterling) numbers together.*
\# *Where return represents adjusted earnings attributable to ordinary shareholders, as defined on page 96. Average balances are calculated on a straight-line average.*
** *Total assets excluding assurance assets to total equity.*
^^ *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 CET1 ratio as required under the Capital Requirements Regulation (CRR) and European Banking Authority (EBA) technical standards. The impact of this deduction totalling £0 million for Investec plc and £0 million for IBP would lower the CET1 ratio by 0 bps and nil bps respectively.*
^^^ *Investec Limited's capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, Investec Limited's CET1 ratio would be 24bps lower (31 March 2019: 27bps lower).*
*** *We received approval to adopt the FIRB approach, effective 1 April 2019. The numbers presented are on a pro forma basis.*
\## *The CET1, tier 1 (T1), total capital ratio and RWAs are calculated using IFRS 9 transitional arrangements.*

Certain information is denoted as n/a as these statistics are not possible 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 a function of business strategy, budget and capital processes, our stress testing reviews and the regulatory and economic environment in which the group is operating. The 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 2020*
We seek to maintain an appropriate balance between revenue earned from capital light and balance sheet driven activities. Ideally capital light revenue should exceed 50% of total operating income, dependent on prevailing market conditions	For our continuing operations, capital light activities contributed 44.1% to total operating income and balance sheet driven activities contributed 55.9%
We have a solid annuity income base supported by diversified revenue streams, and target an annuity income ratio in excess of 65%	Annuity income for our continuing operations amounted to 77.2% of total operating income. Refer to page 42 in volume one for further information
We seek to maintain strict control over fixed costs. For the 2020 financial year the group had a cost to income ratio target of below 63%*	The cost to income ratio amounted to 68.2%. Refer to page 52 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 RWAs in excess of 1.2%	The return on equity amounted to 11.0% and our return on RWAs amounted to 1.38%. Refer to page 66 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 7.8% and 6.4% for Investec plc and Investec Limited respectively; refer to page 90 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 CET1 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 for Investec plc and 7.5% of tier 1 capital for Investec Limited. 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
We have a preference for primary exposure in the group's main operating geographies (i.e. South Africa and UK). We 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 14 for further information
We take a cautious approach with respect to industries that are known to damage the environment. Financial risk from climate change is a highly important topic which helps to inform decisions. We acknowledge that our approach is still work in progress and will continue to develop this over time	Refer to pages 14 and 76 for more information
We target a credit loss ratio of less than 0.5% for both Investec Limited and Investec plc (less than 1.25% and 1.75% under a weak economic environment/stressed scenario for Investec Limited and Investec plc respectively). Stage 3 net of ECL as a % of net core loans and advances subject to ECL to be less than 2% for Investec plc (excluding the legacy portfolio; less than 4% under a weak economic environment / stressed scenario) and less than 2% for Investec Limited. Investec plc targets Stage 3 net of ECL as a % of CET 1 less than 25%	We currently remain within all tolerance levels given the current weakened economic environment. Pre COVID-19, the group credit loss ratio was calculated at 0.28% for 31 March 2020 (31 March 2019: 0.31%), however taking into account the impacts from COVID-19 the overall credit loss ratio was 0.52%. Stage 3 net of ECL as a % of net core loans and advances subject to ECL was 1.7% for Investec plc (excluding the legacy portfolio) and 0.9% for Investec Limited. Stage 3 net of ECL as a % of CET 1 is 15.6% for Investec plc. Refer to page 35 for further information
We carry a high level of liquidity in all our banking subsidiaries in order to be able to cope with shocks to the system, targeting a minimum cash to customer deposit ratio of 25%	Total cash and near cash balances amounted to £12.7 billion at year end representing 39.4% 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 £2.5 million for Investec plc	We met these internal limits; one-day 95% VaR was R6.9 million for Investec Limited and £1.5 million for Investec plc at 31 March 2020; refer to page 53 for further information
We have moderate appetite for investment risk, and set a risk tolerance of less than 30.0% of CET1 capital for our unlisted principal investment portfolio for Investec plc and 12.5% for Investec Limited	Our unlisted investment portfolios amounted to R3.8 billion and £348 million for Investec Limited and Investec plc respectively, representing 9.8% of total tier 1 for Investec Limited and 19.9% of CET1 for Investec plc. Refer to page 49 for further information on investment risk
We maintain sound operational risk practises to identify and manage operational risk. The group has no appetite for failures in meeting our legal and ethical obligations to combat financial crime and for failures to meet regulatory rules or guidance.	Refer to pages 69 to 72 for further information
We have a number of policies and practices in place to mitigate reputational, legal, tax and conduct risks	Refer to pages 74 and 75 for further information

* *In light of the COVID-19 pandemic, the longer-term impacts of which are hard to judge at present, a review of the performance targets that were set for achievement in 2022 may be necessary.*

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 board reasonable assurance that the risks we are exposed to are identified and appropriately managed and controlled
- Resource risk teams suitably and with appropriate expertise and facilitate operating independence
- Run appropriate risk committees, as mandated by the board
- Maintain compliance in relation to regulatory requirements.

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.

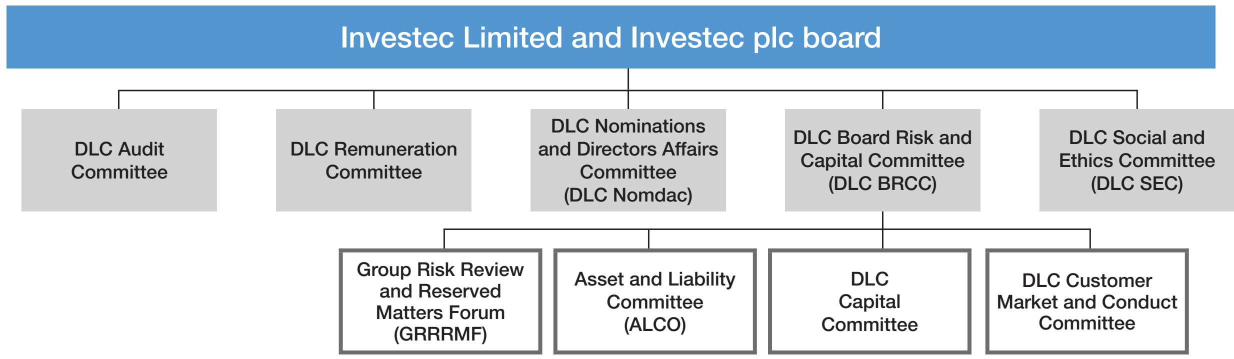
These principal risks have been highlighted on pages 30 to 37 in volume one.

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 shown in the diagram below. These committees and forums, mandated by the board, operate together with group risk management and their sub committees within respective operating jurisdictions. The boards of IBP and IBL, the UK and South African regulated banking subsidiaries of the group respectively, and the board of IW&I, our regulated wealth subsidiary, are responsible for the statutory matters and corporate governance for the respective entities, and ensure compliance with the applicable legislation and governance requirements of the jurisdictions within which they operate. The boards and board committees of IBP, IBL and IW&I report to the board and the board committees of the group, with the interconnection between the respective board committees, supported by the membership or attendance of the chairman of the group board committee at the respective subsidiary board committee.



In addition to the board committees, highlighted in grey above, further group risk committees and forums exist to support them in their objectives. A summary of these board and group risk committees and forums are detailed below:

- **DLC Audit Committee**: detail on pages 132 to 142 in volume one
- **DLC Remuneration Committee:** detail on page 148 in volume one
- **DLC Nominations and Directors Affairs Committee (DLC Nomdac):** detail on pages 124 to 127 in volume one
- **DLC Board Risk and Capital Committee (DLC BRCC):** detail on pages 143 to 147 in volume one
- **DLC Social and Ethics Committee (DLC SEC):** detail on pages 128 to 131 in volume one
- **DLC Customer Market and Conduct Committee:** mandated by the DLC BRCC, ensures the best standards of market conduct are applied
- **Group Risk Review and Reserved Matters Forum (GRRRMF):** mandated and reporting into the DLC BRCC, assists in the review of risk management policies and practises to ensure the adherence to the group risk appetite
- **Asset and Liability Committee (ALCO):** mandated and reporting to the DLC BRCC, recommends and monitors the funding and liquidity policy and non-trading interest rate risk policy which translates into a suite of limits that define our risk appetite. ALCO also directs the implementation of the methodology, techniques, models and risk measure for liquidity and non-trading interest rate risk management (in the banking book) and reviews the structure of our balance sheet and business strategies, taking into account market conditions including stress tests
- **DLC Capital Committee:** mandated and reporting into the DLC BRCC, assists with the management of capital allocation and structuring, capital planning and models, performance measurement and capital-based incentivisation

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, creating 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
- Financial instrument transactions, producing issuer risk 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 which also have oversight to 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:

- 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 (ADR) 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 Committees in the UK and South Africa review recommendations from underlying watchlist forums and ADR Forums respectively and consider and approve the appropriate level of ECL impairments, and staging
- Models Forum in the UK and Model Review Forum in South Africa provide 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 models and note items for further development through this forum.

Credit committees and the processes above have incorporated considerations and decisions with respect to the COVID-19 pandemic and resulting relief measures, staging and ECL in line with the group's existing governance.

Credit and counterparty risk appetite

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

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 and Development (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 where necessary, GRRRMF will consider, analyse and assess the appropriate foreign jurisdiction limits to be recorded when required.

Sustainability considerations

The group has a holistic approach to sustainability. Our commitment to sustainability recognises the interconnected nature of our business, the economy, the environment and society. We play an important role in funding (both lending and in investing) a sustainable economy that is cognisant of the world's limited natural resources and promotes carbon reduction. We integrate environmental, social and governance (ESG) considerations into our day-to-day operations and decision-making to support a sustainable, long-term vision. The greatest socio-economic and environmental impact we can have is to partner with our clients and stakeholders to accelerate a cleaner, more resilient and inclusive world.

We are committed to respecting human rights and support internationally recognised principles, guidelines and voluntary standards dealing with ESG aspects including (but not exclusively) the following:

- 2030 Agenda and the UN Sustainable Development Goals
- UN Global Compact
- International Finance Corporation (IFC) to assess high and medium risk industries
- OECD Guidelines for Multinational Enterprises and export credits
- CDP (Carbon Disclosure Project)
- Task Force on Climate-related Financial Disclosures (TCFD)
- Bankers Association of South Africa (BASA) guidelines for social and environmental risk
- United for Wildlife Financial Taskforce.

We fully apply the key provisions of the Equator Principles (EP). All transactions in non-designated countries are EP monitored and compliant. We report on these in our sustainability and ESG supplementary report on our website.

We have a number of group policies that also guide decision-making from a sustainability perspective and we made our group fossil fuel policy public on 31 March 2020. A variety of ESG 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 risks and opportunities.

In particular, the following factors are taken into account when assessing a transaction based on the outcome of the group sustainability considerations:

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

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

Stress testing and portfolio management

The Investec group's stress testing framework is designed to identify and assess vulnerabilities under stress. The process comprises a bottom-up analysis of the group's material business activities, incorporating views from risk management teams, business and the executive. Stress scenarios are designed based on findings from the bottom-up process, taking into consideration the broader macro-economic, political risk backdrop and impacts of COVID-19. These Investec-specific stress scenarios form an integral part of our capital planning process and IFRS 9 reporting. 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 identify underlying risks and manage them accordingly.

The group also performs *ad hoc* stress tests and reverse stress testing. *Ad hoc* stress tests are conducted in response to any type of material and/or emerging risks, with reviews undertaken of impacted portfolios to assess any migration in quality and highlight any vulnerabilities, identify portfolio concentrations and make appropriate recommendations, such as a reduction in risk appetite limits or specific exposures. Reverse stress tests are conducted to stress the bank's business plan to failure and consider a broad variety of extreme and remote events.

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 subject to ECL, defined on page 98, are as described below:

Stage 1

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

In line with regulatory and accounting bodies guidance, exposures that have been granted COVID-19 relief measures such as payment holidays are not automatically considered to have been subject to a significant increase in credit risk and therefore do not alone result in a transfer across stages. Where relief measures are granted, there is no change in expectation of amounts due. These exposures will remain reported in Stage 1 for the foreseeable future, and will not be required to hold a lifetime ECL. At 31 March 2020, £442 million of gross core loans and advances had been granted some form of relief measures, of which £425 million were assets reported in Stage 1.

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. 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 exceeds 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 are 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. 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.

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.

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 forward-looking and therefore, potentially volatile.

In the UK, a management overlay of £8 million (£8 million at 31 March 2019) was maintained at 31 March 2020 in addition to the bank's calculated model-driven ECL. This management overlay was initially due to the UK bank's limited experience of utilising model output for reporting purposes and uncertainty over the models' predictive capability. The overlays were designed to capture specific areas of model uncertainty during the initial adoption of IFRS 9. The model overlay methodology was enhanced during the year to give a clearer mechanism for release over time as the bank reduces the level of model uncertainty. The UK bank will 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.

In addition to the model overlay, a new management overlay of £19 million (£nil at 31 March 2019) was introduced at 31 March 2020 to capture the worsened economic environment due to COVID-19 not yet captured in the models. Given the lack of a clear consensus forecast at the end of March along with consideration of regulatory guidance and significant levels of government measures announced, the updated macro-economic scenarios were applied by way of a management overlay. We will continue to review and refine our approach to economic scenarios given the evolving situation and significant uncertainty faced with respect to the economic outlook.

The assessment of the impact from COVID-19 as well as the offsetting effect of the unprecedented levels of government measures required significant judgement. Regulatory bodies have provided guidance on expectations around provisioning and staging treatment of exposures. The basis for the management overlay was a weighted consideration of two macro-economic scenarios, which were developed by Investec's economists to take account of the COVID-19 pandemic as at 31 March 2020, a COVID-19 short scenario and a COVID-19 long scenario. In addition, management considered the extent of the expected impact from government measures not captured in the scenarios as well as the expected trajectory of the recovery in applying the £19 million ECL overlay across the performing portfolio to capture risks not yet identified in the current models. In line with our previous approach Stage 3 ECLs continue to be assessed using expert credit judgement.

In South Africa, the expected impact from COVID-19 as well as the offsetting effect of government relief measures, required significant judgement. Regulatory bodies provided guidance on expectations around provisioning and staging treatment of exposures. The forward looking macro-economic scenarios used in the measurement of ECL were updated to capture the wide-reaching impacts of the sovereign downgrade by Moody's to sub-investment grade as well as the initial impact of COVID-19. A further management ECL overlay of R190 million was introduced as at 31 March 2020 to capture the anticipated impact of South Africa's national lockdown on the commercial real estate portfolio as the calculated model-driven Stage 1 ECL for this portfolio was not considered sufficient. The management ECL overlay was estimated after stressing the PD and loss given default (LGD) for the commercial real estate portfolio. In line with our previous approach Stage 3 ECLs continued to be assessed using expert credit judgement.

Further details can be found on page 17

Write-offs

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. 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 38.

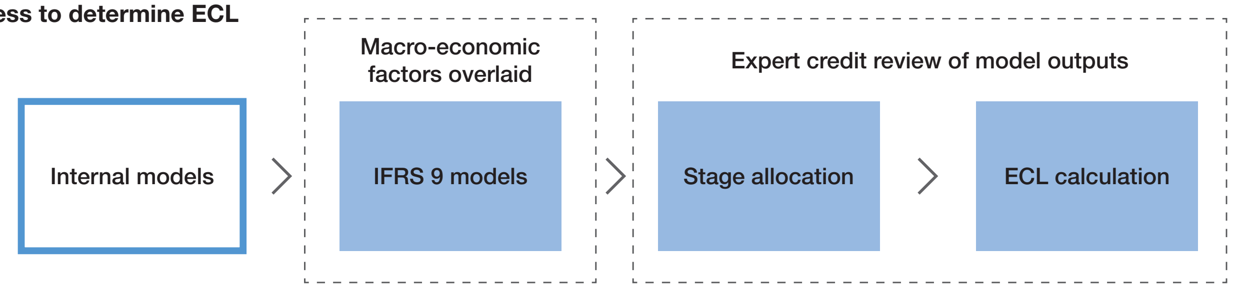
Key drivers of measurement uncertainty – subjective elements and inputs

The measurement of ECL has reliance on expert credit judgement. Key judgemental areas are highlighted below and are subject to robust governance processes. Key drivers of measurement uncertainty include:

- The assessment of a significant increase in credit risk;
- 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) in accordance with accounting standards, 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).

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 are also 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 at the relevant BRCCs as well as the relevant capital committees, which form 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.

As we approached 31 March 2020 it was deemed appropriate to re-look at the macro-economic scenarios and revise our approach, given the significant deterioration in the economic environment in our core geographies due to the COVID-19 pandemic.

In the UK, given the lack of a clear consensus forecast at the end of March along with consideration of regulatory guidance and significant levels of government measures announced, an additional set of updated macro-economic scenarios were applied resulting in a management overlay.

In South Africa, the wide-reaching impacts of the sovereign downgrade by Moody's to sub-investment grade meant a complete revision of the previous scenarios was considered as well as the initial impact of COVID-19 are captured within the modelled forward looking macro-economic forecasts.

In both geographies, these processes have been subject to robust board governance processes given the significant levels of judgement required for these inputs.

The COVID-19 pandemic is still in evolution, and while a better understanding of COVID-19 has been gained over the last few months from the experiences in other countries (particularly China), it is not yet certain how long it will take to contain the virus (flatten the curve globally), and how long the global economy will be negatively affected, with growing concerns that the negative impact of COVID-19 could continue into 2021.

UK and Other

A management overlay was considered the most appropriate way to capture the worsened economic environment given the significant levels of uncertainty and lack of supportable economic information to produce robust forecasts at this early stage of the pandemic as well as the unprecedented levels of government measures announced, which are not easily quantifiable in economic scenarios. We will continue to review and refine our approach to economic scenarios given the evolving situation and significant uncertainty faced with respect to the economic outlook. Determining the expected impact from COVID-19 as well as the offsetting effect of the unprecedented levels of government measures required significant judgement. Regulatory bodies have provided guidance on expectations around provisioning and staging treatment of exposures. The basis for the management overlay was a weighted consideration of two macro-economic scenarios, which were developed by Investec's economists to take account of the COVID-19 pandemic as at 31 March 2020, a COVID-19 short scenario and a COVID-19 long scenario described in further detail below. In addition, management considered the extent of the expected impact from government measures not captured in the scenarios as well as the expected trajectory of the recovery in applying a £19 million ECL overlay across the performing portfolio to capture risks not yet identified in the current models. In line with our previous approach Stage 3 ECLs continued to be assessed using expert credit judgement.

The COVID-19 short scenario as at 31 March 2020 forecasts a peak to trough GDP contraction in 2020 of c.9.4%. The impact on GDP is anticipated to exceed that of the 2008/09 global financial crisis, although over a much shorter time frame. In the period immediately afterwards GDP is seen to rebound by around 4% as COVID-19 restrictions are lifted and recovery continues through the fourth quarter of 2020. After this, as disruption from the pandemic remains at bay, the recovery continues but at a more moderate pace. Unemployment reaches 8.5% at its peak and, over the full forecast period, growth is not seen as sufficient to bring unemployment back to pre-COVID levels. Monetary policy is assumed to remain exceptionally stimulative throughout, with the BoE maintaining the bank rate at 0.10%, QE and liquidity schemes such as the Term Funding Scheme also remaining in place. This is also considered to be the case globally with respect to monetary policy and real estate prices are also impacted, to a lesser extent than the COVID-19 long scenario. Exceptional policy action from both central banks and governments is expected to help limit possible second round effects on economic activity, but in the short-term, action is unlikely to prevent a sharp global contraction, with a significant share of the world's population under some form of restricted movement. The weighting applied to this scenario was 75% to reflect the group's view at 31 March 2020 of the potential severity and duration of the shock.

The COVID-19 long scenario has a similar GDP contraction as the COVID-19 short scenario, however, despite the recovery the overall economic environment remains weaker for longer in this scenario and only returns to its pre-scenario level by the fourth quarter of 2024. Unemployment peaks and then flattens at 8.0%. The assumption is that working population growth is also 0.5% per annum and so the jobless rate only begins to come down when GDP growth speeds up in late 2023. Rising unemployment and tighter credit conditions negatively impact the housing market where national house prices fall 20%, the retracement in London prices is slightly more pronounced falling 25%.

The scenarios described below were designed before COVID-19 became a global pandemic and hence they do not take into account the evolving situation surrounding the global spread of COVID-19. These scenarios incorporate a base case, an upside case and two down cases.

The base case scenario, envisages a modest strengthening in economic activity as uncertainties related to Brexit were lifted following the December General Election and the UK's exit from the EU on 31 January 2020. Further it is assumed that the UK leaves the transition period at the end of 2020 as planned. Meanwhile the domestic labour market is expected to remain tight, inflation is assumed to trend around the BoE's 2% target and house prices are forecast to see modest annual growth. Amidst this backdrop the BoE is assumed to raise interest rates very gradually from 2020 onwards. On a more global scale it is assumed that the trade tensions of 2019 begin to recede, removing a major headwind to global economic activity. As such, global growth is assumed to return to trend levels over the forecast horizon.

Since 30 September 2019, the base case average UK GDP growth over the forecast horizon has remained unchanged at 1.5%. However, following the UK's general election result and the UK's formal exit from the European Union, near-term uncertainty around Brexit has receded and hence the weighting on the base case increased to 55% from the 45% disclosed at 30 September 2019, but lower than the 60% weighting on the base case at 31 March 2019. In addition, the downside 2 (domestic) scenario was replaced with a scenario that reflects the risk of a prolonged period of weak global economic growth, rather than one that focuses purely on domestic risks. This was in response to recent UK events which reduced the risks around Brexit and the fact that risks around subdued global growth remained prominent.

The down case scenarios were severe but plausible scenarios created based on Investec specific bottom-up stress tests, whilst also considering IFRS 9 specific sensitivities and non-linearity.

Two downsides were designed for use in modelling ECL. These include a severe global economic shock, which encompasses a sharp repricing in risk assets, stresses in corporate debt markets and a material tightening in credit conditions, which culminates in a global recession. The second downside scenario envisages a situation whereby trade tensions escalate, industrial sector weakness continues and a recovery in global growth does not materialise. Amidst numerous headwinds to economic activity and uncertainty, a period of economic stagnation is witnessed over the entire forecast horizon.

The upside scenario assumes a global recovery in productivity growth following the subdued levels witnessed in the years following the 2008/09 global financial crisis. GDP growth strengthens both domestically and globally to above trend levels over a five-year horizon.

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

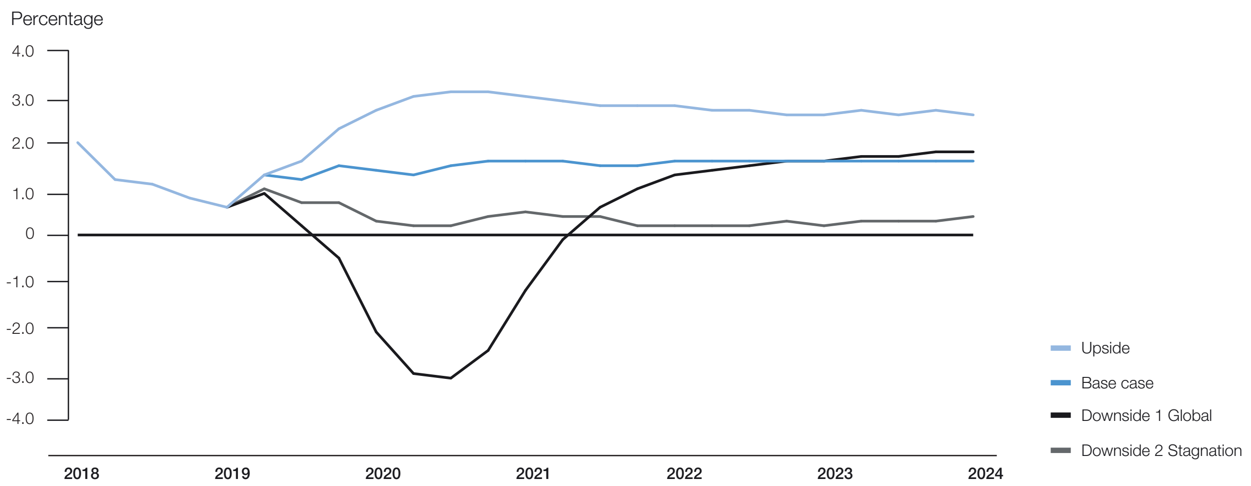
The table that follows shows the key factors that formed part of the initial set of UK and Other macro-economic scenarios (prior to the COVID-19 pandemic) and their relative applied weightings.

Macro-economic scenarios	At 31 March 2020 average 2020 – 2025				At 31 March 2019 average 2019 – 2023			
	Upside %	Base case %	Downside 1 Global %	Downside 2 Stagnation %	Upside %	Base case %	Downside 1 Global %	Downside 2 Domestic %
UK								
GDP growth	2.7	1.5	0.2	0.4	2.5	1.5	0.2	0.1
Unemployment rate	4.2	4.1	6.3	5.2	3.6	3.8	6.7	4.7
House price growth	2.8	2.5	(2.1)	(1.7)	3.4	3.3	(1.9)	(1.3)
Bank of England – Bank rate	2.3	1.2	0.2	0.0	2.7	1.9	0.1	0.2
Euro area								
GDP growth	2.7	1.4	0.3	0.2	2.1	1.6	0.2	1.4
US								
GDP growth	2.7	1.8	0.2	0.6	2.0	1.9	0.7	1.9
Scenario weightings	**10**	**55**	**15**	**20**	**13**	**60**	**14**	**13**

The following table shows annual averages of economic factors over a five-year period.

	Financial years				
Base case %	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025
UK					
GDP growth	1.4	1.5	1.6	1.6	1.6
Unemployment rate	3.9	4.1	4.1	4.2	4.2
House price growth	2.4	2.5	2.6	2.6	2.5
Bank of England – Bank rate	0.8	1.0	1.3	1.5	1.5
Euro area					
GDP growth	1.3	1.5	1.5	1.4	1.5
US					
GDP growth	1.8	2.1	1.7	1.8	1.8

Historic and forecast UK GDP growth pre COVID assumptions

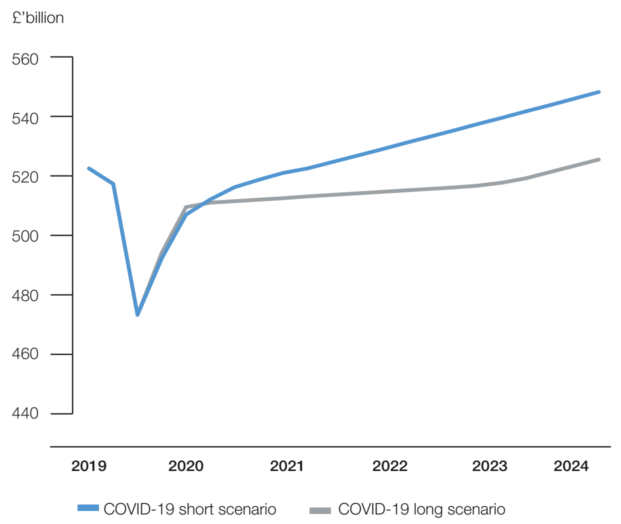


The tables below show the key macro-economic factors used in the COVID-19 scenarios and the relative weightings applied to each scenario, taking into account government intervention, which were used to apply an ECL overlay

Macro-economic scenarios	At 31 March 2020 average 2020 – 2025	
	COVID-19 short scenario %	**COVID-19 long scenario %**
UK		
GDP growth	1.0	0.1
Unemployment rate	6.5	7.9
House price growth	0.5	(1.9)
Bank of England – Bank rate	0.1	0.1
Scenario weightings	**75**	**25**

March 2020 – 2025 Peak to trough %	COVID-19 short	COVID-19 long
GDP	(9.4)	(9.4)
Residential property prices	(14.6)	(20.0)
Commercial property prices	(21.8)	(32.2)

UK GDP forecast under COVID-19 assumptions



South Africa

For Investec Limited, five macro-economic scenarios are used in the measurement of ECL. 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.

The expected impact from COVID-19 as well as the offsetting effect of government relief measures, require significant judgement. Regulatory bodies have provided guidance on expectations around provisioning and staging treatment of exposures. The forward looking macro-economic scenarios used in the measurement of ECL, as detailed below, were updated to capture the wide-reaching impacts of the sovereign downgrade by Moody's to sub-investment grade as well as the initial impact of COVID-19. A further management ECL overlay of R190 million was introduced as at 31 March 2020 to capture the anticipated impact of South Africa's national lockdown on the commercial real estate portfolio as the calculated model driven Stage 1 ECL for this portfolio was not considered sufficient. The management ECL overlay was estimated after stressing the PD and LGD for the commercial real estate portfolio.

The impact of the COVID-19 pandemic is still evolving. While collectively better understanding of COVID-19 has been gained over the last few months, it is not yet certain how long it will take to contain the virus, or how long the global economy will be negatively affected. Very substantial policy support measures have occurred globally, but the economic shock, both locally and internationally, will supersede the recession of 2008-2009 stemming from the global financial crisis at that time. In South Africa this year, a peak to trough contraction of 10.9% is expected, versus the 2.5% peak to trough contraction over the second half of 2008 and first half of 2009. Furthermore, risk is tilted to the downside.

Under the base case scenario a temporary, sharp global economic slowdown, and global financial market turmoil occurs as a result of the COVID-19 pandemic, with temporary, but severe currency depreciation. Interest rates reach very low levels. Sufficient global and domestic monetary and other policy support measures occur that are sufficient to see risk sentiment improve, and are also sufficient to bolster economic recovery and financial markets. South Africa is expected to exit recession in the third quarter of 2020. Expropriation without compensation (EWC) is put on hold in the crisis, and when it does occur, does not have a significant, negative impact on the economy, and is only confined to abandoned, unused, government and labour tenants' land. South Africa works towards eradicating its structural weaknesses and retains its BB+ rating from Moody's as government debt projections stabilise.

At 31 March 2020 the scenario weighting of the base case was 43%. As at 31 March 2019 the scenario weighting of the base case was 42% and South Africa was expected to achieve an annual growth rate of around 2.0% year-on-year in 2020, and 3.0% year-on-year by 2024. A severe global crisis was not part of the base case. This year, the base case includes a severe global crisis, with extreme policy measures (domestically and globally) aimed at alleviating as much of the crises impact as possible.

In the lite down case scenario the international environment is the same as the base case, but the domestic environment differs. In the light down case South Africa fails to see its debt projections stabilise, and loses its BB+ rating from Moody's, dropping towards the single B ratings from Moody's, S&P and Fitch. This persists until substantial fiscal repair is achieved. In the lite down case a more severe recession occurs in South Africa than in the base case. Business confidence is depressed even further, and investment growth is weak, while load shedding occurs. The Rand sees significant weakness.

At 31 March 2020 the scenario weighting of the lite down case was 42%. At 31 March 2019 the down case was used instead of the lite down case, and included a worse global environment than in base case at that time. At 31 March 2019 the weighting of the downside case was 37%. The downside case was characterised by a sharp global slowdown and commodity price slump, combined with sub-investment grade ratings from all three key credit rating agencies, with a risk of further downgrades.

The extent of the global slowdown envisioned in the down case projected last year was less severe than the recession that is materialising this year as a consequence of the COVID-19 pandemic. South Africa was expected to lose its investment grade rating in the down case, but not see further deterioration towards the single B ratings. A combination of the materialisation of a number of domestic and international events have led to a revision in the definition of the scenario, and its assigned probability.

The severe down case is currently characterised by a lengthy global recession and a global financial crisis, as one or more additional downside/s to growth develop besides the COVID-19 pandemic. Monetary and other policy support measures domestically and internationally are insufficient in this scenario to eradicate the extent of the severe risk aversion in investor sentiment. A depression occurs in the South African economy, with unprecedented rand weakness. Nationalisation of private sector property under expropriation without compensation occurs. South Africa's credit ratings drop to single B from all three of the key credit rating agencies, and further downgrades occur into C grade, as government finances deteriorate further as debt projections continue to elevate and do not stabilise. Government borrows from increasingly wider sources as it sinks deeper into a debt trap. The scenario includes widespread load shedding, strike action and civil unrest.

At 31 March 2020 the scenario weighting of the severe down case was 10%. The severe down case at 31 March 2019 was referred to as the extreme downside case and had a weighting of 10%. It was characterised by a lengthy global recession, and for South Africa, an economic depression (10 quarters or more of negative growth). South Africa's credit ratings fell to junk and the country became a failed state. The projected lengthy depression in the extreme down case saw GDP fall on average by 2% over the five year forecast period, with very high interest rates. In comparison, the severe down case, which is now Investec's worst down case scenario, only has an average 0.5% contraction in GDP over the five year period. A transition to a less severe economic scenario for the worst case has occurred as SA is currently no longer seen at material risk of becoming a failed state. The credit ratings are currently only seen at material risk of falling into the C grade ratings, instead of into the D grade ratings category.

The up case is characterised by a relatively quick rebound from the COVID-19 pandemic, globally and domestically. Global risk-on prevails and the global economy quickly returns to trend growth. Within a couple of years, above trend global growth and high commodity prices occur. South Africa's economic growth reaches 3% year-on-year and then moves towards 5% year-on-year, also supported by better governance and growth creating reforms. Business confidence rises and investment levels strengthen substantially as structural problems are worked down. This in turn supports a sustained acceleration in economic growth. No further credit rating downgrades occur. The rating outlooks stabilise, and then become positive on fiscal consolidation, with government debt projections stabilising. EWC is limited and the EWC that does occur has a slight positive impact on the economy and is confined to abandoned, unused, government and labour tenants' land. In particular, individuals are the new owners and receive the title deeds of the properties with no nationalisation occurring. The scenario weighting is 4%, compared to 10% at 31 March 2019. This change reflects the increased downside risks currently still being seen as a consequence of the impact of COVID-19, at 31 March 2019 a severe global and domestic crisis was not anticipated as the starting point for the up case scenario.

The extreme up case is an acceleration of the up case scenario. In the extreme up case the impact that the COVID-19 pandemic has had domestically and internationally is resolved rapidly, without further downside to growth developing. The global economy sees strong growth and a commodity boom developing after an immediate, substantial rebound in economic activity. In South Africa all structural constraints are rapidly overcome, with very high levels of governance prevailing and growth-creating reforms are successfully aimed at the private sector. Business confidence reaches high levels and both high rates of domestic fixed investment and very substantial foreign direct investment (FDI) inflows occur. The domestic economy quickly reaches growth rates of 4% year-on-year then 5% year-on-year. Strong fiscal consolidation occurs and government debt as a % of GDP falls back to the low ratios of 2000s. After an initial stabilisation of the credit ratings, credit rating upgrades occur. A strengthening in property rights occurs as EWC has no negative effects on the economy and there is no nationalisation. EWC proves a driver to economic growth and is limited only to abandoned, government and labour tenants' land with individuals obtaining title deeds to these properties, with no corruption or political favours. The extreme up case is characterised by the occurrence of all of these events.

At 31 March 2020 the scenario weighting of the extreme up case was 1% and has remained unchanged from the weighting assigned at 31 March 2019. Although the assumptions supporting the extreme up case have remained essentially unchanged, the impact of the severe global crisis brought on by the COVID-19 pandemic has weakened the actual projected GDP trajectory of the extreme up case. At 31 March 2019, fast, sustainable economic growth of between 5-7% year-on-year or more by the end of the period was envisioned, averaging 5.2% over the five-year forecasts period. However, growth over the five-year period is now only anticipated to average 3.7% following the impact of the pandemic on the global and domestic economy.

The table below shows the key factors that formed part of the macro-economic scenarios and the relative applied weightings of these scenarios.

Macro-economic scenarios	At 31 March 2020 average 2020 – 2025					At 31 March 2019 average 2019 – 2023				
	Extreme up case %	**Up case %**	**Base case %**	**Lite down case %**	**Severe down case %**	Extreme upside %	Upside %	Base case %	Downside %	Extreme Downside %
South Africa										
GDP growth	3.7	2.6	0.8	0.2	(0.5)	5.2	3.9	2.4	0.7	(2.0)
Repo rate	4.8	5.1	5.8	6.0	7.6	5.5	6.2	7.3	8.4	17.2
Bond yield	9.1	9.4	9.9	10.5	11.8	7.9	8.3	9.7	10.9	14.8
Residential property price growth	7.4	4.1	2.6	1.9	0.2	12.9	6.5	5.1	3.0	(1.1)
Commercial property price growth	4.1	2.0	0.1	(1.8)	(4.3)	5.7	3.1	1.2	(1.6)	(6.0)
Exchange rate (South African Rand:US Dollar)	9.7	11.7	14.8	16.9	18.2	8.1	9.9	13.0	16.9	24.1
Scenario weightings	**1**	**4**	**43**	**42**	**10**	**1**	**10**	**42**	**37**	**10**

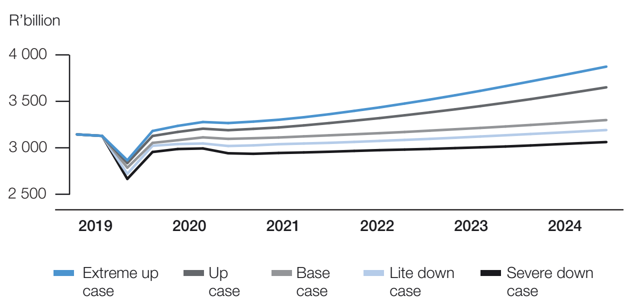
The following table shows annual averages of economic factors over a five year period.

	Financial years				
Base case %	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025
South Africa					
GDP growth	(4.4)	3.5	1.4	1.7	2.0
Repo rate	4.8	6.0	6.3	6.3	6.3
Bond yield	10.8	10.6	9.6	9.5	9.4
Residential property price growth	(2.0)	1.2	3.6	4.8	5.6
Commercial property price growth	(4.4)	0.3	1.3	1.5	2.2
Exchange rate (South African Rand:US Dollar)	16.6	14.5	14.4	14.2	14.3

The table below shows the historic and forecasted South African GDP and peak to trough measurements from base case, lite down case, and severe down case scenarios.

March 2020 – 2025 Peak to trough %	Base case	Lite down	Severe down
South Africa			
GDP	(10.9)	(13.0)	(14.8)
Residential property prices	(3.3)	(3.9)	(6.3)
Commercial property prices	(5.8)	(10.7)	(23.3)

South African GDP forecast



Macro-economic sensitivities (unaudited)

Pre COVID-19 the UK bank's most severe 100% scenario sensitivity was to the downside 1 global scenario, which would have resulted in an increase in ECLs, excluding credit assessed ECL and other management judgements, of approximately £15 million. Following the consideration of COVID-19 scenarios, an ECL overlay of £19 million was considered appropriate which is more severe than the 100% weighted scenarios in previous economic forecasts.

Following the COVID-19 pandemic, a management overlay and updated macro-economic scenarios was considered the most appropriate way to capture the worsened economic environment in the South African bank, given the significant levels of uncertainty and lack of supportable economic information to produce robust forecasts. The expected impact from COVID-19 as well as the offsetting effect of government measures require some level of judgement. Given this background, the fast-changing nature of the crisis and the government measures announced, which are not easily quantifiable in economic scenarios; we will continue to review and refine our approach to economic scenarios given the evolving situation and significant uncertainty faced with respect to the economic outlook.

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.

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 34 to 47
- **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, Asia, 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
- **Debt securities:** from time-to-time we take on exposures by means of corporate debt securities rather than loan exposures. These transactions arise on the back of client relationships or knowledge of the corporate market and are based on our analysis of the credit fundamentals.
- **Corporate advisory and investment banking activities:** counterparty risk in this area is modest. The business also trades 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 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.

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 (ISDA) Master Agreements, 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, the credit committee may require a Credit Support Annex (CSA) to ensure 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 2020 amounts to -£3.5 million, of which all is used for credit mitigation purposes. Total protection bought amounts to £10.9 million and total protection sold amounts to £14.4 million relating to credit derivatives used in credit mitigation.

Further information on credit derivatives is provided on page 103 in volume three.

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

Net core loan book growth since 31 March 2019 was 12.9% to £11.9 billion at 31 March 2020. Growth in net core loans was driven by the residential owner-occupied mortgage portfolio, together with diversified growth in other private client and corporate client lending portfolios together with selective lending collateralised by property, with loan to values at conservative levels. Asset quality metrics before the COVID-19 pandemic reflected the solid performance of core loans. Pre COVID-19, the credit loss ratio was calculated at 0.34% for 31 March 2020 (31 March 2019: 0.38%), however, after taking into account the impacts from COVID-19 the overall credit loss ratio was 0.69%, largely reflecting a deterioration in macro-economic scenario forecasts modelled by applying a £19 million ECL overlay as well as an amounted related to a single name transaction impacted by the COVID-19 pandemic.

Stage 2 exposures totalled £576 million and remained low as a proportion of gross core loans subject to ECL at 5.1% at 31 March 2020, reduced from 5.8% at 31 March 2019. Stage 3 totalled £379 million at 31 March 2020 or 3.3% of gross core loans subject to ECL (31 March 2019: 3.2%). Stage 3 exposures are well covered by ECLs. 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 2.4% (31 March 2019: 2.2%). Stage 3 in the Ongoing book (excluding Legacy) totalled £249 million or 2.2% of gross core loans subject to ECL at 31 March 2020 (31 March 2019: 1.5%) driven by a small number of idiosyncratic movements into Stage 3. These exposures are adequately provisioned.

Southern Africa

Since 31 March 2019, net core loans have grown 6.5% to R288.9 billion. Net core loan growth was driven by growth in the high net worth and specialised lending portfolio partially offset by subdued corporate client activity. Credit exposures are focused on secured lending to a select target market, comprising high income and high net worth individuals, established corporates, and medium-sized enterprises. Our risk appetite continued to favour lower risk, income-based lending, with exposures well collateralised with credit risk taken over a short to medium term.

Taking into account the impacts of COVID-19 and the South African sovereign downgrades the overall credit loss ratio was 0.36%, largely reflecting a deterioration in macro-economic scenarios forecasts. Pre COVID-19, the credit loss ratio was calculated at 0.21% for 31 March 2020 (31 March 2019: 0.28%).

Stage 2 exposures totalled R15.3 billion and increased as a proportion of gross core loans subject to ECL to 5.3% at 31 March 2020 (31 March 2019: 4.0%). Stage 3 exposures totalled R4.5 billion at 31 March 2020 or 1.5% of gross core loans subject to ECL (31 March 2019: 1.4%). Stage 3 exposures have an ECL coverage ratio of 42.2%.

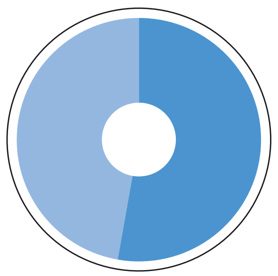
The tables that follow provide an analysis of the group's gross credit and counterparty exposures.

An analysis of gross credit and counterparty exposures

Gross credit and counterparty exposure totalled £50.1 billion at 31 March 2020. Cash and near cash balances amounted to £12.7 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 mainly in 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 98% of overall ECLs.

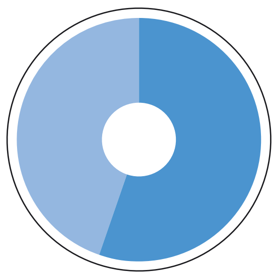
An analysis of gross credit and counterparty exposures by geography

	UK and Other		Southern Africa		Total	
£'million	**31 March 2020**	31 March 2019	**31 March 2020**	31 March 2019	**31 March 2020**	31 March 2019
Cash and balances at central banks	2 277	4 445	1 643	536	3 920	4 981
Loans and advances to banks	1 785	1 146	882	1 177	2 667	2 323
Non-sovereign and non-bank cash placements	–	–	634	650	634	650
Reverse repurchase agreements and cash collateral on securities borrowed	1 627	633	1 338	1 136	2 965	1 769
Sovereign debt securities	1 689	1 299	2 905	3 239	4 594	4 538
Bank debt securities	51	52	554	665	605	717
Other debt securities	649	499	783	723	1 432	1 222
Derivative financial instruments	1 002	567	734	294	1 736	861
Securities arising from trading activities	498	530	67	257	565	787
Loans and advances to customers	12 045	10 663	12 867	14 162	24 912	24 825
Own originated loans and advances to customers securitised	–	–	326	409	326	409
Other loans and advances	122	178	11	19	133	197
Other securitised assets	8	8	–	–	8	8
Other assets	92	46	80	150	172	196
Total on-balance sheet exposures	**21 845**	**20 066**	**22 824**	**23 417**	**44 669**	**43 483**
Guarantees	77	85	781	636	858	721
Committed facilities related to loans and advances to customers	1 318	1 484	2 529	2 978	3 847	4 462
Contingent liabilities, letters of credit and other	270	413	424	412	694	825
Total off-balance sheet exposures	**1 665**	**1 982**	**3 734**	**4 026**	**5 399**	**6 008**
Total gross credit and counterparty exposures	**23 510**	**22 048**	**26 558**	**27 443**	**50 068**	**49 491**



31 MARCH 2020
£50 068 million

53.0% Southern Africa
47.0% UK and Other



31 MARCH 2019
£49 491 million

55.5% Southern Africa
44.5% UK and Other

A further analysis of 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 2020 £'million	Total gross credit and counterparty exposure	*of which FVPL*	*of which amortised cost and FVOCI*	ECL^	Assets that we deem to have no legal credit exposure	**Total assets**
Cash and balances at central banks	3 920	–	3 920	–	12	3 932
Loans and advances to banks	2 667	–	2 667	–	–	2 667
Non-sovereign and non-bank cash placements	634	25	609	(1)	–	633
Reverse repurchase agreements and cash collateral on securities borrowed	2 965	908	2 057	–	–	2 965
Sovereign debt securities	4 594	914	3 680	(2)	–	4 592
Bank debt securities	605	64	541	–	–	605
Other debt securities	1 432	386	1 046	(2)	–	1 430
Derivative financial instruments	1 736	1 736	–	–	298	2 034
Securities arising from trading activities	565	565	–	–	479	1 044
Investment portfolio	–	–	–	–	999*	999
Loans and advances to customers	24 912	1 698	23 214	(326)	–	24 586
Own originated loans and advances to customers securitised	326	–	326	(1)	–	325
Other loans and advances	133	–	133	(1)	–	132
Other securitised assets	8	8	–	–	127^^	135
Interest in associated undertakings and joint venture holdings	–	–	–	–	701*	701
Deferred taxation assets	–	–	–	–	266	266
Other assets	172	–	172	–	1 762**	1 934
Property and equipment	–	–	–	–	357	357
Investment properties	–	–	–	–	864	864
Goodwill	–	–	–	–	271	271
Intangible assets	–	–	–	–	86	86
Other financial instruments at fair value through profit or loss in respect of liabilities to customers	–	–	–	–	35	35
Non-current assets classified as held for sale	–	–	–	–	59	59
Total on-balance sheet exposures	**44 669**	**6 304**	**38 365**	**(333)**	**6 316**	**50 652**
Guarantees	858	–	858	–	44	902
Committed facilities related to loans and advances to customers	3 847	48	3 799	(6)	–	3 841
Contingent liabilities, letters of credit and other	694	210	484	–	917	1 611
Total off-balance sheet exposures	**5 399**	**258**	**5 141**	**(6)**	**961**	**6 354**
Total exposures	**50 068**	**6 562**	**43 506**	**(339)**	**7 277**	**57 006**

^ *ECLs include £4.7 million ECL held against financial assets held at FVOCI, which is reported on the balance sheet within the fair value 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 gross credit and counterparty exposures *(continued)*

At 31 March 2019 £'million	Total gross credit and counterparty exposure	*of which FVPL*	*of which amortised cost and FVOCI*	ECL^	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 and joint venture holdings	–	–	–	–	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 the fair value reserve. 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.*

Gross credit and counterparty exposures by residual contractual maturity

At 31 March 2020 £'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	3 920	–	–	–	–	–	3 920
Loans and advances to banks	2 518	16	100	33	–	–	2 667
Non-sovereign and non-bank cash placements	634	–	–	–	–	–	634
Reverse repurchase agreements and cash collateral on securities borrowed	2 454	236	3	237	35	–	2 965
Sovereign debt securities	1 358	516	483	598	945	694	4 594
Bank debt securities	32	–	85	214	274	–	605
Other debt securities	52	36	108	500	201	535	1 432
Derivative financial instruments	387	305	313	437	215	79	1 736
Securities arising from trading activities	1	1	5	78	84	396	565
Loans and advances to customers	2 346	1 795	2 637	13 732	2 972	1 430	24 912
Own originated loans and advances to customers securitised	–	–	–	2	32	292	326
Other loans and advances	42	–	–	–	48	43	133
Other securitised assets	–	–	–	–	–	8	8
Other assets	172	–	–	–	–	–	172
Total on-balance sheet exposures	**13 916**	**2 905**	**3 734**	**15 831**	**4 806**	**3 477**	**44 669**
Guarantees	74	34	174	391	176	9	858
Committed facilities related to loans and advances to customers	745	140	197	1 378	371	1 016	3 847
Contingent liabilities, letters of credit and other	76	45	64	382	78	49	694
Total off-balance sheet exposures	**895**	**219**	**435**	**2 151**	**625**	**1 074**	**5 399**
Total gross credit and counterparty exposures	**14 811**	**3 124**	**4 169**	**17 982**	**5 431**	**4 551**	**50 068**

Detailed analysis of gross credit and counterparty exposures by industry

At 31 March 2020 £'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	Retailers and wholesalers	Manufacturing and commerce	Construction	Corporate commercial real estate	Other residential mortgages	Mining and resources	Leisure, entertainment and tourism	Transport	Communication	**Total**
Cash and balances at central banks	–	–	–	–	3 920	–	–	–	–	–	–	–	–	–	–	–	3 920
Loans and advances to banks	–	–	–	–	–	–	2 667	–	–	–	–	–	–	–	–	–	2 667
Non-sovereign and non-bank cash placements	–	–	50	–	–	55	92	150	113	15	38	–	21	1	55	44	634
Reverse repurchase agreements and cash collateral on securities borrowed	8	–	–	–	–	1	2 908	–	–	–	10	–	4	–	34	–	2 965
Sovereign debt securities	–	–	–	–	4 594	–	–	–	–	–	–	–	–	–	–	–	4 594
Bank debt securities	–	–	–	–	–	–	605	–	–	–	–	–	–	–	–	–	605
Other debt securities	–	–	–	159	7	36	732	1	68	–	73	163	–	–	125	68	1 432
Derivative financial instruments	1	6	16	143	2	35	1 072	24	43	1	81	–	89	6	209	8	1 736
Securities arising from trading activities	–	–	–	4	385	–	142	5	17	–	–	–	3	–	3	6	565
Loans and advances to customers	9 506	4 242	132	809	394	1 490	2 802	570	1 272	179	755	–	350	332	1 546	533	24 912
Own originated loans and advances to customers securitised	326	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	326
Other loans and advances	–	–	–	–	–	–	98	–	3	–	–	32	–	–	–	–	133
Other securitised assets	–	–	–	–	–	–	–	–	–	–	–	8	–	–	–	–	8
Other assets	–	–	–	–	75	–	92	5	–	–	–	–	–	–	–	–	172
Total on-balance sheet exposures	**9 841**	**4 248**	**198**	**1 115**	**9 377**	**1 617**	**11 210**	**755**	**1 516**	**195**	**957**	**203**	**467**	**339**	**1 972**	**659**	**44 669**
Guarantees	204	107	1	57	–	4	282	60	107	1	4	–	7	14	6	4	858
Committed facilities related to loans and advances to customers	1 841	554	24	255	45	173	381	66	92	14	70	–	186	9	63	74	3 847
Contingent liabilities, letters of credit and other	142	69	–	206	64	4	76	7	6	–	–	–	42	–	1	77	694
Total off-balance sheet exposures	**2 187**	**730**	**25**	**518**	**109**	**181**	**739**	**133**	**205**	**15**	**74**	**–**	**235**	**23**	**70**	**155**	**5 399**
Total gross credit and counterparty exposures	**12 028**	**4 978**	**223**	**1 633**	**9 486**	**1 798**	**11 949**	**888**	**1 721**	**210**	**1 031**	**203**	**702**	**362**	**2 042**	**814**	**50 068**

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

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	Retailers and wholesalers	Manufacturing and commerce	Construction	Corporate commercial real estate	Other residential mortgages	Mining and resources	Leisure, entertainment and tourism	Transport	Communication	Total
Cash and balances at central banks	–	–	–	–	4 981	–	–	–	–	–	–	–	–	–	–	–	4 981
Loans and advances to banks	–	–	–	–	–	–	2 323	–	–	–	–	–	–	–	–	–	2 323
Non-sovereign and non-bank cash placements	–	–	67	–	2	83	101	81	139	18	25	–	33	1	31	69	650
Reverse repurchase agreements and cash collateral on securities borrowed	28	–	–	–	–	–	1 698	–	–	–	2	–	–	3	38	–	1 769
Sovereign debt securities	–	–	–	–	4 538	–	–	–	–	–	–	–	–	–	–	–	4 538
Bank debt securities	–	–	–	–	–	–	717	–	–	–	–	–	–	–	–	–	717
Other debt securities	–	–	–	169	7	76	403	–	81	19	85	166	8	–	124	84	1 222
Derivative financial instruments	12	1	4	100	8	13	576	19	26	3	30	–	20	2	45	2	861
Securities arising from trading activities	–	–	–	5	669	–	110	–	–	–	–	–	–	–	3	–	787
Loans and advances to customers	9 350	4 457	160	822	387	1 425	2 739	552	1 202	172	657	–	367	401	1 546	588	24 825
Own originated loans and advances to customers securitised	409	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	409
Other loans and advances	–	–	–	–	–	–	103	–	6	–	–	88	–	–	–	–	197
Other securitised assets	–	–	–	–	–	–	–	–	–	–	–	8	–	–	–	–	8
Other assets	–	–	1	–	–	3	46	113	26	2	–	–	–	3	–	2	196
Total on-balance sheet exposures	**9 799**	**4 458**	**232**	**1 096**	**10 592**	**1 600**	**8 816**	**765**	**1 480**	**214**	**799**	**262**	**428**	**410**	**1 787**	**745**	**43 483**
Guarantees	233	55	–	93	–	50	95	57	73	12	3	–	22	1	12	15	721
Committed facilities related to loans and advances to customers	1 970	593	93	186	69	162	584	107	136	3	127	–	201	69	116	46	4 462
Contingent liabilities, letters of credit and other	169	92	–	318	62	1	37	10	48	1	1	–	28	4	–	54	825
Total off-balance sheet exposures	**2 372**	**740**	**93**	**597**	**131**	**213**	**716**	**174**	**257**	**16**	**131**	**–**	**251**	**74**	**128**	**115**	**6 008**
Total gross credit and counterparty exposures	**12 171**	**5 198**	**325**	**1 693**	**10 723**	**1 813**	**9 532**	**939**	**1 737**	**230**	**930**	**262**	**679**	**484**	**1 915**	**860**	**49 491**

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

Composition of core loans and advances

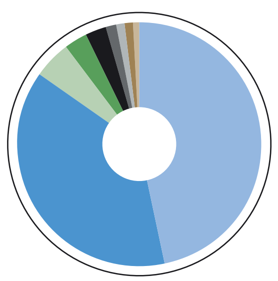
The table below describes the differences between 'loans and advances to customers' as per the balance sheet and gross core loans and advances.

	UK and Other		Southern Africa		Total group	
£'million	**31 March 2020**	31 March 2019	**31 March 2020**	31 March 2019	**31 March 2020**	31 March 2019
Loans and advances to customers per the balance sheet	11 872	10 516	12 716	14 019	24 588	24 535
Add: own originated loans and advances to customers per the balance sheet	–	–	325	408	325	408
Add: ECL held against FVOCI loans reported on the balance sheet within reserves	(2)	(2)	–	–	(2)	(2)
Net core loans and advances	**11 870**	**10 514**	**13 041**	**14 427**	**24 911**	**24 941**
*of which subject to ECL**	11 217	9 742	12 933	14 318	24 150	24 060
Net core loans and advances at amortised cost and FVOCI	11 217	9 742	11 998	13 570	23 215	23 312
Net fixed rate loans designated at FVPL (on which ECL is calculated for management purposes)^	–	–	935	748	935	748
of which FVPL (excluding fixed rate loans above)	653	772	108	109	761	881
Add: ECL	175	149	152	144	327	293
Gross core loans and advances	**12 045**	**10 663**	**13 193**	**14 571**	**25 238**	**25 234**
*of which subject to ECL**	11 392	9 891	13 085	14 462	24 477	24 353
of which FVPL (excluding fixed rate loans above)	653	772	108	109	761	881

^ *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 (£0.9 billion) exposure falls predominantly into Stage 1 (consistent throughout the period) (31 March 2019: £0.7 billion). The ECL on the portfolio is £3.0 million (31 March 2019: £1.5 million).*

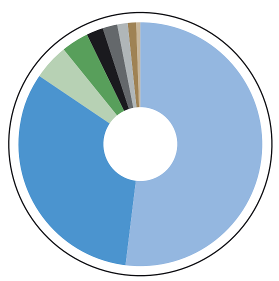
* *Refer to definitions on page 98.*

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



31 MARCH 2020
£25 238 million

46.8%	South Africa
38.2%	United Kingdom
4.9%	EU (excluding UK)
3.0%	North America
2.7%	Australia
1.5%	Africa (excluding RSA)
1.2%	Other
1.0%	Asia
0.7%	Europe (Non-EU)



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)

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 loans and advances on a statutory basis.

Our exposure (net of ECL) to the UK Legacy portfolio* has reduced from £131 million at 31 March 2019 to £111 million at 31 March 2020. These assets are substantially impaired and are largely reported under Stage 3 as indicated below.

Stage 1: 92.4% 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 0.4%.

Stage 2: 5.2% of gross exposure is in Stage 2. These assets require a lifetime expected loss to be held. Only £90 million or 0.4% of gross core loans and advances subject to ECL are shown in Stage 2 as greater than 30 days past due. £178 million or 14.1% of Stage 2 assets have been categorised as such due to a significant model driven increase in credit risk since origination. 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: 2.4% of gross exposure is in Stage 3 which is made up of assets that are credit impaired. The coverage ratio totals 33.0% 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 34.3% of UK and Other Stage 3 gross loans. These assets have been significantly provided for and coverage for these assets remains high at 34.6%. Excluding Legacy, UK Ongoing Stage 3 exposures totals £249 million or 2.2% of gross core loans and advances subject to ECL.

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

	UK and Other		Southern Africa		Total group	
£'million	**31 March 2020**	31 March 2019	**31 March 2020**	31 March 2019	**31 March 2020**	31 March 2019
Gross core loans and advances subject to ECL	**11 392**	**9 891**	**13 085**	**14 462**	**24 477**	**24 353**
Stage 1	10 437	8 996	12 193	13 687	22 630	22 683
Stage 2	576	576	690	573	1 266	1 149
of which past due greater than 30 days	*31*	*13*	*59*	*20*	*90*	*33*
Stage 3	379	319	202	202	581	521
*of which Ongoing (excluding Legacy) Stage 3**	*249*	*149*	*202*	*202*	*451*	*351*
Gross core loans and advances subject to ECL (%)						
Stage 1	91.6%	91.0%	93.2%	94.6%	92.4%	93.2%
Stage 2	5.1%	5.8%	5.3%	4.0%	5.2%	4.7%
Stage 3	3.3%	3.2%	1.5%	1.4%	2.4%	2.1%
*of which Ongoing (excluding Legacy) Stage 3**	*2.2%*	*1.5%*	*1.5%*	*1.4%*	*1.8%*	*1.4%*

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

	UK and Other		Southern Africa		Total group	
£'million	**31 March 2020**	31 March 2019	**31 March 2020**	31 March 2019	**31 March 2020**	31 March 2019
ECL impairment charges on core loans and advances	(74)	(35)	(53)	(41)	(127)	(76)
Average gross core loans and advances subject to ECL	10 642	9 396	13 773	14 884	24 415	24 280
Credit loss ratio	**0.69%**	**0.38%**	**0.38%**	**0.28%**	**0.52%**	**0.31%**

* *Refer to definitions on page 98.*

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

	UK and Other		Southern Africa		Total group	
£'million	**31 March 2020**	31 March 2019	**31 March 2020**	31 March 2019	**31 March 2020**	31 March 2019
ECL	**(175)**	**(149)**	**(152)**	**(144)**	**(327)**	**(293)**
Stage 1	(37)	(14)	(48)	(29)	(85)	(43)
Stage 2	(31)	(27)	(19)	(23)	(50)	(50)
Stage 3	(107)	(108)	(85)	(92)	(192)	(200)
*of which Ongoing (excluding Legacy) Stage 3**	*(62)*	*(35)*	*(85)*	*(92)*	*(147)*	*(127)*
Coverage ratio (%)						
Stage 1	0.4%	0.2%	0.4%	0.2%	0.4%	0.2%
Stage 2	5.4%	4.7%	2.8%	4.1%	3.9%	4.4%
Stage 3	28.2%	33.9%	42.1%	45.4%	33.0%	38.4%
*of which Ongoing (excluding Legacy) Stage 3**	*24.9%*	*23.5%*	*42.1%*	*45.4%*	*32.6%*	*36.2%*

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

	UK and Other		Southern Africa		Total group	
£'million	**31 March 2020**	31 March 2019	**31 March 2020**	31 March 2019	**31 March 2020**	31 March 2019
Stage 3 net of ECL	272	211	117	110	389	321
*of which Ongoing (excluding Legacy) Stage 3**	*187*	*114*	*117*	*110*	*304*	*224*
Aggregate collateral and other credit enhancements on Stage 3	274	228	122	163	396	391
Stage 3 net of ECL and collateral	–	–	–	–	–	–
Stage 3 as a % of gross core loans and advances subject to ECL	3.3%	3.2%	1.5%	1.4%	2.4%	2.1%
*of which Ongoing (excluding Legacy) Stage 3**	*2.2%*	*1.5%*	*1.5%*	*1.4%*	*1.8%*	*1.4%*
Total ECL as a % of Stage 3 exposure	46.2%	46.7%	75.2%	71.2%	56.3%	56.2%
Stage 3 net of ECL as a % of net core loans and advances subject to ECL	2.4%	2.2%	0.9%	0.8%	1.6%	1.3%
*of which Ongoing (excluding Legacy) Stage 3**	*1.7%*	*1.2%*	*0.9%*	*0.8%*	*1.3%*	*0.9%*

* *Refer to definitions on page 98.*

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 31 March 2019 to 31 March 2020. The transfers between stages of gross core loans indicates the impact of stage transfers upon the gross exposure and associated opening ECL. There have been greater movements into Stage 2 and Stage 3 than in the previous year, in part due to small ticket asset finance in the UK and select exposures across a few sectors in South Africa. These have, however, been offset by a significant amount of repayments in these stages. 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. The ECL impact of changes to risk parameters and models during the period largely relate to the £19 million COVID-19 ECL overlay as well as updated macro-economic scenarios and relative weightings prior to the COVID-19 pandemic in the UK and updated macro-economic scenarios and relative weightings including COVID-19 assumptions and R190 million COVID-19 management ECL overlay in South Africa. 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, 31 March 2019. Further analysis as at 31 March 2020 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)**
Transfer from Stage 1	(752)	1	622	(1)	130	–	–	–
Transfer from Stage 2	266	(4)	(359)	6	93	(2)	–	–
Transfer from Stage 3	18	(2)	4	–	(22)	2	–	–
ECL remeasurement arising from transfer of stage	–	5	–	1	–	(54)	–	(48)
New lending net of repayments (includes assets written off)	2 417	(8)	(67)	1	(111)	52	2 239	45
Changes to risk parameters and models	–	(38)	–	(9)	–	(4)	–	(51)
Foreign exchange and other	(2 002)	4	(83)	2	(30)	14	(2 115)	20
At 31 March 2020	**22 630**	**(85)**	**1 266**	**(50)**	**581**	**(192)**	**24 477**	**(327)**

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 2020 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 2020 £'million	IB01-IB12	IB13-IB19	IB20-IB25	Stage 3	Total
Gross core loans and advances subject to ECL	**11 570**	**11 623**	**703**	**581**	**24 477**
Stage 1	11 212	10 832	586	–	22 630
Stage 2	358	791	117	–	1 266
Stage 3	–	–	–	581	581
ECL	**(17)**	**(95)**	**(23)**	**(192)**	**(327)**
Stage 1	(9)	(68)	(8)	–	(85)
Stage 2	(8)	(27)	(15)	–	(50)
Stage 3	–	–	–	(192)	(192)
Coverage ratio	**0.1%**	**0.8%**	**3.3%**	**33.0%**	**1.3%**

At 31 March 2019 £'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 continued to reduce as a proportion of our net core loan exposures and totalled £2.0 billion or 16.4% at 31 March 2020. 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. The portfolio is well positioned to withstand COVID-19 with diverse underlying assets, limited direct exposure to retail and hotel and leisure properties and experienced sponsors behind the exposures. 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 grew by 6.1% to R39.7 billion at 31 March 2020 and is in line with our risk appetite. The forward looking macro-economic scenarios used in the measurement of ECL were updated to capture the wide-reaching impacts of the sovereign downgrade by Moody's to sub investment grade as well as the initial impact of COVID-19. A further management ECL overlay of R190 million was introduced at 31 March 2020 to capture the anticipated impact of South Africa's national lockdown on the commercial real estate portfolio as the calculated model-driven Stage 1 ECL for this portfolio was not considered sufficient. Loan-to-values remain conservative in this portfolio and transactions are generally supported by strong cash flows.

Lending collateralised by property – 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 2020										
Commercial real estate	**2 945**	**(15)**	**164**	**(12)**	**150**	**(17)**	**3 259**	**(44)**	**42**	**3 301**
Commercial real estate – investment	2 530	(14)	158	(11)	147	(17)	2 835	(42)	38	2 873
Commercial real estate – development	377	(1)	–	–	3	–	380	(1)	4	384
Commercial vacant land and planning	38	–	6	(1)	–	–	44	(1)	–	44
Residential real estate	**787**	**(1)**	**15**	**–**	**109**	**(39)**	**911**	**(40)**	**30**	**941**
Residential real estate – investment	253	–	8	–	36	(12)	297	(12)	28	325
Residential real estate – development	506	(1)	5	–	38	(8)	549	(9)	–	549
Residential vacant land and planning	28	–	2	–	35	(19)	65	(19)	2	67
Total lending collateralised by property	**3 732**	**(16)**	**179**	**(12)**	**259**	**(56)**	**4 170**	**(84)**	**72**	**4 242**
Coverage ratio	**0.43%**		**6.70%**		**21.62%**		**2.01%**			
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**
Coverage ratio	**0.19%**		**3.94%**		**33.89%**		**2.77%**			

Lending collateralised by property – 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 2020										
Commercial real estate	**983**	**(1)**	**105**	**(12)**	**125**	**(12)**	**1 213**	**(25)**	**42**	**1 255**
Commercial real estate – investment	803	(1)	99	(11)	122	(12)	1 024	(24)	38	1 062
Commercial real estate – development	180	–	–	–	3	–	183	–	4	187
Commercial vacant land and planning	–	–	6	(1)	–	–	6	(1)	–	6
Residential real estate	**607**	**–**	**12**	**–**	**108**	**(39)**	**727**	**(39)**	**30**	**757**
Residential real estate – investment	253	–	8	–	36	(12)	297	(12)	28	325
Residential real estate – development	354	–	3	–	38	(8)	395	(8)	–	395
Residential vacant land and planning	–	–	1	–	34	(19)	35	(19)	2	37
Total lending collateralised by property	**1 590**	**(1)**	**117**	**(12)**	**233**	**(51)**	**1 940**	**(64)**	**72**	**2 012**
Coverage ratio	**0.06%**		**10.26%**		**21.89%**		**3.30%**			
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**
Coverage ratio	**0.07%**		**6.40%**		**32.89%**		**4.56%**			

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 2020										
Commercial real estate	**1 962**	**(14)**	**59**	**–**	**25**	**(5)**	**2 046**	**(19)**	**–**	**2 046**
Commercial real estate – investment	1 727	(13)	59	–	25	(5)	1 811	(18)	–	1 811
Commercial real estate – development	197	(1)	–	–	–	–	197	(1)	–	197
Commercial vacant land and planning	38	–	–	–	–	–	38	–	–	38
Residential real estate	**180**	**(1)**	**3**	**–**	**1**	**–**	**184**	**(1)**	**–**	**184**
Residential real estate-investment	–	–	–	–	–	–	**–**	**–**	–	–
Residential real estate – development	152	(1)	2	–	–	–	154	(1)	–	154
Residential vacant land and planning	28	–	1	–	1	–	30	–	–	30
Total lending collateralised by property	**2 142**	**(15)**	**62**	**–**	**26**	**(5)**	**2 230**	**(20)**	**–**	**2 230**
Coverage ratio	**0.70%**		**–**		**19.23%**		**0.90%**			
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**
Coverage ratio	**0.27%**		**1.27%**		**36.99%**		**1.40%**			

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 deliver solutions to enable target clients to create and manage their wealth. 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 34.4% year on year, driven by strong targeted growth in mortgages for the bank's high net worth target market clients as we further leverage our UK private banking platform and franchise. Growth in this area has been achieved with strong adherence to our conservative lending, which is expected to provide adequate protection through the weakened economic environment as a result of the COVID-19 pandemic.

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 grew by 6.1% to R147.1 billion at 31 March 2020. Growth in both of these areas has been achieved with strong adherence to our risk appetite. The high net worth client portfolio continues to demonstrate resilience under COVID-19 conditions accessing financial resources at their disposal where appropriate.

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 2020										
Mortgages	5 890	(6)	130	(3)	82	(14)	6 102	(23)	–	6 102
High net worth and specialised lending	3 585	(12)	104	(7)	27	(22)	3 716	(41)	14	3 730
Total high net worth and other private client lending	**9 475**	**(18)**	**234**	**(10)**	**109**	**(36)**	**9 818**	**(64)**	**14**	**9 832**
Coverage ratio	**0.19%**		**4.27%**		**33.03%**		**0.65%**			
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**
Coverage ratio	**0.13%**		**3.06%**		**35.34%**		**0.61%**			

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 2020										
Mortgages	2 438	(2)	19	–	28	(1)	2 485	(3)	–	2 485
High net worth and specialised lending	620	–	11	(1)	4	(3)	635	(4)	14	649
Total high net worth and other private client lending	**3 058**	**(2)**	**30**	**(1)**	**32**	**(4)**	**3 120**	**(7)**	**14**	**3 134**
Coverage ratio	**0.07%**		**3.33%**		**12.50%**		**0.22%**			
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**
Coverage ratio	**–**		**5.56%**		**13.79%**		**0.26%**			

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 2020										
Mortgages	3 452	(4)	111	(3)	54	(13)	3 617	(20)	–	3 617
High net worth and specialised lending	2 965	(12)	93	(6)	23	(19)	3 081	(37)	–	3 081
Total high net worth and other private client lending	**6 417**	**(16)**	**204**	**(9)**	**77**	**(32)**	**6 698**	**(57)**	**–**	**6 698**
Coverage ratio	**0.25%**		**4.41%**		**41.56%**		**0.85%**			
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**
Coverage ratio	**0.17%**		**2.50%**		**42.53%**		**0.71%**			

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

We focus on traditional client-driven corporate lending activities. 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 club or 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 are typically to fund vehicles which are secured against undrawn limited partner commitments and/or the funds underlying assets
- **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 (including motor vehicles) 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
- **Power and infrastructure 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:** arranges debt 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 the UK, Canada or Australia. All facilities are secured by the borrower's assets and repaid from mining cash flows.

Year in review

In the UK, corporate and other lending increased by 7.6% from £6.3 billion at 31 March 2019 to £6.8 billion at 31 March 2020. 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. As a result of the COVID-19 pandemic, we continue to monitor developments closely, in particular in the sub-sectors most affected to date which includes the aviation portfolio due to the temporary shutdown of this industry and small ticket asset finance due to the nature of the underlying borrower.

The aviation portfolio, reported under both 'large ticket asset finance' and 'other corporate and financial institutions and governments', totalled £483 million of gross core loans at 31 March 2020. A large portion of this portfolio is reported under FVPL. There is no unsecured corporate exposure to the airline industry. The majority of the exposure is either senior secured on aircraft with conservative loan to value ratios, to flag carriers who are likely to be supported by their respective governments during this period or to lessors, rather than direct to airlines, where these companies have substantial balance sheets which are continuing to support debt service. We continue to closely monitor these exposures given the significant disruption to this industry as a result of COVID-19, albeit the underlying transactions are well structured and underpinned by good assets.

Small ticket asset finance borrowers are predominantly in the UK SME market and as a result have been affected by COVID-19, however, this business (average ticket size of £10 000 – £25 000) covers a broad range of sectors and actively seeks to avoid concentration to any particular industry. In addition, there are diversified underlying assets including office equipment, business critical hardware and software, mechanised materials handling as well as motor vehicles/light commercial vehicles with a focus on hard assets. The government schemes announced are expected to directly support the clients within this business as well as in other areas of corporate and other lending.

In South Africa, corporate and other lending increased by 7.6% to R92.8 billion as at 31 March 2020 as a result of increased lending activity by our mid-to-large corporate clients across a number of sectors. Growth has been well diversified across several asset classes and industries. Our SOE exposure is predominantly backed by government support.

As a result of the COVID-19 pandemic, we continue to proactively engage with clients and monitor developments closely, particularly in the sub-sectors most affected to date which include the aviation portfolio due to the temporary shutdown of this industry and trade finance as a result of decreased import activity and heightened market volatility.

The aviation portfolio reported under both 'large ticket asset finance' and 'other corporate and financial institutions and governments', totals R4.4 billion of gross core loans at 31 March 2020. There is no unsecured corporate exposure to the airline industry. The majority of the exposure is either senior secured on aircraft with conservative loan to value ratios.

The trade finance exposure reported under asset-based lending totals R4.5 billion of gross core loans at 31 March 2020, the majority of the exposures is largely secured and covered by a credit guarantee. The government schemes announced are expected to directly support the clients within this business as well as in other areas of corporate and other lending.

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 2020										
Corporate and acquisition finance	2 025	(19)	185	(7)	44	(22)	2 254	(48)	91	2 345
Asset-based lending	682	(4)	72	(2)	51	(43)	805	(49)	20	825
Fund finance	1 672	(3)	–	–	–	–	1 672	(3)	21	1 693
Other corporate and financial institutions and governments	2 656	(13)	281	(8)	42	(5)	2 979	(26)	278	3 257
Asset finance	1 751	(11)	167	(8)	68	(30)	1 986	(49)	185	2 171
Small ticket asset finance	1 666	(11)	145	(7)	28	(15)	1 839	(33)	–	1 839
Large ticket asset finance	85	–	22	(1)	40	(15)	147	(16)	185	332
Power and infrastructure finance	584	(1)	144	(3)	8	–	736	(4)	80	816
Resource finance	53	–	4	–	–	–	57	–	–	57
Total corporate and other lending	**9 423**	**(51)**	**853**	**(28)**	**213**	**(100)**	**10 489**	**(179)**	**675**	**11 164**
Coverage ratio	**0.54%**		**3.28%**		**46.95%**		**1.71%**			
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
Power and infrastructure 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**
Coverage ratio	**0.25%**		**4.98%**		**54.81%**		**1.10%**			

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 2020										
Corporate and acquisition finance	1 524	(17)	147	(6)	40	(21)	1 711	(44)	91	1 802
Asset-based lending	405	(2)	36	(1)	–	–	441	(3)	20	461
Fund finance	1 293	(2)	–	–	–	–	1 293	(2)	21	1 314
Other corporate and financial institutions and governments	574	(2)	4	–	13	(1)	591	(3)	170	761
Asset finance	1 603	(11)	165	(8)	53	(30)	1 821	(49)	185	2 006
Small ticket asset finance	1 578	(11)	143	(7)	28	(15)	1 749	(33)	–	1 749
Large ticket asset finance	25	–	22	(1)	25	(15)	72	(16)	185	257
Power and infrastructure finance	339	–	77	(3)	8	–	424	(3)	80	504
Resource finance	51	–	–	–	–	–	51	–	–	51
Total corporate and other lending	**5 789**	**(34)**	**429**	**(18)**	**114**	**(52)**	**6 332**	**(104)**	**567**	**6 899**
Coverage ratio	**0.59%**		**4.20%**		**45.61%**		**1.64%**			
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
Power and infrastructure 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**
Coverage ratio	**0.25%**		**3.80%**		**46.77%**		**0.99%**			

Corporate and other lending – Southern Africa

£'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 (not subject to ECL)	Gross core loans and advances
	Gross core loans and advances at amortised cost and FVPL (subject to ECL)									
At 31 March 2020										
Acquisition finance	501	(2)	38	(1)	4	(1)	543	(4)	–	543
Asset-based lending	277	(2)	36	(1)	51	(43)	364	(46)	–	364
Fund finance	379	(1)	–	–	–	–	379	(1)	–	379
Other corporate and financial institutions and governments	2 082	(11)	277	(8)	29	(4)	2 388	(23)	108	2 496
Asset finance	148	–	2	–	15	–	165	–	–	165
Small ticket asset finance	88	–	2	–	–	–	90	–	–	90
Large ticket asset finance	60	–	–	–	15	–	75	–	–	75
Power and infrastructure finance	245	(1)	67	–	–	–	312	(1)	–	312
Resource finance	2	–	4	–	–	–	6	–	–	6
Total corporate and other lending	**3 634**	**(17)**	**424**	**(10)**	**99**	**(48)**	**4 157**	**(75)**	**108**	**4 265**
Coverage ratio	**0.47%**		**2.36%**		**48.48%**		**1.80%**			
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
Power and infrastructure 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**
Coverage ratio	**0.26%**		**6.67%**		**66.67%**		**1.23%**			

Investment risk in the banking book

Investment risk description

Investment risk in the banking book comprised 3.4% of total assets at 31 March 2020 and arises primarily from the following activities conducted within the group:

- **Principal Investments:** Principal Investments focusses on providing capital to entrepreneurs and management teams to further their growth ambitions and leveraging third party capital into funds that are relevant to our client base. This is achieved through working together with our franchise businesses. Investments are selected based on:
  - The track record of management;
  - Attractiveness of the industry and the positioning therein;
  - Valuation/pricing fundamentals;
  - Environmental and sustainability analyses;
  - Exit possibilities and timing thereof; and
  - The ability to build value by implementing an agreed strategy.

  Investments in listed shares may arise on an IPO, or sale of an investment to a listed company. There is limited appetite for listed investments
- **IEP Group:** IBL holds a 47.4% stake alongside third party investors and senior management of the business who collectively hold the remaining 52.6%. The investment in the IEP Group is reflected as an investment in an associate
- **Lending transactions:** The manner in which certain transactions are structured, results in equity, warrants or profit shares being held, predominantly in unlisted companies
- **Property activities:** We source development, investment and trading opportunities to create value within agreed risk parameters
- **Ninety One:** Investec has a 25.0% shareholding in Ninety One (previously known as Investec Asset Management).
  As a founding shareholder of Ninety One, the boards of both Investec and Ninety One believe that it is appropriate for the Investec to retain a modest shareholding in Ninety One. Investec believes Ninety One is an attractive business with meaningful intrinsic value. Retaining an equity stake allows Investec to participate in future value creation by Ninety One. Refer to pages 12 and 13 in volume one for further detail.

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 provide oversight to the 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	Investment committees, 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 executives are on the board of the IEP Group, IBL BRCC and DLC BRCC.

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 analyses are performed and reported to IBL, IBP and DLC BRCCs. As a matter of course, concentration risk is avoided and investments are spread across geographies and industries.

Valuation and accounting methodologies

For a description of our valuation principles and methodologies refer to pages 45 and 50 in volume three and pages 86 to 96 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 the Capital Requirements Directive IV (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.

Summary of investments held and stress testing analyses

An analysis of income and revaluations of these investments can be found in the investment income note on page 66 in volume three. In addition, revaluations of certain assets reported below relating to the Hong Kong direct investments business can be found on page 155 in volume three. Further detail on the group's investment portfolio can be found on pages 89 to 92 in volume one.

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

£'million Country/category	On-balance sheet value of investments 31 March 2020	Valuation change stress test 31 March 2020**	On-balance sheet value of investments 31 March 2019	Valuation change stress test 31 March 2019**
Unlisted investments	**639**	**95**	**780**	**117**
UK and Other	348	52	472	71
Southern Africa*	291	43	308	46
Listed equities	**142**	**36**	**183**	**45**
UK and Other	28	7	21	5
Southern Africa	114	29	162	40
Investment and trading properties	**370**	**44**	**542**	**74**
UK and Other	36	7	70	13
Southern Africa^	334	37	472	61
Warrants and profit shares	**2**	**1**	**28**	**9**
UK and Other	2	1	19	6
Southern Africa	–	–	9	3
IEP Group^^	**253**	**38**	**329**	**49**
Southern Africa	253	38	329	49
Ninety One#	**334**	**n/a**	**–**	**–**
UK and Other	225	n/a	–	–
Southern Africa	109	n/a	–	–
Total	**1 740**	**214**	**1 862**	**294**

^ *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 24.3% (31 March 2019: 26.6%).*

* *Includes the fair value loans investments of £118 million (31 March 2019: £88 million to reflect our economic ownership as explained above. Previously disclosed as £154 million ignoring economic ownership).*

^^ *The investment in the IEP Group is reflected as an investment in an associate. IBL holds a 47.4% stake alongside third party investors and senior management of the business who hold the remaining 52.6%.*

\# *Investec has a 25.0% shareholding in Ninety One (previously known as Investec Asset Management). As a founding shareholder of Ninety One, the boards of both Investec and Ninety One believe that it is appropriate for the Investec to retain a modest shareholding in Ninety One. Investec believes Ninety One is an attractive business with meaningful intrinsic value. Retaining an equity stake allows Investec to participate in future value creation by Ninety One.*

** *In order to assess our earnings sensitivity to a movement in the valuation of these investments, the stress testing parameters detailed below are applied:*

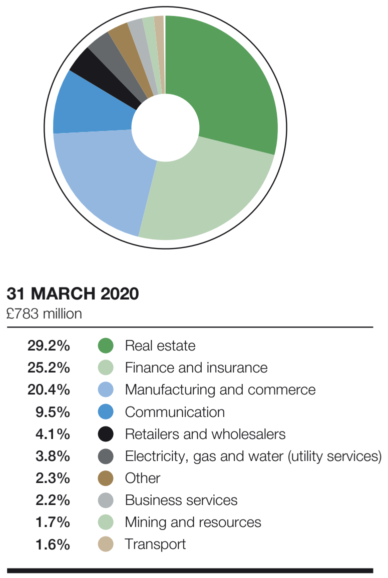
Stress test values applied	
Unlisted investments and the IEP Group	15%
Listed equities	25%
Trading properties	20%
Investment properties	10%
Warrants and profit shares	35%
Ninety One	n/a

Stress testing summary

Based on the information at 31 March 2020, as reflected above, we could have a £214 million reversal in revenue (which assumes a year in which there is a 'severe stress scenario' simultaneously across all asset classes). This would not necessarily cause the group to report a loss, but could have a significantly negative impact on earnings for that period. The probability of all these asset classes in all geographies in which we operate being negatively impacted at the same time is low, although the probability of listed equities being negatively impacted at the same time is high.

To date our experience through the COVID-19 pandemic has been that certain exposures have been negatively impacted for idiosyncratic reasons, albeit the small listed equities book at 31 March 2020 was impacted substantially due to the significant global share price falls during March 2020. Stress testing is not considered to be relevant for Ninety One given the strategic nature of the investments and the limited impact share price movements would have on the group's capital given the regulatory capital treatment applied.

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



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. This regulatory capital definition largely focuses on positions we hold in an investor capacity and also include securitisation positions we have retained in transactions in which the group has achieved significant risk transfer. We believe, however, 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 27 for the balance sheet and credit risk classification.

UK and Other

The new securitisation framework was adopted in the EU in December 2017 and applied from 1 January 2019. Assets securitised prior to 1 January 2019 remain subjected to original standards until the end of December 2019. From 1 January 2020 we have been applying the new securitisation framework to all securitisation positions.

Securitisation transactions provides the bank with a cost effective, alternative source of financing. During the year we did not undertake any new securitisation transactions.

We hold rated structured credit instruments. These are UK and US exposures and amounted to £522 million at 31 March 2020 (31 March 2019: £462 million) with 98.7% being AAA and AA rated and 1.1% 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 R7.2 billion at 31 March 2020 (31 March 2019: R7.7 billion) and consist of residential mortgages.

Further details of our various securitisation vehicles are highlighted below:

- Fox Street 1: R0.3 billion notes of the original R1.5 billion are still in issue. All notes are held internally
- Fox Street 2: R0.6 billion notes of the original R1.5 billion are still in issue. All notes are held internally
- Fox Street 3: R0.8 billion notes of the original R2.0 billion are still in issue. R794 million of the notes are held internally
- Fox Street 4: R1.4 billion notes of the original R3.7 billion are still in issue. All notes are held internally
- Fox Street 5: R1.7 billion notes of the original R2.9 billion are still in issue. All notes are held internally
- Fox Street 6: R1.1 billion notes of the original R1.3 billion are still in issue. R380 million of the notes are held internally.
- Fox Street 7: R1.1 billion notes of the original R1.1 billion are still in issue. R99 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 R0.8 billion at 31 March 2020 (31 March 2019: R0.2 billion), unrated South African RMBS totalling R1.6 billion at 31 March 2020 (31 March 2019: R1.1 billion), rated US corporate loans R1.0 billion (31 March 2019: Rnil) and unrated South African commercial mortgage backed securities (CMBS) totalling R20 million (31 March 2019: R0.3 billion).

Accounting policies

Refer to page 47 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 approval required from credit. 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 £325 million at 31 March 2020 (31 March 2019: £408 million).

Nature of exposure/activity	**Exposure 31 March 2020 £'million**	Exposure 31 March 2019 £'million	Balance sheet and credit risk classification	Asset quality – relevant comments
Structured credit (gross exposure)	681	555	Other debt securities and other loans and advances	
Rated	600	470		
Unrated	81	85		
Loans and advances to customers and third party intermediary originating platforms (mortgage loans) (net exposure)	8	12	Other loans and advances	
Private client division assets which have been securitised	325	408	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 34 to 36

Analysis of gross structured credit exposure

£'million	AAA	AA	A	BBB	BB	B and below	Total rated	Total unrated	**Total**
US corporate loans	278	99	–	–	–	–	377	–	377
UK RMBS	97	119	6	1	–	–	223	6	229
South African RMBS	–	–	–	–	–	–	–	74	74
South African CMBS	–	–	–	–	–	–	–	1	1
Total at 31 March 2020	**375**	**218**	**6**	**1**	**–**	**–**	**600**	**81**	**681**
Investec plc	375	140	6	1	–	–	522	6	**528**
Investec Limited	–	78	–	–	–	–	78	75	**153**
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**

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 our clients. 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 the UK and South Africa. 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. The Market Risk Forum, mandated by the IBP and IBL BRCC, manages market risk in accordance with approved principles, policies and risk appetite. Trading desk risk limits are reviewed by the Market Risk Forum, IBL 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. Any significant changes in risk limits would then be taken to GRRRMF 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 IBL and IBP 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.

RISK MANAGEMENT
(continued)

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 method 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 2020				31 March 2019			
95% one-day VaR	**Year end**	Average	High	Low	**Year end**	Average	High	Low
UK and Other								
Equities (£'000)	1 549	571	1 549	286	415	490	748	327
Foreign exchange (£'000)	33	11	68	1	20	13	117	1
Interest rates (£'000)	82	107	132	67	133	94	156	70
Credit (£'000)	438	32	509	1	1	55	123	1
Consolidated (£'000)*	**1 478**	**574**	**1 478**	**301**	**417**	**484**	**739**	**350**
South Africa								
Commodities (R'million)	0.1	0.1	0.3	–	0.1	0.1	0.4	–
Equities (R'million)	5.8	4.2	8.1	3.0	3.8	3.6	7.5	1.5
Foreign exchange (R'million)	1.3	2.2	6.5	0.7	1.4	2.1	6.5	0.9
Interest rates (R'million)	2.9	2.3	5.4	0.8	1.2	2.1	9.0	0.4
Consolidated (R'million)*	**6.9**	**5.3**	**10.0**	**3.4**	**3.8**	**4.7**	**9.7**	**1.7**

* *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 (diversification).*

Expected shortfall

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

95% one-day ES	31 March 2020 Year end	31 March 2019 Year end
UK and Other		
Equities (£'000)	1 966	638
Foreign exchange (£'000)	47	29
Interest rates (£'000)	107	179
Credit (£'000)	723	1
Consolidated (£'000)*	**1 837**	**618**
South Africa		
Commodities (R'million)	0.1	0.2
Equities (R'million)	8.4	7.1
Foreign exchange (R'million)	1.6	2.2
Interest rates (R'million)	5.9	1.7
Consolidated (R'million)*	**10.8**	**6.6**

* *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.

99% one-day sVaR	31 March 2020 Year end	31 March 2019 Year end
UK and Other (£'000)	**2 878**	**2 594**
South Africa (R'million)	**24.9**	**9.5**

Backtesting

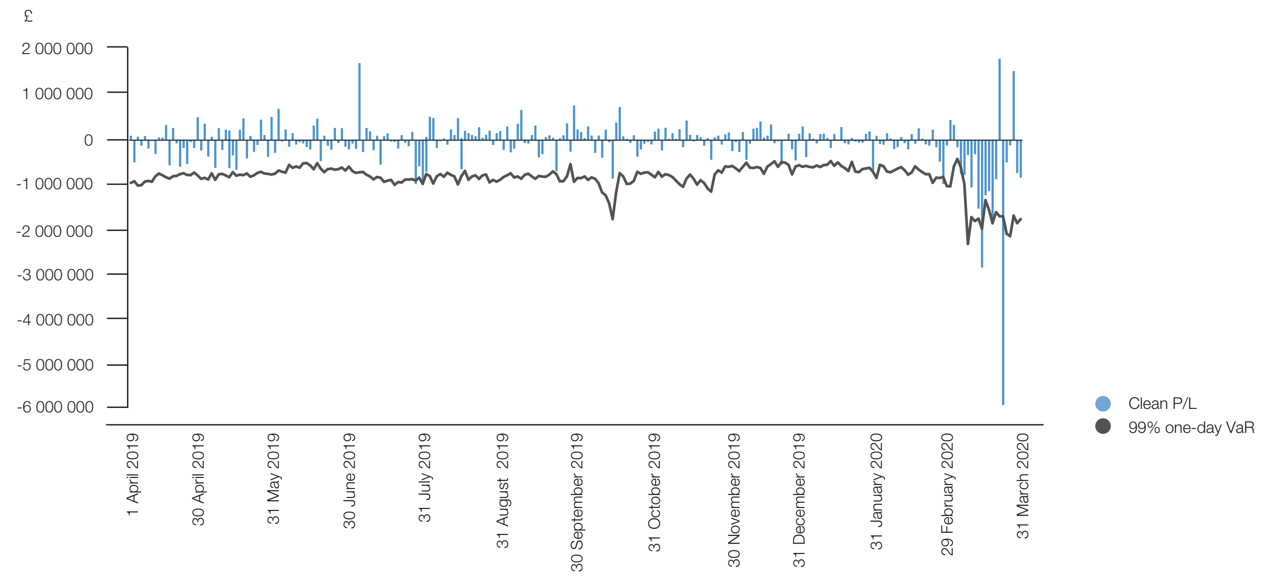
The performance of the VaR model is regularly monitored through backtesting. This is done by comparing daily clean profit and loss against one-day VaR based on a 99% confidence level. Clean profit and loss excludes items such as intra-day transactions, valuation adjustments, provisions, recoveries, commission, 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 31 March 2020 was higher than the previous year. Using clean profit and loss data for backtesting resulted in seven 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 attributable to the severe stress experienced in the markets due to the COVID-19 pandemic during February and March 2020, which resulted in lack of liquidity and pricing dislocations particularly in equity derivative markets.

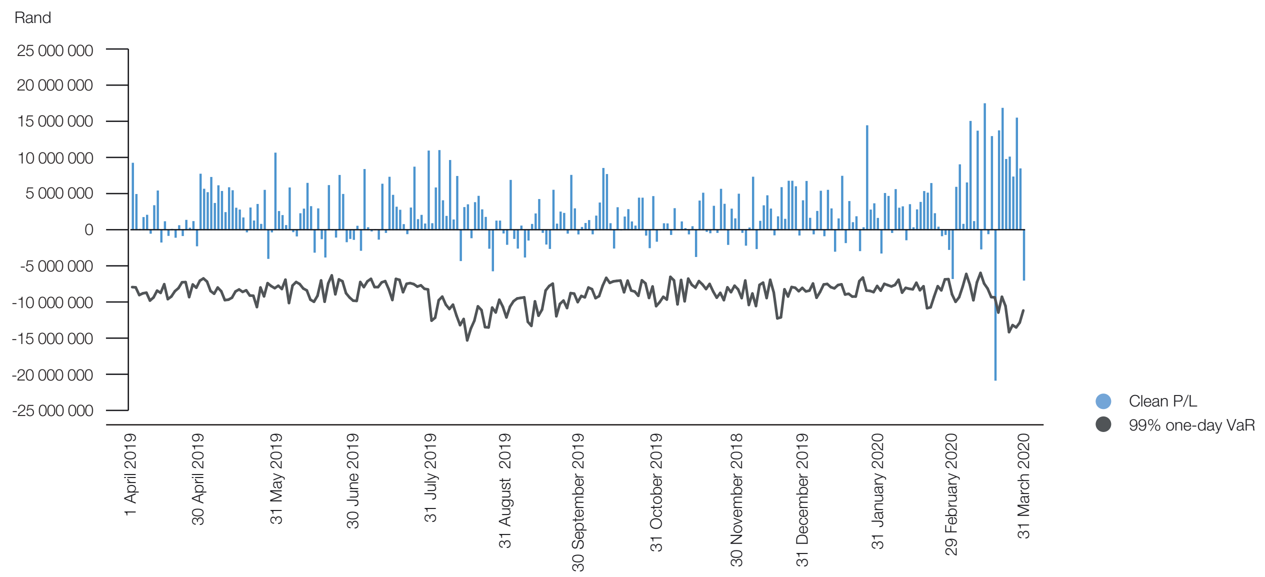
99% one-day VaR backtesting



South Africa

The average VaR for the year ended 31 March 2020 was higher than the previous year. 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 one exception which is below the expected number of two to three exceptions as implied by the 99% VaR model. The exception was as a result of a significant increase in the market volatility at the end of the financial year.

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% one-day VaR. These numbers do not assume normality but rather rely on fitting a distribution to the tails of the VaR distribution.

99% EVT	31 March 2020 Year end	31 March 2019 Year end
UK and Other		
Equities (£'000)	3 433	1 114
Foreign exchange (£'000)	133	77
Interest rates (£'000)	201	339
Credit (£'000)	2 359	3
Consolidated (£'000)#	**3 235**	**1 190**
South Africa		
Commodities (R'million)	0.6	1.4
Equities (R'million)	31.7	25.6
Foreign exchange (R'million)	3.4	8.9
Interest rates (R'million)	25.8	3.9
Consolidated (R'million)#	**40.6**	**18.0**

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

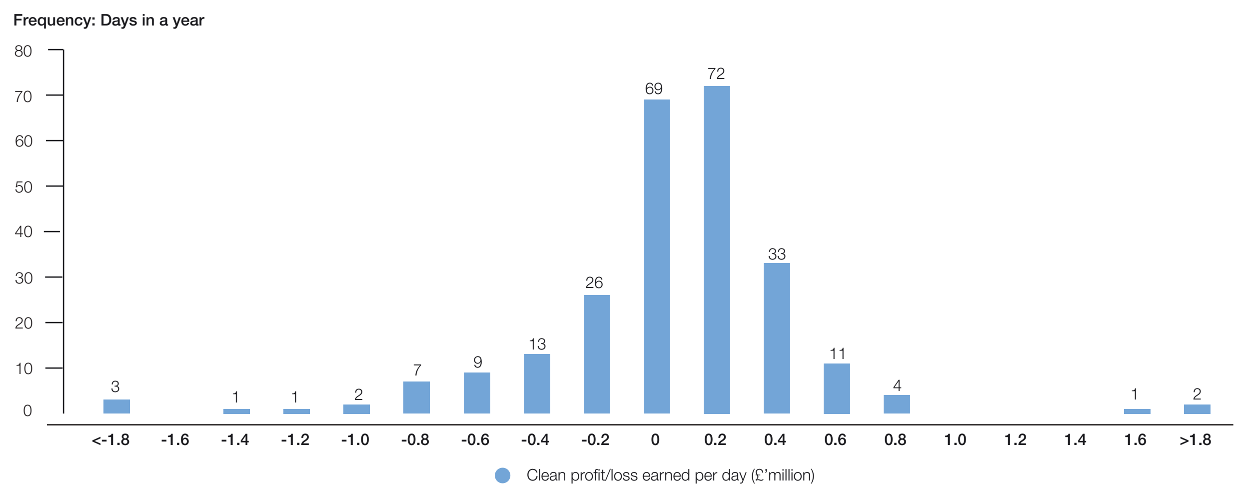
In the UK, the market risk capital requirement is calculated using the standardised approach. For certain options, the group has an article 329 permission from the PRA to use an internal model to calculate the delta for these positions. In addition, the group has an article 331 permission which allows 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 PA 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 graph shows that a clean profit was realised on 123 days out of a total of 254 days in the trading business. The average daily clean profit and loss generated for the year to 31 March 2020 was -£75 809 (31 March 2019: £25 196).

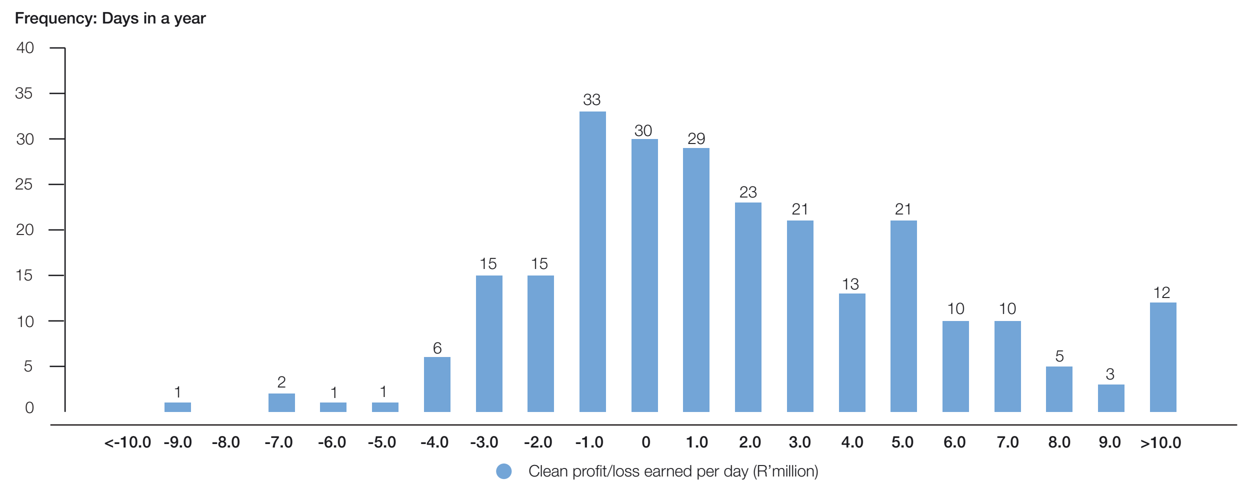
Clean profit and loss (excluding fees and hedge costs included in new trade revenue)



South 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 177 days out of a total of 251 days in the trading business. The average daily clean profit and loss generated for the year to 31 March 2020 was R2.4 million (31 March 2019: R2.0 million).

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



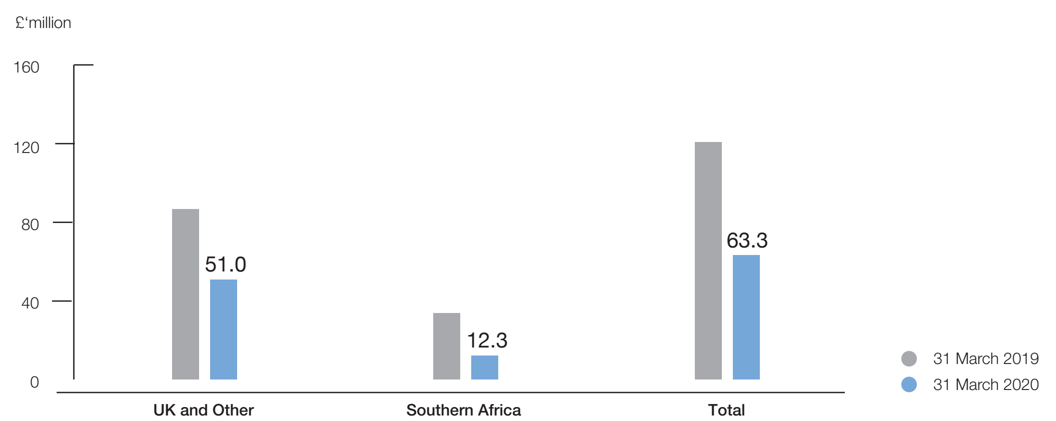
Traded market risk year in review

Globally, the onset of the COVID-19 pandemic triggered extreme market movements, along with a lack of trading liquidity in certain markets. This resulted in a challenging risk management environment across the trading businesses. Trading revenue was adversely affected by the losses arising from the hedging of structured products due to the extraordinary market dislocation, increased hedging costs and dividend cancellation. The primary focus of the trading desks remains to manage and hedge the market risk arising from all client related activity. The elevated levels of market risk exposure at year end in the UK, reflect the increased market volatility experienced during the last few weeks of the year following the fastest decline in equity markets on record.

Additionally, in South Africa, trading conditions remained challenging, dominated by local and global policy uncertainty. South Africa's credit rating was under the spotlight for most of the year, which ultimately lead to a sovereign downgrade by Moody's in March. The JSE was down 21% year on year, while the Rand depreciated by 23% year on year against the US dollar. Against this challenging economic backdrop, the trading desks have performed well, primarily focusing on client facilitation whilst maintaining low levels of open risk.

Utilisation of risk limits have remained moderate and the desks have remained prudent during the 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 103 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 the relevant 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 relevant region. Specific regulatory requirements may further dictate additional restrictions to be adopted in a region.

Under delegated authority of the respective boards, the group has established ALCOs within each banking entity, 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 banking entity 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, by banking entity, 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 banking entity, directs pricing for all deposit products, establishes and maintains access to stable 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.

We maintain an internal funds transfer pricing system based on prevailing market rates. Our funds transfer pricing system charges the businesses the price of 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 relevant regions and are responsible for 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 relevant 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, IBL Review ERRF, IBP Review ERRF, IBL ERC, IBP ERC, IBL BRCC, IBP BRCC, and DLC 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 solvency, 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 Basel Committee on Banking Supervision (BCBS) guidelines and by the regulatory authorities in each jurisdiction, namely the PRA, EBA, APRA, South African PA, 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 balance sheet risk management 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 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); and
  - 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 the group's balance sheet, 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.

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.

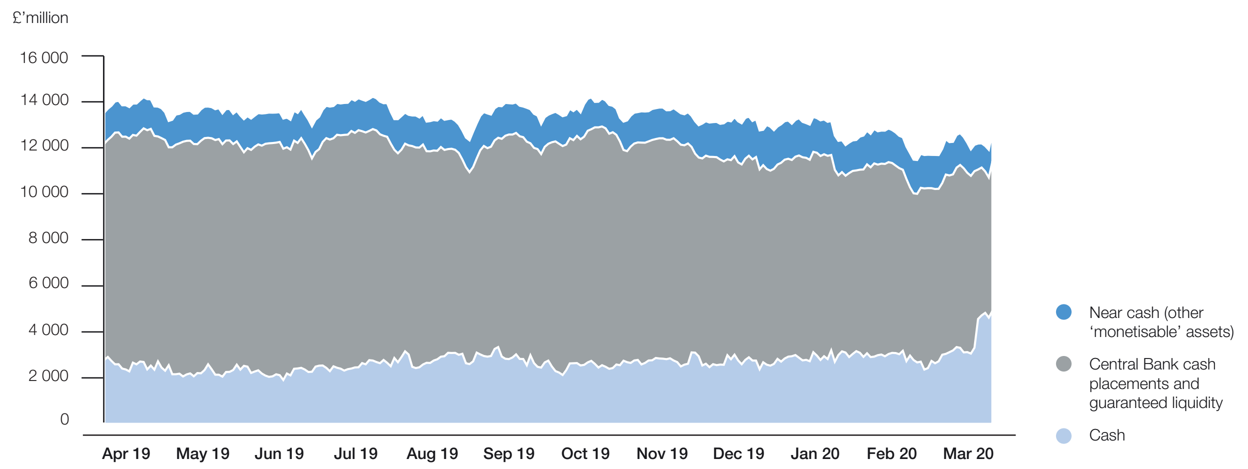
We remain confident in our ability to raise funding appropriate to our needs.

Liquidity buffer

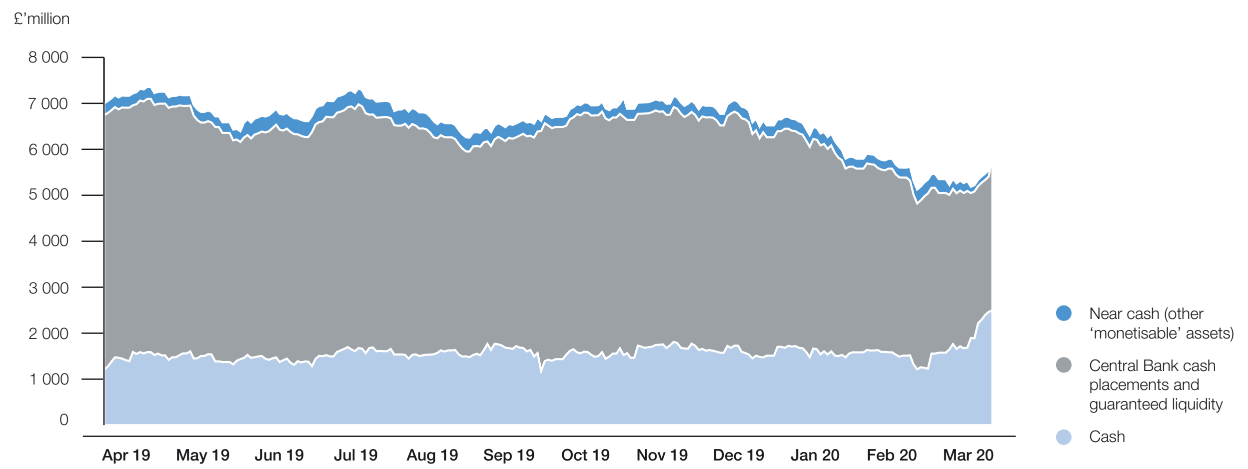
To protect against potential shocks, we hold a liquidity buffer in the form of cash, unencumbered high quality liquid assets (typically in the form of government or rated securities eligible for repurchase with the central bank), and near cash, well in excess of the regulatory requirements as protection 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 2019 to 31 March 2020 average cash and near cash balances over the period amounted to £13.2 billion (£6.6 billion in UK and Other; R122.1 billion in South Africa).

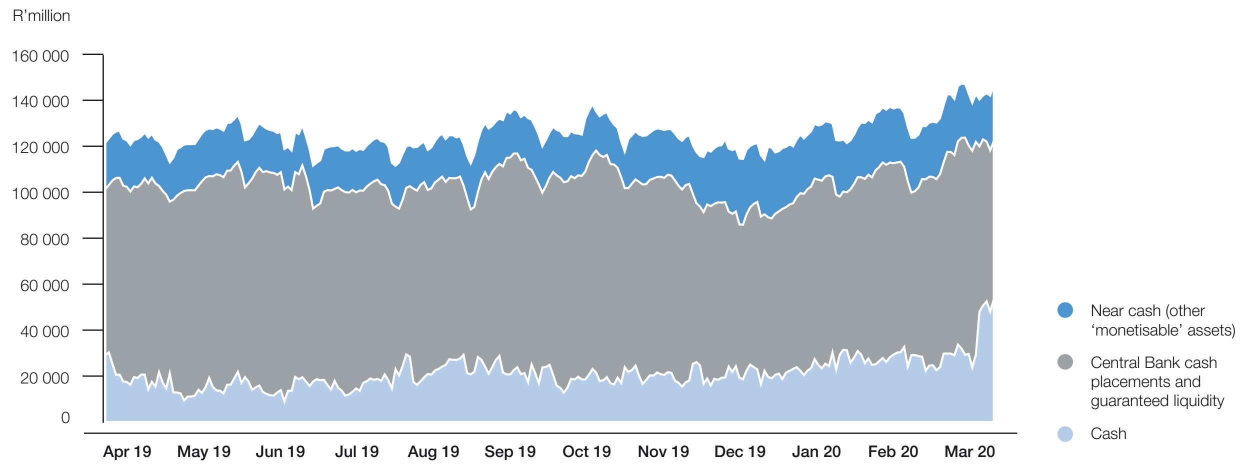
Investec group cash and near cash trend



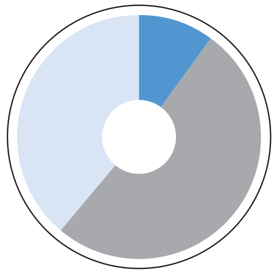
Investec plc cash and near cash trend



Investec Limited cash and near cash trend

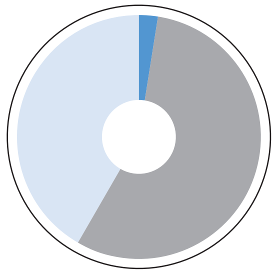


An analysis of cash and near cash at 31 March 2020



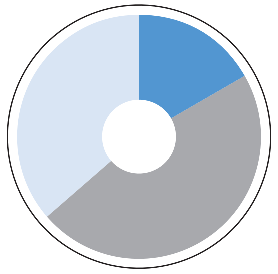
TOTAL GROUP
£12 683 million

10.1%	Near cash (other 'monetisable' assets)
51.2%	Central Bank cash placements and guaranteed liquidity
38.7%	Cash



INVESTEC PLC
£6 040million

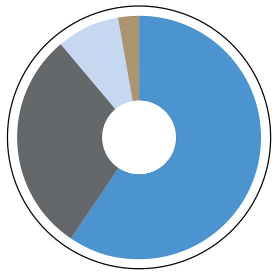
2.5%	Near cash (other 'monetisable' assets)
56.1%	Central Bank cash placements and guaranteed liquidity
41.4%	Cash



INVESTEC LIMITED
R147.2 billion

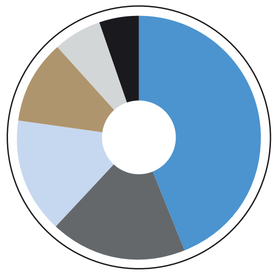
16.9%	Near cash (other 'monetisable' assets)
46.8%	Central Bank cash placements and guaranteed liquidity
36.3%	Cash

Bank and non-bank depositor concentration by type at 31 March 2020



UK AND OTHER
£16 699 million

59.5%	Individuals
29.4%	Other financial institutions and corporates
8.5%	Banks
2.6%	Small business



SOUTHERN AFRICA
£422.3 billion

44.0%	Other financials
18.1%	Individuals
15.3%	Non-financial corporates
11.1%	Banks
6.3%	Small business
5.2%	Public sector

The liquidity position of the group remained sound with total cash and near cash balances amounting to £12.7 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.

The plans have been tested within our core jurisdictions via externally facilitated liquidity crisis simulation exercises which assess their sustainability and ability to adequately contain a liquidity stress.

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 eligible for the Bank of England's Single Collateral Pool to support central bank liquidity facilities.

Encumbered assets are identified in accordance with the definitions 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 III document.

On page 101 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 contractual and behavioural liquidity mismatch across our core geographies.

With respect to the contractual liquidity tables that follow, 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 2020

£'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	3 606	222	156	1	66	20	–	4 071
Investment/trading assets	1 030	1 123	376	245	231	1 216	2 356	6 577
Securitised assets	–	3	–	1	–	13	89	106
Advances	142	452	612	777	1 193	6 624	2 264	12 064
Other assets	150	848	46	13	92	207	751	2 107
Assets	**4 928**	**2 648**	**1 190**	**1 037**	**1 582**	**8 080**	**5 460**	**24 925**
Deposits – banks	(90)	–	(10)	–	(77)	(1 242)	–	(1 419)
Deposits – non-banks	(4 661)	(471)	(3 252)	(2 971)	(1 303)	(2 082)	(540)	(15 280)
Negotiable paper	(2)	–	(23)	(4)	(31)	(1 098)	(310)	(1 468)
Securitised liabilities	–	–	(3)	(3)	(5)	(34)	(66)	(111)
Investment/trading liabilities	(276)	(76)	(360)	(70)	(121)	(385)	(473)	(1 761)
Subordinated liabilities	–	–	–	–	–	(343)	(444)	(787)
Other liabilities	(88)	(894)	(116)	(32)	(171)	(260)	(149)	(1 710)
Liabilities	**(5 117)**	**(1 441)**	**(3 764)**	**(3 080)**	**(1 708)**	**(5 444)**	**(1 982)**	**(22 536)**
Total equity	–	–	–	–	–	–	(2 389)	(2 389)
Contractual liquidity gap	**(189)**	**1 207**	**(2 574)**	**(2 043)**	**(126)**	**2 636**	**1 089**	**–**
Cumulative liquidity gap	(189)	1 018	(1 556)	(3 599)	(3 725)	(1 089)	–	

Behavioural liquidity at 31 March 2020

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	**3 791**	**745**	**(1 831)**	**(1 267)**	**(203)**	**(2 024)**	**789**	**–**
Cumulative	3 791	4 536	2 705	1 438	1 235	(789)	–	

Southern Africa

Contractual liquidity at 31 March 2020

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	52 334	1 433	1 352	65	973	–	35	56 192
Cash and short-term funds – non-banks	13 466	239	309	–	–	–	–	14 014
Investment/trading assets and statutory liquids	51 167	31 992	6 667	5 657	10 370	51 423	36 732	194 008
Securitised assets	–	–	–	–	–	3 596	4 093	7 689
Advances	4 184	9 105	8 659	15 936	17 920	114 594	111 530	281 928
Other assets	1 758	–	4 651	–	311	3 334	10 722	20 776
Assets	**122 909**	**42 769**	**21 638**	**21 658**	**29 574**	**172 947**	**163 112**	**574 607**
Deposits – banks	(493)	(1 127)	(1 083)	(4 214)	(118)	(39 548)	(250)	(46 833)
Deposits – non-banks	(179 490)^	(21 831)	(57 046)	(30 874)	(40 067)	(42 479)	(3 669)	(375 456)
Negotiable paper	–	(425)	(491)	(491)	(1 866)	(3 912)	(449)	(7 634)
Securitised liabilities	–	–	–	–	–	–	(1 699)	(1 699)
Investment/trading liabilities	(6 855)	(9 035)	(19 612)	(3 255)	(3 947)	(12 631)	(2 420)	(57 755)
Subordinated liabilities	–	–	–	–	(610)	(13 148)	(625)	(14 383)
Other liabilities	(3 426)	(1 162)	(1 208)	(855)	(98)	(1 143)	(6 280)	(14 172)
Liabilities	**(190 264)**	**(33 580)**	**(79 440)**	**(39 689)**	**(46 706)**	**(112 861)**	**(15 392)**	**(517 932)**
Total equity	–	–	–	–	–	–	(56 675)	(56 675)
Contractual liquidity gap	**(67 355)**	**9 189**	**(57 802)**	**(18 031)**	**(17 132)**	**60 086**	**91 045**	**–**
Cumulative liquidity gap	(67 355)	(58 166)	(115 968)	(133 999)	(151 131)	(91 045)	–	

^ *Includes call deposits of R176 billion and the balance reflects term deposits which have finally reached/are reaching contractual maturity.*

Behavioural liquidity at 31 March 2020

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	**72 395**	**(4 515)**	**(974)**	**(6 717)**	**(364)**	**(173 267)**	**113 442**	**–**
Cumulative	72 395	67 880	66 906	60 189	59 825	(113 442)	–	

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 impact 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 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:

- Interest rate expectations and perceived risks to the central view;
- Standard shocks to levels and shapes of interest rates and yield curves; and
- 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 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 book'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.

Automatic optionality arising from variable rate products with an embedded minimum lending rate serves as an income protection mechanism for the bank against falling interest rates, while behavioural optionality risk form customers of fixed rate products is mitigated by early repayment charges.

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 2020

£'million	Not > three months	> Three months but < six months	> Six months but < one year	> One year but < five years	> Five years	Non-rate	Total non-trading
Cash and short-term funds - banks	4 071	–	–	–	–	–	4 071
Investment/trading assets	4 608	132	85	205	15	356	5 401
Securitised assets	106	–	–	–	–	–	106
Advances	8 247	696	530	2 330	261	–	12 064
Other assets	–	–	–	–	–	1 508	1 508
Assets	**17 032**	**828**	**615**	**2 535**	**276**	**1 864**	**23 150**
Deposits – banks	(1 070)	–	–	–	–	–	(1 070)
Deposits – non-banks	(12 397)	(612)	(1 220)	(1 034)	(17)	–	(15 280)
Negotiable paper	(1 068)	–	–	(400)	–	–	(1 468)
Securitised liabilities	(111)	–	–	–	–	–	(111)
Investment/trading liabilities	(349)	–	–	–	–	–	(349)
Subordinated liabilities	(59)	–	–	(728)	–	–	(787)
Other liabilities	–	–	–	–	–	(1 696)	(1 696)
Liabilities	**(15 054)**	**(612)**	**(1 220)**	**(2 162)**	**(17)**	**(1 696)**	**(20 761)**
Total equity	–	–	–	–	–	(2 389)	(2 389)
Balance sheet	**1 978**	**216**	**(605)**	**373**	**259**	**(2 221)**	**–**
Off-balance sheet	673	197	(34)	(696)	(140)	–	–
Repricing gap	**2 651**	**413**	**(639)**	**(323)**	**119**	**(2 221)**	**–**
Cumulative repricing gap	2 651	3 064	2 425	2 102	2 221	–	

Southern Africa – Interest rate sensitivity gap at 31 March 2020

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	44 473	–	–	–	–	9 352	53 825
Cash and short-term funds – non-banks	13 984	–	–	–	–	30	14 014
Investment/trading assets and statutory liquids	56 995	12 744	9 875	19 639	21 764	47 118	168 135
Securitised assets	7 689	–	–	–	–	–	7 689
Advances	250 535	4 397	1 388	19 605	1 009	4 990	281 924
Other assets	5 691	(1 797)	(3 233)	(2 026)	(780)	15 817	13 672
Assets	**379 367**	**15 344**	**8 030**	**37 218**	**21 993**	**77 307**	**539 259**
Deposits – banks	(37 979)	(4 027)	(56)	(4 521)	(250)	–	(46 833)
Deposits – non-banks	(309 742)	(23 833)	(25 316)	(10 484)	(944)	(5 137)	(375 456)
Negotiable paper	(1 865)	(50)	(1 433)	(3 802)	(424)	(60)	(7 634)
Securitised liabilities	(1 699)	–	–	–	–	–	(1 699)
Investment/trading liabilities	(14 195)	–	–	(105)	(173)	(4 463)	(18 936)
Subordinated liabilities	(13 799)	–	(101)	(483)	–	–	(14 383)
Other liabilities	–	–	–	–	–	(12 330)	(12 330)
Liabilities	**(379 279)**	**(27 910)**	**(26 906)**	**(19 395)**	**(1 791)**	**(21 990)**	**(477 271)**
Total equity	(3 157)	–	–	–	–	(53 518)	(56 675)
Balance sheet	**(3 069)**	**(12 566)**	**(18 876)**	**17 823**	**20 202**	**1 799**	**5 313**
Off-balance sheet	(3 451)	15 429	19 352	(16 576)	(20 067)	–	(5 313)
Repricing gap	**(6 520)**	**2 863**	**476**	**1 247**	**135**	**1 799**	**–**
Cumulative repricing gap	(6 520)	(3 657)	(3 181)	(1 934)	(1 799)	–	

Economic value sensitivity at 31 March 2020

As outlined, 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. 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	(16.9)	12.8	1.4	0.1	(0.5)	0.6	**(5.5)**
200bps up	19.2	(14.6)	(1.6)	(0.1)	0.6	(0.7)	**6.3**

Southern Africa

	Sensitivity to the following interest rates (expressed in original currencies)						
million	ZAR	GBP	USD	EUR	AUD	Other (ZAR)	**All (ZAR)**
200bps down	(211.2)	0.4	(4.4)	1.0	0.1	(0.7)	**(260.8)**
200bps up	124.5	(0.4)	3.1	(1.2)	(0.2)	1.0	**145.5**

Regulatory requirements

Liquidity Risk

In response to the 2008/09 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 are required to maintain a minimum LCR ratio of 100%. For both Investec plc and IBP (solo basis), the LCR is calculated following the EU Delegated Act and our own interpretations where the regulation calls for it. The reported LCR may change over time with updates to our methodologies and interpretations. As at 31 March 2020 the LCR reported to the PRA was 396% for Investec plc and 411% for IBP (solo basis).

In June 2019, the CRR2/CRDV package was published in the EU Official Journal, including finalised rules for the calculation of the NSFR. This will become a binding metric in June 2021, at which point banks will be required to maintain a minimum NSFR of 100%. The internally calculated NSFR for Investec plc and IBP (solo basis) are based upon these rules, but are subject to change in response to any further clarifications or guidelines. The NSFR at 31 March 2020 was 122% for Investec plc and 120% for IBP (solo basis).

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 II requirement.

Southern Africa

There are various regulatory and economic barriers that prevent liquidity from flowing out of the domestic economy. Namely, the South African 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 PA exercised national discretion and has announced a change to the available stable funding factor to include 35% of financial sector deposits that are less than six months in tenor. This, in turn, would reduce the amount of term deposits greater than six months in tenor, currently required by local banks to meet the NSFR, mitigating any increases in the overall cost of funds.

Despite the above constraints, IBL comfortably exceeds the LCR and NSFR liquidity ratio requirements, having embedded these ratios into our processes. The minimum requirement for LCR is 80%, recently reduced from 100% until such time as the South African PA is of the view that the financial markets have normalised. The minimum requirement for NSFR is 100%.

The South African PA noted that the South African HQLA shortage has continued to decrease such that the continued provision of the Committed Liquidity Facility (CLF) was unlikely to meet the qualifying criteria set out in the Basel III Framework and subsequently announced it would phase out the CLF over a period of three years by December 2021. IBL does not currently make use of the CLF.

Non-trading interest rate risk

In 2016, the BCBS finalised their standards for non-trading interest rate risk which recommended the risk is assessed as part of the bank's capital requirements, outlined six prescribed shock scenarios, and recommended enhanced disclosure requirements for supervisors to implement.

UK and Other

Within the UK, BCBS standards are implemented via the EBA and PRA. The regulatory framework requires banks to assess their Pillar II requirements, including those related to non-trading interest rate risk, as part of their Individual Capital Adequacy Assessment Process (ICAAP). This is reviewed on at least an annual basis and reviewed and approved by IBP BRCC, DLC BRCC and by the IBP and DLC boards. In June 2019, the CRR2/CRDV package was published in the EU Official Journal, including mandatory disclosure requirements for non-trading interest rate risk. This will become a requirement from June 2021.

Southern Africa

The South African PA has announced that it will adopt the new Interest Rate Risk in the Banking Book (IRRBB) regulatory reforms as outlined in BCBS 368. Implementation of new IRRBB standards is scheduled for June 2021 allowing for a year parallel run, with the regulatory compliance deadline and public IRRBB disclosure following in June 2022. IBL currently submits relevant regulatory output to the South African PA on a monthly basis and aims to be compliant with all aspects of the new IRRBB regulatory reforms when formally adopted by the South African PA.

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.

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

Funding continues 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.

Prior to the COVID-19 pandemic, overall liability growth had been managed in line to support asset growth whilst also seeking to better optimise the balance sheet position, which has resulted in a reduction of cash and near cash balances. The primary growth in the year has been in deposits across a diverse retail and non-retail client base.

The group's activity in the wholesale markets over the financial year has been limited but we continue to look to opportunities to raise low cost, currency funding where appropriate and refinance any maturing funds ahead of contractual requirements we have limited reliance on wholesale funding, therefore have not been materially affected by the COVID-19 impacts on this market.

This overall approach has still enabled Investec plc to still maintain a strong liquidity position at the year end across a range of metrics in line with our conservative approach to balance sheet risk management and despite the considerable uncertainty to the UK and global economy as a result of the COVID-19 global pandemic.

Cash and near cash balances at 31 March 2020 amounted to £6.0 billion (31 March 2019: £7.0 billion). Total UK and Other customer deposits was £15.3 billion at 31 March 2020 (31 March 2019: £13.2 billion).

Looking forward, the focus remains on maintaining a strong liquidity position in light of the impact of the COVID-19 global pandemic. Funding continues to be actively raised, particularly in the retail market, in line with the group's strategy and to insulate the group from further ongoing market uncertainty. We expect to participate in the BoE TFSME.

IBP's ratings are in line with the prior year. IBP's long-term Moody's Deposit rating is A1 (stable outlook) and Investec plc's rating is Baa1 (stable outlook). IBP's long-term Fitch rating is BBB+ on Rating Watch Negative. Fitch took a number of negative rating actions on 18 UK banking groups in April 2020 to reflect the heightened risk from the global COVID-19 pandemic. IBP's outlook was changed from Stable to Rating Watch Negative but the rating was maintained at BBB+. At 31 March 2019, IBP had been on Rating Watch Negative by Fitch along with a number of other UK banks due to Brexit uncertainty.

The demerger with Investec Asset Management in March 2020 did not have a discernible impact on Investec plc's liquidity position or ability to fund.

The LCR reported to the PRA at 31 March 2020 was 396% for Investec plc and 411% for IBP (solo basis). The internally calculated NSFR was 122% for Investec plc and 120% for IBP (solo basis). The LCR and NSFR are subject to change in response to updates to our methodologies or interpretations, or in response to further clarifications or guidance from regulatory bodies.

Southern Africa

South Africa continued to be confronted by several economic, political and social issues, both locally and internationally.

South Africa's fiscal position remained under considerable pressure as the positions of Eskom, SAA and other SOEs continued to deteriorate. Globally, political and economic uncertainties such as Brexit and the US-China trade wars led to a changing sentiment towards emerging market assets. This led to alternating cycles of risk-on and risk-off periods, fuelling local currency volatility.

We closed the financial year with the COVID-19 pandemic placing the local and global economic activity under immense strain. Globally, central banks adopted a coordinated approach in reacting to the COVID-19 pandemic. They began cutting interest rates and putting various mechanisms in place to ensure markets remained liquid. The SARB cut rates by 250bps to the lowest levels in recent history. In addition to this, they employed further mechanisms to inject liquidity in the system; Most notably by introducing additional term repo facilities for the banks to access, and reducing in the LCR regulatory minimum from 100% to 80% until such time as the South African PA is of the view that financial markets have normalised.

Amid all the uncertainty brought about by COVID-19, Moody's announced a downgrade to the country's credit rating to below investment grade. The response to the downgrade was largely muted, however, as analysts and market participants believed the move was already largely priced into the market. This was followed by Fitch announcing a downgrade of South Africa's credit rating to BB from BB+, while also assigning a negative outlook.

IBL came into this period of economic and social turmoil with a strong balance sheet characterised by strong liquidity and capital ratios.

The pursuit of our long-term strategic objective to improve the resilience of our balance sheet by targeting the structural shape of our funding profile remains front and centre. We maintain $1.9 billion of strategic long-term non-ZAR funding from diversified sources across the globe at favourable funding spreads. IBL grew its total customer deposits by 9.9% from R341.6 billion to R375.5 billion as at 31 March 2020. Our private client funding initiatives had a pleasing year in the face of increased competition for retail deposits, delivering 16% growth to close the year at R167.0 billion, contributing positively to IBL's strategic funding objectives. We continue to see deposit growth out of our Private Banking franchise.

Over the same period, ZAR Wholesale funding grew by 5.0% to R205.5 billion with a strong focus on strategic tenor management. We are cognisant of the cost implications of long-term funding and continue to be strategic in our efforts to raise this type of funding. We continue to improve funding efficiency in line with Basel III liquidity guidelines.

Consistent with our liquidity management philosophy, we delivered liquidity ratios well above the regulatory requirements. The 90-day simple average LCR ended the financial year at 133.2%.
The structural funding ratio represented by the NSFR ended the year at 116.2% as at 31 March 2020.

The demerger with Asset Management did not have a discernible impact on IBL's liquidity position and ability to fund.

It is through the sustained resilience of our balance sheet that we believe we will be able to withstand these trying times and comfortably deal with disruptions the economy might encounter going forward.

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 the risk appetite. The operational risk appetite 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 approved risk appetite. Any breaches of limits are escalated via subsidiary board risk committees to the 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.

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 managing operational risk operates in terms of a levels of defence model which reinforces accountability by allocating roles and responsibilities.

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	Indicators 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. Interactions with regulators promote an understanding of 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.

In response to the global COVID-19 pandemic, the group has implemented all official and medical guidance as advised by the authorities. Our priority is the safety of our staff whilst remaining fully operational in supporting a business-as-usual environment and in servicing our client base whilst maintaining robust processes and controls. To this end all staff, including core operational and non-critical teams, have working-from-home capability. Where critical staff or teams are required in the office, this is managed on a case-by-case basis. As part of the switch to remote working caused by the COVID-19 pandemic, the group upgraded and improved the robustness of its technology infrastructure through increased capacity and security measures so as to facilitate a safe and durable global working environment.

Operational risk events

The group manages all risk events within the agreed operational risk appetite. The majority of internal risks events for the year under review were categorised as execution and process failures and external fraud. Root cause analyses are performed on risk events to understand the weaknesses in the control environment and to determine the mitigating actions needed to prevent the failure from reoccurring.

Looking forward

Key operational risk considerations for the year ahead:

DEFINITION OF RISK	MANAGEMENT AND MITIGATION APPROACHES
Anti-money laundering (AML), terrorist financing and sanctions	
Risk associated with money laundering, terrorist financing, bribery and tax evasion	• Implementation and continuous enhancement of AML and combating the financing of terrorism (CFT), sanctions, anti-bribery and corruption policies and sanctions control systems across the group • Increased sophistication of risk management methodology with the aim to allow more efficient allocation of resources toward higher risk areas • Continuous enhancement and automation of transaction monitoring capabilities, increasing detection of AML related activities • Continuous monitoring and assimilation of local and international legislative and best-practice developments • AML knowledge is a key component of the control environment. The knowledge is supported by mandatory training for all staff and specialist training for AML roles • Industry participation to manage legislative requirements through engagement with regulators

DEFINITION OF RISK	MANAGEMENT AND MITIGATION APPROACHES
Business resilience	
Risk associated with disruptive incidents which can impact premises, staff, equipment, systems, and key business processes	• Maintaining business operations during adverse events, through appropriate continuity capabilities that minimise impact to clients and the broader financial system • Establishing 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 • Conducting validation of recovery strategies at least annually to ensure they remain effective and appropriate • Enhancing the group's global resilience capability through a team of dedicated resources and robust governance processes • Participating in regulatory and financial industry resilience activities to collaboratively minimise national systemic continuity risks
Conduct	
Risk associated with inappropriate behaviour or business activities which may lead to either a client, counterparty or market detriment and/or reputational and/or financial damage to the group	• Strong organisational culture entrenched values, which form the cornerstone of Investec's behaviour towards all stakeholders, including clients • Appropriate controls and processes that deliver fair customer outcomes are in place • Monitoring of the group's delivery of fair customer outcomes through conduct governance structures • Surveillance arrangements are in place across all trading activity and related communications • Continued cooperation with regulatory authorities and other stakeholders which include industry bodies on conduct risk issues • Promoting awareness of conduct related matters across the group through appropriate employee training and communication to drive responsible behaviour
Cyber security	
Risk associated with cyber attacks which can result in data compromise, interruption to business processes or client services, financial losses, or reputational harm	• Maintaining of a risk-based strategy integrating prediction, prevention, detection and response capabilities • Enhancement of the security architecture using advanced technology, research and threat intelligence, to protect against evolving threats and sophisticated attacks • Improving cyber resilience through ongoing coordination across cyber, incident response, business continuity and crisis management processes • Stress-testing of cyber controls through security assessments, red team exercises and attack simulations, run both internally and in conjunction with independent specialists • Embedding secure software development and testing practices to ensure IT systems are secure by design • Provision of ongoing security training to staff to ensure high levels of awareness and vigilance
Data management	
Risk associated with poor governance in acquiring, processing, storing, and protecting data	• Establishing consistent mechanisms for unified data consolidation, storage and reporting • Automating data flows and streamline integration between systems to reduce the need for manual tasks, minimise data processing delays and eliminate single points of failure • Monitoring, reporting on, and enhancing data quality and aggregation, in line with business needs and regulatory principles • Obtaining predictive intelligence through data analytics to support proactive risk management • Maintaining data retention and destruction processes to meet business needs and comply with applicable legal obligations
Fraud	
Risk associated with fraud, corruption, theft, forgery and integrity misconduct by staff, clients, suppliers and other stakeholders	• Enhancing the group's global approach to fraud management through a holistic framework and consistent policies, standards and methodologies • Maintaining an independent integrity (whistleblowing) line to ensure staff can report regulatory breaches, allegations of fraud, bribery and corruption, and non-compliance with policies • Conducting of fraud risk assessments to proactively identify and map existing preventative and detective controls to the relevant fraud risks, and evaluate whether the identified controls are operating effectively • Increasing fraud detection and prevention controls in response to the continued upward trend in operational losses due to fraud attempts • Maintaining collaboration with other financial institutions in fraud prevention to recover funds that have been paid away • Proactive monitoring of adherence to fraud prevention policies and embedding of practices which comply with updated regulations, industry guidance and best practice • Continuing to create awareness by focusing on training staff, educating clients and intermediaries on fraud prevention and detection • Participating in industry working groups to gain an understanding of current trends in order to enhance the control environment

DEFINITION OF RISK	MANAGEMENT AND MITIGATION APPROACHES
Information security	
Risk associated with the unauthorised access, use, disclosure, modification or destruction of data, which can impact their confidentiality, integrity, or availability	• Identifying and classifying high-value information assets based on confidentiality and business criticality • Implementing intelligent data loss prevention controls to protect information against unauthorised access or disclosure • Managing role-based access to systems and data and controlled privileged IT access, supported by risk-based access and activity monitoring • Protecting internal and external information flows to ensure data completeness and integrity • Maintaining safeguards to protect confidential physical documents and facilitate secure destruction • Continually improving data breach monitoring and response in line with relevant privacy laws
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 identify and implement adequate and effective controls including the management of change • Addressing human errors through training, improvement of processes and controls, including automation of processes where possible • Segregation of duties and appropriate authorisation controls • Causal analysis is used to identify weaknesses in controls following the occurrence of risk events • Risk and performance indicators are used to monitor the effectiveness of controls across business units • Thematic reviews across business units to ensure consistent and efficient application of controls
Regulatory compliance	
Risk associated with identification, implementation and monitoring of compliance with regulations	• Group compliance and group legal assist in the management of regulatory and compliance risk which includes the identification and adherence to legal and regulatory requirements • Aligning and effecting regulatory and compliance approach to reflect new regulatory landscapes particularly the change of regulatory structures (eg: transitioning from IBOR to Risk-Free Rates) • Managing business impact and implementation challenges as a result of significant volumes of statutory and regulatory changes and developments • Monitoring remains focused appropriately as areas of conduct and regulatory risk develop • Ensuring that the business is appropriately positioned to cope with the regulatory changes resulting from geopolitical risk
Technology	
Risk associated with disruption to the IT systems which underpin our critical business processes and client services	• Implementing strategic roadmaps that leverage new technologies to enhance capacity, scalability, security, resilience and robustness and reduce reliance on legacy IT systems • Future-proofing IT development and implementation in support of innovation and delivery at pace • Driving automation to reduce human error whilst enhancing efficiency • Continuing to align IT architecture and standards across the group, to reduce technical complexity and leverage common functions and services • Enhancing proactive monitoring of the IT environment, for continual visibility of health and performance • Maintaining and testing IT resilience capabilities to withstand failure and minimise service disruption
Third party	
Risk associated with the reliance on, and use of a service provider to provide services to the group	• Appropriate due diligence is in place to assess and approve third party arrangements • Policies and practices include adequate guidance over the assessment, selection, suitability and oversight of third party service providers • Continuing to strengthen governance processes and relevant policies relating to how to identify, assess, mitigate and manage risks across the range of third party service providers • Repeatable processes to facilitate both upfront and periodic evaluation based on the size, materiality, security and service provision of the third party

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 plan for recovery 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. This is achieved through the use of various resolution tools, including the transfer 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 latter resolution tool (bail-in) will affect the rights of unsecured creditors subject to any bail-in in the event of a resolution of a failing bank. Thus, to facilitate its exercise, the BRRD requires competent authorities to impose a MREL on financial institutions.

The BRRD also requires the development of recovery and resolution plans at group and institution level, in order to allow the national competent authorities to determine the appropriate resolution tools for each credit institution.

The PRA has made rules that require authorised institutions to draw up recovery plans and resolution packs. Recovery plans are designed to outline credible recovery options that authorised institutions 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 services provided, as well as the structure and operation of the authorised institution in question which will be used by the BoE to develop resolution strategies for that specific institution, 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, given that IBP constitutes over 99% Investec plc's balance sheet, the focus of this document is the recovery of IBP and the protection of its depositors and other clients.

Similarly, the resolution pack is drafted for Investec plc. As Investec plc is a financial holding company and IBP is its most significant entity, the Investec plc resolution strategy is expected to be driven and determined by the resolution strategy for IBP.

The BoE, the UK resolution authority, confirmed in January 2020 the preferred resolution strategy for IBP remains Modified Insolvency and the MREL requirement is set as equal to IBP's Total Capital Requirement (Pillar I plus Pillar IIA).

Due to COVID-19 the PRA have asked firms to focus recovery planning work on understanding which recovery options would be appropriate and available in the current stress and to understand their financial and non-financial impacts. This analysis will be shared with the PRA through normal supervisory dialogue. Although Investec plc will not be required to submit the full recovery plan to the PRA this year, the recovery plan and resolution pack will still be subject to the required annual update and review to ensure any material changes to legal, organisation structure, business or financial position have been made and considered.

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 PA 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 PA has been incorporated into the group's recovery plan.

The South African PA has continued to focus on banks finalising their recovery plans 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 and is often associated with strategic decisions. It 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. As one of our core values and philosophies we demand cast-iron integrity in all internal and external dealings, consistently and uncompromisingly displaying moral strength and behaviour which promotes trust. 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 the Investec group is required to fund any deficit in the schemes. 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.

As at 31 March 2019 there was one remaining defined benefit scheme within the group relating to Investec Asset Management, which was closed to new business. However, as part of the demerger of the Asset Management business. Investec no longer has ongoing liabilities or commitments with regard to this scheme and so as at 31 March 2020 has no exposure to defined benefit pension schemes.

Further information is provided on pages 119 to 121 in volume three.

Legal risk

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 South African and UK head of legal risk respectively.

Conduct risk

UK and Other

The Financial Conduct Authority (FCA) has maintained its focus and approach to managing the group's conduct risk. By conduct risk we mean the risk that inappropriate behaviours or business activities may lead to client, counterparty or market detriment, erosion of Investec values, culture and ethical standards expected of its staff, or reputational and/or financial damage to the group.

The FCA expects all institutions to have a robust conduct risk management framework in place to facilitate a culture that delivers good outcomes for clients, counterparties and the markets and holds their staff and senior management to appropriate standards of competence, integrity and ethical behaviour.

As a result, institutions 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. Institutions are also required to have appropriate policies and frameworks in place to manage non-financial misconduct such as discrimination, bullying, harassment, sexual misconduct or victimisation. Institutions are required to create an environment in which it is safe to speak up, the best talent is retained and the best risk decisions are taken.

Culture, conduct 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 institution. The FCA has considered the role of leaders, incentives and capabilities and governance of decision making.

It expects institutions to foster a culture which supports the spirit of regulation in preventing harm to clients, counterparties and markets and where senior management and staff are held accountable for their personal conduct.

The board, along with senior management are ultimately responsible for Investec's culture and conduct risk frameworks. Investec has continued over the period to focus on enhancements to our conduct risk management framework to ensure consistent delivery of good customer outcomes and effective management of conduct risk throughout our business. This has included strengthening business-led identification and management of conduct risk, improvements to product review and approval process, robust processes for dealing with regulatory and conduct breaches and a sustained focus on maintaining the highest levels of regulatory compliance throughout our business. Investec's conduct risk management in the UK is underpinned by the Senior Manager and Certification Regime which strengthens individual accountability and sets minimum standards of individual behaviour in financial services.

South Africa

The South African regulators have renewed and refocused efforts to ensure that the South African financial sector provides clients with good-value products in order to receive and make payments, save, borrow and insure against daily risks. To this end, a strong market conduct policy is a critical pillar in building a financial sector that delivers these outcomes. The required structural regulatory reform has progressed, with the Financial Sector Regulation Act 9 of 2017 (FSR Act) which came into effect in April 2018, with the established two new Authorities, namely the South African PA and a dedicated market conduct Authority, the Financial Sector Conduct Authority (FSCA). The FSCA is responsible for the regulation and supervision of financial institution that provide financial products and financial services i.e. financial institutions that are licensed in terms of a financial sector law.

The FSCA's key objective is to enhance and support the efficiency and integrity of financial markets, to protect financial customers by promoting their fair treatment by financial institutions and financial inclusion. The FSCA expects all licensed financial institutions to act with integrity and to treat their customers fairly. Furthermore, the FSCA expects financial institutions to have a culture that is conducive to consumer protection and market integrity, supported by a conduct risk framework.

The draft Conduct of Financial Institutions Bill (COFI Bill) was published for comment in December 2018 and the submission date for commentary was 1 April 2019. It is envisaged that the COFI Bill, once enacted, will consolidate and strengthen conduct laws and further ensure financial inclusion and transformation of the financial sector. The Bill establishes binding principles that reflect the outcomes that the financial sector will be expected to meet. The next reiteration of the COFI Bill is expected to be published for public comment during the second or third quarter of 2020.

Culture and governance are the underlying themes of the COFI Bill and the FSCA's approach to supervising and regulating financial institutions with a focus on the conduct of both the individuals and financial institutions. The FSCA requires improvements in culture of the financial institutions, including ensuring appropriate governance frameworks. Furthermore the FSCA requires that the decision-makers are directly and personally held accountable for weak governance and abusive practices by the institution.

Our approach to conduct risk is driven by our values and philosophies, which include 'client focus' and 'cast iron integrity' and is aligned with the regulator's retail and wholesale conduct risk regime. The implementation of appropriate standards of conduct, aims to ensure that Investec Limited and its subsidiaries operate responsibly, appropriately and with integrity in the wholesale and retail markets, with the fair treatment of customers being the highest priority. The group ensures that its products and services are scrutinized and regularly reviewed to ensure that they continue to deliver value and perform as expected. Investec Limited has furthermore enabled a business environment that is conducive to consumer protection and market integrity, supported with the appropriate conduct risk management framework and governance through the DLC Customer Market and Conduct Committee to continue to align its conduct framework with developing legislative requirements and applicable best practices.

Climate risk and opportunities

Our position on climate change

We recognise the complexity and urgency of climate change. The group environmental policy considers the risks and opportunities that climate change presents to the global economy. We believe that as a specialised financial services organisation and given our positioning in the developed and emerging worlds, we can make a meaningful impact in addressing climate change.

We support the Paris Agreement aims of holding the increase in global average temperature to well below 2°C above pre-industrial levels and continue to pursue efforts towards limiting it to 1.5°C. We also recognise the urgency and need to accelerate action which has been incorporated into our approach.

Climate related financial disclosures (TCFD)

The table below illustrates a summary of our progress in terms of the TCFDs aligned with the Financial Stability Board Taskforce recommendations and is structured around four core elements: governance, strategy, risk management, and metrics and targets. Climate risk disclosure is an evolving process. As we receive guidance from our regulatory regimes and the relevant reporting frameworks, we will continue to engage constructively with various stakeholders to improve our disclosures in alignment with our commitment to climate action.

www ***Refer to detailed information in our 2020 TCFD report on our website.***

	PRE FINANCIAL YEAR END MARCH 2020	FINANCIAL YEAR END MARCH 2020	FINANCIAL YEAR TO MARCH 2021
Governance	• Strengthened the group climate change statement and policy on environment • Reviewed the group policy on environmental and social risk for both investing and lending activities • Reviewed the group policy on lending to the coal industry	• Assigned board responsibility and oversight for climate related risks and opportunities • Assigned senior management responsibility for climate related risks and opportunities • Published a public fossil fuel policy	• Review risk appetite statements and frameworks to include TCFD recommendations, guidance and parameters
Strategy	• Committed to support the objectives of the Paris Agreement • Acknowledged our support of the TCFD recommendations in our annual reporting	• Followed the Intergovernmental Panel on Climate Change (IPCC) mitigation pathway of limiting global temperatures to 1.5 ˚C • Committing to ongoing carbon neutral emissions across all operations • First bank in SA and the eighth bank in the UK banking and financial services sector to sign up to the TCFDs in August 2019	• Engage with supply chain and clients to fully understand the carbon intensity of their business and to support them in implementing carbon reduction strategies • Climate scenario analysis and reporting
Risk management	• Supported business through: – guidance on ESG related matters using in-house developed ESG guidebooks based on IFC guidelines and – *ad hoc* training and awareness on ESG matters	• Evaluated lending and investment portfolios for ESG risks • Evaluated lending and investment portfolios for climate related risks and opportunities • Evaluated exposure to fossil fuels	• Strengthen capabilities in ESG identification, screening, measurement and reporting in risk management processes
Metrics and targets	• Included non-financial and ESG related targets within executive remuneration with a total weighting of 20% of short-term incentives and 25% of long-term incentives • Implemented emission reduction targets within our operations relating to energy usage	• Achieved carbon neutral status across our global operations for emissions in the 2020 financial year • Committed to ongoing carbon neutral emissions across all operations • Disclosed our fossil fuel exposure and ESG risk exposure in our 2020 sustainability report	• Evaluate sourcing operational energy requirements from renewable energy providers • Include climate metrics in risk appetite indicators • Review climate-related targets for executive remuneration

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 DLC 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 PA at three distinct reporting levels; Investec Limited (which is equivalent to the scope of the controlling company), IBL Consolidated (which is equivalent to the scope of the consolidated banking group) and IBL Solo (which is equivalent to the standalone bank company). Investec Limited calculates capital resources and requirements using the Basel III framework, in accordance with the amended Regulations relating to Banks (the Regulations), which sets out, amongst other things, the prescribed minimum required capital ratios and various components of capital requirements. In addition the South African capital framework, based on the Basel III framework, is further specified in Banks Act Directive 6 of 2016 (the capital directive), which sets out matters related to the prescribed minimum capital ratios and the application of various components of the said capital requirements such as the systemic risk capital requirement (Pillar IIA), the domestic systemically important bank (D-SIB) capital requirements, the CCyB range and the capital conservation buffer (CCB) range. In accordance with the capital directive, Investec Limited has fully phased in all minimum Basel III ratios and requirements.

During the 2020 financial year, IBL was once again identified as a South African D-SIB and complies with such prescribed higher loss-absorbency (HLA) requirements in line with the Regulations. In addition, IBL Consolidated has further been designated as a systemically important financial institution (SIFI) in accordance with section 29 of the Financial Sector Regulation Act 9 of 2017 (FSR Act). The designation as a SIFI will have certain implications for Investec Limited, most notably, Investec Limited will be subject to an open bank resolution framework as promulgated in the draft Financial Sector Laws Amendment Bill (FSLAB) of 2018. The South African PA published a supplementary document, "Ending too big to fail - South Africa's intended approach to bank resolution", of which the discussion paper sets out the South African PA's intended approach to planning for and conducting an open-bank resolution. The FSLAB introduced a new tranche of loss-absorbing instruments, referred to as 'flac' instruments, which will be subordinated to other unsecured liabilities and be clearly intended for bail-in within an open-bank resolution. The calibration, appetite and characteristics of 'flac' is currently subject to rigorous industry debate and is expected to develop in line with the finalisation of the FSLAB during the 2020 calendar year. This is a new area of responsibility for both the South African PA and banks, and as more insights are gained, the contents of the paper and the impact on Investec will be refined during 2020.

The South African PA continuously assess Investec Limited's bank specific individual capital requirement (ICR), also known as Pillar IIB, as part of its Supervisory Review and Evaluation Process (SREP), of which ICR may be based on factors such as the outcome of a common stress test on management/board buffers and/or levels of economic capital to cover risks not regarded as Pillar I risks, as observed in the ICAAP. Investec Limited maintains an additional discretionary capital buffer, above the specified minimum requirements, to ensure that the execution of internal business objectives and to prevent the group from falling below the relevant capital minima's with the occurrence of adverse/unforeseen external stresses. In line with Banks Act Circular 6 of 2016, banks in South Africa should not disclose to the public their ICR or D-SIB capital add-on requirements as these are bank-specific and are based on a combination of various qualitative and quantitative factors that are not directly comparable across banks.

With effect 1 January 2016, all CCyBs should be incorporated into a weighted average CCyB calculation based on jurisdictional reciprocity. Reciprocity ensures that the application of the CCyB in each jurisdiction does not distort the level playing field between domestic banks and foreign banks with exposures to counterparties in the same jurisdiction. South Africa has not announced any CCyB requirements for 2020. As at 31 March 2020, Investec Limited does not have any jurisdictional reciprocity CCyB add-on as calculated in accordance with Banks Act Directive 2 of 2018.

For the year ended 31 March 2020, Investec Limited calculated its minimum capital requirements in respect of:

- Credit risk for the retail portfolios using the Advanced Internal Ratings-Based Approach (AIRB), and wholesale portfolios using the FIRB;
- Credit risk for Investec Bank Mauritius and non-bank subsidiaries using the standardised approach;
- Counterparty credit risk (CCR) exposure using the current exposure method (CEM);
- Operational risk capital requirement on the standardised approach;
- Equity risk using the Internal Ratings-Based (IRB) approach by applying the simple risk-weight method; and
- Market risk using an internal risk management model, approved by the South African PA.

Management of each separately regulated entity within Investec Limited, 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 EU through the CRD IV.

In the UK, banks are required to meet minimum capital requirements as prescribed by CRD IV for Pillar I, namely a CET1 capital requirement of 4.5% of RWAs, a T1 capital requirement of 6% of RWAs and a total capital requirement of 8% of RWAs.

In addition, banks are required to meet their Pillar IIA total capital requirement, as determined by the SREP, with at least 56% of CET1 capital. The PRA buffer, which is also determined as part of the SREP, must be supported with CET1 capital.

In March 2020, the PRA issued Investec plc with a revised Pillar IIA total capital requirement of 1.12% of RWAs, of which 0.63% has to be met with CET1 capital.

During March 2020, Investec plc successfully completed the demerger and separate listing of Ninety One, (previously Investec Asset Management). The transaction had a positive impact on Investec plc's capital position, increasing the CET1 ratio by 59 basis points.

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 CET1 capital. The buffer for global systemically important institutions and the systemic risk buffer do not apply to Investec plc and will not be included in the combined buffer requirement.

As at 31 March 2020, Investec plc holds a CCB of 2.5% and an institution specific CCyB of 0.06%, 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. On 11 March 2020, the FPC announced that with immediate effect the UK CCyB rate be reduced to 0% in response to the economic shock arising from COVID-19.

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 CCR, securitisation and operational risk capital requirements. The mark-to-market method is used to calculate the CCR exposure amount. The market risk capital requirement is calculated using the standardised approach. For certain options, the 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 2019/2020, with a vast number of new regulatory proposals being published or adopted, notably by the PRA, the BCBS, the EBA and the South African PA.

International

On 3 April 2020, the BCBS stated in their technical guidance "Measures to reflect the impact of COVID-19" that they had agreed to amend the IFRS 9 transitional arrangements for the regulatory capital treatment of ECL accounting. The adjustments provide jurisdictions with greater flexibility in deciding whether and how to phase in the impact of expected credit losses on regulatory capital. Four amendments to existing transitional arrangements were agreed by the committee; with one amendment allowing firms to add-back to their CET1 capital any increase in new provisions recognised in 2020 and 2021 for their financial assets that are not credit-impaired. The add-back amount must then be phased-out on a straight-line basis over the subsequent 3 years.

In December 2017, the BCBS issued the final Basel III reforms. The revised standards will take effect from 1 January 2022, with certain elements phased in over five years.

The revised standards include:

- A revised standardised approach for credit risk, which will improve the robustness and risk sensitivity of the existing approach;
- Revisions to the IRB approach for credit risk;
- Revisions to the credit valuation adjustment (CVA) risk framework, including the removal of the internally modelled approach and the introduction of a revised standardised approach;
- A revised standardised approach for operational risk, which will replace the existing standardised approaches and the advanced measurement approaches;
- Revisions to the measurement of the leverage ratio; and
- An aggregate capital output floor.

In January 2019, the BCBS issued a revised market risk standard, which replaced the earlier version of the standard which was published in January 2016. The revisions were informed by the committee's quantitative impact assessment and will take effect 1 January 2022.

The BCBS announced on 27 March 2020 the final Basel III reforms would be deferred by 1 year to 1 January 2023 with the aim of freeing up operational capacity for banks and supervisors to respond to the economic impact of COVID-19.

South Africa

During December 2019, the BCBS issued a consolidated Basel Framework. The framework brings together all of the BCBS's global standards for the regulation and supervision of banks. The publication of the standards in the new format of the consolidated framework has focused on reorganising existing requirements, not introducing new requirements or otherwise amending the standards previously agreed and published by the BCBS. The preparation of the standards in the new format did, however, reveal some inconsistencies between Basel requirements as well as ambiguities that needed to be addressed through minor policy changes. Therefore, concurrent with the publication of the consolidated framework, the South African PA will publish a consultative document during 2020, that will outline the proposed changes to the South African banking regulations.

In addition, South African PA Communication 2 of 2020, issued under the FSR Act, sets out the South African PA's proposed

revised implementation dates in respect of specific regulatory frameworks in South Africa as a result of the impact of COVID-19. The proposed implementation dates are informed by a number of considerations, including the actions taken by the relevant international standard-setting bodies; whether the implementation of the framework is aligned to the regulatory or supervisory actions taken by the South African PA to date in response to COVID-19 and South Africa's overall progress in the implementation of certain internationally agreed frameworks and their relevant implementation dates.

Most notably, the key frameworks that have been delayed and will have an impact on Investec Limited are: the Standardised Approach to Counterparty Credit Risk (SA-CCR), capital requirements for banks exposures to central counterparties, and capital requirements for equity investments in funds that have been moved out to 1 January 2021 (from 1 October 2020) and the revisions to the securitisation framework and large exposures framework that has been moved to 1 April 2021 from 1 January 2021.

Investec Limited continues to assess and monitor the impact of new regulations and regulatory reforms through participation in Quantitative Impact Studies submissions to the South African PA, contributing to industry consultations and discussion groups at the Banking Association of South Africa (BASA) and quantifying and presenting the impact of these reforms on Investec Limited to the capital committees and to the board.

In addition to the actions taken by the South African PA on deploying monetary policy tools to mitigate the impact of COVID-19, the South African PA has provided for regulatory relief measures as well as guidance to banks in managing the crisis. With the exception of the LCR relief that is effective 31 March 2020, the remainder of the relief measures will be available to banks during the COVID-19 stress period, effective from 6 April 2020, and adequate notice and phase back will be provided by the South African PA once the impact period is better understood. The regulatory relief measures are provided for in three areas, namely:

- Loans restructured as a result of the impact of COVID-19 will not attract a higher capital charge
- For the duration of the crisis, the LCR, the ratio setting out the liquid assets a bank must maintain in relation to its anticipated outflows, is being lowered from 100% to 80%
- Banks Act Directives 2 of 2020 outlines various measures to provide temporary capital relief to banks during COVID-19 stress period, i.e. from 6 April 2020 until such further notice from the South African PA. These capital relief measures include:
  - The temporary relaxation of the Pillar IIA buffer to 0% (from 1%);
  - Permission to utilise the CCB and the D-SIB buffer, subject to prior approval from the South African PA; and the
  - The add-back of the Pillar IIA buffer for purposes of the minority capital calculation and the conservation of capital distributions.

It is important to note that the South African PA intends to phase-in /reinstate the Pillar IIA buffer post the COVID-19 stress period.

The South African PA has further provided recommendations to banks in Guidance note 4 of 2020 regarding the distribution of dividends on ordinary shares and payment of cash bonuses to executive officers and material risk takers. The recommendations include:

- Banks should appropriately conserve capital to retain their capacity to support the real economy in an environment of heightened uncertainty caused by COVID-19
- Capital resources must continue to be available to support the real economy and to absorb losses in the immediate and medium to long term, and as such, the South African PA expects:
  - no distribution of dividends on ordinary shares and no payment of cash bonuses to executive officers and material risk takers, should take place in 2020
  - board of directors of a bank to take appropriate action in respect of any distributions on dividends that may have already been declared by the bank and in respect of the accrual, vesting and payment of variable remuneration.

UK

The UKs' withdrawal from the EU

Following the outcome of the June 2016 referendum, the UK withdrew from the EU on 31 January 2020. The Withdrawal Agreement, which sets out the terms of the UK's withdrawal from the EU became law on 23 January 2020. Under the terms of this agreement, the UK has entered a transitional period which is due to end on 31 December 2020. During this period, EU law will continue to apply in the UK. It is now expected that the implementation of previously published EU Exit Instruments, Supervisory Statements and Statements of Policy to amend UK rulebooks will be delayed until the end of the transition period, but may be subject to further changes to reflect any new agreements on the future relationship between the EU and the UK.

The BoE and PRA confirmed on 30 April 2020, that they intend to use the temporary transitional power, which was introduced through the Financial Services and Markets Act 2000 (Amendment) (EU Exit) Regulations 2019, after the end of the transitional period. The UK regulators will have until 31 March 2022, 15 months from the end of the transitional period, to phase-in changes to the UK regulatory requirements.

Regulatory developments

In response to the economic shock from COVID-19, the PRA announced on 7 May 2020 it would alleviate unwarranted pressure on firms by setting all Pillar IIA requirements as a nominal amount, instead of a percentage of total RWAs. Firms who do not have a SREP review in 2020 can apply to convert their current Pillar IIA requirement into a nominal amount using RWAs as of December 2019. The change is voluntary and subject to supervisory agreement; and would apply until the firm's next regulatory-scheduled SREP.

On 26 March 2020, Sam Woods, Deputy Governor and Chief Executive Officer (CEO) of the PRA wrote to CEOs of UK banks providing COVID-19 guidance in three areas namely, consistent and robust IFRS 9 accounting and the regulatory definition of default, the treatment of borrowers who breach covenants due to COVID-19 and the regulatory capital treatment of IFRS 9. Concerning the regulatory treatment of IFRS 9, the PRA reiterated that the capital impact of ECL is being phased in over time and during 2020, firms can add-back CET1 equivalent up to 70% of 'new' provisions due to IFRS 9. Back in September 2017, the PRA encouraged firms to make use of the transitional arrangements. The European Commission (EC) have released a "quick fix" amendment to the CRR, which will introduce amended IFRS 9 transitional arrangements. If adopted in June 2020, UK banks will follow the amended provisions in the UK and add-back 100% of new provisions recognised in 2020 and 2021 to CET1 capital.

On 11 March 2020, the BoE announced measures to respond to the economic shock from COVID-19. The FPC took the decision to reduce the UK CCyB rate to 0% of bank's exposures to UK borrowers with immediate effect. The FPC expects to maintain the 0% rate for at least 12 months. Any subsequent increase will not take effect until March 2022, at the earliest.

Previously in December 2019, the FPC announced that it will increase the UK's CCyB rate from 1% to 2%, with binding effect from 16 December 2020. The FPC stated this was a structural change to the rate in a standard risk environment and not in response to a change in the FPC's view of the risk environment. The PRA proposes to update the Pillar IIA capital framework to take account of the additional resilience associated with higher macroprudential buffer requirements in a standard risk environment. The proposals only consider the 1% structural increase in the UK CCyB rate and the PRA propose to apply the Pillar IIA reduction, where applicable, at the same time or before the 2% UK CCyB rate comes into effect in December 2020.

In April 2019, the PRA issued a policy and supervisory statement setting out the approaches to managing the financial risks from climate change. These statements set out the PRA's expectations which cover governance arrangements, financial risk management practices, use of scenario analysis and an approach to disclosure on the financial risks arising from climate change. Firms are required to include at a minimum all material exposures relating to the financial risks from climate change and an assessment of how firms have determined material exposures in the context of their business as part of their ICAAP.

Europe

On 28 April 2020, the EC adopted a banking package, with the aim to ensure banks can continue to lend money to support the economy and help mitigate the significant economic impact of COVID-19. It includes an Interpretative Communication on the EU's accounting and prudential frameworks, as well as a targeted "quick fix" amendment to the CRR. The "quick fix" amendments are due to be discussed with the European Parliament and Council and are expected to be adopted in June 2020. The following proposed amendments are most relevant to Investec plc:

- Amending the IFRS 9 transitional arrangements to allow institutions to fully add-back to their CET1 capital any increase in new provisions recognised in 2020 and 2021 for their financial assets that are not credit-impaired. The amount that could be added back from 2022 to 2024 would decrease in a linear manner;
- Offsetting the impact of excluding certain exposures from the leverage ratio calculation; and
- Advancing the date of application of the revised supporting factor for small and medium-sized enterprises and the new supporting factor for infrastructure finance.

In June 2019, the EU adopted the 'CRRII/ CRDV' package in the Official Journal of the EU, with the majority of the amendments applying from 28 June 2021. The key CRRII/CRDV changes applicable to Investec plc include:

- A new standardised approach for calculating CCR;
- A revised large exposures framework;
- Changes to the market risk framework under the Fundamental Review of the Trading Book (FRTB); and
- The introduction of a 3% binding leverage ratio for all banks.

The above package does not include other BCBS reforms published in December 2017. These include revisions to the standardised approach to credit risk, market risk and operational risk.

The EBA announced on 22 April 2020 its intention to push back the starting date for the FRTB reporting requirement, included in CRRII, to quarter 3 2021, with the first reference date being 30 September 2021.

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 continue to remain well capitalised. Accordingly, the Investec group targets a minimum CET1 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 DLC 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 also 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 DLC 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 optimal 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 DLC 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 DLC 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.

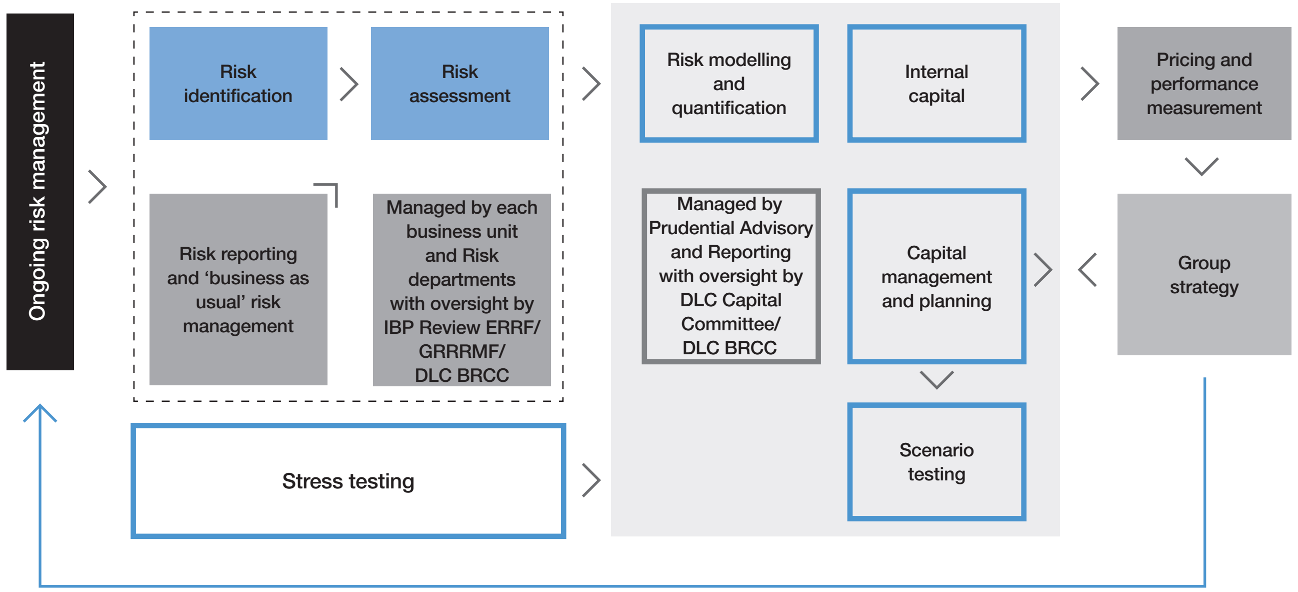
The output of capital planning allows senior management to make decisions to ensure that the group continues to hold sufficient capital to meet regulatory and internal capital targets. On certain occasions, especially under stressed scenarios, management may plan to undertake a number of actions. Assessment 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 DLC 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 regulatory 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 is presented with the potential variability in capital adequacy and is responsible, in consultation with the DLC board, for considering the appropriate response.

The (simplified) integration of risk and capital management



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

Shareholders' equity	**2 090**	**2 061**	**39 903**	**39 754**
Shareholders' equity excluding non-controlling interests	2 135	2 078	43 086	41 288
Perpetual preference share capital and share premium	(25)	–	(3 183)	(1 534)
Deconsolidation of special purpose entities	(20)	(17)	–	–
Non-controlling interests	**–**	**–**	**–**	**–**
Non-controlling interests per balance sheet	3	3	11 045	–
Non-controlling interests excluded for regulatory purposes	(3)	(3)	(11 045)	–
Regulatory adjustments to the accounting basis	**91**	**91**	**1 518**	**1 518**
Additional value adjustments	(8)	(7)	(6)	(6)
Gains or losses on liabilities at fair value resulting from changes in our credit standing	12	12	(26)	(26)
Cash flow hedging reserve	–	–	1 550	1 550
Adjustment under IFRS 9 transitional arrangements	87	86	–	–
Deductions	**(436)**	**(333)**	**(4 554)**	**(2 721)**
Goodwill and intangible assets net of deferred tax	(326)	(315)	(537)	(496)
Investment in financial entity	(92)	–	(1 662)	(1 596)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(18)	(18)	–	–
Shortfall of eligible provisions compared to expected loss	–	–	(629)	(629)
Investment in capital of financial entities above 10% threshold	–	–	(692)	–
Amount of deductions exceeding 15% threshold	–	–	(961)	–
Other regulatory adjustments	–	–	(73)	–
Common equity tier 1 capital	**1 745**	**1 819**	**36 867**	**38 551**
Additional tier 1 capital	274	250	1 902	751
Additional tier 1 instruments	274	250	5 727	1 994
Phase out of non-qualifying additional tier 1 instruments	–	–	(3 774)	(1 227)
Non-qualifying surplus capital attributable to non-controlling interest	–	–	(51)	–
Investment in capital of financial entities above 10% threshold	–	–	–	(16)
Tier 1 capital	**2 019**	**2 069**	**38 769**	**39 302**
Tier 2 capital	414	533	11 885	12 905
Collective impairment allowances	–	–	896	895
Tier 2 instruments	533	533	14 383	12 037
Non-qualifying surplus capital attributable to non-controlling interests	(119)	–	(2 747)	–
Investment in capital of financial entities above 10% threshold	–	–	(647)	(27)
Total regulatory capital	**2 433**	**2 602**	**50 654**	**52 207**
Risk-weighted assets	**16 285**	**15 808**	**337 755**	**319 090**
Capital ratios				
Common equity tier 1 ratio	10.7%	11.5%	10.9%	12.1%
Tier 1 ratio	12.4%	13.1%	11.5%	12.3%
Total capital ratio	14.9%	16.5%	15.0%	16.4%

* *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.*

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 CET1 capital as required under the CRR and EBA technical standards. The impact of this deduction totalling £0 million for Investec plc and £0 million for IBP would lower the CET1 ratio by 0bps and 0bps 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 CET1 ratio would be 24bps and 15bps lower respectively.*

^^ *CET1, T1, total capital adequacy ratios and RWAs are calculated applying the IFRS 9 transitional arrangements.*

Capital structure and capital adequacy

At 31 March 2019	Standardised^^ Investec plc*° £'million	Standardised^^ IBP*° £'million	Standardised^^ Investec Limited*^ R'million	Standardised^^ IBL*^ R'million	Pro forma FIRB** Investec Limited*^ R'million	Pro forma FIRB** IBL*^ R'million
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**	**1 120**	**1 122**	**896**	**896**
Additional value adjustments	(5)	(5)	(9)	(9)	(9)	(9)
Gains or losses on liabilities at fair value resulting from changes in our credit standing	21	21	(26)	(26)	(26)	(26)
Cash flow hedging reserve	–	–	931	931	931	931
Adjustment under IFRS 9 transitional arrangements	94	94	224	226	–	–
Deductions	**(447)**	**(348)**	**(2 936)**	**(2 741)**	**(3 790)**	**(3 426)**
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)
Amount of deductions exceeding 15% threshold	–	–	(169)	–	(336)	–
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	596	596	15 857	13 918	15 857	13 918
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.*
° *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 CET1 capital as now required under the CRR and EBA technical standards. The impact of this deduction totalling £63 million for Investec plc and £19 million for IBP would lower the CET1 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 CET1 ratio would be 27bps and 14bps lower respectively.*
^^ *CET1, T1, total capital adequacy ratios and RWAs are calculated applying the IFRS 9 transitional arrangements.*
** *We received approval to adopt the FIRB approach, effective 1 April 2019. We present numbers on a pro forma basis for 31 March 2019.*

Capital requirements

	Investec plc* £'million	IBP* £'million	Investec Limited* R'million	IBL* R'million	Investec Limited* R'million	IBL* R'million
At 31 March 2020	**Standardised**		**FIRB**			
Capital requirements	**1 303**	**1 265**	**38 842**	**36 695**		
Credit risk	974	972	30 324	30 653		
Equity risk	46	10	3 499	1 726		
Counterparty credit risk	74	74	1 012	1 016		
Credit valuation adjustment risk	5	5	272	273		
Market risk	59	58	541	478		
Operational risk	145	146	3 194	2 549		
At 31 March 2019	**Standardised**		**Pro forma FIRB****		**Standardised**	
Capital requirements	**1 225**	**1 170**	**36 721**	**34 301**	**41 703**	**39 237**
Credit risk	909	893	28 808	28 546	33 649	33 341
Equity risk	10	9	2 701	1 863	2 701	1 863
Counterparty credit risk	48	49	579	600	711	732
Credit valuation adjustment risk	6	6	347	382	356	391
Market risk	68	67	641	381	641	381
Operational risk	184	146	3 645	2 529	3 645	2 529

* *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.*
** *We received approval to adopt the FIRB approach, effective 1 April 2019. We present numbers on a pro forma basis for 31 March 2019.*

Investec plc

Movement in risk-weighted assets

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

Credit risk RWAs

We have adopted the standardised approach for calculating credit risk RWAs. Credit risk RWAs, which include equity risk, increased by £1,281 million. The increase is driven by diversified growth across the corporate portfolio coupled with continued mortgage loan growth. In addition, the portion of our investment in Ninety One (previously Investec Asset Management), which is not deducted from CET1 capital is risk-weighted at 250% and is included in equity risk.

CCR RWAs and CVA risk

CCR and CVA RWAs increased by £300 million mainly due to an increase in the facilitation of client derivative hedges.

Market risk RWAs

We apply the standardised approach for calculating market risk RWAs. Market risk RWAs decreased by £121 million, mainly due to decreases in equity risk and foreign exchange risk, driven by the current market volatility.

Operational risk RWAs

Operational risk RWAs are calculated using the standardised approach and decreased by £488 million. The decrease is attributable to a reduction in three year average operating income following the demerger of Ninety One (previously Investec Asset Management) and the disposal of the Irish Wealth business. Permission was obtained from the PRA to exclude the operational risk for these businesses from the three year average operating income calculation.

Risk-weighted assets

	Investec plc* £'million	IBP* £'million	Investec Limited* R'million	IBL* R'million	Investec Limited* R'million	IBL* R'million
At 31 March 2020	**Standardised**		**FIRB**			
Risk-weighted assets	**16 285**	**15 808**	**337 755**	**319 090**		
Credit risk	12 183	12 145	263 690	266 552		
Equity risk	580	125	30 428	15 010		
Counterparty credit risk	921	922	8 796	8 837		
Credit valuation adjustment risk	59	59	2 363	2 371		
Market risk	734	726	4 701	4 158		
Operational risk	1 808	1 831	27 777	22 162		
At 31 March 2019	**Standardised**		**Pro forma FIRB****		**Standardised**	
Risk-weighted assets	**15 313**	**14 631**	**318 533**	**297 506**	**361 750**	**340 315**
Credit risk	11 361	11 174	249 892	247 584	291 886	289 168
Equity risk	121	115	23 433	16 159	23 433	16 159
Counterparty credit risk	605	611	5 023	5 206	6 166	6 349
Credit valuation adjustment risk	75	76	3 010	3 310	3 090	3 392
Market risk	855	833	5 558	3 308	5 558	3 308
Operational risk	2 296	1 822	31 617	21 939	31 617	21 939

* *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.*

** *We received approval to adopt the FIRB approach, effective 1 April 2019. We present numbers on a pro forma basis for 31 March 2019.*

Investec Limited

Movement in RWAs

Investec applied the FIRB approach from 1 April 2019, therefore comparison between March 2019 and March 2020 is based on FIRB numbers only. Total RWAs increased by R19.2 billion (6%) over the period, with the reasons identified in the categaries below.

Credit risk RWAs

Credit risk RWAs increased by R13.8 billion (5.5%) from March 2019 to March 2020, mainly attributable to book growth in the Private Bank and Corporate Institutional Bank.

CCR and CVA RWAs

CCR RWA is the sum of Over the Counter (OTC) derivatives, Security Financing Transactions (SFTs) and the related regulatory CVA, of which total increased by R3,1 billion (38.9%) from March 2019 to March 2020. Our exposure to counterparty credit risk and CVA is marginal at 3.3% of total RWA.

Equity risk RWAs

Equity risk increased by R7.0 billion. The increase is mainly driven by the demerger of Investec Asset Management and the retention of 8,74% of Ninety One's shares. 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 a 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. The decrease is largely as a result of the demerger of Investec Asset Management.

Leverage ratios

	Investec plc £'million*	IBP £'million*	Investec Limited R'million*^	IBL R'million*^	Investec Limited R'million*^	IBL R'million*^
	Standardised°°		**FIRB**			
At 31 March 2020						
Exposure measure	25 966	25 817	604 762	571 144		
Tier 1 capital (as reported)	2 019	2 069	38 769	39 302		
Leverage ratio – current**	**7.8%**	**8.0%**	**6.4%**	**6.9%**		
Tier 1 capital ('fully loaded')	1 918	1 992	37 866	38 995		
Leverage ratio – 'fully loaded'^^**	**7.4%**	**7.7%**	**6.3%**	**6.8%**		
Leverage ratio** – current UK leverage ratio framework##	8.9%	9.1%	n/a	n/a		
At 31 March 2019	**Standardised°°**		**Pro forma FIRB*****		**Standardised°°**	
Exposure measure	24 282	23 849	533 377	504 383	534 230	505 070
Tier 1 capital (as reported)	1 925	1 912	39 446	38 160	40 582	39 071
Leverage ratio – current**	**7.9%**	**8.0%**	**7.4%**	**7.6%**	**7.6%**	**7.7%**
Tier 1 capital ('fully loaded')	1 824	1 835	38 167	37 699	38 889	38 364
Leverage ratio – 'fully loaded'^^**	**7.5%**	**7.7%**	**7.2%**	**7.5%**	**7.3%**	**7.6%**
Leverage ratio** – current UK leverage ratio framework##	10.0%	10.1%	n/a	n/a	n/a	n/a

* *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.*

*** *We received approval to adopt the FIRB approach, effective 1 April 2019. We present numbers on a pro forma basis for 31 March 2019.*

°° *T1 capital is calculated applying IFRS 9 transitional arrangements.*

^ *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 CET1 ratio would be 24bps and 15bps lower. At 31 March 2019, Investec Limited's and IBL's CET1 ratio would be 27bps and 14bps lower.*

^^ *The fully loaded leverage ratio at 31 March 2020 and 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 2020 of £9 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.*

\#\# *Investec plc is not subject to the UK leverage ratio framework, however, for comparative purposes this ratio has been disclosed. This framework excludes qualifying central bank balances from the calculation of the leverage exposure measure.*

Total regulatory capital flow statement

At 31 March 2020	Investec plc* £'million	IBP* £'million	Investec Limited* R'million	IBL* R'million
Opening common equity tier 1 capital	**1 651**	**1 662**	**38 150**	**38 151**
New capital issues	65	150	–	899
Dividends	(114)	(52)	(3 257)	(1 236)
Profit after taxation	646	58	9 710	3 090
Treasury shares	(46)	–	(1 460)	–
Distribution to shareholders	(489)	–	(4 280)	–
Share-based payment adjustments	8	(7)	436	–
Net equity impact on non-controlling interest movement	(1)	(1)	–	–
Movement in other comprehensive income	45	9	(1 077)	(2 502)
Investment in financial entity	(92)	–	476	557
Investment in capital of financial entities above 10% threshold	–	–	(692)	–
15% limit deduction	–	–	(789)	–
Shortfall of eligible provisions compared to expected loss	–	–	(629)	(629)
Goodwill and intangible assets (deduction net of related taxation liability)	107	20	92	92
Deferred tax that relies on future profitablity (excluding those arising from temporary differences)	(5)	(5)	–	–
Deconsolidation of special purpose entities	(4)	(3)	–	–
Gains or losses on liabilities at fair value resulting from changes in own credit standing	(9)	(9)	(1)	(1)
IFRS 9 transitional arrangements	(7)	(8)	(225)	(225)
Other, including regulatory adjustments and other transitional arrangements	(10)	5	413	355
Closing common equity tier 1 capital	**1 745**	**1 819**	**36 867**	**38 551**
Opening additional tier 1 capital	**274**	**250**	**2 432**	**920**
Other, including regulatory adjustments and transitional arrangements	–	–	(445)	(153)
Investment in capital of financial entities above 10% threshold	–	–	–	(16)
Movement in minority interest in non-banking entities	–	–	(85)	–
Closing additional tier 1 capital	**274**	**250**	**1 902**	**751**
Closing tier 1 capital	**2 019**	**2 069**	**38 769**	**39 302**
Opening tier 2 capital	**485**	**596**	**13 165**	**14 795**
Redeemed capital	–	–	(3 175)	(3 175)
Collective impairment allowances	–	–	20	18
Investment in capital of financial entities above 10% threshold	–	–	(647)	(27)
Other, including regulatory adjustments and other transitional arrangements	(71)	(63)	2 522	1 294
Closing tier 2 capital	**414**	**533**	**11 885**	**12 905**
Closing total regulatory capital	**2 433**	**2 602**	**50 654**	**52 207**

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

Total regulatory capital flow statement

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	(127)	(49)	(2 817)	(1 022)
Profit after taxation	192	162	6 175	4 963
IFRS 9 adjustment	(212)	(212)	(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	9	10	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 profitablity (excluding those arising from temporary differences)	(4)	(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 arrangements	94	94	225	225
Other, including regulatory adjustments and other transitional arrangements	1	(2)	(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 minority 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.*

RISK MANAGEMENT

(continued)

A summary of capital adequacy and leverage ratios

	Standardised^^^		FIRB			
	Investec plc°*	IBP°*	**Investec Limited*^**	IBL*^	**Investec Limited*^**	IBL*^
As at 30 March 2020						
Common equity tier 1 (as reported)	10.7%	11.5%	10.9%	12.1%		
Common equity tier 1 ('fully loaded')^^	10.3%	11.1%	10.9%	12.1%		
Tier 1 (as reported)	12.4%	13.1%	11.5%	12.3%		
Total capital ratio (as reported)	14.9%	16.5%	15.0%	16.4%		
Leverage ratio** – current	7.8%	8.0%	6.4%	6.9%		
Leverage ratio** – 'fully loaded'^^	7.4%	7.7%	6.3%	6.8%		
Leverage ratio** – current UK leverage ratio framework##	8.9%	9.1%	n/a	n/a		
As at 31 March 2019	**Standardised^^^**		**Pro forma FIRB*** **		**Standardised^^^**	
Common equity tier 1 (as reported)	10.8%	11.4%	11.6%	12.5%	10.5%	11.2%
Common equity tier 1 ('fully loaded')^^	10.4%	10.9%	11.6%	12.5%	10.5%	11.1%
Tier 1 (as reported)	12.6%	13.1%	12.4%	12.8%	11.2%	11.5%
Total capital ratio (as reported)	15.7%	17.1%	16.0%	17.7%	14.9%	15.8%
Leverage ratio** – current	7.9%	8.0%	7.4%	7.6%	7.6%	7.7%
Leverage ratio** – 'fully loaded'^^	7.5%	7.7%	7.2%	7.5%	7.3%	7.6%
Leverage ratio** – current UK leverage ratio framework##	10.0%	10.1%	n/a	n/a	n/a	n/a

* *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.*

*** *We received approval to adopt the FIRB approach, effective 1 April 2019. We present numbers on a pro forma basis for 31 March 2019.*

° *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 CRR and EBA technical standards. The impact of this deduction totalling £0 million (31 March 2019: £63 million) for Investec plc and £0 million (31 March 2019: £19 million) for IBP would lower the CET1 ratio by 0bps (31 March 2019: 41bps) and 0bps (31 March 2019: 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 CET1 ratio would be 24bps and 15bps lower. At 31 March 2019, Investec Limited's and IBL's CET1 ratio would be 27bps and 14bps lower*

^^ *The CET1 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 2020 of £9 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 reported CET1, T1 and total capital adequacy ratios are calculated applying the IFRS 9 transitional arrangements.*

Investec plc is not subject to the UK leverage ratio framework, however, for comparative purposes this ratio has been disclosed. This framework excludes qualifying central bank balances from the calculation of the leverage exposure measure.

CREDIT RATINGS

1

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 IBP and IBL. Rating agencies have also assigned ratings to the holding companies, namely, Investec plc and Investec Limited. Our ratings at 16 June 2020 were as follows:

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		Ba1	Baa1	A1
National		Aa1.za		
Short-term ratings				
Foreign currency		NP	P-2	P-1
National		P-1(za)		
Baseline Credit Assessment (BCA) and adjusted BCA		ba1		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

INTERNAL AUDIT

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. IBP (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 group chief executive officer and to business leaders. The heads of internal audit are responsible for coordinating internal audit efforts to ensure coverage is consistent and departmental skills are leveraged to maximise efficiency. For administrative purposes, the heads of internal audit also report to the group head of corporate governance and compliance. The functions comply with the International Standards for the Professional Practice of Internal Auditing, and are subject to an independent Quality Assurance Review (QAR) at appropriate intervals. A QAR review has recently been undertaken covering both Investec plc and Investec Limited methodology and international best practice which indicated that internal audit is generally compliant with the requirements of the global Institute of Internal Auditors (IIA) standards as well as King IV and the Banks Act in South Africa.

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 every six to twelve months, with other areas covered at predetermined rotational 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'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

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.

COMPLIANCE

Regulatory change continues to be a key feature in the financial sector with ongoing global political events adding uncertainty as to the shape of financial services regulation going forward. Technological risk and social concerns, including environmental sustainability, are increasingly being addressed through regulation.

Global regulators expect financial services institutions to implement robust governance arrangements to enhance stability and ensure financial services are delivered in an appropriate manner. Regulators continue to focus on promoting resilience in financial markets, with sustained emphasis on recovery and resolution plans and structural enhancements to the banking sector as well as customer and market conduct related reforms.

Non-financial risks such as cybersecurity breaches and employee misconduct are a focus for regulators to ensure that consumers are appropriately protected and that stakeholders are treated appropriately. The maintenance of data quality and security remains a high priority for the banking industry and its regulators, in order to increase the efficiency of delivery and strengthen oversight.

In 2017 the FCA announced that it will no longer compel panel banks to submit the rates required to calculate LIBOR after the end of 2021. The FCA have subsequently clarified that all market participants are required to have removed dependencies on LIBOR, by the end of 2021 and that market participants should start transitioning from the use of LIBOR to alternative benchmark rates. Investec has established a group-wide project to manage this transition focussing on a number of key work streams including the management of conduct, legal and commercial risks that arise from this transition as well as to ensure adequate and appropriate communications with our clients in order to help them manage the impact this may have on their business with us. Investec has contacted all existing clients with LIBOR products, amended sales and other processes as regards the continued sale of LIBOR linked products and has commenced due diligence of existing contracts with a view to remediating such contracts as soon as practical.

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 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 culture and conduct, establishing a clear expectation that UK regulated banks maintain robust frameworks, for managing risk in these key areas. Specifically, UK institutions 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 institutions' other stakeholders.

The DLC board, along with senior management, are ultimately responsible for the group's culture and conduct risk frameworks. Over the period, the group has continued to focus, 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 together with 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; fair treatment of existing customers; prevention of fraud and financial scams; responsible lending, advice and selling standards in the mortgage market; overdraft reforms; and tackling pension mis-selling and fraud. In the period, the FCA cancelled a number of consumer credit permissions for motor dealers and imposed a number of fines for culture, conduct and governance failures in retail and wholesale banking as well as breaches of competition law.

The FCA's focus on customer protection 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 money laundering, tax evasion and bribery and corruption. The FCA Business Plan also highlights financial crime (frauds and scams) and 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, in order to guard against the risks of financial crime.

Brexit

The UK left the EU on 31 January 2020 and entered into a transition period, which is due to last until 31 December 2020. During the transition period, EU law will continue to apply and institutions and funds will continue to benefit from passporting between the UK and the EEA. Consumer rights and protections derived from EU law will also remain in place.

New EU legislation that takes effect before the end of the transition period, will also apply to the UK. The FCA intends to use the transition period to work with the UK Government, the BoE, institutions and other regulators to ensure the financial services industry is ready for the end of the transitional period. Investec continues to refine its Brexit strategy to ensure it is able to maintain access to EU clients and markets with minimal disruption to the firm, its clients and employees.

Tax reporting (FATCA, CRS, MDR and DAC6)

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 worldwide, to obtain on an annual basis, detailed account information from financial institutions relating to US investors and exchange that information automatically, with the United States Internal Revenue Service.

The OECD took 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, ultimately to the tax authorities of the jurisdictions in which those customers are resident for tax purposes. Investec plc is compliant with obligations under FATCA and CRS in all relevant jurisdictions.

The OECD published Mandatory Disclosure Rules, that aim to provide tax administrations with information on CRS avoidance arrangements and opaque offshore structures, including the users of those arrangement and structures and those involved with facilitation. Many CRS jurisdictions such as the Channel Islands have now incorporated this into domestic law. Following suit, the EU introduced its own Mandatory Disclosure Regime in relation to cross-border tax arrangements, commonly known as DAC6. This regime applies to cross-border tax arrangements, which meet one or more specified characteristics (Hallmarks) and which concern either more than one EU country, or an EU country and a non-EU country.

Despite Brexit, the UK Government published draft legislation in July 2019 and draft guidance in January 2020 defining how it intends to implement the regime into UK domestic law. The legislation will come into effect on 1 July 2020.

Investec Limited – year in review

Changes to the regulatory landscape in South Africa

Regulatory developments in the South African financial sector are ongoing. The two new authorities, namely the Financial Sector Conduct Authority (FSCA) and the South African PA became effective from April 2018. The FSCA has proceeded with its mandate as the conduct regulator responsible for the regulation and supervision of financial institutions, that provide financial products and financial services i.e. financial institutions that are licensed in terms of the financial sector law. The South African PA continues with its mandate to prudentially regulate financial institutions by supervising the financial safety and soundness of financial institutions. The regulatory reform will continue for at least the next couple of years.

Conduct risk and consumer protection

The draft Conduct of Financial Institutions Bill (COFI) was published by the FSCA 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. The next reiteration of the COFI Bill is expected to be published for public comment in the second or third quarter of 2020.

Other significant, relevant regulatory developments impacting Investec include the Insurance Act; Draft Central Counterparty (CCP) licence applications; external CCP and Trade Repository (TR) license and Impact assessment; Draft Equivalence Framework External TRs; CCPs and Central Securities Depositories; Joint standard margin requirements for non-centrally cleared over-the-counter derivative transactions; the reports for the Retail Banking Diagnostic (including requests from the FSCA to the banking sector in response to the findings in the report); the Wholesale Financial Markets Review; the Retail Distribution Review proposals and the Draft Conduct Standard for Banks.

The Information Regulator has written to President Cyril Ramaphosa requesting the proclamation of the remaining sections of the Protection of Personal Information Act ("the Act") be effective by the new financial year. In addition, the Information Regulator has published a second draft of the Guidelines for Codes of Conduct for specific sectors as allowed for by the Act. As part of the transitional arrangements, organisations will be required to be fully compliant within one year after commencement of the Act.

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 who provide goods and services or monitor the behaviour of residents in the European Union and United Kingdom, regardless of where the organisations are based.

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

Financial crime

Financial crime remains a key regulatory focus for the group. The economic and social impact of financial crime within South Africa, especially corruption, has led us to continuously monitor local and global developments and assimilate these into our AML, CFT, Sanctions and anti-bribery and corruption practices.

Changes introduced by the Financial Intelligence Centre Amendment Act, 2017 (Act No 1 of 2017) placed more ownership on financial institutions to design control mechanisms commensurate to its risks, which in turn enabled Investec Limited to focus its efforts on perceived higher risks. We have embraced the use of technology to aid in understanding our client risk profiles and improve our ability to monitor client transactions and behaviour.

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. 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 (SARS) 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 sixth annual FATCA reports.

The CRS became effective in South Africa on 1 March 2016. South Africa opted for the 'wider-wider approach' which means that 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 fourth annual CRS report. Mauritius conducted its first exchange of information in 2018 and is in the process of preparing its third annual CRS report.

The OECD recently published Mandatory Disclosure Rules (MDR) that aim to provide tax administrations with information on CRS avoidance arrangements and opaque offshore structures, including the users of those arrangement and structures and those involved with facilitation. SARS recently published draft revised CRS regulations and has proposed to include the MDR requirements in these revised regulations. The industry is pushing back on the effective date for implementation of MDR.

ALTERNATIVE PERFORMANCE MEASURES

We supplement our IFRS figures with alternative performance measures used by management internally and which provide valuable, relevant information to readers. These have been indicated with a ✪ symbol throughout this document. A description of the group's alternative performance measures and their calculation, where relevant, is set out below.

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.

Adjusted earnings attributable to ordinary shareholders	Earnings attributable to shareholders adjusted to remove goodwill, acquired intangibles, strategic actions, and earnings attributable to perpetual preference shareholders and Other Additional tier 1 security holders. Refer to page 61 in volume one for the reconciliation of earnings attributable to shareholders to adjusted earnings attributable to ordinary shareholders
Annuity income	Net interest income (refer to page 47 of volume one) plus net annuity fees and commissions (refer to page 49 of volume one)
Core loans to equity	Net core loans and advances divided by total shareholder's equity per the balance sheet
Cost to income ratio	Operating costs divided by operating income before ECL impairment charges (net of depreciation on operating leased assets and net of operating profits or losses attributable to other non-controlling interests) Refer to calculation in the table below:

£'000	31 March 2020	31 March 2019
Operating costs (A)	1 185 020	1 274 517
Total operating income before expected credit losses	1 806 839	1 953 820
Less: Depreciation on operating leased assets	(1 407)	(2 157)
Less: Profit attributable to other non-controlling interests	(67 952)	(58 192)
Total (B)	1 737 480	1 893 471
Cost to income ratio (A/B)	**68.2%**	**67.3%**

Coverage ratio	ECL as a percentage of gross core loans and advances subject to ECL
Credit loss ratio	ECL impairment charges on core loans and advances as a percentage of average gross core loans and advances subject to ECL
Gearing ratio	Total assets excluding assurance assets divided by total equity
Gross core loans and advances	Refer to calculation on page 34
Loans and advances to customers as a % of customer accounts	Loans and advances to customers as a percentage of customer accounts (deposits)
Net core loans and advances	Refer to calculation on page 34
Return on average assets	Adjusted earnings attributable to ordinary shareholders divided by average total assets excluding assurance assets
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 66 in volume one.

GLOSSARY

1

The following abbreviations have been used throughout this report:

ADR Forum	Arrears, Recovery and Default Forum
AIRB	Advanced Internal Ratings-Based
ALCO	Asset and Liability Committee
AML	Anti-money laundering
AT1	Additional Tier 1
BASA	Banking Association of South Africa
BCBS	Basel Committee of Banking Supervision
BoE	Bank of England
BOM	Bank of Mauritius
BRRD	Bank Recovery and Resolution Directive
CCB	Capital conservation buffer
CCP	Central Counterparty
CCR	Counterparty credit risk
CCyB	Countercyclical capital buffer
CDP	Carbon Disclosure Project
CDS	Credit default swap
CEM	Current exposure method
CEO	Chief Executive Officer
CET1	Common equity tier 1
CFP	Contingency funding plan
CFT	Combating the financing of terrorism
CLF	Committed liquidity facility
COFI Bill	Conduct of Financial Institutions Bill
CRDIV	Capital Requirements Directive IV
CRR	Capital Requirements Regulation
CRS	Common Reporting Standard
CSA	Credit Support Annex
CVA	Credit valuation adjustment
D-SIB	Domestic systemically important bank
DLC	Dual listed company
DLC BRCC	DLC Board Risk and Capital Committee
DLC Nomdac	DLC Nominations and Directors Affairs Committee
DLC SEC	DLC Social and Ethics Committee
EAD	Exposure at default
EBA	European Banking Authority
EC	European Commission
ECL	Expected credit loss
EIR	Effective interest rate
EP	Equator Principals
ESG	Environmental, social and governance
EU	European Union
FATCA	Foreign Account Tax Compliance Act
FCA	Financial Conduct Authority
FINMA	Swiss Financial Market Supervisory Authority
FIRB	Foundation Internal Ratings-Based
FPC	Financial Policy Committee
FRTB	Fundamental Review of the Trading Book
FSLAB	Financial Sector Laws Amendment Bill
FSR Act	Financial Sector Regulation Act 9 of 2017
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit and loss
GDP	Gross domestic product
GDPR	General Data Protection Regulation
GFSC	Guernsey Financial Services Commission
GMRA	Global Master Repurchase Agreement
GMSLA	Global Master Securities Lending Agreement
GRRRMF	Group Risk Review and Reserves Matters Forum
HLA	Higher loss-absorbency
HNW	High net worth
IASs	International Accounting Standards
IBL	Investec Bank Limited
IBL BRCC	IBL Board Risk and Capital Committee
IBL ERC	IBL Executive Risk Committee
IBL Review ERRF	IBL Review Executive Risk Review Forum
IBP	Investec Bank plc
IBP BRCC	IBP Board Risk and Capital Committee
IBP ERC	IBP Executive Risk Committee
IBP Review ERRF	IBP Review Executive Risk Review Forum
ICAAP	Internal Capital Adequacy Assessment Process
ICR	Individual capital requirement
IFC	International Finance Corporation
IFRS	International Financial Reporting Standard
IRB	Internal Ratings-Based Approach
IRRBB	Interest Rate Risk in the Banking Book
ISDA	International Swaps and Derivatives Association
IW&I	Investec Wealth & Investment
JSE	Johannesburg Stock Exchange
LCR	Liquidity coverage ratio
LGD	Loss given default
LIBOR	London Inter-bank Offered Rate
MDR	Mandatory Disclosure Rules
MiFID	Markets in Financial Instruments Directive
MREL	Minimum Requirements for Own Funds and Eligible Liabilities
NSFR	Net stable funding ratio
OECD	Organisation for Economic Co-operation and Development
OTC	Over the counter
PD	Probability of default
PRA	Prudential Regulation Authority
RWA	Risk-weighted asset
S&P	Standard & Poor's
SAA	South African Airways
SA-CCR	Standardised Approach to Counterparty Credit Risk
SARS	South African Revenue Service
SIFI	Systemically important financial institution
SOE	State-owned Enterprise
South African PA	South African Prudential Authority (previously known as the Banking Supervision Division of the South African Reserve Bank)
SPPI	Solely payments of principal and interest
SREP	Supervisory Review and Evaluation Process
T1	Tier 1
TCFD	Task Force on Climate-related Financial Disclosures
TFSME	Bank of England Term Funding Scheme for Small and Medium Enterprises
TR	Trade Repository
UK	United Kingdom
VaR	Value at Risk

Cash and near cash

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

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.

Ninety One and Ninety One group

All references to Ninety One and Ninety One group refer to Ninety One plc and its subsidiaries plus Ninety One Limited and its subsidiaries.

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.

Subject to ECL

Includes financial assets held at amortised cost and FVOCI as well as designated at FVPL loan portfolios for which ECL is not required for IFRS purposes but for which management evaluates on this basis. Refer to page 34 for core loans and advances subject to ECL.

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.

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