DISCLOSURE REPORT 2020

Investec plc pillar 3 annual disclosure report

Investec

Cross reference tools

AUDITED INFORMATION
Refers readers to information included in the Investec group integrated annual report 2020 or Investec plc annual report 2020

PAGE REFERENCES
Refers readers to information elsewhere in this report

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

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ABBREVIATIONS

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

AFG	Asset Finance Group
ALCO	Asset and Liability Management Committee
ALM	Asset and Liability Management
AT1	Additional tier 1
BCBS	Basel Committee on Banking Supervision
BoE	Bank of England
BRCC	Board Risks and Capital Committee
CCB	Capital conservation buffer
CCF	Credit conversion factor
CCP	Central counterparty
CCR	Counterparty credit risk
CCyB	Countercyclical capital buffer
CEO	Chief Executive Officer
CDS	Credit default swap
CET1	Common equity tier 1
CRD	Capital Requirements Directive
CRD IV	Capital Requirements Directive IV
CRM	Credit risk mitigation
CRR	Capital Requirements Regulation
CRR II/CRD V	Revisions to the CRD IV package
CVA	Credit valuation adjustment
Delegated Act	European Commission Delegated Regulation 2015/61
DLC	Dual listed companies
DLC BRCC	DLC Board Risks and Capital Committee
EAD	Exposure at Default
EBA	European Banking Authority
EC	European Commission
ECAI	External Credit Assessment Institution
ECL	Expected credit loss
ERRF	Executive Risk Review Forum
EU	European Union
FCA	Financial Conduct Authority
Fitch	Fitch Ratings
FPC	Financial Policy Committee
FRTB	Fundamental Review of the Trading Book
Group	Investec plc and its subsidiaries
GRRRMF	Group Risk Review and Reserved Matters Forum
G-SIB	Globally systemically important bank
G-SII	Global systemically important institution
IBP	Investec Bank plc
ICAAP	Internal capital adequacy assessment process
IFRS	International Financial Reporting Standards
ISDA	International Swaps and Derivatives Association Master Agreement
LCR	Liquidity coverage ratio
OTC	Over-the-counter
PFE	Potential future exposure
PRA	Prudential Regulation Authority
RWA	Risk-weighted asset
SA	Standardised Approach
SCP	Single Collateral Pool
SFT	Securities financing transaction
S&P	Standard and Poor's rating agency
SME	Small and medium-sized enterprise
SPE	Special purpose entity
SREP	Supervisory review and evaluation process
TFS/FLS	Term Funding Scheme/Funding for Lending Schemes
TC	Total Capital
T1	Tier 1 Capital
T2	Tier 2 Capital
UK	United Kingdom

Introduction

Investec is a domestically relevant, internationally connected banking and wealth and investment group. We strive to be a distinctive bank and investment manager, driven by commitment to our core philosophies and values. Our long-term commitment is to One Investec, a client-focused strategy where, irrespective of specialisation or geography, we commit to offering our clients the full breadth and scale of our products and services. We are focused on delivering profitable, impactful and sustainable solutions to our clients.

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

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

Following the group's management succession announcement in February 2018, the Investec board, together with the executive team, conducted a comprehensive strategic review to ensure that the group is well positioned to serve the long-term interests of its stakeholders.

The board concluded that a demerger and separate listing of Investec Asset Management would simplify the group and allow both businesses to focus on their respective growth trajectories; resulting in improved resource allocation, better operational performance and higher long-term growth. On 13 March 2020, Investec successfully completed the demerger of its asset management business (Investec Asset Management), which became separately listed as Ninety One on 16 March 2020.

Regulation and supervision

Investec plc is authorised by the Prudential Regulation Authority (PRA) and is regulated by the Financial Conduct Authority (FCA) and PRA on a consolidated basis. Investec plc calculates capital resources and requirements using the Basel III framework of the Basel Committee on Banking Supervision (BCBS), as implemented in the European Union (EU) through the Capital Requirements Regulation and Directive IV (CRR and CRD IV), and in the PRA's Rulebook for the United Kingdom (UK) banking industry. Subsidiaries of Investec plc may be subject to additional regulations, as implemented in other relevant jurisdictions.

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

Policy

www

The Pillar III disclosures in this document are prepared in accordance with Part 8 of the CRR at the Investec plc consolidated group level which includes Investec plc and its subsidiaries (group) and comprise both quantitative and qualitative information at 31 March 2020, with comparative figures for 31 March 2019 provided, where relevant.

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

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

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

Philosophy and approach to capital and liquidity

The group has maintained a conservative approach to liquidity and capital for many years, long before many of the regulations came into effect. The group holds capital in excess of regulatory requirements and intends to perpetuate this philosophy to ensure it remains well capitalised. At 31 March 2020, the common equity tier 1 (CET1) ratio of the group was 10.7%. As Investec plc is on the Standardised Approach (SA) in terms of CRD IV our risk-weighted assets (RWAs) represent a large portion of our total assets. As a result, we inherently hold more capital than firms who apply the Advanced Internal Ratings-Based Approach.

The group has never required shareholder or government support throughout the crisis and retains one of the highest leverage ratios amongst its peers, whilst meeting the Basel III liquidity requirements for some time. The leverage ratio – calculated as regulatory capital over regulatory balance sheet assets – for the group was 7.8% at 31 March 2020.

Investec plc has a well-established liquidity management philosophy, that has been in place for many years, which focuses on ensuring its business can function in perpetuity under expected and stressed market conditions and deliver to budgeted asset growth and other liquidity needs. The protection and safety of all depositors is paramount. Investec plc maintains a portfolio of readily available, high-quality liquid assets targeting a minimum cash to customer deposit ratio of 25%.

Liquidity remains strong with cash and near cash balances amounting to £6.0 billion (2019: £7.0 billion). The higher balance at the start of the year reflects additional liquidity raised to prefund the repayment of Irish deposits, ahead of the closure of our Irish deposits raising business as a result of Brexit.

We exceed the minimum regulatory requirements for the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR).

Regulatory environment

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 and the European Banking Authority (EBA).

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 International Financial Reporting Standards (IFRS) 9 transitional arrangements for the regulatory capital treatment of Expected Credit Loss (ECL) accounting. The adjustments will 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 three 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 SA for credit risk, which will improve the robustness and risk sensitivity of the existing approach;
- Revisions to the internal ratings-based 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 SA;
- A revised SA for operational risk, which will replace the existing SAs and the advanced measurement approaches;
- Revisions to the measurement of the leverage ratio; and
- An aggregate capital output floor.

In January 2019, the BCBS on banking supervision 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 that 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.

UK

The UK's 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 Bank of England (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 development

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 Supervisory Review and Evaluation Process (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 Financial Policy Committee (FPC) took the decision to reduce the UK Countercyclical Capital Buffer (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 Internal Capital Adequacy Assessment Process (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 the group:

- 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 revisions to the CRDIV package (CRRII/CRDV) 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 the group include:

- A new SA for calculating counterparty credit risk (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 SA to credit risk, market risk and operational risk.

The EBA announced on 22 April 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.

Table 1: Capital Structure

£'million	Ref^	31 March 2020^^	31 March 2019^^
Shareholders' equity		**2 090**	**1 918**
Shareholders' equity excluding non-controlling interests	d	2 135	2 022
Foreseeable charges and dividends^^		–	(63)
Perpetual preference share capital and share premium	e	(25)	(25)
Deconsolidation of special purpose entities	d	(20)	(16)
Non-controlling interests		**–**	**7**
Non-controlling interest per balance sheet	g	3	13
Non-controlling interests excluded for regulatory purposes		(3)	
Surplus non-controlling interest disallowed in common equity tier 1		–	(6)
Regulatory adjustments to the accounting basis		**91**	**110**
Additional value adjustments		(8)	(5)
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		12	21
Adjustment under IFRS 9 transitional arrangements		87	94
Deductions		**(436)**	**(447)**
Goodwill and intangible assets net of deferred taxation	b	(326)	(434)
Investment in financial entity		(92)	–
Deferred taxation assets that rely on future profitability excluding those arising from temporary differences	a	(18)	(13)
Common equity tier 1 capital		**1 745**	**1 588**
Additional tier 1 instruments	e, f	274	274
Tier 1 capital		**2 019**	**1 862**
Tier 2 capital		**414**	**489**
Tier 2 instrument	c	533	596
Non-qualifying surplus capital attributable to non-controlling interests		(119)	(107)
Total regulatory capital		**2 433**	**2 351**
Risk-weighted assets°		**16 285**	**15 313**
Capital and leverage ratios			
Common equity tier 1 (as reported)°		10.7%	10.4%
Common equity tier 1 ('fully loaded')^^^		10.3%	9.9%
Tier 1 (as reported)°		12.4%	12.2%
Total capital ratio (as reported)°		14.9%	15.4%
Leverage ratio exposure measure		**25 966**	**24 282**
Leverage ratio* – current		7.8%	7.7%
Leverage ratio* – 'fully loaded'^^^		7.4%	7.3%
Leverage ratio* – current UK leverage ratio framework**		8.9%	9.6%

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

^^ *The capital adequacy disclosures include the deduction of foreseeable charges and dividends when calculating CET1 capital as required under CRR and EBA technical standards. These disclosures are different to the capital adequacy disclosures included in Investec's 2020 and 2019 integrated annual report, which follow our normal basis of presentation and do not include this deduction when calculating CET1 capital. Investec plc's CET1 ratio would be 0bps (31 March 2019: 41bps) higher on this basis.*

^^^ *Based on the group's understanding of current regulations, 'fully loaded' is based on CRR requirements as fully phased in by 2022, including full adoption of IFRS 9. As a result of the adoption of IFRS 9 Investec Bank plc elected to designate its subordinated fixed rate medium-term notes due in 2022 at fair value. By the time of full adoption of IFRS 9 in 2023, these subordinated liabilities will have reached final maturity and will be redeemed at par value. The remaining interest rate portion of the fair value adjustment at 31 March 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.*

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

** *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.*

° *The reported CET1, tier 1 (T1) and total capital (TC) adequacy ratios are calculated applying the IFRS 9 transitional arrangements.*

Current regulatory framework

In the UK, banks are required to meet minimum capital requirements as prescribed by CRD IV for Pillar I, namely a CET1 capital requirement of 4.5% of RWAs, a T1 capital requirement of 6% of RWAs and a TC 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% 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 Capital Conservation Buffer (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 PFC announced that with immediate effect the UK CCyB rate be reduced to 0% in response to the economic shock arising from COVID-19.

The group continues to hold capital in excess of all regulatory capital and buffer requirements.

Investec plc applies the SA 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 SA. For certain options, the group has obtained an article 329 permission from the PRA to use an internal model to calculate the delta for these positions. In addition, the group was granted an article 331 permission in January 2018 which allows sensitivity models to be used when calculating the market risk position for certain instruments.

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

Capital and leverage ratio targets

Capital

Over recent years, capital adequacy standards for banks have been raised as part of attempts to increase the stability and resilience of the global banking sector. Investec plc has always held capital in excess of regulatory requirements and continues to remain well capitalised. Accordingly, Investec plc targets a minimum CET1 capital ratio of above 10%, a T1 capital ratio of above 11% and a TC ratio target in the range of 14% to 17%. These targets are set on a Investec group basis and exclude the deduction of foreseeable charges and dividends as required under the CRR and EBA technical standards. These targets are continuously assessed for appropriateness.

Leverage

Investec plc targets a leverage ratio above 6%.

Management of capital and leverage

Capital

The Investec plc Capital Committee and the DLC Capital Committee are responsible for ensuring that the impact of any regulatory change is analysed, understood and planned for. To allow these committees to carry out this function, the bank's prudential advisory and reporting team closely monitor regulatory developments and regularly present to the committees on the latest developments and proposals. As part of any assessment, the committees are 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 are held with DLC BRCC and the board to ensure members are kept up to date with the most salient changes and to ensure the impact on the bank and its subsidiaries is monitored and understood.

Leverage

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

The leverage exposure measure is calculated on a monthly and quarterly basis and is presented to these committees on a regular basis. These committees are also responsible for monitoring the risk of excessive leverage.

Basis of consolidation

The regulatory basis of consolidation differs from the basis of consolidation used for financial reporting purposes. The financial accounting position of the group is reported under IFRS and is described on page 185 of the Investec plc 2020 annual report.

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

Table 2 reconciles the group's financial accounting balance sheet to the regulatory scope balance sheet. The alphabetic references included in the reconciliation provide a mapping of the balance sheet items to elements included in the capital structure table (table 1), set out on page 8.

Regulatory capital requirements are driven by the regulatory balance sheet and not the financial accounting balance sheet.

Table 2: Reconciliation of the financial accounting balance sheet to the regulatory scope of consolidation

31 March 2020 £'million	Ref^	Accounting balance sheet	Deconsolidation of non-financial/ other entities	Consolidation of banking associates	Regulatory balance sheet
Cash and balances at central banks		2 277	–	–	2 277
Loans and advances to banks		1 794	(84)	11	1 721
Reverse repurchase agreements and cash collateral on securities borrowed		1 627	–	–	1 627
Sovereign debt securities		1 689	–	–	1 689
Bank debt securities		51	–	–	51
Other debt securities		686	(39)	–	647
Derivative financial instruments		1 251	(4)	–	1 247
Securities arising from trading activities		583	(6)	–	577
Investment portfolio		635	(11)	28	652
Loans and advances to customers		11 872	17	–	11 889
Other loans and advances		192	124	–	316
Other securitised assets		106	–	–	106
Interests in associated undertakings		54	–	(48)	6
Deferred taxation assets of which:		131	–	–	131
– relates to losses carried forward	a	18	–	–	18
Other assets		1 426	(405)	3	1 024
Property and equipment		217	(27)	–	190
Goodwill	b	261	–	6	267
Intangible assets	b	72	–	–	72
Investment in subsidiary companies		–	12	–	12
Total assets		**24 924**	**(423)**	**–**	**24 501**
Deposits by banks		1 419	(87)	–	1 332
Derivative financial instruments		1 245	(13)	–	1 232
Other trading liabilities		119	–	–	119
Repurchase agreements and cash collateral on securities lent		397	–	–	397
Customer deposits (deposits)		15 280	109	–	15 389
Debt securities in issue		1 468	(109)	–	1 359
Liabilities arising on securitisation of other assets		111	1	–	112
Current taxation liabilities		27	–	–	27
Deferred taxation liabilities of which:		21	(3)	–	18
– in respect of acquired intangibles	b	12	–	–	12
Other liabilities		1 662	(298)	–	1 364
Subordinated liabilities of which:		787	–	–	787
– term subordinated debt included in tier 2 capital	c	787	–	–	787
Total liabilities		**22 536**	**(400)**	**–**	**22 136**
Shareholders' equity excluding non-controlling interests of which:	d	2 135	(20)	–	2 115
– perpetual shares included in additional tier 1 capital	e	24	–	–	24
Additional tier 1 securities in issue	f	250	–	–	250
Non-controlling interests	g	3	(3)	–	–
Total equity		**2 388**	**(23)**	**–**	**2 365**
Total liabilities and equity		**24 924**	**(423)**	**–**	**24 501**

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

Table 2: Reconciliation of the financial accounting balance sheet to the regulatory scope of consolidation *(continued)*

31 March 2019 £'million	Ref^	Accounting balance sheet	Deconsolidation of non-financial/ other entities	Consolidation of banking associates	Regulatory balance sheet
Cash and balances at central banks		4 446	–	–	4 446
Loans and advances to banks		1 164	(69)	11	1 106
Reverse repurchase agreements and cash collateral on securities borrowed		633	–	–	633
Sovereign debt securities		1 299	–	–	1 299
Bank debt securities		52	–	–	52
Other debt securities		498	–	–	498
Derivative financial instruments		626	–	–	626
Securities arising from trading activities		798	(7)	–	791
Investment portfolio		493	(5)	25	513
Loans and advances to customers		10 516	16	–	10 532
Other loans and advances		208	100	–	308
Other securitised assets		118	–	–	118
Interests in associated undertakings		53	–	(45)	8
Deferred taxation assets of which:		148	–	–	148
– relates to losses carried forward	a	13	–	–	13
Other assets		1 029	(42)	3	990
Property and equipment		100	(26)	–	74
Investment properties		15	(15)	–	–
Goodwill	b	356	–	6	362
Intangible assets	b	85	–	–	85
Investment in subsidiary companies		–	24	–	24
Total assets		**22 637**	**(24)**	**–**	**22 613**
Deposits by banks		1 331	(83)	–	1 248
Derivative financial instruments		707	–	–	707
Other trading liabilities		80	–	–	80
Repurchase agreements and cash collateral on securities lent		314	–	–	314
Customer deposits (deposits)		13 151	100	–	13 251
Debt securities in issue		2 455	(37)	–	2 418
Liabilities arising on securitisation of other assets		114	8	–	122
Current taxation liabilities		132	–	–	132
Deferred taxation liabilities of which:		21	(3)	–	18
– in respect of acquired intangibles	b	13	–	–	13
Other liabilities		1 243	7	–	1 250
Subordinated liabilities of which:		804	–	–	804
– term subordinated debt included in tier 2 capital	c	804	–	–	804
Total liabilities		**20 352**	**(8)**	**–**	**20 344**
Shareholders' equity excluding non-controlling interests of which:	d	2 022	(16)	–	2 006
– perpetual shares included in additional tier 1 capital	e	24	–	–	24
Additional tier 1 securities in issue	f	250	–	–	250
Non-controlling interests	g	13	–	–	13
Total equity		**2 285**	**(16)**	**–**	**2 269**
Total liabilities and equity		**22 637**	**(24)**	**–**	**22 613**

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

Mapping of financial statement categories with regulatory risk categories

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

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

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

			Carrying values of items*				
31 March 2020 £'million**	**Carrying values as reported in published financial statements**	**Carrying value under scope of regulatory con-solidation^**	**Subject to credit risk framework**	**Subject to CCR framework**	**Subject to securitisa-tion framework**	**Subject to market risk framework**	**Not subject to capital require-ments or is subject to deduction from capital**
Assets							
Cash and balances at central banks	2 277	2 277	2 277	–	–	–	–
Loans and advances to banks	1 794	1 721	1 215	506	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	1 627	1 627	–	1 627	–	1 627	–
Sovereign debt securities	1 689	1 689	1 689	–	–	–	–
Bank debt securities	51	51	51	–	–	–	–
Other debt securities	686	647	218	–	429	–	–
Derivative financial instruments	1 251	1 247	–	1 247	–	1 063	–
Securities arising from trading activities	583	577	–	–	–	577	–
Investment portfolio	635	652	652	–	–	–	–
Loans and advances to customers	11 872	11 889	11 889	–	–	–	–
Other loans and advances	192	316	127	97	92	–	–
Other securitised assets	106	106	106	–	–	–	–
Interest in associated undertakings	54	6	6	–	–	–	–
Deferred taxation assets	131	131	75	–	–	–	56
Other assets	1 426	1 024	206	27	–	–	791
Property and equipment	217	190	190	–	–	–	–
Goodwill	261	267	–	–	–	–	267
Intangible assets	72	72	–	–	–	–	72
Investment in subsidiary company	–	12	12	–	–	–	–
Total assets	**24 924**	**24 501**	**18 713**	**3 504**	**521**	**3 267**	**1 186**

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

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

** *Refer to table 2 on page 11 for an explanation of the difference between the financial and regulatory scope of consolidation.*

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

31 March 2020 £'million**	Carrying values as reported in published financial statements	Carrying value under scope of regulatory con-solidation^	Carrying values of items* Subject to credit risk framework	Subject to CCR framework	Subject to securitisa-tion framework	Subject to market risk framework	Not subject to capital require-ments or is subject to deduction from capital
Liabilities							
Deposits by banks	1 419	1 332	–	–	–	–	1 332
Derivative financial instruments	1 245	1 232	–	–	–	1 232	–
Other trading liabilities	119	119	–	–	–	119	–
Repurchase agreements and cash collateral on securities lent	397	397	–	397	–	397	–
Customer accounts (deposits)	15 280	15 389	–	–	–	–	15 389
Debt securities in issue	1 468	1 359	–	–	–	–	1 359
Liabilities arising on securitisation of other assets	111	112	–	–	–	–	112
Current taxation liabilities	27	27	–	–	–	–	27
Deferred taxation liabilities	21	18	–	–	–	–	18
Other liabilities	1 662	1 364	–	–	–	–	1 364
Subordinated liabilities	787	787	–	–	–	–	787
Total liabilities	**22 536**	**22 136**	**–**	**397**	**–**	**1 748**	**20 388**
Shareholders' equity excluding minority interests	2 135	2 115					
Additional tier 1 securities in issue	250	250					
Non-controlling interests	3	–					
Total equity	**2 388**	**2 365**					

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

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

** *Refer to table 2 on page 11 for an explanation of the difference between the financial and regulatory scope of consolidation.*

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

31 March 2019 £'million**	Carrying values as reported in published financial statements	Carrying value under scope of regulatory con-solidation^	Carrying values of items*				
			Subject to credit risk framework	Subject to CCR framework	Subject to securitisa-tion framework	Subject to market risk framework	Not subject to capital require-ments or is subject to deduction from capital
Assets							
Cash and balances at central banks	4 446	4 446	4 446	–	–	–	–
Loans and advances to banks	1 164	1 106	984	122	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	633	633	–	633	–	633	–
Sovereign debt securities	1 299	1 299	1 299	–	–	–	–
Bank debt securities	52	52	52	–	–	–	–
Other debt securities	498	498	215	–	283	–	–
Derivative financial instruments	626	626	20	606	–	450	–
Securities arising from trading activities	798	791	–	–	–	791	–
Investment portfolio	493	513	513	–	–	–	–
Loans and advances to customers	10 516	10 532	10 532	–	–	–	–
Other loans and advances	208	308	66	65	177	–	–
Other securitised assets	118	118	118	–	–	–	–
Interest in associated undertakings	53	8	8	–	–	–	–
Deferred taxation assets	148	148	97	–	–	–	51
Other assets	1 029	990	346	10	–	–	634
Property and equipment	100	74	74	–	–	–	–
Investment property	15	–	–	–	–	–	–
Goodwill	356	362	–	–	–	–	362
Intangible assets	85	85	–	–	–	–	85
Investment in subsidiary company	–	24	24	–	–	–	–
Total assets	**22 637**	**22 613**	**18 794**	**1 436**	**460**	**1 874**	**1 132**

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

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

** *Refer to table 2 on page 12 for an explanation of the difference between the financial and regulatory scope of consolidation.*

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

31 March 2019 £'million**	Carrying values as reported in published financial statements	Carrying value under scope of regulatory con-solidation^	Carrying values of items* Subject to credit risk framework	Subject to CCR framework	Subject to securitisa-tion framework	Subject to market risk framework	Not subject to capital require-ments or is subject to deduction from capital
Liabilities							
Deposits by banks	1 331	1 248	–	–	–	–	1 248
Derivative financial instruments	707	707	–	–	–	649	58
Other trading liabilities	80	80	–	–	–	80	–
Repurchase agreements and cash collateral on securities lent	314	314	–	314	–	314	–
Customer accounts (deposits)	13 151	13 251	–	–	–	–	13 251
Debt securities in issue	2 455	2 418	–	–	–	–	2 418
Liabilities arising on securitisation of other assets	114	122	–	–	–	–	122
Current taxation liabilities	132	132	–	–	–	–	132
Deferred taxation liabilities	21	18	–	–	–	–	18
Other liabilities	1 243	1 250	–	–	–	–	1 250
Subordinated liabilities	804	804	–	–	–	–	804
Total liabilities	**20 352**	**20 344**	**–**	**314**	**–**	**1 043**	**19 301**
Shareholders' equity excluding minority interests	2 022	2 006					
Additional tier 1 securities in issue	250	250					
Non-controlling interests	13	13					
Total equity	**2 285**	**2 269**					

^ *The numbers disclosed in this column do not equal the sum of the amounts reported in the remaining columns as some exposures will attract both CCR and Market risk.*
* *The carrying value is the accounting balance reported in the regulatory risk types and exclude off-balance sheet items.*
** *Refer to table 2 on page 12 for an explanation of the differences between the financial and regulatory scope of consolidation.*

Differences between the financial accounting and regulatory exposure amounts

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

- Off-balance sheet amounts – the regulatory exposure amount includes off-balance sheet exposure amounts which are subject to regulatory defined credit conversion factors (CCFs) depending on the maturity and type of exposure;
- Netting rules – under IFRS, in order to net on an accounting basis, a legally enforceable right to set-off the recognised amounts must exist and the entity has the intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously. From a regulatory perspective, it is possible to recognise greater netting, provided the agreements are legally effective and enforceable, including in the event of the bankruptcy or insolvency of the counterparty and the exposures are monitored and controlled on a net basis;
- Market risk – the difference is driven by the standardised market risk methodology applied when calculating market risk capital requirements;
- Potential future exposure (PFE) add-ons – the majority of the difference is due to the inclusion of the PFE applicable to derivative exposures and including off-balance sheet stock borrowing transactions, subject to CCR;
- Prudential filters – the regulatory exposure amount excludes investments in significant financial sector entities which have been deducted from CET1 capital.

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

£'million^	Items subject to: Credit risk framework	CCR framework	Securiti-sation framework	Market risk framework
31 March 2020				
Assets carrying value amount under scope of regulatory consolidation	18 713	3 504	521	3 267
Liabilities carrying value amount under regulatory scope of consolidation	–	397	–	1 748
Total net amount under regulatory scope of consolidation	18 713	3 901	521	5 015
Off-balance sheet amounts	995	–	–	–
Difference due to IFRS 9 adjustment	104	–	–	–
Differences due to different netting rules	–	(1 017)	–	–
Difference in regulatory market risk exposure amounts	–	–	–	(4 190)
Differences due to potential future exposure and off-balance sheet stock borrowing	–	1 936	–	–
Differences due to prudential filters	(92)	–	–	–
Other	1	–	–	–
Exposure amounts considered for regulatory purposes	**19 721**	**4 820**	**521**	**825**
31 March 2019				
Assets carrying value amount under scope of regulatory consolidation	18 794	1 436	460	1 874
Liabilities carrying value amount under regulatory scope of consolidation	–	314	–	1 043
Total net amount under regulatory scope of consolidation	18 794	1 750	460	2 917
Off-balance sheet amounts	868	–	–	–
Difference due to IFRS 9 adjustment	111	–	–	–
Differences due to different netting rules	–	(308)	–	–
Difference in regulatory market risk exposure amounts	–	–	–	(1 281)
Differences due to potential future exposure and off-balance sheet stock borrowing	–	1 418	–	–
Differences due to prudential filters	(5)	–	–	–
Other	7	–	–	–
Exposure amounts considered for regulatory purposes	**19 775**	**2 860**	**460**	**1 636**

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

Risk Management

Philosophy and approach to risk management

The 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.

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 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 and allow the group to operate within its risk appetite tolerance.

Group risk management objectives are to:

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

Risk appetite framework

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

A high-level summary of the group's overall risk tolerance framework can be found on page 54 of the Investec plc 2020 annual report.

Our viability statement is provided on page 164 of the Investec plc 2020 annual report.

Stress testing and portfolio management

The 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 group'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.

Governance

A number of committees and forums identify and manage risk at group level, as shown in the diagram on page 19. These committees and forums, mandated by the board, operate together with group risk management and their sub-committees within respective operating jurisdictions.

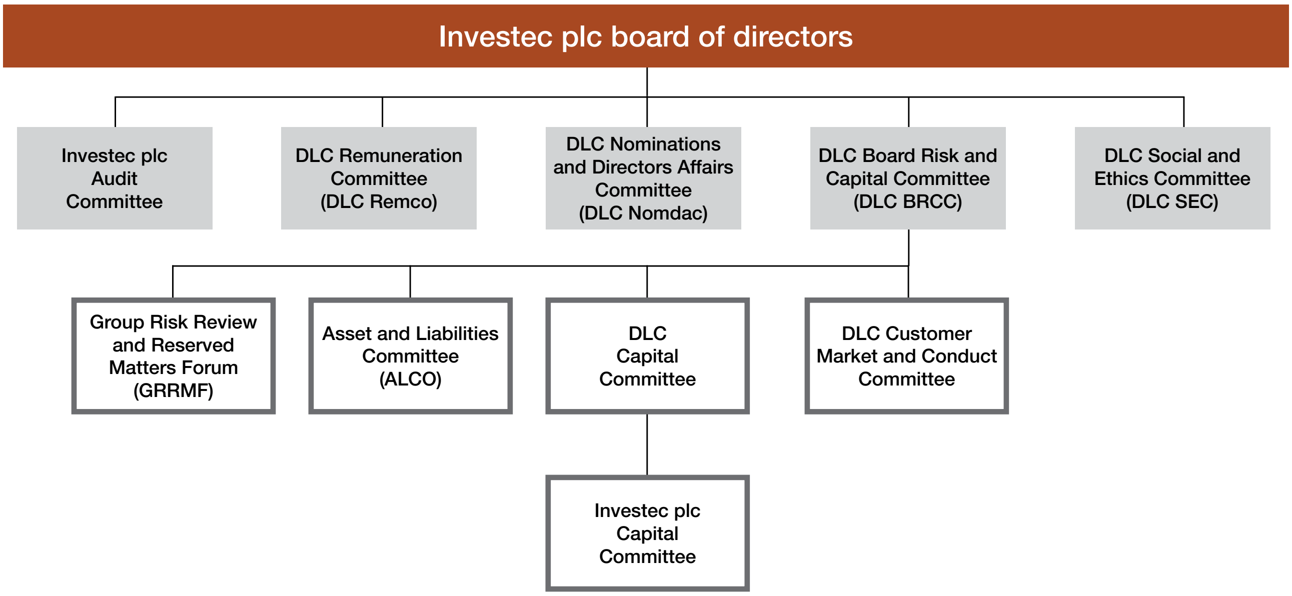
Capital adequacy and capital requirements

Capital management

Philosophy and approach

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

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



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

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

The Investec plc 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 board and is managed by the Investec plc Capital Committee, which is responsible for oversight of the management of capital on a regulatory and an internal capital basis.

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

Risk modelling and quantification (internal capital)

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

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

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

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

Capital planning and stress/scenario testing

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

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

The goal of capital planning is to provide insight into potential sources of vulnerability of capital adequacy by way of market, economic or internal events. As such, the three year capital plans are stressed based on conditions most likely to cause duress. The conditions themselves are agreed by the Investec plc Capital Committee after the key vulnerabilities have been determined through the stress testing workshops. Such plans are used by management to formulate balance sheet strategy and agree management actions, trigger points and influence the determination of our risk appetite. The output of capital planning allows senior management to make decisions to ensure that the group continues to hold sufficient capital to meet regulatory and internal capital targets. On certain occasions, especially under stressed scenarios, management may plan to undertake a number of actions. Assessment of the relative merits of undertaking various actions is then considered using an internal view of relative returns across portfolios which are themselves based on internal assessments of risk and capital.

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

- Changes to capital demand caused by implementation of agreed strategic objectives, including the creation or acquisition of new businesses, or as a result of the manifestation of one or more of the risks to which we are potentially susceptible;
- The impact on profitability of current and future strategies;
- Required changes to the capital structure;
- The impact of implementing a proposed dividend strategy;
- The impact of future 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 Investec plc Capital Committee and the DLC BRCC are presented with the potential variability in capital adequacy and are responsible, in consultation with the board, for considering the appropriate response.

Pricing and performance measurement

The use of internal capital as an allocation tool means that all transactions are considered in the context of their contribution to return on risk-adjusted capital. This ensures that expected returns are sufficient after taking recognition of the inherent risk generated for a given transaction. This approach allows us to embed risk and capital discipline at the level of deal initiation. Using expectations of risk-based returns as the basis for pricing and deal acceptance ensures that risk management retains a key role in ensuring the portfolio is appropriately managed for that risk.

In addition to pricing, returns on internal capital are monitored and relative performance is assessed on this basis. Assessment of performance in this way is a fundamental consideration used in setting strategy and risk appetite as well as rewarding performance.

These processes have been embedded across the business with the process designed to ensure that risk and capital management form the basis for key decisions, at both a group and at a transactional level. Responsibility for oversight for each of these processes ultimately falls to the DLC BRCC.

The (simplified) integration of risk and capital management

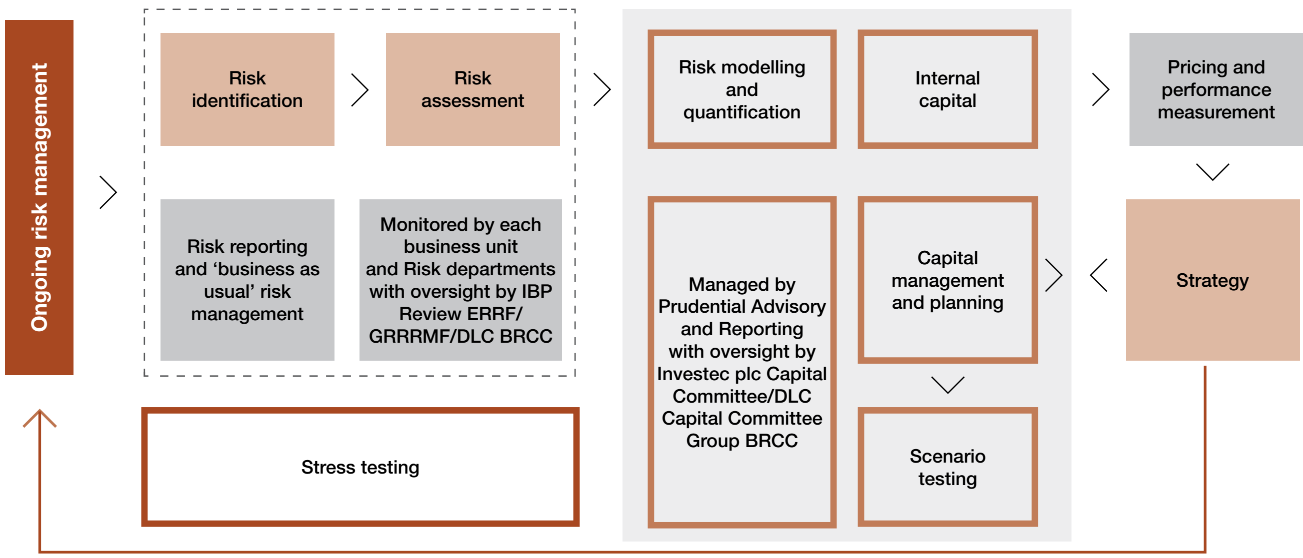


Table 5: Own funds disclosure

Ref^	Common equity tier 1 capital: Instruments and reserves £'million	31 March 2020	31 March 2019
1	**Capital instruments and the related share premium accounts**	807	1 358
	of which: Ordinary shares*	807	1 358
2	Retained earnings	1 365	898
3	Accumulated other comprehensive income (and other reserves)	13	(291)
5	Minority interests (amount allowed in consolidated CET1)	–	7
5a	Independently reviewed interim profits net of any foreseeable charge or dividend**	45	67
6	**Common equity tier 1 capital before regulatory adjustments**	**2 230**	**2 039**
Common equity tier 1 capital: regulatory adjustments			
7	Additional value adjustments	(8)	(5)
8	Intangible assets (net of related tax liability)	(326)	(434)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38(3) are met)	(18)	(13)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	12	21
15	Defined benefit pension fund assets	–	–
16	Direct and indirect holdings by the institution of the CET1 instruments	(140)	(114)
	Adjustment under IFRS 9 transitional arrangement	87	94
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	(92)	–
28	**Total regulatory adjustments to Common equity tier 1**	**(485)**	**(451)**
29	**Common equity tier 1 capital**	**1 745**	**1 588**
Additional tier 1 capital: instruments			
30	Capital instruments and the related share premium accounts	250	250
31	of which: classified as equity under applicable accounting standards	250	250
33	Amount of qualifying items referred to in Article 484(4) and the related share premium accounts subject to phase out from AT1	24	24
44	**Additional Tier 1 (AT1) capital**	**274**	**274**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**2 019**	**1 862**
Tier 2 (T2) capital: instruments and provisions			
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	414	489
58	**Tier 2 (T2) capital**	**414**	**489**
59	**Total capital (TC = T1 + T2)**	**2 433**	**2 351**
60	**Total risk weighted assets**	**16 285**	**15 313**

^ *The references identify the lines prescribed in the EBA template. Lines represented in this table are those lines which are applicable and have a value assigned to it. All other lines have been suppressed.*
* *Includes the share premium account.*
** *Line 5a only includes interim verified profits net of any foreseeable charges and dividends for the period April to September 2019. Profits for the remaining period have been included in line 2 retained earnings.*

Table 5: Own funds disclosure *(continued)*

Ref^	Common equity tier 1 capital: Instruments and reserves £'million	31 March 2020	31 March 2019
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	10.7%	10.4%
62	Tier 1 (as a percentage of risk exposure amount)	12.4%	12.2%
63	Total capital (as a percentage of risk exposure amount)	14.9%	15.4%
64	Institution specific buffer requirement (expressed as a percentage of risk exposure amount))	2.6%	3.1%
65	of which: capital conservation buffer requirement	2.50%	2.50%
66	of which: countercyclical buffer requirement	0.06%	0.55%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	6.2%	5.9%
Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	60	76
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	175	14
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	38	36
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)			
82	Current cap on AT1 instruments subject to phase out arrangements	59	88

^ *The references identify the lines prescribed in the EBA template. Lines represented in this table are those lines which are applicable and have a value assigned to it. All other lines have been suppressed.*

Regulatory capital instruments

Regulatory capital is divided into three main categories, namely CET1, additional tier 1 (AT1) and tier 2 (T2) capital and comprise the following:

- CET1 capital comprises shareholders' equity and related eligible non-controlling interests after giving effect to deductions for disallowed items (for example, goodwill and intangible assets) and other adjustments;
- AT1 capital includes qualifying capital instruments that are capable of being fully and permanently written down or converted into CET1 capital at the point of non-viability of the group, and other AT1 instruments, which no longer qualify as AT1 capital and are subject to grandfathering provisions and related eligible non-controlling interests; and
- T2 capital comprises qualifying subordinated debt and related eligible non-controlling interests.

Table 6 provides a description of the terms and conditions of all capital instruments, including an indication of which instruments are not CRD IV compliant and are subject to transitional arrangements.

Table 6: Capital instruments' main features

Ref	31 March 2020 Terms and conditions	Ordinary shares	Perpetual preference shares non-cumulative	Fixed rate reset perpetual AT1 write down capital securities	Subordinated fixed rate medium-term note	Subordinated fixed rate reset callable medium-term notes
1	Issuer	Investec plc	Investec plc	Investec plc	Investec Bank plc	Investec Bank plc
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	GB00B17BBQ50	GB00B1N73946	XS1692045864	XS0593062788	XS1859228634
3	Governing law(s) of the instrument	English Law	English Law	English Law	English Law	English Law
	Regulatory treatment					
4	Transitional CRR rules	Common Equity Tier 1	Additional tier 1	Additional tier 1	Tier 2	Tier 2
5	Post-transitional rules	Common Equity Tier 1	Ineligible	Additional tier 1	Tier 2	Tier 2
6	Eligible at solo/(sub-) consolidated/ solo and (sub-) consolidated	Consolidated	Consolidated	Consolidated	Solo and Consolidated	Solo and Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Additional tier 1 instrument	Additional tier 1 instrument	Tier 2 instruments	Tier 2 instruments
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	£202 269	£24m	£250m	£115m	£418m
9	Nominal amount of instrument	£202 269	£24m	£250m	£308m	£420m
9a	Issue price	n/a	£8.87	100.00%	99.981%	99.473%
9b	Redemption price	n/a	n/a	Redemption at principal amount plus accrued and unpaid interest to date of redemption	Par plus accrued and unpaid interest	Par plus accrued and unpaid interest
10	Accounting classification	Shareholders' equity	Shareholders' equity	Shareholders' equity	Liability - fair value	Liability-amortised cost

Table 6: Capital instruments' main features *(continued)*

Ref	31 March 2020 Terms and conditions	Ordinary shares	Perpetual preference shares non-cumulative	Fixed rate reset perpetual AT1 write down capital securities	Subordinated fixed rate medium-term note	Subordinated fixed rate reset callable medium-term notes
11	Original date of issuance	N/A	22 February 2007	05 October 2017	17 February 2011 29 June 2011 tap	24 July 2018
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Dated	Dated
13	Original maturity date	No maturity	No maturity	No maturity	17 February 2022	24 July 2028
14	Issuer call subject to prior supervisory approval	n/a	n/a	Yes	n/a	Yes
15	Optional call date, contingent call dates and redemption amount	n/a	n/a	05 December 2024, subject to supervisory approval; Subject to tax and capital disqualification event at any time; Redemption at principal amount plus accrued and unpaid interest to date of redemption	NA; Subject to tax and regulatory call; Redemption at par plus accrued but unpaid interest	24 July 2023, subject to supervisory approval; subject to tax and regulatory call; redemption at par plus accrued interest
16	Subsequent call dates, if applicable	n/a	n/a	On each quarterly interest payment date after first call	n/a	n/a
	Coupons/dividends					
17	Fixed or floating dividend/ coupon	Floating	Floating	Fixed	Fixed	Fixed
18	Coupon rate and any related index	n/a	Bank of England Base Rate plus 1%	6.75%	9.625%	4.25%
19	Existence of a dividend stopper	No	Yes	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timings)	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory	Fully discretionary	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	n/a	n/a	n/a	n/a	n/a
25	If convertible, fully or partially	n/a	n/a	n/a	n/a	n/a
26	If convertible, conversion rate	n/a	n/a	n/a	n/a	n/a

Table 6: Capital instruments' main features *(continued)*

Ref	31 March 2020 Terms and conditions	Ordinary shares	Perpetual preference shares non-cumulative	Fixed rate reset perpetual AT1 write down capital securities	Subordinated fixed rate medium-term note	Subordinated fixed rate reset callable medium-term notes
27	If convertible, mandatory or optional conversion	n/a	n/a	n/a	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a	n/a	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a	n/a	n/a	n/a
30	Write-down features	n/a	n/a	Yes	n/a	n/a
31	If write-down, write-down triggers(s)	n/a	n/a	CET1 Ratio of the issuer group has fallen below 7.00% – contractual/ Point of non-viability – UK PRA – statutory	n/a	n/a
32	If write-down, full or partial	n/a	n/a	Full	n/a	n/a
33	If write-down, permanent or temporary	n/a	n/a	Permanent	n/a	n/a
34	If temporary write-down, description of write-up mechanism	n/a	n/a	n/a	n/a	n/a
35	Position in subordinated hierarchy in liquidation (specify instrument type immediately senior to instrument)	Represents the most subordinate claim in liquidation of the bank	Tier 2 instruments	Tier 2 instruments	Subordinated to payments of any amounts due and payable to Senior Creditors	Subordinated to payments of any amounts due and payable to Senior Creditors
36	Non-compliant transitioned features	n/a	Yes	No	No	No
37	If yes, specify non-compliant features	n/a	No point of non-viability triggers	n/a	n/a	n/a

Overview of RWAs

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

Total RWAs have increased by 6.3% over the period, predominantly within credit risk RWAs.

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

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 decreased by £488 million. The decrease is attributable to a reduction in three year average operating income following the demerger of Ninety One plc (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.

Table 7: Overview of RWAs

		RWA		Minimum capital requirements*
Ref^	**£'million**	**31 March 2020**	31 March 2019	**31 March 2020**
1	Credit risk (excluding counterparty credit risk)	12 662	11 375	1 012
2	Of which standardised approach	12 662	11 375	1 012
6	Counterparty credit risk (CCR)*	981	682	79
7	Of which mark-to-market	921	605	74
11	Of which risk exposure amount for contributions to the default fund of a CCP	1	2	–
12	Of which credit valuation adjustment (CVA) risk	59	75	5
13	Settlement risk	9	1	1
14	Securitisation exposures in banking book (after cap)	91	104	7
18	Of which standardised approach	91	104	7
19	Market risk	734	855	59
20	Of which the standardised approach	734	855	59
23	Operational risk	1 808	2 296	145
25	Of which standardised approach	1 808	2 296	145
27	Amounts below the thresholds for deduction (subject to 250% risk-weight)**	531	125	42
29	**Total (1+6+13+14+19+23)**	**16 285**	**15 313**	**1 303**

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

Table 7A: Key metrics

Ref^	£'million	31 March 2020	31 March 2019
	Available capital (amounts)		
1	Common Equity Tier 1 (CET1) capital	1 745	1 588
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied^^	1 668	1 511
3	Tier 1 capital	2 019	1 862
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied^^	1 942	1 785
5	Total capital	2 433	2 351
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied^^	2 354	2 274
	Risk-weighted assets (amounts)		
7	Total risk-weighted assets	16 285	15 313
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	16 203	15 198
	Capital ratios		
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	10.7%	10.4%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied^^	10.3%	9.9%
11	Tier 1 (as a percentage of risk exposure amount)	12.4%	12.2%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied^^	12.0%	11.7%
13	Total capital (as a percentage of risk exposure amount)	14.9%	15.4%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied^^	14.5%	15.0%
	Leverage ratio		
15	Leverage ratio total exposure measure	25 966	24 282
16	Leverage ratio	7.8%	7.7%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied^^	7.5%	7.3%

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

^^ *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 capital amounts and ratios as it will be released into profit and loss over the remaining life of the instrument.*

Leverage ratio

The leverage ratio is calculated using the CRR definition of leverage which was adopted by the EC via a delegated Act in October 2014 and came into force on 1 January 2015. In the UK, the leverage ratio was subject to a mandatory monitoring period from 1 January 2014 to 30 June 2016, at which point the EBA reported to the EC suggesting a 3% leverage ratio was adequate. At the same time appropriate adjustments to the capital and total exposure measure were proposed. CRRII, which was adopted in June 2019, implements a 3% leverage ratio which will apply from 28 June 2021.

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

The group's leverage ratio was 7.8% at 31 March 2020, up from 7.7% at 31 March 2019. The increase is mainly attributable to an increase in T1 capital.

The UK leverage ratio framework is relevant to PRA-regulated banks and building societies with retail deposits equal to or greater than £50 billion. Firms subject to this framework are allowed to exclude qualifying central bank balances from the calculation of the leverage exposure measure. Although the group is not subject to the UK leverage ratio framework, the leverage ratio calculated on this basis, has been included in table 1 on page 8 for comparative purposes.

Table 8: Summary reconciliation of accounting assets and leverage ratio exposure

Ref^	£'million	31 March 2020	31 March 2019
1	Total assets as per published financial statements	24 924	22 637
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(423)	(24)
4	Adjustments for derivative financial instruments	610	973
5	Adjustment for securities financing transactions (SFTs)	169	132
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	1 030	902
7	Other adjustments	(344)	(338)
8	**Leverage ratio total exposure measure**	**25 966**	**24 282**

Table 9: Leverage ratio common disclosure

		CRR leverage ratio exposures	
Ref^	**£'million**	**31 March 2020**	**31 March 2019**
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	21 054	21 354
2	(Asset amounts deducted in determining Tier 1 capital)	(344)	(338)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**20 710**	**21 016**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	1 127	442
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	869	822
9	Adjusted effective notional amount of written credit derivatives	508	394
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	(74)	(59)
11	**Total derivatives exposures**	**2 430**	**1 599**
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	1 627	633
14	Counterparty credit risk exposure for SFT assets	169	132
16	**Total securities financing transaction exposures**	**1 796**	**765**
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	1 885	2 021
18	(Adjustments for conversion to credit equivalent amounts)	(855)	(1 119)
19	**Other off-balance sheet exposures**	**1 030**	**902**
	Capital and total exposure measure		
20	Tier 1 capital	2 019	1 862
21	**Leverage ratio exposure measure**	**25 966**	**24 282**
	Leverage ratio		
22	**Leverage ratio**	**7.8%**	**7.7%**
	Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	T1 transitional	T1 transitional

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

Table 10: Split of on-balance sheet exposures (excluding derivatives and SFTs)

Ref^	£'million	CRR leverage ratio exposures 31 March 2020	CRR leverage ratio exposures 31 March 2019
EU-1	Total on-balance sheet exposures (excluding derivatives and SFTs), of which:	21 054	21 354
EU-2	Trading book exposures	738	791
EU-3	Banking book exposures, of which:	20 316	20 563
EU-5	Exposures treated as sovereigns	3 835	5 780
EU-6	Exposures to regional governments, multilateral development banks, international organisations and public sector entities not treated as sovereigns	223	117
EU-7	Institutions	1 384	922
EU-8	Secured by mortgages of immovable properties	3 500	3 131
EU-9	Retail exposures	1 437	1 249
EU-10	Corporate	6 855	6 097
EU-11	Exposures in default	334	406
EU12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	2 748	2 861

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

Capital buffers

The group is subject to the CCB and an institution specific CCyB. From 1 January 2016 the group began phasing in the CCB at 0.625% of RWAs. As at 31 March 2020 the group holds a CCB, which must be met with CET1 capital, of 2.5%.

The group is also subject to an institute specific CCyB requirement, which is calculated based on the relevant exposures held in jurisdictions in which a buffer rate has been set. 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. At 31 March 2020 the group holds an institution specific CCyB of 0.06%. The table which follows shows the geographical distribution of credit exposures relevant to the calculation of the CCyB.

Table 11: Geographical distribution of credit exposures

Ref^	31 March 2020 £'million	General credit exposure: Exposure value for SA	Trading book exposure: Sum of long and short position of trading book	Securitisation exposure: Exposure value for SA	Own funds requirements: Of which: General credit exposures	Own funds requirements: Of which: Trading book exposures	Own funds requirements: Of which: Securitisation exposures	Own funds requirements: Total	Own funds requirement weights	Countercyclical capital buffer rate
010	**Breakdown by country**									
	Hong Kong	93	1	–	7	–	–	7	0.63%	1.00%
	Norway	86	–	–	7	–	–	7	0.68%	1.00%
	Czech Republic	–	–	–	–	–	–	–	0.00%	1.75%
	Denmark	35	–	–	3	–	–	3	0.26%	1.00%
	Slovakia	–	–	–	–	–	–	–	0.00%	1.50%
	Iceland	–	–	–	–	–	–	–	0.00%	2.00%
	Lithuania	–	–	–	–	–	–	–	–	1.00%
	France	36	4	–	2	–	–	2	0.23%	0.25%
	Ireland	483	–	–	37	–	–	37	3.50%	1.00%
	Bulgaria	5	–	–	–	–	–	–	0.01%	0.50%
	Luxembourg	483	1	–	39	–	–	39	3.66%	0.25%
	Total countries with existing CCyB rates >0%	**1 221**	**6**	**–**	**95**	**–**	**–**	**95**	**8.97%**	
	United States of America	770	10	36	62	1	1	64	6.00%	
	United Kingdom	8 035	135	227	538	7	3	548	51.76%	
	Australia	883	–	–	71	–	–	71	6.75%	
	Netherlands	299	–	–	24	–	–	24	2.26%	
	British Virgin Islands	446	–	–	33	–	–	33	3.11%	
	Guernsey	476	–	–	32	–	–	32	3.00%	
	Cayman Islands	472	–	258	39	–	3	42	3.93%	
	Jersey	640	–	–	43	–	–	43	4.10%	
	Germany	190	7	–	14	–	–	14	1.34%	
	Total countries with own funds requirements weights 1% or above	**12 211**	**152**	**521**	**856**	**8**	**7**	**871**	**82.25%**	
	Total countries with own funds requirements weights below 1% and without an existing CCyB rate	**1 288**	**30**	**–**	**91**	**2**	**–**	**93**	**8.78%**	
	Total	**14 720**	**188**	**521**	**1 042**	**10**	**7**	**1 059**	**100.00%**	

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

Table 11: Geographical distribution of credit exposures

		General credit exposure	Trading book exposure	Securitisation exposure	Own funds requirements					
Ref^	**31 March 2019 £'million**	Exposure value for SA	Sum of long and short position of trading book	Exposure value for SA	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total	Own funds requirement weights	Countercyclical capital buffer rate
010	**Breakdown by country**									
	United Kingdom	7 122	234	238	474	11	4	489	51.74%	1.00%
	Hong Kong	55	2	–	4	–	–	4	0.44%	2.50%
	Norway	55	–	–	6	–	–	6	0.59%	2.00%
	Sweden	1	34	–	–	3	–	3	0.28%	2.00%
	Czech Republic	–	–	–	–	–	–	–	0.00%	1.25%
	Denmark	30	–	–	2	–	–	2	0.26%	0.50%
	Slovakia	–	–	–	–	–	–	–	0.00%	1.25%
	Iceland	–	–	–	–	–	–	–	0.00%	1.25%
	Total countries with existing CCyB rates >0%	**7 263**	**270**	**238**	**486**	**14**	**4**	**504**	**53.30%**	
	Ireland	475	1	20	38	–	–	38	4.05%	
	United States of America	595	12	24	47	–	–	47	5.09%	
	Luxembourg	553	6	–	37	–	–	37	3.97%	
	Australia	668	–	–	55	–	–	55	5.78%	
	Netherlands	271	–	–	22	–	–	22	2.29%	
	British Virgin Islands	453	–	–	33	–	–	33	3.52%	
	Guernsey	380	–	–	24	–	–	24	2.58%	
	Cayman Islands	499	–	173	40	–	3	43	4.58%	
	Jersey	518	–	5	35	–	–	35	3.70%	
	Mauritius	163			13			13	1.38%	
	Germany	161	11	–	12	–	–	12	1.27%	
	Total countries with own funds requirements weights 1% or above	**4 736**	**30**	**222**	**356**	**–**	**3**	**359**	**38.21%**	
	Total countries with own funds requirements weights below 1% and without an existing CCyB rate	**1 099**	**45**	**–**	**79**	**2**	**–**	**82**	**8.49%**	
	Total	**13 098**	**345**	**460**	**921**	**16**	**8**	**945**	**100.00%**	

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

Table 12: Amount of institution specific countercyclical capital buffer

Ref^	£' million	At 31 March 2020	At 31 March 2019
010	Total risk exposure amount	16 285	15 313
020	Institution specific countercyclical buffer rate	0.06%	0.55%
030	**Institution specific countercyclical buffer requirement**	**10**	**84**

Credit and counterparty risk

Overview and responsibility

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

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

- Lending transactions through loans and advances to clients and counterparties, 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 effecting required settlements as they fall due but not receiving the performance to which they are entitled
  - Replacement risk is the risk following defaults by the original counterparty resulting in the contract holder having to enter into a replacement contract with a second counterparty in order to fulfil the transaction.

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

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

To manage, measure, monitor and mitigate credit and counterparty risk, independent credit committees exist in the UK 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 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
- Forbearance Forum reviews and monitors counterparties who have been granted forbearance measures
- Impairment Decision Committee reviews recommendations from underlying watchlist forums and Arrears Default and Recovery Forums respectively and consider and approve the appropriate level of ECL impairments, and staging
- Models Forums 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 model 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.

Governance and risk appetite

The board has set a group risk appetite limit framework 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 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 and integrity, core competencies, track record and financial strength. A strong emphasis is placed on the historic and ongoing stability of income and cash flow streams generated by the clients. Our primary assessment method is therefore the ability of the client to meet their payment obligations.

Target clients include high net worth and/or high-income individuals, 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.

Management and measurement

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 the client quality.

A large proportion of the group 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 IBP BRCC and 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.

In the Investec plc 2020 annual report exposures are classified to reflect the group's risk appetite and strategy. In the Pillar III disclosures, exposures are classified according to the CRD IV exposure classes. The nature of our activities and appetite to specific types of exposures are described on page 64 of the Investec plc 2020 annual report.

Regulatory approach

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

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

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

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

Table 13: Total and average net amount of exposures

Ref^	£'million	Net value of exposures* 31 March 2020	Average net exposures 31 March 2020	Net value of exposures* 31 March 2019	Average net exposures 31 March 2019
16	Central governments or central banks	3 835	4 914	5 784	5 112
17	Regional governments or local authorities	3	3	1	4
18	Public sector entities	97	79	74	60
19	Multilateral Development Banks	131	91	49	26
21	Institutions	1 422	1 085	947	1 012
22	Corporates	8 458	8 293	7 939	7 737
24	Retail	1 458	1 386	1 266	1 268
26	Secured by mortgages on immovable property	3 603	3 376	3 229	2 966
28	Exposures in default	364	392	414	424
29	Items associated with particularly high risk	438	464	547	517
32	Collective Investments undertakings	–	51	124	88
33	Equity exposures	327	151	100	99
34	Other exposures	474	646	452	509
35	**Total standardised approach**	**20 610**	**20 931**	**20 926**	**19 822**

Table 14: Geographical breakdown of exposures

		Net value*					
Ref^	31 March 2020 £'million	United Kingdom	Europe (excluding UK)	Australia	North America	Other	Total
7	Central governments or central banks	3 424	56	19	336	–	3 835
8	Regional governments or local authorities	3	–	–	–	–	3
9	Public sector entities	93	3	1	–	–	97
10	Multilateral Development Banks	19	32	–	60	20	131
12	Institutions	606	424	70	288	34	1 422
13	Corporates	4 236	1 529	724	1 482	487	8 458
14	Retail	1 421	10	3	3	21	1 458
15	Secured by mortgages on immovable property	2 886	194	29	257	237	3 603
16	Exposures in default	217	49	24	50	24	364
17	Items associated with particularly high risk	223	27	19	79	90	438
21	Equity exposures	266	9	10	38	4	327
22	Other exposures	301	34	25	8	106	474
23	**Total standardised approach**	**13 695**	**2 367**	**924**	**2 601**	**1 023**	**20 610**

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

Table 14: Geographical breakdown of exposures *(continued)*

		Net value*					
Ref^	**31 March 2019 £'million**	United Kingdom	Europe (excluding UK)	Australia	North America	Other	Total
7	Central governments or central banks	5 525	54	–	187	18	5 784
8	Regional governments or local authorities	1	–	–	–	–	1
9	Public sector entities	68	6	–	–	–	74
10	Multilateral Development Banks	–	–	–	–	49	49
12	Institutions	439	315	85	64	44	947
13	Corporates	3 844	1 528	592	1 486	489	7 939
14	Retail	1 231	12	3	2	18	1 266
15	Secured by mortgages on immovable property	2 520	162	27	309	211	3 229
16	Exposures in default	253	106	16	2	37	414
17	Items associated with particularly high risk	274	21	21	108	123	547
21	Equity exposures	79	3	8	8	2	100
22	Other exposures	351	23	9	7	62	452
23	**Total standardised approach**	**14 585**	**2 354**	**761**	**2 173**	**1 053**	**20 926**

Table 15: Concentration of exposures by counterparty type

		Financial sector	**Non-financial sector**	**Total^^**	Financial sector	Non-financial sector	Total
Ref^	**£'million**	**31 March 2020**			31 March 2019		
7	Central governments or central banks	3 502	333	3 835	5 308	476	5 784
8	Regional governments or local authorities	–	3	3	–	1	1
9	Public sector entities	–	97	97	–	74	74
10	Multilateral Development Banks	131	–	131	49	–	49
12	Institutions	1 414	8	1 422	947	–	947
13	Corporates	111	8 347	8 458	184	7 755	7 939
14	Retail	–	1 458	1 458	–	1 266	1 266
15	Secured by mortgages on immovable property	16	3 587	3 603	–	3 229	3 229
16	Exposures in default	1	363	364	–	414	414
17	Items associated with particularly high risk	40	398	438	24	523	547
20	Collective investments undertakings (CIU)	–	–	–	124	–	124
21	Equity exposures	205	122	327	11	89	100
22	Other exposures	–	474	474	–	452	452
23	**Total standardised approach**	**5 420**	**15 190**	**20 610**	**6 647**	**14 279**	**20 926**

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

Table 16: Maturity of exposures

Ref^	£'million	Net exposure value ^^ <= 1 year	> 1 year < = 5 years	> 5 years	No stated maturity	Total
	31 March 2020					
7	Central governments or central banks	3 190	77	568	–	3 835
8	Regional governments or local authorities	–	3	–	–	3
9	Public sector entities	4	83	10	–	97
10	Multilateral Development Banks	–	131	–	–	131
12	Institutions	1 256	96	69	1	1 422
13	Corporates	1 990	4 571	1 897	–	8 458
14	Retail	145	1 208	105	–	1 458
15	Secured by mortgages on immovable property	379	1 939	1 285	–	3 603
16	Exposures in default	70	113	181	–	364
17	Items associated with particularly high risk	104	86	4	244	438
21	Equity exposures	–	–	–	327	327
22	Other exposures	–	–	–	474	474
23	**Total standardised approach**	**7 138**	**8 307**	**4 119**	**1 046**	**20 610**
	31 March 2019					
7	Central governments or central banks	5 409	87	288	–	5 784
8	Regional governments or local authorities	–	1	–	–	1
9	Public sector entities	3	62	9	–	74
10	Multilateral Development Banks	–	49	–	–	49
12	Institutions	857	74	16	–	947
13	Corporates	2 060	4 277	1 602	–	7 939
14	Retail	126	1 056	84	–	1 266
15	Secured by mortgages on immovable property	406	1 866	957	–	3 229
16	Exposures in default	36	131	247	–	414
17	Items associated with particularly high risk	67	27	3	450	547
20	Collective investments undertakings (CIU)	–	–	–	124	124
21	Equity exposures	–	–	–	100	100
22	Other exposures	–	–	–	452	452
23	**Total standardised approach**	**8 964**	**7 630**	**3 206**	**1 126**	**20 926**

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

Credit risk adjustments

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

Definition of default

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

Stage 1

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 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, £399 million of gross core loans and advances had been granted some form of relief measures, of which £385 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 time frame, these assets will be considered performing and in Stage 2. Forbearance is distinguished from commercial renegotiations which take place as part of normal business activity and standard banking practice. The total amount of exposure forborne within Stage 2 and Stage 3 represents 1.1% of the total gross credit and counterparty exposures (31 March 2019: 1.1%)

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

The 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 time frame, the loan will be classified as Stage 3.

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

ECL

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

A management overlay of £8 million (£8 million at 31 March 2019) was maintained at 31 March 2020 in addition to the group'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 has been 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 continue to assess the appropriateness of this management overlay and expect that it will continue to be unwound as the uncertainty of the models predictive capability reduces.

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 require significant judgement. Regulatory bodies have provided guidance on expectations around provisioning and staging treatment of exposures. The basis for the management overlay is 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 have 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.

For more information on the COVID-19 short and long scenario refer to pages 60 to 63 of the Investec plc annual report 2020.

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.

Table 17: Credit quality of exposures by exposure class

Ref^	£'million	Gross carrying value: Defaulted exposures	Gross carrying value: Non-defaulted exposures	Specific credit risk adjust-ments	Write-offs for the year	Credit risk adjust-ment charge of the period	Net values^^
	31 March 2020						
16	Central governments or central banks	–	3 835	–	–	–	3 835
17	Regional governments or local authorities	–	3	–	–	–	3
18	Public sector entities	–	97	–	–	–	97
19	Multilateral Development Banks	–	131	–	–	–	131
21	Institutions	1	1 422	–	–	–	1 423
22	Corporates	233	8 486	64	46	58	8 655
24	Retail	28	1 465	13	2	12	1 480
26	Secured by mortgages on immovable property	147	3 605	5	–	5	3 747
28	Exposures in default	409	–	45	24	42	364
29	Items associated with particularly high risk	–	438	–	–	–	438
33	Equity exposures	–	327	–	–	–	327
34	Other exposures	–	474	–	–	–	474
35	**Total standardised approach***	**409**	**20 283**	**82**	**48**	**75**	**20 610**
37	Of which: Loans	379	13 033	80	48	75	13 332
38	Of which: Debt Securities	–	1 958	–	–	–	1 958
39	Of which: Off-balance sheet exposures	30	1 855	2	–	–	1 883
	31 March 2019						
16	Central governments or central banks	–	5 784	–	–	–	5 784
17	Regional governments or local authorities	–	1	–	–	–	1
18	Public sector entities	1	74	–	–	–	75
19	Multilateral Development Banks	–	49	–	–	–	49
21	Institutions	–	947	–	–	–	947
22	Corporates	333	7 950	32	31	6	8 251
24	Retail	63	1 267	5	1	–	1 325
26	Secured by mortgages on immovable property	–	3 232	3	–	–	3 229
28	Exposures in default	444	–	30	104	21	414
29	Items associated with particularly high risk	47	547	5	4	1	589
32	Collective investments undertakings (CIU)	–	124	–	–	–	124
33	Equity exposures	–	100	–	–	–	100
34	Other exposures	–	452	–	–	–	452
35	**Total standardised approach***	**444**	**20 527**	**45**	**140**	**28**	**20 926**
37	Of which: Loans	435	15 901	44	140	28	16 292
38	Of which: Debt Securities	1	1 565	–	–	–	1 566
39	Of which: Off-balance sheet exposures	8	2 013	1	–	–	2 020

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

Table 18: Credit quality of exposures by sector

Ref^	£'million	Gross carrying value: Defaulted exposures	Gross carrying value: Non-defaulted exposures	Specific credit risk adjustments	Write-offs for the year	Credit risk adjustment charge of the period	Net values^^
	31 March 2020						
1	Financial sector	2	5 419	1	–	–	5 420
2	Non-financial sector	407	14 864	81	48	75	15 190
19	**Total**	**409**	**20 283**	**82**	**48**	**75**	**20 610**
	31 March 2019						
1	Financial sector	–	6 647	–	–	–	6 647
2	Non-financial sector	444	13 880	45	140	28	14 279
19	**Total**	**444**	**20 527**	**45**	**140**	**28**	**20 926**

Table 19: Credit quality of exposures by geography

Ref^	£'million	Gross carrying value: Defaulted exposures	Gross carrying value: Non-defaulted exposures	Specific credit risk adjustments	Write-offs for the year	Credit risk adjustment charge of the period	Net values^^
	31 March 2020						
1	United Kingdom	247	13 504	56	40	62	13 695
2	Europe (excluding UK)	59	2 319	11	6	10	2 367
3	Australia	26	902	4	–	–	924
4	North America	52	2 557	8	–	–	2 601
5	Other geographies	25	1 001	3	2	3	1 023
6	**Total**	**409**	**20 283**	**82**	**48**	**75**	**20 610**
	31 March 2019						
1	United Kingdom	275	14 341	31	117	23	14 585
2	Europe (excluding UK)	112	2 250	8	17	4	2 354
3	Australia	17	745	1	–	–	761
4	North America	3	2 174	4	–	–	2 173
5	Other geographies	37	1 017	1	6	1	1 053
6	**Total**	**444**	**20 527**	**45**	**140**	**28**	**20 926**

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

Tables 20 to 23 analyse past due, performing and non-performing exposures and movement in credit risk adjustments. These tables are populated with accounting values, but following the regulatory basis of consolidation.

Table 20: Ageing of past due exposures

		Gross carrying values					
Ref^	**£'million**	**< 30 days**	**> 30 days < 60 days**	**> 60 days < 90 days**	**> 90 days < 180 days**	**> 180 days < 1 year**	**> 1 year**
	31 March 2020						
1	Loans	146	30	3	52	54	86
3	**Total exposures**	**146**	**30**	**3**	**52**	**54**	**86**
	31 March 2019						
1	Loans	61	19	4	16	63	67
3	**Total exposures**	**61**	**19**	**4**	**16**	**63**	**67**

Table 21: Changes in the stock of specific credit risk adjustments

		Accumulated specific credit risk adjustments	Accumulated specific credit risk adjustments
		12 months to	
Ref^	**£'million**	**31 March 2020**	31 March 2019
1	**Opening balance**	45	158
2	Increases due to amounts set aside for estimated loan losses during the period^^	38	26
3	Decreases due to amounts reversed for estimated loan losses during the period*	(4)	(15)
4	Decrease due to amounts taken against accumulated credit risk adjustments**	(21)	(34)
8	Other adjustments	24	(91)
9	**Closing balance**	**82**	**45**

Table 22: Changes in stock of defaulted and impaired loans and debt securities

		Gross carrying value of defaulted exposures	Gross carrying value of defaulted exposures
		12 months to	
Ref^	**£'million**	**31 March 2020**	31 March 2019
1	**Opening balance**	444	412
2	Loans and debt securities that have defaulted or impaired since the last reporting period	115	294
3	Returned to non-defaulted status	(2)	(53)
4	Amounts written off	(48)	(140)
5	Other changes	(100)	(69)
6	**Closing balance**	**409**	**444**

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*
^^ *Line 2 includes increases due to origination and acquisition, changes in credit risk, changes due to modifications without derecognition and due to estimation methodology updates.*
* *Line 3 includes repayments and disposals.*
** *Line 4 includes write-offs.*

Table 23: Non-performing and forborne exposures

Ref ^	£'million	Gross carrying amount of performing and non-performing exposures			Gross carrying amount of performing and non-performing exposures — of which: non-performing				Accumulated impairment and provisions and negative fair value adjustments due to credit risk — On performing exposures		Accumulated impairment and provisions and negative fair value adjustments due to credit risk — On non-performing exposures		Collaterals and financial guarantees received	
			of which performing but past due > 30 days and < 90 days	of which performing forborne		of which: defaulted	of which: impaired	of which: forborne		of which: forborne		of which: forborne	On non-performing exposures	Of which: forborne exposures
	31 March 2020													
010	Debt securities	1 958	–	–	–	–	–	–	–	–	–	–	–	–
020	Loans and advances	13 412	33	160	386	379	386	119	(30)	(1)	(50)	(12)	350	184
030	Off-balance sheet exposures	1 885	–	–	30	30	–	–	–	–	(2)	–	4	–
	31 March 2019													
010	Debt securities	1 565	–	–	1	1	–	–	–	–	–	–	–	–
020	Loans and advances	16 337	55	113	441	435	331	63	(17)	(1)	(27)	(7)	209	58
030	Off-balance sheet exposures	2 021	–	–	8	8	–	–	–	–	(1)	–	6	–

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

Credit risk mitigation

Credit risk mitigation (CRM) 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 CRM 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.

Collateral

As the group has limited appetite for unsecured debt, the CRM technique most commonly used is the taking of collateral, with a strong preference for tangible assets. Collateral is assessed with reference to the sustainability of value and the likelihood of realisation.

Acceptable collateral generally exhibits characteristics that allow for it to be easily identified and appropriately valued and ultimately allowing Investec to recover any outstanding exposures.

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

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

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

The majority of credit mitigation techniques linked to trading activity is in the form of netting agreements and daily margining. The primary market standard legal documents that govern this include the International Swaps and Derivatives Association (ISDA) Master Agreements, Global Master Securities Lending Agreement and Global Master Repurchase Agreement. In addition to having ISDA documentation in place with market and trading counterparties in OTC derivatives the credit committee may require a Credit Support Annex 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.

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

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

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

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

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

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

The group places minimal reliance on credit derivatives in its CRM 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 £1.5 million, of which all is used for credit mitigation purposes. Total protection bought amounts to £10.9 million and total protection sold amounts to £9.4 million relating to credit derivatives used in credit mitigation.

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 ensures the enforceability of credit risk mitigants within the laws applicable to the jurisdictions in which Investec operates. When assessing the potential concentration risk in its credit portfolio, consideration is given to the types of collateral and credit protection that form part of the portfolio.

Recognition of credit risk mitigation under the standardised approach

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

Under the SA CRM can be achieved through either funded or unfunded credit protection.

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

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

Tables 24 to 25 analyse regulatory CRM. This means that only 'eligible' collateral as defined in the CRR has been included in the tables.

Table 31 shows the impact of netting and collateral on CCR exposures.

Table 24: Credit risk mitigation techniques

Ref^	£'million	Exposures unsecured-carrying amount	Exposures secured-carrying amount	Exposures secured by collateral^^	Exposures secured by financial guarantees	Exposures secured by credit derivatives
	31 March 2020					
1	Total loans	9 531	3 801	3 719	82	–
2	Total debt securities	1 958	–	–	–	–
3	**Total exposures**	**11 489**	**3 801**	**3 719**	**82**	**–**
4	Of which defaulted	250	129	129	–	–
	31 March 2019					
1	Total loans	12 747	3 545	3 466	79	–
2	Total debt securities	1 547	19	19	–	–
3	**Total exposures**	**14 294**	**3 564**	**3 485**	**79**	**–**
4	Of which defaulted	261	175	175	–	–

^ *The references identify the lines in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*
^^ *Exposures secured by collateral only include exposures secured by eligible collateral as defined in the CRR.*

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

		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density		
Ref^	**£'million**	**On-balance sheet amount**	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWA**	**RWA density**	**Capital require-ments**
	31 March 2020							
1	Central governments or central banks	3 835	–	3 887	–	26	1%	2
2	Regional governments or local authorities	3	–	3	–	–	0%	–
3	Public sector entities	90	7	90	–	18	20%	2
4	Multilateral Development Banks	131	–	131	–	–	0%	–
6	Institutions	1 384	38	1 397	24	316	22%	25
7	Corporates	6 855	1 603	6 671	813	7 475	100%	598
8	Retail	1 437	21	1 375	7	876	63%	70
9	Secured by mortgages on immovable property	3 500	103	3 500	51	1 734	49%	139
10	Exposures in default	334	30	334	28	452	125%	36
11	Items associated with particularly high risk	405	33	403	33	654	150%	52
15	Equity exposures	279	48	279	38	580	183%	46
16	Other exposures	474	–	474	–	530	112%	43
17	**Total**	**18 727**	**1 883**	**18 544**	**994**	**12 661**	**65%**	**1 013**
	31 March 2019							
1	Central governments or central banks	5 780	4	5 816	–	25	0%	2
2	Regional governments or local authorities	1	–	1	–	–	0%	–
3	Public sector entities	66	8	81	2	17	20%	1
4	Multilateral Development Banks	49	–	49	–	–		–
6	Institutions	923	24	932	2	206	22%	16
7	Corporates	6 097	1 842	5 910	787	6 683	100%	535
8	Retail	1 249	17	1 198	6	756	63%	60
9	Secured by mortgages on immovable property	3 131	98	3 131	49	1 705	54%	136
10	Exposures in default	406	8	406	4	507	124%	41
11	Items associated with particularly high risk	528	19	528	19	821	150%	66
14	Collective investments undertakings (CIU)	124	–	124	–	25	20%	2
15	Equity exposures	100	–	100	–	121	121%	10
16	Other exposures	452	–	455	–	509	112%	41
17	**Total**	**18 906**	**2 020**	**18 731**	**869**	**11 375**	**58%**	**910**

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

Table 26: Standardised approach

		Risk weight^^									
Ref^	**£'million**	**0%**	**2%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**250%**	**Total**
	31 March 2020										
1	Central governments or central banks	3 835	–	–	–	52	–	–	–	–	3887
2	Regional governments or local authorities	–	–	3	–	–	–	–	–	–	3
3	Public sector entities	–	–	90	–	–	–	–	–	–	90
4	Multilateral Development Banks	131	–	–	–	–	–	–	–	–	131
6	Institutions	–	24	1 293	–	95	–	9	–	–	1 421
7	Corporates	–	–	10	–	–	–	7 457	17	–	7 484
8	Retail	–	–	–	–	–	1 382	–	–	–	1 382
9	Secured by mortgages on immovable property	–	–	–	2 785	8	–	758	–	–	3 551
10	Exposures in default	–	–	–	–	–	–	183	179	–	362
11	Items associated with particularly high risk	–	–	–	–	–	–	–	436	–	436
14	Collective investments undertakings (CIU)	–	–	–	–	–	–	–	–	–	–
15	Equity exposures	–	–	–	–	–	–	142	–	175	317
16	Other exposures	–	–	–	–	–	–	436	–	38	474
17	**Total**	**3 966**	**24**	**1 396**	**2 785**	**155**	**1 382**	**8 985**	**632**	**213**	**19 538**
	31 March 2019										
1	Central governments or central banks	5 765	–	–	–	50	–	1	–	–	5 816
2	Regional governments or local authorities	–	–	1	–	–	–	–	–	–	1
3	Public sector entities	–	–	83	–	–	–	–	–	–	83
4	Multilateral Development Banks	49	–	–	–	–	–	–	–	–	49
6	Institutions	–	7	863	–	62	–	2	–	–	934
7	Corporates	–	–	10	–	–	–	6 682	5	–	6 697
8	Retail	–	–	–	–	–	1 204	–	–	–	1 204
9	Secured by mortgages on immovable property	–	–	–	2 230	45	–	905	–	–	3 180
10	Exposures in default	–	–	–	–	–	–	216	194	–	410
11	Items associated with particularly high risk	–	–	–	–	–	–	–	547	–	547
14	Collective investments undertakings (CIU)	–	–	124	–	–	–	–	–	–	124
15	Equity exposures	–	–	–	–	–	–	86	–	14	100
16	Other exposures	–	–	–	–	–	–	419	–	36	455
17	**Total**	**5 814**	**7**	**1 081**	**2 230**	**157**	**1 204**	**8 311**	**746**	**50**	**19 600**

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

^^ *The above table does not take into account the impact of the small and medium-sized enterprise (SME) reducing factor of 0.7619 applicable to SME's meeting the conditions set out in Article 501 of the CRR.*

Counterparty credit risk

Regulatory approach

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

Wrong-way risk

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

CVA risk

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

Table 27: Analysis of counterparty credit risk by approach^^

Ref^	£'million	Replacement cost/current market value	Potential future exposure	EAD post-CRM	RWA
	31 March 2020				
1	Mark-to-market	1 144	551	1 134	853
9	Financial collateral comprehensive method (for SFTs)			260	53
11	**Total**				**906**
	31 March 2019				
1	Mark-to-market	522	626	839	552
9	Financial collateral comprehensive method (for SFTs)			194	39
11	**Total**				**591**

Table 28: Analysis of capital requirements for CVA

		Exposure value	**RWAs**	Exposure value	RWAs
Ref^	**£'million**	**31 March 2020**		31 March 2019	
1	All portfolios subject to the standardised method	300	59	363	76
5	**Total subject to the CVA capital charge**	**300**	**59**	**363**	**76**

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*
^^ *This table excludes the CVA charge and exposures cleared through a CCP. Refer to table 28 and 29 for more information.*

Table 29: Analysis of exposures to CCPs

Ref^	£'million	EAD post-CRM	RWAs	EAD post-CRM	RWAs
		31 March 2020		31 March 2019	
2	Exposures for trades at Qualifying CCPs (excluding initial margin and default fund contributions) of which:	311	9	386	11
3	(i) OTC derivatives	71	1	54	1
4	(ii) Exchange-traded derivatives	240	8	332	10
7	Segregated initial margin	177	3	76	2
8	Non-segregated initial margin	77	3	41	2
9	Prefunded default fund contributions	30	1	28	2

Table 30: Analysis of CCR exposures by regulatory portfolio and risk

		Risk weight								
Ref^	**£'million**	**0%**	**2%**	**4%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Total**
	31 March 2020									
1	Central governments and central banks	14	–	–	–	–	–	–	–	14
3	Public sector entities	–	–	–	12	–	–	–	–	12
6	Institutions	–	339	226	485	170	–	1	–	1 221
7	Corporates	–	–	–	–	–	–	667	30	697
8	Retail	–	–	–	–	–	15	–	–	15
11	**Total**	**14**	**339**	**226**	**497**	**170**	**15**	**668**	**30**	**1 959**
	31 March 2019									
1	Central governments or central banks	2	–	–	–	–	–	–	–	2
3	Public sector entities	–	–	–	4	–	–	–	–	4
6	Institutions	–	294	209	383	262	–	1	–	1 149
7	Corporates	–	–	–	–	–	–	366	8	374
8	Retail	–	–	–	–	–	8	–	–	8
11	**Total**	**2**	**294**	**209**	**387**	**262**	**8**	**367**	**8**	**1 537**

Table 31: Impact of netting and collateral held on exposures

Ref^	£'million	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure^^
	31 March 2020					
1	Derivatives	2 687	1 543	1 144	135	1 009
2	SFTs	2 477	–	2 477	2 217	260
4	**Total**	**5 164**	**1 543**	**3 621**	**2 352**	**1 269**
	31 March 2019					
1	Derivatives	1 400	891	509	139	370
2	SFTs	1 208	–	1 208	1 014	194
4	**Total**	**2 608**	**891**	**1 717**	**1 153**	**564**

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed*
^^ *The net credit exposure does not include PFEs.*

Table 32: Credit derivatives exposures

	Credit derivative hedges			
	Protection bought	**Protection sold**	Protection bought	Protection sold
£'million	**31 March 2020**		31 March 2019	
Notionals				
Single name credit default swaps	121	255	58	377
Index credit default swaps	–	18	20	20
Total return swaps	594	–	282	–
Total notionals	**715**	**273**	**360**	**397**
Positive fair value (assets)	12	1	1	6
Negative fair value (liability)	100	10	26	6

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

Securitisation risk

Overview and approach

Securitisation transactions provide the group with a cost effective, alternative source of financing.

The group's definition of securitisation/structured credit activities is wider than the definition as applied for regulatory purposes in that it groups all related activities in order for the reviewer to obtain a full picture of the exposures in this space. Some of the information provided below overlaps with the bank's credit and counterparty exposure information.

For regulatory purposes, the securitisation definition focuses on positions we hold in an investor capacity and also includes securitisation positions we have retained in transactions in which the bank has achieved significant risk transfer.

Risk management and governance

All existing or proposed exposures to a securitisation or a re-securitisation are analysed on a case-by-case basis, with 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 bank principally relies on its own internal risk assessment. Overarching these transaction level principles is the board-approved risk appetite policy, which details the group's appetite for such exposures, and each exposure is considered relative to the group's overall risk appetite. We can use explicit CRM techniques where required, however, the group prefers to address and manage these risks by only approving exposures to which the group has explicit appetite through the constant and consistent application of the risk appetite policy.

Regulatory approach

The new securitisation framework was adopted in the EU in December 2017 and applied from 1 January 2019. Assets securitised prior to 1 January 2019 remained subject to the original standards until the end of December 2019. From 1 January 2020 the group is applying the new securitisation framework to all securitisation positions.

During the year we did not undertake any new securitisation transactions. We hold rated structured credit instruments. These exposures are UK and US exposures and are risk-weighted for capital calculation purposes.

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

Accounting policies

The accounting policies applied to securitisation/structure credit activities are explained on page 189 of the Investec plc 2020 annual report.

Table 33: Aggregate amount of securitisation positions purchased

	Banking book	
	Purchased positions^	
£'million	31 March 2020	31 March 2019
Residential mortgages	187	241
Loans to corporates	334	219
	521	**460**

Table 34: Securitisation positions purchased by risk-weight bands

	Banking book			
	Purchased positions^			
	Exposure values	Capital requirement	Exposure values	Capital requirement
	31 March 2020		31 March 2019	
Greater than 0% and less than or equal to 40%	506	6	419	6
Greater than 40% but less than or equal to 100%	7	–	41	2
Greater than 100% but less than and equal to 225%	8	1	–	–
Total	**521**	7	**460**	**8**

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

Market risk

Overview

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

The focus of our trading activities is primarily on supporting 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.

Governance of traded market risk

Traded market risk is governed by policies that cover the management, identification, measurement and monitoring of market risk. We have independent market risk teams in each jurisdiction where we assume market risk to identify, measure, monitor and manage market risk.

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 BRCC, manages market risk in accordance with approved principles, policies and risk appetite. Trading desk risk limits are reviewed by the Market Risk Forum, IBP ERC 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 and Expected shortfall as portfolio measures of market risk exposure
- Scenario analysis, stress tests and tools based on extreme value theory that measure the potential impact on portfolio values of extreme moves in markets
- Sensitivity analysis that measures the impact of individual market risk factor movements on specific instruments or portfolios, including interest rates, foreign exchange rates, equity prices, credit spreads and commodity prices, such as the effect of a one basis point change in interest rates. We use sensitivity measures to monitor and limit exposure across portfolios, products and risk types.

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

Regulatory approach

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

Investec plc maintains a trading book policy which defines the policies and procedures followed when determining which positions to include in the trading book for the purposes of calculating regulatory capital requirements. Positions which cannot be included in the trading book, will be assigned to the banking book and will attract capital requirements in line with this treatment.

All trading book positions will be subject to prudent valuation requirements. The group applies the Simplified Approach when calculating additional value adjustments to adjust the fair value of trading book assets to their prudent value.

The market risk capital requirement is calculated using the SA. For certain options, the group has obtained permission from the PRA to use an internal model to calculate the delta for these positions. In addition, the group has obtained permission to use an internal interest rate sensitivity model for general interest rate risk.

Table 35: Capital requirements for market risk

		RWAs	**Capital requirements**	RWAs	Capital requirements
Ref^	**£'million**	**31 March 2020**		31 March 2019	
	Outright products				
1	Interest rate risk (general and specific)	195	16	173	14
2	Equity risk (general and specific)	91	7	210	17
3	Foreign exchange risk	132	11	185	14
	Options				
7	Scenario approach	316	25	287	23
9	**Total**	**734**	**59**	**855**	**68**

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

Non-trading interest rate risk

Overview

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

Sources of interest rate risk include:

- **Repricing risk:** arises from the timing differences in the fixed rate maturity and floating rate repricing of 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 bank or its customers can alter the level and timing of their cash flows
- **Endowment risk:** refers to the interest rate risk exposure arising from the net differential between interest rate insensitive assets, interest rate insensitive liabilities and capital.

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

Management and measurement

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

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

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

These metrics are used to assess and to communicate to senior management the financial impact of possible future interest rate scenarios, covering:

- 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 policy and risk appetite, which is clearly defined in relation to both income risk and economic value risk. The group has limited appetite for non-trading interest rate risk.

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

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

Regulatory requirements

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.

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 ICAAP. This is reviewed on at least an annual basis and reviewed and approved by IBP BRCC, DLC BRCC and by the IBP and Investec plc boards. In June 2019, the CRRII/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.

Our interest rate sensitivity gap analysis and economic value sensitivity is disclosed in the Investec plc 2020 annual report on page 96.

Non-trading equity risk

Overview

Investment risk in the banking book comprises 2.7% of total assets 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
- **Lending transactions:** The manner in which certain transactions are structured results in equity, warrants or profit shares being held, predominantly within unlisted companies
- **Property activities:** We undertake development, investment and trading opportunities in support of clients to create value within agreed risk parameters
- **Ninety One:** Investec plc has a 16.0% shareholding in Ninety One (previously known as Investec Asset Management). As a founding shareholder of Ninety One, the boards of both the 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 the Investec to participate in future value creation by Ninety One.

Management framework and risk appetite

As investment risk arises from a variety of activities conducted by the group, the monitoring and measurement thereof varies across transactions and/or type of activity. Independent investment committees exist in the UK which provide oversight to the regions where we assume investment risk.

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

For more information on our valuation principles and methodologies please refer to page 83 of the Investec plc 2020 annual report.

Regulatory approach

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

For a breakdown of the investment portfolio and analysis of income and revaluations recorded refer to page 85 of Investec plc 2020 annual report.

Operational risk

Overview

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

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

Operational risk governance

The group's approach to manage operational risk operates in terms of a levels of defence model which reinforces accountability by 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 challenging the business lines inputs to, and outputs from, the group's risk management, risk measurement and reporting activities
- Level 3 – Independent review and challenge: responsible for reviewing and testing the application and effectiveness of operational risk management procedures and practices.

Risk appetite

Operational risk appetite is defined as the level of risk exposure that is acceptable to the board in order to achieve its business and strategic objectives. The board is responsible for setting and regularly reviewing risk appetite. The operational risk 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 to the IBP and DLC BRCC.

Operational risk management framework

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

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

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

More information on our operational risk practices and risk consideration for the year ahead are set out on pages 98 to 101 of the Investec plc 2020 annual report.

Regulatory approach

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

Asset encumbrance

Overview

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

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

Encumbered assets are identified in accordance with the reporting requirements under Article 100 of the CRR, and regular reporting is provided to the EBA and PRA. The figures included in the tables which follow are median values of these quarterly returns and therefore will not be reconcilable to balances reported in the Investec plc annual report 2020.

Encumbered assets

The median volume of assets encumbered in the year leading up to 31 March 2020 was £3.0 billion. This encumbrance primarily relates to assets encumbered within the BoE Single Collateral Pool (SCP) to provide collateral for use in their Sterling Monetary Framework market operations and funding schemes, collateral posted as derivative margin, and assets encumbered as part of reverse repurchases agreements and collateralised notes. In addition, Investec plc utilises securitisation in order to raise external term funding as part of its diversified liability base.

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

Unencumbered assets

Of the assets which are not currently encumbered, it would not be possible to encumber around 7% – this includes assets such as goodwill, interests in associate undertakings, deferred tax assets, property, plant and equipment, and client assets.

Table 36: Encumbered and unencumbered assets

Ref^*	£'million	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
	31 March 2020				
010	**Assets of the reporting institution***	**2 993**		**20 078**	
030	Equity instruments	109		693	
040	Debt securities	1 041	1 041	2 544	2 544
060	of which: asset-backed securities	108	108	823	823
070	of which: issued by general governments	847	847	1 489	1 489
080	of which: issued by financial corporations	56	56	240	240
090	of which: issued by non-financial corporations	31	31	64	64
120	Other assets	1 848		16 817	
121	of which: BoE Single Collateral Pool	939		–	
	31 March 2019				
010	**Assets of the reporting institution***	**2 712**		**18 828**	
030	Equity instruments	131		691	
040	Debt securities	886	886	2 095	2 095
060	of which: asset-backed securities	6	6	845	845
070	of which: issued by general governments	729	729	937	937
080	of which: issued by financial corporations	64	64	205	205
090	of which: issued by non-financial corporations	34	34	92	92
120	Other assets	1 658		15 986	
121	of which: BoE Single Collateral Pool	934		–	

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*
* *The values included in the tables represent the median values over four quarters.*

Table 37: Collateral received

Ref^*	£'million	**Fair value of encumbered collateral received or own debt securities issued**	**Fair value of collateral received or own debt securities issued available for encumbrance**	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
		31 March 2020		31 March 2019	
130	**Collateral received by the reporting institution***	**175**	**973**	**162**	**836**
140	Loans on demand	–	133	–	233
150	Equity instruments	–	48	5	67
160	Debt securities	175	685	158	429
180	of which: asset-backed securities	–	272	–	98
190	of which: issued by general governments	175	111	158	82
200	of which: issued by financial corporations	–	214	–	169
210	of which: issued by non-financial corporations	–	77	–	49
230	Other collateral received	–	103	–	124
240	Own covered bonds and asset-backed securities issued and not yet pledged		10		30
250	**Total assets, collateral, received and own debt securities**	**3 141**		**2 884**	

Table 38: Sources of encumbrance

Ref^*	£'million	**Matching liabilities, contingent liabilities or securities lent**	**Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered**
	31 March 2020		
010	**Carrying amount of selected financial liabilities**	**2 383**	**2 306**
	31 March 2019		
010	**Carrying amount of selected financial liabilities**	**2 058**	**2 130**

^ *The references identify the lines prescribed in the EBA template. Only applicable lines with assigned values are reported. All other lines have been suppressed.*
* *The values included in the table represent the median values over four quarters.*

Liquidity risk

Overview

Liquidity risk refers to the possibility that, despite being solvent, we have insufficient capacity to fund increases in assets, or are unable to meet our payment obligations as they fall due, 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 flow 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

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

- Our liquidity management processes encompass requirements set out within BCBS guidelines, and by the regulatory authorities in each jurisdiction, namely the PRA, EBA, Australian Prudential Regulation Authority, Guernsey Financial Services Commission and Swiss Financial Market Supervisory Authority
- The risk appetite is clearly defined by the relevant board and each geographic entity must have its own policies with respect to liquidity risk management
- We maintain a liquidity buffer in the form of unencumbered cash, government or rated securities (typically eligible for repurchase with the central bank), and near cash well in excess of the regulatory requirements as protection against unexpected disruptions in cash flows
- Funding is diversified with respect to currency, term, product, client type and counterparty to ensure a varied overall funding mix
- The 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:
  - LCR and
  - NSFR.
- An array of further liquidity stress tests, based on a range of scenarios and using historical analysis, documented experience and prudent judgement to model the impact on the balance sheet;
- 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 Investec plc'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. The system is reconciled to the general ledger and audited by internal and external audit, thereby ensuring integrity of the process.

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

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

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

Liquidity buffer

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

These portfolios are managed within board-approved targets, and as well as providing a buffer under going concern conditions, also form an integral part of the broader liquidity generation strategy. 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.

Liquidity coverage ratio

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

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

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

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

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

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

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

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

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

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

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

Table 39: Liquidity coverage ratio

		Total adjusted value (12 month average)			
Ref^	**£'million** **Quarter ending on**	30 June 2019	30 September 2019	31 December 2019	**31 March 2020**
	Number of data points used in calculation of averages	**12**	**12**	**12**	**12**
21	Liquidity buffer	4 444	4 504	4 648	4 353
22	Total net cash outflows	1 221	1 264	1 372	1 299
23	Liquidity coverage ratio	386%	377%	347%	343%

^ *The references identify the lines prescribed in the EBA template.*

Other risks

In addition to the risks explained in this Pillar III document, there are other material and significant risks, which the board and senior management believe could have an impact on the operations, financial performance, viability and prospects. The DLC Board, through its various sub-committees, has performed a robust assessment of these principal risks. Regular reporting of these risks is made to senior management, the executives and the board at the DLC BRCC. These risks are summarised in more detail on pages 23 and 30 of the Investec plc 2020 annual report.

Remuneration

The Pillar III qualitative and quantitative disclosures are included in the Investec group's 2020 integrated annual report. The information can be in found in the Remuneration Report on pages 179 to 237.

Appendix A – CRR references

CRR REF	HIGH-LEVEL SUMMARY	COMPLIANCE REFERENCE
Scope of disclosure requirements		
431(1)	Publicly disclose Pillar 3 information.	Investec plc publishes Pillar 3 disclosures.
431(2)	Firms with permission to use specific operational risk methodologies must disclose operational risk information.	Not applicable.
431(3)	Institutions must have a formal policy to comply with the disclosure requirements and have policies for assessing the appropriateness of their disclosures, including their verification and frequency. Institutions shall also have policies for assessing whether their disclosures convey their risk profile comprehensively to market participants.	Investec plc has a dedicated Pillar 3 policy.
431(4)	Explanation of ratings decision upon request.	Not applicable.
Non-material, proprietary or confidential information		
432(1)	Institutions may omit information that is not regarded as material if certain conditions are respected.	Compliance is governed by the Pillar 3 policy.
432(2)	Institutions may omit information that is proprietary or confidential if certain conditions are respected.	Compliance is governed by the Pillar 3 policy.
432(3)	Where 432 (2) applies this must be stated in the disclosures, and more general information must be disclosed.	This table indicates where disclosures are omitted.
432(4)	Use of 432 (1), (2) or (3) is without prejudice to scope of liability for failure to disclose material information.	Material information has been disclosed.
Frequency of disclosure		
433	Disclosures must be published once a year at a minimum and more frequently if necessary.	Refer to 'Policy' on page 5.
Means of disclosure		
434(1)	To include all disclosures in one appropriate medium, or provide clear cross-references.	Most of the disclosures are contained in this document, with the exception of the Remuneration disclosures which are included in the Investec group's 2020 integrated annual report, volume one pages 179 to 237.
434(2)	Disclosures made under other requirements (e.g. accounting) can be used to satisfy Pillar 3 if appropriate.	Any cross-references to accounting or other disclosures are clearly signposted in this document.
Risk management objectives and policies		
435(1)	Disclose information on:	
435(1)(a)	The strategies and processes to manage risks.	Risk management: pages 17 and 18. Credit and counterparty risk – pages 32 and 33. Securitisation risk – page 49.
435(1)(b)	Structure and organisation of risk management functions.	Market risk – pages 50 and 51.
435(1)(c)	Scope and nature of risk reporting and measurement systems.	Non-trading interest rate risk – page 52.
435(1)(d)	Policies for hedging and mitigating risk and strategies and processes for monitoring effectiveness.	Non-trading equity risk – page 53. Operational risk – pages 53 and 54. Liquidity risk – pages 56 – 58. Other risks – page 58.
435(1)(e)	Declaration approved the management body on the adequacy of risk management arrangements.	Refer to page 17.

Appendix A – CRR references *(continued)*

CRR REF	HIGH-LEVEL SUMMARY	COMPLIANCE REFERENCE
Risk management objectives and policies *(continued)*		
435(1)(f)	Concise risk statement approved by the management body succinctly describing the institution's overall risk profile associated with the business strategy.	Refer to page 17 and 18.
435(2)	Information on governance arrangements, including information on Board composition and recruitment and risk committees.	Refer to Investec plc 2020 annual report pages 126 to 132.
435(2)(a)	Number of directorships held by members of the management body.	Refer to Investec plc 2020 annual report pages 122 to 125.
435(2)(b)	Recruitment policy for the selection of members of the management body.	Refer to Investec group's 2020 integrated annual report, volume one page 191.
435(2)(c)	Policy on diversity of members of the management body	Refer to Investec plc 2020 annual report page 130.
435(2)(d)	Disclosure of whether a dedicated risk committee is in place, and number of meetings held in the year.	Refer to Investec plc 2020 annual report pages 159 to 161.
435(2)(e)	Description of information flow on risk to the management body.	Refer to Investec plc 2020 annual report pages 159 to 161.
Scope of application		
436(a)	Name of institution	Refer to 'Policy' page.
436(b)	Difference in basis of consolidation for accounting and prudential purposes, describing entities that are:	Refer to 'Basis of consolidation' page 10 and tables 2 – 4 on pages 11 – 17.
436(b)(i)	fully consolidated;	
436(b)(ii)	proportionally consolidated;	
436(b)(iii)	deducted from own funds;	
436(b)(iv)	neither consolidated nor deducted.	
436(c)	Impediments to transfer of own funds between parent and subsidiaries.	There are no current or foreseen material practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities among the parent undertaking and its subsidiary undertakings.
436(d)	Capital shortfalls in any subsidiaries outside the scope of consolidation.	Entities outside the scope of consolidation are appropriately capitalised.
436(e)	Making use of the provisions laid down in Articles 7 and 9.	IBP, the main regulated subsidiary of the group, applies the provisions in article 9 of the CRR (solo-consolidation waiver) and reports to the PRA on a solo-consolidation basis, including Investec Investments (UK) Limited.
Non-material, proprietary or confidential information		
437(1)	Disclose the following information regarding own funds:	
437(1)(a)	full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution;	Tables 1 and 2 on pages 8 and 11.
437(1)(b)	a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution;	Refer to 'Regulatory capital instruments' page 23.
437(1)(c)	the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments;	Table 6 on pages 23 – 25.
437(1)(d)	Disclosure of the nature and amounts of the following:	
437(1)(d)(i)	each prudential filter applied pursuant to Articles 32 to 35;	
437(1)(d)(ii)	each deduction made pursuant to Articles 36, 56 and 66;	

Appendix A – CRR references *(continued)*

CRR REF	HIGH-LEVEL SUMMARY	COMPLIANCE REFERENCE
Non-material, proprietary or confidential information *(continued)*		
437(1)(d)(iii)	items not deducted in accordance with Articles 47, 48, 56, 66 and 79;	
437(1)(e)	A description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply;	Table 5 on page 21.
437(1)(f)	Where institutions disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in this Regulation, a comprehensive explanation of the basis on which those capital ratios are calculated.	Not applicable
437(2)	EBA to publish implementation standards for points above.	The group follows the implementing standards.
Capital requirements		
438(a)	Summary of the institution's approach to assessing the adequacy of its internal capital to support current and future activities.	Refer to Capital adequacy and capital requirements on pages 18 – 20.
438(b)	Upon demand from the relevant competent authority, the result of the institution's internal capital adequacy assessment process.	This request has not been received from the regulator.
438(c)	Capital requirements for each Standardised approach credit risk exposure class.	Table 7 on page 26.
438(d)	Capital requirements for each Internal Ratings Based Approach credit risk exposure class.	Not applicable.
438(e)	Capital requirements for market risk or settlement risk.	Table 7 on page 26 and table 35 on page 51.
438(f)	Capital requirements for operational risk, separately for the Basic Indicator Approach, the Standardised Approach, and the Advanced Measurement Approaches as applicable.	Table 7 on page 26.
438(end note)	Requirement to disclose specialised lending exposures and equity exposures in the banking book falling under the simple risk weight approach.	Not applicable.
Exposures to counterparty credit risk		
439(a)	A discussion of the methodology used to assign internal capital and credit limits for counterparty credit exposures.	Refer to Capital adequacy and capital requirements on pages 18 – 20.
439(b)	A discussion of policies for securing collateral and establishing credit reserves.	Refer to 'Credit risk mitigation' on pages 43 and 44.
439(c)	A discussion of policies with respect to wrong-way risk exposures.	Refer to 'Wrong-way risk' on page 47.
439(d)	A discussion of the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating.	The group does not have any funding deals containing credit rating downgrade triggers.
439(e)	Derivation of net derivative credit exposure.	Refer to table 32 on page 49.
439(f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods.	Refer to table 27 on page 47.
439(g)	The notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure.	Refer to table 32 on page 49.

Appendix A – CRR references *(continued)*

CRR REF	HIGH-LEVEL SUMMARY	COMPLIANCE REFERENCE
Exposures to counterparty credit risk *(continued)*		
439(h)	The notional amounts of credit derivative transactions, segregated between use for the institution's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used, broken down further by protection bought and sold within each product group.	
439(i)	Estimate of alpha, if applicable.	Not applicable.
Capital buffers		
440(1)(a)	Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer.	Refer to table 11 on page 30.
440(1)(b)	The amount of its institution specific countercyclical capital buffer.	Refer to table 12 on page 32.
440(2)	EBA to publish technical standards specifying the disclosure requirements above.	Investec plc applies with the standards.
Indicators of global systemic importance		
441	Disclosure indicators of global systemic importance.	Not applicable.
Credit risk adjustments		
442(a)	The definitions for accounting purposes of 'past due' and 'impaired'.	Refer to 'definition of default' on page 37.
442(b)	A description of the approaches and methods adopted for determining specific and general credit risk adjustments.	Refer to 'credit risk adjustments' on page 37.
442(c)	Disclosure of pre-CRM EAD by exposure class.	Refer to table 13 on page 34.
442(d)	Disclosure of pre-CRM EAD by geography and exposure class.	Refer to table 14 on page 34.
442(e)	Disclosure of pre-CRM EAD by industry and exposure class.	Refer to table 15 on page 35.
442(f)	Disclosure of pre-CRM EAD by residual maturity and exposure class.	Refer to table 16 on page 36.
442(g)	Breakdown of impaired, past due, specific and general credit risk adjustments, and impairment charges for the period, by industry or counterparty type.	Refer to table 17 and 18 on pages 39 – 40.
442(h)	Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography.	Refer to table 19 on page 40.
442(i)	Reconciliation of changes in specific and general credit risk adjustments for impaired exposures.	Refer to table 21 and 22 on page 41.
442 (endnote)	Specific credit risk adjustments recorded to income statement are disclosed separately.	
Unencumbered assets		
443	Disclosure of unencumbered assets	Refer to 'Asset encumbrance' on pages 54 – 56.

Appendix A – CRR references *(continued)*

CRR REF	HIGH-LEVEL SUMMARY	COMPLIANCE REFERENCE
Use of ECAIs		
444(a)	The names of the nominated ECAIs and ECAs and the reasons for any changes.	Refer to ‘Regulatory approach’ on page 33.
444(b)	The exposure classes for which each ECAI or ECA is used.	Refer to ‘Regulatory approach’ on page 33.
444(c)	A description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book.	Refer to ‘Regulatory approach’ on page 33.
444(d)	Mapping of external rating to CQS.	Investec plc complies with the standard association published by the EBA.
444(e)	Exposure value pre and post-credit risk mitigation, by CQS.	Refer to table 25 and 26 on page 45 and 46.
Exposure to market risk		
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	Refer to table 35 on page 51.
Operational risk		
446	Scope of approaches used to calculate operational risk.	Refer to ‘Operational risk’ on page 53 and 54.
Exposures in equities not included in the trading book		
447(a)	Differentiation of exposures based on objectives and an overview of accounting techniques and valuation methodologies.	
447(b)	The balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value.	
447(c)	The types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures.	
447(d)	Realised cumulative gains or losses arising from sales and liquidations in the period.	
447(e)	Total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in CET1 capital.	Refer to ‘Non-trading equity risk’ on page 53.
Exposure to interest rate risk on positions not included in the trading book		
448(a)	The nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk.	Refer to ‘Non-trading interest rate risk’ on page 52.
448(b)	The variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management’s method for measuring the interest rate risk, broken down by currency.	Refer to Investec plc 2020 annual report page 96.

Appendix A – CRR references *(continued)*

CRR REF	HIGH-LEVEL SUMMARY	COMPLIANCE REFERENCE
Exposures to securitisation positions		
449(a)	Objectives in relation to securitisation activity.	
449(b)	Nature of other risks in securitised assets, including liquidity.	
449(c)	Risks in re-securitisation activity stemming from seniority of underlying securitisations and ultimate underlying assets.	
449(d)	The roles played by the institution in the securitisation process.	
449(e)	Indication of the extent of involvement in roles.	
449(f)	Processes in place to monitor changes in credit and market risks of securitisation exposures, and how the processes differ for re-securitisation exposures.	
449(g)	Description of the institution's policies with respect to hedging and unfunded protection, and identification of material hedge counterparties.	
449(h)	Approaches to the calculation of risk-weighted assets for securitisations mapped to types of exposures.	
449(i)	Types of SSPEs used to securitise third-party exposures as a sponsor.	Business in this area has been curtailed, refer to 'Securitisation risk' on page 49.
449(j)	Summary of accounting policies for securitisations.	Refer to 'Accounting policies' on page 49.
449(k)	Names of ECAIs used for securitisations and type.	Refer to 'Regulatory approach' on page 49.
449(l)	Full description of Internal Assessment Approach.	Not applicable.
449(m)	Explanation of significant changes in quantitative disclosures in points (n) to (q).	No change in quantitative disclosure compared to the prior year. Refer to 'Securitisation risk' on page 49.
449(n)	For Banking and trading book securitisation exposures:	
449(n)(i)	Amount of outstanding exposures securitised.	Refer to table 33 on page 50.
449(n)(ii)	On balance sheet securitisation retained or purchased, and off balance sheet exposures.	
449(n)(iii)	Amount of assets awaiting securitisation.	No assets awaiting securitisation.
449(n)(iv)	Early amortisation treatment; aggregate drawn exposures, capital requirements.	Not applicable.
449(n)(v)	Deducted or 1,250%-weighted securitisation positions.	
449(n)(vi)	Securitisation activity including the amount of exposures securitised and recognised gains or losses on sales.	
449(o)	Disclose separately for Banking and trading book securitisations:	
449(o)(i)	Retained and purchased positions and associated capital requirements, broken down by risk-weight bands.	
449(o)(ii)	Retained and purchased re-securitisation positions before and after hedging and insurance; exposure to financial guarantors broken down by guarantor credit worthiness.	Refer to table 34 on page 50.
449(p)	Impaired assets and recognised losses related to banking book securitisations, by exposure type.	Immaterial, no further disclosure provided.
449(q)	Exposure and capital requirements for trading book securitisations, separated into traditional and synthetic.	Trading Book exposures are not material and therefore no further disclosures is provided.
449(r)	Whether the institution has provided non-contractual financial support to securitisation vehicles.	No non-contractual financial support has been provided to securitisation vehicles.

Appendix A – CRR references *(continued)*

CRR REF	HIGH-LEVEL SUMMARY	COMPLIANCE REFERENCE
Remuneration policy		
450	Remuneration disclosures	Refer to the Investec group's 2020 integrated annual report, volume one on pages 179 to 237.
Leverage		
451(1)(a) 451(1)(b) 451(1)(c)	Leverage ratio, and breakdown of total exposure measure, including reconciliation to financial statements, and derecognised fiduciary items.	Refer to table 8, 9, and 10 on pages 28 and 29.
451(1)(d) 451(1)(e)	Description of the processes used to manage the risk of excessive leverage, and factors that impacted the leverage ratio during the year.	Refer to 'Leverage ratio' on page 27.
451(2)	EBA to publish technical standards specifying the uniform disclosure templates for the requirements above.	Investec plc applies with the standards.
Use of IRB Approach to credit risk		
452	IRB Approach	Not applicable.
Use of credit risk mitigation techniques		
453(a)	Policies and processes for use of on and off-balance sheet netting.	Refer to 'On-and off-balance sheet netting' on page 43.
453(b)	Policies and processes for collateral valuation and management.	Refer to 'Collateral' on page 43.
453(c)	A description of the main types of collateral taken by the institution.	
453(d)	The main types of guarantor and credit derivative counterparty and their creditworthiness.	
453(e)	Market or credit risk concentrations within risk mitigation exposures.	Refer to Investec plc 2020 annual report page 57.
453(f)	Standardised or Foundation IRB Approach, exposure value covered by eligible collateral.	Refer to table 24 on page 44.
453(g)	Exposures covered by guarantees or credit derivatives.	Refer to table 24 on page 44.
Use of the Advanced Measurement Approaches to operational risk		
454	Description of the use of insurance or other risk transfer mechanisms to mitigate operational risk.	Not applicable.
Use of Internal Market Risk Models		
455	Use of internal market risk models	Not applicable.

Notes