Out of the Ordinary

Investec

Annual Report

Investec Bank plc annual financial statements

2018

Corporate information

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Registration number

Reg. No. 489604

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Directorate

Refer to page 122.

Contact details

For contact details for Investec Bank plc offices refer to pages 262 to 263.

For queries regarding information in this document

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Ongoing and statutory information

In order to present a more meaningful view of Investec Bank plc's performance, additional management information is presented on our ongoing businesses. This additional information excludes items that in management's view could distort the comparison of performance between periods (for both current and historical information). This information is set out on pages 26 to 31.

Based on this principle, the following items have been excluded from underlying statutory profit (for both current and historical information where applicable) to derive ongoing operating profit:

- The results of the businesses sold in the 2015 financial year (Investec Bank plc sold Investec Bank (Australia) Limited during the 2015 financial year. In addition, Investec plc sold Kensington Group plc and Start Mortgage Holdings Limited. Some of these sale assets resided on Investec Bank plc's balance sheet). These sales had a significant effect on the comparability of the group's financial position and results
- The remaining legacy business (as set out on page 32).

This basis of presentation is consistent with the approach adopted for the year ended 31 March 2017.

A reconciliation between the statutory and ongoing income statement is provided on pages 27 to 28. All information in our annual report is based on our statutory accounts unless otherwise indicated.

Cross reference tools

1

Audited information

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

2

Page references

Refers readers to information elsewhere in this report

3

Website

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

4

Corporate responsibility

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

5

Reporting standard

Denotes our consideration of a reporting standard

Contents

Investec Bank plc in perspective

Overview of the Investec group's and Investec Bank plc's organisational structure

Investec Bank plc is the main banking subsidiary of Investec plc.

Operating structure

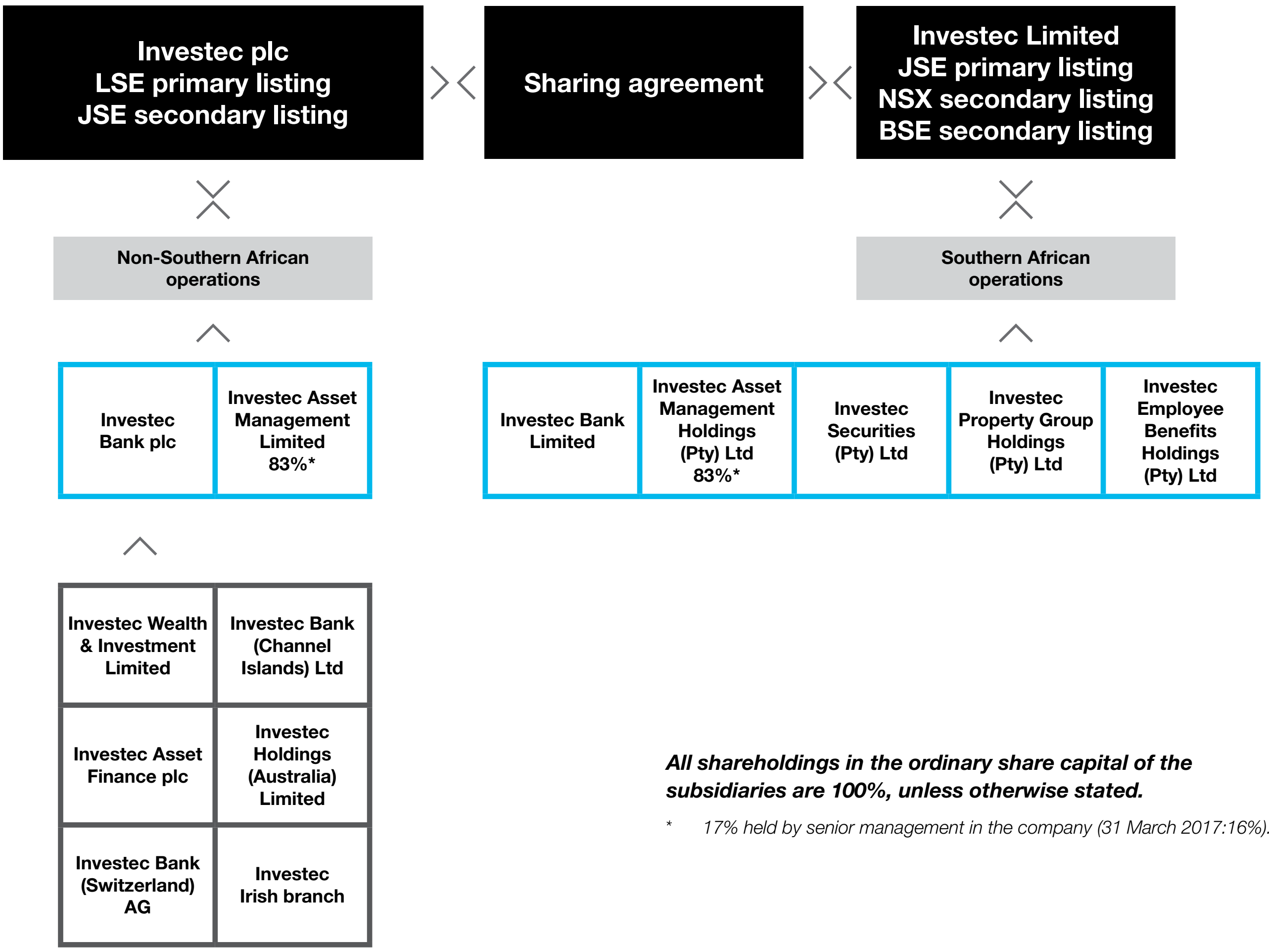
During July 2002 Investec Group Limited (since renamed Investec Limited) implemented a dual listed companies (DLC) structure and listed its offshore business on the London Stock Exchange.

A circular on the establishment of our DLC structure was issued on 20 June 2002 and is available on our website.

In terms of the DLC structure, Investec Limited is the holding company of our businesses in Southern Africa and Mauritius and Investec plc is the holding company of our non-Southern African businesses. Investec Limited is listed on the JSE Limited South Africa and Investec plc is listed on the London Stock Exchange.

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

Our DLC structure and main operating subsidiaries as at 31 March 2018



All shareholdings in the ordinary share capital of the subsidiaries are 100%, unless otherwise stated.

* *17% held by senior management in the company (31 March 2017:16%).*

Salient features of the DLC structure

- Investec plc and Investec Limited are separate legal entities and listings, but are bound together by contractual agreements and mechanisms
- Investec operates as if it is a single unified economic enterprise
- Shareholders have common economic and voting interests as if Investec plc and Investec Limited were a single company
- Creditors, however, are ring-fenced to either Investec plc or Investec Limited as there are no cross-guarantees between the companies.

Investec Bank plc operates as a specialist bank and wealth manager

Specialist Banking

Our specialist teams are well positioned to provide services for both personal and business needs across Corporate and Institutional Banking, Investment and Private Banking activities.

Each business provides specialised products and services to defined target markets.

A highly valued partner and adviser to our clients		Focus on helping our clients create and preserve wealth
Corporates/government/ institutional clients		**High-income and high net worth private clients**
Corporate and Institutional Banking activities	**Investment activities**	**Private Banking activities**
– Treasury and trading services – Specialised lending, funds and debt capital markets – Institutional research, sales and trading – Advisory and equity capital markets	– Principal investments – Property investment and fund management	– Transactional banking and foreign exchange – Lending – Deposits – Investments
UK and Europe Australia Hong Kong India USA	**UK and Europe Australia Hong Kong**	**UK and Europe**
Our Corporate and Institutional Banking division is a client-focused business concentrating on traditional lending and debt origination activities, as well as the provision of advisory services and treasury and trading services that are customer-flow related. Our target market includes small, mid-sized and listed corporates, private equity community and institutions. In addition we provide niche, specialist solutions in aircraft, project and resource finance.	Our principal investments businesses focus on providing capital to entrepreneurs and management teams to allow them to further their growth ambitions. Investments are assessed on a case-by-case basis, with the aim to deliver returns on a risk-adjusted basis. Our property business focuses on property fund management and property investments.	High tech and high touch private client offering providing day-to-day banking, savings, financing and foreign exchange tailored to suit our clients' needs. Our target market includes high net worth individuals, wealthy entrepreneurs, high-income professionals, owner managers in mid-market companies and sophisticated investors.

Natural linkages between the private client and corporate business

Wealth & Investment

Investec Wealth & Investment offers its clients comfort in its scale, international reach and depth of investment processes.

The UK operation is conducted through Investec Wealth & Investment Limited. The other Wealth & Investment operations are conducted through Investec Bank Switzerland, Investec Wealth & Investment Ireland, Investec Wealth & Investment Channel Islands and in Hong Kong, through Investec Capital Asia Limited.

Over 1 300 staff operate from offices located throughout the above jurisdictions, with combined funds under management of £36.9 billion. Investec Wealth & Investment is one of the UK's leading providers of private client investment management services.

Investments and savings

- Discretionary and advisory portfolio management services for private clients
- Specialist investment management services for charities, pension schemes and trusts
- Independent financial planning advice for private clients
- Specialist portfolio management services for international clients.

Pensions and retirement

- Discretionary investment management for company pension and Self Invested Personal Pensions (SIPPs)
- Advice and guidance on pension schemes.

Financial planning

- Estate planning
- Retirement planning
- Bespoke advice and independent financial reviews.

Investec Bank plc's structure comprises two principal business units: Specialist Banking and Wealth & Investment.

Specialist Banking

Value proposition

- High-quality specialist banking solutions to corporate and private clients with leading positions in selected areas
- Provide high touch personalised service – supported by high tech and ability to execute quickly
- Ability to leverage international, cross-border platforms
- Well positioned to capture opportunities between the developed and the emerging world – internationally mobile
- Strong ability to originate, manufacture and distribute
- Balanced business model with good business depth and breadth.

Wealth & Investment

Value proposition

- Investec Wealth & Investment has been built via the acquisition and integration of businesses and organic growth over a long period of time
- Well-established platforms in the UK, Switzerland, Republic of Ireland and Guernsey
- The business has five distinct channels: direct, intermediary, charities, international and digital
- Strategy to internationalise within jurisdictions where the Investec group already has an established business
- Focus is on organic growth in our key markets and enhancing our range of services for the benefit of our clients.

Business leaders:

Wealth & Investment
Steve Elliott

Specialist Banking
David van der Walt

Further information on our management structures is available on our website.

Where we operate

North America

Focus on advisory and institutional securities activities

UK and Europe

Brand well established

One of the leading private client investment managers

Proven ability to attract and recruit investment managers

Sustainable specialist banking business focused on corporate and private banking

India

Established a presence in 2010

Facilitates the link between India, UK and South Africa

Hong Kong

Investment activities

Developing Wealth & Investment capability

Australia

Experienced local team in place with industry expertise

Focus is on entrenching position as a boutique operation

Sound growth in key earnings drivers.

- The Wealth & Investment business has generated strong net inflows, which together with favourable market levels has supported higher average funds under management.
- The banking business has benefited from sound levels of corporate and private client activity driving strong loan book growth over the year. This was partially offset by lower investment and trading income, following particularly strong investment banking and client flow activity levels in the prior year.
- Investec Bank plc has continued to invest into the business, positioning itself for further growth across its client franchise businesses and ensuring that it remains competitive and relevant in the markets in which it operates.
- Impairments on the legacy portfolio have increased in anticipation of accelerated exits of certain assets in line with the strategy of managing down this portfolio.
- Taken together, Investec Bank plc reported an operating profit^ of £136.3 million for the year ended 31 March 2018 (2017: £161.1 million).

Statutory financial performance

2018	2017
£136.3mn	**£161.1mn**

Operating profit* decreased 15.3%

2018	2017
£108.7mn	**£132.0mn**

Adjusted attributable earnings^ decreased 17.7%

We continued to actively manage down the UK legacy portfolio

- The legacy portfolio amounted to £313 million at 31 March 2018 being 3.2% of net core loans (2017: 5.5%). This is reduced from £476 million at 31 March 2017 through asset sales, redemptions and write-offs.
- The legacy business reported a loss before taxation of £94.1 million (2017: £65.2 million) reflecting an increase in impairments for accelerated exits anticipated to occur on certain legacy assets.

* *Before goodwill, acquired intangibles, non-operating items, taxation and after non-controlling interests.*

^ *Before goodwill, acquired intangibles, non-operating items and after non-controlling interests.*

Highlights
(continued)

Ongoing financial performance

2018	2017
£230.5mn	**£226.3mn**

Operating profit* increased 1.9%

2018	2017
£183.3mn	**£185.4mn**

Adjusted attributable earnings^ decreased 1.2%

2018	2017
63.7%	**57.9%**

Annuity income as a % of total operating income

2018	2017
0.24%	**0.27%**

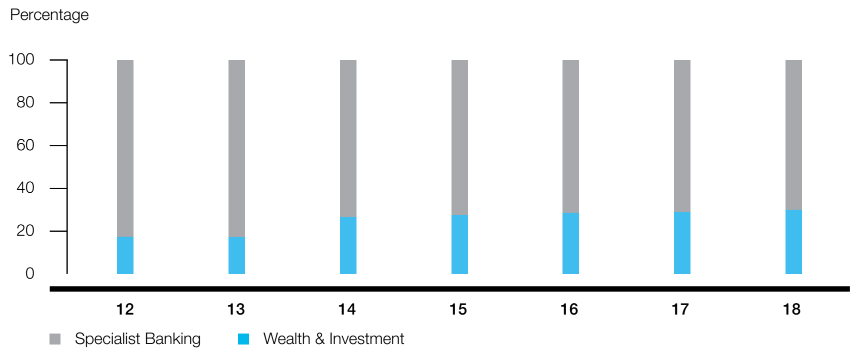
Credit loss charge as a % of average gross core loans and advances

* *Before goodwill, acquired intangibles, non-operating items, taxation and after non-controlling interests.*

^ *Before goodwill, acquired intangibles, non-operating items and after non-controlling interests.*

We have a diversified business model

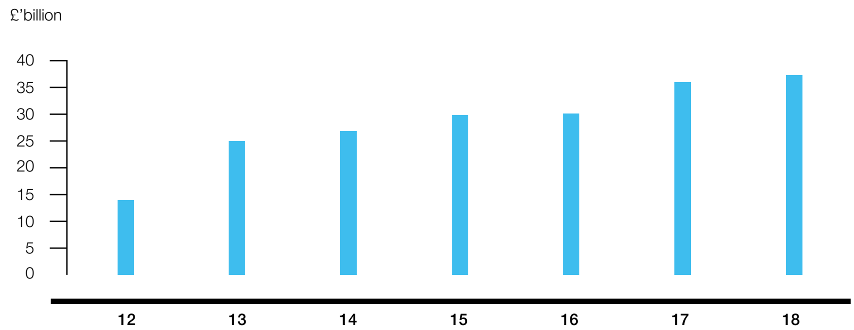
% contribution of operating profit before taxation of the ongoing business*



We continued to grow our key earnings drivers

Funds under management up 3.7% to £37.3 billion

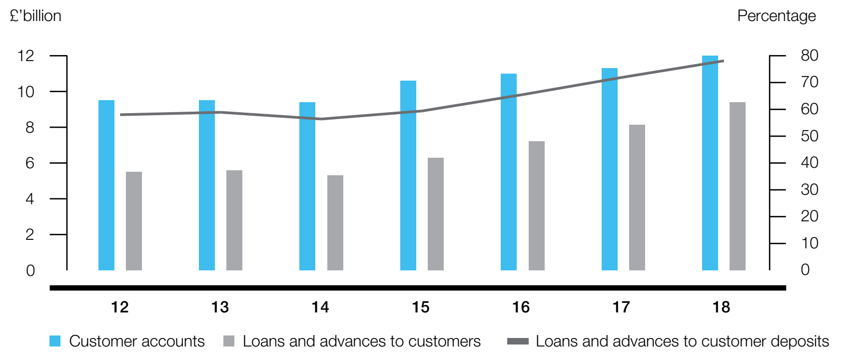
Funds under management



Customer accounts (deposits) increased 6.0% to £12.0 billion

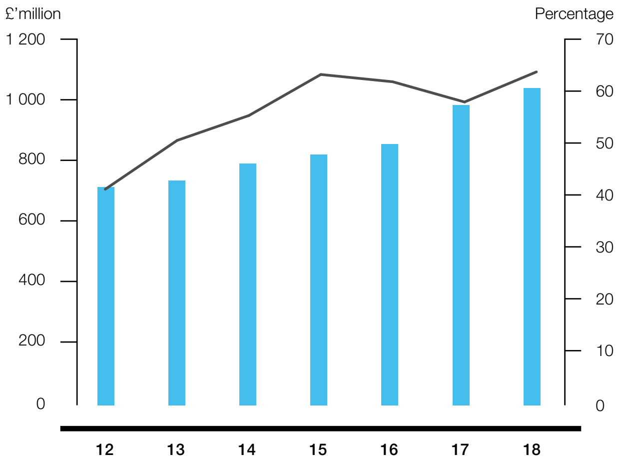
Core loans and advances increased 15.1% to £9.4 billion

Customer accounts (deposits) and loans ongoing business



Supporting growth in operating income

Total operating income ongoing business

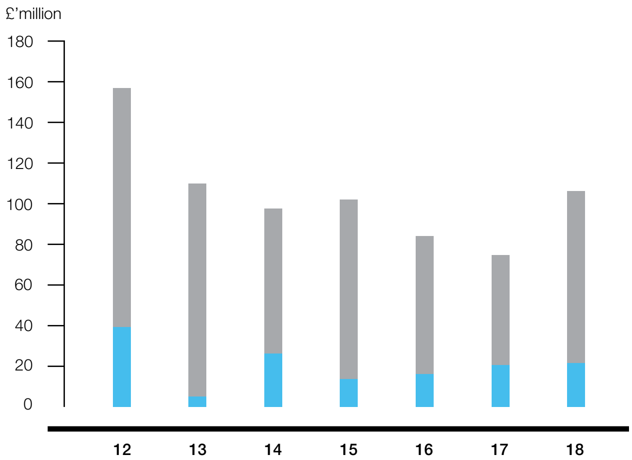


Total operating income
Annuity income^ as a % of total income

^ *Where annuity income is net interest income and annuity fees.*

Increase in impairments largely driven by accelerated exits anticipated in the legacy portfolio

Impairments



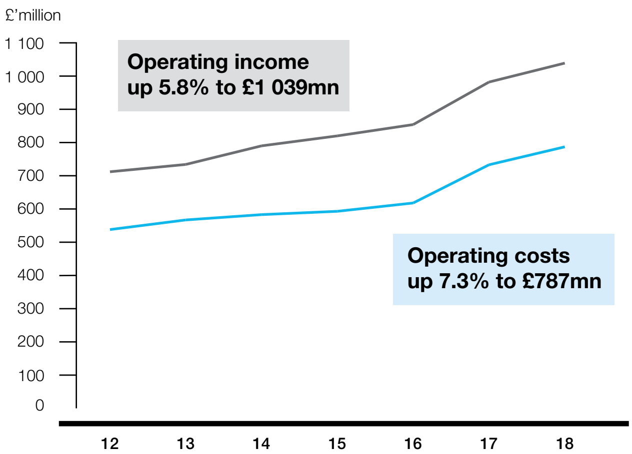
UK legacy business and businesses sold*
UK and Other

* *Refers to the remaining UK legacy business as well as group assets that were sold in the 2015 financial year.*

Costs increased largely due to planned investment across the business

Operating costs increased reflecting: continued investment into IT and digital initiatives and higher headcount across divisions to support increased activity and growth strategies, notably the build out of the private client offerings.

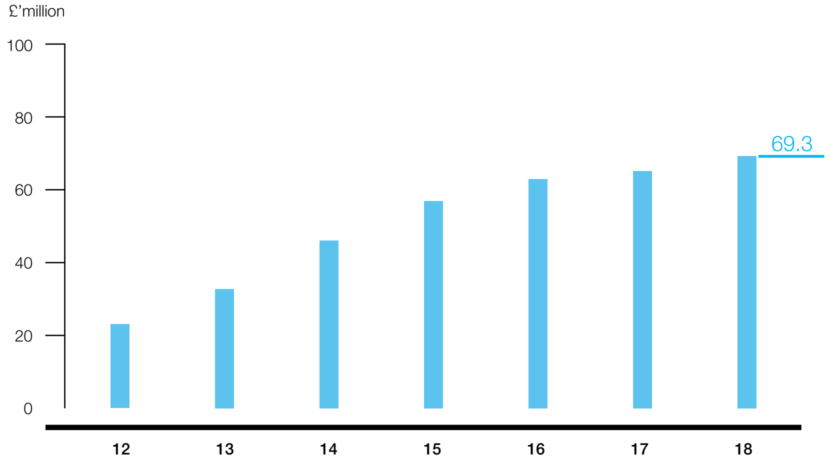
Jaws ratio ongoing business



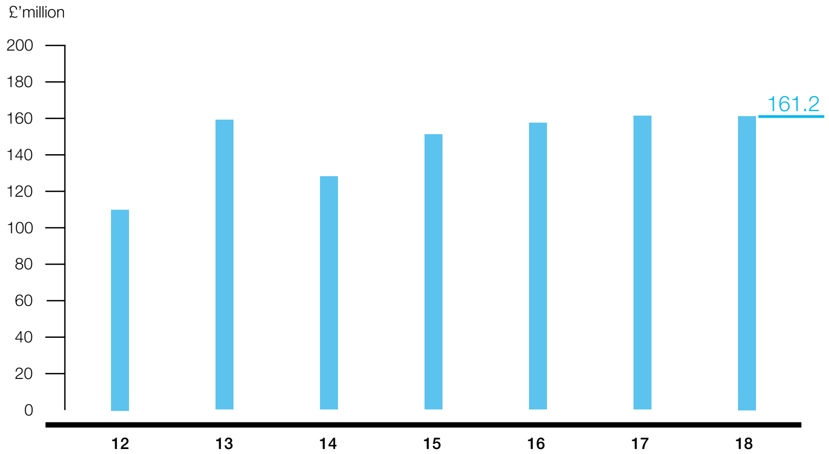
Operating income
Operating costs

Operating profit from our ongoing businesses

Operating profit* – Wealth & Investment



Operating profit* – Specialist Banking ongoing business



* *Before goodwill, acquired intangibles, non-operating items, taxation and after non-controlling interests.*

Maintained a sound balance sheet

Target

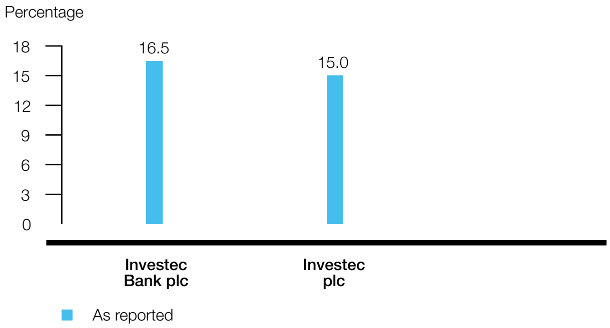
Total capital adequacy: 14.0% – 17.0%

Common equity tier 1 ratio: > 10.0%

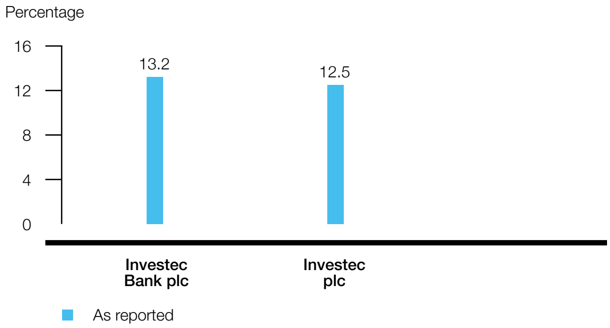
Tier 1 ratio: > 11.0%

Leverage ratio: > 6.0%

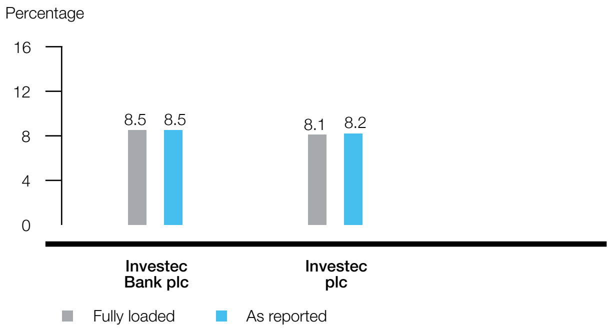
Capital adequacy ratios



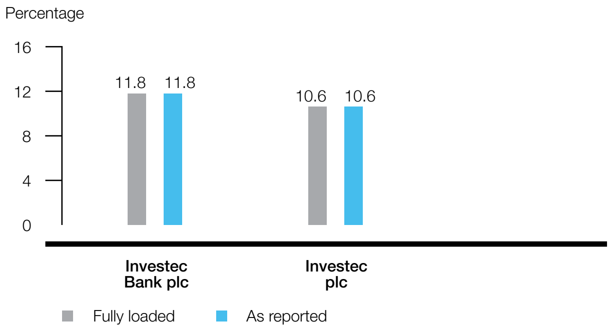
Tier 1 ratios



Leverage ratios



Common equity tier 1 ratios



Note: Refer to pages 91 and 96 for further details.

Sound capital and liquidity principles maintained

Continue to focus on:

- Maintaining a high level of readily available, high-quality liquid assets targeting a minimum cash to customer deposit ratio of 25.0%, with the year-end ratio at 46.8%
- Diversifying funding sources
- Maintaining an appropriate mix of term funding
- Limiting concentration risk.

The intimate involvement of senior management ensures stringent management of risk and liquidity

A well-established liquidity management philosophy remains in place

The bank's loan to deposit ratio is: 80.7% (2017: 76.2%)

Liquidity remains strong with cash and near cash balances amounting to £5.6 billion (2017: £4.9 billion)

Capital remained in excess of current regulatory requirements

We are comfortable with our common equity tier 1 ratio target at a 10% level given our solid capital light revenues, and our current leverage ratio of 8.5%

We exceed the minimum regulatory requirements for the liquidity coverage ratio and net stable fund ratio.

Financial Review

An overview of the operating environment impacting our business

United Kingdom

Our views

UK economic expansion has slowed, weighed down by weak consumer spending and higher levels of inflation.

Calendar year 2017	Calendar year 2016
1.8% Economic growth	**1.9%** Economic growth

Calendar year 2017	Calendar year 2016
£29 670 GDP per capita	**£29 328** GDP per capita

Quarterly GDP growth of 0.4% in the fourth quarter capped off full-year growth of 1.8% in calendar year 2017, the weakest annual expansion recorded since 2012. Weighing on growth was softer consumer spending amid the squeeze on household finances as inflation rose to a more than five-year high of 3.1% in November 2017. Inflation started to ease as the first quarter of 2018 drew to a close whilst an increase in wage growth, to the firmest seen since 2015, also started to reduce the squeeze for households. Still, the quarterly pace of GDP growth slowed to just 0.1% in the first quarter of 2018, according to early GDP estimates, with heavy snow a key contributing factor.

The UK's departure from the European Union (EU) (Brexit) remained one of the biggest uncertainties to the UK outlook, even though negotiations progressed largely as planned along the scheduled timetable. In March 2018 the remaining 27 EU member states gave the green light for talks to shift to the future trading relationship after progress was made on the EU's draft withdrawal treaty and a 21 month transition period was agreed.

On the monetary policy front, the first hike in Bank Rate in over 10 years was enacted in November 2017, lifting UK interest rates to 0.50%. The Bank of England appeared to remain on course to pursue a gradual path of policy tightening over the next few years, with rate setters signalling that further hikes are likely to be necessary to bring inflation back sustainably to the Bank's 2% target. Governor Mark Carney is set to step down in June 2019 with his successor possibly to be announced in late 2018.

The November 2017 UK Budget was an expansionary exercise, with several measures aimed at improving affordability and supply in the housing market. The subsequent 'Spring Statement' was a much more subdued affair, with the Chancellor unveiling no new fiscal initiatives.

United States

Our views

The US economy expanded by 2.3% in 2017.

The annual reading of 2.3% was dragged down by a weak first three months of the year, with the three quarters that followed seeing annualised growth paces of around 3% each. At the start of 2018, the advance estimate of quarter one GDP growth pointed to a moderation from a 2.9% (seasonally adjusted) annualised pace to 2.3%. US tax reforms passed by Congress in December 2017 and a fiscally supportive two year spending bill agreed in February 2018, look set to bolster growth momentum over the period ahead.

Through 2017 the labour market continued to tighten with the unemployment rate having stood at 4.1% since October 2017, its lowest level since 2001. However despite the low level of the unemployment rate, pay growth showed little sign of a sharp move upward, having hovered in a range between 2.3% and 2.8% over the 12 months to March 2018.

The absence of a material upshift in pay growth and a period of relatively subdued inflation allowed the Federal Reserve to adjust its policy stance relatively slowly. The Federal Open Market Committee (FOMC) raised interest rates three times in 2017 whilst it enacted a further 25 basis point hike in March 2018, taking the Federal funds target rate range to 1.50%-1.75%, having commenced its slow 'normalisation' process with its first post-crisis rate hike in December 2015.

Importantly the FOMC has also embarked on a process of reducing its Quantitative Easing (QE) holdings on its balance sheet; since October 2017 it has allowed holdings to roll-off up to a prescribed cap. The cap started at $10 billion per month in October, has risen slowly and will reach a maximum of $50 billion per month by the end of 2018. So far, markets have taken the Federal Reserve's gradual process of policy normalisation in their stride, albeit with some concerns that a sharp step up in inflation, if realised, might force the Fed to raise rates more rapidly over the coming years. Since summer 2017, the Federal Reserve's favoured Personal Consumption Expenditures (PCE) inflation measure has stood in the range 1.4% to 1.8% and has not shown a clear sign of a shift higher.

In US politics, the Trump administration achieved its first major legislative win as it passed its tax reform proposals in December 2017. That appeared to energise the administration, which has moved forward on other policy initiatives since. The President's recent focus has been on addressing what he sees as inequalities in the US's trade relationship, not least with China.

Eurozone

Our views

The Eurozone recovery solidified over the period with growth of 2.5% recorded in calendar year 2017, the strongest Euro area expansion pace since 2007.

Growth momentum also broadened out through 2017 with recent laggards in the recovery story, particularly France and Italy, seeing a step-up in their growth rates. Growth momentum has continued into 2018, albeit with the pace of GDP growth having slowed from 0.7% (quarter-on-quarter) in the final three months of 2017 to 0.4% in the first quarter of 2018, according to early GDP estimates.

The Euro area labour market continued to tighten with the unemployment rate having slid to 8.5%, a touch below the nine-year pre-crisis average. Rising employment helped to bolster household spending, supporting growth momentum more broadly. Meanwhile, credit conditions remained supportive of the economic outlook, with borrowing costs for households and corporates remaining near record lows and credit availability improving.

The European Central Bank's (ECB) interest rate stance has remained unchanged since March 2016. As such the main refinancing rate remained at 0.00% and the deposit rate at -0.40%. The monthly pace of ECB asset purchases was held at €60 billion per month as 2017 closed, with the bond buying pace having stood at that level since April 2017. From January 2018 bond buys were at a lower €30 billion per month pace. The ECB is not set to bring its QE programme to an end until late 2018. It continued to judge that an ultra-loose policy stance remained appropriate, given that it continued to expect that inflation would take some time to return to its target of 'below but close to 2%'; Euro area inflation averaged just 1.4% over the 12 months to March 2018.

European political events punctuated the period once more. No clear victor emerged from Italian elections in March 2018, however, three months of negotiations have led to the formation of a coalition government. Market sentiment has been unnerved by the agreement between the two populist parties given plans for large scale fiscal stimulus and a more combative approach to the EU. The solid Euro area economic growth backdrop, which drove views that the ECB will finally start to move away from its ultra-loose policy stance next year, provided a key source of support for the Euro over the past 12 months.

Global stock markets

Our views

Global equity markets enjoyed a positive 2017 overall.

The MSCI World index ended 2017 20% up on year opening levels with the index continuing to climb right through to late January 2018. From that point a reappraisal of risk sentiment, amidst fears over the pace of central bank policy tightening, particularly at the Federal Reserve, saw a period of increased volatility. In addition, from early March, trade war worries increasingly became a concern. The MSCI World index closed the first quarter of 2018 8.1% off its January 2018 high. On Wall Street, the S&P500 was off to a similar extent.

European equity markets saw a more tentative and somewhat choppier path through 2017, ending the year 6% up on year opening levels after much intervening volatility, not helped by a string of high stake elections in the likes of France, Germany and the Netherlands and with an independence referendum (deemed illegal by the Spanish authorities) in Catalonia, Spain. At the start of 2018 European equity markets rose robustly amidst hopes of a more buoyant growth backdrop. The Eurostoxx 50 index rose 5% over the first three weeks of the year, but then turned sharply lower amidst the hit to the global risk backdrop that followed at the end of January.

The back end of 2017 saw a rally in South African domestic shares as the election of Cyril Ramaphosa as leader of the ANC led to renewed enthusiasm about the growth prospects for South Africa. There has so far been little hard evidence of a turnaround on the ground but longer term growth forecasts have been revised up. While business confidence lifted in early 2018, it is not yet at levels that indicate a faster pace of business activity.

Operating environment

The table below provides an overview of some key statistics that should be considered when reviewing our operational performance.

	As at 31 March 2018	As at 31 March 2017	% change	Average over the year 1 April 2017 to 31 March 2018
Market indicators				
FTSE All share	3 894	3 990	(2.4%)	4 062
S&P	2 641	2 363	11.8%	2 550
Nikkei	21 454	18 909	13.5%	20 977
Dow Jones	24 103	20 663	16.6%	22 923
Rates				
UK overnight	0.44%	0.17%		0.31%
UK 10 year	1.35%	1.07%		1.27%
UK Clearing Banks Base Rate	0.50%	0.25%		0.35%
LIBOR – three month	0.71%	0.34%		0.41%
US 10 year	2.74%	2.39%		2.41%
Commodities				
Gold	US$1 324/oz	US$1 245/oz	6.3%	US$1 285/oz
Brent Crude Oil	US$70/bbl	US$53/bbl	32.1%	US$58/bbl
Platinum	US$936/oz	US$940/oz	(0.4%)	US$948/oz
Macro-economic				
UK GDP (% change over the calendar year)	1.8%	1.9%		
UK per capita GDP (calendar year, real value pounds at constant 2015 prices)*	29 670	29 328	1.2%	

Sources: Macrobond.

** Population used in 2017 per capita GDP reflects estimated population as per Office for National Statistics.*

Principal risks relating to our operations

In our ordinary course of business we face a number of risks that could affect our business operations.

These risks are summarised briefly in the table below with further detail provided in the risk management section of this report.

For additional information pertaining to the management and monitoring of these risks, see the references provided.

Additional risks and uncertainties not presently known to us or that we currently deem immaterial may in the future also negatively impact our business operations.

15 – 19

The **financial services industry** in which we operate is intensely competitive.

15 – 19

Market, business and general economic conditions and fluctuations could adversely affect our businesses in a number of ways.

43

We may be exposed to **country risk,** i.e. the risk inherent in sovereign exposure and events in other countries.

42 – 66

Credit and counterparty risk exposes us to losses caused by financial or other problems experienced by our clients.

43 – 44

Unintended **environmental, social and economic risks** could arise in our lending and investment activities.

68 – 70

We may be exposed to **investment risk** in our unlisted and listed investment portfolios.

73 – 76

Market risk arising in our trading book could affect our operational performance.

77 – 82

Liquidity risk may impair our ability to fund our operations.

82 – 84

Our net interest earnings and net asset value may be adversely affected by **interest rate risk.**

85 – 88

Operational risk (including financial crime, cyber crime and process failure) may disrupt our business or result in regulatory action.

85 – 88

We may be **vulnerable to the failure of our systems** and breaches of our security systems (including cyber and information security).

85 – 89

Employee misconduct could cause harm that is difficult to detect.

88 – 89

Reputational, strategic and business risk could impact our operational performance.

89 – 99

Compliance, legal and regulatory risks may have an impact on our business.

89

Retail conduct risk is the risk that we treat our customers unfairly and deliver inappropriate outcomes. **Wholesale conduct risk** is the risk of conducting ourselves inappropriately in the market.

90 – 96

We may have insufficient capital in the future and may be unable to secure additional financing when it is required.

89

We may be exposed to **pension risk** in our UK operations.

We may be unable to **recruit, retain and motivate key personnel**.

See Investec's 2018 integrated annual report on our website.

Key income drivers

We provide a wide range of financial products and services to a select client base principally in the UK.

We have a number of other distribution and origination channels which support our underlying core businesses, for example, in Australia, Channel Islands, Hong Kong, India, Ireland, Switzerland and the USA. We are organised as a network comprising two principal business divisions: Wealth & Investment and Specialist Banking.

There are a number of key income drivers for our business which are discussed below and alongside.

Wealth & Investment

Key income drivers	Income impacted primarily by	Income statement – primarily reflected as
– Investment management fees levied as a percentage of assets under management – Commissions earned for executing transactions for clients.	– Movement in the value of assets underlying client portfolios – The level of investment activity undertaken on behalf of clients, which, in turn, is affected by, among other things, the performance of the global stock markets (which drives investment opportunities), the equity investment risk appetite of our clients, tax considerations and market liquidity.	– Fees and commissions.

Specialist Banking

Key income drivers	Income impacted primarily by	Income statement – primarily reflected as
– Lending activities.	– Size of loan portfolio – Clients' capital and infrastructural investments – Client activity – Credit spreads – Interest rate environment.	– Net interest income – Fees and commissions – Investment income.
– Cash and near cash balances.	– Capital employed in the business and capital adequacy targets – Asset and liability management policies and risk appetite – Regulatory requirements – Credit spreads – Interest rate environment.	– Net interest income – Trading income arising from balance sheet management activities.
– Deposit and product structuring and distribution.	– Distribution channels – Ability to create innovative products – Regulatory requirements – Credit spreads – Interest rate environment.	– Net interest income – Fees and commissions.
– Investments made (including listed and unlisted equities; debt securities; investment properties) – Gains or losses on investments – Dividends received.	– Macro- and micro-economic market conditions – Availability of profitable exit routes – Whether appropriate market conditions exist to maximise gains on sale – Attractive investment opportunities – Credit spreads.	– Net interest income – Investment income – Share of post taxation profit of associates.
– Advisory services.	– The demand for our specialised advisory services, which, in turn, is affected by applicable, regulatory and other macro- and micro-economic fundamentals.	– Fees and commissions.
– Derivative sales, trading and hedging.	– Client activity, including lending activity – Market conditions/volatility – Asset and liability creation – Product innovation.	– Fees and commissions – Trading income arising from customer flow.
– Transactional banking services.	– Levels of activity – Ability to create innovative products – Appropriate systems infrastructure.	– Net interest income – Fees and commissions.

Overview of our statutory results

Investec Bank plc reported an operating profit before goodwill, acquired intangibles, non-operating items and taxation and after other non-controlling interests of £136.3 million for the year ended 31 March 2018 (2017: £161.1 million). The balance sheet remains strong, supported by sound capital, leverage and liquidity ratios.

Unless the context indicates otherwise, all income statement comparatives in the review below relate to the statutory results for the year ended 31 March 2017.

Statutory income statement analysis

The overview that follows will highlight the main reasons for the variance in the major category line items on the face of the income statement during the year under review.

Total operating income

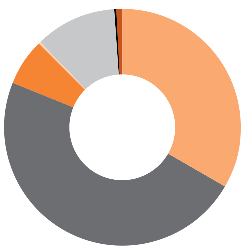
Total operating income before impairment losses on loans and advances of £1 040.1 million is 5.8% higher than the prior year. The various components of total operating income are analysed below.

£'000	31 March 2018	% of total income	31 March 2017	% of total income	% change
Net interest income	349 618	33.6%	298 752	30.4%	17.0%
Net fee and commission income	494 512	47.6%	488 846	49.7%	1.2%
Investment income	68 943	6.6%	55 900	5.7%	23.3%
Share of post taxation profit of associates	1 444	0.1%	1 741	0.2%	(17.1%)
Trading income/(loss) arising from					
– customer flow	114 502	11.0%	129 706	13.2%	(11.7%)
– balance sheet management and other trading activities	2 838	0.3%	(138)	0.0%	>100.0%
Other operating income	8 290	0.8%	7 883	0.8%	5.2%
Total operating income before impairments	**1 040 147**	**100.0%**	**982 690**	**100.0%**	**5.8%**

The following table sets out information on total operating income before impairment losses on loans and advances by division for the year under review:

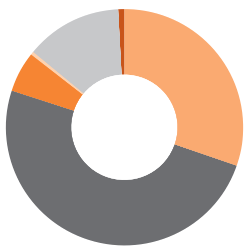
£'000	31 March 2018	% of total income	31 March 2017	% of total income	% change
Wealth & Investment	314 210	30.2%	276 848	28.2%	13.5%
Specialist Banking	725 937	69.8%	705 842	71.8%	2.8%
Total operating income before impairments	**1 040 147**	**100.0%**	**982 690**	**100.0%**	**5.8%**

% of total operating income before impairments



31 March 2018
£1 040.1 million total operating income before impairments

Net interest income	33.6%
Net fee and commission income	47.6%
Investment income	6.6%
Share of post taxation profit of associates	0.1%
Trading income arising from customer flow	11.0%
Trading income arising from balance sheet management and other trading activities	0.3%
Other operating income	0.8%



31 March 2017
£982.7 million total operating income before impairments

Net interest income	30.4%
Net fee and commission income	49.7%
Investment income	5.7%
Share of post taxation profit of associates	0.2%
Trading income arising from customer flow	13.2%
Trading income arising from balance sheet management and other trading activities	0.0%
Other operating income	0.8%

Net interest income

Net interest income increased by 17.0% to £349.6 million (2017: £298.8 million) driven by robust levels of lending activity across the banking businesses and further supported by a reduction in cost of funding.

For a further analysis of interest received and interest paid refer to pages 170 and 171.

Net fee and commission income

Net fee and commission income increased by 1.2% to £494.5 million (2017: £488.8 million) supported by higher average funds under management and strong net inflows in the Wealth Management business.

For a further analysis of net fee and commission income refer to page 171.

Investment income

Investment income increased by 23.3% to £68.9 million (2017: £55.9 million) largely as a result of gains from the debt securities portfolio and the sale of the Wealth Management business's holding in the Irish Stock Exchange.

For a further analysis of investment income refer to page 172.

Trading income

Total trading income decreased to £117.3 million (2017: £129.6 million) as a consequence of lower volatility, relative to the elevated levels experienced in the prior year following the Brexit vote.

Other operating income

Other operating income includes income earned on operating lease rentals.

Impairment losses on loans and advances

Impairments on loans and advances increased from £75.0 million to £106.1 million, largely reflecting an increase in impairments for accelerated exits anticipated to occur on certain legacy assets. Gross defaults totalled £360.6 million at 31 March 2018 (2017: £260.3 million) largely due to legacy loans. The percentage of default loans (net of impairments but before taking collateral into account) to net core loans and advances amounted to 2.16% (31 March 2017: 1.55%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.40 times (2017: 1.44 times).

For further information on asset quality refer to page 58.

Operating costs

The cost to income ratio amounted to 76.8% (2017: 75.9%). Our cost to income ratio will remain elevated as we continue to invest in a number of growth strategies across the businesses which should yield returns in the medium term. Total operating costs grew by 7.0% to £799.4 million (2017: £746.9 million) reflecting continued investment into IT and digital initiatives and higher headcount across divisions to support increased activity and growth strategies; notably the build out of the UK private client offerings in the Specialist Banking and Wealth & Investment businesses.

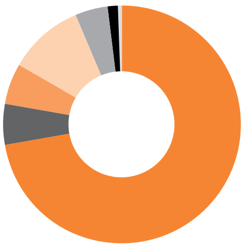
The various components of total operating costs are analysed below:

£'000	31 March 2018	% of total operating costs	31 March 2017	% of total operating costs	% change
Staff costs (including directors' remuneration)	(579 174)	72.4%	(544 388)	72.9%	6.4%
Premises expenses (excluding depreciation)	(43 866)	5.5%	(40 074)	5.4%	9.5%
Equipment expenses (excluding depreciation)	(45 147)	5.7%	(40 456)	5.4%	11.6%
Business expenses	(80 766)	10.1%	(74 589)	10.0%	8.3%
Marketing expenses	(35 427)	4.4%	(34 314)	4.6%	3.2%
Depreciation and impairment of property, plant, equipment and software	(12 669)	1.6%	(10 895)	1.4%	16.3%
Depreciation on operating leased assets	(2 350)	0.3%	(2 141)	0.3%	9.8%
Total operating costs	**(799 399)**	**100.0%**	**(746 857)**	**100.0%**	**7.0%**

The following table sets out information on total operating costs by division for the year under review:

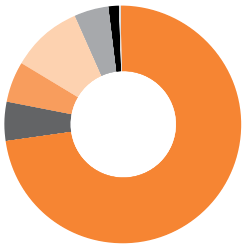
£'000	31 March 2018	% of total operating costs	31 March 2017	% of total operating costs	% change
Wealth & Investment	(244 940)	30.6%	(211 658)	28.3%	15.7%
Specialist Banking	(554 459)	69.4%	(535 199)	71.7%	3.6%
Total operating costs	**(799 399)**	**100.0%**	**(746 857)**	**100.0%**	**7.0%**

% of total operating costs



31 March 2018
£799.4 million total operating costs

Staff costs	72.4%
Premises	5.5%
Equipment	5.7%
Business expenses	10.1%
Marketing	4.4%
Depreciation	1.6%
Depreciation on operating leased assets	0.3%



31 March 2017
£746.9 million total operating costs

Staff costs	72.9%
Premises	5.4%
Equipment	5.4%
Business expenses	10.0%
Marketing	4.6%
Depreciation	1.5%
Depreciation on operating leased assets	0.3%

Impairment of goodwill

There was no impairment of goodwill in the current year.

Amortisation of acquired intangibles

Amortisation of acquired intangibles of £13.3 million largely relates to the Wealth & Investment business and mainly comprises amortisation of amounts attributable to client relationships.

Taxation

The effective tax rate amounted to 20.8% (2017: 18.1%).

	Effective operational tax rates				
£'000	2018	2017	31 March 2018 £'000	31 March 2017 £'000	% change
Tax	20.8%	18.1%	27 651	29 049	(4.8%)

We have published our tax strategy for Investec plc on our website in accordance with UK tax law.

Statutory balance sheet analysis

Since 31 March 2017:

- Total equity increased by 11.6% to £2.2 billion largely due to an increase in retained earnings and the issuance of Additional Tier 1 securities during the year.
- Total assets increased by 9.3% to £20.1 billion (2017: £18.4 billion) largely as a result of strong loan book growth.

Overview of our ongoing results

In order to present a more meaningful view of the group's performance, additional management information is presented on the group's ongoing businesses. This information is set out on pages 26 to 31.

The additional information presented on an ongoing basis excludes items, that in management's view, could distort the comparison of performance between periods. Based on this principle, the remaining legacy business in the UK (as set out on page 32) has been excluded from underlying statutory profit to derive the group's ongoing operating profit.

This basis of presentation is consistent with the approach adopted for the year ended 31 March 2017.

A reconciliation between the statutory and ongoing income statement is provided on pages 27 to 28.

All information in our annual report is based on our statutory accounts unless otherwise indicated.

Consolidated summarised ongoing income statement

For the year to 31 March £'000	2018	2017	Variance	% change
Net interest income	349 321	299 396	49 925	16.7%
Net fee and commission income	494 519	488 913	5 606	1.1%
Investment income	68 617	55 328	13 289	24.0%
Share of post taxation profit of associates	1 444	1 741	(297)	(17.1%)
Trading income/(loss) arising from				
– customer flow	114 520	129 711	(15 191)	(11.7%)
– balance sheet management and other trading activities	2 819	(278)	3 097	(>100.0%)
Other operating income	8 213	7 558	655	8.7%
Total operating income before impairment losses on loans and advances	**1 039 453**	**982 369**	**57 084**	**5.8%**
Impairment losses on loans and advances	(21 419)	(20 651)	(768)	3.7%
Operating income	**1 018 034**	**961 718**	**56 316**	**5.9%**
Operating costs	(786 880)	(733 485)	(53 395)	7.3%
Depreciation on operating leased assets	(2 350)	(2 141)	(209)	9.8%
Operating profit before goodwill and acquired intangibles	**228 804**	**226 092**	**2 712**	**1.2%**
Loss attributable to non-controlling interests	1 684	180	1 504	>100.0%
Operating profit before goodwill, acquired intangibles and after non-controlling interests	**230 488**	**226 272**	**4 216**	**1.9%**
Taxation	(47 232)	(40 853)	(6 379)	15.6%
Attributable earnings before goodwill, acquired intangibles and non-operating items	**183 256**	**185 419**	**(2 163)**	**(1.2%)**
Cost to income ratio	75.9%	74.8%		

Reconciliation from statutory summarised income statement to ongoing summarised income statement

For the year to 31 March 2018 £'000	Statutory as disclosed^	Removal of: UK legacy business	Ongoing business
Net interest income	349 618	297	349 321
Net fee and commission income/(expense)	494 512	(7)	494 519
Investment income	68 943	326	68 617
Share of post taxation profit of associates	1 444	–	1 444
Trading income/(loss) arising from			
– customer flow	114 502	(18)	114 520
– balance sheet management and other trading activities	2 838	19	2 819
Other operating income	8 290	77	8 213
Total operating income before impairment losses on loans and advances	**1 040 147**	**694**	**1 039 453**
Impairment losses on loans and advances	(106 085)	(84 666)	(21 419)
Operating income	**934 062**	**(83 972)**	**1 018 034**
Operating costs	(797 049)	(10 169)	(786 880)
Depreciation on operating leased assets	(2 350)	–	(2 350)
Operating profit/(loss) before goodwill and acquired intangibles	**134 663**	**(94 141)**	**228 804**
Loss attributable to non-controlling interests	1 684	–	1 684
Operating profit/(loss) before goodwill, acquired intangibles and after non-controlling interests	**136 347**	**(94 141)**	**230 488**
Taxation	(27 651)	19 581*	(47 232)
Attributable earnings before goodwill, acquired intangibles and non-operating items	**108 696**	**(74 560)**	**183 256**
Cost to income ratio	76.8%		75.9%

* *Applying the bank's effective statutory taxation rate of 20.8%.*

^ *Refer to page 152.*

Reconciliation from statutory summarised income statement to ongoing summarised income statement *(continued)*

For the year to 31 March 2017 £'000	Statutory as disclosed^	Removal of: UK legacy business	Ongoing business
Net interest income/(expense)	298 752	(644)	299 396
Net fee and commission income/(expense)	488 846	(67)	488 913
Investment income	55 900	572	55 328
Share of post taxation profit of associates	1 741	–	1 741
Trading income/(loss) arising from			
– customer flow	129 706	(5)	129 711
– balance sheet management and other trading activities	(138)	140	(278)
Other operating income	7 883	325	7 558
Total operating income before impairment losses on loans and advances	**982 690**	**321**	**982 369**
Impairment losses on loans and advances	(74 956)	(54 305)	(20 651)
Operating income	**907 734**	**(53 984)**	**961 718**
Operating costs	(744 716)	(11 231)	(733 485)
Depreciation on operating leased assets	(2 141)	–	(2 141)
Operating profit/(loss) before goodwill and acquired intangibles	**160 877**	**(65 215)**	**226 092**
Loss attributable to non-controlling interests	180	–	180
Operating profit/(loss) before goodwill, acquired intangibles and after non-controlling interests	**161 057**	**(65 215)**	**226 272**
Taxation	(29 049)	11 804*	(40 853)
Attributable earnings before goodwill, acquired intangibles and non-operating items	**132 008**	**(53 411)**	**185 419**
Cost to income ratio	75.9%		74.8%

* *Applying the bank's effective statutory taxation rate of 18.1%.*

^ *Refer to page 152.*

Reconciliation from statutory summarised income statement to ongoing summarised income statement for the Specialist Banking business

For the year to 31 March 2018 £'000	Specialist Banking statutory as disclosed^	Removal of: UK legacy business	Specialist Banking ongoing business
Net interest income	344 437	297	344 140
Net fee and commission income/(expense)	197 605	(7)	197 612
Investment income	58 497	326	58 171
Share of post taxation profit of associates	1 028	–	1 028
Trading income/(loss) arising from			
– customer flow	113 470	(18)	113 488
– balance sheet management and other trading activities	2 845	19	2 826
Other operating income	8 055	77	7 978
Total operating income before impairment losses on loans and advances	**725 937**	**694**	**725 243**
Impairment losses on loans and advances	(106 085)	(84 666)	(21 419)
Operating income	**619 852**	**(83 972)**	**703 824**
Operating costs	(552 109)	(10 169)	(541 940)
Depreciation on operating leased assets	(2 350)	–	(2 350)
Operating profit/(loss) before goodwill and acquired intangibles	**65 393**	**(94 141)**	**159 534**
Loss attributable to non-controlling interests	1 684	–	1 684
Operating profit/(loss) before goodwill, acquired intangibles and non-controlling interests	**67 077**	**(94 141)**	**161 218**

For the year to 31 March 2017 £'000	Specialist Banking statutory as disclosed^	Removal of: UK legacy business	Specialist Banking ongoing business
Net interest income/(expense)	294 384	(644)	295 028
Net fee and commission income/(expense)	220 999	(67)	221 066
Investment income	53 731	572	53 159
Share of post taxation profit of associates	232	–	232
Trading income/(loss) arising from			
– customer flow	128 966	(5)	128 971
– balance sheet management and other trading activities	(353)	140	(493)
Other operating income	7 883	325	7 558
Total operating income before impairment losses on loans and advances	**705 842**	**321**	**705 521**
Impairment losses on loans and advances	(74 956)	(54 305)	(20 651)
Operating income	**630 886**	**(53 984)**	**684 870**
Operating costs	(533 058)	(11 231)	(521 827)
Depreciation on operating leased assets	(2 141)	–	(2 141)
Operating profit/(loss) before goodwill and acquired intangibles	**95 687**	**(65 215)**	**160 902**
Loss attributable to non-controlling interests	180	–	180
Operating profit/(loss) before goodwill, acquired intangibles and non-controlling interests	**95 867**	**(65 215)**	**161 082**

^ *Refer to pages 169 and 170.*

Ongoing segmental business analysis – summarised income statement

For the year to 31 March 2018 £'000	Wealth & Investment	Specialist Banking	Total group
Net interest income	5 181	344 140	349 321
Net fee and commission income	296 907	197 612	494 519
Investment income	10 446	58 171	68 617
Share of post taxation profit of associates	416	1 028	1 444
Trading income/(loss) arising from			
– customer flow	1 032	113 488	114 520
– balance sheet management and other trading activities	(7)	2 826	2 819
Other operating income	235	7 978	8 213
Total operating income before impairment losses on loans and advances	**314 210**	**725 243**	**1 039 453**
Impairment losses on loans and advances	–	(21 419)	(21 419)
Operating income	**314 210**	**703 824**	**1 018 034**
Operating costs	(244 940)	(541 940)	(786 880)
Depreciation on operating leased assets	–	(2 350)	(2 350)
Operating profit before goodwill and acquired intangibles	**69 270**	**159 534**	**228 804**
Loss attributable to non-controlling interests	–	1 684	1 684
Operating profit before goodwill, acquired intangibles and after non-controlling interests	**69 270**	**161 218**	**230 488**
Cost to income ratio	78.0%	75.0%	75.9%

For the year to 31 March 2017 £'000	Wealth & Investment	Specialist Banking	Total group
Net interest income	4 368	295 028	299 396
Net fee and commission income	267 847	221 066	488 913
Investment income	2 169	53 159	55 328
Share of post taxation profit of associates	1 509	232	1 741
Trading income/(loss) arising from			
– customer flow	740	128 971	129 711
– balance sheet management and other trading activities	215	(493)	(278)
Other operating income	–	7 558	7 558
Total operating income before impairment losses on loans and advances	**276 848**	**705 521**	**982 369**
Impairment losses on loans and advances	–	(20 651)	(20 651)
Operating income	**276 848**	**684 870**	**961 718**
Operating costs	(211 658)	(521 827)	(733 485)
Depreciation on operating leased assets	–	(2 141)	(2 141)
Operating profit before goodwill and acquired intangibles	**65 190**	**160 902**	**226 092**
Loss attributable to non-controlling interests	–	180	180
Operating profit before goodwill, acquired intangibles and after non-controlling interests	**65 190**	**161 082**	**226 272**
Cost to income ratio	76.5%	74.2%	74.8%

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

£'000	31 March 2018	31 March 2017
Gross core loans and advances to customers	**9 388 559**	**8 147 798**
Total impairments	**(38 434)**	**(25 356)**
Specific impairments	(37 357)	(12 393)
Portfolio impairments	(1 077)	(12 963)
Net core loans and advances to customers	**9 350 125**	**8 122 442**
Average gross core loans and advances to customers	**8 768 179**	**7 683 964**
Total income statement charge for impairments on core loans and advances	**(21 198)**	**(20 690)**
Gross default loans and advances to customers	157 203	34 166
Specific impairments	(37 357)	(12 393)
Portfolio impairments	(1 077)	(12 963)
Defaults net of impairments before collateral held	**118 769**	**8 810**
Collateral and other credit enhancements	130 498	25 948
Net default loans and advances to customers (limited to zero)	**–**	**–**
Ratios:		
Total impairments as a % of gross core loans and advances to customers	0.41%	0.31%
Total impairments as a % of gross default loans	24.45%	74.21%
Gross defaults as a % of gross core loans and advances to customers	1.67%	0.42%
Defaults (net of impairments) as a % of net core loans and advances to customers	1.27%	0.11%
Net defaults as a % of net core loans and advances to customers	–	–
Credit loss ratio (i.e. income statement impairment charge on core loans as a % of average gross core loans and advances)	0.24%	0.27%

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

£'000	Statutory as disclosed^	Removal of: UK legacy business	Ongoing business
31 March 2018			
Gross core loans and advances to customers	**9 815 012**	**426 453**	**9 388 559**
Total impairments	**(151 840)**	**(113 406)**	**(38 434)**
Specific impairments	(89 863)	(52 506)	(37 357)
Portfolio impairments	(61 977)	(60 900)	(1 077)
Net core loans and advances to customers	**9 663 172**	**313 047**	**9 350 125**
31 March 2017			
Gross core loans and advances to customers	**8 725 515**	**577 717**	**8 147 798**
Total impairments	**(126 876)**	**(101 520)**	**(25 356)**
Specific impairments	(83 488)	(71 095)	(12 393)
Portfolio impairments	(43 388)	(30 425)	(12 963)
Net core loans and advances to customers	**8 598 639**	**476 197**	**8 122 442**

^ *Refer to page 58.*

Legacy business in the UK Specialist Bank comprises:

- Assets put on the bank's books pre-2008 where market conditions post the financial crisis materially impacted the business model
- Assets written prior to 2008 with very low/negative margins
- Assets relating to business we are no longer undertaking.

Legacy business – overview of results

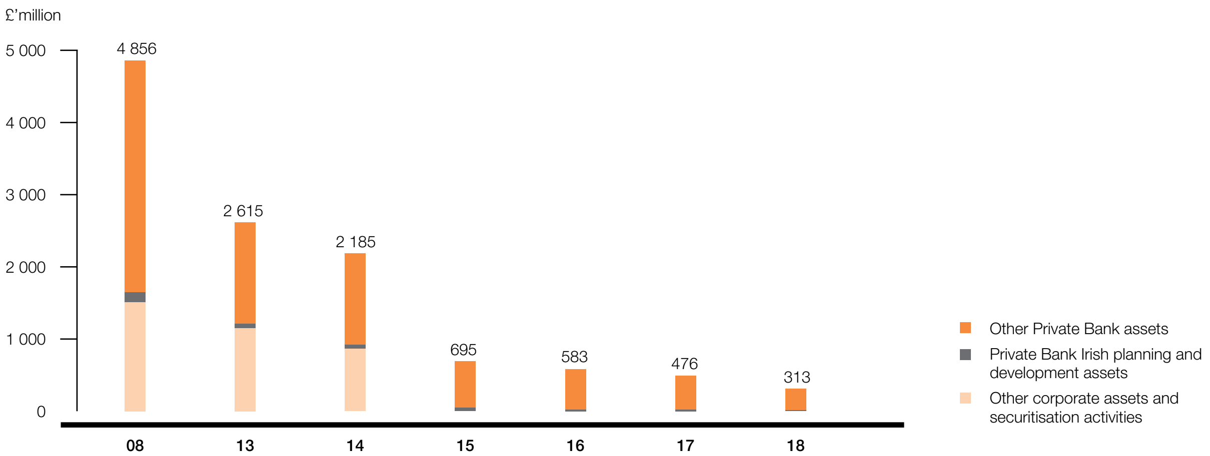
Since 31 March 2017 the group's legacy portfolio in the UK has continued to be actively managed from £476 million to £313 million, through asset sales, redemptions and write-offs. The total legacy business over the period reported a loss before taxation of £94.1 million (2017: £65.2 million) reflecting an increase in impairments for accelerated exits anticipated to occur on certain legacy assets. Total net defaults in the legacy book amounted to £90 million (2017: £125 million).

An analysis of assets within the legacy business

£'million	Total net assets (after impairments) 31 March 2018	Total balance sheet impairment 31 March 2018	Total net assets (after impairments) 31 March 2017	Total balance sheet impairment 31 March 2017
Private Bank Irish planning and development assets	12	1	18	9
Other Private Bank assets	301	112	458	93
Total other legacy assets	**313**	**113**	**476**	**102**
Performing	223	–	351	–
Non-performing*	90	113*	125	102*

* *Included in balance sheet impairments is a portfolio impairment of £60.9 million (31 March 2017: £30.4 million).*

Total UK legacy assets



Questions and answers

Steve Elliott **Wealth & Investment**

Global head

Q. How has the operating environment impacted your business over the past financial year?

The year has presented significant challenges for investors, with numerous events and concerns in the political and economic environment testing investors' nerve. These include general elections in the UK and Europe, tensions over North Korea, the prospect of tighter monetary policy across a number of regions and the uncertainty of the Brexit negotiations. Despite these uncertainties, equity indices remained buoyant for the most part. Gains made during the latter part of the 2017 financial year were sustained for the majority of the 2018 financial year, with markets reaching record highs. This remained the case until markets fell back towards the end of the financial year, leaving them marginally lower than where they started the year.

Given this backdrop, our challenge has been to manage the risks presented by the political and economic uncertainties, and the resulting volatility, whilst ensuring our clients remain positioned to benefit from the periods of market progress. Our well established research capability and investment process, and the close relationships we maintain with our clients, have served us well as we navigated through these challenges. Although markets fell back towards the end of the financial year, their higher average level for the year overall has had a positive impact on the performance of the business.

It is also pleasing that, despite the focus that has had to be applied to the preparation for regulatory change, the UK business has continued to deliver strong net organic growth in funds under management. Our strategy of seeking to attract experienced and high-calibre investment managers who share our client centric culture has contributed positively to the overall growth that has been achieved during the year.

Changes in the regulatory landscape have also been a dominant theme and will continue to be so in the coming year. The second Markets in Financial Instruments Directive (MiFID II) took effect on 3 January 2018 and is the single biggest regulatory change the industry has faced for some time. Preparing the business for the new regulations has required substantial resources. In addition, the new General Data Protection Regulation (GDPR) came into effect in May 2018 and present a further significant change to the way businesses are required to manage data. We recognise the benefits these regulatory changes seek to achieve but also acknowledge the impact the changes have on both clients and businesses and the continuing level of resources needed to bed down the changes that have taken place and to prepare for the changes yet to come.

Q. What have been the key developments in your business over the past financial year?

In June, we launched our new digital discretionary investment management service, Investec Click & Invest. The service has received a positive reaction from the marketplace following its launch, attracting favourable media interest and being ranked first place in an independent survey of the digital portfolio management market. It was particularly pleasing that the survey highlighted outstanding performance in the areas of portfolio management and client coaching, being areas in which we have sought to differentiate the Click & Invest service from its peers. We are continuing to invest in further development to enhance and expand the service as the business establishes itself in this new and exciting sector of the marketplace.

Q. What are your strategic objectives in the coming financial year?

We believe the digital delivery of services will be central to the future investment management landscape. We will therefore continue to invest in and develop our digital channel, along with digital enhancements to our core service, so that we are well positioned to meet the needs of the increasing number of clients who prefer some or all of their service delivered digitally.

Regulation and compliance will remain a key focus for the business, as we seek to assist clients with the changes resulting from MiFID II and continue our preparations for GDPR.

Our strategic priorities continue to include a number of initiatives that are driven by our desire to deliver continuous improvement to our client service and business processes. This reflects our focus on growing organically, which can only be achieved by maintaining high standards of client service.

Q. What is your outlook for the coming financial year?

Considerable achievements have been made during the year, including the successful launch of Click & Invest, adapting to significant regulatory change and the continuing achievement of strong discretionary net organic growth.

Whilst many of the uncertainties which the business and investors have faced over the last year will remain a feature of the coming year, we believe that our global investment strategy and asset allocation processes, together with the strength of our core businesses and our continuing investment for the future, will position us well.

Questions and answers

David van der Walt Specialist Banking

CEO of Investec Bank plc

Q. How has the operating environment impacted your business over the past financial year?

The past year saw continued uncertainty around Brexit and with the knock on impact on confidence levels, mid-market M&A and equity capital markets activity was subdued.

Lower volatility reduced client hedging and trading activity, particularly when compared to the elevated levels in the previous year following the Brexit vote.

Both corporate and private clients remained active during the year, driving solid loan growth.

Regulation has been a key theme in the financial services industry with various new regulations being implemented in 2018. We have run a number of regulatory projects over the year to ensure operational readiness and business model resilience.

Q. What have been the key developments in your business over the past financial year?

The private banking business has continued to focus on the build-out of its UK platform with the bulk of its incremental investment having completed in the current financial year. The business has already seen positive progress with a substantial number of new-to-bank, key high net worth clients on-boarded over the past year and growth in the mortgage book.

In addition to this, the further development of the private banking proposition has now delivered a fully functional onshore and offshore banking business, coupled with the niche wealth-creating areas of structured property finance and private capital. These offerings, now all appropriately integrated, give high net worth clients the ability to both bank with Investec on a daily basis, in a variety of on and offshore jurisdictions, as well as look to the firm for assistance, support and partnership in wealth-creating opportunities where they require capital.

The corporate business continued to generate a sound level of earnings across its franchise businesses. Strong loan growth was diversified across our lending businesses with notable activity levels in our asset finance, fund finance and corporate lending businesses.

We have successfully managed down our cost of funding over the year, while maintaining appropriate and conservative liquidity levels and without disrupting our funding channels. This together with combined loan book growth of 12.4% has resulted in a solid increase in our net interest income and a strong annuity base going into the coming year.

Q. What are your strategic objectives in the coming financial year?

We will continue to focus on deepening our franchise and growing our client base across growth-orientated companies, institutional investors, the private equity community, wealthy entrepreneurs and high net worth clients.

In line with our strategy to be a high-tech and high-touch domestically relevant bank, a key focus has been around digital initiatives to expand our client offering. A specific focus will be on developing smart digital solutions and transactional products and services for businesses. This will be complementary to our strategy to grow our offering to this segment of the market.

The emphasis on increasing capital light activities within the bank will continue into the coming year. With this in mind, one of our focus areas is on expanding our funds and investment products business to allow us to create off-balance sheet solutions that meet client needs while reducing capital intensity. We will do this by creating investment opportunities aligned to our specialist areas of expertise and our access to distinctive deal flow, particularly targeted at our institutional clients who already invest in our funds.

The investment into the private bank has created a scalable foundation which will allow us to focus on client acquisition and retention in the coming year – a shift from the current focus on platform development.

Q. What is your outlook for the coming financial year?

Over the last few years, the specialist bank has generated a sustainable level of recurring income which we would expect to continue into the coming year, while at the same time remaining cautiously optimistic given the uncertain political backdrop and the potential impact on economic activity levels.

The strategy to accelerate the run down of the legacy portfolio, together with the completion of the bulk of the incremental investment into the private bank and the reduction in the double premises cost in the coming year, gives us a clear runway to grow our key franchise businesses.

Risk Management and Corporate Governance

Risk management objectives are to:

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

Overview of disclosure requirements

Risk disclosures provided in line with the requirements of International Financial Reporting Standard 7 Financial Instruments: Disclosures (IFRS 7) and disclosures on capital required by International Accounting Standard 1 Presentation of Financial Statements (IAS 1) are included within this section of the annual report on pages 39 to 96 with further disclosures provided in the annual financial statements section on pages 142 to 261.

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

Information provided in this section of the annual report is prepared on an Investec Bank plc (IBP) consolidated basis unless otherwise stated.

The bank also publishes a separate Pillar III disclosure report as required under Part 8 of the Capital Requirements Regulation pertaining to banks in the UK. This can be found on the Investec group's website.

Statement from the chairman of the Investec DLC group risk and capital committee

Philosophy and approach to risk management

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

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

Risk awareness, control and compliance are embedded in all our day-to-day activities. As fundamental to our values, we have a strong and embedded risk and capital management culture.

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

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

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 bank. 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, continually seeking new ways to enhance techniques.

We believe that the risk management systems and processes we have in place are adequate to support the bank's strategy and allow the bank to operate within its risk appetite tolerance as set out on page 40.

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

A summary of the year in review from a risk perspective

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

Although the macro-environment continues to present challenges, the bank was able to maintain sound asset performance and risk metrics throughout the year in review. Our risk appetite framework as set out on page 40 continues to be assessed in light of prevailing market conditions and bank strategy.

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

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

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

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

Our focus over the past few years to realign and rebalance our portfolios in line with our risk appetite framework is reflected in the relative changes in asset classes on our balance sheet; showing an increase in private client and corporate and other lending, and a reduction in lending collateralised by property as a proportion of our book. Our core loan book remains well diversified with commercial rent producing property loans comprising approximately 10% of the book, other lending collateralised by property 10%, high net worth and private client lending 20% and corporate lending 60% (with most industry concentrations well below 5%).

Overall net defaults of the bank are at a manageable level, amounting to 11.5% of our tier 1 equity, with total impairments amounting to 43.8% of the bank's pre-provision operating profit. The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounted to 2.16% (2017: 1.55%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.40 times (2017: 1.44 times).

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

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

Our client-driven private equity portfolio delivered a sound performance. Overall, we remain comfortable with the performance of our investment and equity risk exposures which comprise 3.02% of total assets.

Market risk within our trading portfolio remains modest with value at risk and stress testing scenarios remaining at prudent levels. Proprietary risk is limited. Potential losses that could arise in our trading book portfolio when stress tested under extreme market conditions (i.e. per extreme value theory) amount to approximately 0.1% of total operating income.

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

Investec has continued to maintain a sound balance sheet with a low gearing ratio of 9.1 times and a core loans to equity ratio of 4.4 times. Our current leverage ratio for Investec Bank plc is at 8.5%, ahead of the group's minimum 6% target level.

We have always held capital well in excess of regulatory requirements and we intend to perpetuate this philosophy. Investec Bank plc's common equity tier 1 ratio is at 11.8% at 31 March 2018 ahead of our group CET 1 target of greater than 10% and in excess of regulatory minimums. We are comfortable that credit growth is in line with our risk appetite framework and supported by sound risk metrics. We believe that a common equity tier 1 ratio in excess of 10% is appropriate for our businesses, given our sound leverage ratios and significant capital light revenues, and we will continue to build our business in a manner that achieves this target.

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

Holding a high level of readily available, high quality liquid assets remains paramount in the management of our balance sheet. We continue to maintain a low reliance on interbank wholesale funding to fund core lending asset growth. Cash and near cash balances amounted to £5.6 billion at year end, representing 46.8% of customer deposits.

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

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

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

The board, through its various risk and capital committees, continued to assess the impact of its principal risks and the above mentioned stress scenarios on its business. The board has concluded that the bank has robust systems and processes in place to manage these risks and that, while under a severe stress scenario business activity would be very subdued, the bank would continue to maintain adequate liquidity and capital balances to support the continued operation of the bank. Our viability statement is provided in volume one of Investec's 2018 integrated annual report on pages 163 to 164.

IFRS 9 is effective from 1 April 2018. IFRS 9 replaces IAS 39 and sets out the new requirements for the recognition and measurement of financial instruments. These requirements focus primarily on the classification and measurement of financial instruments and measurement of impairment losses based on an expected credit loss (ECL) model. Investec Bank plc confirmed to the PRA that it will use the transitional arrangements to absorb the full impact permissible of IFRS 9 in regulatory capital calculations. Further information on the impact of IFRS 9 is provided in the accounting policies section on page 167. In addition, the bank has published its detailed transitional disclosures on 29 June 2018 separately from its annual report and these can be found on the Investec group's website.

Conclusion

The bank has achieved a satisfactory operating performance, supported by solid levels of client activity and a robust recurring income base. We are comfortable that we have robust risk management processes and systems in place. Whilst the complexities of Brexit continue to cause uncertainty in the UK economy, the underlying book continues to perform well and in line with our risk appetite tolerance.

Signed on behalf of the board

Stephen Koseff
Chairman of the DLC group risk and capital committee

15 June 2018

Salient features

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

Year to 31 March	2018	2017
Net core loans and advances (£'million)	9 663	8 599
Total assets (£'million)	20 097	18 381
Total risk-weighted assets (£'million)	13 744	12 716
Total equity (£'million)	2 209	1 980
Cash and near cash (£'million)	5 598	4 853
Customer accounts (deposits) (£'million)	11 970	11 289
Gross defaults as a % of gross core loans and advances	3.67%	2.98%
Defaults (net of impairments) as a % of net core loans and advances	2.16%	1.55%
Net defaults (after collateral and impairments) as a % of net core loans and advances	–	–
Credit loss ratio*	1.14%	0.90%
Credit loss ratio – ongoing book	0.24%	0.27%
Banking book investment and equity risk exposures as a % of total assets	3.02%	3.35%
Level 3 (fair value assets) as a % of total assets	3.70%	3.70%
Traded market risk: one-day value at risk (£'million)	0.5	0.5
Core loans to equity ratio	4.4x	4.3x
Total gearing ratio**	9.1x	9.3x
Loans and advances to customers to customer deposits	80.7%	76.2%
Capital adequacy ratio°	16.5%	16.6%
Tier 1 ratio°	13.2%	12.2%
Common equity tier 1 ratio°	11.8%	12.2%
Leverage ratio°	8.5%	8.0%
Return on average assets#	0.56%	0.72%
Return on average risk-weighted assets#	0.82%	1.08%

* *Income statement impairment charge on core loans as a percentage of average advances.*
** *Total assets to total equity.*
° *Takes into account the deduction of foreseeable dividends as discussed on page 94.*
\# *Where return represents operating profit after tax and non-controlling interests but before goodwill, acquired intangibles and non-operating items. Average balances are calculated on a straight-line average.*

Overall risk appetite

IBP has board-approved risk appetite statement and policy documents covering our risk tolerance and approach to our principal aspects of risk. In addition, a number of committees and forums identify and manage risk at bank level. The IBP risk appetite statement and framework sets out the board's mandated risk appetite. The IBP risk appetite framework acts as a guide to determine the acceptable risk profile of the Investec group by the owners of the group's capital. The IBP risk appetite statement ensures that limits/targets are applied and monitored across all key operating jurisdictions and legal entities. The IBP 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 IBP risk appetite framework is a function of business strategy, budget and capital processes, our stress testing reviews and the regulatory and economic environment in which the group is operating. The group risk appetite framework is reviewed (in light of the above aspects) and approved at least annually or as business needs dictate. A documented process exists where our risk profile is measured against our risk appetite and this positioning is presented to the group risk and capital committee, board risk and capital committee and the board.

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

Risk appetite and tolerance metrics	Investec Bank plc positioning at 31 March 2018
• We seek to maintain an appropriate balance between revenue earned from capital light and capital intensive activities. Ideally capital light revenue should exceed 50% of total operating income, dependent on prevailing market conditions	Capital light activities contributed 48% to total operating income and capital intensive activities contributed 52%
• We have a solid annuity income base supported by diversified revenue streams, and target an annuity income ratio in excess of 65%	Annuity income amounted to 63.7% of total operating income
• We seek to maintain strict control over fixed costs and target a cost to income ratio of below 70%	The cost to income ratio amounted to 76.8%. Refer to page 24 for further information
• We are a lowly leveraged firm and target a leverage ratio in excess of 6%	We achieved this internal target; refer to page 95 for further information
• We intend to maintain a sufficient level of capital to satisfy regulatory requirements and our internal target ratios. We target a capital adequacy ratio range of between 14% and 17% on a consolidated basis for Investec Bank plc and we target a minimum tier 1 ratio of 11% and a common equity tier 1 ratio above 10%	We meet these targets; our total capital adequacy ratio amounted to 16.5% and our common equity tier 1 ratio amounted to 11.8%. Refer to pages 91 and 96 for further information
• We target a diversified loan portfolio, lending to clients we know and understand. We limit our exposure to a single/connected individual or company to 7.5% of common equity tier 1 capital (unless specifically approved by the relevant board committee). We also have a number of risk tolerance limits and targets for specific asset classes	We maintained this risk tolerance level in place throughout the year
• There is a preference for primary exposure in Investec Bank plc's main operating geography (i.e. the UK). The bank will accept exposures where we have a branch or local banking subsidiary and tolerate exposures to other countries where we have developed a local understanding and capability or we are facilitating a transaction for a client who requires facilities in a foreign geography	Refer to page 43 for further information
• We target a credit loss ratio on core loans of less than 0.5% of average core advances and we target defaults net of impairments less than 2% of total net core loans	The credit loss ratio on core loans amounted to 1.14% (0.24% excluding the legacy portfolio) and defaults net of impairments amounted to 2.16% of total core loans (1.27% excluding the legacy portfolio). Refer to page 58 for further information
• We carry a high level of liquidity in all our banking subsidiaries in order to be able to cope with shocks to the system, targeting a minimum cash to customer deposit ratio of 25%	Total cash and near cash balances amounted to £5.6 billion at year end representing 46.8% of customer deposits. Refer to page 79 for further information
• We have modest market risk as our trading activities primarily focus on supporting client activity and our appetite for proprietary trading is limited. We set an overall tolerance level of a one-day 95% VaR of less than £5 million	We meet these internal limits; one-day 95% VaR was £0.5 million at 31 March 2018; refer to page 74 for further information
• We have moderate appetite for investment risk, and set a risk tolerance of less than 27.5% of common equity tier 1 capital for our unlisted principal investment portfolio	Our unlisted investment portfolio amounted to £411 million representing 25.4% of common equity tier 1. Refer to page 70 for further information
• Our operational risk management team focuses on improving business performance and compliance with regulatory requirements through review, challenge and escalation. We have heightened focus on financial and cyber crime	Refer to pages 85 to 88 for further information
• We have a number of policies and practices in place to mitigate reputational, legal and conduct risks	Refer to pages 88 and 89 for further information

An overview of our principal risks

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

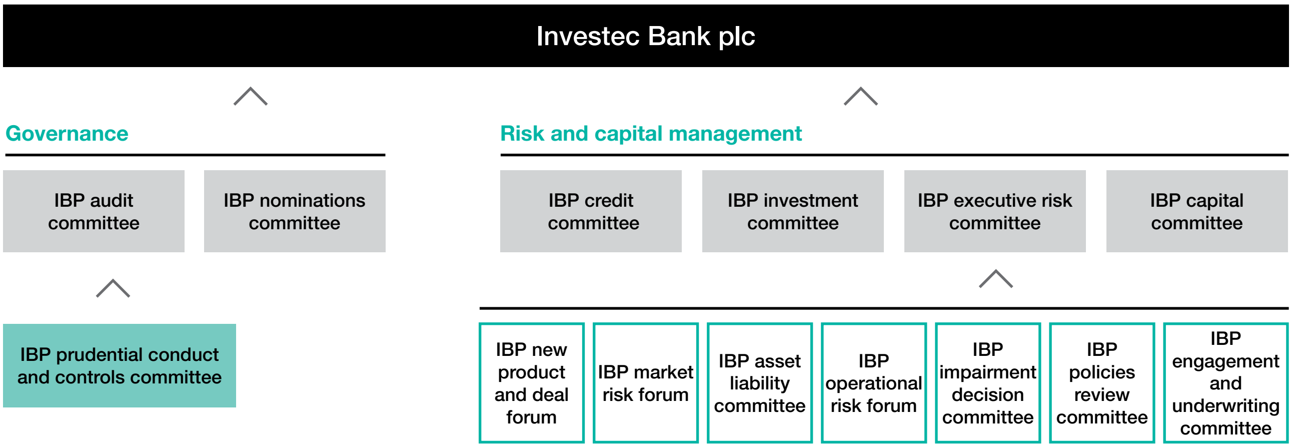
These principal risks have been highlighted on page 20.

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

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

Risk management framework, committees and forums

A number of committees and forums identify and manage risk at bank level, as shown in the diagram below. These committees and forums operate together with risk management and are mandated by the board.



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

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

Credit and counterparty risk management

Credit and counterparty risk description

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

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

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

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

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

Credit and counterparty risk governance structure

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

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

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

Credit and counterparty risk appetite

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

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

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

We have little appetite for unsecured debt and require good quality collateral in support of obligations (refer to page 67 for further information).

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

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

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

Concentration risk

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

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

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

Country risk

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

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

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

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

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

Corporate responsibility considerations

Investec has a holistic approach to corporate responsibility, which runs beyond recognising our own footprint on the environment and includes our many corporate social investment activities and our funding and investing activities. This is not merely for business reasons, but based on a broader responsibility to our environment and society. Accordingly, corporate responsibility risk considerations are considered by the credit committee and investment committee when making lending or investment decisions. There is also oversight by the social and ethics committee (board committee) on social

Our assessment of our clients includes consideration of their character and integrity, core competencies, track record and financial strength and environmental issues. In particular the following factors are taken into account when assessing a transaction based on the outcome of the corporate responsibility considerations:

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

Refer to our corporate responsibility report on our website.

Management and measurement of credit and counterparty risk

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

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

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

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

The bank applies the standardised approach for calculating capital requirements in the assessment of its credit and counterparty exposures.

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

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

Stress testing and portfolio management

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

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

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

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

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

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

Credit and counterparty risk – nature of activities

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

Lending collateralised by property

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

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

An analysis of the lending collateralised by property portfolio and asset quality information is provided on pages 64 to 65.

Private client activities

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

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

Credit risk arises from the following activities:

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

An analysis of the private client loan portfolio and asset quality information is provided on pages 64 to 65.

Corporate client activities

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

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

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

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

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

- **Corporate Loans:** provides senior secured loans to mid-to-large cap companies. Credit risk is assessed against debt serviceability based upon robust cash generation of the business based on both historical and forecast information. We typically act as transaction lead or arranger, and have a close relationship with management and sponsors
- **Corporate Debt Securities:** these are tradable corporate debt instruments, based on acceptable credit fundamentals typically with a medium-term hold strategy where the underlying risk is to UK and European corporates. This is a highly diversified, granular portfolio that is robust, and spread across a variety of geographies and industries
- **Acquisition Finance:** provides debt funding to proven management teams and sponsors, running small to mid-cap sized companies. Credit risk is assessed against debt serviceability based upon robust cash generation of the business based on both historical and forecast information. We typically lend on a bilateral basis and benefit from a close relationship with management and sponsors
- **Asset Based Lending:** provides working capital and secured corporate loans to mid-caps. These loans are secured by the assets of the business, for example, the accounts receivable, inventory and plant and machinery. In common with our corporate lending activities, strong emphasis is placed on supporting companies with scale and relevance in their industry, stability of cash flow, and experienced management
- **Fund Finance:** provides debt facilities to asset managers and fund vehicles, principally in private equity. The geographical focus is the UK, Western Europe, North America and Australia where Investec can support experienced asset managers and their funds which show strong, long-term value creation and good custodianship of investors' money. Debt facilities to fund vehicles are secured against undrawn limited partner commitments and/or the funds underlying assets. Fund manager loans are structured against committed fund management cash flows, the managers' investment stake in their own funds and when required managers' personal guarantees
- **Small Ticket Asset Finance:** provides funding to small and medium-sized corporates to support asset purchases and other business requirements. The portfolio is highly diversified by industry and number of clients and is secured against the asset being financed and is a direct obligation of the company
- **Large Ticket Asset Finance:** provides the finance and structuring expertise for aircraft and larger lease assets, the majority of which are senior secured loans with a combination of corporate, cash flow and asset-backed collateral against the exposure
- **Power and Infrastructure Finance:** arranges and provides typically long-term financing for infrastructure assets, in particular renewable and traditional power projects as well as transportation assets, against contracted future cash flows of the project(s) from well-established and financially sound off-take counterparties. There is a requirement for a strong upfront equity contribution from an experienced sponsor

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

- **Resource Finance:** debt arranging and underwriting together with structured hedging solutions mainly within the mining sectors. The underlying commodities are mainly precious and base metals and coal. Our clients in this sector are established mining companies which are typically domiciled and publicly listed in one of the following geographies – the UK, North America and Australia as well as other countries where we are facilitating a transaction for a client who requires facilities in a foreign geography. All facilities are secured by the borrower's assets and repaid from mining cash flows
- **Structured Credit:** these are bonds secured against a pool of assets, mainly UK residential mortgages or European or US corporate leverage loans. The bonds are typically investment grade rated, which benefit from a high-level of credit subordination and can withstand a significant level of portfolio defaults
- **Treasury Placements:** the treasury function, as part of the daily management of the bank's liquidity, places funds with central banks and other commercial banks and financial institutions. These transactions are typically short-term (less than one month) money market placements or secured repurchase agreements. These market counterparties are mainly investment grade rated entities that occupy dominant and systemic positions in their domestic banking markets and internationally. These counterparties are located in the UK, Western Europe, North America and Australia
- **Corporate advisory and investment banking activities:** counterparty risk in this area is modest. The business also trades approved shares on an approved basis and makes markets in shares where we are appointed corporate broker under pre-agreed market risk limits. Settlement trades are largely on a delivery versus payment basis, through major stock exchanges. Credit risk only occurs in the event of counterparty failure and would be linked to any fair value losses on the underlying security
- **Customer trading activities to facilitate client lending and hedging:** our customer trading portfolio consists of derivative contracts in interest rates, foreign exchange, commodities, credit derivatives and equities that are entered into, to facilitate a client's hedging requirements. The counterparties to such transactions are typically corporates, in particular where they have an exposure to foreign exchange due to operating in sectors that include imports and exports of goods and services. These positions are marked to market, typically with daily margin calls to mitigate credit exposure in the event of counterparty default.

An analysis of the corporate client loan portfolio and asset quality information is provided on pages 64 to 65.

Wealth & Investment

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

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

Asset quality analysis – credit risk classification and provisioning policy

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

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

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

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

Credit risk mitigation

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

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

An analysis of collateral is provided on page 67.

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

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

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

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

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

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

Investec has limited appetite for unsecured debt, preferring to mitigate risk through good quality tangible collateral

Risk management

(continued)

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

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

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

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

Further information on credit derivatives is provided on page 76.

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

Forbearance

Forbearance measures refer to concessions such as modification of the terms and conditions or refinancing that has been granted to a debtor in financial difficulties. These modifications are on terms that would be more advantageous compared with what other debtors with a similar risk profile could have obtained from the bank. The credit committee will assess each application to determine whether the proposed modifications will be considered as forbearance. Forbearance is distinguished from commercial renegotiations which take place as part of normal business activity and standard banking practice. The amount of exposures forborne represents 1.8% of the total gross credit and counterparty exposures (March 2017: 1.9%).

Credit and counterparty risk year in review

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

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

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

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

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

Ongoing asset quality continues to reflect the quality of the underlying book. The credit loss ratio on an ongoing basis amounted to 0.24% included in the 1.14% above (2017: 0.27%). Defaulted exposures are considered well covered by impairments.

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

Credit and counterparty risk information

Pages 42 to 50 describe where and how credit risk is assumed in our operations.

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

An analysis of gross credit and counterparty exposures

Gross credit and counterparty exposures increased by 9.1% to £19.0 billion since 31 March 2017 largely due to growth in loans and advances to customers as well as cash and near cash. Cash and near cash balances amount to £5.6 billion and are largely reflected in the following line items in the table below: cash and balances at central banks, loans and advances to banks and sovereign debt securities.

£'000 At 31 March	2018	2017	% change	Average*
Cash and balances at central banks	3 479 639	2 850 664	22.1%	3 165 152
Loans and advances to banks	772 984	922 764	(16.2%)	847 874
Reverse repurchase agreements and cash collateral on securities borrowed	750 428	536 173	40.0%	643 301
Sovereign debt securities	1 155 472	952 902	21.3%	1 054 187
Bank debt securities	107 938	184 626	(41.5%)	146 282
Other debt securities	288 349	408 149	(29.4%)	348 249
Derivative financial instruments	513 836	554 710	(7.4%)	534 273
Securities arising from trading activities	496 498	331 705	49.7%	414 102
Loans and advances to customers (gross)	9 815 012	8 725 515	12.5%	9 270 264
Other loans and advances (gross)	332 672	343 090	(3.0%)	337 881
Other securitised assets (gross)	8 668	12 851	(32.5%)	10 760
Other assets	44 707	49 894	(10.4%)	47 301
Total on-balance sheet exposures	**17 766 203**	**15 873 043**	**11.9%**	**16 819 623**
Guarantees^	21 709	27 204	(20.2%)	24 457
Contingent liabilities, committed facilities and other	1 209 742	1 517 224	(20.3%)	1 363 483
Total off-balance sheet exposures	**1 231 451**	**1 544 428**	**(20.3%)**	**1 387 940**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**18 997 654**	**17 417 471**	**9.1%**	**18 207 563**

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

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

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

£'000	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note reference	Total balance sheet
At 31 March 2018				
Cash and balances at central banks	3 479 639	8 129		3 487 768
Loans and advances to banks	772 984	–		772 984
Reverse repurchase agreements and cash collateral on securities borrowed	750 428	–		750 428
Sovereign debt securities	1 155 472	–		1 155 472
Bank debt securities	107 938	–		107 938
Other debt securities	288 349	–		288 349
Derivative financial instruments	513 836	96 365		610 201
Securities arising from trading activities	496 498	205 230		701 728
Investment portfolio	–	472 083	1	472 083
Loans and advances to customers	9 815 012	(151 840)	2	9 663 172
Other loans and advances	332 672	85 075	3	417 747
Other securitised assets	8 668	123 504	4	132 172
Interest in associated undertakings	–	6 414		6 414
Deferred taxation assets	–	84 599		84 599
Other assets	44 707	968 733	5	1 013 440
Property and equipment	–	53 183		53 183
Investment properties	–	14 500		14 500
Goodwill	–	261 075		261 075
Intangible assets	–	103 972		103 972
Total on-balance sheet exposures	**17 766 203**	**2 331 022**		**20 097 225**

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

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

£'000	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note refer-ence	Total balance sheet
At 31 March 2017				
Cash and balances at central banks	2 850 664	2 903		2 853 567
Loans and advances to banks	922 764	–		922 764
Reverse repurchase agreements and cash collateral on securities borrowed	536 173	–		536 173
Sovereign debt securities	952 902	–		952 902
Bank debt securities	184 626	–		184 626
Other debt securities	408 149	–		408 149
Derivative financial instruments	554 710	55 661		610 371
Securities arising from trading activities	331 705	191 055		522 760
Investment portfolio	–	454 566	1	454 566
Loans and advances to customers	8 725 515	(126 876)	2	8 598 639
Other loans and advances	343 090	213 374	3	556 464
Other securitised assets	12 851	125 777	4	138 628
Interest in associated undertakings	–	23 818		23 818
Deferred taxation assets	–	78 945		78 945
Other assets	49 894	1 039 496	5	1 089 390
Property and equipment	–	58 857		58 857
Investment properties	–	14 500		14 500
Goodwill	–	259 965		259 965
Intangible assets	–	116 330		116 330
Total on-balance sheet exposures	**15 873 043**	**2 508 371**		**18 381 414**

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

Detailed analysis of gross credit and counterparty exposures by industry

£'000	High net worth and other professional individuals	Lending collateralised by property	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business service	Finance and insurance
At 31 March 2018							
Cash and balances at central banks	–	–	–	–	3 479 639	–	–
Loans and advances to banks	–	–	–	–	–	–	772 984
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	–	–	750 428
Sovereign debt securities	–	–	–	–	1 155 472	–	–
Bank debt securities	–	–	–	–	–	–	107 938
Other debt securities	–	–	–	60 448	6 280	–	50 107
Derivative financial instruments	22 249	–	1 912	50 631	131	13 083	319 011
Securities arising from trading activities	–	–	–	5 141	346 264	2 881	113 097
Loans and advances to customers (gross)	1 918 168	1 988 385	5 504	447 460	153 085	668 867	1 635 945
Other loans and advances (gross)	–	–	–	–	–	–	119 885
Other securitised assets (gross)	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	–	44 707
Total on-balance sheet exposures	**1 940 417**	**1 988 385**	**7 416**	**563 680**	**5 140 871**	**684 831**	**3 914 102**
Guarantees^	15 443	2 700	–	–	–	–	1 510
Contingent liabilities, committed facilities and other	128 195	315 027	–	177 238	22 710	74 350	251 276
Total off-balance sheet exposures	**143 638**	**317 727**	**–**	**177 238**	**22 710**	**74 350**	**252 786**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**2 084 055**	**2 306 112**	**7 416**	**740 918**	**5 163 581**	**759 181**	**4 166 888**
At 31 March 2017							
Cash and balances at central banks	–	–	–	–	2 850 664	–	–
Loans and advances to banks	–	–	–	–	–	–	922 764
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	–	–	536 173
Sovereign debt securities	–	–	–	–	952 902	–	–
Bank debt securities	–	–	–	–	–	–	184 626
Other debt securities	–	–	–	48 297	5 832	551	138 668
Derivative financial instruments	13 629	–	156	75 743	17	15 041	359 915
Securities arising from trading activities	–	–	–	26 280	132 415	–	154 676
Loans and advances to customers (gross)	1 598 801	1 963 754	5 539	487 089	149 220	431 659	1 321 630
Other loans and advances (gross)	–	–	–	–	–	–	118 507
Other securitised assets (gross)	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	–	47 671
Total on-balance sheet exposures	**1 612 430**	**1 963 754**	**5 695**	**637 409**	**4 091 050**	**447 251**	**3 784 630**
Guarantees^	17 652	153	–	–	–	–	–
Contingent liabilities, committed facilities and other	137 775	224 153	–	411 106	40 922	62 098	274 207
Total off-balance sheet exposures	**155 427**	**224 306**	**–**	**411 106**	**40 922**	**62 098**	**274 207**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**1 767 857**	**2 188 060**	**5 695**	**1 048 515**	**4 131 972**	**509 349**	**4 058 837**

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

Retailers and whole-salers	Manufac-turing and commerce	Construc-tion	Corporate commercial real estate	Other residential mortgages	Mining and resources	Leisure, entertain-ment and tourism	Transport	Com-munication	Total
–	–	–	–	–	–	–	–	–	3 479 639
–	–	–	–	–	–	–	–	–	772 984
–	–	–	–	–	–	–	–	–	750 428
–	–	–	–	–	–	–	–	–	1 155 472
–	–	–	–	–	–	–	–	–	107 938
320	–	19 011	–	39 751	31 860	–	73 704	6 868	288 349
31 528	20 483	3 233	3 130	–	17 149	1 168	28 418	1 710	513 836
3 477	–	–	–	–	1 536	–	–	24 102	496 498
265 990	771 440	64 432	131 975	–	127 638	229 665	1 271 227	135 231	9 815 012
–	–	–	–	212 787	–	–	–	–	332 672
–	–	–	–	8 668	–	–	–	–	8 668
–	–	–	–	–	–	–	–	–	44 707
301 315	**791 923**	**86 676**	**135 105**	**261 206**	**178 183**	**230 833**	**1 373 349**	**167 911**	**17 766 203**
–	–	–	–	–	1 848	–	–	208	21 709
47 279	56 113	5 904	3 173	–	95 653	20 867	4 166	7 791	1 209 742
47 279	**56 113**	**5 904**	**3 173**	**–**	**97 501**	**20 867**	**4 166**	**7 999**	**1 231 451**
348 594	**848 036**	**92 580**	**138 278**	**261 206**	**275 684**	**251 700**	**1 377 515**	**175 910**	**18 997 654**
–	–	–	–	–	–	–	–	–	2 850 664
–	–	–	–	–	–	–	–	–	922 764
–	–	–	–	–	–	–	–	–	536 173
–	–	–	–	–	–	–	–	–	952 902
–	–	–	–	–	–	–	–	–	184 626
195	45 106	–	–	74 338	42 694	2 775	43 434	6 259	408 149
16 018	46 042	527	2 365	–	7 192	4 630	11 759	1 676	554 710
39	1 771	–	–	2 892	–	–	3 037	10 595	331 705
399 252	630 456	52 833	100 941	–	120 544	291 573	989 328	182 896	8 725 515
–	–	–	48	224 535	–	–	–	–	343 090
–	–	–	–	12 851	–	–	–	–	12 851
–	2 223	–	–	–	–	–	–	–	49 894
415 504	**725 598**	**53 360**	**103 354**	**314 616**	**170 430**	**298 978**	**1 047 558**	**201 426**	**15 873 043**
–	–	–	–	–	9 193	–	–	206	27 204
85 842	59 908	–	6 296	–	125 662	19 998	51 949	17 308	1 517 224
85 842	**59 908**	**–**	**6 296**	**–**	**134 855**	**19 998**	**51 949**	**17 514**	**1 544 428**
501 346	**785 506**	**53 360**	**109 650**	**314 616**	**305 285**	**318 976**	**1 099 507**	**218 940**	**17 417 471**

Corporate client loans account for 60.2% of total gross core loans and advances, and are well diversified across various industry classifications

Summary analysis of gross credit and counterparty exposures by industry

A description of the type of corporate client lending we undertake, is provided on pages 45 and 46, and a more detailed analysis of the corporate client loan portfolio is provided on pages 64 and 65.

The remainder of core loans and advances largely relate to private client lending, as represented by the industry classification 'high net worth and professional individuals', as well as lending collateralised by property.

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

A description of the type of private client lending and lending collateralised by property we undertake is provided on pages 44 and 45, and a more detailed analysis of the private client loan portfolio is provided on pages 64 and 65.

	Gross core loans and advances		Other credit and counterparty exposures		Total	
At 31 March £'000	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
High net worth and professional individuals	1 918 168	1 598 801	165 887	169 056	2 084 055	1 767 857
Lending collateralised by property – largely to private clients	1 988 385	1 963 754	317 727	224 306	2 306 112	2 188 060
Agriculture	5 504	5 539	1 912	156	7 416	5 695
Electricity, gas and water (utility services)	447 460	487 089	293 458	561 426	740 918	1 048 515
Public and non-business services	153 085	149 220	5 010 496	3 982 752	5 163 581	4 131 972
Business services	668 867	431 659	90 314	77 690	759 181	509 349
Finance and insurance	1 635 945	1 321 630	2 530 943	2 737 207	4 166 888	4 058 837
Retailers and wholesalers	265 990	399 252	82 604	102 094	348 594	501 346
Manufacturing and commerce	771 440	630 456	76 596	155 050	848 036	785 506
Construction	64 432	52 833	28 148	527	92 580	53 360
Corporate commercial real estate	131 975	100 941	6 303	8 709	138 278	109 650
Other residential mortgages	-	–	261 206	314 616	261 206	314 616
Mining and resources	127 638	120 544	148 046	184 741	275 684	305 285
Leisure, entertainment and tourism	229 665	291 573	22 035	27 403	251 700	318 976
Transport	1 271 227	989 328	106 288	110 179	1 377 515	1 099 507
Communication	135 231	182 896	40 679	36 044	175 910	218 940
Total	**9 815 012**	**8 725 515**	**9 182 642**	**8 691 956**	**18 997 654**	**17 417 471**

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

£'000	Up to three months	Three to six months	Six months to one year	One to five years	Five to 10 years	> 10 years	Total
Cash and balances at central banks	3 479 639	–	–	–	–	–	3 479 639
Loans and advances to banks	767 838	15	–	5 131	–	–	772 984
Reverse repurchase agreements and cash collateral on securities borrowed	643 565	6 797	100 066	–	–	–	750 428
Sovereign debt securities	416 461	438 315	70 426	15 506	22 204	192 560	1 155 472
Bank debt securities	41	8 500	132	99 265	–	–	107 938
Other debt securities	5 955	496	204	114 105	19 180	148 409	288 349
Derivative financial instruments	96 024	33 458	87 485	192 577	33 165	71 127	513 836
Securities arising from trading activities	454	256	5 277	66 967	91 558	331 986	496 498
Loans and advances to customers (gross)	1 476 705	626 999	1 292 248	4 796 708	1 189 958	432 394	9 815 012
Other loans and advances (gross)	3 531	598	138	12 611	86 292	229 502	332 672
Other securitised assets (gross)	–	–	–	–	–	8 668	8 668
Other assets	44 707	–	–	–	–	–	44 707
Total on-balance sheet exposures	**6 934 920**	**1 115 434**	**1 555 976**	**5 302 870**	**1 442 357**	**1 414 646**	**17 766 203**
Guarantees^	7 269	–	4 548	9 892	–	–	21 709
Contingent liabilities, committed facilities and other	162 562	52 981	118 438	776 987	58 845	39 929	1 209 742
Total off-balance sheet exposures	**169 931**	**52 981**	**122 986**	**786 879**	**58 845**	**39 929**	**1 231 451**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**7 104 751**	**1 168 415**	**1 678 962**	**6 089 749**	**1 501 202**	**1 454 575**	**18 997 654**

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

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

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

An analysis of the ongoing business core loans and advances to customers and asset quality is provided on page 31.

£'000	31 March 2018	31 March 2017
Gross core loans and advances to customers	**9 815 012**	**8 725 515**
Total impairments	**(151 840)**	**(126 876)**
Specific impairments	(89 863)	(83 488)
Portfolio impairments	(61 977)	(43 388)
Net core loans and advances to customers	**9 663 172**	**8 598 639**
Average gross core loans and advances to customers	**9 270 264**	**8 325 046**
Current loans and advances to customers	9 376 976	8 394 580
Past due loans and advances to customers (1 – 60 days)	40 315	48 003
Special mention loans and advances to customers (1 – 90 days)	37 085	22 585
Default loans and advances to customers	360 636	260 347
Gross core loans and advances to customers	**9 815 012**	**8 725 515**
Current loans and advances to customers	9 376 976	8 394 580
Default loans that are current and not impaired	50 224	6 993
Gross core loans and advances to customers that are past due but not impaired	135 830	105 645
Gross core loans and advances to customers that are impaired	251 982	218 297
Gross core loans and advances to customers	**9 815 012**	**8 725 515**
Total income statement charge for impairments on core loans and advances	**(105 864)**	**(74 995)**
Gross default loans and advances to customers	360 636	260 347
Specific impairments	(89 863)	(83 488)
Portfolio impairments	(61 977)	(43 388)
Defaults net of impairments	**208 796**	**133 471**
Aggregate collateral and other credit enhancements on defaults	291 834	192 760
Net default loans and advances to customers (limited to zero)	**–**	**–**
Ratios		
Total impairments as a % of gross core loans and advances to customers	1.55%	1.45%
Total impairments as a % of gross default loans	42.10%	48.73%
Gross defaults as a % of gross core loans and advances to customers	3.67%	2.98%
Defaults (net of impairments) as a % of net core loans and advances to customers	2.16%	1.55%
Net defaults as a % of net core loans and advances to customers	–	–
Credit loss ratio (i.e. income statement impairment charge on core loans as a % of average gross core loans and advances)	1.14%	0.90%

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

£'000 At 31 March	2018	2017
Default loans that are current	138 404	68 069
1 – 60 days	87 513	106 174
61 – 90 days	27 950	4 174
91 – 180 days	40 040	63 707
181 – 365 days	47 176	16 205
> 365 days	96 953	72 606
Past due and default core loans and advances to customers (actual capital exposure)	**438 036**	**330 935**
1 – 60 days	2 274	1 863
61 – 90 days	3 576	173
91 – 180 days	5 687	3 341
181 – 365 days	13 449	7 517
> 365 days	32 817	57 851
Past due and default core loans and advances to customers (actual amount in arrears)	**57 803**	**70 745**

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

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
At 31 March 2018							
Watchlist loans neither past due nor impaired							
Total capital exposure	50 224	–	–	–	–	–	50 224
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	77 241	16 883	4 259	20 645	16 802	135 830
Amount in arrears	–	2 248	289	463	526	9 388	12 914
Gross core loans and advances to customers that are impaired							
Total capital exposure	88 180	10 272	11 067	35 781	26 531	80 151	251 982
Amount in arrears	–	26	3 287	5 224	12 923	23 429	44 889
At 31 March 2017							
Watchlist loans neither past due nor impaired							
Total capital exposure	6 993	–	–	–	–	–	6 993
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	89 947	4 171	1 270	1 331	8 926	105 645
Amount in arrears	–	1 819	170	385	344	8 403	11 121
Gross core loans and advances to customers that are impaired							
Total capital exposure	61 076	16 227	3	62 437	14 874	63 680	218 297
Amount in arrears	–	44	3	2 956	7 173	49 448	59 624

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

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	**–**	**40 315**	**–**	**–**	**–**	**–**	**40 315**
Special mention	**–**	**20 202**	**16 883**	**–**	**–**	**–**	**37 085**
Special mention (1 – 90 days)	–	20 202	6 184	–	–	–	26 386
Special mention (61 – 90 days and item well secured)	–	–	10 699	–	–	–	10 699
Default	**138 404**	**26 996**	**11 067**	**40 040**	**47 176**	**96 953**	**360 636**
Sub-standard	128 906	20 286	11 067	25 981	36 563	70 432	293 235
Doubtful	9 498	6 701	–	12 044	8 827	21 196	58 266
Loss	–	9	–	2 015	1 786	5 325	9 135
Total	**138 404**	**87 513**	**27 950**	**40 040**	**47 176**	**96 953**	**438 036**

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

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	**–**	**1 869**	**–**	**–**	**–**	**–**	**1 869**
Special mention	**–**	**70**	**289**	**–**	**–**	**–**	**359**
Special mention (1 – 90 days)	–	70	41	–	–	–	111
Special mention (61 – 90 days and item well secured)	–	–	248	–	–	–	248
Default	**–**	**335**	**3 287**	**5 687**	**13 449**	**32 817**	**55 575**
Sub-standard	–	313	3 287	1 902	8 154	15 068	28 724
Doubtful	–	13	–	1 772	3 514	12 425	17 724
Loss	–	9	–	2 013	1 781	5 324	9 127
Total	**–**	**2 274**	**3 576**	**5 687**	**13 449**	**32 817**	**57 803**

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

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	**–**	**48 003**	**–**	**–**	**–**	**–**	**48 003**
Special mention	**–**	**20 028**	**2 557**	**–**	**–**	**–**	**22 585**
Special mention (1 – 90 days)	–	20 028	–	–	–	–	20 028
Special mention (61 – 90 days and item well secured)	–	–	2 557	–	–	–	2 557
Default	**68 069**	**38 143**	**1 617**	**63 707**	**16 205**	**72 606**	**260 347**
Sub-standard	39 561	27 622	1 614	48 839	11 849	51 120	180 605
Doubtful	27 970	10 508	–	13 324	3 458	13 644	68 904
Loss	538	13	3	1 544	898	7 842	10 838
Total	**68 069**	**106 174**	**4 174**	**63 707**	**16 205**	**72 606**	**330 935**

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

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	**–**	**1 094**	**–**	**–**	**–**	**–**	**1 094**
Special mention	**–**	**63**	**127**	**–**	**–**	**–**	**190**
Special mention (1 – 90 days)	–	63	–	–	–	–	63
Special mention (61 – 90 days and item well secured)	–	–	127	–	–	–	127
Default	**–**	**706**	**46**	**3 341**	**7 517**	**57 851**	**69 461**
Sub-standard	–	670	43	1 018	3 884	45 313	50 928
Doubtful	–	25	–	789	2 735	4 708	8 257
Loss	–	11	3	1 534	898	7 830	10 276
Total	**–**	**1 863**	**173**	**3 341**	**7 517**	**57 851**	**70 745**

An analysis of core loans and advances to customers

£'000	Gross core loans and advances that are neither past due nor impaired	Gross core loans and advances that are past due but not impaired	Gross core loans and advances that are impaired	Total gross core loans and advances (actual capital exposure)	Specific impairments	Portfolio impairments	Total net core loans and advances (actual capital exposure)	Actual amount in arrears
At 31 March 2018								
Current core loans and advances	**9 376 976**	**–**	**–**	**9 376 976**	**–**	**(61 900)**	**9 315 076**	**–**
Past due (1 – 60 days)	**–**	**40 315**	**–**	**40 315**	**–**	**–**	**40 315**	**1 869**
Special mention	**–**	**37 085**	**–**	**37 085**	**–**	**–**	**37 085**	**359**
Special mention (1 – 90 days)	–	26 386	–	26 386	–	–	26 386	111
Special mention (61 – 90 days and item well secured)	–	10 699	–	10 699	–	–	10 699	248
Default	**50 224**	**58 430**	**251 982**	**360 636**	**(89 863)**	**(77)**	**270 696**	**55 575**
Sub-standard	50 224	58 325	184 686	293 235	(51 739)	(77)	241 419	28 724
Doubtful	–	105	58 161	58 266	(31 221)	–	27 045	17 724
Loss	–	–	9 135	9 135	(6 903)	–	2 232	9 127
Total	**9 427 200**	**135 830**	**251 982**	**9 815 012**	**(89 863)**	**(61 977)**	**9 663 172**	**57 803**
At 31 March 2017								
Current core loans and advances	**8 394 580**	**–**	**–**	**8 394 580**	**–**	**(43 388)**	**8 351 192**	**–**
Past due (1 – 60 days)	**–**	**48 003**	**–**	**48 003**	**–**	**–**	**48 003**	**1 094**
Special mention	**–**	**22 585**	**–**	**22 585**	**–**	**–**	**22 585**	**190**
Special mention (1 – 90 days)	–	20 028	–	20 028	–	–	20 028	63
Special mention (61 – 90 days and item well secured)	–	2 557	–	2 557	–	–	2 557	127
Default	**6 993**	**35 057**	**218 297**	**260 347**	**(83 488)**	**–**	**176 859**	**69 461**
Sub-standard	6 993	35 057	138 555	180 605	(38 237)	–	142 368	50 928
Doubtful	–	–	68 904	68 904	(37 430)	–	31 474	8 257
Loss	–	–	10 838	10 838	(7 821)	–	3 017	10 276
Total	**8 401 573**	**105 645**	**218 297**	**8 725 515**	**(83 488)**	**(43 388)**	**8 598 639**	**70 745**

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

£'000	Private client, professional and high net worth individuals	Corporate sector	Insurance, financial services (excluding sovereign)	Public and government sector (including central banks)	Total core loans and advances to customers
At 31 March 2018					
Current core loans and advances	**3 583 562**	**4 009 301**	**1 632 968**	**151 145**	**9 376 976**
Past due (1 – 60 days)	**28 339**	**8 846**	**2 086**	**1 044**	**40 315**
Special mention	**35 458**	**972**	**586**	**69**	**37 085**
Special mention (1 – 90 days)	26 386	–	–	–	26 386
Special mention (61 – 90 days and item well secured)	9 072	972	586	69	10 699
Default	**259 194**	**100 310**	**305**	**827**	**360 636**
Sub-standard	205 076	87 846	133	180	293 235
Doubtful	50 036	7 722	119	389	58 266
Loss	4 082	4 742	53	258	9 135
Total gross core loans and advances to customers	**3 906 553**	**4 119 429**	**1 635 945**	**153 085**	**9 815 012**
Total impairments	**(120 725)**	**(30 927)**	**(119)**	**(69)**	**(151 840)**
Specific impairments	(58 825)	(30 850)	(119)	(69)	(89 863)
Portfolio impairments	(61 900)	(77)	–	–	(61 977)
Net core loans and advances to customers	**3 785 828**	**4 088 502**	**1 635 826**	**153 016**	**9 663 172**
At 31 March 2017					
Current core loans and advances	**3 252 498**	**3 673 173**	**1 321 251**	**147 658**	**8 394 580**
Past due (1 – 60 days)	**41 973**	**5 183**	**211**	**636**	**48 003**
Special mention	**22 111**	**402**	**3**	**69**	**22 585**
Special mention (1 – 90 days)	20 028	–	–	–	20 028
Special mention (61 – 90 days and item well secured)	2 083	402	3	69	2 557
Default	**245 973**	**13 352**	**165**	**857**	**260 347**
Sub-standard	176 021	4 384	8	192	180 605
Doubtful	62 844	5 704	119	237	68 904
Loss	7 108	3 264	38	428	10 838
Total gross core loans and advances to customers	**3 562 555**	**3 692 110**	**1 321 630**	**149 220**	**8 725 515**
Total impairments	**(108 189)**	**(18 036)**	**(101)**	**(550)**	**(126 876)**
Specific impairments	(76 763)	(6 074)	(101)	(550)	(83 488)
Portfolio impairments	(31 426)	(11 962)	–	–	(43 388)
Net core loans and advances to customers	**3 454 366**	**3 674 074**	**1 321 529**	**148 670**	**8 598 639**

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

£'000	Gross core loans	Gross defaults	Aggregate collateral and other credit enhancements on defaults	Balance sheet impairments	Income statement impairments*
Lending collateralised by property	**1 988 385**	**248 008**	**207 059**	**(54 089)**	**(56 048)**
Commercial real estate	**1 149 140**	**74 714**	**43 681**	**(31 060)**	**(29 235)**
Commercial real estate – investment	953 388	48 495	35 199	(13 296)	(22 442)
Commercial real estate – development	140 222	–	–	–	–
Commercial vacant land and planning	55 530	26 219	8 482	(17 764)	(6 793)
Residential real estate	**839 245**	**173 294**	**163 378**	**(23 029)**	**(26 813)**
Residential real estate – investment	243 675	46 937	42 205	(5 880)	(15 918)
Residential real estate – development	524 893	97 475	90 151	(10 813)	(5 865)
Residential vacant land and planning	70 677	28 882	31 022	(6 336)	(5 030)
High net worth and other private client lending	**1 918 168**	**11 186**	**13 277**	**(4 736)**	**(3 185)**
Mortgages	1 481 355	6 601	10 069	(1 856)	(130)
High net worth and specialised lending	436 813	4 585	3 208	(2 880)	(3 055)
Corporate and other lending	**5 908 459**	**101 442**	**71 498**	**(31 038)**	**(26 498)**
Corporate and acquisition finance	1 534 815	18 102	14 202	(4 000)	(3 983)
Asset-based lending	330 820	–	–	–	–
Fund finance	1 030 450	–	–	–	–
Other corporate and financial institutions and governments	650 312	–	–	–	(61)
Asset finance	1 872 821	79 272	53 589	(26 677)	(25 436)
Small ticket asset finance	1 386 610	15 177	6 320	(8 857)	(7 616)
Large ticket asset finance	486 211	64 095	47 269	(17 820)	(17 820)
Project finance	483 788	4 068	3 707	(361)	2 982
Resource finance	5 453	–	–	–	–
Portfolio impairments				**(61 977)**	**(20 133)**
Total	**9 815 012**	**360 636**	**291 834**	**(151 840)**	**(105 864)**

* *Where a positive number represents a recovery.*

An analysis of core loans and advances by risk category at 31 March 2017

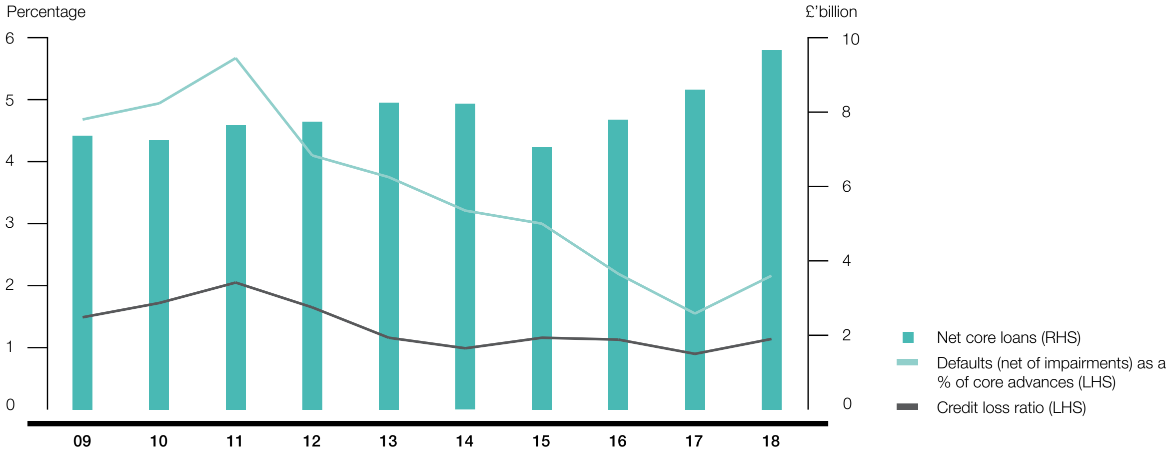
£'000	Gross core loans	Gross defaults	Aggregate collateral and other credit enhance-ments on defaults	Balance sheet impairments	Income statement impairments*
Lending collateralised by property	**1 963 754**	**227 515**	**167 972**	**(70 633)**	**(45 114)**
Commercial real estate	**1 190 836**	**80 987**	**48 998**	**(31 989)**	**(21 748)**
Commercial real estate – investment	934 117	40 120	30 773	(9 347)	(12 373)
Commercial real estate – development	149 188	4 768	1 680	(3 088)	–
Commercial vacant land and planning	107 531	36 099	16 545	(19 554)	(9 375)
Residential real estate	**772 918**	**146 528**	**118 974**	**(38 644)**	**(23 366)**
Residential real estate – investment	262 844	46 841	43 018	(9 222)	(11 126)
Residential real estate – development	458 441	77 250	61 727	(19 754)	(10 615)
Residential vacant land and planning	51 633	22 437	14 229	(9 668)	(1 625)
High net worth and other private client lending	**1 598 801**	**18 458**	**17 139**	**(6 130)**	**(1 928)**
Mortgages	1 228 877	4 906	6 957	(1 237)	(637)
High net worth and specialised lending	369 924	13 552	10 182	(4 893)	(1 291)
Corporate and other lending	**5 162 960**	**14 374**	**7 649**	**(6 725)**	**(5 965)**
Corporate and acquisition finance	1 309 335	–	–	–	(1 951)
Asset-based lending	311 628	–	–	–	–
Fund finance	861 140	–	–	–	–
Other corporate and financial institutions and governments	718 760	–	–	–	–
Asset finance	1 488 142	10 483	3 942	(6 541)	(5 630)
Small ticket asset finance	1 062 069	10 483	3 942	(6 541)	(5 630)
Large ticket asset finance	426 073	–	–	–	–
Project finance	464 142	3 891	3 707	(184)	(176)
Resource finance	9 813	–	–	–	1 792
Portfolio impairments				**(43 388)**	**(21 988)**
Total	**8 725 515**	**260 347**	**192 760**	**(126 876)**	**(74 995)**

* *Where a positive number represents a recovery.*

Risk management

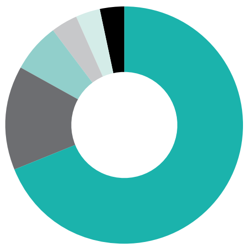
(continued)

Asset quality trends



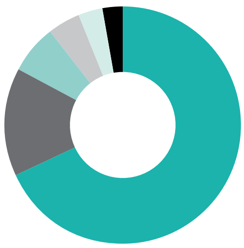
Additional information

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



31 March 2018
£9 815 million

United Kingdom	69.0%
Europe (excluding UK)	14.3%
North America	6.7%
Asia	3.6%
Australia	3.4%
Other	3.1%



31 March 2017
£8 726 million

United Kingdom	68.2%
Europe (excluding UK)	14.6%
North America	6.9%
Asia	4.3%
Australia	3.3%
Other	2.7%

Collateral

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

£'000	Collateral held against: Core loans and advances	Collateral held against: Other credit and counterparty exposures*	Total
At 31 March 2018			
Eligible financial collateral	**1 160 139**	**605 699**	**1 765 838**
Listed shares	984 535	61 640	1 046 175
Cash	175 604	120 499	296 103
Debt securities issued by sovereigns	–	423 560	423 560
Property charge	**5 737 052**	**218 260**	**5 955 312**
Residential property	3 275 906	218 260	3 494 166
Residential development	877 827	–	877 827
Commercial property developments	238 766	–	238 766
Commercial property investments	1 344 553	–	1 344 553
Other collateral	**5 338 451**	**297 549**	**5 636 000**
Unlisted shares^	760 458	–	760 458
Charges other than property	3 303	297 549	300 852
Debtors, stock and other corporate assets	3 552 746	–	3 552 746
Guarantees	834 603	–	834 603
Other	187 341	–	187 341
Total collateral	**12 235 642**	**1 121 508**	**13 357 150**
At 31 March 2017			
Eligible financial collateral	**911 474**	**664 898**	**1 576 372**
Listed shares	692 067	84 723	776 790
Cash	219 407	194 463	413 870
Debt securities issued by sovereigns	–	385 712	385 712
Property charge	**5 121 750**	**202 096**	**5 323 846**
Residential property	2 551 729	202 096	2 753 825
Residential development	961 844	–	961 844
Commercial property developments	367 925	–	367 925
Commercial property investments	1 240 252	–	1 240 252
Other collateral	**4 884 052**	**199 809**	**5 083 861**
Unlisted shares^	670 406	–	670 406
Charges other than property	3 849	199 809	203 658
Debtors, stock and other corporate assets	3 177 267	–	3 177 267
Guarantees	823 122	–	823 122
Other	209 408	–	209 408
Total collateral	**10 917 276**	**1 066 803**	**11 984 079**

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

^ *Unlisted shares taken as collateral can include shares in companies in which the bank also has an equity investment. Refer to pages 68 to 70 for additional information on the unlisted equity investments held at fair value.*

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

Investment risk in the banking book

Investment risk description

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

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

Management of investment risk

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

Nature of investment risk	Management of risk
Principal investments	Investment committee, BRCC and GRCC
Listed equities	Investment committee, market risk management, BRCC and GRCC
Embedded derivatives, profit shares and investments arising from lending transactions	Credit risk management committees, BRCC and GRCC
Investment and trading properties	Investment committee, BRCC and GRCC

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

Valuation and accounting methodologies

For a description of our valuation principles and methodologies refer to pages 161 to 166 and pages 190 to 202 for factors taken into consideration in determining fair value.

We have a low level of assets exposed to the volatility of IFRS fair value accounting with level 3 assets amounting to 3.70% of total assets.

The table below provides an analysis of income and revaluations recorded with respect to these investments.

£'000 Category	Income/(loss) (pre-funding costs) Unrealised*	Realised*	Dividends	Total	Fair value through equity
For the year to 31 March 2018					
Unlisted investments	17 850	32 982	10 169	61 001	(786)
Listed equities	(9 716)	(1 667)	2	(11 381)	2 214
Investment and trading properties	(10 977)	1 650	–	(9 327)	–
Warrants, profit shares and other embedded derivatives	5 664	7 202	–	12 866	–
Total	**2 821**	**40 167**	**10 171**	**53 159**	**1 428**
For the year to 31 March 2017					
Unlisted investments	24 391	38 512	11 066	73 969	624
Listed equities	(20 442)	21	1 273	(19 148)	(2 831)
Investment and trading properties	(14 892)	18 341	–	3 449	–
Warrants, profit shares and other embedded derivatives	(7 035)	–	–	(7 035)	–
Total	**(17 978)**	**56 874**	**12 339**	**51 235**	**(2 207)**

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

Summary of investments held and stress testing analyses

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

£'000 Category	On-balance sheet value of investments 31 March 2018	Valuation change stress test 31 March 2018*	On-balance sheet value of investments 31 March 2017	Valuation change stress test 31 March 2017*
Unlisted investments	410 999	61 650	378 088	56 713
Listed equities	61 084	15 271	76 478	19 120
Total investment portfolio	**472 083**	**76 921**	**454 566**	**75 833**
Investment and trading properties	113 461	21 242	143 648	27 280
Warrants, profit shares and other embedded derivatives	21 611	7 564	18 194	6 368
Total	**607 155**	**105 727**	**616 408**	**109 481**

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

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

Stress testing summary

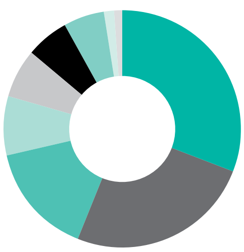
Based on the information at 31 March 2018, as reflected above, we could have a £106 million reversal in revenue (which assumes a year in which there is a 'severe stress scenario' simultaneously across all asset classes). This would not necessarily cause the bank to report a loss but could have a significantly negative impact on earnings for that period. The probability of all these asset classes in all geographies in which we operate being negatively impacted at the same time is very low, although the probability of listed equities being negatively impacted at the same time is very high.

Capital requirements

In terms of CRD IV capital requirements for Investec Bank plc, unlisted and listed equities within the banking book, investment properties, profit shares and embedded derivatives are all considered in the calculation of capital required for credit risk.

Refer to page 95 for further detail.

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



31 March 2018
£494 million

Real estate	31.0%
Manufacturing and commerce	25.2%
Finance and insurance	15.4%
Retailer and wholesalers	8.0%
Communication	6.6%
Mining and resources	5.8%
Transport	5.7%
Business services	1.2%
Other	1.1%

Securitisation/structured credit activities exposures

Overview

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

Refer to page 52 for the balance sheet and credit risk classification.

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

The primary focus for new securitisation transactions remains to provide a cost effective, alternative source of financing to the bank.

During the year we did not undertake any new securitisation transactions.

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

Accounting policies

Refer to page 163.

Risk management

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

Credit analysis

In terms of our analysis of our credit and counterparty risk, exposures arising from securitisation/structured credit activities reflect only those exposures to which we consider ourselves to be at risk.

At 31 March Nature of exposure/activity	Exposure 2018 £'million	Exposure 2017 £'million	Balance sheet and credit risk classification
Structured credit* (gross exposure)	276	349	Other debt securities and other loans and advances
Rated	266	339	
Unrated	10	10	
Loans and advances to customers and third party intermediary originating platforms (mortgage loans) – (net exposure)	130	141	Other loans and advances

***Analysis of rated and unrated structured credit**

At 31 March £'million	2018 Rated**	 Unrated	 Total	2017 Rated**	 Unrated	 Total
US corporate loans	135	–	135	136	–	136
UK and European RMBS	121	10	131	163	10	173
UK and European ABS	–	–	–	4	–	4
UK and European corporate loans	10	–	10	36	–	36
Total	**266**	**10**	**276**	**339**	**10**	**349**

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

£'million	AAA	AA	A	BBB	BB	B	CCC and below	Total
US corporate loans	54	65	16	–	–	–	–	135
UK and European RMBS	17	55	47	–	2	–	–	121
UK and European corporate loans	1	5	4	–	–	–	–	10
Total at 31 March 2018	**72**	**125**	**67**	**–**	**2**	**–**	**–**	**266**
Total at 31 March 2017	**102**	**153**	**77**	**5**	**2**	**–**	**–**	**339**

Market risk in the trading book

Traded market risk description

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

Traded market risk profile

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

Traded market risk governance structure

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

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

Measurement of traded market risk

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

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

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

Traded market risk management, monitoring and control

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

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

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

Value at risk

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

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

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

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

	31 March 2018				31 March 2017			
£'000	Year end	Average	High	Low	Year end	Average	High	Low
(Using 95% VaR)								
Equities	495	519	746	345	503	547	1 317	340
Foreign exchange	18	17	80	1	13	34	162	1
Interest rates	81	84	147	67	88	191	287	83
Credit	23	90	184	16	179	171	232	136
Consolidated*	**502**	**509**	**740**	**311**	**547**	**586**	**1 364**	**373**

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

Expected shortfall

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

95% (one-day) £'000	31 March 2018	31 March 2017
Equities	655	731
Foreign exchange	26	24
Interest rates	113	118
Credit	35	396
Consolidated*	**611**	**764**

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

Stressed VaR

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

£'000	31 March 2018 Year end	31 March 2017 Year end
99% 1-day sVaR	**1 541**	**1 322**

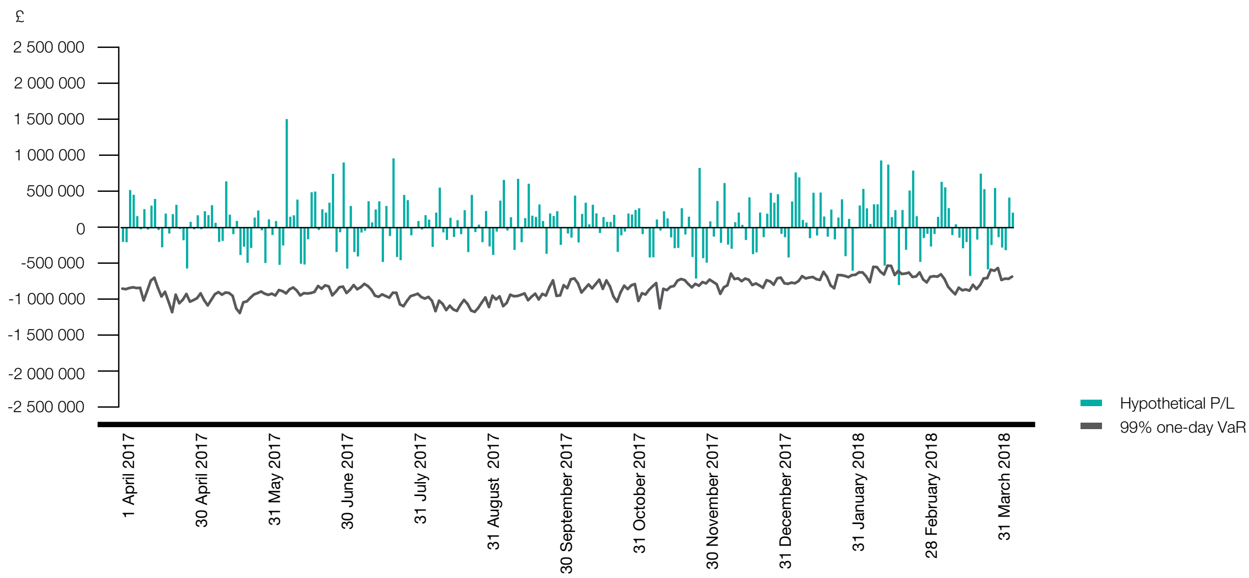
Backtesting

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

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

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

99% one-day VaR backtesting



Stress testing

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

£'000	31 March 2018 Year end	31 March 2017 Year end
(Using 99% EVT)		
Equities	1 475	1 638
Foreign exchange	66	114
Interest rates	226	264
Credit	83	1 223
Consolidated*	**1 441**	**1 949**

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

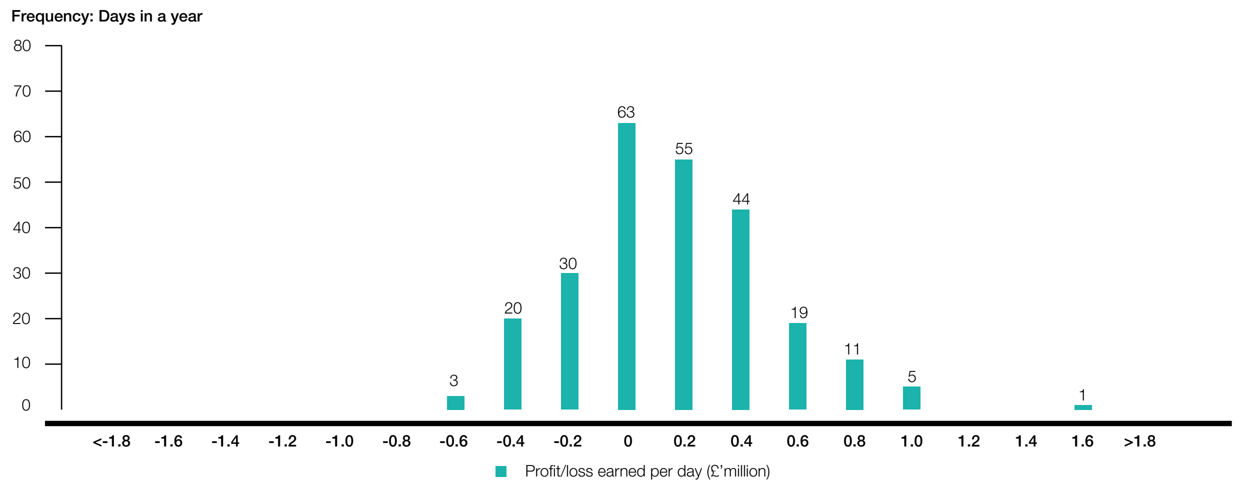
Capital

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

Profit and loss histogram

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

Profit and loss



Traded market risk year in review

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

Market risk – derivatives

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

Information showing our derivative trading portfolio over the reporting period on the basis of the notional principal and the fair value of all derivatives can be found on pages 212 and 213.

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

Balance sheet risk management

Balance sheet risk description

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

Balance sheet risk governance structure and risk mitigation

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

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

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

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

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

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

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

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

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

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

Liquidity risk

Liquidity risk description

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

Liquidity risk is further broken down into:

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

Management and measurement of liquidity risk

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

- Our liquidity management processes encompass requirements set out within Basel Committee on Banking Supervision (BCBS) guidelines and by the regulatory authorities in each jurisdiction, namely the PRA, EBA, GFSC and FINMA
- The risk appetite is clearly defined by the board and each geographic entity must have its own board-approved policies with respect to liquidity risk management
- We maintain a liquidity buffer in the form of unencumbered cash, government or rated securities (typically eligible for repurchase with the central bank), and near cash well in excess of the regulatory requirements as protection against unexpected disruptions in cash flows
- Funding is diversified with respect to currency, term, product, client type and counterparty to ensure a varied overall funding mix
- We monitor and evaluate each banking entity's maturity ladder and funding gap (cash flow maturity mismatch) on a 'liquidation', 'going concern' and 'stress' basis
- The asset and liability team independently monitors key daily funding metrics and liquidity ratios to assess potential risks to the liquidity position,

which further act as early warning indicators of potential market disruptions

- The maintenance of sustainable prudent liquidity resources takes precedence over profitability
- The bank maintains adequate contingency funding plans designed to protect depositors, creditors and the Investec group's shareholders and maintain market confidence during adverse liquidity conditions.

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

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

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

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

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

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

Funding strategy

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

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

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

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

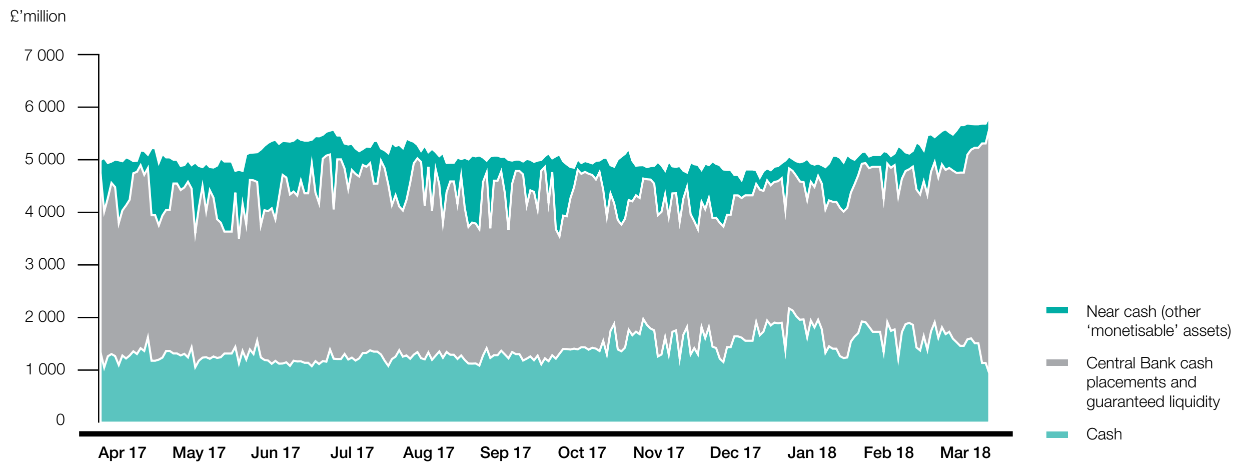
We remain confident in our ability to raise funding appropriate to our needs.

Liquidity buffer

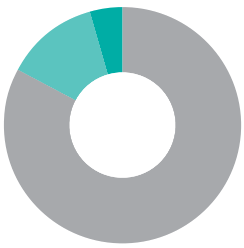
To protect against potential shocks, we hold a liquidity buffer in the form of cash, unencumbered high quality liquid assets (typically in the form of government or rated securities eligible for repurchase with the central bank), and near cash, well in excess of the regulatory requirements as protection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

From 1 April 2017 to 31 March 2018 average cash and near cash balances over the period amounted to £5.0 billion.

Cash and near cash trend



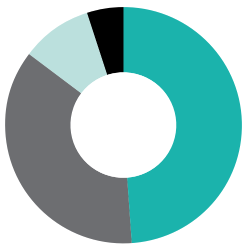
An analysis of cash and near cash at 31 March 2018



£5 598 million

Central Bank cash placements and guaranteed liquidity	82.9%
Cash	12.8%
Near cash (other 'monetisable' assets)	4.3%

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



£13 266 million

Individuals	48.9%
Non-financial corporates	36.4%
Banks	9.8%
Small business	4.9%

The liquidity position of the bank remained sound with total cash and near cash balances amounting to £5.6 billion at year end

Contingency planning

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

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

Asset encumbrance

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

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

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

Encumbered assets are identified in Investec Bank plc (solo basis) in accordance with the reporting requirements under European Capital Requirements Regulation (CRR), and regular reporting is provided to the EBA and PRA.

On page 210 we disclose further details of assets that have been received as collateral under reverse repurchase agreements and securities borrowing transactions where the assets are allowed to be resold or pledged.

Liquidity mismatch

The table that follows shows the liquidity mismatch.

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

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

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

Contractual liquidity at 31 March 2018

£'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	>Five years	Total
Cash and short-term funds – banks	4 024	170	22	14	9	22	–	4 261
Investment/trading assets	462	554	244	338	258	866	1 371	4 093
Securitised assets	–	2	–	–	1	11	118	132
Advances	151	547	522	813	1 440	4 541	2 067	10 081
Other assets	123	771	53	15	50	67	451	1 530
Assets	**4 760**	**2 044**	**841**	**1 180**	**1 758**	**5 507**	**4 007**	**20 097**
Deposits – banks	(119)	–	(17)	–	(82)	(1 078)	–	(1 296)
Deposits – non-banks	(3 530)	(829)	(2 555)	(1 405)	(1 269)	(2 256)	(126)	(11 970)
Negotiable paper	–	–	(8)	(24)	(32)	(1 053)	(826)	(1 943)
Securitised liabilities	–	–	(3)	(3)	(6)	(46)	(70)	(128)
Investment/trading liabilities	(54)	(87)	(26)	(9)	(28)	(199)	(402)	(805)
Subordinated liabilities	–	–	–	–	–	(580)	–	(580)
Other liabilities	(100)	(630)	(173)	(66)	(92)	(57)	(48)	(1 166)
Liabilities	**(3 803)**	**(1 546)**	**(2 782)**	**(1 507)**	**(1 509)**	**(5 269)**	**(1 472)**	**(17 888)**
Total equity	–	–	–	–	–	–	(2 209)	(2 209)
Contractual liquidity gap	**957**	**498**	**(1 941)**	**(327)**	**249**	**238**	**326**	**–**
Cumulative liquidity gap	957	1 455	(486)	(813)	(564)	(326)	–	

Behavioural liquidity

As discussed on page 80.

£'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	> Five years	Total
Behavioural liquidity gap	**3 657**	**494**	**(34)**	**(454)**	**244**	**(4 016)**	**109**	**–**
Cumulative	3 657	4 151	4 117	3 663	3 907	(109)	–	

Regulatory requirements

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

Two minimum standards for funding liquidity were introduced:

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

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

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

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

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

Balance sheet risk year in review

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

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

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

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

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

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

Cash and near cash balances at 31 March 2018 amounted to £5.6 billion (2017: £4.9 billion). IBP customer deposits totalled £12.0 billion at 31 March 2018 (2017: £11.3 billion).

Non-trading interest rate risk

Non-trading interest rate risk description

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

Sources of interest rate risk include:

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

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

Measurement and management of non-trading interest rate risk

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

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

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

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

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

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

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

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

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

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

Interest rate sensitivity gap

The table below shows our non-trading interest rate mismatch at 31 March 2018. These exposures affect the interest rate margin realised between lending income and borrowing costs assuming no management intervention.

£'million	Not > three months	> Three months but < six months	> Six months but < one year	> One year but < five years	> Five years	Non-rate	Total non-trading
Cash and short-term funds – banks	4 253	7	–	–	–	–	4 260
Investment/trading assets	1 318	193	77	224	66	471	2 349
Securitised assets	132	–	–	–	–	–	132
Advances	7 468	573	284	1 368	388	–	10 081
Other assets	–	–	–	–	–	1 529	1 529
Assets	**13 171**	**773**	**361**	**1 592**	**454**	**2 000**	**18 351**
Deposits – banks	(1 287)	(6)	–	(1)	–	–	(1 294)
Deposits – non-banks	(9 622)	(345)	(1 205)	(796)	(2)	–	(11 970)
Negotiable paper	(1 908)	(13)	–	(22)	–	–	(1 943)
Securitised liabilities	(128)	–	–	–	–	–	(128)
Investment/trading liabilities	(29)	(11)	(6)	–	–	–	(46)
Subordinated liabilities	–	–	–	(575)	–	(5)	(580)
Other liabilities	–	–	–	–	–	(181)	(181)
Liabilities	**(12 974)**	**(375)**	**(1 211)**	**(1 394)**	**(2)**	**(186)**	**(16 142)**
Total equity	–	–	–	–	–	(2 209)	(2 209)
Balance sheet	**197**	**398**	**(850)**	**198**	**452**	**(395)**	**–**
Off-balance sheet	337	–	–	(22)	(315)	–	–
Repricing gap	**534**	**398**	**(850)**	**176**	**137**	**(395)**	**–**
Cumulative repricing gap	534	932	82	258	395	–	

Economic value sensitivity at 31 March 2018

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

	Sensitivity to the following interest rates (expressed in original currencies)						
million	GBP	USD	EUR	AUD	ZAR	Other (GBP)	All (GBP)
200bps down	(10.1)	(3.2)	3.5	0.3	–	(0.1)	(7.1)
200bps up	9.2	2.9	(3.2)	(0.3)	–	0.1	6.4

Operational risk

Operational risk description

Operational risk is defined as the potential or actual impact to the bank 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 customers detriment, reputational or regulatory consequences.

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

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

The levels of defence model is applied as follows:

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

Risk appetite

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

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

Management and measurement of operational risk

Regulatory capital

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

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

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

Operational risk management framework and governance

The operational risk management framework is embedded at all levels of the bank, 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 bank's operational risk profile is reported on a regular basis to various operational risk forums and governance committees responsible for oversight.

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

Operational risk practices consist of the following:

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

Operational risk year in review

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

Operational risk events

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

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

Looking forward

Key operational risk considerations for the year ahead

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

Definition of risk	Management, mitigation approach and priority for 2018/2019
Information security	
Risk associated with the compromise of information assets which can impact their confidentiality, integrity, or availability	• Identify high-value information assets based on confidentiality and business criticality • Implement strong security controls to protect information against unauthorised access or disclosure from both internal and external threats • Manage role-based access to systems and data in support of least-privilege and segregation of duty principles • Develop mechanisms to monitor for, identify, and guard against data loss • Establish effective security monitoring to proactively identify and swiftly respond to suspicious activity • Align practices and controls to ensure compliance with the rapidly changing legal and regulatory privacy requirements • Safeguard and monitor information flows to enhance visibility and to ensure that data remains accurate, relevant, and protected
Outsourcing and third party	
Risk associated with the reliance on, and use of a service provider to provide services to the bank	• Governance structures are in place to approve outsource and third party arrangements • Policies and practices include adequate guidance over the assessment, selection, suitability and oversight of the outsource and third party providers • Continue to strengthen governance processes and relevant policies relating to how we identify, assess, mitigate and manage risks across the range of outsource and third party providers
Process failure	
Risk associated with inadequate internal processes, including human errors and control failures within the business. This includes process origination, execution and operations	• Proactive assessment relating to new products and projects to implement adequate and effective controls including the management of change • Address human errors through training and continuous automation of processes • Segregation of incompatible duties and appropriate authorisation controls • Causal analysis is used to identify weaknesses in controls following the occurrence of risk events • Risk and performance indicators are used to monitor the effectiveness of controls across business units • Thematic reviews across business units to ensure consistent and efficient application of controls
Regulatory compliance	
Risk associated with identification, implementation and monitoring of compliance with regulations	• Compliance and Legal assist in the management of regulatory and compliance risk which includes the identification and adherence to legal and regulatory requirements • Align regulatory and compliance approach to reflect new regulatory landscapes particularly the change of regulatory structures • Manage business impact and implementation challenges as a result of significant volumes of statutory and regulatory changes and developments (Refer to the Compliance section on page 99) • Monitoring remains focused appropriately as areas of conduct and regulatory risk develop • Ensure that the business is appropriately positioned to cope with the regulatory changes resulting from Brexit
Technology	
Risk associated with the disruptions to the IT systems which underpin our critical business processes and client services	• Align architecture across the bank to reduce technical complexity and leverage common functions and processes • Enhance operational processes to better control IT changes in order to minimise business impact and recurrence • Drive automation and proactive monitoring of the technology environment to reduce human error whilst enhancing efficiency • Implement strategic infrastructure and application roadmaps to improve technology capacity, scalability and resilience • Maintain and test IT recovery capabilities to withstand system failures and safeguard against service disruptions • Establish effective technology and operational monitoring for oversight of the adequacy and effectiveness of IT systems and processes

We have various policies and practices to mitigate reputational risk, including strong values that are regularly and proactively reinforced

Insurance

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

Recovery and resolution planning

The purpose of the recovery plan is to document how the board and management will recover from extreme financial stress to avoid liquidity and capital difficulties. The plan is reviewed and approved by the board on an annual basis.

The recovery plan for the Investec plc group:

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

A significant addition to the EU legislative framework for financial institutions has been the Bank Recovery and Resolution Directive (BRRD) which establishes a framework for the recovery and resolution of EU credit institutions and investment firms. As implemented, the BRRD gives resolution authorities powers to intervene in and resolve a financial institution that is no longer viable, including through the transfers of business and, when implemented in relevant member states, creditor financed recapitalisation (bail-in within resolution) that allocates losses to shareholders and unsecured and uninsured creditors in their order of seniority, at a regulator determined point of non-viability that may precede insolvency. The concept of bail-in will affect the rights of unsecured creditors subject to any bail-in in the event of a resolution of a failing bank.

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

For more detail on MREL, please refer to page 91.

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

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

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

Reputational and strategic risk

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

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

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

Pension risk

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

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

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

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

Primary sources of risk include:

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

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

Further information is provided on pages 226 to 229.

Legal risk management

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

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

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

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

The legal risk policy is implemented through:

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

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

Conduct risk

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

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

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

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

Capital management and allocation

Regulatory capital

Current regulatory framework

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

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

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

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

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

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

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

Subsidiaries of Investec Bank 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 Bank plc group that are monitored closely. With the support of the bank's prudential advisory and reporting team, local management of each regulated entity ensures that capital remains prudently above minimum regulatory requirements at all times.

Regulatory considerations

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

International

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

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

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

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

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

UK

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

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

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

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

Europe

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

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

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

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

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

Capital and leverage ratio targets

Capital

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

Leverage

Investec Bank plc is currently targeting a leverage ratio above 6%.

Management of capital and leverage

Capital

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

Leverage

As with the governance of capital management, the Investec plc and Investec Bank 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.

Capital management

Philosophy and approach

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

Risk management

(continued)

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 bank. At the most fundamental level, we seek to balance our capital consumption between prudent capitalisation in the context of the bank'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 bank's risk identification, review and assessment processes and is used to provide a risk-based approach to capital allocation, performance and structuring of our balance sheet. The objectives of the internal capital framework are to quantify the minimum capital required to:

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

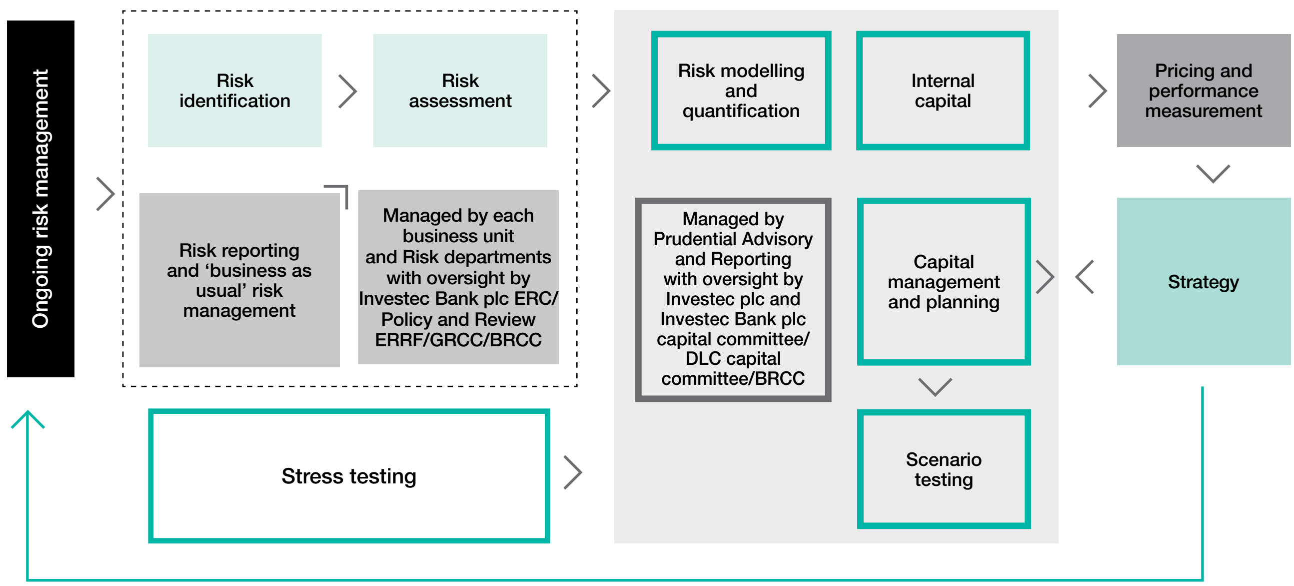
The Investec plc and Investec Bank plc capital committee and the DLC capital committee seek to optimise the balance sheet such that capital held is in excess of internal capital. Internal capital performs a critical role in:

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

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

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

The (simplified) integration of risk and capital management



Capital planning and stress/ scenario testing

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

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

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

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

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

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

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

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

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

Capital requirements country-by-country reporting

HM Treasury has transposed the requirements set out under CRD IV and issued the Capital Requirements Country-by-Country Reporting Regulations 2013. The legislation requires the bank to publish certain additional information in respect of the year ended 31 March 2018. This information will be available on the Investec group website.

Capital structure and capital adequacy

£'million	31 March 2018°	31 March 2017°
Tier 1 capital		
Shareholder's equity	**1 989**	**1 938**
Shareholder's equity excluding non-controlling interests	2 012	1 982
Foreseeable charges and dividends	(18)	(35)
Deconsolidation of special purpose entities	(5)	(9)
Non-controlling interests	**(3)**	**(2)**
Non-controlling interests per balance sheet	(3)	(2)
Regulatory adjustments to the accounting basis	**(4)**	**(4)**
Additional value adjustments	(4)	(4)
Deductions	**(361)**	**(380)**
Goodwill and intangible assets net of deferred taxation	(348)	(366)
Deferred taxation assets that rely on future profitability excluding those arising from temporary differences	(9)	(10)
Securitisation positions	(3)	(3)
Debit valuation adjustment	(1)	(1)
Common equity tier 1 capital	**1 621**	**1 552**
Additional tier 1 instruments	200	–
Total tier 1 capital	**1 821**	**1 552**
Tier 2 capital	**445**	**560**
Tier 2 instruments	445	560
Total regulatory capital	**2 266**	**2 112**
Risk-weighted assets	**13 744**	**12 716**
Capital ratios		
Common equity tier 1 ratio	11.8%	12.2%
Tier 1 ratio	13.2%	12.2%
Total capital ratio	16.5%	16.6%

° *The capital adequacy disclosures for Investec Bank plc include the deduction of foreseeable dividends when calculating CET 1 capital as now required under the Capital Requirements Regulation and EBA technical standards. These disclosures are different to the capital adequacy disclosures included in Investec's 2018 and 2017 integrated annual reports, which follow our normal basis of presentation and do not include this deduction when calculating CET 1 capital. Investec Bank plc's CET 1 ratio would be 13bps (31 March 2017: 28bps) higher on this basis.*

Capital requirements

£'million	31 March 2018	31 March 2017
Capital requirements	**1 099**	**1 017**
Credit risk	822	776
Equity risk	6	6
Counterparty credit risk	52	39
Credit valuation adjustment risk	10	6
Market risk	77	68
Operational risk	132	122
Risk-weighted assets (banking and trading)	**13 744**	**12 716**
Credit risk	10 271	9 687
Equity risk	79	80
Counterparty credit risk	652	494
Credit valuation adjustment risk	121	78
Market risk	965	856
Operational risk	1 656	1 521

Movement in RWAs

Total RWAs have increased by 8.1% over the period, predominantly within credit risk RWAs.

Credit risk RWAs

We have adopted the standardised approach for calculating credit risk RWAs. Credit risk RWAs, which include equity risk, increased by £583 million. The increase is primarily attributable to a growth in secured corporate lending.

Counterparty credit risk RWAs and CVA risk

Counterparty credit risk and CVA RWAs increased by £201 million mainly due to increased facilitation of client activity within the Financial Products business.

Market risk RWAs

We apply the standardised approach for calculating market risk RWAs. Market risk RWAs increased by £109 million primarily driven by increased facilitation of client activity within the Financial Products business.

Operational risk RWAs

Operational risk RWAs are calculated using the standardised approach and increased by £135 million. The increase is due to a higher three year average operating income.

Leverage

£'million	31 March 2018	31 March 2017
Total exposure	21 335	19 417
Tier 1 capital	1 821	1 552
Leverage ratio* – current	8.5%	8.0%
Tier 1 capital fully loaded	1 821	1 552
Leverage ratio** – 'fully loaded'	8.5%	8.0%

* *The leverage ratio is calculated on an end-quarter basis.*
** *There is no difference between the 'reported' basis and the 'fully loaded' basis.*

Movement in total regulatory capital

The table below analyses the movement in common equity tier 1, additional tier 1 and tier 2 capital during the year.

Total regulatory capital flow statement

£'million	31 March 2018	31 March 2017
Opening common equity tier 1 capital	1 552	1 400
Profit after taxation	98	118
Share-based payment adjustment	1	–
Movement in other comprehensive income	(10)	53
Dividends	(57)	(35)
Goodwill and intangible assets (deduction net of related taxation liability)	16	9
Deferred taxation that relies on future profitability (excluding those arising from temporary differences)	1	(1)
Deconsolidation of special purpose entities	3	9
Foreseeable charges and dividends	17	(1)
Closing common equity tier 1 capital	**1 621**	**1 552**
Opening additional tier 1 capital	–	–
New additional tier 1 issuance	200	–
Closing additional tier 1 capital	200	–
Closing tier 1 capital	**1 821**	**1 552**
Opening tier 2 capital	560	590
Redeemed capital	–	(18)
Amortisation adjustments	(115)	(12)
Closing tier 2 capital	**445**	**560**
Closing total regulatory capital	**2 266**	**2 112**

A summary of capital adequacy and leverage ratios

	31 March 2018°	31 March 2017°
Common equity tier 1 (as reported)	11.8%	12.2%
Common equity tier 1 ('fully loaded')^	11.8%	12.2%
Tier 1 (as reported)	13.2%	12.2%
Total capital adequacy ratio (as reported)	16.5%	16.6%
Leverage ratio* – current	8.5%	8.0%
Leverage ratio* – 'fully loaded'^	8.5%	8.0%
Leverage ratio – current UK leverage ratio framework^^*	10.2%	9.3%

° *The capital adequacy disclosures for Investec Bank plc include the deduction of foreseeable charges and dividends when calculating CET 1 capital as required under the CRR and EBA technical standards. These disclosures are different to the capital adequacy disclosures included in Investec's 2018 and 2017 integrated annual reports, which follow our normal basis of presentation and do not include this deduction when calculating CET 1 capital. Investec Bank plc's CET 1 ratio would be 13bps (31 March 2017: 28bps) higher on this basis.*

^ *There is no difference between the 'reported' basis and the 'fully loaded' basis.*

^^ *Investec Bank plc is not subject to the UK leverage ratio framework, however, due to recent changes to the UK leverage ratio framework to exclude from the calculation of the total exposure measure those assets constituting claims on central banks where they are matched by deposits accepted by the firm that are denominated in the same currency and of identical or longer maturity, this has been included for comparative purposes.*

Credit ratings

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

In September 2017, Investec Bank plc's long-term deposit rating was upgraded by Fitch to BBB+ (stable outlook) and the outlook was changed to positive by Moody's (A2, positive outlook). The outlook was also changed to positive on Investec plc's long-term issuer rating (Baa1, positive outlook) by Moody's. Our ratings at 15 June 2018 are as follows:

Rating agency	Investec plc	Investec Bank plc – a subsidiary of Investec plc
Fitch		
Long-term rating		BBB+
Short-term rating		F2
Viability rating		bbb+
Support rating		5
Moody's		
Long-term rating	Baa1	A2
Short-term rating	Prime-2	Prime-1
Baseline Credit Assessment (BCA) and adjusted BCA		baa2
Global Credit Ratings		
Long-term rating		BBB+
Short-term rating		A2

Internal Audit

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

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

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

Annually, Internal Audit conducts a formal risk assessment of the entire business from which a comprehensive risk-based audit plan is derived. The assessment and programme are validated by executive management and approved by the responsible audit committee. Very high risk businesses and processes are audited at least every 12 months, with other areas covered at regular intervals based on their risk profile. There is an ongoing focus on identifying fraud risk as well as auditing technology risks given Investec's dependence on IT systems.

Internal Audit also liaises with the external auditors and other assurance providers to enhance efficiencies in terms of integrated assurance. The annual plan is reviewed regularly to ensure it remains relevant and responsive, given changes in the operating environment. The audit committee approves any changes to the plan.

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

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

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

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

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

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

Year in review

Conduct risk

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

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

Consumer protection

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

Wholesale markets

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

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

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

Financial crime

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

Brexit

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

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

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

Tax reporting (FATCA/CRS)

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

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

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

Corporate governance

Former chairman's introduction

Investec thrives on change, continually challenging the status quo and recognising that success depends on flexibility, innovation and enthusiasm in meeting the needs of our changing environment. In light thereof, I am pleased to announce that as part of the management succession plan, as announced by the Investec group and as discussed in more detail below, I stepped down as chairman of the Investec Bank plc board (the board) and the IBP nominations committee on 15 May 2018. Brian Stevenson, the bank's senior independent non-executive director became chairman of the board and the bank's nominations committee on 15 May 2018. Brian Stevenson will continue to serve as the chairman of the bank's audit committee, until the appointment of a new independent non-executive director with the required skills and experience to serve as chairman of the audit committee, has been made. Following Brian Stevenson's appointment as chairman of the board, Moni Mannings was appointed as the senior independent non-executive director on 15 May 2018. I am pleased to be continuing with the Investec group as joint chief executive officer with effect from 1 October 2018.

We are pleased to present the annual corporate governance report for the year ended 31 March 2018, which describes our approach to corporate governance.

Before looking in more detail at the key aspects of our governance, we would like to provide some further context around succession at the bank, and to comment on the board's achievements, challenges encountered and key focus areas over the past year.

The past year in focus

Chairman and senior independent director

Brian Stevenson, who has taken over from me as chairman of the board, is an experienced independent non-executive director who was appointed to the board on 14 September 2016 as the senior independent director of the bank. Brian Stevenson was also appointed as chairman of the bank's audit committee with effect from 24 July 2017. He has significant experience in the banking sector, having previously been managing director and head of corporate and institutional banking at Royal Bank of Scotland (RBS) and having served as chairman of RBS's global transaction services division. Brian Stevenson has bolstered the board of the bank with his experience, knowledge and independent perspective. We are confident that his appointment as chairman will help to ensure that the board remains focused on its responsibilities to all stakeholders and delivering against its strategic objectives.

Additionally, the nominations committee and the board have approved the appointment of Moni Mannings as senior independent director. Moni Mannings was appointed to the board on 27 July 2016 and provides significant legal and non-executive experience, and further independent challenge to the board.

Governance and committees

As mentioned in my report last year, a key focus during the year has been the implementation of the bank's new governance arrangements. The establishment of the bank's audit and nominations committees has strengthened our existing processes and made for more effective and robust decision making given the UK regulatory environment. The above mentioned changes to both my role and to Brian Stevenson's role mean that there will be further changes to the chairmanship of these two committees going forward. Preserving the independence of these committees during the transition is forefront of the board's mind. Brian Stevenson will talk more about these changes in his report, which follows.

Investec plc and Investec Limited (collectively, Investec), together with their subsidiaries, are managed as a single economic enterprise as a result of the dual listed companies (DLC) structure. Investec Bank plc is a major subsidiary of Investec plc. The DLC operational structure is responsible for statutory matters and corporate governance across all Investec subsidiaries and, as such, ensures compliance with applicable legislation and governance requirements of the jurisdictions within which it operates.

Stakeholders are encouraged to read Investec's 2018 integrated annual report, which provides a more detailed review and reports of the various board committee chairmen. Additionally, this report outlines the duties and roles of the said committees and the manner in which the board's regulatory and statutory duties are discharged.

Economic context

The UK has provided a challenging backdrop to the financial year, with a climate of uncertainty, impacting upon corporate and consumer confidence, influenced by the complexities of Brexit. The past year has also been characterised by the fast pace of regulatory change and the bank has continued to invest significant resources in order to ensure it can continue to meet and exceed customer and regulatory expectations. Throughout this period our commitment to our culture and values has continued to support us in delivering good customer outcomes, effectively managing conduct risk, and towards achieving our strategic objectives.

Client focus is one of our core values, and in the UK, over the past year, we have continued to focus on ensuring that the bank is governed in a manner that places the needs of its customers front and centre of everything we do. To this end, the bank has continued to implement and strengthen its governance arrangements.

Strategic initiatives

The board has continued to exercise leadership, integrity and judgment in pursuit of the bank's strategic goals and objectives. The Private Banking business has maintained its focus on providing an integrated offering, to high net worth clients and on developing the infrastructure necessary to deliver an out of the ordinary client experience. The Corporate and Institutional business has continued to build and drive client centricity and collaboration across its product areas, to both build its business banking proposition and to deepen and broaden its position in target areas.

Board effectiveness

The board continues to be committed to regularly evaluating its own effectiveness and that of its committees. The board therefore undertakes an evaluation of its performance and that of its committees and individual directors annually. This year the board effectiveness review was internally facilitated and no material issues were identified.

Conclusion

With the appointment of Brian Stevenson, I am certain that the bank has a chairman who will lead the board to continue to steer the bank towards achieving its strategic objectives, while ensuring good governance and entrenching our culture. The governance arrangements we have put in place for the bank will continue to create an environment that supports the delivery of excellent results and exceptional value for all our stakeholders.

Fani Titi
Former chairman

15 June 2018

Chairman's introduction

I am pleased to present to you our corporate governance report. It is an honour to undertake this role and I intend to continue to build upon the culture and legacy of my predecessors.

The year ahead

The orderly transition of leadership roles within the organisation will be an area of focus for the board in the year ahead. The board will continue to motivate and lead our people to ensure long-term success, and to ensure that we operate from an agile and technologically-enabled platform.

Following my appointment as chairman of the bank, I have also assumed the role of chairman of the nominations committee with effect from 15 May 2018. As detailed in the audit committee report that follows, it has been agreed that to clearly demonstrate the independence of the audit committee, the bank will seek a new independent non-executive director, with recent relevant experience, to be appointed as a new chairman of the audit committee. The recruitment process has commenced, and until the appointment has been made, I will continue to act as chairman of the audit committee.

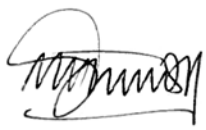
The board is committed to attracting, developing and retaining a diverse team of people. A diverse workforce is vital to our ability to be an innovative organisation that is able to adapt and prosper in a fast changing world. To help us measure the pace of change, we have set a number of goals and targets. The Investec group has signed up to the 30% Club promoting female board representation. Our UK employing entities have adopted their own specific targets in order to reinforce our commitment to gender diversity. The bank has adopted a board diversity policy, and has signed the Women in Finance Charter and in doing so has committed to: having a senior executive team member responsible for diversity and inclusion; meeting set targets for diversity; publishing progress reports annually; and linking pay of senior executives to delivery of these targets. Having a diverse board is and remains important to the bank bringing as it does the clear benefits of distinct and different outlooks, alternative viewpoints, and challenging mind-sets.

We remain committed to ensuring our compliance with relevant legislative and regulatory requirements and are geared to adapt rapidly and proactively to the ever changing legislative, regulatory and business environment. Our approach to the changes in legislation is tightly managed and actively monitored through the various legal, compliance and audit forums within the bank. The commercial and strategic impact of Brexit will be a key consideration for the board. The continued monitoring of the implementation of International Financial Reporting Standard 9 (IFRS 9), General Data Protection Regulation (GDPR) and Markets in Financial Instruments Directive II (MiFID II) will also be major focus areas for the board in the year ahead.

Conclusion

I offer my sincere gratitude to Fani Titi for his role as chairman as he has served this board with dedication and, through his actions, embodied the values of Investec throughout his tenure.

I would like to assure all stakeholders of my commitment to the values of Investec, good governance and highlight my determination to ensure that the bank continues to be a success. Over the following pages, you will find more detail of our governance framework, including who our board and management are, how they make decisions and what they have done over the past year in terms of their leadership, strategic direction and oversight of the bank. We hope that this report, together with Investec's 2018 integrated annual report will provide you with an overview of how we are managing the bank and looking after the interests of all our stakeholders.



Brian Stevenson
Chairman

15 June 2018

Within this report you will find | Page

Who we are

What we did

Who we are

Governance framework

Investec Bank plc is a wholly owned subsidiary of Investec plc. Investec, comprising of Investec Limited and Investec plc, operates under a DLC structure and considers the corporate governance principles and regulations of both the UK and South Africa before adopting the appropriate standard for the Investec group which also complies with requirements in both jurisdictions.

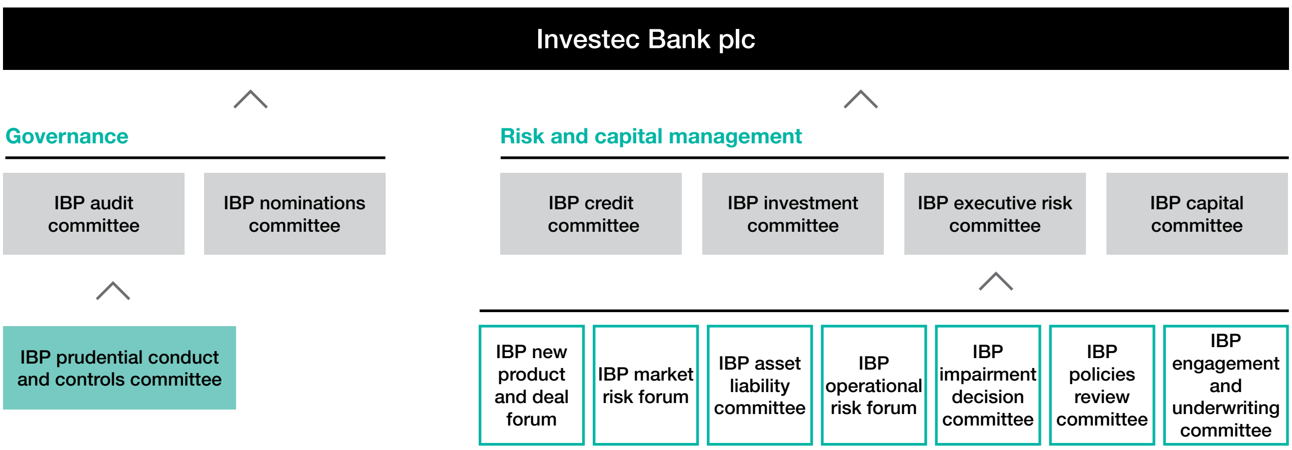
From a legal perspective, the DLC is comprised of:

- Investec plc – a public company incorporated in the UK and listed on the London Stock Exchange with a secondary listing on the Johannesburg Stock Exchange; and
- Investec Limited – a public company incorporated in South Africa and listed on the Johannesburg Stock Exchange, with secondary listings on the Namibia Stock Exchange and the Botswana Stock Exchange.

The governance structure of the bank has evolved in the financial year ended 31 March 2018, with the addition of bank audit and nominations committees, to take over responsibilities that had previously been delegated to the DLC audit and nominations and directors' affairs committees. The bank is continuing to further develop and refine its governance structure, to ensure that it continues to operate with an appropriate level of independence and autonomy, within the context of the wider Investec group.

The governance framework from a bank perspective is detailed below. Details of the governance framework of the Investec group can be found in Investec's 2018 integrated annual report.

Investec Bank plc board and committee structure for the year ended 31 March 2018



Management and board succession

At the end of the year under review, the board comprised seven executive directors and seven non-executive directors, including the chairman.

Further to the Investec group succession changes announced on 6 February 2018, Fani Titi stood down as chairman of the board with effect from 15 May 2018, and Brian Stevenson was appointed as chairman of the board with effect from 15 May 2018. Following Brian Stevenson appointment as chairman of the board, Moni Mannings was appointed to the role of senior independent director. The board are also in the process of recruiting a new audit committee chairman, with Brian Stevenson continuing in the role until the appointment of a new independent non-executive director, with relevant experience, has been made, as detailed in the audit committee report.

Further information on the Investec group succession plan is provided in Investec's 2018 integrated annual report.

Board roles

The key governance roles and responsibilities of the board are outlined below:

Chairman	Chief executive officer	Chief risk officer/head of conduct and governance
Fani Titi *(to 15 May 2018)* ***Brian Stevenson*** *(from 15 May 2018)*	***David van der Walt***	***Ruth Leas/Ian Wohlman***
• Responsible for setting the board agenda, ensuring that there is sufficient time available for the discussion of all items • Encourages open and honest dialogue between all board directors • Leads and manages the dynamics of the board, providing direction and focus • Ensures that the board sets the strategy of the bank and assists in monitoring progress towards achieving the strategy • Ensures that the board sets the tone from the top, in regards to culture • Performs director evaluations • Serves as the primary interface with regulators and other stakeholders on behalf of the board	• Leads and manages the bank within the authorities delegated by the board • Execution of the bank's strategy • Ensuring the bank's unique culture is embedded and perpetuated • Development and growth of all the bank's businesses	• Ensure that the bank's risk management, conduct and governance processes are effective • Provide the board with updates on the bank's risk management, conduct and governance processes

Senior independent director	Non-executive directors	Company secretary
Brian Stevenson *(to 15 May 2018)* ***Moni Mannings*** *(from 15 May 2018)*	***Zarina Bassa*** ***Perry Crosthwaite**** ***David Friedland*** ***Haruko Fukuda OBE*** ** Resigned on 15 May 2018 from Investec Bank plc*	***David Miller***
• Addresses any concerns or questions from non-executive directors • Provides a sounding board to the chairman • Leads the board in the assessment of the effectiveness of the chairman, or the relationship between the chairman and the CEO • Available to act as trusted intermediary for non-executive directors if required to assist them to challenge and contribute effectively	• Bring unique perspectives to the boardroom to facilitate constructive dialogue on proposals • Constructively challenge and contribute to assist in developing the bank's strategy • Monitor the performance of management against their agreed strategic goals • Ensure the effectiveness of internal controls and the integrity of financial reporting • Contributing to board effectiveness through outside contacts and opinions • Succession planning • Risk management oversight	• Maintains the flow of information to the board and its committees and ensures compliance with board procedures • Minutes all board and committee meetings to record the deliberations and decisions taken therein • Ensures that the board complies with relevant legislation and regulation, including Listings Requirements • Maintaining the company's statutory registers • Ensures good corporate governance is implemented and advises the chairman and the board in that regard

Director biographies as at 31 March 2018

Biographies of our directors are outlined below, including their relevant skills and experience, and other principal appointments for the year under review:

Fani Titi, chairman to 15 May 2018

Age: 56

Qualifications: *BSc (cum laude), BSc Hons (cum laude) in Mathematics, MA in Mathematics, MBA*

Relevant skills and experience

Fani Titi has been a member of the boards of Investec Limited and Investec plc since January 2004 and has been non-executive chairman of Investec Limited and Investec plc from November 2011. He has also been a member of the Investec Bank Limited board from July 2002, and has chaired its board from June 2007. He has been a member of the Investec Bank plc board from August 2011, and its chairman from August 2014. He has served on the board of Investec Asset Management from November 2013. Fani was a founding member of the private investment group Kagiso Trust Investments Limited (now Kagiso Tiso Holdings), and later co-founded and led the public offering of Kagiso Media Limited on the JSE as its CEO. Fani was subsequently the founding executive chairman of the private investment firm the Tiso Group, which subsequently merged with Kagiso Trust Investments to form Kagiso Tiso Holdings. Fani stepped down from the Tiso Group in 2008 to concentrate his time on his duties at the Investec group, while also looking after his private investment portfolio. Fani has over two decades of investment banking experience, and has sat on the boards of different investee companies and JSE-listed companies

Other principal appointments

Investec plc, Investec Limited, Investec Bank Limited, IEP Proprietary Limited, Investec Asset Management Holdings Proprietary Limited, Investec Asset Management Limited and a number of Investec subsidiaries

Committees

DLC board risk and capital, DLC nominations and directors' affairs and DLC social and ethics

Date of appointment

3 August 2011

Brian D Stevenson, chairman from 15 May 2018

Age: 64

Qualifications: *MBA in Business Administration and Management, ACIB. FCIBS*

Relevant skills and experience

Brian was previously managing director and head of corporate and institutional banking at RBS. Brian served as CEO and chairman of RBS's global transaction services division. He joined RBS from Deutsche Bank, where he served as head of the global banking division for Asia-Pacific. Brian was a non-executive director of the Agricultural Bank of China (UK) Limited from 2011 to 2016 and a supervisory Board member of Deutsche Bank Nederland NV from 2014 to 2016. Brian is an associate of the Chartered Institute of Bankers (ACIB) and a fellow of the Chartered Institute of Bankers in Scotland (FCIBS)

Other principal appointments

Non-executive director and chairman of the audit committee of Westpac Europe Limited

Committees

Audit (chairman), nominations (chairman), prudential conduct and controls and DLC board risk and capital

Date of appointment

14 September 2016

David M van der Walt, chief executive officer

Age: 53

Qualifications: *BCom (Hons), CA(SA)*

Relevant skills and experience

David is chief executive officer of the bank and joined Investec in 1994. Since joining Investec David has held a number of positions within the Investec group both in South Africa and the UK. In July 2004 David was appointed global head of corporate and institutional banking with responsibility for the business unit across all geographies before being appointed joint CEO of the bank in February 2010. David is a graduate of University of Witwatersrand with a Bachelor of Commerce (Hons) in Accounting and is a qualified chartered accountant

Date of appointment

5 February 2002

Corporate governance

(continued)

Bernard Kantor, executive director

Age: 68

Qualifications: *CTA*

Relevant skills and experience

Bernard joined Investec in 1980. He has had varied experience within Investec as a manager of the trading division, marketing manager and chief operating officer

Other principal appointments

Investec plc, Investec Limited, Phumelela Gaming and Leisure Limited (chairman), Investec Bank Limited and a number of Investec subsidiaries and IEP Group Proprietary Limited

Committees

DLC board risk and capital, DLC social and ethics and DLC capital

Date of appointment

16 November 1992

Stephen Koseff, executive director

Age: 66

Qualifications: *BCom, CA(SA), HDip BDP, MBA*

Relevant skills and experience

Stephen joined Investec in 1980. He has diverse experience within Investec as chief accounting officer and general manager of banking, treasury and merchant banking. Stephen has also been appointed as chair of Bid Corporation with effect from 31 March 2018

Other principal appointments

Investec plc, Investec Limited, Bid Corporation Limited (chairman), Investec Bank Limited and a number of Investec subsidiaries and IEP Group Proprietary Limited

Committees

DLC board risk and capital, DLC social and ethics and DLC capital (chairman)

Date of appointment

16 November 1992

Ruth Leas, chief risk officer

Age: 46

Qualifications: *BA (cum laude), Hons (Economics), MPhil (Cantab)*

Relevant skills and experience

Ruth is chief risk officer for Investec Bank plc, responsible for all aspects of financial risk including credit risk, market risk, and asset and liability risk. Ruth also has primary responsibility for running the rating agency relationships for Investec in the UK. Ruth has worked within the Investec group since 1998, first in South Africa at Investec Bank Limited in financial products. Since 2002, Ruth has been based at Investec in the UK. Prior to her employment at Investec, Ruth was treasury economist for Gencor SA Limited (now BHP Billiton plc). Ruth holds an MPhil degree from Cambridge University, England, and a BA *(cum laude)* Hons Economics from the University of Witwatersrand, South Africa

Date of appointment

27 July 2016

Kevin P McKenna, chief operating officer

Age: 51

Qualifications: *BCom, BAcc, CA(SA)*

Relevant skills and experience

Kevin is chief operating officer of the bank and joined Investec in 2000 as the financial director of Investec Securities Limited. Kevin was appointed global chief operating officer of Investec capital markets in 2003 and served in that role until his appointment as chief operating officer of the bank in 2011. Prior to Investec, Kevin served as chief operating officer of Mercury Consolidated Holdings as well as a director of ING Barings's South African-based subsidiaries. Kevin is a qualified chartered accountant and graduate of the University of Witwatersrand

Date of appointment

10 May 2012

James KC Whelan, executive director

Age: 55

Qualifications*: FCA (Irish), HDip Tax (SA)*

Relevant skills and experience

James, known as Ciaran, joined Investec in 1988. He has had varied experience within Investec, including chief executive officer of Investec Bank Australia Limited and the global head of Investec group risk. Prior to joining Investec, Ciaran was an auditor manager at KPMG Inc., having completed his articles at Coopers & Lybrand

Date of appointment

14 April 2016

Ian R Wohlman, head of conduct and governance

Age: 62

Qualifications*: ACIB*

Relevant skills and experience

Ian joined Investec in 1991. He has had diverse experience in Investec, having held a number of executive appointments within the Investec group, including head of risk UK at Investec Limited. Prior to this, Ian was an accounts manager at Allied Trust Bank Limited, now Investec Bank. Ian started his career at RBS, where he held a number of positions, culminating as banking manager of the Belgravia branch

Date of appointment

23 June 1999

Zarina BM Bassa, independent non-executive director

Age: 54

Qualifications*: BAcc, DipAcc, CA(SA)*

Relevant skills and experience

Zarina is a former partner of Ernst & Young Inc. She joined the Absa Group in 2002 and was an executive director and a member of the group's executive committee, with accountability for private banking. She has previously chaired the South African Public Accountants' and Auditors' Board and the South African Auditing Standards Board and has been a member of the JSE GAAP Monitoring Panel and the Financial Services Board. Zarina has previously served as a non-executive director of Kumba Iron Ore Limited and Sun International Limited

Other principal appointments

The Financial Services Board, Oceana Group Limited, Yebo Yethu Limited, Vodacom Proprietary Limited and Woolworths Holdings Limited and various Investec subsidiaries including Investec Bank Limited and Investec Life Limited

Zarina has been appointed as the senior independent director of Investec plc and Investec Limited effective 1 April 2018

Committees

Audit and prudential conduct and controls, DLC audit (chairman), Investec plc audit (chairman), Investec Limited and Investec Bank Limited (chairman), DLC remuneration, DLC nominations and directors' affairs and DLC board risk and capital

Date of appointment

1 November 2017

Perry KO Crosthwaite, independent non-executive director*

Age: 69

Qualifications*: MA (Hons) (Oxon) in modern languages*

Relevant skills and experience

Perry was appointed chairman of Investec plc and Investec Limited on 1 April 2018. Perry was previously senior independent director of Investec plc and Investec Limited, a post he had held from August 2014 to March 2018, having joined the boards of Investec plc and Investec Limited June 2010. Perry is a former chairman of Investec Investment Banking and Securities and left the group on 31 March 2004

Perry has financial expertise gained through a distinguished career in investment banking with over 30 years of experience as a director in the city of London. Perry served as a non-executive director of Melrose Industries plc from July 2005 to May 2016, and was a founding director of Henderson Crosthwaite Institutional Brokers Limited, serving as its director from 1986 to 1998

Other principal appointments

Investec plc, Investec Limited, Investec Holdings (Ireland) Limited (chairman) and Investec Capital and Investments (Ireland) Limited

Committees

Chairman of DLC nominations and directors' affairs

Date of appointment

10 November 2010

* *Resigned on 15 May 2018 from Investec Bank plc.*

David Friedland, independent non-executive director

Age: 65

***Qualifications**:* BCom, CA(SA)

Relevant skills and experience
David is a former partner of both Arthur Andersen and KPMG Inc. where he also served as head of audit and risk in KPMG, Cape Town office before leaving in March 2013

Other principal appointments
Investec plc, Investec Limited, The Foschini Group Limited, Pick n Pay Stores Limited and Pres Les Proprietary Limited

Committees
DLC board risk and capital (chairman), DLC nominations and directors' affairs and DLC capital

Date of appointment
1 March 2013

Haruko Fukuda OBE, independent non-executive director

Age: 71

***Qualifications**: OBE, MA (Cantab), DSc, FSCI*

Relevant skills and experience
Haruko has been involved in global economics and investment for over 40 years and has written published books on international trade policy. She was previously chief executive officer of the World Gold Council, and senior adviser at Lazard. Prior to this, Haruko was a partner at James Capel & Co, an international securities firm bought by HSBC, for 14 years, before spending 10 years as vice-chairman and board member of Nikko Europe plc. Haruko has held a number of noteworthy positions, including as chairman of Caliber Global Investments Limited, and as a director of AB Volvo, Foreign and Colonial Investment Trust plc, and Govett European Technology and Income Trust plc

Other principal appointments
Non-executive director of Glint Pay Services Limited and Aberdeen Asian Smaller Companies Investment Trust plc

Committees
Audit, nominations, prudential conduct and controls and DLC board risk and capital

Date of appointment
3 December 2012

Moni Mannings, independent non-executive director

Age: 55

***Qualifications**: LLB*

Relevant skills and experience
Moni joined Investec as a non-executive director with effect from 27 July 2016. Until September 2017 Moni was chief operating officer of AI and data analytics company Aistemos Limited. Prior to this Moni was senior partner of Olswang LLP until 31 March 2016 having specialised in banking and finance law for 30 years. Before joining Olswang Moni worked for Clifford Chance within their banking and securities group

Other principal appointments
Polypipe Group plc, Dairy Crest Group Plc, Barnardo's and Cranfield University

Committees
Audit, nominations and prudential conduct and controls

Date of appointment
27 July 2016

Board composition

Whilst Investec Bank plc is not a premium listed equity issuer and is therefore not required to comply with the UK Corporate Governance Code (the code), the board seeks to ensure that its practices are aligned with principles of good governance. The board therefore considers the guidance set out in the code when considering the independence of the members of the non-executive directors and applies them proportionately.

Independence

The board is of the view that the chairman, Brian Stevenson, was considered independent on appointment. Prior to becoming chairman, Brian Stevenson was the senior independent director of the board, effective to 15 May 2018. All the non-executive directors are independent of management and promote the interest of stakeholders. The balance of executive and non-executive directors is such that there is a clear division of responsibility to ensure a balance of power, such that no one individual or group can dominate the board's processes or have unfettered powers of decision-making. The board believes that it functions effectively and evaluates its performance annually.

Tenure

The board follows a thorough process of assessing independence on an annual basis for each director whose tenure exceeds nine years. The board does not believe that tenure of any of the current non-executive directors interferes with their independence of judgement and ability to act in the bank's best interest.

Membership

At the end of the year under review, the board comprised seven executive directors and seven non-executive directors, including the chairman.

The names of the directors during the year and at the date of this annual report, and the dates of their appointments are set out in the table on page 111.

Terms of appointment

On appointment, non-executive directors are provided with a letter of appointment. The letter sets out, among other things, duties, responsibilities and expected time commitments, details of our policy on obtaining independent advice and, where appropriate, details of the board committees of which the non-executive director is a member. We have an insurance policy that insures directors against liabilities they may incur in carrying out their duties.

On the recommendation of the nominations committee, non-executive directors will be appointed for an expected term of nine years (three times three-year terms) from the date of their first appointment to the board.

Independent advice

Through the chairman or the company secretary, individual directors are entitled to seek professional independent advice on matters related to the exercise of their duties and responsibilities at the expense of Investec. No such advice was sought during the 2018 financial year.

Company secretary

David Miller is the company secretary of Investec Bank plc. The company secretary is professionally qualified and has gained experience over a number of years. His services are evaluated by board members during the annual board effectiveness review. He is responsible for the flow of information to the board and its committees and for ensuring compliance with board procedures. All directors have access to the advice and services of the company secretary whose appointment and removal is a board matter.

In addition, the board confirms that for the period 1 April 2017 to 31 March 2018 the company secretary did not serve as a director on the board nor did he take part in board deliberations and only advised on matters of governance, form or procedure.

What we did

Board report

Role

The board seeks to exercise ethical leadership, integrity, effective control and legitimacy in pursuit of strategic goals and objectives, to achieve long-term sustainability, growth and prosperity. The board is accountable for the performance and affairs of the bank. It provides leadership for the bank within a framework of prudent and effective controls which allows risks to be assessed and managed.

The board meets its objectives by reviewing and approving the bank's strategy, setting the values and standards which shape the bank's culture, developing and supporting staff, promoting high standards of corporate governance, approving key policies and objectives, ensuring that obligations to its stakeholders are understood and met, assessing the bank's capital requirements, understanding the key risks it faces, determining its risk tolerance and approving and reviewing the processes in operation to mitigate risk from materialising, including the approval of the terms of reference of key supporting board committees.

Certain matters are specifically reserved for the board. To achieve its objectives, the board may delegate certain of its duties and functions to various board committees, group forums or the chief executive officer, without abdicating its own responsibilities.

The board operates within the group's governance framework and is accountable for the performance and affairs of the bank. The board meets its objectives by reviewing and implementing corporate strategy determined in conjunction with the group.

The board has defined the limits of delegated authority within the bank. The board is responsible for assessing and managing risk policies and philosophies, ensuring appropriate internal controls, overseeing major capital expenditure, acquisitions and disposals, approving the establishment of businesses and approving the introduction of new products and services. In fulfilling its responsibilities, the board together with management implements the plans and strategies of the bank.

For further detail of the functions of the board of Investec Bank plc, as included with the functions of the boards of Investec plc and Investec Limited, performed directly or through board committees, refer to Investec's 2018 integrated annual report.

Key matters deliberated by our board

Apart from standard and regular agenda items, such as report-backs from each board committee and comprehensive reports from the chief executive officer and chief operating officer, the following specific matters of material importance were tabled and deliberated at board meetings and directors' development sessions during 2017/2018:

April 2017	Considered the implications of the Senior Managers and Certification Regime
May 2017	Reviewed and approved the financial results for the Financial Year Ended 31 March 2017
July 2017	Considered the strategic and commercial impact of Brexit
September 2017	Reviewed the ongoing implementation of IFRS 9
	Prepared for compliance with GDPR
	Monitored the implementation of MiFID II
November 2017	Reviewed and approved the financial results for the half year ended 30 September 2017
January 2018	Discussed cyber crime, cryptocurrency and IT governance
February 2018	Considered the bank's succession plans
March 2018	Reviewed the board's oversight of the bank's culture
	Received a regulatory update in regards to the Clients Assets Sourcebook (CASS)

Board meetings

The board of Investec Bank plc met eight times during the financial year. The chairman is responsible for setting the agenda for each meeting, in consultation with the chief executive officer and the company secretary. Comprehensive information packs on matters to be considered by the board are provided to directors in advance of each meeting.

How the board spent its time

Strategy formulation and monitoring of implementation	Finance and operations (including monitoring performance, capital and liquidity)	Governance, compliance and risk	Other
25%	50%	20%	5%

Composition and meeting attendance

Members during the year	Independent	Board member since	Eligible to attend (8 meetings in the year)	Attended (8 meetings in the year)
Fani Titi* (former chairman)	On appointment	3 Aug 2011	8	8
Brian Stevenson (chairman)	On appointment	14 Sept 2016	8	8
Zarina Bassa	Yes	1 Nov 2017	8	8
Perry KO Crosthwaite**	Yes	10 Nov 2010	8	8
David Friedland	Yes	1 Mar 2013	8	8
Haruko Fukuda OBE	Yes	3 Dec 2012	8	8
Bernard Kantor	Executive	16 Nov 1992	8	7
Stephen Koseff	Executive	16 Nov 1992	8	8
Ruth Leas	Executive	27 Jul 2016	8	8
Moni Mannings	Yes	27 Jul 2016	8	8
Kevin P McKenna	Executive	10 May 2012	8	8
David M van der Walt	Executive	5 Feb 2002	8	8
James KC Whelan	Executive	14 Apr 2016	8	8
Ian R Wohlman	Executive	23 Jun 1999	8	5

* *F Titi stood down as chairman of the board with effect from 15 May 2018.*
** *P Crosthwaite stepped down from the board with effect from 15 May 2018.*

Board activities	
Area of focus	**What we did**
Strategy	The board: • considered the strategy as developed and proposed by management for Investec Bank plc • monitored the implementation of the bank's strategy • set the strategy and deliver value to the shareholder and stakeholders for Investec Bank plc • monitored management activity and performance against targets • provided constructive challenge to management • approved the budget of the bank
Compliance, risk, conduct, corporate governance and audit	The board: • received and reviewed compliance reports • confirmed that the bank meets all internal and regulatory requirements • received and reviewed reports from the executive risk committee (ERC) for review and consideration • approved the risk appetite of the bank • received and reviewed reports from the capital committee for review and consideration • considered and approved the capital plans of the bank • approved the recovery and resolution plan for the UK • received and reviewed reports from the prudential conduct and controls committee • considered and confirmed the independence of non-executive directors giving regard to factors that might impact their independence • considered the directors' contribution at board meetings and whether they in fact demonstrated independent challenge • monitored the implementation of the bank's new governance structure • ensured that the bank had a robust governance structure in place • ensured that conduct issues were appropriately addressed
Leadership	The board: • ensured that the policies and behaviours set at board level were effectively communicated and implemented across the bank • considered the regular updates by various committees
Effectiveness	The board: • considered the process for the board effectiveness review • amended and added questions regarding risk and audit, presentation of projects to the boards, IT and succession planning • reviewed the recommendations of the board effectiveness review • implemented the recommendations of the board effectiveness review • finalised topics for director's development sessions
Remuneration	The board: • received a report from the remuneration committee chairman at each meeting • approved the recommendations of the remuneration committee • approved the remuneration policy statement provided to the Prudential Regulatory Authority (PRA)
Financial results, liquidity and solvency	The board: • reviewed and approved the financial results for the half year ended 30 September 2017 for Investec Bank plc • reviewed and approved the financial results ended 31 March 2018 for Investec Bank plc • confirmed that the bank was liquid and that the solvency and liquidity test had been satisfied • confirmed that adequate resources existed to support the bank on a going concern basis and accordingly adopted the going concern concept
Management succession	The board: • considered matters relating to board succession and approved appointments to the board and board committees • has and is ensuring the orderly transition from the founding members to the new generation in accordance with the Investec group's agreed management succession plan
Terms of reference and policies	The board: • reviewed and received regular updates in respect of the various committee's terms of reference and policies within the bank

Nominations committee report

I am pleased to present you with the report of the nominations committee. The nominations committee was established during the financial year and met on three occasions. The committee focused on succession planning, board composition and the board effectiveness review.

The key processes of the nominations committee are designed to ensure that the board and senior management are comprised of a talented and diverse range of people, aligned with the Investec culture and values, with the collective skills and experience that are necessary for the bank to meet its objectives and strategic goals. This is essential for the effective governance of the bank and the successful running of our business. The establishment of the nominations committee as a separate committee of the bank has helped to strengthen the independent oversight of these important matters.

I would like to congratulate Brian Stevenson on his appointment as chairman of the nominations committee. I am confident that the bank will benefit from his continued contribution and dedication.

Fani Titi
Former chairman, nominations committee

15 June 2018

"At Investec, our culture and values are at the core of how we make decisions and how we are governed"

Nominations committee

Fani Titi

Former chairman of the nominations committee

Key achievements in FY 2018

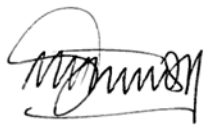
- Succession planning

Nominations committee report

As the newly elected chairman of the nominations committee, I am pleased to present you with the nominations committee report for the financial year ended 31 March 2018.

As the UK regulatory environment continues to evolve, the nominations committee will continue to monitor the composition and effectiveness of the directors, to ensure that the board and its principal committees are suitably positioned to meet these changes. In considering the composition of the board, the nominations committee is mindful of all aspects of diversity. This includes gender, race, skills, experience and knowledge.

As identified earlier in the governance report, a key focus for the nominations committee in the year ahead will be the recruitment and appointment of a new independent non-executive director, to assume the role of chairman of the audit committee.



Brian Stevenson
Chairman, nominations committee

15 June 2018

Nominations committee

Brian Stevenson

Chairman of the nominations committee

Areas of focus in FY 2019

- Monitor the composition and effectiveness of directors
- Ensure that the board and its principal committees are suitably positioned to meet future challenges
- Recruitment and appointment of a new independent non-executive director to assume the role as chairman of the audit committee
- Strengthening the governance processes in the subsidiaries
- Enhance the effectiveness of the work performed by the board

How the nominations committee works

Role

The nominations committee is an essential part of the bank's governance framework to which the board has delegated the following key functions:

- identification and nomination of candidates for board vacancies, as and when they arise
- consideration of succession planning for directors and senior management
- agreeing and implementing the bank's policy on diversity
- assessment of the structure, size and composition of the board and of individual board members.

Composition

The board has formed the opinion that the nominations committee has the appropriate balance of knowledge and skills in order to discharge its duties. In particular, the majority of members are independent non-executive directors and all members have the relevant experience for them to be able to consider the issues that are presented to the committee.

Meeting schedule and attendance

In terms of the approved terms of reference for the nominations committee, meetings of the committee shall be held at least twice per annum as and when required on an *ad hoc* basis. During the financial year ended 31 March 2018, the committee met on three occasions.

How the committee spent its time

Composition of boards and committees	Board effectiveness
70%	30%

Composition and meeting attendance

Members during the year	Committee member since	Eligible to attend (3 meetings in the year)	Attended (3 meetings in the year)
F Titi*	26 Jan 2018	3	3
B Stevenson (chairman)**	26 Jan 2018	3	3
H Fukuda	26 Jan 2018	3	3
M Mannings	26 Jan 2018	3	3

* *F Titi stood down as chairman and member of the committee with effect from 15 May 2018.*

** *B Stevenson was appointed as chairman with effect from 15 May 2018.*

Management and succession planning

The nominations committee has been delegated responsibility for succession planning for the board and for members of senior management. The nominations committee considers succession planning both in terms of ensuring that there are named individuals able to step in and provide cover in the event of an immediate vacancy, and in terms of ensuring that the bank is increasing the internal pool of talented and skilled individuals by providing opportunities for individuals to develop and grow within the organisation.

Skills, knowledge and experience

The nominations committee and the board consider that the skills, knowledge, experience, diversity and attributes of the directors as a whole are appropriate for their responsibilities and our activities. The directors bring a range of skills to the board including:

- international business and operational experience
- an understanding of the economics of the sectors in which we operate
- knowledge of the regulatory environments in which we operate
- financial, accounting, legal and banking experience and knowledge.

The skills and experience profile of the board and its committees are regularly reviewed by the nominations committee to ensure an appropriate and relevant composition from a governance, succession and effectiveness perspective.

Independence

Open and honest dialogue is part of Investec's culture. Robust independent challenge is a critical component of how the board operates. Investec has always been an organisation that places value on substance over form, and the nominations committee therefore considers all relevant circumstances regarding directors' independence. However, its obligation is to ensure that directors, demonstrate independence of character and judgement, and exhibit this in the boardroom by providing a challenge to the executive board members.

The nominations committee considers tenure when examining independence, and when considering the composition of the board as a whole. The nominations committee is mindful that there needs to be a balance resulting from the benefits brought on board by new independent directors, versus retaining individuals with valuable skills, knowledge, experience, and an understanding of Investec's unique culture that has been developed over time.

The nominations committee is responsible for challenging and assessing the independence and performance of directors, to ensure that they continue to demonstrate independence of character and judgement. Furthermore, all new appointments of non-executive directors are made for an initial period of three years with a clear understanding that they will be unlikely to serve for a period exceeding nine years.

Diversity

The nominations committee, in considering the composition of the board, is mindful of all aspects of diversity. This includes gender, race, skills, experience and knowledge.

At Investec we embrace differences as a strength within our company. Having a diverse board is a clear benefit, bringing with it distinct and different outlooks, alternative viewpoints, and challenging mindsets.

The nominations committee has adopted a policy on promoting diversity on the board, which describes the bank's policy and approach to promoting diversity, including race and gender diversity. Investec is cognisant of the recommendations of the Hampton-Alexander Review pertaining to the setting of a policy and, targets for the representation of women on the board, and has an aspirational target of 33% female representation by 2020. We therefore recognise the need to create opportunities for talented individuals to move up through the organisation. To assist with this, Investec undertakes a number of diversity initiatives across the organisation and has signed up to the 30% Club in the UK, which promotes female board representation, and the Women in Finance Charter, which commits the bank to support the progression of women into senior roles through focusing on the executive pipeline and mid-tier level.

Board effectiveness review

The board and individual director's performance is formally evaluated annually based on recognised codes of corporate governance; the annual effectiveness review covers areas of the board's processes and responsibilities, according to leading practice. This year the board effectiveness review was internally facilitated. The directors each completed a questionnaire and met with the chairman in order to identify future challenges, current strengths and provide insight into how the board functions. Findings were collated and presented at the February 2018 nominations committee meeting. Strengths of the board were levels of governance, leadership and robust risk management and internal controls. The bank was seen to have made good progress building on its relationship and interaction with the regulators. The introduction of bank audit and nominations committees was seen to promote the bank's independence within the wider Investec group framework. Notwithstanding the strengths, areas that the nominations committee and the board felt required focus included greater oversight by the board of the bank's culture.

Directors' development

Directors' ongoing development is a standing board agenda item. Board members receive regular formal presentations on regulatory and governance matters as well as on the business and support functions. Regular interactive workshops are arranged between directors and the heads of risk management, control functions and business units.

The company secretary liaises with directors to source relevant seminars and conferences which directors could attend, funded by Investec.

Following the board's and directors' performance evaluation process, any training needs are communicated to the company secretary who ensures such needs are addressed. During the period under review there were a number of director workshops arranged outside board meetings. Due to the fast changing regulatory environment, key focus areas for these workshops included GDPR, MiFID II and IFRS 9.

Committee activities

Areas of focus	What we did
Composition of board and committees	• Discussion and agreement of the appointment of the chairman, chairman of the nominations committee, chairman of the remuneration committee, and the senior independent director • Approved the appointments of: – Brian Stevenson as chairman of the board – Brian Stevenson as chairman of the nominations committee – Brian Stevenson as chairman of the audit committee – Moni Mannings as senior independent director • Commenced the search for a new non-executive director to assume the role of audit committee chairman, choosing the external party to be used in the recruitment process
Board effectiveness	• Consideration of the results of the board effectiveness review for 2018 • Following, the 2018 board effectiveness review, the board decided to further strengthen formal reporting on the bank's culture

Looking ahead

As the nominations committee goes through its first full financial year, it will focus on how to further develop senior management in order to support succession plans.

The nominations committee continuously looks forward to the challenges and opportunities that the bank will face, and will continue to review the composition of the board of the bank to ensure that it is optimally structured to represent the interests of all its stakeholders, and to drive forward the strategy that will enable the bank to succeed. The nominations committee will continue to further develop and refine the bank's governance structure, to provide for the correct balance of independence within the governance framework of the wider Investec group.

The nominations committee will continue to focus on the composition of the board with respect to all aspects of diversity, including race and gender diversity.

Audit committee report

I am pleased to present you with the report of the audit committee of Investec Bank plc for the financial year ended 31 March 2018.

The audit committee was established during 2017 as an independent committee of the bank. We believe that this change has helped to enhance the level of independent oversight and scrutiny of audit matters. During the year we have focused on bedding down this new structure, and ensuring the committee is operating effectively.

Over the following pages we will share with you some key information about the role and functioning of the audit committee.

Role of the chair

The role of the chairman of the audit committee requires regular meetings with the heads of internal audit, as well as the lead external audit partner and senior management outside of formal committee meetings in order to maintain and develop an understanding of the bank's operations and the risks facing the business. These interactions are an essential part of the role of the chairman of the audit committee, as it provides an additional layer of assurance to gain comfort that these control functions are aligned in terms of their understanding of the risks facing the business and mitigation thereof.

Following my appointment as chairman of the board of Investec Bank plc, it has been agreed that to clearly demonstrate the independence of the audit committee, we will seek a new independent non-executive director, with recent relevant experience, to be appointed as a new chairman of the audit committee. This recruitment process commenced early in 2018 and until the appointment has been made, in order to provide continuity and stability, and to preserve the level of independence from the Investec group that we have obtained, I will continue to act as both chairman of the audit committee and of the board.

Looking ahead

Focus will be centred on IT governance and cyber security, as well as the implementation of IFRS 9 and GDPR, and issues relating to conduct. The impact of the anticipated changes to the UK Corporate Governance Code, as proposed by the Financial Reporting Council (FRC), will also feature as a key consideration on the agenda of the audit committee. Additionally, attention will be paid to the macro and micro impact of recent political events in the UK, including the negotiation of post-Brexit arrangements. The audit committee will also be considering independence of the external auditor and audit quality measures.

Brian Stevenson
Chairman, audit committee

15 June 2018

"Investec's robust governance framework is supported by its open and honest culture which helps to ensure key issues are escalated in a timely manner"

Audit committee

Brian Stevenson
Chairman of the Investec Bank plc audit committee

Key achievements in FY 2018

- Establishment of the committee
- Implementation of IFRS 9
- Implementation of MiFID II

Areas of focus in FY 2019

- IT risk and cyber security
- Conduct
- Implementation of GDPR

How the audit committee works

Role

The audit committee is an essential part of the bank's governance framework to which the board has delegated the following key functions:

- oversight of the bank's financial reporting process and risks
- managing the relationship with the bank's external auditor
- reviewing the bank's internal controls and assurance processes, including that of internal audit.

Composition

All of the members of the audit committee are independent non-executive directors, whose continuing independence will be assessed annually by the nominations committee, which in turn makes recommendations on the members' independence to the board. During the period under review, on the recommendation of the nominations committee the board has formed the opinion that the audit committee has the appropriate balance of knowledge and skills in order for them to discharge their duties.

Audit committee reporting lines

Prior to the establishment of the audit committee, which held its first meeting on 24 July 2017, the board had mandated authority to the Investec plc and Investec Limited audit committee to be the audit committee of the bank. Since the establishment of the independent audit committee of the bank, in carrying out its responsibilities, the audit committee reports both to the board, and to the Investec plc and Investec Limited audit committee. For full information on relevant activities during the year, this report should therefore be read in conjunction with the report by the chairman of the Investec plc and Investec Limited audit committee, which can be found in Investec's 2018 integrated annual report on pages 151 to 157.

Meeting schedule and attendance

During the financial year ended 31 March 2018, the audit committee met six times.

How the committee spent its time

Financial reporting	External audit matters	Internal audit matters	Risk management and internal controls (including IT risk and cyber security)	Other (including macro issues and reports from subsidiary committees)
25%	25%	25%	15%	10%

Composition and meeting attendance

Members during the year	Committee member since	Eligible to attend (6 meetings in the year)	Attended (6 meetings in the year)
B Stevenson (chairman)	24 Jul 2017	6	6
Z Bassa	24 Jul 2017	6	6
H Fukuda	24 Jul 2017	6	6
M Mannings	24 Jul 2017	6	6

Financial reporting

Process

The audit committee's primary responsibility in relation to the bank's financial reporting is to review with both management and the external auditor the appropriateness and accuracy of the annual financial statements.

In this process, amongst other matters, the audit committee consider:

- the appropriateness of accounting policies and practices and any areas of judgement
- significant issues that have been discussed with the external auditor
- the clarity of disclosures and compliance with financial reporting standards and other relevant financial and governance reporting requirements.

The audit committee receives reports from group finance and external audit at each of their quarterly meetings. The committee meetings afford the non-executive directors the opportunity to discuss with management the key areas of judgement applied and significant issues disclosed in the financial statements.

IFRS 9 implementation

The bank adopted IFRS 9 on 1 April 2018. The audit committee has dedicated a substantial amount of time to understanding and challenging the IFRS 9 implementation programme. Additional meetings were convened to deliberate and conclude on IFRS 9.

Areas of judgement and significant issues

The audit committee has assessed whether suitable accounting policies have been adopted and whether management has made appropriate judgements and estimates. The main areas of judgement that have been considered by the audit committee to ensure that appropriate rigour has been applied are outlined below.

Significant judgements and issues	Committee review and conclusion
Impairments • Determining the appropriateness of impairment losses requires the bank to make assumptions based on management judgement	• the committee challenged the level of provisions made and the assumptions used to calculate the impairment provisions held by the bank including assessing impairment experience against forecasts. Particular focus was given to the legacy portfolio and exposures which are affected by the current macroeconomic environment • the committee was satisfied that the impairment provisions were appropriate • one of the key developments in accounting policy during the year was the preparation for the implementation of the IFRS 9 impairment standard on 1 April 2018 • the audit committee received updates on the group's key judgements and assumptions, in addition to the key features of the IFRS 9 impairment process and the impact on financial results, capital, stress testing and earnings volatility • the audit committee is satisfied that the bank has worked with industry guidance and has taken note of the best practice recommendations which have been issued
Valuations • The bank exercises judgement in the valuation of complex/illiquid financial instruments, unlisted investments and embedded derivatives, particularly the level 3 instruments within the portfolio	• material individual positions, in particular the unlisted private equity investments, are challenged and debated by the committee with the most material noted as standing agenda items for each of the audit committees throughout the year • at the year end, prior to the audit committee meetings, the audit committee chairman met with management and received a presentation on the material investments across the bank including an analysis of the key judgements and assumptions used • the audit committee approved the valuation adjustments proposed by management for the year ended 31 March 2018
Uncertain tax positions • There are certain legacy structured transactions within the bank only where there is uncertainty over the outcome of the tax positions and judgement is required over the calculation of the provision	• the audit committee receives regular updates on this topic from tax, group finance and legal to enable it to evaluate the appropriateness of the tax risk provision to cover existing tax risk • the audit committee analyses the judgements and estimates made and discusses the potential range of outcomes that might arise • the committee confirmed the tax provisions and disclosures for the year end

Going concern

The directors are required to confirm that they are satisfied that the bank has adequate resources to continue in business for the foreseeable future. The assumptions underlying the going concern statement are discussed at the time of the approval of the annual financial statements by the board and these include:

- budgeting and forecasts
- profitability
- capital
- liquidity
- solvency

In addition, the directors are responsible for monitoring and reviewing the preparation, integrity and reliability of the Investec Bank plc financial statements, accounting policies and the information contained in the annual report.

Our financial statements are prepared on a going concern basis. The board is of the opinion, based on its knowledge of the bank, key processes in operation and specific enquiries, that there are adequate resources to support Investec Bank plc as a going concern for the foreseeable future.

External audit

The audit committee has responsibility for reviewing the group's relationship with its external auditors, including, considering audit fees, non-audit services and the independence and objectivity of the external auditors.

Auditor appointment

Investec Bank plc's external auditors are Ernst & Young LLP (Ernst & Young). Ernst & Young have been the bank's auditors since 2002.

Working with the external auditor

The audit committee meets with the external auditors to review the scope of the external audit plan, budgets, the extent of non-audit services rendered and all other audit matters. The external auditors are invited to attend audit committee meetings and have access to the audit committee's chairman.

Auditor independence and objectivity

Further information regarding the independence and objectivity of the Investec group and the bank's external auditors may be found in Investec's 2018 integrated annual report.

Non-audit services

Further details in regards to the non-audit services provided by the Investec group and the bank's external auditors may be found in Investec's 2018 integrated annual report.

Internal controls

Risks and controls are reviewed and monitored regularly for relevance and effectiveness. The audit committee, executive risk committee and prudential conduct and controls committee assist the board in this regard.

Sound risk management practices are promoted by the bank's risk management function, which is independent of operational management. The board recognises its responsibility for the overall risk and control framework and for reviewing its effectiveness. Internal control is designed to mitigate, not eliminate, significant risks faced.

It is recognised that such a system provides reasonable, but not absolute, assurance against material error, omission, misstatement or loss. The bank achieves this through a combination of risk identification, evaluation and monitoring processes, appropriate decision and oversight forums, and assurance and control functions such as group risk management, internal audit and compliance. These ongoing processes, which comply with the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, were in place throughout the year under review and up to the date of approval of the annual report and annual financial statements.

Internal audit reports any control recommendations to senior management, risk management and the relevant audit committee. Appropriate processes, including review by the audit committee's support structures, ensure that timely corrective action is taken on matters raised by internal audit. Significant risks are reviewed regularly by the executive risk committee and prudential conduct and controls committee. Material incidents and losses and significant breaches of systems and controls are reported to the executive risk committee, prudential conduct and controls committee and the audit committee. Reports from the audit committee, risk, conduct and control functions are reviewed at each board meeting.

Certain statutory duties with respect to directors' conflicts of interest are in force under the UK Companies Act 2006 (the Act). In accordance with this Act and the articles of association (the articles), the board may authorise any matter that otherwise may involve the directors breaching their duty to avoid conflicts of interest. The board has adopted a procedure, as set out in the articles that includes a requirement for directors to submit, in writing, disclosures detailing any actual or potential conflict for consideration and, if considered appropriate, approval.

Internal financial controls

Internal financial controls are based on established policies and procedures. Management is responsible for implementing internal financial controls, ensuring that personnel are suitably qualified, that appropriate segregation exists between duties, and that there is suitable independent review. These areas are monitored by the board through the audit committee and are independently assessed by internal audit and compliance.

Processes are in place to monitor internal control effectiveness, identify and report material breakdowns, and ensure that timely and appropriate corrective action is taken. Finance and investor relations coordinate, review and comment on the monthly financial and regulatory reports, and facilitate the interim and annual financial reporting process, including the independent audit process.

Risk management

The board is responsible for the total process of risk management and the systems of internal control. A number of committees and forums assist in this regard. Senior management is responsible for identifying risks and implementing appropriate mitigation processes and controls within their businesses.

The independent bank risk management functions, accountable to group boards, are responsible for establishing, reviewing and monitoring the process of risk management. Risk management reports regularly to the board risk and capital committee and the executive risk review forum.

More information on risk management can be found on pages 36 to 96.

Remuneration

Details of the directors' remuneration and remuneration process are set out on pages 124 to 140.

Further disclosures

Refer to Investec's 2018 integrated annual report for more information regarding:

- directors' dealings
- internal audit
- compliance
- regulation and supervision
- values and code of conduct
- sustainability
- IT governance
- DLC board and committees – including the report prepared by the chairmen of the DLC board and committees.

Investec Bank plc

(details as at 15 June 2018)

An indirect subsidiary of Investec plc

Brian D Stevenson (64)
Non-executive chairman
ACIB, FCIBS, MBA

David M van der Walt (53)
Chief executive officer
BCom (Hons), CA(SA)

Zarina BM Bassa (54)
BAcc, DipAcc, CA(SA)

David Friedland (65)
BCom, CA(SA)

Haruko Fukuda OBE (71)
MA (Cantab), DSc

Bernard Kantor (68)
CTA

Stephen Koseff (66)
BCom, CA(SA), H Dip BDP, MBA

Ruth Leas (46)
BA (cum laude), Hons (Economics), MPhil (Cantab)

Moni Mannings (55)
Senior independent director
LLB

Kevin P McKenna (51)
BCom, BAcc, CA(SA)

Fani Titi (56)
BSc (Hons), MA, MBA

James KC Whelan (55)
FCA (Irish), H Dip Tax (SA)

Ian R Wohlman (63)
ACIB

Remuneration Report

Remuneration report

We have a strong entrepreneurial, merit- and values-based culture, characterised by passion, energy and stamina

The remuneration committee of the bank's parent, Investec plc, comprises non-executive directors and is responsible for determining the overall reward packages of executive directors. The policy on remuneration packages for non-executive directors is agreed and determined by the board.

Remuneration philosophy

Our philosophy, which remains unchanged from prior years, is to employ the highest calibre individuals who are characterised by integrity, intellect and innovation and who adhere and subscribe to our culture, values and philosophies. We strive to inspire entrepreneurship by providing a working environment that stimulates extraordinary performance so that executive directors and employees may be positive contributors to our clients, their communities and the bank.

We reward employees generally for their contribution through:

- An annual gross remuneration package (base salary and benefits) providing an industry competitive package
- A variable short-term incentive related to performance (annual bonus)
- A long-term incentive (share awards) providing long-term equity participation
- Certain of our Material Risk Takers receive fixed monthly cash allowances (where appropriate for the role) and a commensurate reduction of variable short-term incentive.

We consider the aggregate of the above as the overall remuneration package designed to attract, retain, incentivise and drive the behaviour of our employees over the short-, medium- and longer-term in a risk conscious manner. Overall, rewards are considered as important as our core values of work content (greater responsibility, variety of work and high level of challenge) and work affiliation (entrepreneurial feel to the company and unique culture) in the attraction, retention and motivation of employees.

We have a strong entrepreneurial, merit and values-based culture, characterised by passion, energy and stamina. The ability to live and perpetuate our culture and values in the pursuit of excellence in a regulated industry and within an effective risk management environment is considered paramount in determining overall reward levels.

The type of people the organisation attracts, and the culture and environment within which they work, remain crucial in determining our success and long-term progress. Our reward programmes are clear and transparent, designed and administered to align directors' and employees' interests with those of all stakeholders and ensure the bank's short-, medium- and long-term success. Our reward programmes also recognise potential in people.

In summary, we recognise that financial institutions have to distribute the return from their enterprises between the suppliers of capital and labour and the societies in which they do business, the latter through taxation and corporate social responsibility activities. Our remuneration philosophy seeks to maintain an appropriate balance between the interests of these stakeholders, and is closely aligned to our culture and values which include risk consciousness, meritocracy, material employee ownership and an unselfish contribution to colleagues, clients and society.

Remuneration principles

Remuneration policies, procedures and practices, collectively referred to as the 'remuneration policy', are designed, in normal market conditions, to:

- Be in line with the business strategy, objectives, values and long-term interests of the bank
- Be consistent with and promote sound and effective risk management, and not encourage risk taking that exceeds the level of tolerated risk of the bank
- Ensure that payment of variable remuneration does not limit the bank's ability to maintain or strengthen its capital base
- Target gross fixed remuneration (base salary and benefits including pension) with reference to the middle quartiles of the market levels to contain fixed costs
- Ensure that variable remuneration is largely economic value added (EVA) – based and underpinned by our predetermined risk appetite and capital allocation
- Facilitate alignment with the shareholder through deferral of a portion of short-term incentives into shares and long-term incentive share awards

- Target total compensation (base salary, benefits and incentives) to the relevant competitive market at upper quartile levels for superior performance.

Given our stance on maintaining a low fixed cost component of remuneration, our commitment to inspiring an entrepreneurial culture, and our risk-adjusted return on capital approach to EVA, we do not apply an upper limit on variable rewards other than in respect of Material Risk Takers who have a maximum variable remuneration: fixed remuneration ratio of 2:1. This cap is defined in line with EBA discounting rules which allow, when 25% of variable remuneration is deferred over at least five years, a slightly higher cap than 2:1, depending on the length of deferral, inflation and interest rates. This is currently 244.2% of fixed remuneration for those who satisfy these conditions.

The fixed cost component of remuneration is, however, designed to be sufficient so that employees do not become dependent on their variable compensation as we are not contractually (and do not consider ourselves morally) bound to make variable remuneration awards. Investec has the ability to pay no annual bonuses and make no long-term incentive awards should the performance of the bank or individual employees require this.

We do not pay remuneration through vehicles that facilitate avoidance of applicable laws and regulations.

Furthermore, employees must undertake not to use any personal hedging strategies or remuneration or liability-related contracts of insurance to undermine the risk alignment effects embedded in their remuneration arrangements. Compliance maintains arrangements designed to ensure that employees comply with this policy.

No individual is involved in the determination of his/her own remuneration rewards and specific internal controls and processes are in place to prevent conflicts of interest between Investec and its clients from occurring and posing a risk to the bank on prudential grounds.

Remuneration policy

All remuneration payable (salary, benefits and incentives) is assessed at an Investec group, business unit and individual level. This framework seeks to balance both financial and non-financial measures of performance to ensure that the appropriate factors are considered prior to making awards, and that the appropriate mix of cash and share-based awards are made.

Our policy with respect to remuneration of employees has remained unchanged during the 2018 financial year.

Determination of remuneration levels for employees

Qualitative and quantitative considerations form an integral part of the determination of overall levels of remuneration and total compensation for each individual.

Factors considered for overall levels of remuneration at the level of the Investec group include:

- **Financial measures of performance:**
  - Risk-adjusted EVA model
  - Affordability.
- **Non-financial measures of performance:**
  - Market context
  - Specific input from the risk and compliance functions.

Factors considered to determine total compensation for each individual include:

- **Financial measures of performance**
  - Achievement of individual targets and objectives
  - Scope of responsibility and individual contributions.
- **Non-financial measures of performance**
  - Alignment and adherence to our culture and values
  - The level of cooperation and collaboration fostered
  - Development of self and others
  - Attitude displayed towards risk consciousness and effective risk management
  - Adherence to internal controls procedures
  - Compliance with the bank's regulatory requirements and relevant policies and procedures, including treating customers fairly
  - The ability to grow and develop markets and client relationships
  - Multi-year contribution to performance and brand building
  - Long-term sustained performance
  - Specific input from the risk and compliance functions
  - Attitude and contribution to sustainability principles and initiatives.

Remuneration levels are targeted to be commercially competitive on the following basis:

- The most relevant competitive reference points for remuneration levels are based on the scope of responsibility and individual contributions made
- The committee recognises that we operate an international business and compete with both local and international competitors in each of our markets
- Appropriate benchmark, industry and comparable organisations' remuneration practices are reviewed regularly
- For employees generally, the FTSE 350 General Finance sector has offered the most appropriate benchmark
- In order to avoid disproportionate packages across areas of the bank and between executives, adjustments may be made at any extremes to ensure broad internal consistency. Adjustments may also be made to the competitive positioning of remuneration components for individuals, in cases where a higher level of investment is needed in order to build or grow or sustain either a business unit or our capability in a geography.

The following section outlines our remuneration policy in more detail for each element of total compensation as it applies to employees. Our remuneration arrangements for S Koseff and B Kantor can be found in Investec's 2018 integrated annual report.

Gross remuneration: base salary and benefits

Salaries and benefits are reviewed annually and reflect the relative skills and experience of, and contribution made by, the individual. It is the bank's policy to seek to set base salaries and benefits (together known as gross remuneration) with reference to the middle quartiles of the market levels when compared like for like with peer group companies.

Human Resources provides guidelines to business units on recommended salary levels for all employees within the organisation to facilitate the review. These guidelines include a strategic message on how to set salary levels that will aid Investec in meeting its objectives while remaining true to corporate values, and incorporate guidance on increasing levels to take account of the change in the cost of living over the year to ensure that salary levels always allow employees to afford a reasonable standard of living and do not encourage a reliance on variable remuneration.

Advisers are often engaged by human resources to obtain general benchmark information or to benchmark specific positions to ensure that gross remuneration levels are appropriate when compared against the market and competitive so that levels of remuneration do not inhibit our ability to recruit the people we need to develop our business.

Benefits are targeted at competitive levels and are delivered through flexible and tailored packages. Benefits include pension schemes; life, disability and personal accident insurance; medical cover; and other benefits, as dictated by competitive local market practices. Only salaries, not annual bonuses or role-based allowances, are pensionable.

Variable short-term incentive: annual bonus

All employees are eligible to be considered for a discretionary annual bonus, subject *inter alia* to the factors set out above in the section dealing with the determination of remuneration levels. The structure of short-term incentives varies between employees of our two operating divisions: Wealth & Investment and Specialist Banking. This reflects differing regulatory requirements for the different legal entities and also differing competitive pressures in each distinct market.

Specialist Banking: variable short-term incentive

Risk-weighted returns form the basis for variable remuneration levels

In our ordinary course of business we face a number of risks that could affect our business operations, as highlighted on page 20.

Risk management is independent from the business units and monitors, manages and reports on the bank's risk to ensure it is within the stated risk appetite as mandated by the board of directors through the board risk and capital committee (BRCC). The bank monitors and controls risk exposure through credit, market, liquidity, operational and legal risk divisions/forums/committees.

Risk consciousness and management is embedded in the organisational culture from the initiation of transactional activity through to the monitoring of adherence to mandates and limits and throughout everything we do.

The BRCC (comprising both executive and non-executive directors) sets the overall risk appetite for the bank and determines the categories of risk, the specific types of risks and the extent of such risks which the bank should undertake, as well as the mitigation of risks and overall capital management and allocation process. Senior members of the bank's risk management teams, who provide information for the meeting packs and present and contribute to the committee's discussions, attend these meetings.

The DLC capital committee is a sub-committee of the BRCC and provides detailed input into the bank's identification, quantification and measurement of its capital requirements, taking into account the capital requirements of the banking regulators. It determines the amount of internal capital that the bank should hold and its minimum liquidity requirements, taking into account all the associated risks plus a buffer for any future or unidentified risks. This measure of internal capital forms part of the basis for determining the variable remuneration pools of the various operating business units (as discussed above).

The policy executive risk review forum (Policy ERRF) and review executive risk review forum (Review ERRF), comprising members of the executive and the heads of the various risk functions meet weekly. These committees responsibilities include approving limits and mandates, ensuring these are adhered to and that agreed recommendations to mitigate risks are implemented.

The bank's central credit and risk forums provide transaction approval independent of the business unit on a deal-by-deal basis. The riskiness of business undertaken is evaluated and approved prior to initiation of the business through various central forums and committees, deal forum, credit committee, investment committee and new product forum and is reviewed and ratified at review ERRF and policy ERRF on a regular basis. These central forums provide a level of risk management by ensuring that risk appetite and various limits are being adhered to and that an appropriate interest rate and, by implication, risk premium is built into every approved transaction. The approval of transactions by these independent central forums thus ensures that every transaction undertaken by the bank results in a contribution to profit that has already been subject to some risk adjustment.

Our EVA model as described in detail below is principally applied to realised profits against predetermined targets above risk and capital weighted returns. In terms of the EVA structure, capital is allocated based on risk and therefore the higher the risk, the higher the capital allocation and the higher the hurdle return rate required. This model ensures that risk and capital management are embedded in key processes at both a bank and transaction level, which form the basis of the bank's performance-related variable remuneration model, thus balancing the interests of all stakeholders.

Further, both the risk and compliance functions are also embedded in the operating business units and are subject to review by the internal audit and compliance monitoring teams. The risk and compliance functions also provide, on an exception-only basis, information relating to the behaviour of individuals and business areas if there has been evidence of non-compliance or behaviour which gives rise to concerns regarding the riskiness of business undertaken.

EVA model: allocation of performance-related bonus pool

Our business strategy and associated risk appetite, together with effective capital utilisation, underpin the EVA annual bonus allocation model.

Business units share in the annual bonus pool to the extent that they have generated a realised return on their allocated risk-adjusted capital base in excess of their target return on equity. Many of the potential future risks that the firm may face are avoided through ensuring that the bonus pools are based on actual realised risk-adjusted profits.

The bonus pools for non-operating business units (central services and head office functions) are generated by a levy payable by each operating business on its operating profit. This bonus pool may, in some years, be supplemented by a discretionary allocation as determined by the chief executive officer and managing director, and agreed by the remuneration committee.

Our EVA model has been consistently applied for a period of about 19 years and encompasses the following elements:

- The profitability of each operating business unit is determined as if they are a stand-alone business. Gross revenue is determined based on the activity of the business, with arm's length pricing applicable to intersegment activity. Profits are determined as follows:
  - Realised gross revenue (net margin and other income)
  - *Less:* Funding costs
  - *Less:* Impairments for bad debts
  - *Add back:* Debt coupon or preference share dividends paid out of the business (where applicable)
  - *Less:* Direct operating costs (personnel, systems, etc)
  - *Less:* Allocated costs and residual charges (certain independent bank functions are provided on a centralised basis, with an allocation model applied to charge out costs incurred to business units. Costs allocated are based on the full operational costs for the particular central service area, inclusive of the variable remuneration cost of the central service. Allocation methodologies generally use cost drivers as the basis of allocation)
  - *Less:* Profits earned on retained earnings and statutory held capital
  - *Add:* Notional profit paid by centre on internal allocated capital
  - *Equals:* Net profits.
- Capital allocated is a function of both regulatory and internal capital requirements, the risk assumed within the business and our overall business strategy
- The bank has always held capital in excess of minimum regulatory requirements, and this principle is perpetuated in our internal capital allocation process. This process ensures that risk and capital discipline is embedded at the level of deal initiation and incorporates independent approval (outside of the business unit) of transactions by the various risk and credit committees.

A detailed explanation of our capital management and allocation process is provided on pages 90 to 93.

- Internal capital comprises the regulatory capital requirement taking into account a number of specified risks plus a capital buffer which caters, inter alia, for any unspecified or future risks not specifically identified in the capital planning process. The bank then ensures that it actually holds capital in excess of this level of internal capital
- Internal capital is allocated to each business unit via a comprehensive analysis of the risks inherent within that business and an assessment of the costs of those risks
- Hurdle rates or targeted returns are determined for each business unit based on the weighted average cost of capital (plus a buffer for trading businesses to take into account additional risks not identified in the capital allocation process) applied to internal capital
- Targeted returns differ by business unit reflecting the competitive economics and shareholder expectation for the specific area of the business, and are set with reference to the degree of risk and the competitive benchmarks for each product line
- In essence, varying levels of return are required for each business unit reflecting the state of market maturity, country of operation, risk, capital invested (capital intensive businesses) or expected expense base (fee-based businesses)
- Growth in profitability over time will result in an increasing bonus pool, as long as it is not achieved at the expense of capital efficiency
- Target returns must be reflective of the inherent risk assumed in the business. Thus, an increase in absolute profitability does not automatically result in an increase in the annual bonus pool. This approach allows us to embed risk and capital discipline in our business processes. These targets are subject to annual review
- The bank's credit and risk forums provide transaction approval independent of the business unit on a deal-by-deal basis adding a level of risk consciousness to the predetermined (and risk-adjusted) capital allocation and required hurdle rates and thus ensure that each transaction generates a return that is commensurate with its associated risk profile.

In terms of our EVA process, if business and individual performance goals are exceeded, the variable element of the total remuneration package is likely to be substantially higher than the relevant target benchmark. This ensures that overall remuneration levels have the potential to be positioned at the upper quartile level for superior performance, in line with our overarching remuneration policy.

In circumstances where an operating business unit does not have an EVA pool (e.g. when it incurs a loss or when it is a start-up), the chief executive officer and managing director may consider a discretionary allocation to allow for a modest bonus for those staff who were expected to contribute to the longer-term interests of that business unit or the bank, despite the lack of EVA profits in the short term, e.g. control functions, support staff and key business staff.

It should be noted the salaries and proposed bonuses for employees responsible for risk, internal audit and compliance are not based on a formulaic approach and are independent of any revenues or profits generated by the business units where they work. The level of rewards for these employees are assessed against the overall financial performance of the bank; objectives based on their function; and compliance with the various non-financial aspects referred to above.

Key elements of the bonus allocation process are set out below:

- A fixed predetermined percentage of any return in excess of the EVA hurdle accrues to the business units' EVA pool
- A portion of the total EVA pool is allocated towards the bonus pool for central service and head office employees
- These bonus pools are reviewed regularly by the appropriate management and non-executive committees to ensure that awards are only paid when it is appropriate to do so, considering firmwide performance against non-financial risk (both current and future) and compliance-based objectives and in order to ensure that the payment of such discretionary bonuses does not inhibit the bank's ability to maintain/raise its capital levels. All users of capital operate within a strict philosophical framework that requires a balancing of risk and reward and that is designed to encourage behaviour in the interests of all stakeholders as opposed to just employees

- The EVA pools are calculated centrally by the bank's finance function and subject to audit as part of the year-end audit process
- Once the annual audit is complete, line managers in each business unit will make discretionary bonus recommendations for each team member taking into consideration qualitative and quantitative criteria (as mentioned above)
- Bonus recommendations are then subject to an extensive geographic review involving human resources, local management and local remuneration committees
- Thereafter, these recommendations are subject to a global review by executive management before the remuneration committee's review and approval process.

The Investec group's remuneration committee specifically reviews and approves the individual remuneration packages of the executive directors, persons discharging managerial responsibilities, and Material Risk Takers. The committee also reviews the salaries and performance bonuses awarded to a number of other senior and higher paid employees across the bank. In addition, the committee specifically reviews and approves the salaries and performance bonuses awarded to each employee within the internal audit, compliance and risk functions, both in the business units and in the central functions, ensuring that such packages are competitive and are determined independently of the other business areas. In making these decisions the committee relies on a combination of external advice and supporting information prepared internally by the bank.

Deferral of annual bonus awards: other than Material Risk Takers within the Specialist Bank

All annual bonus awards exceeding a predetermined hurdle level are subject to 60% deferral in respect of that portion that exceeds the hurdle level. The deferred amount is awarded in the form of: forfeitable share awards vesting in three equal tranches over approximately three years; or cash released in three equal tranches over approximately three years. Where shares are being awarded to employees as part of the deferral of performance bonus awards, these are referred to as short-term share awards. These awards are made in terms of our existing long-term incentive plans. The entire amount of the annual bonus that is not deferred is payable upfront in cash.

Deferral of variable remuneration awards: Material Risk Takers within the Specialist Bank

- Material Risk Takers include senior management, risk takers, staff engaged in certain central functions and any other employees whose professional activities have a material impact on Investec's risk profile within the bank
- Individual awards to Material Risk Takers are determined based on EVA pools in the same manner as is applicable to all staff (as set out above), and subject to the bank's remuneration policy and governance processes (also set out above)
- Annual bonus awards to directors of the UK Specialist Bank (excluding executive directors who are employees of a separately regulated firm) and all annual bonus awards where total variable remuneration exceeds £500 000 are subject to 60% deferral
- All other annual bonus awards to Material Risk Takers are subject to 40% deferral
- The 40% not deferred in the former instance or the 60% not deferred in the latter instance will be awarded as 50% in cash and 50% in short term share awards
- The upfront short-term share awards will vest immediately, but will only be released after a period of twelve months for all Material Risk Takers, with the exception of risk managers, for which it is six months
- Variable remuneration awards for Material Risk Takers who are not exempted by the *de minimis* concession are subject to 40% deferral (60% if total variable remuneration exceeds £500 000) after taking into account the value of share awards granted to each staff member in the applicable financial year and which are included in deferred variable remuneration. The deferred portion of discretionary awards to Material Risk Takers will, at the election of the staff member, be made either entirely in the form of short term share awards, or 50% in short term share awards and 50% in cash
- All deferrals in the form of short term share awards (being either 50% or 100% of such deferral) vest over periods of up to seven years and are then subject to an appropriate period of retention, being twelve months, with the exception of risk managers, for which it is six months.

Investec Wealth & Investment: variable short-term incentive

Investec Wealth & Investment recognises Investec's obligation to ensure that all businesses within the group satisfy their obligations under the Remuneration Code. Wealth & Investment recognises that the policy, procedures and practices it has adopted should not conflict with the group's obligations under the PRA and FCA Remuneration Code. The Wealth & Investment remuneration committee is responsible for considering, agreeing and overseeing all elements of remuneration and the overall remuneration philosophy and policy of Wealth & Investment within the context of the Investec group's agreed remuneration philosophy and policy. The proposals from this committee are subject to final approval by the DLC remuneration committee.

Wealth & Investment operates the following performance-related discretionary remuneration plans:

- Core incentive plan – for those in client facing roles and administrative staff who support them directly
- Bonus plan – for those in non-client facing, central services and support functions
- Growth plan – for staff primarily in client-facing roles who generate income directly.

Funding is at the discretion of the remuneration committee. Under the core incentive plan, an incentive pool is derived from a formula that is directly related to the profitability of a team or business unit. The pool is distributed to the members of the team or business unit on a discretionary basis. Funding for bonuses is related to the overall profitability of the Wealth & Investment business and is awarded to individuals on a discretionary basis.

The growth plan incentivises growth in revenues, net of the impact of market movements. Awards relate to performance for each year to 28 February, are payable in cash, and are deferred over a three-year period. Payments do not attract employer pension contributions.

Under the core incentive and bonus plans, awards relate to performance for the financial year ending 31 March. An interim payment on account of the annual award is considered at the half-year.

Non-financial performance is reviewed, and where individuals fall below the standards expected, awards may be deferred or forfeited, in part or in full. Payments are made entirely in cash and do not attract employer pension contributions. The award may be paid directly to the individual (subject to the deduction of income tax and national insurance) or, at Wealth & Investment's discretion, as an additional employer pension contribution.

Wealth & Investment executive directors participate in the bonus plan, and where an individual's role is primarily client-facing, that director will also be eligible to participate in the core incentive and growth plans.

Other information on deferred awards and clawback provisions within the bank

Employees who leave the employment of Investec prior to vesting of deferred incentive awards will lose their EVA forfeitable shares other than as a result of retirement, subject to the bank's normal good leaver provisions and approval process in exceptional cases.

The deferred share awards for Material Risk Takers are subject to malus and clawback adjustments. The assessment of whether any malus adjustment should be made to an individual's unvested award will be undertaken within the following framework:

- Where there is reasonable evidence of employee misbehaviour
- Where the firm or operating business unit suffers a material downturn in its financial performance
- Where the firm or business unit suffers a material failure of risk management.

In these cases, management and the remuneration committee will take into account the following factors in determining the extent (if any) to which the quantum of deferred awards should be subject to clawback:

- The extent to which the individual had control over the outcome
- Failure of internal control systems
- The impact of the risk profile of the relevant member of the bank or business unit
- Any violation of the bank's culture and values
- The long-term impact of the outcome on the bank or relevant business unit
- External factors including market conditions
- Any other relevant factors.

Specifically for short-term share awards, where profits used to determine the original EVA bonus are materially reduced after the bonus determination, the awards will be recalculated for such reduction and consideration given to clawback (if any) to the extent that the prior period's EVA pool is reduced and the extent to which it affected each employee.

The deferred share awards of non-Material Risk Takers are subject to malus adjustments.

Long-term incentive: share awards

We have a number of share option and long-term share incentive plans that are designed to align the interests of employees with those of shareholders and long-term organisational interests, and to build material share ownership over the long term through share awards. These share option and incentive plans are also used in appropriate circumstances as a mechanism for retaining the skills of key talent.

Awards are made in the form of forfeitable share awards other than for countries where the taxation of such awards is penal. In these cases awards are made in the form of conditional awards or market strike options.

In principle all employees are eligible for long-term incentives. Awards are considered by the remuneration committee and made only in the 42-day period following the release of our interim or final financial results in accordance with the Investment Association principles of remuneration. These awards comprise three elements, namely:

- 'New starter' awards are made based on a *de facto* non-discretionary basis using an allocation table linked to salary levels
- 'General allocation' awards are also *de facto* non-discretionary awards of the same quantum as new starter awards and are made to employees who have not had any other share award in a three-year period
- 'Top up' awards are made at the discretion of line management primarily to ensure multi-year performance and long-term value generation.

All proposed long-term incentive awards are recommended by business unit management, approved by the staff share executive committee and then the remuneration committee before being awarded.

Forfeitable shares for non Material Risk Takers are subject to one third vesting after approximately three, four and five years, which we believe is appropriate for our business requirements. LTIP awards to Material Risk Takers are subject to performance conditions and to vesting over a period of two to four years, or three to seven years, determined by regulatory requirements, and are then subject to a twelve-month retention period, with the exception of risk managers, for which it is six months. The awards are forfeited on termination, but 'good leaver' discretion is applied in exceptional circumstances.

Retention is addressed through the long-term nature of awards granted, which provides an element of 'lock-in' for employees throughout the vesting period and allows for multi-year contribution to performance and brand building.

For further information on the share option and long-term share incentive plans in operation and in which the directors are eligible to participate, refer to Investec's 2018 integrated annual report.

The bank aims to apply remuneration policies to executive directors and employees that are largely consistent across the bank, but recognises that certain parts of the bank are governed by local regulations that may contain more onerous requirements in certain respects

Other remuneration structures

Guaranteed variable remuneration

Guaranteed variable remuneration comprises all forms of remuneration whose value can be determined prior to award. This includes, but is not limited to sign-on, buy-out and guarantee awards. Guaranteed variable awards will not be awarded, paid or provided to any individual within the Investec plc group unless they are:

- Exceptional
- In the context of hiring new staff
- Limited to the first year of service.

The remuneration committee pre-approves all guaranteed awards above a defined threshold, and has oversight of all other guaranteed awards above a lower defined threshold.

Retention awards

Investec only pays retention awards to serving staff in exceptional circumstances. In all such cases, human resources shall review proposed payments to ensure that they are in line with this policy and any other relevant regulation. Additionally, for Material Risk Takers, the remuneration committee shall review all proposed awards. Circumstances where the bank will consider making retention awards include the case of a major restructuring of the company or any subsidiary or one of its business units (for instance in the start-up of a new business line, or the closure of a business line), where the retention of individuals is essential to the completion of the task. A valid business case for the retention of the individual must be presented in order for a retention award to be approved and the PRA should be notified prior to the retention award being made to Material Risk Takers, and should consider seeking guidance on the appropriateness of retention awards for certain individuals.

Severance awards

Severance payments for the early termination of a contract are at executive management's absolute discretion and must reflect performance achieved over time and be designed in a way that does not reward failure. Severance payments for Material Risk Takers shall be subject to approval by the remuneration committee.

Discretionary extended pension benefits policy

Extended pension payments are very rarely made and any proposed such payments to employees upon reaching retirement will be reviewed by the remuneration committee for alignment with appropriate laws, policy and regulation.

Governance

Compliance and governance statement

The remuneration report complies with the provisions of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the UK Corporate Governance Code 2016, the UK Companies Act 2006, the Rules of the UK Listing Authority, the UK Financial Conduct Authority rules, the PRA and FCA Remuneration Code and Pillar III disclosure requirements.

Scope of our remuneration policy

The bank aims to apply remuneration policies to executive directors and employees that are largely consistent across the bank, but recognises that certain parts of the bank are governed by local regulations that may contain more onerous requirements in certain respects.

In those cases, the higher requirements are applied to that part of the bank. This is relevant to Investec plc and its subsidiary companies that are subject to the PRA and FCA Remuneration Code (as a level 2 organisation as defined therein), and in particular in relation to Material Risk Takers. Additionally, where any aspect of our remuneration policy contravenes local laws or regulations, the local laws or regulations shall prevail.

The following Investec plc group entities are separately regulated by the PRA and/or FCA and as such maintain their own remuneration policies separate from the Investec group policy and in line with such entity's own risk profile and business activities:

- Investec Wealth & Investment Limited

Under the PRA and FCA Remuneration Code, Investec Bank plc is the only group entity which is classified as being level 2. It should be noted that our Wealth Management business has been classified as level 3 entity under the proportionality rules of the PRA and FCA Remuneration Code.

Audited information

Directors' shareholdings in Investec plc and Investec Limited shares as at 31 March 2018

	Beneficial and non-beneficial interest		% of shares in issue[1]	Beneficial and non-beneficial interest		% of shares in issue[1]
	Investec plc[2]		Investec plc	Investec Limited[3]		Investec Limited
Name	**31 March 2018**	**1 April 2017**	**31 March 2018**	**31 March 2018**	**1 April 2017**	**31 March 2018**
Executive directors						
DM van der Walt (chief executive officer)	495 853	410 460	0.1%	190 140	190 140	0.1%
B Kantor[4, 5]	1 507 271	1 164 359	0.2%	1 600 500	2 300 500	0.5%
S Koseff[4]	5 936 212	5 295 775	0.9%	962 841	1 234 399	0.3%
R Leas	148 289	115 021	–	–	100 000	–
KP McKenna	77 526	78 468	–	–	–	–
JKC Whelan[6]	135 102	164 331	–	338 333	600 156	0.1%
IR Wohlman	231 343	144 430	–	100 000	–	–
Total number	**8 531 596**	**7 372 844**	**1.2%**	**3 191 814**	**4 425 195**	**1.0%**
Non-executive directors						
BD Stevenson (chairman)[7]	–	–	–	–	–	–
ZBM Bassa	–	–	–	–	–	–
PKO Crosthwaite	115 738	115 738	–	–	–	–
D Friedland	–	–	–	–	–	–
H Fukuda OBE	5 000	5 000	–	–	–	–
S Mannings	–	–	–	–	–	–
F Titi[7]	–	–	–	–	–	–
Total number	**120 738**	**120 738**	**–**	**–**	**–**	**–**
Total number	**8 652 334**	**7 493 582**	**1.2%**	**3 191 814**	**4 425 195**	**1.0%**

The table above reflects holdings of shares by current directors.

1 *The issued share capital of Investec plc and Investec Limited at 31 March 2018 was 669.8 million and 310.7 million respectively.*

2 *The market price of an Investec plc share at 31 March 2018 was £5.50 (2017: £5.44), ranging from a low of £4.61 to high of £6.49 during the financial year.*

3 *The market price of an Investec Limited share as at 31 March 2018 was R92.28 (2017: R91.46), ranging from a low of R85.00 to a high of R105.62 during the financial year.*

4 *The beneficial and non-beneficial holdings of S Koseff and B Kantor include 170 358 Investec plc shares which relate to the award to each of the directors of shares in respect of a £1 million fixed allowance on 8 June 2017 (as explained in Investec's 2018 integrated annual report). These shares are, however, subject to a retention period in terms of which 20% of shares will be free from retention restrictions each year over a period of five years.*

5 *B Kantor entered a zero premium/cost option arrangement and purchased put options over 600 000 Investec Limited ordinary shares at a strike price of R100.00 per share and a call option over 600 000 Investec Limited ordinary shares at a strike price R120.00 per share. 600 000 Investec Limited ordinary shares have been pledged as security with the writer of these options.*

6 *JKC Whelan entered into a zero cost collar on 5 September 2016 over 338 333 Investec plc shares by purchasing put options at a strike price of R86.65 per share and sold call options at a strike price of R164.64 per share. These options expire on 5 September 2019. JKC Whelan entered into a zero cost collar on 5 September 2016 over 61 257 Investec plc shares by purchasing put options at a strike price of R86.65 and sold call options at a strike price of R164.64 per share. These options expire on 5 September 2019.*

7 *BD Stevenson was appointed as chairman with effect from 15 May 2018. F Titi stood down as chairman with effect from 15 May 2018.*

Directors' interest in preference shares at 31 March 2018

	Investec plc		Investec Limited		Investec Bank Limited	
Name	**31 March 2018**	**1 April 2017**	**31 March 2018**	**1 April 2017**	**31 March 2018**	**1 April 2017**
Executive director						
S Koseff	**12 139**	12 139	**3 000**	3 000	**4 000**	4 000

- *The market price of an Investec plc preference share at 31 March 2018 was R88.00 (2017: R81.00).*
- *The market price of an Investec Limited preference share at 31 March 2018 was R67.50 (2017: R75.00).*
- *The market price of an Investec Bank Limited preference share at 31 March 2018 was R71.56 (2017: R82.00).*

Directors' interests in options at 31 March 2018

Investec plc shares

The directors do not have any interest in options over Investec plc shares.

Investec Limited shares

The directors do not have any interest in options over Investec Limited shares.

Directors' interests in long-term incentive plans at 31 March 2018

Investec plc shares

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2017	Exercised during the year	Options granted/ lapsed during the year	Balance at 31 March 2018	Market price at date of exercise	Gross gains made on date of exercise
Executive directors								
R Leas	29 May 2012	Nil	7 500	(7 500)	–	**–**	£5.73	£42 938
	11 December 2012	Nil	12 500	(12 500)	–	**–**	£6.22	£77 800
	4 June 2013	Nil	50 000	(50 000)	–	**–**	£5.83	£291 709

The above awards are not subject to performance conditions and were made prior to the director being classified as a Material Risk Taker in terms of the PRA requirements.

Investec Limited shares

Name	Date of grant	Exercise price	Number of Investec Limited shares at 1 April 2017	Exercised during the year	Options granted/ lapsed during the year	Balance at 31 March 2018	Market price at date of exercise	Gross gains made on date of exercise	Period exercisable
JKC Whelan	18 December 2012	Nil	118 750	(118 750)	–	**–**	R102.85	R12 213 378	
	13 June 2013	Nil	150 000	(150 000)	–	**–**	R100.16	R15 023 719	
	8 December 2014	Nil	175 000	–	–	**175 000**	–	–	75% is exercisable on 8 December 2018 and 25% on 8 December 2019

The above awards are not subject to performance conditions and were made prior to the director being classified as a Material Risk Taker in terms of the PRA requirements.

Directors' interests in the Investec plc Executive Incentive Plan 2013 at 31 March 2018

Long-term share awards made in respect of the financial year ending 31 March 2013

Name	Number of Investec plc shares awarded on 16 September 2013	Exercise price	Perform-ance period	Perform-ance conditions met (Y/N)	Additional shares awarded for performance conditions being met	Shares exercised during the year to 31 March 2018	Balance at 31 March 2018	Period exercisable	Retention period
S Koseff	600 000	Nil	1 April 2013 to 31 March 2016	Yes	204 617	603 462	**201 155**	75% was exercisable on 16 September 2017; and	A further six months after vesting date
								25% is exercisable on 16 September 2018	A further six months after vesting date
B Kantor	600 000	Nil	1 April 2013 to 31 March 2016	Yes	204 617	603 462	**201 155**	75% was exercisable on 16 September 2017; and	A further six months after vesting date
								25% is exercisable on 16 September 2018	A further six months after vesting date

The Executive Incentive Plan and the awards made on 16 September 2013 were approved at the July 2013 annual general meeting in terms of which 600 000 nil cost options each were awarded to S Koseff and B Kantor.

The performance criteria in respect of these awards were met and detailed in Investec's 2016 integrated annual report. These awards have now vested subject to the retention periods reflected above. These awards formed part of their variable remuneration in respect of the financial year ending 31 March 2013.

Long-term share awards granted in respect of the 2016 financial year

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2017	Conditional awards made during the year	Balance at 31 March 2018	Performance period	Period exercisable	Retention period	Treatment on termination of employment
S Koseff	2 June 2016	Nil	314 225	–	**314 225**	1 April 2016 to 31 March 2019	One third is exercisable on 2 June 2019; one third on 2 June 2020 and the final third on 2 June 2021 subject to performance criteria being met	A further six-month retention after vesting date	Will be pro-rated based on service over the performance period, relative the performance period of the award
B Kantor	2 June 2016	Nil	314 225	–	**314 225**	1 April 2016 to 31 March 2019	One third is exercisable on 2 June 2019; one third on 2 June 2020 and the final third on 2 June 2021 subject to performance criteria being met	A further six-month retention after vesting date	Will be pro-rated based on service over the performance period, relative the performance period of the award

The Executive Incentive Plan and the awards made thereunder were approved at the August 2015 annual general meeting. On 2 June 2016, 314 225 conditional awards were awarded to S Koseff and B Kantor. These awards formed part of their variable remuneration in respect of the financial year ending 31 March 2016. The performance criteria in respect of these awards are detailed in Investec's 2018 integrated annual report. Vesting starts at 0% for threshold performance. These awards have not yet vested. The face value at grant for these awards was equivalent to 100% of fixed remuneration and amounted to £1 480 000 for S Koseff and B Kantor, based on the share price for Investec plc at the time of grant.

Remuneration report

(continued)

Directors' interests in the Investec plc Executive Incentive Plan 2013 at 31 March 2018 *(continued)*

Long-term share awards granted in respect of the 2017 financial year

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2017	Conditional awards made during the year	Balance at 31 March 2018	Performance period	Period exercisable	Retention period	Treatment on termination of employment
S Koseff	8 June 2017	Nil	–	252 130	**252 130**	1 April 2017 to 31 March 2020	20% is exercisable on 8 June each year, commencing on 8 June 2020 until 8 June 2024 subject to performance criteria being met	A further six-month retention after vesting date	Will be pro-rated based on service over the performance period, relative the performance period of the award, and accordingly one third will be forfeited
B Kantor	8 June 2017	Nil	–	252 130	**252 130**	1 April 2017 to 31 March 2020	20% is exercisable on 8 June each year, commencing on 8 June 2020 until 8 June 2024 subject to performance criteria being met	A further six-month retention after vesting date	Will be pro-rated based on service over the performance period, relative the performance period of the award, and accordingly one third will be forfeited

The Executive Incentive Plan and the awards made thereunder were approved at the August 2015 annual general meeting. On 8 June 2017, 252 130 conditional awards were awarded to S Koseff and B Kantor. These awards formed part of their variable remuneration in respect of the financial year ending 31 March 2017. The performance criteria in respect of these awards are detailed in Investec's 2018 integrated annual report. These awards have not yet vested. Vesting starts at 0% for threshold performance. The face value at grant for these awards was equivalent to 100% of fixed remuneration and amounted to £1 480 000 for S Koseff and B Kantor based on the share price for Investec plc at the time of grant.

Directors' interests in the Investec plc Executive Incentive Plan 2013 at 31 March 2018 *(continued)*

Long-term share awards granted in respect of the 2018 financial year

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2017	Conditional awards made during the year	Balance at 31 March 2018	Performance period	Period exercisable	Retention period	Treatment on termination of employment
S Koseff	31 May 2018	Nil	–	264 759	**264 759**	1 April 2018 to 31 March 2021	20% is exercisable on 31 May each year, commencing on 31 May 2021 until 31 May 2025, subject to performance criteria being met	A further six-month retention after vesting date	Will be pro-rated based on service over the performance period, relative to the performance period of the award, and accordingly two thirds will be forfeited
B Kantor	31 May 2018	Nil	–	264 759	**264 759**	1 April 2018 to 31 March 2021	20% is exercisable on 31 May each year, commencing on 31 May 2021 until 31 May 2025, subject to performance criteria being met	A further six-month retention after vesting date	Will be pro-rated based on service over the performance period, relative to the performance period of the award, and accordingly two thirds will be forfeited

The Executive Incentive Plan and the awards made thereunder were approved at the August 2015 annual general meeting. On 31 May 2018, 264 759 conditional awards were awarded to S Koseff and B Kantor. These awards formed part of the variable remuneration in respect of the financial year ending 31 March 2018. The performance criteria in respect of these awards are detailed in Investec's 2018 integrated annual report. These awards have not yet vested. Vesting starts at 0% for threshold performance. The face value at grant for these awards was equivalent to 100% of fixed remuneration, and amounted to £1 480 000 for S Koseff and B Kantor based on the share price for Investec plc at the time of grant.

Remuneration report

(continued)

Conditional awards to material risk takers at 31 March 2018

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2017	Exercised during the year	Options granted/ lapsed during the year	Balance at 31 March 2018	Market price at date of exercise	Gross gains made on date of exercise	Period exercisable
Executive directors									
R Leas	27 May 2014	Nil	30 000	(22 500)	–	**7 500**	£5.03	£113 145	The remaining shares are exercisable on 27 November 2018 and subject to six months retention thereafter
	1 June 2015	Nil	60 000	–	–	**60 000**	–	–	75% is exercisable on 1 December 2018 and subject to six months retention thereafter and 25% on 1 December 2019 and subject to six months retention thereafter
	2 June 2016	Nil	30 000	–	–	**30 000**	–	–	One third is exercisable on 2 December 2018; one third on 2 December 2019 and the final third on 2 December 2020 and subject to six months retention after each exercise date
	8 June 2017	Nil	–	–	60 000	**60 000**	–	–	One third is exercisable on 8 December 2019; one third on 8 December 2020 and the final third on 8 June 2022 and subject to six months retention thereafter
KP McKenna	4 June 2013	Nil	15 000	(15 000)	–	**–**	£5.12	£76 730	The conditional shares were exercised on 13 December 2017 and were subject to six months retention thereafter
	27 May 2014	Nil	100 000	(75 000)	–	**25 000**	£5.03	£377 151	The remaining shares are exercisable on 27 November 2018 and subject to six months retention thereafter
	1 June 2015	Nil	50 000	–	–	**50 000**	–	–	75% is exercisable on 1 December 2018 and subject to six months retention thereafter and 25% on 1 December 2019 and subject to six months retention thereafter
	2 June 2016	Nil	60 000	–	60 000	**60 000**	–	–	One third is exercisable on 2 December 2018; one third on 2 December 2019 and the final third on 2 December 2020 and subject to six months retention after each exercise date
	8 June 2017	Nil	–	–	60 000	**60 000**	–	–	20% is exercisable on 8 June each year, commencing on 8 June 2020 and subject to six months retention after each exercise date

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2017	Exercised during the year	Options granted/ lapsed during the year	Balance at 31 March 2018	Market price at date of exercise	Gross gains made on date of exercise	Period exercisable
DM van der Walt	13 June 2013	Nil	50 000	(50 000)	–	**–**	£4.75	£237 599	The conditional shares were exercised on 13 December 2017 and were subject to six months retention thereafter
	27 May 2014	Nil	175 000	(131 250)	–	**43 750**	£5.03	£660 015	The remaining shares are exercisable on 27 November 2018 and subject to six months retention thereafter
	1 June 2015	Nil	125 000	–	–	**125 000**	–	–	75% is exercisable on 1 December 2018 and subject to six months retention thereafter and 25% on 1 December 2019 and subject to six months retention thereafter
	2 June 2016	Nil	150 000	–	–	**150 000**	–	–	One third is exercisable on 2 December 2018; one third on 2 December 2019 and the final third on 2 December 2020 and subject to six months retention after each exercise date
	8 June 2017	Nil	–	–	125 000	**125 000**	–	–	20% is exercisable on 8 June each year, commencing on 8 June 2020 until 8 June 2024, subject to a further six months retention period after each vesting date
JKC Whelan	1 June 2015	Nil	125 000	–	–	**125 000**	–	–	75% is exercisable on 1 December 2018 and subject to six months retention thereafter and 25% on 1 December 2019 and subject to six months retention thereafter
	2 June 2016	Nil	150 000	–	–	**150 000**	–	–	One third is exercisable on 2 December 2018; one third on 2 December 2019 and the final third on 2 December 2020 and subject to six months retention after each exercise date
	8 June 2017	Nil	–	–	125 000	**125 000**	–	–	One third is exercisable on 8 December 2019; one third on 8 December 2020 and the final third on 8 June 2022 and subject to six months retention after each exercise date
IR Wohlman	4 June 2013	Nil	12 500	(12 500)	–	**–**	£5.12	£63 942	The remaining conditional shares were exercised on 4 December 2017 and subject to six months retention thereafter
	27 May 2014	Nil	100 000	(75 000)	–	**25 000**	£5.03	£377 151	75% was exercised on 27 November 2017 and subject to six months retention thereafter and 25% is exercisable on 27 November 2018 and subject to six months retention thereafter

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2017	Exercised during the year	Options granted/ lapsed during the year	Balance at 31 March 2018	Market price at date of exercise	Gross gains made on date of exercise	Period exercisable
IR Wohlman *(continued)*	1 June 2015	Nil	60 000	–	–	**60 000**	–	–	75% is exercisable on 1 December 2018 and subject to six months retention thereafter and 25% on 1 December 2019 and subject to six months retention thereafter
	2 June 2016	Nil	60 000	–	–	**60 000**	–	–	One third is exercisable on 2 December 2018; one third on 2 December 2019 and the final third on 2 December 2020 and subject to six months retention after each exercise date.
	8 June 2017	Nil	–	–	60 000	**60 000**	–	–	20% is exercisable on 8 June each year, commencing on 8 June 2020 until 8 June 2024, subject to a further six months retention period after each vesting date.

The above awards to Material Risk Takers are subject to performance conditions and a six month retention period after the award vests. In addition, these awards are subject to clawback in respect of some or all of the unvested portion of the award in terms of the PRA Remuneration Code.

The performance conditions will be assessed by the directors, in accordance with the rules and requirements of the PRA from time to time, at the end of each financial year of the performance period. For each year within the performance period that the return on risk weighted assets for Investec Bank plc is equal to or greater than 0.3%, the performance condition for 25% of the award is satisfied, in which case 25% of the award will vest on the relevant vesting date (subject to clawback).

Directors' emoluments

	2018	2017
Aggregate emoluments (excluding pension contributions)	8 928	8 275
Contributions to defined contributions scheme	161	198
	9 089	**8 473**
Number of directors in defined contributions scheme	5	5
Number of directors in closed defined benefits scheme	–	–

Included in aggregate emoluments for the current year are performance awards to executive directors excluding Investec group executive directors, whose remuneration is disclosed individually in Investec group's 2018 integrated annual report. Performance awards comprise £1 261 730 in up front cash, £1 261 730 in up front shares (vesting immediately and subject to twelve month's retention thereafter), £545 060 in deferred cash (vesting equally over one to five years, or three to seven years, subject to regulatory requirements), and £1 406 480 in deferred short term share awards (vesting equally over one to five years, or three to seven years, subject to regulatory requirements).

Emoluments of the highest paid director were £2 934 428 (2017: £2 809 740) excluding £29 039 of pension contribution to the defined contribution scheme. The performance awards of the highest paid director comprise £441 000 in up front cash, £441 000 in up front shares (vesting immediately and subject to twelve months retention thereafter), £371 500 in deferred cash (vesting equally over one to five years), and £371 500 in deferred short term share awards (vesting equally over one to five years).

The directors have, during the year, exercised options granted to them under various of the Investec plc group's long-term incentive plans. Full details are included on pages 132 to 138.

The number of shares in issue and share prices for Investec plc and Investec Limited over the period are provided below

Summary: Investec plc and Investec Limited share statistics

	31 March 2018	31 March 2017	High over the year	Low over the year
Investec plc share price	£5.50	£5.44	£6.49	£4.61
Investec Limited share price	R92.28	R91.46	R105.62	R85.00
Number of Investec plc shares in issue ('million)	669.8	657.1		
Number of Investec Limited shares in issue ('million)	310.7	301.2		

Additional remuneration disclosures (unaudited)

PRA and FCA Remuneration Code and Pillar III disclosures

In terms of the PRA's Chapter on Disclosure Requirements and Part 8 of the Capital Requirements Regulation the bank in the UK is required to make certain quantitative and qualitative remuneration disclosures on an annual basis with respect to Material Risk Takers.

Material Risk Takers are defined as those employees (including directors) whose professional activities could have a material impact on the bank's risk profile. A total of 56 individuals were Material Risk Takers in 2018.

The bank's qualitative remuneration disclosures are provided on pages 124 to 130 and further information is provided in Investec's 2018 integrated annual report.

The information contained in the tables below sets out the bank's quantitative disclosures in respect of Material Risk Takers for the year ended 31 March 2018.

Aggregate remuneration by remuneration type awarded during the financial year

	Senior management	Other Material Risk Takers	Total
Fixed remuneration	**14.9**	**10.7**	**25.6**
– Cash	11.9	10.7	22.6
– Shares	3.0	–	3.0
Variable remuneration*	**19.8**	**10.4**	**30.2**
– Cash	4.8	3.0	7.8
– Deferred cash	1.3	1.7	3.0
– Deferred shares	5.4	2.3	7.7
– Deferred shares – long-term incentive awards**	8.3	3.4	11.7
Total aggregate remuneration and deferred incentives (£'million)	**34.7**	**21.1**	**55.8**
Number of employees***	25	25	50
Ratio between fixed and variable pay	0.8	1.0	0.8

* *Total number of employees receiving variable remuneration was 48.*

** *Value represents the number of shares awarded multiplied by the applicable share price. These awards were made during the period but have not yet vested. These awards are subject to performance conditions and vest over a period of two and a half to four and a half years, up to three to seven years, determined by regulatory requirements. They are also subject to a six or twelve month retention period after vesting.*

*** *This excludes non-executive directors.*

Material Risk Takers received total remuneration in the following bands:

	Number of Material Risk Takers
£800 000 – £1 200 000	10
£1 200 001 – £1 600 000	10
£1 600 001 – £2 000 000	3
£2 000 001 – £2 400 000	–
£2 400 001 – £2 800 000	–
£2 800 001 – £3 200 000	1
£3 200 001 – £3 600 000	1
£3 600 001 – £4 000 000	1
£4 000 001 – £4 400 000	–
£4 400 001 – £4 800 000	1
£4 800 001 – £5 200 000	2
> £5 200 001	–

Additional disclosure on deferred remuneration

£'million	Senior management	Other Material Risk Takers	Total
Deferred unvested remuneration outstanding at the beginning of the year	22.9	34.7	57.6
Deferred unvested remuneration adjustment – employees no longer Material Risk Takers and reclassifications	(0.9)	(0.4)	(1.3)
Deferred remuneration awarded in year	15.0	7.4	22.4
Deferred remuneration reduced in year through performance adjustments	–	–	–
Deferred remuneration reduced in year through malus and clawback adjustments^^	–	–	–
Deferred remuneration vested in year	(4.7)	(12.7)	(17.4)
Deferred unvested remuneration outstanding at the end of the year	**32.3**	**29.0**	**61.3**

^^ *All employees are subject to clawback provisions as discussed on page 129. No remuneration was reduced for ex post implicit adjustments during the year.*

£'million	Senior management	Other Material Risk Takers	Total
Deferred unvested remuneration outstanding at the end of the year			
– Equity	29.6	24.1	53.7
– Cash	2.7	4.9	7.6
	32.3	**29.0**	**61.3**

£'million	Senior management	Other Material Risk Takers	Total
Deferred remuneration vested in year			
– For awards made in 2016 financial year	1.1	1.3	2.4
– For awards made in 2015 financial year	2.2	4.4	6.6
– For awards made in 2014 financial year	1.4	7.0	8.4
	4.7	**12.7**	**17.4**

Other remuneration disclosures

£'million	Senior management	Other Material Risk Takers	Total
Sign-on payments			
Made during the year (£'million)	–	–	–
Number of beneficiaries	–	–	–
Severance payments			
Made during the year (£'million)	–	0.2	0.2
Number of beneficiaries	–	1	1
Guaranteed bonuses			
Made during the year (£'million)	–	–	–
Number of beneficiaries	–	–	–

5

Annual Financial Statements

Strategic and directors' report

The directors present their strategic and directors' report and financial statements for the year ended 31 March 2018.

Strategic report

The strategic report for the year ended 31 March 2018 was approved by the board of directors on 15 June 2018.

The operational and financial review in sections 1 and 2 of this report provides an overview of our strategic position, performance during the financial year and outlook for the business. It should be read in conjunction with the sections referenced below which elaborate on the aspects highlighted in the strategic report:

- The risk management section in section 3 of this report provides a description of the principal risks and uncertainties facing the company
- The corporate responsibility report on our website which highlights the sustainability economic, social and environmental considerations.

Business and principal activities

The principal activities of Investec Bank plc (the bank) and its subsidiaries are Specialist Banking and Wealth & Investment activities. The Specialist Banking activities are also undertaken by the bank's branch in Dublin and its principal subsidiaries as set out in Note 51.

Review of the business and future developments

A review of the bank's business for the year and future proposed activities can be found in the financial review on pages 15 to 34.

Accounting policies and disclosures

Accounting policies are set having regard to commercial practice and comply with applicable UK law. To align with the accounting policies applied in the consolidated financial statements of the bank's listed parent, Investec plc, the consolidated and unconsolidated financial statements of the bank are prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union.

These policies are set out on pages 160 to 168.

Authorised and issued share capital

Details of the share capital at 31 March 2018 are set out in note 41 to the bank's annual financial statements.

No shares were issued during the year.

Results and dividends

The results for the year are shown on page 152. Movements in reserves are shown in the reconciliation of equity on pages 156 and 157 of the financial statements. The following interim dividends were declared and paid during the year: £35 million was declared and paid on 23 May 2017 and £18 million was declared and paid on 15 November 2017

Directors and their interests

The directors of the bank for the year ended 31 March 2018 are shown on page 122.

There have been the following changes in the composition of the board:

Fani Titi stepped down as chairman of the board on 15 May 2018. Brian Stevenson, the bank's senior independent director, was appointed as chairman of the board on 15 May 2018. Moni Mannings was appointed as senior independent director on 15 May 2018.

The interests of the directors are set out in the remuneration report on pages 124 to 140. Except as disclosed in this report, no other director held any beneficial interest in the shares of the company or the group.

Environment

The group is committed to pursuing sound environmental policies in all aspects of its business, and seeks to encourage and promote good environmental practice among its employees and within the communities in which it operates.

Further information is provided in Investec's 2018 integrated annual report.

Employees

The group's policy is to recruit and promote on the basis of aptitude and ability, without discrimination of any kind. Applications for employment by disabled people are always considered bearing in mind the qualifications and abilities of the applicants.

In the event of employees becoming disabled, every effort is made to ensure their continued employment.

The group's policy is to adopt an open management style, thereby encouraging informal consultation at all levels about aspects of the group's operations, and motivating staff involvement in the group's performance by means of employee share and option schemes.

Further information is provided in Investec's 2018 integrated annual report.

Going concern

Refer to page 120 for the directors' statement in relation to going concern.

Auditors

Ernst & Young LLP have indicated their willingness to continue in office as auditors. A resolution proposing their reappointment as auditors will be submitted to the annual general meeting.

Signed on behalf of the board

David van der Walt
Chief executive officer

15 June 2018

Directors' responsibility statement

The following statement, which should be read in conjunction with the auditor's report set out on pages 144 to 151, is made with a view to distinguishing for stakeholders the respective responsibilities of the directors and of the auditors in relation to the consolidated financial statements.

The directors are responsible for the preparation, integrity and objectivity of the consolidated annual financial statements that fairly present the state of affairs of the bank at the end of the financial year and the net income and cash flows for the year, and other information contained in this annual report.

To enable the directors to meet these responsibilities:

- The board and management set standards and management implements systems of internal controls and accounting and information systems aimed at providing reasonable assurance that assets are safeguarded and the risk of fraud, error or loss is reduced in a cost effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties
- The Investec plc group's internal audit function, which operates unimpeded and independently from operational management, and has unrestricted access to the audit committee, appraises and, when necessary, recommends improvements in the system of internal controls and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business
- The Investec Bank plc audit committee, together with the Internal Audit department, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

To the best of our knowledge and belief, based on the above, the directors are satisfied that no material breakdown in the operation of the system of internal control and procedures has occurred during the year under review.

The bank consistently adopts appropriate and recognised accounting policies and these are supported by reasonable judgements and estimates on a consistent basis and provides additional disclosures when compliance with the specific requirements in International Financial Reporting Standards (IFRS) as adopted by the European Union are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the bank's financial position and financial performance.

The consolidated annual financial statements of the bank have been prepared in accordance with the Companies Act 2006 and comply with IFRS as adopted by the European Union.

The directors are of the opinion, based on their knowledge of the company, key processes in operation and specific enquiries that adequate resources exist to support the group on a going concern basis over the next year. These financial statements have been prepared on this basis.

It is the responsibility of the independent auditors to report on the consolidated annual financial statements. Their report to the members of the bank is set out on pages 144 to 151 of this annual report. As far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. All steps which ought to have been taken as directors have been completed in order to be aware of the relevant audit information and to establish that the company's auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the group's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Approval of financial statements

The directors' report and the financial statements of the bank, which appear on page 142 and pages 152 to 263, were approved by the board of directors on 15 June 2018.

Signed on behalf of the board

David van der Walt
Chief executive officer

15 June 2018

Independent auditor's report to the member of Investec Bank plc

Opinion

In our opinion:

- Investec Bank plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Investec Bank plc which comprise:

Group	Parent company
Consolidated balance sheet as at 31 March 2018	Balance sheet as at 31 March 2018
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Statement of comprehensive income for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 12 to 57 to the financial statements
Consolidated statement of cash flows for the year then ended	Statement of cash flows for the year then ended
Related notes 1 to 56 to the financial statements	

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and; as regards to the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	• Monitoring of credit quality and the appropriateness of the allowance for credit losses; • Valuation of level 3 complex/illiquid financial instruments, unlisted investments, investment properties and embedded derivatives; and • Provision for uncertain tax positions.
Audit scope	• We performed an audit of the complete financial information of two components, specific scope procedures on one component and review procedures for the remaining components. • The components where we performed full or specific audit procedures accounted for 95% of the group's operating profit before impairment of goodwill and amortisation of acquired intangibles, 93% of revenue and 98% of total assets.
Materiality	• Overall group materiality of £10.8 million which represents 7.5% of adjusted operating profit before impairment of goodwill and amortisation of acquired intangibles.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. We also assessed the risk of management overrides of internal controls including whether there was evidence of bias by management or the directors that represented a rise of material measurement due to fraud. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the audit committee
Monitoring of credit quality and the appropriateness of the allowance for credit losses *Refer to the audit committee report (page 119); accounting policies (page 163); and note 26 of the consolidated financial statements* Loans and advances to customers and the associated allowance for credit losses are significant. The appropriateness of the allowance for credit losses is subjective due to the high degree of judgement applied by management in determining the timing of recognition and estimation in size of loan impairment provisions at the balance sheet date. At year end the group reported total gross loans and advances of £9 815 million (2017: £8 725 million); impairment provisions of £153 million (2017: £134 million); and credit losses of which resulted in credit loses of £106 million (2017: £75 million). In the Specialist Bank most of the provision is calculated specifically however, there is also a portfolio impairment for the legacy business. The largest loan portfolios represent lending to High Net Worth and professional individuals, lending collateralised by property, and finance and insurance. The most significant provisions are for lending collateralised by property in relation to the legacy portfolio, refer to page 32 of the annual report for the definition. The risk has remained consistent with the current year.	We evaluated the appropriateness of accounting policies and assessed the loan impairment methodologies applied, and compared these to the requirements of IAS 39 Financial Instruments: Recognition and Measurement. We documented and tested management's processes and controls for credit origination and monitoring, as well as for assessing, calculating and accounting for the allowance for credit losses, including the governance over the provisioning process and the identification of impairment events. In particular we focused on the controls over the monitoring of loans with higher risk of default, annual loan credit file reviews and assessment and approval of impairment provisions including the valuation of collateral. For provisions determined on specific assets our audit procedures included the following: • We examined a sample, selected after performing a risk assessment on the portfolio, to understand the latest developments which influence performance and recoverability; • We assessed the measurement of any impairment provision held where IAS 39 loss indicators were present. This is an inherently judgemental process and particularly important where management are pursuing bespoke work-out strategies in the legacy portfolio. Where workout strategies require additional funding to execute we obtained evidence of the approval for such funding through bank management's risk governance process as well as assessing the track record of management approving the utilisation of the additional funding. • In addition to the work performed on the non-performing and legacy portfolios we judgementally selected a sample of performing loans to assess whether all necessary impairments had been identified by management • We assessed management's assumptions about future cash flow projections and the valuation of collateral held, against our previous experience and available market information. As part of this testing we also assessed the legacy portfolio impairment. • For loans where the recovery was dependent on collateral and there were no recent external valuations or where market data was not readily available we used our valuation specialists to test the collateral valuations supporting the recovery of the loans, in particular in relation to lending collateralised by property. • We performed full scope audit procedures over the risk area, which covered 90% of the risk amount.	We concluded for the key controls tested that they were designed and operating effectively; therefore we could place reliance on these key controls for the purposes of our audit. Based on the testing performed we concluded that impairment provisions made by management were within a reasonable range of outcomes.

Risk	Our response to the risk	Key observations communicated to the audit committee
Valuation of level 3 complex/illiquid financial instruments, unlisted investments and embedded derivatives *Refer to the audit committee report (page 119); accounting policies (page 162); and note 14 of the consolidated financial statements* There are £3 387 million (2017: £3 136 million) of assets that are required to be fair valued under the IFRS accounting framework. For level 3 instruments, such as unlisted investments in the private equity businesses, property lending-related profit sharing arrangements and unlisted investments or large bespoke derivative structures there is necessarily a large degree of subjectivity surrounding the various inputs to their valuations. With volatility in the global financial markets and the lack of observable liquid market inputs, determining appropriate valuations continues to be highly judgemental. This may result in subjective fair value movements which are material. At the year end the group reported level 3 assets £744 million (2017: £680 million) and level 3 liabilities £143 million (2017: £142 million). The portfolios within level 3 with the greatest valuation uncertainty, which hence required the most significant accounting and auditing judgments, are the Hong Kong portfolio assets, including related lending activities. Significant judgment is required by management due to the absence of verifiable third party information to determine the key inputs and assumptions in the valuation models. These assets are standing items for discussion at the group audit committees.	We tested the design and operating effectiveness of key controls for the valuation of level 3 financial instruments. We performed a detailed examination of management's valuation methodologies and assessed the appropriateness and consistency of model inputs and key assumptions. As part of this testing we used our valuation specialists. Where such inputs and assumptions were not observable in the market we engaged our valuation specialists to critically assess whether they fell within an acceptable range based on relevant knowledge and experience of the market. In relation to the most material assets within the Hong Kong portfolio additional procedures were performed over and above those noted above including: • Performing a site visit to inspect key assets • Engaging our business valuations specialists to build an independent valuation model in addition to assessing the key inputs and assumptions. As part of this they also considered alternative inputs and assumptions; sensitivity analysis was performed on the most material inputs • Verifying via external legal confirmations the enforceability of collateral held. We performed full scope audit procedures over this risk area, which covered 98% (2017: 98%) of the risk amount.	We concluded for the key controls tested that they were designed and operating effectively; therefore we could place reliance on these key controls for the purposes of our audit. Based on the controls and substantive testing performed the valuation of the level 3 positions, as disclosed in the financial statements were concluded to be within a reasonable range of appropriate outcomes.

Risk	Our response to the risk	Key observations communicated to the audit committee
Provision for uncertain tax positions *Refer to the audit committee report (page 119); Accounting policies (page 168); and note 8 of the consolidated financial statements* There are certain legacy structured transactions within Investec Bank plc where the outcome is uncertain and will only be determined upon the resolution of negotiation or, in some cases, litigation with HMRC. Consequently management make judgements about the size of potential liabilities which are subject to change in future periods as more information becomes available. The level of risk has not materially changed from prior year.	We have examined the latest court rulings and analysis performed by management which set out the basis for the judgements in relation to material tax exposures. We have also examined the correspondence between the group and its external advisors and between the group and HMRC. Using our tax specialists, we have considered the matters in dispute and used our knowledge of the law to assess the available evidence and the provisions made by management. We have also evaluated the calculation of the exposure and the appropriateness of the disclosure in relation to the uncertain tax positions. We performed full scope audit procedures over this risk area in the component impacted by the risk.	Based on the information that is currently available we concur with management's judgement in respect of the level of provisions held in respect of uncertain tax positions and the disclosure presented in the financial statements.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group wide controls, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each entity.

Of the three components selected, we performed an audit of the complete financial information of two components ("full scope components") which were selected based on their size or risk characteristics. For the remaining component ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

Entity	Scoping
Investec Wealth & Investment Limited	Full
Investec Channel Islands	Full
Investec Australia	Specific

The reporting components where we performed audit procedures accounted for 95% (2017: 88%) of the group's operating profit before impairment of goodwill and amortisation of acquired intangibles, 93% (2017: 89%) of the group's revenue and 98% (2017: 97%) of the group's total assets. For the current year, the full scope components contributed 85% (2017: 83%) of the group's operating profit before impairment of goodwill and amortisation of acquired intangibles 88% (2017: 88%) of the group's revenue and 98% (2017: 98%) of the group's total assets. The specific scope component contributed 10% (2017: 5%) of the group's operating profit before impairment of goodwill and amortisation of acquired intangibles 5% (2017: 1%) of the group's revenue and 0.5% (2017: 0.2%) of the group's total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant tested for the group. We also instructed one location to perform specified procedures over certain aspects of loans and advances to customers, as described in the risk section above.

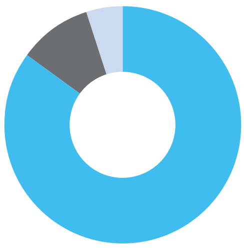
The remaining component represents 5% (2017: 12%) of the group's adjusted operating profit before impairment of goodwill and amortisation of acquired intangibles and for that component we performed analytical review.

The charts below illustrate the coverage obtained from the work performed by our audit teams.

Independent auditor's report to the member of Investec Bank plc

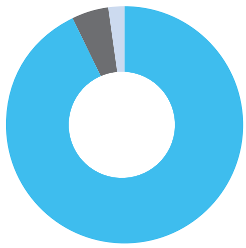
(continued)

Operating profit before impairment of goodwill and amortisation of acquired intangibles



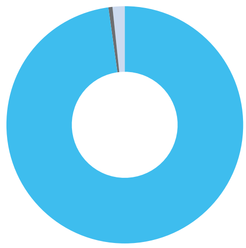
Full scope	85.0%
Specific scope	10.0%
Review	5.0%

Revenue



Full scope	93.0%
Specific scope	5.0%
Review	2.0%

Total assets



Full scope	98.0%
Specific scope	0.5%
Review	1.5%

Changes from the prior year

There is no change to the overall scope in the current year.

Involvement with component teams

In establishing our overall approach to the group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the two full scope components, audit procedures were performed on none of these directly by the primary audit team. For the specific scope component, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the group as a whole.

The primary audit engagement team interacted regularly with the component audit teams where appropriate throughout the course of the audit, which included planning meetings, maintaining regular communications on the status of the audits, year-end meetings (including review of key working papers) and taking responsibility for the scope and direction of the audit process.

The primary audit engagement team also participated in meetings with key management personnel in the components and, implemented a programme of visits. These visits involved discussing the audit approach with the component team and any issues arising from their work, as well as meeting with local management.

This, together with the additional procedures performed at group level, gave us appropriate evidence for our opinion on the group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the group to be £10.7 million (2017: £10.7 million), which is 7.5% (2017: 7.5%) of adjusted operating profit before impairment of goodwill and amortisation of acquired intangibles.

We believe that an adjusted operating profit before impairment of goodwill and amortisation of acquired intangibles provides us with the most appropriate measure to reflect the performance of the group.

We determined materiality for the parent company to be £6.1 million (2017: £8.5 million), which is 7.5% (2017: 7.5%) of operating profit before impairment of goodwill and amortisation of acquired intangibles. There has been no change in the basis from the prior year.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the group's overall control environment, our judgement was that performance materiality was 50% (2017: 50%) of our planning materiality, namely £5.3 million (2017: £4.3 million). We have set performance materiality at this percentage based on our understanding of the entity and past experience with the audit.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £1.3 million to £3.5 million (2017: £1.6 million to £5.2 million).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the audit committee that we would report to them all uncorrected audit differences in excess of £530 000 (2017: £427 000), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other matter – Accounting developments effective 1 April 2018 – IFRS 9 Financial Instruments

IFRS 9 replaces the current financial instruments standard IAS 39 effective 1 April 2018. It represents a fundamental change to the way financial instruments are classified, measured and assessed for credit impairment. The group established a programme to implement the necessary changes as a result of this standard and disclosed the impact of transition on equity. Our audit work on this accounting change has been performed throughout the year, for the purpose of the transition disclosure included in the 2018 financial statements, and continues through 2019. Our procedures on the impact disclosed included:

- Assessing the key technical interpretations, judgments, assumptions and elections made by management for compliance with IFRS 9;
- Classification and measurement:
  - Testing the intent of holding the instruments and their contractual characteristics in order to assess their classification;
- Credit impairment:
  - Testing the assumptions and judgements used in the impairment models to calculate expected credit losses, including the incorporation of economic forecasts using our credit risk modelling and economic specialists including any management overlays to these models;
  - Testing the data used to run the models; and
- Considered interim controls and governance processes related to the calculation and approval of the IFRS 9 transitional impact.

Other information

The other information comprises the information included in the annual report and accounts, including the Strategic report (set out on page 142), Corporate governance (set out on pages 100 to 121 of volume one), Business review (set out on pages 15 to 34), Capital and risk management (set out on pages 36 to 97), contact details (page 263), other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 143, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are:
  - Companies Act 2006
  - The UK Corporate Governance Code
  - Tax Legislation (governed by HM Revenue and Customs
  - Financial Conduct Authority (FCA) rules
  - CRDIV (Basel III) and Prudential Regulatory Authority (PRA) rules
- We obtained a general understanding of how Investec plc complies with these legal and regulatory frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Company and UK regulatory bodies; reviewed minutes of the Board and Risk Committee; and gained an understanding of the Company's approach to governance, demonstrated by the Board's approval of the Company's governance framework and the Board's review of the Group's risk management framework and internal control processes.
- For laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.
- For both direct and other laws and regulations, our procedures involved: making enquiry of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the company's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with the FCA and PRA.
- The group and company operates in the banking industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

- We assessed the susceptibility of the entity's financial statements to material misstatement, including how fraud might occur, by considering the controls that the entity has established to address risks identified by the entity, or that otherwise seek to prevent, deter, or detect fraud. We also considered performance incentives and their potential to influence management to manage earnings.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the group on 8 November 1996 to audit the financial statements for the year ending 31 March 1997 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 22 years, covering the years ending 31 March 1997 to 31 March 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Andrew Gilder
(Senior statutory auditor)

for and on behalf of
Ernst & Young LLP,

Statutory Auditor

London

15 June 2018

Notes:

1. The maintenance and integrity of the Investec Bank plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

For the year to 31 March £'000	Notes	2018	2017
Interest income	2	598 494	562 092
Interest expense	2	(248 876)	(263 340)
Net interest income		**349 618**	**298 752**
Fee and commission income	3	504 606	502 106
Fee and commission expense	3	(10 094)	(13 260)
Investment income	4	68 943	55 900
Share of post taxation profit of associates		1 444	1 741
Trading income arising from			
– customer flow		114 502	129 706
– balance sheet management and other trading activities		2 838	(138)
Other operating income	5	8 290	7 883
Total operating income before impairment losses on loans and advances		**1 040 147**	**982 690**
Impairment losses on loans and advances	26	(106 085)	(74 956)
Operating income		**934 062**	**907 734**
Operating costs	6	(797 049)	(744 716)
Depreciation on operating leased assets	31	(2 350)	(2 141)
Operating profit before goodwill and acquired intangibles		**134 663**	**160 877**
Impairment of goodwill	33	–	(3 134)
Amortisation of acquired intangibles	34	(13 273)	(14 386)
Operating profit		**121 390**	**143 357**
Profit before taxation		**121 390**	**143 357**
Taxation on operating profit before goodwill and acquired intangibles	8	(27 651)	(29 049)
Taxation on goodwill and acquired intangibles	8	2 418	3 305
Profit after taxation		**96 157**	**117 613**
Loss attributable to non-controlling interests		1 684	180
Earnings attributable to shareholder		**97 841**	**117 793**

Statements of comprehensive income

For the year to 31 March £'000	Notes	Group 2018	Group 2017	Company 2018	Company 2017
Profit after taxation		**96 157**	**117 613**	**80 989**	**129 164**
Other comprehensive income/(loss):					
Items that may be reclassified to the income statement:					
Gains on realisation of available-for-sale assets recycled through the income statement*	8	(1 278)	(2 622)	75	1 919
Fair value movements on available-for-sale assets taken directly to other comprehensive income*	8	4 525	29 809	2 359	22 812
Foreign currency adjustments on translating foreign operations		(14 187)	27 418	(3 049)	(5 053)
Total comprehensive income		**85 217**	**172 218**	**80 374**	**148 842**
Total comprehensive loss attributable to non-controlling interests		(1 186)	(538)	–	–
Total comprehensive income attributable to ordinary shareholder		86 403	172 756	80 374	148 842
Total comprehensive income		**85 217**	**172 218**	**80 374**	**148 842**

* *Net of taxation.*

Balance sheets

For the year to 31 March £'000	Notes	Group 2018	Group 2017	Company 2018	Company 2017
Assets					
Cash and balances at central banks	17	3 487 768	2 853 567	3 403 196	2 820 618
Loans and advances to banks	18	772 984	922 764	275 031	374 414
Reverse repurchase agreements and cash collateral on securities borrowed	19	750 428	536 173	750 428	536 173
Sovereign debt securities	20	1 155 472	952 902	489 454	159 381
Bank debt securities	21	107 938	184 626	107 938	184 626
Other debt securities	22	288 349	408 149	810 119	638 110
Derivative financial instruments	23	610 201	610 371	594 295	598 534
Securities arising from trading activities	24	701 728	522 760	694 974	516 581
Investment portfolio	25	472 083	454 566	165 421	174 139
Loans and advances to customers	26	9 663 172	8 598 639	7 204 546	6 611 759
Other loans and advances	26	417 747	556 464	2 501 592	1 941 993
Other securitised assets	27	132 172	138 628	7 000	7 258
Interests in associated undertakings	28	6 414	23 818	571	9 388
Deferred taxation assets	29	84 599	78 945	47 715	48 580
Other assets	30	1 013 440	1 089 390	704 889	766 823
Property and equipment	31	53 183	58 857	8 030	5 229
Investment properties	32	14 500	14 500	–	–
Goodwill	33	261 075	259 965	–	–
Intangible assets	34	103 972	116 330	308	150
Investments in subsidiaries	55	–	–	877 986	902 833
		20 097 225	**18 381 414**	**18 643 493**	**16 296 589**
Liabilities					
Deposits by banks		1 295 847	673 586	1 712 877	900 691
Derivative financial instruments	23	533 319	583 562	525 911	581 505
Other trading liabilities	36	103 496	136 041	103 496	136 041
Repurchase agreements and cash collateral on securities lent	19	168 640	223 997	168 640	424 019
Customer accounts (deposits)		11 969 625	11 289 177	10 971 981	9 601 085
Debt securities in issue	37	1 942 869	1 640 839	1 903 560	1 563 019
Liabilities arising on securitisation of other assets	27	127 853	128 838	–	–
Current taxation liabilities		135 517	146 743	71 845	77 182
Deferred taxation liabilities	29	22 120	26 557	2 943	5 302
Other liabilities	38	1 009 099	972 787	650 497	700 668
		17 308 385	**15 822 127**	**16 111 750**	**13 989 512**
Subordinated liabilities	40	579 673	579 356	580 529	580 427
		17 888 058	**16 401 483**	**16 692 279**	**14 569 939**
Equity					
Ordinary share capital	41	1 186 800	1 186 800	1 186 800	1 186 800
Share premium		143 288	143 288	143 288	143 288
Capital reserve		162 789	162 789	162 789	162 789
Other reserves		7 344	18 782	(3 033)	(2 418)
Retained income		512 006	470 272	261 370	236 191
Shareholder's equity excluding non-controlling interests		**2 012 227**	**1 981 931**	**1 751 214**	**1 726 650**
Additional Tier 1 securities in issue	42	200 000	–	200 000	–
Non-controlling interests in partially held subsidiaries	43	(3 060)	(2 000)	–	–
Total equity		**2 209 167**	**1 979 931**	**1 951 214**	**1 726 650**
Total liabilities and equity		**20 097 225**	**18 381 414**	**18 643 493**	**16 296 589**

The company's profit for the year, determined in accordance with the Companies Act 2006, was £81.0 million (2017: £129.2 million).

Cash flow statements

For the year to 31 March £'000	Notes	Group 2018	Group 2017	Company 2018	Company 2017
Profit before taxation adjusted for non-cash items	45	255 649	248 754	160 280	211 493
Taxation repayment/(paid)		(40 581)	43 909	(2 130)	69 423
(Increase)/decrease in operating assets	45	(1 262 949)	178 178	(1 959 704)	272 491
Increase/(decrease) in operating liabilities	45	1 487 703	(152 054)	2 118 891	(318 394)
Net cash inflow from operating activities		**439 822**	**318 787**	**317 338**	**235 013**
Cash flow on acquisition of group operations		–	(34 247)	(4 488)	(19 599)
Cash flow on disposal of non-controlling interest		126	(16)	–	–
Cash flow on net acquisition of associates		17 430	(5 528)	–	–
Cash flow on acquisition of property, equipment and intangible assets		(15 738)	(22 479)	(7 314)	–
Cash flow on disposal of property, equipment and intangible assets		2 086	2 751	8 750	–
Return of capital by subsidiary		–	–	29 344	65 194
Net cash inflow/(outflow) from investing activities		**3 904**	**(59 519)**	**26 292**	**45 595**
Dividends paid to ordinary shareholder		(53 000)	(35 000)	(53 000)	(35 000)
Dividends paid to other equity holders		(4 236)	–	(4 236)	–
Redemption of subordinated debt		–	(18 053)	–	–
Proceeds on issue of Additional Tier 1 securities		200 000	–	200 000	–
Net cash inflow/(outflow) from financing activities		**142 764**	**(53 053)**	**142 764**	**(35 000)**
Effects of exchange rates on cash and cash equivalents		**(2 571)**	**19 970**	**792**	**1 878**
Net increase in cash and cash equivalents		**583 919**	**226 185**	**487 186**	**247 486**
Cash and cash equivalents at the beginning of the year		3 538 802	3 312 617	3 164 115	2 916 629
Cash and cash equivalents at the end of the year		**4 122 721**	**3 538 802**	**3 651 501**	**3 164 115**
Cash and cash equivalents is defined as including:					
Cash and balances at central banks		3 487 768	2 853 567	3 403 196	2 820 618
On-demand loans and advances to banks		634 953	685 235	248 105	343 497
Cash and cash equivalents at the end of the year		**4 122 721**	**3 538 802**	**3 651 301**	**3 164 115**

Cash and cash equivalents have a maturity profile of less than three months.

Consolidated statement of changes in equity

£'000	Ordinary share capital	Share premium account
Group		
At 31 March 2016	**1 186 800**	**143 288**
Movement in reserves 1 April 2016 – 31 March 2017		
Profit after taxation	–	–
Losses on realisation of available-for-sale assets recycled through the income statement	–	–
Fair value movements on available-for-sale assets	–	–
Foreign currency adjustments on translating foreign operations	–	–
Total comprehensive income for the year	–	–
Share-based payments adjustments	–	–
Dividends paid to ordinary shareholder	–	–
Net equity impact of non-controlling interest movements	–	–
At 31 March 2017	**1 186 800**	**143 288**
Movement in reserves 1 April 2017 – 31 March 2018		
Profit after taxation	–	–
Losses on realisation of available-for-sale assets recycled through the income statement	–	–
Fair value movements on available-for-sale assets	–	–
Foreign currency adjustments on translating foreign operations	–	–
Total comprehensive income for the year	–	–
Share-based payments adjustments	–	–
Issue of Additional Tier 1 security instruments	–	–
Dividends paid to ordinary shareholder	–	–
Dividends declared to Additional Tier 1 security holders	–	–
Dividends paid to Additional Tier 1 security holders	–	–
Net equity impact of non-controlling interest movements	–	–
At 31 March 2018	**1 186 800**	**143 288**

Consolidated statement of changes in equity

(continued)

	Capital reserve account	Available-for-sale reserve	Foreign currency reserves	Retained income	Shareholder's equity excluding non-controlling interests	Other Additional Tier 1 securities in issue	Non-controlling interests	Total equity
	162 789	**(19 944)**	**(16 237)**	**387 606**	**1 844 302**	**–**	**(1 446)**	**1 842 856**
						–		
	–	–	–	117 793	117 793	–	(180)	117 613
	–	(2 622)	–	–	(2 622)	–	–	(2 622)
	–	29 809	–	–	29 809	–	–	29 809
	–	–	27 776	–	27 776	–	(358)	27 418
	–	27 187	27 776	117 793	172 756	–	(538)	172 218
	–	–	–	(127)	(127)	–	–	(127)
	–	–	–	(35 000)	(35 000)	–	–	(35 000)
	–	–	–	–	–	–	(16)	(16)
	162 789	**7 243**	**11 539**	**470 272**	**1 981 931**	**–**	**(2 000)**	**1 979 931**
	–	–	–	97 841	97 841	–	(1 684)	96 157
	–	(1 278)	–	–	(1 278)	–	–	(1 278)
	–	4 525	–	–	4 525	–	–	4 525
	–	–	(14 685)	–	(14 685)	–	498	(14 187)
	–	3 247	(14 685)	97 841	86 403	–	(1 186)	85 217
	–	–	–	1 129	1 129	–	–	1 129
	–	–	–	–	–	200 000	–	200 000
	–	–	–	(53 000)	(53 000)	–	–	(53 000)
	–	–	–	(4 236)	(4 236)	4 236	–	–
	–	–	–	–	–	(4 236)	–	(4 236)
	–	–	–	–	–	–	126	126
	162 789	**10 490**	**(3 146)**	**512 006**	**2 102 227**	**200 000**	**(3 060)**	**2 209 167**

Statement of changes in equity

(continued)

£'000	Ordinary share capital	Share premium account
Company		
At 31 March 2016	**1 186 800**	**143 288**
Movement in reserves 1 April 2016 – 31 March 2017		
Profit after taxation	–	–
Losses on realisation of available-for-sale assets recycled through the income statement	–	–
Fair value movements on available-for-sale assets	–	–
Foreign currency adjustments on translating foreign operations	–	–
Total comprehensive income for the year	–	–
Share-based payments adjustments	–	–
Dividends paid to ordinary shareholder	–	–
At 31 March 2017	**1 186 800**	**143 288**
Movement in reserves 1 April 2017 – 31 March 2018		
Profit after taxation	–	–
Losses on realisation of available-for-sale assets recycled through the income statement	–	–
Fair value movements on available-for-sale assets	–	–
Foreign currency adjustments on translating foreign operations	–	–
Total comprehensive income for the year	–	–
Share-based payments adjustments	–	–
Issue of Additional Tier 1 security holders	–	–
Dividends paid to ordinary shareholder	–	–
Dividends declared to Additional Tier 1 security holders	–	–
Dividends paid to Additional Tier 1 security holders	–	–
At 31 March 2018	**1 186 800**	**143 288**

Statement of changes in equity

(continued)

Capital reserve account	Available-for-sale reserve	Foreign currency reserves	Retained income	Shareholder's equity excluding non-controlling interests	Other Additional Tier 1 securities in issue	Total equity
162 789	**(26 387)**	**4 291**	**142 042**	**1 612 823**	**–**	**1 612 823**
–	–	–	129 164	129 164	–	129 164
–	1 919	–	–	1 919	–	1 919
–	22 812	–	–	22 812	–	22 812
–	–	(5 053)	–	(5 053)	–	(5 053)
–	24 731	(5 053)	129 164	148 842	–	148 842
–	–	–	(15)	(15)	–	(15)
–	–	–	(35 000)	(35 000)	–	(35 000)
162 789	**(1 656)**	**(762)**	**236 191**	**1 726 650**	**–**	**1 726 650**
–	–	–	80 989	80 989	–	80 989
–	75	–	–	75	–	75
–	2 359	–	–	2 359	–	2 359
–	–	(3 049)	–	(3 049)	–	(3 049)
–	2 434	(3 049)	80 989	80 374	–	80 374
–	–	–	1 426	1 426	–	1 426
–	–	–	–	–	200 000	200 000
–	–	–	(53 000)	(53 000)	–	(53 000)
–	–	–	(4 236)	(4 236)	4 236	–
–	–	–	–	–	(4 236)	(4 236)
162 789	**778**	**(3 811)**	**261 370**	**1 751 214**	**200 000**	**1 951 214**

Basis of presentation

These group and company annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU) which comply with IFRSs as issued by the International Accounting Standards Board (IASB). At 31 March 2018, IFRS as endorsed by the EU are identical in all material respects to current IFRS applicable to the group, with differences only in the effective dates of certain standards.

The group and company annual financial statements have been prepared on a historical cost basis, except for investment properties, available-for-sale investments, derivative financial instruments, financial assets and financial liabilities held at fair value through profit or loss or subject to hedge accounting.

The accounting policies adopted by the group are consistent with the prior year. 'Group' refers to group and company in the accounting policies that follow.

No profit or loss account is presented for the company as permitted by section 408 of the Companies Act 2006.

Presentation of information

Disclosure under IFRS 7 Financial Instruments: Disclosures and IAS 1 Presentation of Financial Statements: Capital Disclosures relating to the nature and extent of risks have been included in sections marked as audited in the risk management report on pages 36 to 96. Certain disclosures required under IAS 24 Related Party Disclosures have been included in the section marked as audited in the remuneration report on pages 124 to 140.

Restatements and presentation of information

The accounting policies adopted by the group are consistent with the prior year.

Basis of consolidation

All subsidiaries or structured entities are consolidated when the group controls an investee. The group controls an investee if it is exposed to, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial results of subsidiaries are included in the consolidated annual financial statements of the group from the date on which control is obtained until the date the group can no longer demonstrate control.

The group performs a reassessment of control whenever there is a change in the substance of the relationship between Investec and an investee. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. Investec also holds investments, for example private equity investments, which give rise to significant, but not majority, voting rights. Assessing these voting rights and whether Investec controls these entities requires judgement that affects the date at which subsidiaries are consolidated or deconsolidated.

Entities, other than subsidiary undertakings, in which the group exercises significant influence over operating and financial policies, are treated as interests in associated undertakings. Interests in associated undertakings are accounted for using the equity method from the date that significant influence commences until the date that significant influence ceases. In circumstances where interests in associated undertakings or joint venture holdings arise in which the group has no strategic intention, these investments are classified as 'venture capital' holdings and are designated as held at fair value through profit or loss.

For equity accounted associates, the consolidated annual financial statements include the attributable share of the results and reserves of associated undertakings. The group's interests in associated undertakings are included in the consolidated balance sheet at cost plus the post-acquisition changes in the group's share of the net assets of the associate.

The consolidated balance sheet reflects the associated undertakings net of accumulated impairment losses.

Investments in subsidiaries and interests in associated undertakings are carried at their cost less any accumulated impairment in the company financial statements.

All intergroup balances, transactions and unrealised gains or losses within the group that, are eliminated in full regarding subsidiaries and to the extent of the interest in an associate.

Segmental reporting

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the group's other components, whose operating results are reviewed regularly by chief operating decision-makers, which include members of the board and for which discrete financial information is available.

The group's segmental reporting is presented in the form of a business analysis. The business analysis is presented in terms of the group's two principal business divisions, namely, Wealth and Investment and Specialist Banking.

For further detail on the group's segmental reporting basis, refer to the divisional review section of the integrated annual report.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at the acquisition date fair value and the amount of any prior non-controlling interest in the acquiree. For each business combination, the group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed immediately in the income statement.

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and the designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the group's previously held equity interest in the acquiree is remeasured to fair value at each acquisition date through the income statement.

Any contingent consideration to be transferred by the group will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in the income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration and amount recognised for non-controlling interest is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the income statement as a gain in the year of acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. The group tests goodwill acquired in a business combination for impairment annually, irrespective of whether an indication of impairment exists and in accordance with IAS 36.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units that are expected to benefit from the combination.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the cash-generating units retained.

Share-based payments to employees

The group engages in equity-settled share-based payments in respect of services received from employees. These are the shares of the company's parent, Investec plc, and are accounted for as equity-settled share-based payments at an Investec plc level but, in accordance with IFRS 2, as cash-settled share-based payment transactions by subsidiaries of Investec plc.

The fair value of the services received in respect of equity-settled share-based payments is determined by reference to the fair value of the shares or share options on the date of grant to the employee. The cost of the share-based payment, together with a corresponding increase in equity, is recognised in the income statement over the period the service conditions of the grant are met, with the amount changing according to the number of awards expected to vest. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the group's best estimate of the number of equity instruments that will ultimately vest.

Fair value measurements are based on option pricing models, taking into account the risk-free interest rate, volatility of the underlying equity instrument, expected dividends and current share prices.

Where the terms of an equity-settled award are modified, the minimum expense recognised in staff costs is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Foreign currency transactions and foreign operations

The presentation currency of the group is Pounds Sterling, being the functional currency of Investec Bank plc.

Foreign operations are subsidiaries, interests in associated undertakings or branches of the group, the activities of which are based in a functional currency other than that of the reporting entity. The unctional currency of group entities is determined based on the primary economic environment in which the entity operates.

Foreign currency transactions are translated into the functional currency of the entity in which the transactions arise, based on rates of exchange ruling at the date of the transactions.

At each balance sheet date foreign currency items are translated as follows:

- Monetary items (other than monetary items that form part of the net investment in a foreign operation) are translated using closing rates, with gains or losses recognised in the income statement
- Exchange differences arising on monetary items that form part of the net investment in a foreign operation are determined using closing rates and recognised as a separate component of equity (foreign currency translation reserve) upon consolidation and is reclassified to the income statement upon disposal of the net investment
- Non-monetary items that are measured at historical costs are translated using the exchange rates ruling at the date of the transaction.

On consolidation, the results and financial position of foreign operations are translated into the presentation currency of the group as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet
- Income and expense items are translated at exchange rates ruling at the date of the transaction
- All resulting exchange differences are recognised in other comprehensive income (foreign currency translation reserve), which is reclassified in the income statement on disposal of the foreign operation
- Cash flow items are translated at the exchange rates ruling at the date of the transactions.

Revenue recognition

Revenue consists of interest income, fee and commission income, investment income, trading income arising from customer flow, trading income arising from balance sheet management and other trading activities and other operating income.

Revenue is recognised when it can be reliably measured and it is probable that the economic benefits will flow to the entity.

Revenue related to provision of services is recognised when the related services are performed. Revenue is measured at the fair value of the consideration received or receivable.

Interest income is recognised in the income statement using the effective interest rate method. Fees charged on lending transactions are included in the effective yield calculation to the extent that they form an integral part of the effective interest rate yield, but exclude those fees earned for a separately identifiable significant act, which are recognised upon completion of the act. Fees and commissions charged *in lieu* of interest are recognised as income as part of the effective interest rate on the underlying loan.

The effective interest rate method is based on the estimated life of the underlying instrument and where this estimate is not readily available, the contractual life.

Fee and commission income includes fees earned from providing advisory services as well as portfolio management and includes rental income from investment properties. Investment advisory and management fees are accrued over the period to which the income relates. Performance fees are recognised when they become receivable. No revenue is recognised if there are significant uncertainties regarding the recovery of the consideration due.

Investment income includes income, other than margin from securities held for the purpose of generating interest yield, dividends and capital appreciation.

Customer flow trading income includes income from trading activities arising from making and facilitating client activities.

Trading income arising from balance sheet management and other trading activities consists of proprietary trading income and other gains and losses arising from balance sheet management.

Trading profit includes the unrealised profit on trading portfolios, which are marked to market daily. Equity investments received *in lieu* of corporate finance fees are included in investment portfolio and valued accordingly.

Dividend income is recognised when the group's right to receive payment is established.

Included in other operating income is incidental rental income, gains on realisation of properties (other than investment properties which is included in investment income), operating lease income, income from interests in associated undertakings and revenue from consolidated private equity investments. Operating costs associated with these investments are included in operating costs in the income statement.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the group measures the fair value of an instrument using the quoted price in an active market for that instrument.

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The group classifies disclosed fair values according to a hierarchy that reflects the significance of observable market inputs.

A transfer is made between the hierarchy levels when the inputs have changed or there has been a change in valuation method. Transfers are deemed to occur at the end of each semi-annual reporting period.

Financial instruments

Financial instruments are initially recognised at their fair value. For financial assets or financial liabilities not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities are included in the initial measurement. All other transaction costs are recorded in the income statement immediately.

Regular way purchase and sales transactions in respect of financial assets that require delivery of a financial instrument within the timeframe established by market convention are recorded at trade date.

Financial assets and liabilities held at fair value through profit or loss

Financial instruments held at fair value through profit or loss include all instruments classified as held-for-trading and those instruments designated as held at fair value through profit or loss.

Financial instruments classified as held-for-trading or designated as held at fair value through profit or loss are initially recorded at fair value on the balance sheet with changes in fair value subsequently recognised in the income statement. Financial instruments are classified as trading when they are held with the intention of short-term disposal, held with the intention of generating short-term profit, or are derivatives which are not designated as part of effective hedges. Financial instruments designated as held at fair value through profit or loss are designated as such on initial recognition of the instrument and remain in this classification until derecognition.

Financial assets and liabilities are designated as held at fair value through profit or loss only if:

- They eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases
- A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy and information about the group is provided internally on that basis to the group's key management personnel
- A contract contains one or more embedded derivatives (which significantly modifies the cash flows that would be required by the contract and is not clearly prohibited from separation from the host contract) and the group has designated the entire hybrid contract as a financial instrument at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and exclude the following:

- Those in which the group intends to trade in, which are classified as held-for-trading and those that the group designates at fair value through profit or loss
- Those that the group designates as available-for-sale
- Those for which the group may not recover substantially all of its initial investment, other than because of credit deterioration, which is accounted for as available-for-sale instruments.

Subsequent to initial recognition, loans and receivables are measured at amortised cost, using the effective interest rate method, less impairment losses. The effective interest rate represents the rate that exactly discounts future projected cash flows over the expected life of the financial instrument, to the net carrying amount of the financial instrument. Included in the calculation of the effective interest rate, is any discount or premium on acquisition and fees that are an integral part of the effective interest rate.

Losses arising from impairment of such investments are recognised in the income statement line 'impairment losses on loans and advances'.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Securitisation/credit investment and trading activities exposures

The group makes use of securitisation vehicles as a source of finance, as a means of risk transfer and to leverage returns through the retention of equity tranches in low default rate portfolios. The group predominantly focuses on the securitisation lease receivables. The group also trades in structured credit investments.

The structured entities are consolidated under IFRS 10 Consolidated Financial Statements when the group has exposure to or rights to, variable returns from its involvement with the investee and have the ability to affect those returns through its power over the investee.

Loans and advances that are originated are transferred to structured entities, and the structured entities issue debt securities to external investors to fund the purchase of securitised assets. When the group consolidates the structured entity, the group recognises the assets and liabilities on a gross basis. When the group does not consolidate the structured entity, the securitised assets are derecognised and only any position still held by the group in the structured entity is reflected.

Available-for-sale financial assets

Available-for-sale financial assets are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity, or loans and receivables. They include strategically held equity instruments that are not interests in associated undertakings, joint ventures or subsidiaries of the group. Further, certain debt instruments that are held at fair value due to being quoted on an active market, which are neither actively traded nor held-to-maturity instruments, are classified as available-for-sale financial assets.

Financial assets classified as available-for-sale are measured at fair value with unrealised gains and losses recognised directly in other comprehensive income in the available-for-sale reserve. When the asset is disposed of, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to in the income statement. Interest earned while holding available-for-sale financial assets is reported in the income statement as interest income using the effective interest rate. Dividends earned while holding available-for-sale financial assets are recognised in the income statement when the right to payment has been established.

If an available-for-sale instrument is determined to be impaired, the respective cumulative unrealised losses previously recognised in other comprehensive income are included in the income statement in the period in which the impairment is identified.

Impairments on available-for-sale equity instruments are not reversed once recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring fter the impairment loss was recognised in the income statement, the impairment loss is reversed, limited to the impairment value previously recognised in the income statement.

Financial liabilities

Financial liabilities are classified as non-trading, held-for-trading or designated as held at fair value through profit or loss.

Non-trading liabilities are recorded at amortised cost applying the effective interest rate method.

Held-for-trading liabilities or liabilities designated as held at fair value through profit or loss are measured at fair value.

All changes in fair value of financial liabilities are recognised in the income statement.

Day-One profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on the valuation technique whose variables include only data from observable markets, the difference between the transaction price and fair value is recognised immediately in the income statement.

In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised or over the life of the transaction.

Impairments of financial assets held at amortised cost

Financial assets carried at amortised cost are impaired if there is objective evidence that the group would not receive cash flows according to the original contractual terms. Financial assets are assessed for impairment at each balance sheet date and when an indicator of impairment is identified.

The test for impairment is based either on specific financial assets or collectively on a portfolio of similar homogeneous assets. Over and above individual collective impairments raised at specific portfolio levels, the group recognises a collective impairment allowance at a central level (within the Specialist Banking business segment) that takes into account macroeconomic factors, mainly driven by data related to the prevailing credit markets and which indicate incurred but not specifically identified losses across the loan portfolios (that is, exposures in all business segments). Assets specifically identified as impaired are excluded from the collective assessment.

Impairments are credited to an allowance account which is carried against the carrying value of financial assets. Interest continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or transferred to the group.

An allowance for impairment is only reversed when there is objective evidence that the credit quality has improved to the extent that there is reasonable assurance of timely collection of principal and interest in terms of the original contractual agreement.

The impairment is calculated as the difference between the carrying value of the asset and the expected cash flows (including net expected proceeds on realisation of collateral) discounted at the original effective rate. Impairments of financial assets held at amortised cost are recognised in the income statement.

Derecognition of financial assets and liabilities

A financial asset, or a portion thereof, is derecognised when the group's rights to cash flows have expired or when the group has transferred its rights to cash flows relating to the financial assets and either (a) the group has transferred substantially all the risks and rewards associated with the financial assets or (b) the group has neither transferred nor retained substantially all the risks and rewards associated with the financial assets but has transferred control of the assets.

A financial liability is derecognised when it is extinguished, that is when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced or modified with substantially different terms, such a replacement or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

Reclassification of financial instruments

The group may reclassify, in certain rare circumstances, non-derivative financial assets out of the held-for-trading category and into the available-for-sale, loans and receivables, or held-to-maturity categories. It may also reclassify, in certain circumstances, financial instruments out of the available-for-sale category and into the loans and receivables category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

Derivative instruments

All derivative instruments of the group are recorded on the balance sheet at fair value. Positive and negative fair values are reported as assets and liabilities respectively.

Derivative positions are entered into either for trading purposes or as part of the group's asset and liability management activities to manage exposures to interest rate and foreign currency risks. Both realised and unrealised profit or losses arising on derivatives are recognised in the income statement as part of trading income (other than circumstances in which cash flow hedging is applied as detailed in the hedge accounting section below).

Derivative instruments entered into as economic hedges which do not qualify for hedge accounting and derivatives that are entered into for trading purposes are treated in the same way as instruments that are held-for-trading.

Credit derivatives are entered into for trading purposes. Credit derivatives are initially recognised at their fair values, being the transaction price of the derivative. Subsequently the derivatives are carried at fair value, with movements in fair value through profit or loss, based on the current market price or remeasured price. The counterparty risk from derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit value adjustment (CVA).

Hedge accounting

The group applies either fair value or hedge of net investments in foreign operations accounting when the transactions meet the specified hedge accounting criteria. To qualify for hedge accounting treatment, the group ensures that all of the following conditions are met:

- At inception of the hedge, the group formally documents the relationship between the hedging instrument(s) and hedged item(s) including the risk management objectives and the strategy in undertaking the hedge transaction. Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item
- A hedge is expected to be highly effective if the changes in fair value attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%
- The effectiveness of the hedge can be reliably measured, i.e. the fair value of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured
- The hedge effectiveness is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

For qualifying fair value hedges, the change in fair value of the hedging instrument is recognised in the income statement. Changes in fair value of the hedged item that is attributable to the hedged risk are also recognised in the income statement.

Qualifying hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment. Changes in the fair value of the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of any such gain or loss recorded in other comprehensive income is reclassified to the income statement.

Hedge accounting is discontinued when it is determined that the instrument ceases to be highly effective as a hedge; when the derivative expires, or is sold, terminated or exercised; when the hedged item matures or is sold or repaid; when a forecasted transaction is no longer deemed highly probable or when the designation as a hedge is revoked.

Embedded derivatives

To the extent that a derivative may be embedded in a hybrid contract and the hybrid contract is not carried at fair value with changes in fair value recorded in the income statement, the embedded derivative is separated from the host contract and accounted for as a stand-alone derivative if and only if:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset when there is both an intention to settle on a net basis (or simultaneously) and a currently enforceable legal right to offset exists.

Issued debt and equity financial instruments

Financial instruments are classified as liabilities if they contain a contractual obligation to deliver cash or another financial asset.

Financial instruments are classified as equity where they confer on the holder a residual interest in the group, and the group has no obligation to deliver either cash or another financial asset to the holder. The components of compound issued financial instruments are accounted for separately with the liability component separated first and any residual amount being allocated to the equity component.

Equity instruments issued by subsidiaries of Investec Bank plc are recorded as non-controlling interests on the balance sheet.

Equity instruments are initially measured net of directly attributable issue costs.

Dividends on ordinary shares are recognised as a deduction from equity at the earlier of payment date or the date that it is approved by Investec Bank plc shareholder.

Sale and repurchase agreements (including securities borrowing and lending)

Where securities are sold subject to a commitment to repurchase them, at a fixed price or a selling price plus a lender's return, they remain on balance sheet. Proceeds received are recorded as a liability on balance sheet under 'repurchase agreements and cash collateral on securities lent'. Securities that are purchased under a commitment to resell the securities at a future date are not recognised on the balance sheet. The consideration paid is recognised as an asset under 'reverse repurchase agreements and cash collateral on securities borrowed'.

The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method.

Securities borrowing transactions that are not cash collateralised are not included on the balance sheet. Securities lending and borrowing transactions which are cash collateralised are accounted for in the same manner as securities sold or purchased subject to repurchase commitments.

Financial guarantees

Financial guarantee contracts issued by the group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due, in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at fair value, adjusted for the transaction costs that are directly attributable to the issuance of the guarantee.

Subsequent to initial recognition, the liability under each guarantee is measured at the higher of the amount recognised less cumulative amortisation and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Subsequent to initial measurement, all changes in the balance sheet carrying value are recognised in the income statement.

Instalment credit, leases and rental agreements

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset/assets, even if that right is not explicitly specified in an arrangement.

A finance lease is a lease that transfers substantially all of the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

Where classified as a finance lease, amounts outstanding on these contracts, net of unearned finance charges, are included in loans and advances where the instalment credit transactions are credited or debited to the income statement in proportion to the capital balances outstanding at the rate implicit in the agreement.

Where classified as operating leases, rentals payable/receivable are charged/credited in the income statement on a straight-line basis over the lease term. Contingent rentals are accrued to the income statement when incurred.

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and impairments.

Cost is the cash equivalent paid or the fair value of the consideration given to acquire an asset and includes other expenditures that are directly attributable to the acquisition of the asset.

Depreciation is provided on the depreciable amount of each component on a straight-line basis over the expected useful life of the asset.

The depreciable amount related to each asset is determined as the difference between the cost and the residual value of the asset. The residual value is the estimated amount, net of disposal costs that the group would currently obtain from the disposal of an asset in similar age and condition as expected at the end of its useful life.

The current and comparative annual depreciation rates for each class of property and equipment is as follows:

- Computer and related equipment 20% – 33%
- Motor vehicles 20% – 25%
- Furniture and fittings 10% – 20%
- Freehold buildings 2%
- Leasehold property and improvements.*

** Leasehold improvements depreciation rates are determined by reference to the appropriate useful life of its separate components, limited to the period of the lease. Leasehold property depreciation rates are determined by reference to the period of the lease.*

No depreciation is provided on freehold land. However, similar to other property-related assets, it is subject to impairment testing when an indication of impairment exists.

Routine maintenance and service costs for group assets are expensed as incurred. Subsequent expenditure is only capitalised if it is probable that future economic benefits associated with the item will flow to the group.

Investment properties

Properties held for capital appreciation or rental yield are classified as investment properties. Investment properties are carried at fair value, with fair value gains or losses recognised in the income statement in investment income.

Fair value of investment properties are calculated by taking into account the expected rental stream associated with the property, and is supported by market evidence.

Trading properties

Trading properties are carried at the lower of cost and net realisable value.

Intangible assets

Intangible assets are recorded at cost less accumulated amortisation and impairments.

Intangible assets with a finite life are amortised over the useful economic life of the asset (currently three to 20 years) on a straight-line basis. The depreciable amount related to each intangible asset is determined as the difference between the cost and the residual value of the asset.

Impairment of non-financial assets

At each balance sheet, date the group reviews the carrying value of non-financial assets, other than investment properties for indication of impairment. The recoverable amount, being the higher of fair value less cost of disposal and value in use, is determined for any assets for which an indication of impairment is identified. If the recoverable amount of an asset is less than its carrying value, the carrying value of the asset is reduced to its recoverable amount.

Impairment losses are recognised as an expense in the income statement in the period in which they are identified.

Reversals of impairment losses are recognised in income in the period in which the reversals are identified, to the extent that the carrying value of the asset does not exceed the amount that would have been calculated without impairment.

Trust and fiduciary activities

The group acts as a trustee or in other fiduciary capacities that result in the holding, placing or managing of assets for the account of and at the risk of clients.

As these are not assets of the group, they are not recognised on the balance sheet but are included at market value as part of assets under administration.

Taxation and deferred taxation

Current taxation payable is provided for based on the amount expected to be payable on taxable profit at rates that are enacted or substantively enacted and applicable to the relevant period.

Deferred taxation is provided on temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base, except where such temporary differences arise from:

- The initial recognition of goodwill
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction has no effect on the income statement or taxable profit
- In respect of temporary differences associated with the investments in subsidiaries and interests in associated undertakings, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred taxation assets or liabilities are measured using the tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilised.

Items recognised directly in other comprehensive income are net of related current and deferred taxation.

Employee benefits

The group operates various defined contribution schemes. In addition, employees of the bank participate in two closed defined benefit schemes along with employees of other subsidiary undertakings of Investec plc, the bank's parent.

In respect of the defined contribution scheme, all employer contributions are charged to the income statement as incurred, in accordance with the rules of the scheme, and included under staff costs.

As there is no contractual agreement or stated policy for charging the net defined benefit cost for the defined benefit plans as a whole measured in accordance with IAS 19 to individual Investec plc group entities, the bank accounts for these schemes on a defined contribution basis.

Borrowing costs

Borrowing costs that are directly attributable to property developments which take a substantial period of time to develop are capitalised.

Provisions, contingent liabilities and contingent assets

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the income statement net of any reimbursement. Contingent assets and contingent liabilities are not recognised on balance sheet.

Standards and interpretations issued but not yet effective

The following standards and interpretations, which have been issued but are not yet effective, are applicable to the group. These standards and interpretations have not been applied in these annual financial statements. The group intends to comply with these standards from the effective dates.

IFRS 9 Financial instruments

IFRS 9 Financial Instruments was issued in July 2014 and will replace certain key elements of IAS 39. The mandatory effective date for IFRS 9 is for annual periods beginning on or after 1 January 2018 with early adoption permitted.

IFRS 9 was endorsed by the European Union in November 2016. The two key elements that would impact the group's accounting policies include:

- classification and measurement of financial assets and financial liabilities: the standard requires that all financial assets be classified as either held at fair value through profit or loss, fair value through other comprehensive income or amortised cost. The amortised cost classification is only permitted where it is held within a business model where the underlying cash flows are held in order to collect contractual cash flows and that the cash flows arise solely from payment of principal and interest. Financial assets which are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (and whose contractual cash flows represent solely payments of principal and interest) will be measured at fair value through other comprehensive income. The standard further provides that gains or losses on assets held at fair value are recognised in the income statement unless the entity has elected to recognise gains or losses on non-trading equity investments directly through other comprehensive income. With reference to financial liabilities held at fair value, the standard requires that changes to fair value attributable to own credit risk are recognised directly in other comprehensive income without recycling through the income statement;
- impairment methodology: the key change is related to a shift from an incurred loss to an expected loss impairment methodology. At initial recognition an allowance (or provision in the case of commitments and guarantees) is required for expected credit losses (ECL) resulting from default events that are possible within the next 12 months (12-month ECL). In the event of a significant increase in credit risk since initial recognition, IFRS 9 requires the recognition of lifetime expected credit losses. Impairment measurement will involve increased complexity and significant judgements on areas such as the estimation of probabilities of default, loss given default, unbiased future economic scenarios, estimation of expected lives, estimation of exposures at default and assessing whether a significant increase in credit risk has occurred.

IFRS 9 also includes guidance on hedge accounting. The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. The standard does not address macro hedge accounting strategies, which are being considered in a separate project. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge accounting requirements, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting. The group intends to continue applying IAS 39's hedge accounting, although it will implement the amended IFRS 7 hedge accounting disclosure requirements, until the macro hedge accounting project has been completed.

On 12 October 2017, the IASB published an amendment to IFRS 9, relating to prepayment features with negative compensation; this amendment is effective from 1 January 2019 with early application permitted, however has yet to be endorsed by the EU. This amendment allows financial assets with such features to be measured at amortised cost or fair value through other comprehensive income provided the SPPI (solely payments of principal and interest) criteria in IFRS 9 are otherwise met. In addition the amendment to IFRS 9 clarifies that a financial asset passes the SPPI criterion regardless of the event or circumstance that cause the early termination of the contract, and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The group's loans with such prepayment features are present in some fixed rate loans, and are considered to meet the criteria for amortised cost under IFRS 9. This is because the prepayment features within these loans are consistent with the solely payments of principal and interest criteria if the prepayment feature substantially represents unpaid amounts of principal and interest and reasonable compensation for early termination of the contract.

Transitional impact

IFRS 9 is effective and will be implemented by the group from 1 April 2018. The group will provide its detailed transitional disclosures when it publishes its annual report for the year ended 31 March 2018 on 29 June 2018.

Investec Bank plc

Balance sheet impairment allowance and provisions

Total balance sheet impairment allowance and provisions increased by £105 million from £158 million as at 31 March 2018 to £263 million as at 1 April 2018. This is driven by an increase in legacy impairments of £58 million and an increase in ongoing impairments of £68 million, partially offset by a reduction of £21 million as a result of changes in classification and measurement of certain of the bank's financial assets to fair value. The increase in impairment allowance and provisions reduced Investec Bank plc's CET 1 ratio by approximately 69bps on full adoption of IFRS 9 or approximately 3bps on a 'day one' impact transitional basis.

Changes in classification and measurement of certain financial assets

Changes in classification and measurement to fair value of certain of the bank's other financial assets resulted in a decrease to equity of £11 million (post taxation), with an approximate 8bps impact on the Investec Bank plc CET 1 ratio.

Reclassification of subordinated liabilities to fair value

Following the adoption of IFRS 9 the group has elected to designate its subordinated liabilities to fair value. From this designation, the interest rate portion of the subordinated debt reduced equity by £48 million (post taxation) with an approximate 38bps impact on the day one transitional CET 1 ratio which will come back into retained earnings over the duration of the remaining term of the instrument (maturing February 2022). In addition, an amount of £55 million (post taxation) has been transferred to an own credit reserve which does not have an impact on capital ratios. Taken together, the adoption of IFRS 9 resulted in a decrease in Investec Bank plc's transitional CET 1 ratio of approximately 49bps from 11.8% to 11.3%, ahead of the Investec group target and in excess of minimum regulatory requirements. The group has confirmed to the PRA that it will use the transitional arrangements to absorb the full impact permissible of IFRS 9 in regulatory capital calculations.

IFRS 15 Revenue from contracts with customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. The standard is effective for annual periods beginning on or after 1 January 2018 with early application permitted. The standard was endorsed by the European Union in September 2016.

IFRS 15 provides a principles-based approach for revenue recognition and introduces the concept of recognising revenue for obligations as they are satisfied. Although the standard should be applied retrospectively, with certain practical expedients available, the group's current measurement and recognition principles are aligned to the standard and there is no impact to the measurement principles currently applied. The impact of the disclosure requirements of the standard is currently being finalised however no significant effect is expected.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases. The standard is effective for annual periods beginning on or after 1 January 2019 and is expected to be endorsed by the European Union in 2017. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 Leases. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the period of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17. The group is currently assessing the impact of this standard but it is not practicable to quantify the effect as at the date of the publication of these financial statements.

IFRS 17 Insurance contracts

IFRS 17 'Insurance contracts' was issued in May 2017, and sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. It applies to all types of insurance contracts, regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The IFRS 17 is effective from 1 January 2021, and the group is considering its impact.

All other standards and interpretations issued but not yet effective are not expected to have a material impact on the group.

Key management assumptions

In preparation of the annual financial statements, the group makes estimations and applies judgement that could affect the reported amount of assets and liabilities within the next financial year. Key areas in which judgement is applied include:

- Valuation of unlisted investments primarily in the private equity, direct investments portfolios and embedded derivatives. Key valuation inputs are based on the most relevant observable market inputs, adjusted where necessary for factors that specifically apply to the individual investments and recognising market volatility.
- The determination of impairments against assets that are carried at amortised cost and impairments relating to available-for-sale financial assets involves the assessment of future cash flows which is judgemental in nature.

Details of unlisted investments can be found in note 25 with further analysis contained in the risk management section on pages 68 to 70.

- The group's income tax charge and balance sheet provision are judgemental in nature. This arises from certain transactions for which the ultimate tax treatment can only be determined by final resolution with the relevant local tax authorities. The group has recognised in its current tax provision certain amounts in respect of taxation that involve a degree of estimation and uncertainty where the tax treatment cannot finally be determined until a resolution has been reached by the relevant tax authority. The carrying amount of this provision is sensitive to the resolution of issues, which is often dependent on the timetable and progress of discussion and negotiations with the relevant tax authorities, arbitration process and legal proceedings in the relevant tax jurisdictions in which the group operates. Issues can take many years to resolve and assumptions on the likely outcome would therefore have to be made by the group.

The nature of any assumptions made, when calculating the carrying amounts relating to any estimated tax which could be payable as a result of decisions by tax authorities in respect of any such transactions and events whose treatment for tax purposes, is uncertain. In making any estimates, management's judgement would be based on various factors, including any such transactions and events whose treatment for tax purposes, is uncertain. In making any estimates, management's judgement has been based on various factors, including:

  - The current status of tax audits and enquiries
  - The current status of discussions and negotiations with the relevant tax authorities
  - The results of any previous claims
  - Any changes to the relevant tax environments.

Where appropriate, the group has utilised expert external advice as well as experience of similar situations elsewhere in making any such provisions.

  - Determination of interest income and interest expense using the effective interest rate method involves judgement in determining the timing and extent of future cash flows.

1. Consolidated segmental analysis

For the year to 31 March 2018 £'000	Wealth & Investment	Specialist Banking	Total group
Segmental business analysis – income statement			
Net interest income	5 181	344 437	349 618
Fee and commission income	297 629	206 977	504 606
Fee and commission expense	(722)	(9 372)	(10 094)
Investment income	10 446	58 497	68 943
Share of post taxation profit of associates	416	1 028	1 444
Trading income arising from			
– customer flow	1 032	113 470	114 502
– balance sheet management and other trading activities	(7)	2 845	2 838
Other operating income	235	8 055	8 290
Total operating income before impairment losses on loans and advances	**314 210**	**725 937**	**1 040 147**
Impairment losses on loans and advances	–	(106 085)	(106 085)
Operating income	**314 210**	**619 852**	**934 062**
Operating costs	(244 940)	(552 109)	(797 049)
Depreciation on operating leased assets	–	(2 350)	(2 350)
Operating profit before goodwill and acquired intangibles	**69 270**	**65 393**	**134 663**
Loss attributable to non-controlling interests	–	1 684	1 684
Operating profit before goodwill, acquired intangibles and after non-controlling interests	**69 270**	**67 077**	**136 347**
Selected returns and key statistics			
Cost to income ratio	78.0%	76.3%	76.8%
Total assets (£'million)	996	19 101	20 097

For the year to 31 March 2017 £'000	Wealth & Investment	Specialist Banking	Total group
1. Consolidated segmental analysis *(continued)*			
Segmental business analysis – income statement			
Net interest income	4 368	294 384	298 752
Fee and commission income	268 429	233 677	502 106
Fee and commission expense	(582)	(12 678)	(13 260)
Investment income	2 169	53 731	55 900
Share of post taxation profit of associates	1 509	232	1 741
Trading income arising from			
– customer flow	740	128 966	129 706
– balance sheet management and other trading activities	215	(353)	(138)
Other operating income	–	7 883	7 883
Total operating income before impairment losses on loans and advances	**276 848**	**705 842**	**982 690**
Impairment losses on loans and advances	–	(74 956)	(74 956)
Operating income	**276 848**	**630 886**	**907 734**
Operating costs	(211 658)	(533 058)	(744 716)
Depreciation on operating leased assets	–	(2 141)	(2 141)
Operating profit before goodwill and acquired intangibles	**65 190**	**95 687**	**160 877**
Loss attributable to non-controlling interests	–	180	180
Operating profit before goodwill, acquired intangibles and after non-controlling interests	**65 190**	**95 867**	**161 057**
Selected returns and key statistics			
Cost to income ratio	76.5%	75.8%	75.9%
Total assets (£'million)	952	17 429	18 381

For the year to 31 March 2018 £'000	Notes	Balance sheet value	Interest income
2. Net interest income			
Cash, near cash and bank debt and sovereign debt securities	1	6 274 590	26 475
Core loans and advances	2	9 663 172	514 737
Private client		3 785 828	161 107
Corporate, institutional and other clients		5 877 344	353 630
Other debt securities and other loans and advances		706 096	57 282
Total interest-earning assets		**16 643 858**	**598 494**

For the year to 31 March 2018 £'000	Notes	Balance sheet value	Interest expense
Deposits by banks and other debt-related securities	3	3 407 356	76 206
Customer accounts (deposits)		11 969 625	117 325
Subordinated liabilities		579 673	55 345
Total interest-bearing liabilities		**15 956 654**	**248 876**
Net interest income			**349 618**
Net interest margin			**2.21%**

For the year to 31 March 2017 £'000	Notes	Balance sheet value	Interest income
2. Net interest income *(continued)*			
Cash, near cash and bank debt and sovereign debt securities	1	5 450 032	33 054
Core loans and advances	2	8 598 639	469 649
Private client		3 454 366	151 645
Corporate, institutional and other clients		5 144 273	318 004
Other debt securities and other loans and advances		964 613	59 389
Total interest-earning assets		**15 013 284**	**562 092**

For the year to 31 March 2017 £'000	Notes	Balance sheet value	Interest expense
Deposits by banks and other debt-related securities	3	2 538 422	75 667
Customer accounts (deposits)		11 289 177	131 791
Subordinated liabilities		579 356	55 882
Total interest-bearing liabilities		**14 406 955**	**263 340**
Net interest income			**298 752**
Net interest margin			**2.04%**

Notes:

1. *Comprises (as per the balance sheet) cash and balances at central banks; loans and advances to banks; reverse repurchase agreements and cash collateral on securities borrowed; sovereign debt securities and bank debt securities.*
2. *Comprises (as per the balance sheet) loans and advances to customers.*
3. *Comprises (as per the balance sheet) deposits by banks; debt securities in issue; and repurchase agreements and cash collateral on securities lent.*

For the year to 31 March £'000	2018	2017
3. Net fee and commission income		
Wealth management businesses net fee and commission income	**296 907**	**267 847**
Fund management fees/fees for assets under management	243 000	211 474
Private client transactional fees	54 629	56 955
Fee and commission expense	(722)	(582)
Specialist Banking net fee and commission income	**197 605**	**220 999**
Corporate and institutional transactional and advisory services	192 445	204 233
Private client transactional fees	14 532	29 444
Fee and commission expense	(9 372)	(12 678)
Net fee and commission income	**494 512**	**488 846**
Annuity fees (net of fees payable)	312 491	269 765
Deal fees	182 021	219 081

For the year to 31 March £'000	2018	2017
4. Investment income		
Realised	43 553	46 260
Unrealised	6 814	(9 271)
Dividend income	10 171	12 339
Funding and other net related income	8 405	6 572
	68 943	**55 900**

For the year to 31 March £'000	Investment portfolio (listed and unlisted equities)*	Debt securities (sovereign, bank and other)	Investment properties	Other asset categories	Total
2018					
Realised	38 517	5 779	(86)	(657)	43 553
Unrealised^	13 798	2 730	–	(9 714)	6 814
Dividend income	10 171	–	–	–	10 171
Funding and other net related income	–	–	–	8 405	8 405
Total investment income/(loss)	**62 486**	**8 509**	**(86)**	**(1 966)**	**68 943**
2017					
Realised	38 533	(8 482)	18 337	(2 128)	46 260
Unrealised^	(3 086)	5 138	(10 008)	(1 315)	(9 271)
Dividend income	12 339	–	–	–	12 339
Funding and other net related income	–	–	–	6 572	6 572
Total investment income/(loss)	**47 786**	**(3 344)**	**8 329**	**3 129**	**55 900**

* *Including embedded derivatives (warrants and profit shares).*

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

For the year to 31 March £'000	2018	2017
5. Other operating income		
Rental income from properties	1 350	3 635
Gains on realisation of properties	411	325
Unrealised gains on other investments	1 474	1 452
Income from operating leases	2 697	2 471
Income from government grants	2 358	–
	8 290	**7 883**

For the year to 31 March £'000	2018	2017
6. Operating costs		
Staff compensation costs	566 183	530 962
– Salaries and wages (including directors' remuneration)**	467 407	439 882
– Share-based payment expense	33 775	29 500
– Social security costs	39 819	38 475
– Pensions and provident fund contributions	25 182	23 105
Training and other costs	12 991	13 426
Staff costs	579 174	544 388
Premises expenses (excluding depreciation)	43 866	40 074
Equipment expenses (excluding depreciation)	45 147	40 456
Business expenses*	80 766	74 589
Marketing expenses	35 427	34 314
Depreciation, amortisation and impairment on property, equipment and intangibles	12 669	10 895
	797 049	**744 716**
Depreciation on operating leased assets	2 350	2 141
	799 399	**746 857**
The following amounts were paid by the group to the auditors in respect of the audit of the financial statements and for other services provided to the group:		
Ernst & Young fees		
Fees payable to the company's auditors for the audit of the company's accounts	2 450	1 801
Fees payable to the company's auditors and its associates for other services:		
Audit of the company's subsidiaries pursuant to legislation	1 439	1 058
Audit-related assurance services	332	370
Tax compliance services	82	390
Tax advisory services	227	196
Services related to corporate finance transactions	40	41
Other assurance services	87	80
	4 657	**3 936**
KPMG fees		
Audit of the company's subsidiaries pursuant to legislation	193	198
Audit-related assurance services	121	119
Tax compliance services	258	–
Services related to other regulatory services	4	–
Other assurance services	3	–
	579	**317**
Total	**5 236**	**4 253**

The increase in audit fees during 2018 relates to IFRS 9.

* *Business expenses mainly comprise insurance costs, consulting and professional fees, travel expenses and subscriptions.*
** *Details of the directors' emoluments, pensions and their interests are disclosed in the remuneration report on pages 124 to 140.*

7. Share-based payments

The group operates share option and long-term share incentive plans for employees, the majority of which are on an equity-settled basis in Investec plc but in accordance with IFRS 2 are cash settled in the company as set out in the accounting policies on page 160 to 168. The purpose of the staff share schemes is to promote an *esprit de corps* within the organisation, create an awareness of Investec's performance and provide an incentive to maximise individual and group performance by allowing all staff to share in the risks and rewards of the group.

Further information on the group share options and long-term incentive plans are provided on page 132 of the remuneration report and on our website.

For the year to 31 March £'000	Wealth & Investment	Specialist Banking	Total group
Share-based payment expense:			
Group			
2018			
Cash settled (equity-settled at group)	4 828	28 947	33 775
Total income statement charge	**4 828**	**28 947**	**33 775**
2017			
Cash settled (equity-settled at group)	3 994	25 506	29 500
Total income statement charge	**3 994**	**25 506**	**29 500**

Included in the above income statement charge is an accelerated share-based payment charge as a result of modifications to certain options granted. This expense for the year was £3.2 million (2017: £nil).

Group

For the year to 31 March £'000	2018	2017
Weighted average fair value of options granted in the year		
UK schemes	**37 640**	**23 547**

	2018		2017	
Details of options outstanding during the year	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of the year	22 375 489	0.06	26 091 673	0.07
Granted during the year	6 426 703	0.07	5 216 360	0.01
Exercised during the year^	(8 533 294)	0.04	(7 940 815)	0.02
Options forfeited during the year	(623 005)	0.22	(991 729)	0.24
Outstanding at the end of the year	**19 645 893**	**0.07**	**22 375 489**	**0.07**
Exercisable at the end of the year	**157 226**	**–**	**11 000**	**–**

^ *The weighted average share price during the year was £5.64 (2017: £5.09).*

7. Share-based payments *(continued)*

Additional information relating to options:	2018	2017
Options with strike prices		
Exercise price range	£4.31 – £6.00	£3.29 – £6.00
Weighted average remaining contractual life	1.75 years	1.74 years
Long-term incentive grants with no strike price		
Exercise price range	£nil	£nil
Weighted average remaining contractual life	1.94 years	1.72 years
Weighted average fair value of options and long-term grants at measurement date	£5.65	£4.76
The fair values of options granted were calculated using a Black-Scholes option pricing model. For options granted during the year, the inputs into the model were as follows:		
– Share price at date of grant	£5.03 – £5.87	£4.36 – £ 5.20
– Exercise price	£nil, £5.03 – £5.87	£nil, £4.36 – £5.20
– Expected volatility	27.44% – 28.54%	30%
– Option life	1.5 – 7 years	2.5 – 5 years
– Expected dividend yields	5.59% – 6.56%	5.90% – 6.75%
– Risk-free rate	0.62% – 0.99%	0.82% – 1.44%

Expected volatility was determined based on the implied volatility levels quoted by the derivatives trading desk. The expected volatility is based on the respective share price movement over the last six months but also includes an element of forward expectation.

The expected attrition rates used were determined based on historical group data with an adjustment to actual attrition on final vesting.

Company

For the year to 31 March	2018	2017
£'000		
UK schemes	**21 873**	**15 952**

	2018		2017	
Details of options outstanding during the year	**Number of share options**	**Weighted average exercise price £**	**Number of share options**	**Weighted average exercise price £**
Outstanding at the beginning of the year	13 172 633	0.00	14 698 475	0.00
Granted during the year	3 537 772	0.00	3 340 832	0.00
Exercised during the year^	(4 906 469)	0.00	(4 185 393)	0.00
Options forfeited during the year	(356 469)	0.00	(681 281)	0.02
Outstanding at the end of the year	**11 447 467**	**0.00**	**13 172 633**	**0.00**
Exercisable at the end of the year	**107 971**	**0.00**	**3 950**	**0.00**

^ *The weighted average share price during the year was £5.64 (2017: £5.09).*

7. Share-based payments *(continued)*

Additional information relating to options:	2018	2017
Company		
Options with strike prices		
Exercise price range	–	–
Weighted average remaining contractual life	–	–
Long-term incentive grants with no strike price		
Exercise price range	£nil	£nil
Weighted average remaining contractual life	1.94 years	1.72 years
Weighted average fair value of options and long-term grants at measurement date	£5.79	£4.77
The fair values of options granted were calculated using a Black-Scholes option pricing model. For options granted during the year, the inputs into the model were as follows:		
– Share price at date of grant	£5.03 – £5.87	£4.36 – £5.20
– Exercise price	£nil	£nil
– Expected volatility	27.44% – 28.54%	30%
– Option life	1.5 – 7 years	2.5 – 5 years
– Expected dividend yields	5.59% – 6.56%	5.90% – 6.75%
– Risk-free rate	0.62% – 0.99%	0.82% – 1.44%

Expected volatility was determined based on the implied volatility levels quoted by the derivatives trading desk. The expected volatility is based on the respective share price movement over the last six months, but also includes an element of forward expectation. The expected attrition rates used were determined based on historical group data with an adjustment to actual attrition on final vesting.

For the year to 31 March £'000	2018	2017
8. Taxation		
Current taxation		
UK		
Current tax on income for the year	28 282	44 212
Adjustments in respect of prior years	4 272	(4 448)
Corporation tax before double tax relief	32 554	39 764
Double tax relief	(190)	(281)
	32 364	**39 483**
Europe	1 716	1 825
Australia	110	282
Other	16	(630)
	1 842	**1 477**
Total current taxation	**34 206**	**40 960**
Deferred taxation		
UK	(8 706)	(15 479)
Europe	359	263
Other	(626)	–
Total deferred taxation	**(8 973)**	**(15 216)**
Total taxation charge for the year	**25 233**	**25 744**
Total taxation charge for the year comprises:		
Taxation on operating profit before goodwill	27 651	29 049
Taxation on acquired intangibles and goodwill	(2 418)	(3 305)
	25 233	**25 744**
Deferred taxation comprises:		
Origination and reversal of temporary differences	(9 262)	(12 714)
Changes in tax rates	3 977	(1 704)
Adjustment in respect of prior years	(3 688)	(798)
	(8 973)	**(15 216)**
	%	**%**
The rates of corporation tax for the relevant years are:		
UK	19	20
Europe (average)	10	10
Australia	30	30
Profit before taxation	**121 390**	**143 357**
Taxation on profit before taxation	**25 233**	**25 744**
Effective tax rate	**20.8%**	**18.0%**

For the year to 31 March £'000	2018	2017
8. Taxation *(continued)*		
The taxation charge on activities for the year is different from the standard rate as detailed below:		
Taxation on profit on ordinary activities before taxation at UK rate of 19% (2017: 20%)	23 065	28 671
Taxation adjustments relating to foreign earnings	(442)	2 765
Taxation relating to prior years	585	(5 246)
Goodwill and non-operating items	156	767
Share options accounting expense	(116)	(437)
Non-taxable income	(1 410)	(627)
Net other permanent differences	5 397	19 701
Capital gains – non-taxable/covered by losses	(1 564)	(5 505)
Movement in unrecognised trading losses	(4 415)	(12 643)
Change in tax rate	3 977	(1 702)
Total taxation charge as per income statement	**25 233**	**25 744**
Other comprehensive income taxation effects		
Gains on realisation of available-for-sale assets recycled through the income statement	(1 278)	(2 622)
Pre-taxation	(1 260)	(3 656)
Taxation effect	(18)	1 034
Fair value movements on available-for-sale assets taken directly to other comprehensive income	4 525	29 809
Pre-taxation	4 050	36 159
Taxation effect	475	(6 350)
Statement of changes in equity taxation effects		
Additional Tier 1 capital	(4 236)	–
Pre-taxation	(5 230)	–
Taxation effect	994	–
Share-based payment adjustment	1 540	(127)
Pre-taxation	–	(224)
Taxation effect	1 540	97

For the year to 31 March £'000	2018	2017
9. Dividends		
Ordinary dividends		
Interim dividends for current year	53 000	35 000
Total dividends attributable to ordinary shareholder	**53 000**	**35 000**

For the year to 31 March £'000	2018	2017
Dividend attributable to Additional Tier 1 securities	**4 236**	**–**

The £200 000 000 Fixed Rate Reset Perpetual Additional Tier 1 Write Down Capital Securities ('AT1 securities'), issued on 16 October 2017, pay a distribution rate of 6.75% per annum quarterly after the initial short period distribution paid on 5 December 2017.

The dividend is shown net of UK corporation tax.

For the year to 31 March £'000	2018	2017
10. Operating lease income and expense		
Operating lease expenses recognised in operating costs expenses:		
Minimum lease payments	19 381	15 286
Sublease income	(2 586)	(3 070)
	16 795	**12 216**
Operating lease income recognised in income:		
Minimum lease payments	2 660	2 477
Sublease payments	–	–
	2 660	**2 477**

The majority of the operating lease expenses in the group relate to leases on property. Rental income from leasing motor vehicles and properties is included in 'Other operating income'.

11. Analysis of income and impairments by category of financial instrument

For the year to 31 March £'000	At fair value through profit or loss: Trading	At fair value through profit or loss: Designated at inception
2018		
Net interest income	(5 490)	658
Fee and commission income	67 951	–
Fee and commission expense	–	–
Investment income	13 010	59 143
Share of post taxation profit of associates	–	–
Trading income arising from:		
– customer flow	116 808	–
– balance sheet management and other trading activities	3 182	906
Other operating income	–	–
Total operating income/(expense) before impairment losses on loans and advances	**195 461**	**60 707**
Impairment losses on loans and advances	–	–
Operating income/(expense)	**195 461**	**60 707**
2017		
Net interest income	(5 265)	1 292
Fee and commission income	35 194	14
Fee and commission expense	–	(4)
Investment income	2 000	48 967
Share of post taxation profit of associates	–	–
Trading income arising from:		
– customer flow	121 547	2 424
– balance sheet management and other trading activities	4 891	(4 838)
Other operating income	–	–
Total operating income/(expense) before impairment losses on loans and advances	**158 367**	**47 855**
Impairment losses on loans and advances	–	–
Operating income/(expense)	**158 367**	**47 855**

Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non-financial instruments	Other fee income	Total
561 383	6 805	(216 915)	–	3 177	349 618
69 479	–	6 195	569	360 412	504 606
–	–	(2 675)	–	(7 419)	(10 094)
(165)	5 845		(8 854)	(36)	68 943
–	–	–	1 444	–	1 444
–	–	–	–	(2 306)	114 502
(1 250)	–	–	–	–	2 838
–	–	–	4 457	3 833	8 290
629 447	**12 650**	**(213 395)**	**(2 384)**	**357 661**	**1 040 147**
(106 085)	–	–	–	–	(106 085)
523 362	**12 650**	**(213 395)**	**(2 384)**	**357 661**	**934 062**
527 247	8 929	(235 896)	(147)	2 592	298 752
74 324	–	3 314	14 887	374 373	502 106
2 796	–	(3 193)	2 680	(15 539)	(13 260)
(8 332)	6 917	–	6 348	–	55 900
–	–	–	1 741	–	1 741
–	–	5 063	–	672	129 706
(291)	–	–	(16)	116	(138)
–	–	–	7 883	–	7 883
595 744	**15 846**	**(230 712)**	**33 376**	**362 214**	**982 690**
(74 956)	–	–	–	–	(74 956)
520 788	**15 846**	**(230 712)**	**33 376**	**362 214**	**907 734**

12. Analysis of financial assets and liabilities by category of financial instruments

At 31 March £'000	At fair value through profit or loss: Trading	At fair value through profit or loss: Designated at inception	Available-for-sale	Total instruments at fair value
Group				
2018				
Assets				
Cash and balances at central banks	7 784	–	–	7 784
Loans and advances to banks	–	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	37 878	–	–	37 878
Sovereign debt securities	165 090	–	990 382	1 155 472
Bank debt securities	–	–	–	–
Other debt securities	–	56 869	22 230	79 099
Derivative financial instruments*	610 201	–	–	610 201
Securities arising from trading activities	244 334	457 394	–	701 728
Investment portfolio	–	435 604	36 479	472 083
Loans and advances to customers	–	133 740	–	133 740
Other loans and advances	–	–	–	–
Other securitised assets	–	132 172	–	132 172
Interests in associated undertakings	–	–	–	–
Deferred taxation assets	–	–	–	–
Other assets	57 218	–	–	57 218
Property and equipment	–	–	–	–
Investment properties	–	–	–	–
Goodwill	–	–	–	–
Intangible assets	–	–	–	–
	1 122 505	**1 215 779**	**1 049 091**	**3 387 375**
Liabilities				
Deposits by banks	–	–	–	–
Derivative financial instruments*	533 319	–	–	533 319
Other trading liabilities	103 496	–	–	103 496
Repurchase agreements and cash collateral on securities lent	34 886	–	–	34 886
Customer accounts (deposits)	–	–	–	–
Debt securities in issue	–	471 886	–	471 886
Liabilities arising on securitisation of own originated loans and advances	–	127 853	–	127 853
Current taxation liabilities	–	–	–	–
Deferred taxation liabilities	–	–	–	–
Other liabilities	–	–	–	–
	671 701	**599 739**		**1 271 440**
Subordinated liabilities	–	–	–	–
	671 701	**599 739**	**–**	**1 271 440**

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*

For more information on hedges, please refer to note 49 on pages 238 and 239.

Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
3 479 984	–	3 479 984	–	3 487 768
772 984	–	772 984	–	772 984
712 550	–	712 550	–	750 428
–	–	–	–	1 155 472
107 938	–	107 938	–	107 938
209 250	–	209 250	–	288 349
–	–	–	–	610 201
–	–	–	–	701 728
–	–	–	–	472 083
9 529 432	–	9 529 432	–	9 663 172
417 747	–	417 747	–	417 747
–	–	–	–	132 172
–	–	–	6 414	6 414
–	–	–	84 599	84 599
730 754	–	730 754	225 468	1 013 440
–	–	–	53 183	53 183
–	–	–	14 500	14 500
–	–	–	261 075	261 075
–	–	–	103 972	103 972
15 960 639	**–**	**15 960 639**	**749 211**	**20 097 225**
–	1 295 847	1 295 847	–	1 295 847
–	–	–	–	533 319
–	–	–	–	103 496
–	133 754	133 754	–	168 640
–	11 969 625	11 969 625	–	11 969 625
–	1 470 983	1 470 983	–	1 942 869
–	–	–	–	127 853
–	–	–	135 517	135 517
–	–	–	22 120	22 120
–	790 689	790 689	218 410	1 009 099
–	**15 660 898**	**15 660 898**	**376 047**	**17 308 385**
–	579 673	579 673	–	579 673
–	**16 240 571**	**16 240 571**	**376 047**	**17 888 058**

12. Analysis of financial assets and liabilities by category of financial instruments *(continued)*

At 31 March £'000	At fair value through profit or loss: Trading	At fair value through profit or loss: Designated at inception	Available-for-sale	Total instruments at fair value
Group				
2017				
Assets				
Cash and balances at central banks	2 497	–	–	2 497
Loans and advances to banks	–	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	71 028	–	–	71 028
Sovereign debt securities	–	–	952 902	952 902
Bank debt securities	–	–	8 067	8 067
Other debt securities	–	86 911	53 255	140 166
Derivative financial instruments*	610 371	–	–	610 371
Securities arising from trading activities	269 292	253 468	–	522 760
Investment portfolio	–	400 566	54 000	454 566
Loans and advances to customers	–	86 482	–	86 482
Other loans and advances	–	–	–	–
Other securitised assets	–	138 628	–	138 628
Interests in associated undertakings	–	–	–	–
Deferred taxation assets	–	–	–	–
Other assets	148 251	–	–	148 251
Property and equipment	–	–	–	–
Investment properties	–	–	–	–
Goodwill	–	–	–	–
Intangible assets	–	–	–	–
	1 101 439	**966 055**	**1 068 224**	**3 135 718**
Liabilities				
Deposits by banks	–	–	–	–
Derivative financial instruments*	583 562	–	–	583 562
Other trading liabilities	136 041	–	–	136 041
Repurchase agreements and cash collateral on securities lent	77 154	–	–	77 154
Customer accounts (deposits)	–	–	–	–
Debt securities in issue	–	427 576	–	427 576
Liabilities arising on securitisation of own originated loans and advances	–	–	–	–
Liabilities arising on securitisation of other assets	–	128 838	–	128 838
Current taxation liabilities	–	–	–	–
Deferred taxation liabilities	–	–	–	–
Other liabilities	–	–	–	–
	796 757	**556 414**		**1 353 171**
Subordinated liabilities	–	–	–	–
	796 757	**556 414**	**–**	**1 353 171**

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*

For more information on hedges, please refer to note 49 on pages 238 and 239.

Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
2 851 070	–	2 851 070	–	2 853 567
922 764	–	922 764	–	922 764
465 145	–	465 145	–	536 173
–	–	–	–	952 902
176 559	–	176 559	–	184 626
267 983	–	267 983	–	408 149
–	–	–	–	610 371
–	–	–	–	522 760
–	–	–	–	454 566
8 512 157	–	8 512 157	–	8 598 639
556 464	–	556 464	–	556 464
–	–	–	–	138 628
–	–	–	23 818	23 818
–	–	–	78 945	78 945
725 383	–	725 383	215 756	1 089 390
–	–	–	58 857	58 857
–	–	–	14 500	14 500
–	–	–	259 965	259 965
–	–	–	116 330	116 330
14 477 525	**–**	**14 477 525**	**768 171**	**18 381 414**
–	673 586	673 586	–	673 586
–	–	–	–	583 562
–	–	–	–	136 041
–	146 843	146 843	–	223 997
–	11 289 177	11 289 177	–	11 289 177
–	1 213 263	1 213 263	–	1 640 839
–	–	–	–	–
–	–	–	–	128 838
–	–	–	146 743	146 743
–	–	–	26 557	26 557
–	746 197	746 197	226 590	972 787
	14 069 066	**14 069 066**	**399 890**	**15 822 127**
–	579 356	579 356	–	579 356
–	**14 648 422**	**14 648 422**	**399 890**	**16 401 483**

Notes to the annual financial statements

(continued)

12. Analysis of financial assets and liabilities by category of financial instruments *(continued)*

At 31 March £'000	At fair value through profit or loss: Trading	At fair value through profit or loss: Designated at inception	Available-for-sale	Total instruments at fair value
Company				
2018				
Assets				
Cash and balances at central banks	7 784	–	–	7 784
Loans and advances to banks	–	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	37 878	–	–	37 878
Sovereign debt securities	165 090	–	324 364	489 454
Bank debt securities	–	–	–	–
Other debt securities	–	58 537	22 230	80 767
Derivative financial instruments*	594 295	–	–	594 295
Securities arising from trading activities	244 334	450 640	–	694 974
Investment portfolio	–	144 084	21 337	165 421
Loans and advances to customers	–	103 491	–	103 491
Other loans and advances	–	–	–	–
Other securitised assets	–	7 000	–	7 000
Interests in associated undertakings	–	–	–	–
Deferred taxation assets	–	–	–	–
Other assets	57 218	–	–	57 218
Property and equipment	–	–	–	–
Intangible assets	–	–	–	–
Investments in subsidiaries	–	–	–	–
	1 106 599	**763 752**	**367 931**	**2 238 282**
Liabilities				
Deposits by banks	–	–	–	–
Derivative financial instruments*	525 911	–	–	525 911
Other trading liabilities	103 496	–	–	103 496
Repurchase agreements and cash collateral on securities lent	34 886	–	–	34 886
Customer accounts (deposits)	–	–	–	–
Debt securities in issue	–	471 886	–	471 886
Current taxation liabilities	–	–	–	–
Deferred taxation liabilities	–	–	–	–
Other liabilities	–	–	–	–
	664 293	**471 886**	**–**	**1 136 179**
Subordinated liabilities	–	–	–	–
	664 293	**471 886**	**–**	**1 136 179**

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*

For more information on hedges, please refer to note 49 on pages 238 and 239.

Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
3 395 412	–	3 395 412	–	3 403 196
275 031	–	275 031	–	275 031
712 550	–	712 550	–	750 428
–	–	–	–	489 454
107 938	–	107 938	–	107 938
729 352	–	729 352	–	810 119
–	–	–	–	594 295
–	–	–	–	694 974
–	–	–	–	165 421
7 101 055	–	7 101 055	–	7 204 546
2 501 592	–	2 501 592	–	2 501 592
–	–	–	–	7 000
–	–	–	571	571
–	–	–	47 715	47 715
481 198	–	481 198	166 473	704 889
–	–	–	8 030	8 030
–	–	–	308	308
–	–	–	877 986	877 986
15 304 128	**–**	**15 304 128**	**1 101 083**	**18 643 493**
–	1 712 877	1 712 877	–	1 712 877
–	–	–	–	525 911
–	–	–	–	103 496
–	133 754	133 754	–	168 640
–	10 971 981	10 971 981	–	10 971 981
–	1 431 674	1 431 674	–	1 903 560
–	–	–	71 845	71 845
–	–	–	2 943	2 943
–	509 019	509 019	141 478	650 497
–	**14 759 305**	**14 759 305**	**216 266**	**16 111 750**
–	580 529	580 529	–	580 529
–	**15 339 834**	**15 339 834**	**216 266**	**16 692 279**

12. Analysis of financial assets and liabilities by category of financial instruments *(continued)*

At 31 March £'000	At fair value through profit or loss: Trading	At fair value through profit or loss: Designated at inception	Available-for-sale	Total instruments at fair value
Company				
2017				
Assets				
Cash and balances at central banks	2 497	–	–	2 497
Loans and advances to banks	–	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	71 028	–	–	71 028
Sovereign debt securities	–	–	159 381	159 381
Bank debt securities	–	–	8 067	8 067
Other debt securities	–	88 559	53 255	141 814
Derivative financial instruments*	598 534	–	–	598 534
Securities arising from trading activities	269 291	247 290	–	516 581
Investment portfolio	–	135 864	38 275	174 139
Loans and advances to customers	–	56 814	–	56 814
Other loans and advances	–	–	–	–
Other securitised assets	–	7 258	–	7 258
Interests in associated undertakings	–	–	–	–
Deferred taxation assets	–	–	–	–
Other assets	148 251	–	–	148 251
Property and equipment	–	–	–	–
Intangible assets	–	–	–	–
Investments in subsidiaries	–	–	–	–
	1 089 601	**535 785**	**258 978**	**1 884 364**
Liabilities				
Deposits by banks	–	–	–	–
Derivative financial instruments*	581 505	–	–	581 505
Other trading liabilities	136 041	–	–	136 041
Repurchase agreements and cash collateral on securities lent	77 154	–	–	77 154
Customer accounts (deposits)	–	–	–	–
Debt securities in issue	–	427 576	–	427 576
Current taxation liabilities	–	–	–	–
Deferred taxation liabilities	–	–	–	–
Other liabilities	–	–	–	–
	794 700	**427 576**	**–**	**1 222 276**
Subordinated liabilities	–	–	–	–
	794 700	**427 576**	**–**	**1 222 276**

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*

For more information on hedges, please refer to note 49 on pages 238 and 239.

Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
2 818 121	–	2 818 121	–	2 820 618
374 414	–	374 414	–	374 414
465 145	–	465 145	–	536 173
–	–	–	–	159 381
176 559	–	176 559	–	184 626
496 296	–	496 296	–	638 110
–	–	–	–	598 534
–	–	–	–	516 581
–	–	–	–	174 139
6 554 945	–	6 554 945	–	6 611 759
1 941 993	–	1 941 993	–	1 941 993
–	–	–	–	7 258
–	–	–	9 388	9 388
–	–	–	48 580	48 580
489 341	–	489 341	129 231	766 823
–	–	–	5 229	5 229
–	–	–	150	150
–	–	–	902 833	902 833
13 316 814	**–**	**13 316 814**	**1 095 411**	**16 296 589**
–	900 691	900 691	–	900 691
–	–	–	–	581 505
–	–	–	–	136 041
–	346 865	346 865	–	424 019
–	9 601 085	9 601 085	–	9 601 085
–	1 135 443	1 135 443	–	1 563 019
–	–	–	77 182	77 182
–	–	–	5 302	5 302
–	555 360	555 360	145 308	700 668
–	**12 539 444**	**12 539 444**	**227 792**	**13 989 512**
–	580 427	580 427	–	580 427
–	**13 119 871**	**13 119 871**	**227 792**	**14 569 939**

13. Reclassifications of financial instruments

During the year ended 31 March 2009 the company reclassified certain financial instruments out of fair value through profit or loss. These assets were originally classified as held-for-trading but the group's intentions in regard to these assets changed and the group reclassified £112.3 million and £7.8 million to the loans and receivables and available-for-sale classifications, respectively. The amount reclassified reflected the fair value of the financial assets at the date of reclassification.

The group did not undertake any further reclassifications under the amendment to IAS 39 in the current year or in the prior year.

The following table shows carrying values and fair values of the assets reclassified:

	2018		2017	
At 31 March £'000	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Trading assets reclassified to loans and receivables	–	–	4 404	3 481
	–	**–**	**4 404**	**3 481**

If the reclassifications had not been made, the group's income before tax in 2018 would have decreased by £0.5 million (2017: a decreased of £0.2 million).

In the current year the reclassified assets have contributed a £25 000 loss through the margin line and no losses through impairments before taxation. In the prior year, after reclassification, the assets contributed a £51 000 loss through the margin line and no losses through impairments before taxation.

14. Fair value hierarchy

The table below analyses recurring fair value measurements for financial assets and financial liabilities. These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to the valuation technique used.

The different levels are identified as follows:

Level 1 – quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value disclosures on investment properties are included in the Investment properties note 32 on page 221.

14. Fair value hierarchy *(continued)*

At 31 March £'000	Total instruments at fair value	Valuation technique applied Level 1	Level 2	Level 3
Group				
2018				
Assets				
Cash and balances at central banks	7 784	7 784	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	37 878	–	37 878	–
Sovereign debt securities	1 155 472	1 155 472	–	–
Other debt securities	79 099	6 868	61 993	10 238
Derivative financial instruments	610 201	–	567 312	42 889
Securities arising from trading activities	701 728	670 814	24 160	6 754
Investment portfolio	472 083	41 310	12 685	418 088
Loans and advances to customers	133 740	–	–	133 740
Other securitised assets	132 172	–	–	132 172
Other assets	57 218	57 218	–	–
	3 387 375	**1 939 466**	**704 028**	**743 881**
Liabilities				
Derivative financial instruments	533 319	–	531 877	1 442
Other trading liabilities	103 496	103 496	–	–
Repurchase agreements and cash collateral on securities lent	34 886	–	34 886	–
Debt securities in issue	471 886	–	457 687	14 199
Liabilities arising on securitisation of other assets	127 853	–	–	127 853
	1 271 440	**103 496**	**1 024 450**	**143 494**
Net assets/(liabilities) at fair value	**2 115 935**	**1 835 970**	**(320 422)**	**600 387**
2017				
Assets				
Cash and balances at central banks	2 497	2 497	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	71 028	–	71 028	–
Sovereign debt securities	952 902	952 902	–	–
Bank debt securities	8 067	8 067	–	–
Other debt securities	140 166	2 147	138 019	–
Derivative financial instruments	610 371	–	551 871	58 500
Securities arising from trading activities	522 760	491 675	22 014	9 071
Investment portfolio	454 566	48 833	17 923	387 810
Loans and advances to customers	86 482	–	–	86 482
Other securitised assets	138 628	–	–	138 628
Other assets	148 251	148 251	–	–
	3 135 718	**1 654 372**	**800 855**	**680 491**
Liabilities				
Derivative financial instruments	583 562	1 676	580 838	1 048
Other trading liabilities	136 041	136 041	–	–
Repurchase agreements and cash collateral on securities lent	77 154	–	77 154	–
Debt securities in issue	427 576	–	414 894	12 682
Liabilities arising on securitisation of other assets	128 838	–	–	128 838
	1 353 171	**137 717**	**1 072 886**	**142 568**
Net financial assets/(liabilities) at fair value	**1 782 547**	**1 516 655**	**(272 031)**	**537 923**

The group transfers between levels within the fair value hierarchy when the observability of inputs change or if the valuation methods change.

14. Fair value hierarchy *(continued)*

Transfers between level 1 and level 2

During the current and prior years there were no significant transfers between level 1 and level 2.

Level 3 instruments

£'000	Total level 3 financial instruments	Fair value through profit and loss instruments	Available-for-sale instrument
Group			
The following table is a reconciliation from the opening balances to the closing balances for fair value measurements in level 3 of the fair value hierarchy:			
At 1 April 2016	**528 039**	**473 072**	**54 967**
Total gains or losses	72 550	58 374	14 176
In the income statement	74 751	58 374	16 377
In the statement of comprehensive income	(2 201)	–	(2 201)
Purchases	98 275	95 155	3 120
Sales	(134 386)	(122 877)	(11 509)
Issues	(16 226)	(16 226)	–
Settlements	(51 847)	(30 404)	(21 443)
Transfers into level 3	–	–	–
Transfers out of level 3	–	–	–
Foreign exchange adjustments	41 518	39 537	1 981
Balance as at 31 March 2017	**537 923**	**496 631**	**41 292**
Total gains or losses	58 315	43 144	15 171
In the income statement	55 579	43 144	12 435
In the statement of comprehensive income	2 736	–	2 736
Purchases	164 814	164 814	–
Sales	(107 952)	(90 054)	(17 898)
Issues	–	–	–
Settlements	(6 175)	(6 175)	–
Transfers into level 3	–	–	–
Transfers out of level 3	(17 916)	(17 351)	(565)
Foreign exchange adjustments	(28 622)	(27 587)	(1 035)
Balance as at 31 March 2018	**600 387**	**563 422**	**36 965**

The group transfers between levels within the fair value hierarchy when the observability of inputs change or if the valuation methods change.

For the year ended 31 March 2018, instruments to the value of £17.9 million were transferred from level 3 to level 2 (31 March 2017: nil). The valuation methodologies were reviewed and observable inputs are used to determine the fair value.

There were no transfers from level 2 to the level 3 category in the current and prior years.

14. Fair value hierarchy *(continued)*

The following table quantifies the gains or (losses) included in the income statement and other comprehensive income recognised on level 3 financial instruments:

For the year to 31 March £'000	Total	Realised	Unrealised
Group			
2018			
Total gains/(losses) included in the income statement for the year			
Net interest income	–	–	–
Fee and commission income	93	–	93
Investment income	59 084	30 594	28 490
Trading income arising from customer flow	(3 598)	(488)	(3 110)
Trading income arising from balance sheet management and other trading activities	–	–	–
	55 579	**30 106**	**25 473**
Total gains/(losses) included in other comprehensive income for the year			
Gains on realisation of available-for-sale assets recycled through the income statement	12 435	12 435	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	2 736	–	2 736
	15 171	**12 435**	**2 736**
2017			
Total gains/(losses) included in the income statement for the year			
Net interest income	1 831	1 831	–
Fee and commission income	11 732	11 443	289
Investment income	34 490	35 034	(544)
Trading income arising from customer flow	26 661	16	26 645
Trading income arising from balance sheet management and other trading activities	37	37	–
	74 751	**48 361**	**26 390**
Total gains/(losses) included in other comprehensive income for the year			
Gains on realisation of available-for-sale assets recycled through the income statement	16 377	16 377	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	(2 201)	–	(2 201)
	14 176	**16 377**	**(2 201)**

14. Fair value hierarchy *(continued)*

Level 2 financial assets and financial liabilities

The following table sets out the group's principal valuation techniques as at 31 March 2018 used in determining the fair value of its financial assets and financial liabilities that are classified within level 2 of the fair value hierarchy.

	Valuation basis/techniques	Main assumptions
Assets		
Reverse repurchase agreements and cash collateral on securities borrowed	Discounted cash flow model, Hermite interpolation, Black-Scholes	Discount rates
Other debt securities	Discounted cash flow model	Discount rates, swap curves and NCD curves, external prices, broker quotes
Derivative financial instruments	Discounted cash flow model, Hermite interpolation, industry standard derivative pricing models including Black-Scholes	Discount rate, risk free rate, volatilities, forex forward points and spot rates, interest rate swap curves and credit curves
Securities arising from trading activities	Standard industry derivative pricing model	Interest rate curves, implied bond spreads, equity volatilities
Investment portfolio	Discounted cash flow model, net asset value model	Discount rate and fund unit price
	Comparable quoted inputs	Net assets
Liabilities		
Derivative financial instruments	Discounted cash flow model, Hermite interpolation, industry standard derivative pricing models including Black-Scholes	Discount rate, risk-free rate, volatilities, forex forward points and spot rates, interest rate swap curves and credit curves
Repurchase agreements and cash collateral on securities lent	Discounted cash flow model, Hermite interpolation	Discount rates
Debt securities in issue	Discounted cash flow	Discount rates

14. Fair value hierarchy *(continued)*

Sensitivity of fair values to reasonably possible alternative assumptions by level 3 instrument type

The fair value of financial instruments in level 3 are measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable market data. The following table shows the sensitivity of these fair values to reasonably possible alternative assumptions, determined at a transactional level:

31 March 2018	Balance sheet value £'000	Significant unobservable input	Range of unobservable input used	Favourable changes £'000	Unfavourable changes £'000
Assets					
Other debt securities	10 238	Potential impact on income statement		402	(513)
		Cash flow adjustments	CPR 8.3% – 10%	254	(363)
		Other^	^	148	(150)
Derivative financial instruments	42 889	Potential impact on income statement		6 376	(8 598)
		Volatilities	4% – 9%	356	(356)
		Cash flow adjustments	CPR 8% – 10%	154	(140)
		WACC	19.5% – 48.5%	4 049	(5 750)
		Other^	^	1 817	(2 352)
Securities arising from trading activities	6 754	Potential impact on income statement			
		Cash flow adjustments	CPR 8%	1 180	(1 080)
Investment portfolio	418 088	Potential impact on income statement		62 474	(70 454)
		Price earnings multiple	5.0 x – 10 x	6 159	(6 120)
		WACC	19.5% – 48.5%	12 799	(23 769)
		Other^	^	43 516	(40 565)
		Potential impact on other comprehensive income		2 138	(2 113)
		Price earnings multiple	4.0 x – 5.5 x	175	(246)
		Other^	^	1 963	(1 867)
Loans and advances to customers	133 740	Potential impact on income statement		15 490	(16 771)
		EBITDA	10%	10 349	(10 349)
		Other^	^	5 141	(6 422)
Other securitised assets*	132 172	Potential impact on income statement			
		Cash flow adjustments	CPR 8%	885	(742)
Total level 3 assets	**743 881**			**88 945**	**(100 271)**
Liabilities					
Derivative financial instruments	1 442	Potential impact on income statement		(110)	122
		Cash flow adjustments	CPR 10%	(107)	119
		Volatilities	8%	(3)	3
Debt securities in issue	14 199	Potential impact on income statement			
		Volatilities	6%	(157)	157
Liabilities arising on securitisation of other assets*	127 853	Potential impact on income statement			
		Cash flow adjustments	CPR 8%	(236)	231
Total level 3 liabilities	**143 494**			**(503)**	**510**
Net level 3 assets	**600 387**				

* *The sensitivity of the fair value of liabilities arising on securitisation of other assets has been considered together with other securitised assets.*

^ *Other – The valuation sensitivity for the private equity and embedded derivatives (profit share) portfolios has been assessed by adjusting various inputs such as expected cash flows, discount rates, earnings multiples rather than a single input. It is deemed appropriate to reflect the outcome on a portfolio basis for the purposes of this analysis as the sensitivity of the investments cannot be determined through the adjustment of a single input.*

14. Fair value hierarchy *(continued)*

At 31 March 2017	Balance sheet value £'000	Significant unobservable input changed	Range of unobservable input used	Favourable changes £'000	Unfavourable changes £'000
Group					
Assets					
Derivative financial instruments	58 500	Potential impact on income statement		6 632	(4 956)
		Volatilities	4% – 9.5%	2 465	(1 537)
		EBITDA	5% – 6 %	648	(1 086)
		Cash flow adjustments	CPR 6.25% – 8.4%	63	–
		Other^	^	3 456	(2 333)
Securities arising from trading activities	9 071	Potential impact on income statement			
		Cash flow adjustments	CPR 9%	1 290	(1 074)
Investment portfolio	387 810	Potential impact on income statement		41 632	(32 599)
		Price earnings multiple	3 x – 10.3 x	5 429	(5 788)
		Other^	^	36 203	(26 811)
		Potential impact on other comprehensive income		6 228	(2 655)
		Price earnings multiple	4.0 x – 4.5 x	630	(301)
		Other^	^	5 598	(2 354)
Loans and advances to customers	86 482	Potential impact on income statement		9 825	(9 716)
		EBITDA	10%	5 681	(5 681)
		Other^	^	4 144	(4 035)
Other securitised assets*	138 628	Potential impact on income statement			
		Cash flow adjustments	CPR 6.25%	48	(38)
Total level 3 assets	**680 491**			**65 655**	**(51 038)**
Liabilities				(1 580)	734
Derivative financial instruments	1 048	Potential impact on income statement			
		Cash flow adjustments	CPR 8%	(1 510)	716
		Volatilities	7% – 8.5%	(70)	18
Debt securities in issue	12 682	Potential impact on income statement			
		Volatilities	7%	(608)	401
Liabilities arising on securitisation of other assets*	128 838	Potential impact on income statement			
		Cash flow adjustments	CPR 6.25%	(847)	931
Total level 3 liabilities	**142 568**			**(3 035)**	**2 066**
Net level 3 assets	**537 923**				

* *The sensitivity of the fair value of liabilities arising on securitisation of other assets has been considered together with other securitised assets.*

^ *Other – The valuation sensitivity for the private equity and embedded derivatives (profit share) portfolios has been assessed by adjusting various inputs such as expected cash flows, discount rates, earnings multiples rather than a single input. It is deemed appropriate to reflect the outcome on a portfolio basis for the purposes of this analysis as the sensitivity of the investments cannot be determined through the adjustment of a single input.*

14. Fair value hierarchy *(continued)*

In determining the value of level 3 financial instruments, the following are the principal inputs that can require judgement:

Credit spreads

Credit spreads reflect the additional yield that a market participant would demand for taking exposure to the credit risk of an instrument. The credit spread for an instrument forms part of the yield used in a discounted cash flow calculation. In general, a significant increase in a credit spread in isolation will result in a movement in fair value that is unfavourable for the holder of a financial instrument. It is an unobservable input into a discounted cash flow valuation.

Discount rates

Discount rates (including WACC) are used to adjust for the time value of money when using a discounted cash flow valuation method. Where relevant, the discount rate also accounts for illiquidity, market conditions and uncertainty of future cash flows.

Volatilities

Volatility is a key input in the valuation of derivative products containing optionality. Volatility is a measure of the variability or uncertainty in returns for a given derivative underlying. It represents an estimate of how much a particular underlying instrument, parameter or index will change in value over time. Volatilities are a key input into the Black-Scholes valuation method.

Cash flows

Cash flows relate to the future cash flows which can be expected from the instrument and requires judgement. Cash flows are inputs into a discounted cash flow valuation.

Price earnings multiple

The price-to-earnings ratio is an equity valuation multiple used in the adjustment of underlying market prices. It is a key driver in the valuation of unlisted investments.

EBITDA

Earnings before interest, taxes, depreciation and amortisation. This is the main input into a price earnings multiple valuation method.

14. Fair value hierarchy *(continued)*

At 31 March £'000	Total instruments at fair value	Valuation technique applied Level 1	Level 2	Level 3
Company				
2018				
Assets				
Cash and balances at central banks	7 784	7 784	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	37 878	–	37 878	–
Sovereign debt securities	489 454	489 454	–	–
Other debt securities	80 767	6 868	61 993	11 906
Derivative financial instruments	594 295	–	557 246	37 049
Securities arising from trading activities	694 974	670 814	24 160	–
Investment portfolio	165 421	5 450	8 291	151 680
Loans and advances to customers	103 491	–	–	103 491
Other securitised assets	7 000	–	–	7 000
Other assets	57 218	57 218	–	–
	2 238 282	**1 237 588**	**689 568**	**311 126**
Liabilities				
Derivative financial instruments	525 911	–	524 469	1 442
Other trading liabilities	103 496	103 496	–	–
Repurchase agreements and cash collateral on securities lent	34 886	–	34 886	–
Debt securities in issue	471 886	–	457 687	14 199
	1 136 179	**103 496**	**1 017 042**	**15 641**
Net assets/(liabilities)	**1 102 103**	**1 134 092**	**(327 474)**	**295 485**
2017				
Assets				
Cash and balances at central banks	2 497	2 497	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	71 028	–	71 028	–
Sovereign debt securities	159 381	159 381	–	–
Bank debt securities	8 067	8 067	–	–
Other debt securities	141 814	2 147	138 019	1 648
Derivative financial instruments	598 534	–	546 342	52 192
Securities arising from trading activities	516 581	491 674	22 015	2 892
Investment portfolio	174 139	5 637	11 481	157 021
Loans and advances to customers	56 814	–	–	56 814
Other securitised assets	7 258	–	–	7 258
Other assets	148 251	148 251	–	–
	1 884 364	**817 654**	**788 885**	**277 825**
Liabilities				
Derivative financial instruments	581 505	1 676	578 781	1 048
Other trading liabilities	136 041	136 041	–	–
Repurchase agreements and cash collateral on securities lent	77 154	–	77 154	–
Debt securities in issue	427 576	–	414 894	12 682
	1 222 276	**137 717**	**1 070 829**	**13 730**
Net assets/(liabilities)	**662 088**	**679 937**	**(281 944)**	**264 095**

The group transfers between levels within the fair value hierarchy when the observability of inputs change or if the valuation methods change.

Transfers between level 1 and level 2
During the current and prior years there were no significant transfers between level 1 and level 2.

14. Fair value hierarchy *(continued)*

The following table is a reconciliation of the opening balances to the closing balances for fair value measurements in level 3 of the fair value hierarchy:

For the year to 31 March £'000	Total level 3 financial instruments	Fair value through profit and loss instruments	Available-for-sale instruments
Company			
At 1 April 2016	**307 221**	**286 802**	**20 419**
Total gains or losses	34 857	24 447	10 410
In the income statement	36 179	24 447	11 732
In the statement of comprehensive income	(1 322)	–	(1 322)
Purchases	34 138	33 391	747
Sales	(114 388)	(114 388)	–
Issues	(16 226)	(16 226)	–
Settlements	(13 622)	7 821	(21 443)
Transfers into level 3	–	–	–
Transfers out of level 3	–	–	–
Foreign exchange adjustments	32 115	30 957	1 158
Balance as at 31 March 2017	**264 095**	**252 804**	**11 291**
Total gains or losses	13 034	(35)	13 069
In the income statement	11 064	(35)	11 099
In the statement of comprehensive income	1 970	–	1 970
Purchases	91 420	91 420	–
Sales	(24 049)	(13 722)	(10 327)
Issues	–	–	–
Settlements	(8 116)	(3 245)	(4 871)
Transfers into level 3	–	–	–
Transfers out of level 3	(17 916)	(17 351)	(565)
Foreign exchange adjustments	(22 983)	(21 708)	(1 275)
Balance as at 31 March 2018	**295 485**	**288 163**	**7 322**

For the period ended 31 March 2018, instruments to the value of £17.9 million were transferred from level 3 to level 2 (31 March 2017: nil). The valuation methodologies were reviewed and observable inputs are used to determine the fair value.

There were no transfers from level 2 to the level 3 category in the current and prior year.

14. Fair value hierarchy *(continued)*

The following table quantifies the gains or (losses) included in the income statement and other comprehensive income recognised on level 3 financial instruments:

For the year to 31 March £'000	Total	Realised	Unrealised
Company			
2018			
Total gains/(losses) included in the income statement for the year			
Net interest income	–	–	–
Net fee and commission income	93	–	93
Investment income	14 569	2 498	12 071
Trading income arising from customer flow	(3 598)	(488)	(3 110)
	11 064	**2 010**	**9 053**
Total gains/(losses) included in other comprehensive income for the year			
Gains on realisation of available-for-sale assets recycled through the income statement	11 099	11 099	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	1 970	–	1 970
	13 069	**11 099**	**1 970**
2017			
Total gains/(losses) included in the income statement for the year			
Net interest income	3 927	–	3 927
Net fee and commission income	11 732	11 443	289
Investment income	(6 141)	26 672	(32 813)
Trading income arising from customer flow	26 661	16	26 645
	36 179	**38 131**	**(1 952)**
Total gains/(losses) included in other comprehensive income for the year			
Gains on realisation of available-for-sale assets recycled through the income statement	11 732	11 732	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	(1 322)	–	(1 322)
	10 410	**11 732**	**(1 322)**

Level 2 financial assets and financial liabilities

The company follows the group's principal valuation techniques set out on page 205 in determining the fair value of its financial assets and financial liabilities that are classified within level 2 of the fair value hierarchy.

14. Fair value hierarchy *(continued)*

Sensitivity of fair values to reasonably possible alternative assumptions by level 3 instrument type

The fair value of financial instruments in level 3 are measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable market data. The following table shows the sensitivity of these fair values to reasonably possible alternative assumptions, determined at a transactional level:

At 31 March 2018	Balance sheet value £'000	Significant unobservable input	Range of unobservable input used	Favourable changes £'000	Unfavourable changes £'000
Company					
Assets					
Other debt securities	11 906	Potential impact on income statement		411	(520)
		Cash flow adjustments	CPR 8.3% – 10%	263	(372)
		Other^	^	148	(148)
Derivative financial instruments	37 049	Potential impact on income statement		6 341	(8 565)
		Volatilities	4% – 9%	356	(356)
		Cash flow adjustments	CPR 10%	119	(107)
		WACC	19.5% – 48.5%	4 049	(5 750)
		Other^	^	1 817	(2 352)
Investment portfolio	151 680	Potential impact on income statement		23 088	(39 117)
		Price earnings multiple	10 x	583	(583)
		WACC	19.5% – 48.5%	12 799	(23 769)
		Other^	^	9 706	(14 765)
		Potential impact on other comprehensive income			
		Other^	^	562	(562)
Loans and advances to customers	103 491	Potential impact on income statement			
		EBITDA	10%	10 349	(10 349)
Other securitised assets*	7 000	Potential impact on income statement			
		Cash flow adjustments	CPR 8%	1 156	(1 002)
Total level 3 assets	**311 126**			**41 907**	**(60 115)**
Liabilities					
Derivative financial instruments	1 442	Potential impact on income statement		(110)	122
		Cash flow adjustments	CPR 10%	(107)	119
		Volatilities	8%	(3)	3
Debt securities in issue	14 199	Potential impact on income statement			
		Volatilities	6%	(157)	157
Total level 3 liabilities	**15 641**			**(267)**	**279**
Net level 3 assets	**295 485**				

* *The sensitivity of the fair value of liabilities arising on securitisation of other assets has been considered together with other securitised assets.*

^ *Other – The valuation sensitivity for the private equity and embedded derivatives (profit share) portfolios has been assessed by adjusting various inputs such as expected cash flows, discount rates, earnings multiples rather than a single input. It is deemed appropriate to reflect the outcome on a portfolio basis for the purposes of this analysis as the sensitivity of the investments cannot be determined through the adjustment of a single input.*

14. Fair value hierarchy *(continued)*

At 31 March 2017	Balance sheet value £'000	Significant unobservable input changed	Range of unobservable input used	Favourable changes £'000	Unfavourable changes £'000
Company					
Assets					
Other debt securities	1 648	Potential impact on income statement		25	(21)
		Cash flow adjustments	CPR 6.25%	25	(21)
Derivative financial instruments	52 192	Potential impact on income statement		6 531	(4 921)
		Volatilities	4% – 9.5%	2 465	(1 537)
		Cash flow adjustments	CPR 8.4%	610	(1 051)
		Other^	^	3 456	(2 333)
Securities arising from trading activities	2 892	Potential impact on income statement			
		Cash flow adjustments	CPR 9%	420	(219)
Investment portfolio	157 021	Potential impact on income statement		14 205	(13 955)
		Price earnings multiple	10.3 x	1 497	(1 497)
		Other^	^	12 708	(12 458)
		Potential impact on other comprehensive income			
		Other^	^	2 670	(942)
Loans and advances to customers	56 814	Potential impact on income statement			
		EBITDA	10%	5 681	(5 681)
Other securitised assets*	7 258	Potential impact on income statement			
		Cash flow adjustments	CPR 6.25%	1 132	(1 027)
Net level 3 assets	**277 825**			**30 664**	**(26 766)**
Liabilities					
Derivative financial instruments	1 048	Potential impact on income statement			
		Cash flow adjustments	CPR 8.4%	(1 103)	559
Debt securities in issue	12 682	Potential impact on income statement			
		Volatilities	7%	(608)	401
Net level 3 liabilities	**13 730**			**(1 711)**	**(960)**
Net level 3 fair value	**264 095**				

* *The sensitivity of the fair value of liabilities arising on securitisation of other assets has been considered together with other securitised assets.*

^ *Other – The valuation sensitivity for the private equity and embedded derivatives (profit share) portfolios has been assessed by adjusting various inputs such as expected cash flows, discount rates, earnings multiples rather than a single input. It is deemed appropriate to reflect the outcome on a portfolio basis for the purposes of this analysis as the sensitivity of the investments cannot be determined through the adjustment of a single input.*

15. Fair value of financial instruments at amortised cost

At 31 March £'000	Carrying amount	Fair value	Level within the fair value hierarchy Level 1	Level 2	Level 3
Group					
2018					
Assets					
Cash and balances at central banks	3 479 984	3 479 984	^	^	^
Loans and advances to banks	772 984	773 019	763 791	–	9 228
Reverse repurchase agreements and cash collateral on securities borrowed	712 550	712 582	605 687	106 895	–
Bank debt securities	107 938	116 875	–	116 875	–
Other debt securities	209 250	206 923	38 708	51 348	116 867
Loans and advances to customers	9 529 432	9 524 320	–	1 001 357	8 522 963
Other loans and advances	417 747	414 832	–	290 226	124 606
Other assets	730 754	726 696	467 304	245 946	13 446
	15 960 639	**15 955 231**			
Liabilities					
Deposits by banks	1 295 847	1 290 150	122 986	1 167 164	–
Repurchase agreements and cash collateral on securities lent	133 754	133 754	^	^	^
Customer accounts (deposits)	11 969 625	11 949 170	6 276 071	5 673 099	–
Debt securities in issue	1 470 983	1 540 406	1 194	1 525 191	14 021
Other liabilities	790 689	786 638	485 260	253 681	47 697
Subordinated liabilities	579 673	710 580	710 580	–	–
	16 240 571	**16 410 698**			

^ *Financial instruments for which fair value approximates carrying value.*

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate their fair value and have been reflected in level 1. This assumption also applies to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

At 31 March £'000	Carrying amount	Fair value	Level within the fair value hierarchy Level 1	Level 2	Level 3
15. Fair value of financial instruments at amortised cost *(continued)*					
Group					
2017					
Assets					
Cash and balances at central banks	2 851 070	2 851 070	^	^	^
Loans and advances to banks	922 764	922 764	922 764	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	465 145	465 145	^	^	^
Bank debt securities	176 559	189 296	55 499	133 797	–
Other debt securities	267 983	262 187	9 974	158 937	93 276
Loans and advances to customers	8 512 157	8 499 792	–	1 049 574	7 450 218
Other loans and advances	556 464	538 634	22 760	388 122	127 752
Other assets	725 383	725 324	482 037	229 373	13 914
	14 477 525	**14 454 212**			
Liabilities					
Deposits by banks	673 586	684 153	195 517	488 636	–
Repurchase agreements and cash collateral on securities lent	146 843	146 843	^	^	^
Customer accounts (deposits)	11 289 177	11 334 732	8 037 630	3 280 509	16 593
Debt securities in issue	1 213 263	1 229 551	1 194	1 221 266	7 091
Other liabilities	746 197	746 192	478 008	233 264	34 920
Subordinated liabilities	579 356	707 146	707 146	–	–
	14 648 422	**14 848 617**			

^ *Financial instruments for which fair value approximates carrying value.*

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate their fair value and have been reflected in level 1. This assumption also applies to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

15. Fair value of financial instruments at amortised cost *(continued)*

Fixed rate financial instruments

The fair value of fixed rate financial assets and financial liabilities carried at amortised cost are estimated by comparing spreads earned on the transactions with spreads earned on similar new transactions entered into by the group. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows, using prevailing money market interest rates for debts with similar credit risk and maturity. For quoted sub-debt issued, the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

Certain financial instruments that would normally be carried at fair value continue to be recognised at transaction price. This occurs when the fair value would normally be determined using valuation techniques which cannot be relied on due to insufficient external inputs. This results in gains or losses which have not been recognised on balance sheet.

The following table sets out the group's principal valuation techniques used in determining the fair value of its financial assets and financial liabilities:

Other debt securities	Priced with reference to similar trades in an observable market.
Reverse repurchase agreements and cash collateral on securities borrowed	Calculation of the present value of future cash flows, discounted as appropriate.
Loans and advances to customers	Calculation of the present value of future cash flows, discounted as appropriate.
Other loans and advances	Calculation of the present value of future cash flows, discounted as appropriate.
Other securitised assets	Calculated using a model based on future cash flows, discounted as appropriate.
Other assets	Calculation of the present value of future cash flows, discounted as appropriate.
Deposits by banks	Calculation of fair value using appropriate funding rates.
Customer accounts (deposits)	Where the deposits are short-term in nature, carrying amounts are assumed to approximate fair value. Where deposits are of longer-term maturities, they are valued using a cash flow model discounted as appropriate.
Debt securities in issue	Where the debt securities are fully collateralised fair value is equal to the carrying value. Other debt securities are valued using a cash flow model discounted as appropriate to the securities for funding and interest rates.
Other liabilities	Where the other liabilities are short term in nature, carrying amounts are assumed to approximate fair value.
Subordinated liabilities	Valued with reference to market prices.

15. Fair value of financial instruments at amortised cost *(continued)*

At 31 March £'000	Carrying amount	Fair value	Level within the fair value hierarchy Level 1	Level 2	Level 3
Company					
2018					
Assets					
Cash and balances at central banks	3 395 412	3 395 412	^	^	^
Loans and advances to banks	275 031	275 067	265 839	–	9 228
Reverse repurchase agreements and cash collateral on securities borrowed	712 550	712 582	605 687	106 895	–
Bank debt securities	107 938	116 875	–	116 875	–
Other debt securities	729 352	688 712	38 708	51 348	598 656
Loans and advances to customers	7 101 055	7 099 393	–	129 506	6 969 887
Other loans and advances	2 501 592	2 500 017	–	2 329 863	170 154
Other assets	481 198	481 198	481 198	–	–
	15 304 128	**15 269 256**			
Liabilities					
Deposits by banks	1 712 877	1 700 568	617 048	1 083 520	–
Repurchase agreements and cash collateral on securities lent	133 754	133 754	^	^	^
Customer accounts (deposits)	10 971 981	10 928 674	6 412 749	4 515 925	–
Debt securities in issue	1 431 674	1 495 539	–	1 495 539	–
Other liabilities	509 019	509 019	493 803	11 981	3 235
Subordinated liabilities	580 529	711 436	711 436	–	–
	15 339 834	**15 478 990**			

^ *Financial instruments for which fair value approximates carrying value.*

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate their fair value and have been reflected in level 1. This assumption also applies to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

15. Fair value of financial instruments at amortised cost *(continued)*

At 31 March £'000	Carrying amount	Fair value	Level within the fair value hierarchy Level 1	Level 2	Level 3
Company					
2017					
Assets					
Cash and balances at central banks	2 818 121	2 818 121	^	^	^
Loans and advances to banks	374 414	374 414	374 414	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	465 145	465 145	^	^	^
Bank debt securities	176 559	189 296	55 499	133 797	–
Other debt securities	496 296	495 573	9 973	158 939	326 661
Loans and advances to customers	6 554 945	6 555 219	–	156 613	6 398 606
Other loans and advances	1 941 993	1 926 413	22 760	1 771 959	131 694
Other assets	489 341	489 341	489 341	–	–
	13 316 814	**13 313 522**			
Liabilities					
Deposits by banks	900 691	896 506	508 958	387 548	–
Repurchase agreements and cash collateral on securities lent	346 865	346 865	^	^	^
Customer accounts (deposits)	9 601 085	9 677 010	6 031 330	3 629 087	16 593
Debt securities in issue	1 135 443	1 154 816	–	1 154 816	–
Other liabilities	555 360	555 360	543 490	8 620	3 250
Subordinated liabilities	580 427	708 216	708 216	–	–
	13 119 871	**13 338 773**			

^ *Financial instruments for which fair value approximates carrying value.*

16. Designated at fair value: loans and receivables and financial liabilities

Group

At 31 March £'000	Carrying value	Fair value adjustment: Year to date	Fair value adjustment: Cumulative	Change in fair value attributable to credit risk: Year to date	Change in fair value attributable to credit risk: Cumulative	Maximum exposure to credit risk
Loans and receivables designated at fair value through profit or loss						
2018						
Loans and advances to customers	133 740	448	(28 471)	–	–	133 740
Other securitised assets	132 172	7 468	(9 220)	7 468	(9 220)	132 172
	265 912	**7 916**	**(37 691)**	**7 468**	**(9 220)**	**265 912**
2017						
Loans and advances to customers	86 482	(381)	(36 360)	–	–	86 482
Other securitised assets	138 628	5 222	(18 095)	5 222	(18 095)	138 628
	225 110	**4 841**	**(54 455)**	**5 222**	**(18 095)**	**225 110**

At 31 March £'000	Carrying value	Remaining contractual amount to be repaid at maturity	Fair value adjustment: Year to date	Fair value adjustment: Cumulative	Change in fair value attributable to credit risk: Year to date	Change in fair value attributable to credit risk: Cumulative
Financial liabilities designated at fair value through profit or loss						
2018						
Debt securities in issue	471 886	492 533	6 479	23 278	3 130	6 176
Liabilities arising on securitisation of other assets	127 853	130 870	(6 791)	3 818	(7 722)	3 014
	599 739	**623 403**	**312**	**27 096**	**(4 592)**	**9 190**
2017						
Debt securities in issue	427 576	428 264	39 000	46 564	10 453	4 691
Liabilities arising on securitisation of other assets	128 838	139 572	(6 563)	10 998	(6 563)	10 998
	556 414	**567 836**	**32 437**	**57 562**	**3 890**	**15 689**

Changes in fair value due to credit risk are determined as the change in the fair value of the financial instrument that is not attributable to changes in other market inputs.

16. Designated at fair value: loans and receivables and financial liabilities *(continued)*

Company

Loans and receivables designated at fair value through profit or loss

At 31 March £'000	Carrying value	Fair value adjustment Year to date	Fair value adjustment Cumulative	Change in fair value attributable to credit risk Year to date	Change in fair value attributable to credit risk Cumulative	Maximum exposure to credit risk
2018						
Loans and advances to customers	103 491	448	2 344	–	–	103 491
Other securitised assets	7 000	(258)	7 000	(258)	7 000	7 000
	110 491	**190**	**9 344**	**(258)**	**7 000**	**110 491**
2017						
Loans and advances to customers	56 814	–	–	–	–	56 814
Other securitised assets	7 258	(1 422)	7 258	(1 422)	7 258	7 258
	64 072	**(1 422)**	**7 258**	**(1 422)**	**7 258**	**64 072**

At 31 March £'000	Carrying value	Remaining contractual amount to be repaid at maturity	Fair value adjustment Year to date	Fair value adjustment Cumulative	Change in fair value attributable to credit risk Year to date	Change in fair value attributable to credit risk Cumulative
Financial liabilities designated at fair value through profit or loss						
2018						
Debt securities in issue	471 886	492 533	6 479	23 278	3 130	6 176
	471 886	**492 533**	**6 479**	**23 278**	**3 130**	**6 176**
2017						
Debt securities in issue	427 576	428 264	39 000	46 564	10 453	4 691
	427 576	**428 264**	**39 000**	**46 564**	**10 453**	**4 691**

Changes in fair value due to credit risk are determined as the change in the fair value of the financial instrument that is not attributable to changes in other market inputs.

At 31 March £'000	Group 2018	Group 2017	Company 2018	Company 2017
17. Cash and balances at central banks				
The country risk of cash and bank balances at central banks lies in the following geographies:				
United Kingdom	3 389 265	2 797 949	3 388 925	2 797 548
Europe (excluding UK)	98 503	55 618	14 271	23 070
	3 487 768	**2 853 567**	**3 403 196**	**2 820 618**

At 31 March £'000	Group 2018	Group 2017	Company 2018	Company 2017
18. Loans and advances to banks				
The country risk of loans and advances to banks lies in the following geographies:				
South Africa	19 809	32 478	17 735	27 675
United Kingdom	438 288	447 448	157 804	177 222
Europe (excluding UK)	172 917	202 207	51 414	64 857
Australia	81 179	55 775	17 595	12 646
United States of America	44 664	140 871	25 496	59 760
Other	16 127	43 985	4 987	32 254
	772 984	**922 764**	**275 031**	**374 414**

At 31 March £'000	Group 2018	Group 2017	Company 2018	Company 2017
19. Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent				
Assets				
Reverse repurchase agreements	665 374	446 326	665 374	446 326
Cash collateral on securities borrowed	85 054	89 847	85 054	89 847
	750 428	**536 173**	**750 428**	**536 173**
As part of the reverse repurchase and securities borrowing agreements the group has received securities that it is allowed to sell or repledge. £99.1 million (2017: £133.2 million) has been resold or repledged to third parties in connection with financing activities or to comply with commitments under short sale transactions.				
Liabilities				
Repurchase agreements	52 769	77 154	52 769	277 176
Cash collateral on securities lent	115 871	146 843	115 871	146 843
	168 640	**223 997**	**168 640**	**424 019**

The assets transferred and not derecognised in the above repurchase agreements are fair valued at £119.1 million (2017: £186.7 million). They are pledged as security for the term of the underlying repurchase agreement.

At 31 March £'000	Group 2018	Group 2017	Company 2018	Company 2017
20. Sovereign debt securities				
Bonds	2 145	–	2 145	–
Government securities	229 040	159 381	229 040	159 381
Treasury bills	924 287	793 521	258 269	–
	1 155 472	**952 902**	**489 454**	**159 381**
The country risk of sovereign debt securities lies in the following geographies:				
United Kingdom	885 716	613 605	442 867	139 282
Europe (excluding UK)*	22 445	12 127	22 445	12 127
United States of America	247 311	327 170	24 142	7 972
	1 155 472	**952 902**	**489 454**	**159 381**

* *Where Europe (excluding UK) largely includes securities held in Germany and France.*

At 31 March £'000	Group and Company 2018	Group and Company 2017
21. Bank debt securities		
Bonds	99 432	58 067
Floating rate notes	8 506	126 559
	107 938	**184 626**
The country risk of bank debt securities lies in the following geographies:		
South Africa	–	8 067
United Kingdom	57 806	77 565
Europe (excluding UK)	50 132	98 994
	107 938	**184 626**

At 31 March £'000	Group 2018	Group 2017	Company 2018	Company 2017
22. Other debt securities				
Bonds	214 214	371 613	734 316	601 574
Commercial paper	9 875	34 389	9 875	34 389
Asset-based securities	64 260	–	65 928	–
Other investments	–	2 147	–	2 147
	288 349	**408 149**	**810 119**	**638 110**
The country risk of other debt securities lies in the following geographies:				
South Africa	9 875	–	529 977	–
United Kingdom	66 143	127 182	67 811	357 143
Europe (excluding UK)	117 369	166 515	117 369	166 515
United States of America	27 455	81 193	27 455	81 193
Other	67 507	33 259	67 507	33 259
	288 349	**408 149**	**810 119**	**638 110**

Included in other debt securities is £5.1 million balance sheet impairment shown net in the table above.

23. Derivative financial instruments

The group enters into various contracts for derivatives both as principal for trading purposes and as a customer for hedging foreign exchange and interest rate exposures. These include financial futures, options, swaps and forward rate agreements. The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations.

In the tables that follow, notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair value of a derivative financial instrument represents the positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out by the group in an orderly market transaction at the balance sheet date.

	2018			2017		
At 31 March £'000	**Notional principal amounts**	**Positive fair value**	**Negative fair value**	**Notional principal amounts**	**Positive fair value**	**Negative fair value**
Group						
Foreign exchange derivatives						
Forward foreign exchange contracts	13 077 776	176 493	119 619	11 284 280	163 354	144 795
Currency swaps	852 742	29 073	18 301	862 355	92 639	74 483
OTC options bought and sold	1 652 409	56 550	29 301	1 256 596	60 220	29 906
OTC derivatives	**15 582 927**	**262 116**	**167 221**	**13 403 231**	**316 213**	**249 184**
Interest rate derivatives						
Caps and floors	6 345 355	17 817	5 220	5 743 182	27 173	10 499
Swaps	20 811 575	111 923	113 239	18 157 245	139 294	130 018
OTC options bought and sold	2 937	221	–	–	–	–
OTC derivatives	**27 159 867**	**129 961**	**118 459**	**23 900 427**	**166 467**	**140 517**
Exchange traded futures	17 409	–	4	–	–	–
	27 177 276	**129 961**	**118 463**	**23 900 427**	**166 467**	**140 517**
Equity and stock index derivatives						
OTC options bought and sold	6 850 129	130 907	130 568	2 681 911	68 714	166 308
Equity swaps and forwards	143 917	271	466	29 800	–	–
OTC derivatives	**6 994 046**	**131 178**	**131 034**	**2 711 711**	**68 714**	**166 308**
Exchange traded futures	247 533	10	–	269 002	24	–
Exchange traded options	7 172 714	–	56 322	5 597 630	2 977	–
Warrants	4 674	–	–	11 820	479	–
	14 418 967	**131 188**	**187 356**	**8 590 163**	**72 194**	**166 308**
Commodity derivatives						
OTC options bought and sold	31 827	3 687	1 435	38 971	443	403
Commodity swaps and forwards	1 089 922	47 031	38 332	645 818	22 061	13 447
OTC derivatives	**1 121 749**	**50 718**	**39 767**	**684 789**	**22 504**	**13 850**
Credit derivatives	**1 059 727**	**14 607**	**20 512**	**718 103**	**15 278**	**13 703**
Embedded derivatives*		**21 611**			**17 715**	
Derivatives per balance sheet		**610 201**	**533 319**		**610 371**	**583 562**

* Mainly includes profit shares received as part of lending transactions.

At 31 March £'000	2018 Notional principal amounts	2018 Positive fair value	2018 Negative fair value	2017 Notional principal amounts	2017 Positive fair value	2017 Negative fair value
23. Derivative financial instruments *(continued)*						
Company						
Derivative financial instruments						
Foreign exchange derivatives						
Forward foreign exchange contracts	12 880 312	171 661	115 609	11 394 912	163 511	149 043
Currency swaps	797 826	23 555	16 501	864 583	86 792	70 391
OTC options bought and sold	1 608 084	56 407	29 079	1 254 384	60 220	29 782
OTC derivatives	**15 286 222**	**251 623**	**161 189**	**13 513 879**	**310 523**	**249 216**
Interest rate derivatives						
Caps and floors	6 330 093	17 809	5 212	5 743 182	27 173	10 499
Swaps	20 478 703	109 045	112 604	–	–	–
OTC options bought and sold	2 937	221	–	–	–	–
OTC derivatives	**26 811 733**	**127 075**	**117 816**	**5 743 182**	**27 173**	**10 499**
Exchange traded futures	17 409	–	4	–	–	–
	26 829 142	**127 075**	**117 820**	**5 743 182**	**27 173**	**10 499**
Equity and stock index derivatives						
OTC options bought and sold	6 850 129	130 907	130 568	2 681 911	68 714	166 308
Equity swaps and forwards	143 917	271	466	29 800	–	–
OTC derivatives	**6 994 046**	**131 178**	**131 034**	**2 711 711**	**68 714**	**166 308**
Exchange traded futures	247 533	10	–	269 002	24	–
Exchange traded options	7 172 714	–	56 322	5 597 630	2 977	–
Warrants	4 279	–	–	10 927	15	–
	14 418 572	**131 188**	**187 356**	**8 589 270**	**71 730**	**166 308**
Commodity derivatives						
OTC options bought and sold	31 827	3 687	1 435	38 971	443	403
Commodity swaps and forwards	928 815	44 504	37 599	509 439	16 747	11 301
OTC derivatives	**960 642**	**48 191**	**39 034**	**548 410**	**17 190**	**11 704**
Credit derivatives	**1 059 727**	**14 607**	**20 512**	**718 103**	**15 278**	**13 703**
Embedded derivatives*		**21 611**			**17 715**	
Derivatives per balance sheet		**594 295**	**525 911**		**598 534**	**581 505**

* *Mainly includes profit shares received as part of lending transactions.*

At 31 March £'000	Group 2018	Group 2017	Company 2018	Company 2017
24. Securities arising from trading activities				
Asset-backed securities	6 754	–	–	–
Bonds	150 160	207 047	150 160	200 868
Government securities	346 206	130 714	346 206	130 714
Listed equities	198 608	183 730	198 608	183 730
Unlisted equities	–	1 269	–	1 269
	701 728	**522 760**	**694 974**	**516 581**

At 31 March £'000	Group 2018	Group 2017	Company 2018	Company 2017
25. Investment portfolio				
Listed equities	61 084	76 478	26 409	34 627
Unlisted equities*	410 999	378 088	139 012	139 512
	472 083	**454 566**	**165 421**	**174 139**

* *Unlisted equities includes loan instruments that are convertible into equity.*

At 31 March £'000	Group 2018	Group 2017	Company 2018	Company 2017
26. Loans and advances to customers and other loans and advances				
Gross loans and advances to customers	9 815 012	8 725 515	7 345 967	6 728 308
Impairments of loans and advances to customers	(151 840)	(126 876)	(141 421)	(116 549)
Net loans and advances to customers	**9 663 172**	**8 598 639**	**7 204 546**	**6 611 759**
Gross other loans and advances	418 569	564 037	2 513 213	1 953 854
Impairments of other loans and advances	(822)	(7 573)	(11 621)	(11 861)
Net other loans and advances	**417 747**	**556 464**	**2 501 592**	**1 941 993**

For further analysis on loans and advances refer to pages 58 to 67 in the risk management section.

26. Loans and advances to customers and other loans and advances *(continued)*

At 31 March £'000	Group 2018	Group 2017	Company 2018	Company 2017
Specific and portfolio impairments				
Reconciliation of movements in specific and portfolio impairments:				
Loans and advances to customers				
Specific impairment				
Balance at the beginning of the year	83 488	121 791	73 154	112 614
Charge to the income statement	89 642	57 186	79 393	50 160
Reversals and recoveries recognised in the income statement	(3 766)	(4 146)	(3 754)	(1 897)
Utilised	(79 673)	(95 203)	(69 458)	(91 447)
Transfers	1 544	–	1 544	–
Exchange adjustments	(1 372)	3 860	(1 366)	3 731
Balance at the end of the year	**89 863**	**83 488**	**79 513**	**73 161**
Portfolio impairment				
Balance at the beginning of the year	43 388	21 400	43 388	21 400
Charge to the income statement	19 988	21 955	19 943	21 955
Transfers	(1 544)	–	(1 544)	–
Exchange adjustments	145	33	114	33
Balance at the end of the year	**61 977**	**43 388**	**61 901**	**43 388**
Other loans and advances				
Specific impairment				
Balance at the beginning of the year	6 857	6 112	11 145	11 097
Charge to the income statement	283	18	112	134
Utilised	(6 961)	5	(225)	5
Exchange adjustments	(11)	722	(65)	(91)
Balance at the end of the year	**168**	**6 857**	**10 967**	**11 145**
Portfolio impairment				
Balance at the beginning of the year	716	773	716	773
Release to the income statement	(62)	(57)	4 072	(57)
Transfers	–	–	(4 134)	–
Balance at the end of the year	**654**	**716**	**654**	**716**
Total specific impairments	90 030	90 338	90 480	84 299
Total portfolio impairments	62 632	44 104	62 555	44 104
Total impairments	**152 662**	**134 442**	**153 035**	**128 403**
Interest income recognised on loans that have been impaired	**1 148**	**1 857**	**1 043**	**1 712**

At 31 March £'000	Group 2018	Group 2017
26. Loans and advances to customers and other loans and advances *(continued)*		
Reconciliation of income statement charge:		
Loans and advances to customers	**105 864**	**74 995**
Specific impairment charged to income statement	85 876	53 040
Portfolio impairment charged to income statement	19 988	21 955
Other loans and advances	**221**	**(39)**
Specific impairment charged to income statement	283	18
Portfolio impairment released to income statement	(62)	(57)
Total income statement charge	**106 085**	**74 956**

At 31 March £'000	Group 2018	Group 2017	Company 2018	Company 2017
27. Securitised assets and liabilities arising on securitisation				
Other securitised assets are made up of the following categories of assets:				
Loans and advances to customers	127 172	131 370	–	–
Other debt securities	7 000	7 258	7 000	7 258
Total other securitised assets	**132 172**	**138 628**	**7 000**	**7 258**
The associated liabilities are recorded on balance sheet in the following line items:				
Liabilities arising on securitisation of other assets	**127 853**	**128 838**	**–**	**–**

At 31 March £'000	2018	2017

28. Interests in associated undertakings

Group		
Interests in associated undertakings consist of:		
Net asset value	6 112	16 407
Goodwill	302	7 411
Investment in associated undertakings	**6 414**	**23 818**
Associated undertakings comprise unlisted investments		
Analysis of the movement in our share of net assets:		
At the beginning of the year	16 407	10 035
Exchange adjustments	(1 216)	856
Additions	–	5 528
Disposals	(5 675)	–
Return of capital	(4 651)	–
Share of post taxation profits of associates	1 444	1 741
Dividends received	(197)	(1 753)
At the end of the year	**6 112**	**16 407**
Analysis of the movement in goodwill:		
At the beginning of the year	7 411	7 411
Disposals	(7 109)	–
At the end of the year	**302**	**7 411**

At 31 March £'000	2018	2017
Company		
Analysis of the movement in investment:		
At the beginning of the year	11 711	11 632
Exchange adjustments	(67)	79
Disposals	(11 073)	–
At the end of the year	**571**	**11 711**
Provision for impairment in value:		
At the beginning of the year	(2 323)	(2 323)
Disposals	2 323	–
At the end of the year	**–**	**(2 323)**
Net book value at the end of the year	**571**	**9 388**

At 31 March £'000	Group 2018	Group 2017	Company 2018	Company 2017
29. Deferred taxation				
Deferred taxation assets	84 599	78 945	47 715	48 580
Deferred taxation liabilities	(22 120)	(26 557)	(2 943)	(5 302)
Net deferred taxation assets	**62 479**	**52 388**	**44 772**	**43 278**
The net deferred taxation assets arise from:				
Deferred capital allowances	41 645	32 807	10 627	10 313
Income and expenditure accruals	10 395	8 477	11 454	9 123
Asset in respect of unexpired options	20 938	23 468	19 497	21 848
Unrealised fair value adjustments on financial instruments	(3 420)	(5 201)	(3 313)	(5 046)
Losses carried forward	8 850	10 460	6 610	7 221
Asset in respect of pension deficit	315	–	–	–
Deferred tax on acquired intangibles	(15 901)	(17 767)	–	–
Other temporary differences	(343)	144	(103)	(181)
Net deferred taxation assets	**62 479**	**52 388**	**44 772**	**43 278**
Reconciliation of net deferred taxation assets				
At the beginning of the year	52 388	45 420	43 278	37 158
Charge to income statement – current year taxation	8 973	15 216	(257)	12 333
Movement directly in other comprehensive income	1 361	(5 328)	1 659	(6 213)
Arising on disposals	–	(3 085)	–	–
Other	–	–	92	–
Exchange adjustments	(243)	165	–	–
At the end of the year	**62 479**	**52 388**	**44 772**	**43 278**

Deferred tax assets are recognised to the extent it is likely that profits will arise in future periods. The assessment of the likelihood of future profits is based on past performance and current projections. Deferred taxation assets are not recognised in respect of capital losses and excess management expenses as crystallisation of capital gains and the eligibility of potential losses is uncertain.

There are trading losses carried forward of £188.2 million (2017: £204.1 million) (company £17.1 million), capital losses carried forward of £25.2 million (2017: £24.2 million) and excess management expenses of £7.0 million (2017: £7.0 million) on which deferred tax assets have not been recognised due to uncertainty regarding future profits against which these losses can be utilised.

The Finance Act 2015 reduced the main rate of corporate taxation to 19% with effect from 1 April 2017. In addition, the bank corporation tax surcharge of 8% effective from 1 January 2016 was enacted in November 2015. On 16 March 2016, the Chancellor of the Exchanquer announced a further reduction of the corporation tax rate of 17% effective 1 April 2020. The effect of these legislative changes is reflected in the above calculation of the deferred taxation asset as the rate was substantially enacted before 31 March 2018.

At 31 March £'000	Group 2018	Group 2017	Company 2018	Company 2017
30. Other assets				
Settlement debtors	665 066	668 595	444 213	467 080
Trading properties	98 961	129 148	85 377	92 217
Prepayments and accruals	99 305	71 564	55 143	31 488
Trading initial margin	57 218	148 251	57 218	148 251
Other	92 890	71 832	62 938	27 787
	1 013 440	**1 089 390**	**704 889**	**766 823**

At 31 March £'000	Freehold properties	Leasehold improve-ments	Furniture and vehicles	Equipment	Operating leases*	Total
31. Property and equipment						
Group						
2018						
Cost						
At the beginning of the year	2 755	84 443	7 120	25 196	9 546	129 060
Exchange adjustments	–	(3 502)	(77)	(13)	–	(3 592)
Additions	–	2 219	83	7 408	2 241	11 951
Disposals	–	(4 513)	(639)	(1 938)	(1 272)	(8 362)
At the end of the year	**2 755**	**78 647**	**6 487**	**30 653**	**10 515**	**129 057**
Accumulated depreciation						
At the beginning of the year	(347)	(39 683)	(6 398)	(18 884)	(4 891)	(70 203)
Exchange adjustments	–	85	23	36	–	144
Disposals	–	1 561	639	2 653	1 423	6 276
Depreciation charge for the year	(48)	(6 467)	(272)	(2 954)	(2 350)	(12 091)
At the end of the year	**(395)**	**(44 504)**	**(6 008)**	**(19 149)**	**(5 818)**	**(75 874)**
Net carrying value	**2 360**	**34 143**	**479**	**11 504**	**4 697**	**53 183**
2017						
Cost						
At the beginning of the year	2 719	71 082	6 189	29 899	9 220	119 109
Exchange adjustments	–	3 788	43	353	–	4 184
Acquisition of subsidiary undertakings	–	2 062	276	250	–	2 588
Additions	36	8 609	942	2 050	3 197	14 834
Disposals	–	(1 098)	(330)	(7 356)	(2 871)	(11 655)
At the end of the year	**2 755**	**84 443**	**7 120**	**25 196**	**9 546**	**129 060**
Accumulated depreciation						
At the beginning of the year	(266)	(32 932)	(5 684)	(21 911)	(5 274)	(66 067)
Exchange adjustments	–	(471)	(6)	(191)	–	(668)
Disposals	–	353	269	5 029	2 524	8 175
Acquisition of subsidiary undertakings	–	(302)	(74)	(114)	–	(490)
Depreciation charge for the year	(81)	(6 331)	(903)	(1 697)	(2 141)	(11 153)
At the end of the year	**(347)**	**(39 683)**	**(6 398)**	**(18 884)**	**(4 891)**	**(70 203)**
Net carrying value	**2 408**	**44 760**	**722**	**6 312**	**4 655**	**58 857**

* *These are assets held by the group, in circumstances where the group is lessor.*

At 31 March £'000	Leasehold improve-ments	Furniture and vehicles	Equipment	Total
31. Property and equipment *(continued)*				
Company				
2018				
Cost				
At the beginning of the year	32 844	5 275	15 082	53 201
Exchange adjustments	–	–	–	–
Additions	–	–	7 006	7 006
Disposals	–	–	–	–
At the end of the year	**32 844**	**5 275**	**22 088**	**60 207**
Accumulated depreciation				
At the beginning of the year	(28 102)	(4 930)	(14 940)	(47 972)
Exchange adjustments	–	–	–	–
Disposals	–	–	–	–
Depreciation charge for the year	(3 181)	(13)	(1 011)	(4 205)
At the end of the year	**(31 283)**	**(4 943)**	**(15 951)**	**(52 177)**
Net carrying value	**1 561**	**332**	**6 137**	**8 030**
2017				
Cost				
At the beginning of the year	32 844	5 275	15 082	53 201
Acquisition of subsidiary undertakings	–	–	–	–
Exchange adjustments	–	–	–	–
Additions	–	–	–	–
Disposals	–	–	–	–
At the end of the year	**32 844**	**5 275**	**15 082**	**53 201**
Accumulated depreciation				
At the beginning of the year	(24 898)	(4 902)	(14 565)	(44 365)
Exchange adjustments	–	–	–	–
Disposals	–	–	–	–
Acquisition of subsidiary undertakings	–	–	–	–
Depreciation charge for the year	(3 204)	(28)	(375)	(3 607)
At the end of the year	**(28 102)**	**(4 930)**	**(14 940)**	**(47 972)**
Net carrying value	**4 742**	**345**	**142**	**5 229**

On 3 December 2010 the group acquired a portfolio of operating leased assets comprising motor vehicles. The operating lease income from this portfolio has been included in other operating income (note 5) and the depreciation on these operating leased assets has been shown separately on the face of the income statement.

32. Investment properties

Group £'000	2018	2017
At the beginning of the year	14 500	79 051
Additions	–	14 500
Disposals	–	(90 904)
Fair value movement	–	–
Exchange adjustment	–	11 853
At the end of the year	**14 500**	**14 500**

All investment properties are classified as level 3 in the fair value hierarchy.

Fair value hierarchy – Investment properties

For all investment properties that are measured at fair value, the current use of the property is considered the highest and best use.

Properties are valued under the income capitalisation method and discounted cashflow method (DCF).

Under the income capitalisation method a property's fair value is estimated based on the normalised net operating income generated by the property, which is divided by the capitalisation rate.

Under the DCF method, a property's fair value is estimated using explicit assumptions about the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This involves the projection of a series of cash flows and to this an appropriate, market-derived discount rate is applied to establish the present value of the income stream.

Valuation techniques used to derive level 3 fair values

For all classes of investment property, the significant unobservable inputs listed below are used in the income capitalisation method to determine the fair value measurement at the end of the reporting period.

Significant unobservable inputs	Relationship between unobservable inputs and fair value measurement
Expected rental value (ERV)	Increases/(decreases) in ERV would increase/(decrease) estimated fair value
Equivalent yield	Increases/(decreases) in the equivalent yield would result in decreases/(increases) in the estimated fair value

At 31 March £'000	2018	2017
33. Goodwill		
Cost		
At the beginning of the year	286 435	285 140
Acquisition of subsidiaries	849	148
Exchange adjustments	261	1 147
At the end of the year	**287 545**	**286 435**
Accumulated impairments		
At the beginning of the year	(26 470)	(23 336)
Income statement amount	–	(3 134)
At the end of the year	**(26 470)**	**(26 470)**
Net carrying value	**261 075**	**259 965**
Analysis of goodwill by line of business:		
Wealth & Investment	249 242	249 069
Specialist Banking	11 833	10 896
Total group	**261 075**	**259 965**

Goodwill is tested annually for impairment, or more frequently if evidence exists that goodwill might be impaired, by comparing the carrying value to its recoverable amount.

The recoverable amount of goodwill is determined based on expected cash flows within the cash-generating units of the group to which the goodwill is allocated. Key assumptions within the calculation include discount rates, growth rates in revenue and related expenditure and loan impairment rates.

Discount rates are based on pre-tax rates that reflect current market conditions, adjusted for the specific risks associated with the cash-generating unit. Growth rates are based on industry growth forecasts. Cash flow forecasts are based on the most recent financial budgets for the next financial year and are extrapolated for a period of three to five years, adjusted for expected future events.

The most significant cash-generating unit giving rise to goodwill is Investec Wealth & Investment (Wealth & Investment), which includes the business of Williams de Broë (acquired in 2012 as part of the Evolution Group) which was merged with Wealth & Investment in August 2012.

For Investec Wealth & Investment, goodwill of £263.2 million has been tested for impairment on the basis of the cash flow projections for the next three years discounted at 8.8% (2017: 8.8%) which incorporate an expected revenue growth rate of 2% in perpetuity (March 2017: 2%). The valuation is based on value in use of the business.

Sensitivity analysis has been carried out and it has been concluded that no reasonably possible change in the key assumptions would cause an impairment to be recognised.

Movement in goodwill

2018
There have been no significant movements in goodwill during the year.

2017
An impairment of £3.1 million was recognised in relation to an historic acquisition in the Specialist Banking businesses, due to a change in the nature of the ongoing business.

34. Intangible assets

At 31 March £'000	Acquired software	Internally generated software	Management contracts	Client relationships	Total
Group					
2018					
Cost					
At the beginning of the year	37 569	2 543	583	181 947	222 642
Exchange adjustments	47	–	22	86	155
Additions	3 229	558	–	–	3 787
Disposals	–	–	–	–	–
At the end of the year	**40 845**	**3 101**	**605**	**182 033**	**226 584**
Accumulated amortisation and impairments					
At the beginning of the year	(31 260)	–	(372)	(74 680)	(106 312)
Exchange adjustments	(41)	–	(17)	(41)	(99)
Disposals	–	–	–	–	–
Amortisation	(2 067)	(861)	(142)	(13 131)	(16 201)
At the end of the year	**(33 368)**	**(861)**	**(531)**	**(87 852)**	**(122 612)**
Net carrying value	**7 477**	**2 240**	**74**	**94 181**	**103 972**
2017					
Cost					
At the beginning of the year	33 876	582	520	182 496	217 474
Exchange adjustments	122	–	63	(549)	(364)
Additions	3 587	1 961	–	–	5 548
Disposals	(16)	–	–	–	(16)
At the end of the year	**37 569**	**2 543**	**583**	**181 947**	**222 642**
Accumulated amortisation and impairments					
At the beginning of the year	(29 286)	–	(196)	(61 125)	(90 607)
Exchange adjustments	(107)	–	(37)	692	548
Disposals	16	–	–	–	16
Amortisation	(1 883)	–	(139)	(14 247)	(16 269)
At the end of the year	**(31 260)**	**–**	**(372)**	**(74 680)**	**(106 312)**
Net carrying value	**6 309**	**2 543**	**211**	**107 267**	**116 330**

Client relationships all relate to the acquisition of Rensburg Sheppards plc in June 2010 and EVG in December 2011, Investec Capital Asia Limited in April 2011 and NCB Group in June 2012.

34. Intangible assets *(continued)*

At 31 March £'000	Acquired software
Company	
2018	
Cost	
At the beginning of the year	19 974
Exchange adjustments	–
Additions	309
Disposals	–
At the end of the year	**20 283**
Accumulated amortisation and impairments	
At the beginning of the year	(19 824)
Exchange adjustments	–
Disposals	–
Amortisation	(151)
At the end of the year	**(19 975)**
Net carrying value	**308**
2017	
Cost	
At the beginning of the year	19 974
Exchange adjustments	–
Additions	–
Disposals	–
At the end of the year	**19 974**
Accumulated amortisation and impairments	
At the beginning of the year	(19 593)
Exchange adjustments	–
Disposals	–
Amortisation	(231)
At the end of the year	**(19 824)**
Net carrying value	**150**

35. Acquisitions and disposals

Group

Acquisitions

There were no significant acquisitions of subsidiaries during the year ended 31 March 2018. During the prior year the group acquired group companies in the United States from the parent company at net book value.

Disposals

There were no significant disposals of subsidiaries during the current and prior years.

Company

Acquisitions and disposals

There were no significant acquisitions or disposals of subsidiaries during the current and prior years.

36. Other trading liabilities

At 31 March £'000	Group and Company 2018	Group and Company 2017
Short positions		
– Equities	64 962	83 932
– Gilts	38 534	52 109
	103 496	**136 041**

37. Debt securities in issue

At 31 March £'000	Group 2018	Group 2017	Company 2018	Company 2017
Bonds and medium-term notes repayable:				
Less than three months	7 712	48 630	7 704	48 630
Three months to one year	55 583	72 773	55 583	72 773
One to five years	1 053 582	955 682	1 021 905	954 488
Greater than five years	825 992	563 754	818 368	487 128
	1 942 869	**1 640 839**	**1 903 560**	**1 563 019**
Analysis by customer type:				
Retail	968 873	1 026 078	968 873	1 026 072
Wholesale	955 996	614 761	934 687	536 947
	1 942 869	**1 640 839**	**1 903 560**	**1 563 019**

38. Other liabilities

At 31 March £'000	Group 2018	Group 2017	Company 2018	Company 2017
Settlement liabilities	625 997	623 765	408 673	426 586
Other creditors and accruals	300 539	283 468	184 227	172 141
Other non-interest bearing liabilities	82 563	65 554	57 597	101 941
	1 009 099	**972 787**	**650 497**	**700 668**

At 31 March £'000	2018	2017
39. Pension commitments		
Income statement charge		
Cost of defined contribution schemes included in staff costs	25 182	23 105
Net income statement charge in respect of pensions	**25 182**	**23 105**

The group operates pension schemes throughout its areas of operation. The majority of the schemes are defined contribution schemes with the exception of one scheme in the United Kingdom being the Investec Asset Management Pension scheme (IAM scheme). The scheme is a final salary pension plan with assets held in a separate trustee administered fund. The plan is subject to UK regulations, which require the trustees to agree a funding strategy and contribution schedule for the plan. The role of the trustees is to ensure that the scheme is administered in accordance with the scheme rules and relevant legislation, and to safeguard the assets in the best interest of all members and beneficiaries.

The trustees are solely responsible for setting investment policy and for agreeing funding requirements with the employer through the triennial valuation process. The scheme is closed to new members and the accrual of service ceased on 31 March 2002. The scheme has been valued at 31 March 2018 by qualified independent actuaries in accordance with IAS 19. There were no unpaid contributions in relation to the defined contribution scheme outstanding at the year end.

During the year the group's previous other defined benefit scheme, Guinness Mahon Pension Fund (GM scheme) entered into a buy-out with the assets and liabilities being transferred to the insurer Aviva. Members now receive their pension from Aviva and Investec has no remaining liability relating to the GM scheme.

Certain employees of the bank participate in the above defined benefit scheme along with the employees from the Investec plc undertakings.

As there is no contractual agreement or stated policy for charging the net defined benefit cost of the defined benefit plan as a whole, measured in accordance with IAS 19, to individual Investec plc group entities, the bank has accounted for this scheme on a defined benefit contribution basis.

Therefore, the following tables on the defined benefit schemes are provided for information only.

	2018	2017
The major assumptions used were:		
Discount rate	2.65%	2.50%
Rate of increase in salaries	2.10%	3.20%
Rate of increase in pensions in payment	1.90% – 3.10%	1.80% – 3.00%
Inflation (RPI)	3.10%	3.20%
Inflation (CPI)	2.10%	2.10%
Demographic assumptions		
One of the most significant demographic assumptions underlying the valuation is mortality. The specific mortality rates used are based on the S1PA base tables with allowance for future improvements in line with CMI 2014 core projections and a long-term improvement of 1.25% per annum. The life expectancies underlying the valuation are as follows:	**Years**	**Years**
Male aged 65	88.7	88.4
Female aged 65	88.9	91.0
Male aged 45	89.5	90.2
Female aged 45	90.7	92.9

Sensitivity analysis of assumptions

Historically sensitivities have only been presented for the GM scheme as the equivalent increases or decreases in assumptions for the IAM scheme did not have a material impact. As the GM scheme has been bought out and there is no remaining liability, the sensitivities below are now presented for the IAM scheme.

If the discount rate were 0.25% higher, the scheme liabilities would decrease by approximately £615 000.

39. Pension commitments *(continued)*

If the inflation assumption were 0.25% higher, the scheme liabilities would increase by approximately £324 000. In this calculation all assumptions related to the inflation assumption have been appropriately adjusted, that is the salary, deferred pension and pension in payment increases. The other assumptions remain unchanged.

If the pension increases assumptions were 0.25% higher, the scheme liabilities would increase by approximately £305 000 if all the other assumptions remained unchanged.

If life expectancies were to increase by one year, the scheme liabilities would increase by approximately £645 000 if all the other assumptions remained unchanged.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

The sensitivity analysis has been performed on the basis that the relevant assumption would occur in isolation, holding other assumptions constant.

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the same methodology that applied in calculating the defined benefit obligation liability recognised in the balance sheet.

Risk exposures

A description of the risks which the pension scheme expose Investec can be found in the risk management report on page 89.

The group ultimately underwrites the risks relating to its defined benefit plan. If the contributions currently agreed are insufficient to pay the benefits due, the group will need to make further contributions to the plan.

At 31 March £'000	2018	2017
GM scheme		
Gilts	–	–
Bulk annuity insurance agreement	–	141 419
Cash	–	2 914
Total market value of assets	**–**	**144 333**
IAM scheme		
Managed funds	18 653	21 637
Cash	80	12
Total market value of assets	**18 733**	**21 649**

There are no assets which are unquoted.

None of the group's own assets or properties occupied or used by the Group held within the assets of the scheme.

39. Pension commitments *(continued)*

At 31 March £'000	2018 GM	2018 IAM	2018 Total	2017 GM	2017 IAM	2017 Total
Recognised in the balance sheet						
Fair value of fund assets	–	18 733	18 733	144 333	21 649	165 982
Present value of obligations	–	(16 107)	(16 107)	(148 862)	(19 573)	(168 435)
Net asset/(liabilities) (recognised in other assets/other liabilities)	**–**	**2 626**	**2 626**	**(4 529)**	**2 076**	**(2 453)**
Recognised in the income statement						
Net interest income	–	51	51	1 473	158	1 631
Administration costs	–	(81)	(81)	(887)	(111)	(998)
Net amount recognised in the income statement	**–**	**(30)**	**(30)**	**586**	**47**	**633**
Recognised in the statement of comprehensive income						
Return on plan assets (excluding amounts in net interest income)	–	(129)	(129)	27 769	(886)	26 883
Actuarial (gain)/loss arising from changes in financial assumptions	–	(452)	(452)	23 139	3 553	26 692
Remeasurement of scheme due to buy-out	(4 316)	–	(4 316)	–	–	–
Remeasurement of defined benefit liability/asset	(4 316)	(581)	(4 897)	50 908	2 667	53 575
Deferred tax	868	91	959	(9 497)	(498)	(9 995)
Remeasurement of net defined benefit (asset)/liability	**(3 448)**	**(490)**	**(3 938)**	**41 411**	**2 169**	**43 580**

At 31 March £'000	GM	IAM	Total
Changes in the net asset/(liabilities) recognised in the balance sheet			
Opening balance sheet asset at 1 April 2016	**41 776**	**4 696**	**46 472**
Expenses charged to the income statement	586	47	633
Amount recognised in other comprehensive income	(50 908)	(2 667)	(53 575)
Contributions paid	4 017	–	4 017
Opening balance sheet asset at 1 April 2017	**(4 529)**	**2 076**	**(2 453)**
Expenses charged to the income statement	–	(30)	(30)
Amount recognised in other comprehensive income	–	581	581
Remeasurement of scheme due to buy-out	4 529	–	4 529
Closing balance sheet liability at 31 March 2018	**–**	**2 627**	**2 627**

At 31 March £'000	GM	IAM	Total
39. Pension commitments *(continued)*			
Changes in the present value of defined benefit obligations			
Opening defined benefit obligation at 1 April 2016	**129 467**	**17 275**	**146 742**
Interest expense	4 266	568	4 834
Remeasurement gains and losses:			
– Actuarial gain arising from changes in financial assumptions	23 139	3 553	26 692
Benefits and expenses paid	(8 010)	(1 823)	(9 833)
Opening defined benefit obligation at 1 April 2017	**148 862**	**19 573**	**168 435**
Interest expense	–	455	455
Remeasurement gains and losses:			
– Actuarial (loss) arising from changes in financial assumptions	–	(452)	(452)
Benefits and expenses paid	–	(3 469)	(3 469)
Remeasurement of scheme due to buy-out	(148 862)	–	(148 862)
Closing defined benefit obligation at 31 March 2018	**–**	**16 107**	**16 107**
Changes in the fair value of plan assets			
Opening fair value of plan assets at 1 April 2016	**171 243**	**21 971**	**193 214**
Interest income	5 739	726	6 465
Remeasurement gain/loss:			
– Return on plan assets (excluding amounts in net interest income)	(27 769)	886	(26 883)
Contributions by the employer	4 017	–	4 017
Benefits and expenses paid	(8 010)	(1 934)	(9 944)
Administration expenses	(887)	–	(887)
Opening fair value of plan assets at 1 April 2017	**144 333**	**21 649**	**165 982**
Interest income	–	505	505
Remeasurement gain/loss:			
– Return on plan assets (excluding amounts in net interest income)	–	129	129
Administration expenses	–	(3 550)	(3 550)
Remeasurement of scheme due to buy-out	(144 333)	–	(144 333)
Closing fair value of plan assets at 31 March 2018	**–**	**18 733**	**18 733**

There is no restriction on the pension surplus as Investec has an unconditional right to a refund of the surpluses assuming the gradual settlement of the plan over time until all members have left the scheme.

The triennial funding valuation of the schemes was carried out as at 31 March 2015. The IAM scheme is fully funded.

The weighted average duration of the IAM scheme's liabilities at 31 March 2018 is 17 years (31 March 2017: 19 years). This includes average duration of deferred pensioners of 20.6 years and average duration of pensioners in payment of 13.3 years.

At 31 March £'000	Group 2018	Group 2017	Company 2018	Company 2017
40. Subordinated liabilities				
Issued by Investec Bank plc				
Subordinated fixed rate medium-term notes	579 673	579 356	580 529	580 427
	579 673	**579 356**	**580 529**	**580 427**
Remaining maturity:				
In one year or less, or on demand	–	–	–	–
In more than one year, but not more than two years	–	–	–	–
In more than two years, but not more than five years	579 673	579 356	580 529	580 427
	579 673	**579 356**	**580 529**	**580 427**

The only event of default in relation to the subordinated debt is the non-payment of principal or interest. The only remedy available to the holders of the subordinated debt in the event of default is to petition for the winding up of the issuing entity. In a winding up no amount will be paid in respect of the subordinated debt until all other creditors have been paid in full.

Medium term notes

Subordinated fixed rate medium term notes (denominated in Pounds Sterling)

On 17 February 2011 Investec Bank plc issued £500 000 000 of 9.625% subordinated notes due 2022 at a discount (2022 notes). Interest is paid annually. The notes are listed on the London Stock Exchange. The notes are redeemable at par on 17 February 2022
On 29 June 2011 Investec Bank plc issued £75 000 000 of 9.625% subordinated notes due 2022 at a premium (2022 notes)
(to be consolidated and form a single series, and to be fungible, with the £500 000 000 2022 notes issued on 17 February 2011).

At 31 March £'000	Group and Company 2018	Group and Company 2017
41. Ordinary share capital		
Authorised		
The authorised share capital is £2 000 million (2017: £2 000 million) comprising:		
2 000 million ordinary shares of £1 each (2017: 2 000 million ordinary shares of £1 each)		
Issued, allotted and fully paid		
Number of ordinary shares	**Number**	**Number**
At the beginning of the year	1 186 800 000	1 186 800 000
Issued during the year	–	–
At the end of the year	**1 186 800 000**	**1 186 800 000**
Nominal value of ordinary shares	**£'000**	**£'000**
At the beginning of the year	**1 186 800**	**1 186 800**
Issued during the year	–	–
At the end of the year	**1 186 800**	**1 186 800**

At 31 March £'000	Group 2018	Group 2017	Company 2018	Company 2017
42. Additional Tier 1 securities in issue				
Fixed Rate Reset Perpetual Additional Tier 1 Write Down Capital Securities	200 000	–	200 000	–

On 16 October 2017, Investec Bank plc issued £200 million Fixed Rate Reset Perpetual Additional Tier 1 Write Down Capital Securities ('AT1' securities) to Investec plc. The securities are perpetual and pay a distribution rate on 5 March, June, September and December, commencing from 5 December 2017. At each distribution payment date, Investec Bank plc can decide whether to pay the distribution rate, which is non-cumulative in whole or in part. The distribution rate is 6.75% per annum until 5 December 2024; thereafter, the distribution rate resets every five years to a rate 5.749% per annum plus the benchmark gilts rate. The AT1 securities will be automatically written down and investors will lose their entire investment in the securities should the common equity tier 1 capital ratio of the Investec Bank plc group, as defined in the PRA's rules, fall below 7%. The AT1 securities are redeemable at the option of Investec Bank plc on 5 December 2024 or on each distribution payment date thereafter. No such redemption may be made without the consent of the PRA.

At 31 March £'000	2018	2017
43. Non-controlling interests		
Non-controlling interests in partially held subsidiaries	**3 060**	**2 000**

At 31 March £'000	2018 Total future minimum payments	2018 Present value	2017 Total future minimum payments	2017 Present value
44. Finance lease disclosures				
Group				
Finance lease receivables included in loans and advances to customers				
Lease receivables due in:				
Less than one year	254 251	239 986	237 007	188 749
One to five years	419 716	356 991	361 949	315 763
Later than five years	4 202	3 593	2 247	2 129
	678 169	**600 570**	**601 203**	**506 641**
Unearned finance income	**101 509**	**–**	**94 562**	–

At 31 March 2018, unguaranteed residual values accruing to the benefit of the company were £1.7 million (2017: £2.0 million). Finance leases in the group mainly relate to leases on property, equipment and motor vehicles.

At 31 March £'000	2018 Total future minimum payments	2018 Present value	2017 Total future minimum payments	2017 Present value
Company				
Finance lease receivables included in loans and advances to customers				
Lease receivables due in:				
Less than one year	862	437	433	433
	862	**437**	**433**	**433**
Unearned finance income	**426**	**–**	–	–

At 31 March 2018, unguaranteed residual values accruing to the benefit of the company were £nil (2017: £nil). Finance leases in the group mainly relate to leases on property, equipment and motor vehicles.

At 31 March £'000	Group 2018	Group 2017	Company 2018	Company 2017
45. Notes to the cash flow statement				
Profit before taxation adjusted for non-cash items is derived as follows:				
Profit before taxation	121 390	143 357	85 629	137 360
Adjustment for non-cash items included in net income before taxation:				
Amortisation of acquired intangibles	13 273	14 386	–	–
Impairment of goodwill	–	3 134	–	–
Depreciation of operating lease assets	2 350	2 141	–	–
Depreciation and impairment of property, equipment and intangibles	12 669	10 895	4 356	3 838
Impairment of loans and advances	106 085	74 956	70 295	70 295
Share of post taxation profit of associates	(1 444)	(1 741)	–	–
Dividends received from associates	197	1 753	–	–
Share-based payments adjustments	1 129	(127)	–	–
Profit before taxation adjusted for non-cash items	**255 649**	**248 754**	**(160 280)**	**211 493**
(Increase)/decrease in operating assets				
Loans and advances to banks	99 498	22 989	3 991	(19 971)
Reverse repurchase agreements and cash collateral on securities borrowed	(214 255)	20 852	(214 255)	20 852
Sovereign debt securities	(202 570)	300 089	(328 486)	516 518
Bank debt securities	76 688	3 771	76 688	(72 044)
Other debt securities	119 800	(4 628)	(172 009)	3 771
Derivative financial instruments	170	232 565	4 239	254 597
Securities arising from trading activities	(178 969)	1 585	(178 393)	7 763
Investment portfolio	(13 816)	(2 202)	9 011	35 048
Other loans and advances	138 721	21 159	(565 100)	(173 308)
Loans and advances to customers	(1 170 622)	(892 249)	(657 604)	(622 645)
Securitised assets	6 456	11 937	281	1 445
Other assets	75 950	397 759	61 933	320 465
Investment properties	–	64 551	–	–
	(1 262 949)	**178 178**	**(1 959 704)**	**272 491**
Increase/(decrease) in operating liabilities				
Deposits by banks	622 261	146 869	812 186	132 961
Derivative financial instruments	(50 243)	(380 824)	(55 594)	(383 782)
Other trading liabilities	(32 545)	(90 557)	(32 545)	(90 557)
Repurchase agreements and cash collateral on securities lent	(55 358)	(57 262)	(255 379)	142 759
Customer accounts	680 448	251 013	1 370 896	(206 929)
Debt securities in issue	302 031	132 166	340 541	201 914
Liabilities arising on securitisation of other assets	(985)	8 221	–	–
Other liabilities	22 094	(161 680)	(61 214)	(114 760)
	1 487 703	**(152 054)**	**2 118 891**	**(318 394)**

At 31 March £'000	Group 2018	Group 2017	Company 2018	Company 2017
46. Commitments				
Undrawn facilities	1 092 204	1 264 485	932 821	1 146 454
Other commitments	24 142	39 524	656	640
	1 116 346	**1 304 009**	**933 477**	**1 147 094**
The group has entered into forward foreign exchange contracts and loan commitments in the normal course of its banking business for which the fair value is recorded on balance sheet.				
Operating lease commitments				
Future minimum lease payments under non-cancellable operating leases:				
Less than one year	18 163	18 518	877	688
One to five years	83 680	83 053	28 961	26 778
Later than five years	113 221	96 300	64 600	58 546
	215 064	**197 871**	**94 438**	**86 012**
Operating lease receivables				
Future minimum lease payments under non-cancellable operating leases:				
Less than one year	4 598	4	–	–
One to five years	6 633	6 343	–	–
Later than five years	–	–	–	–
	11 231	**6 347**	**–**	**–**

Investec leases assets to third parties under operating and finance lease arrangements including transport assets, machinery and property. The term of the leases range between three and five years with no annual escalation clauses. The majority of the leases have renewal options.

At 31 March £'000	Carrying amount of pledged assets 2018	Carrying amount of pledged assets 2017	Related liability 2018	Related liability 2017
Group				
Pledged assets				
Loans and advances to customers	284 656	351 650	277 646	209 550
Other loans and advances	2 915	5 031	2 843	2 998
Loans and advances to banks	96 335	112 096	66 823	65 907
Sovereign debt securities	438 879	139 879	353 973	86 667
Bank debt securities	8 506	28 516	5 661	23 641
Securities arising from trading activities	653 292	427 665	514 077	430 020
	1 484 583	**1 064 837**	**1 221 023**	**818 783**
Company				
Pledged assets				
Loans and advances to customers	284 656	351 650	272 724	209 550
Other loans and advances	2 915	5 031	2 793	2 998
Loans and advances to banks	96 335	112 096	66 823	65 907
Sovereign debt securities	438 879	139 879	350 520	86 667
Bank debt securities	8 506	28 516	5 661	23 641
Other debt securities	436 800	228 313	418 491	196 165
Securities arising from trading activities	653 292	427 665	514 077	430 020
	1 921 383	**1 293 150**	**1 631 089**	**1 014 948**

The assets pledged by the group and company are strictly for the purpose of providing collateral for the counterparty. To the extent that the counterparty is permitted to sell and/or repledge the assets, they are classified on the balance sheet as reverse repurchase agreements and cash collateral on securities borrowed.

At 31 March £'000	Group 2018	Group 2017	Company 2018	Company 2017
47. Contingent liabilities				
Guarantees and assets pledged as collateral security:				
Guarantees and irrevocable letters of credit	142 655	282 275	123 727	271 699
	142 655	**282 275**	**123 727**	**271 699**

The amounts shown above are intended only to provide an indication of the volume of business outstanding at the balance sheet date.

Guarantees are issued by Investec Bank plc on behalf of third parties and other group companies. The guarantees are issued as part of the banking business.

Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS), the UK's statutory fund of last resort, provides compensation to customers of UK authorised financial institutions in the event that an institution which is a participating member of the FSCS is unable, or is likely to be unable, to pay claims against it.

The FSCS raises annual levies from participating members based on their level of participation (in the case of deposits, the proportion that their protected deposits represent total protected deposits) as at 31 December of the year preceding the scheme year.

Following the default of a number of deposit takers in 2008, the FSCS has borrowed from HM Treasury to fund the compensation costs for customers of those firms. Although the majority of this loan is expected to be repaid from funds, the FSCS receives from asset sales, surplus cash flow or other recoveries in relation to the assets of the firms that defaulted, any shortfall will be funded by deposit-taking participants of the FSCS.

Investec Bank plc is a participating member of the FSCS and the bank has accrued £1.2 million for its share of levies that will be raised by the FSCS. The accrual is based on estimates for the interest the FSCS will pay on the loan and estimates of the level of the bank's market participation in the relevant periods. Interest will continue to accrue to the FSCS on the HM Treasury loan and will form part of future FSCS levies.

At the date of these financial statements, it is not possible to estimate whether there will ultimately be additional levies on the industry, the level of Investec's market participation or other factors that may affect the amounts or timing of amounts that may ultimately become payable, nor the effect that such levies may have upon operating results in any particular financial period.

Legal proceedings

Investec operates in a legal and regulatory environment that exposes it to litigation risks. As a result, Investec is involved in disputes and legal proceedings which arise in the ordinary course of business. These claims, if any, cannot be reasonably estimated at this time, but Investec does not expect the ultimate resolution of any of the proceedings to which Investec is party to have a significant adverse effect on the financial position of the group.

Specifically, a claim has been made in the Royal Court of Guernsey against ITG Limited, a subsidiary of Investec Bank plc, for breach of equitable duty for skill and care with a related claim for liability for the debts of a client trust. These claims are currently the subject of appeals before the Judicial Committee of the Privy Council. The outcome of these claims cannot reasonably be estimated at this time but Investec does not expect the ultimate resolution of the proceedings to have a material adverse effect on the financial position of the group. On Monday, 23 April 2018, The Privy Council rejected all of the client trust claims against ITG in their entirety.

For the year to 31 March £'000	2018	2017
48. Related party transactions		
Transactions, arrangements and agreements involving directors and others:		
Transactions, arrangements and agreements involving directors with directors and connected persons and companies controlled by them, and with officers of the company, were as follows:		
Group and Company		
Directors, key management and connected persons and companies controlled by them		
Loans		
At the beginning of the year	30 806	33 189
Increase in loans	9 520	10 312
Repayment of loans	(8 464)	(9 641)
Exchange adjustments	80	(3 054)
At the end of the year	**31 942**	**30 806**
Guarantees		
At the beginning of the year	6 243	5 630
Additional guarantees granted	283	213
Guarantees cancelled	(6 236)	(178)
Exchange adjustments	(3)	578
At the end of the year	**287**	**6 243**
Deposits		
At the beginning of the year	(35 373)	(26 516)
Increase in deposits	(7 529)	(22 844)
Decrease in deposits	19 687	18 340
Exchange adjustments	57	(4 353)
At the end of the year	**(23 158)**	**(35 373)**

The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable arm's length transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment. None of these loans has been impaired.

For the year ended 31 March 2018 £'000	Investec plc and subsidiaries	Investec Limited and subsidiaries	Total
Group			
Transactions with other related parties			
Assets			
Loans and advances to banks	–	18 727	18 727
Bank debt securities	9 875	–	9 875
Derivative financial instruments	12 936	2 974	15 910
Other loans and advances	56 815	–	56 815
Other assets	–	5 982	5 982
Liabilities			
Deposits by banks	–	49 130	49 130
Repurchase agreements and cash collateral on securities lent	–	21 036	21 036
Derivative financial instruments	337 256	8 212	345 468
Customer accounts (deposits)	–	38 107	38 107
Debt securities in issue	–	17 883	17 883
Other liabilities	–	26 256	26 256

For the year ended 31 March 2017 £'000	Investec plc and subsidiaries	Investec Limited and subsidiaries	Total
48. Related party transactions *(continued)*			
Group			
Transactions with other related parties			
Assets			
Loans and advances to banks	–	28 645	28 645
Bank debt securities	–	8 067	8 067
Other debt securities	9 871	–	9 871
Derivative financial instruments	6 195	5 216	11 411
Other loans and advances	143 034	–	143 034
Other assets	2 193	15 101	17 294
Liabilities			
Deposits from banks	–	67 605	67 605
Derivative financial instruments	968	35 278	36 246
Customer accounts (deposits)	267 596	8 772	276 368
Debt securities in issue	–	94 106	94 106
Other liabilities	–	8 276	8 276

The above outstanding balances arose from the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties.

In the normal course of business, services are provided between Investec Bank plc and other companies in the group. In the year to 31 March 2018, Investec Bank plc paid £3.6 million (2017: £2.3 million) to Investec Limited group and its fellow subsidiaries and received £14.4 million (2017: £10.0 million) from Investec plc and its fellow subsidiaries for these services.

During the year to 31 March 2018, Investec Wealth & Investment Limited was charged £27 000 for research services provided by Grovepoint (UK) Limited (2017: £75 000. Bradley Fried is a former non-executive director of Investec Wealth & Investment Limited, and director of Grovepoint (UK) Limited.

In the year to 31 March 2018 Investec Bank (Channel Islands) Ltd issued guarantees of £2.2 million (2017: £2.3 million) to Investec Bank Limited.

During the year to 31 March 2018, interest of £2.4 million (2017: £3.9 million) was paid to entities in the Investec Limited group and £3.3 million (2017: £2.2 million) was paid to Investec plc and fellow subsidiaries. Interest of £468 000 (2017: £1.2 million) was received from the Investec Limited group and interest of £2.8 million (2017: £2.0 million) was received from Investec plc and fellow subsidiaries.

£'000	2018	2017
Amounts due from associates	–	4 634
Fees and commission income from associates	–	632
Interest income from loans to associates	516	–

The above outstanding balances arose from the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties.

Balances and transactions between members of the Investec Bank plc group

In accordance with IFRS 10 Consolidated Financial Statements, transactions and balances between the company and its subsidiary undertakings, and between those subsidiary undertakings, have all been eliminated on consolidation and thus are not reported as related party transactions of the group.

48. Related party transactions *(continued)*

The company, as a result of its position as parent of a banking group, has a large number of transactions with various of its subsidiary undertakings; these are included on the balance sheet of the company as follows:

For the year ended 31 March £'000	2018	2017
Company		
Assets		
Other debt securities	520 103	228 313
Derivative financial instruments	5 551	3 546
Other loans and advances	2 112 927	1 453 014
Other assets	19 458	6 993
Liabilities		
Deposits by banks	509 335	347 564
Repurchase agreements and cash collateral on securities lending	–	200 021
Derivative financial instruments	4 325	1 678
Customer accounts (deposits)	1 076 364	637 901
Other liabilities	8 091	29 499

Balances and transactions with Investec plc and Investec Limited and fellow subsidiaries of Investec Bank plc

The company and its subsidiaries have balances due to and from its parent company, Investec plc, and Investec Limited and fellow subsidiaries. These are included on the balance sheet as follows:

For the year ended 31 March 2018 £'000	Investec plc and subsidiaries	Investec Limited and subsidiaries	Total
Company			
Transactions with other related parties			
Assets			
Loans and advances to banks	–	17 735	17 735
Other debt securities	9 875	–	9 875
Derivative financial instruments	12 936	2 974	15 910
Other loans and advances	56 815	–	56 815
Other assets	371	6 302	6 673
Liabilities			
Deposits by banks	–	49 325	49 325
Repurchase agreements and cash collateral on securities lent	–	17 883	17 883
Derivative financial instruments	–	21 036	21 036
Customer accounts (deposits)	327 436	8 204	335 640
Other liabilities	26 515	12 895	39 410

48. Related party transactions *(continued)*

For the year ended 31 March 2017 £'000	Investec plc and subsidiaries	Investec Limited and subsidiaries	Total
Company			
Transactions with other related parties			
Assets			
Loans and advances to banks	–	27 675	27 675
Bank debt securities	–	8 067	8 067
Other debt securities	9 871	–	9 871
Derivative financial instruments	6 195	5 216	11 411
Other loans and advances	143 034	–	143 034
Other assets	3 646	15 101	18 747
Liabilities			
Deposits by banks	–	52 651	52 651
Derivative financial instruments	968	35 278	36 246
Customer accounts (deposits)	260 194	7 930	268 124
Debt securities in issue	–	17 481	17 481
Other liabilities	42 250	8 276	50 526

49. Hedges

The group uses derivatives for the management of financial risks relating to its asset and liability portfolios, mainly associated with non-trading interest rate risks and exposures to foreign currency risk. Most non-trading interest rate risk is transferred from the originating business to the Central Treasury in the Specialist Bank. Once aggregated and netted Central Treasury, as the sole interface to the wholesale market for cash and derivative transactions, actively manages the liquidity mismatch and non-trading interest rate risk from our asset and liability portfolios. In this regard, Treasury is required to exercise tight control of funding, liquidity, concentration and non-trading interest rate risk within defined parameters.

The accounting treatment of accounting hedges is dependent on the requirement to identify a direct relationship between a hedged item and hedging instrument. This relationship is established in limited circumstances based on the manner in which the group manages its risk exposure. Below is a description of each category of accounting hedges achieved by the group.

Fair value hedges

Fair value hedges are entered into mainly to hedge the exposure of changes in fair value of fixed rate financial instruments attributable to interest rates.

At 31 March £'000	Description of financial instrument designated as hedging instrument	Fair value of hedging instrument	Cumulative gains or (losses) on hedging instrument	Current year gains or (losses) on hedging instrument	Cumulative gains or (losses) on hedged item	Current year gains or (losses) on hedged item
Group						
2018						
Assets	Interest rate swap	(11 762)	(11 762)	33 191	10 847	(32 677)
Liabilities	Interest rate swap	382	382	(6 279)	(252)	6 326
		(11 380)	**(11 380)**	**26 912**	**10 595**	**(26 351)**
2017						
Assets	Interest rate swap	(44 917)	(44 917)	92 010	43 524	(79 889)
Liabilities	Interest rate swap	6 661	6 661	(4 427)	(6 578)	4 424
		(38 256)	**(38 256)**	**87 583**	**36 946**	**(75 465)**

49. Hedges

At 31 March £'000	Description of financial instrument designated as hedging instrument	Fair value of hedging instrument	Cumulative gains or (losses) on hedging instrument	Current year gains or (losses) on hedging instrument	Cumulative gains or (losses) on hedged item	Current year gains or (losses) on hedged item
Company						
2018						
Assets	Interest rate swap	(12 063)	(12 063)	32 810	11 118	(32 332)
Liabilities	Interest rate swap	382	382	(6 279)	(252)	6 326
		(11 681)	**(11 681)**	**26 531**	**10 866**	**(26 006)**
2017						
Assets	Interest rate swap	(44 873)	(44 873)	91 896	43 450	(79 809)
Liabilities	Interest rate swap	6 661	6 661	(4 427)	(6 578)	4 424
		(38 212)	**(38 212)**	**87 469**	**36 872**	**(75 385)**

Hedges of net investments in foreign operates
Investec Bank plc has entered into foreign exchange contracts to hedge its balance sheet exposure to its net investment, in Australia Dollars, in the Australian operations of the group.

At 31 March	2018	2017
Group		
Hedging instrument positive fair value	628	–
Hedging instrument negative fair value	–	36

50. Liquidity analysis of financial liabilities based on undiscounted cash flows

At 31 March £'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
Group								
2018								
Liabilities								
Deposits by banks	106 133	42 078	4 288	5 418	56 356	1 131 139	7 680	1 353 092
Derivative financial instruments	129 442	19 157	54 522	29 138	42 107	272 405	61 418	608 189
Derivative financial instruments – held for trading	73 175	–	–	–	–	–	–	73 175
Derivative financial instruments – held for hedging risk	56 267	19 157	54 522	29 138	42 107	272 405	61 418	535 014
Other trading liabilities	103 496	–	–	–	–	–	–	103 496
Repurchase agreements and cash collateral on securities lent	150 757	–	17 883	–	–	–	–	168 640
Customer accounts (deposits)	3 522 607	1 302 002	2 093 445	1 426 118	1 301 838	2 310 510	76 052	12 032 572
Debt securities in issue		23 570	57 656	98 017	203 077	1 307 508	433 070	2 122 898
Liabilities arising on securitisation of other assets	–	–	3 641	3 494	6 776	52 190	78 834	144 935
Other liabilities	76 273	665 503	158 911	34 540	13 785	51 596	8 641	1 009 249
Subordinated liabilities	–	–	–	–	55 344	740 175	–	795 519
Total on balance sheet liabilities	**4 088 708**	**2 052 310**	**2 390 346**	**1 596 725**	**1 679 283**	**5 865 523**	**665 695**	**18 338 590**
Contingent liabilities	7 743	787	4 577	22 843	6 536	96 685	3 872	143 043
Commitments	183 275	55 455	19 418	20 836	102 104	646 645	88 612	1 116 345
Total liabilities	**4 279 726**	**2 108 552**	**2 414 341**	**1 640 404**	**1 787 923**	**6 608 853**	**758 179**	**19 597 978**

The balances in the above table will not agree directly to the balances in the consolidated balance sheet as the table incorporates all cash flow on an undiscounted basis relating to both principal and those associated with all future coupon payments (except for trading liabilities and trading derivatives). Furthermore loan commitments are generally not recognised on the balance sheet. Trading liabilities and trading derivatives have been included in the 'Demand' time bucket and not by contractual maturity because trading liabilities are typically held for short periods of time. For an unaudited analysis based on discounted cash flows please refer to pages 80 and 81.

50. Liquidity analysis of financial liabilities based on undiscounted cash flows

(continued)

At 31 March £'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
Group								
2017								
Liabilities								
Deposits by banks	183 167	–	3 780	531	1 069	408 974	87 784	685 305
Derivative financial instruments	76 350	21 294	51 392	21 077	35 991	243 033	146 639	595 776
Derivative financial instruments – held for trading	65 883	–	–	–	–	–	–	65 883
Derivative financial instruments – held for hedging risk	10 467	21 294	51 392	21 077	35 991	243 033	146 639	529 893
Other trading liabilities	136 041	–	–	–	–	–	–	136 041
Repurchase agreements and cash collateral on securities lent	223 997	–	–	–	–	–	–	223 997
Customer accounts (deposits)	3 287 568	1 526 270	2 371 572	929 161	694 734	2 489 498	111 570	11 410 373
Debt securities in issue	–	39 085	95 142	120 588	228 040	946 811	404 289	1 833 955
Liabilities arising on securitisation of other assets	–	–	7 644	3 521	5 851	66 081	86 891	169 988
Other liabilities	99 190	605 748	175 161	20 575	14 848	44 136	12 744	972 402
Subordinated liabilities	–	–	–	–	55 344	796 375	–	851 719
Total on balance sheet liabilities	**4 006 313**	**2 192 397**	**2 704 691**	**1 095 453**	**1 035 877**	**4 994 908**	**849 917**	**16 879 556**
Contingent liabilities	5 701	16	6 911	148 275	36 496	68 461	16 415	282 275
Commitments	145 782	106 193	19 393	52 214	116 924	621 645	241 858	1 304 009
Total liabilities	**4 157 796**	**2 298 606**	**2 730 995**	**1 295 942**	**1 189 297**	**5 685 014**	**1 108 190**	**18 465 840**

50. Liquidity analysis of financial liabilities based on undiscounted cash flows

(continued)

At 31 March £'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
Company								
2018								
Liabilities								
Deposits by banks	600 195	42 078	3 073	4 255	54 030	1 040 206	7 680	1 751 517
Derivative financial instruments	122 034	19 157	54 522	29 138	42 107	272 405	61 418	600 781
Derivative financial instruments – held for trading	65 767	–	–	–	–	–	–	65 767
Derivative financial instruments – held for hedging risk	56 267	19 157	54 522	29 138	42 107	272 405	61 418	535 014
Other trading liabilities	103 496	–	–	–	–	–	–	103 496
Repurchase agreements and cash collateral on securities lent	150 757	–	17 883	–	–	–	–	168 640
Customer accounts (deposits)	2 513 659	1 210 746	1 594 985	1 310 144	1 276 336	3 076 190	66 048	11 048 108
Debt securities in issue	–	23 570	57 648	98 017	203 077	1 275 831	440 694	2 098 837
Other liabilities	77 362	413 536	117 960	12 222	5 452	21 325	2 522	650 379
Subordinated liabilities	–	–	–	–	55 344	741 031	–	796 375
Total on balance sheet liabilities	**3 567 503**	**1 709 087**	**1 846 071**	**1 453 776**	**1 636 346**	**6 426 988**	**578 362**	**17 218 133**
Contingent liabilities	7 549	787	570	22 843	6 299	82 001	3 678	123 727
Commitments	51 379	51 880	18 943	17 149	89 507	616 008	88 612	933 478
Total liabilities	**3 626 431**	**1 761 754**	**1 865 584**	**1 493 768**	**1 732 152**	**7 124 997**	**670 652**	**18 275 338**

The balances in the above table will not agree directly to the balances in the company balance sheet as the table incorporates all cash flow on an undiscounted basis relating to both principal and those associated with all future coupon payments (except for trading liabilities and trading derivatives). Furthermore loan commitments are generally not recognised on the balance sheet. Trading liabilities and trading derivatives have been included in the 'Demand' time bucket and not by contractual maturity because trading liabilities are typically held for short periods of time.

50. Liquidity analysis of financial liabilities based on undiscounted cash flows

(continued)

At 31 March £'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
Company								
2017								
Liabilities								
Deposits by banks	241 227	–	98 132	176 472	1 069	394 044	1 448	912 392
Derivative financial instruments	72 614	21 294	51 392	21 077	35 991	243 033	146 639	592 040
Derivative financial instruments – held for trading	62 147	–	–	–	–	–	–	62 147
Derivative financial instruments – held for hedging risk	10 467	21 294	51 392	21 077	35 991	243 033	146 639	529 893
Other trading liabilities	136 041	–	–	–	–	–	-	136 041
Repurchase agreements and cash collateral on securities lent	224 018	200 001	–	–	–	–	–	424 019
Customer accounts (deposits)	2 207 604	1 435 261	1 730 612	790 199	668 749	2 628 446	361 490	9 822 361
Debt securities in issue	–	38 906	94 786	120 053	226 970	937 061	280 812	1 698 588
Other liabilities	140 329	405 970	122 926	1 125	5 387	14 690	9 740	700 167
Subordinated liabilities	–	–	–	–	55 344	796 375	–	851 719
Total on balance sheet liabilities	**3 021 833**	**2 101 432**	**2 097 848**	**1 108 926**	**993 510**	**5 013 649**	**800 129**	**15 137 327**
Contingent liabilities	5 701	–	197	148 518	34 836	66 032	16 415	271 699
Commitments	4 104	106 193	19 393	51 763	116 924	606 860	241 858	1 147 095
Total liabilities	**3 031 638**	**2 207 625**	**2 117 438**	**1 309 207**	**1 145 270**	**5 686 541**	**1 058 402**	**16 556 121**

51. Principal subsidiaries and associated companies – Investec Bank plc

At 31 March	Principal activity	Country of incorporation	Interest 2018	Interest 2017
Direct subsidiaries of Investec Bank plc				
Investec Investments (UK) Limited	Investment holding	England and Wales	100.0%	100.0%
Investec Asset Finance PLC	Leasing	England and Wales	100.0%	100.0%
Investec Bank (Channel Islands) Limited	Banking institution	Guernsey	100.0%	100.0%
Investec Bank (Switzerland) AG	Banking institution	Switzerland	100.0%	100.0%
Investec Capital Asia Limited	Investment banking	Hong Kong	100.0%	100.0%
Investec Finance Limited	Debt issuer	England and Wales	100.0%	100.0%
Investec Group Investments (UK) Limited	Investment holding	England and Wales	100.0%	100.0%
Investec Holdings (Australia) Limited	Holding company	Australia	100.0%	100.0%
Rensburg Sheppards plc	Holding company	England and Wales	100.0%	100.0%
Investec Securities (US) LLC	Financial services	USA	100.0%	100.0%
Indirect subsidiary undertakings of Investec Bank plc				
Investec Capital and Investments (Ireland) Limited	Financial services	Ireland	100.0%	100.0%
Investec Ireland Limited	Financial services	Ireland	100.0%	100.0%
Investec Wealth & Investments Limited	Investment management services	England and Wales	100.0%	100.0%
Williams de Broë Limited	Stockbroking and portfolio	England and Wales	100.0%	100.0%

All of the above subsidiary undertakings are included in the consolidated accounts.

The subsidiaries listed above are only in relation to subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the financial statements.

A complete list of subsidiary and associated undertakings as required by the Companies Act 2006 is included in note 56 on pages 254 to 257.

Consolidated structured entities

Investec Bank plc has no equity interest in the following structured entities which are consolidated. Typically a structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. The judgements to assess whether the group has control over these structures include assessing the purpose and design of the entity, considering whether the group or another involved party with power over the relevant activities is acting as a principal in its own right or as an agent on behalf of others.

Name of principal structured entity	Type of structured entity
Bedrock CMBS GMBH	Structured commercial real estate loan assets
Foundation CMBS Limited	Structured commercial real estate loan assets
Landmark Mortgage Securities No 2 plc	Securitised residential mortgages
Residential Mortgage Securities 23 plc	Securitised residential mortgages
Tamarin Securities Limited	Structured debt and loan portfolios
Temese Funding 1 Plc	Securitised receivables
Temese Funding 2 Plc	Securitised receivables
Yorker Trust	Structured debt and loan portfolios

For additional detail on the assets and liabilities arising on securitisation refer to note 27. Details of the risks to which the group is exposed through all of its securitisations are included in the risk management report on page 71.

51. Principal subsidiaries and associated companies – Investec Bank plc *(continued)*

The key assumptions for the main types of structured entities which the group consolidates are summarised below:

Securitised residential mortgages

The group has securitised residential mortgages in order to provide investors with exposure to residential mortgage risk and to raise funding. These structured entities are consolidated due to the group's holdings of equity notes combined with its control over servicing activities. The group is not required to fund any losses above those incurred on the notes it has retained; such losses are reflected in any impairment of securitised mortgages as those assets have not been derecognised.

Structured debt and loan portfolios

The group has structured debt and loan portfolios for the purpose of issuing asset-backed securities. These structured entities are consolidated due to the group's retention of equity notes and because it continues to act as the collateral manager. The group is not required to fund any losses above those incurred on the notes it has retained.

Structured commercial real estate loan assets

The group has securitised a number of commercial real estate loan assets. These structured entities are consolidated as the group has retained all of the notes issued. The group continues to recognise the commercial real estate loan assets on its balance sheet. The group is not required to fund any losses above those incurred on the notes it has retained.

Securitised receivables

The group has securitised a portfolio of medium-term lease and hire purchase receivables. These structured entities are consolidated as the group has retained the equity notes and control over servicing activities. The group is not required to fund any losses above those incurred on the notes it has retained.

Other structured entities – commercial operations

The group also consolidates a number of structured entities where control arises from rights attached to lending facilities and similar commercial involvement. These arise primarily in the areas of aircraft funds where the group has rights which allow it to maximise the value of the assets held and investments in mining projects due to its exposure to equity-like returns and ability to influence the strategic and financial decision-making.

The group is not required to fund any losses above those which could be incurred on debt positions held or swaps which exist with these structured entities. The risks to which the group is exposed from these structured entities are related to the underlying assets held in the structures. The total assets held in structured entities arising from commercial operations is £77.9 million (2017: £130.0 million).

Significant restrictions

As is typical for a large group of companies, there are restrictions on the ability of the group to obtain distributions of capital, access the assets or repay the liabilities of members of the group due to the statutory, regulatory and contractual requirements of its subsidiaries.

These are considered below:

Regulatory requirements

Subsidiary companies are subject to prudential regulation and regulatory capital requirements in the countries in which they are regulated. These require entities to maintain minimum capital, leverage and exposure ratios restricting the ability of these entities to make distributions of cash or other assets to the parent company. Regulated subsidiaries of the group are required to maintain liquidity pools to meet PRA and local regulatory requirements. The main subsidiaries affected are: Investec Bank (Channel Islands) Limited and Investec Bank (Switzerland) AG which must maintain compliance with the regulatory minimum.

Capital management within the group is discussed in the risk management report on pages 91 to 92.

Statutory requirements

The group's subsidiaries are subject to statutory requirements not to make distributions of capital and unrealised profits and generally maintain solvency. These requirements restrict the ability of subsidiaries to remit dividends, except in the case of a legal capital reduction or liquidation.

Contractual requirements

Asset encumbrance – the group uses its financial assets to raise finance in the form of securitisations and through the liquidity schemes of central banks. Once encumbered, the assets are not available for transfer around the group. The assets typically affected are disclosed in notes 46 and 54.

51. Principal subsidiaries and associated companies – Investec Bank plc *(continued)*

Structured associates

The group has investments in a number of structured funds specialising in aircraft financing where the group acts as adviser or fund manager in addition to holding units within the fund. As a consequence of these roles and funding, the group has significant influence over the fund and therefore the funds are treated as associates.

The group applies the venture capital exemption to these holdings and, as such, the investments in the funds are accounted for at fair value and held within the investment portfolio on the balance sheet.

Type of structured entity	Nature and purpose	Interest held by the group/income earned
Aircraft investment funds	To generate fees from managing assets on behalf of third party investors	Investments in units issued by the fund
	These vehicles are financed through the issue of units to investors	Management fees

The table below sets out an analysis of the carrying amounts of interests held by the group in structured associate entities.

31 March 2018 £'000	Line on the balance sheet	Carrying value £'000	Maximum exposure to loss	Income earned from structured entity	£'000
Aircraft investment funds	Investment portfolio	11 307	Limited to the carrying value	Investment income	2 501

31 March 2017 £'000	Line on the balance sheet	Carrying value £'000	Maximum exposure to loss	Income earned from structured entity	£'000
Aircraft investment funds	Investment portfolio	19 963	Limited to the carrying value	Investment income	33 020

52. Unconsolidated structured entities

At 31 March 2018

The table below describes the types of structured entities that the group does not consolidate, but in which it holds an interest and original set up. In making the assessment of whether to consolidate these structured entities, the group has concluded that it does not have control after consideration in line with the accounting policies as set out on pages 160 to 168.

Type of structured entity	Nature and purpose	Interest held by the group/income earned
Investment funds	To generate fees from managing assets on behalf of third party investors	Investments in units issued by the fund
	These vehicles are financed through the issue of units to investors	Management fees
Residential mortgage securitisations	To generate a return for investors by providing exposure to residential mortgage risk	Investments in notes
	These vehicles are financed through the issue of notes to investors	

52. Unconsolidated structured entities *(continued)*

The table below sets out an analysis of the carrying amounts of interests held by the group in unconsolidated structured entities. The maximum exposure to loss is the carrying amount of the assets held.

At 31 March 2018	Line on the balance sheet	Carrying value £'000	Maximum exposure to loss of the group	Total assets of the entity £'000	Income earned from structured entity	£'000
Investment funds	Investment portfolio	3 059	Limited to the carrying value	63 862	Investment loss	(571)
Residential mortgage securitisations	Sovereign debt securities	2 145	Limited to the carrying value	2 145	Investment loss	(2)
	Other debt securities	4 498	Limited to the carrying value	85 148	Investment income	217
					Net interest expense	(25)
	Other loans and advances	8 702	Limited to the carrying value	141 559	Net interest income	254
At 31 March 2017						
Investment funds	Investment portfolio	4 916	Limited to the carrying value	166 896	Investment income	329
Residential mortgage securitisations	Other debt securities	15 349	Limited to the carrying value	214 072	Investment income	530
					Net interest income	12
	Other loans and advances	31 641	Limited to the carrying value	271 591	Net interest income	112

Financial support provided to the unconsolidated structured entities

There are no contractual agreements which require the group to provide any additional financial or non-financial support to these structured entities.

During the year the group has not provided any such support and does not have any current intentions to do so in the future.

Sponsoring

The group considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity. The table below sets out information in respect of structured entities that the group sponsors, but in which the group does not have an interest.

	Structured CDO and CLO securitisation^	
	2018	**2017**
Structured entities with no interest held		
Why it is considered a structured entity	This is a CDO and CLO securitisation where Investec has no continuing interest as the notes previously held have been redeemed or fully written off. The entity is considered structured as the vehicle was set up so that the variable return does not follow the shareholding.	This is a CDO and CLO securitisation where Investec has no continuing interest as the notes previously held have been redeemed or fully written off. The entity is considered structured as the vehicle was set up so that the variable return does not follow the shareholding.
Income amount and type	Nil	Nil
Carrying amount of all assets transferred	£222 million of CDO and CLO assets	£222 million of CDO and CLO assets

^ *Collateralised Debt Obligation (CDO) and Collateralised Loan Obligation (CLO).*

Interests in structured entities which the group has not set up

Purchased securitisation positions

The group buys and sells interest in structured entities that it has not originated as part of its trading activities, for example, residential mortgage securities, commercial mortgage securities, loans to corporates and resecuritisations. In such cases the group typically has no other involvement with the structured entity other than the securities it holds as part of its trading activities and its maximum exposure to loss is restricted to the carrying value of the asset. Details of the value of these interests is included in the risk management report on page 72.

53. Offsetting

At 31 March £'000	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Cash collateral	Net amount
	Amounts subject to enforceable netting arrangements					
	Effects of offsetting on balance sheet			Related amounts not offset		
Group						
2018						
Assets						
Cash and balances at central banks	3 487 768	–	3 487 768	–	–	3 487 768
Loans and advances to banks	772 984	–	772 984	–	(156 445)	616 539
Reverse repurchase agreements and cash collateral on securities borrowed	750 428	–	750 428	(84 465)	–	665 963
Sovereign debt securities	1 155 472	–	1 155 472	(105 428)	–	1 050 044
Bank debt securities	107 938	–	107 938	(8 506)	–	99 432
Other debt securities	288 349	–	288 349	–	–	288 349
Derivative financial instruments	610 201	–	610 201	(204 142)	(112 767)	293 292
Securities arising from trading activities	701 728	–	701 728	(522 357)	–	179 371
Investment portfolio	472 083	–	472 083	–	–	472 083
Loans and advances to customers	9 663 172	–	9 663 172	–	–	9 663 172
Other loans and advances	417 747	–	417 747	–	–	417 747
Other securitised assets	132 172	–	132 172	–	–	132 172
Other assets	1 032 705	(19 265)	1 013 440	–	–	1 013 440
	19 592 747	**(19 265)**	**19 573 482**	**(924 898)**	**(269 212)**	**18 379 372**
Liabilities						
Deposits by banks	1 295 847	–	1 295 847	–	(141 152)	1 154 695
Derivative financial instruments	533 319	–	533 319	(260 409)	(67 545)	205 365
Other trading liabilities	103 496	–	103 496	(84 465)	–	19 031
Repurchase agreements and cash collateral on securities lent	187 905	(19 265)	168 640	(119 460)	(14 463)	34 717
Customer accounts (deposits)	11 969 625	–	11 969 625		(8 390)	11 961 235
Debt securities in issue	1 942 869	–	1 942 869	(460 564)	(10 175)	1 472 130
Liabilities arising on securitisation of other assets	127 853	–	127 853	–	–	127 853
Other liabilities	1 009 099	–	1 009 099	–	–	1 009 099
Subordinated liabilities	579 673	–	579 673	–	–	579 673
	17 749 686	**(19 265)**	**17 730 421**	**(924 898)**	**(241 725)**	**16 563 798**

53. Offsetting *(continued)*

At 31 March £'000	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Cash collateral	Net amount
	Amounts subject to enforceable netting arrangements					
	Effects of offsetting on balance sheet			Related amounts not offset		
Group						
2017						
Assets						
Cash and balances at central banks	2 853 567	–	2 853 567	–	–	2 853 567
Loans and advances to banks	922 764	–	922 764	–	(195 242)	727 522
Reverse repurchase agreements and cash collateral on securities borrowed	536 173	–	536 173	(131 867)	–	404 306
Sovereign debt securities	952 902	–	952 902	(14 198)	–	938 704
Bank debt securities	184 626	–	184 626	(28 516)	–	156 110
Other debt securities	408 149	–	408 149	–	–	408 149
Derivative financial instruments	610 371	–	610 371	(167 564)	(188 518)	254 289
Securities arising from trading activities	522 760	–	522 760	(367 890)	–	154 870
Investment portfolio	454 566	–	454 566	–	–	454 566
Loans and advances to customers	8 598 639	–	8 598 639	–	–	8 598 639
Other loans and advances	556 464	–	556 464	–	–	556 464
Other securitised assets	138 628	–	138 628	–	–	138 628
Other assets	1 090 157	(767)	1 089 390	–	–	1 089 390
	17 829 766	**(767)**	**17 828 999**	**(710 035)**	**(383 760)**	**16 735 204**
Liabilities						
Deposits by banks	673 586	–	673 586	–	(211 802)	461 784
Derivative financial instruments	583 562	–	583 562	(167 564)	(66 239)	349 759
Other trading liabilities	136 041	–	136 041	(131 867)	–	4 174
Repurchase agreements and cash collateral on securities lent	224 507	(510)	223 997	(147 368)	(21 404)	55 225
Customer accounts (deposits)	11 289 177	–	11 289 177	–	(21 145)	11 268 032
Debt securities in issue	1 640 839	–	1 640 839	(263 236)	(40 264)	1 337 339
Liabilities arising on securitisation of other assets	128 838	–	128 838	–	–	128 838
Other liabilities	973 044	(257)	972 787	–	–	972 787
Subordinated liabilities	579 356	–	579 356	–	–	579 356
	16 228 950	**(767)**	**16 228 183**	**(710 035)**	**(360 854)**	**15 157 294**

53. Offsetting *(continued)*

At 31 March £'000	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Cash collateral	Net amount
	Amounts subject to enforceable netting arrangements					
	Effects of offsetting on balance sheet			Related amounts not offset		
Company						
2018						
Assets						
Cash and balances at central banks	3 403 196	–	3 403 196	–	–	3 403 196
Loans and advances to banks	275 031	–	275 031	–	(91 462)	183 569
Reverse repurchase agreements and cash collateral on securities borrowed	750 428	–	750 428	(84 465)	–	665 963
Sovereign debt securities	489 454	–	489 454	(105 428)	–	384 026
Bank debt securities	107 938	–	107 938	(8 506)	–	99 432
Other debt securities	810 119	–	810 119	–	–	810 119
Derivative financial instruments	594 295	–	594 295	(199 147)	(107 644)	287 504
Securities arising from trading activities	694 974	–	694 974	(522 357)	–	172 617
Investment portfolio	165 421	–	165 421	–	–	165 421
Loans and advances to customers	7 204 546	–	7 204 546	–	–	7 204 546
Other loans and advances	2 501 592	–	2 501 592	–	–	2 501 592
Other securitised assets	7 000	–	7 000	–	–	7 000
Other assets	724 154	(19 265)	704 889	–	–	704 889
	17 728 148	**(19 265)**	**17 708 883**	**(919 903)**	**(199 106)**	**16 589 874**
Liabilities						
Deposits by banks	1 712 877	–	1 712 877	–	(71 765)	1 641 112
Derivative financial instruments	525 911	–	525 911	(255 414)	(66 824)	203 673
Other trading liabilities	103 496	–	103 496	(84 465)	–	19 031
Repurchase agreements and cash collateral on securities lent	187 905	(19 265)	168 640	(119 460)	(14 463)	34 717
Customer accounts (deposits)	10 971 981	–	10 971 981	–	(8 390)	10 963 591
Debt securities in issue	1 903 560	–	1 903 560	(460 564)	(10 175)	1 432 821
Other liabilities	650 497	–	650 497	–	–	650 497
Subordinated liabilities	580 529	–	580 529	–	–	580 529
	16 636 756	**(19 265)**	**16 617 491**	**(919 903)**	**(171 617)**	**15 525 972**

53. Offsetting *(continued)*

At 31 March £'000	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Cash collateral	Net amount
	Amounts subject to enforceable netting arrangements					
	Effects of offsetting on balance sheet			Related amounts not offset		
Company						
2017						
Assets						
Cash and balances at central banks	2 820 618	–	2 820 618	–	–	2 820 618
Loans and advances to banks	374 414	–	374 414	–	(127 908)	246 506
Reverse repurchase agreements and cash collateral on securities borrowed	536 173	–	536 173	(131 867)	–	404 306
Sovereign debt securities	159 381	–	159 381	(14 198)	–	145 183
Bank debt securities	184 626	–	184 626	(28 516)	–	156 110
Other debt securities	638 110	–	638 110	–	–	638 110
Derivative financial instruments	598 534	–	598 534	(167 536)	(185 224)	245 774
Securities arising from trading activities	516 581	–	516 581	(367 890)	–	148 691
Investment portfolio	174 139	–	174 139	–	–	174 139
Loans and advances to customers	6 611 759	–	6 611 759	–	–	6 611 759
Other loans and advances	1 941 993	–	1 941 993	–	–	1 941 993
Other securitised assets	7 258	–	7 258	–	–	7 258
Other assets	767 590	(767)	766 823	–	–	766 823
	15 331 176	**(767)**	**15 330 409**	**(710 007)**	**(313 132)**	**14 307 270**
Liabilities						
Deposits by banks	900 691	–	900 691	–	(141 325)	759 366
Derivative financial instruments	581 505	–	581 505	(167 536)	(66 240)	347 729
Other trading liabilities	136 041	–	136 041	(131 867)	–	4 174
Repurchase agreements and cash collateral on securities lent	424 529	(510)	424 019	(147 368)	(21 404)	255 247
Customer accounts (deposits)	9 601 085	–	9 601 085	–	(20 993)	9 580 092
Debt securities in issue	1 563 019	–	1 563 019	(263 236)	(40 264)	1 259 519
Other liabilities	700 925	(257)	700 668	–	–	700 668
Subordinated liabilities	580 427	–	580 427	–	–	580 427
	14 488 222	**(767)**	**14 487 455**	**(710 007)**	**(290 226)**	**13 487 222**

54. Derecognition

Group

Transfer of financial assets that do not result in derecognition

The group has been party to securitisation transactions whereby assets continue to be recognised on balance sheet (either fully or partially) although they have been subject to legal transfer to another entity. Securitisations may, depending on the individual arrangement, result in continued recognition of the securitised assets and the recognition of the debt securities issued in the transaction.

	2018		2017	
No derecognition achieved £'000	**Carrying amount of assets that are continued to be recognised**	**Carrying amount of associated liabilities**	**Carrying amount of assets that are continued to be recognised**	**Carrying amount of associated liabilities**
Loans and advances to customers	292 322	–	295 182	–
Other loans and advances	129 773	–	141 136	–
	422 095	**–**	**436 318**	**–**

For transfer of assets in relation to repurchase agreements see note 19.

Company

Transfer of financial assets that do not result in derecognition

The company has been party to securitisation transactions whereby assets continue to be recognised on balance sheet (either fully or partially) although they have been subject to legal transfer to another entity. Securitisations may, depending on the individual arrangement, result in continued recognition of the securitised assets and the recognition of the debt securities issued in the transaction.

	2018		2017	
No derecognition achieved £'000	**Carrying amount of assets that are continued to be recognised**	**Carrying amount of associated liabilities**	**Carrying amount of assets that are continued to be recognised**	**Carrying amount of associated liabilities**
Other loans and advances	129 773	–	141 136	–
	129 773	**–**	**141 136**	**–**

For transfer of assets in relation to repurchase agreements see note 19.

At 31 March £'000	2018	2017
55. Investment in subsidiary companies		
Cost		
At the beginning of the year	1 007 740	1 050 700
Acquisitions of subsidiaries	2 532	19 599
Return of capital by subsidiary	(29 344)	(65 194)
Recapitalisation of subsidiaries	1 956	2 562
Exchange adjustments	10	74
At the end of the year	**982 894**	**1 007 740**
Provision for impairment in value		
At the beginning of the year	(104 908)	(107 148)
Release of impairment	–	2 240
At the end of the year	**(104 908)**	**(104 908)**
Net book value at the end of the year	**877 986**	**902 833**

All subsidiary undertakings are unlisted.

The £2.2 million release of impairment in the prior year relates to the revaluation of an underlying investment held by a subsidiary of the company. The revaluation was due to the receipt of consideration by the subsidiary. The recoverable amount of the investment in the subsidiary is calculated as fair value less costs to sell, for which the net asset value of the subsidiary is an appropriate proxy. This would be level 3 in the fair value hierarchy.

At 31 March 2018	Principal activity	Interest held
56. Subsidiaries		
**Directly owned by Investec Bank plc*		
United Kingdom		
Registered office: 30 Gresham Street, London, EC2V 7QP, UK		
Rensburg Sheppards Plc*	Holding company	100%
Anston Trustees Limited	Non-trading	100%
Bell Nominees Limited	Non-trading	100%
Carr Investment Services Nominees Limited	Non-trading	100%
Carr PEP Nominees Limited	Non-trading	100%
Click Nominees Limited	Non-trading	100%
Ferlim Nominees Limited	Nominee services	100%
Investec Click & Invest Limited	Investment management services	100%
Investec Wealth & Investment Trustees Limited	Trustee services	100%
Investment Administration Nominees Limited	Non-trading	100%
IWI Fund Management Limited	Non-trading	100%
PEP Services (Nominees) Limited	Non-trading	100%
R & R Nominees Limited	Non-trading	100%
R S Trustees Limited	Non-trading	100%
Rensburg Client Nominees Limited	Nominee services	100%
Scarwood Nominees Limited	Non-trading	100%
Spring Nominees Limited	Non-trading	100%
Tudor Nominees Limited	Non-trading	100%
Williams De Broe Limited	Non-trading	100%
Rensburg Investment Management Limited	Non-trading	100%
PIF Investments Ltd (G. P. International Ltd*)	Dormant	100%
Beeson Gregory Index Nominees Limited*	Dormant nominee company	100%
CF Corporate Finance Limited*	Leasing company	100%
EVO Nominees Limited*	Dormant nominee company	100%
Evolution Securities Nominees Limited*	Dormant nominee company	100%
Investec Asset Finance (Capital No. 3) Limited*	Leasing company	100%
Investec Asset Finance (Management) Limited*	Leasing company	100%
Mann Island Finance Limited	Leasing company	100%
MI Vehicle Finance Limited	Leasing company	100%
The Leasing Acquisition General Partnership*	Leasing partnership	
Investec Bank (Nominees) Limited*	Nominee company	100%
Investec Finance Ltd (previously Investec Finance plc)*	Debt issuance	100%
Investec Group Investments (UK) Limited*	Investment holding company	100%
ICF Investments Limited	Investment holding company	100%
GFT Holdings Limited	Holding company	100%
Investec Investment Trust plc*	Debt issuer	100%
Investec Investments (UK) Limited*	Investment holding company	100%
Panarama Properties (UK) Limited	Property holding company	100%
Inv-German Retail Ltd (previously Canada Water (Developments) Limited)	Property company	100%
Investec Securities Limited	Investment holding company	100%
PEA Leasing Limited*	Dormant	100%
Quantum Funding Limited*	Leasing company	100%
Quay Nominees Limited*	Nominee company	100%
Technology Nominees Limited*	Nominee	100%
Torteval LM Limited*	Investment holding company	100%
Torteval Funding LLP*	Financing company	100%
Tudor Tree Properties Limited*	Property company	100%
Willbro Nominees Limited*	Nominee company	100%
Evolution Capital Investment Limited	Investment holding company	100%
Investec Capital Solutions No 1 Limited	Lending company	100%
Investec Capital Solutions Limited	Lending company	100%
Diagonal Nominees Limited	Nominee company	100%
F&K SPF Limited	Property company	100%
Via Novus Limited	Investment holding company	49.93%
Aksala Limited	Property company	100%
Registered office: 30 Gresham Street, London EC2V 7QN		
Investec Wealth & Investment Limited	Investment management services	100%
Registered office: Reading International Business Park, Reading, RG2 6AA, UK		
Investec Asset Finance plc*	Leasing company	100%

56. Subsidiaries *(continued)*

At 31 March 2018	Principal activity	Interest held
Australia		
Registered office: Level 23, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000, Australia		
Investec Australia Property Holdings Pty Ltd *	Holding company	100%
Investec Propco Pty Ltd	Property fund trustee	100%
Investec Property Ltd	Property fund trustee	100%
Investec Property Management Pty Ltd	Property fund manager	100%
Investec Wentworth Pty Limited	Security trustee	100%
Investec Holdings Australia Limited *	Holding company	100%
Investec Australia Property Investments Pty Ltd	Investment company	100%
Investec Australia Finance Pty Limited	Lending company	100%
Investec Australia Limited	Financial Services	100%
Bowden (Lot 32) Holdings Pty Ltd	Holding company	100%
Bowden (Lot 32) Pty Ltd	Development company	100%
Investec Australia Direct Investment Pty Limited	Investment company	100%
Investec CWFIH Pty Limited	Dormant	100%
Mannum Powerco Pty Limited	Dormant	100%
Tungkillo Powerco Pty Limited	Dormant	100%
IEC Funds Management Pty Limited	Fund manager	100%
Investec Australia Funds Management Limited	Aviation trustee company	100%
Investec (Australia) Investment Management Pty Limited	Aviation fund company	100%
Investec Wentworth Private Equity Pty Limited	Inactive private equity	100%
IWPE Nominees Pty Limited	Custodian	100%
Wentworth Associates Pty Limited	Dormant	100%
British Virgin Islands		
Registered office: Palm Grove House, PO Box 438, Road Town, Tortola, British Virgin Islands		
Finistere Directors Limited	Corporate Director	100%
GFT Directors Limited	Corporate Director	100%
Registered office: PO Box 186 Road Town, Tortola, British Virgin Islands		
Curlew Investments Limited	Investment holding company	100%
Canada		
Registered office: One Brunswick Square, Suite 1500, PO Box 1324, Saint John, New Brunswick, Canada E2L 4H8		
Curlew Group Holdings Limited	Investment holding company	42.50%
Registered office: 44 Chipman Hill Suite 1000, Saint John NB, E2L 4S6, Canada		
Investec North America Limited *	Trading company	100%
Cayman Islands		
Registered office: 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005		
Investec Pallinghurst (Cayman) LP	Investment holding partnership	58.30%
Guernsey		
Registered office: Glategny Court, Glategny Esplanade, St. Peter Port, GY1 1WR, Guernsey, Channel Islands		
Investec Wealth & Investment Limited	Investment management services	100%
Torch Nominees Limited	Nominee services	100%
Investec Bank (Channel Islands) Limited *	Banking institution	100%
Bayeux Limited	Corporate Trustee	100%
Finistere Limited	Corporate Nominee	100%
Finistere Secretaries Limited	Corporate Secretary	100%
ITG Limited	Trust & company admin	100%
Investec Bank (Channel Islands) Nominees Limited	Nominee company	100%

At 31 March 2018	Principal activity	Interest held
56. Subsidiaries *(continued)*		
Registered office: PO Box 290, Glategny Court, Glategny Esplanade, St Peter Port, Guernsey, GY1 3RP, Channel Islands		
Hero Nominees Limited	Nominee services	100%
Registered office: P.O. Box 188, Glategny Court, Glategny Esplanade, St Peter Port, Guernsey, GY1 3LP, Channel Islands		
Investec Asset Finance (Channel Islands) Limited	Leasing company	100%
Registered office: Western Suite, Ground Floor, Mill Court, La Charroterie, St Peter Port, Guernsey, GY1 1EJ, Channel Islands		
HEV (Guernsey) Limited	Investment holding company	100%
Hong Kong		
Registered office: Room 3609-3613, 36/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong		
Investec Capital Asia Limited *	Investment banking	100%
Investec Capital Markets Limited *	Investment banking	100%
India		
Registered office: A 607, The Capital, Bandra Kurla Complex, Mumbai – 400 051, India		
Investec Capital Services (India) Private Limited	Trading company	75%
Ireland		
Registered office: The Harcourt Building, Harcourt Street, Dublin 2, Ireland		
Aksala Limited *	Property company	100%
Investec Holdings (Ireland) Ltd *	Holding company	100%
Investec Ireland Ltd	Financial services	100%
Investec International Ltd	Aircraft leasing	100%
Neontar Limited	Holding company	100%
Investec Securities Holdings Ireland Ltd	Holding company	100%
Investec Capital & Investments (Ireland) Ltd	Wealth Management & Investment Services	100%
Aurum Nominees Ltd	Nominee company	100%
Investec (Airtricity) Nominees Ireland Ltd	Nominee company	100%
Investec (CapVest) Ireland Ltd	Nominee company	100%
Investec (Development) Nominees Ireland Ltd	Nominee company	100%
Investec (Placings) Ireland Ltd	Nominee company	100%
Investec (Thomas Street) Nominees No 2 Ltd	Nominee company	100%
Investec Broking Nominees Ireland Ltd	Nominee company	100%
Investec Corporate Finance (Ireland) Limited	Corporate Finance (inactive)	100%
Investec Ventures Ireland Limited	Venture capital	100%
Venture Fund Principals Limited	Special Partner	100%
Investec Europe Limited	Investment services	100%
Jersey		
Registered office: PO Box 344 One The Esplanade St Helier Jersey JE4 8UW, Channel Islands		
Investec GP (Jersey) Limited	Investment holding company	100%
Singapore		
Registered office: 8 Wilkie Road, #03-01 Wilkie Edge, Singapore 228095		
Investec Singapore Pte Ltd	Securities services	100%
Switzerland		
Registered offices: Löwenstrasse 29, CH-8001 Zurich, Switzerland		
Investec Bank (Switzerland) AG *	Trading company	100%

56. Subsidiaries *(continued)*

At 31 March 2018	Principal activity	Interest held
Registered office: c/o Dr. Leo Granziol, Bahnhofstrasse 32, 6300 Zug, Switzerland		
Investec Trust Holdings AG	Investment holding company	100%
United States of America		
Registered office: 10 E. 53rd St., 22nd floor, New York, NY 10022, USA		
Investec USA Holdings Corporation Inc *	Holding company	100%
Investec Inc	Investment holding	100%
Fuel Cell IP 1 LLC	Investment holding	100%
Fuel Cell IP 2 LLC	Investment holding	100%
Investec Securities (US) LLC	Financial Services	100%

Associates

At 31 March 2018	Principal activity	Interest held
United Kingdom		
Registered office: Dee House Lakeside Business Village, St. Davids Park, Ewloe, Deeside, Clwyd, CH5 3XF		
Virtual Lease Services	Lease services provider	49%
Australia		
Registered office: Point Cook Road, Point Cook, Victoria, Australia		
Point Cook (Trust Project No 9)	Property development	50%
British Virgin Islands		
Registered office: Vistra Corporate Service Centre, Wickhams Cay II, Road Town, Tortola VG1110, British Virgin Islands		
imarkets (Holdings) Limited	Online trading platform	33%
Luxembourg		
Registered office: 15, Rue Bender, L1229 Luxembourg		
Investec GLL Global Special Opportunities Real Estate Fund	Property development	5%

57. Investec Bank plc company risk disclosures

Investec Bank plc company follows the group risk policies and appetite disclosure on pages 40 to 50. The market risk in the trading book is the same at the group and company level, the disclosure is made on pages 73 to 76. The following tables present the risk disclosures for the company which are required under IFRS 7:

£'000	31 March 2018	31 March 2017	% change	Average*
Cash and balances at central banks	3 395 407	2 818 116	20.5%	3 106 762
Loans and advances to banks	275 031	374 414	(26.5%)	324 723
Reverse repurchase agreements and cash collateral on securities borrowed	750 428	536 173	40.0%	643 301
Sovereign debt securities	489 454	159 381	207.1%	324 418
Bank debt securities	107 938	184 626	(41.5%)	146 282
Other debt securities	280 142	399 926	(30.0%)	340 034
Derivative financial instruments	498 219	545 635	(8.7%)	521 927
Securities arising from trading activities	496 498	331 705	49.7%	414 102
Loans and advances to customers (gross)	7 345 967	6 728 308	9.2%	7 037 138
Other loans and advances (gross)	332 672	347 008	(4.1%)	339 840
Other securitised assets (gross)	7 000	7 258	(3.6%)	7 129
Other assets	40 956	49 894	(17.9%)	45 425
Total on-balance sheet exposures	**14 019 712**	**12 482 444**	**12.3%**	**13 251 078**
Guarantees^	20 349	25 501	(20.2%)	22 925
Contingent liabilities, committed facilities and other	1 036 199	1 392 653	(25.6%)	1 214 426
Total off-balance sheet exposures	**1 056 548**	**1 418 154**	**(25.5%)**	**1 237 351**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**15 076 260**	**13 900 598**	**8.5%**	**14 488 429**

* *Where the average is based on a straight-line average.*

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

57. Investec Bank plc company risk disclosures *(continued)*

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

£'000	31 March 2018	31 March 2017
Gross core loans and advances to customers	**7 345 967**	**6 728 308**
Total impairments	**(141 421)**	**(116 549)**
Specific impairments	(79 521)	(73 161)
Portfolio impairments	(61 900)	(43 388)
Net core loans and advances to customers	**7 204 546**	**6 611 759**
Average gross core loans and advances to customers	**7 037 138**	**6 458 127**
Current loans and advances to customers	6 978 375	6 427 253
Past due loans and advances to customers (1 – 60 days)	18 472	38 180
Special mention loans and advances to customers	35 459	22 091
Default loans and advances to customers	313 661	240 784
Gross core loans and advances to customers	**7 345 967**	**6 728 308**
Current loans and advances to customers	6 978 375	6 427 253
Default loans that are current and not impaired	22 791	4 477
Gross core loans and advances to customers that are past due but not impaired	109 001	94 637
Gross core loans and advances to customers that are impaired	235 800	201 941
Gross core loans and advances to customers	**7 345 967**	**6 728 308**
Total income statement charge for impairments on core loans and advances	**(95 582)**	**(70 218)**
Gross default loans and advances to customers	313 661	240 784
Specific impairments	(79 521)	(73 161)
Portfolio impairments	(61 900)	(43 388)
Defaults net of impairments	**172 240**	**124 235**
Aggregate collateral and other credit enhancements on defaults	252 908	183 822
Net default loans and advances to customers (limited to zero)	**–**	**–**
Ratios		
Total impairments as a % of gross core loans and advances to customers	1.93%	1.73%
Total impairments as a % of gross default loans	45.09%	48.40%
Gross defaults as a % of gross core loans and advances to customers	4.27%	3.58%
Defaults (net of impairments) as a % of net core loans and advances to customers	2.39%	1.88%
Net defaults as a % of net core loans and advances to customers	–	–
Credit loss ratio (i.e. income statement impairment charge on core loans as a % of average gross core loans and advances)	1.36%	1.09%

57. Investec Bank plc company risk disclosures *(continued)*

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

£'000	31 March 2018	31 March 2017
Default loans that are current	110 545	61 335
1 – 60 days	65 661	96 316
61 – 90 days	26 324	3 662
91 – 180 days	34 037	61 108
181 – 365 days	43 359	14 129
> 365 days	87 666	64 505
Past due and default core loans and advances to customers (actual capital exposure)	**367 592**	**301 055**
1 – 60 days	1 275	1 138
61 – 90 days	3 393	58
91 – 180 days	1 577	842
181 – 365 days	9 942	5 563
> 365 days	26 445	52 654
Past due and default core loans and advances to customers (actual amount in arrears)	**42 632**	**60 255**

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

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
At 31 March 2018							
Default loans that are current and not impaired							
Total capital exposure	22 791	–	–	–	–	–	22 791
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	55 400	15 256	1 946	20 071	16 328	109 001
Amount in arrears	–	1 258	106	37	218	9 022	10 641
Gross core loans and advances to customers that are impaired							
Total capital exposure	87 754	10 261	11 068	32 091	23 288	71 338	235 800
Amount in arrears	–	17	3 287	1 540	9 724	17 423	31 991
At 31 March 2017							
Default loans that are current and not impaired							
Total capital exposure	4 477	–	–	–	–	–	4 477
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	80 104	3 662	902	1 165	8 804	94 637
Amount in arrears	–	1 105	58	105	291	8 369	9 928
Gross core loans and advances to customers that are impaired							
Total capital exposure	56 858	16 212	–	60 206	12 964	55 701	201 941
Amount in arrears	–	33	–	737	5 272	44 285	50 327

57. Investec Bank plc company risk disclosures *(continued)*

£'000 Category	On-balance sheet value of investments 31 March 2018	Valuation change stress test 31 March 2018	On-balance sheet value of investments 31 March 2017	Valuation change stress test 31 March 2017
Unlisted investments	139 013	20 852	139 512	20 972
Listed equities	26 408	6 602	34 627	8 657
Total investment portfolio	**165 421**	**27 454**	**174 139**	**29 629**
Investment and trading properties	85 377	17 075	92 217	18 443
Warrants, profit shares and other embedded derivatives	21 611	7 564	17 715	6 200
Total	**272 409**	**52 093**	**284 071**	**54 272**

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

Stress testing summary

Based on the information at 31 March 2018, as reflected above, we could have a £52 million reversal in revenue (which assumes a year in which there is a 'severe stress scenario' simultaneously across all asset classes). This would not necessarily cause the group to report a loss but could have a significantly negative impact on earnings for that period. The probability of all these asset classes in all geographies in which we operate being negatively impacted at the same time is very low, although the probability of listed equities being negatively impacted at the same time is very high.

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