Out of the Ordinary

Investec

Annual Report

Investec plc silo (excluding Investec Limited) annual financial statements

2018

Corporate information

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Registration number

Reg. No. 3633621

Auditors

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Transfer secretaries

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Directorate

Refer to page 127.

Contact details

For contact details for Investec plc offices refer to page 265.

For queries regarding information in this document

Investor relations

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Ongoing and statutory information

In order to present a more meaningful view of Investec 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 33 to 39.

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 i.e. Investec Bank (Australia) Limited, Kensington Group plc and Start Mortgage Holdings Limited. 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 40).

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 34 to 35. 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 plc
in perspective

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

Investec plc which houses our non-Southern African businesses, has been listed on the London Stock Exchange since 2002.

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 group relate to Investec plc, whereas references to the 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

Investec plc
LSE primary listing
JSE secondary listing

Sharing agreement

Investec Limited
JSE primary listing
NSX secondary listing
BSE secondary listing

Non-Southern African operations

- Investec Bank plc
  - Investec Wealth & Investment Limited
  - Investec Bank (Channel Islands) Limited
  - Investec Asset Finance plc
  - Investec Holdings (Australia) Limited
  - Investec Bank (Switzerland) AG
  - Investec Irish branch
- Investec Asset Management Limited 83%*

Southern African operations

- Investec Bank Limited
- Investec Asset Management Holdings (Pty) Ltd 83%*
- Investec Securities (Pty) Ltd
- Investec Property Group Holdings (Pty) Ltd
- Investec Employee Benefits Holdings (Pty) Ltd

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.

Overview of the activities of Investec plc

Asset Management

At Investec Asset Management, we believe in investing in a better tomorrow. We want to assist people around the globe to retire with dignity or meet their financial objectives by offering specialist, active investment expertise. We are a patient, organic, long-term business offering organically-developed investment capabilities through active segregated mandates or mutual funds to sophisticated clients. Our clients include some of the world's largest private and public sector pension funds, financial institutions, corporates, foundations, central banks and intermediaries serving individual investors. Our business is to manage our clients' investments to the highest standard possible by exceeding their investment and client service expectations.

Established in South Africa in 1991, we have grown to become a successful global investment management firm. We continue to develop an owner culture and are committed to building a long-term intergenerational business.

Our investment team, of over 200 investment professionals, applies clear investment philosophies and processes across multiple asset classes. Our client group is organised across five geographically defined units serving our clients around the globe. These teams are supported by our global investment and operational structure.

We manage £103.9 billion assets globally.

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.

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

Corporates/government/institutional clients

Focus on helping our clients create and preserve wealth

High-income and high net worth private clients

Corporate and Institutional Banking activities

- Treasury and trading services
- Specialised lending, funds and debt capital markets
- Institutional research, sales and trading
- Advisory and equity capital markets

UK and Europe
Australia
Hong Kong
India
USA

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.

Investment activities

- Principal investments
- Property investment and fund management

UK and Europe
Australia
Hong Kong

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.

Private Banking activities

- Transactional banking and foreign exchange
- Lending
- Deposits
- Investments

UK and Europe

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

Our operational footprint

Asset Management

Value proposition

- Organically build an independent global platform from an emerging market base
- Independently managed entity within the Investec group
- Competitive investment performance in chosen specialities
- Global approach to:
  - Investing
  - Client base
  - Operations platform
- Institutional and advisor focus
- Unique and clearly understood culture
- Stable and experienced leadership.

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, intermediaries, 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.

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.

Business leaders:

Asset Management
Hendrik du Toit^

Wealth & Investment
Steve Elliott

Specialist Banking
David van der Walt
Ciaran Whelan*

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

Where we operate

North America

Distribution platform
Focus on advisory and institutional securities activities

UK and Europe

Brand well established

Leading asset manager with market leading products

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

Distribution platform

Developing Wealth & Investment capability

Singapore

Distribution platform

Australia

Experienced local team in place with industry expertise

Focus is on entrenching position as a boutique operation

^ *Per the Investec group's announcement made on 6 February 2018, John Green and Mimi Ferrini assumed the roles of deputy CEOs of Investec Asset Management from 1 April 2018, and from 1 October 2018 will become joint CEOs of the business.*

* *As from 1 April 2018 Ciaran Whelan stepped down from his role as joint head of Specialist Bank, he retains his role as global head of the Private Banking business and will assume the role of Investec group risk director from 1 April 2019.*

Sound growth in key earnings drivers.

- The group's asset and wealth management businesses have generated substantial 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 period.
- The group 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 group's strategy of managing down this portfolio.
- Taken together, the group reported an operating profit^ of £199.4 million for the year ended 31 March 2018 (2017: £224.9 million).

Statutory financial performance

2018	2017
£199.4mn	£224.9mn

Operating profit* decreased 11.4%

2018	2017
£146.1mn	£173.9mn

Adjusted attributable earnings^ decreased 16.0%

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 has reduced from £476 million at 31 March 2017 through asset sales, redemptions and write-offs.
- The legacy business reported a loss before taxation of £93.5 million (2017: £64.6 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.*

Ongoing financial performance

2018	2017
£292.9mn	**£289.5mn**

Operating profit* increased 1.2%

2018	2017
£221.3mn	**£227.3mn**

Adjusted attributable earnings^ decreased 2.7%

2018	2017
72.5%	**66.7%**

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 other non-controlling interests.*

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

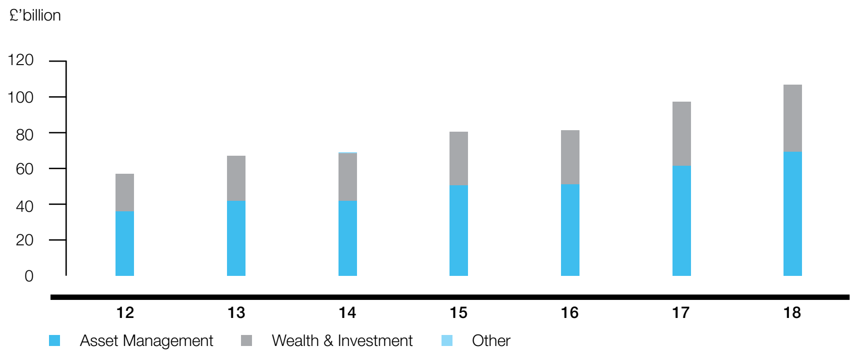
We have a diversified business model

% contribution of operating profit before taxation of the ongoing business (excluding group costs)*

We continued to grow our key earnings drivers

Funds under management up 9.6% to £106.6 billion

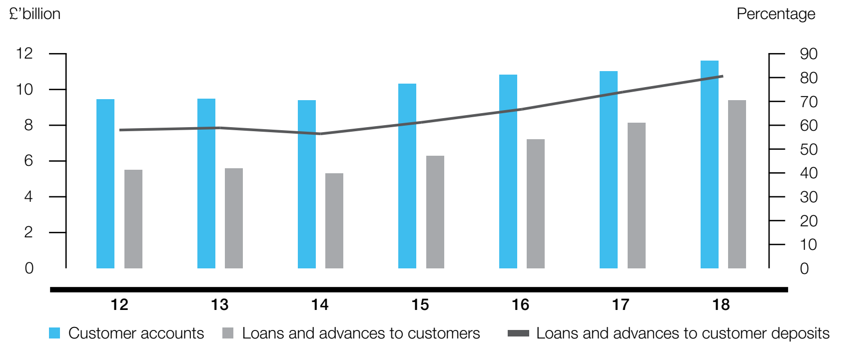
Funds under management



Customer accounts (deposits) increased 5.6% to £11.6 billion

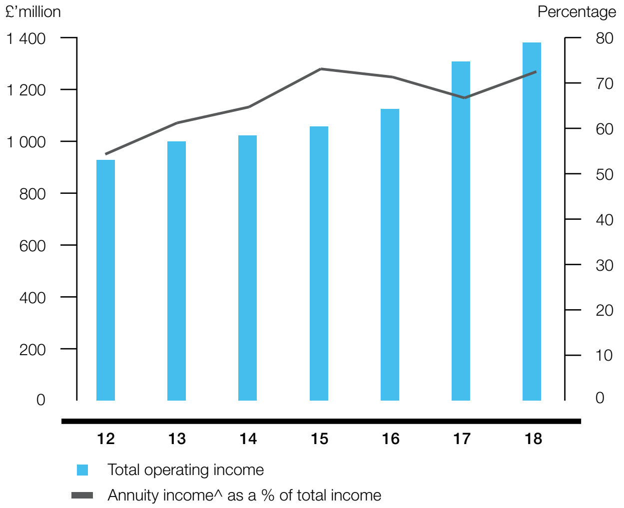
Core loans and advances increased 15.1% to £9.4 billion

Customer accounts (deposits) and loans ongoing business



Supporting growth in operating income

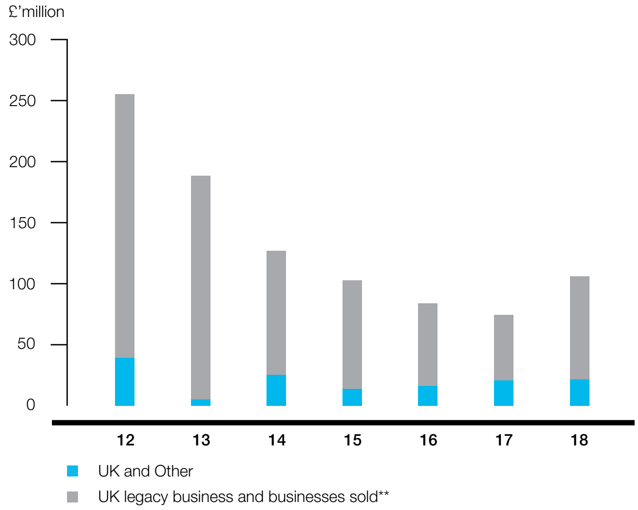
Total operating income ongoing business



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

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

Impairments

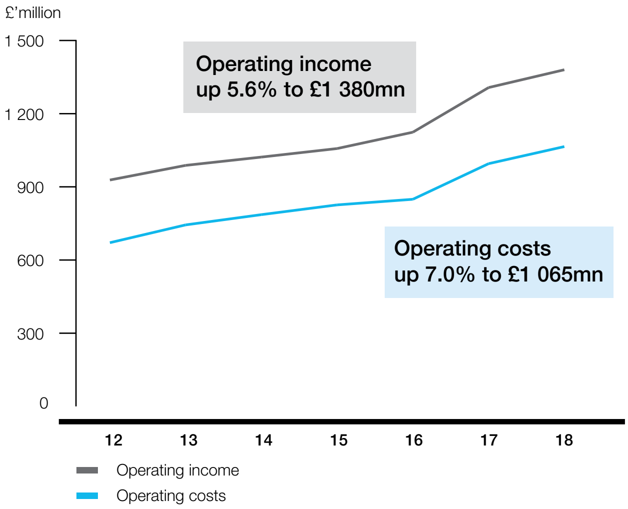


** *Refers to the remaining UK legacy business as well as group assets that were sold in the 2015 financial year.*

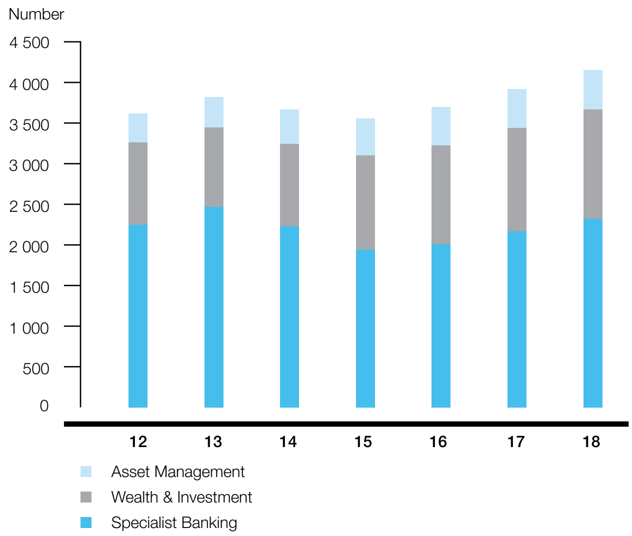
Costs increased largely due to planned investment across the business

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



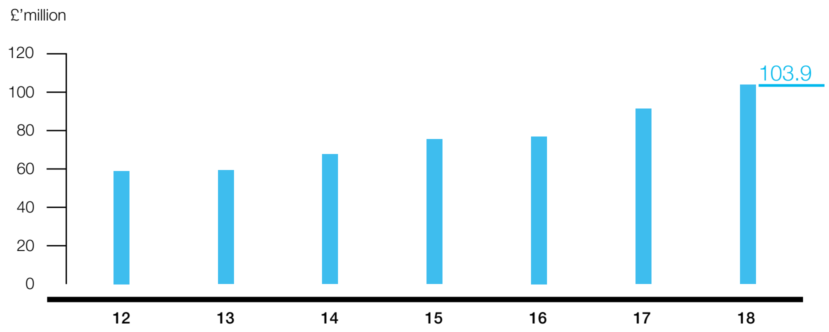
Headcount^^



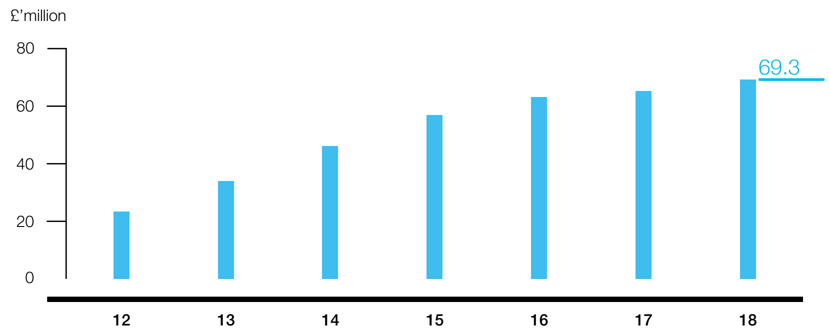
^^ *Permanent headcount and includes acquisitions.*

Operating profit from our ongoing businesses

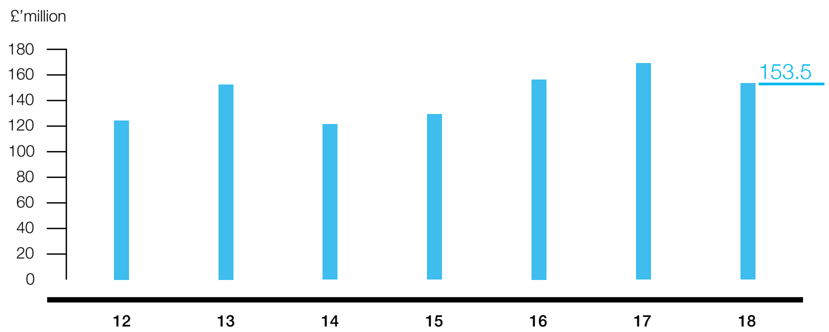
Operating profit* – Asset Management



Operating profit* – Wealth & Investment



Operating profit* – Specialist Banking ongoing business



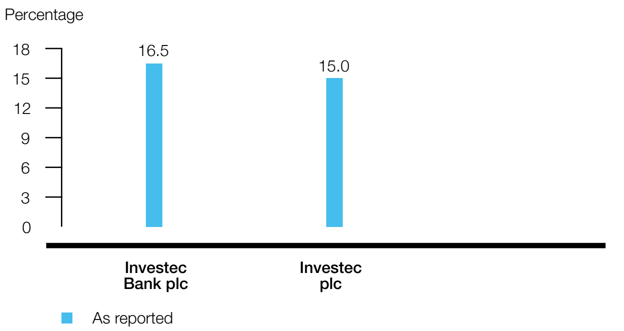
* *Before goodwill, acquired intangibles, non-operating items, taxation and after other non-controlling interests.*

Maintained a sound balance sheet

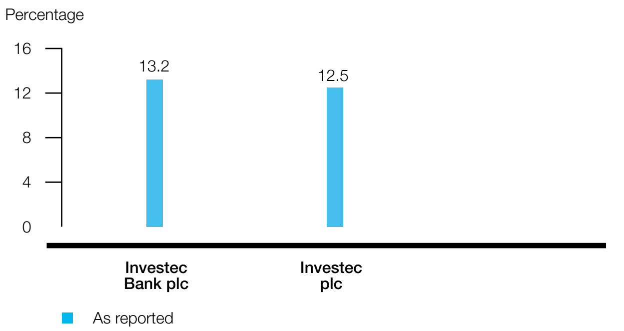
Target

Total capital adequacy: 14.0% – 17.0%
Common equity tier 1 ratio: > 10.0%
Tier 1 ratio: > 11.0%
Leverage ratio: > 6.0%

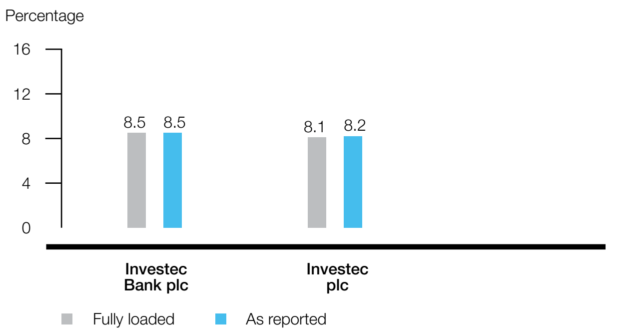
Capital adequacy ratios



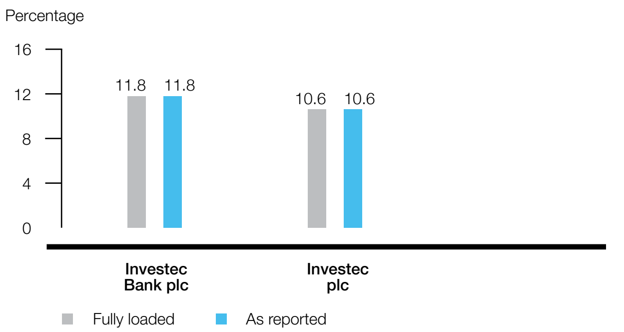
Tier 1 ratios



Leverage ratios



Common equity tier 1 ratios



Note: Refer to pages 100 and 106 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 50.0%
- 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

Investec plc's loan to deposit ratio is: 83.2% (31 March 2017: 78.2%)

Liquidity remains strong with cash and near cash balances amounting to £5.8 billion (2017: £5.0 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 8.2%

We exceed our minimum regulatory requirements for the liquidity coverage ratio and the net stable funding 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
£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.

Financial review

(continued)

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 longer-term 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 2475/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%	

Source: Macrobond.

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

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, Singapore, Switzerland, Taiwan and the USA. We are organised as a network comprising three principal business divisions: Asset Management, Wealth & Investment and Specialist Banking.

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

Asset Management

Key income drivers	Income impacted primarily by	Income statement – primarily reflected as
– Fixed fees as a percentage of assets under management – Variable performance fees.	– Movements in the value of the assets underlying client portfolios – Performance of portfolios against set benchmarks – Net flows.	– Fees and commissions.

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.

An overview of the principal risks relating to our operations

The most material and significant risks we face, which the board and senior management believe could have an impact on our operations, financial performance, viability and prospects are summarised briefly below with further details provided in section three of this annual report. The board, through its various sub-committees, has performed a robust assessment of these principal risks. For additional information pertaining to the management and monitoring of these principal risks, see the references provided. Regular reporting of these risks is made to senior management, the executives and the board at the group risk and capital committee (GRCC) and board risk and capital committee (BRCC).

The group's board approved risk appetite framework is provided on page 49. The board recognises that, even with sound appetite and judgement, extreme events can happen which are completely outside of the board's control. It is however, necessary to assess these events and their impact and how they may be mitigated by considering the risk appetite framework if necessary. It is policy to regularly carry out multiple stress testing scenarios which in theory test extreme, but plausible events and from that assess and plan what can be done to mitigate the potential outcome.

Principal risks	Key mitigating actions	Further information provided
Credit and counterparty risk		
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 thereby resulting in a loss to the group.	• 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. • 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. • Investec has a limited appetite for unsecured debt, thus the credit risk mitigation technique most commonly used is the taking of collateral, with a strong preference for tangible assets. • Portfolio reviews (including stress testing analyses) are 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.	Pages 51 to 76.

Principal risks	Key mitigating actions	Further information provided
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.	• Exposures are only to politically stable jurisdictions that we understand and have preferably operated in before. • There is little appetite for exposures outside of the group's pre-existing core geographies or target markets. • The legal environment should be tested, have legal precedent in line with OECD standards and have good corporate governance. • In certain cases, we may make use of political risk insurance to mitigate exposure where deemed necessary.	Page 52.
Investment risk		
Investment risk in the banking book arises primarily from the group's principal investments (private equity) and property investment activities, where the group invests in largely unlisted companies and select property investments, with risk taken directly on the group's balance sheet.	• Independent credit and investment committees exist in each geography where we assume investment risk. • Risk appetite limits and targets are set to limit our exposure to equity and investment risk. • As a matter of course, concentration risk is avoided and investments are well spread across geographies and industries.	Pages 77 to 79.

Principal risks	Key mitigating actions	Further information provided
Market risk in the trading book		
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, commodity prices, exchange rates, credit spreads and the underlying volatilities where derivatives are traded.	• To manage, measure and mitigate market risk, we have independent market risk management teams in our core geographies where we assume market risk. • 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 clients in deal execution. • Within our trading activities, we act as principal with clients or the market. Market risk, therefore, exists where we have taken on principal positions resulting from market-making, underwriting, investments and limited proprietary trading in the foreign exchange, capital and money markets. The focus of these businesses is primarily on supporting client activity. • Measurement techniques used to quantify market risk arising from our trading activities include sensitivity analysis, value at risk (VaR), stressed VaR (sVaR), expected shortfall (ES) and extreme value theory (EVT). Stress testing and scenario analysis are used to simulate extreme conditions to supplement these core measures.	Pages 82 to 85.
Liquidity risk		
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.	• Our banking entities in South Africa and the UK are ring-fenced from one another and are required to meet the regulatory liquidity requirements in the jurisdictions in which they operate. • 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 statutory requirements as protection against unexpected disruptions in cash flows. • The maintenance of sustainable prudent liquidity resources takes precedence over profitability. • We target a diversified funding base, avoiding undue concentrations by investor type, maturity, market source, instrument and currency. • Stable customer deposits must fully fund our core loan book, with little reliance therefore placed on wholesale funding. • The group does not rely on committed funding lines for protection against unforeseen interruptions to cash flow. • The balance sheet risk management team independently monitors key daily funding metrics and liquidity ratios to assess potential risks to the liquidity position, which further act as early warning indicators of potential normal market disruption. • Daily liquidity stress tests are carried out.	Pages 86 to 90.

Principal risks	Key mitigating actions	Further information provided
Capital risk		
The risk that we do not have sufficient capital to meet regulatory requirements or that capital is inefficiently deployed across the group.	• Investec plc undertakes an approach to capital management that utilises both regulatory capital, as appropriate, and internal capital, which is an internal risk-based assessment of capital requirements. • The determination of target capital is driven by our risk profile, strategy and risk appetite, taking into account the regulatory and market factors applicable to the group. • At the most fundamental level, we seek to balance our capital consumption between prudent capitalisation in the context of the group's risk profile and optimisation of shareholder returns. • Our internal capital framework is designed to manage and achieve this balance. • The framework has been approved by the board and is managed by the DLC capital committee, which is responsible for oversight of the management of capital on a regulatory and an internal capital basis.	Pages 99 to 106.
Non-trading interest rate risk		
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. Non-trading interest rate risk in the banking book is an inherent consequence of conducting banking activities, and arises from the provision of retail and wholesale (non-trading) banking products and services.	• The daily management of interest rate risk in the banking book is centralised within the Central Treasury function of each geographic entity and is subject to local independent risk and Asset and Liability committee (ALCO) review. • Together with the business, the treasurer develops strategies regarding changes in the volume, composition, pricing and interest rate characteristics of assets and liabilities to mitigate the interest rate risk and ensure a high degree of net interest margin stability over an interest rate cycle. These are presented, debated and challenged in the liability product and pricing forum and the ALCO. • Our non-trading interest rate risk policy and risk appetite 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. • 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.	Pages 86 to 90.
Operational risk		
Operational risk is defined as the potential or actual impact to the group as a result of failures relating to internal processes, people, systems or from external events. The impacts can be financial as well as non-financial such as customer detriment, reputational or regulatory consequences. Operational risk includes key aspects such as: cyber security; information security; financial crime; technology; outsourcing and process failure; business continuity; regulatory and compliance.	• An independent Group Operational Risk Management function ensures that operational risk policies and procedures are developed and applied consistently and effectively throughout the group. • Business unit management, supported by operational risk managers who operate at a business unit level, are responsible for embedding and implementing operational risk practices and policies. • Ensuring that personnel are adequately skilled at both a business unit and a group level.	Pages 94 to 97.

Principal risks	Key mitigating actions	Further information provided
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.	• We have various policies and practices to mitigate reputational risk, including strong values that are regularly and proactively reinforced. • Strategic and reputational risk is mitigated as much as possible through detailed processes and governance/escalation procedures from business units to the board, and from regular, clear communication with shareholders, customers and all stakeholders. • A disclosure and public communications policy has been approved by the board.	Pages 97 to 98.
Conduct risk		
Conduct risk means the risk that detriment is caused to the group, its customers, its counterparties or the market, as a result of inappropriate execution of business activities.	• Investec's approach to conduct risk is driven by our values and philosophies, ensuring that Investec operates with integrity and puts the well-being of its clients at the heart of how the business is run. • Investec ensures that its products and services are scrutinised and regularly reviewed to identify any issues early on and to make sure they are escalated for appropriate resolution and, where necessary, remedial action. • Investec's conduct risk policy aims to create an environment for consumer protection and market integrity within the business, supported with the right conduct risk management framework. • Customer and market conduct committees exist with the objective of ensuring that Investec maintains a client-focused and fair outcomes-based culture.	Page 98.
Compliance, governance and regulatory risk		
The risks of changing legislation, regulation, policies, voluntary codes of practice and their interpretation in the markets in which we operate can have a significant impact on the group's operations, business prospects, costs, liquidity and capital requirements.	• Investec remains focused on complying with the highest levels of compliance to professional standards and integrity in each of our jurisdictions. Our culture is a major component of 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. • We have independent compliance functions in each of our core operating jurisdictions, which ensure that the group implements the required processes, practices and policies to adhere to applicable regulations and legislation. • A global compliance forum exists which establishes and standardises group standards where applicable.	Page 109.

Principal risks	Key mitigating actions	Further information provided
Legal risk		
Legal risk is the risk of loss resulting from any of our rights not being fully enforceable or from our obligations not being properly performed. This includes our rights and obligations under contracts entered into with counterparties.	• A legal risk forum is constituted in each significant legal entity within the group 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. • We have a central independent in-house legal team with embedded business unit legal officers where business volumes or needs dictate. • This is supplemented by a pre-approved panel of third party firms to be utilised where necessary.	Page 98.
Business risk		
Business risk means the risk that external market factors create income volatility.	• The risk of loss caused by income volatility is mitigated through diversification of income sources, reducing concentration of income from any one type of business or geography and maintaining a flexible cost base. • Group strategy is directed towards generating and sustaining a diversified income base for the group. • In the instance where income falls we retain the flexibility to reduce costs (particularly variable remuneration), thereby maintaining a competitive cost to income ratio.	Pages 15 to 19.
Environmental (including climate change), social and economic risk		
The risk that our lending and investment activities give rise to unintended environmental (including climate change), social and economic consequences.	• Investec has a holistic approach to corporate responsibility, which runs beyond recognising our own footprint on the environment, includes our many corporate social investment activities and is 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 (a board committee) on social and environmental issues, including climate-related impact considerations.	Pages 158 to 163 and refer to our corporate responsibility report on our website.
People risk		
The risk that we may be unable to recruit, retain and motivate key personnel.	• We focus on building a strong, diverse and capable workforce by providing a workplace that stimulates and rewards distinctive performance. • We invest significantly in a number of opportunities for developing and upskilling employees, and in leadership programmes to develop current and future leaders of the group. • Our internal people activities involve dedicated divisions such as Human Resources (HR) and Organisation Development (OD), which serve to supplement the ongoing people focus of our individual business units. • The Investec careers and HR teams are mandated to enable the attraction, development and retention of talent who can perform in a manner consistent with our culture and values. OD acts to strengthen the culture of the business, ensure its values are lived, build capability and contribute to the long-term sustainability of the organisation.	Pages 161 and 162 refer to our corporate responsibility report on our website.

Emerging and other risks

In addition to the principal risks outlined above, the risks below may have the potential to impact and/or influence our principal risks and consequently the operations, financial performance, viability and prospects of the group. A number of these risks are beyond the group's control and are considered in our capital plans, stress testing analyses and budget processes, where applicable. These emerging risks are briefly highlighted below and should be read in the context of our approach to risk management and our overall group risk appetite framework (refer to section three of this report).

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.

- **Macro-economic and geopolitical risks:** The group is subject to inherent risks arising from general macro-economic and geopolitical conditions in the countries in which it operates, including in particular the UK, as well as global economic and geopolitical conditions.

A macro-economic overview is provided on pages 15 to 19, and the impact of changes in the external environment during our financial year is discussed for each of the divisions on pages 41 to 43.

- **Fluctuations in exchange rates could have an adverse impact on the group's results of operations:** The group's reporting currency is Pounds Sterling. Certain of our operations are conducted by entities outside the UK. The results of operations and the financial position of individual companies are reported in the local currencies of the countries in which they are domiciled, including Australian Dollars, Euros and US Dollars. These results are then translated into Pounds Sterling at the applicable foreign currency exchange rates for inclusion in the group's financial statements. In the case of the income statement, the weighted average rate for the relevant period is applied and, in the case of the balance sheet, the relevant closing rate is used. Exchange rates between local currencies and Pounds Sterling have fluctuated over the financial year.
- **The group's borrowing costs and its access to debt capital markets depend significantly on its credit ratings:** Rating agencies have, in the past, altered their ratings of all or a majority of the participants in a given industry as a result of the risks affecting that industry. A reduction in the group's respective banking entities long- or short-term credit ratings could increase their borrowing costs, limit their access to capital markets and trigger additional collateral requirements in derivative contracts and other secured funding arrangements.

Rating upgrades and favourable changes in outlook were received by Investec plc and Investec Bank plc during the 2018 financial year. Further information is provided on page 107.

- **The financial services industry in which the group operates is intensely competitive:** The financial services industry is competitive and the group faces substantial competition in all aspects of its business. The group has developed leading positions in many of its core areas of activity, but does not take competition lightly, and our strategic objectives continue to focus on building business depth; providing the best integrated solution to our clients; and leveraging our digitisation strategy in order to remain competitive.

Refer to pages 15 to 19 for further information.

- **The group may be exposed to pension risk in relation to its UK operations:** Pension risk arises from obligations arising from defined benefit pension schemes where the group 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. Refer to page 98 for further information.

Emerging risks which have continued to unfold and develop during the year, and which are included in our stress tests include:

- **The UK's exit from the European Union:** On 23 June 2016 the UK voted to leave the European Union and the formal exit process commenced on 29 March 2017 when the UK triggered Article 50. Although negotiations between the UK and the European Union are still underway, the group faces certain risks associated with the UK's decision to exit the European Union.

  For example, the UK's vote in favour of leaving the European Union may alter the legal framework applicable to the group's European operations, including in relation to our current branch structure in Ireland and our ability to provide certain services from London to European clients.

  Investec Bank plc, Investec Asset Management and Investec Wealth & Investment have each carried out a Brexit impact assessment, identified key risks and are taking measures to mitigate them which will allow the group to service European clients once the UK leaves the EU.

Overview of our statutory results

Investec plc reported an operating profit before goodwill, acquired intangibles, non-operating items and taxation and after other non-controlling interests to £199.4 million for the year ended 31 March 2018 (2017: £224.9 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

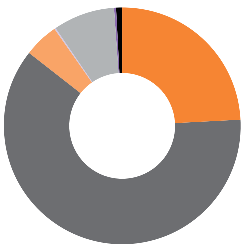
Total operating income before impairment losses on loans and advances of £1 380.2 million is 5.6% higher than the prior year. The various components of total operating income are analysed below.

£'000	31 March 2018	% of total income	31 March 2017	% of total income	% change
Net interest income	337 580	24.4%	289 181	22.1%	16.7%
Net fee and commission income	849 934	61.6%	803 863	61.5%	5.7%
Investment income	68 516	5.0%	59 975	4.6%	14.2%
Share of post taxation profit of associates	1 436	0.1%	2 349	0.2%	(38.9%)
Trading income/(loss) arising from					
– customer flow	114 402	8.3%	129 706	9.9%	(11.8%)
– balance sheet management and other trading activities	(2 069)	(0.2%)	8 672	0.7%	(>100.0%)
Other operating income	10 421	0.8%	13 195	1.0%	(21.0%)
Total operating income before impairments	**1 380 220**	**100.0%**	**1 306 941**	**100.0%**	**5.6%**

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

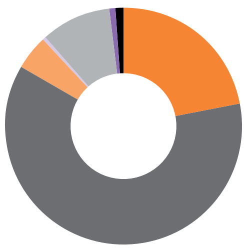
£'000	31 March 2018	% of total income	31 March 2017	% of total income	% change
Asset Management	352 367	25.5%	316 729	24.2%	11.3%
Wealth & Investment	314 210	22.8%	276 848	21.2%	13.5%
Specialist Banking	713 643	51.7%	713 364	54.6%	0.0%
Total operating income before impairments	**1 380 220**	**100.0%**	**1 306 941**	**100.0%**	**5.6%**

% of total operating income before impairments



31 March 2018
£1 380.2 million total operating income before impairments

Net interest income	24.4%
Net fee and commission income	61.6%
Investment income	5.0%
Share of post taxation profit of associates	0.1%
Trading income arising from customer flow	8.3%
Trading income arising from balance sheet management and other trading activities	(0.2%)
Other operating income	0.8%



31 March 2017
£1 306.9 million total operating income before impairments

Net interest income	22.1%
Net fee and commission income	61.5%
Investment income	4.6%
Share of post taxation profit of associates	0.2%
Trading income arising from customer flow	9.9%
Trading income arising from balance sheet management and other trading activities	0.7%
Other operating income	1.0%

Financial review

(continued)

Net interest income

Net interest income increased by 16.7% to £337.6 million (2017: £289.2 million) driven by robust levels of lending activity across the banking businesses and further supported by a reduction in the cost of funding.

£'000	31 March 2018	31 March 2017	Variance	% change
Asset Management	242	111	131	>100.0%
Wealth & Investment	5 181	4 368	813	18.6%
Specialist Banking	332 157	284 702	47 455	16.7%
Net interest income	**337 580**	**289 181**	**48 399**	**16.7%**

For a further analysis of interest received and interest paid refer to page 190.

Net fee and commission income

Net fee and commission income increased by 5.7% to £849.9 million (2017: £803.9 million) supported by higher average funds under management and strong net inflows in the Asset Management and Wealth Management businesses. This was partially offset by less investment banking activity following a strong prior year.

£'000	31 March 2018	31 March 2017	Variance	% change
Asset Management	355 230	308 084	47 146	15.3%
Wealth & Investment	296 907	267 847	29 060	10.8%
Specialist Banking	197 797	227 932	(30 135)	(13.2%)
Net fees and commissions	**849 934**	**803 863**	**46 071**	**5.7%**

For a further analysis on net fee and commission income refer to page 191.

Investment income

Investment income increased by 14.2% to £68.5 million (2017: £60.0 million) largely as a result of gains from the banking business's debt securities portfolio and the sale of the Wealth Management business's holding in the Irish Stock Exchange.

£'000	31 March 2018	31 March 2017	Variance	% change
Asset Management	(47)	–	(47)	–
Wealth & Investment	10 446	2 169	8 277	>100.0%
Specialist Banking	58 117	57 806	311	0.5%
Investment income	**68 516**	**59 975**	**8 541**	**14.2%**

For a further analysis on investment income refer to pages 191 to 192.

Trading income

Trading income from customer flow decreased by 11.8% to £114.4 million (2017: £129.7 million) as a consequence of lower volatility, relative to the elevated levels experienced in the prior year following the Brexit vote; trading income from other trading activities reflected a loss of £2.1 million (2017: £8.7 million income).

Arising from customer flow

£'000	31 March 2018	31 March 2017	Variance	% change
Asset Management	–	–	–	–
Wealth & Investment	1 032	740	292	39.5%
Specialist Banking	113 370	128 966	(15 596)	(12.1%)
Trading income arising from customer flow	**114 402**	**129 706**	**(15 304)**	**(11.8%)**

Arising from balance sheet management and other trading activities

£'000	31 March 2018	31 March 2017	Variance	% change
Asset Management	(5 189)	3 221	(8 410)	(>100.0%)
Wealth & Investment	(7)	215	(222)	(>100.0%)
Specialist Banking	3 127	5 236	(2 109)	(40.3%)
Trading income arising from balance sheet management and other trading activities	**(2 069)**	**8 672**	**(10 741)**	**(>100.0%)**

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 67.

Operating costs

The cost to income ratio amounted to 78.0% (2017: 77.0%). 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 6.9% to £1 076.5 million (2017: £1 007.3 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 private client offerings in the Specialist Banking and Wealth & Investment businesses.

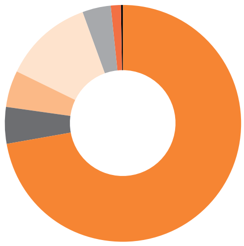
The various components of total operating costs are analysed below.

£'000	31 March 2018	% of total operating costs	31 March 2017	% of total operating costs	% change
Staff costs (including directors' remuneration)	(778 791)	72.4%	(726 614)	72.1%	7.2%
Premises expenses (excluding depreciation)	(52 167)	4.9%	(52 979)	5.3%	(1.5%)
Equipment expenses (excluding depreciation)	(54 997)	5.1%	(48 379)	4.8%	13.7%
Business expenses	(130 688)	12.1%	(122 714)	12.2%	6.5%
Marketing expenses	(44 243)	4.1%	(42 744)	4.2%	3.5%
Depreciation and impairment of property, plant, equipment and software	(13 226)	1.2%	(11 700)	1.2%	13.0%
Depreciation on operating leased assets	(2 350)	0.2%	(2 141)	0.2%	9.8%
Total operating costs	**(1 076 462)**	**100.0%**	**(1 007 271)**	**100.0%**	**6.9%**

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

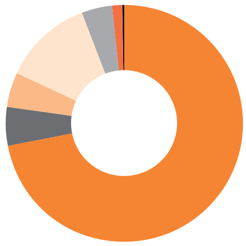
£'000	31 March 2018	% of total operating costs	31 March 2017	% of total operating costs	% change
Asset Management	(248 449)	23.1%	(225 466)	22.4%	10.2%
Wealth & Investment	(244 940)	22.8%	(211 658)	21.0%	15.7%
Specialist Banking	(549 284)	51.0%	(533 984)	53.0%	2.9%
Group costs	(33 789)	3.1%	(36 163)	3.6%	(6.6%)
Total operating costs	**(1 076 462)**	**100.0%**	**(1 007 271)**	**100.0%**	**6.9%**

% of total operating costs



31 March 2018
£1 076.5 million total operating costs

Staff compensation costs	72.4%
Premises expenses (excluding depreciation)	4.9%
Equipment expenses (excluding depreciation)	5.1%
Business expenses	12.1%
Marketing expenses	4.1%
Depreciation and impairment of property, plant, equipment and software	1.2%
Depreciation on operating leased assets	0.2%



31 March 2017
£1 007.3 million total operating costs

Staff compensation costs	72.1%
Premises expenses (excluding depreciation)	5.3%
Equipment expenses (excluding depreciation)	4.8%
Business expenses	12.2%
Marketing expenses	4.2%
Depreciation and impairment of property, plant, equipment and software	1.2%
Depreciation on operating leased assets	0.2%

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 19.6% (2017: 17.4%).

	Effective operational tax rates				
£'000	**2018**	**2017**	**31 March 2018 £'000**	**31 March 2017 £'000**	**% change**
Tax	19.6%	17.4%	38 509	39 144	(1.6%)

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

Net profit attributable to non-controlling interests

Net profit attributable to non-controlling interests mainly comprises:

- £14.8 million profit attributable to non-controlling interests in the Asset Management business (2017: £11.8 million).

Statutory balance sheet analysis

Since 31 March 2017:

- Total equity increased by 15.2% to £2.3 billion (31 March 2017: £2.0 billion) largely due to an increase in retained earnings and the issuance of Additional Tier 1 securities during the year.
- Total assets increased 9.7% to £20.6 billion (31 March 2017: £18.8 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 33 to 39.

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 40) 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 34 to 35.

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	337 283	289 825	47 458	16.4%
Net fee and commission income	849 941	803 930	46 011	5.7%
Investment income	68 190	59 403	8 787	14.8%
Share of post taxation profit of associates	1 436	2 349	(913)	(38.9%)
Trading income/(loss) arising from				
– customer flow	114 420	129 711	(15 291)	(11.8%)
– balance sheet management and other trading activities	(2 088)	8 532	(10 620)	(>100.0%)
Other operating income	10 344	12 870	(2 526)	(19.6%)
Total operating income before impairment losses on loans and advances	**1 379 526**	**1 306 620**	**72 906**	**5.6%**
Impairment losses on loans and advances	(21 419)	(20 651)	(768)	3.7%
Operating income	**1 358 107**	**1 285 969**	**72 138**	**5.6%**
Operating costs	(1 064 582)	(994 522)	(70 060)	7.0%
Depreciation on operating leased assets	(2 350)	(2 141)	(209)	9.8%
Operating profit before goodwill and acquired intangibles	**291 175**	**289 306**	**1 869**	**0.6%**
Loss attributable to other non-controlling interests	1 684	180	1 504	>100.0%
Profit attributable to Asset Management non-controlling interests	(14 762)	(11 807)	(2 955)	25.0%
Operating profit before goodwill, acquired intangibles and after non-controlling interests	**278 097**	**277 679**	**418**	**0.2%**
Taxation	(56 835)	(50 383)	(6 452)	12.8%
Attributable earnings before goodwill, acquired intangibles and non-operating items	**221 262**	**227 296**	**(6 034)**	**(2.7%)**
Cost to income ratio	77.3%	76.2%		

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	337 580	297	337 283
Net fee and commission income/(expense)	849 934	(7)	849 941
Investment income	68 516	326	68 190
Share of post taxation profit of associates	1 436	–	1 436
Trading income/(loss) arising from			
– customer flow	114 402	(18)	114 420
– balance sheet management and other trading activities	(2 069)	19	(2 088)
Other operating income	10 421	77	10 344
Total operating income before impairment losses on loans and advances	**1 380 220**	**694**	**1 379 526**
Impairment losses on loans and advances	(106 085)	(84 666)	(21 419)
Operating income	**1 274 135**	**(83 972)**	**1 358 107**
Operating costs	(1 074 112)	(9 530)	(1 064 582)
Depreciation on operating leased assets	(2 350)	–	(2 350)
Operating profit/(loss) before goodwill and acquired intangibles	**197 673**	**(93 502)**	**291 175**
Loss attributable to other non-controlling interests	1 684	–	1 684
Profit attributable to Asset Management non-controlling interests	(14 762)	–	(14 762)
Operating profit/(loss) before goodwill, acquired intangibles and after non-controlling interests	**184 595**	**(93 502)**	**278 097**
Taxation	(38 509)	18 326*	(56 835)
Attributable earnings before goodwill, acquired intangibles and non-operating items	**146 086**	**(75 176)**	**221 262**
Cost to income ratio	78.0%		77.3%

* *Applying Investec plc's effective statutory taxation rate of 19.6%.*

^ *Refer to page 174.*

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)	289 181	(644)	289 825
Net fee and commission income/(expense)	803 863	(67)	803 930
Investment income	59 975	572	59 403
Share of post taxation profit of associates	2 349	–	2 349
Trading income/(loss) arising from			
– customer flow	129 706	(5)	129 711
– balance sheet management and other trading activities	8 672	140	8 532
Other operating income	13 195	325	12 870
Total operating income before impairment losses on loans and advances	**1 306 941**	**321**	**1 306 620**
Impairment losses on loans and advances	(74 956)	(54 305)	(20 651)
Operating income	**1 231 985**	**(53 984)**	**1 285 969**
Operating costs	(1 005 130)	(10 608)	(994 522)
Depreciation on operating leased assets	(2 141)	–	(2 141)
Operating profit/(loss) before goodwill and acquired intangibles	**224 714**	**(64 592)**	**289 306**
Loss attributable to other non-controlling interests	180	–	180
Profit attributable to Asset Management non-controlling interests	(11 807)		(11 807)
Operating profit/(loss) before goodwill, acquired intangibles and after non-controlling interests	**213 087**	**(64 592)**	**277 679**
Taxation	(39 144)	11 239*	(50 383)
Attributable earnings before goodwill, acquired intangibles and non-operating items	**173 943**	**(53 353)**	**227 296**
Cost to income ratio	77.0%		76.2%

* *Applying Investec plc's effective statutory taxation rate of 17.4%.*
^ *Refer to page 174.*

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	332 157	297	331 860
Net fee and commission income/(expense)	197 797	(7)	197 804
Investment income	58 117	326	57 791
Share of post taxation profit of associates	1 020	–	1 020
Trading income/(loss) arising from			
– customer flow	113 370	(18)	113 388
– balance sheet management and other trading activities	3 127	19	3 108
Other operating income	8 055	77	7 978
Total operating income before impairment losses on loans and advances	**713 643**	**694**	**712 949**
Impairment losses on loans and advances	(106 085)	(84 666)	(21 419)
Operating income	**607 558**	**(83 972)**	**691 530**
Operating costs	(546 934)	(9 530)	(537 404)
Depreciation on operating leased assets	(2 350)	–	(2 350)
Operating profit/(loss) before goodwill and acquired intangibles	**58 274**	**(93 502)**	**151 776**
Loss attributable to other non-controlling interests	1 684	–	1 684
Operating profit/(loss) before goodwill, acquired intangibles and after non-controlling interests	**59 958**	**(93 502)**	**153 460**

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)	284 702	(644)	285 346
Net fee and commission income/(expense)	227 932	(67)	227 999
Investment income	57 806	572	57 234
Share of post taxation profit of associates	840	–	840
Trading income/(loss) arising from			
– customer flow	128 966	(5)	128 971
– balance sheet management and other trading activities	5 236	140	5 096
Other operating income	7 882	325	7 557
Total operating income before impairment losses on loans and advances	**713 364**	**321**	**713 043**
Impairment losses on loans and advances	(74 956)	(54 305)	(20 651)
Operating income	638 408	(53 984)	692 392
Operating costs	(531 843)	(10 608)	(521 235)
Depreciation on operating leased assets	(2 141)	–	(2 141)
Operating profit/(loss) before goodwill and acquired intangibles	**104 424**	**(64 592)**	**169 016**
Loss attributable to other non-controlling interests	180	–	180
Operating profit/(loss) before goodwill, acquired intangibles and after non-controlling interests	**104 604**	**(64 592)**	**169 196**

^ *Refer to page 189.*

Segmental and business analysis of operating profit before goodwill, acquired intangibles, non-operating items, taxation and after other non-controlling interests – ongoing business

For the year to 31 March £'000	2018	2017	% change
Asset Management	103 918	91 263	13.9%
Wealth & Investment	69 270	65 190	6.3%
Specialist Banking	153 460	169 196	(9.3%)
	326 648	**325 649**	**0.3%**
Group costs	(33 789)	(36 163)	6.6%
Total group	**292 859**	**289 486**	**1.2%**

A reconciliation of Specialist Banking's operating profit: ongoing vs statutory basis

For the year to 31 March £'000	2018	2017	% change
Total ongoing Specialist Banking per above	153 460	169 196	(9.3%)
UK legacy remaining	(93 502)	(64 592)	(44.8%)
Total Specialist Banking per statutory accounts	**59 958**	**104 604**	**(42.7%)**

Ongoing segmental business analysis – summarised income statement

For the year to 31 March 2018 £'000	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Total group
Net interest income	242	5 181	331 860	–	337 283
Net fee and commission income	355 230	296 907	197 804	–	849 941
Investment income	(47)	10 446	57 791	–	68 190
Share of post taxation profit of associates	–	416	1 020	–	1 436
Trading income/(loss) arising from:					
– customer flow	–	1 032	113 388	–	114 420
– balance sheet management and other trading activities	(5 189)	(7)	3 108	–	(2 088)
Other operating income	2 131	235	7 978	–	10 344
Total operating income before impairment losses on loans and advances	**352 367**	**314 210**	**712 949**	**–**	**1 379 526**
Impairment losses on loans and advances	–	–	(21 419)	–	(21 419)
Operating income	**352 367**	**314 210**	**691 530**	**–**	**1 358 107**
Operating costs	(248 449)	(244 940)	(537 404)	(33 789)	(1 064 582)
Depreciation on operating leased assets	–	–	(2 350)	–	(2 350)
Operating profit/(loss) before goodwill and acquired intangibles	**103 918**	**69 270**	**151 776**	**(33 789)**	**291 175**
Loss attributable to other non-controlling interests	–	–	1 684	–	1 684
Operating profit/(loss) before goodwill, acquired intangibles and non-operating items and after other non-controlling interests	**103 918**	**69 270**	**153 460**	**(33 789)**	**292 859**
Profit attributable to Asset Management non-controlling interests	(14 762)	–	–	–	(14 762)
Operating profit before goodwill, acquired intangibles and after non-controlling interests	**89 156**	**69 270**	**153 460**	**(33 789)**	**278 097**
Cost to income ratio	70.5%	78.0%	75.6%	n/a	77.3%

For the year to 31 March 2017 £'000	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Total group
Net interest income	111	4 368	285 346	–	289 825
Net fee and commission income	308 084	267 847	227 999	–	803 930
Investment income	–	2 169	57 234	–	59 403
Share of post taxation profit of associates	–	1 509	840	–	2 349
Trading income arising from:					
– customer flow	–	740	128 971	–	129 711
– balance sheet management and other trading activities	3 221	215	5 096	–	8 532
Other operating income	5 313	–	7 557	–	12 870
Total operating income before impairment losses on loans and advances	**316 729**	**276 848**	**713 043**	**–**	**1 306 620**
Impairment losses on loans and advances	–	–	(20 651)		(20 651)
Operating income	**316 729**	**276 848**	**692 392**	**–**	**1 285 969**
Operating costs	(225 466)	(211 658)	(521 235)	(36 163)	(994 522)
Depreciation on operating leased assets	–	–	(2 141)		(2 141)
Operating profit/(loss) before goodwill and acquired intangibles	**91 263**	**65 190**	**169 016**	**(36 163)**	**289 306**
Loss attributable to other non-controlling interests	–	–	180	–	180
Operating profit/(loss) before goodwill, acquired intangibles and after other non-controlling interests	**91 263**	**65 190**	**169 196**	**(36 163)**	**289 486**
Profit attributable to Asset Management non-controlling interests	(11 807)	–	–	–	(11 807)
Operating profit before goodwill, acquired intangibles and after non-controlling interests	**79 456**	**65 190**	**169 196**	**(36 163)**	**277 679**
Cost to income ratio	71.2%	76.5%	73.3%	n/a	76.2%

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	**9 412 611**	**8 169 901**
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	**9 374 177**	**8 144 545**
Average gross core loans and advances to customers	**8 791 256**	**7 706 123**
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	**9 839 064**	**426 453**	**9 412 611**
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	**9 687 224**	**313 047**	**9 374 177**
31 March 2017			
Gross core loans and advances to customers	**8 747 618**	**577 717**	**8 169 901**
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	**8 620 742**	**476 197**	**8 144 545**

^ *Refer to page 67.*

The 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

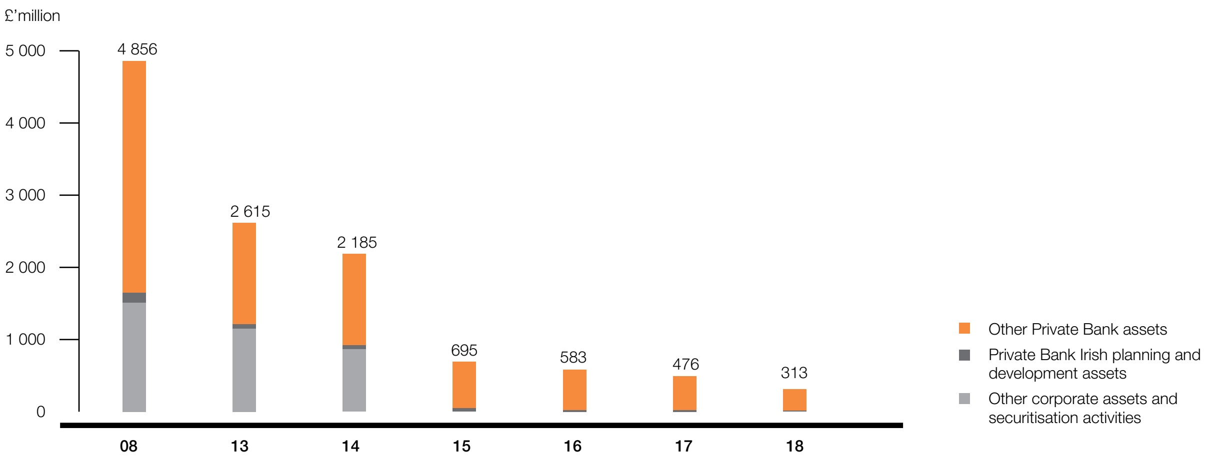
Since 31 March 2017 the group's legacy portfolio in the UK has continued to be actively managed down from £476 million to £313 million through asset sales, redemptions and write-offs. The total legacy business over the period reported a loss before taxation of £93.5 million (2017: £64.6 million) reflecting 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

£'000	31 March 2018 Total net assets (after impairments)	31 March 2018 Total balance sheet impairment	31 March 2017 Total net assets (after impairments)	31 March 2017 Total balance sheet impairment
Private Bank Irish planning and development assets	12	1	18	9
Other Private Bank assets	301	112	458	93
Total 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

Hendrik du Toit

Chief executive officer

Asset Management

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

The global political environment remains uncertain. Notwithstanding this, markets have remained buoyant, thus supporting growth in our assets under management. The fundamentals for long-term growth in the asset management industry remain strong: the growing need for retirement savings and the growing wealth of developing economies are expanding the global pool of long-term savings – the key growth driver for our industry. These factors are expected to increase global assets under management from c. $85 trillion in 2016 to c. $145 trillion by 2025. *(Source: PricewaterhouseCoopers)*

There are however multiple challenges facing our industry. These include the risk of a market correction, growing regulatory scrutiny, technological advancements and the need to justify value for money (especially against passive strategies). The result is fee pressure, rising fixed costs and increased investment in technology – in summary, a more competitive market in which excellence continues to be rewarded but mediocrity punished.

One of the responses to the increased competitiveness of the asset management industry is consolidation in the market. In 2017, we saw deals that were motivated by expanding product range, increasing distribution footprint, cost synergies and adapting in response to the regulatory environment. However, Investec Asset Management remains firmly committed to its path of long-term organic growth.

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

Positive net inflows of £5.4 billion for the last 12 months and competitive investment performance were the highlights for the year. Our net flows were positive across all regions, largely driven by inflows from the Americas and Asia-Pacific regions. Our Advisor net flows were significant, in all regions, over the year.

Beyond our financial results, we have been devoting time to clarify our purpose and our impact as a global business, including owning the sustainability agenda. We want to ensure that we are responsible and sustainable in all our activities. We have a motivated and energetic team with a long-term orientation, which is organically built around, and focused on, excellence. Investment performance and clients are always our priority.

Following the announcement of the succession plan at Investec group, transition planning at Investec Asset Management is well underway. We have an orderly and well-executed transition in progress which will be completed by the end of the first half of the 2019 financial year. I am confident that my successors, John Green and Mimi Ferrini, will take Investec Asset Management to new heights during their tenure as Joint CEOs.

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

Our fundamental strategic objectives and principles remain unchanged: we want to assist people around the globe to retire with dignity or to meet their financial objectives. We do this by offering organically developed investment capabilities through active segregated mandates or mutual funds to sophisticated clients. We operate globally in both the Institutional and Advisor space through five geographically defined client groups and have an approach to growth that is driven by sensible medium to long-term investment performance.

Over the coming financial year, we will endeavour to deliver competitive investment performance, scale our Multi-Asset and Quality capabilities and grow our presence in large markets, with a particular focus on North America, while maintaining the strong momentum we have in the Advisor market.

We continue to evolve all our investment capabilities for the future, including building a compelling foundation for Alternatives.

Since the conclusion of the previous financial year, we have achieved positive momentum in respect of both inflows and investment performance. However, we are aware of the fundamental challenges that face our industry, and the possibility of a market correction. We recognise the need to offer value for money to our clients, and be able to explain how this value is delivered. We believe value is a combination of active long-term alpha, appropriate and relevant products, combined with a compelling service and pricing proposition.

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

At Investec Asset Management, we always think about the long term. We are organically building a long-term intergenerational business and as such concentrate less on short-term outcomes. We believe that we have created a sustainable, competitive long-term business and remain committed to being an active investment manager. We believe that the opportunity for growth in our industry over the next five years is substantial. Our momentum is positive and we are confident about our future.

Questions and answers

Steve Elliott

Global head

Wealth & Investment

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) requirements 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 and Ciaran Whelan

Specialist Banking

Geographical business leaders

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 group and ensure they are implemented and adhered to consistently
- Aggregate and monitor our exposure across risk classes
- Coordinate risk management activities across the organisation, covering all legal entities and jurisdictions
- Give the boards reasonable assurance that the risks we are exposed to are identified and appropriately managed and controlled
- Run appropriate risk committees, as mandated by the board.

Overview of disclosure requirements

Risk disclosures provided in line with the requirements of International Financial Reporting Standard 7 Financial Instruments: Disclosures (IFRS 7) and disclosures on capital required by International Accounting Standard 1 Presentation of Financial Statements (IAS 1) are included within this section of the annual report on pages 48 to 106 with further disclosures provided in the annual financial statements section on pages 165 to 255.

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 plc consolidated basis unless otherwise stated.

The Investec plc group 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 group's risk appetite statement sets broad parameters relating to the board's expectations around performance, business stability and risk management. The board ensures that there are appropriate resources to manage the risk arising from running our businesses.

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

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

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 group. There are specialist divisions in the UK and smaller risk divisions in other regions tasked with promoting sound risk management practices.

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

We believe that the risk management systems and processes we have in place are adequate to support the group's strategy and allow the group to operate within its risk appetite tolerance as set out on page 49.

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.

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

As part of the Investec group's orderly succession plan to move from founding members to the next generation of leadership, a number of board and management changes have been announced. These are disclosed in detail on pages 115 to 117. The process has been well managed and there has been no negative impact on the group's operations.

Although the macro-environment continues to present challenges, the group was able to maintain sound asset performance and risk metrics throughout the year in review. Our risk appetite framework as set out on page 49 continues to be assessed in light of prevailing market conditions and group strategy.

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

In September 2017, Investec Bank plc's long-term deposit rating was upgraded by Fitch to BBB+ (stable outlook) and Moody's changed both the outlook on 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 group are at a manageable level, amounting to 11.6% of our tier 1 equity, with total impairments amounting to 34.7% of the group's pre-provision operating profit. The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounted to 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 2.97% 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 8.8 times and a core loans to equity ratio of 4.1 times. Our current leverage ratio for Investec plc is at 8.2%, ahead of the group's minimum 6% target level.

We have always held capital well in excess of regulatory requirements and we intend to perpetuate this philosophy. Investec plc's common equity tier 1 ratio is at 10.6% 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 £5.8 billion at year end, representing 50% 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 plc and Investec Bank plc (solo basis), the Liquidity Coverage Ratio (LCR) is calculated using our own interpretations of the EU Delegated Act. The LCR reported to the PRA at 31 March 2018 was 306% for Investec plc and 301% for Investec Bank plc (solo basis) which is well ahead of the regulatory minimum of 100%. Ahead of the implementation of the final Net Stable Funding Ratio (NSFR) rules, the group has applied its own interpretations of regulatory guidance and definitions from the Basel Committee of Banking Supervision (BCBS) final guidelines, to calculate the NSFR which was 142% for Investec plc and 133% for Investec Bank plc (solo basis), well ahead of the future regulatory minimum of 100%. The reported LCR and NSFR may change over time with regulatory developments and guidance.

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

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

The board, through its various risk and capital committees, continued to assess the impact of its principal risks and the abovementioned stress scenarios on its business. The board has concluded that the group has robust systems and processes in place to manage these risks and that, while under a severe stress scenario business activity would be very subdued, the group would continue to maintain adequate liquidity and capital balances to support the continued operation of the group. Our viability statement is provided on pages 152 to 153.

IFRS 9 is effective from 1 April 2018. IFRS 9 replaces IAS 39 and sets out the new requirements for the recognition and measurement of financial instruments. These requirements focus primarily on the classification and measurement of financial instruments and measurement of impairment losses based on an expected credit loss (ECL) model. Investec plc confirmed to the PRA 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 187. In addition, the group has published its detailed transitional disclosures on 29 June 2018 separately from its annual report and these can be found on the Investec group's website.

Conclusion

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

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)	9 687	8 621
Total assets (£'million)	20 612	18 789
Total risk-weighted assets (£'million)	14 411	13 312
Total equity (£'million)	2 341	2 032
Cash and near cash (£'million)	5 813	5 026
Customer accounts (deposits) (£'million)	11 637	11 022
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	2.97%	3.31%
Level 3 (fair value assets) as a % of total assets	3.64%	3.65%
Traded market risk: one day value at risk (£'million)	0.5	0.5
Core loans to equity ratio	4.1x	4.2x
Total gearing ratio**	8.8x	9.2x
Loans and advances to customers to customer deposits	83.2%	78.2%
Capital adequacy ratio°	15.0%	14.6%
Tier 1 ratio°	12.5%	11.1%
Common equity tier 1 ratio°	10.6%	10.9%
Leverage ratio°	8.2%	7.5%
Return on average assets#	0.71%	0.92%
Return on average risk-weighted assets#	1.00%	1.36%

* *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 103.*
\# *Where return represents operating profit after taxation and non-controlling interests and after deducting preference dividends, but before goodwill, acquired intangibles and non-operating items. Average balances are calculated on a straight-line average.*

Overall group risk appetite

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

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

Risk appetite and tolerance metrics	Investec 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 62% to total operating income and capital intensive activities contributed 38%
• 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 72.5% of total operating income.
• We seek to maintain strict control over fixed costs and target a group cost to income ratio of below 70%	The cost to income ratio amounted to 78.0%. Refer to page 31 for further information
• We are a lowly leveraged firm and target a leverage ratio in all our banking subsidiaries in excess of 6%	We achieved this internal target; refer to page 104 for further information
• We intend to maintain a sufficient level of capital to satisfy regulatory requirements and our internal target ratios. We target a capital adequacy ratio range of between 14% and 17% on a consolidated basis for Investec plc and 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 15.0% and our common equity tier 1 ratio amounted to 10.6%. Refer to pages 100 and 106 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 (up to 10% if approved by the relevant board committee). We also have a number of risk tolerance limits and targets for specific asset classes	We maintained this risk tolerance level in place throughout the year
• There is a preference for primary exposure in Investec plc's main operating geography (i.e. the UK). The group will accept exposures where we have a branch or local banking subsidiary and tolerate exposures to other countries where we have developed a local understanding and capability or we are facilitating a transaction for a client who requires facilities in a foreign geography	Refer to page 52 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 67 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 £5.8 billion at year end representing 50% of customer deposits. Refer to page 88 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 83 for further information
• We have moderate appetite for investment risk, and set a risk tolerance of less than 30% of common equity tier 1 capital for our unlisted principal investment portfolio	Our unlisted investment portfolio amounted to £417 million representing 27.4% of common equity tier 1. Refer to page 79 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 94 to 97 for further information
• We have a number of policies and practices in place to mitigate reputational, legal and conduct risks	Refer to pages 97 and 98 for further information

An overview of our principal risks

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

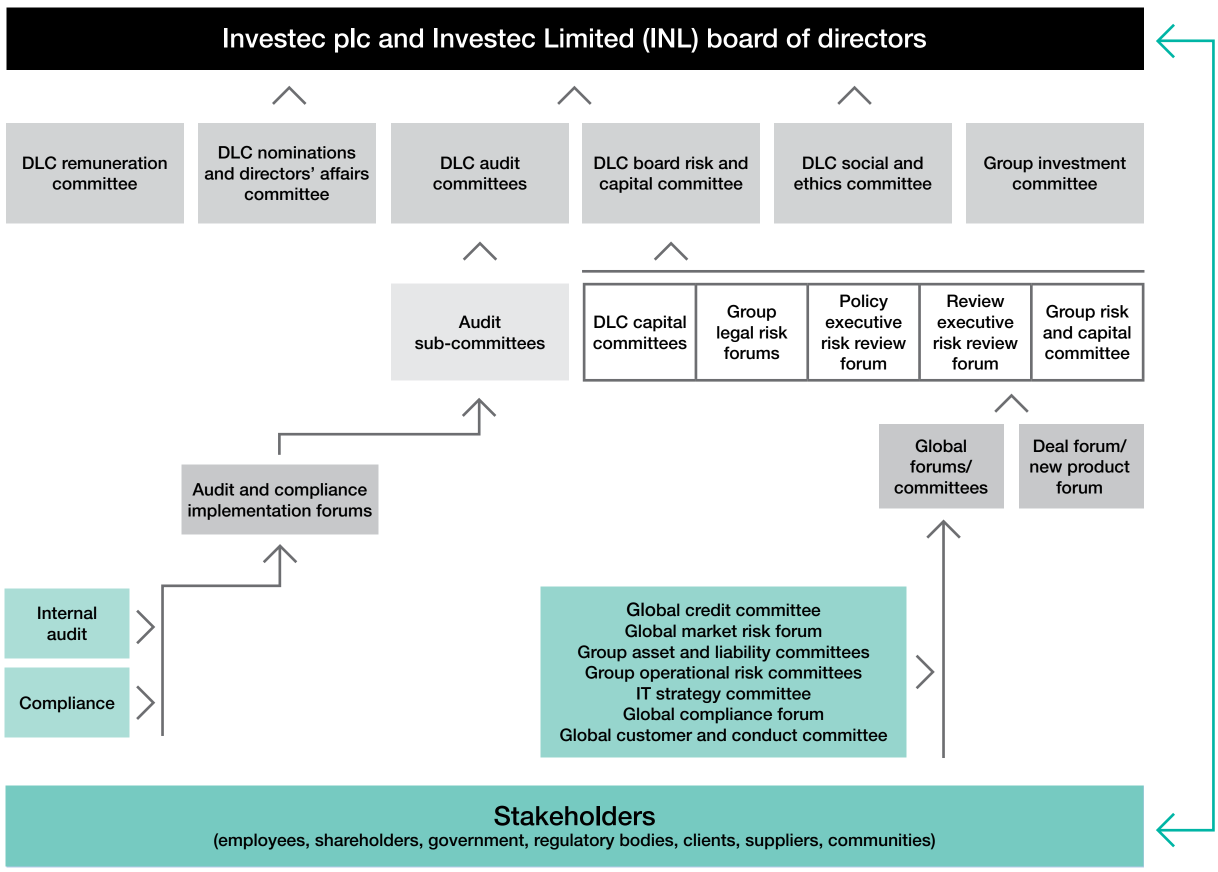
These principal risks have been highlighted on pages 22 to 28.

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

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

Risk management framework, committees and forums

A number of committees and forums identify and manage risk at group level, as shown in the diagram below. These committees and forums 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
BCBS	Basel Committee of Banking Supervision
BIS	Bank for International Settlements
BoE	Bank of England
BRCC	Board risk and capital committee
EBA	European Banking Authority
ECB	European Central Bank
ERC	Executive risk committee
FCA	Financial Conduct Authority
FSB	Financial Services Board
GRCC	Group risk and capital committee
PCCC	Prudential conduct and controls committee
Policy ERRF	Policy executive risk review forum
PRA	Prudential Regulation Authority
Review ERRF	Review executive risk review forum

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

There is a preference for primary exposure in the group's main operating geography (i.e. the UK). The group 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 76 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.

Risk management

(continued)

Our assessment of our clients includes consideration of their character and integrity, core competencies, track record and financial strength

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

Concentration risk

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

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

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

Country risk

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

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

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

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

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

Corporate responsibility considerations

Investec has a holistic approach to corporate responsibility, which runs beyond recognising our own footprint on the environment and includes our many corporate social investment activities and our 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 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 group applies the standardised approach for calculating capital requirements in the assessment of its credit and counterparty exposures.

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

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

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

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

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

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

Credit and counterparty risk – nature of activities

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

Lending collateralised by property

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

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

An analysis of the lending collateralised by property portfolio and asset quality information is provided on pages 73 to 74.

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 73 to 74.

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
- **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 73 to 74.

Wealth & Investment

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

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

Asset Management

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

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

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.

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

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 76.

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.

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 85.

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 51 to 59 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 £19.2 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 £5.8 billion and are largely reflected in the following line items in the table below: cash and balances at central banks, loans and advances to banks 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	1 003 796	1 130 998	(11.2%)	1 067 397
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	278 474	398 278	(30.1%)	338 376
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)	9 839 064	8 747 618	12.5%	9 293 341
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	**18 011 192**	**16 093 509**	**11.9%**	**17 052 351**
Guarantees ^	21 709	27 204	(20.2%)	24 457
Contingent liabilities, committed facilities and other	1 213 360	1 524 436	(20.4%)	1 368 898
Total off-balance sheet exposures	**1 235 069**	**1 551 640**	**(20.4%)**	**1 393 355**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**19 246 261**	**17 645 149**	**9.1%**	**18 445 706**

* *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 refer-ence	Total balance sheet
At 31 March 2018				
Cash and balances at central banks	3 479 639	8 130		3 487 769
Loans and advances to banks	1 003 796	–		1 003 796
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	278 474	–		278 474
Derivative financial instruments	513 836	83 428		597 264
Securities arising from trading activities	496 498	205 230		701 728
Investment portfolio	–	477 919	1	477 919
Loans and advances to customers	9 839 064	(151 840)	2	9 687 224
Other loans and advances	332 672	28 259	3	360 931
Other securitised assets	8 668	123 504	4	132 172
Interest in associated undertakings	–	77 059		77 059
Deferred taxation assets	–	98 156		98 156
Other assets	44 707	1 124 872	5	1 169 579
Property and equipment	–	54 493		54 493
Investment properties	–	14 500		14 500
Goodwill	–	356 265		356 265
Intangible assets	–	100 585		100 585
Total on-balance sheet exposures	**18 011 192**	**2 600 560**		**20 611 752**

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 group manages all risks (including credit risk) from a day-to-day operational perspective, certain assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicles that the group has reflected in the 'total credit and counterparty exposure' with the maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'.*
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 reference	Total balance sheet
At 31 March 2017				
Cash and balances at central banks	2 850 664	2 907		2 853 571
Loans and advances to banks	1 130 998	–		1 130 998
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	398 278	–		398 278
Derivative financial instruments	554 710	49 465		604 175
Securities arising from trading activities	331 705	191 055		522 760
Investment portfolio	–	459 745	1	459 745
Loans and advances to customers	8 747 618	(126 876)	2	8 620 742
Other loans and advances	343 090	70 340	3	413 430
Other securitised assets	12 851	125 777	4	138 628
Interest in associated undertakings	–	63 390		63 390
Deferred taxation assets	–	89 941		89 941
Other assets	49 894	1 226 238	5	1 276 132
Property and equipment	–	60 528		60 528
Investment properties	–	14 500		14 500
Goodwill	–	355 155		355 155
Intangible assets	–	112 943		112 943
Total on-balance sheet exposures	**16 093 509**	**2 695 108**		**18 788 617**

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 group manages all risks (including credit risk) from a day-to-day operational perspective, certain assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicles that the group has reflected in the 'total credit and counterparty exposure' with the maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'.*
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.*

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	998 650	15	–	5 131	–	–	1 003 796
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	104 230	19 180	148 409	278 474
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)	1 495 540	632 016	1 292 448	4 796 708	1 189 958	432 394	9 839 064
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	**7 184 567**	**1 120 451**	**1 556 176**	**5 292 995**	**1 442 357**	**1 414 646**	**18 011 192**
Guarantees^	7 269	–	4 548	9 892	–	–	21 709
Contingent liabilities, committed facilities and other	165 937	53 224	118 438	776 987	58 845	39 929	1 213 360
Total off-balance sheet exposures	**173 206**	**53 224**	**122 986**	**786 879**	**58 845**	**39 929**	**1 235 069**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**7 357 773**	**1 173 675**	**1 679 162**	**6 079 874**	**1 501 202**	**1 454 575**	**19 246 261**

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

Detailed analysis of gross credit and counterparty exposures by industry

£'000	High net worth and professional individuals	Lending collateralised by property	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services	Finance and insurance
At 31 March 2018							
Cash and balances at central banks	–	–	–	–	3 479 639	–	–
Loans and advances to banks	–	–	–	–	–	–	1 003 796
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	–	40 232
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**	**4 135 039**
Guarantees^	15 443	2 700	–	–	–	–	1 510
Contingent liabilities, committed facilities and other	128 195	315 027	–	177 238	22 710	74 350	251 279
Total off-balance sheet exposures	**143 638**	**317 727**	**–**	**177 238**	**22 710**	**74 350**	**252 789**
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**	**4 387 828**
At 31 March 2017							
Cash and balances at central banks	–	–	–	–	2 850 664	–	–
Loans and advances to banks	–	–	–	–	–	–	1 130 998
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	128 797
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**	**3 982 993**
Guarantees^	17 652	153	–	–	–	–	–
Contingent liabilities, committed facilities and other	137 775	224 153	–	411 106	40 922	62 215	274 279
Total off-balance sheet exposures	**155 427**	**224 306**	**–**	**411 106**	**40 922**	**62 215**	**274 279**
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**	**509 466**	**4 257 272**

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

Retailers and wholesalers	Manufac-turing and commerce	Construc-tion	Corporate commercial real estate	Other residential mortgages	Mining and resources	Leisure, entertain-ment and tourism	Transport	Communi-cation	Total
–	–	–	–	–	–	–	–	–	3 479 639
–	–	–	–	–	–	–	–	–	1 003 796
–	–	–	–	–	–	–	–	–	750 428
–	–	–	–	–	–	–	–	–	1 155 472
–	–	–	–	–	–	–	–	–	107 938
320	–	19 011	–	39 751	31 860	–	73 704	6 868	278 474
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
283 667	777 815	64 432	131 975	–	127 638	229 665	1 271 227	135 231	9 839 064
–	–	–	–	212 787	–	–	–	–	332 672
–	–	–	–	8 668	–	–	–	–	8 668
–	–	–	–	–	–	–	–	–	44 707
318 992	**798 298**	**86 676**	**135 105**	**261 206**	**178 183**	**230 833**	**1 373 349**	**167 911**	**18 011 192**
–	–	–	–	–	1 848	–	–	208	21 709
50 155	56 113	6 643	3 173	–	95 653	20 867	4 166	7 791	1 213 360
50 155	**56 113**	**6 643**	**3 173**	**–**	**97 501**	**20 867**	**4 166**	**7 999**	**1 235 069**
369 147	**854 411**	**93 319**	**138 278**	**261 206**	**275 684**	**251 700**	**1 377 515**	**175 910**	**19 246 261**
–	–	–	–	–	–	–	–	–	2 850 664
–	–	–	–	–	–	–	–	–	1 130 998
–	–	–	–	–	–	–	–	–	536 173
–	–	–	–	–	–	–	–	–	952 902
–	–	–	–	–	–	–	–	–	184 626
195	45 106	–	–	74 338	42 694	2 775	43 434	6 259	398 278
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
414 629	637 182	52 833	100 941	–	120 544	291 573	989 328	182 896	8 747 618
–	–	–	48	224 535	–	–	–	–	343 090
–	–	–	–	12 851	–	–	–	–	12 851
–	2 223	–	–	–	–	–	–	–	49 894
430 881	**732 324**	**53 360**	**103 354**	**314 616**	**170 430**	**298 978**	**1 047 558**	**201 426**	**16 093 509**
–	–	–	–	–	9 193	–	–	206	27 204
87 788	64 985	–	6 296	–	125 662	19 998	51 949	17 308	1 524 436
87 788	**64 985**	**–**	**6 296**	**–**	**134 855**	**19 998**	**51 949**	**17 514**	**1 551 640**
518 669	**797 309**	**53 360**	**109 650**	**314 616**	**305 285**	**318 976**	**1 099 507**	**218 940**	**17 645 149**

Corporate client loans account for 60.3% 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 54 and 55, and a more detailed analysis of the corporate client loan portfolio is provided on pages 73 and 74.

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 page 53 and 54 and a more detailed analysis of the private client loan portfolio is provided on pages 73 and 74.

	Gross core loans and advances		Other credit and counterparty exposures		Total	
£'000 At 31 March	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
High net worth and professional individuals	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	77 807	759 181	509 466
Finance and insurance	1 635 945	1 321 630	2 751 883	2 935 642	4 387 828	4 257 272
Retailers and wholesalers	283 667	414 629	85 480	104 040	369 147	518 669
Manufacturing and commerce	777 815	637 182	76 596	160 127	854 411	797 309
Construction	64 432	52 833	28 887	527	93 319	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	**9 839 064**	**8 747 618**	**9 407 197**	**8 897 531**	**19 246 261**	**17 645 149**

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 39.

£'000 At 31 March	2018	2017
Gross core loans and advances to customers	**9 839 064**	**8 747 618**
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	**9 687 224**	**8 620 742**
Average gross core loans and advances to customers	**9 293 341**	**8 347 205**
Current loans and advances to customers	9 401 028	8 416 683
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	**9 839 064**	**8 747 618**
Current loans and advances to customers	9 401 028	8 416 683
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	**9 839 064**	**8 747 618**
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	1.54%	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	–	–
Annualised 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
Total 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
Total 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 impair-ments	Portfolio impair-ments	Total net core loans and advances (actual capital exposure)	Actual amount in arrears
At 31 March 2018								
Current core loans and advances	**9 401 028**	**–**	**–**	**9 401 028**	**–**	**(61 900)**	**9 339 128**	**–**
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	**9 451 252**	**135 830**	**251 982**	**9 839 064**	**(89 863)**	**(61 977)**	**9 687 224**	**57 803**
At 31 March 2017								
Current core loans and advances	**8 416 683**	**–**	**–**	**8 416 683**	**–**	**(43 388)**	**8 373 295**	**–**
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	**8 423 676**	**105 645**	**218 297**	**8 747 618**	**(83 488)**	**(43 388)**	**8 620 742**	**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)	Trade finance and other	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**	**24 052**	**9 401 028**
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**	**24 052**	**9 839 064**
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**	**24 052**	**9 687 224**
At 31 March 2017						
Current core loans and advances	**3 252 498**	**3 673 173**	**1 321 251**	**147 658**	**22 103**	**8 416 683**
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**	**22 103**	**8 747 618**
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**	**22 103**	**8 620 742**

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	**5 932 511**	**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	354 872	–	–	–	–
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	**9 839 064**	**360 636**	**291 834**	**(151 840)**	**(105 864)**

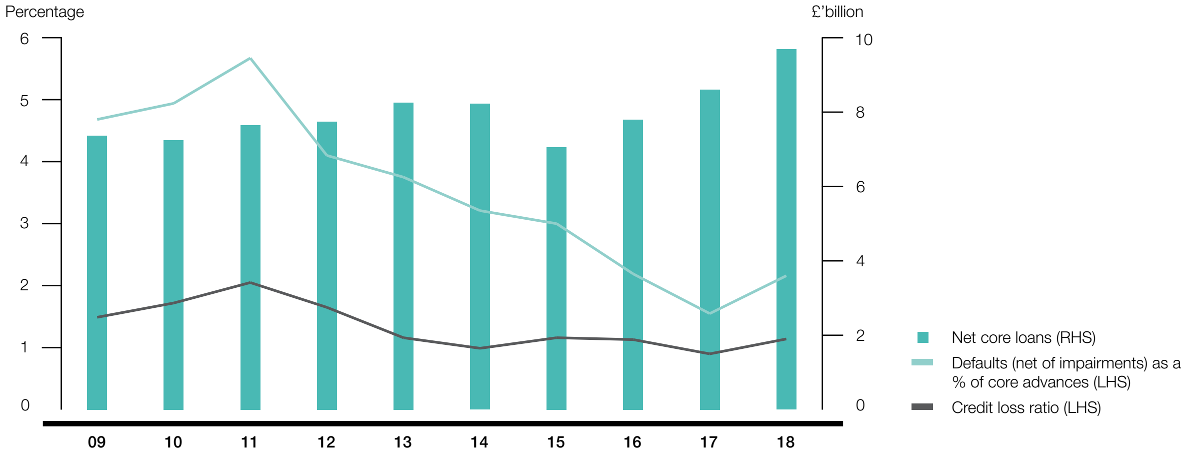
^ *Where a positive number represents a recovery.*

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 enhancements 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	**5 185 063**	**14 374**	**7 649**	**(6 725)**	**(5 965)**
Corporate and acquisition finance	1 309 335	–	–	–	(1 951)
Asset-based lending	333 731	–	–	–	–
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	**8 747 618**	**260 347**	**192 760**	**(126 876)**	**(74 995)**

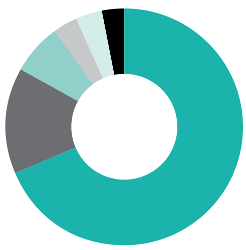
^ *Where a positive number represents a recovery.*

Asset quality trends



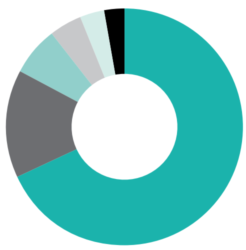
Additional information

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



31 March 2018
£9 839 million

United Kingdom	68.8%
Europe (excluding UK)	14.5%
North America	6.7%
Asia	3.6%
Australia	3.4%
Other	3.0%



31 March 2017
£8 748 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	**5 368 214**	**297 549**	**5 665 763**
Unlisted shares^	760 458	–	760 458
Charges other than property	24 004	297 549	321 553
Debtors, stock and other corporate assets	3 552 746	–	3 552 746
Guarantees	834 603	–	834 603
Other	196 403	–	196 403
Total collateral	**12 265 405**	**1 121 508**	**13 386 913**
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	**4 909 925**	**199 809**	**5 109 734**
Unlisted shares^	670 406	–	670 406
Charges other than property	19 145	199 809	218 954
Debtors, stock and other corporate assets	3 177 267	–	3 177 267
Guarantees	823 122	–	823 122
Other	219 985	–	219 985
Total collateral	**10 943 149**	**1 066 803**	**12 009 952**

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

^ *Unlisted shares taken as collateral can include shares in companies in which the group also has an equity investment. Refer to pages 77 to 79 for additional information on the unlisted equity investments held at fair value.*

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

Investment risk in the banking book

Investment risk description

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

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

Management of investment risk

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

Nature of investment risk	Management of risk
Principal investments	Investment committee, BRCC and GRCC
Listed equities	Investment committee, market risk management, BRCC and GRCC
Embedded derivatives, profit shares and investments arising from lending transactions	Credit risk management committees, BRCC and GRCC
Investment and trading properties	Investment committee, 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 181 to 186 and pages 207 to 214 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 3.64% of total assets.

Refer to page 207 for further information.

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	17 471	32 982	10 169	60 622	(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	**2 442**	**40 167**	**10 171**	**52 780**	**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)	17 504	–	2 612	–
Warrants, profit shares and other embedded derivatives	(7 035)	–	–	(7 035)	–
Total	**(17 978)**	**56 037**	**12 339**	**50 398**	**(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	416 835	62 525	383 267	57 490
Listed equities	61 084	15 271	76 478	19 120
Total investment portfolio	**477 919**	**77 796**	**459 745**	**76 610**
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	**612 991**	**106 602**	**621 587**	**110 258**

* *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

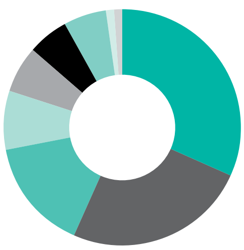
Based on the information at 31 March 2018, as reflected above, we could have a £107 million reversal in revenue (which assumes a year in which there is a 'severe stress scenario' simultaneously across all asset classes). This would not necessarily cause the group to report a loss, but could have a significantly negative impact on earnings for that period. The probability of all these asset classes in all geographies in which we operate being negatively impacted at the same time is very low, although the probability of listed equities being negatively impacted at the same time is very high.

Capital requirements

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

Refer to page 104 for further detail.

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



31 March 2018
£500 million

Real estate	31.8%
Manufacturing and commerce	24.9%
Finance and insurance	15.4%
Retailer and wholesalers	7.9%
Communication	6.5%
Mining and resources	5.7%
Transport	5.6%
Business services	1.1%
Other	1.1%

Securitisation/structured credit activities exposures

Overview

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

Refer to page 61 for the balance sheet and credit risk classification.

The group 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 183.

Risk management

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

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

£'million At 31 March	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**

**A 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% one-day sVaR	**1 541**	**1 322**

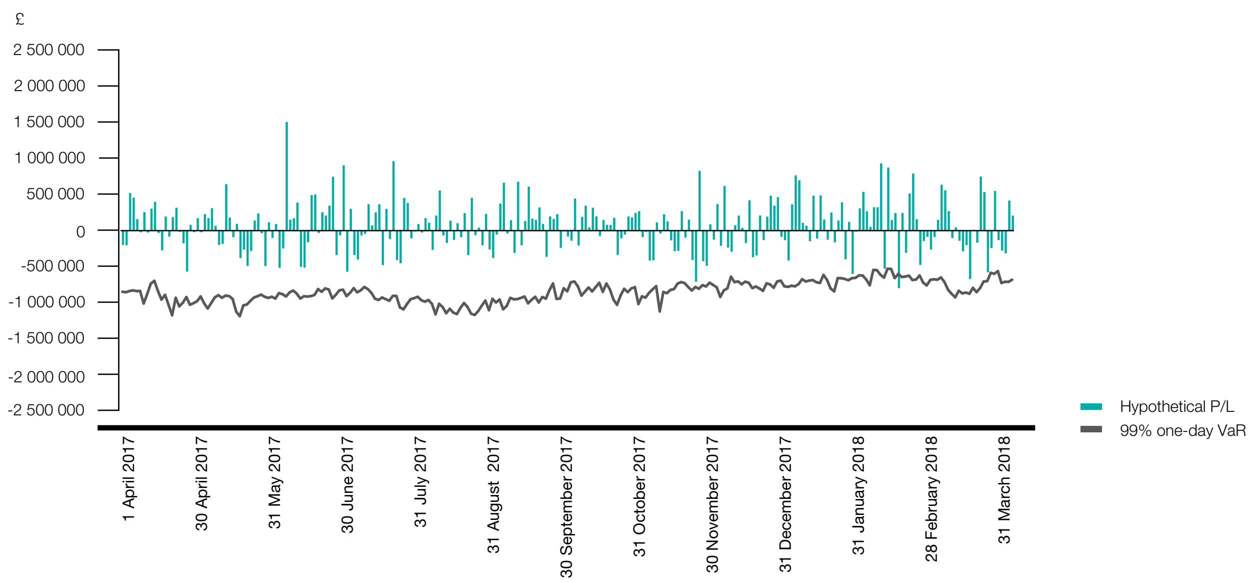
Backtesting

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).*

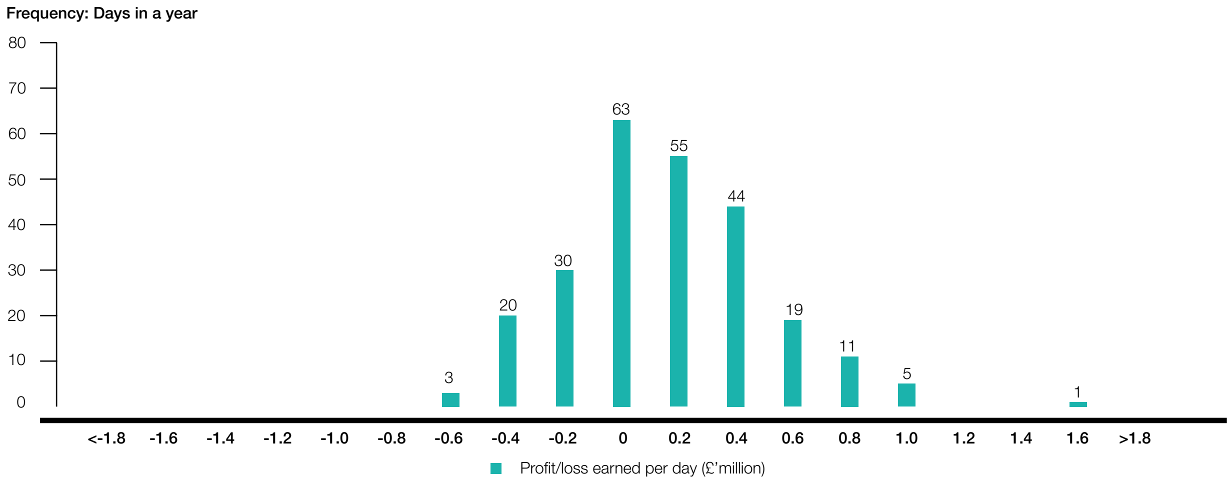
Capital

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

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 to a small extent as principal for trading purposes. These include financial futures, options, swaps and forward rate agreements.

Information showing our derivative trading portfolio over the reporting period on the basis of the notional principal and the fair value of all derivatives can be found on page 221.

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

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

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

The Treasury function 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 group considers ongoing access to appropriate liquidity for all its operations to be of paramount importance, and our core liquidity philosophy is reflected in day-to-day practices which encompass the following robust and comprehensive set of policies and procedures for assessing, measuring and controlling the liquidity risk:

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

- The asset and liability team independently monitors key daily funding metrics and liquidity ratios to assess potential risks to the liquidity position, which further act as early warning indicators of potential market disruptions
- The maintenance of sustainable prudent liquidity resources takes precedence over profitability
- The group maintains adequate contingency funding plans designed to protect depositors, creditors and shareholders and maintain market confidence during adverse liquidity conditions.

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

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

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

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

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

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

Funding strategy

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

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

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

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

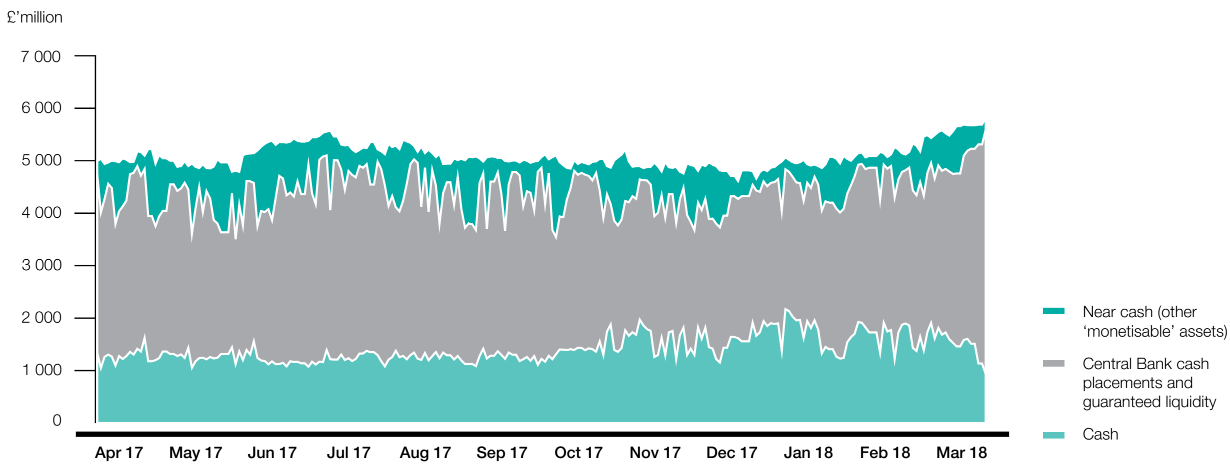
We remain confident in our ability to raise funding appropriate to our needs.

Liquidity buffer

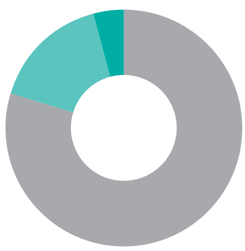
To protect against potential shocks, we hold a liquidity buffer in the form of cash, unencumbered high quality liquid assets (typically in the form of government or rated securities eligible for repurchase with the central bank), and near cash, well in excess of the regulatory requirements as protection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

From 1 April 2017 to 31 March 2018 average cash and near cash balances over the period amounted to £5.1 billion.

Cash and near cash trend



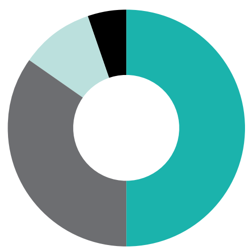
An analysis of cash and near cash at 31 March 2018



£5 813 million

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

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



£12 945 million

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

Contingency planning

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

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

Asset encumbrance

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

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

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

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

On page 219 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.

The liquidity position of the group remained sound with total cash and near cash balances amounting to £5.8 billion at year end

Contractual liquidity at 31 March 2018

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

Behavioural liquidity

As discussed on page 89.

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

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 both Investec plc and Investec Bank plc (solo basis), the LCR is calculated following the European Commission Delegated Regulation 2015/61 and our own interpretations where the regulation calls for it. The reported LCR may change over time with updates to our methodologies and interpretations.

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

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

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

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

Cash and near cash balances at 31 March 2018 amounted to £5.8 billion (2017: £5.0 billion). Investec plc customer deposits totalled £11.6 billion at 31 March 2018 (2017: £11.0 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 group considers the management of banking margin of vital importance, and our non-trading interest rate risk philosophy is reflected in our day-to-day practices.

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

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

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

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

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

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

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

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

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

Interest rate sensitivity gap

The 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	4 482	7	–	–	–	–	4 489
Investment/trading assets	1 371	193	77	224	66	471	2 402
Securitised assets	132	–	–	–	–	–	132
Advances	7 435	573	284	1 368	388	–	10 048
Other assets	–	–	–	–	–	1 743	1 743
Assets	**13 420**	**773**	**361**	**1 592**	**454**	**2 214**	**18 814**
Deposits – banks	(1 299)	(6)	–	(1)	–	–	(1 306)
Deposits – non-banks	(9 289)	(345)	(1 205)	(796)	(2)	–	(11 637)
Negotiable paper	(1 908)	(13)	–	(420)	–	–	(2 341)
Securitised liabilities	(128)	–	–	–	–	–	(128)
Investment/trading liabilities	(29)	(11)	(6)	–	–	–	(46)
Subordinated liabilities	–	–	–	(575)	–	(5)	(580)
Other liabilities	–	–	–	–	–	(435)	(435)
Liabilities	**(12 653)**	**(375)**	**(1 211)**	**(1 792)**	**(2)**	**(440)**	**(16 473)**
Total equity	–	–	–	–	–	(2 341)	(2 341)
Balance sheet	**767**	**398**	**(850)**	**(200)**	**452**	**(567)**	**–**
Off-balance sheet	(63)	–	–	378	(315)	–	–
Repricing gap	**704**	**398**	**(850)**	**178**	**137**	**(567)**	**–**
Cumulative repricing gap	704	1 102	252	430	567	–	

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	(8.0)	(3.2)	3.5	0.3	–	(0.1)	(5.0)
200bps up	7.3	2.9	(3.2)	(0.3)	–	0.1	4.5

Operational risk

Operational risk description

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

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

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

The levels of defence model is applied as follows:

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

Risk appetite

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

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

Management and measurement of operational risk

Regulatory capital

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

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

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

Operational risk management framework and governance

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

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

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

Operational risk practices consist of the following:

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

Operational risk events

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

Risk management

(continued)

Definition of risk	Management, mitigation approach and priorities for 2018/2019
Information security	
Risk associated with the compromise of information assets which can impact their confidentiality, integrity, or availability	• Identify high-value information assets based on confidentiality and business criticality • Implement strong security controls to protect information against unauthorised access or disclosure from both internal and external threats • Manage role-based access to systems and data in support of least-privilege and segregation of duty principles • Develop mechanisms to monitor for, identify, and guard against data loss • Establish effective security monitoring to proactively identify and swiftly respond to suspicious activity • Align practices and controls to ensure compliance with the rapidly changing legal and regulatory privacy requirements • Safeguard and monitor information flows to enhance visibility and to ensure that data remains accurate, relevant, and protected
Outsourcing and third party	
Risk associated with the reliance on, and use of a service provider to provide services to the group	• Governance structures are in place to approve outsource and third party arrangements • Policies and practices include adequate guidance over the assessment, selection, suitability and oversight of the outsource and third party providers • Continue to strengthen governance processes and relevant policies relating to how we identify, assess, mitigate and manage risks across the range of outsource and third party providers
Process failure	
Risk associated with inadequate internal processes, including human errors and control failures within the business. This includes process origination, execution and operations	• Proactive assessment relating to new products and projects to implement adequate and effective controls including the management of change • Address human errors through training and continuous automation of processes • Segregation of incompatible duties and appropriate authorisation controls • Causal analysis is used to identify weaknesses in controls following the occurrence of risk events • Risk and performance indicators are used to monitor the effectiveness of controls across business units • Thematic reviews across business units to ensure consistent and efficient application of controls
Regulatory compliance	
Risk associated with identification, implementation and monitoring of compliance with regulations	• Group Compliance and Group Legal assist in the management of regulatory and compliance risk which includes the identification and adherence to legal and regulatory requirements • Align regulatory and compliance approach to reflect new regulatory landscapes particularly the change of regulatory structures • Manage business impact and implementation challenges as a result of significant volumes of statutory and regulatory changes and developments (Refer to the Compliance section on page 109) • Monitoring remains focused appropriately as areas of conduct and regulatory risk develop • Ensure that the business is appropriately positioned to cope with the regulatory changes resulting from Brexit
Technology	
Risk associated with the disruptions to the IT systems which underpin our critical business processes and client services	• Align architecture across the group to reduce technical complexity and leverage common functions and processes • Enhance operational processes to better control IT changes in order to minimise business impact and recurrence • Drive automation and proactive monitoring of the technology environment to reduce human error whilst enhancing efficiency • Implement strategic infrastructure and application roadmaps to improve technology capacity, scalability and resilience • Maintain and test IT recovery capabilities to withstand system failures and safeguard against service disruptions • Establish effective technology and operational monitoring for oversight of the adequacy and effectiveness of IT systems and processes

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

Insurance

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

Recovery and resolution planning

The purpose of the recovery 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 100.

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

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

Pension risk

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

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

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

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

Primary sources of risk include:

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

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

Further information is provided on pages 230 to 233.

Legal risk management

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

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

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

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

The legal risk policy is implemented through:

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

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

Conduct risk

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

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

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

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

Capital management and allocation

Regulatory capital

Current regulatory framework

Investec plc is authorised by the PRA and is regulated by the FCA and the PRA on a consolidated basis. Investec plc calculates capital resources and requirements using the Basel III framework, as implemented in the European Union (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 August 2017, the PRA issued Investec plc with a revised Pillar IIA requirement of 1.51 % of RWAs, of which 0.84 % has to be met with CET 1 capital. In addition Investec plc continues to meet its PRA buffer, of which 75% is currently met with CET 1 capital.

In line with CRD IV, UK firms are required to meet a combined buffer requirement, which is in addition to the Pillar I and Pillar IIA capital requirements. The combined buffer includes the 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 plc and will not be included in the combined buffer requirement.

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

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

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

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

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

Regulatory considerations

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

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

Europe

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

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

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

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

Capital and leverage ratio targets

Capital

Over recent years, capital adequacy standards for banks have been raised as part of attempts to increase the stability and resilience of the global banking sector. Investec plc 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 charges and dividends as required under the CRR and EBA technical standards. These targets are continuously assessed for appropriateness.

Leverage

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

Management of capital and leverage

Capital

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

Leverage

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

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

Capital management

Philosophy and approach

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

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

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

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

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

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

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

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

Capital planning and stress/ scenario testing

A capital plan is prepared for Investec 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.

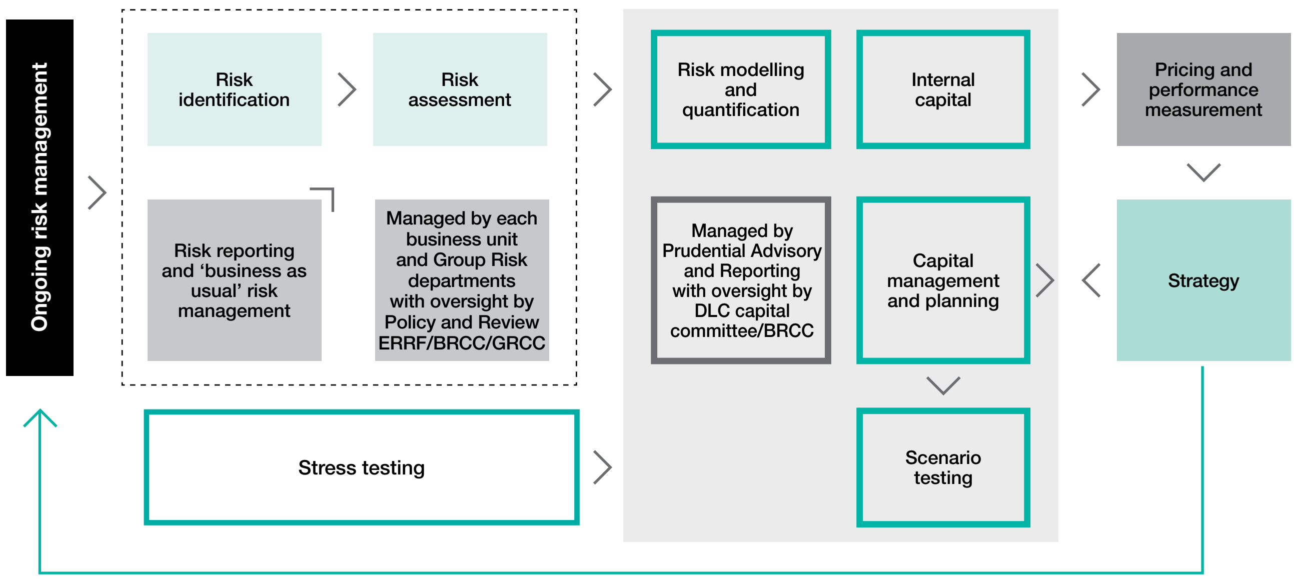
The goal of capital planning is to provide insight into potential sources of vulnerability of capital adequacy by way of market, economic or internal events. As such, the three year capital plans are stressed based on conditions most likely to cause duress.

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

The (simplified) integration of risk and capital management



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

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

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

Capital structure and capital adequacy

£'million	31 March 2018 Investec plc*°	31 March 2018 IBP*°	31 March 2017 Investec plc*°	31 March 2017 IBP*°
Tier 1 capital				
Shareholders' equity	1 977	1 989	1 921	1 938
Shareholders' equity excluding non-controlling interests	2 075	2 012	2 017	1 982
Foreseeable charges and dividends	(65)	(18)	(60)	(35)
Perpetual preference share capital and share premium	(25)	–	(25)	
Deconsolidation of special purpose entities	(8)	(5)	(11)	(9)
Non-controlling interests	12	(3)	11	(2)
Non-controlling interests transferred to tier 1	16	(3)	15	(2)
Surplus non-controlling interest disallowed in common equity tier 1	(4)	–	(4)	–
Regulatory adjustments to the accounting basis	(7)	(4)	(6)	(4)
Defined benefit pension fund adjustment	(3)	–	(2)	–
Additional value adjustments	(4)	(4)	(4)	(4)
Deductions	(460)	(361)	(478)	(380)
Goodwill and intangible assets net of deferred taxation	(447)	(348)	(464)	(366)
Deferred taxation assets that rely on future profitability excluding those arising from temporary differences	(9)	(9)	(10)	(10)
Securitisation positions	(3)	(3)	(3)	(3)
Debit valuation adjustment	(1)	(1)	(1)	(1)
Common equity tier 1 capital	**1 522**	**1 621**	**1 448**	**1 552**
Additional tier 1 instruments	274	200	24	
Tier 1 capital	**1 796**	**1 821**	**1 472**	**1 552**
Tier 2 capital	**359**	**445**	**475**	**560**
Tier 2 instruments	446	445	560	560
Non-qualifying surplus capital attributable to non-controlling interests	(87)	–	(85)	–
Total regulatory capital	**2 155**	**2 266**	**1 947**	**2 112**
Risk-weighted assets	**14 411**	**13 744**	**13 312**	**12 716**
Capital ratios				
Common equity tier 1 ratio	10.6%	11.8%	10.9%	12.2%
Tier 1 ratio	12.5%	13.2%	11.1%	12.2%
Total capital ratio	15.0%	16.5%	14.6%	16.6%

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

° *The capital adequacy disclosures for Investec plc and IBP 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 report, which follow our normal basis of presentation and do not include this deduction when calculating CET 1 capital. Investec plc and IBP's CET 1 ratios would be 45bps (31 March 2017: 45bps) and 13bps (31 March 2017: 28bps) higher, respectively, on this basis.*

Capital requirements

£'million	31 March 2018 Investec plc*	31 March 2018 IBP*	31 March 2017 Investec plc*	31 March 2017 IBP*
Capital requirements	**1 153**	**1 099**	**1 064**	**1 017**
Credit risk	842	822	790	776
Equity risk	6	6	6	6
Counterparty credit risk	51	52	39	39
Credit valuation adjustment risk	10	10	6	6
Market risk	77	77	71	68
Operational risk	167	132	152	122
Risk-weighted assets (banking and trading)	**14 411**	**13 744**	**13 312**	**12 716**
Credit risk	10 521	10 271	9 873	9 687
Equity risk	78	79	80	80
Counterparty credit risk	639	652	494	494
Credit valuation adjustment risk	121	121	78	78
Market risk	965	965	882	856
Operational risk	2 087	1 656	1 905	1 521

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

Movement in RWAs

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

Credit risk RWAs

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

Counterparty credit risk RWAs and CVA risk

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

Market risk RWAs

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

Operational risk RWAs

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

Leverage

£'million	31 March 2018 Investec plc*	31 March 2018 IBP	31 March 2017 Investec plc*	31 March 2017 IBP
Exposure measure	21 772	21 335	19 689	19 417
Tier 1 capital	1 796	1 821	1 472	1 552
Leverage ratio** – current	8.2%	8.5%	7.5%	8.0%
Tier 1 capital fully loaded	1 772	1 821	1 448	1 552
Leverage ratio** – 'fully loaded'^	8.1%	8.5%	7.4%	8.0%

* *Where: IBP is Investec Bank plc consolidated. The information for Investec plc includes the information for IBP.*
** *The leverage ratio is calculated on a end-quarter basis.*
^ *The key difference between the 'reported' basis at 31 March 2018 and the 'fully loaded' basis is primarily relating to capital instruments that previously qualified as regulatory capital, but do not fully qualify under the CRDIV rules. These instruments continue to be recognised on a reducing basis in the 'reported' figures until 2022. For IBP there is no difference between the 'reported' basis and the 'fully loaded' basis.*

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

	31 March 2018		31 March 2017	
£'million	**Investec plc***	**IBP***	**Investec plc***	**IBP***
Opening common equity tier 1 capital	**1 448**	**1 552**	**1 141**	**1 400**
New capital issues	71	–	174	–
Gain on Preference share redemption	–	–	41	–
Dividends	(113)	(57)	(108)	(35)
Profit after taxation	135	98	160	118
Treasury shares	(64)	–	(50)	–
Acquisition of non-controlling interest	–	–	7	–
Non-controlling interest relating to partial disposal of subsidiaries	9	–	–	–
Share-based payment adjustments	31	1	26	–
Movement in other comprehensive income	(9)	(10)	19	53
Goodwill and intangible assets (deduction net of related taxation liability)	17	16	2	9
Deferred taxation that relies on future profitability (excluding those arising from temporary differences)	1	1	(1)	(1)
Deconsolidation of special purpose entities	2	3	11	9
Foreseeable charges and dividends	(5)	17	(14)	(1)
Other, including regulatory adjustments and transitional arrangements	(1)	–	40	–
Closing common equity tier 1 capital	**1 522**	**1 621**	**1 448**	**1 552**
Opening additional tier 1 capital	24	–	130	–
New additional tier 1 capital issues	250	200	(106)	–
Closing additional tier 1 capital	274	200	24	–
Closing tier 1 capital	**1 796**	**1 821**	**1 472**	**1 552**
Opening tier 2 capital	475	560	535	590
Redeemed capital	–	–	(37)	(18)
Amortisation	(115)	(115)	(12)	(12)
Other, including regulatory adjustments and transitional arrangements	(1)	–	(11)	–
Closing tier 2 capital	**359**	**445**	**475**	**560**
Closing total regulatory capital	**2 155**	**2 266**	**1 947**	**2 112**

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

A summary of capital adequacy and leverage ratios

	31 March 2018		31 March 2017	
	Investec plc^*	IBP^*	Investec plc^*	IBP^*
Common equity tier 1 (as reported)	10.6%	11.8%	10.9%	12.2%
Common equity tier 1 ('fully loaded')	10.6%	11.8%	10.9%	12.2%
Tier 1 (as reported)	12.5%	13.2%	11.1%	12.2%
Total capital adequacy ratio (as reported)	15.0%	16.5%	14.6%	16.6%
Leverage ratio** – current	8.2%	8.5%	7.5%	8.0%
Leverage ratio** – 'fully loaded'^^	8.1%	8.5%	7.4%	8.0%
Leverage ratio** – current UK Leverage ratio framework^^^	9.8%	10.2%	8.7%	9.3%

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

^ *The capital adequacy disclosures for Investec plc and IBP include the deduction of foreseeable charges and dividends when calculating CET 1 capital as required under CRR and EBA technical standards. These disclosures are different to the capital adequacy disclosures included in Investec's 2018 and 2017 integrated annual report, which follow our normal basis of presentation and do not include this deduction when calculating CET 1 capital. Investec plc and IBP's CET 1 ratios would be 45bps (31 March 2017: 45bps) and 13bps (31 March 2017: 28bps) higher, respectively on this basis.*

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

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

^^^ *Investec 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.

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, Investec Asset Management and Investec Wealth and Investment.

Financial crime

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

Brexit

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

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

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

Tax reporting (FATCA/CRS)

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

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

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

"Sound corporate governance is implicit in Investec's values, culture, processes, functions and organisational structure. The board sets the tone from the top in the manner in which it conducts itself and oversees the structures and the framework for corporate governance"

Former chairman's introduction

Dear Shareholder

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 board and as discussed in more detail below, I stepped down as chairman of the board on 15 May 2018. Perry Crosthwaite, the Investec group's former senior independent non-executive director became chairman of the group on 15 May 2018. Perry Crosthwaite was appointed as non-executive director of the Investec Limited and Investec plc board in June 2010. Perry stepped down as chairman of the remuneration committee with Philip Hourquebie assuming the position on 1 April 2018. I am humbled to be continuing with the Investec group as joint chief executive officer with effect from 1 October 2018.

We present the annual corporate governance report for the year ended 31 March 2018, which describes our approach to corporate governance. For the purpose of this report, the boards of Investec plc and Investec Limited will be referred to as the board.

This year two chairman's letters will be included in the report as a result of the management change implemented as indicated above.

From an outlook perspective, the past year was difficult to navigate as uncertainty in both South Africa and the UK remained. Corporate failures within all jurisdictions exacerbated this uncertainty. On a macro front the global economy experienced synchronised growth for the first time since before the global financial crisis. The complexities of Brexit continue to cause uncertainty in the UK economy. While growth in South Africa was down in the first quarter of 2018 relative to the final quarter of 2017, the rest of the year should be positive due to a mix of investor confidence and a rebound in consumer spending.

Sound corporate governance is implicit in Investec's values, culture, processes, functions and organisational structure. Our values require that directors and employees behave with integrity, displaying consistent and uncompromising moral strength in order to promote and maintain trust. We demand cast-iron integrity in all internal and external dealings, consistently and uncompromising displaying moral strength and behaviour.

We believe that open and honest dialogue is the appropriate process to test decisions, real consensus and accept responsibility. We have adopted a multidimensional approach involving everyone in the organisation which incorporates challenge at every level as a defence mechanism against corruption and fraud. Creating fraud and ethics awareness throughout the organisation assists in influencing ethical behaviour.

The board oversees and monitors, on an ongoing basis, how the consequences of our organisation's activities and outputs affect its status as a responsible corporate citizen. This oversight and monitoring is performed against measures and targets agreed with management in the workplace, economy, society and the environment.

Our group wide philosophy seeks to maintain an appropriate balance between the interests of all 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.

We respect the dignity of all individuals and embrace diversity through openness and by the sincere, consistent and considerate manner in which we seek to interact.

The past year in focus

In an uncertain and volatile world, Investec's culture and values continue to support the organisation in achieving its strategic objectives. The board has remained committed to the highest standards of integrity and ethical behaviour. Our client focus and entrepreneurial spirit have continued to be front of mind over the past year. The board and management have sought to develop a strategy for the group which is balanced in terms of managing the risks presented in these uncertain times and positioning for future opportunities as they arise.

Management succession

The board, working closely with the DLC nominations and directors' affairs committee (nomdac), continued to drive and monitor succession planning. Succession of the group's long-serving executive management has been an ongoing focus area for the board with the group's initial announcement in this regard made in November 2015, with further announcements in February 2018 and May 2018. The details pertaining to the management succession will be addressed in more detail in the governance report.

Diversity

At Investec, we are committed to attracting, developing and retaining a diverse team of talented 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. Our recruitment strategies prioritise previously disadvantaged, female and disabled candidates where possible. We have various processes to encourage debate and dialogue around valuing diversity and difference.

To help us measure the pace of change, we have set a number of goals and targets. Investec is a member of the 30% Club in South Africa and the UK committing to a goal of 30% women on the board, and has made good progress towards the target of 33% female representation by 2020, per the Hampton-Alexander Review. Investec has signed up to the Women in Finance Charter in the UK, pledging to promote gender diversity by having a senior executive team member responsible and accountable for gender diversity and inclusion, setting internal targets for gender diversity at senior management levels, publishing progress annually against these targets, and linking the pay of senior executives to delivery against these gender diversity targets.

In addition, during the year we reported on our gender pay gap. We are confident that across our organisation men and women are paid equally for doing the same job. Our gender pay gap occurs primarily because there is a lower proportion of women in senior leadership and revenue-generating roles which attract higher market levels of pay. We are dedicated to improving our position in line with our commitment to promote diversity. We know that while we have worked to address greater representation of women, we have more to do. We have measures in place to improve this and we are committed to advancement and holding ourselves publicly accountable.

Having a diverse board and workplace is and remains important to the group bringing as it does the clear benefits of distinct and different outlooks, alternative viewpoints, and challenging mindsets.

Strategic initiatives

The board has continued to exercise leadership, integrity and judgement in pursuit of Investec's strategic goals and objectives. In terms of positioning for future opportunities, the group has continued to invest into the business ensuring that it remains competitive and relevant in the markets in which it operates. Strategic initiatives were focused on improving the position and returns of the UK bank, reshaping the midmarket corporate offering in South Africa and improving economic returns across the group.

Board effectiveness

The board continues to regularly contemplate its own effectiveness and therefore undertakes an evaluation of its performance and that of its committees and individual directors annually, with independent external input into the process every third year. The last board effectiveness review conducted by an independent external facilitator in 2015. This year the board effectiveness review was internally facilitated.

The responses received from the review indicated that the board is satisfied with the various aspects in relation to the board and committee governance and functioning. Comments and scores received provided a sense that the board members were of the opinion that the board's dynamic continued to strengthen and improve. Strengths highlighted in the comments in respect of board effectiveness indicated that the board is 'increasingly more effective' and the board was settling down after a number of members joined the board.

Shareholder engagement

During the past year, the board continued its shareholder consultations. The primary focus of these consultations was executive remuneration and succession, however, these consultations have also provided an opportunity to discuss governance and business strategy more broadly with shareholders. From a governance perspective, the dialogue centred on the composition of the board, whilst on remuneration, the discussion related to the new remuneration policy and creating appropriate linkage between pay and performance.

Composition

With regard to the composition of the board, Peter Thomas stepped down from the board following the annual general meeting on 10 August 2017 and Philip Hourquebie was appointed to the board on 14 August 2017.

Conclusion

I would like to thank the board for their dedication and the time spent with them during my time as chairman of the board. I would furthermore like to congratulate Perry Crosthwaite on his new appointment and wish him all the best in this new endeavour. The group will benefit from his continued contribution and dedication.

Fani Titi
Former chairman

15 June 2018

Chairman's introduction

Dear Shareholder

As newly appointed chairman of the board I am pleased to provide you with our corporate governance report. it is a great honour to be appointed chairman of Investec.

The year ahead

We approach the year ahead with confidence in our leadership and strategy. Stability within the group and the orderly transition of leadership roles within the organisation has been and will continue to be a key area of focus for the board. 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.

In this continually changing environment, the board more than ever, needs to focus on key strategic priorities. The board will also continue to ensure that Investec has the ability to react rapidly to the changing environment, and ensure that Investec's strategic objectives remain valid.

Conclusion

The board congratulates the new executive team on their appointments. The board is confident that Fani Titi and Hendrik du Toit together with senior management, will continue to grow and build Investec's core businesses and deliver the right outcomes for the group's clients and stakeholders.

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 organisation. We hope that this report, together with the integrated report and financial statements will provide you with an overview of how we are managing the group and looking after the interests of our stakeholders.

PKO Crosthwaite.

Perry Crosthwaite
Chairman

15 June 2018

Within this report you will find: **Page**

Who we are

What we did

How we comply

Who we are

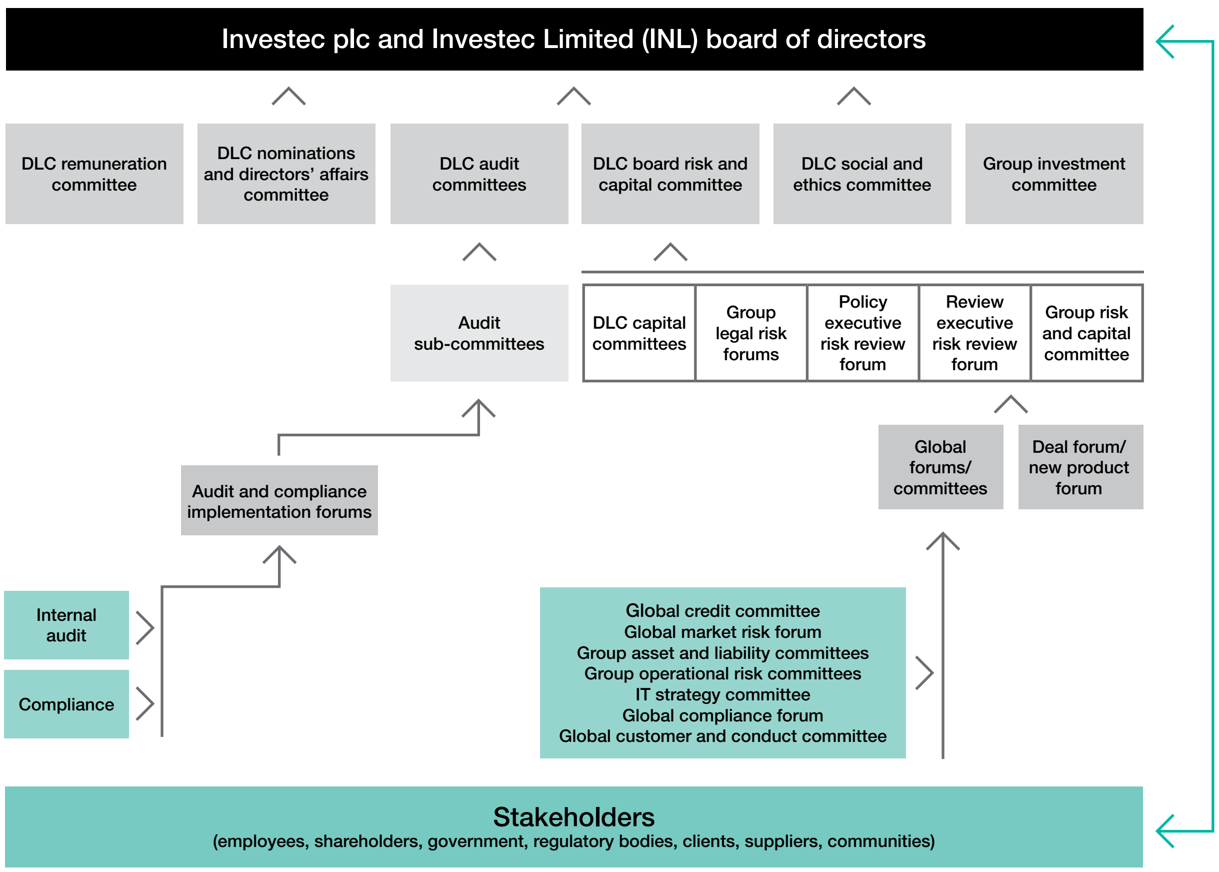
Governance framework

Investec operates under a dual listed company (DLC) structure and considers the corporate governance principles and regulations of both the UK and South Africa before adopting the appropriate standard for the 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 boards of Investec plc and Investec Limited are identical in terms of their composition and board meetings are held jointly. The committee structure has been derived from the requirements of the UK Corporate Governance Code and the King IV Report on Corporate Governance, as well as the activities of the group.



Management and Board Succession

Stephen Koseff (chief executive officer of the Investec group), Bernard Kantor (managing director (MD) of the Investec group) and Glynn Burger (risk and finance director of the Investec group) are part of the "founding members" of Investec and for almost 40 years, together with the board and the group's senior management team, have steered the group to becoming an internationally recognised specialist bank and asset manager.

As part of the group's succession plan and orderly transition from the founding members to the next generation of leadership, the following management and board succession changes have and shall be implemented subject to regulatory approval:

Investec Limited and Investec plc board – executive director changes

Stephen Koseff and Bernard Kantor will step down from their roles on 1 October 2018. From that date until 31 March 2019 they will continue to serve as executive directors and be available to provide support and advice to the incoming executives. As from 1 April 2019 they will become non-executive directors.

Glynn Burger, group risk and finance director, will retire on 31 March 2019. Glynn remains available and willing to assist in any capacity that the new management team require him for.

Fani Titi who has been a non-executive director on the Investec group board since January 2004 and chairman of the group since November 2011, and Hendrik du Toit the founding CEO of Investec Asset Management and an executive director of the group since December 2010, have been appointed as Joint CEO designates on 1 April 2018. On 1 October 2018 they will become joint CEOs of the group and will be held jointly accountable and responsible for the leadership and management of the Investec group. Hendrik will remain CEO of Investec Asset Management until 30 September 2018 to ensure an orderly transition in this business.

Kim McFarland, chief operating officer (COO) and chief financial officer (CFO) of Investec Asset Management since December 1993, will take over as group finance and operations director on 1 April 2019. Kim will continue with her duties as COO and CFO of Investec Asset Management until 31 March 2019 to support an orderly transition in this business.

Ciaran Whelan, who has held various senior positions globally with the Investec group over the past 30 years, and who is currently global joint head of the Specialist Bank and Global Head of Private Banking, will succeed Glynn Burger as director of risk on 1 April 2019. Ciaran will remain the global head of the Private Bank until 31 March 2019.

During the transition period Stephen, Bernard and Glynn will work closely with the new executive designates to ensure a smooth and orderly transition.

Investec Limited and Investec plc board – non-executive director changes

Fani Titi has stepped down as group chairman.

Perry Crosthwaite, the Investec group's senior independent non-executive director has been appointed as chairman of the group on 15 May 2018. Perry Crosthwaite was appointed as a non-executive director of the board in June 2010. Perry's biography follows later in this report.

Perry Crosthwaite has stepped down as chairman of the remuneration committee with Philip Hourquebie assuming the position on 1 April 2018. Philip was appointed as a non-executive director of the board in August 2017. Philip's biography follows later in this report.

Zarina Bassa has been appointed as the group's senior independent non-executive director on 1 April 2018. Zarina was appointed as a non-executive director of the board in November 2014. Zarina's biography follows later in this report.

Chairman of Investec Bank Limited and Investec Bank plc

Fani Titi has stepped down as chairman of Investec Bank Limited with Khumo Shuenyane assuming this position on 15 May 2018. Khumo has been a director of Investec Bank Limited since August 2014.

Fani Titi has stepped down as chairman of Investec Bank plc with Brian Stevenson assuming this position on 15 May 2018. Brian has been a director of Investec Bank plc since September 2016.

Global divisional management

John Green and Mimi Ferrini became deputy CEOs of Investec Asset Management on 1 April 2018 and from 1 October 2018, will assume the roles of Joint CEOs of the business.

David van der Walt and Richard Wainwright remain CEOs of Investec Bank plc and Investec Bank Limited, respectively. David van der Walt will remain joint global head of the Specialist Bank together with Richard Wainwright who replaced Ciaran Whelan in this role on 1 April 2018.

Steve Elliott remains global head of Investec Wealth & Investment.

Nishlan Samujh, the current global group chief financial officer (CFO), will remain in his role.

Timeline of board and management changes

Current changes

1 April 2018

Philip Hourquebie
- Became chairman of DLC remuneration committee

Zarina Bassa
- Became group senior independent non-executive director

Perry Crosthwaite
- Stepped down as chairman of DLC remuneration committee

Richard Wainwright
- Became Joint Global Head of the Specialist Bank with David van der Walt

Ciaran Whelan
- Stepped down as Joint Global Head of the Specialist Bank but remains Global Head of the Private Bank

Fani Titi and Hendrik du Toit
- Appointed as Joint CEO designates

15 May 2018

Fani Titi
- Stepped down as group, IBP* and IBL** chairman and chairman of DLC nomdac

Perry Crosthwaite
- Became chairman of Investec group and chairman of DLC nomdac

Brian Stevenson
- Became chairman of IBP* and chairman of IBP* nominations committee

Khumo Shuenyane
- Became chairman of IBL**

Future changes

1 October 2018

Stephen Koseff
- Will step down as group CEO (remains an executive director of Investec Limited and Investec plc)

Bernard Kantor
- Will step down as group MD (remains an executive director of Investec Limited and Investec plc)

Fani Titi and Hendrik du Toit
- Will assume Joint CEO roles

Mimi Ferrini and John Green
- Will become Joint CEOs of Investec Asset Management

31 March 2019

Stephen Koseff and Bernard Kantor
- Will step down as executive directors of Investec Limited and Investec plc

Glynn Burger
- Will step down as group risk and finance director

Ciaran Whelan
- Will step down as Global Head of Private Bank

1 April 2019

Stephen Koseff and Bernard Kantor
- Will join the group board (Investec Limited and Investec plc) as non-executive directors

Ciaran Whelan
- Will become group risk director

Kim McFarland
- Will become group finance and operations director

* *Investec Bank plc.*
** *Investec Bank Limited.*

Board roles

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

Chairman	Chief executive officer and managing director/joint group CEOs	Group risk and finance director
Fani Titi/Perry Crosthwaite effective from 15 May 2018	*Stephen Koseff and Bernard Kantor up to 30 September 2018 Hendrik du Toit and Fani Titi effective from 1 October 2018*	*Glynn Burger*
• Set the board agenda, ensuring that there is sufficient time available for discussion of all items • Encourage open and honest dialogue between all board members • Lead and manage the dynamics of the board, providing direction and focus • Ensure that the board sets the strategy of the group and assist in monitoring progress towards achieving the strategy • Perform director evaluations • Serves as the primary interface with regulators and other stakeholders on behalf of the board	• Lead and manage the group within the authorities delegated by the board • Execution of group strategy • Ensuring Investec's unique culture is embedded and perpetuated • Development and growth of all Investec's businesses	• Ensures that the group's risk management processes are effective • Leads and manages the group finance functions • Provides the board with updates on the group's financial performance • Approval of the risk management plan
Senior independent director (SID)	**Non-executive directors**	**Company secretary**
Perry Crosthwaite/Zarina Bassa effective from 1 April 2018	*Zarina Bassa, Laurel Bowden, Cheryl Carolus, David Friedland, Philip Hourquebie, Charles Jacobs, Ian Kantor, Lord Malloch-Brown KCMG, Khumo Shuenyane, Peter Thomas* * Resigned on 10 August 2017 from Investec Limited and Investec plc*	*David Miller*
• Address any concerns or questions from shareholders and non-executive directors • Provide a sounding board to the chairman • Lead 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 group'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 • Ensure succession is in place • Manage risk	• Maintains the flow of information to the board and its committees and ensure 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 companies statutory registers • Ensures good corporate governance is implemented and advise the chairman and board in that regard

Director biographies as at 31 March 2018

Biographies of our directors are outlined below, including their relevant skills and experience, other principal appointments and any appointments to Investec's DLC committees for the year under review.

Fani Titi, chairman, Investec Limited and Investec plc

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 cofounded and led the public offering of Kagiso Media Limited on the JSE Limited 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 Bank plc, Investec Bank Limited, IEP Group Proprietary Limited, Investec Asset Management Holdings Proprietary Limited, Investec Asset Management Limited and a number of Investec subsidiaries

Committees

DLC remuneration*, DLC board risk and capital, DLC nominations and directors' affairs (chairman)** and DLC social and ethics (chairman)**

Date of appointment

30 January 2004

* *Resigned from DLC remuneration committee as at 23 February 2018*

** *Resigned as chairman of the DLC nominations' and directors' affairs committee and social and ethics committee*

Perry KO Crosthwaite, senior independent director (SID)

Age: 69

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

Relevant skills and experience

Perry was appointed chairman of Investec plc and Investec Limited on 15 May 2018. Perry was previously senior independent director of Investec plc and Investec Limited, a post he held from August 2014 to March 2018, having joined the boards of Investec plc and Investec Limited in June 2010. Perry is a former chairman of Investec Investment Banking and Securities and left the group on 31 March 2004

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

Other principal appointments

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

Committees

DLC nominations and directors' affairs and DLC remuneration (chairman)*

Date of appointment

18 June 2010

* *Resigned as chairman of the DLC remuneration committee on 31 March 2018*

Stephen Koseff, group chief executive officer

Age: 66

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

Other principal appointments

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

Committees

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

Date of appointment

26 June 2002

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

Committees

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

Date of appointment

19 March 2002

Glynn R Burger, group risk and finance director

Age: 61

Qualifications: *BAcc, CA(SA), H Dip BDP, MBL*

Relevant skills and experience

Glynn joined Investec in 1980. His positions within Investec have included chief accounting officer, group risk manager and joint managing director for South Africa

Other principal appointments

Investec Bank Limited and a number of Investec subsidiaries

Committees

DLC board risk and capital and DLC capital

Date of appointment

3 July 2002

Hendrik J du Toit, Investec Asset Management chief executive officer

Age: 56

Qualifications: *BCom Law, BCom (Hons) (cum laude), MCom (cum laude), MPhil (Cambridge)*

Relevant skills and experience

After lecturing economics at the University of Stellenbosch, Hendrik joined the Investment division of Old Mutual from where he moved to Investec in 1991 to establish Investec Asset Management

Other principal appointments

Investec Asset Management Holdings Proprietary Limited and Investec Asset Management Limited as well as their subsidiaries and non-executive director of Naspers Limited. Over the past two years, Hendrik has also served on the Global Business Commission for Sustainable Development

Committees

None

Date of appointment

15 December 2010

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, has been a member of the JSE GAAP Monitoring Panel and the Financial Service Board. Zarina has previously served as a non-executive director of Kumba Iron Ore Limited and Sun International Limited amongst other

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, Investec Bank plc, Investec Life Limited

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

Committees

DLC audit (chairman), Investec plc audit (chairman), Investec Limited and Investec Bank Limited audit (chairman), Investec Bank plc audit, DLC remuneration, DLC nominations and directors affairs and DLC board risk and capital

Date of appointment

1 November 2014

Laurel C Bowden, independent non-executive director

Age: 53

Qualifications: *MBA (INSEAD), BSc Electronic Engineering, HND Eng*

Relevant skills and experience

Laurel is a founding partner at 83 North UK LLP (a private equity business), where her areas of focus include internet, enterprise software and fintech. Laurel has over 15 years' investment experience and has led investments in many leading European technology companies, including Just Eat, Qliktech and Hybris (acquired by SAP). She was previously a director at GE Capital in London

Other principal appointments

83 North Limited, Bluevine Capital Inc, Ebury Partners Limited, iZettle AB, Celonis GmbH, Mirakl SAS, TIS GmbH, Wonga Group Limited, MotorK Limited, Workable Technology Limited (the majority of these are companies which Laurel serves on as a representative of 83 North)

Committees

None

Date of appointment

1 January 2015

Cheryl A Carolus, independent non-executive director

Age: 60

Qualifications: *BA (Law), Honorary doctorate in Law*

Relevant skills and experience

Cheryl was the South African High Commissioner to London between 1998 and 2001 and was chief executive officer of South African Tourism

Other principal appointments

De Beers Consolidated Mines Limited, Gold Fields Limited (chairman), The IQ Business Proprietary Limited, Ponahalo Capital Proprietary Limited, executive chairperson of Peotona Group Holdings Proprietary Limited (chair) and director of a number of the Peotona group companies and International Crisis Group. Constitution Hill Education Trust (chairman) and WWF South Africa

Committees

DLC social and ethics

Date of appointment

18 March 2005

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 the KPMG Inc. Cape Town office before leaving in March 2013

Other principal appointments

Investec Bank Limited, Investec Bank plc, The Foschini Group Limited, Pick n Pay Stores Limited and Pres Les Proprietary Limited

Committees

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

Date of appointment

1 March 2013

Philip A Hourquebie, independent non-executive director

Age: 65

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

Relevant skills and experience

Philip has been a longstanding Regional Managing Partner of two regions of Ernst & Young Inc. (Africa and Central and South East Europe, including Turkey). Philip left Ernst & Young in 2014. As a senior partner at Ernst & Young Inc., Philip's background is in the advisory services in both the private and public sector. As an advisory partner and senior client service partner, he has worked, *inter alia*, with clients in financial services, mining, telecommunications, consumer products and retail, state-owned enterprises, government agencies and government departments at all three levels. Philip has also been a past chair of the board of South African Institute of Chartered Accountants (SAICA)

Other principal appointments

Aveng Limited and Investec Property Fund Limited

Committees

DLC audit, Investec plc audit, Investec Limited and Investec Bank Limited audit, DLC remuneration (chairman*), DLC board risk and capital, DLC nominations and directors' affairs*

Date of appointment

14 August 2017

* *Effective from 1 April 2018*

Charles R Jacobs, independent non-executive director

Age: 51

Qualifications: *LLB*

Relevant skills and experience

Charles brings to the board a valuable combination of knowledge of the UK regulatory and corporate governance standards, global capital markets and M&A. Charles sits on the board of Fresnillo plc, a FTSE 100 company. Charles was elected as chairman and senior partner at the global law firm Linklaters LLP in October 2016, having been appointed a partner in 1999, and has over 27 years of experience of advising companies around the world, including in relation to their legal and regulatory requirements. Charles chairs the Linklaters Partnership Board and holds an LLB from Leicester University

Other principal appointments

Linklaters LLP and Fresnillo plc (senior independent non-executive director and chairman of the remuneration committee)

Committees

DLC remuneration

Date of appointment

8 August 2014

Ian R Kantor, non-executive director

Age: 71

Qualifications: *BSc. Eng (Elec.), MBA*

Relevant skills and experience

Ian is co-founder of Investec, served as the chief executive of Investec Bank Limited until 1985 and was the chairman of Investec Holdings Limited. Ian is currently a non-executive director on the boards of Investec Asset Management Holdings Proprietary Limited and Investec Asset Management Limited

Other principal appointments

Chairman of Blue Marlin Holdings SA (formerly Insinger de Beaufort Holdings SA, in which Investec Limited indirectly holds an 8.3% interest)

Committees

None

Date of appointment

26 June 2002

Lord Malloch-Brown KCMG, independent non-executive director

Age: 64

Qualifications: *BA (Hons) (History), MA (Political Science)*

Relevant skills and experience

Lord Malloch-Brown is chairman of SGO Corporation Limited and Senior Advisor to the Eurasia Group, he was a UK government minister and member of the cabinet. Lord Malloch-Brown was formerly the deputy secretary-general of the United Nations as well as a vice president at the World Bank and head of United Nations Development Programme and a journalist at the Economist with wide ranging experience of boards

Other principal appointments

Seplat Petroleum Development Company plc, ISquared Capital and Kerogen Capital

Committees

DLC social and ethics (chairman)* and DLC nominations and directors' affairs

Date of appointment

8 August 2014

** Effective from 1 April 2018*

Khumo L Shuenyane, independent non-executive director

Age: 47

Qualifications: *BEcon, CA (England and Wales)*

Relevant skills and experience

Khumo serves on the boards of a number of companies, in the Investec group. He is also a partner at Delta Partners, an advisory firm headquartered in Dubai focused on the telecoms, technology and digital sectors across emerging markets. Between 2007 and 2013 Khumo served as group chief mergers and acquisitions officer for MTN Group Limited and was a member of its group executive committee. Khumo was previously head of Principal Investments at Investec and was a member of Investec's Corporate Finance division for a total of nine years. Prior to joining Investec in 1998, Khumo worked for Arthur Andersen in Birmingham (UK) and Johannesburg for six years from 1992. He qualified as a member of the Institute of Chartered Accountants in England and Wales in 1995

Other principal appointments

Investec Bank Limited (chairman)*, Investec Life Limited, Investec Specialist Investments (RF) Limited, Investec Asset Management Holdings Proprietary Limited and Investec Asset Management Limited

Committees

DLC audit, Investec plc audit, Investec Limited and Investec Bank Limited audit, DLC board risk and capital and DLC nominations and directors' affairs

Date of appointment

8 August 2014

* *Effective from 15 May 2018*

Board composition

Independence

As at 31 March 2018, the board is compliant with Provision B.1.2 of the UK Corporate Governance Code in that at least half the board, excluding the chairman, comprises independent non-executive directors. The board is of the view that the chairman, Perry Crosthwaite, was considered independent on appointment.

As at 31 March 2018, the board is compliant with King IV in that the majority of non-executive directors are independent.

A summary of the factors the board uses to determine the independence of non-executive directors are detailed below:

Relationships and associations

Ian Kantor is the brother of Bernard Kantor, Investec's managing director. Ian is also the founder and was previously chief executive officer of Investec. Accordingly, the board concluded that Ian could not be considered independent under the UK Corporate Governance Code and King IV.

Prior to joining the board on 1 March 2013, David Friedland was a partner of KPMG Inc. KPMG Inc. along with Ernst & Young Inc., are joint auditors of Investec Limited. The board concluded that, notwithstanding his previous association with KPMG Inc., David retains independence of judgement given he was never Investec Limited's designated auditor or relationship partner and was not involved with the Investec account.

Philip Hourquebie has been a longstanding Regional Managing Partner of two regions of Ernst & Young Inc. (Africa and Central South East Europe, including Turkey) up to 2014. The board concluded that notwithstanding his previous association with Ernst & Young Inc., Philip retains independence of judgement as he was never Investec Limited's designated auditor.

Charles Jacobs is the chairman and senior partner of the global law firm Linklaters LLP. Linklaters is currently one of Investec's legal advisors. The board considers independence on an annual basis and again concluded that, notwithstanding this link, Charles retains independence of judgement. Charles does not form part of the Linklaters team that provides advice to Investec and he has not provided advice to Investec for over a decade. In addition, selection of legal advisors is not a board matter and is decided at the management level. If any decision were to be made at the board level regarding Linklaters, which has not happened to date, Charles would recuse himself in accordance with the provisions of the relevant Companies Act relating to directors' interests. Charles plays no role in any team advising Investec. Where advice is provided by Linklaters to Investec, it is provided by separate Linklaters partners and not Charles. The legal fees paid to Linklaters have not been material either to Linklaters or Investec.

Tenure

The board is also mindful of its responsibility to ensure that there remains an appropriate balance of skills and experience on the board, and it is therefore of the view that the retention of certain members beyond nine years may in certain circumstances be beneficial in ensuring this balance and that orderly succession can take place.

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

Accordingly, the board has concluded that Cheryl Carolus, despite having been a director of Investec for more than nine years, retains both financial independence and independence of character and judgement.

Notwithstanding the guidelines set out in the UK Corporate Governance Code, the board is of the view that Cheryl Carolus is independent of management and promotes the interest of stakeholders. The balance of the 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 board processes or have unfettered powers of decision-making. The board believes that it functions effectively and evaluates its performance annually.

Attendance at credit

David Friedland regularly attends credit committees of the group. The board considers his attendance at these committees to be desirable in terms of developing an understanding of the day-to-day issues facing the business.

Independence

Non-independent non-executive directors	1
Independent non-executives including chairman	10
Executives	4

66.6% of board independent

Balance of non-executive and executive directors:

Non-executive	73%
Executive	27%

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 Investec's policy on obtaining independent advice and, where appropriate, details of the board committees of which the non-executive director will be a member. Investec has an insurance policy that insures directors against liabilities they may incur in carrying out their duties. On the recommendation of the nomination and directors' affairs committee (nomdac), 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 senior independent director (SID) 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 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 evaluation process. 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 compliance with the UK Corporate Governance Code, the board has considered and is satisfied that the company secretary is competent, has the relevant qualifications and experience and maintains an arm's-length relationship with the board. In evaluating these qualities, the board has considered the prescribed role and duties pursuant to the requirements codified in the UK Companies Act of 2006 and the listings and governance requirements as applicable.

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.

Diversity

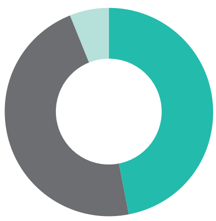
Age:

40 – 50	**7%**
51 – 60	**40%**
61 and above	**53%**

Aspirational target:

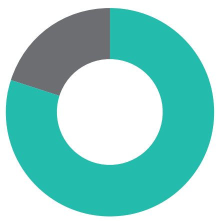
Per the Hampton-Alexander Review: Good progress has been made towards the target of 33% female representation by 2020 which continues to be a priority.

Geographical mix:



South Africa	47%
UK	47%
Other	6%

Board gender balance:



Male	80%
Female	20%

Tenure

Average length of service (years): 4

for non-executive directors

UK Corporate Governance recommendation:

Recommendation that non-executives should not serve longer than nine years from the time of their appointment.

Average tenure:

0 - 3 years	3
3 - 6 years	3
6 - 9 years	2
9 years plus – executive	3
9 years plus – non-executive	4

What we did

Board report

Role

The board seeks to exercise leadership, integrity and judgement in pursuit of Investec's strategic goals and objectives to achieve long-term sustainability, growth and prosperity. In fulfilling this objective the board is responsible for:

- approving the group's strategy
- acting as a focal point for, and custodian of corporate governance
- providing effective leadership on an ethical foundation
- ensuring the group is a responsible corporate citizen
- being responsible for the governance of risk, including risks associated with information technology
- ensuring the group complies with the applicable laws and considers adherence to non-binding rules and standards
- monitoring performance
- ensuring succession plan is in place.

The board

Meeting schedule and attendance

The board meets at least six times annually, excluding the annual two-day board strategy session. For the period 1 April 2017 to 31 March 2018, four board meetings were held in the UK and four in South Africa, in line with the requirements of Investec's DLC structure.

Furthermore, during the year ended 31 March 2018, the boards held two additional meetings each in the UK and South Africa. Unscheduled meetings are called as the need arises. Comprehensive information packs on matters to be considered by the board are provided to directors in advance of the meetings.

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 CEO and financial director, discussions in relation to succession planning was of material importance for the group. The board remains focused on the group's orderly transition plan to move from the founding members to the next generation of leadership.

The board focused on gender initiatives in the UK and South Africa and reviewed the headcount and revenue per employee within the organisation. Furthermore the new remuneration policy was considered.

The board complied with Investec's policy regarding directors' conflicts of interest and dealings with the group.

Performance of the banks in the UK, including digitalisation, and performance reviews of the business were debated.

The board effectiveness review was considered and the strength and weaknesses highlighted and appropriate steps to address the weaknesses were identified.

The terms of references of board committees and the group policies were reviewed on an ad hoc basis.

The annual meeting with the South African Prudential Authority (previously known as the Banking Supervision Division of the South African Reserve Bank), to discuss strategy performance, risk and the "flavour of the year" topics of International Financial Reporting Standards (IFRS 9) and effective risk data aggregation and risk reporting, was attended by board members.

During the course of the year the board received training in respect of the senior management and certificate regime, the Financial Conduct Authority (FCA) approach and hot topics including IFRS 9, Markets in Financial Instrument Directive (MiFID) II, Advanced Internal Rating Based (AIRB) approach and General Data Protection Regulation (GDPR).

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

		Board member since	Investec plc (8 meetings in the year)	
Members during the year	Independent	Investec plc	Eligible to attend	Attended
F Titi (former chairman)*	On appointment	30 Jan 2004	8	8
PKO Crosthwaite (chairman)**	Yes	18 Jun 2010	8	8
ZBM Bassa	Yes	1 Nov 2014	8	8
LC Bowden	Yes	1 Jan 2015	8	8
GR Burger	Executive	3 Jul 2002	8	7
CA Carolus	Yes	18 Mar 2005	8	8
HJ du Toit	Executive	15 Dec 2010	8	8
D Friedland	Yes	1 Mar 2013	8	8
CR Jacobs	Yes	8 Aug 2014	8	8
B Kantor	Executive	19 Mar 2002	8	8
IR Kantor	No	26 Jun 2002	8	8
S Koseff	Executive	26 Jun 2002	8	8
Lord Malloch-Brown KCMG	Yes	8 Aug 2014	8	8
KL Shuenyane	Yes	8 Aug 2014	8	8
PA Hourquebie***	Yes	14 Aug 2017	6	6
PRS Thomas****	Yes	26 Jun 2002	2	2

* *F Titi stepped down as chairman of the board on 15 May 2018.*
** *PKO Crosthwaite was appointed as chairman of the board on 15 May 2018.*
*** *PA Hourquebie was appointed to the Investec boards with effect from 14 August 2017.*
**** *PRS Thomas stepped down from the Investec boards with effect from 10 August 2017.*

Board activities

Areas of focus	What we did
Group strategy	The board: • formulated and monitored the implementation of its strategy • provided constructive challenge to management • monitored progress made with regard to agreed strategic initiatives
Group compliance, risk and corporate governance and audit	The board: • received and reviewed compliance reports in order to confirm that the group meets all internal and regulatory requirements • dialogued and approved the 2017/2018 risk appetite framework • regularly assessed the group's overall risk profile and emerging risk themes, receiving reports directly from the group risk manager and the chairman of the BRCC • received reports on the group's operational and technology capability, including specific updates on cyber risk capability and the strategy for technology and infrastructure services • received reports in respect of specific risks within the group including updates in respect of General Data Protection Regulation (GDPR), Advanced Internal Rating Based (AIRB), Foundation Internal Rating Based (FIRB) and International Financial Reporting Standards (IFRS) 9 • considered and approved capital plans • considered the impact of the revised UK Corporate Governance Code • adopted the group Anti-Money Laundering (AML) and Counter Terrorism Financing (CFT) Policy • approved the Recovery and Resolution Plans for the UK • considered and confirmed the independence of the non-executive directors having regard to factors that might impact their independence • considered auditor independence, appointment and monitoring of audit quality and related parties activities
Leadership	The board: • considered regular updates by the various committees including the remco, nomdac, the audit committee, social and ethics committee (SEC) and BRCC • ensured that policies and behaviours set at board level are effectively communicated and implemented across the group
Effectiveness	The board: • considered the process for the 2018 board effectiveness review which took the form of a self-assessment followed by one-on-one meetings between the chairman and directors • amended/added questions to the board effectiveness self-assessment regarding risk and audit, the presentation of projects to the boards, IT and succession planning • noted that the 2018 effectiveness review showed good progress on those issues identified in the independently facilitated 2015 effectiveness review • in light of the outcome of the board effectiveness review, finalised topics for directors' development sessions

Board activities *(continued)*

Areas of focus	What we did
Remuneration	The board: • received a report from the remco chair at each meeting which covered a variety of topics including: – regulatory developments pertaining to remuneration • considered a communication plan for business to communicate their compliance with the UK Gender Pay Gap Reporting Requirements • in conjunction with remco revised the new remuneration policy
Relations with stakeholders	The board, in order to ensure satisfactory dialogue with shareholders, and to foster strong and open relationships with regulators, noted and discussed the key areas of feedback from shareholders, including feedback relating to: • board refreshment and succession • succession planning for the CEO, managing director and senior management • remuneration of executive directors • regular meetings and open dialogue with regulators • improving returns across its businesses
Corporate citizenship	The board discussed and monitored the various elements of good corporate citizenship including: • the promotion of equality, the prevention of unfair discrimination and the reduction of corruption • consideration of sponsorships, donations and charitable giving • environmental, health and public safety, including the impact of the group's activities and of its products and services • consumer relationships including the group's advertising, public relations and compliance with consumer protection laws • labour and employment – the group's standing in terms of the international labour organisation protocol on decent work and working conditions, employment relationships and its contribution towards the educational development of its employees The board: • satisfied itself that the Investec group's standing and commitment to the various elements of good corporate citizenship remained in place and was actively enforced • promoted the role Investec played in society
Subsidiary board and committee composition and governance	The board: • discussed succession planning including an update on senior management succession • received reports on the composition of the key subsidiaries of Investec plc • received reports on suggested changes to Investec Bank plc's governance arrangements • received reports from the nomdac at each meeting covering the matters within its delegated authority for review and consideration • noted changes made to subsidiary boards on the recommendation of nomdac

Board activities *(continued)*

Areas of focus	What we did
Financial results, liquidity, solvency and viability statement	The board: • considered and reviewed and approved the financial results for the year ended 31 March 2018 for Investec plc • considered, reviewed and approved the financial results for the half year ended 30 September 2017 for Investec plc • assessed, confirmed and satisfied itself of the group's viability statement (i.e. its ability to continue in operation and meet its liabilities taking into account the current position of the group, the board's assessment of the group's prospects and the principal risks it faces) • confirmed that the group was liquid and that the solvency and liquidity test has been satisfied (i.e. a company satisfies the solvency and liquidity test at a particular time if, considering all reasonably foreseeable financial circumstances at that time: the assets of the company, as fairly valued, equal or exceed the liabilities of the company, as fairly valued; and it appears that the company will be able to pay its debts as they become due in the ordinary course of business for a period of: – 12 months after date on which the test is considered; or – In the case of a dividend, 12 months following the distribution) • confirmed that adequate resources existed to support the group 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 agreed management succession plan
Marketing initiatives	The board: • received regular updates in respect of marketing initiatives within the group
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 group

DLC nominations and directors' affairs committee report

Dear Shareholder

The DLC nomdac, is pleased to present its report for the year ended 31 March 2018. During the past financial year, the committee focused on executive succession planning, board composition and ongoing director development.

The key objectives of the nomdac are designed to ensure the ongoing continued strengthening of the governance processes in the subsidiaries, not only for regulatory purposes, but also to enhance the effectiveness of the work performed by the boards.

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

As such, the tone is set from the top and the board and committees alike live and demonstrate our values and integrity. In this respect, the nomdac's continued work on refreshing the subsidiary boards and director development was to ensure that the board were able to fulfil their mandates with particular focus on the long-term success of the entities.

The nomdac was always cognisant of the imminent executive management changes – with particular reference to the founding members. We deliberated and debated the new management structure of Investec extensively and concluded that the succession of the aforementioned executives should be from within the organisation and therefore, no help was sought from external recruitment agencies.

We are proud of our achievements and successes during the financial year. However, while we strive to improve our processes and functions, we take mistakes made from inside and outside the organisation – as opportunities to grow and develop. This approach will undoubtedly encourage us to stay on top of our game and remain disciplined.

Finally, the nomdac would like to extend its congratulations to Perry Crosthwaite on his appointment as the chairman of nomdac. We also congratulate the new executive management appointed to various positions. We are confident that the group will benefit from their continued contribution.

Fani Titi
Former chairman, DLC nomdac

15 June 2018

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

DLC nomdac

Fani Titi
Former chairman of the DLC nomdac

Key achievements in FY 2018

- Succession planning

Areas of focus in FY 2019

- Strengthening the governance processes in the subsidiaries
- Enhance the effectiveness of the work performed by the board

DLC nominations and directors' affairs committee report

We are, pleased to report that Investec has entered a new era with the appointment of the new joint CEOs, Fani Titi and Hendrik du Toit with effect from 1 October 2018. Leading up to the announcement of the new leadership, the nomdac was engaged in rigorous discussions around the new leadership of the organisation. Given Fani's role in the new leadership, the succession discussions were led by myself as senior independent director. The nomdac and the boards have every confidence that both Fani Titi and Hendrik du Toit will continue to grow Investec from strength to strength.

As part of the handover, the newly appointed and outgoing CEOs will meet regularly over the next six months to ensure a smooth transition and minimal disruptions. This would ensure continuity and stability within the organisation.

The group remains optimistic and confident in the new leadership. We wish to acknowledge and thank Stephen Koseff and Bernard Kantor for their hard work, commitment and endless dedication to Investec. Through the years and under their leadership, Investec became a market leader in several territories. We also wish to thank Glynn Burger for his contribution to the success of Investec. We wish them the very best in their future endeavors.

Following the implementation of the new management succession plan Khumo Shuenyane will be joining nomdac as Investec Bank Limited's representative, Philip Hourquebie as chairman of remco and Lord Malloch-Brown as chairman of the SEC.

Going forward, the nomdac will continue to ensure the successful delivery of its mandate and strategic plans for the future.

PKO Crosthwaite

Perry Crosthwaite
Chairman DLC nomdac

15 June 2018

How the nomdac works

Role

The nomdac is an essential part of the group'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
- evaluation of the adequacy of the group's corporate governance structure
- maintenance of the board directorship refreshment programme, which addresses succession planning
- consideration of other key matters relating to the election of directors, including the definition of key board roles, terms of appointment and regular review of the appropriateness of the boards' composition
- succession planning.

Composition

The board has formed the opinion that the nomdac 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 nomdac, meetings of the committee shall be held at least three times per annum and as and when required on an ad hoc basis. During the financial year ended 31 March 2018, the committee met on five occasions.

How the committee spent its time

Succession planning/composition of boards and committees	Board effectiveness	Corporate governance and review of disclosures	Training and develop-ment
65%	15%	10%	10%

Composition and meeting attendance

Members during the year	Committee member since	Eligible to attend (5 meetings in the year)	Attended (5 meetings in the year)
F Titi (former chairman)*	9 Sep 2010	5	5
PKO Crosthwaite (chairman)**	16 Sep 2014	5	5
ZBM Bassa***	1 Apr 2017	5	5
D Friedland	16 Sep 2014	5	5
PRS Thomas****	9 Sep 2010	5	5
SE Abrahams*****	9 Sep 2010	1	1

* *F Titi stepped down as chairman of nomdac on 15 May 2018. F Titi recused himself from all discussions in relation to the appointment of the joint chief executive officer of the group.*

** *PKO Crosthwaite was appointed as chairman of nomdac on 15 May 2018.*

*** *In principle, it has been agreed that the chairs of the group's key governance committees (audit, board risk and capital, remuneration committees and social and ethics committees) be appointed to the nomdac.*

**** *PRS Thomas was appointed to the committee as a representative of Investec Bank Limited.*

***** *SE Abrahams stepped down from nomdac at the Investec plc and Invested Limited AGM on 10 August 2017.*

Succession

A key area of focus for the nomdac has been with regard to succession planning. The nomdac has conducted formal succession appraisals for all key positions, and continues to ensure that succession plans are in place that will allow the managing director and the CEO to hand over operational responsibilities and leadership of the group to the next generation of leaders.

With regard to succession of the chairman, the nomdac considered whether an external search consultancy or advertising should be used. It concluded that, with the significant leadership changes being implemented in 2018, providing stability and continuity was of great importance. The nomdac considers that the appointment of the previous senior independent director (SID), Perry Crosthwaite, enhances the effectiveness of the board, and brings a new chairman who has strength of character, independence of mind and also has considerable knowledge and experience of the group.

The nomdac 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 group is increasing the internal pool of talented and skilled individuals by providing opportunities for individuals to develop and grow within the organisation.

Investec's approach to succession has been a successful one, the organisation has an excellent track record of developing talent and managing transition, and has never had a situation where it was unable to fill a key management position through internal resources.

Skills, knowledge and experience

The nomdac continually monitors the composition of the current board and considers what attributes, skills and experience are necessary in order for the board to effectively discharge its responsibilities. The nomdac has overseen the programme of directors' development to ensure that it includes training to keep directors up to speed with the latest relevant developments, including technology and cyber security.

Independence

Open and honest debate 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 nomdac therefore considers all relevant circumstances regarding directors' independence. However, its obligation is to ensure that directors, in fact demonstrate independence of character and judgement, and exhibit this in the boardroom by providing a challenge to the executive board members.

Nomdac considers tenure when considering independence, and when considering the composition of the board as a whole. The nomdac 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. For this reason, Investec has, over a number of years, operated a structured board refreshment programme whereby longer-serving members of the board step down and are replaced with new non-executive directors.

The nomdac continues to challenge and assess the independence and performance of directors, regardless of tenure, however, after nine years' service, non-executive directors are subjected to a rigorous test to establish whether 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.

There has been a significant amount of change and previous board effectiveness reviews clearly articulated the need to let these changes settle down before further changes to the composition of the board were considered.

Diversity

The nomdac, in considering the composition of the board, is mindful of all aspects of diversity. This includes gender, race, skills, experience and knowledge and a diversity policy as approved by the board.

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.

With regard to 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 a aspirational target of 33% female representation by 2020. However, Investec is a meritocracy, and believes that targets should be achieved without the setting of formal quotas. 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 which promotes female board representation.

Investec has signed up to the 30% club in both South Africa and the UK, which promotes female board representation, and in the UK, the bank has signed up to 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.

Subsidiary board composition

In addition to considering the composition of the board, the nomdac reviewed the composition of a number of subsidiary boards including, Investec Bank plc, Investec Wealth & Investment Limited and Investec Asset Management Limited.

Related parties

Investec has processes and policies in place to govern the review, approval and disclosure of related party transactions entered into with directors, management and staff. Nomdac reviewed key related party transactions during the year and ensured that the appropriate policies had been complied with.

Committee activities	
Areas of focus	**What we did**
Succession planning	The committee: • continually monitored, reviewed, discussed and assessed succession planning • received a forward looking report on future succession • implemented the appointment of: – Fani Titi and Hendrik du Toit as the designate joint CEOs of Investec – Perry Crosthwaite as chairman of the Investec plc and Investec Limited boards – Zarina Bassa was appointed as SID of the group
Subsidiary board composition	The committee received reports on the composition of key subsidiaries of Investec plc including: • Investec Bank plc • Investec Wealth & Investment Limited • Investec Asset Management Limited The committee: • reviewed the composition of each of the key subsidiaries of Investec plc • considered any vacancies, new appointments or changes that would enhance the effectiveness of the boards, with particular regard to group oversight and governance of subsidiary companies with due regard to local regulatory or legal requirements and best practice, and ensuring an appropriate level of independent scrutiny at subsidiary level • agreed on the following matters: – appointment of Brian Stevenson as the Chairman of Investec Bank plc – Ciaran Whelan would succeed Glynn Burger as director of risk on 1 April 2019 – Kim McFarland would succeed Glynn Burger as finance and operations director from 1 April 2019
Corporate governance	The committee: • considered the independence of Investec plc's non-executive directors, with particular regard to: – directors who had served on the boards for a period longer than nine years – factors that might impact their independence – the directors contribution at board meetings and whether they in fact demonstrated independent challenge • specifically considered the independence of Cheryl Carolus who had served on the boards for a period exceeding nine years and concluded that it was satisfied that she remained independent and should be regarded as an independent non-executive director
Board diversity	The committee: • considered the target for the representation of women on the board of Investec Bank plc and Investec plc and confirmed its support of the 33% target by the end of 2020 • noted governance requirements that required certain regulated entities to adopt a board diversity policy and a target for female representation on the board • approved amendments to its terms of reference in order to include these duties to ensure that Investec boards remained compliant

Committee activities *(continued)*	
Areas of focus	**What we did**
Board effectiveness	The committee: • considered the process for the 2018 board effectiveness which took the form of a self-assessment followed by one-on-one meetings between the chairman and directors • amended/added questions to the board effectiveness self-assessment regarding risk and audit, the presentation of projects to the boards, IT and succession planning • noted that the 2018 effectiveness review showed good progress on those issues identified in the independently facilitated 2015 effectiveness review
Director's development	The committee: • considered dates and topics for future directors' development training and identified the following key topics affecting the business including: – UK regulatory requirements – amendments to the UK Corporate Governance Code – senior managers & certificate regime – Financial Conduct Authority (FCA) and hot topics – Markets in Financial Instruments Directive (MiFID) II – cyber crime and IT governance – cryptocurrency – culture – client asset sourcebook (CASS) • considered the attendance of the subsidiary boards to the training sessions • the subsidiary boards would be included in the training as necessary

Looking ahead

The nomdac will continue to focus on how to further develop senior management in order to support our succession plans as well as provide oversight to ensure orderly transition from founders to new appointees.

Furthermore, the nomdac will ensure the robustness of the board effectiveness programme, with due consideration and challenge and interrogation of the independence of those directors who have served for longer than nine years. The committee continuously looks forward to the challenges and opportunities that the group will face, and will continue to review the composition of the board to ensure that it is optimally structured to drive forward the strategy that will enable the group to succeed.

The nomdac will continue to focus on the composition of the board with respect to race and gender diversity.

DLC social and ethics committee report

Dear Shareholder

The DLC SEC is pleased to present its report for the 2018 financial year.

The SEC is a committee which assists both the Investec plc and Investec Limited boards in monitoring the group's performance in terms of social, environmental and governance indicators. The report aims to explain how the SEC has discharged its duties across the group.

The environment in which the group operates has been challenging. We have seen the ethical behaviour of organisations and boards across all sectors of the economy being questioned and interrogated. At Investec, we aim to ensure that the tone set at board level is filtered across the organisation in order to drive ethical behaviour which is embedded in our culture.

We recognise that economic growth and societal transformation are vital to creating a sustainable future for all the communities in which we operate and that we play a meaningful role in enabling this. We have a number of projects in place that speak to youth employment, academic programmes and Corporate Social Investment (CSI) initiatives in all territories. Furthermore, the SEC considered the environmental impact that society, as a whole, was having on the environment. Please refer to the corporate responsibility report on our website for comprehensive feedbank on these activities.

Investec also recognises the contribution each employee makes towards the success of Investec. We aim to make the workplace a safe, non-biased environment in which each employee can flourish. The flat management structure at Investec is a mechanism which allows free and open discussions and enhances collaboration between divisions and employees. The committee reviewed our practices around creating a fair, diverse and inclusive working environment.

With this in mind, we placed focus on any race related matters, gender inequality and pay disparities.

We would like to congratulate Lord Malloch-Brown on his appointment as the new chairman of the SEC. We look forward to his valuable input to the committee.

Fani Titi
Former chairman, DLC SEC

15 June 2018

"Investec lives in society and not off it"

DLC social and ethics committee

Fani Titi
Former chairman of the DLC SEC

Key achievements in FY 2018

- 0.9% CSI spend as a % of operating profit for Investec plc (2017: 0.9%)
- Learning and development spend as a % of staff costs is 0.8% for Investec plc (2017: 1.1%)

Areas of focus in FY 2019

- Oversight and coordination of group social, environmental and ethics matters
- Improved communication of the various group environmental, social and ethics efforts
- Strong focus on sustainable development goals (SDGs)

DLC social and ethics committee report

Dear Shareholder

Core to the objectives of the SEC are the values and principles of Investec and the desire to make a meaningful contribution to the world we live in. While our shareholders remain at the forefront of the board's attention, our purpose is not only about driving profits. We strive to be a distinctive and relevant specialist bank and asset manager, demonstrating cast iron integrity, moral strength and behaviour which promotes trust. Our core values include unselfishly contributing to society, valuing diversity and respecting others. Outstandingly empowered talent, entrepreneurial spirit and regard for the planet are other qualities that align our culture and our approach to responsible business.

There is a strong focus on Sustainable Development Goals (SDGs) which tackles the world's most pressing social, economic and environmental challenges and how companies align these 17 goals to their strategies. Investec undertook to establish a SDG forum which will drive the SDG agenda and monitor progress.

During the 2019 reporting period, the committee will continue to monitor Investec's environmental and social responsibilities. We are extremely proud of some of the initiatives we have in place across various territories, which include but are not limited to, academic programmes, reducing our environmental footprint, and improving our environmental social governance (ESG) policies and practices.

I would like to thank Fani Titi on his contributions made to this committee and I look forward to my new role as the chairman of the SEC.

Lord Malloch-Brown
Chairman, DLC SEC

15 June 2018

How the SEC works

Role

Our commitment to corporate responsibility means integrating social, ethical and environmental considerations. For Investec, being a good corporate citizen is about building our businesses to ensure we have a positive impact on the economy and social progress of communities and on the environment, while growing and preserving clients' and stakeholders wealth based on strong relationships and trust.

The SEC is an essential part of the group's governance framework to which the board has delegated the monitoring of the group's activities in relation to:

- social and economic development (including human rights)
- good corporate citizenship
- ethical business practices
- improving our environmental social governance (ESG) policies and practices.

Composition

The nomdac and the board have formed the opinion that the SEC 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 knowledge and 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 SEC, meetings of the committee shall be held quarterly, although the committee could determine that one of the scheduled meetings could be cancelled.

How the committee spent its time

DLC corporate responsibility	Policy matters	Employment matters	Reputational risk
35%	25%	20%	20%

Composition and meeting attendance

Members during the year	Committee member since	Eligible to attend (4 meetings in the year)	Attended (4 meetings in the year)
F Titi (former chairman)*	17 May 2012	4	4
Lord Malloch-Brown KCMG (chairman)**	8 August 2014	4	4
CA Carolus	17 May 2012	4	4
B Kantor	17 May 2012	4	4
S Koseff	17 May 2012	4	3
PRS Thomas***	17 May 2012	4	3

* *F Titi stepped down as chairman of SEC on 1 April 2018.*
** *Lord Malloch-Brown KCMG was appointed as chairman of SEC on 1 April 2018.*
*** *PRS Thomas is a representative of Investec Bank Limited.*

The composition of the committee is in accordance with the requirements of section 72(8) of the South African Companies Act, 2008, as amended, and its associated regulations.

Other regular attendees

- Head of sustainability and strategy
- Head of organisational development
- Head of human resources
- Head of investor relations
- Head of company secretarial and staff share schemes
- Head of Wealth & Investment
- Head of Investec Asset Management

Corporate governance

(continued)

Committee activities	
Areas of focus	**What we did**
Social and economic development (including human rights)	The committee: • monitored the group's standing in terms of the goals and purposes of: – the 10 principles set out under the United Nations Global Compact Principles (UNGC). The committee remained committed to the 10 principles of the UNGC with respect to human rights, labour, environment and anti-corruption – the Organisation of Economic Co-Operation and Development (OECD) recommendations regarding corruption • ensured that the Investec group and its subsidiaries adhere to the relevant laws in all its jurisdictions and strive to advance the United Nations (UN) principles within its sphere of influence • submit a communication of progress to the UN Global Compact on an annual basis
Good corporate citizenship	The committee: • monitored various initiatives across the group • discussed and monitored the various elements of good corporate citizenship • satisfied itself that the group's standing and commitment to the various elements of good corporate citizenship remained in place and was actively enforced
Contribution to the development of communities	The committee: • monitored Investec plc and its subsidiaries' activities in contributing to the development of the communities in which its activities were predominantly conducted or within which its products and services are predominantly marketed • received regular reports on the group's corporate and social investment initiatives as well as the strategy and spend in respect thereof • satisfied itself that the Investec group contributed to the development of communities
Talent retention and attraction of employees	The committee: • agreed to the investment in learning and development opportunities for employees as well as individuals outside of the workplace • received regular reports on the learning opportunities and development of employees and others outside of the workplace
Culture and ethics	The committee: • received regular reports on the group's activities in respect of programmes offered to enhance its core values which included unselfishly contributing to society, valuing diversity and respecting others • satisfied itself that the Investec group's core values had a positive impact on the success and well-being of local communities, the environment and on overall macro-economic stability
Reporting to shareholders of Investec plc	The committee: • reported to the shareholders on matters within its mandate on its activities on an annual basis by means of the annual reports and at the annual general meeting of both companies • ensured that it complied with this principle

Looking ahead

The SEC will continue to monitor the economic, social and governance aspects of the organisation in accordance with best practice and statutory requirements in the jurisdictions the group operates in.

Audit committee report

Dear Shareholder

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

Over the following pages we will share with you some key information about the role and functioning of Investec plc's audit committee. In addition to outlining the audit committee's structure, we have included some insight into how decisions are made and where judgement should be applied to the significant issues addressed by the audit committee during the financial year. Information has been provided under the following headings, which align to the key functions of the audit committee:

- financial reporting
- external audit
- internal controls.

Committee performance

The audit committee's performance was considered as part of the board effectiveness process conducted during the financial year, which was carried out using an internal self-assessment questionnaire. This process did not identify any material areas of concern about the functioning of the audit committees.

Role of the chair

The role of the chairman of the audit committee requires regular meetings with the heads of internal audit, compliance, legal, tax, operational and IT risk, credit, finance, the group head of corporate governance 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 group's operations and the risks facing the business. These interactions are an essential part of the role of the chairman of the audit committees, 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.

The audit committee and the BRCC continue to be chaired by different independent non-executive directors. David Friedland chairs the risk committee. These committees have met all legal and regulatory requirements from a composition and independence perspective, and by so doing provide an additional layer of independence between the said committees. Given the synergies and nature of matters considered by the committees, their membership is such that an element of commonality has persisted.

Looking ahead

In advancing the audit committee's efforts of the prior year, focus will be centred on the implementation of IFRS 9 and issues relating to conduct. The impact of the anticipated changes to the UK Corporate Governance, as proposed by the Financial Reporting Council (FRC), will also feature as a key consideration on the agendas of the audit committees. Additionally, attention will be paid to the macro and micro impact of recent political events from both a UK and South African perspective, including the negotiation of post-Brexit arrangements and the investigation into the capture of the South African state. The audit committee will continue to consider auditor independence and audit quality measures.

Zarina Bassa
Chairman, Investec plc audit committee

15 June 2018

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

Investec plc audit committee

Zarina Bassa
Chairman of the Investec plc audit committee from 1 April 2017

Key achievements in FY 2018

- Implementation of IFRS 9
- Monitoring of audit quality, external audit and audit partner accreditation and results of quality reviews
- Putting into place additional local and international cross reviews to ensure both actual and perceived audit quality

Areas of focus in FY 2019

- IT risk and cyber security
- Business continuity
- Conduct
- Audit quality
- Auditor independence
- Monitoring and closing audit findings
- Related party processes and disclosures

How the audit committee works

Role

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

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

Structure of the audit committees

In terms of Investec's DLC structure, the Investec plc board has mandated authority to the Investec plc audit committee and the Investec Limited board has mandated authority to the INL audit committee to be the audit committees for those respective companies and their subsidiaries.

The DLC audit committee, has responsibility for audit-related matters that are common to both Investec plc and Investec Limited. In particular, the combined group annual financial statements and year-end and interim results are considered and recommended for approval to the board by the DLC audit committee. Investec Bank plc, Investec Asset Management Limited and Investec Wealth & Investment Limited independently conducted audit committees report into the Investec plc and INL audit committee. The DLC audit chair attends these audit committee meetings.

Composition

The audit committee is comprised entirely of independent non-executive directors who must meet predetermined skills, competency and experience requirements. The members' continuing independence is assessed annually by the nomdac, which in turn make a recommendation on the members' independence to the board. The nomdac and board have formed the opinion that the audit committee has the appropriate balance of knowledge and skills in order for them to discharge their duties. In particular, a majority of the members are chartered accountants and by virtue of their experience in the banking, financial services and audit sectors, members collectively have competence relevant to the sector in which the group operates. Further details of the experience of the members can be found in their biographies on pages 118 to 123.

Meeting schedule and attendance

During the financial year ended 31 March 2018, the DLC, Investec plc and INL audit committees each met four times, resulting in 12 meetings in aggregate. In addition, a number of specific meetings were convened to discuss external auditor quality, partner accreditation and independence. A further three meetings were convened to deliberate and conclude on IFRS 9.

		(4 meetings in the year)	
Members throughout the year	**Committee member since**	**Eligible to attend**	**Attended**
ZBM Bassa	1 Nov 2014	4	4
LC Bowden*	1 Jan 2015	1	0
PA Hourquebie**	14 Aug 2017	3	3
K Shuenyane	8 Aug 2014	4	4
PRS Thomas***	17 May 2006	1	1

* *LC Bowden stepped down from the audit committee with effect from 16 August 2017.*
** *PA Hourquebie was appointed to the audit committee with effect from 14 August 2017.*
*** *PRS Thomas stepped down from the DLC and plc audit committees with effect from 10 August 2017, but remains a member of the INL audit committee representing Investec Bank Limited.*

- **Other regular attendees**
- Chairman of the group
- Chief executive officer of the group
- Managing director of the group
- Group risk and finance director of the group
- Head of compliance
- Head of IT
- Head of operational risk
- Head of internal audit
- Head of finance
- External auditors
- Head of company secretarial and staff share schemes
- Head of corporate governance
- Head of legal
- Head of tax
- Chief operational officers

Investec plc and Investec Limited board of directors

Investec plc audit committee	DLC audit committee	Investec Limited and Investec Bank Limited audit committee
Responsible for all legal and regulatory requirements as necessary under the UK legislation and listing rules – including the UK Disclosures Guidance and Transparency Rules and the UK Corporate Governance Code, the three pillars of Specialist Bank, Investec Asset Management and Investec Wealth & Investment	Responsible for matters that are common to the Investec plc and INL audit committee, including the combined group financial statements and results announcements, review of the independence and effectiveness of the external audit function, review of the going concern concept, group viability statement, review of the finance function and finance director and internal auditor effectiveness	Responsible for all legal and regulatory requirements as necessary under South African legislation and listing rules – including King IV

Subsidiaries and audit sub-committee

Assurance functions, including group compliance, group legal, group finance, tax, internal audit, external audit and group risk

How the committee spent its time

PLC

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

Financial reporting

Process

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

In this process, amongst other matters, the audit committees 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 committees receive 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 group adopted IFRS 9 on 1 April 2018. The audit committee has dedicated a substantial amount of its time to understanding and challenging the IFRS 9 implementation programme. Three dedicated audit committee meetings, of a combined audit committee/BRCC, were convened to deliberate and conclude on IFRS 9.

Areas of judgement and significant issues

The audit committees have 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 committees to ensure that appropriate rigour has been applied are outlined below.

All accounting policies can be found on pages 32 to 40 in volume three of the 2018 integrated annual report of Investec plc and Investec Limited.

Significant judgements and issues	Committee review and conclusion
Impairments • Determining the appropriateness of impairment losses requires the group to make assumptions based on management judgement • Implementation of IFRS 9 and Day 1 adjustment	• the committee challenged the level of provisions made and the assumptions used to calculate the impairment provisions held by the group including assessing impairment experience against forecasts. Particular focus was given to the legacy portfolio and exposures which are affected by the current macro-economic environment • certain members of the audit committee attend the BRCC where impairment provisions are also challenged at a more granular level. The BRCC has oversight of the governance process pertaining to impairments • 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 and challenged the group's key judgements, scenarios 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 • three dedicated audit committee meetings of a combined audit committee/BRCC were convened to conclude on IFRS 9 • the audit committee is satisfied that the group has worked with industry guidance and has taken note of the best practice recommendations which have been issued
Valuations • The group 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 • the committee debated the portfolio valuation adjustment which was recorded to take into account macro-economic risks on the South African private equity portfolio • at the year-end, prior to the audit committee meetings, the audit committee chair met with management and received a presentation on the material investments across the group 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 Investec plc 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 provision • 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

One of the key roles of the Investec plc audit committee is to review the going concern concept as presented by management and, if appropriate, make the necessary recommendation to the boards in this regard.

Whilst the liquidity and solvency of the Investec group is closely monitored on a daily basis by relevant individuals in the group's risk management division, the Investec plc audit committee and board expressly consider the assumptions underlying the going concern of Investec plc as part of the annual financial statement process.

The following areas are considered in order to make this statement:

- budgets and forecasts
- profitability
- capital
- liquidity
- solvency.

For the year ended 31 March 2018, the Investec plc audit committee recommended to the board that, based on its knowledge of the group, key processes in operation and enquiries, it is reasonable for the financial statements to be prepared on a going concern basis.

Fair, balanced and understandable

At the request of the board, the Investec plc audit committee has considered whether, in its opinion, the annual report and financial statements for the year ended 31 March 2018 is fair, balanced and understandable, and whether it provides the information necessary for shareholders to assess the group's position and performance, business model and strategy.

In forming its opinion, the Investec plc audit committee has:

- met with senior management to gain assurance that the processes underlying the compilation of the annual financial statements were appropriate
- conducted an in-depth, critical review of the annual financial statements and, where necessary, requested amendments to disclosure.

As such, the Investec plc audit committee has formed the view that the annual report and financial statements for the year ended 31 March 2018 is fair, balanced and understandable.

External audit

The Investec plc 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. The audit committee confirms its satisfaction with the performance and quality of external audit, the external auditors and lead partners.

Auditor appointment

Ernst & Young LLP are the auditors of the Investec plc. Ernst & Young have been the Investec plc auditors since Investec plc's listing on the London Stock Exchange in 2002.

The Investec plc audit committee considers the re-appointment of the external auditors each year before making a recommendation to the board and shareholders.

There will be a mandatory rotation for the 2025 audit and a competitive tender process will be conducted in advance of this time. See further information on re-election of auditors on page 146.

Auditor independence and objectivity

The Investec plc audit committee considers the reappointment of the external auditors each year before making a recommendation to the board and shareholders. It assesses the independence of the external auditors on an ongoing basis. The external auditors are required to rotate the lead audit partner every five years and other senior audit staff every seven years. Partners and senior staff associated with the Investec audit may only be employed by the group after a cooling off period. The lead partner commenced their five-year rotation period in 2014 (Ernst & Young LLP: 1 April 2014).

Following due consideration, we continue to believe that partner rotation, limitations on non-audit services including pre-approval of non-audit work and the confirmation of the independence of both Ernst & Young and their respective audit team are adequate safeguards to ensure that the audit process is both objective and effective.

The auditors have confirmed their independence and were requested to review and confirm the level of staff transactions with Investec, if any, to ensure that all auditors on the Investec audit meet the independence criteria.

Non-audit services

The audit committee has adopted a policy on the engagement of the external auditors to provide non-audit services. This policy, designed to safeguard auditor objectivity and independence, includes guidelines on permitted and non-permitted services and on services requiring specific approval by the audit committees. The audit committees review whether the level of non-audit fees could impact the independence of the auditors. This is monitored by reference to the level of fees paid for services, excluding services which are required to be provided by the external auditors due to their office, against the fees paid for the audit of the group. Total audit fees paid to all auditors for the year ended 31 March 2018 were £13.6 million (2017: £10.1 million), of which £2.6 million (2017: £2.8 million) related to the provision of non-audit services.

The summary of the nature of these services is set out in note 6 operating cost.

Total non-audit fees for each of the auditing firms were approved by the audit committee at least quarterly. Ernst & Young non-audit service fees were pre-approved by the chairman of the audit committee prior to commencing the work in line with Ernst & Young policy.

The decision to approve the engagement of the external auditor for the services noted above was due to factors including synergies and efficiencies relating to the audit work and their existing knowledge of Investec which allowed work to commence quality and with minimal disruption.

On the basis of the abovementioned policy and reviews, the audit committee was satisfied that the quantity and type of non-audit work undertaken throughout the year did not impair the independence of Ernst & Young LLP.

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.

The audit committee evaluated the effectiveness of the auditors through completion of a questionnaire which, amongst other things, assessed the audit partners, audit team and audit approach (planning and execution), during their presentations at audit committee meetings and ad hoc meetings held with the auditors throughout the year. Senior finance function executives also provided feedback to the audit committees.

Re-election of auditors

The board and the audit committee is recommending the re-election of Ernst & Young LLP as auditors of Investec plc at its annual general meeting in August 2018.

Internal controls

The Investec plc audit committee has responsibility for assessing the adequacy of the group's internal controls. To fulfil this responsibility, the Investec plc audit committee receives regular reports from risk management, compliance and internal audit including a written opinion from internal audit on the risk management framework, internal controls and internal financial controls. Outlined below are some of the key areas of focus of the Investec plc audit committee over the past year in terms of their ongoing assessment of the adequacy of the group's internal controls.

Internal audit

In 2015, Grant Thornton were engaged to complete an external review on the effectiveness of the internal audit function. A recommendation of this review was to streamline the internal audit process and, in particular, reduce the number of lower level reviews. Since then, this has been a focus area for internal audit and an area of discussion at Investec plc audit committee meetings. During the course of this year, challenge at committee meetings was centred on getting this balance right in terms of the number of audits, given the risk profile of business' activities. Delivery of the internal audit plan has been another key area of focus by the Investec plc audit committee. Monitoring the completion of overdue audit findings and the resourcing of the internal audit function has also been addressed. Based on its review and the above actions, the audit committees concluded that the internal audit function continued to be effective.

Risk management

The Investec plc audit committee receives regular reports from operational risk, information technology and compliance. During the course of the year, key topics that have been discussed and debated by the Investec plc audit committee has been:

Business continuity
Consideration of the impact of the London office move in 2018 on the continuity of business operations
Information cyber security
Received and discussed the findings of a follow-up targeted attack simulation that was performed on Investec by an external provider
Regulatory compliance
Review and monitoring of results of regulatory compliance reviews

Board risk and capital committee report

Dear Shareholder

As the chairman of the board risk and capital committee (the BRCC), during the financial year ended 31 March 2018, I am pleased to present our report.

The role of the committee is to review, on behalf of the board, management recommendations on a range of risks facing the business. We perform this function by considering the risk reports presented and question that either no management action is required or that existing actions taken by management following discussion are appropriate.

During the year under review all risk and capital measures remained within the board-approved risk appetite despite a number of emerging economic and political risks which presented itself. The committee reviewed and approved the capital plans for Investec Limited and Investec plc.

As a committee, we gained comfort in the fact that a detailed review of the risk appetite limits was conducted by the executives in policy executive risk review committee (Policy ERRF), who recommended the risk appetite limits to the committee for approval. We reviewed the risk appetite limits and challenged the assumptions contained therein.

Reports to the committee focus on the key risk disciplines of credit, operational, legal, conduct, reputational, capital, liquidity, market risk and cyber security. However, due to the dynamic nature of the business environment in which Investec operates, the committee is flexible to consider other matters of relevance as they arise. For example, the committee requested a number of ad hoc reports in order to adequately assess risks that are due to once off events.

At each board meeting, a report is presented on the key matters discussed at the committee and focus in accordance with any new risks identified.

Committee performance

Evaluation of the committee's performance was conducted and no areas of concern in respect of the functioning of the committee were identified.

Role of the chair

During the year, meetings were held regularly with the heads of business, as well as heads of the risk disciplines outside of formal committee meetings in order to maintain and develop an understanding of the group's operations and risks facing the business. These interactions are an essential part of the role of the chairman, as it provides an additional layer of assurance to help gain comfort that these risks that are reported to the committee accurately reflect the risks facing the business.

The audit committee has the primary role in providing assurance to the board that enterprise wide risks have been correctly identified and appropriate controls are in place. Therefore, the audit committee will rely on the output of the BRCC to give assurance as regards enterprise wide risk. As it is essential that there are some synergies in membership of the DLC audit committee and BRCC, common membership will be retained by Zarina Bassa, as the chair of the DLC audit committee, Philip Hourquebie and Khumo Shuenyane.

Looking forward

In the year ahead, the committee will continue to focus on matters related to the impact of economic conditions on Investec, effective risk data aggregation, the implementation of regulatory requirements, information security, cyber crime and risks associated with the fast pace of regulatory change faced by the business and assessing the impact of external factors on the group's risk profile.

The committee will continue to focus on the requirements in relation to the General Data Protection Regulation (GDPR) and the implementation of IFRS 9.

David Friedland
Chairman, DLC BRCC

15 June 2018

"We believe that robust risk management systems and processes are in place to support the group strategy"

DLC board risk and capital committee

David Friedland
Chairman of the DLC BRCC

Key achievements in FY 2018

- Review of successful targeted attack simulations to mitigate cyber crime risk
- Understanding and challenging the implementation of IFRS 9

Areas of focus by in 2019

- Monitoring and continued mitigation of risks related to cyber crime and information security
- Effective risk data aggregation (fully compliant by 1 April 2018)
- Impact of economic conditions on Investec
- The BRCC will adjust its meeting plan and focus in accordance with any new risks identified

Board risk and capital committee report

How the BRCC works

Role

The BRCC is an essential part of the group's governance framework to which the board has delegated the monitoring of the group's activities in relation to a number of risks and capital management. The BRCC is the most senior risk management committee of the group and comprises executive and non-executive membership (the majority of which are non-executive directors). It covers each material banking, wealth management and asset management subsidiary company within the wider group

The BRCC has to ensure that all risks are identified and properly mitigated and managed. Good client and market conduct is paramount in all the group does and the BRCC ensures a robust culture supported by oversight and management information to evidence good practice.

The BRCC is also the appointed board committee to meet the requirements of the South African Banks Act, 94 of 1990 and the Capital Requirements Regulation and Directive (CRR/CRD IV), adopted by the European Commission and implemented in the UK. This requires the board of directors of a bank and a holding company to appoint a risk and capital committee.

The nomdac and the board have formed the opinion that the BRCC 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 knowledge and experience for them to be able to consider the issues that are presented to the committee.

Meeting schedule and attendance

BRCC meets at least six times every year. During the year ended 31 March 2018, the BRCC met six times.

A combined BRCC/audit committee meeting was held to receive a status update on the IFRS 9 project.

How the committee spent its time

Other (Including legal, operational, group insurance, conduct risk business continuity, cyber crime and IT)	Capital	Balance sheet risk	Credit risk	Market risk
25%	25%	20%	20%	10%

Composition and meeting attendance

Members throughout the year	Committee member since	Eligible to attend	Attended
		(6 meetings in the year)	
D Friedland (chairman)	13 Sept 2013	6	6
SE Abrahams*	11 Mar 2011	6	5
ZBM Bassa	14 Nov 2014	6	6
GR Burger	11 Mar 2011	6	5
H Fukuda OBE**	13 Sept 2013	6	6
PA Hourquebie	17 Aug 2017	4	4
B Kantor	11 Mar 2011	6	5
S Koseff	11 Mar 2011	6	6
KL Shuenyane	16 Jan 2015	6	6
B Stevenson***	4 Sept 2016	6	6
F Titi	11 Mar 2011	6	4
PRS Thomas****	11 Mar 2011	6	6

* *SE Abrahams is a representative of Investec Bank Limited.*
** *H Fukuda is a representative of Investec Bank plc.*
*** *B Stevenson is a representative of Investec Bank plc.*
**** *PRS Thomas is a representative of Investec Bank Limited.*

Other regular attendees

- Operational risk
- Head of IT Security
- Investec Wealth & Investment Global Head
- Chief risk officer – Investec Limited
- Chief risk officer – Investec plc
- Investec Asset Management COO
- Investor relations representative
- Global head of governance and compliance

Committee activities

Areas of focus	What we did
Recovery and resolution plan	The committee: • annually review the recovery and resolution plan for Investec plc • questioned the contents of the recovery and resolution plans which address how the board and management will recover from extreme financial stress to avoid liquidity and capital difficulties in Investec plc • the committee gained comfort that adequate plans had been put in place for a scenario where Investec plc was required to recover from extreme financial stress
Operational risk *Exposure to any instance where there is potential or actual impact to the group resulting from failed internal processes, people, systems, or from external events* *This risk includes fraud, legal risk, information and IT risk*	The committee: • monitored operational losses to ensure no further risk exits • reviewed the overall risk rating for the group • considered and reviewed the risk appetite limits for the group • monitored and reviewed regulatory compliance risk, information security risk, access risk and regulatory developments
Capital management *The progress/plan to achieving required regulatory and internal targets and capital and leverage ratios*	The committee: • measured key capital ratios against the internal and regulatory limits and what actions management planned to meet these ratios/limits • reviewed impending regulations on the management of capital • the committee satisfied itself that Investec plc was adequately capitalised and that progress was being made towards achieving impending regulatory amendments to capital ratios
Market risk *Market risk capital requirements*	The committee: • monitored risk appetite breaches and challenged management action which addressed these breaches • the committee gained comfort that the group had addressed breaches to limits appropriately
Credit and counterparty risk *Risk of an obligor failing to meet the terms of any agreement*	The committee: • monitored the risk appetite limit and queried management action taken in respective of breaches • the committee challenged the effectiveness of the management of such risks within the business
Investment risk *The probability or likelihood of occurrence of losses relative to the expected return of any particular investment*	The committee: • received regular reports regarding investment risk • reviewed and questioned the investment risk reports submitted to the committee

Committee activities *(continued)*	
Areas of focus	**What we did**
Reputational risk *Risk of damage to our reputation, name or brand*	The committee: • monitored events which could potentially create reputational risk • gained comfort that reputational risk was mitigated as much as possible through detailed processes and governance escalation procedures from business units to the board, and from regular, clear communication with all stakeholders
Conduct risk *Risk that detriment caused to the bank, its customers, its counterparties or the market as a result of inappropriate execution of business activities*	The committee: • reviewed and questioned the conduct risk report which is discussed at each meeting • challenged the effectiveness of the management of such risks within the business
Balance sheet risk *Financial risks relating to our asset and liability portfolios, comprising market liquidity, funding, concentration, non-trading interest rate and foreign exchange, encumbrance and leverage risks*	The committee: • reviewed a report which highlights bank activity, liquidity balances and key measures against thresholds and limits • challenged the effectiveness of the management of such risks within the business
Business continuity risk *Strategy to be able to function in the event of a disaster*	The committee: • reviewed, challenged and debated reports which highlight processes in place to manage this risk • challenged the effectiveness of the management of such risk within the business
Cyber crime risk *Cyber crime risk is the risk the group is exposed to by criminal activities carried out by means of computers or the internet*	The committee: • received regular reports regarding the cyber crime landscape, including lessons learnt from external cyber attacks • received the targeted attack simulation results and ensured that any remediation required was completed • gained comfort that the management of cyber crime was given the necessary priority

DLC remuneration committee report

For information on the decisions taken by the remuneration committee, refer to the remuneration report contained on pages 124 to 140.

Members during the year	Committee member since	Eligible to attend (11 meetings in the year)	Number of meetings attended
PKO Crosthwaite (former chairman)*	2 Feb 2011	11	11
PA Hourquebie (chairman)**	14 Aug 2017	7	7
ZBM Bassa	10 Sep 2015	11	11
CR Jacobs	8 Aug 2014	11	10
F Titi***	18 Sep 2013	10	10

* *PKO Crosthwaite stepped down as chairman of the DLC remuneration committee with effect from 31 March 2018.*
** *PA Hourquebie was appointed to the DLC remuneration committee with effect from 14 August 2017 and was appointed chairman with effect from 1 April 2018. PA Hourquebie recused himself from any discussions in relation to the remuneration of the chairman of the DLC remuneration committee.*
*** *F Titi stepped down from the DLC remuneration committee with effect from 23 February 2018.*

Management committees

A number of management committees have been established to support management in their governance of the group. In particular, four key committees have been established to assist with the management and monitoring of the risks facing the group. These are the:

- Group risk and capital committee (GRCC)
- Review executive risk review forum (Review ERRF)
- Policy executive risk review forum (Policy ERRF)
- DLC capital committee.

Each of these committees have been established by the BRCC and the reporting line back into the board is outlined below, as well as the division of responsibilities.

Investec plc and Investec Limited boards

BRCC

GRCC
Mandated by the BRCC to manage, monitor and mitigate enterprise-wide risk

Review ERRF
Mandated by the BRCC and reporting into the GRCC to assist in determining categories of risk, the specific risks and the extent of such risks the group should undertake

Policy ERRF
Mandated by the BRCC and reporting into the GRCC to assist with the review of risk management policies and practices to ensure the organisation remains in line with the group risk appetite

DLC Capital Committee
Mandated by the BRCC and reporting into the GRCC to assist with the management of capital allocation and structuring, capital planning and models, performance measurement and capital-based incentivisation

Global forums/committees
Including global credit committee and group investment committee

How we comply

Regulatory context

Investec operates under a dual listed companies (DLC) structure which requires compliance with the principles contained in the South African King IV Code of Corporate Governance Principle (available at www.iodsa.co.za) and the April 2016 edition of the UK Corporate Governance Code (available at www.frc.org.uk).

We believe that sound corporate governance depends on much more than mere compliance with regulations. Good conduct and ethical practice is embedded in everything that we do at Investec. By acting in accordance with our values and principles, we believe that good governance is ensured.

Statement of compliance

UK Corporate Governance Code

During the year ended 31 March 2018, Investec has complied with all the provisions of the UK Corporate Governance Code.

Other statutory information

Viability statement

In addition to providing a going concern statement, the board is required, in terms of the UK Corporate Governance Code, to make a statement with respect to the group's viability (i.e. its ability to continue in operation and meet its liabilities) taking into account the current position of the group, the board's assessment of the group's prospects and the principal risks it faces. Following confirmation by the BRCC (comprising a majority of non-executive directors, which includes members of the audit committee), the audit committee recommended the viability statement for board approval.

The board has identified the principal and emerging risks facing the group and these are highlighted on pages 22 to 28.

Through its various sub-committees, notably the audit committee the GRCC, the BRCC and the management and GRCC capital committees, the board regularly carries out a robust assessment of these risks, and their potential impact on the performance, liquidity and solvency of the group. The activities of these board sub-committees and the issues considered by them are described in this governance section of this report.

Taking these risks into account, together with the group's strategic objectives and the prevailing market environment, the board approved the overall risk appetite for the Investec group. The group's risk appetite statement sets broad parameters relating to the board's expectations around performance, business stability and risk management.

The board considers that prudential risk management is paramount in all it does. Protection of depositors, customers' interests, capital adequacy and shareholder returns are key drivers. To manage the group's risk appetite there are a number of detailed policy statements and governance structures in place. The board ensures that there are appropriate resources in place to manage the risks arising from running our business by having independent risk management, compliance, and financial control functions. These are supplemented by an internal audit function that reports independently to a non-executive audit committee chairman.

The board believes that the risk management systems and processes we have in place are adequate to support the group's strategy and allow the group to operate within its risk appetite framework. A review of the group's performance/ measurement against its risk appetite framework is provided at each BRCC meeting and at the main board meetings.

In terms of the FCA and PRA requirements the group is also required to meet regulatory standards with respect to capital and liquidity. In terms of these requirements, the group is required to stress its capital and liquidity positions under a number of severe stress conditions. Investec's stress testing framework is well embedded in its operations and is designed to identify and regularly test the group's key 'vulnerabilities under stress'.

Scenario modelling and rigorous daily liquidity stress tests are performed to measure and manage the group's respective banking entities' liquidity positions such that payment obligations can be met under a wide range of company specific and market-driven stress scenarios. The objective is to have sufficient liquidity, in an acute stress scenario, to continue to operate for a minimum period as detailed in the board-approved risk appetite and as required by the regulators. The group's risk appetite also requires each banking entity to maintain a minimum cash to customer deposit ratio of 25%, and ensure that the respective banking entities are not reliant on wholesale funding to fund core asset growth. Each banking entity is required to be fully self-funded. Our banking businesses exceed the regulatory requirements for the net stable funding ratio and liquidity coverage ratio. Investec plc currently has £5.8 billion in cash and near cash assets, representing 50.0% of customer deposits.

The group develops annual capital plans that look forward over a three-year period. These plans are designed to assess the capital adequacy of the group's respective banking entities under a range of economic and internal conditions, with the impact on earnings, asset growth, risk appetite and liquidity considered. The output of capital planning allows senior management and the board to make decisions to ensure that the group continues to hold sufficient capital to meet internal and regulatory capital targets over the medium term (i.e. three years). The group targets a minimum capital adequacy ratio of 14% to 17%, a common equity tier 1 ratio in excess of 10% and a leverage ratio in excess of 6% for each of its banking entities.

The parameters used in the capital and liquidity stresses are reviewed regularly, taking into account changes in the business environments and inputs from business units. A detailed 'bottom-up' analysis is performed in designing Investec's specific stress scenarios. The group also incorporates the Bank of England (BoE) annual cyclical stress scenarios into its capital and liquidity processes.

Investec plc runs a number of stress scenarios, some of which are briefly highlighted below:

- The BoE's annual cyclical stress scenario: this scenario incorporates a UK slowdown in GDP growth, a material slump in Pounds Sterling, increasing inflationary pressures which are combated by an increase in UK interest rates to 4%, in addition to a significant house price fall
- A scenario where there is a material stress on corporates and protracted weak global growth with low interest rates
- A scenario where there is increased political uncertainty and a domestic household shock incorporating a UK downturn, high UK interest rates and a UK housing market slump. In this scenario we assume that the international backdrop is benign with some slight negative spill over from the UK through various linkages to the Euro area, with Ireland most acutely exposed.

We also carry out 'reverse stress tests', i.e. those scenarios that would cause the group to breach its capital and liquidity requirements. These scenarios are considered highly unlikely, given the group's strong liquidity position and sound capital and leverage parameters.

Furthermore, the group is required to have a recovery and resolution plan. The purpose of the recovery plan is to document how the board and senior management will ensure that the group recovers from extreme financial stress to avoid liquidity and capital difficulties in its separately regulated companies.

The capital and liquidity plans, stress scenarios, recovery and resolution plan and the risk appetite statement are reviewed at least annually. In addition, senior management hosts an annual three-day risk appetite process at which the group's risk appetite framework is reviewed and modified to take into account risk experience and changes in the environment. Furthermore, strategic budget processes which focus on, amongst other things, the business and competitive landscape; opportunities and challenges; financial projections – take place within each business division at least annually. A summary of these divisional budgets, together with a consolidated group budget, is presented to the board during its strategic review process early in the year.

In assessing the group's viability, the board has taken all of the abovementioned factors, documents and processes into consideration. The directors can confirm that they have a reasonable expectation that Investec will continue to operate and meet its liabilities as they fall due over the next three years. The board has used a three-year assessment period as this is aligned to the group's medium-term capital plans which incorporate profitability, liquidity, leverage and capital adequacy projections and include impact assessments from a number of stress scenarios. The board has assessed the group's viability in its 'base case' and stress scenarios. Detailed management information therefore exists to provide senior management and the board sufficient and realistic visibility of the group's viability over the next three years to 31 March 2021 under these various scenarios. In assessing the group's viability, a number of assumptions are built into its capital and liquidity plans. In the stress scenarios these include, for example, dividend payments being reduced and asset growth being curtailed.

The viability statement should be read in conjunction with the following sections in the annual report, all of which have informed the board's assessment of the group's viability:

- Pages 5 to 13 which show a strategic and financial overview of the business
- Pages 22 and 28 which provide detail on the principal and emerging risks the group faces
- Page 49 which highlights information on the group's risk appetite framework
- Pages 45 to 47 and page 50 which provide an overview of the group's approach to risk management, and the processes in place to assist the group in mitigating its principal risks
- Pages 47, 53, 79, 84, 87 and 101 which highlight information on the group's various stress testing processes
- Pages 86 and 87 which specifically focus on the group's philosophy and approach to liquidity management
- Pages 99 to 102 which explain the group's capital management framework.

This forward-looking viability statement made by the board is based on information and knowledge of the group at 15 June 2018. There could be a number of risks and uncertainties arising from (but not limited to) domestic and global economic and business conditions beyond the group's control that could cause the group's actual results, performance or achievements in the markets in which it operates to differ from those anticipated.

Corporate governance

(continued)

Conflict of interest

Certain statutory duties with respect to directors' conflict of interest are in force under the UK Companies Act and the South Africa's Corporation Act. In accordance with the Act and the Articles of Association (Articles) of Investec plc, 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.

External directorships

Outside business interests of directors are closely monitored and we are satisfied that all of the directors have sufficient time to effectively discharge their duties.

Dealings in securities

Dealings in securities are subject to the personal account dealing policy. The policy is based on regulatory guidance and industry practice and is updated to ensure compliance with applicable regulations and industry best practice.

The policy is designed to discourage speculative trading and highlight potential conflicts of interest between the interest of employees and the Investec group or any of its clients, shareholders or potential shareholders. The UKLA's Disclosure Guidance and Transparency Rules require us to disclose transactions in shares and related securities by all persons discharging management responsibilities and their 'connected persons'. These include directors and senior executives of the group.

Staff are prohibited from dealing in all listed Investec securities during closed periods. Tradings are restricted in respect of all Investec Limited, Investec plc, Investec Property Fund Limited (IPF) and Investec Australia Property Fund Limited (IAPF) securities as well as any warrants, OTC and exchange traded derivatives on the said securities. Staff are restricted from exercising options through Investec Staff Share Schemes during closed periods.

The UK Companies Act requires directors to disclose any direct or indirect material interest they have in contracts, including proposed contracts, which are of significance to the company's business. Directors are required to make these disclosures at board meetings, and all disclosures made are recorded in the minutes of that meeting.

Staff are required to undertake not to use any personal hedging strategies to lessen the impact of a reduction in value of any share award or any vested shares which are subject to a retention period following any vesting date. Any breach of this condition will result in the lapse of any unvested proportion of such reward, unless the DLC remuneration committee determines otherwise.

Directors' dealings

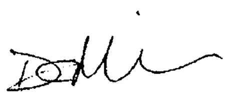
Director's dealings in the securities of Investec plc are subject to a policy based on the Disclosure Guidance and Transparency Rules of the UKLA Requirements.

All directors' and company secretaries dealings require the prior approval of the compliance division and the chairman, the senior independent director or the chairman of the audit committee.

All dealings of persons discharging management responsibilities require approval by line management, the compliance division and the chairman.

Report to shareholders

This report to shareholders has been approved and authorised for issue to the shareholders of Investec plc on 15 June 2018 and signed on its behalf by:



David Miller
Company secretary

Investec plc

Investec ordinary shares

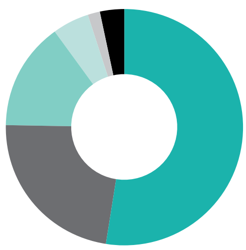
As at 31 March 2018 Investec plc had 669.8 million ordinary shares in issue.

Spread of ordinary shareholders as at 31 March 2018

Investec plc ordinary shares in issue

Number of shareholders	Holdings	% of total shareholders	Number of shares in issue	% of issued share capital
16 451	1 – 500	54.5%	3 066 804	0.5%
5 148	501 – 1 000	17.1%	3 921 349	0.6%
5 789	1 001 – 5 000	19.2%	12 820 080	1.9%
870	5 001 – 10 000	2.9%	6 322 860	0.9%
1 034	10 001 – 50 000	3.4%	24 032 663	3.6%
275	50 001 – 100 000	0.9%	19 574 644	2.9%
615	100 001 and over	2.0%	600 100 295	89.6%
30 182		**100.0%**	**669 838 695**	**100.0%**

Geographical holding by beneficial ordinary share owner as at 31 March 2018



Investec plc

South Africa	52.7%
UK	22.8%
USA and Canada	14.5%
Rest of Europe	5.0%
Asia	1.8%
Other countries and unknown	3.2%

Largest ordinary shareholders as at 31 March 2018

In accordance with the terms provided for in section 793 of the UK Companies Act 2006, the group has conducted investigations into the registered holders of its ordinary shares (including nominee and asset management companies) and the results are as disclosed below.

Investec plc

Shareholder analysis by manager group	Number of shares	% holding
1. Allan Gray (ZA)	71 494 791	10.7%
2. Coronation Fund Managers (ZA)	49 462 280	7.4%
3. Public Investment Corporation (ZA)	40 553 224	6.1%
4. BlackRock Inc (US & UK)	38 477 035	5.7%
5. Old Mutual (ZA)	34 052 783	5.1%
6. Prudential Group (ZA)	30 358 867	4.5%
7. The Vanguard Group Inc (US & UK)	20 537 935	3.1%
8. Investec Asset Management* (ZA)	17 766 926	2.7%
9. T Rowe Price Associates (UK)	17 073 903	2.5%
10. State Street Corporation (US & UK)	16 865 642	2.5%
	336 643 386	**50.3%**

The top 10 shareholders account for 50.3% of the total shareholding in Investec plc. This information is based on a threshold of 20.000 shares. Some major fund managers hold additional shares below this, which may cause the above figures to be marginally understated.

* *In custody, held on behalf of clients.*

Shareholder classification as at 31 March 2018

	Number of Investec plc shares	% holding
Public*	644 874 220	96.2%
Non-public	24 964 475	3.8%
Non-executive directors of Investec plc/Investec Limited	1 144 683	0.2%
Executive directors of Investec plc/Investec Limited	10 651 547	1.6%
Investec staff share schemes	13 168 245	2.0%
Total	**669 838 695**	**100.0 %**

*As per the JSE Listings Requirements.

Share statistics

Investec plc

For the year ended	31 March 2018	31 March 2017	31 March 2016	31 March 2015	31 March 2014	31 March 2013	31 March 2012
Closing market price per share (Pounds Sterling)							
– year ended	5.50	5.44	5.13	5.61	4.85	4.59	3.82
– highest	6.49	6.19	6.47	6.06	5.08	5.14	5.22
– lowest	4.61	4.19	4.03	4.91	3.66	3.10	3.18
Number of ordinary shares in issue (million)[1]	669.8	657.1	617.4	613.6	608.8	605.2	598.3
Market capitalisation (£'million)[1]	3 684	3 575	3 167	3 442	2 953	2 778	2 286
Daily average volumes of share traded ('000)	1 807	1 618	1 474	2 170	1 985	1 305	1 683
Price earnings ratio[2]	10.3	11.3	12.4	14.2	12.8	12.7	12.0
Dividend cover (times)[2]	2.2	2.1	2.0	2.0	2.0	2.0	1.9
Dividend yield (%)[2]	4.4	4.2	4.1	3.5	3.9	3.9	4.5
Earnings yield (%)[2]	9.7	8.9	8.1	7.0	7.8	7.9	8.3

[1] *The LSE only include the shares in issue for Investec plc, i.e. 669.8 million, in calculating market capitalisation, as Investec Limited is not incorporated in the UK.*

[2] *Calculations are based on the group's consolidated earnings per share before goodwill, acquired intangibles and non-operating items; and dividends per share as prepared in accordance with IFRS and denominated in Pounds Sterling.*

Investec preference shares

Investec plc has issued preference shares.

Spread of preference shareholders as at 31 March 2018

Investec plc preference shareholders

Number of shareholders	Holdings	% of total shareholders	Number of preference shares in issue	% of issued preference share capital
50	1 – 500	14.0%	10 674	0.4%
48	501 – 1 000	13.5%	38 268	1.4%
176	1 001 – 5 000	49.3%	342 895	12.4%
30	5 001 – 10 000	8.4%	230 513	8.3%
41	10 001 – 50 000	11.5%	910 794	33.1%
9	50 001 – 100 000	2.5%	698 655	25.4%
3	100 001 and over	0.8%	522 788	19.0%
357		**100.0%**	**2 754 587**	**100.0%**

Investec plc (Rand-denominated) perpetual preference shareholders

Number of shareholders	Holdings	% of total shareholders	Number of preference shares in issue	% of issued preference share capital
52	1 – 500	52.0%	10 263	7.8%
17	501 – 1 000	17.0%	13 741	10.5%
26	1 001 – 5 000	26.0%	62 594	47.6%
3	5 001 – 10 000	3.0%	18 849	14.3%
2	10 001 – 50 000	2.0%	26 000	19.8%
–	50 001 – 100 000	–	–	–
–	100 001 and over	–	–	–
100		**100.0%**	**131 447**	**100.0%**

Largest preference shareholders as at 31 March 2018

Shareholders holding beneficial interests in excess of 5.0% of the issued preference shares are as follows:

Investec plc perpetual preference shares
Hargreave Hale Nominees Limited 13.1%

Investec plc (Rand-denominated) perpetual preference shares
Private individual 9.9%
Private individual 9.9%
Private individual 5.9%

Corporate responsibility business practices

Our corporate responsibility philosophy

Guided by our purpose to create sustained long-term wealth, we seek to be a positive influence in all our core businesses and in each of the societies in which we operate. We do this by empowering communities through entrepreneurship and education, and leveraging the value in our diversity. We recognise the challenges that climate change presents to the global economy and we support activities that either reduces the negative impact on, or prolongs the life of, our planet.

Investec as a responsible corporate citizen

At Investec we recognise that, while our shareholders remain at the forefront, our purpose ultimately is not only about driving profits. We strive to be a distinctive specialist bank and asset manager, demonstrating cast-iron integrity, moral strength and behaviour which promotes trust. Our core values include unselfishly contributing to society, valuing diversity and respecting others. Outstanding and empowered talent, entrepreneurial spirit and regard for the planet are other qualities that align with the culture of our organisation and our approach to responsible business.

Our culture and values demonstrate our belief that as an organisation we can and must have a positive impact on the success and well-being of communities local to our offices, the environment, and on overall macro-economic stability.

Our philosophy seeks to align the interests of shareholders and stakeholders over time, and provides the individual business units and regions with a basis from which to determine their own approach. The group's philosophy is not intended to be mutually exclusive or exhaustive, but allows us to concentrate, for now, on key focus areas. Deliberately not driven on a top-down basis, the executive maintains responsibility for oversight, direction, coordination and integration of our corporate responsibility efforts while the individual business units provide the key drivers behind our activities, in a manner that best makes sense to each.

Please refer to the website for Investec's full corporate citizenship statement.

External recognition and group memberships

Although we are not driven by awards and recognition, Investec participates and has maintained its inclusion in the following world-leading indices. These indices have been designed objectively to measure the performance of companies that meet global-recognised corporate responsibility standards.

	2018	2017	2016
Carbon Disclosure Project (CDP) (Investec is a member and Investec Asset Management is a signatory investor)	B	A-	A-
Code for Responsible Investing in South Africa (CRISA)	Signatory	Signatory	Signatory
Dow Jones Sustainability Investment Index* (score out of 100)	73	69	69
ECPI Index	Constituent	n/a	n/a
FTSE4Good Index	Included	Included	Included
FTSE/JSE Responsible Investment Index series	Constituent	Constituent	Constituent
MSCI Global Sustainability Index Series (Investec plc) – Intangible value assessment (IVA) rating	AAA	AAA	AAA
STOXX Global ESG Leaders Indices	Member	Member	Member
United Nations Global Compact	Participant	Active	Active
United Nations Principles for Responsible Investment (UNPRI)	Signatory	Signatory	Signatory

* *Investec plc ranked as one of 15 industry leaders on the DJSI World and one of nine in the DJSI Europe indices.*

Aris Prepoudis, CEO, RobecoSam: "I congratulate Investec whole heartedly for being included in The Sustainability Yearbook 2018. The companies included in the Yearbook are the world's most sustainable companies in their industry and are moving the ESG needle in ways that will help us realise the UN's Sustainable Development Goals by 2030"

Communication and stakeholder engagement

Building trust and credibility among our stakeholders is vital to good business

The board recognises that effective communication is integral in building stakeholder value and is committed to providing meaningful, transparent, timely and accurate financial and non-financial information to primary stakeholders as defined below. The purpose is to help these stakeholders make meaningful assessments and informed investment decisions about the group.

We endeavour to present a balanced and understandable assessment of our position by addressing material matters of significant interest and concern.

We seek to highlight the key risks to which we consider ourselves exposed and our responses to minimise the impact of these risks.

Another objective is to show a balance between the positive and negative aspects of our activities in order to achieve a comprehensive and fair account of our performance.

As a requirement of our DLC structure, we comply with the disclosure obligations contained in the applicable listing rules of the UK Listing Authority (UKLA) the Johannesburg Stock Exchange (JSE) and other exchanges on which our shares are listed, and with any public disclosure obligations as required by the UK regulators and the South African Prudential Authority (previously known as the Banking Supervision Division of the South African Reserve Bank).

We also recognise that from time to time we may be required to adhere to public disclosure obligations in other countries where we have operations.

The Investor Relations division has a day-to-day responsibility for ensuring appropriate communication with stakeholders and, together with the Group Finance and Company Secretarial divisions, ensures that we meet our public disclosure obligations.

We have a board-approved policy statement in place to ensure that we comply with all relevant public disclosure obligations and uphold the board's communication and disclosure philosophy.

We engage regularly with our stakeholders listed below:

Employees	Investors and shareholders	Clients	Rating agencies
• Communication policy • Quarterly magazine • Staff updates hosted by executive management • Group and subsidiary fact sheets • Tailored internal investor relations training • Induction training for new employees	• Annual general meeting • Four investor presentations • Stock exchange announcements • Comprehensive investor relations website • Shareholder roadshows and presentations • Regular meetings with investor relations team and executive management • Annual meeting with investor relations team and group company secretarial, the chairman of the board, senior independent director and chairman of the remuneration committee • Regular email and telephone communications • Annual and interim reports	• Four investor presentations • Regular email and telephone communications • Comprehensive investor relations website • Regular meetings with executive management • Tailored presentations • Annual and interim reports • Client relationship managers in each business	• Four investor presentations • Regular email and telephone communications • Comprehensive investor relations website • Regular meetings with investor relations team, group risk management and executive management • Tailored presentations • Tailored rating agency booklet • Annual and interim reports

Government and regulatory bodies	Equity and debt analysts	Media	Suppliers
• Active participation in a number of policy forums • Response and engagement with all relevant bodies on regulatory matters • Industry consultative bodies	• Four investor presentations • Stock exchange announcements • Comprehensive investor relations website • Regular meetings with investor relations and executive management • Regular email and telephone communications • Annual and interim reports	• Regular email and telephone communications • Stock exchange announcements • Comprehensive investor relations website • Regular meetings with investor relations and executive management	• Centralised negotiation process • Ad hoc procurement questionnaires requesting information on suppliers' environmental, social and ethical policies

Key topics and concerns raised by stakeholders

Macro-economic environment and sustainable returns

Its been a difficult operating environment in the UK with the volatility expected to continue. We have been investing for long-term growth which may result in having to sacrifice some short-term returns. Hence, the focus has been on building resilience and creating franchise value that generates appropriate long-term returns.

We will continue to focus on the growth levers available to improve our returns, including growing our client base and core revenue drivers, leveraging off of our investment into the business, managing our liquidity and optimising our capital structure. We believe that our strategic priorities, together with the diversity of our business model that has been built over many years, will ensure the group is favourably positioned to grow in core markets, supporting future growth and delivering value to all our stakeholders.

Succession

Succession of the group's existing founder leaders has been an ongoing agenda item for most stakeholders over the past few years. In February 2018 we announced our succession plan which was well received by most stakeholders. It is acknowledged and accepted that the next year will be a time of transition as the previous leaders hand over and the next generation take up the helm as the new leadership of the group.

Executive remuneration

The updated executive remuneration policy will need to be voted in at our annual general meeting in August 2018. We have engaged extensively with shareholders to ascertain and incorporate their views on executive remuneration. Where appropriate, we will be reducing the quantum of executive remuneration as well as simplifying the structure to ensure stronger alignment to strategy with relevant targets and measurements in place for monitoring. Refer to Investec's 2018 integrated annual report for more information.

Board governance

There has been heightened scrutiny on board governance in general, particularly as corporate and audit firm scandals have increased over the past year. Investec has spent a significant time on board refreshment and composition, ensuring that the structure and shape of the board is appropriate.

Risk appetite

Rating agencies, in particular, are questioning if our risk appetite framework is relevant and appropriate given the volatile macro-economic environment. They are less concerned that profitability may be lower and more interested in how we are managing asset quality, liquidity and capital in an unpredictable macro environment. We regularly review our risk appetite framework and are comfortable that we have robust risk management processes and systems in place.

Cyber crime

The financial services industry is a highly attractive target for cyber criminals and with increased digitalisation comes heightened vulnerability. Investec's cyber resilience strategy is based upon a threat-driven approach to cyber security, rather than the contemporary compliance-driven approach. Regular targeted attack simulations by specialist companies, against the group as a whole, is used to measure and improve our cyber defences. We also employ world class security professionals and believe that people, operating within a risk conscious culture, and not just technology, are key to maintaining resilience against security threats.

Gender and diversity

Stakeholders have been interested to find out how Investec is looking at various diversity issues, including gender and reporting on the gender pay gap as required by UK Companies Act. Investec signed up to the 30% Club committing Investec plc to a target of 30% females on the board by 2020. Investec Bank plc and Investec Wealth & Investment UK have also signed up to the HM Treasury Women in Finance Charter which sets targets and links executive remuneration to deliverables.

Investec Asset Management has signed up as a founder member of The Diversity Project in the UK. We also published our first gender pay gap report. Refer to Investec's 2018 integrated annual report for more information.

Reputation

Corporate and audit scandals have heightened the awareness around who we deal with and what process is taken to 'on-board' clients. A significant amount of time and resources have been spent on anti-money laundering (AML) training with 98% of South African, UK and Australian banking employees having passed with an average of above 80% during the past financial year.

New regulations

We have received a number of questions with respect to the regulatory and accounting frameworks in which we operate. The board has focused on a number of new regulations, policies and practices including IFRS 9, Markets in Financial Instrument Directive (MiFid) II, General Data Protection Regulation (GDPR), King IV and the Advanced Internal Ratings Based (AIRB) approach to capital.

Non-financial reporting

There is increased expectations around social impacts and in particular non-financial benchmarking and reporting. The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations relating to the disclosure of various financial exposures to climate risk are gaining momentum. We acknowledge the TCFD recommendations that were released during the past financial year and have embarked on a process to understand the relevance of potential climate scenario's for our business and will incorporate these recommendations in the 2019 financial reporting cycle.

We have also seen increased interest in the role that the private sector will play in advancing the United Nations Sustainable Development Goals (SDGs). Investec is committed to participate and collaborate with clients, investors and public stakeholders to support the delivery of the SDGs. Through our core activities, we contribute to a number of specific SDGs and targets and have included the intersections, where relevant, throughout this report.

People

Human capital

We depend on the experience and proficiency of our people to perform and deliver superior client services.

Purpose and priorities	Impact
Providing a safe and healthy work environment that values physical as well as psychological well-being	We are progressing towards a more agile environment with flexible work encouraged where appropriate
Investing in our people and growing talent and leadership	Learning and development spend as a % of staff costs is 0.8% (2017: 1.1%) Learning and development spend of £6.4 million (2017: £8.2 million)
Retaining and motivating staff through appropriate remuneration and rewards structures	Voluntary staff turnover rate is 8.4% in the UK (2017: 10.9%)
Respecting and upholding human rights by entrenching a value-driven culture through the organisation that is supported by strong ethics and integrity	Participant to the United Nations Global Compact and remain committed to the 10 principles
Promoting diversity and equality at all levels of the group	41% female employees (2017: 41%)

Intellectual capital

We use our specialist financial skills and expertise to provide efficient solutions for clients and have a robust risk management process in place.

Purpose and priorities	Impact
Maintaining a diversified portfolio of businesses that supports performance through varying economic cycles	Consistent contribution to Investec plc's performance from asset and wealth management businesses of 53.0% of ongoing operating profit* (2017: 48.0%) Annuity income as a % of ongoing operating income is 72.5% (2017: 66.7%)
Leveraging our expertise in risk management to protect value	Credit loss ratio at 0.24% (2017: 0.27%)
Ensure solid and responsible lending and investing activities	Trained 79 frontline consultants on environmental, social and governance (ESG) practices

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

Corporate responsibility

(continued)

Social and relationship capital	We leverage key stakeholder relationships to enhance our impact on society and the macro-economy.	
	Purpose and priorities	**Impact**
	Building deep durable relationships with our clients and creating new client relationships	Customer accounts (deposits) up 5.6% since 31 March 2017
	Unselfishly contributing to society through our corporate social investment (CSI) programmes	0.9% CSI spend as a % of operating profit (2017: 0.9%) CSI spend of £1.7 million (2017: £1.9 million)

People recognition

- Investec CEO, Stephen Koseff won the Lifetime Achievement Award presented by the 2018 African Banker Awards
- Winner of the Business of the Year award by Business Charity Awards 2017 (for Beyond Business)
- Winner of the Community Impact Award 2017 for our flagship programme the Beyond Business social enterprise incubator we run in partnership with Bromley by Bow Centre
- Winner of the National CSR Awards 2017, in the individual Community (Legacy) category Project Award (for Beyond Business)
- Winner of the Community Partners award in the Lord Mayor's Dragon Awards 2017
- Reaccredited winner (for Beyond Business) in the Responsible Business Awards 2017
- Received the Financial Innovation Awards 2017 – Innovation in Sustainability or Social Responsibility Awards for our Invest for Success programme run in partnership with Arrival Education

Planet

Natural capital	We support the transition to a low-carbon economy and believe we can make a meaningful impact in addressing climate change. We consider any meaningful activity that either reduces the negative impact on, or prolongs the life of, our planet.	
	Purpose and priorities	**Impact**
	Funding and participating in renewable energy	97% of our energy lending portfolio relates to clean energy
	Limiting our direct operational carbon impact	Carbon emissions reduced by 4.1% **(Refer to our corporate responsibility report on our website for emission reduction targets)**

Planet recognition

- Investec group was awarded a B for the Carbon Disclosure Project (CDP) climate scoring
- Investec's Energy Management System that covers 23 of our physical buildings in the UK, Ireland and Channel Islands was certified to the international energy standard ISO 50001
- In our UK head office, the Environment Management System retained the international environment standard ISO 14001
- Our UK head office, won the top prize – the Chairman's Cup for its waste management processes in the Corporation of London's Clean City Award Scheme for 2017

Profit

Financial capital

We create sustained long-term wealth by growing our core businesses.

Purpose and priorities	Impact
Maintaining a balanced and resilient business model	Our capital light activities contributed 62% to total operating income **(target of > 50% of our income from capital light activities)**
Maintaining a sound capital base and strong liquidity	Healthy capital and leverage ratios in excess of regulatory requirements **(target a leverage ratio of > 6%)** Cash and near cash to customer deposit ratio of 50.0% **(target of > 25%)**
Organically growing our business	Ongoing operating profit* increased 1.2%
Focusing to improve the returns and operational efficiency	Investec plc cost to income ratio 78.0% **(target of < 70% in Pounds Sterling)**
Creating value for shareholders	4.3% increase in dividend per share for the combined Investec group Dividend cover of 2.2 times **(target of 1.7 – 3.5 times)**

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

Technological capital

We deliver efficient and effective information technology to support our businesses and facilitate our digital strategy.

Purpose and priorities	Impact
Aligning architecture across the group and reducing our application and data footprint	Migration of the UK data centres to a fully-hosted energy efficient environment reducing the energy footprint
Creating an international platform for clients with global access to products and services which is both high-tech and high-touch	Completed a number of enhancements to our digital capability
Investing in technology to deliver exceptional client experience	Click & Invest successfully launched to market
Maintaining a cyber resilient strategy based on a threat-driven approach rather than the contemporary compliance-driven approach	Extensive simulations on various cyber threats were conducted during the period and we are comfortable with our procedures in place All staff are required to do regular training on the prevention of cyber crime

Profit recognition

- Joint 1st Robo-Advisor for Click & Invest in the MyPrivateBanking research Awards 2017
- FS Tech Awards 2018: Digital Launch of the year
- Winner of the Online Personal Wealth Awards 2018 for best newcomer

Annual financial statements

Directors' responsibility statement

The following statement, which should be read in conjunction with the auditor's report set out on pages 172 to 173, is made with a view to distinguishing for stakeholders the respective responsibilities of the directors and of the external auditors in relation to the combined consolidated annual financial statements.

The directors are responsible for the preparation, integrity and objectivity of the combined consolidated annual financial statements that fairly present the state of affairs of the group at the end of the financial year and the net income and cash flows for the year, and other information contained in this 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 group's Internal Audit function, which operates unimpeded and independently from operational management, and has unrestricted access to the group 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 group audit committees, together with Internal Audit, play 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 group consistently adopts appropriate and recognised accounting policies and these are supported by reasonable judgements and estimates on a consistent basis and provide additional disclosures when compliance with the specific requirements in International Financial Reporting Standards (IFRS) are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group's financial position and financial performance.

The combined consolidated annual financial statements of the companies and the group have been prepared in accordance with the respective Companies Acts of the UK and South Africa and comply with IFRS and Article 4 of the IAS Regulation and comply with IFRS 101 in respect of Investec plc parent company accounts.

The directors are of the opinion, based on their knowledge of the companies, key processes in operation and enquiries that adequate resources exist to support the companies on a going concern basis over the next year. These annual financial statements have been prepared on that basis.

It is the responsibility of the external auditors to report on the combined consolidated annual financial statements. Their reports to the members of the companies are set out on pages 172 to 173. As far as the directors are aware, there is no relevant audit information of which the external auditors are unaware.

Approval of annual financial statements

The directors' report and the annual financial statements of the company, which appear on pages 256 to 264, were approved by the board of directors on 12 June 2018.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the companies' website. Legislation in the UK governing the preparation and dissemination of the annual financial statements may differ from legislation in other jurisdictions.

Signed on behalf of the board

Stephen Koseff	**Bernard Kantor**
Chief executive officer	Managing director

15 June 2018

Extended business review

We are an international specialist bank and asset manager that provides a diverse range of financial products and services to a select client base in three principal markets, UK and Europe, South Africa and Asia/Australia as well as certain other countries. Investec focuses on delivering distinctive profitable solutions for its clients in three core areas of activity namely, Asset Management, Wealth & Investment and Specialist Banking.

Section 414A of the UK Companies Act 2006 requires the directors to present a strategic report in the annual report and accounts. The company has chosen, in accordance with section 414C(11) of the Companies Act 2006, to include certain UK matters in its strategic report that would otherwise be disclosed in this directors' report. The strategic report on pages 5 to 8 in volume one of Investec's 2018 integrated annual report provides an overview of our strategic position, performance during the financial year and details of likely future developments in the business.

The strategic report should be read in conjunction with the sections on pages 9 to 115 in volume one of Investec's 2018 integrated annual report which elaborate on the aspects highlighted in this review.

Authorised and issued share capital

Details of the share capital are set out in note 41 to the annual financial statements

During the year, the following shares were issued:

- 9 525 195 ordinary shares on 15 June 2017 at 587.00 pence per share
- 7 007 432 special converting shares on 15 June 2017 of £0.0002 each at par
- 1 810 386 ordinary shares on 22 September 2017 at 436.00 pence per share
- 2 550 138 special converting shares on 24 November 2017 of £0.0002 each at par
- 1 397 489 ordinary shares on 24 November 2017 at 503.00 pence per share.

Investec plc did not repurchase any of its ordinary shares during the financial year ended 31 March 2018.

Financial results

The consolidated results of Investec plc are set out in the annual financial statements and accompanying notes for the year ended 31 March 2018. The preparation of these results was supervised by the group risk and finance director, Glynn Burger.

Ordinary dividends

An interim dividend of 10.5 pence per ordinary share (2016: 10 pence) was paid on 20 December 2017, as follows:

- 10.5 pence per ordinary share to non-South African resident shareholders registered on 8 December 2017
- To South African resident shareholders registered on 8 December 2017, through a dividend paid by Investec Limited on the SA DAS share, of 8 pence per ordinary share and 2.5 pence per ordinary share paid by Investec plc.

The directors have proposed a final dividend to shareholders registered on 27 July 2018, of 13.5 pence (2017: 13 pence) per ordinary share, which is subject to the approval of the members of Investec plc at the annual general meeting which is scheduled to take place on 8 August 2018 and, if approved, will be paid on 13 August 2018, as follows:

- 13.5 pence per ordinary share to non-South African resident shareholders (2017: 13 pence) registered on 27 July 2018
- To South African resident shareholders registered on 27 July 2018, through a dividend paid by Investec Limited on the SA DAS share, of 7 pence per ordinary share and 6.5 pence per ordinary share paid by Investec plc.

Preference dividends

Non-redeemable, non-cumulative, non-participating preference shares

Preference dividend number 23 for the period 1 April 2017 to 30 September 2017, amounting to 6.26712 pence per share, was declared to members holding preference shares registered on 1 December 2017 and was paid on 11 December 2017.

Preference dividend number 24 for the period 1 October 2017 to 31 March 2018, amounting to 7.26027 pence per share, was declared to members holding preference shares registered on 8 June 2018 and will be paid on 18 June 2018.

Rand-denominated non-redeemable, non-cumulative, non-participating preference shares

Preference dividend number 13 for the period 1 April 2017 to 30 September 2017, amounting to 495.43151 cents per share, was declared to members holding rand-denominated non-redeemable, non-cumulative, non-participating preference shares registered on 1 December 2017 and was paid on 11 December 2017.

Preference dividend number 14 for the period 1 October 2017 to 31 March 2018, amou nting to 485.34589 cents per share, was declared to members holding preference shares registered on 8 June 2018 and will be paid on 18 June 2018.

Directors and secretaries

Details of directors and company secretaries of Investec plc are reflected on pages 124 to 129 in volume one of Investec's 2018 integrated annual report.

In accordance with the UK Corporate Governance Code, the entire board will offer itself for re-election at the 2018 annual general meeting.

The company secretary of Investec plc is David Miller.

Directors and their interests

Directors' shareholdings and options to acquire shares are set out on pages 209 to 213 in volume one of Investec's 2018 integrated annual report.

The register of directors' interests contains full details of directors' shareholdings and options to acquire shares.

Corporate governance

The group's corporate governance board statement and governance framework are set out on pages 110 to 154.

Share incentives

Details regarding options granted during the year are set out on page 190 in volume one of Investec's 2018 integrated annual report.

Audit committees

The audit committees comprising independent non-executive directors meet regularly with senior management, the external auditors, Operational Risk, Internal Audit, Compliance and the Finance division to consider the nature and scope of the audit reviews and the effectiveness of our risk and control systems.

Further details on the role and responsibility of the audit committees are set out on pages 153 to 157 in volume one of Investec's 2018 integrated annual report.

Auditors

Ernst & Young LLP have indicated their willingness to continue in office as auditors of Investec plc. A resolution to reappoint them as auditors will be proposed at the annual general meeting scheduled to take place on 08 August 2018.

Contracts

Refer to page 165 in volume one for details of contracts with directors.

Subsidiary and associated companies

Details of principal subsidiary and associated companies are reflected on pages 247 to 250.

Major shareholders

The largest shareholders of Investec plc are reflected on page 155.

Special resolutions

Investec plc

At the annual general meeting held on 10 August 2017, special resolutions were passed in terms of which:

- A renewable authority was granted to Investec plc to acquire its own ordinary shares in accordance with the terms of section 701 of the UK Companies Act 2006
- A renewable authority was granted to Investec plc to acquire its own preference shares in accordance with the terms of section 701 of the UK Companies Act 2006.

Accounting policies and disclosure

Accounting policies are set having regard to commercial practice and comply with applicable UK and South African law and International Financial Reporting Standards. The parent company accounts of Investec plc are prepared under IFRS 101.

These policies are set out on pages 180 to 188.

Financial instruments

Detailed information on the group's risk management process and policy can be found in the risk management report on pages 45 to 106.

Information on the group's hedge accounting policy and the use of derivatives and hedges can be found on page 184 and in note 23.

Employees

Our 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. Our policy is to adopt an open management style, thereby encouraging informal consultation at all levels about aspects of our operations, and motivating staff involvement in our performance by means of employee share schemes.

We are committed to ensuring the health, safety and welfare of our employees and to providing and maintaining safe working conditions. We have health and safety policies in all regions of operation that cover all legislated requirements and additional benefits are provided for staff where possible. We constantly seek to improve both policies and the execution of health and safety standards in all our offices.

This takes the form of staff education, regular fire drills and maintenance of an open door policy with regard to dialogue on the issue. Where appropriate, the appointment of individuals responsible for various areas of health and safety is made.

Further information is provided on pages 175 to 177 in volume one of Investec's 2018 integrated annual report.

Political donations and expenditure

Investec plc did not make any donations for political purposes in the UK or the rest of the EU, nor did it make any political donations to political parties or other political organisations, or to any independent election candidates, or incur any political expenditure during the year.

Environment, including greenhouse gas emissions

We are committed to pursuing sound environmental policies in all aspects of our business, and seek to encourage and promote good environmental practice among our employees and within the community in which we operate.

Further information can be found on page 171 in volume one of Investec's 2018 integrated annual report.

Going concern

Refer to page 145 for the directors' statement in relation to going concern.

Research and development

In the ordinary course of business, Investec develops new products and services in each of its business divisions.

Viability statement

Refer to pages 152 to 153 for the directors' viability statement.

Risk management policies

The group's policies for managing the financial risk to which it is exposed and exposure to price, credit, liquidity and cash flow risk are set out in the risk management section on pages 45 to 106.

Additional information for shareholders

Schedule A to the directors' report is a summary of certain provisions of Investec plc's current Articles of Association and applicable English law concerning companies (the UK Companies Act 2006).
The board considers that this integrated annual report and annual financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy.

On behalf of the board of Investec plc.

PKO Crosthwaite.

Perry Crosthwaite
Chairman

Stephen Koseff
Chief executive officer

15 June 2018

Additional information for shareholders

Set out below is a summary of certain provisions of Investec plc's current Articles of Association (the Articles) and applicable English law concerning companies (the UK Companies Act 2006). This is a summary only and the relevant provisions of the Articles or the UK Companies Act 2006 should be consulted if further information is required.

Share capital

The issued share capital of Investec plc at 31 March 2018 consists of 669 838 695 ordinary shares of £0.0002 each, 2 754 587 non-redeemable, non-cumulative, non-participating preference shares of £0.01each, 131 447 ZAR non-redeemable, non-cumulative, non-participating preference shares of R0.001 each, 310 722 744 special converting shares of £0.0002 each, the special voting share of £0.001, the UK DAN share of £0.001 and the UK DAS share of £0.001 (each class as defined in the Articles).

Purchase of own shares

Subject to the provisions of the Articles, the UK Companies Act 2006, the UK Uncertificated Securities Regulations 2001 and every other statute for the time being in force concerning companies and affecting Investec plc, the approval of shareholders as provided in the Investec plc Articles, and without prejudice to any relevant special rights attached to any class of shares, Investec plc may purchase, or may enter into a contract under which it will or may purchase, any of its own shares of any class, including without limitation any redeemable shares, in any way and at any price (whether at par or above or below par).

Dividends and distributions

Subject to the provisions of the UK Companies Act 2006, Investec plc may by ordinary resolution from time-to-time declare dividends not exceeding the amount recommended by the board. The board may pay interim dividends whenever the financial position of Investec plc, in the opinion of the board, justifies such payment.

The board may withhold payment of all or any part of any dividends or other monies payable in respect of Investec plc's shares from a person with a 0.25% or more interest in nominal value of the issued shares if such a person has been served with a notice after failure to provide Investec plc with information concerning interests in those shares required to be provided under the UK Companies Act 2006.

Voting rights

Subject to any special rights or restrictions attaching to any class of shares, at a general meeting, every member present in person has, upon a show of hands, one vote and, on a poll, every member who is present in person or by proxy has one vote for each share. In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the share. Under the UK Companies Act 2006, members are entitled to appoint a proxy, who need not be a member of Investec plc, to exercise all or any of their rights to attend and vote on their behalf at a general meeting or class meeting. A member may appoint more than one proxy in relation to a general meeting or class meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A member that is a corporation may appoint an individual to act on its behalf at a general meeting or class meeting as a corporate representative. The person so authorised shall be entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual member of Investec plc.

Restrictions on voting

No member shall be entitled to vote either in person or by proxy at any general meeting or class meeting in respect of any shares held by him if any call or other sum then payable by him in respect of that share remains unpaid. In addition, no member shall be entitled to vote if he has been served with a notice after failure to provide Investec plc with information concerning interests in those shares required to be provided under the UK Companies Act 2006.

Deadlines for exercising voting rights

Votes are exercisable at a general meeting of Investec plc in respect of which the business being voted upon is being heard. Votes may be exercised in person, by proxy, or in relation to corporate members, by corporate representatives. The Articles provide a deadline for submission of proxy forms of not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting.

Variation of rights

Subject to the UK Companies Act 2006, the Articles specify that rights attached to any class of shares may be varied with the written consent of the holders of not less than three-fourths in nominal value of the issued shares of that class, or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of those shares. At every such separate general meeting the quorum shall be two persons or, if there is only one holder, that holder at least holding or representing by proxy at least one-third in nominal value of the issued shares of the class (calculated excluding any shares held as treasury shares). The rights conferred upon the holders of any shares shall not, unless otherwise expressly provided in the rights attaching to those shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with them. Where, under the company's share incentive plan, participants are the beneficial owners of the shares, but not the registered owners, the participants are not entitled to exercise any voting rights until the shares are released to the participants. Under the company's employee trust, the trustee does not vote in respect of unallocated shares.

Transfer of shares

All transfers of shares may be effected by transfer in writing in any usual or common form or in any other form acceptable to the directors. The instrument of transfer shall be signed by or on behalf of the transferor and (except in the case of fully paid shares) by or on behalf of the transferee. Transfers of shares which are in uncertificated form are effected by means of the CREST system. The directors may, in the case of shares in certificated form, in their absolute discretion and without assigning any reason, refuse to register any transfer of shares (not being fully paid shares), provided that such discretion may not be exercised in such a way as to prevent dealings in the shares of that class from taking place on an open and proper basis. The directors may also refuse to register an allotment or transfer of shares (whether fully paid or not) in favour of more than four persons jointly. If the directors refuse to register an allotment or transfer they shall within two months after the date on which the letter of allotment or transfer was lodged with Investec plc send to the allottee or transferee a notice of the refusal. The directors may decline to recognise any instrument of transfer unless the instrument of transfer is in respect of only one class of share and, when submitted for registration, is accompanied by the relevant share certificates and such other evidence as the directors may reasonably require. Subject to the UK Companies Act 2006 and regulations and applicable CREST rules, the directors may determine that any class of shares may be held in uncertificated form and that title to such shares may be transferred by means of the CREST system or that shares of any class should cease to be so held and transferred.

A number of the company's employee share plans include restrictions on transfer of shares while the shares are subject to the plans, in particular, the share incentive plan.

Plc preference shares

The following are the rights and privileges which attach to the plc preference shares:

- On a return of capital, whether or not on a winding up (but not on a redemption or purchase of any shares by Investec plc) or otherwise, the plc preference shares will rank, *pari passu inter se* and with the most senior ranking preference shares of Investec plc in issue (if any) from time-to-time and with any other shares of Investec plc that are expressed to rank *pari passu* herewith as regards participation in the capital, and otherwise in priority to any other class of shares of Investec plc
- Investec plc may, at its option, redeem all or any of the plc preference shares for the time being issued and outstanding on the first call date or any dividend payment date thereafter
- Holders of plc preference shares will not be entitled to attend and vote at general meetings of Investec plc. Holders will be entitled to attend and vote at a class meeting of holders of plc preference shares.

Non-redeemable, non-cumulative, non-participating preference shares

The following are the rights and privileges which attach to the perpetual preference shares:

- Each perpetual preference share will rank as regards dividends and a repayment of capital on the winding up of Investec plc prior to the ordinary shares, the plc special converting shares, the UK DAN share, the UK DAS share, but *pari passu* with the plc preference shares. The perpetual preference shares shall confer on the holders, on a per perpetual preference shares and equal basis, the right on a return of capital on the winding up of Investec plc of an amount equal to the aggregate of the nominal value and premiums in respect of perpetual preference shares issued, divided by the number of perpetual preference shares in issue
- Each perpetual preference share may confer upon the holder thereof the right to receive out of the profits of Investec plc which it shall determine to distribute, in priority to the ordinary shares, the plc special converting shares, the UK DAN share and the UK DAS share, but *pari passu* with the plc preference shares, the preference dividend calculated in accordance with the Articles
- The holders of the perpetual preference shares shall be entitled to receive notice of and be present but not to vote, either in person or by proxy, at any meeting of Investec plc, by virtue of or in respect of the perpetual preference shares, unless either or both of the following circumstances prevail at the date of the meeting:
  - The preference dividend or any part thereof remains in arrears and unpaid as determined in accordance with the Articles after six months from the due date thereof; and/or
  - A resolution of Investec plc is proposed which resolution directly affects the rights attached to the perpetual preference shares or the interests of the holders thereof, or a resolution of Investec plc is proposed to wind up or in relation to the winding up of Investec plc or for the reduction of its capital, in which event the preference shareholders shall be entitled to vote only on such resolution.

Rand-denominated non-redeemable, non-cumulative, non-participating perpetual preference shares (the ZAR perpetual preference shares)

The ZAR perpetual preference shares are subject to substantially similar terms and conditions as the existing Pounds Sterling non-redeemable, non-cumulative, non-participating preference shares, as outlined above, save that they are denominated in South African Rands.

Shares required for the DLC structure

Investec SSC (UK) Limited, a UK trust company, specially formed for the purpose of the DLC structure, holds the plc special voting share, the plc special converting shares, the UK DAN share and the UK DAS share. These shares can only be transferred to another UK trust company, in limited circumstances.

The plc special voting shares are specially created shares so that shareholders of both Investec plc and Investec Limited effectively vote together as a single decision-making body on matters affecting shareholders of both companies in similar ways, as set out in the Articles.

Prior to a change of control, approval of termination of the sharing agreement (which regulates the DLC), liquidation or insolvency of Investec plc, the plc special converting shares have no voting rights, except in relation to a resolution proposing the:

(i) variation of the rights attaching to the shares or

(ii) winding up, and they have no rights to dividends. The special converting shares are held on trust for the Investec Limited ordinary shareholders. Investec plc and Investec Limited have established dividend access trust arrangements as part of the DLC.

Investec plc has issued two dividend access shares, the UK DAS share and UK DAN share which enables Investec plc to pay dividends to the shareholders of Investec Limited. This facility may be used by the board to address imbalances in the distributable reserves of Investec plc and Investec Limited and/or to address the effects of South African exchange controls and/or if they otherwise consider it necessary or desirable.

Appointment and replacement of directors

Directors shall be no less than four and no more than 20 in number. A director is not required to hold any shares of Investec plc by way of qualification. Investec plc may by special resolution increase or reduce the maximum or minimum number of directors.

Powers of directors

Subject to the Articles, the UK Companies Act 2006, the CREST regulations and every other statute for the time being in force concerning companies and affecting Investec plc, and any directions given by ordinary or special resolution, the business of Investec plc will be managed by the board who may exercise all the powers of Investec plc.

The board may exercise all the powers of Investec plc to borrow money and to mortgage or charge any of its undertaking, property, assets and uncalled capital and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of Investec plc or of any third party.

Significant agreements: change of control

The Articles of Investec plc and the Memorandum of Incorporation of Investec Limited ensure that a person cannot make an offer for one company without having made an equivalent offer to the shareholders of both companies on equivalent terms.

Pursuant to the terms of the agreements establishing the DLC structure, if either Investec plc or Investec Limited serves written notice on the other at any time after either party becomes a subsidiary of the other party or after both Investec plc and Investec Limited become subsidiaries of a third party, the agreements establishing the DLC structure will terminate.

All of Investec plc's share plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control and, where applicable, subject to the satisfaction of any performance conditions at that time.

Independent auditor's report to the members of Investec plc

Opinion

We have audited the special purpose financial statements of Investec Plc (the Group) for the year ended 31 March 2018, which comprise the consolidated balance sheet, the consolidated income statement, the consolidated statement of comprehensive income, statement of changes in equity, cash flow statement and the related notes 1 to 57, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is a special purpose framework comprising the accounting policies set out on pages 180 to 188.

Under the contractual arrangements implementing the Dual Listed Companies structure, Investec plc and Investec Limited effectively form a single economic enterprise, in which the economic and voting rights of shareholders are equalised. In accordance with this structure the appropriate presentation under International Financial Reporting Standards as adopted by the European Union is achieved by combining the results and the financial position of both companies using merger accounting principles. Those combined consolidated financial statements are prepared separately so as to show a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union.

As explained in the accounting policies set out on pages 180 to 188, these special purpose financial statements have been prepared to present the financial position, results and cash flows of Investec plc and its subsidiaries. For the avoidance of doubt, they exclude Investec Limited and its subsidiaries.

In our opinion, the accompanying financial statements of the Group for the year ended 31 March 2018 are prepared, in all material respects, in accordance with the accounting policies set out on pages 180 to 188.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including 'ISA (UK) 800 (Revised) Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks'. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group 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, 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. Certain disclosures required by the financial reporting framework have been presented in Risk Management and Corporate Governance Report in section 3 of the annual report, rather than in the notes to the financial statements, and have been identified as audited.

Emphasis of Matter – Basis of Accounting and Restriction on Distribution and Use

We draw attention to the accounting policies set out on pages 180 to 188 of the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the members of Investec plc in complying with the financial reporting provisions of the contract referred to above. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the members of Investec plc in accordance with our engagement letter dated 15 June 2018, and should not be distributed to or used by parties other than the members of Investec plc. Our opinion is not modified in respect of this matter.

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 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.

Other information

The other information comprises the information included in the annual report in sections 1 (pages 4 to 13), section 2 (pages 14 to 43), and pages marked as unaudited in section 3 (pages 44 to 163), 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.

Responsibilities of management and those charged with governance for the financial statements

The directors are responsible for the preparation of the financial statements in accordance with the financial reporting provisions under the contractual arrangements implementing the Dual Listed Companies Structure, and for such internal control as management determines 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, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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.

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 matter

Investec plc has prepared a separate set of statutory financial statements for the year ended 31 March 2018 in accordance with both International Financial Reporting Standards as adopted by the European Union and International Financial Reporting Standards as issued by the International Accounting Standards Board, and Companies Act 2006, on which we issued a separate auditor's report to the shareholders of Investec plc dated 12 June 2018.

Ernst & Young LLP

Andy Bates
(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 plc website 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 annual financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of annual 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	599 410	563 354
Interest expense	2	(261 830)	(274 173)
Net interest income		**337 580**	**289 181**
Fee and commission income	3	1 005 635	932 146
Fee and commission expense	3	(155 701)	(128 283)
Investment income	4	68 516	59 975
Share of post taxation profit of associates		1 436	2 349
Trading income arising from:			
– customer flow		114 402	129 706
– balance sheet management and other trading activities		(2 069)	8 672
Other operating income	5	10 421	13 195
Total operating income before impairment losses on loans and advances		**1 380 220**	**1 306 941**
Impairment losses on loans and advances	26	(106 085)	(74 956)
Operating income		**1 274 135**	**1 231 985**
Operating costs	6	(1 074 112)	(1 005 130)
Depreciation on operating leased assets	31	(2 350)	(2 141)
Operating profit before goodwill and acquired intangibles		**197 673**	**224 714**
Impairment of goodwill	33	–	(3 134)
Amortisation of acquired intangibles	34	(13 273)	(14 386)
Operating profit		**184 400**	**207 194**
Profit before taxation		**184 400**	**207 194**
Taxation on operating profit before goodwill and acquired intangibles	8	(38 509)	(39 144)
Taxation on goodwill and acquired intangibles	8	2 418	3 305
Profit after taxation		**148 309**	**171 355**
Profit attributable to Asset Management non-controlling interests		(14 762)	(11 807)
Loss attributable to other non-controlling interests		1 684	180
Earnings attributable to shareholders		**135 231**	**159 728**

Consolidated statement of comprehensive income

For the year to 31 March £'000	Notes	2018	2017
Profit after taxation		**148 309**	**171 355**
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)
Fair value movements on available-for-sale assets taken directly to other comprehensive income*	8	4 525	29 809
Foreign currency adjustments on translating foreign operations		(18 350)	37 139
Items that will never be reclassified to the income statement			
Remeasurement of net defined benefit pension asset	8	3 938	(43 580)
Total comprehensive income		**137 144**	**192 101**
Total comprehensive income attributable to non-controlling interests		13 577	11 253
Total comprehensive income attributable to ordinary shareholders		117 437	178 986
Total comprehensive income attributable to perpetual preferred securities		6 130	1 862
Total comprehensive income		**137 144**	**192 101**

* *Net of taxation.*

Consolidated balance sheet

For the year to 31 March £'000	Notes	2018	2017
Assets			
Cash and balances at central banks	17	3 487 769	2 853 571
Loans and advances to banks	18	1 003 796	1 130 998
Reverse repurchase agreements and cash collateral on securities borrowed	19	750 428	536 173
Sovereign debt securities	20	1 155 472	952 902
Bank debt securities	21	107 938	184 626
Other debt securities	22	278 474	398 278
Derivative financial instruments	23	597 264	604 175
Securities arising from trading activities	24	701 728	522 760
Investment portfolio	25	477 919	459 745
Loans and advances to customers	26	9 687 224	8 620 742
Other loans and advances	26	360 931	413 430
Other securitised assets	27	132 172	138 628
Interests in associated undertakings	28	77 059	63 390
Deferred taxation assets	29	98 156	89 941
Other assets	30	1 169 579	1 276 132
Property and equipment	31	54 493	60 528
Investment properties	32	14 500	14 500
Goodwill	33	356 265	355 155
Intangible assets	34	100 585	112 943
		20 611 752	**18 788 617**
Liabilities			
Deposits by banks		1 308 202	690 749
Derivative financial instruments	23	533 319	582 600
Other trading liabilities	36	103 496	136 041
Repurchase agreements and cash collateral on securities lent	19	168 640	223 997
Customer accounts (deposits)		11 637 497	11 021 581
Debt securities in issue	37	2 341 134	1 955 447
Liabilities arising on securitisation of other assets	27	127 853	128 838
Current taxation liabilities		152 355	143 585
Deferred taxation liabilities	29	21 892	26 236
Other liabilities	38	1 296 990	1 268 668
		17 691 378	**16 177 742**
Subordinated liabilities	40	579 673	579 356
		18 271 051	**16 757 098**
Equity			
Ordinary share capital	41	195	191
Perpetual preference share capital	42	29	29
Share premium	43	1 317 115	1 246 282
Treasury shares	44	(102 876)	(90 411)
Other reserves		(119 161)	(45 381)
Retained income		979 649	905 809
Shareholders' equity excluding non-controlling interests		**2 074 951**	**2 016 519**
Other Additional Tier 1 securities in issue	45	250 000	–
Non-controlling interests	46	15 750	15 000
Total equity		**2 340 701**	**2 031 519**
Total liabilities and equity		**20 611 752**	**18 788 617**

Consolidated cash flow statement

For the year to 31 March £'000	Notes	2018	2017
Profit before taxation adjusted for non-cash items	48	349 327	339 474
Taxation paid		(33 418)	35 613
(Increase)/decrease in operating assets	48	(1 311 331)	79 727
Increase/(decrease) in operating liabilities	48	1 411 588	(79 970)
Net cash inflow from operating activities		**416 166**	**374 844**
Cash flow on acquisition of subsidiaries		–	(14 648)
Cash flow on net disposal of non-controlling interests		9 255	7 477
Cash flow on net acquisition of associates		(13 643)	(8 848)
Cash flow on acquisition of property, equipment and intangible assets		(15 174)	(21 202)
Cash flow on disposal of property, equipment and intangible assets		2 945	3 536
Net cash outflow from investing activities		**(16 617)**	**(33 685)**
Dividends paid to ordinary shareholders		(106 253)	(105 727)
Dividends paid to other equity holders		(19 138)	(11 552)
Proceeds on issue of Other Additional Tier 1 securities		250 000	–
Cash flow on issue of shares, net of related costs		70 837	174 082
Cash flow on redemption of perpetual preference shares		–	(81 743)
Cash flow on acquisition of treasury shares, net of related costs		(63 896)	(49 914)
Net proceeds from senior debt		77 966	–
Redemption of subordinated debt		–	(18 053)
Net cash inflow/(outflow) from financing activities		**209 516**	**(92 907)**
Effects of exchange rates on cash and cash equivalents		**(2 571)**	**9 066**
Net increase in cash and cash equivalents		**606 494**	**257 318**
Cash and cash equivalents at the beginning of the year		3 747 040	3 489 722
Cash and cash equivalents at the end of the year		**4 353 534**	**3 747 040**
Cash and cash equivalents is defined as including:			
Cash and balances at central banks		3 487 769	2 853 571
On demand loans and advances to banks		865 765	893 469
Cash and cash equivalents at the end of the year		**4 353 534**	**3 747 040**

Cash and cash equivalents have a maturity profile of less than three months.

Consolidated statement of changes in equity

£'000	Ordinary share capital	Perpetual preference share capital	Share premium	Treasury shares
Balance at 1 March 2017	**182**	**151**	**1 194 257**	**(81 309)**
Movement in reserves 1 April 2016 – 31 March 2017				
Profit after taxation	–	–	–	–
Gains 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	–	–	–	–
Remeasurement of net defined pension asset	–	–	–	–
Total comprehensive income for the year	**–**	**–**	**–**	**–**
Share-based payments adjustments	–	–	–	–
Issue of ordinary shares	9	–	174 073	–
Dividends paid to ordinary shareholders	–	–	–	–
Dividends declared to perpetual preference shareholders	–	–	–	–
Dividends paid to non-controlling interests	–	–	–	–
Redemption of preference shares	–	(122)	(122 048)	–
Net equity impact of non-controlling interest movements	–	–	–	–
Movement of treasury shares	–	–	–	(9 102)
Transfer to capital reserve account	–	–	–	–
At 31 March 2017	**191**	**29**	**1 246 282**	**(90 411)**
Movement in reserves 1 April 2017 – 31 March 2018				
Profit after taxation	–	–	–	–
Fair value movements on cash flow hedges	–	–	–	–
Gains 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	–	–	–	–
Remeasurement of net defined pension asset	–	–	–	–
Total comprehensive income for the year	**–**	**–**	**–**	**–**
Share-based payments adjustments	–	–	–	–
Issue of ordinary shares	4	–	70 833	–
Issue of Other Additional Tier 1 security instruments	–	–	–	–
Dividends paid to ordinary shareholders	–	–	–	–
Dividends declared to perpetual preference shareholders	–	–	–	–
Dividends declared to Other Additional Tier 1 security holders	–	–	–	–
Dividends paid to Other Additional Tier 1 security holders	–	–	–	–
Dividends paid to non-controlling interests	–	–	–	–
Net equity impact of non-controlling interest movements	–	–	–	–
Movement of treasury shares	–	–	–	(12 465)
Transfer to capital reserve account	–	–	–	–
At 31 March 2018	**195**	**29**	**1 317 115**	**(102 876)**

Other reserves							
Capital reserve account	Available-for-sale reserve	Foreign currency reserves	Retained income	Shareholders' equity excluding non-controlling interests	Other Additional Tier 1 securities in issue	Non-controlling interests	Total equity
(35 878)	**(20 283)**	**(10 596)**	**820 967**	**1 867 491**	**–**	**13 317**	**1 880 808**
–	–	–	159 728	159 728	–	11 627	171 355
–	(2 622)	–	–	(2 622)	–	–	(2 622)
–	29 809	–	–	29 809	–	–	29 809
–	–	37 513	–	37 513	–	(374)	37 139
–	–	–	(43 580)	(43 580)	–	–	(43 580)
–	**27 187**	**37 513**	**116 148**	**180 848**	**–**	**11 253**	**192 101**
–	–	–	25 987	25 987	–	–	25 987
–	–	–	–	174 082	–	–	174 082
–	–	–	(105 727)	(105 727)	–	–	(105 727)
–	–	–	(1 862)	(1 862)	–	–	(1 862)
–	–	–	–	–	–	(9 690)	(9 690)
–	–	–	40 427	(81 743)	–	–	(81 743)
–	–	–	7 357	7 357	–	120	7 477
(40 812)	–	–	–	(49 914)	–	–	(49 914)
(2 512)	–	–	2 512	–	–	–	–
(79 202)	**6 904**	**26 917**	**905 809**	**2 016 519**	**–**	**15 000**	**2 031 519**
–	–	–	135 231	135 231	–	13 078	148 309
–	–	–	–	–	–	–	–
–	(1 278)	–	–	(1 278)	–	–	(1 278)
–	4 525	–	–	4 525	–	–	4 525
–	–	(18 849)	–	(18 849)	–	499	(18 350)
–	–	–	3 938	3 938	–	–	3 938
–	**3 247**	**(18 849)**	**139 169**	**123 567**	**–**	**13 577**	**137 144**
–	–	–	31 232	31 232	–	–	31 232
–	–	–	–	70 837	–	–	70 837
–	–	–	–	–	250 000	–	250 000
–	–	–	(106 253)	(106 253)	–	–	(106 253)
–	–	–	(421)	(421)	–	–	(421)
–	–	–	(5 709)	(5 709)	5 709	–	–
–	–	–	–	–	(5 709)	–	(5 709)
–	–	–	–	–	–	(13 008)	(13 008)
–	–	–	9 074	9 074	–	181	9 255
(51 430)	–	–	–	(63 895)	–	–	(63 895)
(526)	–	(6 222)	6 748	–	–	–	–
(131 158)	**10 151**	**1 846**	**979 650**	**2 074 951**	**250 000**	**15 750**	**2 340 701**

Basis of presentation

These annual financial statements have been prepared to present the financial position and results of Investec plc and its subsidiaries as if the contractual arrangements which create the dual listed company (DLC) structure did not exist and, with this exception and the exclusion of certain other remuneration and related party disclosures, are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). For an understanding of the financial position, results and cash flows of the Investec DLC group, the user is referred to Investec's integrated annual report.

Investec DLC group consists of two separate legal entities, being Investec plc and Investec Limited, that operate under a DLC structure. The effect of the DLC structure is that Investec plc and its subsidiaries and Investec Limited and its subsidiaries operate together as a single economic entity, with neither assuming a dominant role, and accordingly are reported as a single reporting entity under IFRS.

These group annual financial statements are prepared in accordance with IFRS, as adopted by the EU which comply with IFRS 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 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, and liabilities for pension fund surpluses and deficits that have been measured at fair value.

The accounting policies adopted by the group are consistent with the prior year.

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 45 to 106.

Certain disclosures required under IAS 24 Related Party Disclosures have been included in the section marked as audited in the remuneration report in Investec's integrated annual report.

Basis of consolidation

As discussed above, these annual financial statements have been prepared to present the financial position and results of Investec plc and its subsidiaries as if the contractual arrangements which create the DLC structure did not exist.

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.

All intergroup balances, transactions and unrealised gains or losses within the group that do not reflect an impairment to the asset, 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 three principal business divisions, namely, Asset Management, Wealth & Investment and Specialist Banking.

Group costs that are disclosed separately largely relate to group brand and marketing costs and a portion of executive and support functions which are associated with group-led activities. These costs are not incurred by the operating divisions and are necessary to support the operational functioning of the group.

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. 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 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 functional 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 recognised 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 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 or 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 time frame 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; or
- 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; and
- 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 that 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 of 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 has 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 the 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 or 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 recognised 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 after 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 macro-economic 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 standalone 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 issued by the group are classified as liabilities if they contain a contractual obligation to deliver cash or another financial asset.

Financial instruments issued by the group 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 plc are recorded as non-controlling interests on the balance sheet.

Equity instruments are initially measured net of directly attributable issue costs.

Treasury shares represent Investec plc shares repurchased by the group which has not been cancelled. Treasury shares are deducted from shareholders' equity and represent the purchase consideration, including directly attributable costs. Where treasury shares are subsequently sold or reissued, net proceeds received are included in shareholders' equity.

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 plc shareholders.

Sale and repurchase agreements (including securities borrowing and lending)

Securities sold subject to a commitment to repurchase, at a fixed price or a selling price plus a lender's return, 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 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 group is the lessor and included in liabilities where the group is the lessee. Finance charges on finance leases and 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% to 33%
- Motor vehicles 20% to 25%
- Furniture and fittings 10% to 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.

Accounting policies

(continued)

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 (currently three to twenty 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 taxation 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 and two closed defined benefit schemes.

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.

The assets of the defined benefit schemes are measured at their market value at the balance sheet date and the liabilities of the schemes are measured using the projected unit credit method. The discount rate used to measure the schemes' liabilities is the current rate of return on an AA corporate bond at the balance sheet date of equivalent term and currency to the liabilities. The extent to which the schemes' assets exceed or fall short of the schemes' liabilities is shown as a surplus (to the extent that it is considered recoverable) or deficit in the balance sheet.

Actuarial gains and losses related to the defined benefit asset or liability are recognised immediately directly in other comprehensive income.

The group has no liabilities for other postretirement benefits.

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

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 plc

Balance sheet impairment allowance and provisions

Total balance sheet impairment allowance and provisions are expected to increase by approximately £106 million from £158 million as at 31 March 2018 to approximately £264 million as at 1 April 2018. This is driven by an increase in legacy impairments of approximately £57 million and an increase in ongoing impairments of approximately £70 million, partially offset by a reduction of approximately £21 million as a result of changes in classification and measurement of the group's financial assets to fair value. The increase in impairment allowance and provisions is expected to reduce the CET 1 ratio by approximately 66bps on a fully loaded basis, or approximately 3bps on a day one impact transitional basis.

Changes in classification and measurement of certain financial assets

In addition, changes in classification and measurement to fair value of certain of the group's other financial assets is expected to result in a decrease to equity of approximately £11 million (post taxation), with an approximate 7bps impact on the CET 1 ratio.

Reclassification of subordinated liabilities to fair value

As a result of the adoption of IFRS 9 Investec plc has elected to designate its subordinated liabilities to fair value. The interest rate portion of the subordinated debt is expected to reduce equity by approximately £48 million (post taxation) with an approximate 37bps 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 approximately £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 is expected to result in a decrease in Investec plc's transitional CET 1 ratio of approximately 47bps from 11.0% to approximately 10.5%, ahead of the group's target and in excess of minimum regulatory requirements. Investec 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.

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.

All other standards and interpretations issued but not yet effective are not expected to have a material impact on the group.

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.

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 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
- 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; and
  - 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.

For the year to 31 March £'000	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Total group
1. Consolidated segmental analysis					
2018					
Segmental business analysis – income statement					
Net interest income	242	5 181	332 157	–	337 580
Fee and commission income	500 670	297 629	207 336	–	1 005 635
Fee and commission expense	(145 440)	(722)	(9 539)	–	(155 701)
Investment income	(47)	10 446	58 117	–	68 516
Share of post taxation profit of associates	–	416	1 020	–	1 436
Trading income arising from					
– customer flow	–	1 032	113 370	–	114 402
– balance sheet management and other trading activities	(5 189)	(7)	3 127	–	(2 069)
Other operating income	2 131	235	8 055	–	10 421
Total operating income before impairment on loans and advances	**352 367**	**314 210**	**713 643**	**–**	**1 380 220**
Impairment losses on loans and advances	–	–	(106 085)	–	(106 085)
Operating income	**352 367**	**314 210**	**607 558**	**–**	**1 274 135**
Operating costs	(248 449)	(244 940)	(546 934)	(33 789)	(1 074 112)
Depreciation on operating leased assets	–	–	(2 350)	–	(2 350)
Operating profit/(loss) before goodwill and acquired intangibles	**103 918**	**69 270**	**58 274**	**(33 789)**	**197 673**
Operating loss attributable to other non–controlling interests	–	–	1 684	–	1 684
Operating profit/(loss) before goodwill, acquired intangibles and after other non-controlling interests	**103 918**	**69 270**	**59 958**	**(33 789)**	**199 357**
Operating profit attributable to Asset Management non-controlling interests	(14 762)	–	–	–	(14 762)
Operating profit/(loss) before goodwill, acquired intangibles and after non-controlling interests	**89 156**	**69 270**	**59 958**	**(33 789)**	**184 595**
Selected returns and key statistics					
Cost to income ratio	70.5%	78.0%	76.9%	n/a	78.0%
Total assets (£'million)	423	996	19 193	n/a	20 612
2017					
Segmental business analysis – income statement					
Net interest income	111	4 368	284 702	–	289 181
Fee and commission income	427 626	268 429	236 091	–	932 146
Fee and commission expense	(119 542)	(582)	(8 159)	–	(128 283)
Investment income	–	2 169	57 806	–	59 975
Share of post taxation profit of associates	–	1 509	840	–	2 349
Trading income arising from					
– customer flow	–	740	128 966	–	129 706
– balance sheet management and other trading activities	3 221	215	5 236	–	8 672
Other operating income	5 313	–	7 882	–	13 195
Total operating income before impairment on loans and advances	**316 729**	**276 848**	**713 364**	**–**	**1 306 941**
Impairment losses on loans and advances	–	–	(74 956)	–	(74 956)
Operating income	**316 729**	**276 848**	**638 408**	**–**	**1 231 985**
Operating costs	(225 466)	(211 658)	(531 843)	(36 163)	(1 005 130)
Depreciation on operating leased assets	–	–	(2 141)	–	(2 141)
Operating profit/(loss) before goodwill and acquired intangibles	**91 263**	**65 190**	**104 424**	**(36 163)**	**224 714**
Operating loss attributable to other non-controlling interests	–	–	180	–	180
Operating profit/(loss) before goodwill, acquired intangibles and after other non-controlling interests	**91 263**	**65 190**	**104 604**	**(36 163)**	**224 894**
Operating profit attributable to Asset Management non-controlling interests	(11 807)	–	–	–	(11 807)
Operating profit/(loss) before goodwill, acquired intangibles and after non-controlling interests	**79 456**	**65 190**	**104 604**	**(36 163)**	**213 087**
Selected returns and key statistics					
Cost to income ratio	71.2%	76.5%	74.8%	n/a	77.0%
Total assets (£'million)	401	952	17 436	–	18 789

No geographical segmental analysis is provided as the group operates in a single significant geography.

Notes to the annual financial statements

(continued)

2. Net interest income

For the year to 31 March 2018 £'000	Notes	Balance sheet value	Interest received
Cash, near cash and bank debt and sovereign debt securities	1	6 505 403	26 413
Core loans and advances	2	9 687 224	518 070
Private client		3 785 828	161 107
Corporate, institutional and other clients		5 901 396	356 963
Other debt securities and other loans and advances		639 405	54 927
Total interest-earning assets		**16 832 032**	**599 410**

For the year to 31 March 2018 £'000	Notes	Balance sheet value	Interest paid
Deposits by banks and other debt-related securities	3	3 817 976	92 513
Customer accounts		11 637 497	113 972
Subordinated liabilities		579 673	55 345
Total interest-bearing liabilities		**16 035 146**	**261 830**
Net interest income			**337 580**
Net interest margin			**2.11%**

For the year to 31 March 2017 £'000	Notes	Balance sheet value	Interest received
Cash, near cash and bank debt and sovereign debt securities	1	5 658 270	33 255
Core loans and advances	2	8 620 742	471 547
Private client		3 454 366	151 645
Corporate, institutional and other clients		5 166 376	319 902
Other debt securities and other loans and advances		811 708	58 552
Total interest-earning assets		**15 090 720**	**563 354**

For the year to 31 March 2017 £'000	Notes	Balance sheet value	Interest paid
Deposits by banks and other debt-related securities	3	2 870 193	87 872
Customer accounts		11 021 581	130 419
Subordinated liabilities		579 356	55 882
Total interest-bearing liabilities		**14 471 130**	**274 173**
Net interest income			**289 181**
Net interest margin			**1.96%**

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		
Asset management and wealth management businesses net fee and commission income	**652 137**	**575 931**
Fund management fees/fees for assets under management	743 670	639 100
Private Client transactional fees	54 629	56 955
Fee and commission expense	(146 162)	(120 124)
Specialist Banking net fee and commission income	**197 797**	**227 932**
Corporate and institutional transactional and advisory services	192 579	206 408
Private client transactional fees	14 757	29 683
Fee and commission expense	(9 539)	(8 159)
Net fee and commission income	**849 934**	**803 863**
Annuity fees (net of fees payable)	662 924	581 895
Deal fees	187 010	221 968

For the year to 31 March £'000	2018	2017
4. Investment income		
Realised	43 505	50 335
Unrealised	6 435	(9 271)
Dividend income	10 171	12 339
Funding and other net related income	8 405	6 572
	68 516	**59 975**

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
4. Investment income *(continued)*					
2018					
Realised	38 517	5 779	(86)	(705)	43 505
Unrealised^	13 419	2 730	–	(9 714)	6 435
Dividend income	10 171	–	–	–	10 171
Funding and other net related income	–	–	–	8 405	8 405
	62 107	**8 509**	**(86)**	**(2 014)**	**68 516**
2017					
Realised	38 533	(8 482)	18 337	1 947	50 335
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
	47 786	**(3 344)**	**8 329**	**7 204**	**59 975**

* *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	2 967	6 765
Income from operating leases	2 696	2 470
Income from government grants	2 997	–
	10 421	**13 195**

For the year to 31 March £'000	2018	2017
6. Operating costs		
Staff compensation costs	760 912	710 913
– Salaries and wages (including directors' remuneration)**	650 535	608 927
– Share-based payment expense	32 418	27 497
– Social security costs	48 595	47 258
– Pensions and provident fund contributions	29 364	27 231
Training and other costs	17 879	15 701
Staff costs	778 791	726 614
Premises expenses (excluding depreciation)	52 167	52 979
Equipment expenses (excluding depreciation)	54 997	48 379
Business expenses*	130 688	122 714
Marketing expenses	44 243	42 744
Depreciation, amortisation and impairment on property, equipment and intangibles	13 226	11 700
	1 074 112	1 005 130
Depreciation on operating leased assets	2 350	2 141
	1 076 462	**1 007 271**
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	551	320
Fees payable to the company's auditors and its associates for other services:		
– Audit of the company's subsidiaries pursuant to legislation	4 039	2 880
– Audit-related assurance services	680	370
– Tax compliance services	80	390
– Tax advisory services	220	200
– Services related to corporate finance transactions	–	620
– Services related to information technology	60	–
– Other assurance services	200	80
	5 830	**4 860**
KPMG fees		
Fees payable to the company's auditors for the audit of the company's accounts	–	–
Fees payable to the company's auditors and its associates for other services:		
– Audit of the company's subsidiaries pursuant to legislation	600	560
– Audit-related assurance services	186	200
– Tax compliance service	287	130
– Tax advisory services	–	–
– Services related to corporate finance transactions	–	50
– Services related to other regulatory services	10	–
– Other assurance services	10	–
	1 093	**940**
Total	**6 923**	**5 800**

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.*

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. 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 in the remuneration report included in Investec's 2018 integrated annual report and on our website.

For the year to 31 March £'000	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Total group
Share-based payments expense					
2018					
Equity-settled	348	4 828	20 801	6 441	32 418
Total income statement charge	**348**	**4 828**	**20 801**	**6 441**	**32 418**
2017					
Equity-settled	489	3 994	19 818	3 196	27 497
Total income statement charge	**489**	**3 994**	**19 818**	**3 196**	**27 497**

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 £3.22 million (2017: £nil).

For the year to 31 March £'000	2018	2017
Weighted average fair value of options granted in the year		
UK schemes	42 444	29 213

	UK schemes			
	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	25 991 607	0.06	28 760 479	0.07
Granted during the year	7 684 921	0.07	6 501 494	0.01
Exercised during the year^	(10 566 097)	0.04	(8 239 897)	0.03
Options forfeited during the year	(644 643)	0.22	(1 030 469)	0.30
Outstanding at the end of the year	**22 465 788**	**0.07**	**25 991 607**	**0.06**
Exercisable at the end of the year	**160 252**	**0.00**	**12 250**	**0.00**

^ *The weighted average share price during the year was £5.64 (2017: £5.09).*

7. Share-based payments *(continued)*

	2018	2017
Additional information relating to options		
Options with strike prices		
Exercise price range	£4.31 – £6.00	£3.29 – £6.00
Weighted average remaining contractual life	1.75 years	1.72 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	£5.52	£4.49
The fair values of options granted where 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	£0, £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.

For the year to 31 March £'000	2018	2017
8. Taxation		
Income statement tax charge		
Current taxation		
UK		
Current tax on income for the year	38 255	49 387
Adjustments in respect of prior years	5 048	(5 238)
Corporation tax before double tax relief	43 303	44 149
– Double tax relief	(213)	(308)
	43 090	**43 841**
Europe	2 750	2 474
Australia	1 274	976
Other	1 408	932
	5 432	4 382
Total current taxation	**48 522**	**48 223**
Deferred taxation		
UK	(12 165)	(14 597)
Europe	359	263
Australia	(12)	(11)
Other	(613)	1 961
Total deferred taxation	**(12 431)**	**(12 384)**
Total taxation charge for the year	**36 091**	**35 839**
Total taxation charge for the year comprises:		
Taxation on operating profit before goodwill	38 509	39 144
Taxation on acquired intangibles, goodwill and disposal of subsidiaries	(2 418)	(3 305)
	36 091	**35 839**
Deferred taxation comprises:		
Origination and reversal of temporary differences	(12 959)	(11 264)
Changes in tax rates	4 448	(971)
Adjustment in respect of prior years	(3 920)	(149)
	(12 431)	**(12 384)**

For the year to 31 March £'000	2018	2017
8. Taxation *(continued)*		
The rates of corporation tax for the relevant years are:	%	%
UK	19	20
Europe (average)	10	10
Australia	30	30
Profit before taxation	**184 400**	**207 194**
Taxation on profit before taxation	**36 091**	**35 839**
Effective tax rate	**19.6%**	**17.3%**
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%)	35 038	41 439
Taxation adjustments relating to foreign earnings	(3 051)	(266)
Taxation relating to prior years	1 128	(5 387)
Goodwill and non-operating items	156	767
Share options accounting expense	252	(171)
Non-taxable income	(1 386)	(2 054)
Net other permanent differences	5 582	20 526
Capital gains – non-taxable/covered by losses	(1 564)	(5 402)
Movement in unrecognised trading losses	(4 512)	(12 642)
Change in tax rate	4 448	(971)
Total taxation charge as per income statement	**36 091**	**35 839**
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)
Remeasurement of net defined pension asset	3 938	(43 580)
Pre-taxation	4 897	(53 575)
Taxation effect	(959)	9 995
Statement of changes in equity taxation effects		
Additional Tier 1 Capital	(5 709)	–
Pre-taxation	(7 048)	–
Taxation effect	1 339	–
Share-based payment IFRS 2 adjustment	1 544	25 987
Pre-taxation	–	25 918
Taxation effect	1 544	69

For the year to 31 March £'000	2018 Pence per share	2018 Total	2017 Pence per share	2017 Total
9. Dividends				
Ordinary dividend				
Final dividend for prior year	13.0	62 106	11.5	41 459
Interim dividend for current year	10.5	44 147	10.0	64 268
Total dividend attributable to ordinary shareholders	**23.5**	**106 253**	**21.5**	**105 727**

The directors have proposed a final dividend in respect of the financial year ended 31 March 2018 of 13.5 pence per ordinary share (31 March 2017: 13.0 pence).

This will be paid as follows:

- For Investec plc non-South African shareholders, through a dividend paid by Investec plc of 13.5 pence per ordinary share
- For Investec plc South African shareholders, through a dividend payment by Investec plc of 6.5 pence per ordinary share and through a dividend payment on the SA DAS share of 7 pence per ordinary share

The final dividend will be payable on 13 August 2018 to shareholders on the register at the close of business on 27 July 2018.

For the year to 31 March £'000	2018 Pence per share	2018 Cents per share	2018 Total	2017 Pence per share	2017 Cents per share	2017 Total
Perpetual preference dividend						
Final dividend for prior year	6.23	497.38	212	7.52	470.25	1 628
Interim dividend for current year	6.27	495.43	209	7.12	500.11	234
Total dividend attributable to perpetual preference shareholders recognised in current financial year	**12.50**	**992.81**	**421**	**14.64**	**970.36**	**1 862**

The directors have declared a final dividend in respect of the financial year ended 31 March 2018 of 7.26027 pence (Investec plc shares traded on the JSE Limited) and 7.26027 pence (Investec plc shares traded on the Channel Island Stock Exchange), and 485.34589 cents per Rand denominated perpetual preference share. The final dividend will be payable on 18 June 2018 to shareholders on the register at the close of business on, 8 June 2018.

For the year to 31 March £'000	2018	2017
Dividend attributable to Other Additional Tier 1 securities	**5 709**	**–**

The £250 000 000 Fixed Rate Reset Perpetual Additional Tier 1 Write Down Capital Securities (AT1 securities), issued on 5 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 expenses		
Operating lease expenses recognised in operating costs expenses:		
Minimum lease payments	30 177	29 452
Sub-lease income	(2 586)	(3 070)
	27 591	**26 382**
Operating lease income recognised in income:		
Minimum lease payments	2 660	2 477
Sub-lease 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'.

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
11. Analysis of income and impairments by category of financial instrument		
2018		
Net interest income/(expense)	(5 884)	658
Fee and commission income	67 952	–
Fee and commission expense	–	–
Investment income/(expense)	13 010	58 764
Share of post taxation profit of associates	–	–
Trading income arising from		
– customer flow	116 715	–
– balance sheet management and other trading activities	4 402	906
Other operating income	–	–
Total operating income/(expense) before impairment losses on loans and advances	196 195	60 328
Impairment losses on loans and advances	–	–
Operating income/(expense)	**196 195**	**60 328**
2017		
Net interest income/(expense)	(10 457)	459
Fee and commission income	35 194	14
Fee and commission expense	–	(4)
Investment income/(expense)	1 163	48 967
Share of post taxation profit of associates	–	–
Trading income arising from		
– customer flow	126 544	2 424
– balance sheet management and other trading activities	3 319	(4 838)
Other operating income	–	5 313
Total operating income/(expense) before impairment losses on loans and advances	155 763	52 335
Impairment losses on loans and advances	–	–
Operating income/(expense)	**155 763**	**52 335**

Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non-financial instruments	Other fee income	Total
565 027	6 805	(232 768)	–	3 742	337 580
69 705	–	6 195	569	861 214	1 005 635
–	–	(2 675)	–	(153 026)	(155 701)
(165)	5 845		(8 901)	(37)	68 516
–	–	–	1 436	–	1 436
–	–	–	–	(2 313)	114 402
(7 377)	–	–	–	–	(2 069)
–	–	–	4 457	5 964	10 421
627 190	12 650	(229 248)	(2 439)	715 544	1 380 220
(106 085)	–	–	–	–	(106 085)
521 105	**12 650**	**(229 248)**	**(2 439)**	**715 544**	**1 274 135**
529 346	8 929	(247 995)	1 322	7 577	289 181
74 569	–	3 314	16 223	802 832	932 146
2 796	–	(3 193)	2 680	(130 562)	(128 283)
(8 357)	6 917	–	11 285	–	59 975
–	–	–	2 349	–	2 349
–	–	5 063	–	(4 325)	129 706
10 092	–	–	(17)	116	8 672
–	–	1 346	6 536	–	13 195
608 446	15 846	(241 465)	40 378	675 638	1 306 941
(74 956)	–	–	–	–	(74 956)
533 490	**15 846**	**(241 465)**	**40 378**	**675 638**	**1 231 985**

At 31 March 2018 £'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
12. Analysis of financial assets and liabilities by category of financial instrument				
Assets				
Cash and balances at central banks	7 784	–	–	7 784
Loans and advances to banks	–	158 161	–	158 161
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*	597 264	–	–	597 264
Securities arising from trading activities	244 334	457 394	–	701 728
Investment portfolio	–	442 080	35 839	477 919
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	58 238	–	115 456
Property and equipment	–	–	–	–
Investment properties	–	–	–	–
Goodwill	–	–	–	–
Intangible assets	–	–	–	–
	1 109 568	**1 438 654**	**1 048 451**	**3 596 673**
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 other assets	–	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.*

Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
3 479 985	–	3 479 985	–	3 487 769
845 635	–	845 635	–	1 003 796
712 550	–	712 550	–	750 428
–	–	–	–	1 155 472
107 938	–	107 938	–	107 938
199 375	–	199 375	–	278 474
–	–	–	–	597 264
–	–	–	–	701 728
–	–	–	–	477 919
9 553 484	–	9 553 484	–	9 687 224
360 931	–	360 931	–	360 931
–	–	–	–	132 172
–	–	–	77 059	77 059
–	–	–	98 156	98 156
847 659	–	847 659	206 464	1 169 579
–	–	–	54 493	54 493
–	–	–	14 500	14 500
–	–	–	356 265	356 265
–	–	–	100 585	100 585
16 107 557	**–**	**16 107 557**	**907 522**	**20 611 752**
–	1 308 202	1 308 202	–	1 308 202
–	–	–	–	533 319
–	–	–	–	103 496
–	133 754	133 754	–	168 640
–	11 637 497	11 637 497	–	11 637 497
–	1 869 248	1 869 248	–	2 341 134
–	–	–	–	127 853
–	–	–	152 355	152 355
–	–	–	21 892	21 892
–	891 556	891 556	405 434	1 296 990
–	**15 840 257**	**15 840 257**	**579 681**	**17 691 378**
–	579 673	579 673	–	579 673
–	**16 419 930**	**16 419 930**	**579 681**	**18 271 051**

12. Analysis of financial assets and liabilities by category of financial instrument *(continued)*

At 31 March 2017 £'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
Assets				
Cash and balances at central banks	2 497	–	–	2 497
Loans and advances to banks	–	129 012	–	129 012
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*	604 175	–	–	604 175
Securities arising from trading activities	269 292	253 468	–	522 760
Investment portfolio	–	406 385	53 360	459 745
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	52 236	–	200 487
Property and equipment	–	–	–	–
Investment properties	–	–	–	–
Goodwill	–	–	–	–
Intangible assets	–	–	–	–
	1 095 243	**1 153 122**	**1 067 584**	**3 315 949**
Liabilities				
Deposits by banks				
Derivative financial instruments*	582 600	–	–	582 600
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 other assets	–	128 838	–	128 838
Current taxation liabilities	–	–	–	–
Deferred taxation liabilities	–	–	–	–
Other liabilities	–	–	–	–
	795 795	**556 414**	**–**	**1 352 209**
Subordinated liabilities	–	–	–	–
	795 795	**556 414**	**–**	**1 352 209**

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*

Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
2 851 074	–	2 851 074	–	2 853 571
1 001 986	–	1 001 986	–	1 130 998
465 145	–	465 145	–	536 173
–	–	–	–	952 902
176 559	–	176 559	–	184 626
258 112	–	258 112	–	398 278
–	–	–	–	604 175
–	–	–	–	522 760
–	–	–	–	459 745
8 534 260	–	8 534 260	–	8 620 742
413 430	–	413 430	–	413 430
–	–	–	–	138 628
–	–	–	63 390	63 390
–	–	–	89 941	89 941
853 689	–	853 689	221 956	1 276 132
–	–	–	60 528	60 528
–	–	–	14 500	14 500
–	–	–	355 155	355 155
–	–	–	112 943	112 943
14 554 255	**–**	**14 554 255**	**918 413**	**18 788 617**
–	690 749	690 749	–	690 749
–	–	–	–	582 600
–	–	–	–	136 041
–	146 843	146 843	–	223 997
–	11 021 581	11 021 581	–	11 021 581
–	1 527 871	1 527 871	–	1 955 447
–	–	–	–	128 838
–	–	–	143 585	143 585
–	–	–	26 236	26 236
–	868 601	868 601	400 067	1 268 668
–	**14 255 645**	**14 255 645**	**569 888**	**16 177 742**
–	579 356	579 356	–	579 356
–	**14 835 001**	**14 835 001**	**569 888**	**16 757 098**

13. Reclassifications of financial instruments

During the year ended 31 March 2009 the group 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 and 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	–	–	9 220	3 481
	–	**–**	**9 220**	**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: decrease of £2.3 million).

In the current year the reclassified assets have contributed a £50 000 loss through the margin line and a gain of £2.6 million through impairments before taxation, due to impairments release. In the prior year, after reclassification, the assets contributed a £0.1 million loss to through the margin line and a gain of £0.4 million through impairments before taxation.

14. Fair value hierarchy

The following table 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 227.

		Fair value category		
At 31 March £'000	**Total instruments at fair value**	**Level 1**	**Level 2**	**Level 3**
2018				
Assets				
Cash and balances at central banks	7 784	7 784	–	–
Loans and advances to banks	158 161	158 161	–	–
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	597 264	–	554 375	42 889
Securities arising from trading activities	701 728	670 814	24 160	6 754
Investment portfolio	477 919	42 078	12 045	423 796
Loans and advances to customers	133 740	–	–	133 740
Other securitised assets	132 172	–	–	132 172
Other assets	115 456	115 456	–	–
	3 596 673	**2 156 633**	**690 451**	**749 589**
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 financial assets/(liabilities)	**2 325 233**	**2 053 137**	**(333 999)**	**606 095**

14. Fair value hierarchy *(continued)*

At 31 March £'000	Total instruments at fair value	Fair value category Level 1	Level 2	Level 3
2017				
Assets				
Cash and balances at central banks	2 497	2 497	–	–
Loans and advances to banks	129 012	129 012	–	–
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	604 175	–	545 675	58 500
Securities arising from trading activities	522 760	491 675	22 014	9 071
Investment portfolio	459 745	49 357	17 283	393 105
Loans and advances to customers	86 482	–	–	86 482
Other securitised assets	138 628	–	–	138 628
Other assets	200 487	200 487	–	–
	3 315 949	**1 836 144**	**794 019**	**685 786**
Liabilities				
Derivative financial instruments	582 600	1 676	579 876	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
	1 352 209	**137 717**	**1 071 924**	**142 568**
Net financial assets/(liabilities)	**1 963 740**	**1 698 427**	**(277 905)**	**543 218**

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:

	Total level 3 financial instruments	Fair value profit and loss instruments	Available-for-sale instruments
Balance as at 1 April 2016	**558 539**	**503 020**	**55 519**
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	103 571	100 451	3 120
Sales	(164 886)	(153 377)	(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	41 517	39 538	1 979
Balance as at 31 March 2017	**543 218**	**501 376**	**41 842**
Total gains or (losses)	57 936	42 765	15 171
In the income statement	55 200	42 765	12 435
In the statement of comprehensive income	2 736	–	2 736
Purchases	167 722	167 722	–
Sales	(107 952)	(90 054)	(17 898)
Issues	–	–	–
Settlements	(8 292)	(8 292)	–
Transfers into level 3	–	–	–
Transfers out of level 3	(17 916)	(17 351)	(565)
Foreign exchange adjustments	(28 621)	(27 586)	(1 035)
Balance as at 31 March 2018	**606 095**	**568 580**	**37 515**

The group transfers between levels within the fair value hierarchy when the observability of inputs change or if the valuation methods change.

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 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
2018			
Total gains/(losses) included in the income statement for the year			
Net interest income	–	–	–
Fee and commission income	93	–	93
Investment income	58 705	30 594	28 111
Trading income arising from customer flow	(3 598)	(488)	(3 110)
Trading income arising from balance sheet management and other trading activities	–	–	–
	55 200	**30 106**	**25 094**
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 Comparable quoted inputs	Discount rate and fund unit price 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 model	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	423 796	Potential impact on income statement		63 045	(71 028)
		Price earnings multiple	5.0x – 10x	6 159	(6 120)
		WACC	19.5% – 48.5%	12 799	(23 769)
		Other^	^	44 087	(41 139)
		Potential impact on other comprehensive income		2 138	(2 113)
		Price earnings multiple	4.0x – 5.5x	175	(246)
		Other^	^	1 963	(1 867)
Loans and advances to customers	133 740	Potential impact on other comprehensive income		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	**749 589**			**89 516**	**(100 845)**
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 service 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	**606 095**				

* *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.*

14. Fair value hierarchy *(continued)*

At 31 March 2017	Balance sheet value £'000	Significant unobservable input	Range of unobservable input used	Favourable changes £'000	Unfavourable changes £'000
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 %	63	–
		Cash flow adjustments	CPR 6.25% – 8.4%	648	(1 086)
		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	393 105	Potential impact on income statement		42 162	(32 069)
		Price earnings multiple	3 x – 10.3 x	5 430	(5 788)
		Other^	^	36 732	(26 281)
		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 levels 3 assets	**685 786**			**66 185**	**(50 508)**
Liabilities					
Derivative financial instruments	1 048	Potential impact on income statement			
		Cash flow adjustments	CPR 8.4%	(794)	983
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 levels 3 liabilities	**142 568**			**(2 249)**	**2 315**
Net level 3 assets	**543 218**				

* *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 require judgement. Cash flows are input into a discounted cash flow valuation.

Price earnings multiple

The price-to-earnings ratio is an equity valuation multiple used in the adjustment and 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.

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
2018					
Assets					
Cash and balances at central banks	3 479 985	3 479 985	^	^	^
Loans and advances to banks	845 635	845 671	831 673	4 770	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	199 375	196 682	28 467	51 348	116 867
Loans and advances to customers	9 553 484	9 548 377	–	1 001 357	8 547 020
Other loans and advances	360 931	358 016	–	233 410	124 606
Other assets	847 659	843 600	584 208	245 946	13 446
	16 107 557	**16 101 788**			
Liabilities					
Deposits by banks	1 308 202	1 302 505	135 129	1 167 376	–
Repurchase agreements and cash collateral on securities lent	133 754	133 754	^	^	^
Customer accounts (deposits)	11 637 497	11 617 042	5 943 943	5 673 099	
Debt securities in issue	1 869 248	1 963 295	424 083	1 525 191	14 021
Other liabilities	891 556	887 507	585 748	253 724	48 035
Subordinated liabilities	579 673	710 580	710 580	–	–
	16 419 930	**16 614 683**			

^ *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 which are included in customer accounts (deposits) and variable rate instruments.

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.

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
2017					
Assets					
Cash and balances at central banks	2 851 074	2 851 074	^	^	^
Loans and advances to banks	1 001 986	1 001 986	990 161	11 825	–
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	258 112	252 213	–	158 937	93 276
Loans and advances to customers	8 534 260	8 521 880	–	1 049 575	7 472 305
Other loans and advances	413 430	395 600	22 760	245 088	127 752
Other assets	853 689	853 629	610 342	229 373	13 914
	14 554 255	**14 530 823**			
Liabilities					
Deposits by banks	690 749	701 315	211 830	489 485	–
Repurchase agreements and cash collateral on securities lent	146 843	146 843	^	^	^
Customer accounts (deposits)	11 021 581	11 067 136	7 770 034	3 280 509	16 593
Debt securities in issue	1 527 871	1 556 400	306 687	1 242 622	7 091
Other liabilities	868 601	868 596	598 901	233 301	36 394
Subordinated liabilities	579 356	707 146	707 146	–	–
	14 835 001	**15 047 436**			

^ *Financial instruments for which fair value approximates carry 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 which are included in customer accounts (deposits) and variable rate instruments.

15. Fair value of financial instruments at amortised cost *(continued)*

The following table sets out the group's principal valuation techniques used in determining the fair value of its financial assets and financial liabilities:

Loans and advances to banks	Calculation of the present value of cash flows, discounted as appropriate.
Reverse repurchase agreements and cash collateral on securities borrowed	Calculation of the present value of future cash flows, discounted as appropriate.
Bank debt securities	Valued using a cash flow model of the bonds, discounted by an observable market credit curve.
Other debt securities	Priced with reference to similar trades in an observable market.
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.

16. Designated at fair value: loans and receivables and financial liabilities

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	**(5 603)**	**(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.

At 31 March £'000	2018	2017
17. Cash and balances at central banks		
The country risk of cash and balances at central banks lies in the following geographies:		
United Kingdom	3 389 266	2 797 953
Europe (excluding UK)	98 503	55 618
Total	**3 487 769**	**2 853 571**

At 31 March £'000	2018	2017
18. Loans and advances to banks		
The country risk of loans and advances to banks lies in the following geographies:		
South Africa	20 603	33 074
United Kingdom	561 521	570 044
Europe (excluding UK)	252 874	258 719
Australia	81 179	55 775
United States of America	48 985	146 947
Other	38 634	66 439
Total	**1 003 796**	**1 130 998**

At 31 March £'000	2018	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
Cash collateral on securities borrowed	85 054	89 847
	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
Cash collateral on securities lent	115 871	146 843
	168 640	**223 997**

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	2018	2017
20. Sovereign debt securities		
Floating rate notes	2 145	–
Government securities	229 040	159 381
Treasury bills	924 287	793 521
	1 155 472	**952 902**
The country risk of the sovereign debt securities lies in the following geographies:		
United Kingdom	885 716	613 605
Europe (excluding UK)*	22 445	12 127
United States of America	247 311	327 170
	1 155 472	**952 902**

* *Where Europe (excluding UK) includes securities held largely in Germany and France.*

At 31 March £'000	2018	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
Total	**107 938**	**184 626**

At 31 March £'000	2018	2017
22. Other debt securities		
Bonds	214 214	371 613
Commercial paper	–	24 518
Asset-based securities	64 260	–
Other investments	–	2 147
	278 474	**398 278**
The country risk of other debt securities lies in the following geographies:		
United Kingdom	66 143	117 311
Europe (excluding UK)	117 369	166 515
United States of America	27 455	81 193
Other	67 507	33 259
Total	**278 474**	**398 278**

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 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**
Foreign exchange derivatives						
Forward foreign exchange contracts	13 077 776	176 493	119 619	11 284 280	163 348	143 827
Currency swaps	852 742	29 073	18 301	841 005	92 639	74 489
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**	**13 381 881**	**316 207**	**248 222**
Interest rate derivatives						
Caps and floors	6 345 355	17 817	5 220	5 743 182	27 173	10 499
Swaps	20 411 575	98 986	113 239	17 857 245	133 104	130 018
OTC options bought and sold	2 937	221	–	–	–	–
OTC derivatives	**26 759 867**	**117 024**	**118 459**	**23 600 427**	**160 277**	**140 517**
Exchange traded futures	17 409	–	4	–	–	–
	26 777 276	**117 024**	**118 463**	**23 600 427**	**160 277**	**140 517**
Equity and stock index derivatives						
OTC options bought and sold	6 850 129	130 907	130 568	2 573 946	68 714	166 308
Equity swaps and forwards	143 917	271	466	–	–	–
OTC derivatives	**6 994 046**	**131 178**	**131 034**	**2 573 946**	**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**	**8 452 398**	**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		**597 264**	**533 319**		**604 175**	**582 600**

* *Mainly includes profit shares received as part of lending transactions.*

At 31 March £'000	2018	2017
24. Securities arising from trading activities		
Asset-backed securities	6 754	–
Bonds	150 160	207 047
Government securities	346 206	130 714
Listed equities	198 608	183 730
Unlisted equities	–	1 269
	701 728	**522 760**

At 31 March £'000	2018	2017
25. Investment portfolio		
Listed equities	61 084	76 478
Unlisted equities*	416 835	383 267
	477 919	**459 745**

* *Unlisted equities includes loan instruments that are convertible into equity.*

At 31 March £'000	2018	2017
26. Loans and advances to customers and other loans and advances		
Gross loans and advances to customers	9 839 064	8 747 618
Impairments of loans and advances to customers	(151 840)	(126 876)
Net loans and advances to customers	**9 687 224**	**8 620 742**
Gross other loans and advances	361 754	421 004
Impairments of other loans and advances	(823)	(7 574)
Net other loans and advances	**360 931**	**413 430**

For further analysis on loans and advances refer to pages 67 to 74 in the risk management section.

At 31 March £'000	2018	2017
26. Loans and advances to customers and other loans and advances *(continued)*		
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
Charge to the income statement	89 642	57 186
Reversals and recoveries recognised in the income statement	(3 766)	(4 146)
Utilised	(79 673)	(95 203)
Transfers	1 544	–
Exchange adjustment	(1 372)	3 860
Balance at the end of the year	**89 863**	**83 488**
Portfolio impairment		
Balance at the beginning of the year	43 388	21 400
Charge to the income statement	19 988	21 955
Transfer	(1 544)	–
Exchange adjustment	145	33
Balance at the end of the year	**61 977**	**43 388**
Other loans and advances		
Specific impairment		
Balance at the beginning of the year	6 858	6 112
Charge to the income statement	283	18
Utilised	(6 961)	5
Exchange adjustment	(11)	723
Balance at the end of the year	**169**	**6 858**
Portfolio impairment		
Balance at the beginning of the year	716	773
Release to the income statement	(62)	(57)
Exchange adjustment	–	–
Balance at the end of the year	**654**	**716**
Total specific impairments	90 031	90 346
Total portfolio impairments	62 632	44 104
Total impairments	**152 663**	**134 450**
Interest income recognised on loans that have been impaired	**1 148**	**1 857**
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	2018	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	125 172	131 370
Other debt securities	7 000	7 258
Total other securitised assets	**132 172**	**138 628**
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

Interests in associated undertakings consist of:		
Net asset value	76 757	55 979
Goodwill	302	7 411
Investment in associated undertakings	**77 059**	**63 390**
Associated undertakings comprise unlisted investments.		
Analysis of the movement in our share of net assets:		
At the beginning of the year	55 979	16 564
Exchange adjustments	(1 215)	431
Disposals	(5 675)	(6 141)
Acquisitions^	80	45 101
Return of capital	(4 651)	–
Increase in investment^	31 000	–
Share of post taxation profit of associates	1 436	2 349
Dividends received	(197)	(2 325)
At the end of the year	**76 757**	**55 979**
Analysis of the movement in goodwill:		
At the beginning of the year	7 411	7 023
Exchange adjustments	–	388
Disposals	(7 109)	–
At the end of the year	**302**	**7 411**

^ *The increase in investment in the current year is due to continued investment in the Grovepoint S.a.r.l associate. The increase in the associates shown in acquisitions during the prior year was due to the reclassification of the Grovepoint S.a.r.l investment which was previously held at fair value in the investment portfolio.*

At 31 March £'000	2018	2017
29. Deferred taxation		
Deferred taxation assets	98 156	89 941
Deferred taxation liabilities	(21 892)	(26 236)
Net deferred taxation assets	**76 264**	**63 705**
The net deferred taxation assets arise from:		
Deferred capital allowances	42 317	33 552
Income and expenditure accruals	23 202	17 770
Asset in respect of unexpired options	21 043	23 584
Unrealised fair value adjustments on financial instruments	(3 420)	(5 201)
Losses carried forward	8 851	10 460
Assets/(liabilities) in respect of pension deficit/(surplus)	48	(7 883)
(Liabilities)/assets in respect of pension contributions	(208)	8 675
Deferred tax on acquired intangibles	(15 233)	(17 100)
Other temporary differences	(336)	(152)
Net deferred taxation assets	**76 264**	**63 705**
Reconciliation of net deferred taxation assets:		
At the beginning of the year	63 705	51 216
Charge to income statement – current year taxation	12 431	12 384
Charge directly in other comprehensive income	395	4 730
Acquisitions	–	(4 939)
Exchange adjustments	(267)	314
At the year end	**76 264**	**63 705**

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 £200.2 million (2017: £216.1 million), capital losses carried forward of £41.9 million (2017: £41.9 million) and excess management expenses of £9.5 million (2017: £9.5 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 Exchequer announced a further reduction of the corporation tax rate to 17% effective from 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	2018	2017
30. Other assets		
Settlement debtors	705 784	730 658
Trading properties	98 961	129 148
Prepayments and accruals	133 714	120 684
Pension assets	2 627	2 076
Trading initial margin	57 218	148 251
Other	171 275	145 315
	1 169 579	**1 276 132**

At 31 March £'000	Freehold properties	Leasehold improvements	Furniture and vehicles	Equipment	Operating leases*	Total
31. Property and equipment						
2018						
Cost						
At the beginning of the year	2 755	87 736	7 118	32 142	9 546	139 297
Exchange adjustments	–	(3 724)	(75)	(38)	–	(3 837)
Additions	–	2 219	83	7 764	2 484	12 550
Disposals	–	(4 614)	(639)	(2 005)	(1 272)	(8 530)
At the end of the year	**2 755**	**81 616**	**6 487**	**37 863**	**10 758**	**139 480**
Accumulated depreciation						
At the beginning of the year	(347)	(41 851)	(6 396)	(25 284)	(4 891)	(78 769)
Exchange adjustments	–	203	34	54	–	291
Disposals	–	1 629	639	2 686	1 181	6 135
Depreciation charge for year	(48)	(6 732)	(272)	(3 242)	(2 350)	(12 644)
At the end of the year	**(395)**	**(46 751)**	**(5 995)**	**(25 786)**	**(6 060)**	**84 987**
Net carrying value	**2 360**	**34 865**	**492**	**12 077**	**4 698**	**54 493**
2017						
Cost						
At the beginning of the year	2 755	75 588	6 428	36 632	9 220	130 623
Exchange adjustments	–	4 367	78	414	–	4 859
Additions	–	9 064	942	2 452	3 197	15 655
Disposals	–	(1 283)	(330)	(7 356)	(2 871)	(11 840)
At the end of the year	**2 755**	**87 736**	**7 118**	**32 142**	**9 546**	**139 297**
Accumulated depreciation						
At the beginning of the year	(266)	(34 929)	(5 710)	(28 070)	(5 274)	(74 249)
Exchange adjustments	–	(651)	(8)	(207)	–	(866)
Disposals	–	538	269	4 973	2 524	8 304
Depreciation charge for year	(81)	(6 809)	(947)	(1 980)	(2 141)	(11 958)
At the end of the year	**(347)**	**(41 851)**	**(6 396)**	**(25 284)**	**(4 891)**	**(78 769)**
Net carrying value	**2 408**	**45 885**	**722**	**6 858**	**4 655**	**60 528**

* *These are assets held by the group, in circumstances where the group is the lessor.*

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 of these operating leased assets has been shown separately on the face of the income statement.

At 31 March £'000	2018	2017
32. Investment properties		
At the beginning of the year	14 500	79 051
Additions	–	14 500
Disposals	–	(90 904)
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 or discounted cash flow 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	384 089	382 794
Acquisition of subsidiaries	849	148
Exchange adjustments	261	1 147
At the end of the year	**385 199**	**384 089**
Accumulated impairments		
At the beginning of the year	(28 934)	(25 800)
Income statement amount	–	(3 134)
At the end of the year	**(28 934)**	**(28 934)**
Net carrying value	**356 265**	**355 155**
Analysis of goodwill by line of business		
Asset Management	88 045	88 045
Wealth & Investment	243 343	243 170
Specialist Banking	24 877	23 940
	356 265	**355 155**

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 two most significant cash-generating units giving rise to goodwill are Investec Asset Management and Investec Wealth & Investment (IWI) which now includes the business of Williams de Broë (acquired in 2012 as part of the Evolution Group) which was merged with IWI in August 2012.

For Investec Wealth & Investment, goodwill of £236.3 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 (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.

For Investec Asset Management, goodwill of £88.0 million has been tested for impairment on the basis of a valuation of the business based on 3% of funds under management. The valuation is based on management's assessment of appropriate external benchmarks to estimate the fair value less cost to sell business. Valuing an asset management business as a percentage of funds under management, taking into account asset mix, is in line with market practice and the percentage used by management reflects external transactions that are comparable to Investec Asset Management. The valuation would be level 3 in the fair value hierarchy.

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 were 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.

At 31 March £'000	Acquired software	Internally generated software	Management contracts	Client relationships	Total

34. Intangible assets

At 31 March £'000	Acquired software	Internally generated software	Management contracts	Client relationships	Total
2018					
Cost					
At the beginning of the year	41 439	2 543	583	187 677	232 242
Exchange adjustments	47	–	22	86	155
Additions	3 229	558	–	–	3 787
Disposals	–	–	–	–	–
At the end of the year	**44 715**	**3 101**	**605**	**187 763**	**236 184**
Accumulated amortisation and impairments					
At the beginning of the year	(35 129)	–	(372)	(83 798)	(119 299)
Exchange adjustments	(41)	–	(17)	(37)	(95)
Disposals	–	–	–	–	–
Amortisation	(2 071)	(861)	(142)	(13 131)	(16 205)
At the end of the year	**(37 241)**	**(861)**	**(531)**	**(96 966)**	**(135 599)**
Net carrying value	**7 474**	**2 240**	**74**	**90 797**	**100 585**
2017					
Cost					
At the beginning of the year	37 746	582	520	188 226	227 074
Exchange adjustments	122	–	63	(549)	(364)
Additions	3 587	1 961	–	–	5 548
Disposals	(16)	–	–	–	(16)
At the end of the year	**41 439**	**2 543**	**583**	**187 677**	**232 242**
Accumulated amortisation and impairments					
At the beginning of the year	(33 155)	–	(196)	(70 243)	(103 594)
Exchange adjustments	(107)	–	(37)	692	548
Disposals	16	–	–	–	16
Amortisation	(1 883)	–	(139)	(14 247)	(16 269)
At the end of the year	**(35 129)**	**–**	**(372)**	**(83 798)**	**(119 299)**
Net carrying value	**6 310**	**2 543**	**211**	**103 879**	**112 943**

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.

35. Acquisitions and disposals

There were no significant acquisitions or disposals of subsidiaries during the current and prior years.

At 31 March £'000	2018	2017
36. Other trading liabilities		
Short positions		
– Equities	64 962	83 932
– Gilts	38 534	52 109
	103 496	**136 041**

At 31 March £'000	2018	2017
37. Debt securities in issue		
Bonds and medium-term notes repayable:		
Less than three months	7 712	48 630
Three months to one year	55 583	94 129
One to five years	1 451 847	955 682
Greater than five years	825 992	857 006
	2 341 134	**1 955 447**

At 31 March £'000	2018	2017
38. Other liabilities		
Settlement liabilities	662 191	690 875
Other creditors and accruals	481 630	446 205
Other non-interest-bearing liabilities	153 169	131 588
	1 269 990	**1 268 668**

At 31 March £'000	2018	2017
39. Pension commitments		
Income statement charge		
Defined benefit obligations net income included in net interest income	(51)	(1 631)
Defined benefit net costs included in administration costs	81	998
Cost of defined contribution schemes included in staff costs	29 364	27 231
Net income statement charge in respect of pensions	**29 394**	**26 598**

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.

At 31 March £'000	2018	2017
39. Pension commitments *(continued)*		
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 for 2018 are based on the 2017 Club Vita base tables with allowance for future improvements in line with CMI 2016 core projections and a long-term improvement of 1.25% per annum. The life expectancies underlying the valuation are as follows:

Years	2018	2017
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/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 sensitivies 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 if all the other assumptions remained unchanged.

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 1 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 schemes expose Investec can be found in the risk management report on page 98.

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
39. Pension commitments *(continued)*		
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 in the IAM scheme 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.

The Trustee's current investment strategy is to strike a balance between maximising the returns on the scheme's assets and minimising the risks associate with lower than expected returns.

	2018			**2017**		
At 31 March £'000	**GM**	**IAM**	**Total**	**GM**	**IAM**	**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/(liability) (recognised 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 asset/liability	(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**

39. Pension commitments *(continued)*

At 31 March £'000	GM	IAM	Total
Changes in the net (liabilities)/asset 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 asset at 31 March 2018	**–**	**2 627**	**2 627**
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)
Closing defined benefit obligation at 31 March 2017	**148 862**	**19 573**	**168 435**
Interest expense	–	455	455
Remeasurement gains and losses:			
– Actuarial gain 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**

39. Pension commitments *(continued)*

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	2018	2017
40. Subordinated liabilities		
Issued by Investec Bank plc		
Subordinated fixed rate medium-term notes	579 673	579 356
	579 673	**579 356**
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
In more than five years	–	–
	579 673	**579 356**

* *Where notes are undated the maturity has been taken as the first potential call date.*

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 in 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 in 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	2018	2017
41. Ordinary share capital		
Investec plc		
Issued, allotted and fully paid		
Number of ordinary shares	**Number**	**Number**
At the beginning of the year	657 105 625	617 418 864
Issued during the year	12 733 070	39 686 761
At the end of the year	**669 838 695**	**657 105 625**
Nominal value of ordinary shares	**£'000**	**£'000**
At the beginning of the year	132	124
Issued during the year	2	8
At the end of the year	**134**	**132**
Number of special converting shares	**Number**	**Number**
At the beginning of the year	301 165 174	291 363 706
Issued during the year	9 557 570	9 801 468
At the end of the year	**310 722 744**	**301 165 174**
Nominal value of special converting shares	**£'000**	**£'000**
At the beginning of the year	59	58
Issued during the year	2	1
At the end of the year	**61**	**59**
Number of UK DAN shares	**Number**	**Number**
At the beginning and end of the year	1	1
Nominal value of UK DAN share	**£'000**	**£'000**
At the beginning and end of the year	*	*
Number of UK DAS shares	**Number**	**Number**
At the beginning and end of the year	1	1
Nominal value of UK DAS share	**£'000**	**£'000**
At the beginning and end of the year	*	*
Number of special voting shares	**Number**	**Number**
At the beginning and end of the year	1	1
Nominal value of special voting share	**£'000**	**£'000**
At the beginning and end of the year	*	*

* *Less than £1 000.*

41. Ordinary share capital *(continued)*

Staff share scheme

The group operates a share option and a share purchase scheme for employees. The number of ordinary shares conditionally allocated to employees are disclosed in note 7.

Movements in the number of share options issued to (each option is in respect of one share) employees are as follows:

For the year to 31 March	Number 2018	Number 2017
Opening balance	25 991 607	28 760 479
Issued during the year	7 684 921	6 501 494
Exercised	(10 566 097)	(8 239 897)
Lapsed	(644 643)	(1 030 469)
Closing balance	**22 465 788**	**25 991 607**

The purpose of the Staff Share scheme 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.

The group makes awards available to staff members via the underlying share trusts. The particular instrument used varies from time to time, depending on taxation legislation and factors affecting the group structure. Nevertheless, whatever the instrument chosen, its underlying value depends solely on the performance of the group's share price.

At present, the practice of the group is to grant all permanent staff members a share allocation, based on their annual package, after completing six months of employment. In line with the objective of providing a long-term incentive for staff, these share awards vest over periods varying from three to five years.

After the initial allocation referred to above, additional allocations are made to staff members at the discretion of group management and depending on the individual performance and contribution made by the respective staff members.

At 31 March £'000	2018	2017
42. Perpetual preference shares of holding company		
Perpetual preference share capital	29	29
Perpetual preference share premium (refer to note 43)	24 765	24 765
	24 794	**24 794**
Issued by Investec plc		
2 754 587 (2017: 2 754 587) non-redeemable, non-cumulative, non-participating preference shares of £0.01 each, issued at a premium of £8.58 per share.		
– Preference share capital	29	29
– Preference share premium	23 607	23 607

Preference shareholders will receive an annual dividend if declared based on the coupon rate (being equivalent to the base rate plus 1%) multiplied by the deemed value on a daily basis and payable in two semi-annual instalments.

An ordinary dividend will not be declared by Investec plc unless the preference dividend has been declared.

If declared preference dividends are payable semi-annually at least seven business days prior to the date on which Investec plc pays its ordinary dividends, if any, but shall be payable no later than 120 business days after 31 March and 30 September respectively.

	2018	2017
Issued by Investec plc - Rand-denominated		
131 447 (2017: 131 447) non-redeemable, non-cumulative, non-participating perpetual preference shares of ZAR0.001 each, issued at a average premium of ZAR99.999 per share.		
– Preference share capital	*	*
– Preference share premium	1 158	1 158

Rand-denominated preference shareholders will receive a dividend if declared based on the coupon rate (being equivalent to South African prime rate multiplied by 95%) multiplied by the deemed value on a daily basis and payable in two semi-annual instalments.

An ordinary dividend will not be declared by Investec plc unless the Rand preference dividend has been declared.

If declared preference dividends are payable semi-annually at least seven business days prior to the date on which Investec plc pays its ordinary dividends, if any, but shall be payable no later than 120 business days after 31 March and 30 September respectively.

At 31 March £'000	2018	2017
43. Share premium		
Share premium account – Investec plc	1 292 350	1 221 517
Perpetual preference share premium	24 765	24 765
	1 317 115	**1 246 282**

At 31 March £'000	2018	2017
44. Treasury shares	**£'000**	**£'000**
Treasury shares held by subsidiaries of Investec plc	102 876	90 411
	Number	**Number**
Investec plc ordinary shares held by subsidiaries	19 722 086	18 293 688
Reconciliation of treasury shares	**Number**	**Number**
At the beginning of the year	18 293 688	16 141 177
Purchase of own shares by subsidiary companies	13 183 896	11 242 889
Shares disposed of by subsidiaries	(11 755 498)	(9 090 378)
At the end of the year	**19 722 086**	**18 293 688**
Market value of treasury shares	**£'000**	**£'000**
Investec plc	108 393	99 518
	108 393	**99 518**

At 31 March £'000	2018	2017
45. Other Additional Tier 1 securities in issue		
Fixed Rate Reset Perpetual Additional Tier 1 Write Down Capital Securities	**250 000**	**–**

On 5 October 2017, the Investec plc issued £250 million Fixed Rate Reset Perpetual Additional Tier 1 Write Down Capital Securities ('AT1 securities') at par. 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 day, the company 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 the investors will lose their entire investment in the securities should the Common Equity Tier 1 capital ratio of the Investec plc group, as defined in the PRA's rules, fall below 7%. The AT1 Securities are redeemable at the option of the company 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
46. Non-controlling interests		
Non-controlling interests in partially held subsidiaries	15 750	15 000
	15 750	**15 000**

	Investec Asset Management	
At 31 March £'000	2018	2017
The following table summarises the information relating to the group's subsidiary that has material non-controlling interests.		
Non-controlling interests (NCI) (%)	17.0	16.0
Summarised financial information	**£'000**	**£'000**
Total assets	430 272	409 429
Total liabilities	317 660	301 526
Revenue	352 367	316 729
Profit	86 516	76 041
Carrying amount of NCI	19 919	17 000
Profit allocated to NCI	14 763	11 807

During the year the group sold an additional 1% of its Asset Management business to the senior management of the business, on the exercise of the option granted in July 2013 as part of the sale of the original 15% stake, and additional 1% in the year ended 31 March 2017.

	2018		2017	
At 31 March £'000	Total future minimum payments	Present value	Total future minimum payments	Present value
47. Finance lease disclosures				
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 Investec 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	2017
48. Notes to cash flow statement		
Profit before taxation adjusted for non-cash items is derived as follows:		
Profit before taxation	184 400	207 194
Adjustment for non-cash items included in net income before taxation:		
Impairment of goodwill	–	3 134
Amortisation of intangible assets	13 273	14 386
Net loss on disposal of subsidiaries	–	–
Depreciation of operating lease assets	2 350	2 141
Depreciation and impairment of property, equipment and intangibles	13 226	11 700
Impairment of loans and advances	106 085	74 956
Share of post taxation profit of associates	(1 436)	(2 349)
Dividends received from associates	197	2 325
Share-based payment charges	31 232	25 987
Profit before taxation adjusted for non-cash items	**349 327**	**339 474**
(Increase)/decrease in operating assets		
Loans and advances to banks	99 498	23 259
Reverse repurchase agreements and cash collateral on securities borrowed	(214 255)	20 852
Sovereign debt securities	(202 570)	300 089
Bank debt securities	76 688	3 771
Other debt securities	119 804	(4 626)
Derivative financial instruments	6 911	233 383
Securities arising from trading activities	(178 969)	1 585
Investment portfolio	(14 470)	(6 743)
Loans and advances to customers	(1 172 573)	(892 136)
Other loans and advances	52 503	3 814
Securitised assets	6 456	11 937
Other assets	109 646	305 491
Investment properties	–	79 051
	(1 311 331)	**79 727**
Increase/(decrease) in operating liabilities		
Deposits by banks	617 453	146 539
Derivative financial instruments	(49 280)	(381 763)
Other trading liabilities	(32 545)	(90 557)
Repurchase agreements and cash collateral on securities lent	(55 358)	(57 262)
Customer accounts (deposits)	615 916	212 601
Debt securities in issue	307 721	126 628
Securitised liabilities	(985)	8 221
Other liabilities	8 666	(44 377)
	1 411 588	**(79 970)**

At 31 March £'000	2018	2017
49. Commitments		
Undrawn facilities	1 092 204	1 264 485
Other commitments	60 320	111 662
	1 152 524	**1 376 147**
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	28 913	32 798
One to five years	94 694	102 566
Later than five years	113 992	98 023
	237 599	**233 387**
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.

	Carrying amount of pledged assets		Related liability	
At 31 March £'000	**2018**	**2017**	**2018**	**2017**
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**

The assets pledged by the group 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	2018	2017
50. Contingent liabilities		
Guarantees and assets pledged as collateral security:		
– Guarantees and irrevocable letters of credit	146 271	289 491
	146 271	**289 491**

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 plc and its subsidiaries 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 to 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 amount or timing of amount 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 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.

At 31 March £'000	2018	2017

51. 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:

At 31 March £'000	2018	2017
Directors, key management and connected persons and companies controlled by them		
Loans		
At the beginning of the year	26 715	34 062
Increase in loans	15 311	6 352
Repayment of loans	(4 831)	(10 232)
Exchange adjustments	132	(3 467)
At the end of the year	**37 327**	**26 715**
Guarantees		
At the beginning of the year	6 092	11 330
Additional guarantees granted	309	80
Guarantees cancelled	(6 010)	(5 884)
Exchange adjustments	11	566
At the end of the year	**402**	**6 092**
Deposits		
At the beginning of the year	(36 238)	(25 711)
Increase in deposits	(12 223)	(21 130)
Decrease in deposits	19 610	12 023
Exchange adjustments	247	(1 420)
At the end of the year	**(28 604)**	**(36 238)**

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 have been impaired.

	Investec Limited and subsidiaries	
For the year to 31 March £'000	**2018**	**2017**
Transactions with other related parties		
Assets		
Loans and advances to banks	18 727	28 645
Bank debt securities	–	8 067
Derivative financial instruments	2 974	5 216
Other assets	7 948	17 816
Liabilities		
Deposits by banks	49 130	67 605
Derivative financial instruments	21 036	35 278
Customer accounts	13 340	8 772
Debt securities in issue	38 107	94 106
Repurchase agreements and cash collateral on securities lent	17 883	–
Other liabilities	26 256	10 479

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. Interest of £512 000 (2017: £1.3 million) was received from Investec Limited group.

In the normal course of business, services are rendered between Investec plc and Investec Limited entities. In the year to 31 March 2018, this resulted in a net payment to Investec Limited Group of £28.7 million (2017: £22.3 million).

During the year to 31 March 2018, Investec Wealth and Investment Limited was charged £27 000 (2017: £75 000) for research service provided by Grovepoint (UK) Limited. Bradley Fried is a former non-executive director of Investec Wealth and Investment Limited, is a former director of Investec Bank plc and Investec plc, and is a director of Grovepoint (UK) Limited.

51. Related party transactions *(continued)*

During the year to 31 March 2018 Investec Bank (Channel Islands) issued guarantees of £2.2 million (2017: £2.3 million) to Investec Bank Limited.

The group has an investment in a private equity vehicle in which a previous Investec director has significant influence. The group has made an investment of £70.6 million (2017: £36.3 million) and has committed further of £32.6 million to the vehicle. The terms and conditions of the transaction were no more favourable than those available, or which might be expected to be available, on similar transactions to non-related entities on an arm's length basis.

	2018	2017
Amounts due from associates	–	4 634
Interest income from loans to associates	516	632
Fees and commission income from associates	–	–

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.

52. 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, Central 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
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)**

Hedges of net investments in foreign operations

Investec Bank plc has entered into foreign exchange contracts to hedge its balance sheet exposure to its net investment, in Australian Dollars, in the Australian operations of the group.

At 31 March £'000	2018	2017
Hedging instrument positive fair value	**628**	**–**
Hedging instrument negative fair value	**–**	**36**

There was no ineffective portion recognised in the income statement for the current or prior year.

53. 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
2018								
Liabilities								
Deposits by banks	118 277	42 289	4 288	5 418	56 356	1 131 139	7 680	1 365 447
Derivative financial instruments	110 622	19 157	54 522	29 138	42 107	272 405	61 418	589 369
Derivative financial instruments – held for trading	54 355	–	–	–	–	–	–	54 355
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)	3 501 748	1 258 541	2 093 445	1 152 437	1 301 838	2 310 510	76 052	11 694 571
Debt securities in issue	–	23 570	75 656	98 017	203 077	1 770 033	448 317	2 618 670
Liabilities arising on securitisation of other assets	–	–	3 641	3 494	6 776	52 190	78 834	144 935
Other liabilities	109 025	783 252	241 858	34 540	15 310	104 505	8 652	1 297 142
Subordinated liabilities	–	–	–	–	55 344	740 175	–	795 519
Total on balance sheet liabilities	**4 093 925**	**2 126 809**	**2 491 293**	**1 323 044**	**1 680 808**	**6 380 957**	**680 953**	**18 777 789**
Contingent liabilities	7 743	2 525	6 214	23 085	6 536	96 685	3 872	146 660
Commitments	183 275	55 455	19 418	20 836	103 126	679 395	92 040	1 153 545
Total liabilities	**4 284 943**	**2 184 789**	**2 516 925**	**1 366 965**	**1 790 470**	**7 157 037**	**776 865**	**20 077 994**

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 89 and 90.

53. 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
2017								
Liabilities								
Deposits by banks	199 481	720	3 908	531	1 069	408 974	87 784	702 467
Derivative financial instruments	76 356	21 294	51 392	21 077	35 991	243 033	146 639	595 782
Derivative financial instruments – held for trading	65 883	–	–	–	–	–	–	65 883
Derivative financial instruments – held for hedging risk	10 473	21 294	51 392	21 077	35 991	243 033	146 639	529 899
Other trading liabilities	136 041	–	–	–	–	–	–	136 041
Repurchase agreements and cash collateral on securities lent	223 998	–	–	–	–	–	–	223 998
Customer accounts (deposits)	3 230 769	1 526 270	2 262 232	827 704	694 734	2 489 498	111 570	11 142 777
Debt securities in issue	–	39 085	108 642	142 309	228 040	1 000 811	721 809	2 240 696
Liabilities arising on securitisation of other assets	–	–	7 644	3 521	5 851	66 081	86 891	169 988
Other liabilities	114 977	740 202	235 180	25 220	16 969	123 547	12 744	1 268 839
Subordinated liabilities	–	–	–	–	55 344	796 375	–	851 719
Total on balance sheet liabilities	**3 981 622**	**2 327 571**	**2 668 998**	**1 020 362**	**1 037 998**	**5 128 319**	**1 167 437**	**17 332 307**
Contingent liabilities	5 701	2 272	11 513	148 633	36 496	68 461	16 415	289 491
Commitments	194 170	106 193	19 393	52 214	116 924	645 395	241 858	1 376 147
Total liabilities	**4 181 493**	**2 436 036**	**2 699 904**	**1 221 209**	**1 191 418**	**5 842 175**	**1 425 710**	**18 997 945**

54. Principal subsidiaries and associated companies – Investec plc

At 31 March	Principal activity	Country of incorporation	Interest % 2018	Interest % 2017
Direct subsidiaries of Investec plc				
Investec 1 Limited	Investment holding	England and Wales	100%	100%
Investec Holding Company Limited	Investment holding	England and Wales	100%	100%
Indirect subsidiaries of Investec plc				
Investec Asset Finance plc	Leasing company	England and Wales	100%	100%
Investec Asset Management Limited	Asset management	England and Wales	83%	84%
Investec Bank plc	Banking institution	England and Wales	100%	100%
Investec Bank (Channel Islands) Limited	Banking institution	Guernsey	100%	100%
Investec Bank (Switzerland) AG	Banking institution	Switzerland	100%	100%
Investec Capital Asia Limited	Investment banking	Hong Kong	100%	100%
Investec Capital & Investments (Ireland) Limited	Financial services	Ireland	100%	100%
Investec Finance Limited	Debt issuer	England and Wales	100%	100%
Investec Group (UK) Limited	Holding company	England and Wales	100%	100%
Investec Group Investments (UK) Limited	Investment holding	England and Wales	100%	100%
Investec Holdings (Australia) Limited	Holding company	Australia	100%	100%
Investec Investments (UK) Limited	Investment holding	England and Wales	100%	100%
Investec Ireland Limited	Financial services	Ireland	100%	100%
Investec Securities (US) LLC	Financial services	USA	100%	100%
Investec Trust Holdings AG	Investment holding	Switzerland	100%	100%
Investec Wealth & Investment Limited	Investment management services	England and Wales	100%	100%
Reichmans Geneva SA	Trading company	Switzerland	100%	100%
Rensburg Sheppards plc	Holding company	England and Wales	100%	100%
Williams de Broë Limited	Stockbroking and portfolio management	England and Wales	100%	100%

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 i to the Investec plc company accounts on page 260.

54. Principal subsidiaries and associated companies – Investec plc *(continued)*

At 31 March	Principal activity	Country of incorporation	Interest % 2018	Interest % 2017
Principal associated companies				
Hargreave Hale Limited	Stockbroking and portfolio management	England and Wales	–	35.0%

For more details on associated companies refer to note 28.

Consolidated structured entities

Investec 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.

For details of the risks to which the group is exposed through all of its securitisations are included in the risk management report on page 81.

54. Principal subsidiaries and associated companies – Investec 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 portfolios 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 plc, 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 page 99.

54. Principal subsidiaries and associated companies – Investec plc *(continued)*

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 19 and 57.

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

55. Unconsolidated structured entities

The table below describes the types of structured entities that the group does not consolidate but in which it holds an interest and originally 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 180 to 188.

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 through providing exposure to residential mortgage risk	Investments in notes
	These vehicles are financed through the issue of notes to investors	

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)
	Sovereign debt securities	2 145	Limited to the carrying value	2 145	Investment loss	(2)
Residential mortgage securitisations	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	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	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	214 081	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.

55. Unconsolidated structured entities *(continued)*

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 entities with no interest held

	2018	2017
	Structured CDO and CLO securitisations	**Structured CDO and CLO securitisations**
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 returns do 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 returns do 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.*

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, e.g. 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 81.

56. 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		
2018						
Assets						
Cash and balances at central banks	3 487 769	–	3 487 769	–	–	3 487 769
Loans and advances to banks	1 003 796	–	1 003 796	–	(156 445)	847 351
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	278 474	–	278 474	–	–	278 474
Derivative financial instruments	597 264	–	597 264	(204 142)	(112 767)	280 355
Securities arising from trading activities	701 728	–	701 728	(522 357)	–	179 371
Investment portfolio	477 919	–	477 919	–	–	477 919
Loans and advances to customers	9 687 224	–	9 687 224	–	–	9 687 224
Other loans and advances	360 931	–	360 931	–	–	360 931
Other securitised assets	132 172	–	132 172	–	–	132 172
Other assets	1 188 844	(19 265)	1 169 579	–	–	1 169 579
	19 929 959	**(19 265)**	**19 910 694**	**(924 898)**	**(269 212)**	**18 716 584**
Liabilities						
Deposits by banks	1 308 202	–	1 308 202	–	(141 152)	1 167 050
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)	11 637 497	–	11 637 497	–	(8 390)	11 629 107
Debt securities in issue	2 341 134	–	2 341 134	(460 564)	(10 175)	1 870 395
Liabilities arising on securitisation of other assets	127 853	–	127 853	–	–	127 853
Other liabilities	1 296 990	–	1 296 990	–	–	1 296 990
Subordinated liabilities	579 673	–	579 673	–	–	579 673
	18 116 069	**(19 265)**	**18 096 804**	**(924 898)**	**(241 725)**	**16 930 181**

56. 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		
2017						
Assets						
Cash and balances at central banks	2 853 571	–	2 853 571	–	–	2 853 571
Loans and advances to banks	1 130 998	–	1 130 998	–	(195 242)	935 756
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	398 278	–	398 278	–	–	398 278
Derivative financial instruments	604 175	–	604 175	(167 564)	(188 518)	248 093
Securities arising from trading activities	522 760	–	522 760	(367 890)	–	154 870
Investment portfolio	459 745	–	459 745	–	–	459 745
Loans and advances to customers	8 620 742	–	8 620 742	–	–	8 620 742
Other loans and advances	413 430	–	413 430	–	–	413 430
Other securitised assets	138 628	–	138 628	–	–	138 628
Other assets	1 276 899	(767)	1 276 132	–	–	1 276 132
	18 092 927	**(767)**	**18 092 160**	**(710 035)**	**(383 760)**	**16 998 365**
Liabilities						
Deposits by banks	690 749	–	690 749	–	(211 802)	478 947
Derivative financial instruments	582 600	–	582 600	(167 564)	(66 240)	348 796
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)	11 021 581	–	11 021 581	–	(21 145)	11 000 436
Debt securities in issue	1 955 447	–	1 955 447	(263 236)	(40 264)	1 651 947
Liabilities arising on securitisation of other assets	128 838	–	128 838	–	–	128 838
Other liabilities	1 268 925	(257)	1 268 668	–	–	1 268 668
Subordinated liabilities	579 356	–	579 356	–	–	579 356
	16 588 044	**(767)**	**16 587 277**	**(710 035)**	**(360 855)**	**15 516 387**

57. Derecognition

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	
At 31 March £'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**
No derecognition achieved				
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.

Balance sheet

At 31 March £'000	Notes	2018	2017
Assets			
Fixed assets			
Investments in subsidiary undertakings	b	1 772 805	1 817 840
Securities issued by subsidiary undertaking	c	200 000	–
		1 972 805	1 817 840
Current assets			
Amounts owed by group undertakings		495 325	488 592
Taxation		10 719	12 867
Prepayments and accrued income		475	22
Cash at bank and in hand			
– with subsidiary undertakings		281 832	104 978
– balances with other banks		613	605
		788 964	**607 064**
Current liabilities			
Creditors: amounts falling due within one year			
Derivatives financial instruments		–	6
Amounts owed to group undertakings		267 275	477 161
Other liabilities		1 475	1 130
Accruals and deferred income		3 286	8 297
Net current assets		**516 928**	**120 470**
Creditors: amounts falling due after one year			
Debt securities in issue	d	407 740	324 089
Net assets		**2 081 993**	**1 614 221**
Capital and reserves			
Called up share capital	g	195	191
Perpetual preference shares	g	29	29
Share premium account	g	1 317 115	1 246 282
Capital reserve	g	180 606	180 606
Other Additional Tier 1 securities	g	250 000	–
Retained earnings	g	334 048	187 113
Total capital and reserves		**2 081 933**	**1 614 221**

The notes on pages 258 and 264 form an integral part of the financial statements.

The company's profit for the year, determined in accordance with the Companies Act 2006, was £259 317 000 (2017: £93 027 000).

Approved and authorised for issue by the board of directors on 12 June 2018 and signed on its behalf by:

Stephen Koseff
Chief executive officer

12 June 2018

Statement of changes in shareholders' equity

£'000	Share capital	Perpetual preference shares	Share premium	Capital reserve	Profit and loss account	Total shareholders' equity excluding non-controlling interests	Other Additional Tier 1 securities in issue	Total equity
Balance at 31 March 2016	182	151	1 194 257	180 483	160 459	1 535 532	–	1 535 532
Issue of ordinary shares	9	–	174 073	–	–	174 082	–	174 082
Redemption of preference shares	–	(122)	(122 048)	123	40 427	(81 620)	–	(81 620)
Total comprehensive income	–	–	–	–	93 816	93 816	–	93 816
Dividends paid to preference shareholders	–	–	–	–	(1 862)	(1 862)	–	(1 862)
Dividends paid to ordinary shareholders	–	–	–	–	(105 727)	(105 727)	–	(105 727)
At 31 March 2017	**191**	**29**	**1 246 282**	**180 606**	**187 113**	**1 614 221**	**–**	**1 614 221**
Issue of ordinary shares	4	–	70 833	–	–	70 837	–	70 837
Issue of Other Additional Tier 1 securities	–	–	–	–	–	–	250 000	250 000
Total comprehensive income	–	–	–	–	259 318	259 318	–	259 318
Dividends paid to preference shareholders	–	–	–	–	(421)	(421)	–	(421)
Dividends paid to ordinary shareholders	–	–	–	–	(106 253)	(106 253)	–	(106 253)
Dividends declared to Other Additional Tier 1 security holders	–	–	–	–	(5 709)	(5 709)	5 709	–
Dividends paid to Other Additional Tier 1 security holders	–	–	–	–	–	–	(5 709)	(5 709)
At 31 March 2018	**195**	**29**	**1 317 115**	**180 606**	**334 048**	**1 831 993**	**250 000**	**2 081 993**

a Basis of preparation

The parent accounts of Investec plc are prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards. The company is incorporated and domiciled in England and Wales and the company's accounts are presented in Pounds Sterling and all values are rounded to the nearest thousand (£'000) except where otherwise indicated.

The accounts have been prepared on the historical cost basis. The principal accounting policies adopted are set out below.

The company has taken advantage of the following disclosure exemptions under FRS 101 where applicable to the company:

- The requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share-based Payment
- The requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations. Equivalent disclosures are included in the consolidated financial statements of Investec plc in which the entity is consolidated
- The requirements of paragraph 33(c) of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- The requirements of IFRS 7 Financial Instruments: Disclosures
- The requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- The requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of: (i) paragraph 79(a)(iv) of IAS 1, (ii) paragraph 73(e) of IAS 16 Property Plant and Equipment (iii) paragraph 118(e) of IAS 38 Intangibles Assets, (iv) paragraphs 76 and 79(d) of IAS 40 Investment Property and (v) paragraph 50 of IAS 41 Agriculture
- The requirements of paragraphs 10(d), 10(f), 16, 38A to 38D, 40A to 40D,111 and 134-136 of IAS 1 Presentation of Financial Statements
- The requirements of IAS 7 Statement of Cash Flows
- The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- The requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of a cash flow statement, presentation of comparative information in respect of certain assets, standards not yet effective, impairment of assets, business combinations, discontinued operations and related party transactions.

Where required, equivalent disclosures are given in consolidated financial statements of the group.

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into Pounds Sterling at exchange rates ruling at the balance sheet date. All foreign currency transactions are translated into Pounds Sterling at the exchange rate ruling at the time of the transaction. Forward foreign exchange contracts are revalued at the market rates ruling at the date applicable to their respective maturities. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the income statement.

Investments

Investments in subsidiaries and interests in associated undertakings are stated at cost less any accumulated impairment in value.

Income

Dividends from subsidiaries are recognised when received. Interest is recognised on an accrual basis.

Taxation

Current tax payable is provided 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 using the balance sheet method 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 tax assets or liabilities are measured using the tax rates that have been enacted or substantively enacted at the balance sheet date
- Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised
- Items recognised directly in other comprehensive income are net of related current and deferred taxation.

Company's own profit and loss account

The company has taken advantage of the exemption in section 408 of the Companies Act 2006 to not present its own profit and loss account.

Financial assets

Financial assets are recorded at amortised cost applying the effective interest rate method where they are classified as loans and receivables or fair value through profit and loss.

Financial liabilities

Financial liabilities are recorded at amortised cost applying the effective interest rate method.

b Investments in subsidiary undertakings

31 March £000	2018	2017
At the beginning of the year	1 817 840	1 817 840
Additions	165 000	–
Disposals	(210 035)	–
At the end of the year	**1 772 805**	**1 817 840**

On 29 March 2018, Investec 1 Limited issued 16 500 000 ordinary shares of £0.001 pence for a cash consideration of £10.00 per share.

Also, Investec Holdings Company Limited reduced their capital by reducing the number of shares held from 5 846 to 3 000,20p ordinary shares and settled by intercompany.

c Securities issued by subsidiary undertaking

On 16 October 2017, the company acquired £200 million Fixed Rate Reset Perpetual Additional Tier 1 Write Down Capital Securities ('AT1 securities') issued by Investec Bank 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 the company 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.

d Debt securities in issue

On 5 May 2015, the company issued £300 million 4.50% Senior Unsecured Notes from its European Medium Term Note programme ('EMTN'). The notes mature on 5 May 2022 and pay interest at a fixed rate annually in arrears. On 7 August 2017 the company issued a further £100 million of the 4.5% Senior Unsecured Notes due 2022, at a premium of 108.479%, which has been consolidated with and form a single series with the existing Notes.

The company has redeemed a Euro denominated note of €25 million issued on 14 February 2014, which paid interest at a fixed rate of 3.48% semi-annually in arrears. The Notes matured on 29 September 2017.

e Audit fees

Details of the company's audit fees are set out in note 6 of the group financial statements.

f Dividends

Details of the company's dividends are set out in note 9 of the group financial statements.

g Share capital

Details of the company's ordinary share capital are set out in note 41 of the group financial statements. Details of the perpetual preference shares are set out in note 42 of the group financial statements. Details of the Additional Tier 1 securities are set out in note 45 of the group financial statements.

h Audit opinion

The audit opinion on the financial statements of the Investec plc parent company is included within the independent auditor's report to the members of Investec plc within the combined consolidated Investec annual financial statements of Investec plc and Investec Limited for the year ended 31 March 2018.

i Subsidiaries

At 31 March 2018	Principal activity	Interest held
** Directly owned by Investec plc*		
United Kingdom		
Registered office: 30 Gresham Street, London, EC2V 7QP, UK		
Investec 1 Ltd *	Investment holding	100%
Investec Holding Company Limited *	Investment holding	100%
Investec (UK) Limited	Holding company	100%
Investec Group (UK) Ltd	Holding company	100%
Guinness Mahon Group Ltd	Holding company	100%
Guinness Mahon Pension Fund Trustees Ltd	Pension fund trustee	100%
Guinness Mahon Holdings Ltd	Holding company	100%
Investec Bank plc	Banking institution	100%
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 (previously 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%
Investec Capital Solutions No 1 Limited	Lending company	100%
Investec Capital Solutions Limited	Lending company	100%

i Subsidiaries *(continued)*

At 31 March 2018	Principal activity	Interest held
Registered office: 30 Gresham Street, London, EC2V 7QN, UK *(continued)*		
Diagonal Nominees Limited	Nominee company	100%
F&K SPF Limited	Property company	100%
Via Novus Limited	Investment holding company	49.93%
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) Ltd)	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 Investments Limited	Investment holding	100%
Registered office: 30 Gresham Street, London, EC2V 7QN, UK		
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%
Registered office: Woolgate Exchange, 25 Basinghall Street, London, EC2V 5HA, UK		
Investec Asset Management Limited	Investment management services	83%
Investec Fund Managers Limited**	Management company	100%
Australia		
Registered office: Level 23, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000, Australia		
Investec Asset Management Australia Pty Limited **	Sales and distribution	100%
IEC Funds Management Pty Ltd	Fund manager	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%
Investec Australia Financial Markets Pty Limited	Dormant	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%

i Subsidiaries *(continued)*

At 31 March 2018	Principal activity	Interest held
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 Asset Management Guernsey Limited**	Management company and global distributor	100%
Investec Africa Frontier Private Equity Fund GP Limited**	General partner to funds	100%
Investec Africa Private Equity Fund 2 GP Limited**	General partner to funds	100%
Investec Wealth & Investment (Channel Islands) 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 and company administration	100%
Investec Bank (Channel Islands) Nominees Limited	Nominee company	100%
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: Heritage Hall, Le Marchant Street, St Peter Port, Guernsey, GY1 4JH, Channel Islands		
Investec Captive Insurance Limited	Captive insurance company	100%

i Subsidiaries *(continued)*

At 31 March 2018	Principal activity	Interest held
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: Suites 3609 – 3614, 36/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong		
Investec Asset Management Hong Kong Limited **	Sales and distribution	100%
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 and 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: One The Esplanade, St Helier, Jersey, JE2 3QA, Channel Islands		
Investec Finance (Jersey) Ltd *	Share trust	100%
Registered office: PO Box 344 One The Esplanade St Helier Jersey JE4 8UW, Channel Islands		
Investec GP (Jersey) Limited	Investment holding company	100%
Luxembourg		
Registered office: 560, rue de Neudorf, L-2220 Luxembourg		
Investec Finance SARL	Dormant	100%
Investec Asset Management Luxembourg S.A.**	Management company	100%
Singapore		
Registered office: 8 Wilkie Road, #03-01 Wilkie Edge, Singapore 228095		
Investec Asset Management Singapore Pte. Limited**	Sales and distribution	100%
Investec Singapore Pte Ltd	Securities services	100%
Registered office: 80 Robinson Road, #02-00, Singapore, 068898		
Sunco Holdings Pte Limited	Holding company	100%
Sunhold Pte Limited	Holding company	100%

i Subsidiaries *(continued)*

At 31 March 2018	Principal activity	Interest held
Switzerland		
Registered office: Seefeldstrasse 69, 8008 Zurich, Switzerland		
Investec Asset Management Switzerland GmbH **	Sales and distribution	100%
Registered office: 23 Avenue de France, CH – 1202, Geneva, Switzerland		
Reichmans Geneva SA	Trading company	100%
Registered offices: Löwenstrasse 29, CH-8001 Zurich, Switzerland		
Investec Bank (Switzerland) AG	Banking institution	100%
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: 2711 Centerville Road, Suite 400, Wilmington, New Castle, DE 19808, USA		
Investec Asset Management North America, Inc. **	Sales and distribution	100%
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 company	100%
Fuel Cell IP 1 LLC	Investment holding company	100%
Fuel Cell IP 2 LLC	Investment holding company	100%
Investec Securities (US) LLC	Financial services	100%

** *100% owned by Investec Asset Management Limited which is itself 83% owned*

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%
Guernsey		
Registered office: Glategny Court, Glategny Esplanade, St. Peter Port, GY1 1WR, Guernsey, Channel Islands		
Growthpoint Investec African Property Management Limited**	Management company	50%
Luxembourg		
Registered office: 15, Rue Bender, L-1229 Luxembourg		
Investec GLL Global Special Opportunities Real Estate Fund	Property development	5%
Registered office: 19, Rue Eugene Ruppert, L-2453 Luxembourg		
Grovepoint S.a.r.l.	Investment and advisory	42%

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