ANNUAL REPORT | 2019

Investec plc silo (excluding Investec Limited) annual financial statements

Investec

Cross reference tools

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

PAGE REFERENCES
Refers readers to information elsewhere in this report

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

CORPORATE SUSTAINABILITY
Refers readers to further information in our 2019 corporate sustainability and ESG supplementary report available on our website: www.investec.com

REPORTING STANDARD
Denotes our consideration of a reporting standard

CONTENTS

1

OPERATIONAL AND STRATEGIC OVERVIEW

Operating structure

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

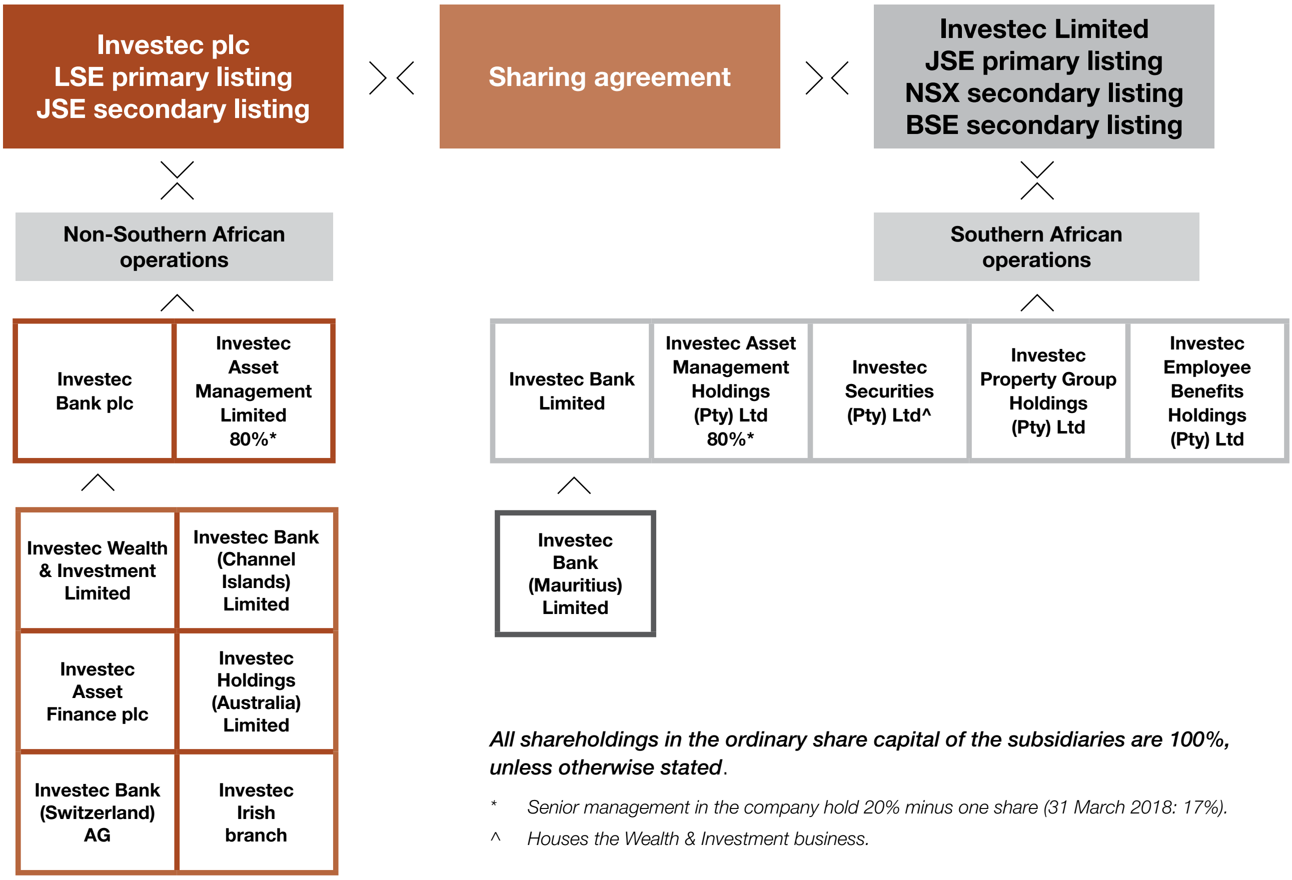
During July 2002 Investec Group Limited (since renamed Investec Limited) implemented a dual listed companies (DLC) structure and listed its offshore business on the London Stock Exchange (LSE).

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 Johannesburg Stock Exchange Limited (JSE) South Africa (since 1986) and Investec plc is listed on the LSE (since 2002).

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

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

Our DLC structure and main operating subsidiaries at 31 March 2019



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

* *Senior management in the company hold 20% minus one share (31 March 2018: 17%).*

^ *Houses the Wealth & Investment business.*

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.

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 management. We take a patient, long-term approach to organically develop our capabilities. We offer a combination of outcomes-based and alpha-seeking investment strategies. 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.

Founded in 1991 with roots in emerging markets, we have grown to be a well established and trusted global investment manager. Driven by our founder culture, we are building an enduring inter-generational business, which offers stability and a long-term investment outlook for our clients. To achieve this, we believe diversity of thought, perspective, background and life experience is essential.

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 £111.4 billion assets globally.

Wealth & Investment

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

Investec Wealth & Investment is one of the UK's leading private client investment managers.

Providing wealth management and discretionary investment management services to private clients, trusts and charities.

Over 1 400 staff operate across the UK and Europe, with combined funds under management of £39.1 billion.

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

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

Specialist Banking

Our specialist teams are well positioned to provide solutions to meet private, business, corporate and institutional clients' needs.

Each business provides specialised products and services to defined target market clients

Focus on helping our clients create and preserve wealth	A highly valued partner and adviser to our clients	
High net worth and high income private clients	**Corporate, private equity, government and institutional clients**	
Private Banking	*Corporate and Investment Banking*	*Investment activities*
– Lending – Transactional banking – Savings – Foreign exchange	– Lending – Treasury and trading solutions – Advisory – Institutional research, sales and trading	– Principal investments – Property investment and fund management
UK and Europe	**UK and Europe** **Australia** **Hong Kong** **India** **USA**	**UK and Europe** **Australia** **Hong Kong**
High-tech and high-touch private client offering providing transactional banking, lending, savings and foreign exchange tailored to suit our clients' needs. Our target market includes high-net worth and high-income active wealth creators (with > £300k annual income and £3 million NAV). Our savings offering targets primarily UK retail savers.	Our Corporate and Investment Banking division is a client-centric solution-driven offering providing Corporate Banking and Investment Banking services to small to medium enterprises (SMEs), medium to large corporates, institutions and private equity sponsors. In addition we provide niche, specialist solutions in aviation, fund finance, power and infrastructure finance and resource finance.	Our Investment activities are focused on providing capital to entrepreneurs and management teams to further their growth ambitions as well as leveraging third party capital into funds that are relevant to our client base.

Natural linkages between the private client and corporate business

Asset Management

Value proposition

- An organically built global investment manager with emerging market origins
- Competitive investment performance in chosen specialities
- Institutional and advisor focus
- Unique and clearly understood culture
- Stable and experienced leadership
- A commitment to investing for a sustainable future
- Independently managed entity within the Investec group.

Wealth & Investment

Value proposition

- Built via the acquisition and integration of businesses and organic growth over a long period of time
- Established platforms in the UK, Switzerland, Republic of Ireland# and Guernsey
- Distinct distribution 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
- High-touch personalised service – 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 co-chief executive officers*
John Green
Domenico (Mimi) Ferrini

Wealth & Investment global head^
Steve Elliott

Wealth & Investment UK head^
Jonathan Wragg

Specialist Banking UK head**
David van der Walt

* *Hendrik du Toit became Joint CEO of Investec group on 1 October 2018, following which John Green and Domenico (Mimi) Ferrini assumed their roles as co-chief executive officers.*

Post 31 March 2019 a number of management changes have been announced. These are either effective or will become effective in stages over the coming months, subject to regulatory approval where relevant.

^ *Steve Elliott will be retiring; as of 1 October 2019, Henry Blumenthal and Jonathan Wragg will assume the role of joint global heads of Wealth & Investment.*

** *David van der Walt will replace Ciaran Whelan as Investec group chief risk officer. Ruth Leas will replace David van der Walt as chief executive officer of Investec Bank plc and head of the UK Specialist Bank.*

Post year end we announced the sale of the Irish business. Refer to page 15 for further information.

OUR OPERATIONAL FOOTPRINT

1

Where we operate

USA	UK and Europe	India	Hong Kong	Australia
Experienced local teams with industry experience	Brand well established Leading asset manager with market leading products One of the UK's leading private client investment managers Proven ability to attract and recruit investment managers Sustainable specialist banking business on the back of client activity	Facilitates the link between India, UK and South Africa	Investment banking and principal investment activities	Experienced local teams with industry expertise Focus is on entrenching position as a boutique operation

OPERATING ENVIRONMENT INDICATORS

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

	As at 31 March 2019	As at 31 March 2018	% change	Average over the year 1 April 2018 to 31 March 2019
Market indicators				
FTSE All share	3 978	3 894	2.2%	4 003
S&P	2 834	2 641	7.3%	2 740
Nikkei	21 206	21 454	(1.2%)	21 968
Dow Jones	25 929	24 103	7.6%	25 038
Rates				
UK overnight	0.70%	0.44%		0.62%
UK 10 year	0.97%	1.35%		1.37%
UK Clearing Banks Base Rate	0.75%	0.50%		0.67%
LIBOR – three month	0.85%	0.71%		0.80%
US 10 year	2.41%	2.74%		2.89%
Commodities				
Gold	US$1 295/oz	US$1 324/oz	(2.2%)	US$1 263/oz
Brent Crude Oil	US$68/bbl	US$70/bbl	(2.9%)	US$71/bbl
Platinum	US$841/oz	US$936/oz	(10.1%)	US$841/oz
Macro-economic				
UK GDP (% change over the calendar year)	1.4%	1.8%		
UK per capita GDP (calendar year, real value pounds at constant 2016 prices)*	30 594	30 367	0.7%	

Sources: Macrobond.

* *Population used in 2018 per capita GDP reflects estimated population as per Office for National Statistics.*

1

Growth in key earnings drivers

Adjusted operating profit*⊙ increased 36.1%

£271.2 million

(2018: £199.4 million)

Earnings attributable to shareholders increased 39.9%

£189.2 million

(2018: £135.2 million)

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

⊙Alternative performance measures

We supplement our IFRS figures with alternative performance measures used by management internally and which provide valuable, relevant information to readers of the financial statements. These measures are highlighted with the symbol⊙. The definition of alternative performance measures is provided in the definitions section of this report.

- The group has delivered a sound operational performance supported by substantial net inflows from the Asset Management business, a good performance from the core UK Wealth & Investment business and a significantly improved performance from the Specialist Banking business.
- This is against a challenging operating environment with weak economic growth in the UK as well as mixed equity market performance over the year.
- The Asset Management business generated substantial net inflows supporting higher average funds under management and annuity fees.
- The Wealth & Investment business generated positive discretionary net inflows. Year-on-year reported earnings were impacted by a £10.0 million non-recurring investment gain realised in the prior year and the current year write-off of capitalised software in the Click & Invest business of circa £6 million following the decision to discontinue the service.
- In the Specialist Banking business, a strong increase in net interest income was supported by loan book growth of 8.5% driven by corporate client lending and Private Bank mortgage origination. This was partially offset by a decrease in non-interest revenue with a weaker performance from the investment portfolio and subdued levels of client trading.
- Impairments decreased with no repeat of substantial legacy portfolio losses.
- Operating costs increased due to headcount growth to support business activity, regulatory requirements and IT development. With the investment phase in the Private Bank largely complete, management is committed to an increased focus on cost discipline.
- Overall, Investec plc reported an adjusted operating profit*⊙ of £271.2 million for the year ended 31 March 2019 (2018: £199.4 million).

Financial performance

Adjusted operating profit*⊙ increased 36.1%	**2019** **£271.2mn** 2018 £199.4mn
Annuity income⊙ as a % of total operating income	**2019** **74.1%** 2018 72.5%
Cost to income ratio**	**2019** **79.3%** 2018 77.9%
Credit loss ratio⊙	**2019** **0.38%** 2018 1.14%

Trends in the graphs on pages 10 to 12 are impacted by Investec group assets that were sold in the 2015 financial year.

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

** *The Investec group has changed its cost to income ratio definition to exclude operating profits or losses attributable to other non-controlling interests. Refer to definitions page.*

⊙Alternative performance measures

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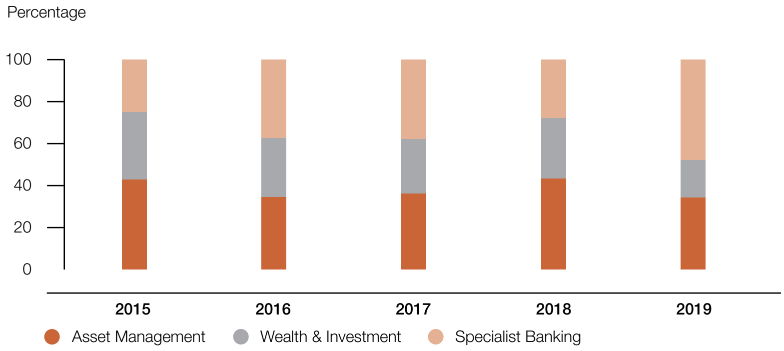
Diversified business model

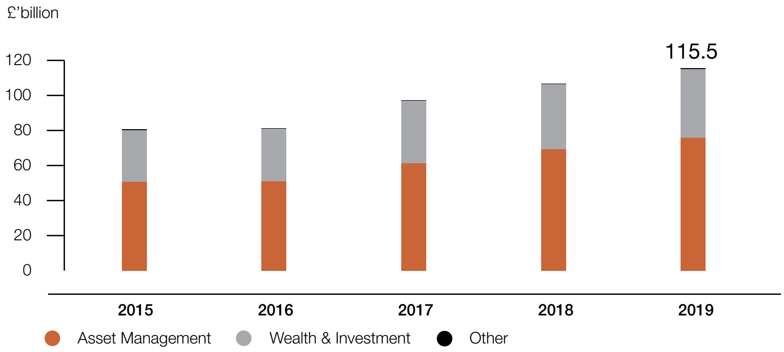
% contribution of adjusted operating profit⊙(excluding group costs)*



Continued to grow our key earnings drivers

Funds under management up 8.3% to £115.5 billion

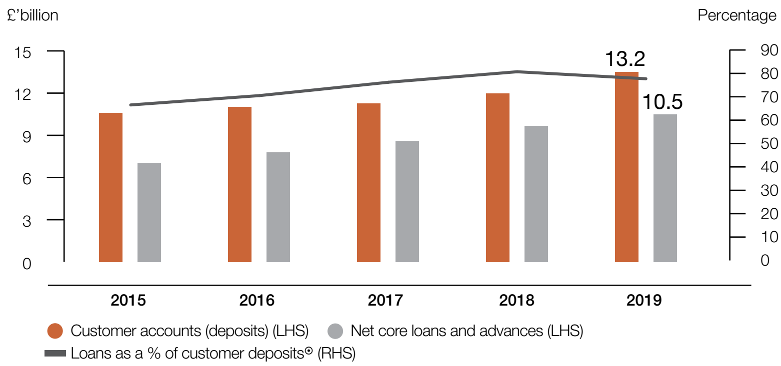
Funds under management



Customer accounts (deposits) increased 13.0% to £13.2 billion

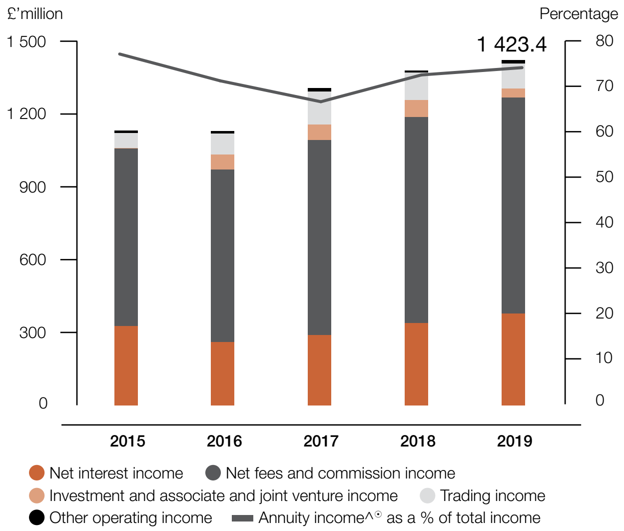
Core loans and advances increased 8.5% to £10.5 billion

Customer accounts (deposits) and loans



Marginal growth in operating income

Total operating income

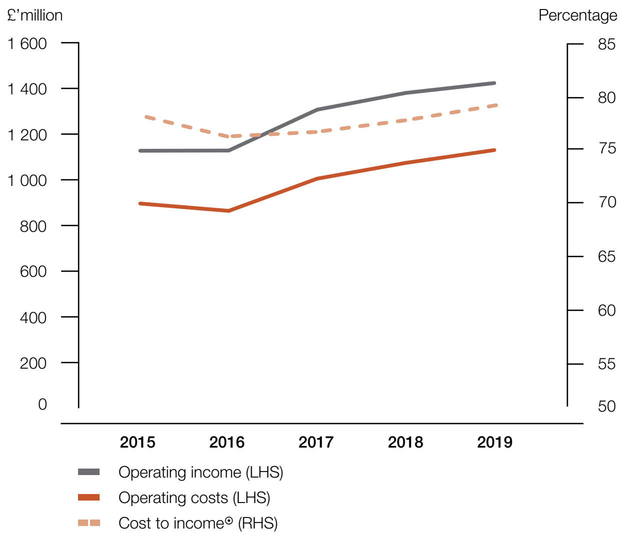


^ *Where annuity income is net interest income and annuity fees.*

Strong growth in net interest income and fee and commission income was partially offset by weaker investment income and subdued levels of client flow trading.

Costs increased ahead of revenue

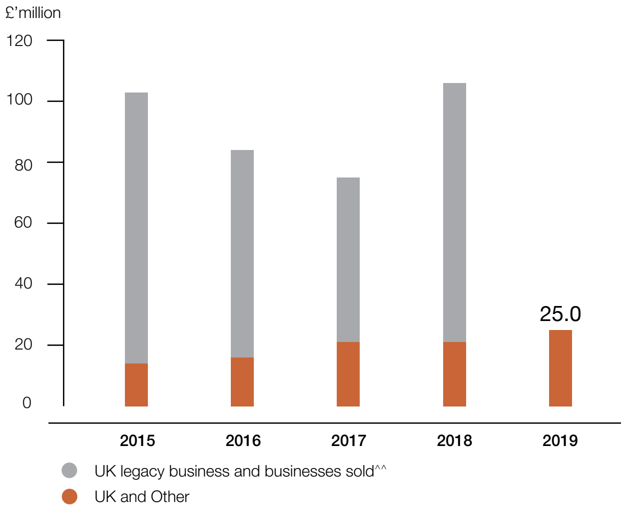
Jaws ratio®



Operating costs increased due to headcount growth to support business activity, regulatory requirements and IT development. With the investment phase in the Private Bank largely complete, management is committed to an increased focus on cost discipline.

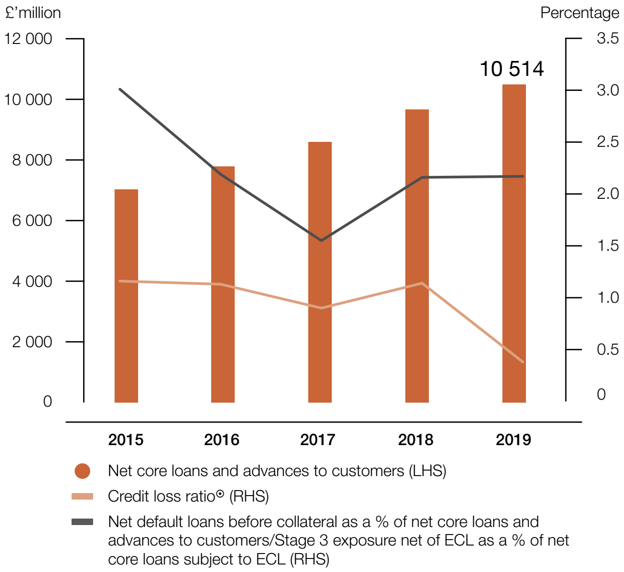
Reduction in expected credit losses/impairments* with no repeat of substantial legacy portfolio losses

Impairments



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

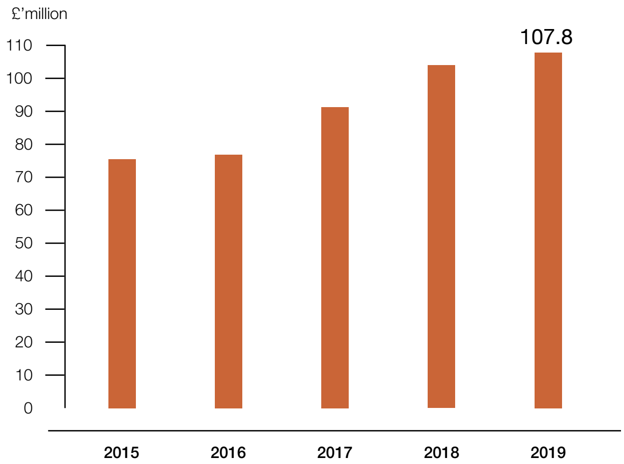
Default and core loans



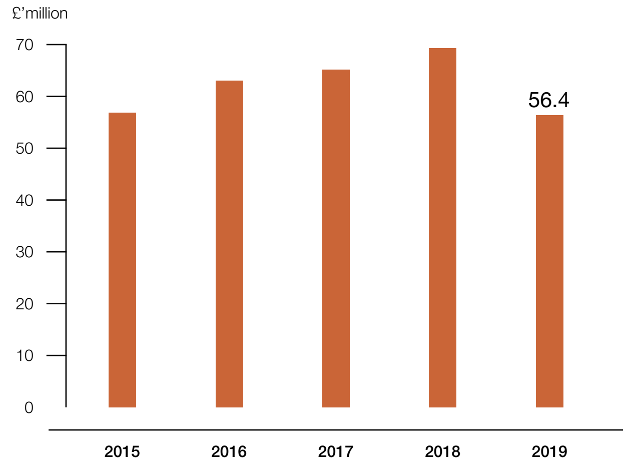
* *On adoption of IFRS 9 there is a move from an incurred loss model to an expected loss methodology. Expected credit loss impairment charges for the year ended 31 March 2019 have been calculated on an IFRS 9 basis, comparative years have been calculated on an IAS 39 basis.*

Adjusted operating profit*⦿from our businesses

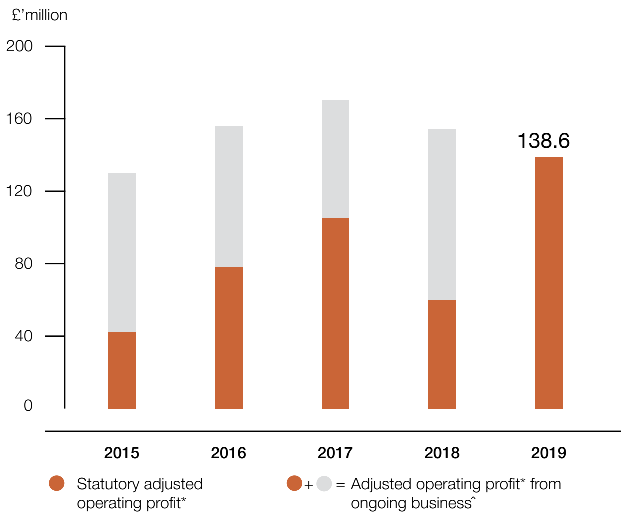
Adjusted operating profit⦿ – Asset Management*



Adjusted operating profit⦿ – Wealth & Investment*



Adjusted operating profit⦿ – Specialist Banking*



^ *Ongoing business excludes Legacy, which comprises of pre-2008 assets held on balance sheet, that had low/negative margins and assets relating to businesses we are no longer undertaking.*

* *Before goodwill, acquired intangibles, non-operating items, taxation and after other non-controlling interests and before group costs of £31.5 million, which are included in the group's adjusted operating profit.*

⦿Alternative performance measures

We supplement our IFRS figures with alternative performance measures used by management internally and which provide valuable, relevant information to readers of the financial statements. These measures are highlighted with the symbol⦿. The definition of alternative performance measures is provided in the definitions section of this report.

Sound capital and liquidity

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

A well-established liquidity management philosophy remains in place.

We 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 53.2%
- Diversifying funding sources
- Maintaining an appropriate mix of term funding
- Limiting concentration risk.

Liquidity remains strong with cash and near cash balances amounting to £7.0 billion (2018: £5.8 billion). Cash balances increased largely driven by prefunding ahead of the restructure of the Irish branch. As a result of Brexit, deposit raising in our Irish business will no longer be undertaken and existing deposits are being unwound.

Investec plc's loan to deposit ratio® is: 80.0% (31 March 2018: 83.2%).

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

Capital remained in excess of current regulatory requirements.

We are comfortable with our common equity tier 1 ratio target at a 10.0% level given our solid capital light revenues, and our current leverage ratio of 7.7%.

Investec group capital targets

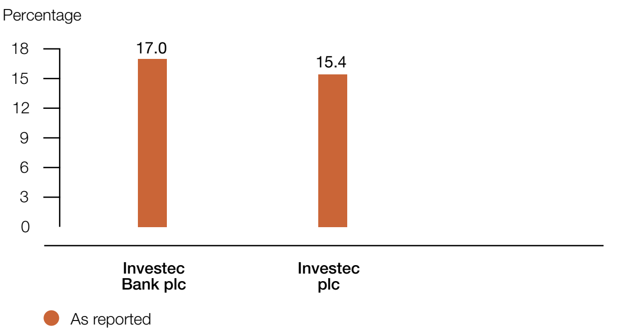
Total capital ratio: 14.0% – 17.0%

Common equity tier 1 ratio: > 10.0%

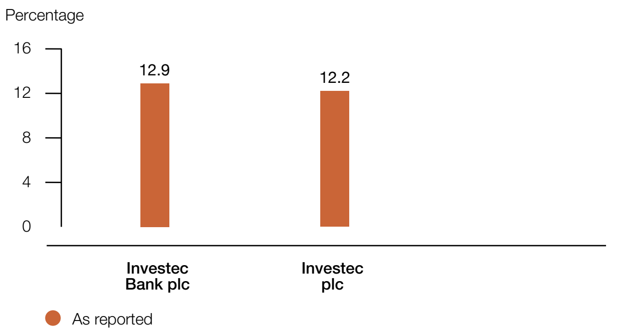
Tier 1 ratio: > 11.0%

Leverage ratio: > 6.0%

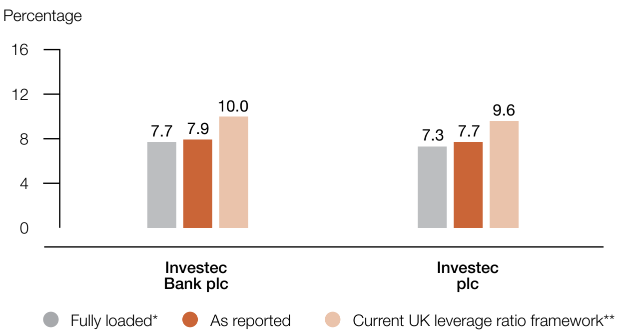
Total capital ratios



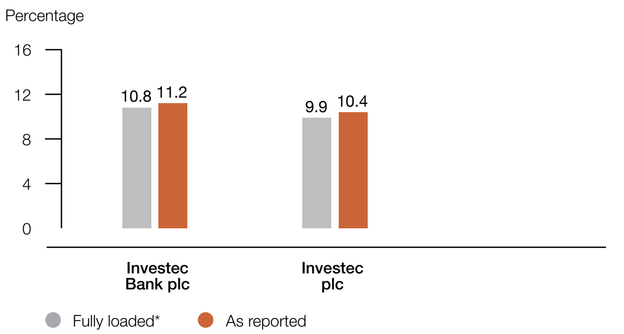
Tier 1 ratios



Leverage ratios



Common equity tier 1 ratios



* *The difference between the 'reported' basis and the 'fully loaded' basis is due to IFRS 9 transitional arrangements.*

** *Investec Bank plc is not subject to the UK leverage ratio framework, however, due to 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 ratio has been included for comparative purposes.*

Note: Refer to pages 89 and 94 for further details.

John Green and Mimi Ferrini

Co-chief executive officers of Investec Asset Management

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

The global geopolitical and economic environment continues to be uncertain. Asset markets were volatile over the period and the risk of an ongoing market correction remains.

Notwithstanding markets, the long-term growth prospects for competitive active asset managers remain compelling and the fundamentals are strong. However, the industry faces headwinds including the shift to passive products, downward fee pressure, and an evolving technology landscape resulting in a more competitive environment where only quality and excellence are rewarded.

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

Global net inflows of £6.1 billion for the last 12 months proved a highlight of our year. This was the result of broad support from our clients, proving relevance of our investment offering.

We have continued to invest meaningfully in our capabilities with strong talent added across our investment teams. We were particularly focused in areas where we see strong potential and future client demand. These include China, Multi-asset and Sustainability. We have been proactive in developing our presence in North America and both our client and investment teams in the region saw growth. This is translating into further relevance and heightened attention from the market. Similarly, we continued to grow our Advisor business.

In September 2018, we announced that Investec Asset Management would demerge from Investec group. Upon completion of the demerger, Hendrik du Toit will return to his role as CEO, and we will form a team of Deputy CEOs, dedicated to shaping an exciting future for this business.

Investec Asset Management has remained focused during this period of transition and this is largely attributable to the continuity of leadership that will remain after the demerger.

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 engage our investors through five geographically defined client groups. We operate in both the Institutional and Advisor channels. Our ultimate aim is to manage our clients' money to the highest possible standards and in line with their expectations and product and strategy specifications.

We will continue to focus on delivering competitive investment performance, scaling our Multi-asset and Quality capabilities and growing our presence in large markets with relevant strategies and products. We will also aim to grow in the Advisor space and continue to ensure that we are evolving all of our investment capabilities for the future.

Within the coming year, we will be completing the demerger of Investec Asset Management from Investec Group. This will enable even better alignment with our clients. We look forward to continuing to create long-term value for our clients and shareholders alike.

How do you incorporate climate, environmental and social risk considerations into your business?

We are a long-term focused business allocating capital on a global basis to meet the future needs of society. The single greatest challenge for humanity is sustainable development, which means the simultaneous achievement of economic growth, social inclusion and environmental sustainability. We arrange our sustainability efforts into three distinct categories: Invest, Engage, Inhabit. This speaks to our purpose statement of investing for a better tomorrow.

What is your outlook for the coming financial year?

At Investec Asset Management, we always think about the long term. Our outlook continues to be focused on building a long-term intergenerational business. Notwithstanding the industry challenges and the risk of further market corrections, we believe that the opportunity for growth in our industry over the next five to ten years is substantial. Our momentum is positive and we are excited about the future as an independent, pure-play asset manager.

Steve Elliott

Global head of Investec Wealth & Investment

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

The year has been characterised by a number of challenges. Internationally, despite strong economic conditions in the US, concerns around tariff negotiations, the rise of populism and political uncertainty, amongst other factors, has dampened the outlook for global growth.

In the UK, equity markets had a strong start but fell significantly during the final quarter of 2018, before stabilising as the financial year drew to a close. Brexit was the largest single factor on the minds of UK investors, but global investors were more focused on the risks addressed above.

All of these factors contributed to greater caution, especially amongst direct private clients. Inflows across the industry fell and consistent with our peers, we have experienced lower rates of growth in net new funds than in recent years. In particular, given the uncertain political situation in the last quarter of the financial year in the UK, this continued to have a dampening effect on net flows. Our business has nevertheless achieved positive net organic growth in funds under management in the UK for the year.

The impact of additional regulation remains prevalent. Over the year we have been focused on implementing and bedding down the substantial regulatory changes whilst preparing for future regulatory developments, including the Senior Managers and Certification Regime (SM&CR), which will be implemented in December 2019 for firms in our sector.

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

In the UK we are accelerating the reshaping of the strategic positioning of the business. Core discretionary managed services now account for over 80% of funds under management and we have been attracting high calibre investment managers from other firms to join us.

We have given particular focus to the further development of our technology platforms and the integration of our digital capabilities into the core business. Enhanced client communications and new look valuations have been launched and we continue to address the need to reduce paper and digitise wherever possible.

We have reviewed the Click & Invest online investment platform and decided to discontinue the service in line with the group's commitment to manage costs and allocate capital effectively. The underlying operating loss of Click & Invest was circa £12.8 million (2018: £13.5 million). In addition a circa £6 million write-off of capitalised software was taken in the current year. The group remains committed to developing its digital initiatives and will look to incorporate the technology into its offering.

In light of changes in the group's Irish business model brought about by Brexit planning and as part of consolidation taking place in wealth management in Ireland, we have sold our Republic of Ireland Wealth Management business to Brewin Dolphin, subject to regulatory approval. The Wealth management business was acquired by the group as part of its acquisition of NCB in 2012 and has grown significantly since then. The business in the Republic of Ireland is independent of other wealth management businesses in the Investec group and hence its sale will not impact the wealth management offering in other jurisdictions.

We continue to explore the inclusion of alternative assets in our clients' portfolios which have provided enhanced returns during challenging economic conditions. We believe in delivering a holistic service to our clients which goes beyond traditional investments and is inclusive of inter-generational wealth planning, tax structuring and assisting our clients to navigate the increasingly complex local and global regulatory and tax environment.

What are your strategic objectives in the coming financial year?

In the UK our strategic focus is to maintain our emphasis on delivering organic growth through expanding the discretionary managed business. This will be further supported by the recruitment of high quality investment managers.

As we expect the demand for wider financial advice to continue to grow and become a more general need across our client base, we will further expand our financial planning capability and develop ways to deliver this advice as a central component of our core offering.

Deepening our client relationships through high-touch engagements while achieving efficiencies and bolstering investment opportunities through our digital platform remains a priority. We recognise the diversity of our clients' needs and adapting our value proposition to include focusing on intergenerational wealth planning supported by enhanced tax and fiduciary services.

Collaboration across the Wealth & Investment business, as well as with the broader group, remains a strategic focus in order to provide a holistic Investec offering.

To ensure the sustainability of our business, we continue to focus on culture development and investing in our people and leadership of the business.

How do you incorporate climate, environmental and social risk considerations into your business?

As part of our commitment to responsible investment, we incorporate a variety of ESG factors along with other material investment factors and ethical guidelines into our wealth management and investment decision making process. More importantly, we believe that the greatest social impact we can have as a manager of wealth is to support our clients in attaining their socio-economic and environmental aspirations.

In the UK, we manage more than £3.3 billion of assets for nearly 1 200 charities. We work closely with each charity client to create an investment portfolio that is tailored to their own needs, aims and ethical consideration. During the year, our specialist Charities team were recognised as the winners of the 'Charity Investment Team of the Year' by the city of London Wealth Management Awards 2019.

Our 2019 corporate sustainability and ESG supplementary report provides further detail on the Sustainable Development Goals and the many initiatives we are supporting or funding.

What is your outlook for the coming financial year?

We maintain a positive view on the outlook for growth in the global economy but are also cognisant of potential geo-political risks. These factors, which have unsettled investors over the past financial year, are likely to play out during the next 12 months and in light of this, we are expecting continued uncertainty in the near term. Equally, this provides a real opportunity for us to demonstrate that we are well prepared to navigate through these various challenges, using our research and investment expertise, on behalf of our clients.

David van der Walt

Head of UK Specialist Banking

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

The Specialist Bank delivered a resilient financial performance, despite the heightened Brexit and political uncertainty and consequential impact on confidence levels. In the second half, we have seen reduced levels of mid-market M&A and equity capital markets activity and a reluctance from clients to commit to longer term decisions. The corporate market experienced increased competition for yield due to low rates and high levels of liquidity, as well as an increase in demand for deposits. The high demand for yield resulted in credit spread pressure and high levels of refinancing.

Notwithstanding these factors, the Specialist Bank focused on preserving its credit spreads whilst maintaining a disciplined approach to deploying capital. In the Private Banking space, we have seen strong levels of lending to our high net worth client base despite a subdued UK housing market. The Corporate and Investment Bank also saw solid activity levels across its core lending franchises. Our credit portfolios have remained robust with limited direct exposure to high street retail or discretionary consumer spending.

Regulation has continued to impact the finance industry and open banking has become an increasing feature of this competitive environment. We continually evolve in response to these developments and have successfully implemented our own offering in the open banking market in order to compete effectively.

We have been a beneficiary of the increase in UK base rates during the year given our prudent levels of cash and near cash balances.

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

The Corporate and Investment Bank has restructured and simplified its operations to focus on two defined client segments, resulting in two key businesses: Corporate Banking and Investment Banking. The business saw strong activity levels; with diversified loan growth including, in particular, across Fund Finance and Power and Infrastructure Finance, as well as a few notable transactions from our corporate advisory team in the first half of the year.

Within our investment activities, we have shifted our investment risk appetite towards focusing on co-investment alongside clients to fund investment opportunities and will manage our equity investment portfolio accordingly, thereby reducing volatility in our earnings going forward. There has been good performance in the UK investment portfolio, however this has been offset by a weaker performance in the Hong Kong portfolio which we are in the process of exiting.

The Private Bank has completed its formal investment programme with a clear market opportunity set to realise benefits of increased scale. As part of its investment programme, we have successfully implemented an integrated Customer Relationship Management system, which has allowed us to be more effective in our client engagement. In order to support the targeted growth of the Private Bank, we have dedicated significant time to the development of our people and the hiring of the right talent. We have met both our client acquisition and funding targets, which we set at the start of the year.

The recent launch of the Private Capital offering within the Private Bank has proved successful in providing an investment banking service for high net worth clients looking to grow their wealth in commercial business activities. This is a key area of growth that supports our strategic objective to enhance connectivity across the businesses. This offering will allow small- to medium-sized businesses to be cultivated in the Private Bank and then moved successfully into the Corporate and Investment Bank where the relationship can develop further.

We have successfully dealt with the bulk of the remaining legacy portfolio through increased impairments recognised in the prior financial year. We have continued to exit exposures, reducing overall net Legacy exposure to £130.9 million (1.2% of the net core loan book) as at 31 March 2019. We no longer have the substantial Legacy drag on profitability that has held back performance over the last several years.

In July we successfully executed a liability management exercise, repurchasing a portion of our 9.625% subordinated debt (due to mature in 2022) and issuing new subordinated debt at 4.25%.

Brexit related regulations have resulted in the need to restructure the bank's Irish business where we will no longer be able to conduct operations under a branch structure. There were approximately £13 million costs incurred relating to the consequential unwinding of Irish deposits, closing the Prime Brokerage business and redundancies.

What are your strategic objectives in the coming financial year?

The Corporate and Investment Bank will continue to focus on deepening and growing its client franchises and improving our ability to provide a more cohesive client experience. One of our key strategic focus areas is to grow our off balance sheet funds under management which will support our relevance to clients and growth and help optimise our capital for improved returns and long-term success. Our ambition is to develop a specialist funds platform across our credit asset classes that will complement our existing specialist asset activities.

With the completion of the investment phase in the Private Bank, there will be an increased focus on both retention and acquisition of target market clients and further collaboration and connectivity across the businesses, including with the wealth business in attempting to bring the full suite of our services to our clients. Other key objectives within the Private Bank include using the new mortgage lending platform to drive growth and efficiency and to grow our retail funding franchise by leveraging our digital capabilities.

The UK Specialist Bank is aligned to the group's five key initiatives in order to improve shareholder returns. We will continue to focus on a disciplined approach to capital allocation. We are fully invested, focused on cost control and anticipate an improving cost to income ratio going forward. A key focus is greater collaboration across our businesses and geographies and we will to continue to drive our high-tech, high-touch offering.

How do you incorporate climate, environmental and social risk considerations into your business?

Within our own operations, the move of our head office in London to new premises gave us the opportunity to incorporate a number of environmental initiatives to manage and reduce our footprint. We also implemented an agile working environment and added various well-being offerings for our staff. We continue to make progress with our diversity and gender targets and post year-end, we were proud to announce the appointment of our first female as CEO of Investec Bank plc and head of the UK Specialist Bank (subject to regulatory approval). From a community perspective, we continued to invest in core projects, supporting an additional 113 Arrival Education learners and advising 119 entrepreneurs through our partnership with Bromley by Bow through their Beyond Business programme.

During the year, we strengthened our climate change statement to support the transition to a low-carbon economy. Furthermore, our businesses are continually looking for innovative opportunities to impact society and the environment. At the beginning of 2019, we co-hosted a seminar with Engenie and Renewable UK to discuss the challenges and opportunities around electric vehicles and the opportunity to reduce air pollution in the city. As part of our commitment, the group has provided capital investment to Engenie to reach their target of 1 500 rapid chargers across the UK.

Our 2019 corporate sustainability and ESG supplementary report provides further detail on the Sustainable Development Goals and the many initiatives we are supporting or funding.

What is your outlook for the coming financial year?

We expect market volatility to persist and confidence to remain subdued as Brexit uncertainty continues into the next financial year. We will remain cautious in the current economic environment and disciplined when deploying capital. With legacy losses largely behind us, our focus is on building further scale in our core franchises and growing our recurring income. We are confident that we can deliver solid growth and achieve our financial targets in the short- to medium-term.

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 volumes one and two of the integrated 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 DLC BRCC.

The board approved risk appetite frameworks is provided on page 39. 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.

The group has policies and processes in place to address principal risks set out below. The due diligence on these processes is also monitored by Internal Audit as set out on page 96.

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/or high net worth individuals, established corporates, small and medium enterprises, financial institutions and sovereigns. • 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 41 to 65.
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 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, we may make use of political risk insurance to mitigate exposure where deemed necessary.	Page 42.

PRINCIPAL RISKS	KEY MITIGATING ACTIONS	FURTHER INFORMATION PROVIDED
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 66 and 67.
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 identify, measure, monitor and manage 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 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. • 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 and scenario analysis are used to add insight to possible outcomes under severe market disruptions.	Pages 69 to 72.

PRINCIPAL RISKS	KEY MITIGATING ACTIONS	FURTHER INFORMATION PROVIDED
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.	• Each geographic entity must be self-sufficient from a funding and liquidity standpoint. • 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 asset and liability teams independently monitor 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 disruptions. • Daily liquidity stress tests are carried out.	Pages 73 to 78.
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 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 87 to 94.

PRINCIPAL RISKS	KEY MITIGATING ACTIONS	FURTHER INFORMATION PROVIDED
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 Treasury and is subject to 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 board approved non-trading interest rate risk policy and risk appetite, 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. • 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 78 to 80.
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: business resilience; cybersecurity; anti-money laundering, terrorist financing and sanctions; fraud; information security; financial crime; outsourcing and third party reliance; process failure; regulatory compliance; technology.	• The operational risk management framework is embedded at all levels of the group, supported by the risk culture and enhanced on a continual basis in line with regulatory developments. Included in the framework are policies, practices and processes which facilitate the identification, assessment, mitigation, monitoring and reporting of operational risk. • The group's approach to manage operational risk operates in terms of a levels of defence model which reinforces accountability by setting roles and responsibilities for managing operational risk. This includes: – Business line management: responsible for identifying and managing risks inherent in the products, activities, processes and systems for which it is accountable – Independent operational risk function: responsible for building and embedding the operational risk framework, challenging the business lines' inputs to, and outputs from, the group's risk management, risk measurement and reporting activities – Independent review and challenge: responsible for reviewing and testing the application and effectiveness of operational risk management procedures and practices. • 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. • We have established independent model validation teams who review the models and provide feedback on accuracy and operation of the model and note items for further development.	Pages 81 to 83.

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.	Page 84.
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. • Efforts are focused on increasing system capability, developing and implementing effective controls and ensuring adequate resourcing to improve efficiency and manage and mitigate money laundering, terrorist financing and bribery and corruption risk.	Page 85.
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 97 as well as our 2019 corporate sustainability and ESG supplementary report on our website.

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 85.
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 8, 14 to 18.
Environmental (including climate risk), 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 sustainability, which runs beyond recognising our own footprint on the environment, includes our many community activities and is based on a broader responsibility to our environment and society. • Accordingly, corporate sustainability risk considerations are considered by the relevant credit committee or investment committee when making lending or investment decisions. • There is also oversight by the social and ethics committee on social and environmental issues, including climate-related impact considerations.	Pages 148 to 155 and refer to our 2019 corporate sustainability and ESG supplementary 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 152 to 155 and refer to our 2019 corporate sustainability and ESG supplementary 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.

Macro-economic indicators are provided on page 8 and the impact of changes in the external environment during our financial year is discussed in the respective divisional sections on pages 14 to 18.

- **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.

Information on our credit ratings is on page 95.

- **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 14 to 18 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 pension scheme within the group at 31 March 2019, which is closed to new business.

Refer to pages 84 and 85.

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:** In March 2017, the UK gave notice of its intention to leave the EU under Article 50 of the Treaty on European Union. Negotiations over the terms of the UK's departure from the EU formally concluded in late-November 2018.

  The two sides agreed a 585-page Withdrawal Agreement in addition to a non-binding political declaration on the future relationship. However, the British Prime Minister has failed to secure parliament's approval for the deal. Consequently the UK's scheduled departure date of 29 March 2019 has been extended and it is currently unclear when or if the UK will leave the EU.

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

FINANCIAL REVIEW

2

Key income drivers

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

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

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, Republic of Ireland, Switzerland and the USA. Investec plc's structure comprises three principal business divisions: Asset Management, Wealth & Investment and Specialist Banking.

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 • Fees 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 (including listed and unlisted equities; debt securities; investment properties).	• 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 • Interest rate environment.	• Net interest income • Investment income • Share of post taxation profit of associates and joint venture holdings.
• 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 • Interest rate environment.	• Net interest income • Fees and commissions.

Overview

Investec plc reported an adjusted operating profit[®] before goodwill, acquired intangibles, non-operating items, taxation and after other non-controlling interests of £271.2 million for the year ended 31 March 2019 (2018: £199.4 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 2018.

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

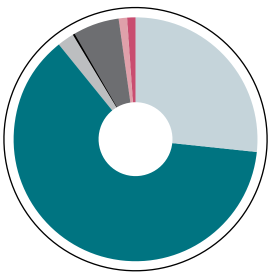
Total operating income before expected credit loss/impairment losses on loans and advances of £1 423.4 million was 3.1% higher than the prior year. The various components of total operating income are analysed below.

£'000	**31 March 2019**	**% of total income**	31 March 2018	% of total income	% change
Net interest income	379 489	26.7%	337 580	24.4%	12.4%
Net fee and commission income	889 231	62.5%	849 934	61.6%	4.6%
Investment income	32 674	2.3%	68 516	5.0%	(52.3%)
Share of post taxation profit of associates and joint venture holdings	3 100	0.2%	1 436	0.1%	>100.0%
Trading income/(loss) arising from					
– customer flow	86 766	6.1%	114 402	8.3%	(24.2%)
– balance sheet management and other trading activities	17 924	1.2%	(2 069)	(0.2%)	> 100.0%
Other operating income	14 249	1.0%	10 421	0.8%	36.7%
Total operating income before expected credit losses/impairment losses	**1 423 433**	**100.0%**	**1 380 220**	**100.0%**	**3.1%**

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

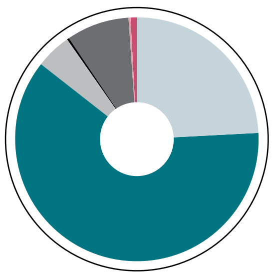
£'000	**31 March 2019**	**% of total income**	31 March 2018	% of total income	% change
Asset Management	387 641	27.2%	352 367	25.5%	10.0%
Wealth & Investment	316 949	22.3%	314 210	22.8%	0.9%
Specialist Banking	718 843	50.5%	713 643	51.7%	0.7%
Total operating income before expected credit losses/impairment losses	**1 423 433**	**100.0%**	**1 380 220**	**100.0%**	**3.1%**

% of total operating income before expected credit losses/impairment losses



31 MARCH 2019
£1 423.4 million total operating income before expected credit loss impairment charges

26.7%	Net interest income
62.5%	Net fee and commission income
2.3%	Investment income
0.2%	Share of post taxation profit of associates and joint ventures holdings
6.1%	Trading income arising from customer flow
1.2%	Trading income arising from balance sheet management and other trading activities
1.0%	Other operating income



31 MARCH 2018
£1 380.2 million total operating income before impairments losses

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

Net interest income

Net interest income increased by 12.4% to £379.5 million (2018: £337.6 million) driven by strong loan book growth and an increase in base rates.

£'000	**31 March 2019**	31 March 2018	Variance	% change
Asset Management	568	242	326	>100.0%
Wealth & Investment	9 189	5 181	4 008	77.4%
Specialist Banking	369 732	332 157	37 575	11.3%
Net interest income	**379 489**	**337 580**	**41 909**	**12.4%**

For a further analysis of interest received and interest paid refer to page 184.

Net fee and commission income

Net fee and commission income increased by 4.6% to £889.2 million (2018: £849.9 million) driven by strong annuity fees from the asset and wealth management businesses, as well as a good performance from the investment banking and specialist lending businesses.

£'000	**31 March 2019**	31 March 2018	Variance	% change
Asset Management	378 180	355 230	22 950	6.5%
Wealth & Investment	305 441	296 907	8 534	2.9%
Specialist Banking	205 610	197 797	7 813	4.0%
Net fee and commission income	**889 231**	**849 934**	**39 297**	**4.6%**

For a further analysis on net fee and commission income refer to page 185.

Investment income

Investment income decreased by 52.3% to £32.7 million (2018: £68.5 million). A strong performance from the UK investment portfolio was offset by a weak performance from the Hong Kong portfolio. In addition there was a non-recurring investment gain realised in the wealth management business in the prior year.

£'000	**31 March 2019**	31 March 2018	Variance	% change
Asset Management	–	(47)	47	(100.0%)
Wealth & Investment	1 185	10 446	(9 261)	(88.7%)
Specialist Banking	31 489	58 117	(26 628)	(45.8%)
Investment income	**32 674**	**68 516**	**(35 842)**	**(52.3%)**

For a further analysis on investment income refer to pages 185.

Trading income

Total trading income decreased to £104.7 million (2018: £112.3 million) as a consequence of subdued client flow trading levels partially offset by an increase from the unwind of the UK subordinated debt fair value adjustment (recognised on the adoption of IFRS 9) as the investment pulls to par over its remaining term.

Arising from customer flow

£'000	**31 March 2019**	31 March 2018	Variance	% change
Asset Management	–	–	–	–
Wealth & Investment	793	1 032	(239)	(23.2%)
Specialist Banking	85 973	113 370	(27 397)	(24.2%)
Trading income arising from customer flow	**86 766**	**114 402**	**(27 636)**	**(24.2%)**

Arising from balance sheet management and other trading activities

£'000	**31 March 2019**	31 March 2018	Variance	% change
Asset Management	5 120	(5 189)	10 309	> 100.0%
Wealth & Investment	(1)	(7)	6	85.7%
Specialist Banking	12 805	3 127	9 678	>100.0%
Trading income arising from balance sheet management and other trading activities	**17 924**	**(2 069)**	**19 993**	**> 100.0%**

Other operating income

Other operating income includes income earned on operating lease rentals.

Expected credit losses (ECL)/impairment losses on loans and advances

ECL/impairment losses on loans and advances decreased from £106.1 million to £24.6 million, with no repeat of substantial legacy portfolio losses. Stage 3 gross core loans and advances subject to ECL reduced to £319 million (3.2% of gross core loans subject to ECL) at 31 March 2019 (1 April 2018: £564 million equating to 6.3% of gross core loans subject to ECL), largely driven by a reduction in the legacy portfolio. The credit loss ratio amounted to 0.38% at 31 March 2019 (2018: 1.14% under the IAS 39 incurred impairment loss model).

Refer to page 57 for further information on asset quality and page 186 for a breakdown of the expected credit loss impairment charges.

Operating costs

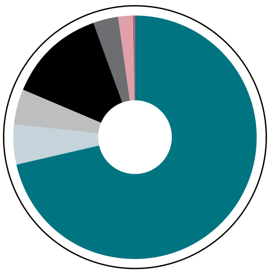
The cost to income ratio^⊙ amounted to 79.3% (2018: 77.9%). Operating costs increased by 5.2% due to headcount growth to support business activity, regulatory requirements and IT development. With the investment phase in the Private Bank largely complete, management is committed to an increased focus on cost discipline. Included in these operating costs was the £6 million write-off of capitalised software in the Click & Invest business (within Wealth & Investment) following the decision to discontinue the service.

The various components of total operating costs are analysed below.

£'000	**31 March 2019**	**% of total operating costs**	31 March 2018	% of total operating costs	% change
Staff costs (including directors' remuneration)	810 523	71.6%	778 791	72.4%	4.1%
Premises expenses (excluding depreciation)	57 106	5.1%	52 167	4.9%	9.5%
Equipment expenses (excluding depreciation)	53 740	4.7%	54 997	5.1%	(2.3%)
Business expenses	150 329	13.3%	130 688	12.1%	15.0%
Marketing expenses	36 216	3.2%	44 243	4.1%	(18.1%)
Depreciation and impairment of property, plant, equipment and software	22 062	1.9%	13 226	1.2%	66.8%
Depreciation on operating leased assets	2 137	0.2%	2 350	0.2%	(9.1%)
Total operating costs	**1 132 113**	**100.0%**	**1 076 462**	**100.0%**	**5.2%**

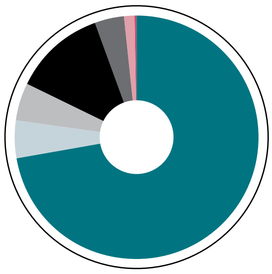
£'000	**31 March 2019**	**% of total operating costs**	31 March 2018	% of total operating costs	% change
Asset Management	279 813	24.7%	248 449	23.1%	12.6%
Wealth & Investment	260 562	23.0%	244 940	22.8%	6.4%
Specialist Banking	560 220	49.5%	549 284	51.0%	2.0%
Group costs	31 518	2.8%	33 789	3.1%	(6.7%)
Total operating costs	**1 132 113**	**100.0%**	**1 076 462**	**100.0%**	**5.2%**

% of total operating costs



31 MARCH 2019
£1 132.1 million total operating costs

71.6%	Staff compensation costs
5.1%	Premises expenses (excluding depreciation)
4.7%	Equipment expenses (excluding depreciation)
13.3%	Business expenses
3.2%	Marketing expenses
1.9%	Depreciation and impairment of property, plant, equipment and software
0.2%	Depreciation on operating leased assets



31 MARCH 2018
£1 076.5 million total operating costs

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

^ *The Investec group has changed its cost to income ratio definition to exclude operating profits or losses attributable to other non-controlling interests. Refer to definitions page.*

⊙Alternative performance measures

We supplement our IFRS figures with alternative performance measures used by management internally and which provide valuable, relevant information to readers of the financial statements. These measures are highlighted with the symbol⊙. The definition of alternative performance measures is provided in the definitions section of this report. The definition of alternative performance measures is provided in the definitions section of this report.

Amortisation of acquired intangibles

Amortisation of acquired intangibles of £13.0 million largely relates to the Wealth & Investment business and mainly comprises amortisation of amounts attributable to client relationships.

Financial impact of group restructures and acquisition of subsidiaries

Non-operational costs amounted to £19.0 million and relate primarily to the restructure of the Irish branch as a consequence of Brexit and costs incurred as part of the proposed demerger and separate listing of the Investec Asset Management business.

£'000	**31 March 2019**	31 March 2018
Financial impact of group restructures	**19 044**	–

Taxation on operating profit before goodwill and acquired intangibles

The effective operational tax rate amounted to 14.8% (2018: 19.6%), below the prior year largely due to the utilisation of tax losses.

	Effective operational tax rates				
£'000	**2019**	2018	**31 March 2019 £'000**	31 March 2018 £'000	% change
Taxation on operating profit before goodwill and acquired intangibles	14.8%	19.6%	39 102	38 509	1.5%

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

Profit attributable to non-controlling interests

Profit attributable to non-controlling interests mainly comprises:

- £15.9 million profit attributable to non-controlling interests in the Asset Management business (2018: £14.8 million).

Balance sheet analysis

Since 31 March 2018:

- Total equity decreased by 2.4% to £2.3 billion primarily as a result of the adoption of IFRS 9.
- Total assets increased by 9.8% to £22.6 billion largely as a result of loan book growth and an increase in cash and near cash balances.

3

RISK MANAGEMENT AND ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

Risk management objectives are to:

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

Overview of disclosure requirements

Risk disclosures provided in line with the requirements of International Financial Reporting Standard 7 Financial Instruments: Disclosures (IFRS 7) and disclosures on capital required by International Accounting Standard 1 Presentation of Financial Statements (IAS 1) are included within this section of the annual report on pages 157 to 271 with further disclosures provided in the annual financial statements section on pages 38 to 95. Where applicable throughout the risk disclosures, comparative information is reported under IFRS 9 at 1 April 2018. 31 March 2018 information can be found on pages 64 to 65, this has been presented on an IAS 39 basis and not restated as permitted under IFRS 9.

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

We supplement our IFRS 9 figures with alternative performance measures used by management internally and which provide valuable, relevant information to readers of the financial statements. Where applicable, definitions can found in the definitions section of this report.

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

www

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.

Philosophy and approach to risk management

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

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

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

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

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 bank to operate within its risk appetite tolerance as set out on page 39.

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

The executive management is integrally involved in ensuring stringent management of risk, liquidity, capital and conduct through our risk appetite framework which continues to be assessed in light of prevailing market conditions and overall Investec group strategy. The primary aim is to achieve a suitable balance between risk and reward in our business. Although the macro-environment continues to present challenges, the group was able to maintain sound asset performance and risk metrics throughout the year in review. Our risk appetite framework is set out on page 39.

IFRS 9 became effective from 1 April 2018. IFRS 9 replaced IAS 39 and sets out the new requirements for the recognition and measurement of financial instruments. These requirements focus primarily on the classification and measurement of financial instruments and measurement of impairment losses based on an expected credit loss (ECL) model. The measurement of ECL under IFRS 9 has increased complexity and reliance on expert credit judgements. Key judgemental areas under the implementation of IFRS 9 are highlighted in this document and are subject to robust governance processes. Investec plc confirmed to the PRA that the transitional arrangements will be used to absorb the full impact permissible of IFRS 9 in regulatory capital calculations for Investec plc.

In the year under review, the UK continued to negotiate the terms under which it would leave the European Union. Certain areas of the UK economy are signalling signs of pressure, particularly in sectors reliant on discretionary spend. 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. In the second half, Brexit uncertainty has dominated and we have seen reduced levels of mid-market M&A and equity capital markets activity and a reluctance from clients to commit to longer term decisions. We are closely monitoring political developments with respect to Brexit and have continued to evaluate any changes we may need to make to adapt to the new legal and regulatory landscape that emerges.

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

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

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

Our focus over the past few years to realign and rebalance our portfolios in line with our risk appetite framework is reflected in the movements in asset classes on our balance sheet; showing an increase in private client, mortgages and corporate and other lending, and a reduction in lending collateralised by property as a proportion of net core loans. The group's net core loan exposures remains well diversified with commercial rent producing property loans comprising approximately 9.7% of net core loans, other lending collateralised by property 8.1%, high net worth and private client lending 22.1% and corporate lending 60.1% (with most industry concentrations well below 5%).

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

The percentage of total Ongoing and Legacy Stage 3 loans (net of ECL but before taking collateral into account) to net core loans and advances subject to ECL amounted to 2.2% which decreased from 4.3% at 1 April 2018. The ratio of collateral to Stage 3 exposures (net of ECL) remains satisfactory at 1.1 times (1 April 2018: 1.1 times).

Legacy exposures have reduced by 49% since 1 April 2018 to £131 million (net of ECL) at 31 March 2019. These assets are substantially impaired and are largely reported under Stage 3.

There has been good performance in the UK investment portfolio, however this has been offset by a weaker performance in the Hong Kong portfolio which we are in the process of exiting. Overall, we remain comfortable with the performance of our investment and equity risk exposures which comprise 2.6% of total assets.

Market risk within our trading portfolio remains modest with value at risk and stress testing scenarios remaining at prudent levels. Proprietary risk is limited. During the year in review, customer-flow sales and trading revenues were impacted by lower client activity due to uncertainty around Brexit and range-bound foreign exchange markets.

We remain highly focused on conduct, reputational, operational, recovery and resolution risks. Financial and cyber crime are high priorities, and the bank continually aims to strengthen systems and controls in order to manage cyber risk as well as meet regulatory obligations to combat money laundering, fraud and corruption.

The group has continued to maintain a sound balance sheet with a low gearing ratio of 9.9 times and a core loans to equity ratio of 4.6 times. The group's current leverage ratio is 7.7% ahead of the minimum 6% target level.

The group has always held capital well in excess of regulatory requirements and we intend to perpetuate this philosophy. There was positive capital generation and risk-weighted assets (RWA) growth remained measured. We maintain an Investec group target common equity tier 1 ratio in excess of 10% which is currently considered appropriate for our businesses and given our sound leverage ratios and significant capital light revenues. The group is on the standardised approach for capital. The common equity tier 1 ratio is at 10.4% at 31 March 2019 in excess of regulatory minimums and ahead of our Investec group target.

In January 2019, the Bank of England (BoE) re-confirmed the preferred resolution strategy for Investec Bank plc as the bank insolvency (special administration) procedure under the Investment Bank Special Administration Regulations 2011 – otherwise known as 'modified insolvency'. As the resolution strategy is 'modified insolvency', the BoE has therefore set Investec Bank plc's minimum requirement for own funds and eligible liabilities (MREL) requirement as equal to its regulatory capital requirements.

Holding a high level of readily available, high quality liquid assets remains paramount in the management of our balance sheet. We continue to maintain a low reliance on interbank wholesale funding to fund core lending asset growth.

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

The group's stress testing framework is well embedded in its operations and is designed to identify and regularly test the group's key 'vulnerabilities under stress'. A fundamental part of the stress testing process is a full and comprehensive analysis of all the group's material business activities, incorporating views from risk, the business and the executive – a process called the 'bottom-up' analysis. Resulting from the 'bottom-up' analysis, the Investec specific stress scenarios are designed to specifically test the unique attributes of the group's portfolio. The key is to understand the potential threats to our sustainability and profitability and thus a number of risk scenarios are developed and assessed. These Investec specific stress scenarios form an integral part of our capital planning process and IFRS 9 macro-economic scenarios. The stress testing process also informs the risk appetite review process and the management of risk appetite limits and is a key risk management tool of the group. This process allows the group to proactively identify underlying risks and manage them accordingly.

During the year, a number of stress scenarios were considered and incorporated into our processes. These included, for example, the impact of a global shock resulting in an asset price correction and corporate stress; and a potential UK domestic shock with a prolonged period of weak investment and growth.

The board, through its respective risk and capital committees, continued to assess the impact of its principal risks and the above mentioned stress scenarios on its business. The board has concluded that the group has robust systems and processes in place to manage these risks and that, while under a severe stress scenario business activity would be very subdued, the group would continue to maintain adequate liquidity and capital balances to support the continued operation of the group.

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

Salient features

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

	31 March 2019	31 March 2018
Net core loans and advances (£'million)	10 514	9 687
Total assets (£'million)	22 637	20 611
Total risk-weighted assets (£'million)	15 313	14 411
Total equity (£'million)	2 285	2 341
Cash and near cash (£'million)	6 991	5 813
Customer accounts (deposits) (£'million)	13 151	11 637
Loans and advances to customers to customer deposits	80.0%	83.2%
Structured credit as a % of total assets	2.07%	1.34%
Banking book investment and equity risk exposures as a % of total assets	2.57%	2.97%
Traded market risk: one-day value at risk (£'million)	0.4	0.5
Core loans to equity ratio	4.6x	4.1x
Total gearing ratio**	9.9x	8.8x
Return on average assets#	0.93%	0.71%
Return on average risk-weighted assets#	1.36%	1.00%
Leverage ratio – current UK leverage ratio framework°°	9.6%	9.8%

	31 March 2019	1 April 2018
Stage 3 exposure as a % of gross core loans and advances subject to ECL	3.2%	6.3%
of which Ongoing (excluding Legacy) Stage 3##	*1.5%*	*2.6%*
Stage 3 exposure net of ECL as a % of net core loans and advances subject to ECL	2.2%	4.3%
Credit loss ratio*	0.38%	1.14%
Level 3 (fair value assets) as a % of total assets	8.35%	9.74%
Total capital ratio##	15.4%	14.5%
Tier 1 ratio°	12.2%	12.0%
Common equity tier 1 ratio°	10.4%	10.1%
Leverage ratio – current°	7.7%	8.0%

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

** *Total assets to total equity.*

° *Takes into account the deduction of foreseeable dividends as discussed on page 91.*

\# *Where return represents adjusted earnings as per definition on page 273.*
Average balances are calculated on a straight-line average.

\## *Ongoing information, as separately disclosed from 2014 to 2019, excludes Legacy, which comprises of pre-2008 assets held on the balance sheet, that had low/negative margins and assets relating to business we are no longer undertaking.*

°° *Investec plc is not subject to the UK leverage ratio framework, however, due to 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 ratio has been included for comparative purposes.*

Risk appetite

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

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

Risk appetite and tolerance metrics	*Positioning at 31 March 2019*
We seek to maintain an appropriate balance between revenue earned from capital light and capital intensive activities. Ideally capital light revenue should exceed 50% of total operating income, dependent on prevailing market conditions	Capital light activities contributed 62.5% to total operating income and capital intensive activities contributed 37.5%
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 74.1% of total operating income
We seek to maintain strict control over fixed costs and target a cost to income ratio of below 70%	The cost to income ratio amounted to 79.3%. Refer to page 32 for further information
We are a lowly leveraged firm and target a leverage ratio in excess of 6%	The current leverage ratio amounted to 7.7%; refer to page 92 for further information
We intend to maintain a sufficient level of capital to satisfy regulatory requirements and our internal target ratios. We target a total capital ratio range of between 14% and 17% on a consolidated basis for the group and we target a minimum tier 1 ratio of 11% and a common equity tier 1 ratio above 10%	We met these targets; our total capital ratio amounted to 15.4% and our common equity tier 1 ratio amounted to 10.4%. Refer to pages 89 and 94 for further information
We target a diversified loan portfolio, lending to clients we know and understand. We limit our exposure to a single/connected individual or company to £120 million or 7.6% of CET 1 (unless specifically approved by the relevant board committee). We also have a number of risk tolerance limits and targets for specific asset classes	We maintained this risk tolerance level in place throughout the year
There is a preference for primary exposure in the group'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	Refer to page 42 for further information
We target a credit loss ratio of less than 0.5% and Stage 3 net of ECL as a % of net core loans and advances subject to ECL to be less than 2% (excluding the legacy portfolio). We target Stage 3 net of ECL as a % of CET 1 less than 25%	We currently remain within all tolerance levels. The credit loss ratio amounted to 0.38%. Stage 3 net of ECL as a % of net core loans and advances subject to ECL was 1.19% (excluding the legacy portfolio). Stage 3 net of ECL as a % of CET 1 is 13.3%. Refer to page 57 for further information
We carry a high level of liquidity 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 £7.0 billion at year-end representing 53.2% of customer deposits. Refer to page 75 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 met these internal limits; one-day 95% VaR was £0.4 million at 31 March 2019; refer to page 70 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 £472 million representing 29.7% of common equity tier 1. Refer to page 67 for further information
Our operational risk management team focuses on appropriately identifying and managing operational risk within acceptable levels by adopting sound operational risk practises that are fit for purpose. We have heightened focus on financial and cybercrime	Refer to pages 81 to 84 for further information
We have a number of policies and practices in place to mitigate reputational, legal and conduct risks	Refer to pages 84 and 85 for further information

An overview of our principal risks

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

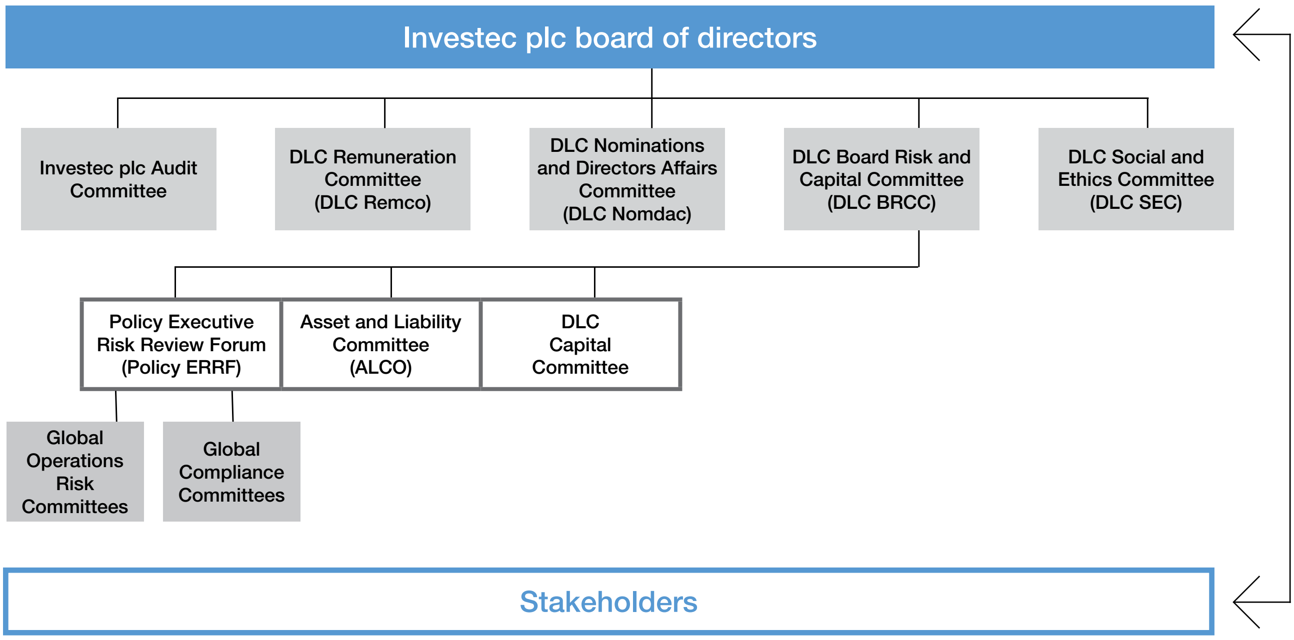
These principal risks have been highlighted on pages 19 to 25.

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 their sub committees and risk management as mandated by the board. Investec Asset Management, Investec Bank plc and Investec Wealth & Investment have independent audit committees which report into the Investec plc Audit Committee. There are independent Investec Wealth & Investment and Investec Asset Management risk committees that report, alongside IBP BRCC, into DLC BRCC.



Credit and counterparty risk management

Credit and counterparty risk description

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

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

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

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

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

Credit and counterparty risk governance structure

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

In addition to the credit committees, the following processes assist in managing, measuring and monitoring credit and counterparty risk. The scope of these forums and committees have been adjusted where necessary to reflect changes to governance processes arising from IFRS 9 implementation:

- Day-to-day arrears management and regular arrears reporting ensure that individual positions and any potential trends are dealt with in a timely manner
- Watchlist Forums review the management of distressed loans, potential problem loans and exposures in arrears that require additional attention and supervision. These committees review ECL impairments and staging at an asset level as well as potential fair value adjustments to loans and advances to customers and provide recommendations for the appropriate staging and level of ECL impairment where appropriate
- Forbearance forum reviews and monitors counterparties who have been granted forbearance measures
- Impairment Decision Committee reviews recommendations from underlying watchlist Forums and considers and approves the appropriate level of impairments, ECL and staging
- Model Forum provides an internal screening and validation process for credit models. We have established independent model validation teams who review the models and provide feedback on the accuracy and operation of the model and note items for further development through this forum.

Credit and counterparty risk appetite

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

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

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

Target clients include high net worth and/or high-income individuals, professionally qualified individuals, established corporates, small and medium enterprises, financial institutions and sovereigns. Corporates should demonstrate scale and relevance in their market, an experienced management team, able board members, strong earnings and cash flow. Direct exposures to cyclical industries and start-up ventures are generally avoided.

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

Interbank lending is largely reserved for those banks and institutions in the banks’s core geographies of activity, which are systemic and highly rated.

Concentration risk

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

Credit and counterparty risk is always assessed with reference to the aggregate exposure to a single counterparty or group of related parties to manage concentration risk. In order to manage concentration, we will consider a sell down of exposures to market participants.

Concentration risk can also exist where portfolio loan maturities are clustered to single periods in time. Loan maturities are monitored on a portfolio and a transaction level.

Country risk

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

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

The group’s credit risk appetite with regard to country risk is characterised by the following principles:

- Preference is to have exposure only to politically stable jurisdictions that we understand and have preferably operated in before
- There is little specific appetite for exposures outside of the group’s pre-existing core geographies or target markets
- The legal environment should be tested, have legal precedent in line with 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, IBP ERC and Policy ERRF will consider, analyse and assess the appropriate limits to be recorded when required, to assume exposure to foreign jurisdictions.

Sustainability considerations

The group has a holistic approach to corporate sustainability, which runs beyond recognising our own footprint on the environment and includes our many corporate social investment activities and our lending and investing activities. This is not merely for business reasons, but based on a broader responsibility to our environment and society. Accordingly, corporate sustainability risk considerations are considered by the credit committee or investment committee when making lending or investment decisions. There is also oversight by the SEC on social and environmental issues including climate related impact considerations. In particular the following factors are taken into account when assessing a transaction based on the outcome of the corporate sustainability considerations:

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

www ***Refer to our 2019 corporate sustainability and ESG supplementary information on our website.***

Stress testing and portfolio management

The group has embedded its stress testing framework which is a repeatable stress testing process, 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. Out of the ‘bottom-up’ analysis the Investec specific stress scenarios are designed to specifically test the unique attributes of the group’s portfolio.

These Investec specific stress scenarios form an integral part of our capital planning process and IFRS 9 macro-economic scenarios. The stress testing process also informs the risk appetite review process, and the management of risk appetite limits and is a key risk management tool of the group. This process allows the group to identify underlying risks and manage them accordingly.

The group also performs ad hoc stress tests, which by their nature need to be completed on request and in response to emerging risk issues.

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

Credit risk classification and provisioning policy

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

Definition of default

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

Stage 1

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

Stage 2

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

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

Assets in forbearance are considered to be, at a minimum, Stage 2. Forbearance measures refer to concessions such as modification of the terms and conditions or refinancing that has been granted to a debtor in financial difficulty amongst other indicators of financial stress. These exposures are assessed on a case by case basis to determine whether the proposed modifications will be considered as forbearance. Where the credit committee considers it likely that the client will be able to return to perform against the original contractual obligations within a reasonable timeframe these assets will be considered performing and in Stage 2. Forbearance is distinguished from commercial renegotiations which take place as part of normal business activity and standard banking practice. The total amount of exposure forborne within Stage 2 and Stage 3 represents 1.1% of the total gross credit and counterparty exposures (31 March 2018: 1.3%)

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

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

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

Stage 3

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

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

ECL

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

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

Write-offs

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

Internal credit rating models and ECL methodology

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

Further information on internal credit ratings is provided on page 59.

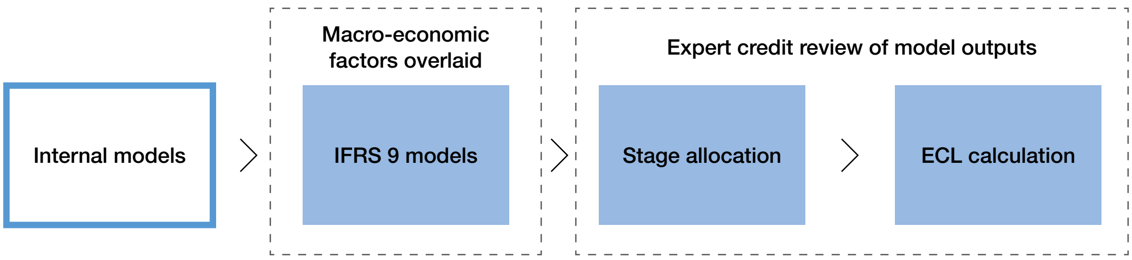
Key drivers of measurement uncertainty – subjective elements and inputs

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

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

In addition to these drivers, some initial judgements and assumptions were required in the design and build of the group's ECL methodology, which are not considered to have a material impact. This includes the use of income recognition effective interest rates (EIRs) that are calculated under IAS 39 and used as the discount factor in the IFRS 9 ECL calculation as well as the use of contractual maturity to assess behavioural lives. In addition where we have experienced limitations on the availability of probability of default origination data for the historic book, a portfolio average has been used in some instances.

Process to determine ECL



ECLs are calculated using three main components:

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

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

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

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

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

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

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

Forward-looking macro-economic scenarios

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

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

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

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

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

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

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

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

Macro-economic scenarios

(average 2019 – 2023)	Upside %	Base case %	Downside 1 Global %	Downside 2 Domestic %
UK				
GDP growth	2.5	1.5	0.2	0.1
Unemployment rate	3.6	3.8	6.7	4.7
House price growth	3.4	3.3	(1.9)	(1.3)
Bank of England – Bank rate	2.7	1.9	0.1	0.2
Euro area				
GDP growth	2.1	1.6	0.2	0.4
US				
GDP growth	2.0	1.9	0.7	1.9
Scenario weightings	**13**	**60**	**14**	**13**

Macro-economic sensitivities (unaudited)

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

Management and measurement of credit and counterparty risk

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

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

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

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

Regular reporting of credit and counterparty risk exposures within our operating units are made to management, the executives and the boards through IBP BRCC and DLC BRCC. The board regularly reviews and approves the appetite for credit and counterparty risk, which is documented in risk appetite statements and policy documents. This is implemented and reviewed by the credit risk management teams in each jurisdiction. Credit policies have been updated and amended to include changes to reflect the implementation of IFRS 9.

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

Credit and counterparty risk – nature of activities

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

- **Core loans and advances:** the majority of credit and counterparty risk is through core loans and advances, which account for the material ECL allowances across our portfolio, which are detailed on pages 56 to 65
- **Treasury function:** there are also certain exposures, outside of core loans and advances where we assume credit and counterparty risk. These arise primarily from treasury placements where the treasury function, as part of the daily management of the group's liquidity, places funds with central banks and other commercial banks and financial institutions. These transactions are typically short-term (less than one month) money market placements or secured repurchase agreements. These market counterparties are mainly investment grade rated entities that occupy dominant and systemic positions in their domestic banking markets and internationally. These counterparties are located in the UK, Western Europe, North America, Southern Africa and Australia.

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

- **Customer trading activities to facilitate hedging of client risk positions:** our customer trading portfolio consists of derivative contracts in interest rates, foreign exchange, commodities, credit derivatives and equities that are entered into, to facilitate a client's hedging requirements. The counterparties to such transactions are typically corporates, in particular where they have an exposure to interest rates or foreign exchange due to operating in sectors that include imports and exports of goods and services. These positions are marked to market, typically with daily margin calls to mitigate credit exposure in the event of counterparty default
- **Structured credit:** these are bonds secured against a pool of assets, mainly UK residential mortgages or European or US corporate leverage loans. The bonds are typically highly rated (single 'A' and above), which benefit from a high-level of credit subordination and can withstand a significant level of portfolio default
- **Corporate advisory and investment banking activities:** counterparty risk in this area is modest. The business also trades approved shares on an approved basis and makes markets in shares where we are appointed corporate broker under pre-agreed market risk limits. Settlement trades are largely on a delivery versus payment basis, through major stock exchanges. Credit risk only occurs in the event of counterparty failure and would be linked to any fair value losses on the underlying security
- **Wealth & Investment:** primarily an agency business with a limited amount of principal risk. Its core business is discretionary and non-discretionary investment management services. Settlement risk can arise due to undertaking transactions in an agency capacity on behalf of clients. However, the risk is not considered to be material as most transactions are undertaken with large institutional clients, monitored daily, and trades are usually settled within two to three days.

Credit risk mitigation

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

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

Acceptable collateral generally exhibits characteristics that allow for it to be easily identified and appropriately valued and assists the group to recover outstanding exposures.

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

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

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

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

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

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

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

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

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

The group places minimal reliance on credit derivatives in its credit risk mitigation techniques. Periodically the group will enter into Credit Default Swaps (CDS) in order to hedge a specific asset held or to create a more general or macro hedge against a group of exposures in one industry or geography. In these instances, the group is deemed to be 'buying protection' against the assets. Depending on the perceived risk, or 'spread', of the underlying exposure, the CDS will fluctuate in value; increasing in value when the asset has become more risky and decreasing when risk has reduced. Occasionally, the group will enter into trading/investment CDS positions where we buy protection or sell protection without owning the underlying asset. The total amount of net credit derivatives outstanding at 31 March 2019 amounts to £0.6 million, of which all is used for credit mitigation purposes. Total protection bought amounts to £0.5 million and total protection sold amounts to £0.1 million relating to credit derivatives used in credit mitigation.

Further information on credit derivatives is provided on page 72.

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

Credit and counterparty risk year in review

Underlying core assets continue to perform well. Net core loans and advances increased by 10.0% to £10.5 billion at 31 March 2019 from £9.6 billion at 1 April 2018, driven by our strategy to support corporate and private client lending activities including mortgages.

Asset quality continues to reflect the solid performance of core loans. The credit loss ratio on the overall book reduced to a normalised level at 0.38% (31 March 2018: 1.14%) following the removal of the legacy drag.

Stage 3 in the Ongoing book (excluding Legacy) totalled £149 million or 1.5% of gross core loans subject to ECL at 31 March 2019 from 2.6% at 1 April 2018.

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

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

An analysis of gross credit and counterparty exposures

Gross credit and counterparty exposure totalled £22.1 billion at 31 March 2019. Cash and near cash balances amounted to £7.0 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. These exposures are all Stage 1. There are immaterial Stage 2 and Stage 3 exposures outside of loans and advances to customers which are small relative to the balance sheet, where loans and advances to customers (including committed facilities) account for greater than 99% of overall ECLs.

An analysis of gross credit and counterparty exposures

£'million	31 March 2019	1 April 2018
Cash and balances at central banks	4 445	3 480
Loans and advances to banks	1 164	1 004
Reverse repurchase agreements and cash collateral on securities borrowed	633	750
Sovereign debt securities	1 299	1 155
Bank debt securities	52	113
Other debt securities	499	278
Derivative financial instruments	570	512
Securities arising from trading activities	530	496
Loans and advances to customers	10 663	9 810
Other loans and advances	178	332
Other securitised assets	8	9
Other assets	46	45
Total on-balance sheet exposures	**20 087**	**17 984**
Guarantees	85	22
Committed facilities related to loans and advances to customers	1 484	1 092
Contingent liabilities, letters of credit and other	413	121
Total off-balance sheet exposures	**1 982**	**1 235**
Total gross credit and counterparty exposures	**22 069**	**19 219**

A further analysis of gross credit and counterparty exposures

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

At 31 March 2019 £'million	Total gross credit and counterparty exposure	*of which FVPL*	*of which amortised cost and FVOCI*	Expected credit losses^	Assets that we deem to have no legal credit exposure	Total assets
Cash and balances at central banks	4 445	–	4 445	–	–	4 445
Loans and advances to banks	1 164	–	1 164	–	–	1 164
Reverse repurchase and cash collateral on securities borrowed	633	25	608	–	–	633
Sovereign debt securities	1 299	319	980	–	–	1 299
Bank debt securities	52	52	–	–	–	52
Other debt securities	499	275	224	(1)	–	498
Derivative financial instruments	570	570	–	–	56	626
Securities arising from trading activities	530	530	–	–	268	798
Investment portfolio	–	–	–	–	493	493
Loans and advances to customers	10 663	772	9 891	(149)	–	10 514
Other loans and advances	178	–	178	–	30	208
Other securitised assets	8	8	–	–	110	118
Interest in associated undertakings and joint venture holdings	–	–	–	–	53	53
Deferred taxation assets	–	–	–	–	148	148
Other assets	46	–	46	–	983	1 029
Property and equipment	–	–	–	–	100	100
Investment properties	–	–	–	–	15	15
Goodwill	–	–	–	–	356	356
Intangible assets	–	–	–	–	85	85
Total on-balance sheet exposures	**20 087**	**2 551**	**17 536**	**(150)**	**2 697**	**22 634**
Guarantees	85	–	85	–	–	85
Committed facilities related to loans and advances to customers	1 484	43	1 441	(2)	–	1 482
Contingent liabilities, letters of credit and other	413	–	413	–	31	444
Total off-balance sheet exposures	**1 982**	**43**	**1 939**	**(2)**	**31**	**2 011**
Total exposures	**22 069**	**2 594**	**19 475**	**(152)**	**2 728**	**24 645**

^ *ECLs include £1.4 million ECL held against financial assets held at FVOCI, which is reported on the balance sheet within reserves. This will result in minor differences between certain balance sheet lines reported above (largely loans and advances to customers and sovereign debt securities) and the statutory balance sheet.*

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

^^ *While the group manages all risks (including credit risk) from a day-to-day operational perspective, certain assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. This balance reflects the credit exposure to credit providers external to the group. The net credit exposure that the group has in the vehicles is reflected in 'total credit and counterparty exposure'.*

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

A further analysis of our gross credit and counterparty exposure *(continued)*

At 1 April 2018 £'million	Total gross credit and counterparty exposure	*of which FVPL*	*of which amortised cost and FVOCI*	Expected credit losses^	Assets that we deem to have no legal credit exposure	**Total assets**
Cash and balances at central banks	3 480	–	3 480	–	8	3 488
Loans and advances to banks	1 004	–	1 004	(1)	–	1 003
Reverse repurchase agreements and cash collateral on securities borrowed	750	38	712	–	–	750
Sovereign debt securities	1 155	165	990	–	–	1 155
Bank debt securities	113	55	58	–	–	113
Other debt securities	278	137	141	(6)	–	272
Derivative financial instruments	512	512	–	–	80	592
Securities arising from trading activities	496	496	–	–	206	702
Investment portfolio	–	–	–	–	478*	478
Loans and advances to customers	9 810	909	8 901	(248)	–	9 562
Other loans and advances	332	2	330	(3)	30	359
Other securitised assets	9	9	–	–	123^^	132
Interest in associated undertakings and joint venture holdings	–	–	–	–	77	77
Deferred taxation assets	–	–	–	–	162	162
Other assets	45	–	45	–	1 125**	1 170
Property and equipment	–	–	–	–	54	54
Investment properties	–	–	–	–	15	15
Goodwill	–	–	–	–	356	356
Intangible assets	–	–	–	–	101	101
Total on-balance sheet exposures	**17 984**	**2 323**	**15 661**	**(258)**	**2 815**	**20 541**
Guarantees	22	–	22	–	–	22
Committed facilities related to loans and advances to customers	1 092	3	1 089	(6)	–	1 086
Contingent liabilities, letters of credit and other	121	–	121	–	64	185
Total off-balance sheet exposures	**1 235**	**3**	**1 232**	**(6)**	**64**	**1 293**
Total exposures	**19 219**	**2 326**	**16 893**	**(264)**	**2 879**	**21 834**

^ *ECLs include £2.1 million ECL held against financial assets held at FVOCI, which is reported on the balance sheet within reserves. This will result in minor differences between certain balance sheet lines reported above (largely loans and advances to customers and sovereign debt securities) and the statutory balance sheet.*

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

^^ *While the group manages all risks (including credit risk) from a day-to-day operational perspective, certain assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. This balance reflects the credit exposure to credit providers external to the group. The net credit exposure that the group has in the vehicles is reflected in 'total credit and counterparty exposure'.*

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

Gross credit and counterparty exposures by residual contractual maturity

At 31 March 2019 £'million	Up to three months	Three to six months	Six months to one year	One to five years	Five to 10 years	> 10 years	**Total**
Cash and balances at central banks	4 445	–	–	–	–	–	4 445
Loans and advances to banks	1 128	–	36	–	–	–	1 164
Reverse repurchase agreements and cash collateral on securities borrowed	533	100	–	–	–	–	633
Sovereign debt securities	517	299	80	117	9	277	1 299
Bank debt securities	–	–	–	52	–	–	52
Other debt securities	31	11	21	71	47	318	499
Derivative financial instruments	123	56	71	191	68	61	570
Securities arising from trading activities	–	–	–	72	48	410	530
Loans and advances to customers	1 100	586	1 300	5 824	1 330	523	10 663
Other loans and advances	1	–	–	–	30	147	178
Other securitised assets	–	–	–	–	–	8	8
Other assets	35	11	–	–	–	–	46
Total on-balance sheet exposures	**7 913**	**1 063**	**1 508**	**6 327**	**1 532**	**1 744**	**20 087**
Guarantees	10	–	3	52	20	–	85
Committed facilities related to loans and advances to customers	165	39	155	882	148	95	1 484
Contingent liabilities, letters of credit and other	1	111	20	257	24	–	413
Total off-balance sheet exposures	**176**	**150**	**178**	**1 191**	**192**	**95**	**1 982**
Total gross credit and counterparty exposures	**8 089**	**1 213**	**1 686**	**7 518**	**1 724**	**1 839**	**22 069**

Detailed analysis of gross credit and counterparty exposures by industry

At 31 March 2019 £'million	High net worth and other professional individuals	Lending collateralised by property	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services	Finance and insurance
Cash and balances at central banks	–	–	–	–	4 445	–	–
Loans and advances to banks	–	–	–	–	–	–	1 164
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	–	–	633
Sovereign debt securities	–	–	–	–	1 299	–	–
Bank debt securities	–	–	–	–	–	–	52
Other debt securities	–	–	–	29	7	29	162
Derivative financial instruments	12	1	1	54	8	10	376
Securities arising from trading activities	–	–	–	–	420	–	110
Loans and advances to customers	2 332	1 958	7	414	207	892	1 633
Other loans and advances	–	–	–	–	–	–	103
Other securitised assets	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	–	46
Total on-balance sheet exposures	**2 344**	**1 959**	**8**	**497**	**6 386**	**931**	**4 279**
Guarantees	18	3	–	–	–	–	58
Committed facilities related to loans and advances to customers	145	368	–	150	39	79	340
Contingent liabilities, letters of credit and other	–	–	–	296	–	–	35
Total off-balance sheet exposures	**163**	**371**	**–**	**446**	**39**	**79**	**433**
Total gross credit and counterparty exposures	**2 507**	**2 330**	**8**	**943**	**6 425**	**1 010**	**4 712**

Retailers and wholesalers	Manufac-turing and commerce	Construc-tion	Corporate commercial real estate	Other residential mortgages	Mining and resources	Leisure, entertain-ment and tourism	Transport	Com-munication	**Total**
–	–	–	–	–	–	–	–	–	4 445
–	–	–	–	–	–	–	–	–	1 164
–	–	–	–	–	–	–	–	–	633
–	–	–	–	–	–	–	–	–	1 299
–	–	–	–	–	–	–	–	–	52
–	–	19	167	–	–	–	79	7	499
18	20	3	–	9	12	1	45	–	570
–	–	–	–	–	–	–	–	–	530
350	822	99	–	177	177	242	1 132	221	10 663
–	–	–	75	–	–	–	–	–	178
–	–	–	8	–	–	–	–	–	8
–	–	–	–	–	–	–	–	–	46
368	**842**	**121**	**250**	**186**	**189**	**243**	**1 256**	**228**	**20 087**
–	–	–	–	–	–	–	6	–	85
53	81	–	–	59	121	15	16	18	1 484
4	46	–	–	–	28	4	–	–	413
57	**127**	**–**	**–**	**59**	**149**	**19**	**22**	**18**	**1 982**
425	**969**	**121**	**250**	**245**	**338**	**262**	**1 278**	**246**	**22 069**

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

At 1 April 2018 £'million	High net worth and other professional individuals	Lending collateralised by property	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services	Finance and insurance
Cash and balances at central banks	–	–	–	–	3 480	–	–
Loans and advances to banks	–	–	–	–	–	–	1 004
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	–	–	750
Sovereign debt securities	–	–	–	–	1 155	–	–
Bank debt securities	–	–	–	–	–	–	113
Other debt securities	–	–	–	60	6	–	40
Derivative financial instruments	22	–	2	51	–	13	318
Securities arising from trading activities	–	–	–	5	346	3	113
Loans and advances to customers	1 916	1 968	6	447	153	669	1 635
Other loans and advances	–	–	–	–	–	–	119
Other securitised assets	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	–	45
Total on-balance sheet exposures	**1 938**	**1 968**	**8**	**563**	**5 140**	**685**	**4 137**
Guarantees	15	3	–	–	–	–	2
Committed facilities related to loans and advances to customers	128	315	–	105	23	74	215
Contingent liabilities, letters of credit and other	–	–	–	72	–	–	36
Total off-balance sheet exposures	**143**	**318**	**–**	**177**	**23**	**74**	**253**
Total gross credit and counterparty exposures	**2 081**	**2 286**	**8**	**740**	**5 163**	**759**	**4 390**

Retailers and wholesalers	Manufacturing and commerce	Construction	Corporate commercial real estate	Other residential mortgages	Mining and resources	Leisure, entertainment and tourism	Transport	Communication	**Total**
–	–	–	–	–	–	–	–	–	3 480
–	–	–	–	–	–	–	–	–	1 004
–	–	–	–	–	–	–	–	–	750
–	–	–	–	–	–	–	–	–	1 155
–	–	–	–	–	–	–	–	–	113
–	–	19	–	40	32	–	74	7	278
32	20	3	3	–	17	1	28	2	512
3	–	–	–	–	2	–	–	24	496
284	776	64	132	–	128	230	1 267	135	9 810
–	–	–	–	213	–	–	–	–	332
–	–	–	–	9	–	–	–	–	9
–	–	–	–	–	–	–	–	–	45
319	**796**	**86**	**135**	**262**	**179**	**231**	**1 369**	**168**	**17 984**
–	–	–	–	–	2	–	–	–	22
43	56	6	3	–	95	17	4	8	1 092
7	–	1	–	–	1	4	–	–	121
50	**56**	**7**	**3**	**–**	**98**	**21**	**4**	**8**	**1 235**
369	**852**	**93**	**138**	**262**	**277**	**252**	**1 373**	**176**	**19 219**

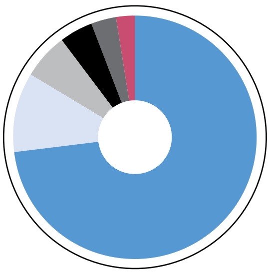
The tables that follow provide information on gross core loans and advances.

Composition of core loans and advances

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

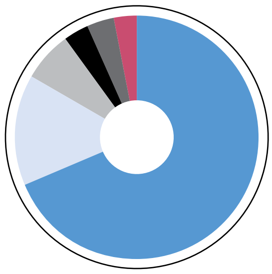
£'million	31 March 2019	1 April 2018
Loans and advances to customers per the balance sheet	10 516	9 564
ECLs held against FVOCI loans reported on the balance sheet within reserves	(2)	(2)
Net core loans and advances to customers	**10 514**	**9 562**
of which amortised cost and FVOCI (subject to ECL)	9 742	8 653
of which FVPL	772	909
Add: ECLs	149	248
Gross core loans and advances to customers	**10 663**	**9 810**
of which amortised cost and FVOCI (subject to ECL)	9 891	8 901
of which FVPL	772	909

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



31 MARCH 2019
£10 663 million

73.1%	United Kingdom
10.6%	Europe (excluding UK)
6.1%	North America
4.6%	Australia
3.1%	Asia
2.5%	Other



1 APRIL 2018
£9 810million

68.9%	United Kingdom
14.5%	Europe (excluding UK)
6.6%	North America
3.4%	Australia
3.6%	Asia
3.0%	Other

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

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

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

£'million	31 March 2019	1 April 2018
Gross core loans and advances to customers subject to ECL	**9 891**	**8 901**
Stage 1	8 996	7 743
Stage 2	576	594
of which past due greater than 30 days	*13*	*18*
Stage 3	319	564
*of which Ongoing (excluding Legacy) Stage 3**	*149*	*221*
Gross core loans and advances to customers subject to ECL (%)		
Stage 1	91.0%	87.0%
Stage 2	5.8%	6.7%
Stage 3	3.2%	6.3%
*of which Ongoing (excluding Legacy) Stage 3**	*1.5%*	*2.6%*

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

£'million	31 March 2019	31 March 2018^
Change in expected credit losses on core loans and advances to customers	(35)	n/a
Average gross core loans and advances to customers subject to ECL	9 396	n/a
Income statement charge for impairments on core loans and advances	n/a	(106)
Average gross core loans and advances to customers	n/a	9 687
Credit loss ratio	**0.38%**	**1.14%**

£'million	31 March 2019	1 April 2018
ECL	**(149)**	**(248)**
Stage 1	(14)	(15)
Stage 2	(27)	(41)
Stage 3	(108)	(192)
*of which Ongoing (excluding Legacy) Stage 3**	*(35)*	*(45)*
ECL coverage ratio (%)		
Stage 1	0.2%	0.2%
Stage 2	4.7%	6.9%
Stage 3	33.9%	34.0%
*of which Ongoing (excluding Legacy) Stage 3**	*23.5%*	*20.4%*

* *Ongoing information, as separately disclosed from 2014 to 2019, excludes Legacy, which comprises of pre-2008 assets held on the balance sheet, that had low/negative margins and assets relating to business we are no longer undertaking.*

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

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

£'million	31 March 2019	1 April 2018
Stage 3 net of ECL	211	372
*of which Ongoing (excluding Legacy) Stage 3**	*114*	*176*
Aggregate collateral and other credit enhancements on Stage 3	228	414
Stage 3 net of ECL and collateral	–	–
Stage 3 as a % of gross core loans and advances to customers subject to ECL	3.2%	6.3%
*of which Ongoing (excluding Legacy) Stage 3**	*1.5%*	*2.6%*
Total ECL impairments as a % of Stage 3 exposure	46.7%	44.0%
Stage 3 net of ECL as a % of net core loans and advances to customers subject to ECL	2.2%	4.3%
*of which Ongoing (excluding Legacy) Stage 3**	*1.2%*	*2.0%*

* *Ongoing information, as separately disclosed from 2014 to 2019, excludes Legacy, which comprises of pre-2008 assets held on the balance sheet, that had low/negative margins and assets relating to business we are no longer undertaking.*

Stage 1: 91.0% of gross exposure subject to ECL is in Stage 1 and has not experienced a significant increase in credit risk since origination. ECL is calculated based on a 12-month expected loss. Coverage for these performing, non-deteriorated assets is 0.2%.

Stage 2: 5.8% of gross exposure is in Stage 2 and has seen a significant increase in credit risk since origination. These assets require a lifetime expected loss to be held. Only £13 million or 0.1% of gross core loans shown in Stage 2 are greater than 30 days past due. An asset reported in Stage 2 does not imply we expect a loss on these assets. Stage 2 assets are assessed relative to their expected performance at the point of origination. While assets may underperform original expectations, the level of ECL indicates that our expected losses from these positions remain low.

Stage 3: 3.2% of gross exposure is in Stage 3 which is made up of assets that are credit impaired. This has reduced from 6.3% at 1 April 2018 as we continue to make progress in reducing legacy loans. Coverage ratio totals 33.9% and the remaining net exposure is considered well covered by collateral. The legacy portfolio is predominantly reported in Stage 3 and makes up 53.3% of Stage 3 gross loans. These assets have been significantly provided for and coverage for these assets remains high at 42.9%. Excluding Legacy, Ongoing Stage 3 exposure total £149 million or 1.5% of gross core loans and advances subject to ECL. This has reduced from 2.6% at 1 April 2018.

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

The table below indicates underlying movements in gross core loans and advances subject to ECL from 1 April 2018 to 31 March 2019. The transfers between stages of gross core loans indicates the impact of stage transfers upon the gross exposure and associated opening ECL. The net remeasurement of ECL arising from stage transfers represents the (increase)/decrease in ECL due to these transfers. New lending net of repayments comprises new originations, further drawdowns, repayments and sell-downs as well as ECLs in Stage 3 that have been written off, typically when an asset has been sold. The ECL impact of changes to risk parameters and models during the period largely relates to the reduction in the group's model overlay from £25 million to £8 million. Foreign exchange and other category largely comprises impact on the closing balance as a result of movements in foreign exchange rates since the opening date, 1 April 2018. Further analysis as at 31 March 2019 of gross core loans and advances subject to ECL and their ECL balances is shown in 'An analysis of core loans and advances by risk category' on the following pages.

	Stage 1		Stage 2		Stage 3		Total	
£'million	Gross exposure	ECL	Gross exposure	ECL	Gross exposure	ECL	**Gross exposure**	**ECL**
At 1 April 2018	**7 743**	**(15)**	**594**	**(41)**	**564**	**(192)**	**8 901**	**(248)**
Transfer from Stage 1	(210)	1	184	(1)	26	–	–	–
Transfer from Stage 2	126	(2)	(179)	9	53	(7)	–	–
Transfer from Stage 3	9	(1)	14	(2)	(23)	3	–	–
ECL remeasurement arising from transfer of stage	–	2	–	(3)	–	(12)	–	(13)
New lending net of repayments (includes assets written off)	1 281	(6)	(42)	2	(303)	96	936	92
Changes to risk parameters and models	–	7	–	9	–	5	–	21
Foreign exchange and other	47	–	5	–	2	(1)	54	(1)
At 31 March 2019	**8 996**	**(14)**	**576**	**(27)**	**319**	**(108)**	**9 891**	**(149)**

An analysis of credit quality by internal rating grade

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

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

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

At 31 March 2019 **£'million**	IB01 – IB12	IB13 – IB19	IB20 – IB25	Stage 3	**Total**
Gross core loans and advances subject to ECL	**4 719**	**4 655**	**198**	**319**	**9 891**
Stage 1	4 667	4 211	118	–	8 996
Stage 2	52	444	80	–	576
Stage 3	–	–	–	319	319
ECL	**(3)**	**(33)**	**(5)**	**(108)**	**(149)**
Stage 1	(2)	(12)	–	–	(14)
Stage 2	(1)	(21)	(5)	–	(27)
Stage 3	–	–	–	(108)	(108)
Coverage (%)	**0.1%**	**0.7%**	**2.5%**	**33.9%**	**1.5%**

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

Client quality and expertise are at the core of our credit philosophy. We provide senior debt and other funding for property transactions, with a strong preference for income producing assets supported by an experienced sponsor providing a material level of cash equity investment into the asset. Our exposure to the property market is well diversified with strong bias towards prime locations for residential exposure and focus on tenant quality and income diversity for commercial assets. Debt service cover ratios are a key consideration in the lending process supported by reasonable loan-to-security value ratios.

Year in review

Lending collateralised by property has continued to reduce as a proportion of our net core loan exposures and totals £1.9 billion or 17.8% at 31 March 2019. New lending is largely against income-producing commercial and residential properties at conservative loan-to-values. The bulk of property collateralised assets are located in the UK. Underwriting criteria remains conservative and we are committed to following a client-centric approach to lending, only supporting counterparties with strong balance sheets and requisite expertise.

Lending collateralised by property

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

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

Our private banking activities target high net worth individuals and high-income active wealth creators. Lending products are tailored to meet the requirements of our clients and delivers solutions to enable target clients to create and manage their wealth. This includes private client mortgages, transactional banking, high net worth lending, offshore banking and foreign exchange. Central to our credit philosophy is ensuring the sustainability of cash flow and income throughout the cycle. As such, the client base has been defined to include high net worth clients (who, through diversification of income streams, will reduce income volatility) and individuals with a profession which has historically supported a high and sustainable income stream, irrespective of the stage in the economic cycle.

Credit risk arises from the following activities:

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

Year in review

High net worth and other private client lending increased by 22.2% year on year, driven by strong targeted growth in mortgages for the bank's high net worth target market clients, following the investment in our UK private banking platform and franchise. Growth in this area has been achieved with strong adherence to our conservative lending appetite.

High net worth and other private client lending

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

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

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

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

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

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

- **Corporate and acquisition finance:** provides senior secured loans to proven management teams and sponsors running mid cap, as well as some large cap companies. Credit risk is assessed against debt serviceability based upon robust cash generation of the business demonstrated by both historical and forecast information. We typically act as transaction lead arranger or on a bi-lateral basis, and have a close relationship with management and sponsors
- **Asset-based lending:** provides working capital and secured corporate loans to mid-caps. These loans are secured by the assets of the business, for example, the accounts receivable, inventory and plant and machinery. In common with our corporate lending activities, strong emphasis is placed on supporting companies with scale and relevance in their industry, stability of cash flow, and experienced management
- **Fund finance:** provides debt facilities to asset managers and fund vehicles, principally in private equity. The geographical focus is the UK, Western Europe, North America and Australia where the group can support experienced asset managers and their funds which show strong, long-term value creation and good custodianship of investors' money. Debt facilities to fund vehicles are secured against undrawn limited partner commitments and/or the funds underlying assets. Fund manager loans are structured against committed fund management cash flows, the managers' investment stake in their own funds and when required managers' personal guarantees
- **Other corporate and financial institutions and governments:** provides senior secured loans to mid-large cap companies where credit risk is typically considered with respect to robust cash generation from an underlying asset and supported by performance of the overall business based on both historical and forecast information
- **Small ticket asset finance:** provides funding to small- and medium-sized corporates to support asset purchases and other business requirements. The portfolio is highly diversified by industry and number of clients and is secured against the asset being financed
- **Large ticket asset finance:** provides the finance and structuring expertise for aircraft and larger lease assets, the majority of which are senior secured loans with a combination of corporate, cash flow and asset-backed collateral against the exposure
- **Project finance:** arranges and provides typically long-term financing for power and infrastructure assets, in particular renewable and traditional power projects as well as transportation assets, typically against contracted future cash flows of the project(s) from well-established and financially sound off-take counterparties. There is a requirement for a strong upfront equity contribution from an experienced sponsor
- **Resource finance:** debt arranging and underwriting together with structured hedging solutions mainly within the mining sectors. The underlying commodities are mainly precious and base metals. Our clients in this sector are established mining companies which are typically domiciled and publicly listed in one of the following geographies – the UK, Canada and Australia as well as other countries where we are facilitating a transaction for a client who requires facilities in a foreign geography. All facilities are secured by the borrower's assets and repaid from mining cash flows

Year in review

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

Corporate and other lending

£'million	Gross core loans and advances at amortised cost and FVOCI								Gross core loans and advances at FVPL	Gross core loans and advances
	Stage 1		Stage 2		Stage 3		Total			
	Gross exposure	ECL	Gross exposure	ECL	Gross exposure	ECL	**Gross exposure**	**ECL**		
At 31 March 2019										
Corporate and acquisition finance	1 328	(5)	125	(3)	–	–	1 453	(8)	212	1 665
Asset-based lending	341	–	53	(1)	–	–	394	(1)	–	394
Fund finance	1 156	(1)	–	–	–	–	1 156	(1)	55	1 211
Other corporate and financial institutions and governments	396	(1)	27	(1)	–	–	423	(2)	219	642
Asset finance	1 599	(6)	108	(6)	56	(28)	1 763	(40)	171	1 934
Small ticket asset finance	1 451	(6)	86	(5)	26	(14)	1 563	(25)	–	1 563
Large ticket asset finance	148	–	22	(1)	30	(14)	200	(15)	171	371
Project finance	404	–	55	(3)	6	(1)	465	(4)	37	502
Resource finance	13	–	–	–	–	–	13	–	12	25
Total corporate and other lending	**5 237**	**(13)**	**368**	**(14)**	**62**	**(29)**	**5 667**	**(56)**	**706**	**6 373**
At 1 April 2018										
Corporate and acquisition finance	1 262	(5)	39	(1)	19	(6)	1 320	(12)	213	1 533
Asset-based lending	301	(1)	43	(2)	11	(1)	355	(4)	–	335
Fund finance	1 017	(1)	13	(1)	–	–	1 030	(2)	–	1 030
Other corporate and financial institutions and governments	418	–	13	(1)	–	–	431	(1)	216	647
Asset finance	1 422	(4)	100	(8)	78	(31)	1 600	(43)	272	1 872
Small ticket asset finance	1 294	(3)	79	(7)	14	(9)	1 387	(19)	–	1 387
Large ticket asset finance	128	(1)	21	(1)	64	(22)	213	(24)	272	485
Project finance	400	(1)	54	(3)	4	–	458	(4)	26	484
Resource finance	–	–	–	–	–	–	–	–	5	5
Total corporate and other lending	**4 820**	**(12)**	**262**	**(16)**	**112**	**(38)**	**5 194**	**(66)**	**732**	**5 926**

Selected 2018 credit disclosures

The disclosures that follow were included in the 2018 Investec plc annual financial statements and do not reflect the adoption of IFRS 9. The tables have been shown below and not adjacent to the current 2019 credit risk tables as these tables reflect IAS 39 disclosures and as a result are not directly comparable to the 2019 tables, which are disclosed on an IFRS 9 basis.

An analysis of gross credit and counterparty exposures

£'000	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note reference	Total balance sheet
At 31 March 2018				
Cash and balances at central banks	3 479 639	8 130		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 and joint venture holdings	–	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 the security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicle 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.*

Selected 2018 credit disclosures *(continued)*

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

£'000	31 March 2018
Gross core loans and advances to customers	**9 839 064**
Total impairments	**(151 840)**
Specific impairments	(89 863)
Portfolio impairments	(61 977)
Net core loans and advances to customers	**9 687 224**
Average gross core loans and advances to customers	**9 293 341**
Current loans and advances to customers	9 401 028
Past due loans and advances to customers (1 – 60 days)	40 315
Special mention loans and advances to customers (1 – 90 days)	37 085
Default loans and advances to customers	360 636
Gross core loans and advances to customers	**9 839 064**
Current loans and advances to customers	9 401 028
Default loans that are current and not impaired	50 224
Gross core loans and advances to customers that are past due but not impaired	135 830
Gross core loans and advances to customers that are impaired	251 982
Gross core loans and advances to customers	**9 839 064**
Total income statement charge for impairments on core loans and advances	**(105 864)**
Gross default loans and advances to customers	360 636
Specific impairments	(89 863)
Portfolio impairments	(61 977)
Defaults net of impairments	**208 796**
Aggregate collateral and other credit enhancements on defaults	291 834
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%
Total impairments as a % of gross default loans	42.10%
Gross defaults as a % of gross core loans and advances to customers	3.67%
Defaults (net of impairments) as a % of net core loans and advances to customers	2.16%
Net defaults as a % of net core loans and advances to customers	–
Credit loss ratio (i.e. income statement impairment charge on core loans as a % of average gross core loans and advances)	1.14%

Investment risk in the banking book

Investment risk description

Investment risk in the banking book comprises of 2.57% of total assets and arises primarily from the following activities conducted within the group:

- **Principal investments:** Principal investments are focused on providing capital to entrepreneurs and management teams to further their growth ambitions as well as leveraging third party capital into funds that are relevant to our client base. Investments are selected based on the track record of management, the attractiveness of the industry and the ability to build value for the existing business by implementing an agreed strategy. Investments in listed shares may arise on an IPO, or sale of one of our investments to a listed company. We have limited appetite for listed investments
- **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 undertake development, investment and trading opportunities in support of clients to create value and trade for profit within agreed risk parameters.

Management of investment risk

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

Risk appetite limits and targets are set to manage our exposure to equity and investment risk and reported to the IBP and DLC BRCC. An assessment of exposures against limits and targets as well as stress testing scenario analysis are performed and reported to the IBP and DLC 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 175 to 178 and pages 202 to 210 for factors taken into consideration in determining fair value.

The table below provides an analysis of income and revaluations of these investments.

£'000 Category	Income/(loss) (pre-funding costs) Unrealised*	Realised*	Dividends	Total	Fair value through equity/ OCI
For the year to 31 March 2019					
Unlisted investments	28 542	25 393	4 161	58 096	–
Listed equities	(26 762)	(7 566)	95	(34 233)	–
Investment and trading properties	13 266	(7 231)	–	6 035	–
Warrants and profit shares	(7 906)	18 374	–	10 468	–
Total	**7 140**	**28 970**	**4 256**	**40 366**	**–**
For the year to 31 March 2018					
Unlisted investments	(812)	17 307	2 285	18 780	(786)
Listed equities	(24 101)	1 068	95	(22 938)	2 214
Investment and trading properties	(3 505)	–	–	(3 505)	–
Warrants, profit shares and other embedded derivatives	(11 982)	18 214	–	6 232	–
Total	**(40 400)**	**36 589**	**2 380**	**(1 431)**	**–**

* *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.

£'million Category	**On-balance sheet value of investments 31 March 2019**	**Valuation change stress test 31 March 2019***	On-balance sheet value of investments 1 April 2018	Valuation change stress test 1 April 2018*
Unlisted investments	472	71	417	63
Listed equities	21	5	61	15
Total investment portfolio	**493**	**76**	**478**	**78**
Investment and trading properties	70	13	113	21
Warrants and profit shares	19	6	22	8
Total	**582**	**95**	**613**	**107**

* *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 and profit shares	35%

Stress testing summary

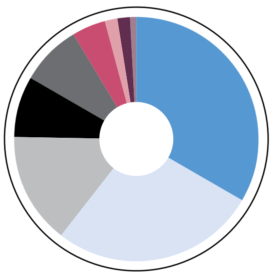
Based on the information at 31 March 2019, as reflected above, we could have a £95 million reversal in revenue (which assumes a year in which there is a 'severe stress scenario' simultaneously across all asset classes). This would not necessarily cause the bank to report a loss but could have a significantly negative impact on earnings for that period. The probability of all these asset classes in all geographies in which we operate being negatively impacted at the same time is low, although the probability of listed equities being negatively impacted at the same time is high.

Capital requirements

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

Refer to page 92 for further detail.

An analysis of the investment portfolio, warrants and profit shares



31 MARCH 2019
£512 million

33.4%	Real estate
27.3%	Manufacturing and commerce
14.7%	Finance and insurance
8.1%	Communication
8.0%	Retailer and wholesalers
4.5%	Transport
1.7%	Other
1.5%	Mining and resources
0.8%	Business services

Securitisation/structured credit activities exposures

Overview

The primary focus for new securitisation transactions remains to provide a cost effective, alternative source of financing to the group. During the year we did not undertake any new securitisation transactions.

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

For regulatory purposes, the securitisation definition focuses on those securitisations in which the group has achieved significant risk transfer.

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

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

We hold rated structured credit instruments. These exposures are largely in the UK and US and amount to £462 million at 31 March 2019 (31 March 2018: £266 million) with 90.0% being AA and AAA rated and 9.5% being A rated.

Accounting policies

Refer to page 176.

Risk management

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

Nature of exposure/activity	**Exposure 31 March 2019 £'million**	Exposure 1 April 2018 £'million	Balance sheet and credit risk classification
Structured credit (gross exposure)	469	276	Other debt securities and other loans and advances
Rated	462	266	
Unrated	7	10	
Loans and advances to customers and third party intermediary originating platforms (mortgage loans) – (net exposure)	–	130	Other loans and advances

Analysis of gross structured credit exposure

£'million	AAA	AA	A	BBB	BB	B and below	Total rated	Total unrated	**Total**
US corporate loans	84	117	11	–	–	–	212	–	212
UK and European RMBS	108	97	33	–	2	–	240	7	247
UK and European corporate loans	–	10	–	–	–	–	10	–	10
Total at 31 March 2019	**192**	**224**	**44**	**–**	**2**	**–**	**462**	**7**	**469**
Total at 1 April 2018	**72**	**125**	**67**	**–**	**2**	**–**	**266**	**10**	**276**

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.

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

Measurement of traded market risk

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

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

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

Traded market risk management, monitoring and control

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

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

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

Value at risk

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

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

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

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

	31 March 2019				31 March 2018			
£'000	**Year end**	Average	High	Low	**Year-end**	Average	High	Low
(Using 95% VaR)								
Equities	415	490	748	327	495	519	746	345
Foreign exchange	20	13	117	1	18	17	80	1
Interest rates	133	94	156	70	81	84	147	67
Credit	1	55	123	1	23	90	184	16
Consolidated*	**417**	**484**	**739**	**350**	**502**	**509**	**740**	**311**

* *The consolidated VaR is lower than the sum of the individual VaRs. This arises from the consolidation offset between various asset classes (diversification). The reduction in credit VaR as at 31 March 2019 is due to a strategic decision to reduce positions.*

Expected shortfall

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

95% (one-day) £'000	**31 March 2019**	31 March 2018
Equities	638	655
Foreign exchange	29	26
Interest rates	179	113
Credit	1	35
Consolidated*	**618**	**661**

* *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.

£'000	**31 March 2019**	31 March 2018
99% one-day sVaR	**2 594**	**1 541**

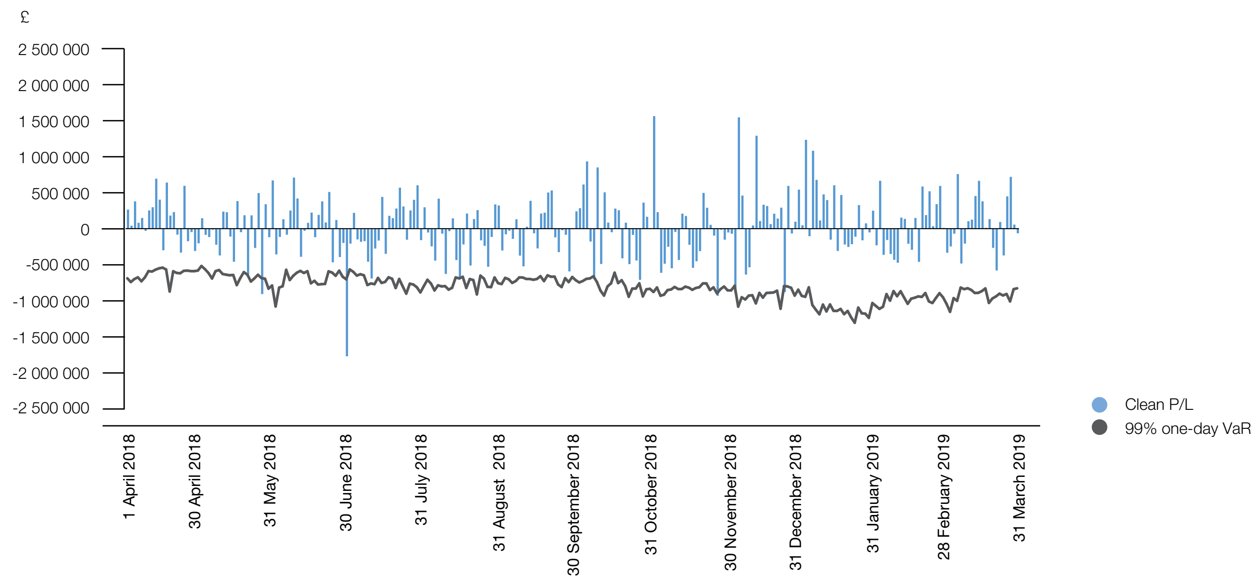
Backtesting

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

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

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

99% one-day VaR backtesting



Stress testing

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

£'000	**31 March 2019**	31 March 2018
(Using 99% EVT)		
Equities	1 114	1 475
Foreign exchange	77	66
Interest rates	339	226
Credit	3	83
Consolidated*	**1 190**	**1 441**

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

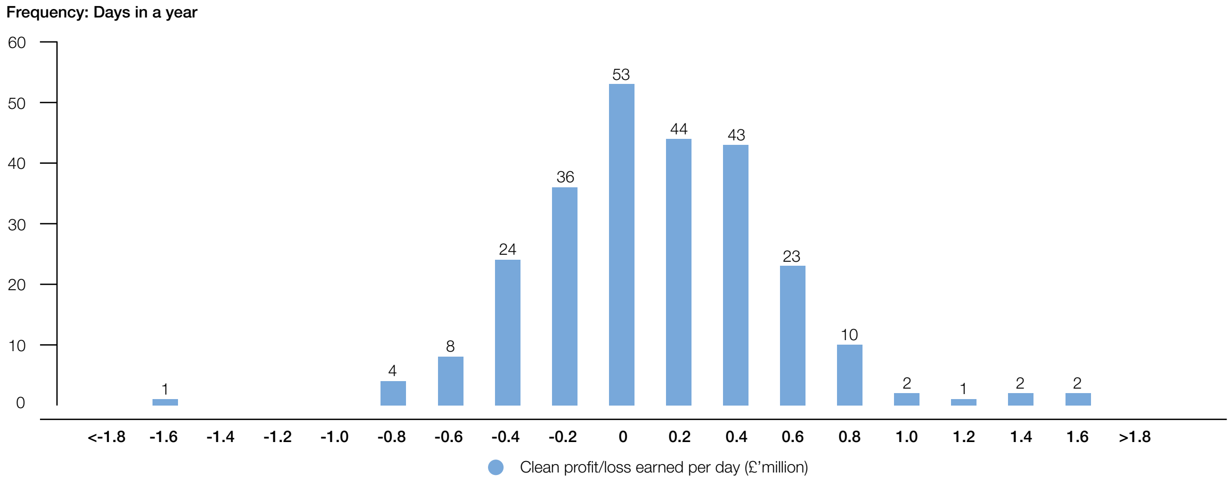
Capital

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

Clean 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 a clean profit was realised on 127 days out of a total of 253 days in the trading business. The average daily clean profit and loss generated for the year to 31 March 2019 was £25 196 (2018: £61 232).

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



Traded market risk year in review

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

Market risk – derivatives

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

Information showing our derivative trading portfolio over the reporting period on the basis of the notional principal and the fair value of all derivatives can be found on page 218.

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

Balance sheet risk management

Balance sheet risk description

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

Balance sheet risk governance structure and risk mitigation

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

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

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

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

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

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

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

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

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

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

Liquidity risk

Liquidity risk description

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

Liquidity risk is further broken down into:

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

Management and measurement of liquidity risk

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

- Our liquidity management processes encompass requirements set out within 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

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

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

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

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

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

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

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

Funding strategy

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

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

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

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

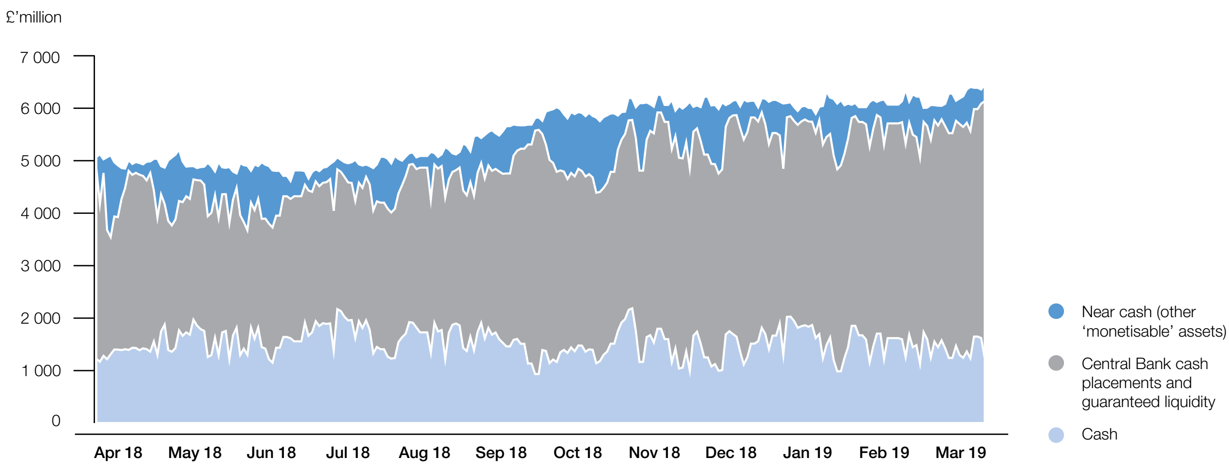
We remain confident in our ability to raise funding appropriate to our needs.

Liquidity buffer

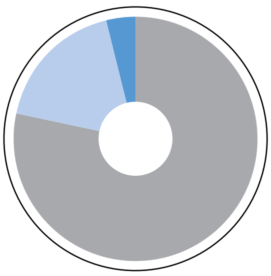
To protect against potential shocks, we hold a liquidity buffer in the form of cash, unencumbered high quality liquid assets (typically in the form of government or rated securities eligible for repurchase with the central bank), and near cash, well in excess of the regulatory requirements as protection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

From 1 April 2018 to 31 March 2019 average cash and near cash balances over the period amounted to £6.3 billion.

Cash and near cash trend



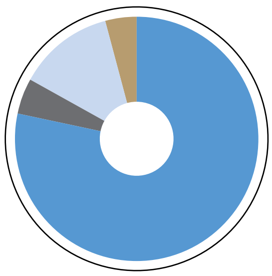
An analysis of cash and near cash at 31 March 2019



£6 991 million

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

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



£14 482 million

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

The liquidity position of the group remained sound with total cash and near cash balances amounting to £7.0 billion at year end

Contingency planning

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

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

Asset encumbrance

An asset is defined as encumbered if it has been pledged as collateral against an existing liability and, as a result, is no longer available to the 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' 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 III document.

On page 216 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 the group would meet any unexpected net cash outflows by repo'ing or selling these highly liquid securities. Consequently, for the liquidity buffer:
  – The time horizon to monetise our regulatory liquid assets which are guaranteed by the central bank has been adjusted to 'on demand'; and
- *Customer deposits:* the contractual repayments of many deposits are on demand, or at notice, but behaviourally withdrawals vary significantly from this. Historical observations of the products are used to model the behavioural lives, and this analysis has identified significant additional sources of structural liquidity in the form of core deposits that exhibit stable behaviour.

Contractual liquidity at 31 March 2019

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

Behavioural liquidity

As discussed on page 76.

£'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	> Five years	Total
Behavioural liquidity gap	**4 012**	**63**	**30**	**(1 692)**	**(583)**	**(2 585)**	**755**	**–**
Cumulative	4 012	4 075	4 105	2 413	1 830	(755)	–	

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.

Banks within the EU have been required to maintain a minimum LCR ratio of 100%. For IBP (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 IBP (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.

The LCR reported to the PRA at 31 March 2019 was 291% for Investec Bank plc (solo basis) which is well ahead of the regulatory minimum of 100%. Ahead of the implementation of the final NSFR rules, the group has applied its own interpretations of regulatory guidance and definitions from the BCBS final guidelines, to calculate the NSFR which was 126% for Investec Bank plc (solo basis) well ahead of the future regulatory minimum of 100%.

The reported LCR and NSFR may change over time with regulatory developments and guidance.

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

Balance sheet risk year in review

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

A strong liquidity position has continued to be maintained throughout the year primarily supported by robust growth in fixed term and notice retail deposits in the UK business.

Cash and near cash balances at 31 March 2019 amounted to £7.0 billion (31 March 2018: £5.8 billion). Customer deposits totalled £13.2 billion at 31 March 2019 (31 March 2018: £11.6 billion).

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

Funding and liquidity continue to be raised through a diverse mix of customer liabilities by customer type, currency, channel and tenor, avoiding reliance on any particular channel and ensuring continued access to a wide range of deposits.

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

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

Despite the continuing market uncertainty over the UK's departure from the European Union, the overall liquidity position at the year-end remains strong across a range of metrics in line with our overall conservative approach to balance sheet risk management and is well positioned to support asset growth in the new financial year.

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

Non-trading interest rate risk

Non-trading interest rate risk description

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

Sources of interest rate risk in the banking book include:

- **Repricing risk:** arises from the timing differences in the fixed rate maturity and floating rate repricing of group assets, liabilities and off-balance sheet derivative positions. This affects the interest rate margin realised between lending income and borrowing costs when applied to our rate sensitive portfolios

- **Yield curve risk:** repricing mismatches also expose the 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 group or its customers can alter the level and timing of their cash flows
- **Endowment risk:** refers to the interest rate risk exposure arising from the net differential between interest rate insensitive assets, interest rate insensitive liabilities and capital.

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

Measurement and management of non-trading interest rate risk

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

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

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

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

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

Each geographic entity has its own board-approved non-trading interest rate risk policy and risk appetite, which is clearly defined in relation to both income risk and economic value risk. The group has limited appetite for non-trading interest rate risk.

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

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

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

Interest rate sensitivity gap

The table below shows our non-trading interest rate mismatch at 31 March 2019. 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	5 609	–	–	–	–	–	5 609
Investment/trading assets	2 231	402	51	153	15	–	2 852
Securitised assets	118	–	–	–	–	–	118
Advances	6 269	1 769	408	2 100	178	–	10 724
Other assets	–	–	–	–	–	1 734	1 734
Assets	**14 227**	**2 171**	**459**	**2 253**	**193**	**1 734**	**21 037**
Deposits – banks	(1 317)	(14)	–	–	–	–	(1 331)
Deposits – non-banks	(9 187)	(878)	(1 635)	(1 447)	(4)	–	(13 151)
Negotiable paper	(2 055)	–	–	(400)	–	–	(2 455)
Securitised liabilities	(114)	–	–	–	–	–	(114)
Investment/trading liabilities	(154)	–	–	–	–	–	(154)
Subordinated liabilities	(76)	–	–	(728)	–	–	(804)
Other liabilities	–	–	–	–	–	(743)	(743)
Liabilities	**(12 903)**	**(892)**	**(1 635)**	**(2 575)**	**(4)**	**(743)**	**(18 752)**
Total equity	–	–	–	–	–	(2 285)	(2 285)
Balance sheet	**1 324**	**1 279**	**(1 176)**	**(322)**	**189**	**(1 294)**	**–**
Off-balance sheet	457	(54)	(142)	(143)	(118)	–	–
Repricing gap	**1 781**	**1 225**	**(1 318)**	**(465)**	**71**	**(1 294)**	**–**
Cumulative repricing gap	1 781	3 006	1 688	1 223	1 294	–	

Economic value sensitivity at 31 March 2019

As outlined above, non-trading interest rate risk is measured and monitored using an economic value sensitivity approach. The 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	(9.7)	3.4	(5.0)	(0.9)	(0.1)	0.2	(11.6)
200bps up	10.1	(3.6)	5.2	0.9	0.1	(0.2)	12.1

Operational risk

Operational risk description

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

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

Risk appetite

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

Operational risks are managed in accordance with the level of risk appetite. Any breaches of limits are escalated to IBP and DLC BRCC.

Management and measurement of operational risk

Regulatory capital

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

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

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

Operational risk management framework and governance

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

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

The levels of defence model is applied as follows:

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

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

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

Operational risk practices consist of the following:

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

Operational risk year in review

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

Operational risk events

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

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

Looking forward

Key operational risk considerations for the year ahead

DEFINITION OF RISK	MANAGEMENT, MITIGATION APPROACH AND PRIORITIES FOR 2019/2020
Business resilience	
Risk associated with disruptive incidents which can impact premises, staff, equipment, systems, and key business processes	• Maintain business operations during adverse events, through appropriate continuity capabilities that minimise impact to clients and the broader financial system • Establish fit-for-purpose resilience strategies including, but not limited to, relocating impacted businesses to alternate processing sites, implementation of high availability technology solutions, and ensuring physical resilience for critical infrastructure components • Conduct validation of recovery strategies at least annually to ensure they remain effective and appropriate • Enhance the group's global resilience capability through a team of dedicated resources and robust governance processes • Participate in regulatory and financial industry resilience activities to collaboratively minimise national systemic continuity risks
Cybersecurity	
Risk associated with cyber-attacks which can interrupt client services or business processes, or result in financial losses	• Maintain a risk-based strategy to ensure the group is adequately protected against advanced cyber-attacks, incorporating prediction, prevention, detection and response capabilities • Manage an adaptive cybersecurity architecture, ensuring consistent coverage of baseline cyber controls, with continual monitoring for visibility and proactive response to evolving cyber threats • Enhance cyber resilience by aligning security incident response with crisis management and business resilience processes • Validate the effectiveness of cyber controls through regular penetration testing and targeted attack simulations, run both internally and in conjunction with independent external specialists • Embed secure software development and testing practices to ensure IT systems are secure by design • Provide ongoing security training to staff to ensure high levels of awareness and vigilance
Anti-Money Laundering (AML), terrorist financing and sanctions	
Risk associated with money laundering, terrorist financing, bribery and tax evasion	• Continuous enhancement of AML and sanctions control systems across the group • Refinement of risk management methodology with the aim to risk rate clients better allowing more effective resource allocation based on the risk posed to the group • Further enhancing the transaction monitoring environments with an aim to 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 body level to manage legislative requirements through engagement with regulators
Fraud	
Risk associated with fraud, corruption, theft, forgery and integrity misconduct by staff, clients, suppliers and other stakeholders	• Enhance the group's global approach to fraud management through a holistic framework and consistent policies, standards and methodologies • Maintain an independent integrity line to ensure staff is able to report regulatory breaches, allegations of fraud, bribery and corruption, and non-compliance with policies • Proactive monitoring of adherence to fraud prevention policies and embedding of practices which comply with updated regulations, industry guidance and best practice • Continue to focus on training staff, educating clients and intermediaries on fraud prevention and detection • Participate in industry working groups to gain an understanding of current trends in order to enhance the control environment

DEFINITION OF RISK	MANAGEMENT, MITIGATION APPROACH AND PRIORITIES FOR 2019/2020
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 • Manage role-based access to business systems and data, in support of least-privilege and segregation of duty principles • Implement strong security controls to protect information against unauthorised access or disclosure, and reduce opportunity for data compromise • Maintain safeguards to protect confidential physical documents and facilitate secure destruction • Develop mechanisms to monitor for and respond to data breaches in line with relevant privacy laws • Protect and monitor internal and external information flows to ensure data completeness and integrity • Develop data retention and destruction processes based on business needs, whilst meeting applicable regulatory compliance obligations
Outsourcing and third party	
Risk associated with the reliance on, and use of a service provider to provide services to the group	• Governance structures are in place to approve outsource and third-party arrangements • 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 • Repeatable processes to facilitate both upfront and periodic evaluation based on the size, materiality, security and service provision of the third party
Process failure	
Risk associated with inadequate internal processes, including human error and control failure within the business. This includes process origination, execution and operations	• Proactive assessment relating to new products and projects to implement adequate and effective controls including the management of change • Address human errors through training, improvement of processes and controls, including automation of processes where possible • Segregation of duties and appropriate authorisation controls • Causal analysis is used to identify weaknesses in controls following the occurrence of risk events • Risk and performance indicators are used to monitor the effectiveness of controls across business units • Thematic reviews across business units to ensure consistent and efficient application of controls
Regulatory compliance	
Risk associated with identification, implementation and monitoring of compliance with regulations	• Group compliance and group legal assist in the management of regulatory and compliance risk which includes the identification and adherence to legal and regulatory requirements • 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 page 97) • 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 geopolitical risk (e.g. Brexit)
Technology availability	
Risk associated with disruption to the IT systems which underpin our critical business processes and client services	• Continue to align IT architecture and standards across the group, to reduce technical complexity and leverage common functions and services • Further enhance IT operational processes, including management of IT changes to minimise adverse impact, and response to IT incidents for swift resolution and root cause analysis • Drive automation to reduce human error whilst enhancing efficiency • Implement strategic infrastructure and application roadmaps, leveraging new technologies to enhance capacity, scalability, security, and reduce reliance on legacy IT systems • Establish effective, proactive monitoring of the technology environment, providing continual visibility of the health and performance of IT systems and processes • Maintain and test IT resilience capabilities to withstand failure and minimise service disruption

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 operational risk management and insurance risk management ensures that there is an exchange of information in order to enhance the mitigation of operational risk.

Recovery and resolution planning

The purpose of the recovery plan is to document how the board and management will recover from extreme financial stress to avoid liquidity and capital difficulties. In line with PRA and EU requirements, this document outlines the recovery plan for Investec plc. The plan is reviewed and approved by the board on an annual basis.

The recovery plan for the Investec plc:

- 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 the effects of the stresses under various scenarios
- Includes potential recovery actions available to the IBP board and management to respond to the situation, including immediate, intermediate and strategic actions
- Analyses the recovery potential as a result of these actions to scenarios 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 group.

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

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

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

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 customers, the Investec group's shareholders and all stakeholders. In addition, Investec group's policy is to avoid any transaction, service or association which may bring with it the risk of potential damage to our reputation. Transaction approval governance structures such as credit, 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 DLC board.

Pension risk

Pension risk arises from obligations arising from defined benefit pension schemes 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.

The Investec group has one remaining defined benefit scheme at 31 March 2019, which is closed to new business.

Further information is provided on pages 228 to 231.

Legal risk management

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

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

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

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

The legal risk policy is implemented through:

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

Responsibility for this policy rests with the IBP board and board. The IBP board delegates responsibility for implementation of the policy to the global head of IBP legal risk.

Conduct risk

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

The FCA expects all firms to have a robust conduct risk framework in place to facilitate a culture that delivers good outcomes both for consumers and the markets. As a result, firms are expected to look across their business models and strategies and assess how to balance the pursuit of profits with good outcomes for clients and proper standards of market conduct.

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

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

Climate related financial disclosures (TCFD)

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

Governance

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

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

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

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

Strategy

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

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

Our strategy is based on the following:

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

Risk management

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

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

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

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

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

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

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

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

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

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

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

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

Metrics and targets

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

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

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

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.

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

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

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

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

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

Regulatory considerations

The regulatory environment has continued to evolve during 2019, 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 issued the final document of "Basel III: Finalising post-crisis reforms". The revisions to the regulatory framework will help restore credibility in the calculation of RWA's by:

- Enhancing the robustness and risk sensitivity of the standardised approaches for credit risk and operational risk
- Constraining the use of internal model approaches
- Complementing the risk-weighted capital ratio with a finalised leverage ratio and a revised capital floor.

  The changes are expected to come into force at a Basel level on 1 January 2022. However it has yet to enter into EU law and the EU has not yet set the expected implementation date.

  In January 2019, the Basel committee on banking supervision issued a revised standard on the minimum requirements for market risk (Fundamental Review of the Trading Book (FRTB)), which replaced the earlier version of the standard which was published in January 2016. As in the January 2016 framework, the core features of the standard include:

- a clearly defined boundary between the trading book and the banking book
- an internal models approach that relies upon the use of expected shortfall models and sets out separate capital requirements for risk factors that are deemed non-modelable; and
- a standardised approach that is risk-sensitive and is designed and calibrated to serve as a credible fallback to the internal models approach.

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

The Basel committee has also published its final standard on the securitisation framework, which came into effect in the EU on 1 January 2019 with a one year grandfathering period for transactions issued pre 1 January 2019

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

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

UK

The UK's withdrawal from the EU

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

Regulatory development

In November 2018, the PRA issued a "general requirements and the revised capital framework on securitisation positions" supervisory statement. The policy, which came into force on 1 January 2019, sets out the general expectations of firms and processes under the securitisation regulation; expectations of firms seeking to become sponsors of Simple, Transparent and Standardised (STS) asset backed commercial paper programme. It also sets out the revised capital framework for the securitisation positions. The new framework amends the capital requirements for securitisation positions by introducing a new standardised approach (SEC-SA) and an external ratings based approach. It also sets out the grandfathering provisions which apply in 2019 for assets that were securitised before 1 January 2019. In addition, during the year, the Bank of England (BoE) and the PRA issued a number of other revisions to the regulatory framework. In particular:

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

Europe

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

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

The compromise text of CRRII/CRDV package was agreed by the European parliament and council on 4 December 2018 and the final text was approved by the parliament and council on 14 February 2019, was passed by plenary vote on 15 April 2019 and was adopted by the parliament at end of April 2019. The final implementation date has not yet been set.

Capital and leverage ratio targets

Capital

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

Leverage

Investec plc targets a leverage ratio above 6%.

Management of capital and leverage

Capital

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

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

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

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

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

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

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

Capital structure and capital adequacy

£'million	31 March 2019 Investec plc*°	31 March 2019 IBP*°	1 April 2018 Investec plc*°	1 April 2018 IBP*°	31 March 2018 Investec plc*°	31 March 2018 IBP*°
Tier 1 capital						
Shareholders' equity	1 918	1 889	1 765	1 777	1 977	1 989
Shareholders' equity excluding non-controlling interests	2 022	1 921	1 863	1 800	2 075	2 012
Foreseeable dividends	(63)	(19)	(65)	(18)	(65)	(18)
Perpetual preference share capital and share premium	(25)	–	(25)	–	(25)	–
Deconsolidation of special purpose entities	(16)	(13)	(8)	(5)	(8)	(5)
Non-controlling interests	7	(8)	12	(3)	12	(3)
Non-controlling interests transferred to tier 1	13	(8)	16	(3)	16	(3)
Surplus non-controlling interest disallowed in common equity tier 1	(6)	–	(4)	–	(4)	–
Regulatory adjustments to the accounting basis	110	110	142	145	(7)	(4)
Defined benefit pension fund adjustment	–	–	–	–	(3)	–
Additional value adjustments	(5)	(5)	(4)	(4)	(4)	(4)
Gains or losses on liabilities at fair value resulting from changes in our credit standing	21	21	55	55	–	–
Adjustment under IFRS 9 transitional arrangements	94	94	94	94	–	–
Deductions	(447)	(348)	(460)	(361)	(460)	(361)
Goodwill and intangible assets net of deferred taxation	(434)	(335)	(447)	(348)	(447)	(348)
Deferred taxation assets that rely on future profitability excluding those arising from temporary differences	(13)	(13)	(9)	(9)	(9)	(9)
Securitisation positions	–	–	(3)	(3)	(3)	(3)
Debit valuation adjustment	–	–	(1)	(1)	(1)	(1)
Common equity tier 1 capital	**1 588**	**1 643**	**1 459**	**1 558**	**1 522**	**1 621**
Additional tier 1 instruments	274	250	274	200	274	200
Tier 1 capital	**1 862**	**1 893**	**1 733**	**1 758**	**1 796**	**1 821**
Tier 2 capital	**489**	**596**	**368**	**445**	**359**	**445**
Tier 2 instruments	597	596	446	445	446	445
Phase out of non-qualifying tier 2 instruments	(1)	–	–	–	–	–
Non-qualifying surplus capital attributable to non-controlling interests	(107)	–	(78)	–	(87)	–
Total regulatory capital	**2 351**	**2 489**	**2 101**	**2 203**	**2 155**	**2 266**
Risk-weighted assets	**15 313**	**14 631**	**14 444**	**13 777**	**14 411**	**13 744**
Capital ratios						
Common equity tier 1 ratio	10.4%	11.2%	10.1%	11.3%	10.6%	11.8%
Tier 1 ratio	12.2%	12.9%	12.0%	12.8%	12.5%	13.2%
Total capital ratio	15.4%	17.0%	14.5%	16.0%	15.0%	16.5%

* *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 2019 and 2018 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 41bps (31 March 2018: 45bps) and 13bps (31 March 2018: 13bps) higher, respectively, on this basis.*

Capital requirements

£'million	31 March 2019 Investec plc*	31 March 2019 IBP*	1 April 2018 Investec plc*	1 April 2018 IBP*	31 March 2018 Investec plc*	31 March 2018 IBP*
Capital requirements	**1 225**	**1 170**	**1 156**	**1 101**	**1 153**	**1 099**
Credit risk	909	893	845	824	842	822
Equity risk	10	9	6	6	6	6
Counterparty credit risk	48	49	51	52	51	52
Credit valuation adjustment risk	6	6	10	10	10	10
Market risk	68	67	71	77	77	77
Operational risk	184	146	167	132	167	132
Risk-weighted assets (banking and trading)	**15 313**	**14 631**	**14 444**	**13 777**	**14 411**	**13 744**
Credit risk	11 361	11 174	10 554	10 304	10 521	10 271
Equity risk	121	115	78	79	78	79
Counterparty credit risk	605	611	639	652	639	652
Credit valuation adjustment risk	75	76	121	121	121	121
Market risk	855	833	965	965	965	965
Operational risk	2 296	1 822	2 087	1 656	2 087	1 656

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

Movement in RWAs

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

Credit risk RWAs

Credit risk RWAs, which include equity risk, increased by £883 million. The increase is primarily driven by diversified growth across the corporate and retail portfolio coupled with continued mortgage loan growth.

Counterparty credit risk RWAs and Credit Valuation Adjustment Risk (CVA) risk

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

Market risk RWAs

Market risk RWAs decreased by £110 million primarily driven by equity market movements and hedging activities.

Operational risk RWAs

Operational risk RWAs increased by £209 million. The increase is due to a higher three year average operating income.

Leverage

£'million	31 March 2019 Investec plc*	31 March 2019 IBP*	1 April 2018 Investec plc*	1 April 2018 IBP*	31 March 2018 Investec plc*	31 March 2018 IBP*
Total exposure	24 282	23 849	21 772	21 335	21 772	21 335
Tier 1 capital	1 862	1 893	1 733	1 758	1 796	1 821
Leverage ratio** – current	7.7%	7.9%	8.0%	8.2%	8.2%	8.5%
Total exposure fully loaded	24 167	23 734	21 675	21 238	21 772	21 335
Tier 1 capital fully loaded	1 761	1 816	1 663	1 713	1 772	1 821
Leverage ratio** – fully loaded^	7.3%	7.7%	7.7%	8.1%	8.1%	8.5%

* *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.*
^ *Based on the group's understanding of current regulations, 'fully loaded' is based on CRR requirements as fully phased in by 2022, including full adoption of IFRS 9. As a result of the adoption of IFRS 9 Investec plc elected to designate its subordinated fixed rate medium-term notes due in 2022 at fair value. By the time of full adoption of IFRS 9 in 2023, these subordinated liabilities will have reached final maturity and will be redeemed at par value. The remaining interest rate portion of the fair value adjustment at 31 March 2019 of £17.7 million (post-taxation), has therefore been excluded from the fully loaded ratios as it will be released into profit and loss over the remaining life of the instrument.*

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 2019		31 March 2018	
£'million	**Investec plc***	**IBP***	Investec plc*	IBP*
Opening common equity tier 1 capital	**1 522**	**1 621**	**1 448**	**1 552**
New capital issues	66	–	71	–
Gain on Preference share redemption	–	–	–	–
Dividends	(123)	(46)	(113)	(57)
Profit after taxation	189	159	135	98
Treasury shares	(42)	–	(64)	–
Non-controlling interest relating to partial disposal of subsidiaries	–	–	9	–
Net equity impact on non controlling interest movements	31	–	–	–
Share-based payment adjustments	30	(2)	31	1
IFRS 9 Adjustment	(213)	(213)	–	–
Movement in other comprehensive income	13	14	(9)	(10)
Goodwill and intangible assets (deduction net of related taxation liability)	13	13	17	16
Deferred taxation that relies on future profitability (excluding those arising from temporary differences)	(5)	(4)	1	1
Deconsolidation of special purpose entities	(8)	(8)	2	3
Foreseeable charges and dividends	2	(1)	(5)	17
Other, including regulatory adjustments and transitional arrangements	113	110	(1)	–
Closing common equity tier 1 capital	**1 588**	**1 643**	**1 522**	**1 621**
Opening additional tier 1 capital	**274**	**200**	**24**	**–**
New additional tier 1 capital issues	–	50	250	200
Closing additional tier 1 capital	**274**	**250**	**274**	**200**
Closing tier 1 capital	**1 862**	**1 893**	**1 796**	**1 821**
Opening tier 2 capital	**359**	**445**	**475**	**560**
New tier 2 capital issues	418	418	–	–
Redeemed capital	(267)	(267)	–	–
Amortisation	–	–	(115)	(115)
Other, including regulatory adjustments and transitional arrangements	(21)	–	(1)	–
Closing tier 2 capital	**489**	**596**	**359**	**445**
Closing total regulatory capital	**2 351**	**2 489**	**2 155**	**2 266**

* *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 2019		31 March 2018	
	Investec plc^*	**IBP^***	Investec plc^*	IBP^*
Common equity tier 1 (as reported)	10.4%	11.2%	10.6%	11.8%
Common equity tier 1 ('fully loaded')	9.9%	10.8%	10.6%	11.8%
Tier 1 (as reported)	12.2%	12.9%	12.5%	13.2%
Total capital ratio (as reported)	15.4%	17.0%	15.0%	16.5%
Leverage ratio** – current	7.7%	7.9%	8.2%	8.5%
Leverage ratio** – 'fully loaded'^^	7.3%	7.7%	8.1%	8.5%
Leverage ratio** – current UK Leverage ratio framework^^^	9.6%	10.6%	9.8%	10.2%

* *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 2019 and 2018 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 41bps (31 March 2018: 45bps) and 13bbps (31 March 2018: 13bps) higher, respectively on this basis.*

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

^^ *Based on the group's understanding of current regulations, 'fully loaded' is based on CRR requirements as fully phased in by 2022, including full adoption of IFRS 9. As a result of the adoption of IFRS 9 Investec Bank plc elected to designate its subordinated fixed rate medium-term notes due in 2022 at fair value. By the time of full adoption of IFRS 9 in 2023, these subordinated liabilities will have reached final maturity and will be redeemed at par value. The remaining interest rate portion of the fair value adjustment at 31 March 2019 of £17.7 million (post-taxation), has therefore been excluded from the fully loaded ratios as it will be released into profit and loss over the remaining life of the instrument.*

^^^ *Investec plc is not subject to the UK leverage ratio framework, however, due to 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

3

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 February 2019, Investec Bank plc's long-term deposit rating was upgraded by Moody's to A1 (stable outlook) and Investec plc's ratings were affirmed at Baa1 (stable outlook) while taking into account the proposed Investec Asset Management demerger. In August 2018, Investec Bank plc's long-term deposit rating was affirmed by Fitch at BBB+ however in March 2019 Fitch placed Investec Bank plc along with nineteen other UK banks Rating outlooks on Rating Watch Negative following Fitch's decision to place the UK sovereign (AA) on Rating Watch Negative, as a result of heightened uncertainty over the outcome of the Brexit process, and an increased risk of a disruptive 'no-deal' Brexit. Our ratings at 14 June 2019 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	A1
Short-term rating	P-2	P-1
Baseline Credit Assessment (BCA) and adjusted BCA		baa1
Global Credit Ratings		
Long-term rating		BBB+
Short-term rating		A2

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 group Internal Audit functions located in London and Johannesburg, responsible for Investec plc and Investec Limited respectively. Investec Bank plc's (Irish branch) has its own Internal Audit function reporting into Investec plc Internal Audit. In combination, the functions cover all the geographies in which Investec operates. These functions use a global risk-based methodology and cooperate technically and operationally.

The Investec plc head of Internal Audit reports at each subsidiary audit committee, Investec plc Audit Committee as well as DLC Audit Committee. The Investec plc head of Internal Audit has a direct reporting line to the chair of the Investec plc Audit Committee as well as dotted lines to the appropriate chief executive officers. For administrative purposes, the Investec plc head of Internal Audit also reports to the head of corporate governance and compliance. The function operates independently of executive management, but has regular access to the Investec Bank plc, Investec Wealth & Investment and group chief executive officers and to business unit executives. The function complies with the International Standards for the Professional Practice of Internal Auditing, and are subject to an independent Quality Assurance Review (QAR) at appropriate intervals. The most recent independent QAR benchmarked the functions against the publication by the Chartered Institute for Internal Auditors entitled Effective Internal Audit in the Financial Services Sector, final report issued in January 2015. The next QAR review will take place during the 2019/20 financial year.

Annually, Internal Audit conducts a formal risk assessment of the entire business from which a comprehensive risk-based audit plan is derived. The assessment and programme are validated by executive management and approved by the responsible audit committee. Very high risk businesses and processes are audited at least every twelve months, with other areas covered at regular intervals based on their risk profile. There is an ongoing focus on identifying fraud risk as well as auditing technology risks given Investec's dependence on IT systems. Thematic audits, which cover processes across multiple business units, are part of the audit plan and serve to provide consistent and integrated assurance between group functions and the operating entities.

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

Significant control weaknesses are reported, in terms of an escalation protocol, to the local assurance forums, where remediation procedures and progress are considered and monitored in detail by management. The audit committees receive a report on significant control issues and actions taken by management to enhance related controls. An update on the status of previously raised issues is provided by Internal Audit to each audit committee. Internal Audit proactively reviews its practices and resources for adequacy and appropriateness to meet an increasingly demanding corporate governance and regulatory environment, including the requirements of King IV in South Africa. The audit teams comprise well-qualified, experienced staff to ensure that the function has the competence to match Investec's diverse requirements, which is assessed annually by the respective audit committees with no adverse outcomes. Where specific specialist skills or additional resources are required, these are obtained from third parties. Internal Audit resources are subject to review by the respective audit committees to ensure resourcing is appropriate, that the function operates independently and effectively, and appropriate succession planning is in place.

Regulatory change continues to be a key challenge in the financial sector with global political events adding uncertainty as to the shape of the financial services regulation going forward. Global regulations remain focused on countering market abuse with heightened scrutiny and regulatory attention in this area, including sustained focus on the EU's strengthened Market Abuse Regime. This year, global regulators have continued to focus on promoting stability and resilience in financial markets, with sustained emphasis on recovery and resolution plans and structural reforms to the banking sector as well as customer and market conduct related forums.

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

Regulatory change continues to be a key challenge in the financial sector with global political events adding uncertainty as to the shape of financial services regulation going forward. Global regulators remain focused on countering market abuse with heightened scrutiny and regulatory attention in this area, including sustained focus on the EU's strengthened Market Abuse Regime. This year, global regulators have continued to focus on promoting stability and resilience in financial markets, with sustained emphasis on recovery and resolution plans and structural reforms to the banking sector as well as customer and market conduct related reforms. The group remains focused on maintaining the highest levels of compliance in relation to regulatory requirements and integrity in all of our jurisdictions. Our culture is central to our compliance framework and is supported by robust policies, processes and talented professionals who ensure that the interests of our customers and shareholders remain at the forefront of everything we do.

Year in review

Conduct risk

During the period the UK's Financial Conduct Authority (FCA) has continued to focus on advancing its three operational objectives: securing an appropriate degree of protection for consumers; protecting and enhancing the integrity of the UK financial system; and promoting effective competition in the interest of consumers. Consistent with these three overall objectives, the FCA has maintained its focus on firms' culture and conduct, establishing a clear expectation that UK regulated banks maintain robust frameworks for managing risk in these key areas. Specifically, UK firms are expected to be able to demonstrate that their culture, governance and approach to rewarding and managing staff are at all times aligned to the interests of customers and the firms' other stakeholders. The board, along with senior management are ultimately responsible for the group's culture and conduct risk frameworks. The group has continued to focus over the period on delivering good customer outcomes and effectively managing conduct risk throughout our business. This has included continued and ongoing investment in and enhancement of our conduct risk framework and a sustained focus on maintaining the highest levels of regulatory compliance throughout our businesses.

Consumer protection

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

Wholesale markets

The FCA continues a proactive and assertive approach, in identifying and addressing risks arising from firms' conduct in the wholesale markets. This has included an increasingly intensive approach to supervisory activities and thematic reviews as well as several high profile referrals to enforcement.

Financial crime

Financial crime continues to be an increasing regulatory focus with regulators globally encouraging firms to adopt a dynamic approach to the management of risk and to increase efforts around systems and controls to combat both money laundering and bribery and corruption. The FCA Business Plan also highlights financial crime (frauds and scams) and anti-money laundering (AML) as one of their key cross-sector priorities with a particular focus on the harm caused by money laundering within capital markets. The group maintains robust due diligence with relevant policies, procedures and training to guard against the risks of financial crime.

Brexit

On 29 March 2017, the UK government invoked Article 50 of the Treaty on the European Union starting the process for the UK to leave the European Union (EU) on 29 March 2019. The details of a Brexit agreement between the EU and the UK and is still subject to material uncertainty. As such, during the period, Investec dedicated resources to ensuring that Investec Asset Management, Investec Bank plc and Investec Wealth & Investment have robust contingency plans in place to maintain access to EU clients and markets in the event of Brexit.

Tax reporting (FATCA/CRS)

The Foreign Account Tax Compliance Act (FATCA) aims to promote cross-border tax compliance by implementing an international standard for the automatic exchange of tax information relating to US investors. The provisions call on tax authorities all over the world to obtain detailed account information from financial institutions relating to US investors and exchange that information automatically with the United States Internal Revenue Service on an annual basis. Australia, Channel Islands, Ireland, India, Hong Kong, Luxembourg, Singapore and the UK have entered into intergovernmental agreements with the USA and each has enacted local law/ regulation to implement FATCA. Separately, the intergovernmental agreement between the USA and Switzerland requires Swiss financial institutions to report to the US tax authorities (IRS). The OECD has recently taken further steps to improve global cross-border tax compliance by releasing the Common Reporting Standard (CRS). The CRS is a set of global standards for the annual exchange of financial information by financial institutions pertaining to customers, to the tax authorities of the jurisdictions in which those customers are resident for tax purposes. CRS took effect on 1 January 2016 in India, Hong Kong, Ireland, the Channel Islands, Luxembourg and the UK with reporting commencing from 2017. For Australia and Switzerland, CRS took effect from 1 January 2017 with reporting commencing from 2018 for individuals only. The reporting for entities will commence in 2019. Investec plc is currently compliant with its obligations under FATCA and CRS.

We are not all things to all people: we serve select niches where we can compete effectively

Chairman's introduction

Dear Shareholder

I am pleased to present the annual corporate governance report for the year ended 31 March 2019. The report details our approach to corporate governance in practice, how we operate and our key activities during the year, together with information on the annual board evaluation process.

The operating environment remained challenging over the period. Against this backdrop, the group's adjusted operating profit is ahead of the prior year. The combined Bank and Wealth business and the Asset Management business have both reported results ahead of the prior year.

The group has built a diversified portfolio of businesses over many years creating a solid platform, and is well positioned in its core markets. During the current year the group has seen a smooth transition in management succession from a founder led business to the next generation of leadership.

As part of management succession, the board, with the support of the executive team, conducted a comprehensive strategic review of the group to ensure that it remains well positioned to serve the long-term interests of all stakeholders. Through the strategic review, the board concluded that while there are compelling current and potential linkages between the Banking business and the Wealth business, which operate in common geographic and client segments, there are limited synergies between the Asset Management business and the rest of the Investec group. After considering a full range of options, the board concluded that a demerger and separate listing of Investec Asset Management would create simplicity and allow the businesses to have a sharper focus on their respective growth trajectories which should result in improved resource allocation, better operational performance and higher long-term growth.

Before looking in more detail at the key aspects of our governance, I would like to reflect on the board's achievements and the challenges encountered over the past year, in addition to the key focus areas for the year ahead.

The past year in focus

Strategy

The group remains driven by our founders' entrepreneurial spirit and commercial integrity, we have built a reputation for forging strong, open and long-standing partnerships with our clients. Investec's culture and values continue to underpin the organisation in achieving its strategic objectives. The board remains committed to long term stakeholder value creation. The group's priorities which arose from the board's comprehensive strategic review are to simplify, focus and grow with discipline. We are confident that focus on these strategic objectives will lead to sustainable enhanced stakeholder returns.

Board composition

The board, working closely with the DLC Nominations and Directors' Affairs Committee (DLC Nomdac), continues to drive and monitor succession planning. The succession of the group's long-serving executive management has been a key focus area for the board with the group's initial announcement in this regard made in November 2015. Since the previous annual report, the following changes have been affected in respect of the board:

- Stephen Koseff and Bernard Kantor stepped down from their roles of chief executive officer (CEO) and managing director (MD) of the group, respectively, on 1 October 2018. Stephen and Bernard will not stand for re-election at the 2019 annual general meeting. They will continue to actively oversee the proposed demerger and separate listing of Investec Asset Management until its completion.
- Fani Titi and Hendrik du Toit were appointed as designated joint group chief executive officers (CEO's) from 15 May 2018 until 30 September 2018. Fani and Hendrik assumed their roles as joint CEOs of the group on 1 October 2018. Following the demerger of Investec Asset Management from the group, Hendrik will step down from the board to focus his efforts on the demerged Asset Management business.
- Glynn Burger stepped down from the board on 31 March 2019. The board would like to thank Glynn for his exemplary service, dedication and commitment to the group over the last 38 years and wish him well with his future endeavours.
- Nishlan Samujh, formerly the chief finance officer (CFO) of the group, was appointed as group finance director (FD) and an executive director of the board with effect from 1 April 2019.
- Kim McFarland, finance director of Investec Asset Management was appointed as an executive director on 1 October 2018. Subsequent to the demerger of Investec Asset Management from the group, Kim will step down from the board to focus her efforts on the demerged Asset Management business.
- Cheryl Carolus, a non-executive director of the group since 18 March 2005, will not stand for re-election at the annual general meeting in August 2019. The board is grateful to Cheryl for her commitment and contribution to the board over the past fourteen years and wish her well with her future endeavours.
- Laurel Bowden, who has been a non-executive director of the group since 1 January 2015 will also not stand for re-election at the annual general meeting in August 2019. The board would like to thank Laurel for her dedication and contributions to the group over the years.

Diversity

The group strives to prevent and eliminate any form of discrimination based on gender, race, ethnicity, religion, age, disability, sexual preference, political opinion, sensitive medical conditions, nationality or country of origin. We are committed to attracting, developing and retaining a diverse team of talented people and our recruitment strategies prioritise previously disadvantaged candidates, where possible. A diverse workforce is vital to our ability to continue to be an innovative organisation that can adapt and prosper in a fast-changing world. We have various formal and informal processes to encourage debate and dialogue valuing diversity and difference across the group.

During the year the board approved a board diversity policy, setting out the targets for board composition in terms of gender and race. The board, cognisant of the Hampton-Alexander Review, set a target of 33% female representation on the board by 2020, and as at 31 March 2019, we are pleased to report that there was a 25% representation of women on the board. The group has also 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. We are also a member of the 30% club in South Africa and the UK.

The board was mindful of all aspects of diversity when considering the recruitment of two additional independent non-executive directors to the board. Following a comprehensive search, the DLC Nomdac recommended the appointment of two additional female independent non-executive directors. The appointments are subject to finalisation.

In addition, during the year, the group reported on its 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 further promote diversity.

Corporate governance

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 uncompromised moral strength in order to promote and maintain trust. We demand cast-iron integrity in all internal and external dealings and an uncompromising display of moral strength and behaviour. We believe that open and honest dialogue is the appropriate process to test decisions, reach consensus and accept responsibility. We have adopted a multi-dimensional 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.

During the year under review, in line with discussions with regulators, work was done to further develop the governance processes of the group, with the enhancement of the independent governance structure for Investec Bank plc (IBP), including the establishment of a standalone Board Risk and Capital Committee and Remuneration Committee for IBP.

For the financial year ended 31 March 2019, the group applied and was compliant with the UK Corporate Governance Code 2016. The board, in preparation for the group's adoption of the UK Corporate Governance Code 2018, has reviewed its corporate governance framework and considered our approach to workforce engagement. We will report on our application of the UK Corporate Governance Code 2018 in next year's annual report.

Board effectiveness

The board regularly reviews its own effectiveness and therefore undertakes an evaluation of its performance and that of its committees and individual directors annually. In accordance with the three-year cycle, the 2018 board effectiveness review was conducted by an external independent facilitator, Professor Robert Goffee, from the London School of Business.

Overall the board members were found to be satisfied with various aspects of board governance and functioning. The board effectiveness review identified that there had been an improvement to board governance and functioning, in comparison with the previous externally facilitated effectiveness review, which had been conducted by Professor Robert Goffee in 2015. Further details regarding the 2018 board effectiveness review may be found in the DLC Nomdac report on page 123.

Stakeholder engagement

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

During the past year, the board has continued its shareholder consultations. The primary focus of these consultations was the outcome of the group's strategic review and management succession planning. These consultations also provided an opportunity to discuss governance and business strategy more broadly with shareholders, with the dialogue centered on the composition of the board and the proposed demerger and separate listing of Investec Asset Management.

The group hosted Capital Markets Days (CMDs) for the Asset Management business and the Bank and Wealth business in November 2018 and February 2019 respectively. Both CMDs were successful in reaffirming the businesses' positioning and communicating the respective strategies. The Bank and Wealth CMD also provided an opportunity to highlight some of the key initiatives underway to enhance returns and to set out the new short- to medium-term targets for the Bank and Wealth business. Asset Management will host a further CMD in the coming months to provide further insight into its strategic focus and growth potential as a standalone business.

The year ahead

In the coming year, a key focus for the board will be the proposed demerger and separate listing of Investec Asset Management, which is expected to occur during the 2020 financial year. Following the demerger, the board, with the assistance of the DLC Nomdac, will undertake a review of the composition of the board, to ensure that it remains appropriate for the group, and that the members of the board have the necessary skills, knowledge and experience required to conduct the affairs of the group. This will be in addition to the consideration of the governance structure of the refreshed group, and the governance structures of the group's core Bank and Wealth subsidiaries.

As per the CMD in February 2019 there will be an increased focus on performance and improvement on the return on equity (ROE) of the group's Bank and Wealth business.

Conclusion

The careful selection of people, their ongoing development and uncompromising commitment to our stated values will continue to be a distinctive characteristic of Investec's culture and drive.

We will continue to integrate social, ethical and environmental considerations into day-to-day operations and our sustainability approach is based on the integration of people, planet and profit.

Over the following pages, you will find more detail on the group's governance framework, including who the 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 trust that this report, together with the group's 2019 financial statements, will provide you with an overview of how we are managing the group and promoting the interests of all our stakeholders.

PKO Crosthwaite.

Perry Crosthwaite
Chairman

14 June 2019

Within this report you will find:

Who we are

Director biographies

Biographies of our current and former directors during the year are outlined below, including their relevant skills and experience, other principal appointments and any appointments to board committees for the year under review.

Zarina BM Bassa

Senior independent non-executive director (SID)

Age: 55

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 of Absa bank, and a member of the group's executive committee and Head of the Private Bank. She has previously chaired the South African Public Accountants' and Auditors' Board and the South African Auditing Standards Board and has been a member of the Accounting Standards Board and the JSE GAAP Monitoring Panel. Zarina has previously served as a non-executive director at several companies including Kumba Iron Ore Limited, Sun International Limited, Vodacom South Africa and the Financial Services Board. Zarina was appointed as the senior independent non-executive director of Investec plc and Investec Limited on 1 April 2018

Other principal appointments

Oceana Group Limited, YeboYethu Limited, Woolworths Holdings Limited, the JSE Limited, IBL, IBP, Investec Life Limited and Investec Bank (Mauritius) Limited

Committees

Investec plc Audit Committee (chair), DLC BRCC, DLC Nomdac and DLC Remco

Date of appointment

1 November 2014

*Laurel C Bowden**

Independent non-executive director

Age: 54

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

Relevant skills and experience

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

Other principal appointments

83 North UK LLP, Bluevine Capital Inc, Wolt Oy, Ebury Partners Ltd, Celonis SE, Mirakl SAS, Treasury Intelligence Solutions GmbH, MotorK Ltd and Workable Technology Ltd (in relation to the majority of these companies, Laurel serves on the board as a representative of 83 North)

Committees

Investec plc Audit Committee

Date of appointment

1 January 2015

* *LC Bowden will not stand for re-election at the 2019 annual general meeting.*

Glynn R Burger

Former group risk and finance director*

Age: 62
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
IBL**, IEP Group Proprietary Limited, BUD Group Proprietary Limited and Corobrik Proprietary Limited

Committees
DLC BRCC***

Date of appointment
3 July 2002

* *Retired from the board on 31 March 2019*
** *Retired from the IBL board on 12 December 2018*
*** *Retired from the DLC BRCC on 31 March 2019*

*Cheryl A Carolus**

Independent non-executive director

Age: 61
Qualifications: *BA (Law), Honorary doctorate in Law*

Relevant skills and experience
Cheryl was the South African High Commissioner in 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 (chair), The IQ Business Proprietary Limited, Ponahalo Capital Proprietary Limited, executive chairperson of Peotona Group Holdings Proprietary Limited (chair) and director of several of the Peotona group companies and International Crisis Group. Constitution Hill Education Trust (chair), Soul City Institute and British Museum Trustee

Committees
DLC SEC

Date of appointment
18 March 2005

* *CA Carolus will not stand for re-election at the 2019 annual general meeting.*

Perry KO Crosthwaite

Investec plc and Investec Limited chairman

Age: 70
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 position 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 career in investment banking with over 30 years of experience. 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
Jupiter Green Investment Trust (chairman) and Nordoff-Robbins Music Therapy

Committees
DLC Nomdac and DLC BRCC (chairman)

Date of appointment
18 June 2010

* *Appointed as chairman of the board on 15 May 2018*

Hendrik J du Toit

Joint group chief executive officer

Age: 57

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. Hendrik has served on the Leadership Council of the Sustainable Development Solutions Network, a United Nations based initiative since 2014. In 2016 he became a Commissioner of the Business and Sustainable Development Commission. In May 2018, Hendrik also became a member of HM Treasury's Belt and Road Initiative Expert Board. Hendrik became group joint chief executive officer of Investec group on 1 October 2018

Other principal appointments
Naspers Limited, Investec Asset Management Holdings Proprietary Limited and Investec Asset Management as well as their subsidiaries.

Committees
DLC SEC*

Date of appointment
15 December 2010

* *Appointed to DLC SEC on 12 March 2019*

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 Cape Town office before leaving in March 2013

Other principal appointments
IBL, IBP, Investec Fund Managers (RF) Limited, The Foschini Group Limited, Pick n Pay Stores Limited and Pres Les Proprietary Limited

Committees
DLC BRCC (chairman) and DLC Nomdac

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 Regional Managing Partner of two regions of Ernst & Young (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 chairman of the board of South African Institute of Chartered Accountants (SAICA)

Other principal appointments
IBL*, Aveng Limited and Investec Property Fund Limited

Committees
Investec plc Audit Committee, DLC BRCC, DLC Nomdac** and DLC Remco (chairman)

Date of appointment
14 August 2017

* *Appointed to the IBL board on 12 December 2018*
** *Appointed to the DLC Nomdac on 15 May 2018*

Charles R Jacobs

Independent non-executive director

Age: 52

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 has over 27 years of experience of advising companies around the world, including in relation to their compliance, regulatory and legal requirements. Charles chairs Linklaters and holds an LLB from Leicester University

Other principal appointments
Fresnillo plc (senior independent non-executive director and chairman of the Remuneration Committee)

Committees
DLC Remco

Date of appointment
8 August 2014

*Bernard Kantor**

Former group managing director** and executive director

Age: 69

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
IBL***, IBP****, Phumelela Gaming and Leisure Limited (chairman) and IEP Group Proprietary Limited

Committees
DLC BRCC and DLC SEC

Date of appointment
19 March 2002

* *B Kantor will not stand for re-election at the 2019 annual general meeting*
** *Resigned as group MD of the group on 1 October 2018*
*** *Resigned from the board of IBL on 30 January 2019*
**** *Resigned from the board of IBP on 30 January 2019*

Ian R Kantor

Non-executive director

Age: 72

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

Relevant skills and experience
Ian is a co-founder of Investec, served as the chief executive of IBL 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 South Africa (formerly Insinger de Beaufort Holdings South Africa, in which Investec Limited indirectly holds an 8.3% interest)

Date of appointment
26 June 2002

*Stephen Koseff**

Former group chief executive officer** and executive director

Age: 67

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. Stephen is the co-chair of the Youth Employment Services (YES) initiative in South Africa

Other principal appointments
IBL***, IBP****, Bid Corporation Limited (chairman) and IEP Group Proprietary Limited

Committees
DLC BRCC and DLC SEC

Date of appointment
26 June 2002

* *S Koseff will not stand for re-election at the 2019 annual general meting*
** *Resigned as CEO of group on 1 October 2018*
*** *Resigned from the IBL board on 30 January 2019*
**** *Resigned from the IBP board on 30 January 2019*

Lord Malloch-Brown KCMG

Independent non-executive director

Age: 65

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. He is also the chairman of the Business and Sustainable Development Commission (BSDC)

Other principal appointments
Seplat Petroleum Development Company plc, Kerogen Capital, Kerogen Capital (UK) Limited, SGO Corporation Limited and Grupo T-Solar Global SA

Committees
DLC Nomdac and DLC SEC (chairman)*

Date of appointment
8 August 2014

* *Appointed as chairman of the DLC SEC effective from 1 April 2018*

Kim McFarland

Executive director

Age: 54

Qualifications: *Bachelor of Accountancy and Bachelor of Commerce, CA(SA), MBA, Introduction to Securities and Investment (Securities Institute), UK Regulations and Markets (IMC)*

Relevant skills and experience

Kim graduated from the University of the Witwatersrand (Johannesburg) with degrees in Commerce and Accounting and subsequently qualified as a Chartered Accountant with PricewaterhouseCoopers in 1987. She also holds an MBA degree from the University of Cape Town. Kim served as Financial and Operations Manager at two South African life insurance companies. She joined Investec Asset Management in 1993 as its Chief Financial Officer to manage the operational and financial growth of the business. Kim is currently the finance director of Investec Asset Management and was appointed as an executive director of Investec plc and Investec Limited in October 2018. Kim has been a non-executive director of the Investment Association (UK) since September 2015

Date of appointment

1 October 2018

Nishlan Samujh

Group finance director

Age: 45

Qualifications: *BAcc, Dip Acc, CA(SA), HDip Tax*

R***elevant skills and experience***

Nishlan started his career in 1996 at KPMG Inc. In 1999, he proceeded to join Sasol Chemical Industries for a short period before joining Investec in January 2000. Nishlan started his career at Investec in financial reporting team as a technical accountant. In 2010 he took on the full responsibility for the finance function in South Africa. This role developed into the Global Head of Finance. Nishlan was appointed as finance director of Investec plc and Investec Limited on 1 April 2019

Other principal appointments

IBL*

Committees

DLC BRCC

Date of appointment

1 April 2019

* *Resigned from the IBL on 14 May 2019*

Khumo L Shuenyane

Independent non-executive director

Age: 48

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

Relevant skills and experience

Khumo serves on the boards of several companies in the Investec group. He is also a partner at Delta Partners, a global advisory firm headquartered in Dubai focused on the telecoms, media and technology sectors. 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

IBL (chairman)*, Investec Life Limited, Investec Specialist Investments (RF) Limited, Investec Asset Management Holdings Proprietary Limited, Investec Asset Management, Investec Life and Investec Property Fund.

Committees

Investec plc Audit Committee**, DLC BRCC and DLC Nomdac

Date of appointment

8 August 2014

* *Appointed as chairman of IBL effective from 15 May 2018*
** *Resigned from the DLC Audit Committee on 12 January 2019*

Fani Titi

Joint group chief executive officer

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 until 15 May 2018. He has also been a member of the IBL board from July 2002. He has been a member of the IBP board from August 2011. 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. Fani has also joined the Secretary General of the United Nations CEO Alliance on Global Investors for Sustainable Development (GISD). Fani became joint group chief executive officer of Investec group on 1 October 2018

Other principal appointments

IBP, IBL, IEP Group Proprietary Limited, Investec Asset Management Holdings Proprietary Limited and Investec Asset Management Limited

Committees

DLC BRCC, DLC Nomdac (chairman)* and DLC SEC**

Date of appointment

30 January 2004

* *Resigned as chairman of the DLC Nomdac on 15 May 2018*

** *Appointed to DLC SEC on 12 March 2019*

Governance framework

Investec group operates under a dual listed companies (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.

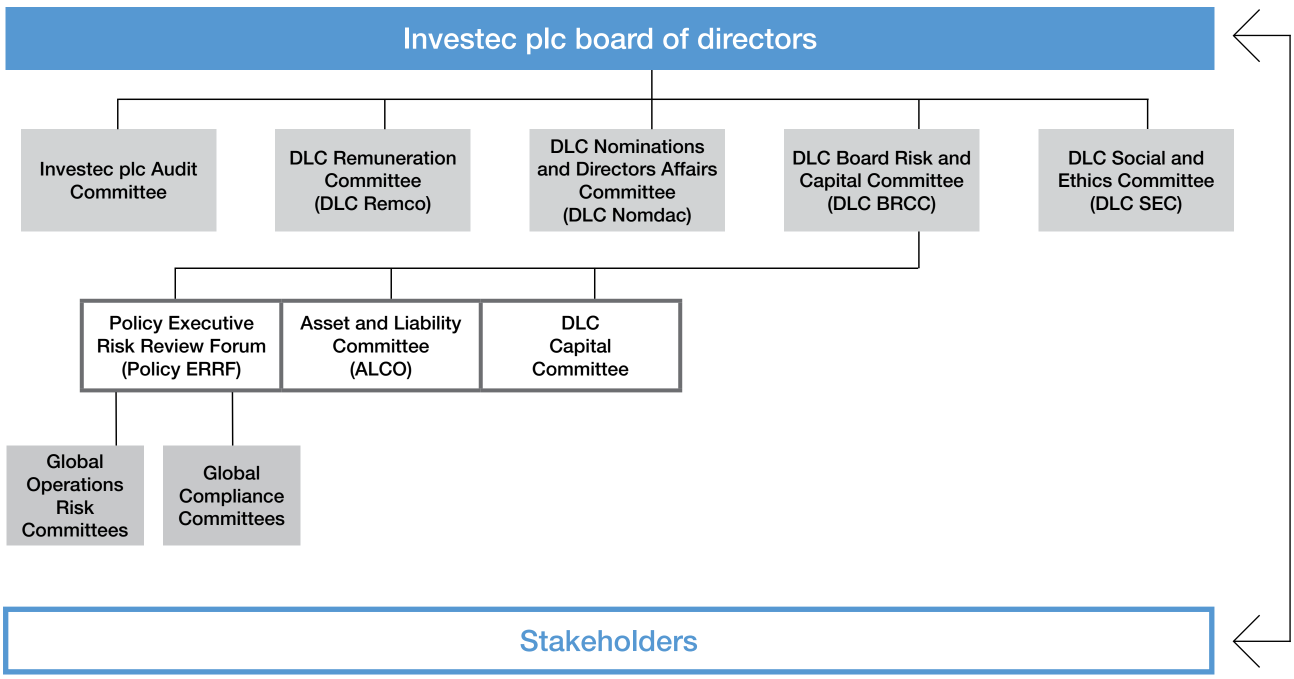
From a legal perspective, the DLC is comprised of:

- Investec plc – a public company incorporated in the UK and listed on the London Stock Exchange (LSE), with a secondary listing on the Johannesburg Stock Exchange (JSE); and
- Investec Limited – a public company incorporated in South Africa and listed on the JSE, 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 Code on Corporate Governance, as well as the activities of the group.

The 2019 governance activities of the Investec group are aligned with the South African Companies Act, No 71 of 2008, as amended, (South African Companies Act) JSE Listings Requirements, King IV Code, South African Banks Act 94 of 1990 (South African Banks Act), the UK Companies Act 2006 (UK Companies Act) as well as the UK Corporate Governance Code.

The governance framework from a group perspective is detailed below.



Board and executive roles

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

Chairman	Chief executive officer	Finance director
• Set the board agenda and ensure that there is sufficient time available for the discussion of all items • Encourage open and honest dialogue between all board member • 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 the progress towards achieving the strategy • Perform director performance evaluations • Serve as the primary interface with regulators and other stakeholders on behalf of the board • Oversee the integrity and effectiveness of the governance processes of the board • Maintain regular dialogue with the chief executive officers in respect of all operational matters and consult with the remainder of the board promptly on matters that raise major concern • Act as facilitator at board meetings to ensure that no director, whether executive or non-executive, dominates the discussion, ensure that the discussion is appropriate and the discussions result in logical and understandable outcomes	• Lead and manage the group within the authorities delegated by the board • Ensures the group's unique culture is embedded and perpetuated • Develop and support the growth of all the groups' businesses • Ensure the group achieves the strategic and financial objectives approved by the board • Monitor and manage the day-to-day operational requirements and administration of the group • Develop and recommend business plans, policies and objectives for consideration by the board, taking into consideration business, economic and political trends that may affect the operations of the group • Implement plans, policies and programmes approved by the board	• Lead and manage the group finance functions • Provide the board with updates on the group's financial performance • Submit reports, financial statements and consolidated budgets for consideration by the board • Oversee the financial management of the group including financial planning, cash flow and management reporting

Senior Independent Director (SID)	Non-executive Directors	Company Secretary
• Provide a sounding board to the chairman • Remain available to address any concerns or questions from shareholders and non-executive directors • Lead the board in the assessment of the effectiveness of the chairman, and the relationship between the chairman and the chief executive officers • Act as a trusted intermediary for non-executive directors, if required, to assist them in challenging and contributing effectively to the board	• Provide 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 • Review succession planning • Oversee risk management frameworks • Contribute to board effectiveness through diverse experience and backgrounds	• Maintain the flow of information to the board and its committees and ensure compliance with board procedures • Minute all board and committee meetings to record the deliberations and decisions taken therein • Provide expertise to effect board compliance with relevant legislation and regulations • Ensure good corporate governance is implemented and advises the chairman and board in that regard • Guide the directors collectively and individually on their duties, responsibilities and powers • Report any failure on the part of the group or any individual director to comply with the articles or the relevant legislation • Ensure board procedures are followed and reviewed regularly • Ensure applicable rules and regulations for conducting the affairs of the board are complied with • Facilitate a programme for the induction and ongoing development of directors • Maintain statutory records in accordance with legal requirements • Guide the board on how its responsibilities should be properly discharged in the best interests of the organisation • Keep abreast of, and inform, the board of current and new developments regarding corporate governance thinking and best practice • Fulfil all other functions assigned to the position by the UK Companies Act by any other legislation

Board composition

Membership

At the date of this annual report, the board comprised of six executive directors and ten non-executive directors, including the chairman. The changes to the composition of the board and the boards of the principal subsidiaries of the Investec group, which have occurred during the financial year ended 31 March 2019, are detailed below.

Investec plc

The following changes were made to the board during the year:

- Stephen Koseff and Bernard Kantor, stepped down from the roles of CEO and MD of the group respectively, on 1 October 2018. Stephen and Bernard will not stand for re-election at the 2019 annual general meeting. They will continue to actively oversee the proposed demerger and separate listing of Investec Asset Management until its completion.
- Fani Titi who was a non-executive director of the 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, were appointed as joint group CEO designates from 1 April 2018 to 30 September 2018. Fani and Hendrik assumed the role of joint group CEO of the group on 1 October 2018. Following the demerger of Investec Asset Management from the group Fani will remain as CEO of the group, whilst Hendrik will step down as joint group CEO and executive director of the group, and assume the role of CEO of Investec Asset Management.
- As reported in the 2018 annual report Fani Titi stepped down as group chairman on 15 May 2018 and Perry Crosthwaite, who had been the group's SID, assumed the position of chairman of the group on that date.
- Glynn Burger stepped down from the board and his role as risk and finance director of the group on 31 March 2019.
- Nishlan Samujh, formerly the CFO of the group, was appointed as group FD and an executive director of the board with effect from 1 April 2019.
- Kim McFarland, FD of Investec Asset Management was appointed as an executive director on 1 October 2018. Subsequent to the demerger of Investec Asset Management from Investec group, Kim will step down from the board of the group, maintaining the role of finance director of Investec Asset Management.
- Perry Crosthwaite stepped down as chairman of the DLC Remco on 1 April 2018 with Philip Hourquebie, who was appointed as non-executive director of the group in August 2017, assuming the position on that date.
- Zarina Bassa, who was appointed as a non-executive director of the board in November 2014, was appointed as the group's SID on 1 April 2018.
- Cheryl Carolus, will not stand for re-election at the annual general meeting in August 2019.
- Lauren Bowden will also not stand for re-election at the annual general meeting in August 2019.

Investec Bank plc

The following changes were effected in respect of the board of IBP:

- Brian Stevenson, a director of IBP since September 2016 assumed the position of chairman of IBP replacing Fani Titi who stepped down from the position on 15 May 2018.
- Lesley Watkins was appointed as a non-executive director on the IBP board on 13 November 2018. Lesley was also appointed as chair of the IBP Audit Committee on 21 January 2019.
- Stephen Koseff and Bernard Kantor stepped down as executive directors of IBP on 30 January 2019.
- Paul Seward was appointed as a non-executive director of IBP and as chairman of the IBP BRCC on 1 April 2019.
- Haruko Fukuda, a non-executive director of Investec Bank plc since 3 December 2012, will step down from the board in August 2019.
- Subject to regulatory and shareholder approvals for the proposed demerger and separate listing of Investec Asset Management, David van der Walt will become the group Chief Risk Officer (CRO), leaving his role as CEO of IBP. Subject to regulatory approvals, Ruth Leas will become CEO of IBP. Chris Meyer, head of Corporate and Investment Bank, and Ryan Tholet, head of Private Bank, will join the board of IBP as managing directors, whilst maintaining their current roles. Kevin McKenna will replace Ruth as the CRO of IBP, and Alistair Stuart will replace Kevin as COO of IBP and join the board.
- Ian Wohlman has expressed a wish to step back from an executive role but to remain involved in a different capacity, so he will be standing down from the board and, going forward, chairing a number of subsidiary boards and audit committees.

The names of the directors during the year and at the date of this annual report, and the dates of their appointments are set out in the table on page 116.

Independence

The board considers the guidance set out in the UK Corporate Governance Code when considering the independence of the non-executive directors.

As at 31 March 2019, the board was compliant with the UK Corporate Governance, in that the majority of the board, excluding the chairman, composed of independent non-executive directors.

Open and honest dialogue is part of the group's culture, and robust, independent challenge is a fundamental component of how the board operates. The DLC Nomdac, which has been delegated the responsibility of reviewing the directors' independence by the board, considers all relevant circumstances, in undertaking its obligation to ensure that the directors demonstrate independence of character and judgement, and exhibit this in the boardroom by providing challenge to the executive board members.

The DLC Nomdac believes that the board functions effectively and that the non-executive directors are independent of management and promote the interests of stakeholders. The proportion of executive and non-executive directors is such that there is a clear division of responsibility to ensure a balance of power, such that no individual or group can dominate the board's processes or have unfettered powers of decision-making.

The board is of the view that the chairman, Perry Crosthwaite, was independent on appointment. Prior to becoming chairman, Perry was the senior independent director of the board.

The deliberation on the independence of the non-executive directors by the board, and DLC Nomdac, included the consideration of the following relationships and associations in regards to specific directors:

- Ian Kantor is the brother of Bernard Kantor, an executive director of Investec group. Ian is also the founder and former CEO of Investec group. Accordingly, the board concluded that Ian could not be considered independent under the UK Corporate Governance.
- Charles Jacobs is the chairman of Linklaters LLP (Linklaters). Linklaters is currently one of Investec's UK legal advisors. The board 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, the selection of legal advisors is not a board matter and is decided at a 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. The legal fees paid to Linklaters have not been material either to Linklaters or to Investec.
- Philip Hourquebie was a Regional Managing Partner of two regions of Ernst & Young (Africa and Central South East Europe including Turkey) up to 2014. The board concluded that notwithstanding his previous association with Ernst & Young, Philip retains independence of judgement as he was never the group's designated auditor.

Tenure

The DLC Nomdac considers tenure when examining independence, and when considering the composition of the board. The board and the DLC Nomdac are mindful that there needs to be a balance resulting from the benefits brought by new independent directors, versus retaining individuals with valuable skills, knowledge and an understanding of Investec's unique culture.

As identified, the DLC Nomdac considers the guidance set out in the UK Corporate Governance Code when considering the independence of the non-executive directors, and follows a thorough process of assessing independence on an annual basis for each director.

Cheryl Carolus will not stand for re-election at the annual general meeting in August 2019. Cheryl has been a non-executive director of the group since 2005.

The board does not believe that the tenure of any of the identified independent non-executive directors standing for election or re-election at the annual general meeting in August 2019 interferes with their independence of judgement and their ability to act in the group's best interest.

Diversity

In considering the composition of the board, the board is mindful of all aspects of diversity, including gender, race, skills, experience and knowledge.

Investec, embraces differences as a strength within the group. Having a diverse board is a clear benefit, bringing with it distinct and alternative viewpoints, and mind-sets able to challenge the status quo.

The board is committed to ensuring that the group meets its governance, social and regulatory obligations regarding diversity. In accordance with our board diversity policy, the board intends to ensure a minimum female representation of 33% on the board by 2020.

The board also intends to ensure that a minimum of 25% of the board members who are ordinarily resident in South Africa (and having been naturalised prior to 1994) are black women as defined in South African legislation. The board intends to ensure that 50% of the board members of who are ordinarily resident in South Africa (and having been naturalised prior to 1994) are black people as defined in the Financial Sector Code or similar legislation that may be in force in South Africa from time to time.

Skills, knowledge and experience

The board considers that the skills, knowledge and experience of the directors as a whole are appropriate for their responsibilities

The board has skills and experience in the areas of banking, risk and capital management, commercial, financial, auditing, accounting and legal.

Induction, training and development

On appointment to the board, all directors receive a comprehensive induction which is tailored to the new director's individual requirements. The induction schedule is designed to quickly provide the new director with an understanding of how the group works and the key issues that it faces. The company secretary consults, the chairman when designing an induction schedule, giving consideration to the particular needs of the new director. When a director is joining a board committee, the schedule includes an induction to the operations of that committee.

On completion of the induction programme, the director should have sufficient knowledge and understanding of the nature of the business, and the opportunities and challenges facing the group, to enable them to effectively contribute to strategic discussions and oversight of the group.

The chairman leads the training and development of directors and the board generally.

A comprehensive development programme is in place throughout the year, and comprises both formal and informal training.

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.

The group has an insurance policy that insures directors against liabilities they may incur in carrying out their duties.

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

All executive directors are engaged on standalone employment contracts, subject to six month notice periods.

In accordance with the UK Corporate Governance Code, all of the directors retire and those willing to serve again submit themselves for re-election at the annual general meeting.

Independent advice

Through the chairman, the SID or the company secretaries, 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 2019 financial year.

Conflicts of Interest

Directors have a responsibility to avoid situations that put, or may be perceived to put, their personal interest in conflict with their duties to the group. The conflicts of interest policy and the board charter require directors to declare any actual or potential conflict of interest immediately when they become aware of such situations. Each director must submit a "declaration of interest" form outlining other directorships and personal financial interests, including those of related parties. Where actual or potential conflicts are declared, the recusal procedure is implemented, and affected directors are excluded from those specific discussions and any decisions on the subject matter of the declared conflict.

Actual and potential conflicts of interests are considered in the annual assessment of director independence.

Related parties

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

Conduct and Ethics

The board is committed to the highest standards of integrity and ethical behaviour. The board appreciates the importance of ethics and its contribution to value creation and is dedicated to instilling ethical values throughout the group. The board recognises that ethics begin with each individual director's conduct, which if appropriate, will in turn have a positive impact on conduct in the group. Management is responsible for embedding ethical conduct in the organisation which is overseen by the DLC SEC.

Company secretary

David Miller is the company secretary of Investec plc. The company secretary is professionally qualified and has gained experience over many years. His service is 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 are a board matter.

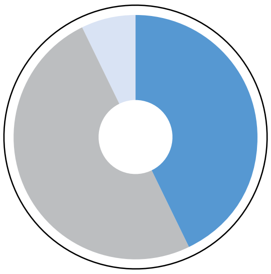
In compliance with the UK Corporate Governance Code and the UK Companies Act, the board has considered and is satisfied that the company secretary is competent and has the relevant qualifications and experience.

Diversity as at 31 March 2019

Age:

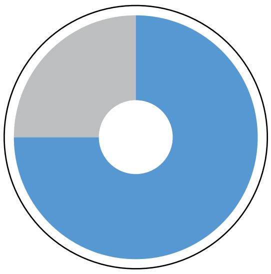
40 – 50	**6%**
51 – 60	**38%**
61 and above	**56%**

Geographical mix:



43%	South Africa
50%	UK
7%	Other

Board gender balance:



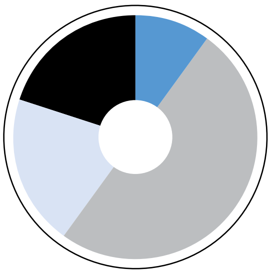
75%	Male
25%	Female

Tenure as at 31 March 2019

Average length of service for non-executive directors (years):

6

Average tenure for non-executive directors:



10%	0 – 3 years
50%	3 – 6 years
20%	6 – 9 years
20%	9 years plus

What we did

Board report

Role and responsibilities

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. The board is accountable for the performance and affairs of the group. It provides leadership for the group within a framework of prudent and effective controls which allows risks to be assessed and managed.

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 with 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 planning is in place.

Certain matters are specifically reserved for the board. To achieve its objectives, the board may delegate certain duties to various board committees, group forums or the chief executive officer, without abdicating its own responsibilities. The board has developed a board charter, which serves as the foundation for Investec's governance principles and practices. The charter:

- outlines the board committees' mandates and specifies which matters are reserved for the board
- defines separate roles for the group chairman and joint CEOs
- dictates the board's expectations of the directors, chairmen of the respective board committees and the senior independent director
- sets out how the corporate governance provisions in the UK Corporate Governance Code and the UK Companies Act will be put in place

Composition and meetings

The board meets at least six times annually, excluding the annual two-day board strategy session. A separate Investec Limited board meeting was held in South Africa and a separate Investec plc board meeting was held in the UK. A special meeting was held in September 2018 in respect of the demerger of Investec Asset Management. For the period 1 April 2018 to 31 March 2019, four board meetings were held in the UK and four in South Africa, in line with the requirements of Investec's DLC structure. 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.

The board recognises that a balanced board is vital for sustainable value creation. The board composition is both qualitatively and quantitatively balanced in terms of skills, demographics, gender, nationality, experience, tenure and independence.

Attendance is an important factor in the board's ability to discharge its duties and responsibilities and care is taken in preparing the board calendar to enable meeting attendance. If a director is unable to attend a meeting, an apology is recorded, and if possible, the director makes a written or oral contribution ahead of the meeting.

Composition and meetings *(continued)*

		Board member since	Investec plc (9 meetings in the year)	
Members	**Independent**	**Investec plc**	**Eligible to attend**	**Attended**
PKO Crosthwaite (chairman)*	On appointment	18 Jun 2010	9	9
F Titi (joint group CEO)**	Executive	30 Jan 2004	9	9
HJ du Toit (joint group CEO)***	Executive	15 Dec 2010	9	9
ZBM Bassa	Yes	1 Nov 2014	9	9
LC Bowden	Yes	1 Jan 2015	9	9
GR Burger****	Executive	3 Jul 2002	9	9
CA Carolus	Yes	18 Mar 2005	9	8
D Friedland	Yes	1 Mar 2013	9	9
PA Hourquebie	Yes	14 Aug 2017	9	9
CR Jacobs	Yes	8 Aug 2014	9	8
B Kantor*****	Executive	19 Mar 2002	9	9
IR Kantor	No	26 Jun 2002	9	9
S Koseff******	Executive	26 Jun 2002	9	9
Lord Malloch-Brown KCMG	Yes	8 Aug 2014	9	9
KM McFarland	Executive	1 Oct 2018	4	4
NA Samujh*******	Executive	1 Apr 2019	–	–
KL Shuenyane	Yes	8 Aug 2014	9	9

* *PKO Crosthwaite was appointed as chairman of the board on 15 May 2018.*
** *F Titi stepped down as chairman of the board on 15 May 2018, F Titi was appointed as joint group CEO on 1 October 2018.*
*** *HJ du Toit was appointed as joint group CEO on 1 October 2018.*
**** *GR Burger retired from the board on 31 March 2019.*
***** *B Kantor stepped down as MD on 1 October 2018.*
****** *S Koseff stepped down as group CEO on 1 October 2018.*
******* *NA Samujh was appointed as group financial director on 1 April 2019.*
^ *Where a director is unable to attend a meeting, they receive papers in advance and have the opportunity to provide comments to the chairman of the board.*

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
35%	30%	30%	5%

Key matters deliberated by our board

In addition to the standard and regular agenda items, such as report-backs from each board committee and comprehensive reports from the joint group CEOs, the following specific matters of importance were tabled and deliberated at board meetings and directors' development sessions during the year ended 31 March 2019:

BOARD AND COMMITTEE ACTIVITIES

Areas of focus	What we did
Group strategy	• deliberated and approved the strategy to demerge Investec Asset Management from the group • formulated and monitored the implementation of strategy • provided constructive challenge to management • monitored progress made with regard to agreed strategic initiatives • considered global trends shaping the financial industry • discussed the political environment in the UK • oversight of the changes in management as announced in the preceding and current financial year
Group compliance, risk and corporate governance and audit committees	• received and reviewed compliance reports in order to confirm that the group meets all internal and regulatory requirements • discussed and approved the 2018/2019 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 DLC BRCC • received reports on the group's operational and technological capability, including specific updates on cyber risk capability and the strategy for technology and infrastructure services • received reports in respect of specific risks monitored within the group including updates in respect of General Data Protection Regulation (GDPR) and International Financial Reporting Standards (IFRS) 9, 15, 16 and 17 • considered the impact of the UK Corporate Governance Code • adopted the group Anti-Money Laundering (AML) and Counter Terrorism Financing Policy • approved the Recovery and Resolution Plans for the UK • considered and approved the conflicts of interest policy • reviewed the IBP and IBL revised corporate governance structure • considered auditor independence, monitoring of audit quality and related parties' activities, appointment of auditors and mandatory rotation of auditors • reviewed the group's exposure to state-owned entities and related risk appetite • considered the implications of Brexit on the group • received reports on conduct • oversight of integrity of annual financial statement • reviewed and disclosed assumptions underlying the recoverability of key exposures and investments including the impacts of IFRS 9
Leadership	• considered regular updates by the various committees including the DLC Remco, DLC Nomdac, DLC Audit Committee, DLC SEC and DLC BRCC • received and considered comprehensive reports from the joint group chief executive officers (including strategy execution and performance of the group within the operating environment and competitor landscape) and the FD • ensured that policies and behaviours set at board level were effectively communicated and implemented across the group
Effectiveness	• considered the process for the 2018 board effectiveness review which took the form of an independent review conducted by Professor Robert Goffee • discussed the recommendations of the board effectiveness review • implemented the recommendations of the board effectiveness review • finalised topics for directors' development sessions

BOARD AND COMMITTEE ACTIVITIES *(continued)*

Areas of focus	What we did
Remuneration	• received a report from the DLC Remco chairman at each meeting including regulatory developments pertaining to remuneration • considered a communication plan for business to communicate their compliance with the UK Gender Pay Gap Reporting Requirements • approved the remuneration policy • further to the transition of leadership, considered remuneration arrangements for both the incoming and outgoing executive directors
Relations with stakeholders	• in order to ensure satisfactory dialogue with stakeholders, and to foster strong and open relationships with regulators, the board noted and discussed the key areas of feedback from these stakeholders, including feedback relating to: – auditors and audit quality – refreshment and succession – succession planning for the executive directors and senior management – remuneration of executive directors and non-executive directors – regular meetings and open dialogue with regulators – engagement with the UK Prudential Regulatory Authority – the group's contribution to the political economy – improving returns across the business
Corporate citizenship	• 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 including 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 – gained comfort 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 – culture – material concerns raised by employees and former employees
Board committee composition and succession planning	• considered and confirmed the independence of the non-executive directors having regard to factors that might impact their independence • discussed succession planning including an update on senior management succession • received reports on the composition of the boards of key subsidiaries • received reports on suggested changes to the group's governance arrangements • received reports on suggested changes to IBP's governance arrangements • received reports from the DLC 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 DLC Nomdac

BOARD AND COMMITTEE ACTIVITIES *(continued)*

Areas of focus	*What we did*
Financial results, liquidity, solvency and viability statement	• considered, reviewed and approved the financial results for the year ended 31 March 2019 for Investec plc • considered, reviewed and approved the financial results for the half year ended 30 September 2018 • assessed, confirmed and satisfied itself of the group's viability (i.e. its ability to continue in operation and meet its liabilities considering the current position of the group, the board's assessment of the group's prospects and the principal risks it faces) • approved the group's viability statement • assessed, confirmed and satisfied itself, on the recommendation of the Investec plc Audit Committee, that it was appropriate for the financial statements to be prepared on a going concern basis • considered, reviewed and approved, on the recommendation of the Investec plc Audit Committee, that the annual report and the financial statements for the financial year ended 31 March 2019 were fair, balanced and understandable • 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 basis • considered and approved capital plans
Management succession	• considered matters relating to board succession and approved appointments to the board and board committees • began the orderly transition from the founding members to the new generation in accordance with the agreed management succession plan
Terms of reference and policies	• reviewed and received regular updates in respect of the various committees' terms and references and policies within the group

DLC Nominations and Directors' Affairs Committee report

I am pleased to present you with the report for the DLC Nomdac for the financial year ended 31 March 2019.

The major processes of the committee are designed to ensure that the board and senior management of the group, and the group's key subsidiaries, are comprised of a talented and diverse range of people, who are aligned with the Investec culture and values, with the collective skills and experience that are necessary for the group to meet its objectives and strategic goals. This is essential for the effective governance of the group and the successful running of our businesses.

The key areas of focus for the committee in the year in question, have been the enhancement of the governance processes of the group, and the group's key subsidiaries, including the consideration of the succession plans for the board and senior management. The committee considered the fact that Cheryl Carolus and Lauren Bowden would not stand for re-election at the 2019 annual general meeting and subsequently discussed the recruitment of two independent non-executive directors. The committee also discussed the effectiveness of the work performed by the board through the committee's consideration of the annual effectiveness review, which was conducted by Professor Robert Goffee, an independent external corporate governance consultant.

Please refer to the report on the following pages for details of all the material matters considered by the committee in the last year.

Committee performance

The performance of the committee was assessed by Professor Robert Goffee as part of the annual effectiveness review of the board. The results showed that the committee was functioning well, with the overall standards of corporate governance in the group considered to be a particular strength. It was determined, however, that there was still some scope for development in the board's consideration of the succession plans of the board and senior management. It was, therefore, agreed that this would be a point of focus for the committee in the coming year. You can read more about the outcomes of the board effectiveness review on page 123.

Looking ahead

In 2019/2020, as the structure of the group continues to evolve, specifically following the proposed demerger and separate listing of Investec Asset Management, the committee will continue to focus on the composition of the board and the board committees, including consideration of the composition of the boards and the board committees of the group's key subsidiaries, with a view to ensure the progressive refreshment of the members of the board. In considering the composition of the board, and the boards of the group's key subsidiaries, the committee is mindful of all aspects of diversity, including gender, race, skills, experience and knowledge. The committee will also continue to evaluate the Investec culture and values, in light of the changes to the board, resulting from the proposed demerger of Investec Asset Management.

Perry Crosthwaite
Chairman DLC Nomdac
14 June 2019

We aim to ensure that the board comprises of a talented and diverse range of people, aligned with the Investec culture and values, with the collective skills and experience that are necessary for the group to meet its objectives and strategic goals

DLC Nomdac

Perry Crosthwaite
Chairman DLC Nomdac

Key achievements in FY 2019

- Appointment of Nishlan Samujh as executive director
- Recruitment of two additional female independent non-executive directors, subject to finalisation of their appointments
- Consideration of the succession plans for the board and senior management
- Consideration of the annual effectiveness review

Areas of focus in FY 2020

- Review of the composition of the board and the principal board committees
- Evaluation of the Investec culture and values
- Review of the board experience/skills matrix
- Consideration of the succession plans for the board and senior management

Role and responsibilities

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

- supporting and advising the board in ensuring that it is composed of individuals who are best able to discharge the duties and responsibilities of directors
- evaluating the balance of skills, experience, independence, knowledge and diversity on the board
- ensuring that appointments and succession plans are based on merit and with regard to objective criteria and, within this context, promoting diversity in its broadest sense, including diversity of gender, social and ethnic background, cognitive and personal strengths
- maintaining the board directorship continuity programme, including the consideration of the annual board performance evaluation process

Composition and meetings

The committee is comprised of a majority of independent non-executive directors only, with membership designed to provide the breadth of experience necessary for the members to consider the issues that are presented to the committee. Peter Thomas, an independent non-executive director of the IBL board is a member of the DLC Nomdac, as the IBL representative.

The board has agreed, in principle, that the chairman of the group's key governance committees (Audit, Board Risk and Capital, Remuneration and Social and Ethics) be appointed to the DLC Nomdac, to ensure that their input is considered, when the committee discusses the composition of the group's key governance committees, and the proposed appointments to these committees. As a result, Phillip Hourquebie was appointed as a member of DLC Nomdac, on his appointment as chairman of the DLC Remco and Lord Malloch-Brown following his appointment as chairman of the DLC SEC. IBL does not have an independent Nominations and Directors Affairs Committee and to this end, Khumo Shuenyane, the chairman of IBL was also appointed to the DLC Nomdac during the year under review.

During the financial year ended 31 March 2019, the DLC Nomdac met six times and the chart below shows how it allocated its time. Attendance by members at committee meetings is shown below

		DLC Nomdac (6 meetings in the year)	
Members	**Committee member since**	**Eligible to attend**	**Attended**
PKO Crosthwaite (chairman)*	16 Sept 2014	6	6
ZBM Bassa	1 April 2017	6	6
D Friedland	16 Sept 2014	6	6
PA Hourquebie**	15 May 2018	6	6
Lord Malloch-Brown**	15 May 2018	6	6
KL Shuenyane**	15 May 2018	6	6
PRS Thomas***	9 Sept 2010	6	6
F Titi****	9 Sept 2010	–	–

* *PKO Crosthwaite was appointed as chairman of the committee on 15 May 2018.*
** *PA Hourquebie, Lord Malloch-Brown and KL Shuenyane were appointed to the committee on 15 May 2018.*
*** *PRS Thomas is the representative of IBL.*
**** *F Titi stepped down as chairman of committee on 15 May 2018. There were no committee meetings held between 1 April 2018 and 15 May 2018. F Titi recused himself from all discussions in relation to the appointment of the joint group chief executive officer of the group.*

How the committee spent its time

Succession planning/composition of boards and committees	**Board effectiveness**	**Corporate governance and directors' disclosures**	**Training and develop-ment**
60%	15%	20%	5%

How the DLC Nomdac works

The significant matters addressed by the committee during the financial year ended 31 March 2019 are described on the following pages.

COMMITTEE ACTIVITIES

Areas of focus	*What we did*
Board and board committee composition	• discussed the key skills and experience needed on the board in the context of future strategic direction and structural reform, including any areas requiring strengthening • concluded that the skills, knowledge and experience of the directors were appropriate for their responsibilities and activities • conducted the search for independent non-executive directors with the relevant skills and experience • agreed on the following matters – Stephen Koseff and Bernard Kantor stepping down as group CEO and group MD – Glynn Burger stepping down from the board • considered the board suitability policy • agreed on the appointment of Nishlan Samujh as FD of the group • considered the appointment of potential new directors to the board
Succession planning	• considered the succession plans for the board and senior management • conducted formal succession appraisals for all key positions • reviewed the succession pipeline for executive management, with a view to ensuring that the group was continuing and will continue to increase the internal pool of talented and skilled individuals by providing opportunities for individuals to develop and grow within the organisation
Subsidiary board and board committee composition	• received reports on the composition of the group's key subsidiaries including: – IBP – Investec Wealth & Investment – Investec Asset Management • reviewed the composition of the boards and board committees of each of the group's key subsidiaries • considered any vacancies, new appointments or changes that would enhance the effectiveness of the boards, with regard to group oversight and governance of subsidiary companies with due regard to local regulatory or legal requirements and best practice, and ensured an appropriate level of independent scrutiny at subsidiary level • agreed on the following matters: – appointment of Lesley Watkins as a non-executive director and chair of the IBP Audit Committee – appointment of Paul Seward as a non-executive director and chairman of the IBP BRCC
Independence	• considered the independence of the non-executive directors, with regard to: – directors who had served on the boards for a period longer than nine years – other factors that might impact their independence – the director's contribution at board meetings and whether they in fact demonstrated independent challenge • specifically considered the independence of Ian Kantor and brother of executive director Bernard Kantor a founder, and former CEO of the group, and concluded that Ian could not be considered to be independent under the UK Corporate Governance Code • specifically considered the independence of Charles Jacobs, who is the chairman of Linklaters LLP, a legal advisor to Investec UK, and concluded that it was satisfied that he retained independence of judgement and should be regarded as an independent non-executive director • specifically considered the independence of Philip Hourquebie, who was a Regional Managing Partner of Ernst & Young until 2014, and concluded that it was satisfied that he retained independence of judgement and should be regarded as an independent non-executive director • specifically considered the independence of Cheryl Carolus who had served on the boards for a period exceeding nine years. The board agreed that Cheryl would not stnd for re-election at the 2019 annual general meeting.

COMMITTEE ACTIVITIES *(continued)*

Areas of focus	What we did
Diversity and inclusion	• considered the diversity of the board and senior management, including the individuals noted as potential successors • discussed the potential impact to the diversity of the board when considering potential candidates for appointment to the board • approved the board diversity policy, in which the board outlines its intention to ensure a minimum female representation of 33% on the board by 2020, a minimum of 25% of the board members who are ordinarily resident in South Africa to be black women and a minimum of 50% of the board members who are ordinarily resident in South Africa to be black people
Related parties	• investigated conflicts in respect of specific directors transactions • considered and approved the director's disclosure conflicts of interest policy • reviewed the register of directors' interests
Directors' development	• considered dates and topics for future directors' development training and identified the key topics affecting the business

Board effectiveness review

The board and individual director's performance are formally evaluated annually based on recognised codes of corporate governance; the annual effectiveness review covers areas of the board's processes and responsibilities, according to leading practice. This year the board effectiveness review was externally facilitated, by Professor Robert Goffee, of the London Business School. The directors each completed a questionnaire, prior to meeting individually with Professor Robert Goffee. The interviews were broad ranging and designed to provide context to the questionnaire responses. The questionnaire comprised of eight sections, including role and organisation, agenda, corporate governance, non-executive directors, executive directors, information, monitoring group performance, board leadership and culture. The findings were collated and presented at the January 2019 board meeting. Overall the board members were found to be satisfied with various aspects of board governance and functioning. The board effectiveness review identified that there had been an improvement to board governance and functioning, in comparison with the previous externally facilitated effectiveness review, which had been conducted by Professor Robert Goffee in 2015. The review identified the strengths of the board to be the functioning of the board committees, the separation of the chairman and chief executive roles, access to external advice and the overall standards of corporate governance. It further identified that the induction process for non-executive directors and the definition of the role and the scope of the board's authority were considered to have improved from the previous externally facilitated effectiveness review. Notwithstanding the strengths, there were a number of suggested areas for improvement. The suggested areas for improvement included the provision of the opportunity for the non-executive directors to monitor the performance of the executive directors, the focus of agendas on the relevant issues and succession planning.

The board determined that further action was required in relation to the suggested areas for improvement, and agreed that the non-executive directors, principally through the DLC Remuneration Committee, would be provided a greater opportunity to monitor the performance of the executive directors. It was further agreed that the succession plans for the board and senior management would continue to be a key area of focus for the DLC Nomdac in 2019/2020, and that a review of the agenda for the board and the board committees would be undertaken. The committee will continue to monitor the actions resulting from the board effectiveness review as the year progresses.

DLC Social and Ethics Committee report

I am pleased to present you with the report of the DLC SEC for the financial year ended 31 March 2019.

The DLC SEC is responsible for monitoring the non-financial elements of corporate sustainability, specifically the group's performance in terms of social, environmental and governance (ESG) indicators.

The group plays a critical role in funding a sustainable economy that is cognisant of the world's limited natural resources. The DLC SEC plays a fundamental role in monitoring our progress to create value and contribute to the health of our economy, our people, our communities and the environment.

The key areas of focus for the committee have been the oversight and coordination of group social, environmental and ethical matters, and oversight of the improved communication of these matters, in addition to increasing our engagement in South African society to support socio-economic development.

Please refer to the report on the following pages for details of all the material matters considered by the committee in the last year. For further information in regard to the group's approach to corporate sustainability, please refer to pages 148 to 155.

Committee performance

The performance of the committee was assessed by Professor Robert Goffee, an independent external corporate governance consultant, as part of the annual effectiveness review of the board. The results show that the committee was functioning well.

Looking ahead

In the year ahead, the committee will consider the South African Prudential Authority topic of the year, which is the creation and institutionalisation of a culture of ethics and awareness. The committee 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. A key focus for the committee in 2019/2020, will be regarding the consideration of the way the board will engage with the our employees, in accordance with the revised UK Corporate Governance Code. The committee will also continue to oversee the group's progress in relation to the United Nations (UN) Sustainable Development Goals (SDGs), which provide the blueprint to achieve a better and more sustainable future for all.

Mark Malloch-Brown

Lord Malloch-Brown
Chairman, DLC SEC

14 June 2019

As a corporate, we have a significant role to play in addressing socio-economic challenges like climate change, education and job creation

DLC SEC

Lord Malloch-Brown
Chairman of the DLC SEC

Key achievements in FY 2019

- Signed up as a full participant of the UN Global Compact's 10 principles on human rights, labour, environment and anti-corruption
- Signed the CEO statement of support for the UN Women's Empowerment Principles
- Signed up to the United for Wildlife Financial Taskforce which leverages existing global financial crime architecture to combat illegal wildlife trade
- Continued to integrate ESG considerations into our daily operations, including a policy on funding coal projects which was reviewed by the DLC SEC committee
- Consolidated our positioning in terms of a variety of ethical and ESG issues into a public document called The Way We Do Business
- Reviewed the process taken by the group on the SDGs to prioritise six core SDGs

Areas of focus in FY 2020

- Maximise our socio-economic and environmental impact in core geographies
- Improve our reporting on relevant climate-related disclosures
- Monitor our progress on gender and diversity targets and performance
- Raise awareness internally and externally on the SDGs and the group's six core priority goals

Role and responsibilities

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

- ensuring that the group promotes social and economic development, including the application of the United Nations (UN) Global Compact Principles and the recommendations of the Organisation of Economic Co-operation and Development (OECD) regarding corruption
- monitoring the group's behaviour as a corporate citizen, including the consideration of the group's promotion of equality, prevention of unfair discrimination and reduction of corruption
- monitoring the group's application of the South African Employment Equity Act and the South African Broad-Based Black Economic Empowerment Act
- overseeing ethical business practices
- improving our environmental, social and governance (ESG) policies and practices

Composition and meetings

The committee comprises of independent non-executive directors and executive directors, with membership designed to provide the breadth of experience necessary, for the members to consider the issues that are presented to the committee. The composition of the committee is in accordance with the requirements of section 72(8) of the South African Companies Act, and its associated regulations.

During the financial year ended 31 March 2019, the DLC SEC met four times and the chart below shows how it allocated its time. Attendance by members at committee meetings is shown below.

		DLC SEC (4 meetings in the year)	
Members	**Committee member since**	**Eligible to attend**	**Attended**
Lord Malloch-Brown KCMG (chairman)*	8 Aug 2014	4	4
CA Carolus	17 May 2012	4	4
HJ du Toit**	12 Mar 2019	1	1
B Kantor	17 May 2012	4	3
S Koseff	17 May 2012	4	4
PRS Thomas***	17 May 2012	4	4
F Titi**	12 Mar 2019	1	1

* *Lord Malloch-Brown KCMG was appointed as chairman of the committee on 1 April 2018.*
** *HJ du Toit and F Titi were appointed to the committee on 12 March 2019.*
*** *PRS Thomas is a representative of IBL.*
^ *Where a director is unable to attend a meeting, they receive papers in advance and have the opportunity to provide comments to the chairman of the committee.*

Other regular attendees

- Head of sustainability
- 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

How the committee spent its time

Corporate sustainability	Policy matters	Employment matters	Reputational risk
35%	25%	20%	20%

How the DLC SEC works

The significant matters addressed by the committee during the financial year ended 31 March 2019 are described below.

COMMITTEE ACTIVITIES

Areas of focus	What we did
Social and economic development, including human rights	• monitored the group's standing in terms of the goals and purposes of the UN Global Compact Principles, with respect to human rights, labour, the environment and anti-corruption • gained comfort that the group and its subsidiaries adhere to the relevant laws in all its jurisdictions and strive to advance the UN Principles within its sphere of influence • reviewed the communication of progress to the UN on the group's adherence to the UN Global Compact Principles • monitored the group's adherence to the recommendations of the Organisation of Economic Co-Operation and Development (OECD) regarding corruption • reviewed the group's progress in relation to the Youth Employment Services (YES) initiative, noting that as part of our commitment to job creation and transformation in South Africa, 1 270 youths had been placed with 11 partners
Good corporate citizenship	• discussed the key elements of good corporate citizenship • reviewed the group's record of sponsorship, donations and charitable giving • satisfied itself that the group's standing and commitment to the various elements of good corporate citizenship remained in place and was actively enforced • participated in a number of sustainability indices and were recognised as one of 15 industry members on the Dow Jones Sustainability Investment (DJSI) World Indices and of nine in the DJSI Europe Indices
The South African Employment Equity Act	• monitored the group compliance with the relevant legislation • monitored progress made towards the group's employment equity plans • engaged with the management of human resources to address challenges around matters such as diversity and employment equity targets • engaged with members of the employment equity forum • monitored and reviewed diversity across the group and considered any regulatory developments in this regard • satisfied itself that the group did take the appropriate measures in order to comply with the relevant legislation
The South African Broad-Based Black Economic Empowerment Act	• monitored the group's compliance with the relevant legislation • considered Investec group's empowerment rating • gained comfort that the group had taken the appropriate measures in order to comply with the legislation
Contribution to the development of communities	• monitored the group's activities in contributing to the development of communities • received regular reports on the group's community investment initiatives • satisfied itself that the group contributed to the development of communities
Talent retention and attraction of employees	• received regular reports on the learning opportunities and development of employees and others outside of the workplace • agreed on investment in learning and development opportunities for employees
Culture and ethics	• 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 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

Investec plc Audit Committee report

I am pleased to present you with the report of the Investec plc Audit Committee.

Over the following pages key information about the role and functioning of the Investec plc Audit Committee will be covered. In addition to outlining the structure of the group's Audit Committees, we have included some insight into how decisions are made and where judgement was applied to the significant issues addressed by the Investec plc Audit Committee during the financial year.

Role of the chair

The role of the chair of the Investec plc 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. These interactions are essential in providing an additional layer of assurance to gain comfort that these control functions are aligned in terms of their understanding of the risks and mitigations thereof.

The Investec plc Audit Committee and the DLC BRCC are chaired by different independent non-executive directors. David Friedland chairs the DLC BRCC. The Investec plc Audit Committee and the DLC BRCC continue to capture all significant issues effectively while minimising any overlap. 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 persists. The Investec plc Audit Committee chair is a member of the DLC BRCC.

Committee performance

The Investec plc Audit Committee's performance was considered as part of the overall board effectiveness process conducted during the financial year, through an independent effectiveness review conducted by Professor Robert Goffee from the London Business School. This process identified the functioning of the Investec plc Audit Committee as a particular strength. In order to address regulatory compliance Khumo Shuenyane, as the new chairman of IBL, had to step down from the Investec plc Audit Committee on 11 December 2018. Laurel Bowden was re-appointed to the Investec plc, Audit Committee on 11 December 2018.

We see honest and transparent disclosure as a cornerstone for the long-term success and sustainability of our business

Investec plc Audit Committee

Zarina Bassa
Chair of the Investec plc Audit Committee

Key achievements in FY 2019

- The impact, oversight, governance and disclosures in relation to IFRS 9
- Monitoring of audit quality, external audit and audit partner accreditation and results of quality reviews
- Reviewing additional local and international cross reviews to ensure both actual and perceived audit quality
- Assessment of the overall effectiveness of the group's governance, risk management and control processes/ framework
- Consideration of the auditor's independence
- Monitoring and close out of internal and external audit findings
- Reviewing related party governance processes and disclosures
- Held joint Investec plc Audit Committee and DLC BRCC meetings to cover changes to the IFRS 9 scenarios and probabilities for 2019
- Reviewed internal audit succession
- Oversight over regulatory compliance and the compliance programme
- Review of the policy on non-audit services.

Key areas of focus in 2020

- Assessing conduct risk
- Monitoring of group's business continuity plan
- IT Risk and cybersecurity.

Role and responsibilities

The Investec plc Audit Committee is an essential part of the group's governance framework to which the board has delegated the following key functions:

- overseeing the group's financial reporting process and risks, ensuring the integrity thereof and satisfying itself that any significant judgements made by management are sound
- managing and overseeing the relationship with the group's external auditors
- reviewing the group's internal controls and assurance processes, including those of internal audit and the combined assurance model
- scrutinising the activities and performance of the internal and external auditors, including monitoring their independence, objectivity and effectiveness
- oversight of the audit committees of key subsidiaries.

Composition and meetings

The Investec plc Audit Committee is comprised entirely of independent non-executive directors who must meet predetermined skill, competency and experience requirements. The members' continuing independence is assessed annually by the DLC Nomdac, which in turn makes a recommendation on the members' independence to the board. The DLC Nomdac and board have formed the opinion that the Investec plc Audit Committee has the appropriate balance of knowledge and skills 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 102 to 107.

Structure of the group's audit committees

In terms of the 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 Investec Limited Audit Committee to be the audit committees for the respective companies and their subsidiaries. The IBP and IBL Audit Committees report to the Investec plc and Investec Limited Audit Committee respectively.

Investec Asset Management and Investec Wealth & Investment host independently conducted audit committee meetings and report into the Investec plc and Investec Limited Audit Committees. The DLC audit chair attends both the Investec Asset Management and Investec Wealth & Investment Audit Committee meetings.

Looking ahead

In advancing the Investec plc Audit Committee efforts of the prior year, focus will continue to be centred on the embedding of IFRS 9 and the implementation of IFRS 16.

The Investec plc Audit Committee will continue to monitor IT controls and cybersecurity and the group's internal control environment.

In addition, there will be continued consideration of the independence of the internal auditor, the external auditor and audit quality measures.

Meeting schedule and attendance

During the financial year ended 31 March 2019, the DLC Audit Committee and Investec plc Audit Committee and met four times during the year.

Members	Committee member since	DLC Audit Committee (4 meetings in the year) Eligible to attend	Attended	Investec plc Audit Committee (4 meetings in the year) Eligible to attend	Attended
ZBM Bassa	1 Nov 2014	4	4	4	4
LC Bowden*	21 Jan 2019	n/a	n/a	2	2
PA Hourquebie	14 Aug 2017	4	4	4	4
KL Shuenyane**	8 Aug 2014	4	4	2	2

* *LC Bowden was appointed to the Investec plc Audit Committee with effect from 11 December 2018 and attended the DLC Audit Committee results meeting post the financial year-end.*

** *KL Shuenyane stepped down from the committee with effect from 11 December 2018.*

OTHER REGULAR ATTENDEES

- Joint chief executive officers of the group
- Managing director of the group
- Group risk and finance director of the group
- Heads of compliance
- Head of operational risk
- Heads of internal audit – Investec Limited and Investec plc
- Head of finance
- External auditors of Investec plc and Investec group
- Head of company secretarial and share schemes
- Head of corporate governance
- Global Head of Investec Wealth & Investment
- CEO of IBP

Investec plc Audit Committee

How the committee spent its time

Investec 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%

How the Investec plc Audit Committee works

The significant matters addressed by the committee during the financial year ended 31 March 2019, and in evaluating the annual report and financial statements are described on the following pages.

Financial reporting

The Investec plc 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 of the group's financial statements, with its primary focus being on:

- assessing whether the annual report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for stakeholders to assess the group's position and performance, business model and strategy
- material areas where significant judgements have been made, along with any significant assumptions or estimates, or where significant issues have been discussed with or challenged by the external auditor
- the appropriateness of accounting policies and practices.

Accounting policies and practices

The committee discussed reports from management in relation to the identification of critical accounting judgements and key sources of estimation uncertainty, significant accounting policies and the proposed disclosure of these in the 2019 annual report.

Following discussions with both management and the external auditors, the committee approved the critical accounting judgements, significant accounting policies and disclosures, which are set out in the accounting policies on pages 172 to 181.

Key audit matters

The following key audit matters were deliberated by the Investec plc Audit Committee during the year:

Key audit matters are in the view of the Investec plc Audit Committee those matters that required significant focus from the committee, were considered to be significant or material in nature requiring assumptions and the exercise of judgement, or those matters which were otherwise considered to be subjective from an accounting or auditing perspective.

IFRS 9

- the implementation of IFRS 9 including model assumptions, appropriateness and governance, reasonableness of multiple economic scenarios, weighting's and probabilities, EAD and LGD assumptions, ECL and fair value, management overlays applied to model outputs and the overall IFRS 9 disclosure.

Valuation of level 3 financial instruments

Challenged and debated significant subjective exposures and assumptions including:

- the valuation of level 3 investments and fair value loans
- Certain investment and loan exposures in the Hong Kong portfolio which required significant assumptions to be deliberated given the lack of verifiable corroborative market information.

Provision for uncertain tax positions

The committee considered and concluded on the level and disclosure of tax provisions in the group, which have not changed materially from the previous year and will remain until the resolution of negotiations with the respective tax authorities.

Applicability of IFRS 5 to the demerger of Investec Asset Management from the Investec group

The committee concluded that IFRS 5 was not yet applicable to the accounting for the investment in Investec Asset Management given that the demerger is still subject to regulatory and shareholder approval and hence cannot be considered to be highly probable in terms of IFRS 5.

Contingent Liabilities

The committee considered whether the disclosure in respect of contingent liabilities, including legal proceedings, if any, was complete and appropriate.

Other areas of audit committee focus

- Monitoring and follow up of external and internal audit control findings, including IT, and ensuring appropriate mitigation and timeous close out
- The implementation of IFRS 15
- Review of unlisted and private equity investments including investments in associates and the overall valuations and recognition of revenue
- Reviewing related party governance processes and disclosures
- Review of regulatory compliance reports and oversight over the compliance programme
- Monitoring of Audit Quality, both internal and external
- Review of the need for post balance sheet disclosure, if any

Significant judgements and estimates

The significant judgements and estimates and actions taken by the committee in relation to the 2019 annual report and financial statements are outlined below. Each of these matters was discussed with the external auditor during the year and, where appropriate, has been addressed in the auditor's report on pages 164 and 165.

Detail of committee activities

Area of focus	*What we did*
Impairments • the group has implemented IFRS 9 by developing models to calculate expected credit losses in a range of economic scenarios. The key areas of judgement include setting modelling assumptions, developing methodologies for the weighting of economic scenarios, establishing criteria to determine significant deterioration in credit quality and the application of management adjustments to the model output	• challenged the level of provisions and the assumptions used to calculate the expected credit loss provisions held by the group • assessed expected credit losses experienced against forecast, and considered whether credit loss provisions were appropriate. Particular focus was given to the legacy portfolio and exposures which are affected by the current macro-economic environment • monitored the group's expected credit losses, model changes, scenario updates, post-model adjustments, and volatility • evaluated the IFRS 9 disclosures • a dedicated combined audit and risk committee meeting was convened to consider the changes to the models, economic scenarios and weightings over the period of the financial year-end.
Valuations • the group exercises judgement in the valuation and disclosure of financial instruments, derivative assets and certain portfolios including unlisted and private equity investments	• challenged and debated material individual positions, in particular unlisted and private equity investments • received presentations on the material investments across the group including an analysis of the key judgements and assumptions used • the committee approved the valuation adjustments proposed by management for the financial year ended 31 March 2019.
Tax • there are certain legacy structured transactions within the group, where there is uncertainty over the outcome of the tax positions and judgement is required over the calculation of the provision	• received regular updates on this topic from tax, group finance and legal to enable it to evaluate the appropriateness of the tax provision • analysed the judgements and estimates made and discussed the potential range of outcomes that might arise • the committee confirmed the tax provisions and disclosures for the financial year ended 31 March 2019.

Area of focus	What we did
Going concern • the directors are required to confirm that they are satisfied that the group has adequate resources to continue in business for the foreseeable future	• the committee undertakes an assessment on behalf of the board, in order to provide the board with assurance that it can make the statement • considered reports on the group's budgets and forecasts, profitability, capital, liquidity and solvency and the impact of legal proceedings; if any • the committee concluded that it was satisfied that the group had adequate resources to continue in business for the foreseeable future • the committee concluded that following the intended demerger of Investec Asset Management from the group, the group would have adequate resources to continue business for the foreseeable future • the committee recommended to the board that it was appropriate for the financial statements to be prepared on a going concern basis.
Fair, balanced and understandable reporting • the group is required to ensure that its external reporting is fair, balanced and understandable, and whether it provides the information necessary for stakeholders to assess the group's position and performance, business model and strategy	• the committee undertakes an assessment on behalf of the board, in order to provide the board with assurance that it can make the statement • 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 • assessed disclosure controls and procedures • confirmed that management had reported on and evidenced the basis on which representations to the external auditors were made • obtained input and assurance from the external auditors • the committee concluded that the processes underlying the preparation of the annual report and financial statements for the financial year ended 31 March 2019 were appropriate in ensuring that those statements were fair, balanced and understandable • the committee recommended to the board that the 2019 annual report and financial statements were fair, balanced and understandable.

Other significant matters

Apart from financial reporting matters, the committee has responsibility for the oversight of the effectiveness of the group's internal controls, the performance and effectiveness of internal audit, and the performance, objectivity and independence of the external auditor. In addition to the standard and regular agenda items, the most significant matters considered during the financial year ended 31 March 2019 are described in the table below.

Area of focus	What we did
Internal controls • the effectiveness of the overall control environment, including the IT environment, the status of any material control issues with emphasis on the progress of specific remediation plans	• evaluated and tracked the status of the most material control issues identified by internal and external audit and tracked the progress of the associated remediation plans against agreed time frames • received regular reports from the DLC BRCC and the IBP Audit Committee of which the Investec plc Audit Committee chair is a member • reviewed reports from the Independent Audit Committees of Investec Asset Management and Investec Wealth & Investment both of which are attended by the Investec plc Audit Committee chair • considered the second line of defence role in the oversight of operational risk controls • evaluated reports on the internal control environment from the internal and external auditors • the committee requested confirmation from management regarding the remediation of the issues identified including the time frames and accountability for remediation • reviewed and approved the combined assurance model ensuring completeness of risks assured and adequacy of assurance coverage.

Area of focus	What we did
Business control environment • the effectiveness of the control environment in each individual business, including the status of any material control issues and the progress of specific remediation plans	• received regular reports from the IBP, Investec Asset Management and Investec Wealth & Investment audit committees • assessed reports on individual businesses and functions on their control environment, and scrutinised any identified control failures and closely monitored the status of remediation plans • received updates from senior management, and scrutinsed action plans following unsatisfactory audit findings • the committee requested confirmation from management regarding the remediation of any issues identified including the time frames and accountability for remediation.
Internal audit • the performance of internal audit and delivery of the internal audit plan, including scope of work performed, the level of resources, and the methodology and coverage of the internal audit plan	• scrutinised and agreed internal audit plans, methodology and deliverables • received regular reports from internal audit of all significant issues identified by the internal audit function • monitored delivery of the agreed audit plans, including assessing the adequacy of internal audit resources and succession plans for key roles • tracked the levels of high risk audits, and monitored related remediation plans • met with the head of internal audit, without management being present, to discuss the remit and scope of internal audit and any issues arising from the internal audits conducted • the committee approved the internal audit plans, methodology and deliverables • the committee confirmed that it was satisfied with the performance of the internal audit function • an external evaluation of the internal audit function is to be conducted during the 2020 financial year.
External audit • the performance and work of the group's external auditors, Ernst & Young	• met with key members of Ernst & Young LLP (auditors of Investec plc) to discuss the 2018/2019 audit plan to discuss key areas of focus, audit plans, findings and conclusions • the committee approved the external audit plan and the main areas of focus • met with the leadership of Ernst & Young LLP to discuss auditor accreditation, firm quality control and audit quality • assessed regular reports from Ernst & Young on the progress of the 2018/2019 audit and any material accounting and control issues identified • discussed Ernst & Young's feedback on the group's critical accounting estimates and judgements • discussed Ernst & Young's draft report on certain control areas and the control environment ahead of the 2019 financial year-end.

Zarina Bassa
Chair, Investec plc Audit Committee

14 June 2019

External audit

The Investec plc Audit Committee has responsibility for reviewing the group's relationship with its external auditors, including appointment,considering audit fees, all non-audit services provided by the external auditors and the independence and objectivity of the external auditors.

Auditor appointment

The company has complied with the requirements of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 (the Order), which relates to the frequency and governance of tenders for the appointment of the external auditors. The external auditors of Investec plc and IBP are Ernst & Young LLP. Ernst & Young LLP have been Investec plc's auditors since 2000 and are subject to a mandatory rotation by the end of 2024 at the latest. A competitive tender process will be conducted in advance of this time.

KPMG LLP are the auditors of Investec Asset Management and Investec Weath & Investment.

Non-audit services

The Investec plc 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 Investec plc Audit Committee. The policy was reviewed and revised during the current year.

The Investec plc Audit Committee reviews 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 2019 were £9.3 million (2018: £6.8 million), of which £2.5 million (2018: £0.9 million) related to the provision of non-audit services.

Total non-audit fees for each of the auditing firms were pre-approved by the chair of the Investec plc Audit Committee prior to every assignment.

The level of fees related to non-audit services for the 2019 year were at a higher level than usual. This was carefully monitored and considered by the Investec plc Audit Committee which was comfortable that the services were those typically provided by the auditor, such as circulars and pre-listings regulatory requirements in the run-up to the demerger of Investec Asset Management from the group.

Based on the abovementioned policy and reviews, the Investec plc Audit Committee was satisfied that the level 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 Investec plc Audit Committee met 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 Investec plc Audit Committee meetings and have access to the Investec plc Audit Committee chair on an ongoing basis formally before each Investec plc Audit Committee meeting.

Auditor independence and objectivity

The Investec plc Audit Committee considers 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 key audit partners every five 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 his respective five-year rotation period in 2014.

Andy Bates as the lead Ernst & Young LLP partner will thus rotate off on conclusion of the 2019 audit process. Manprit Dosanjh who has been involved in a transition capacity over the past year, will take over as the lead Ernst & Young LLP partner for the 2020 audit.

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

Following due consideration, we continue to believe that the limitations on non-audit services including pre-approval of non-audit work and the confirmation of the independence of the firms and auditors involved as well as are adequate safeguards to ensure that the audit process is both objective and effective.

Re-election of auditors

Having satisfied itself as to auditor independence and audit quality, the board and the Investec plc Audit Committee are recommending the re-election of Ernst & Young LLP as auditors of Investec plc at its annual general meeting in August 2019.

DLC Board Risk and Capital Committee report

As the chairman of the DLC BRCC, during the financial year ended 31 March 2019, 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 whether no management action is required or whether 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 themselves. The committee reviewed and approved the capital plans for IBP under various stress scenarios.

As a committee, we gained comfort from the fact that a detailed review of the risk appetite limits was conducted by the executives in the 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 and investment risk and cybersecurity. However, due to the dynamic nature of the business environment in which Investec operates, the committee is flexible in considering other matters of relevance as they arise. For example, the committee requested several ad hoc reports in order to adequately assess risks that are due to one 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 as part of the overall board effectiveness review was conducted by Professor Goffee, from the London School of Business 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 DLC BRCC to give assurance as regards enterprise wide risk. As it is essential that there are some synergies in membership of the Investec plc Audit Committee and DLC BRCC, common membership will be retained by Zarina Bassa, as the chair of the Investec plc Audit Committee, and Philip Hourquebie, a member of the Investec plc Audit Committee.

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 2019

- Review of the targeted attack simulation exercise to mitigate cybercrime risk which was concluded by external consultants. Ensured remedial action, if any, was being taken in respect of identified weakness
- Brexit: Consideration of risks that could be faced and management actions to mitigate the impact thereof
- Understanding and challenging the implementation of IFRS 9
- Monitoring the implementation of the General Data Protection Regulation (GDPR).

Areas of focus in FY 2020

- Continued focus on further embedding of IFRS 9
- Monitoring and continued mitigation of risks related to cybercrime and information security
- Monitoring of Regulatory Developments
- Brexit: continued consideration of the risks that could be faced and the monitoring of management actions to mitigate the impact thereof.

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 further embedding of IFRS 9.

David Friedland
Chairman, DLC BRCC

14 June 2019

Role

The DLC 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 DLC BRCC is the most senior risk management committee of the group and comprises executive and non-executive membership (the majority of whom are non-executive directors). It covers each material banking, wealth management and asset management subsidiary company within the wider group.

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

The DLC BRCC is also the appointed board committee to meet 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 DLC Nomdac and the board have formed the opinion that the DLC 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.

Composition and meetings

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

		(6 meetings in the year)	
Members	**Committee member since**	**Eligible to attend**	**Attended**
D Friedland (Chairman)	13 Sep 2013	6	6
ZBM Bassa	14 Nov 2014	6	6
GR Burger*	11 Mar 2011	4	3
PKO Crosthwaite	9 Nov 2018	2	2
B Kantor	11 Mar 2011	6	6
S Koseff	11 Mar 2011	6	6
PA Hourquebie	17 Aug 2017	6	6
KL Shuenyane	16 Jan 2015	6	6
F Titi	11 Mar 2011	6	6

* *GR Burger stepped down from the committee on 31 March 2019.*

^ *Where a director is unable to attend a meeting, they receive papers in advance and have the opportunity to provide comments to the chairman of the committee.*

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

How the committee spent its time

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

How the DLC BRCC works

The significant matters addressed by the committee during the financial year ended 31 March 2019 are described on the following pages.

The standard and regular agenda items of the committee include comprehensive reports in regards to liquidity risk, capital adequacy, credit risk, investment risk, market risk, operational risk, reputational and legal risk, conduct risk, financial crime, fraud and IT and cyber risk.

COMMITTEE ACTIVITIES

Areas of focus	*What we did*
Capital management • The progress/plan to achieving required regulatory and internal targets and capital and leverage ratios	• reviewed and challenged Brexit stress tests • 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 – IFRS 9 • satisfied itself that Investec plc were adequately capitalised and that progress was being made towards achieving impending regulatory amendments to capital ratios
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	• reviewed a report which highlights group activity, liquidity balances and key measures against thresholds and limits • implemented an investment measure to ensure sufficient liquidity to absorb repayment of the Irish deposit pursuant to Brexit • challenged the effectiveness of the management of such risk within the business • considered the impact of external events, such as Brexit
Balance sheet risk • 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	• reviewed a report highlighting group activity, liquidity balances and key measures against thresholds and limits
Recovery and resolution plan • To document how the board and management will recover from extreme financial stress to avoid liquidity and capital difficulties in Investec plc	• reviewed the recovery and resolution plans for both Investec plc in line with the mandated annual review • 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 • gained comfort that adequate plans had been put in place for scenarios where Investec plc was required to recover from extreme financial stress

COMMITTEE ACTIVITIES *(continued)*

Areas of focus	What we did
Market risk • 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 in the derivatives market	• monitored risk appetite breaches and challenged management action which addressed these breaches • gained comfort that the group had addressed breaches to limits appropriately
Credit and counterparty risk • Credit and counterparty risk are 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	• monitored the risk appetite limit and queried management action taken in respect of breaches • 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	• received regular reports regarding investment risk • reviewed and questioned the investment risk reports submitted to the committee
Operational risk • The potential or actual impact 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	• monitored operational losses to ensure no further risk events • 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
Reputational 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	• 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 • 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	• 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
Business continuity risk • Risk associated with disruptive incidents which can impact premises, staff, equipment, systems and key business areas	• reviewed, challenged and debated reports which highlight processes in place to manage business continuity risk • challenged the effectiveness of the management of such risk within the business
Cybercrime risk • Risk associated with cyberattacks, which can interrupt client services or business processes, or result in financial losses	• received regular reports regarding the cybercrime landscape, including lessons learnt from external cyberattacks • received the targeted attack simulation results and ensured that any remediation required was completed • gained comfort that the management of cybercrime was given the necessary priority

DLC Remuneration Committee report

For information on the decisions taken by the DLC Remuneration Committee, refer to the remuneration report contained on pages 168 to 218 in volume one of Investec group's 2019 integrated annual report.

		(9 meetings in the year)	
Members during the year	**Committee member since**	**Number of meetings held**	**Eligible to attend**
PA Hourquebie (chairman)*	14 Aug 2017	9	9
ZBM Bassa	10 Sep 2015	9	9
PKO Crosthwaite	18 Sep 2013	9	9
CR Jacobs	8 Aug 2014	9	9

* *PA Hourquebie was appointed to the DLC Remco 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 Remco.*

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 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.

Please refer to pages 157 to 160 of the annual report for the directors' responsibility statement and directors' report.

Statement of compliance

UK Corporate Governance Code

The UK Corporate Governance Code 2016 (the code) applied to the Investec group for the financial year ended 31 March 2019. The Investec group confirms that it applied the main principles and complied with all the provisions of the code throughout the year. The Investec group has been subject to the provisions of the UK Corporate Governance Code 2018 since 1 April 2019, and will report on this next year. The following pages explain how we have applied the main principles and the provisions of the code during the year.

Leadership

A1 The role of the board

The group is led by an effective, committed board, which is collectively responsible for the long-term success of the group. Please refer to page 108 for the details of the group's governance framework, and pages 102 to 107 for the directors' biographies.

A2 Division of responsibilities

There is a clear division of responsibility at the head of the company. There is a clear separation between the role of the chairman and the joint CEOs. Please refer to pages 109 and 110 for the details of the respective board roles.

A3 The chairman

The chairman, Perry Crosthwaite, has the overall responsibility for the leadership of the board and for ensuring its effectiveness. Perry was considered to be independent on appointment. The responsibilities of the chairman are set on page 109.

A4 Non-executive directors

The senior independent director, Zarina Bassa, acts as a sounding board for the chairman, and is available to shareholders and non-executive directors as required. Zarina also leads the board in the annual assessment of the effectiveness of the chairman.

The non-executive directors constructively challenge and contribute to the development of the group's strategy, and monitor the performance of management against their strategic goals.

Effectiveness

B1 The composition of the board

The DLC Nomdac reviews the balance of skills, experience, independence, and knowledge on the board and board committees on an annual basis, or whenever appointments are considered. Having the right balance on the board and board committees helps to ensure that those bodies discharge their respective duties and responsibilities effectively. For the financial year ended 31 March 2019, the board, at the recommendation of the DLC Nomdac, concluded that the skills, knowledge and experience of the directors as a whole was appropriate for their responsibilities and the group's activities, as shown on page 112.

The DLC Nomdac monitors, in particular, whether there are any relationships or circumstances which may affect a director's independence. For the financial year ended 31 March 2019, the board, at the recommendation of the DLC Nomdac, concluded that the majority of the non-executive directors are independent in character and judgement, as shown on page 111. As identified on page 112, the board concluded that Ian Kantor, a founder, former CEO of the group, and brother of executive director Bernard Kantor could not be considered to be independent under the code.

B2 Appointments to the board

The process for appointments to the board are led by the DLC Nomdac, which makes a recommendation to the board.

B3 Time commitments

Non-executive directors are advised of time commitments prior to their appointment and they are required to devote such time as necessary to discharge their duties effectively. The time commitments of the directors are considered by the board on appointment and the board is satisfied that there are no directors whose time commitments are considered to be a matter for concern. External appointments, which may affect existing time commitments for the board's business, must be agreed with the chairman, and prior approval must be obtained before taking on any new external appointments. More information on directors' attendance at board and committee meetings can be found on page 116.

B4 Training and development

The chairman leads the training and development of directors and the board generally.

Ample opportunities, support and resources for learning are provided through a comprehensive programme, which is in place throughout the year and comprises both formal and informal training and information sessions.

The company secretary maintains a training and development log for each director.

B5 Provision of information and support

The chairman, supported by the company secretaries, ensures that board members receive appropriate and timely information. The Investec group provides access, at its expense, to the services of independent professional advisers in order to assist directors in their role. Board committees are also provided with sufficient resources to discharge their duties. All directors have access to the services of the company secretaries in relation to the discharge of their duties.

B6 Board and committee performance and evaluation

The evaluation of the board is externally facilitated at least every three years. An externally facilitated performance evaluation was completed in 2018, with internally facilitated evaluations having taken place in 2016 and 2017. Further information can be found on page 123.

B7 Re-election of directors

At the 2019 AGM all directors that intend to remain on the board will seek re-election or election. Being the first AGM following their appointment, Kim McFarland and Nishlan Samujh will stand for election, with all other Directors standing for re-election. The board believes that all directors continue to be effective and committed to their roles.

Accountability

C1 Financial and business reporting

The code requirement that the annual report is fair, balanced and understandable is considered throughout the drafting and reviewing process and the board has concluded that the 2019 annual report is fair balanced and understandable. The directors' and auditors' statements of responsibility can be found on pages 160 and 165. Information on the group's business model and strategy can be found on pages 3 to 25.

C2 Risk management and internal control systems

The board is responsible for the group's risk management and internal controls systems; see page 132 for more detail regarding internal control.

The audit committee is responsible for the effectiveness of internal controls and the Risk Management Framework. Further information can be found on pages 127 to 134.

The DLC BRCC is responsible for the review of the risk culture of the group, setting the tone from the top in respect of risk management. Further information can be found on pages 135 to 138.

The directors' viability statement and confirmation that the business is a going concern can be found on page 132.

C3 Role and responsibilities of the audit committee

The board has delegated a number of responsibilities to the audit committee, including oversight of financial reporting processes, the effectiveness of the internal controls and the risk management framework, and the work undertaken by the external and internal auditors. The audit committee report which can be found on pages 127 to 134, sets out how the committee has discharged its duties and areas of focus during the year.

Remuneration

D1 Level and elements of remuneration

The Investec group is committed to offering all employees a reward package that is competitive, performance-driven and fair and the group's remuneration policy statement is designed to promote the long-term success of Investec. The directors' remuneration report on pages 168 to 218 in volume one of Investec group's 2019 integrated annual report provides full details regarding the remuneration of directors.

D2 Procedure

The work of the DLC Remuneration Committee and its focus during the year can be found on pages 174 and 175 in volume one of Investec group's 2019 integrated annual report.

Relations with shareholders

E1 Shareholder engagement

The board actively engages with all stakeholders, including shareholders, and more information on our approach to relations with shareholders can be found on page 118.

E2 Use of general meetings

The board values the annual general meeting (AGM) as a key opportunity to meet with shareholders. The 2019 AGM will be held on 8 August 2019. The majority of the board are expected to attend and will be available to answer shareholders' questions.

To facilitate shareholder participation, electronic proxy voting and voting through the CREST proxy appointment service are available. All votes are taken by way of a poll to include all shareholder votes cast.

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 DLC BRCC (comprising a majority of non-executive directors, which includes members of the audit committees) the audit committees 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 19 to 25.

Through its various sub-committees, notably the audit committees, the DLC BRCC and the capital committees, the board regularly carries out a robust assessment of these risks, and their potential impact on the performance, liquidity, solvency and operational resilience of the group. The activities of these board sub-committees and the issues considered by them are described in the 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 in both the UK and South Africa exceed the regulatory requirements for the net stable funding ratio and liquidity coverage ratio. The group currently has £7.0 billion in cash and near cash assets, representing 53.2% 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 tier 1 ratio greater than 11%, 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. As the group's banking entities are regulated separately and ring-fenced from one another, different stress scenarios apply across the respective banking entities and jurisdictions.

Investec plc runs a number of stress scenarios including the ones briefly highlighted below which were applied in the current financial year:

- The BOE's annual cyclical stress scenario: this scenario incorporates a UK slowdown in GDP growth, a significant house price fall, a material slump in Pound Sterling, increasing inflationary pressure which is counteracted by an increase in UK interest rates to 4.5%
- A global scenario where there is a material stress on corporates and protracted weak global growth with low interest rates
- A domestic scenario where there is a prolonged period of weak investment and growth in the UK, increased political uncertainty and a domestic household shock incorporating a UK downturn 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.

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 plans are 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 Group also maintains an operational resilience framework for building organisational resilience to respond effectively to operationally disruptive events. This not only ensures continuity of business but also safeguards the interests of key stakeholders, reputation, brand and value-creating activities.

The capital and liquidity plans, stress scenarios, recovery and resolution plans and the risk appetite statement are reviewed at least annually. In addition, senior management hosts an annual 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. 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 2022 under these various scenarios. The board has assessed the group's viability in its 'base case' and stress 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. In reviewing the three year capital plans the board has also tested the group's viability in relation to the proposed demerger and separate public listing of the Investec Asset Management business.

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 3 to 18 which show a strategic and financial overview of the business
- Pages 19 to 25 which provide detail on the principal and emerging risks the group faces
- Page 39 which highlights information on the group's risk appetite framework
- Pages 35, 36 and 40 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 42, 45, 67, 69, 70, 71, 74 and 90 which highlight information on the group's various stress testing processes
- Pages 73 and 74 which specifically focus on the group's philosophy and approach to liquidity management
- Pages 87 to 90 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 14 June 2019. 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.

Conflicts of interest

Certain statutory duties with respect to directors' conflict of interest are in force under the UK Companies Act. In accordance with the Act and the Articles of Association (Articles) of Investec plc, the board may authorise any matter which would or might otherwise constitute or give rise to a breach of the duty or a director to avoid a situation which he or she has, or can have, a direct interest that conflicts, or possibly may conflict, with the interest of the company. 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. Trading is 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 require 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 Remco determines otherwise.

Directors' dealings

Directors dealings in the securities of Investec plc and Investec Limited are subject to a policy based on the Disclosure Guidance and Transparency Rules of the UKLA.

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.

Related parties

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

Time commitment

All potential new directors are asked to disclose their significant commitments, and to give an indication of the time spent on those commitments. The nomdac will then take this into account when considering a proposed appointment on the basis that all directors are expected to allocate sufficient time to their role on the board in order to discharge their responsibilities effectively. This includes attending, and being well-prepared for, all board and board committee meetings, as well as making time to understand the business, meet with executives and regulators, and complete ongoing training. All significant new commitments require prior approval.

Report to shareholders

This report to shareholders has been approved and authorised for issue to the shareholders of Investec plc on 14 June 2019 and signed on its behalf by:

David Miller
Company secretary

Investec plc

Investec ordinary shares

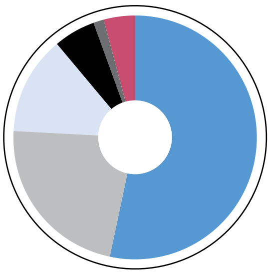
As at 31 March 2019 Investec plc had 682.1 million ordinary shares in issue.

Spread of ordinary shareholders as at 31 March 2019

Investec plc ordinary shares in issue

Number of shareholders	Holdings	% of total shareholders	Number of shares in issue	% of issued share capital
16 890	1 – 500	53.0%	3 228 612	0.5%
5 756	501 – 1 000	18.1%	4 369 314	0.6%
6 401	1 001 – 5 000	20.1%	14 087 876	2.1%
942	5 001 – 10 000	3.0%	6 795 051	1.0%
1 028	10 001 – 50 000	3.2%	23 454 273	3.4%
265	50 001 – 100 000	0.8%	18 922 470	2.8%
561	100 001 and over	1.8%	611 263 615	89.6%
31 843		**100.0%**	**682 121 211**	**100.0%**

Geographical holding by beneficial ordinary share owner as at 31 March 2019



INVESTEC PLC

53.4%	South Africa
22.6%	UK
13.0%	USA and Canada
5.6%	Rest of Europe
1.5%	Asia
3.9%	Other countries and unknown

Largest ordinary shareholders as at 31 March 2019

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)	93 089 815	13.6%
2. Public Investment Corporation (ZA)	48 111 995	7.4%
3. BlackRock Inc (UK & US)	43 582 569	6.4%
4. Prudential Group (ZA)	39 613 716	5.8%
5. The Vanguard Group Inc (UK & US)	23 959 963	3.5%
6. Old Mutual Investment Group (ZA)	22 967 140	3.4%
7. State Street Corporation (US & UK)	21 166 758	3.1%
8. T Rowe Price Associates (UK)	19 361 353	2.8%
9. Legal & General Group (UK)	15 880 395	2.3%
10. Norges Bank Investment Management (OSLO)	13 620 238	2.0%
Cumulative total	**341 353 942**	**50.4%**

The top 10 shareholders account for 50.4% 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.

Shareholder classification as at 31 March 2019

	Number of Investec plc shares	% holding
Public*	659 768 565	96.7%
Non-public	22 352 646	3.3%
Non executive directors of Investec plc/Investec Limited	549 683	0.1%
Executive directors of Investec plc/Investec Limited	10 617 216	1.6%
Investec staff share schemes	11 185 702	1.6%
Total	**682 121 211**	**100.0%**

*As per the JSE Listings Requirements.

Share statistics

Investec plc

For the year ended	31 March 2019	31 March 2018	31 March 2017	31 March 2016	31 March 2015	31 March 2014	31 March 2013
Closing market price per share (Pounds Sterling)							
– year ended	4.42	5.50	5.44	5.13	5.61	4.85	4.59
– highest	5.95	6.49	6.19	6.47	5.75	5.08	5.14
– lowest	4.23	4.61	4.19	4.03	5.61	3.66	3.10
Number of ordinary shares in issue (million)[1]	682.1	669.8	657.1	617.4	613.6	608.8	605.2
Market capitalisation (£'million)[1]	3 015	3 681	3 575	3 167	3 442	2 953	2 778
Daily average volumes of share traded ('000)	1 904	1 807	1 618	1 474	2 170	1 985	1 305
Price earnings ratio[2]	8.0	10.3	11.3	12.4	14.2	12.8	12.4
Dividend cover (times)[2]	2.2	2.2	2.1	2.0	2.0	2.0	2.1
Dividend yield (%)[2]	5.5	4.4	4.2	4.1	3.5	3.9	3.9
Earnings yield (%)[2]	12.5	9.7	8.9	8.1	7.0	7.8	8.1

1 *The LSE only include the shares in issue for Investec plc, i.e. currently 682.1 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 2019

Investec plc preference shareholders

Number of shareholders	**Holdings**	% of total shareholders	Number of preference shares in issue	% of issued preference share capital
52	1 – 500	15.6%	10 618	0.4%
39	501 – 1 000	11.7%	30 700	1.1%
159	1 001 – 5 000	47.8%	307 334	11.2%
28	5 001 – 10 000	8.4%	214 331	7.8%
44	10 001 – 50 000	13.2%	962 102	34.9%
11	50 001 – 100 000	3.3%	1 229 502	44.6%
–	100 001 and over	0.0%	–	0.0%
333		**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
47	1 – 500	51.1%	9 630	7.3%
16	501 – 1 000	17.4%	12 573	9.6%
22	1 001 – 5 000	23.9%	52 523	39.9%
5	5 001 – 10 000	5.4%	30 721	23.4%
2	10 001 – 50 000	2.2%	26 000	19.8%
–	50 001 – 100 000	0.0%	–	0.0%
–	100 001 and over	0.0%	–	0.0%
92		**100.0%**	**131 447**	**100.0%**

Largest preference shareholders as at 31 March 2019

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 11.9%
Pershing International nominees 5.2%

Investec plc (Rand-denominated) perpetual preference shares
Private individual 9.9%
Private individual 9.9%
Private individual 5.8%

Corporate sustainability

Corporate sustainability at Investec is about contributing in a positive and responsible way to the health of our economy, the well-being of our staff and communities, while safeguarding our natural resources to build a more resilient and inclusive world.

Over the past year we have:

- **prioritised six core Sustainable Development Goals (SDGs)**
- **continued to integrate environmental, social and governance (ESG) considerations into our daily operations and**
- **created value through our commitment to the six capitals.**

www ***For detailed information download our 2019 corporate sustainability and ESG supplementary report from our website.***

Funding a sustainable economy

We play a critical role in funding a sustainable economy that is cognisant of the world's limited natural resources.

- We signed up as full participants of the United Nations Global Compact's 10 principles on human rights, labour, environment and anti-corruption
- We signed the CEO statement of support for the United Nations Women's Empowerment Principles
- We have strengthened our climate change statement that supports the transition to a low-carbon economy. Together with UK Climate Investments, Investec committed R1 billion to a dedicated renewable energy investment vehicle called Revego Africa Energy
- As one of the first signatories to the Youth Employment Service (YES) initiative in South Africa, we placed more than 1 200 youth with 11 partners during the year
- We signed up to the United for Wildlife Financial Taskforce which leverages existing global financial crime architecture to combat illegal wildlife trade.

We participate and have maintained inclusion in several globally recognised sustainability indices.

- Investec plc ranked in the Dow Jones Sustainability Investment (DJSI) Index as one of 15 industry leaders on the DJSI World and one of nine in the DJSI Europe indices
- Constituent of the FTSE4Good Index
- Constituent of the ECPI Index
- Constituent of the FTSE/JSE Responsible Investment Index Series
- Rated AAA on the MSCI Global Sustainability Index Series
- Member of the STOXX Global ESG Leaders Indices.

SDGs

We have committed to support delivery of the United Nations SDGs in building a more resilient and inclusive world.

Our business model is best positioned to contribute to the SDGs by facilitating strong institutions (SDG 16) and partnering with our clients and stakeholders (SDG 17) to have a tangible impact on reducing inequality (SDG 10).

After extensive stakeholder engagement over the past 18 months, we prioritised our goals to ensure that they are globally aligned yet locally relevant to our core geographies and reflect our current business model and growth strategy. The aim is to maximise socio-economic and environmental impact by coordinating and integrating activities across our operations, businesses and communities. Financing innovative solutions that enable access to clean water (SDG 6) and affordable energy (SDG 7) as well as providing access to quality education (SDG 4) are all vital for economic growth and job creation (SDG 8). At the same time, our business has established expertise in building and supporting infrastructure solutions (SDG 9) and funding sustainable cities and stronger communities (SDG 11). As a result, we prioritised these six core SDGs which, given the interconnected nature of the goals, will help maximise our contribution to all 17 goals. We will continue to test these priorities for relevance and impact as our SDG journey progresses.

www ***Refer to our 2019 corporate sustainability and ESG supplementary report on our website for more details on our impact through the SDGs.***

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 highlighted 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.

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.

The board appreciates the importance of ensuring an appropriate balance in meeting the diverse needs and expectations of all the group's stakeholders and building lasting relationships with them.

We engage regularly with our stakeholders:

Employees	Investors and shareholders	Clients	Rating agencies
• Quarterly magazine • Staff updates hosted by executive management • Group and subsidiary fact sheets • Tailored internal investor relations presentation • Induction training for new employees • Regular staff communications • Dedicated comprehensive intranet • Senior management engagement breakfasts	• 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, group company secretarial, the chairman of the board, senior independent director and chairman of the remuneration committee • Regular email and telephone communication • Annual and interim reports	• Client relationship managers in each business • Regular face-to-face, telephone and email communications • Meetings with senior management • Comprehensive website and app • Industry relevant events • Client marketing events	• Meetings with investor relations team, group risk management and executive management • Tailored rating agency booklet • Tailored presentations • Regular email and telephone communications • Annual and interim reports • Four investor presentations • Comprehensive investor relations website
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 website • Meetings with executive management, economists and industry spokespersons • Dedicated third party public relations teams	• Centralised negotiation process • Ad hoc procurement questionnaires requesting information on suppliers' environmental, social and ethical policies

Topical discussions with our stakeholders

Impact of the political and economic environment

It's been a challenging operating environment in the UK with some volatility expected to continue. Key for stakeholders is the resilience of our business model through varied economic cycles.

Notwithstanding the challenging backdrop, the group delivered a sound operational performance and was able to maintain healthy asset quality and risk metrics. Our risk appetite framework as set out on page 39 is assessed regularly in light of market conditions and group strategy, our stress testing framework regularly tests our key vulnerabilities under stress and we are comfortable that we have robust risk management processes and systems in place. The group has always had a long-term strategy of building a diversified portfolio of businesses to support clients through varying markets and economic cycles and we remain confident with the resilience of our businesses. The group's viability statement can be found on pages 141 to 143.

Succession

Succession of the Investec group's long-serving executive management has been an ongoing focus area for stakeholders over the past few years. The announcement of the Investec group's succession plan in February 2018 was well received. Since then a number of additional management changes have been announced as outlined in the Investec group's 2019 integrated annual report. As we transition from a founder-led business, we are confident that we have strong and diverse leadership teams in place, who are embedded in the group's culture and values, and well-equipped to steer the businesses to achieve their long term strategic objectives.

Strategic review and proposed demerger

Following the Investec group's management succession announcement, a comprehensive strategic review was conducted to ensure that the group remains well positioned to serve the long-term interests of all stakeholders. After considering a full range of options, the Investec group announced in September 2018 its intention to simplify and focus the business, in pursuit of disciplined growth over the long term. In this regard, the board concluded that a demerger and separate listing of Investec Asset Management would simplify the group and allow both businesses to have a sharper focus on their respective growth trajectories. This should result in improved resource allocation, better operational performance and higher long-term growth. The proposed demerger is still subject to regulatory and shareholder approvals, and is expected to be completed during the second half of 2019.

Improving and sustainable returns

The Investec group hosted Capital Markets Days (CMDs) for the Asset Management business and the Bank and Wealth business in November 2018 and February 2019 respectively. Both CMDs were successful in reaffirming the businesses' positioning and communicating the respective strategies. The Bank and Wealth CMD also provided an opportunity to highlight some of the key initiatives underway to enhance returns and to set out the new short- to medium-term ROE and cost-to-income targets for the Bank and Wealth business.

Shareholder dilution

The resolutions granting directors' authority to allot shares were passed with a majority of less than 80% at our annual general meeting in August 2018. The board has taken shareholder concerns into account in relation to the dilutive effect of the issuance of ordinary shares and these resolutions will not be proposed at the group's 2019 AGM.

Executive remuneration

The resolution to approve the updated executive remuneration policy was passed with a majority of less than 80% at our annual general meeting in August 2018. The revised remuneration policy incorporated feedback from extensive engagement with shareholders addressing a number of matters, notably; a reduction in total executive director compensation, better alignment between pay awards and performance, simplification in pay structures and the assessment of executive director performance, pro-rating of unvested long-term incentive plan awards for departing executive directors and the introduction of a minimum shareholding requirement for executive directors.

Overall, shareholders provided positive feedback on the changes made and on the level of detail and clarity of the disclosure. However, some of the group's shareholders, whilst acknowledging these positive aspects, believed that the overall quantum of pay is too high relative to South African peers. The Investec group is an international business, and as such the Remuneration Committee believes it is appropriate to benchmark executive remuneration against a set of international peers, including South African competitors. Despite the group's active engagement on these matters, certain of the group's shareholders decided to vote against the remuneration policy.

With the announcement of the proposed demerger of Investec Asset Management, the group used the opportunity to re-engage with its largest shareholders on the current policy as well as on technical amendments to the policy which will be implemented following the proposed demerger. Based on the discussions held to date, the board believes that a new remuneration policy is not required at this time. Refer to the Investec group's 2019 integrated annual report for more information.

Auditor independence

In light of increased corporate and audit firm scandals, audit quality and auditor independence has been under heightened scrutiny by stakeholders. The Audit Committee spent time during the year on matters pertaining to audit quality and auditor independence and these matters are explained in detail on pages 130 to 134 in the corporate governance section of this report.

Gender and diversity

Stakeholders remain interested in the progress made by Investec on a number of diversity issues, including workplace representation, board diversity. During the year, the board approved a board diversity policy, setting out the targets for board composition in terms of gender and race. As at 31 March 2019, we are pleased to report that there was a 25% representation of women on the Investec group board – good progress towards our target of 33% by 2020. There was also an increase in female senior leadership who now represent 35% of total senior leadership. Additionally, the Investec group signed the CEO statement of support for the United Nations Women's Empowerment Principles demonstrating a commitment by executive management to advancing and empowering women, not only in the workplace, but also in the marketplace and our communities.

Operational and conduct risks

We remain focused on conduct, reputational, operational, recovery and resolution risks. Financial crime and cybercrime are priorities, and the group aims to strengthen its systems and controls in order to manage cyber risk as well as meet its regulatory obligations to combat money laundering, fraud and corruption.

Non-financial reporting

Stakeholders are increasingly expecting greater non-financial disclosures. This includes disclosure on environmental and social impacts as well as benchmarking against our peers.

The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFDs) has gained more traction as the Prudential Regulation Authority has issued an updated supervisory statement clarifying expectations around climate-related disclosure requirements. We recognise and support the recommendations of the TCFD disclosures to report clear and consistent information and have expanded on our previous disclosure as seen in volume two of the Investec group's 2019 integrated annual report. This is the start of a long-term process to build a better understanding of environmental, social and governance (ESG) reporting and climate-related risks and opportunities and we will enhance our disclosure over time in line with industry guidelines and best practice.

Interest from stakeholders in advancing the Sustainable Development Goals (SDGs) has increased. Investec remains committed to building a more resilient and inclusive world, and finding opportunities within our businesses to maximise our impact. We prioritised six goals that are globally aligned, yet locally relevant to our core geographies and which reflect our current business model and growth strategy. We continue to report on our performance with detail available on our six priority goals and their targets in our corporate sustainability and ESG supplementary report on our website.

Value creation through the six capitals

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 psychosocial well-being	20% of employees in the UK Bank and Wealth have attended employee well-being interventions in the first month since the launch in February 2019
Investing in our people and growing talent and leadership	Learning and development spend as a % of staff costs is 0.7% (2018: 0.8%) (target of >1.5% for the group) Learning and development spend of £3.8 million (2018: £4.5 million). The decrease is due to the realignment of current programmes to ensure efficiency and relevance
Retaining and motivating staff through appropriate remuneration and rewards structures	Staff turnover rate in the UK 11.5% (2018: 11.3%) 5% of the Investec group's shares are held by staff (excluding non-executive directors' holdings)
Respecting and upholding human rights by entrenching a value-driven culture through the organisation that is supported by strong ethics and integrity	Signed up as a full participant to the United Nations Global Compact and remain committed to the 10 principles on human rights, labour, environment and anti-corruption
Promoting diversity and equality at all levels of the group	41% female employees (2018: 41%) and 25% females on the board (target of at least 30% as per the 30% Club) (2018: 20%) Senior female managers increased to 20% (2018: 17%) Recognised by Equileap in the UK for the best maternity and paternity leave Compiled a document which is publicly available called *The way we do business* Appointed our first female CEO in May 2019 as CEO of Investec Bank plc subject to regulatory approval Signed the CEO statement of support for the United Nations Women's Empowerment Principles

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	Capital light activities contributed 62.5% to group income (target > 50% of our income from capital light activities) (2018: 62%) Annuity income as a percentage of operating income is 74.1% (2018: 72.5%)
Leveraging our expertise in risk management to protect value	Credit loss ratio within long-term average range at 0.38% (2018: 1.14%)
Ensuring solid and responsible lending and investing activities	Trained 79 frontline consultants on environmental, social and governance (ESG) practices since 2017 in the UK

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 12.8% (2018: 5.6%)
Unselfishly contributing to society through our community programmes	0.6% community spend as a % of operating profit (2018: 0.9%) (target of >1% for the group). Community spend of £1.8 million (2018: £1.7 million)
Investing in our distinctive brand and providing a high level of service by being nimble, flexible and innovative	Support a number of initiatives that promote and empower women in sports, for example women's hockey from school level to Great Britain and England women's hockey teams

Natural capital

We support the transition to a low-carbon economy and believe we can make a meaningful impact in addressing climate change. We look for opportunities to either reduce the negative impact or prolong the life on our planet.

Purpose and priorities	*Impact*
Funding and participating in renewable energy	89% of our energy lending portfolio relates to clean energy (2018: 97%) Together with UK Climate Investments, we committed R1 billion to a dedicated renewable energy investment vehicle called Revego Africa Energy
Limiting our direct operational carbon impact	Carbon emissions reduced by 5.2% (2018: 4.1%) despite headcount increasing by 5.7% Incorporated a number of environmental initiatives into the design of our new premises in London to manage and reduce our carbon footprint www ***Refer to our 2019 corporate sustainability and ESG supplementary report on our website for emission reduction targets.***
Protecting biodiversity through various conservation activities	Signed up to the United for Wildlife Financial Taskforce which leverages existing global financial crime architecture to combat illegal wildlife trade

Technological capital

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

Purpose and priorities	*Impact*
Creating an international platform for clients with global access to products and services which is both high-tech and high-touch	Continually enhancing and evolving our client digital platforms to ensure a seamless, integrated client service experience, now including a dedicated Investec for Intermediaries, and a business banking experience
We are focused on optimising the internal value chain, and improving productivity	Executed on a number of core platform improvements, and a dedicated digital workplace strategy is underway to support this initiative Closed our Click & Invest Service as the appetite for this type of investment service remains low and the market is growing at a much slower rate than expected
Partnering with the growing fintech ecosystem	Relationships formed through our Investec Emerging Companies team across the world, and a dedicated Fintech partnership team has built a strong pipeline of innovation

(Refer to our digital strategy in the Investec group's 2019 integrated annual report).

Financial capital

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

(Refer to page 9 to 13 for our performance at a glance).

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.

- Ranked 27th in the world and fourth in the UK for progress in gender equality and reporting by Equileap in 2018
- Recognised by Equileap in the UK for the best maternity and paternity leave
- Signatory to the 30% Club and to the HM Treasury Women in Finance Charter in the UK
- Received gold in the Global Good Awards for Best Education Project for the partnership with Arrival Education (UK) in 2018
- Winners of the Charity Investment Team of the Year by the City of London Wealth Management Awards 2019
- UK head office won the Chairman's Cup for waste management processes in the City of London's Clean City Awards in 2018 for the third time
- Operationally, we have a very low carbon footprint compared to our peers and were awarded a B rating by the Carbon Disclosure Project (CDP).

***DANIEL WILD**, PhD, Co-CEO RobecoSAM:*

"We congratulate Investec for achieving a place in The Sustainability Yearbook 2019, a showcase of the world's best performing companies among industry peers and in terms of financially material ESG metrics. Launched this year under the SAM brand and now with increased public access to the percentile rankings of all companies, the Yearbook remains a highly credible source of corporate sustainability insights."

Sustainability indices

	2019	2018	2017
Carbon Disclosure Project (CDP) (Investec is a member and Investec Asset Management is a signatory investor)	B	B	A-
Code for Responsible Investing in South Africa (CRISA)	Signatory	Signatory	Signatory
Dow Jones Sustainability Investment Index* (score out of 100)	64	68**	69
ECPI Index	Constituent	Constituent	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	Participant	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.*
** *As of 2018, results reflect a major scoring methodology update.*

www ***For detailed information download our 2019 corporate sustainability and ESG supplementary report from our website.***

4

ANNUAL FINANCIAL
STATEMENTS

The directors present their strategic and directors' report and financial statements for the financial year ended 31 March 2019.

Strategic report

The strategic report for the financial year ended 31 March 2019 was approved by the board of directors on 14 June 2019.

Section 414A of the UK Companies Act 2006 (the UK Companies Act) requires the directors to present their strategic report in the annual report and accounts. The company has chosen, in accordance with section 414C(11) of the UK Companies Act, to include certain matters in its strategic report that would otherwise be disclosed in the directors' report.

The operation and strategic overview section, together with the financial review section (section 1 and 2 of this report respectively, and together the strategic report) provide an overview of our strategic position, performance during the financial year and outlook for the business. This should be read in conjunction with the sections referenced below which elaborate on the aspects highlighted in the strategic report:

- The risk management section in section 3 of this report provides a description of the principal risks and uncertainties facing the company
- The corporate responsibility report on our website which highlights the sustainability, economic, social and environmental considerations.

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:

- 10 609 172 ordinary shares on 22 June 2018 at 544.00 pence per share
- 8 181 965 special converting shares on 22 June 2018 of £0.0002 each at par
- 603 645 ordinary shares on 26 September 2018 at 436.00 pence per share
- 1 069 699 ordinary shares on 28 November 2018 at 493.00 pence per share.

Investec plc did not repurchase any of its ordinary shares during the financial year ended 31 March 2019.

At 31 March 2019, Investec plc held 21 638 673 shares in treasury (2018: 19 722 086). The maximum number of shares held in treasury by Investec plc during the period under review was 26 770 816 shares.

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 2019. The preparation of these results was supervised by the Investec group risk and finance director, Nishlan Samujh.

Ordinary dividends

An interim dividend of 11.0 pence per ordinary share (2018: 10.5 pence) was paid on 19 December 2018, as follows:

- 11.0 pence per ordinary share to non-South African resident shareholders registered on 4 December 2018
- To South African resident shareholders registered on 4 December 2018, through a dividend paid by Investec Limited on the SA DAS share, of 8.0 pence per ordinary share and 3.0 pence per ordinary share paid by Investec plc.

The directors have proposed a final dividend to shareholders registered on 26 July 2019, of 13.5 pence (2018: 13.5 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 2019 and, if approved, will be paid on 12 August 2019, as follows:

- 13.5 pence per ordinary share to non-South African resident shareholders (2018: 13.5 pence) registered on 26 July 2019
- To South African resident shareholders registered on 26 July 2019, through a dividend paid by Investec Limited on the SA DAS share, of 8.0 pence per ordinary share and 5.5 pence per ordinary share paid by Investec plc.

Preference dividends

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

Preference dividend number 25 for the period 1 April 2018 to 30 September 2018, amounting to 7.9 pence per share, was declared to members holding preference shares registered on 4 December 2018 and was paid on 18 December 2018.

Preference dividend number 26 for the period 1 October 2018 to 31 March 2019, amounting to 8.7 pence per share, was declared to members holding preference shares registered on 4 June 2019 and will be paid on 18 June 2019.

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

Preference dividend number 14 for the period 1 April 2018 to 30 September 2018, amounting to 476.3 cents per share, was declared to members holding rand-denominated non-redeemable, non-cumulative, non-participating preference shares registered on 4 December 2018 and was paid on 18 December 2018.

Preference dividend number 15 for the period 1 October 2018 to 31 March 2019, amounting to 482.09 cents per share, was declared to members holding preference shares registered on 4 June 2019 and will be paid on 18 June 2019.

Directors and secretaries

Details of directors and company secretaries of Investec plc are reflected on pages 108 to 112 in volume one of Investec group's 2019 integrated annual report.

The names of the current directors of Investec plc, along with their biographical details, are set out on pages 92 to 96, and are incorporated into this report by reference. Changes to the composition of the board since 1 April 2018 up to date of this report are shown in the table below:

	Appointed to the board	Retired from the board
Glynn Burger		31 March 2019
Kim McFarland	1 October 2018	
Nishlan Samujh	1 April 2019	

In accordance with the UK Corporate Governance Code, all of the directors will retire and those willing to serve again will submit themselves for re-election at the annual general meeting. Laurel Bowden, Cheryl Carolus. Bernard Kantor and Stephen Koseff will not stand for re-election at the 2019 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 201 to 204 in volume one of Investec group's 2019 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 98 to 144.

Share incentives

Details regarding options granted during the year are set out on page 188 in volume one of Investec group's 2019 integrated annual report.

Audit Committee

The Investec plc Audit Committee 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 internal and external audit reviews and the effectiveness of our risk and control systems. Taking note of the deliberations of key subsidiary audit committees as part of this process.

Further details on the role and responsibility of the Investec plc Audit Committee is set out on page 128.

Independent auditor and audit information

Each person who is a director at the date of approval of this report, confirms that, so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware and each director has taken all steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the company's auditor is aware of that information. This confirmation is given pursuant to section 418 the Companies Act 2006 and should be interpreted in accordance with and subject to those provisions.

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 8 August 2019.

Contracts

Refer to page 152 in volume one of Investec group's 2019 integrated annual report for details of contracts with directors.

Subsidiary, associated companies and joint venture holdings

Details of principal subsidiary, associated companies and joint venture holdings are reflected on pages 266 to 271.

Major shareholders

The largest shareholders of Investec plc are reflected on page 145.

Special resolutions

At the annual general meeting held on 8 August 2018, 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
- 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.

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 (IFRS), as adopted by the EU. The parent company accounts of Investec plc are prepared under IFRS 101.

These policies are set out on pages 172 to 181.

Financial instruments

Detailed information on the group's risk management process and policy can be found in the risk management report on pages 35 to 94.

Information on the group's hedge accounting policy and the use of derivatives and hedges can be found on page 218 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 159 to 160 in volume one of Investec group's 2019 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 2019 financial year (2018: £nil).

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 pages 165 to 166 in volume one of Investec group's 2019 integrated annual report.

Going concern

Refer to page 164 for the directors' statement in relation to going concern.

Post 2019 Financial year events

On 10 May 2019 Investec Bank plc agreed to sell its Irish Wealth Management business to Brewin Dolphin for proceeds of circa EUR 44 million, subject to regulatory approval.

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

Research and development

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

Viability statement

Refer to pages 141 to 143 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 35 to 94.

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). 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.

Directors' responsibilities

The following statement, which should be read in conjunction with the auditor's report set out on pages 64 to 65, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the accounts.

The directors are required by the UK Companies Act to prepare group and company accounts for each financial year and, with regards to group accounts, in accordance with Article 4 of the IAS Regulation. The directors have prepared group and company accounts in accordance with IFRS as adopted by the EU. Under the Companies Act 2006, the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of their profit or loss for that period.

The directors consider that, in preparing the financial statements the group and company has used appropriate accounting policies, supported by reasonable judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

Having taken all the matters considered by the board and brought to the attention of the board during the year into account, the directors are satisfied that the annual report and financial statements, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the group and company's position and performance, business model and strategy.

Directors are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Directors' responsibility statement

The directors have responsibility for ensuring that the company and the group keep accounting records which disclose with reasonable accuracy the financial position of the company and the group and which enable them to ensure that the accounts comply with the UK Companies Act.

The directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement in accordance with applicable law and regulations.

The directors are responsible for the maintenance and integrity of the annual Report and financial statements as they appear on the group's website.

The directors have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors, whose names and functions are set out on pages 102 to 107, confirm to the best of their knowledge that:

(a) the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and

(b) the management report, on pages 3 to 24, which is incorporated in the directors' report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approval of annual financial statements

The directors' report and the annual financial statements of the company, which appear on pages 262 to 271, were approved by the board of directors on 13 June 2019.

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.

On behalf of the board of Investec plc.

PKO Crosthwaite

Perry Crosthwaite
Chairman

14 June 2019

Fani Titi
Joint chief executive officer

14 June 2019

Hendrik du Toit
Joint chief executive officer

14 June 2019

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). This is a summary only and the relevant provisions of the Articles or the UK Companies Act should be consulted if further information is required.

Share capital

The issued share capital of Investec plc at 31 March 2019 consists of 682 121 211 ordinary shares of £0.0002 each, 2 754 587 non-redeemable, non-cumulative, non-participating preference shares of £0.01 each, 131 447 ZAR non-redeemable, non-cumulative, non-participating preference shares of R0.0001 each, 318 904 706 special converting shares of £0.0002 each, the special voting share of £0.0001, the UK DAN share of £0.0001 and the UK DAS share of £0.0001 (each class as defined in the Articles).

Purchase of own shares

Subject to the provisions of the Articles, the UK Companies Act, 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, 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.

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, 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.

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, 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. For details regarding the shareholding requirements for executive directors of Investec plc, once appointed, please refer to page 180 of the remuneration report in volume one of Investec group's 2019 integrated annual report. 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 served 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.

Opinion

We have audited the special purpose financial statements of Investec plc (the Group) for the year ended 31 March 2019, 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 58, including a summary of significant accounting policies and information in section 3 of the Risk management and corporate governance, identified as 'audited' on pages 34 to 144, excluding the items marked as 'unaudited' in note 58. The financial reporting framework that has been applied in their preparation is a special purpose framework comprising the accounting policies set out on pages 172 to 181.

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 172 to 181, 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 2019 are prepared, in all material respects, in accordance with the accounting policies set out on pages 172 to 181.

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.

Emphasis of Matter – Basis of Accounting and Restriction on Distribution and Use

We draw attention to the accounting policies set out on pages 172 to 181 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 12 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 2 to 25), section 2 (pages 26 to 33), and pages marked as unaudited in section 3 (pages 34 to 155), 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/auditors responsibilities. 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 2019 in accordance with both International Financial Reporting Standards as adopted by the European Union and 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 13 June 2019.

Ernst & Young LLP

Andy Bates
(Senior Statutory Auditor)

for and on behalf of
Ernst & Young LLP, Statutory Auditor

London

14 June 2019

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

£'000	Notes	**Year to 31 March 2019**	Year to 31 March 2018
Interest income	2	728 003	599 410
Interest income calculated using effective interest method		598 245	^
Other interest income		129 758	^
Interest expense	2	(348 514)	(261 830)
Net interest income		**379 489**	**337 580**
Fee and commission income	3	1 072 767	1 005 635
Fee and commission expense	3	(183 536)	(155 701)
Investment income	4	32 674	68 516
Share of post taxation profit of associates and joint venture holdings	28	3 100	1 436
Trading income arising from			
– customer flow		86 766	114 402
– balance sheet management and other trading activities		17 924	(2 069)
Other operating income	5	14 249	10 421
Total operating income before expected credit losses/impairment losses		**1 423 433**	**1 380 220**
Expected credit loss impairment charges*	6	(24 553)	–
Impairment losses on loans and advances*	6	–	(106 085)
Operating income		**1 398 880**	**1 274 135**
Operating costs	7	(1 129 976)	(1 074 112)
Depreciation on operating leased assets	31	(2 137)	(2 350)
Operating profit before goodwill and acquired intangibles		**266 767**	**197 673**
Amortisation of acquired intangibles	34	(12 958)	(13 273)
Operating profit		**253 809**	**184 400**
Financial impact of group restructures	7	(19 044)	–
Profit before taxation		**234 765**	**184 400**
Taxation on operating profit before goodwill and acquired intangibles	9	(39 102)	(38 509)
Taxation on goodwill, acquired intangibles and financial impact of group restructures	9	4 983	2 418
Profit after taxation		**200 646**	**148 309**
Profit attributable to Asset Management non-controlling interests		(15 942)	(14 762)
Loss attributable to other non-controlling interests		4 479	1 684
Earnings attributable to shareholders		**189 183**	**135 231**

* *On adoption of IFRS 9, there is a move from an incurred loss model to an expected credit loss methodology.*
^ *As permitted by IFRS 9, the group has elected not to restate comparative annual financial statement.*

£'000	Notes	**Year to 31 March 2019**	Year to 31 March 2018
Profit after taxation		**200 646**	**148 309**
Other comprehensive income/(loss):			
Items that may be reclassified to the income statement:			
Gains on realisation of debt instruments at FVOCI recycled through the income statement*^	9	(1 907)	–
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income*^		1 505	–
Gains on realisation of available-for-sale assets recycled through income statement*^		–	(1 278)
Fair value movements on available-for-sale assets taken directly to other comprehensive income*		–	4 525
Foreign currency adjustments on translating foreign operations		3 767	(18 350)
Items that will never be reclassified to the income statement:			
Effect of rate change on deferred tax relating to adjustment for IFRS 9		(1 572)	–
Gains attributable to own credit risk*		9 104	–
Remeasurement of net defined benefit pension asset		(1 924)	3 938
Total comprehensive income		**209 619**	**137 144**
Total comprehensive income attributable to non-controlling interests		11 050	13 577
Total comprehensive income attributable to ordinary shareholders		184 406	117 437
Total comprehensive income attributable to perpetual preferred securities and other Additional Tier 1 securities		14 163	6 130
Total comprehensive income		**209 619**	**137 144**

* *Net of taxation (except for the impact of rate changes on deferred tax as shown separately above).*

^ *Following the adoption of IFRS 9, "Financial Instruments" on 1 April 2018, the fair value through other comprehensive income reserve was introduced replacing the available-for-sale reserve.*

£'000	Notes	At 31 March 2019	At 1 April 2018*	At 31 March 2018
Assets				
Cash and balances at central banks	17	4 445 431	3 487 717	3 487 769
Loans and advances to banks	18	1 164 051	1 002 972	1 003 796
Reverse repurchase agreements and cash collateral on securities borrowed	19	633 202	750 102	750 428
Sovereign debt securities	20	1 298 947	1 155 472	1 155 472
Bank debt securities	21	52 265	113 274	107 938
Other debt securities	22	498 265	272 064	278 474
Derivative financial instruments	23	625 550	591 912	597 264
Securities arising from trading activities	24	798 224	701 728	701 728
Investment portfolio	25	493 268	477 919	477 919
Loans and advances to customers	26	10 515 665	9 563 700	9 687 224
Other loans and advances	26	207 863	358 864	360 931
Other securitised assets	27	118 143	132 172	132 172
Interests in associated undertakings and joint venture holdings	28	53 451	77 059	77 059
Deferred taxation assets	29	148 351	162 192	98 156
Other assets	30	1 028 611	1 169 579	1 169 579
Property and equipment	31	99 796	54 493	54 493
Investment properties	32	14 500	14 500	14 500
Goodwill	33	356 048	356 265	356 265
Intangible assets	34	85 022	100 585	100 585
		22 636 653	**20 542 569**	**20 611 752**
Liabilities				
Deposits by banks		1 330 843	1 308 202	1 308 202
Derivative financial instruments	23	707 692	533 319	533 319
Other trading liabilities	36	80 217	103 496	103 496
Repurchase agreements and cash collateral on securities lent	19	314 335	168 640	168 640
Customer accounts (deposits)		13 150 824	11 637 497	11 637 497
Debt securities in issue	37	2 454 551	2 341 134	2 341 134
Liabilities arising on securitisation of other assets	27	113 711	127 853	127 853
Current taxation liabilities		131 896	152 355	152 355
Deferred taxation liabilities	29	20 704	21 892	21 892
Other liabilities	38	1 242 909	1 302 847	1 296 990
		19 547 682	17 697 235	17 691 378
Subordinated liabilities	40	803 699	716 564	579 673
		20 351 381	**18 413 799**	**18 271 051**
Equity				
Ordinary share capital	41	200	195	195
Perpetual preference share capital	42	29	29	29
Share premium	43	1 382 732	1 317 115	1 317 115
Treasury shares	44	(113 651)	(102 876)	(102 876)
Other reserves		(175 878)	(182 168)	(119 161)
Retained income		928 753	830 725	979 649
Shareholders' equity excluding non-controlling interests		**2 022 185**	**1 863 020**	**2 074 951**
Other Additional Tier 1 securities in issue	45	250 000	250 000	250 000
Non-controlling interests	46	13 087	15 750	15 750
Total equity		**2 285 272**	**2 128 770**	**2 340 701**
Total liabilities and equity		**22 636 653**	**20 542 569**	**20 611 752**

* *The 1 April 2018 balance sheet has been presented on an IFRS 9 basis and the comparative as at 31 March 2018 on an IAS 39 basis.*

For the year to 31 March £'000	Notes	2019	2018
Profit before taxation adjusted for non-cash items	48	324 311	349 327
Taxation paid		(109 850)	(33 418)
Increase in operating assets	48	(1 229 253)	(1 311 331)
Increase in operating liabilities	48	1 964 526	1 411 588
Net cash inflow from operating activities		**949 734**	**416 166**
Cash flow on net disposal of non-controlling interests		30 931	9 255
Cash flow on net acquisition of associates and joint venture holdings		25 992	(13 643)
Cash flow on acquisition of property, equipment and intangible assets		(67 869)	(15 174)
Cash flow on disposal of property, equipment and intangible assets		2 940	2 945
Net cash outflow from investing activities		**(8 006)**	**(16 617)**
Dividends paid to ordinary shareholders		(109 334)	(106 253)
Dividends paid to other equity holders		(28 273)	(19 138)
Proceeds on issue of Other Additional Tier 1 securities		–	250 000
Cash flow on issue of shares, net of related costs		65 622	70 837
Cash flow on redemption of perpetual preference shares		–	–
Cash flow on acquisition of treasury shares, net of related costs		(42 227)	(63 896)
Proceeds from issue of debt instruments		415 687	100 000
Redemption/maturity of debt instruments		(335 541)	(22 034)
Net cash inflow/(outflow) from financing activities		**(34 066)**	**209 516**
Effects of exchange rates on cash and cash equivalents		**(3 994)**	**(2 571)**
Net increase in cash and cash equivalents		**903 668**	**606 494**
Cash and cash equivalents at the beginning of the year		4 353 534	3 747 040
Cash and cash equivalents at the end of the year		**5 257 202**	**4 353 534**
Cash and cash equivalents is defined as including:			
Cash and balances at central banks		4 445 431	3 487 769
On demand loans and advances to banks		811 771	865 765
Cash and cash equivalents at the end of the year		**5 257 202**	**4 353 534**

Cash and cash equivalents have a maturity profile of less than three months.

£'000	Ordinary share capital	Perpetual preference share capital	Share premium	Treasury shares
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)**
Adoption of IFRS 9	–	–	–	–
At 1 April 2018	**195**	**29**	**1 317 115**	**(102 876)**
Movement in reserves 1 April 2018 – 31 March 2019				
Profit after taxation	–	–	–	–
Effect of rate change on deferred tax relating to adjustment for IFRS 9	–	–	–	–
Gains on realisation of debt instruments at FVOCI recycled through the income statement	–	–	–	–
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income^	–	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	–	–
Gains attributable to own credit risk	–	–	–	–
Remeasurement of net defined benefit pension asset	–	–	–	–
Total comprehensive income for the year	**–**	**–**	**–**	**–**
Share–based payments adjustments	–	–	–	–
Dividends paid to ordinary shareholders	–	–	–	–
Dividends paid 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	–	–	–	–
Issue of ordinary shares	5	–	65 617	–
Net equity impact of non–controlling interest movements	–	–	–	–
Movement of treasury shares	–	–	–	(10 775)
Transfer own credit reserve on sale of subordinated liabilities	–	–	–	–
At 31 March 2019	**200**	**29**	**1 382 732**	**(113 651)**

^ *Following the adoption of IFRS 9, Financial Instruments on 1 April 2018, the fair value through other comprehensive income reserve was introduced replacing the available–for–sale reserve*

Other reserves								
Capital reserve account	Available–for–sale reserve/ Fair value reserve^	Foreign currency reserves	Own credit reserve	Retained income	**Shareholders' equity excluding non–controlling interests**	Other Additional Tier 1 securities in issue	Non–controlling interests	**Total equity**
(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**	**–**	**979 649**	**2 074 951**	**250 000**	**15 750**	**2 340 701**
–	(7 619)	–	(55 388)	(148 924)	(211 931)	–	–	(211 931)
(131 158)	**2 532**	**1 846**	**(55 388)**	**830 725**	**1 863 020**	**250 000**	**15 750**	**2 128 770**
–	–	–	–	189 183	189 183	–	11 463	200 646
–	(47)	–	(817)	(708)	(1 572)	–	–	(1 572)
–	(1 907)	–	–	–	(1 907)	–	–	(1 907)
–	1 505	–	–	–	1 505	–	–	1 505
–	1	4 179	–	–	4 180	–	(413)	3 767
–	–	–	9 104	–	9 104	–	–	9 104
–	–	–	–	(1 924)	(1 924)	–	–	(1 924)
–	**(448)**	**4 179**	**8 287**	**186 551**	**198 569**	**–**	**11 050**	**209 619**
–	–	–	–	30 164	30 164	–	–	30 164
–	–	–	–	(109 334)	(109 334)	–	–	(109 334)
–	–	–	–	(490)	(490)	–	–	(490)
–	–	–	–	(13 673)	(13 673)	13 673	–	–
–	–	–	–	–	–	(13 673)	–	(13 673)
–	–	–	–	–	–	–	(14 110)	(14 110)
–	–	–	–	–	65 622	–	–	65 622
–	–	–	–	30 534	30 534	–	397	30 931
(31 452)	–	–		–	(42 227)	–	–	(42 227)
	–	–	25 724	(25 724)	–	–	–	–
(162 610)	**2 084**	**6 025**	**(21 377)**	**928 753**	**2 022 185**	**250 000**	**13 087**	**2 285 272**

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 2019, 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, debt instruments at FVOCI, 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.

On 1 April 2018 the group adopted IFRS 9 'Financial Instruments' which replaced IAS 39 and sets out the new requirements for the recognition and measurement of financial instruments. These requirements focus primarily on the classification and measurement of financial instruments and measurement of impairment losses based on an expected credit loss (ECL) model as opposed to an incurred loss methodology under IAS 39. IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting, which the group has exercised.

The accounting policies related to financial instruments have significantly changed and the disclosure of the impact of IFRS 9 is included in note 58.

Additionally, on 1 April 2018 the group adopted IFRS 15 'Revenue from contracts with customers' which replaced IAS 18 'Revenue'. IFRS 15 provides a principles-based approach for revenue recognition and introduces the concept of recognising revenue for obligations as they are satisfied. It applies to all contracts with customers except leases, financial instruments and insurance contracts. The group's measurement and recognition principles were aligned to the new standard and hence there has been no material impact on measurement and recognition principles or on disclosure requirements from the adoption of IFRS 15.

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 35 to 94.

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.

Restatements and presentation of information

The accounting policies adopted by the group are consistent with the prior year except as noted above in relation to the adoption of IFRS 9 and IFRS 15.

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 and joint venture holdings. Interests in associated undertakings and joint venture holdings 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 and joint venture holdings, the consolidated annual financial statements include the attributable share of the results and reserves of associated undertakings and joint venture holdings. The group's interests in associated undertakings and joint venture holdings 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 and joint venture holdings.

The consolidated balance sheet reflects the associated undertakings and joint venture holdings 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 and joint venture holdings.

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 IFRS 9 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 and joint venture holdings 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.

Interest income on debt instruments at amortised cost or fair value through OCI is recognised in the income statement using the effective interest rate method. Calculation of the effective interest rate takes into account fees payable or receivable that are an integral part of the instruments yield, premiums or discounts on acquisition or issue, early redemption fees and transactions costs.

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. Interest on instruments at fair value through profit and loss is recognised based on the contractual rates.

Fee and commission income includes revenue from contracts with customers earned from providing advisory services as well as portfolio management and also includes rental income from investment properties.

Revenue from contracts with customers is recognised in accordance with five steps to: identify the contract; identify the performance obligations; determine the transaction price, allocate the transaction price to the performance obligations; and recognise revenue when the performance obligations are satisfied.

Investment advisory and management fees are earned over the period in which the services are provided. Performance fees can be variable and recognition is constrained until such time as it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur and the services related to the transactions have been completed under the terms of the contract.

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 and the cash is received.

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 an asset or a liability reflects its non-performance risk.

When available, the group measures the fair value of an instrument using the quoted price in an active market for that instrument.

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The group classifies disclosed fair values according to a hierarchy that reflects the significance of observable market inputs.

A transfer is made between the hierarchy levels when the inputs have changed or there has been a change in valuation method. Transfers are deemed to occur at the end of each semi-annual reporting period.

Financial instruments

Financial instruments are initially recognised at their fair value. For financial assets or financial liabilities not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities are included in the initial measurement. All other transaction costs are recorded in the income statement immediately. Regular way purchase and sales transactions in respect of financial assets that require delivery of a financial instrument within the timeframe established by market convention are recorded at trade date.

Business model assessment

For financial assets, IFRS 9 requires that a business model assessment is carried out which reflects how the group manages the assets in order to generate cash flows. The assessment is at a portfolio level, being the level at which the portfolio is managed. Factors considered by the group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the assets' performance is evaluated and reported and how risks are assessed and managed.

The standard sets out different types of business model

- **Hold to collect:** it is intended to hold the asset to maturity to earn interest, collecting repayments of principal and interest from the customer. These assets are accounted for at amortised cost.
- **Hold to collect and sell:** this model is similar to the hold to collect model, except that the entity may elect to sell some or all of the assets before maturity to achieve the objectives of the business model. These assets are accounted for at FVOCI.
- **Hold to sell/managed on a fair value basis:** the entity originates or purchases an asset with the intention of disposing of it in the short or medium term to benefit from capital appreciation or the portfolio is managed on a fair value basis. These assets are accounted for at FVPL.

However, the group may make the following irrevocable election/designation at initial recognition of a financial asset on an asset-by-asset basis:

- elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in OCI; and
- a debt instrument that meets the amortised cost or FVOCI criteria as measured at FVPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

The classification into one of these categories is based on the entity's business model for managing the assets and the contractual cash flow characteristics of the assets.

Solely payment of principal and interest (SPPI)

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the group assesses whether the assets' cash flows represent solely payments of principal and interest (the SPPI test). In making this assessment, the group considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related asset is classified and measured at FVPL.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Financial assets and liabilities measured at amortised cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise to cash flows that are solely payments of principal and interest, such as most loans and advances to banks and customers and some debt securities, are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost.

The group may commit to provide a loan which has not yet been drawn. When the loan that arises from the lending commitment is expected to meet the criteria to be measured at amortised cost the undrawn commitment is also considered to be and is included in the impairment calculation below.

The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs. If the initial fair value is lower than the cash amount advanced, such as in the case of some leveraged finance and syndicated lending activities, the difference is deferred and recognised over the life of the loan through the recognition of interest income, unless the loan is credit impaired.

Financial assets measured at fair value through other comprehensive income (FVOCI)

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. They are recognised on the trade date when the group enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed.

They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Gains less losses arising from derecognition of debt instruments measured at fair value through other comprehensive income'.

Financial assets measured at FVOCI are included in the impairment calculations set out below and impairment is recognised in profit or loss.

Impairment of financial assets held at amortised cost or FVOCI

At each balance sheet date each financial asset or portfolio of advances categorised at amortised cost or at fair value through other comprehensive income, issued financial guarantee and loan commitment is measured for ECL impairment. Loss allowances are forward-looking, based on 12-month expected credit losses where there has not been a significant increase in credit risk rating, otherwise allowances are based on lifetime expected credit losses.

Expected credit losses are a probability-weighted estimate of credit losses. The probability is determined by the risk of default which is applied to the cash flow estimates. On a significant increase in credit risk, credit losses are rebased from 12-month to lifetime expectations. A change in credit risk is typically but not necessarily associated with a change in the expected cash flows.

The costs of loss allowances on assets held at amortised cost and at FVOCI are presented as impairments in the income statement. Allowances in respect of financial guarantees and loan commitments are presented as other liabilities and charges recorded within income statement impairments. Financial assets held at amortised cost are presented net of allowances except where the asset has been wholly or partially written off.

Financial assets where 12-month ECL is recognised are considered to be 'stage 1', financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2', and financial assets for which there is objective evidence of impairment are considered to be in default or otherwise credit-impaired are in 'stage 3'.

The group calculates the credit-adjusted effective interest rate on Stage 3 assets, which is calculated based on the amortised cost of the financial asset (i.e. gross carrying amount less ECL allowance) instead of its gross carrying amount and incorporates the impact of the ECLs in estimated future cash flows.

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 those instruments designated as held at fair value through profit or loss and those financial assets which do not meet the criteria for amortised cost or FVOCI.

Financial instruments classified as FVPL 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 held-for-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 liabilities or both financial assets and financial liabilities is managed and its performances 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; or
- a financial liability 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

Changes in own credit risk on financial liabilities designated at fair value is recognised in other comprehensive income. Any other changes are recognised in the income statement.

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.

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.

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.

The treatment of a renegotiation or modification of the contractual cash flows of a financial asset depends upon whether the modification is done for commercial reasons, in which case if they are significant the old asset is derecognised and a new asset recognised, or because of financial difficulties of the borrower.

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

Financial assets are only reclassified where there has been a change in business model. Financial liabilities cannot be reclassified.

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.

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.

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.

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 management.

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 and joint venture holdings, 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 one closed defined benefit scheme.

In respect of the defined contribution schemes, 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 scheme is measured at its market value at the balance sheet date and the liabilities of the schemes is measured using the projected unit credit method. The discount rate used to measure the scheme's 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 scheme's assets exceed or fall short of the scheme's 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 post retirement 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

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 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 was endorsed by the European Union in November 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 be required to recognise a lease liability measured at the present value of remaining cash flows and a right of use (ROU) asset measured at the amount of the initial measurement of the lease liability, plus any lease payments made prior to commencement date, initial direct costs, and estimated costs of restoring the underlying asset to the condition required by the lease, less any lease incentives received. Subsequently the lease liability will increase for the accrual of interest, resulting in a constant rate of return throughout the life of the lease, and reduce when payments are made. The right of use asset will amortise to the income statement over the life of the lease.

As permitted by the standard the group will apply IFRS 16 on a modified retrospective basis without restating prior years. The group has elected to take advantage of the following transition options on transition at 1 April 2019:

- apply IFRS 16 to contracts previously identified as leases by IAS 17
- calculate the right of use asset equal to the lease liability, adjusted for prepaid or accrued payments
- use the incremental borrowing rate as the discount rate for property leases
- not apply IFRS 16 to operating leases with a remaining lease term of less than 12 months
- rely on the assessment of whether the lease contract is onerous under IAS 37 at 31 March 2019 as an alternative to performing an impairment review of the right use of assets crated on 1 April 2019. Where this is the case the carrying amount of the assets will be adjusted by the onerous lease provision.

The expected impact of adopting IFRS 16 is an increase in assets of £553 million, an increase in liabilities of £584 million with no impact on retained earnings.

IFRS 17 Insurance Contracts

IFRS 17 ‘Insurance Contracts’ was issued in May 2017, and sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. It applies to all types of insurance contracts, regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The IFRS 17 is effective from 1 January 2021, and the group is considering its impact.

All other standards and interpretations issued but not yet effective are not expected to have a material impact on the group.

Amendment to IAS 12 Income Taxes

An amendment to IAS 12 was issued in December 2017 as part of the annual improvement cycle. The amendment clarifies that an entity should recognise the tax consequences of dividends where the transactions or events that generated the distributable profits are recognised. This amendment is effective for annual reporting periods beginning on or after 1 January 2019 and is applied to the income tax consequences of distributions recognised on or after the beginning of the earliest comparative period. As a result of its application, the income tax consequences of distributions relating to Additional Tier 1 securities classified as equity will be presented in the income statement rather than directly in equity. If the amendment had been applied in these financial statements the impact for the year ended 31 March 2019 would have been a £3.2 million increase in profit after tax (2018: £1.3 million) with no effect on equity.

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:

- In accordance with IFRS 13 Fair Value Measurement, the group categorises financial instruments carried on the balance sheet at fair value using a three-level hierarchy. Financial instruments categorised as level 1 are valued using quoted market prices and therefore there is minimal judgement applied in determining fair value. However, the fair value of financial instruments categorised as level 2 and, in particular, level 3 is determined using valuation techniques including discounted cash flow analysis and valuation models. The valuation techniques for level 3 financial instruments involve management judgement and estimates the extent of which depends on the complexity of the instrument and the availability of market observable information. In particular, significant uncertainty exists in the valuation of unlisted investments and fair value loans in the private equity and direct investments portfolios. Key valuation inputs are based on the most relevant observable market information and can include expected cash flows, discount rates, earnings multiples and the underlying assets within a business, adjusted where necessary for factors that specifically apply to the individual investments and recognising market volatility. Further details of the group's level 3 financial instruments and the sensitivity of the valuation including the effect of applying reasonably possible alternative assumptions in determining their fair value are also set out in note 14.

The group's investment portfolio contains historic investments and loans in China and Hong Kong totalling £149.3 million. The realisation of approximately £69 million of this portfolio is subject to significant uncertainty and the valuation is our assessment based on available information. Due to the nature of the investments it is not always possible to independently verify all the information used as inputs to the valuation. As a consequence, the recoverability of these investments is uncertain and changes in assumptions or circumstances may lead to volatility in valuations. The range of valuation uncertainty of this £69 million has been set out separately from the other China and Hong Kong investments and fair value loans in the level 3 sensitivity analysis set out in note 14.

Details of unlisted investments can be found in note 25 with further analysis contained in the risk management section on pages 66 to 67.

- The determination of ECL against assets that are carried at amortised cost and ECL relating to debt instruments at FVOCI involves a high degree of uncertainty as it involves using assumptions that are highly subjective and sensitive to risk factors. The most significant judgements relate to defining what is considered to be a significant increase in credit risk; determining the probability of default (PD),exposure at default (EAD) and loss given default (LGD) and future cash flows;incorporating information about forecast economic conditions and the weightings to be applied to economic scenarios. More detail relating to the methodology and results of the group's assessment of ECLs can be found on pages 43 to 45
- 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.

  The group from time to time has ongoing open enquiries with the tax authorities, some of which are going through legal proceedings. Where appropriate, the group has utilised expert external advice as well as experience of similar situations elsewhere in making provisions based on a number of possible outcomes to any dispute. In the UK, one such dispute is currently ongoing for which the group has made a provision. There have not been any significant adjustments to the provision during the year. A payment on account of £67 million has been made without admission of liability in order to prevent the accrual of interest on this amount. Any final outcome of the case could lead to an outcome lower or higher than the provision held. No final outcome is expected in the short term. The group has not disclosed details of the amount of the provision or the sensitivities relating to the calculation of the provision as these are considered to prejudice seriously the position of the group in its legal claims.
- The group's planned demerger of Investec Asset Management from the Investec group means that the consideration of the demerger and any related required disclosures is a significant judgement for the current year. The main consideration is whether the demerger of Investec Asset Management should lead to the Investec Asset Management business being classified as a disposal group and discontinued operation.

  The group has considered the requirements of IFRS 5 Non-current assets held for Sale and Discontinued Operations, where the key tests for this classification are that a business must be available for immediate sale in its present condition and that the transaction should be highly probable. The group considers that the former test is met as the Investec Asset Management business functions in a relatively stand alone way with only those shared services which would be normal in a demerger requiring separation. However, given that the transaction is subject to both regulatory and shareholder approval and that at this stage, there is not sufficient certainty of the outcome of these approval processes these had as at 31 March 2019 we are unable to conclude that this transaction is highly probable. The group's conclusion is the demerger cannot be classified as a disposal group and discontinued operation.

Segmental business analysis – Income statement For the year to 31 March 2019 £'000	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Total group

1. Consolidated segmental analysis

	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Total group
Net interest income	568	9 189	369 732	–	379 489
Fee and commission income	549 113	306 165	217 489	–	1 072 767
Fee and commission expense	(170 933)	(724)	(11 879)	–	(183 536)
Investment income	–	1 185	31 489	–	32 674
Share of post taxation profit of associates and joint venture holdings	–	–	3 100	–	3 100
Trading income arising from					
– customer flow	–	793	85 973	–	86 766
– balance sheet management and other trading activities	5 120	(1)	12 805	–	17 924
Other operating income	3 773	342	10 134	–	14 249
Total operating income before expected credit losses	**387 641**	**316 949**	**718 843**	**–**	**1 423 433**
Expected credit loss impairment release/(charges)*	7	(24)	(24 536)	–	(24 553)
Operating income	**387 648**	**316 925**	**694 307**	**–**	**1 398 880**
Operating costs	(279 813)	(260 562)	(558 083)	(31 518)	(1 129 976)
Depreciation on operating leased assets	–	–	(2 137)	–	(2 137)
Operating profit before goodwill and acquired intangibles	**107 835**	**56 363**	**134 087**	**(31 518)**	**266 767**
Loss attributable to other non-controlling interests	–	–	4 479	–	4 479
Operating profit before goodwill, acquired intangibles and after other non-controlling interests	**107 835**	**56 363**	**138 566**	**(31 518)**	**271 246**
Profit attributable to Asset Management non-controlling interests	(15 942)	–	–	–	(15 942)
Operating profit before goodwill, acquired intangibles and after non-controlling interests	**91 893**	**56 363**	**138 566**	**(31 518)**	**255 304**
Selected returns and key statistics					
Cost to income ratio**	72.2%	82.2%	77.4%	n/a	79.3%
Total assets (£'million)	444	866	21 327	n/a	22 637

* *On adoption of IFRS 9, there is a move from an incurred loss model to an expected credit loss methodology.*

** *The group has changed its cost to income ratio definition to exclude operating profits or losses attributable to other non-controlling interests. Refer to definitions.*

Segmental business analysis – Income statement For the year to 31 March 2018 £'000	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Total group

1. Consolidated segmental analysis
(continued)

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 and joint venture holdings	–	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**
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**
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%	76.7%	n/a	77.9%
Total assets (£'million)	423	996	19 193	n/a	20 612

* *On adoption of IFRS 9, there is a move from an incurred loss model to an expected credit loss methodology.*

** *The group has changed its cost to income ratio definition to exclude operating profits or losses attributable to other non-controlling interests. Refer to definitions.*

For the year to 31 March 2019 £'000	Notes	Balance sheet value	Interest received
2. Net interest income			
Cash, near cash and bank debt and sovereign debt securities	1	7 593 896	62 445
Core loans and advances	2	10 515 665	586 608
Private client		4 197 181	169 702
Corporate, institutional and other clients		6 318 484	416 906
Other debt securities and other loans and advances		706 128	78 950
Total interest-earning assets		**18 815 689**	**728 003**

For the year to 31 March 2019 £'000	Notes	Balance sheet value	Interest paid
Deposits by banks and other debt-related securities	3	4 099 729	138 306
Customer accounts		13 150 824	159 157
Subordinated liabilities		803 699	51 051
Total interest-bearing liabilities		**18 054 252**	**348 514**
Net interest income			**379 489**
Net interest margin			**2.13%**

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%**

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	2019	2018
3. Net fee and commission income		
Asset management and wealth management businesses net fee and commission income	**683 621**	**652 137**
Fund management fees/fees for assets under management	807 507	743 670
Private Client transactional fees	47 771	54 629
Fee and commission expense	(171 657)	(146 162)
Specialist Banking net fee and commission income	**205 610**	**197 797**
Corporate and institutional transactional and advisory services	206 798	192 579
Private client transactional fees	10 691	14 757
Fee and commission expense	(11 879)	(9 539)
Net fee and commission income	**889 231**	**849 934**
Annuity fees (net of fees payable)	675 619	662 924
Deal fees	213 612	187 010

For the year to 31 March £'000	2019	2018
4. Investment income		
Realised	22 399	43 505
Unrealised	(691)	6 435
Dividend income	4 256	10 171
Funding and other net related income	6 710	8 405
	32 674	**68 516**

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
2019					
Realised	36 201	7 313	–	(21 115)	22 399
Unrealised^	(6 126)	1 530	–	3 905	(691)
Dividend income	4 256	–	–	–	4 256
Funding and other net related income	–	–	–	6 710	6 710
	34 331	**8 843**	**–**	**(10 500)**	**32 674**
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**

* *Including 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		2019	2018
5.	**Other operating income**		
	Rental income from properties	1 422	1 350
	Gains on realisation of properties	503	411
	Unrealised gains on other investments	4 916	2 967
	Income from operating leases	4 853	2 696
	Income from government grants	2 555	2 997
		14 249	**10 421**

For the year to 31 March £'000		2019	2018
6.	**Expected credit loss impairment charges or (release)/ impairment losses on loans and advances***		
	Expected credit loss impairment charges/(releases) have arisen on the following line items:		
	Loans and advances to customers	35 328	–
	Other loans and advances	(2 862)	–
	Other balance sheet assets	(6 683)	–
	Off balance sheet commitments	(1 230)	–
	Impairment losses on loans and advances	–	105 864
	Impairment losses on other loans and advances	–	221
		24 553	**106 085**

* *On adoption of IFRS 9, there is a move from an incurred loss model to an expected credit loss methodology.*

For the year to 31 March £'000	2019	2018
7. Operating costs		
Staff compensation costs	790 514	760 912
– Salaries and wages (including directors' remuneration)**	669 548	650 535
– Share-based payment expense	33 119	32 418
– Social security costs	56 018	48 595
– Pensions and provident fund contributions	31 829	29 364
Training and other costs	20 009	17 879
Staff costs	810 523	778 791
Premises expenses (excluding depreciation)	57 106	52 167
Equipment expenses (excluding depreciation)	53 740	54 997
Business expenses*	150 329	130 688
Marketing expenses	36 216	44 243
Depreciation, amortisation and impairment on property, equipment and intangibles	22 062	13 226
	1 129 976	**1 074 112**
Depreciation on operating leased assets	2 137	2 350
	1 132 113	**1 076 462**
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		
Total fees paid to the audit firm by virtue of being the group's auditor	**5 840**	**5 182**
Audit of the group's accounts	636	551
Audit of the group's subsidiaries pursuant to legislation	3 581	4 039
Audit related assurance services	629	592
Other assurance services	994	–
Total fees paid to the audit firm not in the capacity of being the group's auditor	**933**	**648**
Audit related assurance services	84	88
Tax compliance services	132	80
Tax advisory services	98	220
Services related to corporate finance transactions	180	–
Services related to information technology	32	60
Services related to other regulatory services	49	–
Other non-audit services	358	200
	6 773	**5 830**
KPMG fees		
Total fees paid to the audit firm by virtue of being the group's auditor	**902**	**786**
Audit of the group's subsidiaries pursuant to legislation	578	600
Audit related assurance services	324	186
Total fees paid to the audit firm not in the capacity of being the group's auditor	**1 585**	**307**
Tax compliance services	72	287
Tax advisory services	42	–
Services related to corporate finance transactions	1 425	–
Services related to other regulatory services	–	10
Other non-audit services	46	10
	2 487	**1 093**
Total	**9 260**	**6 923**

* *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.*

Financial impact of group restructuring

Non-operational costs amounted to £19.0 million (2018: £nil) and relate primarily to the restructure of the Irish branch as a consequence of Brexit as well as costs incurred as part of the proposed demerger and separate listing of the Investec Asset Management business.

8. 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 group'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 the Investec group's 2019 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					
2019					
Equity-settled	626	4 751	24 854	2 888	33 119
Total income statement charge	**626**	**4 751**	**24 854**	**2 888**	**33 119**
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**

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 £nil million (2018: £3.2 million).

For the year to 31 March £'000	**2019**	2018
Weighted average fair value of options granted in the year		
UK schemes	**40 055**	**42 444**

	UK schemes			
	2019		**2018**	
Details of options outstanding during the year	**Number of share options**	**Weighted average exercise price £**	Number of share options	Weighted average exercise price £
Outstanding at the beginning of the year	22 465 788	0.07	25 991 607	0.06
Granted during the year	7 878 437	0.00	7 684 921	0.07
Exercised during the year^	(7 386 412)	0.02	(10 566 097)	0.04
Options forfeited during the year	(718 218)	0.52	(644 643)	0.22
Outstanding at the end of the year	**22 239 595**	**0.05**	**22 465 788**	**0.07**
Exercisable at the end of the year	**578 910**	**–**	**160 252**	**–**

^ *The weighted average share price during the year was £5.11 (2018: £5.64).*

8. Share-based payments *(continued)*

	2019	2018
Additional information relating to options		
Options with strike prices		
Exercise price range	£5.03 – £6.00	£4.31 – £6.00
Weighted average remaining contractual life	1.29 years	1.75 years
Long-term incentive grants with no strike price		
Exercise price range	£nil	£nil
Weighted average remaining contractual life	2.19 years	1.94 years
Weighted average fair value of options and long-term grants at measurement date	£5.08	£5.52
The fair value of options granted were calculated using a Black-Scholes option pricing model and shares granted were calculated at Market Price. For options & shares granted during the period, the inputs were as follows:		
– Share price at date of grant	£4.93 – £5.59	£5.03 – £5.87
– Exercise price	£nil	£nil, £5.03 – £5.87
– Expected volatility	n/a	27.44% – 28.54%
– Option life	3 – 7 years	1.5 – 7 years
– Expected dividend yields	n/a	5.59% – 6.56%
– Risk-free rate	n/a	0.62% – 0.99%

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	2019	2018
9. Taxation		
Income statement tax charge		
Current taxation		
UK		
Current tax on income for the year	43 104	38 255
Adjustments in respect of prior years	(10 628)	5 048
Corporation tax before double tax relief	**32 476**	**43 303**
– Double tax relief	(809)	(213)
	31 667	**43 090**
Europe	4 308	2 750
Australia	1 591	1 274
Other	(158)	1 408
	5 741	5 432
Total current taxation	**37 408**	**48 522**
Deferred taxation		
UK	(1 470)	(12 165)
Europe	(1 791)	359
Australia	(13)	(12)
Other	(15)	(613)
Total deferred taxation	**(3 289)**	**(12 431)**
Total taxation charge for the year	**34 119**	**36 091**
Total taxation charge for the year comprises:		
Taxation on operating profit before goodwill	39 102	38 509
Taxation on acquired intangibles, goodwill and disposal of subsidiaries	(4 983)	(2 418)
	34 119	**36 091**
Deferred taxation comprises:		
Origination and reversal of temporary differences	(16 046)	(12 959)
Changes in tax rates	2 842	4 448
Adjustment in respect of prior years	9 915	(3 920)
	(3 289)	**(12 431)**
The deferred taxation charge/(credit) in Income statement arise from:		
Deferred capital allowances	6 212	(8 765)
Income and expenditure accruals	(1 340)	(5 432)
Asset in respect of unexpired options	(32)	2 027
Unrealised fair value adjustment on financial instruments	(1 604)	88
Losses carried forward	(4 577)	1 609
Asset/(liability) in respect of pension deficit/(surplus)	15	(7 931)
Asset/(liability) in respect of pension contributions	(21)	7 924
Deferred tax on acquired intangibles	(2 197)	(1 867)
Other temporary differences	255	(84)
	(3 289)	**(12 431)**

For the year to 31 March £'000	2019	2018

9. Taxation *(continued)*

The deferred taxation charge/(credit) in OCI arise from:		
Asset in respect of unexpired options	3 994	514
Unrealised fair value adjustment on financial instruments	(51 344)	(1 869)
Asset/(liability) in respect of pension contributions	(404)	959
Other temporary differences	(341)	268
	(48 095)	**(128)**

The rates of corporation tax for the relevant years are:	**%**	%
UK	19	19
Europe (average)	10	10
Australia	30	30
Profit before taxation	**234 765**	**184 400**
Taxation on profit before taxation	**34 119**	**36 091**
Effective tax rate	**14.5%**	**19.6%**
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% (2018: 19%)	44 606	35 038
Taxation adjustments relating to foreign earnings	(4 199)	(3 051)
Taxation relating to prior years	(712)	1 128
Goodwill and non-operating items	1 137	156
Share options accounting expense	2 882	252
Non-taxable income	(2 116)	(1 386)
Net other permanent differences	2 981	5 582
Capital gains – non-taxable/covered by losses	(5 242)	(1 564)
Movement in unrecognised trading losses	(8 060)	(4 512)
Change in tax rate	2 842	4 448
Total taxation charge as per income statement	**34 119**	**36 091**

For the year to 31 March £'000	2019	2018
9. Taxation *(continued)*		
Other comprehensive income taxation effects		
Gains on realisation of debt instruments at FVOCI/available-for-sale assets recycled through the income statement	(1 907)	(1 278)
Pre-taxation	(2 355)	(1 260)
Taxation effect	448	(18)
Fair value movements on debt instruments at FVOCI/available-for-sale assets taken directly to other comprehensive income	1 458	4 525
Pre-taxation	2 044	4 050
Taxation effect	(586)	475
Remeasurement of net defined pension asset	(1 924)	3 938
Pre-taxation	(2 328)	4 897
Taxation effect	404	(959)
Own credit risk	7 579	–
Pre-taxation	12 017	–
Taxation effect	(4 438)	–
Statement of changes in equity taxation effects		
Additional Tier 1 Capital	(13 673)	(5 709)
Pre-taxation	(16 880)	(7 048)
Taxation effect	3 207	1 339
Share-based payment IFRS 2 adjustment	(2 142)	1 544
Pre-taxation	–	–
Taxation effect	(2 142)	1 544
IFRS 9 transitional adjustments	(211 931)	–
Pre-taxation	(275 999)	–
Taxation effect	64 068	–

	2019		2018	
For the year to 31 March £'000	**Pence per share**	**Total**	per share	Total
10. Dividends				
Ordinary dividend				
Final dividend for prior year	13.5	65 357	13.0	62 106
Interim dividend for current year	11.0	43 977	10.5	44 147
Total dividend attributable to ordinary shareholders	**24.5**	**109 334**	**23.5**	**106 253**

The directors have proposed a final dividend in respect of the financial year ended 31 March 2019 of 13.5 pence per ordinary share (31 March 2018: 13.5 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 5.5 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 12 August 2019 to shareholders on the register at the close of business on 26 July 2019.

For the year to 31 March £'000	2019 Pence per share	2019 Cents per share	2019 Total	2018 Pence per share	2018 Cents per share	2018 Total
10. Dividends *(continued)*						
Perpetual preference dividend						
Final dividend for prior year	7.26	485.35	236	6.23	497.38	212
Interim dividend for current year	7.93	476.30	254	6.27	495.43	209
Total dividend attributable to perpetual preference shareholders recognised in current financial year	**15.19**	**961.65**	**490**	**12.50**	**992.81**	**421**

The directors have declared a final dividend in respect of the financial year ended 31 March 2019 of 8.72603 pence (Investec plc shares traded on the JSE Limited) and 8.72603 pence (Investec plc shares traded on the Channel Island Stock Exchange), and 160.82597 cents per Rand denominated perpetual preference share. The final dividend will be payable on 18 June 2019 to shareholders on the register at the close of business on, 7 June 2019.

For the year to 31 March £'000	2019	2018
Dividend attributable to Other Additional Tier 1 securities	**13 673**	**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	2019	2018
11. Operating lease income and expenses		
Operating lease expenses recognised in operating costs expenses:		
Minimum lease payments	37 800	30 177
Sub-lease income	(2 443)	(2 586)
	35 357	**27 591**
Operating lease income recognised in income:		
Minimum lease payments	30 907	2 660
Sub-lease payments	(35 760)	–
	(4 853)	**2 660**

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'. During the current year, Investec Bank plc entered into client transactions where the group has a head lease and sublease arrangement with external partners.

12. Analysis of income and impairments by category of financial instrument

For the year to 31 March £'000	At fair value through profit or loss — IFRS 9 mandatory — Trading**	Non-trading**	Designated at inception
2019			
Net interest income/(expense)	(5 287)	62 857	(38 507)
Fee and commission income	42 741	4 935	–
Fee and commission expense			
Investment income	10 468	(464)	4 521
Share of post taxation profit of associates and joint venture holdings			
Trading income arising from			
– customer flow	80 767	5 362	9 925
– balance sheet management and other trading activities	895	(658)	11 171
Other operating income			
Total operating income before expected credit loss	**129 584**	**72 032**	**(12 890)**
Expected credit loss impairment charges*	–	–	–
Operating income	**129 584**	**72 032**	**(12 890)**

* *On adoption of IFRS 9, there is a move from an incurred loss model to an expected credit loss methodology.*

** *Fair value through profit and loss income statement items have been split as trading and non-trading, as defined by regulatory rules for the trading book and banking book requirements respectively. Trading consists of income and expenses from positions held for trading intent or to hedge elements of the trading book. Non-trading consists of income and expenses from positions that are expected to be held to maturity.*

Debt instruments with a dual business model	Amortised cost	Non-financial instruments	Other fee income	**Total**
29 876	318 697	–	11 853	379 489
–	84 634	39	940 418	1 072 767
–	(2 737)	–	(180 799)	(183 536)
2 034	2 969	13 146	–	32 674
–	–	3 138	(38)	3 100
–	–	–	(9 288)	86 766
–	6 516	–		17 924
–	–	6 778	7 471	14 249
31 910	**410 079**	**23 101**	**769 617**	**1 423 433**
–	(24 553)	–	–	(24 553)
31 910	**385 526**	**23 101**	**769 617**	**1 398 880**

12. Analysis of income and impairments by category of financial instrument *(continued)*

For the year to 31 March £'000	At fair value through profit or loss Trading	At fair value through profit or loss Designated at inception
2018		
Net interest income/(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 and joint venture holdings	–	–
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 expected credit loss	**196 195**	**60 328**
Impairment losses on loans and advances*	–	–
Operating income/(expense)	**196 195**	**60 328**

* On adoption of IFRS 9, there is a move from an incurred loss model to an expected credit loss methodology.

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**

13. Analysis of financial assets and liabilities by category of financial instrument

At 31 March 2019 £'000	At fair value through profit or loss – IFRS 9 mandatory: Trading*	At fair value through profit or loss – IFRS 9 mandatory: Non-trading*	At fair value through profit or loss: Designated at initial recognition
Assets			
Cash and balances at central banks	–	1	–
Loans and advances to banks	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	24 863	–	–
Sovereign debt securities	–	318 798	–
Bank debt securities	–	52 265	–
Other debt securities	–	275 268	–
Derivative financial instruments**	625 550	–	–
Securities arising from trading activities	283 071	7 117	508 036
Investment portfolio	–	493 268	–
Loans and advances to customers	–	772 084	–
Other loans and advances	–	–	–
Other securitised assets	–	–	118 143
Interests in associated undertakings and joint venture holdings	–	–	–
Deferred taxation assets	–	–	–
Other assets	–	73 844	–
Property and equipment	–	–	–
Investment properties	–	–	–
Goodwill	–	–	–
Intangible assets	–	–	–
	933 484	**1 992 645**	**626 179**
Financial liabilities			
Deposits by banks	–	–	–
Derivative financial instruments**	707 692	–	–
Other trading liabilities	80 217	–	–
Repurchase agreements and cash collateral on securities lent	21 933	–	–
Customer accounts (deposits)	–	–	–
Debt securities in issue	–	–	368 895
Liabilities arising on securitisation of other assets	–	–	113 711
Current taxation liabilities	–	–	–
Deferred taxation liabilities	–	–	–
Other liabilities	–	–	–
	809 842	**–**	**482 606**
Subordinated liabilities	–	–	367 707
	809 842	**–**	**850 313**

* *Fair value through profit and loss balance sheet positions have been split as trading and non-trading, as defined by regulatory rules for the trading book and banking book requirements respectively. Trading consists of positions held for trading intent or to hedge elements of the trading book. Non-trading consists of positions that are expected to be held to maturity.*

** *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*

For more information on hedges, please refer to note 52 on pages 243 to 244.

At fair value through other comprehensive income					
Debt instrument with dual business model	Total instruments at fair value	Amortised cost	Non-financial instruments or scoped out of IFRS 9	Total
–	1	4 445 430	–	4 445 431
–	–	1 164 051	–	1 164 051
–	24 863	608 339	–	633 202
980 149	1 298 947	–	–	1 298 947
–	52 265	–	–	52 265
–	275 268	222 997	–	498 265
–	625 550	–	–	625 550
–	798 224	–	–	798 224
–	493 268	–	–	493 268
397 068	1 169 152	9 346 513	–	10 515 665
–	–	207 863	–	207 863
–	118 143	–	–	118 143
–	–	–	53 451	53 451
–	–	–	148 351	148 351
–	73 844	719 407	235 360	1 028 611
–	–	–	99 796	99 796
–	–	–	14 500	14 500
–	–	–	356 048	356 048
–	–	–	85 022	85 022
1 377 217	**4 929 525**	**16 714 600**	**992 528**	**22 636 653**
–	–	1 330 843	–	1 330 843
–	707 692	–	–	707 692
–	80 217	–	–	80 217
–	21 933	292 402	–	314 335
–	–	13 150 824	–	13 150 824
–	368 895	2 085 656	–	2 454 551
–	113 711	–	–	113 711
–	–	–	131 896	131 896
–	–	–	20 704	20 704
–	–	839 938	402 971	1 242 909
–	**1 292 448**	**17 699 663**	**555 571**	**19 547 682**
–	367 707	435 992	–	803 699
–	**1 660 155**	**18 135 655**	**555 571**	**20 351 381**

13. Analysis of financial assets and liabilities by category of financial instrument
(continued)

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
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 and joint venture holdings	–	–	–	–
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.*

For more information on hedges, please refer to note 52 on pages 243 to 244.

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**

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 225.

		Fair value category		
At 31 March 2019 **£'000**	**Total instruments at fair value**	Level 1	Level 2	Level 3
Assets				
Cash and balances at central banks	1	1	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	24 863	–	24 863	–
Sovereign debt securities	1 298 947	1 298 947	–	–
Bank debt securities	52 265	–	52 265	–
Other debt securities	275 268	–	192 098	83 170
Derivative financial instruments	625 550	–	586 915	38 635
Securities arising from trading activities	798 224	767 337	23 769	7 118
Investment portfolio	493 268	13 244	6 582	473 442
Loans and advances to customers	1 169 152	–	19	1 169 133
Other securitised assets	118 143	–	–	118 143
Other assets	73 844	73 844	–	–
	4 929 525	**2 153 373**	**886 511**	**1 889 641**
Liabilities				
Derivative financial instruments	707 692	5 857	685 209	16 626
Other trading liabilities	80 217	80 217	–	–
Debt securities in issue	21 933	–	21 933	–
Repurchase agreements and cash collateral on securities lent	368 895	–	368 895	–
Liabilities arising on securitisation of other assets	113 711	–	–	113 711
Subordinated liabilities	367 707	367 707	–	–
	1 660 155	**453 781**	**1 076 037**	**130 337**
Net assets/(liabilities) at fair value	**3 269 370**	**1 699 592**	**(189 526)**	**1 759 304**

14. Fair value hierarchy *(continued)*

At 31 March 2018 £'000	Total instruments at fair value	Fair value category Level 1	Level 2	Level 3
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 assets/(liabilities) at fair value	**2 325 233**	**2 053 137**	**(333 999)**	**606 095**

The group transfers between levels within the fair value hierarchy when the observability of inputs change or if the valuation methods change.

Transfers between level 1 and level 2

During the current and prior years there were no significant transfers between level 1 and level 2.

14. Fair value hierarchy *(continued)*

Level 3 instruments

The following table is a reconciliation of the opening balances to the closing balances for fair value measurements in level 3 of the fair value hierarchy:

For the year to £'000	Investment portfolio	Loans and advances to customers	Other securitised assets	Other balance sheet assets[1]	Total
Assets					
Balance as at 1 April 2017	**393 105**	**86 482**	**138 628**	**67 571**	**685 786**
Total gains	36 377	6 275	10 961	14 422	68 035
In the income statement	33 641	6 275	10 961	14 422	65 299
In the statement of comprehensive income	2 736	–	–	–	2 736
Purchases	105 270	54 789	–	7 663	167 722
Sales	(93 783)	(3 170)	–	(7 288)	(104 241)
Issues	–	–	–	–	–
Settlements	1 625	(2 635)	(17 417)	(2 749)	(21 176)
Transfers into level 3	–	–	–	–	–
Transfers out of level 3	(565)	–	–	(17 351)	(17 916)
Foreign exchange adjustments	(18 233)	(8 001)	–	(2 387)	(28 621)
Balance as at 31 March 2018	**423 796**	**133 740**	**132 172**	**59 881**	**749 589**
Adoption of IFRS 9	8 060	1 167 625	–	75 692	1 251 377
Balance as at 1 April 2018	**431 856**	**1 301 365**	**132 172**	**135 573**	**2 000 966**
Total gains or (losses)	21 788	69 261	(2 834)	16 865	105 080
In the income statement	21 788	69 056	(2 834)	16 865	104 875
In the statement of comprehensive income	–	205	–	–	205
Purchases	133 406	1 263 362	–	6 909	1 403 677
Sales	(60 117)	(889 145)	–	(8 404)	(957 666)
Issues	–	–	–	–	–
Settlements	(59 851)	(624 061)	(11 196)	(29 456)	(724 564)
Transfers into level 3	–	–	–	–	–
Transfers out of level 3	–	–	–	–	–
Foreign exchange adjustments	6 360	48 351	1	7 436	62 148
Balance as at 31 March 2019	**473 442**	**1 169 133**	**118 143**	**128 923**	**1 889 641**

1. *Comprises of level 3 other debt securities, derivative financial instruments and securities arising from trading.*

14. Fair value hierarchy *(continued)*

For the year to £'000	Liabilities arising on securitisation of other assets	Other balance sheet liabilities[1]	Total
Liabilities			
Balance as at 1 April 2017	**128 838**	**13 730**	**142 568**
Total losses	8 188	1 911	10 099
In the income statement	8 188	1 911	10 099
In the statement of comprehensive income	–	–	–
Purchases	–	–	–
Sales	3 711	–	3 711
Issues	–	–	–
Settlements	(12 884)	–	(12 884)
Transfers into level 3	–	–	–
Transfers out of level 3	–	–	–
Foreign exchange adjustments	–	–	–
Balance as at 31 March 2018	**127 853**	**15 641**	**143 494**
Adoption of IFRS 9	–	–	–
Balance as at 1 April 2018	**127 853**	**15 641**	**143 494**
Total gains	(5 084)	(12 653)	(17 737)
In the income statement	(5 084)	(12 653)	(17 737)
In the statement of comprehensive income	–	–	–
Purchases	–	23 798	23 798
Sales	–	(11 800)	(11 800)
Issues	–	–	–
Settlements	(9 058)	–	(9 058)
Transfers into level 3	–	2 854	2 854
Transfers out of level 3	–	–	–
Foreign exchange adjustments	–	(1 214)	(1 214)
Balance as at 31 March 2019	**113 711**	**16 626**	**130 337**

1. *Comprises of level 3 derivative financial instruments.*

The group transfers between levels within the fair value hierarchy when the observability of inputs change or if the valuation methods change.

For the year ended 31 March 2019, there were no transfers from level 3 into level 2. There were transfers from level 2 into level 3 of £nil assets and £2.9 million of liabilities. For the year ended 31 March 2018 there were transfers of £17.9 million of assets and £nil liabilities from level 3 into level 2 as the prices used to value certain derivatives were able to be externally validated against market consensus. There were no transfers from level 2 into level 3.

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
2019			
Total gains/(losses) included in the income statement for the year			
Net interest income	99 951	86 118	13 833
Investment income	25 934	1 939	23 995
Trading income arising from customer flow	(3 272)	1 348	(4 620)
	122 613	**89 405**	**33 208**
Total gains/(losses) included in other comprehensive income for the year			
Gains on realisation of debt instruments at FVOCI recycled through the income statement^	–	–	–
Fair value movements on debt instruments at FVOCI taken directly to other comprehensive income^	205	–	205
	205	**–**	**205**
2018			
Total gains/(losses) included in the income statement for the year			
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)
	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**

^ *Following the adaption of IFRS 9 "Financial Instruments" on 1 April 2018, the fair value reserve was introduced replacing the available for-sale reserve.*

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 2019 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
Bank debt securities	Discounted cash flow model	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
Loans and advances to customers	Discounted cash flow model	Discount rates
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 2019	Balance sheet value £'000	Significant unobservable input	Range of unobservable input used	Favourable changes £'000	Unfavourable changes £'000
Assets					
Other debt securities	83 170	Potential impact on income statement		7 741	(7 543)
		Credit spreads	5.8%	117	(114)
		Other^	^	7 624	(7 429)
Derivative financial instruments	38 635	Potential impact on income statement		22 720	(5 882)
		Volatilities	4.0% – 9.0%	129	(129)
		Credit spreads	7.1%	6	(9)
		Cash flow adjustments	CPR 6.2% – 10.2%	134	(124)
		Underlying asset value^^	^^	7 731	(3 731)
		Other^	^	14 720	(1 889)
Securities arising from trading activities	7 118	Potential impact on income statement			
		Cash flow adjustments	CPR 9.2%	1 119	(1 480)
Investment portfolio	473 442	Potential impact on income statement		109 007	(79 083)
		Price earnings multiple	3.2 x – 9.0 x	8 852	(8 563)
		Underlying asset value^^	^^	16 426	(10 448)
		Other^	^	83 729	(60 072)
Loans and advances to customers	1 169 133	Potential impact on income statement		58 774	(74 960)
		Credit spreads	0.1% – 6.2%	6 327	(9 089)
		Price earnings multiple	4.9 x	703	(493)
		Underlying asset value^^	^^	2 778	(2 347)
		Other^	^	48 966	(63 031)
		Potential impact on other comprehensive income			
		Credit spreads	0.03% – 2.1%	1 673	(2 933)
Other securitised assets	118 143	Potential impact on income statement			
		Cash flow adjustments	CPR 6.2%	496	(473)
Total level 3 assets	**1 889 641**			**201 530**	**(172 354)**
Liabilities					
Derivative financial instruments	16 626	Potential impact on income statement		(8 035)	8 045
		Cash flow adjustments	CPR 6.2% – 10.2%	(107)	116
		Volatilities	5.0% – 9.0%	(174)	174
		Underlying asset value^^	^^	(7 754)	7 755
Liabilities arising on securitisation of other assets*	113 711	Potential impact on income statement			
		Cash flow adjustments	CPR 6.2%	(365)	344
Total level 3 liabilities	**130 337**			**(8 400)**	**8 389**
Net level 3 assets	**1 759 304**				

* *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 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 assets cannot be determined through the adjustment of a single input.*
^^ *Underlying asset values are calculated by reference to a tangible asset, for example property, aircraft or shares.*

Within the Hong Kong portfolio there is a connected exposure across the investment portfolio, loans and advances to customers and derivatives financial instruments lines with a balance sheet value of £69 million. The consideration of reasonably possible alternative assumptions with respect to the fair value of this exposure results in a favourable change of £95 million and an unfavourable change of £69 million, included within the above table.

14. Fair value hierarchy *(continued)*

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)*

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.

Underlying asset value

In instances where cash flows have links to referenced assets, the underlying asset value is used to determine the fair value. The underlying asset valuation is derived using observable market prices sourced from broker quotes, specialist values or other reliable pricing sources.

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
2019					
Assets					
Cash and balances at central banks	4 445 430	4 445 430	^	^	^
Loans and advances to banks	1 164 051	1 164 028	1 149 852	5 825	8 351
Reverse repurchase agreements and cash collateral on securities borrowed	608 339	608 354	508 232	100 122	–
Other debt securities	222 997	213 413	7 360	136 524	69 529
Loans and advances to customers	9 346 513	9 398 053	–	967 844	8 430 209
Other loans and advances	207 863	209 757	329	206 973	2 455
Other assets	719 407	720 053	483 363	216 490	20 200
	16 714 600	**16 759 088**			
Liabilities					
Deposits by banks	1 330 843	1 337 090	169 805	1 167 285	–
Repurchase agreements and cash collateral on securities lent	292 402	292 402	^	^	^
Customer accounts (deposits)	13 150 824	13 119 684	6 784 213	6 327 268	8 203
Debt securities in issue	2 085 656	2 120 183	470 405	1 649 778	–
Other liabilities	839 938	838 751	540 627	244 130	53 994
Subordinated liabilities	435 992	433 112	433 112	–	–
	18 135 655	**18 141 222**			

^ *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.

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
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.

15. Fair value of financial instruments at amortised cost *(continued)*

Fixed rate financial instruments

The fair value of fixed rate financial assets and financial liabilities carried at amortised cost are estimated by comparing spreads earned on the transactions with spreads earned on similar new transactions entered into by the group. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows, using prevailing money market interest rates for debts with similar credit risk and maturity. For quoted sub-debt issued, the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

Certain financial instruments that would normally be carried at fair value continue to be recognised at transaction price. This occurs when the fair value would normally be determined using valuation techniques which cannot be relied on due to insufficient external inputs. This results in gains or losses which have not been recognised on balance sheet.

The following table sets out the group's principal valuation techniques used in determining the fair value of its financial assets and financial liabilities:

Loans and advances to banks	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 observable market credit.
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 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:

At 31 March £'000	Carrying value	Fair value adjustment Current	Fair value adjustment Cumulative	Change in fair value attributable to credit risk Current	Change in fair value attributable to credit risk Cumulative	Maximum exposure to credit risk
Group						
Financial assets designated at fair value through profit or loss						
2019^						
Securities arising from trading activities	508 036	13 864	17 050	(244)	1 325	508 036
Other securitised assets	118 143	(4 607)	(13 170)	(4 607)	(13 170)	118 143
	626 179	**9 257**	**3 880**	**(4 851)**	**(11 845)**	**626 179**
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**

At 31 March £'000	Carrying value	Remaining contractual amount to be repaid at maturity	Fair value adjustment Current	Fair value adjustment Cumulative	Change in fair value attributable to credit risk Current	Change in fair value attributable to credit risk Cumulative
Financial liabilities designated at fair value through profit or loss						
2019						
Debt securities in issue	368 895	413 524	15 991	19 021	(910)	1 969
Liabilities arising on securitisation of other assets	113 711	130 833	(4 234)	(10 308)	(4 234)	(10 308)
Subordinated liabilities	367 707	307 962	56 253	56 253	27 564	27 564
	850 313	**852 319**	**68 010**	**64 966**	**22 420**	**19 225**
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**

^ *As permitted by IFRS 9, the group has elected not to restate comparatives.*

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	2019	2018
17. Cash and balances at central banks		
Gross cash and balances at central banks	4 445 432	3 487 769
Expected credit loss*	(1)	–
Net cash and balances at central banks	**4 445 431**	**3 487 769**
The country risk of cash and balances at central banks lies in the following geographies:		
United Kingdom	4 404 487	3 389 266
Europe (excluding UK)	40 944	98 503
Total	**4 445 431**	**3 487 769**

* *On adoption of IFRS 9, there is a move from an incurred loss to an expected loss methodology.*

At 31 March £'000	2019	2018
18. Loans and advances to banks		
Gross loans and advances to banks	1 164 116	1 003 796
Expected credit loss*	(65)	–
Net loans and advances to banks	**1 164 051**	**1 003 796**
The country risk of loans and advances to banks lies in the following geographies:		
South Africa	18 997	20 603
United Kingdom	635 468	561 521
Europe (excluding UK)	324 920	252 874
Australia	97 192	81 179
United States of America	65 647	48 985
Other	21 827	38 634
Total	**1 164 051**	**1 003 796**

* *On adoption of IFRS 9, there is a move from an incurred loss to an expected loss methodology.*

At 31 March £'000	2019	2018
19. Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent		
Assets		
Gross reverse repurchase agreements and cash collateral on securities borrowed	633 204	750 428
Expected credit loss*	(2)	–
Net reserve repurchase agreements and cash collateral on securities borrowed	**633 202**	**750 428**
Reverse repurchase agreements	575 891	665 374
Cash collateral on securities borrowed	57 311	85 054
	633 202	**750 428**
As part of the reverse repurchase and securities borrowing agreements, the group has received securities that it is allowed to sell or repledge. £103 million (2018: £99.1 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	201 022	52 769
Cash collateral on securities lent	113 313	115 871
	314 335	**168 640**

* *On adoption of IFRS 9, there is a move from an incurred loss to an expected loss methodology.*

The assets transferred and not derecognised in the above repurchase agreements are fair valued at £105 million (2018: £119 million). They are pledged as security for the term of the underlying repurchase agreement.

At 31 March £'000	2019	2018
20. Sovereign debt securities		
Gross sovereign debt securities	1 298 947	1 155 472
Expected credit loss*	–	–
Net sovereign debt securities	**1 298 947**	**1 155 472**
Floating rate notes		2 145
Government securities	405 695	229 040
Treasury bills	893 252	924 287
	1 298 947	**1 155 472**
The country risk of the sovereign debt securities lies in the following geographies:		
United Kingdom	1 069 409	885 716
Europe (excluding UK)**	13 460	22 445
United States of America	216 078	247 311
	1 298 947	**1 155 472**

* *On adoption of IFRS 9, there is a move from an incurred loss to an expected loss methodology.*

** *Where Europe (excluding UK) includes securities held largely in Germany and France.*

At 31 March £'000	2019	2018
21. Bank debt securities		
Bonds	52 265	99 432
Floating rate notes	–	8 506
	52 265	**107 938**
The country risk of bank debt securities lies in the following geographies:		
United Kingdom	52 265	57 806
Europe (excluding UK)	–	50 132
Total	**52 265**	**107 938**

At 31 March £'000	2019	2018
22. Other debt securities		
Gross other debt securities	498 638	278 474
Expected credit loss*	(373)	–
Net other debt securities	**498 265**	**278 474**
Bonds	215 631	214 214
Asset-based securities	282 634	64 260
	498 265	**278 474**
The country risk of other debt securities lies in the following geographies:		
United Kingdom	165 469	66 143
Europe (excluding UK)	95 135	117 369
United States of America	152 404	27 455
Other	85 257	67 507
Total	**498 265**	**278 474**

* *On adoption of IFRS 9 there is a move from an incurred loss model to an expected credit loss methodology.*

In 2018 other debt securities included £5.1 million of balance sheet impairment shown 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.

	2019			2018		
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	16 423 044	215 150	125 361	13 077 776	176 493	119 619
Currency swaps	1 012 208	63 176	58 219	852 742	29 073	18 301
OTC options bought and sold	5 180 061	28 053	23 856	1 652 409	56 550	29 301
OTC derivatives	**22 615 313**	**306 379**	**207 436**	**15 582 927**	**262 116**	**167 221**
Interest rate derivatives						
Caps and floors	7 857 100	13 182	5 625	6 345 355	17 817	5 220
Swaps	27 025 955	139 842	96 750	20 411 575	98 986	113 239
OTC options bought and sold	–	–	–	2 937	221	–
OTC derivatives	**34 883 055**	**153 024**	**102 375**	**26 759 867**	**117 024**	**118 459**
Exchange traded futures	–	–	–	17 409	–	4
	34 883 055	**153 024**	**102 375**	**26 777 276**	**117 024**	**118 463**
Equity and stock index derivatives						
OTC options bought and sold	6 796 107	91 242	158 053	6 850 129	130 907	130 568
Equity swaps and forwards	232 249	1 410	439	143 917	271	466
OTC derivatives	**7 028 356**	**92 652**	**158 492**	**6 994 046**	**131 178**	**131 034**
Exchange traded futures	467 477	7	–	247 533	10	–
Exchange traded options	10 689 326	–	153 046	7 172 714	–	56 322
Warrants	22 348	7 660	–	4 674	–	–
	18 207 507	**100 319**	**311 538**	**14 418 967**	**131 188**	**187 356**
Commodity derivatives						
OTC options bought and sold	257 431	7 896	14 593	31 827	3 687	1 435
Commodity swaps and forwards	769 662	36 870	34 227	1 089 922	47 031	38 332
OTC derivatives	**1 027 093**	**44 766**	**48 820**	**1 121 749**	**50 718**	**39 767**
Credit derivatives	**1 152 409**	**10 211**	**37 523**	**1 059 727**	**14 607**	**20 512**
Other derivatives*		**10 851**			**–**	
Embedded derivatives*		**–**			**21 611**	
Derivatives per balance sheet		**625 550**	**707 692**		**597 264**	**533 319**

* *In 2018 embedded derivatives mainly included profit shares received as part of lending transactions. Following the adoption of IFRS 9 these are either accounted for as stand-alone derivatives or no longer separated from the host contract so form part of the fair value of loans accounted for at fair value.*

At 31 March £'000	2019	2018
24. Securities arising from trading activities		
Asset-backed securities	7 118	6 754
Bonds	110 616	150 160
Government securities	419 350	346 206
Listed equities	261 140	198 608
	798 224	**701 728**

At 31 March £'000	2019	2018
25. Investment portfolio		
Listed equities	21 189	61 084
Unlisted equities*	472 079	416 835
	493 268	**477 919**

* *Unlisted equities includes loan instruments that are convertible into equity.*

At 31 March £'000	2019	2018
26. Loans and advances to customers and other loans and advances		
Gross loans and advances to customers at amortised cost	9 494 393	9 705 324
Gross loans and advances to customers at FVOCI^	397 068	–
Gross loans and advances to customers subject to expected credit losses/impairment losses	**9 891 461**	**9 705 324**
Expected credit losses on loans and advances to customers at amortised cost and FVOCI*^	(147 880)	–
Impairments of loans and advances to customers*	–	(151 840)
Net loans and advances to customers at amortised cost and FVOCI*^	**9 743 581**	**9 553 484**
Loans and advances to customers at fair value through profit and loss	772 084	133 740
Loans and advances to customers	**10 515 665**	**9 687 224**
Gross other loans and advances	207 936	361 754
Expected credit losses on other loans and advances*	(73)	–
Impairments of other loans and advances	–	(823)
Net other loans and advances	**207 863**	**360 931**

* *On adoption of IFRS 9, there is a move from an incurred loss to an expected loss methodology.*
^ *Expected credit losses above do not include £1 million ECL held against financial assets held at FVOCI. This is reported on the balance sheet within the fair value reserve.*

For further analysis on loans and advances refer to pages 48 to 58 in the risk management section.

26. Loans and advances to customers and other loans and advances *(continued)*

At 31 March £'000	2019
Expected credit losses on loans and advances to customers at amortised cost and FVOCI	
Balance as at 31 March 2018	**151 840**
Adoption of IFRS 9	94 415
Balance as at 1 April 2018	**246 255**
Charge to the income statement	35 781
Reversals and recoveries recognised in the income statement	(453)
Write-offs	(139 532)
Transfers	4 606
Exchange adjustments	1 223
Balance at the end of the year	**147 880**
Expected credit loss of other loans and advances	
Balance as at 31 March 2018	**823**
Adoption of IFRS 9	2 064
Balance as at 1 April 2018	**2 887**
Charge to the income statement	(2 862)
Transfers	48
Balance at the end of the year	**73**

26. Loans and advances to customers and other loans and advances *(continued)*

At 31 March £'000	2018
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
Charge to the income statement	89 642
Reversals and recoveries recognised in the income statement	(3 766)
Utilised	(79 673)
Transfers	1 544
Exchange adjustments	(1 372)
Balance at the end of the year	**89 863**
Portfolio impairment	
Balance at the beginning of the year	43 388
Charge to the income statement	19 988
Transfer	(1 544)
Exchange adjustments	145
Balance at the end of the year	**61 977**
Other loans and advances	
Specific impairment	
Balance at the beginning of the year	6 858
Charge to the income statement	283
Utilised	(6 961)
Exchange adjustments	(11)
Balance at the end of the year	**169**
Portfolio impairment	
Balance at the beginning of the year	716
Release to the income statement	(62)
Exchange adjustments	–
Balance at the end of the year	**654**
Total specific impairments	90 031
Total portfolio impairments	62 632
Total impairments	**152 663**
Interest income recognised on loans that have been impaired	**1 148**
Reconciliation of income statement charge:	
Loans and advances to customers	**105 864**
Specific impairment charged to income statement	85 876
Portfolio impairment charged to income statement	19 988
Other loans and advances	**221**
Specific impairment charged to income statement	283
Portfolio impairment released to income statement	(62)
Total income statement charge	**106 085**

* *On adoption of IFRS 9, there is a move from an incurred loss to an expected loss methodology.*

At 31 March £'000	2019	2018
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	111 312	125 172
Other debt securities	6 831	7 000
Total other securitised assets	**118 143**	**132 172**
The associated liabilities are recorded on balance sheet in the following line items:		
Liabilities arising on securitisation of other assets	**113 711**	**127 853**

At 31 March £'000	2019	2018
28. Interests in associated undertakings and joint venture holdings		
Interests in associated undertakings and joint venture holdings consist of:		
Net asset value	53 010	76 757
Goodwill	441	302
Investment in associated undertakings and joint venture holdings	**53 451**	**77 059**
Associated undertakings comprise unlisted investments.		
Analysis of the movement in our share of net assets:		
At the beginning of the year	76 757	55 979
Exchange adjustments	56	(1 215)
Disposals	(26 319)	(5 675)
Acquisitions	188	80
Return of capital	–	(4 651)
Increase in investment^	–	31 000
Share of post taxation profit of associates and joint venture holdings	3 100	1 436
Dividends received	(772)	(197)
At the end of the year	**53 010**	**76 757**
Analysis of the movement in goodwill:		
At the beginning of the year	302	7 411
Disposals	–	(7 109)
Acquisitions	139	–
At the end of the year	**441**	**302**

^ *The increase in investment in the prior year is due to continued investment in the Grovepoint S.a.r.l. associate.*

At 31 March £'000	2019	2018
29. Deferred taxation		
Deferred taxation assets*	148 351	98 156
Deferred taxation liabilities	(20 704)	(21 892)
Net deferred taxation assets	**127 647**	**76 264**
The net deferred taxation assets arise from:		
Deferred capital allowances	36 105	42 317
Income and expenditure accruals	24 543	23 202
Asset in respect of unexpired options	17 081	21 043
Unrealised fair value adjustments on financial instruments	49 527	(3 420)
Losses carried forward	13 428	8 851
Assets/(liabilities) in respect of pension deficit/(surplus)	32	48
(Liabilities)/assets in respect of pension contributions	218	(208)
Deferred tax on acquired intangibles	(13 036)	(15 233)
Other temporary differences	(251)	(336)
Net deferred taxation assets	**127 647**	**76 264**
Reconciliation of net deferred taxation assets:		
At the beginning of the year	**76 263**	**63 705**
Adoption of IFRS 9	64 068	–
Balance as at 1 April 2018	**140 331**	**–**
Charge to income statement – current year taxation	3 289	12 431
Charge directly in other comprehensive income	(16 314)	395
Exchange adjustments	341	(267)
At the year-end	**127 647**	**76 264**

* *Following the adoption of IFRS 9 on 1 April 2018, additional deferred tax assets of £64 million were recognised. The effect of this is included within the unrealised fair value adjustment on instruments line item in the disclosure above.*

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 £159 million (2018: £200.2 million), capital losses carried forward of £87.4 million (2018: £41.9 million) and excess management expenses of £8.6 million (2018: £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 2019.

At 31 March £'000	2019	2018
30. Other assets		
Gross other assets	1 028 611	1 169 579
Expected credit loss*	–	–
Net other assets	**1 028 611**	**1 169 579**
Settlement debtors	570 036	705 784
Trading properties	55 531	98 961
Prepayments and accruals	142 986	133 714
Pension assets	180	2 627
Trading initial margin	13 822	57 218
Other	246 056	171 275
	1 028 611	**1 169 579**

* *On adoption of IFRS 9, there is a move from an incurred loss to an expected credit loss methodology.*

31. Property and equipment

At 31 March £'000	Freehold properties	Leasehold improvements	Furniture and vehicles	Equipment	Operating leases*	Total
2019						
Cost						
At the beginning of the year	2 755	81 617	6 487	37 863	10 758	139 480
Exchange adjustments	–	906	445	(64)	–	1 287
Additions**	–	43 426	5 824	11 547	244	61 041
Disposals	(2 719)	(33 312)	(4 896)	(17 777)	(794)	(59 498)
At the end of the year	**36**	**92 637**	**7 860**	**31 569**	**10 208**	**142 310**
Accumulated depreciation						
At the beginning of the year	(395)	(46 751)	(5 995)	(25 786)	(6 060)	(84 987)
Exchange adjustments	–	610	(23)	85	–	672
Disposals	359	33 704	4 823	17 232	570	56 688
Depreciation charge for year	–	(7 169)	(976)	(4 605)	(2 137)	(14 887)
At the end of the year	**(36)**	**(19 606)**	**(2 171)**	**(13 074)**	**(7 627)**	**(42 514)**
Net carrying value	**–**	**73 031**	**5 689**	**18 495**	**2 581**	**99 796**
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**

* *These are assets held by the group, in circumstances where the group is the lessor.*
** *Additions include transfers from work in progress reported in other assets in the prior year.*

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	2019	2018
32. Investment properties		
At the beginning of the year	14 500	14 500
Additions	–	–
Disposals	–	–
Exchange adjustment	–	–
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.

The unobservable inputs used in the valuation as at 31 March 2019 were an ERV of £1.3 million and an equivalent yield of 8.37%. Using a reasonably possible change in the inputs would lead to a favourable change of £1.45 million or an unfavourable change of £1.45 million.

At 31 March £'000	2019	2018
33. Goodwill		
Cost		
At the beginning of the year	385 199	384 089
Acquisition of subsidiaries	–	849
Adjustment to goodwill on an acquisition within the measurement period	(44)	–
Exchange adjustments	(173)	261
At the end of the year	**384 982**	**385 199**
Accumulated impairments		
At the beginning of the year	(28 934)	(28 934)
At the end of the year	**(28 934)**	**(28 934)**
Net carrying value	**356 048**	**356 265**
Analysis of goodwill by line of business		
Asset Management	88 044	88 045
Wealth & Investment	243 229	243 343
Specialist Banking	24 775	24 877
Total group	**356 048**	**356 265**

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 which now includes the business of Williams de Broë (acquired in 2012 as part of the Evolution Group) which was merged with Investec Wealth & Investment 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 8.6% (2018: 8.8%) which incorporate an expected revenue growth rate of 2% in perpetuity (2018: 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

There were no significant movements in goodwill during the current and prior years.

34. Intangible assets

At 31 March £'000	Acquired software	Internally generated software	Management contracts*	Client relationships*	Total
2019					
Cost					
At the beginning of the year	44 715	3 101	605	187 763	236 184
Exchange adjustments	(8)	–	(13)	(59)	(80)
Additions	2 053	4 775	–	–	6 828
Disposals	(19 922)	–	–	–	(19 922)
Write off of internal software	–	(7 876)	–	–	(7 876)
At the end of the year	**26 838**	**–**	**592**	**187 704**	**215 134**
Accumulated amortisation and impairments					
At the beginning of the year	(37 241)	(861)	(531)	(96 966)	(135 599)
Exchange adjustments	30	–	13	45	88
Disposals	19 793	–	–	–	19 793
Amortisation	(2 297)	(994)	(74)	(12 884)	(16 249)
Write off of internal software	–	1 855	–	–	1 855
At the end of the year	**(19 715)**	**–**	**(592)**	**(109 805)**	**(130 112)**
Net carrying value	**7 123**	**–**	**–**	**77 899**	**85 022**
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
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)
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**

* *Management contracts and client relationships are acquired intangibles.*

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.

Post balance sheet events

On 10 May 2019 Investec Bank plc agreed to sell its Irish Wealth Management business to Brewin Dolphin for proceeds of circa EUR 44 million, subject to regulatory approval.

At 31 March £'000	2019	2018
36. Other trading liabilities		
Short positions		
– Equities	55 294	64 962
– Gilts	24 923	38 534
	80 217	**103 496**

At 31 March £'000	2019	2018
37. Debt securities in issue		
Bonds and medium-term notes repayable:		
Less than three months	67 871	7 712
Three months to one year	129 046	55 583
One to five years	1 699 558	1 451 847
Greater than five years	558 076	825 992
	2 454 551	**2 341 134**

At 31 March £'000	2019	2018
38. Other liabilities		
Settlement liabilities	565 990	662 191
Other creditors and accruals	492 252	481 630
Other non-interest-bearing liabilities	182 749	153 169
Expected credit losses on off-balance sheet	1 918	–
	1 242 909	**1 296 990**

At 31 March £'000	2019	2018
39. Pension commitments		
Income statement charge		
Defined benefit obligations net income included in net interest income	(68)	(51)
Defined benefit net costs included in administration costs	134	81
Cost of defined contribution schemes included in staff costs	31 829	29 364
Net income statement charge in respect of pensions	**31 895**	**29 394**

The Investec 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 2019 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 prior 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	2019	2018
39. Pension commitments *(continued)*		
The major assumptions used were:		
Discount rate	2.40%	2.65%
Rate of increase in salaries	3.20%	2.10%
Rate of increase in pensions in payment	2.00% – 3.20%	1.90% – 3.10%
Inflation (RPI)	3.30%	3.10%
Inflation (CPI)	2.20%	2.10%

Demographic assumptions

One of the most significant demographic assumptions underlying the valuation is mortality. The specific mortality rates used for 2019 are based on the 2018 Club Vita base tables with allowance for future improvements in line with CMI 2018 core projections and a long-term improvement of 1.25% per annum. The life expectancies underlying the valuation are as follows:

	Years	Years
Male aged 65	88.4	88.7
Female aged 65	88.7	88.9
Male aged 45	89.2	89.5
Female aged 45	90.5	90.7

Sensitivity analysis of assumptions

If the discount rate were 0.25% higher, the scheme liabilities would decrease by approximately £702 000 if all the other assumptions remained unchanged.

If life expectancies were to increase by 1 year, the scheme liabilities would increase by approximately £616 000 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 to which the pension schemes expose Investec group can be found in the risk management report on pages 84 and 85.

The Investec group ultimately underwrites the risks relating to its defined benefit plan. If the contributions currently agreed are insufficient to pay the benefits due, the Investec group will need to make further contributions to the plan.

At 31 March £'000	2019	2018
39. Pension commitments *(continued)*		
IAM scheme		
Managed funds	17 605	18 653
Cash	185	80
Total market value of assets	**17 790**	**18 733**

There are no assets in the IAM scheme which are unquoted.

None of the Investec group's own assets or properties occupied or used by the Investec 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.

	2019	2018		
At 31 March £'000	**IAM**	GM	IAM	**Total**
Recognised in the balance sheet				
Fair value of plan assets	17 790	–	18 733	18 733
Present value of obligations	(17 610)	–	(16 107)	(16 107)
Net asset (recognised other assets)	**180**	**–**	**2 626**	**2 626**
Recognised in the income statement				
Net interest income	68	–	51	51
Administration costs	(134)	–	(81)	(81)
Net amount recognised in the income statement	**(66)**	**–**	**(30)**	**(30)**
Recognised in the statement of comprehensive income				
Return on plan assets (excluding amounts in net interest income)	(823)	–	(129)	(129)
Actuarial gain arising from changes in financial assumptions	(1 558)	–	(452)	(452)
Remeasurement of scheme due to buy-out	–	(4 316)	–	(4 316)
Remeasurement of defined benefit asset/liability	(2 381)	(4 316)	(581)	(4 897)
Deferred tax	457	868	91	959
Remeasurement of net defined benefit asset	**(1 924)**	**(3 448)**	**(490)**	**(3 938)**

At 31 March £'000	GM	IAM	Total
39. Pension commitments *(continued)*			
Changes in the net asset/(liabilities) recognised in the balance sheet			
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
Re-measurement of scheme due to buy out	4 529	–	4 529
Opening balance sheet asset at 1 April 2018	**–**	**2 627**	**2 627**
Expenses charged to the income statement	–	(66)	(66)
Amount recognised in other comprehensive income	–	(2 381)	(2 381)
Closing balance sheet asset at 31 March 2019	**–**	**180**	**180**

At 31 March £'000	GM	IAM	Total
Changes in the present value of defined benefit obligations			
Opening defined benefit obligation at 1 April 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 1 April 2018	**–**	**16 107**	**16 107**
Interest expense		419	419
Remeasurement gains and losses:			
– Actuarial gain arising from changes in financial assumptions	–	1 558	1 558
Benefits and expenses paid	–	(474)	(474)
Closing defined benefit obligation at 31 March 2019	**–**	**17 610**	**17 610**
Changes in the fair value of plan assets			
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)
Opening fair value of plan assets at 1 April 2018	**–**	**18 733**	**18 733**
Interest income	–	487	487
– Return on plan assets (excluding amounts in net interest income)	–	(823)	(823)
Administration expenses	–	(607)	(607)
Closing fair value of plan assets at 31 March 2019	**–**	**17 790**	**17 790**

There is no restriction on the pension surplus as the Investec group 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 2018. The IAM scheme is fully funded.

The weighted average duration of the IAM scheme's liabilities at 31 March 2019 is 17.5 years (31 March 2018: 17 years). This includes average duration of deferred pensioners of 21.5 years and average duration of pensioners in payment of 13.3 years.

At 31 March £'000	2019	2018
40. Subordinated liabilities		
Issued by Investec Bank plc		
Subordinated fixed rate medium-term notes fair-value	367 707	579 673
Subordinated fixed rate re-set callable medium-term notes amortised cost	435 992	–
	803 699	**579 673**
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	367 707	579 673
In more than five years	435 992	–
	803 699	**579 673**
Reconciliation from opening balance to closing balance		
At the beginning of the year	**579 673**	**579 356**
Adoption of IFRS 9	136 891	–
As at 1 April	**716 564**	**579 356**
Subordinated debt raised	417 939	–
Repayment of subordinated debt	(335 541)	–
Fair value movement	(23 190)	–
Effective interest rate adjustment/hedge accounting	27 927	317
At the end of the year	**803 699**	**579 673**

* *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).

On 1 April 2018 the group adopted IFRS 9 "Financial instruments" which replaced IFRS 39 "Financial instruments: recognition and measurement". The impact of the IFRS 9 implementation on disclosing the subordinated liabilities at fair value of £716 546 000 against its amortised cost value £579 673 000 was an increase in disclosed liability of £136 891 000.

On 17 July 2018 Investec Bank plc completed a tender offer to purchase £267 038 000 aggregate nominal amount of the Notes at a cash purchase price of 121.513 pence plus an accrued interest payment. The total value of the debt redeemed was £335 541 000.

Subordinated fixed rate reset callable medium term notes (denominated in Pounds Sterling)

On 24 July 2018 Investec Bank plc issued £420 000 000 of 4.25% subordinated notes due 2028 at a discount (2028 Notes). Interest is paid annually. The notes are listed on the London Stock Exchange. The notes will be redeemed at par on 24 July 2028. The issuer has a one-time redemption option on the early redemption date 24 July 2023 subject to conditions.

At 31 March £'000	2019	2018
41. Ordinary share capital		
Investec plc		
Issued, allotted and fully paid		
Number of ordinary shares	**Number**	**Number**
At the beginning of the year	669 838 695	657 105 625
Issued during the year	12 282 516	12 733 070
At the end of the year	**682 121 211**	**669 838 695**
Nominal value of ordinary shares	**£'000**	**£'000**
At the beginning of the year	134	132
Issued during the year	2	2
At the end of the year	**136**	**134**
Number of special converting shares	**Number**	**Number**
At the beginning of the year	310 722 744	301 165 174
Issued during the year	8 181 965	9 557 570
At the end of the year	**318 904 709**	**310 722 744**
Nominal value of special converting shares	**£'000**	**£'000**
At the beginning of the year	61	59
Issued during the year	3	2
At the end of the year	**64**	**61**
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 2019**	Number 2018
Opening balance	22 465 788	25 991 607
Issued during the year	7 878 437	7 684 921
Exercised	(7 386 412)	(10 566 097)
Lapsed	(718 218)	(644 643)
Closing balance	**22 239 595**	**22 465 788**

The purpose of the Staff Share scheme is to promote an *esprit de corps* within the organisation, create an awareness of Investec group'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	2019	2018
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 (2018: 2 754 587) non-redeemable, non-cumulative, non-participating preference shares of £0.01 each, issued at a premium of £8.58 per share.		
– Perpetual preference share capital	29	29
– Perpetual preference share premium	23 607	23 607
Perpetual 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 perpetual preference dividend has been declared.		
If declared perpetual 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.		
Issued by Investec plc - Rand-denominated		
131 447 (2018: 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.		
– Perpetual preference share capital	*	*
– Perpetual preference share premium	1 158	1 158
Rand-denominated perpetual 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 perpetual preference dividend has been declared.		
If declared perpetual 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	2019	2018
43. Share premium		
Share premium account – Investec plc	1 357 967	1 292 350
Perpetual preference share premium	24 765	24 765
	1 382 732	**1 317 115**

At 31 March £'000	2019	2018
44. Treasury shares	**£'000**	**£'000**
Treasury shares held by subsidiaries of Investec plc	113 651	102 876
	Number	**Number**
Investec plc ordinary shares held by subsidiaries	21 638 673	19 722 086
Reconciliation of treasury shares	**Number**	**Number**
At the beginning of the year	19 722 086	18 293 688
Purchase of own shares by subsidiary companies	10 241 079	13 183 896
Shares disposed of by subsidiaries	(8 324 492)	(11 755 498)
At the end of the year	**21 638 673**	**19 722 086**
Market value of treasury shares	**£'000**	**£'000**
Investec plc	95 708	108 393
	95 708	**108 393**

At 31 March £'000	2019	2018
45. Other Additional Tier 1 securities in issue		
Fixed Rate Reset Perpetual Additional Tier 1 Write Down Capital Securities	**250 000**	**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	2019	2018
46. Non-controlling interests		
Non-controlling interests in partially held subsidiaries	13 087	15 750
	13 087	**15 750**

	Investec Asset Management	
At 31 March £'000	**2019**	2018
The following table summarises the information relating to the group's subsidiary that has material non-controlling interests.		
Non-controlling interests (NCI) (%)	20.0	17.0
Summarised financial information	**£'000**	**£'000**
Total assets	448 128	430 272
Total liabilities	332 024	317 660
Revenue	387 641	352 367
Profit	88 344	86 516
Carrying amount of NCI	21 013	19 919
Dividends paid to non-controlling interest	14 110	13 008
Profit allocated to NCI	15 942	14 763

During the year the group sold an additional 3% of its Asset Management business to the senior management of the business, on the exercise of the option granted in July 2013 (2018: an additional 1% was sold).

The net cash flows arising during the current and prior period relate to operating activities. Other than payments of dividends there are no material cash flows arising from financing or investing activities.

	2019		2018	
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	238 795	194 802	254 251	239 986
One to five years	415 228	367 123	419 716	356 991
Later than five years	4 935	4 640	4 202	3 593
	658 958	**566 565**	**678 169**	**600 570**
Unearned finance income	**92 413**		**101 509**	

At 31 March 2019, unguaranteed residual values accruing to the benefit of Investec plc were £6.6 million (2018: £1.7 million). Finance leases in the group mainly relate to leases on property, equipment and motor vehicles.

At 31 March £'000	**2019**	2018
48. Notes to cash flow statement		
Profit before taxation adjusted for non-cash items is derived as follows:		
Profit before taxation	234 765	184 400
Adjustment for non-cash items included in net income before taxation:		
Amortisation of intangible assets	12 958	13 273
Depreciation of operating lease assets	2 137	2 350
Depreciation and impairment of property, equipment and intangibles	22 062	13 226
Expected credit loss impairment charges/impairment losses on loans and advances*	24 553	106 085
Share of post taxation profit of associates and joint venture holdings	(3 100)	(1 436)
Dividends received from associates and joint venture holdings	772	197
Share-based payment charges	30 164	31 232
Profit before taxation adjusted for non-cash items	**324 311**	**349 327**
(Increase)/decrease in operating assets		
Loans and advances to banks	(214 358)	99 498
Reverse repurchase agreements and cash collateral on securities borrowed	117 223	(214 255)
Sovereign debt securities	(141 324)	(202 570)
Bank debt securities	61 015	76 688
Other debt securities	(221 077)	119 804
Derivative financial instruments	(33 638)	6 911
Securities arising from trading activities	(96 496)	(178 969)
Investment portfolio	(15 888)	(14 470)
Loans and advances to customers	(991 688)	(1 172 573)
Other loans and advances	153 863	52 503
Securitised assets	14 029	6 456
Other assets	139 042	109 646
Goodwill	44	–
	(1 229 253)	**(1 311 331)**
Increase/(decrease) in operating liabilities		
Deposits by banks	22 641	617 453
Derivative financial instruments	174 373	(49 280)
Other trading liabilities	(23 279)	(32 545)
Repurchase agreements and cash collateral on securities lent	145 695	(55 358)
Customer accounts (deposits)	1 513 327	615 916
Debt securities in issue	113 417	307 721
Securitised liabilities	(14 142)	(985)
Other liabilities	32 494	8 666
	1 964 526	**1 411 588**

* *On adoption of IFRS 9, there is a move from an incurred loss model to an expected credit loss methodology.*

At 31 March £'000	2019	2018
49. Commitments		
Undrawn facilities	1 484 240	1 092 204
Other commitments	30 588	60 320
	1 514 828	**1 152 524**
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	64 561	28 913
One to five years	288 036	94 694
Later than five years	222 438	113 992
	575 035	**237 599**
Operating lease receivables		
Future minimum lease payments under non-cancellable operating leases:		
Less than one year	44 173	4 598
One to five years	220 852	6 633
Later than five years	58 155	–
	323 180	**11 231**

* *Expected credit losses on off-balance sheet positions of £2 million in the current year are reported with other liabilities.*

Investec group 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. In addition, Investec Bank plc participates in client transactions where the group has a head lease and sub lease arrangement.

	Carrying amount of pledged assets		Related liability	
At 31 March £'000	**2019**	2018	**2019**	2018
Pledged assets				
Loans and advances to customers	268 099	284 656	251 289	277 646
Other loans and advances	101 643	2 915	95 426	2 843
Loans and advances to banks	53 693	96 335	55 596	66 823
Sovereign debt securities	456 004	438 879	377 056	353 973
Bank debt securities	–	8 506	–	5 661
Other debt securities	87 995	–	82 477	–
Securities arising from trading activities	585 906	653 292	464 748	514 077
	1 553 340	**1 484 583**	**1 326 592**	**1 221 023**

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	2019	2018
50. Contingent liabilities		
Guarantees and assets pledged as collateral security:		
– Guarantees and irrevocable letters of credit	498 505	146 271
	498 505	**146 271**

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 £0.6 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

The group operates in a legal and regulatory environment that exposes it to litigation risks. As a result, the group is involved in disputes and legal proceedings which arise in the ordinary course of business. These claims, if any, cannot be reasonably estimated at this time, but the group does not expect the ultimate resolution of any of the proceedings to which the group is party to have a significant adverse effect on the financial position of the group.

Investec Bank plc has been notified by the Office of the Public Prosecutor in Cologne, Germany, that it and certain of its current and former employees may be involved in possible charges relating to historical involvement in German dividend tax arbitrage transactions (known as cum ex transactions). Investigations are ongoing and no formal proceedings have yet been issued. Investec Bank plc is cooperating with the German authorities and is conducting its own internal investigation into the matters in question. There are factual issues to be resolved which may have legal consequences including financial penalties.

At 31 March £'000	2019	2018
51. Related party transactions		
Details of Directors' remuneration and interest in shares, including the disclosures required by IAS 24 Related party transactions for the compensation of key management personnel, have been included in the section marked as audited in the remuneration report in the Investec group's 2019 integrated annual report.		
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:		
Directors, key management and connected persons and companies controlled by them		
Loans		
At the beginning of the year	37 327	26 715
Increase in loans	2 560	15 311
Repayment of loans	(11 860)	(4 831)
Exchange adjustments	153	132
At the end of the year	**28 180**	**37 327**
Guarantees		
At the beginning of the year	402	6 092
Additional guarantees granted	13 367	309
Guarantees cancelled	(6)	(6 010)
Exchange adjustments	(403)	11
At the end of the year	**13 360**	**402**
Deposits		
At the beginning of the year	(28 604)	(36 238)
Increase in deposits	(10 297)	(12 223)
Decrease in deposits	2 786	19 610
Exchange adjustments	78	247
At the end of the year	**(36 037)**	**(28 604)**

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.

At 31 March £'000	Investec Limited and subsidiaries 2019	2018
51. Related party transactions *(continued)*		
Transactions with other related parties		
Assets		
Loans and advances to banks	18 213	18 727
Derivative financial instruments	3 153	2 974
Other assets	13 956	7 948
Liabilities		
Deposits by banks	2 723	49 130
Derivative financial instruments	21 532	21 036
Customer accounts	14 286	13 340
Debt securities in issue	36 949	38 107
Repurchase agreements and cash collateral on securities lent	19 660	17 883
Other liabilities	22 267	26 256

During the year to 31 March 2019, interest of £2.8 million (2018: £2.4 million) was paid to entities in the Investec Limited group. Interest of £496 000 (2018: £512 000) 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 2019, this resulted in a net payment to Investec Limited Group of £38.3 million (2018: £28.7 million).

During the year to 31 March 2019, Investec Wealth & Investment Limited received a net amount of £1,600 for research services provided to Grovepoint (UK) Limited (2018: paid a net £27 000 for research fees provided by Grovepoint (UK) Limited). Bradley Fried is a former non-executive director of Investec Wealth & Investment Limited, is a former director of Investec Bank plc and Investec plc, and is a current director of Grovepoint (UK) Limited.

During the year to 31 March 2019 Investec Bank (Channel Islands) did not issue any guarantees (2018: £2.2 million) to Investec Bank Limited.

The group has an investment in Grovepoint (UK) Limited in which a previous Investec director has significant influence. The group has made an investment of £44.3 million (2018: £70.6 million) with no further committed funding. 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.

	2019	2018
Interest income from loans to associates and joint venture holdings	–	516

The above 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, 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 classification between fair value hedges and cash flow hedges and in particular accounting hedges require the identification of 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 fair value gains or (losses) on hedging instrument	Current year fair value gains or (losses) on hedging instrument	Cumulative fair value gains or (losses) on hedged item	Current year fair value gains or (losses) on hedged item
2019						
Assets	Interest rate swap	(13 190)	(13 190)	(1 428)	13 078	2 231
Liabilities	Interest rate swap	902	902	520	(875)	(623)
		(12 288)	**(12 288)**	**(908)**	**12 203**	**1 608**
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)**

* *Change in fair value used as the basis for recognising hedge effectiveness for the period.*

Hedged items

At 31 March 2019^ £'000	Carrying amount of the hedged item
Assets	
Sovereign debt securities	39 234
Other debt securities	5 129
Loans and advances to customers	1 916 298
Liabilities	
Customer accounts (deposits)	411 019

52. Hedges *(continued)*

Maturity analysis of hedged item

At 31 March 2019^ R'million	Up to one month	One month to three months	Three months to six months	Six months to one year	One to five years	Greater than five years	Total
Assets – notionals							
Sovereign debt securities	–	–	–	–	38 378	–	**38 378**
Other debt securities	–	–	–	–	–	5 087	**5 087**
Loans and advances to customers	–	3 021	315	9 497	1 721 928	183 744	**1 918 505**
Liabilities – notionals							
Customer accounts (deposits)	2 171	2 385	100 926	130 175	169 398	3 661	**408 716**

^ *As permitted by IFRS 9, the group has elected not to restate comparatives.*

Included within balance sheet management and other trading activities is a £1.1 million gain relating to hedge ineffectiveness.

There are no accumulated fair value hedge adjustments for hedged items that have ceased to be adjusted for hedging gains and losses.

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.

For the year to 31 March £'000	2019	2018
Hedging instrument positive fair value	**–**	**628**
Hedging instrument negative fair value	**533**	**–**

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
2019								
Liabilities								
Deposits by banks	161 264	1 802	5 540	7 101	357 580	833 818	16 461	1 383 566
Derivative financial instruments	239 255	2 305	79 951	63 738	96 270	191 531	36 011	709 061
Derivative financial instruments – held for trading	86 212	–	–	–	–	–	–	86 212
Derivative financial instruments – held for hedging risk	153 043	2 305	79 951	63 738	96 270	191 531	36 011	622 849
Other trading liabilities	80 217	–	–	–	–	–	–	80 217
Repurchase agreements and cash collateral on securities lent	132 973	–	181 362	–	–	–	–	314 335
Customer accounts (deposits)	4 019 479	1 224 485	2 320 362	2 174 276	1 608 825	1 779 543	118 806	13 245 776
Debt securities in issue	36 949	87 301	75 359	128 962	321 775	1 689 752	260 124	2 600 222
Liabilities arising on securitisation of other assets	–	–	2 951	2 767	5 345	44 422	84 315	139 800
Other liabilities	137 973	611 912	286 925	52 725	20 103	102 835	31 433	1 243 906
Subordinated liabilities	–	–	29 641	–	17 850	468 286	509 250	1 025 027
Total on balance sheet liabilities	**4 808 110**	**1 927 805**	**2 982 091**	**2 429 569**	**2 427 748**	**5 110 187**	**1 056 400**	**20 741 910**
Contingent liabilities	5 601	3 282	3 326	111 182	23 683	305 835	44 155	497 064
Commitments	131 847	113 996	31 169	39 690	142 088	815 987	240 051	1 514 828
Total liabilities	**4 945 558**	**2 045 083**	**3 016 586**	**2 580 441**	**2 593 519**	**6 232 009**	**1 340 606**	**22 753 802**

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 76 and 77.

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
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**

54. Principal subsidiaries, associated companies and joint venture holdings – Investec plc

At 31 March	Principal activity	Country of incorporation	Interest % 2019	Interest % 2018
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	80%	83%
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.

For more details on associated companies and joint venture holdings refer to note 28.

A complete list of subsidiary, associated undertakings and joint venture holdings as required by the Companies Act 2006 is included in note i to the Investec plc company accounts on page 266.

54. Principal subsidiaries, associated companies and joint venture holdings – Investec plc *(continued)*

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*
Landmark Mortgage Securities No 2 plc	Securitised Residential Mortgages
Tamarin Securities Limited	Structured debt and loan portfolios
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 68.

54. Principal subsidiaries, associated companies and joint venture holdings – 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.

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 £93.7 million (2018: £77.9 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 pages 87 and 88.

54. Principal subsidiaries, associated companies and joint venture holdings – 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 2019 £'000	**Line on the balance sheet**	**Carrying value £'000**	**Maximum exposure to loss**	**Income earned from structured entity**	**£'000**
Aircraft investment funds	Investment portfolio	3 438	Limited to the carrying value	Investment income	1 367

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

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 172 to 181.

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 2019	**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	309	Limited to the carrying value	7 708	Investment loss	(208)
Residential mortgage securitisations	Other debt securities	4 026	Limited to the carrying value	91 238	Net interest expense	(16)
					Investment income	204
	Other loans and advances	7 437	Limited to the carrying value	129 200	Net interest expense	(215)

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

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

	2019	2018
	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 Bank plc 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 Bank plc 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 68.

56. Offsetting

At 31 March £'000	Amounts subject to enforceable netting arrangements					
	Effects of offsetting on balance sheet			Related amounts not offset		
	Gross amounts	Amounts offset	**Net amounts reported on the balance sheet**	Financial instruments (including non-cash collateral)	Cash collateral	**Net amount**
2019						
Assets						
Cash and balances at central banks	4 445 431	–	4 445 431	–	–	4 445 431
Loans and advances to banks	1 164 051	–	1 164 051	–	(133 458)	1 030 593
Reverse repurchase agreements and cash collateral on securities borrowed	633 202	–	633 202	(77 985)	(1 087)	554 130
Sovereign debt securities	1 298 947	–	1 298 947	(73 166)	–	1 225 781
Bank debt securities	52 265	–	52 265	–	–	52 265
Other debt securities	498 265	–	498 265	–	–	498 265
Derivative financial instruments	625 550	–	625 550	(268 182)	(90 734)	266 634
Securities arising from trading activities	798 224	–	798 224	(579 642)	–	218 582
Investment portfolio	493 268	–	493 268	–	–	493 268
Loans and advances to customers	10 515 665	–	10 515 665	–	–	10 515 665
Other loans and advances	207 863	–	207 863	–	(328)	207 535
Other securitised assets	118 143	–	118 143	–	–	118 143
Other assets	1 028 611	–	1 028 611	–	–	1 028 611
	21 879 485	**–**	**21 879 485**	**(998 975)**	**(225 607)**	**20 654 903**
Liabilities						
Deposits by banks	1 330 843	–	1 330 843	–	(120 365)	1 210 478
Derivative financial instruments	707 692	–	707 692	(422 583)	(76 590)	208 519
Other trading liabilities	80 217	–	80 217	(77 985)	–	2 232
Repurchase agreements and cash collateral on securities lent	314 335	–	314 335	(134 848)	(5 447)	174 040
Customer accounts (deposits)	13 150 824	–	13 150 824	–	(35 804)	13 115 020
Debt securities in issue	2 454 551	–	2 454 551	(363 559)	(5 337)	2 085 655
Liabilities arising on securitisation of other assets	113 711	–	113 711	–	–	113 711
Other liabilities	1 242 909	–	1 242 909	–	–	1 242 909
Subordinated liabilities	803 699	–	803 699	–	–	803 699
	20 198 781	**–**	**20 198 781**	**(998 975)**	**(243 543)**	**18 956 263**

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		
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**

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.

	2019		2018	
No derecognition achieved 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
Loans and advances to customers	680 860	–	292 322	–
Loans and advances to bank	65 815	–		
Other loans and advances	–	–	129 773	–
	746 675	**–**	**422 095**	**–**

The transferred assets above in both the current and prior year are held within structured entities which are wholly-owned and consolidated by the group. There are no external parties participating in these vehicles and therefore the group continues to have full exposure to the risks and rewards associated with the assets and the associated liabilities are eliminated on consolidation. There are no restrictions or limitations on the group's recourse to the assets held within the structured entities.

For transfer of assets in relation to repurchase agreements see note 19.

58. Transition disclosures

Overview of the group's IFRS 9 transition impact

The adoption of IFRS 9 has resulted to result in the following day one impact for the group.

Balance sheet impairment allowance and provisions

Total balance sheet impairment allowance and provisions increased by £106 million from £158 million as at 31 March 2018 to £264 million as at 1 April 2018. This is driven by an increase in legacy impairments of £58 million and an increase in ongoing impairments of £69 million, partially offset by a reduction of £21 million as a result of changes in classification and measurement of certain of the group's financial assets to fair value. The increase in impairment allowance and provisions reduced the group's common equity tier 1 (CET 1) ratio by approximately 66bps on full adoption of IFRS 9, or approximately 3bps on a day one impact transitional basis.

Changes in classification and measurement of certain financial assets

Changes in classification and measurement to fair value of certain of the group's other financial assets resulted in a decrease to equity of £11 million (post taxation), with an approximate 7bps impact on the group CET 1 ratio.

Reclassification of subordinated liabilities to fair value

Following the adoption of IFRS 9 the group has elected to designate its subordinated liabilities to fair value. From this designation, the interest rate portion of the subordinated debt reduced equity by £48 million (post taxation) with an approximate 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 £55 million (post taxation) has been transferred to an own credit reserve which does not have an impact on capital ratios.

Taken together, the adoption of IFRS 9 resulted in a decrease in the group's transitional CET 1 ratio of approximately 47bps from 10.6% to 10.1%, ahead of the Investec group target and in excess of minimum regulatory requirements. The group confirmed to the PRA that it would use the transitional arrangements to absorb the full impact permissible of IFRS 9 in regulatory capital calculations.

All references to the impact on capital as a result of the IFRS 9 transition contained on this page are unaudited.

58. Transition disclosures *(continued)*

Reconciliation of movements and revaluation

The table below reflects the impact of IFRS 9 implementation on the balance sheet lines and shows movements between amortised cost and fair value:

Only assets and liabilities which have changes are shown.

£'000	IAS 39 carrying amount 31 March 2018	Reclassifications (in)	Reclassifications (out)	Remeasurements and ECLs	IFRS 9 carrying amount 1 April 2018
Financial assets at amortised cost (previously loans and receivables)					
Cash and balances at central banks	3 479 985	–	–	(52)	3 479 933
Loans and advances to banks	845 635	158 161	–	(824)	1 002 972
Reverse repurchase agreements and cash collateral on securities borrowed	712 550	–	–	(326)	712 224
Bank debt securities	107 938	–	(49 301)	(48)	58 589
Other debt securities	199 375	29 098	(87 887)	(5 174)	135 412
Loans and advances to customers	9 553 486	–	(1 190 755)	(110 395)	8 252 336
Other loans and advances	360 931	–	(2 454)	(2 064)	356 413
Other assets	847 659	–	–	*	847 659
Financial assets at fair value through profit or loss (mandatory and designated)^					
Cash and balances at central banks	7 784	–	–	–	7 784
Reverse repurchase agreements and cash collateral on securities borrowed	37 878	–	–	–	37 878
Loans and advances to banks	158 161	–	(158 161)	–	–
Bank debt securities	–	52 044		2 641	54 685
Other debt securities	79 099	87 893	(29 098)	(1 242)	136 652
Derivative financial instruments	597 264	–	(5 352)	–	591 912
Loans and advances to customers	133 740	1 193 364	–	(15 740)	1 311 364
Other loans and advances	–	2 454		(3)	2 451
Financial liabilities at amortised cost					
Other liabilities	(891 556)	–	–	(5 857)	(897 413)
Subordinated liabilities	(579 673)	–	579 673	–	–
Financial liabilities at fair value					
Subordinated liabilities	–	(579 673)	–	(136 891)	(716 564)
Financial liabilities at fair value					
Guarantees	–	–	–	(139)	(139)
Committed facilities related to loans and advances to customers	–	–	–	(5 715)	(5 715)

1 *ECL on off balance sheet exposures is booked as a provision in other liabilities.*
^ *Includes £402 million of sell down exposures held at fair value through other comprehensive income.*
* *Less than £1 000.*

58. Transition disclosures *(continued)*

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles prior year's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 April 2018:

£'000	Loan loss allowance under IAS 39/Provision under IAS 37	Reclassification	Remeasurement	ECL under IFRS 9
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)				
Cash and balances at central banks	–	–	(52)	(52)
Loans and advances to banks	–	–	(824)	(824)
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	(326)	(326)
Bank debt securities	–	–	(48)	(48)
Other debt securities	(5 087)	4 803	(5 174)	(5 458)
Loans and advances to customers	(151 840)	15 980	(110 395)	(246 255)
Other loans and advances	(822)	–	(2 064)	(2 886)
Other assets	–	–	–	–
	(157 749)	**20 783**	**(118 883)**	**(255 849)**
Available for sale/Financial assets at FVOCI (IFRS 9)				
Sovereign debt securities	–	–	(461)	(461)
Loans and advances to customers	–	–	(1 687)	(1 687)
	–	**–**	**(2 148)**	**(2 148)**
Loan commitments and financial guarantee contracts				
Guarantees	–	–	(139)	(139)
Committed facilities (core loans)	–	–	(5 715)	(5 715)
	–	**–**	**(5 854)**	**(5 854)**
Total	**(157 749)**	**20 783**	**(126 885)**	**(263 851)**

The impact of transition to IFRS 9 on equity

Only components of equity which have changed are shown.

£'000	Other reserves	Retained income	Total
Closing balance under IAS 39	**(119 161)**	**979 649**	**860 488**
Recognition of ECL including those measured at FVOCI	2 148	(126 886)	(124 738)
Remeasurement impact of reclassifying financial assets held at amortised cost to FVPL	–	(14 356)	(14 356)
Impact of recognising credit risk for financial liabilities designated at FVPL in own credit reserve	(73 100)	–	(73 100)
Remeasurement impact of the reclassification of financial liabilities at amortised cost reclassified to FVPL	–	(63 791)	(63 791)
Investment securities from AFS to FVPL	(9 004)	9 004	–
Debt securities from AFS to amortised cost	(244)	244	–
Deferred taxation^	17 193	46 861	64 054
Opening balance under IFRS 9	**(182 168)**	**830 725**	**648 557**

^ *A UK corporation tax deduction will be available on ECLs generated with the UK entities over the next 10 years. Accordingly, a deferred tax asset has been recognised at the tax rate which it is expected to unwind in the future.*

The requirements of IFRS 9 'Financial Instruments' were adopted from 1 April 2018. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The group is not restating comparatives on initial application as permitted by IFRS 9.

The accounting policies related to financial instruments as at 31 March 2018 under IAS 39 'Financial Instruments: Recognition and Measurement' are noted below:

Financial instruments

Financial instruments are initially recognised at their fair value. For financial assets or financial liabilities not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities are included in the initial measurement. All other transaction costs are recorded in the income statement immediately. Regular way purchase and sales transactions in respect of financial assets that require delivery of a financial instrument within the timeframe established by market convention are recorded at settlement 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 intention of generating short-term profits, 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:

- it eliminates or significantly reduces an inconsistent 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; or
- 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 as at fair value through profit or loss
- Those that the group designates as available-for-sale
- Those for which the holder 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 predominately focuses on the securitisation of residential and commercial mortgages. 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 impact is that 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 reclassified to 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 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 1 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, when the instrument is rerecognised 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 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 (i.e. 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. To cater for any shortfall between regulatory provision requirements (in the respective jurisdictions) and impairments based on the principles above, a transfer is made from distributable to non-distributable reserves, being the regulatory general risk reserve. The non-distributable regulatory risk reserve ensures that minimum regulatory provisioning requirements are maintained.

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, i.e. 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 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 financial 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 profits 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 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 largely 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 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).

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. Where the instrument does not meet the definition of a derivative due to its value being dependent on non-financial variables, it is accounted for as an executory contract.

Balance sheet

At 31 March £'000	Notes	2019	2018
Assets			
Fixed assets			
Investments in subsidiary undertakings	b	1 551 774	1 772 805
Securities issued by subsidiary undertaking	c	250 000	200 000
		1 801 774	1 972 805
Current assets			
Amounts owed by group undertakings		502 593	495 325
Taxation		10 874	10 719
Prepayments and accrued income		638	475
Cash at bank and in hand			
– with subsidiary undertakings		286 900	281 832
– balances with other banks		552	613
		801 557	**788 964**
Current liabilities			
Creditors: amounts falling due within one year			
Amounts owed to group undertakings		6 244	267 275
Other liabilities		1 082	1 475
Accruals and deferred income		13 059	3 286
Net current assets		**781 172**	**516 928**
Creditors: amounts falling due after one year			
Debt securities in issue	d	413 985	407 740
Net assets		**2 168 961**	**2 081 993**
Capital and reserves			
Called up share capital	g	200	195
Perpetual preference shares	g	29	29
Share premium account	g	1 382 732	1 317 115
Capital reserve	g	180 606	180 606
Other Additional Tier 1 securities in issue	g	250 000	250 000
Retained earnings	g	355 394	334 048
Total capital and reserves		**2 168 961**	**2 081 993**

The notes on pages 264 and 271 form an integral part of the financial statements.

The company's profit for the year, determined in accordance with the Companies Act 2006, was £144 843 116 (2018: £259 317 000).

Approved and authorised for issue by the board of directors on 13 June 2019 and signed on its behalf by:

Fani Titi
Joint chief executive officer

13 June 2019

Hendrik du Toit
Joint chief executive officer

13 June 2019

Statement of changes in shareholders' equity

£'000	Share capital	Perpetual preference shares	Share premium	Capital reserve	Retained earnings	Total share-holders' equity excluding non-controlling interests	Other Additional Tier 1 securities in issue	Total equity
Balance 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**
Issue of ordinary shares	5	–	65 617	–	–	65 622	–	65 622
Total comprehensive income	–	–	–	–	144 843	144 843	–	144 843
Dividends paid to preference shareholders	–	–	–	–	(490)	(490)	–	(490)
Dividends paid to ordinary shareholders	–	–	–	–	(109 334)	(109 334)	–	(109 334)
Dividends declared to Other Additional Tier 1 security holders	–	–	–	–	(13 673)	(13 673)	13 673	–
Dividends paid to Other Additional Tier 1 security holders	–	–	–	–	–	–	(13 673)	(13 673)
At 31 March 2019	**200**	**29**	**1 382 732**	**180 606**	**355 394**	**1 918 961**	**250 000**	**2 168 961**

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	**2019**	2018
At the beginning of the year	1 772 805	1 817 840
Additions	–	165 000
Return of capital by subsidiary	(221 031)	(210 035)
At the end of the year	**1 551 774**	**1 772 805**

On 6 September 2018, Investec Holdings Company Limited reduced their capital by reducing the number of shares held from 3 000 to 5.20p ordinary shares and settled by intercompany.

On 29 March 2018, Investec 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 7 of the group financial statements.

f Dividends

Details of the company's dividends are set out in note 10 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 2019

i Adoption of IFRS 9

On 1 April 2018 the Investec group adopted IFRS 9 Financial Instruments which replaced IAS 39 Financial Instruments: Recognition and Measurement. The impact of this standard on the company has been assessed and the classification of the intergroup loans made by the company will change from amortised cost to fair value loans under IFRS 9, but there will be no impact to measurement or impairment methodology as a result of adoption.

j Subsidiaries

At 31 March 2019	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%
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%
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%
PIF Investments Ltd (previously G. P. International Ltd)	Dormant	100%
Beeson Gregory Index Nominees Limited	Dormant nominee 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%
The Leasing Acquisition General Partnership	Leasing partnership	n/a
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%
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%

j Subsidiaries *(continued)*

At 31 March 2019	Principal activity	Interest held
Registered office: 30 Gresham Street, London, EC2V 7QP, UK *(continued)*		
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%
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%
INVC LLP	Investment company	100%
PSV Marine Ltd	Investment company	100%
PSV Anjail Ltd	Investment company	100%
PSV Randeep Ltd	Investment company	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		
Mann Island Finance Limited	Leasing company	100%
CF Corporate Limited	Leasing company	100%
MI Vehicle Finance Limited	Leasing company	100%
Quantum Funding Limited	Leasing company	100%
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	80%
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%
Investec Australia Property Holding Pty Limited	Holding company for property investments	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	Holding company for property investments	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 Investments Pty Limited	Holding company for property investments	100%
Investec CWFIH Pty Limited	Dormant	100%
Mannum Powerco Pty Limited	Dormant	100%
Tungkillo Powerco 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	Dormant	100%
IWPE Nominees Pty Limited	Custodian	100%

j Subsidiaries *(continued)*

At 31 March 2019	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: 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%
France		
Registered office: 27 Rue Maurice Flandin – 69003 Lyon Cedex 03, France		
SCI CAP Philippe	Property company	100%
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%
Growthpoint Investec African Properties Co-Invest GP Limited**	General Partner to Fund	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		

j Subsidiaries *(continued)*

At 31 March 2019	Principal activity	Interest held
Investec Captive Insurance Limited	Captive insurance company	100%
Registered office: Western Suite, Ground Floor, Mill Court, La Charroterie, St Peter Port, Guernsey, GY1 1EJ, Channel Islands		
HEV (Guernsey) Limited	Investment holding company	100%
Hong Kong		
Registered office: 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	Merchant banking and stock broking	99.89%
Investec Credit Finance Private Limited	Lending platform	99%
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 Private Finance Ireland Limited (previously Investec Corporate Finance (Ireland) Ltd)	Retail Credit Firm	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		

j Subsidiaries *(continued)*

At 31 March 2019	Principal activity	Interest held
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%
Registered office: 2-4 Avenue Marie Therese, L-2132 Luxembourg		
Investec Africa Credit Opportunities Fund GP S.a.r.l.	General partner to Fund	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%
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%
US Multifamily GP LLC	Investment holding company	100%

** *100% owned by Investec Asset Management Limited which is itself 80% owned*

j Subsidiaries *(continued)*

Associates and joint venture holdings

At 31 March 2019	Principal activity	Interest held
United Kingdon		
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	45%
GIAP Manco Empowerment Limited	Black economic empowerment vehicle	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%
India		
Registered office: 32/1. 14th Cross, 9th Main, 6th Sector H.S.R. Layout, Bangalore, Karnataka 560102, India		
JSM Advisers Private Limited	Fund management company	55%

GLOSSARY

The following abbreviations have been used throughout this report:

AFS	Available for sale
ALCO	Asset and Liability Committee
AT1	Additional Tier 1
BCBS	Basel Committee of Banking Supervision
BoE	Bank of England
BSE	Botswana Stock Exchange
CA	Chartered Accountant
CDO	Collateralised debt obligation
CEO	Chief executive officer
CET1	Common Equity Tier 1
CLO	Collateralised loan obligation
CMD	Capital Markets Day
CMI	Continuous Mortality Investigation
CPI	Consumer Price Index
COO	Chief Operating Officer
CPR	Conditional prepayment rate
CRO	Chief risk officer
CVA	Credit value adjustment
DCF	Discounted cash flow
DLC	Dual listed company
DLC BRCC	DLC Board Risk and Capital Committee
DLC Nomdac	DLC Nominations and Directors Affairs Committee
DLC Remco	DLC Remuneration Committee
DLC SEC	DLC Social and Ethics Committee
EAD	Exposure at default
EBA	European Banking Authority
EBITDA	Earnings before interest, taxes, depreciation and amortisation
ECL	Expected credit losses
ERV	Expected rental value
ESG	Environmental, social and governance
EU	European Union
FCA	Financial Conduct Authority
FINMA	Swiss Financial Market Supervisory Authority
FRC	Financial Reporting Council
FSCS	Financial Services Compensation Scheme
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit and loss
GDP	Gross Domestic Product
GFSC	Guernsey Financial Services Commission
GM	Guinness Mahon
IASB	International Accounting Standards Board
IASs	International Accounting Standards
IBP	Investec Bank plc
IBP BRCC	IBP Board Risk and Capital Committee
IBP ERC	IBP Executive Risk Committee
IFRS	International Financial Reporting Standard
ISAs (UK)	International Standards on Auditing (UK)
JSE	Johannesburg Stock Exchange
LCR	Liquidity Coverage Ratio
LGD	Loss given default
LIBOR	London Inter-Bank Offered Rate
LSE	London Stock Exchange
NCI	Non-controlling interests
NSFR	Net Stable Funding Ratio
NSX	Namibian Stock Exchange
OCI	Other comprehensive income
OECD	Organisation for Economic Co-operation and Development
OTC	Over the counter
PACCC	Prudential assurance conduct and controls committee
PD	Probability of default
Policy ERRF	Policy Executive Risk Review Forum
PRA	Prudential Regulation Authority
ROU	Right use of asset
RPI	Retail Price Index
S&P	Standard & Poor’s
SDGs	Sustainable Development Goals
SPPI	Solely payments of principal and interest
SME	Small and Medium-sized Enterprises
WACC	Weighted average cost of capital

Adjusted earnings

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

Adjusted operating profit

Operating income less operating costs and depreciation on operating leased assets. This amount is before impairment of goodwill, amortisation of acquired intangibles, and non-operating items, but after other non-controlling interests

Alternative performance measures

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

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

Annuity income

Net interest income plus net annuity fees and commissions

Cash and near cash

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

Core loans and advances

Net loans and advances to customers less ECL held against FVOCI loans reported on the balance sheet within reserves

Refer to calculation on page 56

Cost to income ratio

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

Coverage ratio

ECL divided by gross core loans and advances subject to ECL

Credit loss ratio

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

Effective operational tax rate

Tax on profit on ordinary activities (excluding non-operating items) divided by operating profit before goodwill and acquired intangibles and excluding share of post taxation profit of associates and joint venture holdings

Gearing ratio

Total assets to total equity

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

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

Ongoing basis

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

Return on risk-weighted assets

Adjusted earnings divided by average risk-weighted assets, where risk-weighted assets are reflected on page 92

Third party assets under administration

Includes third party assets under administration managed by the Wealth & Investment, Asset Management and Property businesses

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Refer to the directors biographies, on pages 102 to 107.

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For contact details for Investec plc offices refer to page 274 and 275.

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