Out of the Ordinary®

Investec

2016

ANNUAL REPORT

Investec Bank plc annual financial statements

Ongoing and statutory information

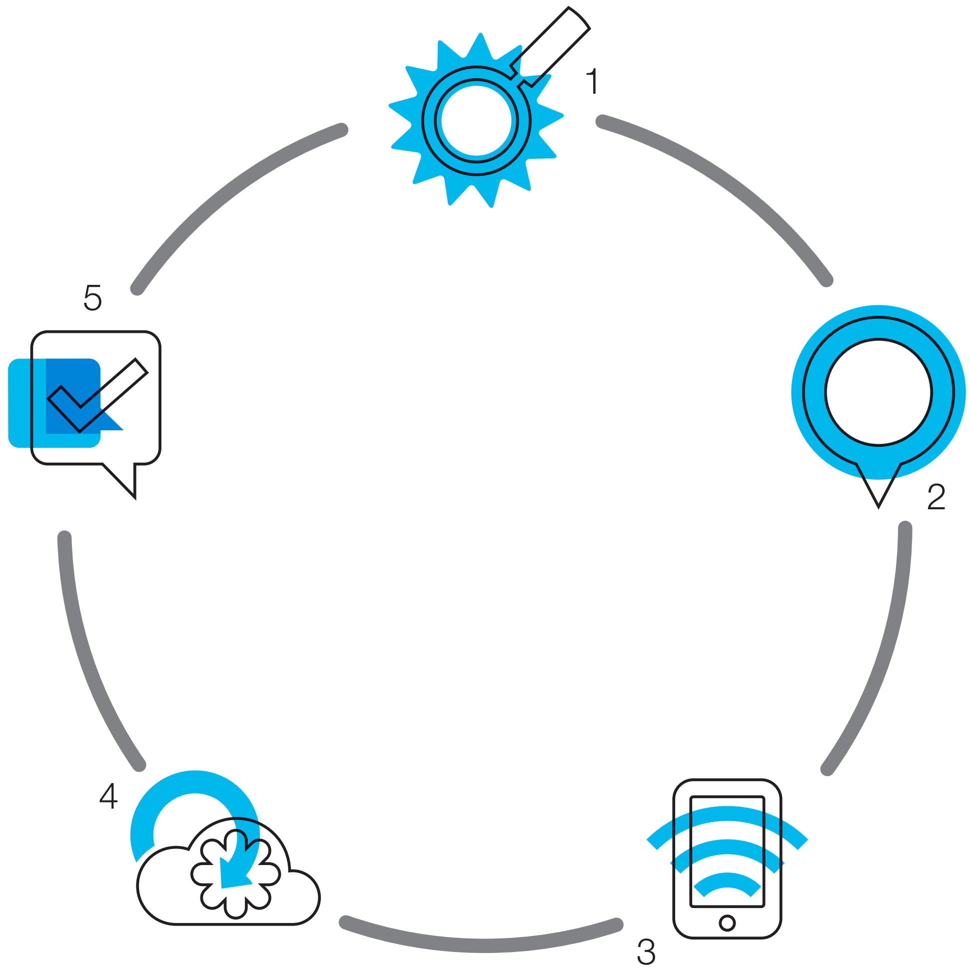
During the previous financial year Investec Bank plc sold Investec Bank (Australia) Limited. In addition, Investec plc sold Kensington Group plc and Start Mortgage Holdings Limited. Some of these sale assets resided on Investec Bank plc's balance sheet (as discussed on page 24).

The sale of these businesses has had a significant effect on the comparability of our statutory financial position and results. Consequently, comparison on a statutory basis of these full year results with the prior year would be less meaningful.

In order to present a more meaningful view of our performance, additional management information is presented on our ongoing businesses. This information is set out on pages 28 to 33. The additional information presented on an ongoing basis excludes items that in management's view could distort the comparison of performance between periods. Based on this principle, the following items are excluded from underlying statutory profit to derive ongoing operating profit:

- The results of the businesses sold as mentioned alongside
- The remaining legacy business in the UK (as set out on page 34).

A reconciliation between the statutory and ongoing income statement is provided on pages 29 and 30. All information in our annual report is based on our statutory accounts unless otherwise indicated.



CROSS REFERENCE TOOLS

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

2. Page references
Refers readers to information elsewhere in this report

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

4. Sustainability
Refers readers to further information in our sustainability report available on our website: *www.investec.com*

5. Reporting standard
Denotes our consideration of a reporting standard

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Corporate information

SECRETARY AND REGISTERED OFFICE

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Facsimile (24) 20 7597 4491

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DIRECTORATE

Refer to page 118.

For contact details for Investec offices refer to pages 225 to 226.

For queries regarding information in this document

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One

Investec Bank plc
in perspective

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

Investec Bank plc (referred to in this report as the bank) is the main banking subsidiary of Investec plc

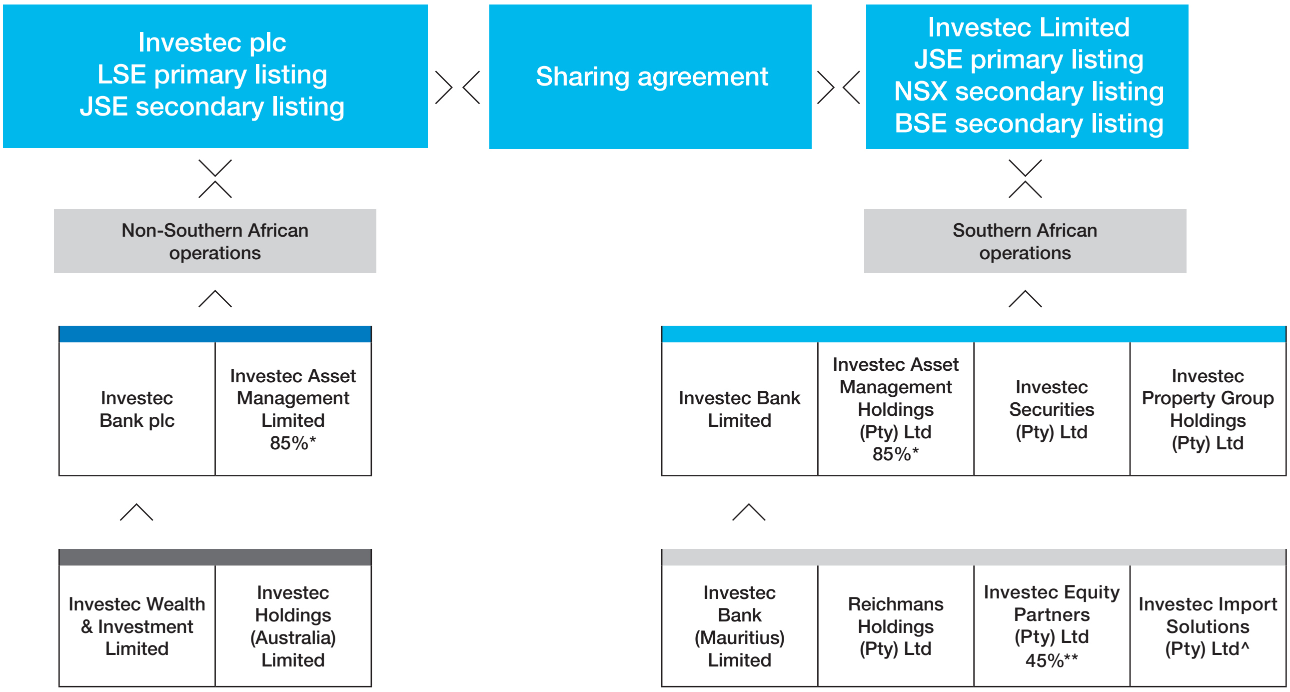
Operating structure

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

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

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

OUR DLC STRUCTURE AND MAIN OPERATING SUBSIDIARIES AS AT 31 MARCH 2016



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

* *15% held by senior management in the company.*
** *55% held by third party investors in the company together with senior management of the business.*
^ *Previously Blue Strata Trading (Pty) Ltd.*

Salient features of the DLC structure

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

Investec Bank plc operates as a specialist bank and wealth manager

What we do SPECIALIST BANKING

The bank operates as a specialist bank, focusing on three key areas of activity: Investment activities, Corporate and Institutional Banking activities and Private Banking activities

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

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

Natural linkages between the private client and corporate business

What we do WEALTH & INVESTMENT

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

The European operations are conducted through Investec Wealth & Investment Limited in the UK, Investec Wealth & Investment Ireland, Investec Bank Switzerland and in Guernsey through Investec Wealth & Investment Channel Islands.

Over 1 200 staff operate from offices located throughout the UK and Europe, with combined funds under management of £29.8 billion. Investec Wealth & Investment is one of the UK's leading providers of private client investment management services.

Investments and savings	Pensions and retirement	Financial planning
• 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.	• Discretionary investment management for company pension and Self Invested Personal Pensions (SIPPs) • Advice and guidance on pension schemes, life assurance and income protection schemes.	• Succession planning • ISAs • Retirement planning.

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

SPECIALIST BANKING

Value proposition

- High quality specialist banking solution to corporate and private clients with leading positions in selected areas
- Provide 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.

WEALTH & INVESTMENT

Value proposition

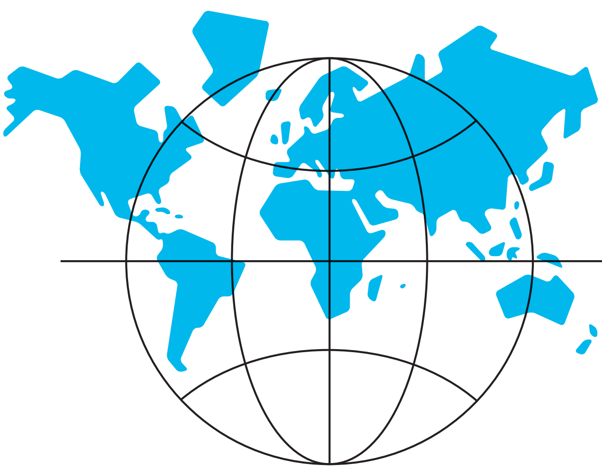
- Investec Wealth & Investment has been built via the acquisition and integration of businesses and organic growth over a long period of time
- Well-established platforms in the UK, Switzerland, Ireland and Guernsey
- The business currently has four distinct channels: direct, intermediaries, charities and international, and is progressing with the development of its online capabilities to form a fifth 'digital' distribution channel
- Strategy to internationalise within jurisdictions where the Investec group already has an established business
- Focus is on organic growth in our key markets and enhancing our range of services for the benefit of our clients.

Business leaders

Specialist Banking:	David van der Walt Ciaran Whelan
Wealth & Investment:	Steve Elliott

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

WHERE we operate



North America

Distribution platform

Growing advisory and PFI capabilities

UK and Europe

Brand well established

One of the leading private client investment managers

Proven ability to attract and recruit investment managers

Sustainable specialist banking business focused on corporate and private banking

India

Established a presence in 2010

Facilitates the link between India, UK and South Africa

Hong Kong

Investment activities

Distribution platform

Developing Wealth & Investment capability

Australia

Experienced local team in place with industry expertise

Focus is on entrenching position as a boutique operation

Sound performance notwithstanding challenging operating environments

- Macro uncertainty and volatility in the bank's key operating geographies during the financial year impacted overall results.
- Net new fund inflows in the wealth management business and reasonable levels of activity in the banking businesses supported sound performance.
- The Specialist Banking business reported results ahead of the prior year.
- Strong loan growth was supported by client activity in both the corporate and private banking businesses and the investment and debt securities portfolios delivered good results.
- The Wealth & Investment business reported solid net inflows of £1.3 billion.
- Continued investment in infrastructure, digital platforms and increased headcount are supporting growth initiatives in the overall business.
- Operational diversity continues to support a stable recurring income base and earnings through varying market conditions.

STATUTORY FINANCIAL PERFORMANCE

Operating profit* increased 44.6%

2016	2015
£146.3mn	£101.2mn

Adjusted attributable earnings^ increased 41.4%

2016	2015
£111.2mn	£78.7mn

We continued to actively manage down the UK legacy portfolio...

- The legacy portfolio reduced from £695 million at 31 March 2015 to £583 million through redemptions and write-offs.
- The legacy business reported a loss before taxation of £74.0 million (2015: £107.7 million) with impairments on the legacy portfolio reducing 18.4% from £83.5 million to £68.1 million.

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

SATISFACTORY PERFORMANCE FROM THE ONGOING BUSINESS

Operating profit* increased 6.0%

2016	2015
£220.3mn	£207.8mn

Adjusted attributable earnings^ increased 3.0%

2016	2015
£167.2mn	£162.3mn

Recurring income as a % of total operating income

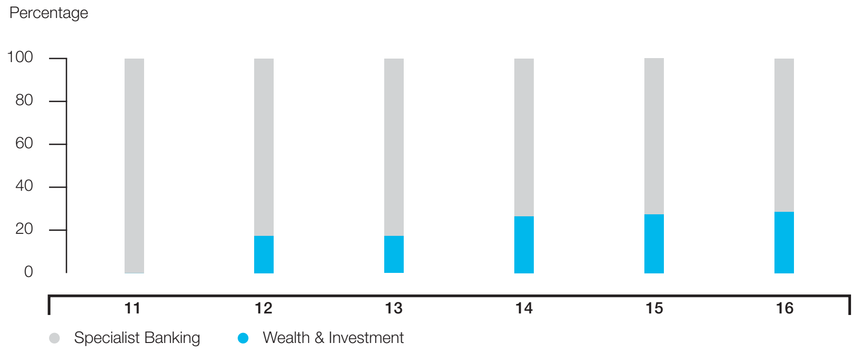
2016	2015
61.8%	63.5%

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

2016	2015
0.26%	0.12%

WE HAVE A DIVERSIFIED BUSINESS MODEL...

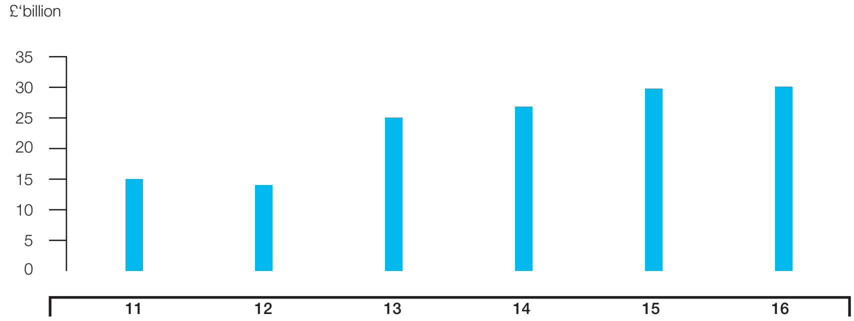
% CONTRIBUTION OF OPERATING PROFIT BEFORE TAXATION OF THE ONGOING BUSINESS*



WE CONTINUED TO GROW OUR KEY EARNINGS DRIVERS...

Funds under management up 0.9% to £30.1 billion

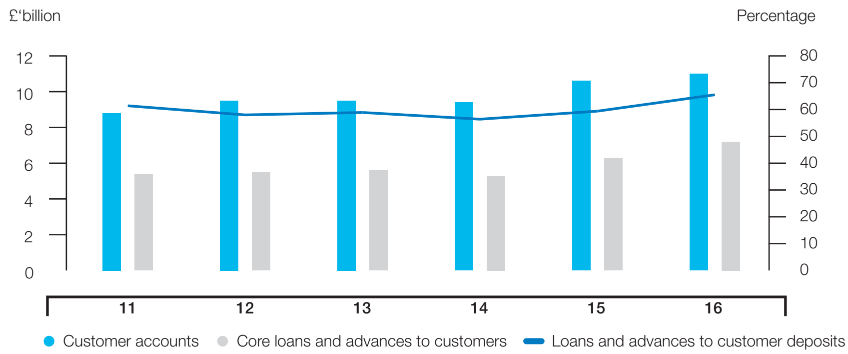
FUNDS UNDER MANAGEMENT ONGOING BUSINESS



Customer accounts (deposits) increased 4.3% to £11.0 billion

Core loans and advances increased 13.5% to £7.2 billion

CUSTOMER ACCOUNTS (DEPOSITS) AND LOANS ONGOING BUSINESS



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

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

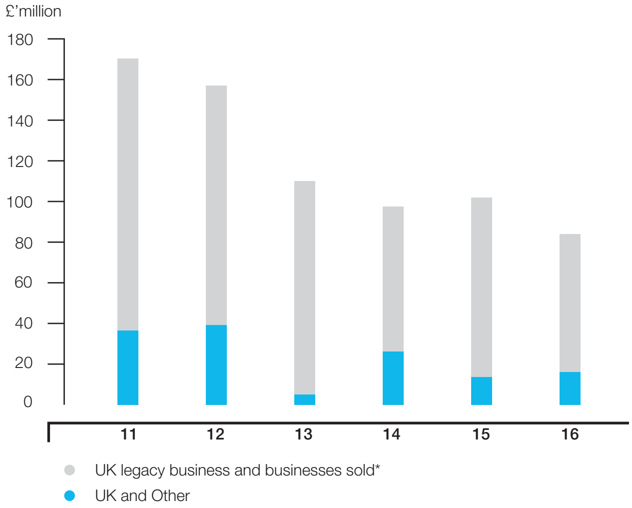
SUPPORTING GROWTH IN OPERATING INCOME…

TOTAL OPERATING INCOME ONGOING BUSINESS

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

IMPAIRMENTS CONTINUED TO DECLINE…

IMPAIRMENTS

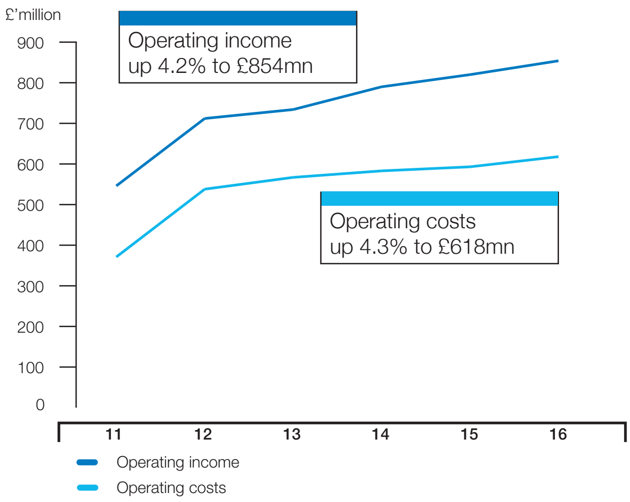


* *Refers to the remaining UK legacy business and group assets that were sold in the 2015 financial year.*

FIXED COSTS IN ONGOING BUSINESS INCREASED…

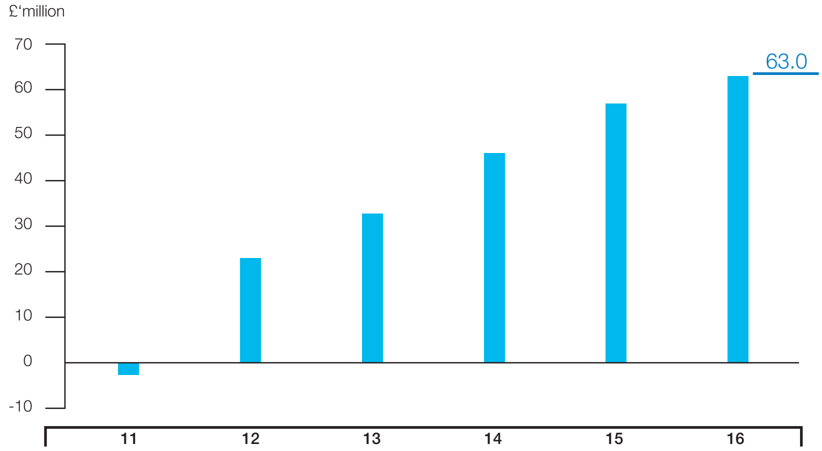
Increase in headcount and business infrastructure expenses to support increased activity and growth initiatives

JAWS RATIO ONGOING BUSINESS

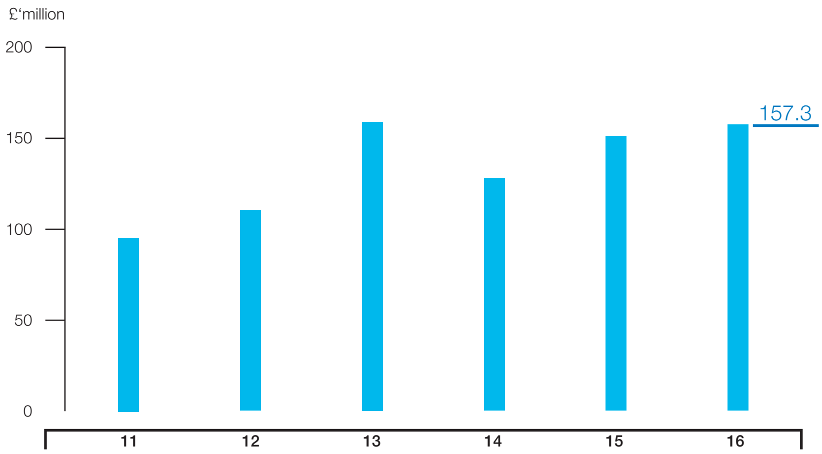


RESULTING IN A SATISFACTORY PERFORMANCE FROM OUR ONGOING BUSINESS...

OPERATING PROFIT* – WEALTH & INVESTMENT



OPERATING PROFIT* – SPECIALIST BANKING ONGOING BUSINESS



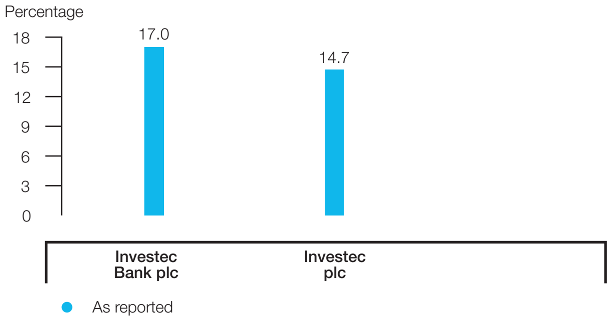
* *Before goodwill, acquired intangibles, non-operating items, taxation and after non-controlling interests.*

MAINTAINED A SOUND BALANCE SHEET…

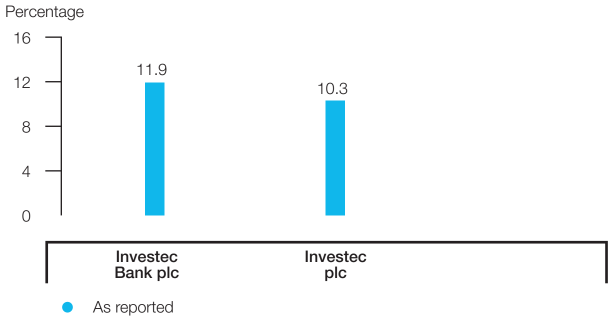
Target

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

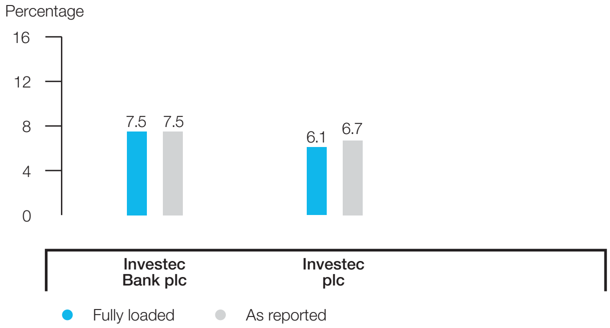
CAPITAL ADEQUACY



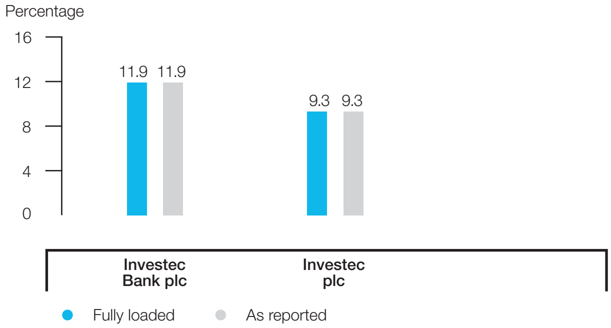
TIER 1



LEVERAGE RATIOS



COMMON EQUITY TIER 1



Note: Refer to pages 103 to 106 for further details.

SOUND CAPITAL AND LIQUIDITY PRINCIPLES MAINTAINED...

Continue to focus on:

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

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

A well-established liquidity management philosophy remains in place

The bank's loan to deposit ratio is as follows: 70.5% (2015: 66.5%)

Liquidity remains strong with cash and near cash balances amounting to £5.0 billion (2015: £5.0 billion)

Capital remained well in excess of current regulatory requirements

We are comfortable with our common equity tier 1 ratio target at a 10% level, as our current leverage ratio is 7.5%.

Two

Financial review

An overview of the operating environment impacting our business

United Kingdom

OUR VIEWS

GDP now stands above its pre-crisis peak.

2.2%	2.8%
2015/16 Economic growth	2014/15 Economic growth
2016 £28 644	2015 £28 132

GDP per capita has risen

The continued recovery has also been evident in the labour market where the unemployment rate has fallen to 5.1%

The fiscal year witnessed a continued recovery in the UK economy, with the first quarter of 2016 seeing the thirteenth consecutive quarter of expansion. Once again, the last year has seen household consumption as the driving factor behind the recovery, although investment also contributed positively.

1.7 million people are now unemployed in the UK, down one million from the peak of 2.7 million seen in 2011. Employment has been firm through the year, although the pace of employment growth slowed somewhat over the second half of 2015.

The inflation backdrop has been subdued, with headline CPI inflation falling into negative territory, troughing at -0.1%, and averaging just +0.1% across the fiscal year as a whole. There are two primary reasons for the softness in the inflation readings, one being the significant fall in energy prices since quarter four 2014, the other being the strength in the Pounds Sterling over much of 2015. Given the temporary nature of these factors, inflation should gradually trend back to the Bank of England's target of 2% over the medium term.

UK monetary policy remained on hold throughout the period, with the Bank rate steady at 0.50%, marking the seventh year of record low interest rates. At the same time the level of outstanding asset purchases was maintained at £375 billion. Given the current subdued nature of inflation, as well as rising downside risks to the global outlook there has been little appetite for raising interest rates among the Monetary Policy Committee, with any future tightening dependent on the committee's confidence that inflation is returning to target in the medium term.

Activity in the housing market continued to recover over the course of the year with transactions and mortgage approvals rising to within 10% of their long-run averages, underpinned by easing credit conditions and households' confidence in the outlook. Meanwhile, prices continued to trend upwards, standing 4.8% higher on year on year levels as the fundamental backdrop of a supply and demand imbalance supported prices.

As the financial year closed the biggest point of uncertainty hanging over the economy was the UK's referendum on EU membership, with the vote set to take place on 23 June 2016. Uncertainty over the vote outcome and the potential ramifications of a leave vote represents the primary risk to the UK outlook.

Australia

OUR VIEWS

Australian GDP continued to grow at an annual pace, slightly below trend at 2.5% in 2015 (2.6% over the financial year).

On a quarterly basis the year witnessed a degree of variation as swings in GDP were driven by weather-related export volatility.

The Australian Dollar fell to its lowest level since 2009 during the year, reaching $0.68 versus the US Dollar, as it continued to be correlated to movements in commodity prices, which for much of 2015/16 witnessed significant falls. Despite the fall in the Australian Dollar providing support to the export sector, headwinds to the economy remain, primarily from the decline in commodity prices. Certainly the low commodity price environment is hurting investment, with the latest official estimates suggesting that 2015/16 capital expenditure in the mining sector may be 30% lower than in 2014/15.

Rebalancing in the economy has continued over the year. Outside of the mining sector services have continued to see expansion, while household consumption has also witnessed positive growth, albeit at below trend levels. The labour market has also seen improvements with the unemployment rate falling to 5.7%, its lowest level since July 2013. Meanwhile the upward trend in house prices seen in recent years continued in 2015, with national prices rising over 9%.

Amidst headwinds to the economy, below trend growth and subdued inflation the Reserve Bank of Australia cut the official policy rate (Cash rate) to a new record low of 2.00% in May 2015.

United States

OUR VIEWS

A range of indicators continued to show the labour market witnessing sustained strength as non-farm payrolls growth averaged US$233 000 a month over the last year and unemployment fell to 5.0% from 5.4% at the end of the last fiscal year

The US economy grew by 2.4% in the calendar year 2015, equalling the expansion seen in 2014.

Growth in the first quarter of 2016 had been disappointing at an annualised rate of 0.5%, reflecting the continued drag from net trade, inventories and also business investment. In terms of the overall recovery, household consumption remains the predominant driver of growth and remains relatively robust.

Following more than seven years of record low interest rates, the Federal Reserve began tightening policy in December 2015, raising the Federal Funds Target range by 0.25% to 0.25% – 0.50%. However, as the financial year closed, the Federal Reserve had refrained from taking further action, citing potential downside risks from global economic and financial developments. Further policy tightening over the forthcoming period will be very much driven by the evolution of the economy and, in particular, inflation.

Given the tightening in labour market conditions wage growth has begun to firm, although it remains below historical trends.

Inflation has remained below the Federal Reserve's 2% goal over the year, with the targeted measure of inflation currently standing at just 0.8%. However, there are tentative signs that previous disinflationary pressures from a strong US Dollar over 2015 and falling energy prices are beginning to fade. Meanwhile domestic factors, including a strengthening labour market point to a background of inflationary pressures.

An overview of the operating environment impacting our business *(continued)*

Eurozone

OUR VIEWS

Following a year of policy easing, 2015/16 witnessed the European Central Bank (ECB) going even further in providing monetary stimulus, driven by weak inflation and rising deflationary risks.

Over the fiscal year, headline CPI inflation averaged just +0.1%, a considerable margin below the ECB's target of 'below, but close to 2%' as the collapse in wholesale energy prices weighed and the still gradual recovery meant the inflation outlook remained subdued.

Having taken the historic step of introducing a negative deposit rate in June 2014, the ECB cut the key policy rates further, with the deposit rate ending the fiscal year at -0.40% and the main refinancing rate at 0.0%. Non-standard policy measures were also expanded with the central bank increasing the size of its asset purchase programme to €80 billion per month, which is now set to run until March 2017. The ECB also expanded the universe of eligible assets for purchase to corporate bonds, resulting in a significant rally in Euro-denominated corporate debt. Additionally, a new four-year secured lending facility (TLTRO II) was introduced, providing cheap funding to Eurozone banks.

The economic background has been one of gradual growth, with the Euro area registering its third consecutive year of expansion: calendar 2015 recorded GDP growth of 1.5%. Household consumption has been positive, helped by improving confidence and the level of unemployment gradually coming down, although the latter remains elevated at 10.2%. Meanwhile investment has also returned to growth. Credit growth has been encouraging over the year, with lending to both households and corporates firming to multi-year highs, supported by improving credit conditions.

Greece remained a point of concern over the year, as the introduction of capital controls, a referendum on a third bailout and the re-election of the leftist party Syriza in a coalition all contributed to a period of uncertainty. Ultimately a third (€86 billion) bailout package was agreed between the Greek government and its creditors. In a departure from previous Euro crisis episodes, while local Greek markets were impacted, contagion to the rest of the Eurozone was limited, with yields in peripheral Euro area markets contained. Away from Greece there was better news as Cyprus became the latest country to exit its assistance programme, following Ireland, Portugal and Spain which exited in prior years.

Global stock markets

OUR VIEWS

Equity markets began the financial year in a buoyant mood, with the UK's FTSE 100 breaking through the significant 7 000 point milestone to set a new high during April 2015. These gains reflected the belief that global economic growth was set to accelerate and Europe and emerging economies were managing their challenges.

But that early optimism turned into a challenging year as a whole for financial markets, with the price of risky assets lower, in general, than when the year began. After a surge in the middle of 2015, the Shanghai share index in China was 20% lower by financial year end. In the Eurozone, the Euro Stoxx 50 index slid 19%. The UK's FTSE All Share declined 7%. In the US, the S&P 500 was more resilient, ending the year 0.4% lower. Commodity prices slid too, especially the oil price, where declines were driven partly by Saudi Arabia's continued bid to maintain market share by keeping output high and prices low.

This pattern of declines (oil supply issues notwithstanding) reflects two major global economic risks. The first relates to China, where issues came to a head last August. A depreciation of the Chinese Yuan triggered a sell-off in equity markets worldwide as investors fretted about a Chinese 'hard landing'. However, after a volatile few weeks, markets recovered as it turned out that global economic fundamentals appeared to remain relatively sound.

The second risk, of a broader, deflationary global slowdown, particularly in the Euro area, sharpened in January and February 2016. The immediate trigger for a downward lurch in global markets was a sell-off in Eurozone banking stocks. In part, this could have been driven by fears about the impact of the ECB's negative interest rate policy on banks' profitability. More generally, a worry emerged that central banks and other policymakers are running out of scope to combat economic stagnation and deflation.

Partly as a result of last year's market gyrations, our view is that risks to the global outlook have become more tilted to the downside. Various organisations, such as the OECD, IMF and World Bank, appear to concur. But our view is that economic fundamentals remain on a steady, if unspectacular, footing – a view borne out by the 'hard' data, which have continued to point to sustained economic growth. Consistent with, and in part because of, the data remaining broadly on track, the last few weeks of the financial year saw equity markets recover most of their January and February losses.

Operating environment

THE TABLE BELOW PROVIDES AN OVERVIEW OF SOME KEY STATISTICS THAT SHOULD BE CONSIDERED WHEN REVIEWING OUR OPERATIONAL PERFORMANCE.

	Year ended 31 March 2016	Year ended 31 March 2015	% change	Average over the year 1 April 2015 to 31 March 2016
Market indicators				
FTSE All share	3 395	3 664	(7.3%)	3 500
S&P	2 060	2 068	(0.4%)	2 033
Nikkei	16 759	19 207	(12.7%)	18 844
Dow Jones	17 685	17 776	(0.5%)	17 306
Rates				
UK overnight	0.41%	0.42%		0.46%
UK 10 year	1.42%	1.58%		1.81%
UK clearing banks base rate	0.50%	0.50%		0.50%
LIBOR – three month	0.59%	0.57%		0.59%
US 10 year	1.79%	1.93%		2.12%
Commodities				
Gold	US$1 233/oz	US$1 188/oz	3.8%	US$1 151/oz
Brent crude oil	US$40/bbl	US$56/bbl	(28.6%)	US$49/bbl
Platinum	US$976/oz	US$1 129/oz	(13.6%)	US$983/oz
Macro-economic				
UK GDP (% change over the period)	2.2%	2.8%		
UK per capita GDP (£, calendar year)	28 644	28 132	1.8%	

Sources: Datastream, Bloomberg, Office for National Statistics.

Principal risks relating to our operations

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

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.

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

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

16 – 20

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

16 – 20

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

44

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

44 – 69

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

46

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

70 – 74

We may be exposed to **investment risk** largely in our unlisted investment portfolio.

75 – 78

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

80 – 85

Liquidity risk may impair our ability to fund our operations.

86 – 88

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

89 – 92

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

89 – 92

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

89 – 92

Employee misconduct could cause harm that is difficult to detect.

93

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

93 and 110 – 111

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

94

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

94 – 107

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

93

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

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

See Investec's 2016 integrated annual report on our website.

Key income drivers

We provide a wide range of financial products and services to a select client base principally in the UK. We have a number of other distribution and origination channels which support our underlying core businesses, for example, in Australia, Beijing, Channel Islands, Hong Kong, India, Ireland, Switzerland and the USA. We are organised as a network comprising two principal business divisions: Wealth & Investment and Specialist Banking

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

WEALTH & INVESTMENT

Key income drivers	Income impacted primarily by
– Investment management fees levied as a percentage of assets under management – Commissions earned for executing transactions for clients. **Income statement – primarily reflected as** – Fees and commissions.	– 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.

SPECIALIST BANKING

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

Introduction – understanding our results

SALE OF BUSINESSES

During the 2015 financial year Investec Bank plc sold Investec Bank (Australia) Limited. In addition, Investec plc sold Kensington Group plc and Start Mortgage Holdings as set out below.

Sale of Investec Bank (Australia) Limited

The sale of Investec Bank (Australia) Limited's Professional Finance and Asset Finance and Leasing businesses and its deposit book to Bank of Queensland Limited was effective 31 July 2014 for cash proceeds of £122 million. This resulted in the derecognition of approximately £1.7 billion of assets and approximately £1.7 billion of liabilities associated with the businesses sold.

We continue to have a presence in Australia, focusing on our core activities of Specialised Finance, Corporate Advisory, Property Fund Management and Asset Management. The remaining business operates as a non-banking subsidiary of the Investec group. As a result, we no longer report the activities of our Australian businesses separately.

Sales of Kensington Group plc and Start Mortgage Holdings Limited

On 9 September 2014 Investec plc announced the sale of its UK intermediated mortgage business Kensington Group plc (Kensington) together with certain other Investec mortgage assets to funds managed by Blackstone Tactical Opportunities Advisors L.L.C. and TPG Special Situations Partners for £180 million in cash based on a tangible net asset value of the business of £165 million at 31 March 2014. This transaction became effective on 30 January 2015.

On 15 September 2014 Investec plc announced the sale of its Irish intermediated mortgage business Start Mortgage Holdings Limited (Start) together with certain other Irish mortgage assets to an affiliate of Lone Star Funds. This transaction became effective on 4 December 2014.

Some of these sale assets resided on Investec Bank plc's balance sheet.

As part of these sales, a final net settlement amount was paid after the 31 March 2015 year end. As a result of this payment, a further loss before tax of £4.8 million was recognised during the current period.

Impact of these sales on our operational performance

The sales of these businesses have had a significant effect on the comparability of our financial statutory position and results. As a result, comparison on a statutory basis of the 2016 year-end results with the 2015 year-end results would be less meaningful.

In order to present a more meaningful view of the group's performance, additional management information is presented on our ongoing businesses. The additional information presented on an ongoing basis excludes items that, in management's view, could distort the comparison of performance between periods. Based on this principle, the following items are excluded from underlying statutory profit to derive ongoing operating profit:

- The results of the businesses sold as mentioned above
- The remaining legacy business in the UK (as set out on page 34).

This basis of presentation is consistent with the approach adopted for the year ended 31 March 2015.

A reconciliation between the statutory and ongoing income statement is provided on pages 29 and 30.

Overview of our statutory results

Investec Bank plc reported a 44.6% increase in operating profit before goodwill, acquired intangibles, non-operating items and taxation and after non-controlling interests to £146.3 million for the year ended 31 March 2016 (2015: £101.2 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 2015.

Statutory income statement analysis

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

TOTAL OPERATING INCOME

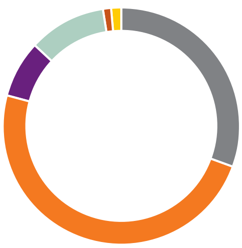
Total operating income before impairment losses on loans and advances of £859.2 million is 0.7% higher than the prior year. The various components of total operating income are analysed below.

£'000	31 March 2016	% of total income	31 March 2015	% of total income	% change
Net interest income	270 066	31.4%	289 868	34.0%	(6.8%)
Net fee and commission income	426 042	49.6%	462 476	54.2%	(7.9%)
Investment income	67 308	7.8%	7 301	0.9%	> 100.0%
Trading income arising from:					
– customer flow	92 683	10.8%	88 258	10.3%	5.0%
– balance sheet management and other trading activities	(8 522)	(1.0%)	(4 924)	(0.6%)	73.1%
Other operating income	11 642	1.4%	10 074	1.2%	15.6%
Total operating income before impairments	**859 189**	**100.0%**	**853 053**	**100.0%**	**0.7%**

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

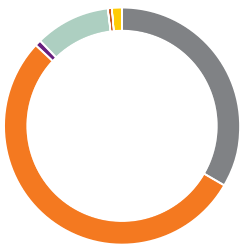
£'000	31 March 2016	% of total income	31 March 2015	% of total income	% change
Wealth & Investment	256 536	29.9%	250 883	29.4%	2.3%
Specialist Banking	602 653	70.1%	602 170	70.6%	0.1%
Total operating income before impairments	**859 189**	**100.0%**	**853 053**	**100.0%**	**0.7%**

% OF TOTAL OPERATING INCOME BEFORE IMPAIRMENTS



31 March 2016
£859.2 million total operating income before impairments

31.4%	Net interest income
49.6%	Net fee and commission income
7.8%	Investment income
10.8%	Trading income arising from customer flow
(1.0%)	Trading income arising from balance sheet management and other trading activities
1.4%	Other operating income



31 March 2015
£853.1 million total operating income before impairments

34.0%	Net interest income
54.2%	Net fee and commission income
0.9%	Investment income
10.3%	Trading income arising from customer flow
(0.6%)	Trading income arising from balance sheet management and other trading activities
1.2%	Other operating income

Net interest income

Net interest income decreased by 6.8% to £270.1 million (2015: £289.9 million) largely due to a lower return earned on the legacy portfolios which are running down and the sale of Investec Bank (Australia) Limited. This was partially offset by strong book growth and an increase in margin earned on early redemption of loans, reflecting higher activity levels.

For a further analysis of interest received and interest paid refer to pages 158 and 159.

Net fee and commission income

Net fee and commission income decreased by 7.9% to £426.0 million (2015: £462.5 million) largely as a result of lower corporate fees earned following a strong prior year. The deal pipeline has, however, remained sound. This was partially offset by a sound performance from the private banking and wealth management businesses.

For a further analysis of net fee and commission income refer to page 159.

Investment income

Investment income increased substantially to £67.3 million (2015: £7.3 million) as a result of higher earnings from the debt securities portfolio and improved results from the Hong Kong portfolio.

For a further analysis of investment income refer to page 160.

Trading income

Trading income from customer flow increased 5.0% to £92.7 million (2015: £88.3 million) while trading income from other trading activities reflected a loss of £8.6 million (2015: loss of £4.9 million) due to foreign currency losses.

Other operating income

Other operating income includes associate income and income earned on operating lease rentals.

IMPAIRMENT LOSSES ON LOANS AND ADVANCES

Impairments on loans and advances decreased from £102.1 million to £84.2 million. Since 31 March 2015, gross defaults have improved from £400.1 million to £313.9 million. The percentage of default loans (net of impairments but before taking collateral into account) to net core loans and advances amounted to 2.19% (2015: 3.01%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.19 times (2015: 1.33 times).

For further information on asset quality refer to page 60.

OPERATING COSTS

The ratio of total operating costs to total operating income amounted to 73.3% (2015: 75.7%). Total operating costs decreased by 2.5% to £628.5 million (2015: £644.3 million) reflecting: a reduction in costs arising from the sale of certain businesses in Australia; partially offset by an increase in headcount and business infrastructure expenses across divisions to support increased activity and growth initiatives; and an increase in variable remuneration given increased profitability in certain businesses.

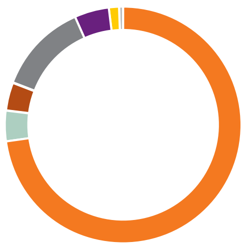
The various components of total expenses are analysed below:

£'000	31 March 2016	% of total expenses	31 March 2015	% of total expenses	% change
Staff costs (including directors' remuneration)	(459 708)	72.9%	(468 443)	72.5%	(1.9%)
Premises expenses (excluding depreciation)	(26 008)	4.1%	(30 540)	4.7%	(14.8%)
Equipment expenses (excluding depreciation)	(25 983)	4.1%	(24 622)	3.8%	5.5%
Business expenses	(77 096)	12.3%	(79 092)	12.3%	(2.5%)
Marketing expenses	(29 437)	4.7%	(27 799)	4.3%	5.9%
Depreciation and impairment of property, plant, equipment and software	(10 283)	1.6%	(13 826)	2.1%	(25.6%)
Total operating costs	**(628 515)**	**99.7%**	**(644 322)**	**99.7%**	**(2.5%)**
Depreciation on operating leased assets	(2 149)	0.3%	(1 535)	0.3%	40.0%
Total expenses	**(630 664)**	**100.0%**	**(645 857)**	**100.0%**	**(2.4%)**

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

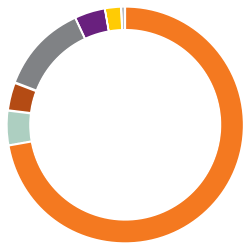
£'000	31 March 2016	% of total expenses	31 March 2015	% of total expenses	% change
Wealth & Investment	(193 507)	30.7%	(194 012)	30.0%	(0.3%)
Specialist Banking	(437 157)	69.3%	(451 845)	70.0%	(3.3%)
Total expenses	**(630 664)**	**100.0%**	**(645 857)**	**100.0%**	**(2.4%)**

% OF TOTAL EXPENSES



31 March 2016
£630.7 million total expenses

72.9%	Staff costs
4.1%	Premises
4.1%	Equipment
12.3%	Business expenses
4.7%	Marketing
1.6%	Depreciation
0.3%	Depreciation on operating leased assets



31 March 2015
£645.9 million total expenses

72.5%	Staff costs
4.7%	Premises
3.8%	Equipment
12.3%	Business expenses
4.3%	Marketing
2.1%	Depreciation
0.3%	Depreciation on operating leased assets

IMPAIRMENT OF GOODWILL

There was no impairment of goodwill in the current year. The impairment of goodwill in the prior year largely relates to the restructure of the Australian businesses.

AMORTISATION OF ACQUIRED INTANGIBLES

Amortisation of acquired intangibles of £14.5 million largely relates to the Wealth & Investment business and mainly comprises amortisation of amounts attributable to client relationships.

NET LOSS ON DISPOSAL OF SUBSIDIARIES

As part of the sale of certain group businesses (as discussed on page 24) a final net settlement amount was paid after the 31 March 2015 year end. As a result of this payment, a further loss before taxation of £4.8 million was recognised during the 2016 financial year.

Statutory balance sheet analysis

Since 31 March 2015:

- Total shareholders' equity (including non-controlling interests) increased by 2.3% to £1.8 billion largely as a result of improved retained earnings
- Total assets increased by 2.2% to £18.3 billion largely as a result of strong loan book growth.

Overview of our ongoing results

CONSOLIDATED SUMMARISED ONGOING INCOME STATEMENT

For the year to £'000	31 March 2016	31 March 2015	Variance	% change
Net interest income	268 226	239 952	28 274	11.8%
Net fee and commission income	422 757	459 461	(36 704)	(8.0%)
Investment income	66 815	25 527	41 288	> 100.0%
Trading income arising from				
– customer flow	93 335	88 533	4 802	5.4%
– balance sheet management and other trading activities	(8 312)	(3 838)	(4 474)	> 100.0%
Other operating income	11 642	10 026	1 616	16.1%
Total operating income before impairment losses on loans and advances	**854 463**	**819 661**	**34 802**	**4.2%**
Impairment losses on loans and advances	(16 069)	(13 679)	(2 390)	17.5%
Operating income	**838 394**	**805 982**	**32 412**	**4.0%**
Operating costs	(617 969)	(592 753)	(25 216)	4.3%
Depreciation on operating leased assets	(2 149)	(1 535)	(614)	40.0%
Operating profit before goodwill, acquired intangibles and non-operating items	**218 276**	**211 694**	**6 582**	**3.1%**
Loss/(profit) attributable to non-controlling interests	2 039	(3 869)	5 908	(> 100.0%)
Operating profit before taxation	**220 315**	**207 825**	**12 490**	**6.0%**
Taxation	(53 138)	(45 483)	(7 655)	16.8%
Attributable earnings to shareholders before goodwill, acquired intangibles and non-operating items	**167 177**	**162 342**	**4 835**	**3.0%**
Cost to income ratio	72.5%	72.5%		

RECONCILIATION FROM STATUTORY SUMMARISED INCOME STATEMENT TO ONGOING SUMMARISED INCOME STATEMENT

For the year to 31 March 2016 £'000	Statutory as disclosed^	Removal of:** UK legacy business excluding sale assets	Removal of:** Sale assets UK	Removal of:** Sale assets Australia	Ongoing business
Net interest income	270 066	1 840	–	–	268 226
Net fee and commission income	426 042	3 285	–	–	422 757
Investment income	67 308	493	–	–	66 815
Trading income arising from					
– customer flow	92 683	(652)	–	–	93 335
– balance sheet management and other trading activities	(8 552)	(240)	–	–	(8 312)
Other operating income	11 642	–	–	–	11 642
Total operating income before impairment losses on loans and advances	**859 189**	**4 726**	**–**	**–**	**854 463**
Impairment losses on loans and advances	(84 217)	(68 148)	–	–	(16 069)
Operating income	**774 972**	**(63 422)**	**–**	**–**	**838 394**
Operating costs	(628 515)	(10 546)	–	–	(617 969)
Depreciation on operating leased assets	(2 149)	–	–	–	(2 149)
Operating profit/(loss) before goodwill, acquired intangibles and non-operating items	**144 308**	**(73 968)**	**–**	**–**	**218 276**
Loss attributable to non-controlling interests	2 039	–	–	–	2 039
Operating profit/(loss) before taxation	**146 347**	**(73 968)**	**–**	**–**	**220 315**
Taxation*	(35 131)	18 007	–	–	(53 138)
Attributable earnings to shareholders before goodwill, acquired intangibles and non-operating items	**111 216**	**(55 961)**	**–**	**–**	**167 177**
Cost to income ratio	73.3%				72.5%

* *Applying the bank's effective statutory taxation rate of 24.3%.*
^ *Refer to page 140.*
** • *The results of the businesses sold, i.e. Investec Bank (Australia) Limited, the UK Kensington business and the Start (Irish) mortgage business.*
• *The remaining legacy business.*

RECONCILIATION FROM STATUTORY SUMMARISED INCOME STATEMENT TO ONGOING SUMMARISED INCOME STATEMENT *(continued)*

		Removal of:**			
For the year to 31 March 2015 £'000	**Statutory as disclosed^**	**UK legacy business excluding sale assets**	**Sale assets UK**	**Sale assets Australia**	**Ongoing business**
Net interest income	289 868	12 526	25 123	12 267	239 952
Net fee and commission income	462 476	756	(469)	2 728	459 461
Investment income	7 301	(16 204)	(155)	(1 867)	25 527
Trading income arising from					
– customer flow	88 258	350	(415)	(210)	88 533
– balance sheet management and other trading activities	(4 924)	19	(951)	(154)	(3 838)
Other operating income	10 074	–	–	48	10 026
Total operating income before impairment losses on loans and advances	**853 053**	**(2 553)**	**23 133**	**12 812**	**819 661**
Impairment losses on loans and advances	(102 084)	(83 468)	(3 461)	(1 476)	(13 679)
Operating income	**750 969**	**(86 021)**	**19 672**	**11 336**	**805 982**
Operating costs	(644 322)	(21 648)	(17 118)	(12 803)	(592 753)
Depreciation on operating leased assets	(1 535)	–	–	–	(1 535)
Operating profit/(loss) before goodwill, acquired intangibles and non-operating items	**105 112**	**(107 669)**	**2 554**	**(1 467)**	**211 694**
Profit attributable to non-controlling interests	(3 869)	–	–	–	(3 869)
Operating profit/(loss) before taxation	**101 243**	**(107 669)**	**2 554**	**(1 467)**	**207 825**
Taxation*	(22 568)	23 149	(549)	315	(45 483)
Attributable earnings to shareholders before goodwill, acquired intangibles and non-operating items	**78 675**	**(84 520)**	**2 005**	**(1 152)**	**162 342**
Cost to income ratio	75.7%				72.5%

* *Applying the bank's effective statutory taxation rate of 21.5%.*
^ *Refer to page 140.*
** • *The results of the businesses sold, i.e. Investec Bank (Australia) Limited, the UK Kensington business and the Start (Irish) mortgage business.*
• *The remaining legacy business.*

RECONCILIATION FROM STATUTORY SUMMARISED INCOME STATEMENT TO ONGOING SUMMARISED INCOME STATEMENT FOR THE SPECIALIST BANKING BUSINESS

		Removal of:**			
For the year to 31 March 2016 £'000	**Specialist Banking statutory as disclosed^**	**UK legacy business excluding sale assets**	**Sale assets UK**	**Sale assets Australia**	**Specialist Banking ongoing business**
Net interest income	266 002	1 840	–	–	264 162
Net fee and commission income	181 049	3 285	–	–	177 764
Investment income	61 491	493	–	–	60 998
Trading income arising from					
– customer flow	92 350	(652)	–	–	93 002
– balance sheet management and other trading activities	(8 690)	(240)	–	–	(8 450)
Other operating income	10 451	–	–	–	10 451
Total operating income before impairment losses on loans and advances	**602 653**	**4 726**	**–**	**–**	**597 927**
Impairment losses on loans and advances	(84 217)	(68 148)	–	–	(16 069)
Operating income	**518 436**	**(63 422)**	**–**	**–**	**581 858**
Operating costs	(435 008)	(10 546)	–	–	(424 462)
Depreciation on operating leased assets	(2 149)	–	–	–	(2 149)
Operating profit/(loss) before goodwill, acquired intangibles and non-operating items	**81 279**	**(73 968)**	**–**	**–**	**155 247**
Loss attributable to non-controlling interests	2 039	–	–	–	2 039
Operating profit/(loss) before taxation	**83 318**	**(73 968)**	**–**	**–**	**157 286**

		Removal of:**			
For the year to 31 March 2015 £'000	**Specialist Banking statutory as disclosed^**	**UK legacy business excluding sale assets**	**Sale assets UK**	**Sale assets Australia**	**Specialist Banking ongoing business**
Net interest income	283 659	12 526	25 123	12 267	233 743
Net fee and commission income	223 815	756	(469)	2 728	220 800
Investment income	3 815	(16 204)	(155)	(1 867)	22 041
Trading income arising from					
– customer flow	87 363	350	(415)	(210)	87 638
– balance sheet management and other trading activities	(5 280)	19	(951)	(154)	(4 194)
Other operating income	8 798	–	–	48	8 750
Total operating income before impairment losses on loans and advances	**602 170**	**(2 553)**	**23 133**	**12 812**	**568 778**
Impairment losses on loans and advances	(102 084)	(83 468)	(3 461)	(1 476)	(13 679)
Operating income	**500 086**	**(86 021)**	**19 672**	**11 336**	**555 099**
Operating costs	(450 310)	(21 648)	(17 118)	(12 803)	(398 741)
Depreciation on operating leased assets	(1 535)	–	–	–	(1 535)
Operating profit/(loss) before goodwill, acquired intangibles and non-operating items	**48 241**	**(107 669)**	**2 554**	**(1 467)**	**154 823**
Profit attributable to non-controlling interests	(3 869)	–	–	–	(3 869)
Operating profit/(loss) before taxation	**44 372**	**(107 669)**	**2 554**	**(1 467)**	**150 954**

^ *Refer to pages 157 and 158.*
** • *The results of the businesses sold, i.e. Investec Bank (Australia) Limited, the UK Kensington business and the Start (Irish) mortgage business.*
• *The remaining legacy business.*

SEGMENTAL BUSINESS ANALYSIS OF OPERATING PROFIT BEFORE GOODWILL, ACQUIRED INTANGIBLES, NON-OPERATING ITEMS, TAXATION AND AFTER NON-CONTROLLING INTERESTS – ONGOING BUSINESS

For the year to 31 March 2016 £'000	**Wealth & Investment**	**Specialist Banking**	**Ongoing business**
Net interest income	4 064	264 162	268 226
Net fee and commission income	244 993	177 764	422 757
Investment income	5 817	60 998	66 815
Trading income arising from			
– customer flow	333	93 002	93 335
– balance sheet management and other trading activities	138	(8 450)	(8 312)
Other operating income	1 191	10 451	11 642
Total operating income before impairment losses on loans and advances	**256 536**	**597 927**	**854 463**
Impairment losses on loans and advances	–	(16 069)	(16 069)
Operating income	**256 536**	**581 858**	**838 394**
Operating costs	(193 507)	(424 462)	(617 969)
Depreciation on operating leased assets	–	(2 149)	(2 149)
Operating profit before goodwill, acquired intangibles and non-operating items	**63 029**	**155 247**	**218 276**
Loss attributable to non-controlling interests	–	2 039	2 039
Operating profit before taxation	**63 029**	**157 286**	**220 315**
Cost to income ratio	75.4%	71.2%	72.5%

For the year to 31 March 2015 £'000	**Wealth & Investment**	**Specialist Banking**	**Ongoing business**
Net interest income	6 209	233 743	239 952
Net fee and commission income	238 661	220 800	459 461
Investment income	3 486	22 041	25 527
Trading income arising from			
– customer flow	895	87 638	88 533
– balance sheet management and other trading activities	356	(4 194)	(3 838)
Other operating income	1 276	8 750	10 026
Total operating income before impairment losses on loans and advances	**250 883**	**568 778**	**819 661**
Impairment losses on loans and advances	–	(13 679)	(13 679)
Operating income	**250 883**	**555 099**	**805 982**
Operating costs	(194 012)	(398 741)	(592 753)
Depreciation on operating leased assets	–	(1 535)	(1 535)
Operating profit before goodwill, acquired intangibles and non-operating items	**56 871**	**154 823**	**211 694**
Profit attributable to non-controlling interests	–	(3 869)	(3 869)
Operating profit before taxation	**56 871**	**150 954**	**207 825**
Cost to income ratio	77.3%	70.3%	72.5%

AN ANALYSIS OF CORE LOANS AND ADVANCES TO CUSTOMERS AND ASSET QUALITY – ONGOING BUSINESS

£'000	31 March 2016	31 March 2015*
Gross core loans and advances to customers	**7 220 129**	**6 352 643**
Total impairments	**(21 838)**	**(12 391)**
Specific impairments	(20 838)	(11 391)
Portfolio impairments	(1 000)	(1 000)
Net core loans and advances to customers	**7 198 291**	**6 340 252**
Average gross core loans and advances to customers	6 786 386	5 849 289
Total income statement charge for impairments on core loans and advances	**(17 806)**	**(7 241)**
Gross default loans and advances to customers	49 795	38 843
Specific impairments	(20 838)	(11 391)
Portfolio impairments	(1 000)	(1 000)
Defaults net of impairments before collateral held	**27 957**	**26 452**
Collateral and other credit enhancements	34 777	28 736
Net default loans and advances to customers (limited to zero)	**–**	**–**
Ratios:		
Total impairments as a % of gross core loans and advances to customers	0.30%	0.20%
Total impairments as a % of gross default loans	43.86%	31.90%
Gross defaults as a % of gross core loans and advances to customers	0.69%	0.61%
Defaults (net of impairments) as a % of net core loans and advances to customers	0.39%	0.42%
Net defaults as a % of net core loans and advances to customers	–	–
Credit loss ratio (i.e. income statement impairment charge on core loans as a % of average gross core loans and advances)	0.26%	0.12%

* *The 31 March 2015 disclosures have been adjusted to reflect the allocation of the portfolio impairment to the legacy portfolio.*

A RECONCILIATION OF CORE LOANS AND ADVANCES: STATUTORY BASIS AND ONGOING BASIS

	Removal of**		
£'000	Statutory as disclosed^	UK legacy business excluding sale assets	Ongoing business
31 March 2016			
Gross core loans and advances to customers	7 924 577	704 448	7 220 129
Total impairments	(143 191)	(121 353)	(21 838)
Specific impairments	(121 791)	(100 953)	(20 838)
Portfolio impairments	(21 400)	(20 400)	(1 000)
Net core loans and advances to customers	**7 781 386**	**583 095**	**7 198 291**
31 March 2015			
Gross core loans and advances to customers	7 224 134	871 491	6 352 643
Total impairments	(188 444)	(176 053)	(12 391)
Specific impairments	(154 262)	(142 871)	(11 391)
Portfolio impairments	(34 182)	(33 182)	(1 000)
Net core loans and advances to customers	**7 035 690**	**695 438**	**6 340 252**

^ *Refer to page 60.*

** *The remaining legacy business.*

Legacy business in the UK Specialist Bank

The legacy business in the UK Specialist Bank comprises:

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

LEGACY BUSINESS – OVERVIEW OF RESULTS

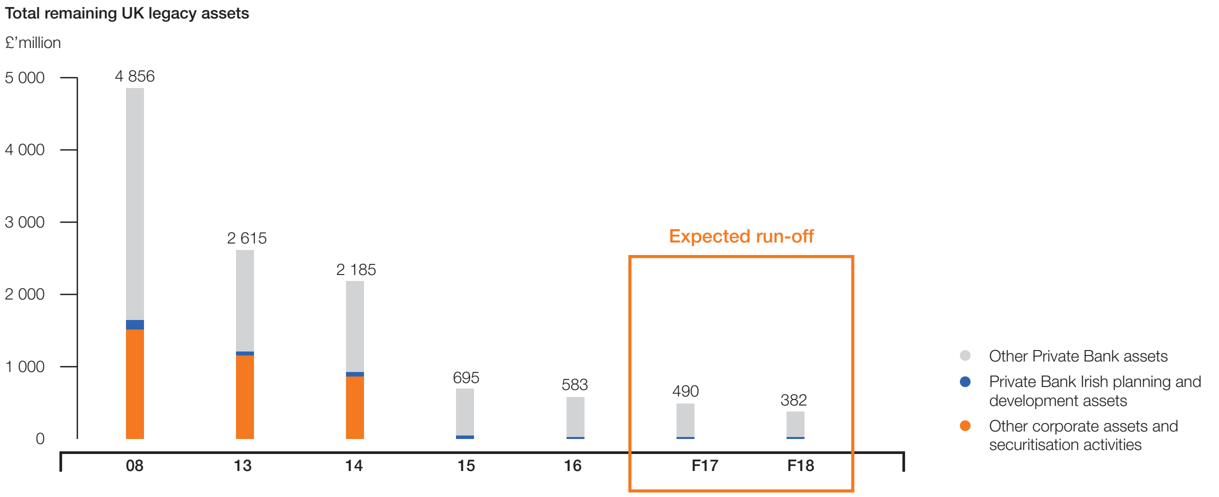
Since 31 March 2015 the legacy portfolio has continued to be actively managed down from £695 million to £583 million largely through redemptions and write-offs. The legacy business over the year reported a loss before taxation of £74.0 million (2015: £107.7 million). The remaining legacy portfolio will continue to be managed down as the group sees opportunities to clear the portfolio. Management believes that the remaining legacy book will take a further two to four years to clear. Total net defaults in the legacy book amount to £143 million (31 March 2015: £185 million).

An analysis of assets within the legacy business

	31 March 2016		31 March 2015	
£'million	Total net assets (after impairments)	Total balance sheet impairment	Total net assets (after impairments)	Total balance sheet impairment
Private Bank Irish planning and development assets	23	14	47	50
Other Private Bank assets	560	107	648	126
Total other legacy assets	**583**	**121**	**695**	**176**
Performing	440	–	510	–
Non-performing*	143	121*	185	176*

* *Included in balance sheet impairments is a group portfolio impairment of £20.4 million (31 March 2015: £33.2 million). The 31 March 2015 disclosures have been adjusted to reflect the allocation of this portfolio impairment to the legacy portfolio.*

EXPECTED RUN-OFF OF LEGACY ASSETS



QUESTIONS and answers

Steve Elliott
GLOBAL HEAD

> WEALTH & INVESTMENT

Can you give us an overview of the market environment in which you have operated over the past financial year?

The year ended 31 March 2016 was a challenging one for the global financial markets. 2015/16 was characterised by weak global growth, a declining oil price, inflationary and deflationary concerns, unpredictability around interest rate trajectories, and not least geopolitical uncertainty in our regions and the world.

Refer to pages 16 to 20 for further information.

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

Our drive to enhance the digital aspects of our offering to clients remains a key feature for the business currently. The substantial task of building our digital channel (Investec Click & Invest), which will provide a discretionary investment management service based on the concept of simplified advice, and was announced in the previous financial year, is continuing to make good progress.

We are looking forward to the launch of this new offering which will supplement our core investment management service and reach out to individuals who may not otherwise have formed part of our traditional client base. Enhancements to the digital aspects of our core offering also remain very much in focus as we seek to ensure that our bespoke services meet the varying needs of all of our clients now and in the future.

As we build and enhance our core services in an increasingly competitive and regulated marketplace, it is right that we look to review those areas of our business which do not form part of our central offering.

During the year, we have completed or have commenced the discontinuation of a number of small non-core elements of our UK offering. These include the disposal of the UK's small fund management operation and certain specialist investment services, which were acquired in 2012 as part of the wider Williams de Broë business, along with Venture Capital Trust management services.

The level of regulatory pressure remains high in the UK marketplace for investment management businesses and consolidation in the sector continues. We have maintained our appetite to pursue opportunities to recruit experienced investment managers who are attracted by the strength of our offering, where they share our culture and values and have the ability to contribute to the future success of the business.

We remain focused on delivering the high standards of client service on which our strategy for organic growth is built, along with increasing the appeal of our services to a wider potential client base through initiatives such as our Private Office service and coordination of our services with those of the Investec Private Bank.

What are your strategic objectives in the coming financial year?

Reaching key milestones in the development and launch of our digital offering remains a key objective for the forthcoming financial year as we move closer to the launch of the Click & Invest service.

The business remains committed to the development and expansion of its financial planning capability and we continue to see this as a key and increasingly important part of our service, as the complexity of the personal financial world continues to increase.

Broadening our international presence in a measured and evolutionary way is something we are continuing to prioritise. The launch of our Asian operation hosted by the group's existing Hong Kong presence has now been completed and we look forward to achieving measured growth in this new offering over the coming year. The initial focus will be on the expatriate market via professional advisors; over time we look to broaden both our offering and client base. We also remain committed to our internationalisation programme with Switzerland as one of the service centres for our international clients.

The Wealth & Investment team in Dublin is integrated within the global investment process to ensure that we can meet the requirements of clients in a growing Irish economy. We continue to expand our regional presence in Ireland, with our operations represented at the Investec Cork offices launched during February 2016.

The continued success of our core business is built on achieving and maintaining high and consistent standards of client service, supported by a robust and well-resourced research capability and investment process. Our strategic priorities for the forthcoming financial year include initiatives which focus on the continuous development of these important areas.

The past financial year has been marked by a period of turbulence in the financial markets. We have built a business that has proved its resilience to adverse conditions in the past and we remain focused on those aspects of our business which drive and maintain us throughout periods of increased uncertainty.

What is your outlook for the coming financial year?

We continue to be mindful of the risk factors which remain in the global and domestic economies.

We are however confident in our strategy to invest for the future success of the business while remaining focused on the resilience of our business model to provide the balance that will optimise the performance of the business, over both the short and longer terms, while continuing to ensure that we deliver the most suitable client outcomes.

QUESTIONS and answers

David van der Walt
Ciaran Whelan

GLOBAL BUSINESS LEADERS

> SPECIALIST BANKING

Can you give us an overview of the market environment in which you have operated over the past financial year?

The year ended 31 March 2016 was a challenging one for the global financial markets. 2015/16 was characterised by weak global growth, a declining oil price, inflationary and deflationary concerns, unpredictability around interest rate trajectories, and not least geopolitical uncertainty in our regions and the world.

Refer to pages 16 to 20 for further information.

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

Notwithstanding the volatile markets, the Specialist Bank enjoyed high levels of activity and had a solid performance across the board.

Asset growth was well spread with no concentrations in any particular area. Overall property exposure reduced as a percentage of our book in line with our plans and the legacy book continued to reduce ahead of plan.

Although M&A activity was down on a relative basis, we were ranked number one in the mid-cap market for the number of deals and number four by value. In addition, we received a number of awards recognising our performance in the FX, structured products, asset finance and corporate lending businesses.

A number of credit rating agency upgrades were given in recognition of our good progress.

The Private Banking division continued to make progress in building its UK franchise and developing its client base. We have changed our target market to focus on high net worth and high-income earners rather than a more general focus on professionals. We strengthened our direct and intermediary business channels, which resulted in record levels of new mortgage originations and acquisition of high net worth private clients.

The structured property finance business continued to successfully support selected high net worth seasoned property investors and developers. Transaction volumes remained healthy and a number of joint venture projects were successfully concluded.

What are your strategic objectives in the coming financial year?

We will continue with our existing strategy of building and developing our client franchises with the primary focus on entrepreneurs, corporates and high net worth clients. The focus is on growing the client base and ensuring continued high levels of service to existing clients across our offering.

We will continue building out the infrastructure required to ensure our technology and digital offering matches the high standards of service we are targeting. In line with our ambition to grow the client base, we will be investing in various marketing strategies to ensure we reach our prospective clients.

What is your outlook for the coming financial year?

The environment remains very volatile for both macro-economic and political reasons. Despite this, we are continuing to meet our objectives and if the status quo continues, we would expect to see good top line growth, which is to some extent offset by the investment in building out the private banking franchise.

In the event of a Brexit or failure of economic policy we would expect to see a significant slowdown in activity which would impact results negatively.

How do you incorporate environmental, social and governance (ESG) considerations into your business?

We continue to focus on developing our people and investing in our communities and the environment, receiving a number of awards for our efforts in the past year. We are a finalist in the Business Charity Awards 2016 for community impact for our partnership with the Bromley by Bow Beyond Business incubator. With our support, the programme has launched over 60 new social enterprise businesses creating over 330 new jobs and generating combined annual turnover of over £5 million. We have also been highly commended on the Business Charity Awards Partnership (Financial Services) and Community Impact categories for the Beyond Business programme. Our 2 Gresham Street office won our ninth platinum award for our waste management in the City of London Corporation's Clean City Award Scheme.

We continue to raise awareness around environmental concerns with staff through Team Green which was extended to 17 of our 19 offices in the UK as well as our Dublin office. Further, volunteerism remains core to our values and community efforts, and through employees' ongoing support of the Amherst School initiative we have volunteered over 50 days per year consistently for the past six years amounting to approximately 2 100 hours overall.

Three

Risk management and
corporate governance

Group Risk Management objectives are to:

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

Overview of disclosure requirements

Risk disclosures provided in line with the requirements of International Financial Reporting Standard 7 Financial Instruments: Disclosures (IFRS 7) and disclosures on capital required by International Accounting Standard 1 Presentation of Financial Statements (IAS 1) are included in this section of the annual report on pages 41 to 108 with further disclosures provided in the annual financial statements section on pages 137 to 256.

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

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

The risk disclosures comprise the majority of the bank's Pillar III disclosures as required under the Capital Requirements Regulation pertaining to banks in the UK.

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

PHILOSOPHY AND APPROACH TO RISK MANAGEMENT

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

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

Risk awareness, control and compliance are embedded in all our day-to-day activities. We seek to achieve an appropriate balance between risk and reward, taking cognisance of all stakeholders' interests. A strong risk and capital management culture is embedded into our values.

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

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

Group Risk Management operates within an integrated geographical and divisional structure, in line with our management approach, ensuring that the appropriate processes are used to address all risks across the group. There are specialist divisions in the UK and smaller risk divisions in other regions tasked with promoting sound risk management practices.

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

We believe that the risk management systems and processes we have in place are adequate to support the group's strategy and allow the group to operate within its risk appetite tolerance as set out on page 42.

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

Executive management is intimately involved in ensuring stringent management of risk, liquidity, capital and conduct. We continue to seek to achieve an appropriate balance between risk and reward in our business, taking cognisance of all stakeholders' interests.

Notwithstanding a challenging and uncertain environment experienced the bank was able to maintain sound risk metrics throughout the year in review. The bank remained within the majority of its risk appetite limits/targets across the various risk disciplines with any exceptions noted and approved by the board. Our risk appetite framework as set out on page 42 continues to be assessed in light of prevailing market conditions and group strategy.

Our credit exposures are to a select target market comprising high-income and high net worth individuals, established corporates, and medium-sized enterprises. Our risk appetite continues to favour lower risk, income-based lending, with exposures well collateralised and credit risk taken over a short to medium term. These target clients have remained active during the financial year, and have displayed a level of resilience, seeking out opportunities, despite the volatility in the markets.

Net core loans and advances grew by 10.6% from £7.0 billion at 31 March 2015 to £7.8 billion at 31 March 2016, largely as a result of solid growth in our diversified corporate lending and high net worth and other private client lending activities.

Our core loan book remains well diversified with commercial rent producing property loans comprising approximately 14% of the book, other lending collateralised by property 14%, high net worth and private client lending 18% and corporate lending 54% (with most industry concentrations well below 5%). Our focus over the past few years to realign and rebalance our portfolios in line with our risk appetite framework is reflected in the relative changes in asset classes on our balance sheet, showing an increase in private client and corporate and other lending and a reduction in lending collateralised by property as a proportion of our book.

Our legacy portfolio has been actively managed down from £695 million at 31 March 2015 to £583 million largely through redemptions and write-offs (notably on the Irish portfolio).

We will continue to manage this portfolio down, although we remain cautiously optimistic in this regard and our view is that the remaining legacy book will still take two to four years to clear as explained in detail on page 34.

Impairments on loans and advances decreased from £102.1 million to £84.2 million. The credit loss ratio improved during the year to 1.13% with the bulk of impairments taken on the legacy portfolio. Our credit losses on our 'ongoing' book remain low at 0.26%. Since 31 March 2015 gross defaults have improved from £400.1 million to £313.9 million. The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounted to 2.19% (2015: 3.01%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.19 times (2015: 1.33 times).

Our investment portfolios delivered a sound performance. Overall, we remain comfortable with the performance of our equity investment portfolios which comprise 3.42% of total assets.

Proprietary market risk within our trading portfolio remains modest with value at risk and stress testing scenarios remaining at prudent levels. Potential losses that could arise in our trading book portfolio when stress tested under extreme market conditions (i.e. per extreme value theory) amount to approximately 0.2% of total operating income.

The bank 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 4.1 times. Our current leverage ratio is at 7.5%.

We have always held capital in excess of regulatory requirements and we intend to perpetuate this philosophy. We meet our current internal targets for total capital adequacy and our common equity tier 1 ratio to be in excess of 10%. Our capital ratios did decline somewhat over the period as a result of solid growth in credit risk-weighted assets during the year. Capital continued to grow and we are comfortable that credit growth is in line with our risk appetite framework and supported by sound risk metrics. We believe that a common equity tier 1 ratio in excess of 10% is appropriate for our business, given our high leverage ratios and we will continue to build our business in a manner that achieves this target.

Holding a high level of readily available, high-quality liquid assets remains paramount in the management of our balance sheet. We continue to maintain a low reliance on interbank wholesale funding to fund core lending asset growth. Cash and near cash balances amounted to £5.0 billion at year end, representing 45.7% of customer deposits.

Our strategy to normalise balance sheet liquidity levels following the strategic sales in the last quarter of the previous financial year was achieved by mid-year through a combination of asset growth and liability management. Our loan to deposit ratio is at 70.5%. Our weighted average cost of funding over the year continued to decrease and we comfortably meet Basel liquidity requirements for the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

We continue to spend much time and effort focusing on operational, reputational, conduct, recovery and resolution risks. During the year a customer and market conduct committee was established, with the objective of ensuring that Investec maintains a client-focused and fair outcomes-based culture.

Financial and cybercrime remain high priorities, and Investec continually aims to strengthen its systems and controls in order to meet its regulatory obligations to combat money laundering, bribery and corruption.

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

During the year, Investec continued to enhance its stress testing framework. Given the volatility and uncertainty in the market, a number of new stress scenarios were incorporated into our processes, included in these, for example, was 'Brexit'.

The board, through its various risk and capital committees, continued to assess the impact of its principal risks and the abovementioned stress scenarios on its business. The board has concluded that the group has robust systems and processes in place to manage these risks, and that while under a severe stress scenario, business activity would be very subdued, the group would continue to maintain adequate liquidity and capital balances to support the continued operation of the group. Our viability statement is provided in volume one of Investec's 2016 integrated annual report on pages 121 to 123.

We were very pleased to receive a number of credit rating upgrades during the period. We believe these rating upgrades are a reflection of the progress we have made over the past few years in simplifying and derisking our business, maintaining sound capital and high liquidity ratios, and managing credit risk metrics at tolerable levels.

CONCLUSION

The current regulatory and economic environment continues to prove challenging to our business, however, we are comfortable that we have robust risk management processes and systems in place which provide a strong foundation to the board and the business to manage and mitigate risks within our risk appetite tolerance framework.

Signed on behalf of the board

Stephen Koseff
Chairman of the Investec DLC group risk and capital committee

15 June 2016

Salient features

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

Year to 31 March	2016	2015
Net core loans and advances (£'million)	7 781	7 036
Total assets (£'million)	18 335	17 943
Total risk-weighted assets (£'million)	11 738	10 967
Total equity (£'million)	1 843	1 801
Cash and near cash (£'million)	5 046	5 011
Customer accounts (deposits) (£'million)	11 038	10 580
Gross defaults as a % of gross core loans and advances	3.96%	5.54%
Defaults (net of impairments) as a % of net core loans and advances	2.19%	3.01%
Net defaults (after collateral and impairments) as a % of net core loans and advances	–	–
Credit loss ratio*	1.13%	1.16%
Structured credit as a % of total assets	1.94%	1.95%
Banking book investment and equity risk exposures as a % of total assets	3.42%	3.50%
Level 3 (fair value assets) as a % of total assets	3.55%	4.40%
Traded market risk: one-day value at risk (£'million)	0.5	0.7
Core loans to equity ratio	4.1x	3.9x
Total gearing ratio**	9.9x	10.0x
Loans and advances to customers to customer deposits	70.5%	66.5%
Capital adequacy ratio°	17.0%	17.5%
Tier 1 ratio°	11.9%	12.1%
Common equity tier 1 ratio°	11.9%	12.1%
Leverage ratio°	7.5%	7.5%
Return on average assets#	0.61%	0.41%
Return on average risk-weighted assets#	0.98%	0.67%

* *Income statement impairment charge on core loans as a percentage of average advances.*
** *Total assets to total equity.*
° *Takes into account the deduction of foreseeable dividends as discussed on page 103.*
Where return represents operating profit after tax and non-controlling interests but before goodwill, acquired intangibles and non-operating items. Average balances are calculated on a straight-line average.

Overall group risk appetite

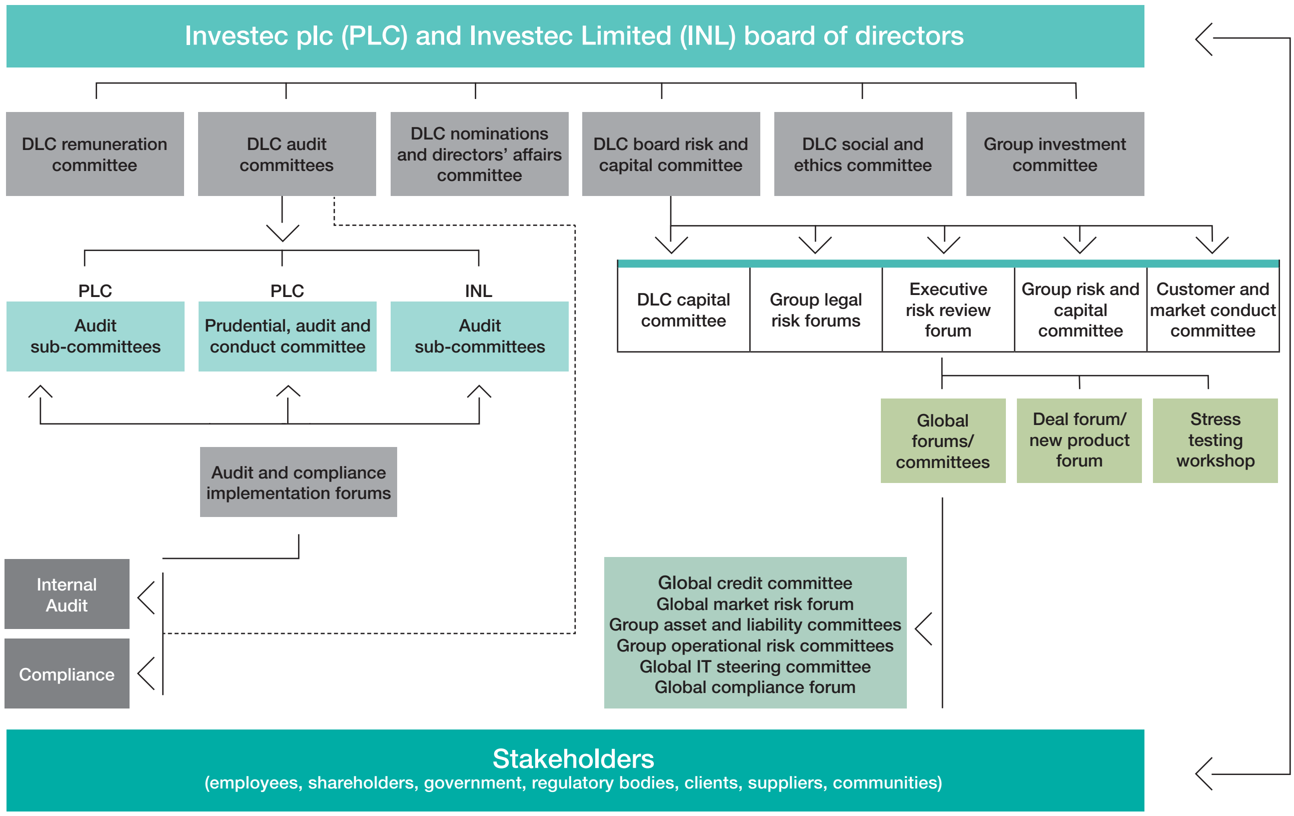
The group has a number of board-approved risk appetite statements and policy documents covering our risk tolerance and approach to our principal aspects of risk. In addition, a number of committees and forums identify and manage risk at a group level. The group risk appetite statement and framework sets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

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

INVESTEC BANK PLC RISK APPETITE AND TOLERANCE METRICS	INVESTEC BANK PLC POSITIONING AT 31 MARCH 2016
• We seek to maintain an appropriate balance between revenue earned from capital light and capital intensive activities. Ideally the split in revenue should be 50:50, dependent on prevailing market conditions	Capital light activities contributed 51% to total operating income and capital intensive activities contributed 49%
• We have a solid recurring income base supported by diversified revenue streams, and target a recurring income ratio in excess of 65%	Recurring income amounted to 61.7% of total operating income
• We seek to maintain strict control over fixed costs and target a group cost to income ratio of below 70%	The cost to income ratio amounted to 73.3%
• We aim to build a sustainable business generating sufficient return to shareholders over the longer term. The Investec group targets a long-term return on equity ratio range of between 12% and 16%, and a return on risk-weighted assets in excess of 1.2%	The Investec group's return on equity amounted to 11.5% and its return on risk-weighted assets amounted to 1.34%
• We are a lowly leveraged firm and target a leverage ratio in all our banking subsidiaries in excess of 6%	We achieved these internal targets. Refer to page 105 for further information
• We intend to maintain a sufficient level of capital to satisfy regulatory requirements and our internal target ratios. We target a capital adequacy ratio range of between 14% and 17% on a consolidated basis, a minimum tier 1 ratio of 11.0% and a common equity tier 1 ratio above 10.0%	We achieved this internal target. Refer to page 105 for further information
• We target a diversified loan portfolio, lending to clients we know and understand. We limit our exposure to a single/connected individual or company to 7.5% of common equity tier 1 capital (up to 10% if approved by the relevant board committee). We also have a number of risk tolerance limits and targets for specific asset classes	We maintained this risk tolerance level in place throughout the year
• There is a preference for primary exposure in Investec Bank plc's main operating geography (i.e. the UK). We will accept exposures where we have a branch or local banking subsidiary and tolerate exposures to other countries where we have developed a local understanding and capability or we are facilitating a transaction for a client who requires facilities in a foreign geography	Refer to page 68 for further information
• The level of defaults and impairments continues to improve and we target a credit loss charge on core loans of less than 0.5% of average core advances (less than 1.75% under a weak economic environment/stressed scenario), and we target defaults net of impairments less than 2% of total core loans (less than 4% under a weak economic environment/stressed scenario)	The credit loss charge on core loans amounted to 1.13% and defaults net of impairments amounted to 2.19% of total core loans. Refer to page 60 for further information
• We carry a high level of liquidity in all our banking subsidiaries in order to be able to cope with shocks to the system, targeting a minimum cash to customer deposit ratio of 25%	Total cash and near cash balances amounted to £5.0 billion representing 45.7% of customer deposits. Refer to page 82 for further information
• We have modest market risk as our trading activities primarily focus on supporting client activity and our appetite for proprietary trading is limited. We set an overall tolerance level of a one-day 95% VaR of less than £5 million	We meet these internal limits. Refer to page 76 for further information
• We have moderate appetite for investment risk, and set a risk tolerance of less than 27.5% of tier 1 capital for our unlisted principal investment portfolio	Our unlisted investment portfolio is £332 million, representing 23.2% of tier 1 capital. Refer to page 72 for further information
• Our operational risk management team focuses on improving business performance and compliance with regulatory requirements through review, challenge and escalation	Refer to pages 89 to 92 for further information
• We have a number of policies and practices in place to mitigate reputational, legal and conduct risks	Refer to pages 92 to 94 for further information

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 Group Risk Management and are mandated by the board.



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

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

Independent credit committees manage, measure and mitigate credit and counterparty risk

An overview of principal risks

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

These principal risks have been highlighted on page 21.

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.

Credit and counterparty risk management

CREDIT AND COUNTERPARTY RISK DESCRIPTION

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

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

- Lending transactions through loans and advances to clients and counterparties creates the risk that an obligor will be unable or unwilling to repay capital and/or interest on loans and advances granted to them. This category includes bank placements, where we have placed funds with other financial institutions
- Issuer risk on financial instruments where payments due from the issuer of a financial instrument will 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. Our definition of a settlement debtor is a short-term receivable (i.e. less than two days) which is excluded from credit and counterparty risk due to market guaranteed settlement mechanisms
  – Replacement risk is the financial cost of having to enter into a replacement contract with an alternative market counterparty, following default by the original counterparty.

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

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

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

- Preference is to have exposure only to politically stable jurisdictions that we understand and have preferably operated in before
- There is no specific appetite for exposures outside of the group's pre-existing core geographies or product 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 local and global credit committees as well as investment committees and ERRF will consider, analyse and assess the appropriate limits to be recorded when required, to assume exposure to foreign jurisdictions. The local group credit committee has the authority to approve country limits within mandate. The global credit committee, global investment committee or ERRF is responsible for approving country limits that are not within the mandate of local group credit committees.

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

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

CREDIT AND COUNTERPARTY RISK GOVERNANCE STRUCTURE

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

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

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

CREDIT AND COUNTERPARTY RISK APPETITE

There is a preference for primary exposure in the group's main operating geographies (i.e. the UK). The group will accept exposures where we have a branch or local banking subsidiary (as explained above).

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

We have little appetite for unsecured debt and require good quality collateral in support of obligations (refer to page 69 for further information).

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 must have scale and relevance in their market, an experienced management team, able board members, strong earnings and cash flow.

We are client-centric in our approach and originate loans with the intent of holding these assets to maturity, thereby developing a 'hands-on' and long-standing relationship. Where we originate loans that are considered too large for our balance sheet, these may be sold down to mitigate our concentration risk.

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

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

CONCENTRATION RISK

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

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

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

RISK APPETITE

The board has set a group risk appetite limit framework which regulates the maximum exposures we would be comfortable to tolerate in order to diversify and mitigate risk. This limit framework is monitored on an ongoing basis and reported to the GRCC and BRCC 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.

SUSTAINABILITY CONSIDERATIONS

Investec has a holistic approach to sustainability, which runs beyond recognising our own footprint on the environment and includes our many corporate social investment activities and our funding and investing activities. This is not merely for business reasons, but based on a broader responsibility to our environment and society. Accordingly, sustainability risk considerations are considered by the credit committee and investment committee when making lending or investment decisions. There is also oversight by the social and ethics committee (board committee) on social and environmental issues. In particular the following factors are taken into account when a transaction might be approved or declined based on the outcome of the sustainability considerations:

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

Refer to our sustainability report on our website.

MANAGEMENT AND MEASUREMENT OF CREDIT AND COUNTERPARTY RISK

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

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

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

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

A large proportion of the bank'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 as support in our decision-making process. Within the credit approval process, internal and external ratings are included in the assessment of the client quality.

Internal credit rating models continue to be developed to cover all material asset classes. The internal ratings are incorporated in the risk management and decision-making process and are used in credit assessment, monitoring and approval as well as pricing.

Exposures are classified to reflect the bank's risk appetite and strategy. In our Pillar III disclosure, exposures are classified according to the Basel asset classes which include sovereign, bank, corporate, retail, equity, securitisation and specialised lending (which is further categorised into project finance; commodities finance; high volatility commercial real estate; and income-producing commercial real estate).

Fitch, S&P and Moody's have been nominated as eligible external credit assessment institutions (ECAIs) for the purposes of determining external credit ratings. Due to the group reducing its securitisation activity as a result of the disposal of the Kensington business in January 2015, the group will no longer rely on DBRS credit assessments in respect of sovereign and securitisation exposures. The following elections have been made:

- In relation to sovereigns and securitisations, Fitch, Moody's and S&P have been selected by Investec as eligible ECAIs
- In relation to banks, corporates and debt securities, Fitch, Moody's and S&P are recognised as eligible ECAIs
- If two assessments are available, the more conservative will apply
- Where there are three or more credit ratings with different risk weightings, the credit ratings corresponding to the two lowest ratings should be referred to and the higher of those two ratings should be applied.

The group applies the standardised approach for calculating capital requirements in the assessment of its credit and counterparty exposures. The group's banking subsidiaries conduct their mapping of credit and counterparty exposures in accordance with the mapping procedures specified by the Central Bank Registrar, in the respective geographies in which the group operates.

STRESS TESTING AND PORTFOLIO MANAGEMENT

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

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

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

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

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

CREDIT AND COUNTERPARTY RISK – NATURE OF LENDING ACTIVITIES

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

Lending collateralised by property

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

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

An analysis of the lending collateralised by property portfolio and asset quality information is provided on pages 66 and 67.

Private client activities

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

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

Credit risk arises from the following activities:

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

An analysis of the private client loan portfolio and asset quality information is provided on pages 66 and 67.

Corporate client activities

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

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

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

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

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

- **Corporate Loans:** provides senior secured loans to mid to large cap companies. Credit risk is assessed against debt service coverage from the robustness of the cash generation for the business based on historic and forecast information. We typically act as transaction lead or arranger, and have a close relationship with management and the sponsor.
- **Corporate Debt Securities:** these are tradable corporate debt instruments, purchased based on acceptable credit fundamentals typically with a medium-term hold strategy where the underlying risk is to UK and European corporates. This is a highly diversified, granular portfolio that is robust and spread across a variety of geographies and industries.
- **Acquisition Finance:** provides debt funding to proven management teams, running small to mid-cap sized companies. Credit risk is assessed against debt service coverage from the robustness of the cash generation of the business. This will be based on historic and forecast information. We typically lend on a bilateral basis and benefit from a close relationship with management.
- **Asset-based Lending:** provides working capital and corporate loans secured by mid-caps. These loans are secured on the assets of the business, e.g. the accounts receivable, inventory, plant and machinery. In common with our corporate lending activities, strong emphasis is placed on backing companies with scale and relevance to their industry, stability of cash flow, and experienced management.
- **Fund Finance:** provides debt facilities to asset managers and fund vehicles, principally in private equity and credit asset classes. The geographical focus is the UK, Western Europe, North America and Australia where Investec can support experienced asset managers and their funds which show strong, long-term value creation and good custodianship of investors' money. Debt facilities to fund vehicles are secured against undrawn limited partner commitments and/or the funds underlying assets. Fund manager loans are structured against committed fund management cash flows and the managers' investment stake in their own funds.
- **Small Ticket Asset Finance:** provides highly diversified lending to small and medium-sized corporates to support asset purchases and other business requirements. These facilities

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

are secured against the asset being financed and are a direct obligation of the company.

- **Large Ticket Asset Finance:** provides the finance and structuring expertise for aircraft and larger lease assets, the majority of which are senior secured loans with a combination of corporate, cash flow and asset-backed collateral against the exposure.
- **Power and Infrastructure Finance:** arranges and provides typically long-term financing for infrastructure assets, in particular renewable power projects and transport, against contracted future cash flows of the project(s) from recognised utilities and power companies as well as the balance sheet of the corporate. There is a strong 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, North America and Australia. All facilities are secured by the borrower's assets and repaid from mining cash flows.
- **Structured Credit:** these are bonds secured against a pool of assets, typically UK residential mortgages or European or US corporate leverage loans. The bonds are mainly investment grade rated, which benefit from a high level of credit subordination and can withstand a significant level of portfolio defaults.
- **Treasury Placements:** the treasury function, as part of the daily management of the bank's liquidity, places funds with central banks and other commercial banks and financial institutions. These transactions are typically short term (less than one month) money market placements or secured repurchase agreements. These market counterparties are high investment grade rated entities that occupy dominant and systemic positions in their domestic banking markets. These counterparties are located in the UK, Western Europe and North America.
- **Corporate advisory and investment banking activities:** counterparty risk in this area is modest. The business also trades approved shares on an approved basis and makes markets in shares where we are appointed corporate broker under pre-agreed market risk limits. Settlement trades are largely on a delivery versus payment basis, through major stock exchanges. Credit risk only occurs in the event of counterparty failure and would be linked to any fair value losses on the underlying security.
- **Customer trading activities to facilitate client lending:** our customer trading portfolio consists of derivative contracts in interest rates, foreign exchange, commodities, credit derivatives and equities that are entered to facilitate a client's hedging requirements. The counterparties to such transactions are typically corporates, in particular where they have a sizeable exposure to foreign exchange due to operating in sectors that include imports and exports of goods and services. These positions are marked to market, typically with daily margin calls to mitigate credit exposure in the event of counterparty default.

An analysis of the corporate client loan portfolio and asset quality information is provided on pages 66 and 67.

Wealth & Investment

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

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

ASSET QUALITY ANALYSIS – CREDIT RISK CLASSIFICATION AND PROVISIONING POLICY

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

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

ASSET QUALITY ANALYSIS – CREDIT RISK CLASSIFICATION AND PROVISIONING POLICY *(continued)*

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

CREDIT RISK MITIGATION

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

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

An analysis of collateral is provided on page 69.

Where a transaction is supported by a mortgage or charge over property, the primary credit risk is still taken on the borrower. For property backed lending such as residential mortgages, the following characteristics of the property are considered: the type of property; its location; and the ease with which the property could be re-let and/or resold. Where the property is secured by lease agreements, the credit committee prefers not to lend for a term beyond the maximum 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.

Other common forms of collateral in the retail asset class are motor vehicles, cash and share portfolios. In addition, the relevant credit committee normally requires a suretyship or guarantee in support of a transaction in our private client business.

The second primary collateral in private client lending transactions is over a high net worth individual's 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 all market and trading counterparties in over-the-counter (OTC) derivatives, a Credit Support Annex (CSA) ensures that all 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.

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

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

Investec places minimal reliance on credit derivatives in its credit risk mitigation techniques. Periodically the bank will enter into Credit Default Swaps (CDS) in order to hedge a specific asset held or to create a more general or macro hedge against a group of exposures in one industry or geography. In these instances, the bank is deemed to be 'buying protection' against the assets. Depending on the perceived risk, or 'spread', of the underlying exposure, the CDS will fluctuate in value; increasing in value when the asset has become more risky and decreasing when risk has reduced. Occasionally, the bank will enter into trading/investment CDS positions where we buy protection or sell protection without owning the underlying asset. The total amount of net credit derivatives outstanding at 31 March 2016 amounts to £5.3 million, of which £3.3 million is used for credit mitigation purposes and the balance for trading and investment. Total protection bought amounts to £3.5 million (£3.5 million relating to credit derivatives used in credit mitigation) and total protection sold amounts to £1.8 million (£0.2 million relating to credit derivatives used in credit mitigation).

Further information on credit derivatives is provided on page 78.

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

For regulatory reporting purposes, exposures may be reduced by eligible collateral. Under the standardised approach credit risk mitigation can be achieved through either funded or unfunded credit protection. Where unfunded credit protection is relied upon for mitigation purposes, the exposure to the borrower is substituted with an exposure to the protection provider, after applying a 'haircut' to the value of the collateral due to currency and/or maturity mismatches between the original exposure and the collateral provided. Unfunded credit protection includes eligible guarantees and credit derivatives. Where we rely on funded protection in the form of financial collateral, the value of collateral is adjusted using the financial collateral comprehensive method. This method applies supervisory volatility adjustments to the value of the collateral, and includes the currency and maturity haircuts discussed above.

FORBEARANCE

Forbearance measures refer to concessions such as modification of the terms and conditions or refinancing that has been granted to a debtor in financial difficulties. These modifications are on terms that would be more advantageous compared with what other debtors with a similar risk profile could have obtained from the bank. The credit committee will assess each application to determine whether the proposed modifications will be considered as forbearance. Forbearance is distinguished from commercial renegotiations which take place as part of normal business activity and standard banking practice. The amount of loans forborne represents a negligible percentage of the overall loan portfolio in our UK book.

CREDIT AND COUNTERPARTY RISK YEAR IN REVIEW

We continue to realign and rebalance our portfolio in line with our stated risk appetite, which is reflected in the growth in corporate client exposures as a percentage of the portfolio and the decline in lending collateralised by property exposures as a percentage of the portfolio. Continued progress has been made during the year in our strategic portfolio rebalancing through active portfolio management and the consistent application of our risk appetite statement.

Lending collateralised by property has further reduced by 6.0% from £2.3 billion at 31 March 2015 to £2.2 billion at 31 March 2016; while corporate client and other lending has increased 15.8% from £3.7 billion at 31 March 2015 to £4.3 billion at 31 March 2016. High net worth and other private client lending increased by 21.2% year on year.

Net core loans and advances have increased by 10.6% to £7.8 billion at 31 March 2016 from £7.0 billion at 31 March 2015.

Gross defaults decreased by 21.5% or £86.2 million from £400.1 million at 31 March 2015 to £313.9 million at 31 March 2016. The credit loss ratio is at 1.13% (2015: 1.16%). Default loans (net of impairments) have decreased by 19.3% or £40.9 million on an absolute basis and decreased to 2.19% from 3.01% as a percentage of core loans and advances. The credit loss ratio on an ongoing basis is 0.26% at 31 March 2016. We have reported further impairments on the legacy portfolio as we took advantage of market conditions and accelerated the exit from certain Irish legacy assets.

The sections that follow provide high-level commentary for each of our key business areas. We are highly focused on further reducing legacy assets and continuing to originate good quality assets.

Lending collateralised by property

The overall exposure to property collateralised assets, as a proportion of our total loan exposures continues to reduce in line with our risk appetite statement. A large proportion of property collateralised assets are located in the UK. Notwithstanding the improved UK market and particularly in London, our underwriting criteria has remained tight and we remain committed to following a client-centric approach, backing counterparties with strong balance sheets and requisite expertise.

We continue to actively manage the legacy portfolio down, working assets to achieve optimal recovery but taking opportunistic offers on properties where appropriate.

Private client activities

The existing high net worth mortgage book has continued to grow significantly and is expected to continue in the short term as the bank moves to increase its private client offering, providing a more holistic private bank experience from transactional banking to wealth management.

Corporate client activities

Our corporate lending businesses have seen strong growth during the financial year under review. Growth in our corporate lending activities has been diversified across all our business lines, while ensuring that we maintain strong asset quality and adherence to our core credit philosophies.

Performance of the corporate portfolio, including Small Ticket Asset finance, Large Ticket Asset finance, Power and Infrastructure finance and Fund finance, has remained sound during the financial year 2016, with the markets seeing lending activity levels increase, bolstered by strong private equity sponsor appetite for assets. Underlying asset cover quality is good, and portfolios remain well diversified by borrower, sector and geography, albeit with a natural skew towards the UK.

Credit and counterparty risk information

Pages 41 to 52 describe where and how credit risk is assumed in our operations.

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

AN ANALYSIS OF GROSS CREDIT AND COUNTERPARTY EXPOSURES

Credit and counterparty exposures increased by 7.2% to £16.9 billion largely due to growth in loans and advances to customers. Cash and near cash balances amount to £5.0 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.

At 31 March £'000	2016	2015	% change	Average*
Cash and balances at central banks	2 636 837	2 179 822	21.0%	2 408 330
Loans and advances to banks	935 071	828 726	12.8%	881 899
Reverse repurchase agreements and cash collateral on securities borrowed	557 025	1 448 205	(61.5%)	1 002 615
Sovereign debt securities	1 252 991	1 212 910	3.3%	1 232 951
Bank debt securities	188 397	226 273	(16.7%)	207 335
Other debt securities	393 652	221 480	77.7%	307 566
Derivative financial instruments	572 324	516 034	10.9%	544 179
Securities arising from trading activities	393 964	513 673	(23.3%)	453 819
Loans and advances to customers (gross)	7 924 577	7 224 134	9.7%	7 574 356
Other loans and advances (gross)	331 617	393 353	(15.7%)	362 485
Other securitised assets (gross)	11 341	51 223	(77.9%)	31 282
Other assets	397 409	55 383	> 100%	226 396
Total on-balance sheet exposures	**15 595 205**	**14 871 216**	**4.9%**	**15 233 211**
Guarantees^	68 938	31 664	> 100%	50 301
Contingent liabilities, committed facilities and other	1 203 323	831 179	44.8%	1 017 251
Total off-balance sheet exposures	**1 272 261**	**862 843**	**47.4%**	**1 067 552**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**16 867 466**	**15 734 059**	**7.2%**	**16 300 763**

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

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

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

£'000	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note reference	Total balance sheet
At 31 March 2016				
Cash and balances at central banks	2 636 837	1 227		2 638 064
Loans and advances to banks	935 071	–		935 071
Reverse repurchase agreements and cash collateral on securities borrowed	557 025	–		557 025
Sovereign debt securities	1 252 991	–		1 252 991
Bank debt securities	188 397	–		188 397
Other debt securities	393 652	9 869		403 521
Derivative financial instruments	572 324	270 612		842 936
Securities arising from trading activities	393 964	130 380		524 344
Investment portfolio	–	419 861	1	419 861
Loans and advances to customers	7 924 577	(143 191)	2	7 781 386
Other loans and advances	331 617	245 967	3	577 584
Other securitised assets	11 341	139 224	4	150 565
Interest in associated undertakings	–	17 446		17 446
Deferred taxation assets	–	71 563		71 563
Other assets	397 409	1 055 641	5	1 453 050
Property and equipment	–	53 042		53 042
Investment properties	–	79 051		79 051
Goodwill	–	261 804		261 804
Intangible assets	–	126 867		126 867
Total on-balance sheet exposures	**15 595 205**	**2 739 363**		**18 334 568**

1. *Relates to exposures that are classified as equity risk in the banking book. Further information is provided on pages 70 to 72.*
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 of these assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicles that the group has reflected in the 'total credit and counterparty exposure' with the maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'.*
5. *Other assets include settlement debtors which we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

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

£'000	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note refer-ence	Total balance sheet
At 31 March 2015				
Cash and balances at central banks	2 179 822	1 410		2 181 232
Loans and advances to banks	828 726	–		828 726
Reverse repurchase agreements and cash collateral on securities borrowed	1 448 205	–		1 448 205
Sovereign debt securities	1 212 910	–		1 212 910
Bank debt securities	226 273	–		226 273
Other debt securities	221 480	1 005		222 485
Derivative financial instruments	516 034	289 852		805 886
Securities arising from trading activities	513 673	156 625		670 298
Investment portfolio	–	400 800	1	400 800
Loans and advances to customers	7 224 134	(188 444)	2	7 035 690
Other loans and advances	393 353	382 952	3	776 305
Other securitised assets	51 223	360 760	4	411 983
Interest in associated undertakings	–	16 297		16 297
Deferred taxation assets	–	66 249		66 249
Other assets	55 383	1 057 753	5	1 113 136
Property and equipment	–	60 316		60 316
Investment properties	–	65 736		65 736
Goodwill	–	260 900		260 900
Intangible assets	–	140 042		140 042
Total on-balance sheet exposures	**14 871 216**	**3 072 253**		**17 943 469**

1. *Relates to exposures that are classified as equity risk in the banking book. Further information is provided on pages 70 to 72.*
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 of these assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicles that the group has reflected in the 'total credit and counterparty exposure' with the maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'.*
5. *Other assets include settlement debtors which we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

Detailed analysis of gross credit and counterparty exposures by industry

£'000	High net worth and other professional individuals	Lending collateralised by property – largely to private clients	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business service	Finance and insurance
At 31 March 2016							
Cash and balances at central banks	–	–	–	–	2 636 837	–	–
Loans and advances to banks	–	–	–	–	–	–	935 071
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	–	–	557 025
Sovereign debt securities	–	–	–	–	1 252 991	–	–
Bank debt securities	–	–	–	–	–	–	188 397
Other debt securities	–	–	–	36 787	6 429	3 382	101 474
Derivative financial instruments	53	–	53	45 174	19 947	63 632	317 338
Securities arising from trading activities	–	–	–	24 606	198 181	–	156 639
Loans and advances to customers (gross)	1 458 552	2 179 999	3 234	440 728	134 917	415 673	971 773
Other loans and advances (gross)	–	–	–	–	–	–	130 952
Other securitised assets (gross)	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	–	397 409
Total on-balance sheet exposures	**1 458 605**	**2 179 999**	**3 287**	**547 295**	**4 249 302**	**482 687**	**3 756 078**
Guarantees^	36 494	–	–	–	–	–	30 155
Contingent liabilities, committed facilities and other	109 481	245 020	–	233 600	6 036	35 213	239 966
Total off-balance sheet exposures	**145 975**	**245 020**	**–**	**233 600**	**6 036**	**35 213**	**270 121**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**1 604 580**	**2 425 019**	**3 287**	**780 895**	**4 255 338**	**517 900**	**4 026 199**
At 31 March 2015							
Cash and balances at central banks	–	–	–	–	2 179 822	–	–
Loans and advances to banks	–	–	–	–	–	–	828 726
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	–	–	1 448 205
Sovereign debt securities	–	–	–	–	1 212 910	–	–
Bank debt securities	–	–	–	–	–	–	226 273
Other debt securities	–	–	–	3 935	7 396	3 474	103 486
Derivative financial instruments	3 084	–	–	27 827	–	24 675	304 498
Securities arising from trading activities	–	–	–	34 894	380 262	794	81 267
Loans and advances to customers (gross)	1 203 497	2 318 053	6 789	362 488	187 120	333 764	732 597
Other loans and advances (gross)	–	–	–	–	–	–	144 181
Other securitised assets (gross)	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	–	55 245
Total on-balance sheet exposures	**1 206 581**	**2 318 053**	**6 789**	**429 144**	**3 967 510**	**362 707**	**3 924 478**
Guarantees^	29 017	–	–	–	–	650	27
Contingent liabilities, committed facilities and other	77 227	193 955	–	155 654	17 165	31 149	89 493
Total off-balance sheet exposures	**106 244**	**193 955**	**–**	**155 654**	**17 165**	**31 799**	**89 520**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**1 312 825**	**2 512 008**	**6 789**	**584 798**	**3 984 675**	**394 506**	**4 013 998**

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

	Retailers and whole-salers	Manufac-turing and commerce	Construc-tion	Corporate commercial real estate	Other residential mortgages	Mining and resources	Leisure, entertain-ment and tourism	Transport	Com-munication	Total
	–	–	–	–	–	–	–	–	–	2 636 837
	–	–	–	–	–	–	–	–	–	935 071
	–	–	–	–	–	–	–	–	–	557 025
	–	–	–	–	–	–	–	–	–	1 252 991
	–	–	–	–	–	–	–	–	–	188 397
	–	29 581	–	–	106 246	65 939	4 017	26 914	12 883	393 652
	26 033	49 147	1 803	1 489	–	9 474	16 424	18 682	3 075	572 324
	35	1 738	–	781	–	–	1 093	2	10 889	393 964
	383 089	490 197	41 049	115 241	–	139 621	227 573	762 899	160 032	7 924 577
	–	–	–	85	200 580	–	–	–	–	331 617
	–	–	–	–	11 341	–	–	–	–	11 341
	–	–	–	–	–	–	–	–	–	397 409
	409 157	**570 663**	**42 852**	**117 596**	**318 167**	**215 034**	**249 107**	**808 497**	**186 879**	**15 595 205**
	605	–	–	–	–	1 684	–	–	–	68 938
	101 654	37 332	–	34 114	–	83 518	14 204	59 078	4 107	1 203 323
	102 259	**37 332**	**–**	**34 114**	**–**	**85 202**	**14 204**	**59 078**	**4 107**	**1 272 261**
	511 416	**607 995**	**42 852**	**151 710**	**318 167**	**300 236**	**263 311**	**867 575**	**190 986**	**16 867 466**
	–	–	–	–	–	–	–	–	–	2 179 822
	–	–	–	–	–	–	–	–	–	828 726
	–	–	–	–	–	–	–	–	–	1 448 205
	–	–	–	–	–	–	–	–	–	1 212 910
	–	–	–	–	–	–	–	–	–	226 273
	1 030	3 535	–	–	63 793	23 237	5 925	–	5 669	221 480
	44 136	28 948	8 853	730	–	25 517	13 489	16 445	17 832	516 034
	3 828	4 817	–	1 343	–	2 187	1 150	2	3 129	513 673
	375 195	462 507	62 500	104 740	–	192 082	97 214	688 852	96 736	7 224 134
	–	–	–	9 702	239 470	–	–	–	–	393 353
	–	–	–	–	51 223	–	–	–	–	51 223
	–	138	–	–	–	–	–	–	–	55 383
	424 189	**499 945**	**71 353**	**116 515**	**354 486**	**243 023**	**117 778**	**705 299**	**123 366**	**14 871 216**
	–	–	–	–	430	1 540	–	–	–	31 664
	36 372	32 476	16 855	208	–	34 996	13 327	126 641	5 661	831 179
	36 372	**32 476**	**16 855**	**208**	**430**	**36 536**	**13 327**	**126 641**	**5 661**	**862 843**
	460 561	**532 421**	**88 208**	**116 723**	**354 916**	**279 559**	**131 105**	**831 940**	**129 027**	**15 734 059**

Corporate client loans account for 54.1% of total gross core loans and advances, and are well diversified across various industry classifications

Summary analysis of gross credit and counterparty exposures by industry

A description of the type of corporate client lending we undertake, is provided on pages 47 and 48, and a more detailed analysis of the corporate client loan portfolio is provided on pages 66 and 67.

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

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

A description of the type of private client lending and lending collateralised by property we undertake is provided on page 47, and a more detailed analysis of the private client loan portfolio is provided on pages 66 and 67.

At 31 March £'000	Gross core loans and advances		Other credit and counterparty exposures		Total	
	2016	2015	2016	2015	2016	2015
High net worth and professional individuals	1 458 552	1 203 497	146 028	109 328	1 604 580	1 312 825
Lending collateralised by property – largely to private clients	2 179 999	2 318 053	245 020	193 955	2 425 019	2 512 008
Agriculture	3 234	6 789	53	–	3 287	6 789
Electricity, gas and water (utility services)	440 728	362 488	340 167	222 310	780 895	584 798
Public and non-business services	134 917	187 120	4 120 421	3 797 555	4 255 338	3 984 675
Business services	415 673	333 764	102 227	60 742	517 900	394 506
Finance and insurance	971 773	732 597	3 054 426	3 281 401	4 026 199	4 013 998
Retailers and wholesalers	383 089	375 195	128 327	85 366	511 416	460 561
Manufacturing and commerce	490 197	462 507	117 798	69 914	607 995	532 421
Construction	41 049	62 500	1 803	25 708	42 852	88 208
Corporate commercial real estate	115 241	104 740	36 469	11 983	151 710	116 723
Other residential mortgages	–	–	318 167	354 916	318 167	354 916
Mining and resources	139 621	192 082	160 615	87 477	300 236	279 559
Leisure, entertainment and tourism	227 573	97 214	35 738	33 891	263 311	131 105
Transport	762 899	688 852	104 676	143 088	867 575	831 940
Communication	160 032	96 736	30 954	32 291	190 986	129 027
Total	**7 924 577**	**7 224 134**	**8 942 889**	**8 509 925**	**16 867 466**	**15 734 059**

Gross credit and counterparty exposures by residual contractual maturity at 31 March 2016

£'000	Up to three months	Three to six months	Six months to one year	One to five years	Five to 10 years	> 10 years	Total
Cash and balances at central banks	2 636 837	–	–	–	–	–	2 636 837
Loans and advances to banks	931 142	833	3 082	14	–	–	935 071
Reverse repurchase agreements and cash collateral on securities borrowed	557 025	–	–	–	–	–	557 025
Sovereign debt securities	532 714	91 089	5 613	–	–	623 575	1 252 991
Bank debt securities	64	12 068	132	176 133	–	–	188 397
Other debt securities	8 834	144	3 633	109 795	53 620	217 626	393 652
Derivative financial instruments	72 836	65 641	45 954	181 050	129 852	76 991	572 324
Securities arising from trading activities	171 151	731	36	37 772	123 291	60 983	393 964
Loans and advances to customers (gross)	1 461 915	689 838	1 051 812	3 470 126	823 446	427 440	7 924 577
Other loans and advances (gross)	11 857	453	162	49 313	43 889	225 943	331 617
Other securitised assets (gross)	–	–	–	–	–	11 341	11 341
Other assets	397 409	–	–	–	–	–	397 409
Total on-balance sheet exposures	**6 781 784**	**860 797**	**1 110 424**	**4 024 203**	**1 174 098**	**1 643 899**	**15 595 205**
Guarantees^	36 494	–	2 289	30 155	–	–	68 938
Contingent liabilities, committed facilities and other	220 900	82 799	262 769	595 211	40 733	911	1 203 323
Total off-balance sheet exposures	**257 394**	**82 799**	**265 058**	**625 366**	**40 733**	**911**	**1 272 261**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**7 039 178**	**943 596**	**1 375 482**	**4 649 569**	**1 214 831**	**1 644 810**	**16 867 466**

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

AN ANALYSIS OF OUR CORE LOANS AND ADVANCES, ASSET QUALITY AND IMPAIRMENTS

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

An overview of developments during the financial year is provided on pages 52 and 53.

£'000	31 March 2016	31 March 2015
Gross core loans and advances to customers	**7 924 577**	**7 224 134**
Total impairments	**(143 191)**	**(188 444)**
Specific impairments	(121 791)	(154 262)
Portfolio impairments	(21 400)	(34 182)
Net core loans and advances to customers	**7 781 386**	**7 035 690**
Average gross core loans and advances to customers	**7 574 356**	**7 808 991**
Current loans and advances to customers	7 539 409	6 707 975
Past due loans and advances to customers (1 – 60 days)	65 880	73 489
Special mention loans and advances to customers	5 354	42 556
Default loans and advances to customers	313 934	400 114
Gross core loans and advances to customers	**7 924 577**	**7 224 134**
Current loans and advances to customers	7 539 409	6 707 975
Default loans that are current and not impaired	29 639	26 785
Gross core loans and advances to customers that are past due but not impaired	99 354	146 428
Gross core loans and advances to customers that are impaired	256 175	342 946
Gross core loans and advances to customers	**7 924 577**	**7 224 134**
Total income statement charge for impairments on core loans and advances	**(85 954)**	**(90 709)**
Gross default loans and advances to customers	313 934	400 114
Specific impairments	(121 791)	(154 262)
Portfolio impairments	(21 400)	(34 182)
Defaults net of impairments	**170 743**	**211 670**
Aggregate collateral and other credit enhancements on defaults	202 524	280 697
Net default loans and advances to customers (limited to zero)	**–**	**–**
Ratios:		
Total impairments as a % of gross core loans and advances to customers	1.81%	2.61%
Total impairments as a % of gross default loans	45.61%	47.10%
Gross defaults as a % of gross core loans and advances to customers	3.96%	5.54%
Defaults (net of impairments) as a % of net core loans and advances to customers	2.19%	3.01%
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 core gross loans and advances)	1.13%	1.16%

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

At 31 March £'000	2016	2015
Default loans that are current	138 988	176 913
1 – 60 days	80 729	119 496
61 – 90 days	16 118	2 249
91 – 180 days	43 284	7 639
181 – 365 days	22 539	45 758
> 365 days	83 510	164 104
Past due and default core loans and advances to customers (actual capital exposure)	**385 168**	**516 159**
1 – 60 days	3 033	5 796
61 – 90 days	210	172
91 – 180 days	3 277	2 566
181 – 365 days	7 859	4 742
> 365 days	74 064	156 328
Past due and default core loans and advances to customers (actual amount in arrears)	**88 443**	**169 604**

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

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
At 31 March 2016							
Watchlist loans neither past due nor impaired							
Total capital exposure	29 639	–	–	–	–	–	29 639
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	71 077	526	16 210	1 139	10 402	99 354
Amount in arrears	–	2 965	49	1 333	171	7 847	12 365
Gross core loans and advances to customers that are impaired							
Total capital exposure	109 349	9 652	15 592	27 074	21 400	73 108	256 175
Amount in arrears	–	68	161	1 944	7 688	66 217	76 078
At 31 March 2015							
Watchlist loans neither past due nor impaired							
Total capital exposure	26 785	–	–	–	–	–	26 785
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	113 795	2 249	5 287	9 195	15 902	146 428
Amount in arrears	–	5 754	172	214	525	8 327	14 992
Gross core loans and advances to customers that are impaired							
Total capital exposure	150 128	5 701	–	2 352	36 563	148 202	342 946
Amount in arrears	–	42	–	2 352	4 217	148 001	154 612

An age analysis of past due and default core loans and advances to customers at 31 March 2016 (based on total capital exposure)

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	**–**	**65 880**	**–**	**–**	**–**	**–**	**65 880**
Special mention	**–**	**4 828**	**526**	**–**	**–**	**–**	**5 354**
Special mention (1 – 90 days)	–	4 828	–	–	–	–	4 828
Special mention (61 – 90 days and item well secured)	–	–	526	–	–	–	526
Default	**138 988**	**10 021**	**15 592**	**43 284**	**22 539**	**83 510**	**313 934**
Sub-standard	72 254	369	3 828	23 327	6 361	58 079	164 218
Doubtful	65 328	9 652	11 755	18 950	15 413	4 352	125 450
Loss	1 406	–	9	1 007	765	21 079	24 266
Total	**138 988**	**80 729**	**16 118**	**43 284**	**22 539**	**83 510**	**385 168**

An age analysis of past due and default core loans and advances to customers at 31 March 2016 (based on actual amount in arrears)

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	**–**	**2 959**	**–**	**–**	**–**	**–**	**2 959**
Special mention	**–**	**6**	**49**	**–**	**–**	**–**	**55**
Special mention (1 – 90 days)	–	6	–	–	–	–	6
Special mention (61 – 90 days and item well secured)	–	–	49	–	–	–	49
Default	**–**	**68**	**161**	**3 277**	**7 859**	**74 064**	**85 429**
Sub-standard	–	1	39	1 383	3 343	48 662	53 428
Doubtful	–	67	114	887	3 751	4 352	9 171
Loss	–	–	8	1 007	765	21 050	22 830
Total	**–**	**3 033**	**210**	**3 277**	**7 859**	**74 064**	**88 443**

An age analysis of past due and default core loans and advances to customers at 31 March 2015 (based on total capital exposure)

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	**–**	**73 489**	**–**	**–**	**–**	**–**	**73 489**
Special mention	**–**	**40 307**	**2 249**	**–**	**–**	**–**	**42 556**
Special mention (1 – 90 days)	–	40 307	–	–	–	–	40 307
Special mention (61 – 90 days and item well secured)	–	–	2 249	–	–	–	2 249
Default	**176 913**	**5 700**	**–**	**7 639**	**45 758**	**164 104**	**400 114**
Sub-standard	87 505	–	–	5 480	38 175	55 640	186 800
Doubtful	88 040	5 700	–	1 347	7 151	6 071	108 309
Loss	1 368	–	–	812	432	102 393	105 005
Total	**176 913**	**119 496**	**2 249**	**7 639**	**45 758**	**164 104**	**516 159**

An age analysis of past due and default core loans and advances to customers at 31 March 2015 (based on actual amount in arrears)

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	**–**	**5 399**	**–**	**–**	**–**	**–**	**5 399**
Special mention	**–**	**355**	**172**	**–**	**–**	**–**	**527**
Special mention (1 – 90 days)	–	355	–	–	–	–	355
Special mention (61 – 90 days and item well secured)	–	–	172	–	–	–	172
Default	**–**	**42**	**–**	**2 566**	**4 742**	**156 328**	**163 678**
Sub-standard	–	–	–	407	2 101	47 871	50 379
Doubtful	–	42	–	1 347	2 209	6 064	9 662
Loss	–	–	–	812	432	102 393	103 637
Total	**–**	**5 796**	**172**	**2 566**	**4 742**	**156 328**	**169 604**

An analysis of core loans and advances to customers

£'000	Gross core loans and advances that are neither past due nor impaired	Gross core loans and advances that are past due but not impaired	Gross core loans and advances that are impaired	Total gross core loans and advances (actual capital exposure)	Specific impair-ments	Portfolio impair-ments	Total net core loans and advances (actual capital exposure)	Actual amount in arrears
At 31 March 2016								
Current core loans and advances	**7 539 409**	**–**	**–**	**7 539 409**	**–**	**(21 400)**	**7 518 009**	**–**
Past due (1 – 60 days)	**–**	**65 880**	**–**	**65 880**	**–**	**–**	**65 880**	**2 959**
Special mention	**–**	**5 354**	**–**	**5 354**	**–**	**–**	**5 354**	**55**
Special mention (1 – 90 days)	–	4 828	–	4 828	–	–	4 828	6
Special mention (61 – 90 days and item well secured)	–	526	–	526	–	–	526	49
Default	**29 639**	**28 120**	**256 175**	**313 934**	**(121 791)**	**–**	**192 143**	**85 429**
Sub-standard	29 639	28 120	106 459	164 218	(32 379)	–	131 839	53 428
Doubtful	–	–	125 450	125 450	(69 827)	–	55 623	9 171
Loss	–	–	24 266	24 266	(19 585)	–	4 681	22 830
Total	**7 569 048**	**99 354**	**256 175**	**7 924 577**	**(121 791)**	**(21 400)**	**7 781 386**	**88 443**
At 31 March 2015								
Current core loans and advances	**6 707 975**	**–**	**–**	**6 707 975**	**–**	**(34 182)**	**6 673 793**	**–**
Past due (1 – 60 days)	**–**	**73 489**	**–**	**73 489**	**–**	**–**	**73 489**	**5 399**
Special mention	**–**	**42 556**	**–**	**42 556**	**–**	**–**	**42 556**	**527**
Special mention (1 – 90 days)	–	40 307	–	40 307	–	–	40 307	355
Special mention (61 – 90 days and item well secured)	–	2 249	–	2 249	–	–	2 249	172
Default	**26 785**	**30 383**	**342 946**	**400 114**	**(154 262)**	**–**	**245 852**	**163 678**
Sub-standard	26 219	**30 383**	130 198	186 800	(36 870)	–	149 930	50 379
Doubtful	566	–	107 743	108 309	(54 494)	–	53 815	9 662
Loss	–	–	105 005	105 005	(62 898)	–	42 107	103 637
Total	**6 734 760**	**146 428**	**342 946**	**7 224 134**	**(154 262)**	**(34 182)**	**7 035 690**	**169 604**

RISK MANAGEMENT AND CORPORATE GOVERNANCE

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

£'000	Private client, professional and high net worth individuals	Corporate sector	Insurance, financial services (excluding sovereign)	Public and government sector (including central banks)	Total core loans and advances to customers
At 31 March 2016					
Current core loans and advances	**3 296 034**	**3 140 362**	**971 565**	**131 448**	**7 539 409**
Past due (1 – 60 days)	**53 707**	**10 833**	**41**	**1 299**	**65 880**
Special mention	**4 995**	**211**	**2**	**146**	**5 354**
Special mention (1 – 90 days)	4 828	–	–	–	4 828
Special mention (61 – 90 days and item well secured)	167	211	2	146	526
Default	**283 815**	**27 930**	**165**	**2 024**	**313 934**
Sub-standard	144 030	18 786	2	1 400	164 218
Doubtful	118 168	6 910	122	250	125 450
Loss	21 617	2 234	41	374	24 266
Total gross core loans and advances to customers	**3 638 551**	**3 179 336**	**971 773**	**134 917**	**7 924 577**
Total impairments	**(128 224)**	**(14 357)**	**(102)**	**(508)**	**(143 191)**
Specific impairments	(106 824)	(14 357)	(102)	(508)	(121 791)
Portfolio impairments	(21 400)	–	–	–	(21 400)
Net core loans and advances to customers	**3 510 327**	**3 164 979**	**971 671**	**134 409**	**7 781 386**
At 31 March 2015					
Current core loans and advances	**3 036 997**	**2 753 200**	**732 353**	**185 425**	**6 707 975**
Past due (1 – 60 days)	**68 923**	**3 696**	**–**	**870**	**73 489**
Special mention	**42 288**	**268**	**–**	**–**	**42 556**
Special mention (1 – 90 days)	40 307	–	–	–	40 307
Special mention (61 – 90 days and item well secured)	1 981	268	–	–	2 249
Default	**373 342**	**25 703**	**244**	**825**	**400 114**
Sub-standard	172 581	14 219	–	–	186 800
Doubtful	97 300	10 280	229	500	108 309
Loss	103 461	1 204	15	325	105 005
Total gross core loans and advances to customers	**3 521 550**	**2 782 867**	**732 597**	**187 120**	**7 224 134**
Total impairments	**(179 681)**	**(8 128)**	**(150)**	**(485)**	**(188 444)**
Specific impairments	(145 499)	(8 128)	(150)	(485)	(154 262)
Portfolio impairments	(34 182)	–	–	–	(34 182)
Net core loans and advances to customers	**3 341 869**	**2 774 739**	**732 447**	**186 635**	**7 035 690**

An analysis of core loans and advances by risk category at 31 March 2016

£'000	Gross core loans	Gross defaults	Aggregate collateral and other credit enhancements on defaults	Balance sheet impairments	Income statement impairments*
Lending collateralised by property	**2 179 999**	**264 283**	**168 722**	**(101 064)**	**(75 732)**
Commercial real estate	**1 314 745**	**108 746**	**64 068**	**(45 030)**	**(32 441)**
Commercial real estate – investment	1 096 376	61 090	43 958	(17 151)	(21 155)
Commercial real estate – development	109 086	11 138	3 647	(7 491)	(634)
Commercial vacant land and planning	109 283	36 518	16 463	(20 388)	(10 652)
Residential real estate	**865 254**	**155 537**	**104 654**	**(56 034)**	**(43 291)**
Residential real estate – investment	298 740	72 449	55 151	(20 907)	(13 353)
Residential real estate – development	516 352	56 651	30 390	(26 854)	(24 747)
Residential vacant land and planning	50 162	26 437	19 113	(8 273)	(5 191)
High net worth and other private client lending	**1 458 552**	**19 532**	**18 650**	**(5 760)**	**(8 194)**
Mortgages	1 146 241	4 307	7 489	(600)	(49)
High net worth and specialised lending	312 311	15 225	11 161	(5 160)	(8 145)
Corporate and other lending	**4 286 026**	**30 119**	**15 152**	**(14 967)**	**(14 810)**
Acquisition finance	899 190	–	–	–	(1 284)
Asset-based lending	274 173	–	–	–	–
Fund finance	673 379	–	–	–	–
Other corporates and financial institutions and governments	766 815	–	–	–	–
Asset finance	1 205 400	11 891	5 961	(5 930)	(4 223)
Small ticket asset finance	932 865	11 891	5 961	(5 930)	(4 223)
Large ticket asset finance	272 535	–	–	–	–
Project finance	449 266	3 708	3 708	–	(2 699)
Resource finance	17 803	14 520	5 483	(9 037)	(6 604)
Portfolio impairments				**(21 400)**	**12 782**
Total	**7 924 577**	**313 934**	**202 524**	**(143 191)**	**(85 954)**

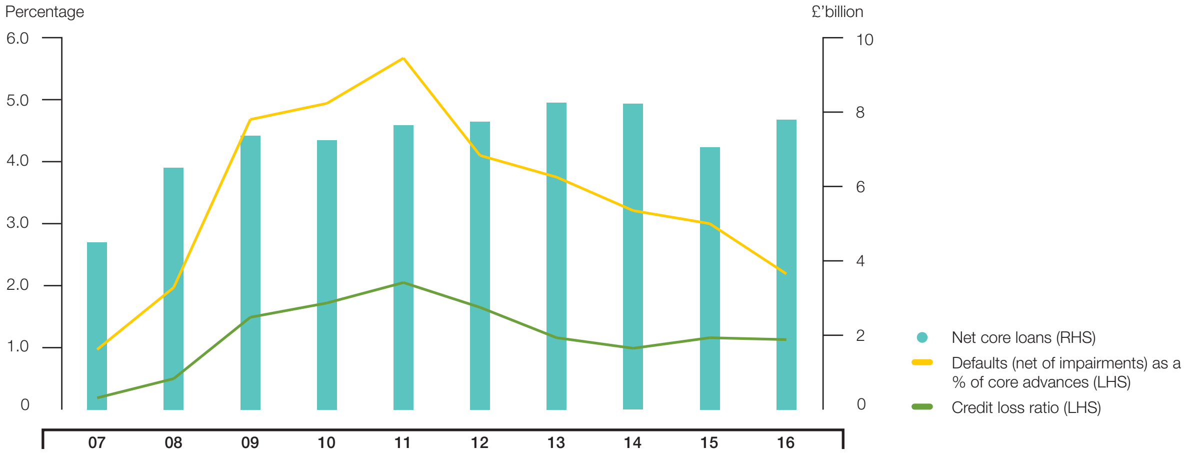
* *Where a positive number represents a recovery or provision released.*

An analysis of core loans and advances by risk category at 31 March 2015

£'000	Gross core loans	Gross defaults	Aggregate collateral and other credit enhance-ments on defaults	Balance sheet impairments	Income statement impairments*
Lending collateralised by property	**2 318 053**	**343 229**	**233 676**	**(134 451)**	**(49 179)**
Commercial real estate	**1 510 506**	**122 886**	**79 588**	**(51 517)**	**(25 358)**
Commercial real estate – investment	1 229 217	58 142	50 302	(11 752)	(16 157)
Commercial real estate – development	147 707	20 129	6 544	(13 585)	(3 997)
Commercial vacant land and planning	133 582	44 615	22 742	(26 180)	(5 204)
Residential real estate	**807 547**	**220 343**	**154 088**	**(82 934)**	**(23 821)**
Residential real estate – investment	292 089	53 911	50 294	(10 756)	(3 178)
Residential real estate – development	425 258	116 163	74 975	(50 571)	(9 122)
Residential vacant land and planning	90 200	50 269	28 819	(21 607)	(11 521)
High net worth and other private client lending	**1 203 497**	**30 113**	**29 012**	**(11 048)**	**(10 529)**
Mortgages	952 625	7 977	13 015	(914)	(713)
High net worth and specialised lending	250 872	22 136	15 997	(10 134)	(9 816)
Corporate and other lending	**3 702 584**	**26 772**	**18 009**	**(8 763)**	**(11 821)**
Acquisition finance	731 195	–	–	–	1 231
Asset-based lending	216 424	–	–	–	–
Fund finance	495 037	–	–	–	–
Other corporates and financial institutions and governments	719 049	–	–	–	(3 091)
Asset finance	1 119 165	8 346	3 642	(4 704)	(5 068)
Small ticket asset finance	835 773	8 346	3 642	(4 704)	(5 068)
Large ticket asset finance	283 392	–	–	–	–
Project finance	407 577	4 289	2 585	(1 704)	(515)
Resource finance	14 137	14 137	11 782	(2 355)	(4 378)
Portfolio impairments	**–**	**–**	**–**	**(34 182)**	**(19 180)**
Total	**7 224 134**	**400 114**	**280 697**	**(188 444)**	**(90 709)**

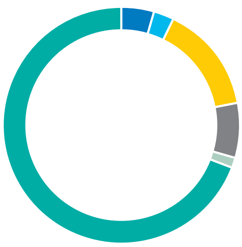
* *Where a positive number represents a recovery or provision released.*

ASSET QUALITY TRENDS



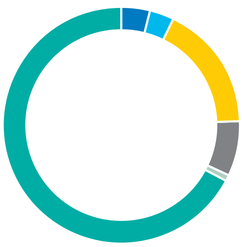
Additional information

AN ANALYSIS OF GROSS CORE LOANS AND ADVANCES TO CUSTOMERS BY COUNTRY OF EXPOSURES



31 March 2016
£7 925 million

4.6%	Asia
2.7%	Australia
14.9%	Europe (excluding UK)
7.4%	North America
1.5%	Other
68.9%	United Kingdom



31 March 2015
£7 224 million

3.9%	Asia
3.4%	Australia
17.4%	Europe (excluding UK)
7.5%	North America
0.8%	Other
67.0%	United Kingdom

COLLATERAL

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

£'000	Collateral held against: Core loans and advances	Collateral held against: Other credit and counterparty exposures*	Total
At 31 March 2016			
Eligible financial collateral	**313 156**	**399 786**	**712 942**
Listed shares	242 551	76 126	318 677
Cash	70 605	109 180	179 785
Debt securities issued by sovereigns	–	214 480	214 480
Property charge	**4 940 344**	**209 478**	**5 149 822**
Residential property	2 457 252	209 478	2 666 730
Residential development	780 534	–	780 534
Commercial property developments	187 484	–	187 484
Commercial property investments	1 515 074	–	1 515 074
Other collateral	**4 247 959**	**135 508**	**4 383 467**
Unlisted shares	682 021	–	682 021
Charges other than property	21 573	135 508	157 081
Debtors, stock and other corporate assets	2 727 354	–	2 727 354
Guarantees	650 988	–	650 988
Other	166 023	–	166 023
Total collateral	**9 501 459**	**744 772**	**10 246 231**
At 31 March 2015			
Eligible financial collateral	**381 651**	**557 158**	**938 809**
Listed shares	302 938	82 925	385 863
Cash	78 713	76 511	155 224
Debt securities issued by sovereigns	–	397 722	397 722
Property charge	**4 399 279**	**217 531**	**4 616 810**
Residential property	2 180 115	217 531	2 397 646
Residential development	554 920	–	554 920
Commercial property developments	271 843	–	271 843
Commercial property investments	1 392 401	–	1 392 401
Other collateral	**4 034 402**	**729 614**	**4 764 016**
Unlisted shares	486 524	–	486 524
Charges other than property	32 806	729 614	762 420
Debtors, stock and other corporate assets	2 353 919	–	2 353 919
Guarantees	762 092	–	762 092
Other	399 061	–	399 061
Total collateral	**8 815 332**	**1 504 303**	**10 319 635**

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

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

Investment risk in the banking book

INVESTMENT RISK DESCRIPTION

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

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

MANAGEMENT OF INVESTMENT RISK

As investment risk arises from a variety of activities conducted by us, the monitoring and measurement thereof varies across transactions and/or type of activity.

Nature of investment risk	Management of risk
Listed equities	Investment committee, market risk management and ERRF
Investment Banking principal investments	Investment committee and ERRF
Embedded derivatives, profit shares and investments arising from lending transactions	Credit risk management committees and ERRF
Investment and trading properties	Investment committee and ERRF
Central Funding investments	Investment committee and ERRF

Risk appetite limits and targets are set to manage our exposure to equity and investment risk. An assessment of exposures against limits and targets as well as stress testing scenario analysis are performed and reported to GRCC. 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 150 to 154 and pages 180 to 197 for factors taken into consideration in determining fair value.

We have a low level of assets exposed to the volatility of IFRS fair value accounting with level 3 assets amounting to 3.6% of total assets.

Refer to page 181 for further information.

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

£'000 Category	Income/(loss) (pre-funding costs) Unrealised*	Realised*	Dividends	Total	Fair value through equity
For the year to 31 March 2016					
Unlisted investments	15 674	14 099	15 419	45 192	184
Listed equities	2 340	(7 249)	–	(4 909)	1 424
Investment and trading properties	(3 145)	2 364	–	(781)	–
Warrants, profit shares and other embedded derivatives	(2 452)	3 469	–	1 017	–
Total	**12 417**	**12 683**	**15 419**	**40 519**	**1 608**
For the year to 31 March 2015					
Unlisted investments	(25 676)	60 017	5 089	39 430	709
Listed equities	19 770	1 505	772	22 047	425
Investment and trading properties	8 664	2 354	–	11 018	–
Warrants, profit shares and other embedded derivatives	(70 947)	1 873	–	(69 074)	–
Total	**(68 189)**	**65 749**	**5 861**	**3 421**	**1 134**

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

Unrealised revaluation gains, recognised in the profit and loss account, are included in common equity tier 1 capital. In line with the Capital Requirements Regulation, for the year ended 31 March 2016, Investec Bank plc did not recognise equity revaluation gains directly to equity, in regulatory capital.

SUMMARY OF INVESTMENTS HELD AND STRESS TESTING ANALYSES

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

£'000 Category	On-balance sheet value of investments 31 March 2016	Valuation change stress test 31 March 2016*	On-balance sheet value of investments 31 March 2015	Valuation change stress test 31 March 2015*
Unlisted investments	331 921	49 788	287 680	43 152
Listed equities	87 940	21 985	113 120	28 280
Total investment portfolio	419 861	71 773	400 800	71 432
Investment and trading properties	174 573	27 009	191 499	31 726
Warrants, profit shares and other embedded derivatives	32 902	11 516	36 111	12 639
Total	**627 336**	**110 298**	**628 410**	**115 797**

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

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

STRESS TESTING SUMMARY

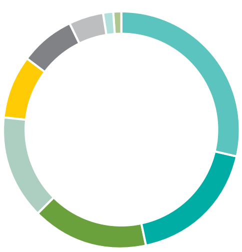
Based on the information at 31 March 2016, as reflected above, we could have a £110 million reversal in revenue (which assumes a year in which there is a 'severe stress scenario' simultaneously across all asset classes). This would not cause the group to report a loss but could have a significantly negative impact on earnings for that period. The probability of all these asset classes in all geographies in which we operate being negatively impacted at the same time is very low, although the probability of listed equities being negatively impacted at the same time is very high.

CAPITAL REQUIREMENTS

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

Refer to page 104 for further detail.

AN ANALYSIS OF THE INVESTMENT PORTFOLIO, WARRANTS, PROFIT SHARES AND OTHER EMBEDDED DERIVATIVES BY INDUSTRY OF EXPOSURE



31 March 2016
£453 million

28.7%	Manufacturing and commerce
18.1%	Real estate
15.9%	Transport
14.0%	Finance and insurance
8.6%	Retailer and wholesalers
7.6%	Mining and resources
4.6%	Communication
1.6%	Business services
0.9%	Other

Securitisation/ structured credit activities exposures

OVERVIEW

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

Refer to page 54 for the balance sheet and credit risk classification.

The group applies the standardised approach in the assessment of regulatory capital for securitisation exposures within its banking book and trading book. The trading book exposures at 31 March 2016 are not material, and therefore no further information is disclosed for these positions.

The information below sets out the initiatives we have focused on over the past few years, albeit that most of these business lines have been curtailed given the changes in the securitisation market and given the strategic divestments Investec has undertaken last year.

Historically, the bank has played an originator role in the securitisation of assets. A significant number of these were traditional securitisations of residential mortgages originated through the Kensington business which was disposed of in January 2015.

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

For regulatory purposes, structured entities are not consolidated where significant risk in the structured entities has been transferred to third parties. The positions we continue to hold in these securitisations will be either risk-weighted and/or deducted from capital.

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

We hold rated structured credit instruments (including resecuritisation exposures). These exposures are largely in the UK and US and amount to £343 million at 31 March 2016 (31 March 2015: £317 million). This is intended as a hold to maturity portfolio rather than a trading portfolio. Therefore, since our commercial intention is to hold these assets to maturity, the portfolio will be valued on an amortised cost basis. These investments are risk weighted for regulatory capital purposes.

ACCOUNTING POLICIES

Refer to page 151.

RISK MANAGEMENT

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

CREDIT ANALYSIS

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

At 31 March Nature of exposure/activity	Exposure 2016 £'million	Exposure 2015 £'million	Balance sheet and credit risk classification
Structured credit* (gross exposure)	355	350	Other debt securities and other loans and advances
Rated	343	317	
Unrated	12	33	
Loans and advances to customers and third party intermediary originating platforms (mortgage loans) (with the potential to be securitised) (net exposure)	154	170	Other loans and advances

* *Analysed further below.*

*Analysis of rated and unrated structured credit

At 31 March £'million	2016			2015		
	Rated**	Unrated	Total	Rated**	Unrated	Total
US corporate loans	152	–	152	116	–	116
UK and European RMBS	151	12	163	153	29	182
UK and European CMBS	–	–	–	6	4	10
UK and European corporate loans	40	–	40	42	–	42
Total	**343**	**12**	**355**	**317**	**33**	**350**

**Further analysis of rated structured credit at 31 March 2016

£'million	AAA	AA	A	BBB	BB	B	CCC and below	Total
US corporate loans	92	25	35	–	–	–	–	152
UK and European RMBS	40	84	20	5	–	2	–	151
UK and European corporate loans	16	13	10	1	–	–	–	40
Total at 31 March 2016	**148**	**122**	**65**	**6**	**–**	**2**	**–**	**343**
Total at 31 March 2015	**64**	**138**	**56**	**36**	**1**	**–**	**22**	**317**

Market risk in the trading book

TRADED MARKET RISK DESCRIPTION

Traded Market Risk is the risk that the value of a portfolio of instruments changes as a result of changes in underlying market risk factors such as interest rates, equity prices, commodity prices, exchange rates and volatilities. The market risk management team identifies, quantifies and manages this risk in accordance with Basel standards and policies determined by the board.

The focus of our trading activities is primarily on supporting client activity. Our strategic intent is that proprietary trading should be limited and that trading should be conducted largely to facilitate clients in deal execution. Within our trading activities, we act as principal with clients or the market. Market risk, therefore, exists where we have taken on principal positions resulting from market making, underwriting, investments and limited proprietary trading in the foreign exchange, capital and money markets. The focus of these businesses is primarily on supporting client activity.

TRADED MARKET RISK GOVERNANCE STRUCTURE

To manage, measure and mitigate market risk, we have independent market risk management teams in each geography where we assume market risk. Local limits have been set to keep potential losses within acceptable risk tolerance levels.

A global market risk forum, mandated by the various boards of directors, manages the market risks in accordance with pre-approved principles and policies. Risk limits are reviewed and set at the global market risk forum and ratified at ERRF in accordance with the risk appetite defined by the board. The appropriateness of limits is continually assessed with limits reviewed at least annually, in the event of a significant market event or at the discretion of senior management.

MANAGEMENT AND MEASUREMENT OF TRADED MARKET RISK

Market risk management teams review the market risks in the trading books. Detailed risk reports are produced daily for each trading desk and for the aggregate risk of the trading books.

These reports are distributed to management and traders. There is a formal process for management recognition and authorisation for any risk excesses incurred. The production of risk reports allows for the monitoring of all positions in the trading book against prescribed limits. Limits are set at trading desk level with aggregate risk across all desks also monitored against overall market risk appetite limits. Trading limits are generally tiered, taking into account liquidity and the inherent risks of traded instruments. Valuation models for new instruments or products are independently validated by Market Risk before trading can commence. Each traded instrument undergoes various stresses to assess potential losses.

Measurement techniques used to quantify market risk arising from our trading activities include sensitivity analysis, value at risk (VaR), stressed VaR (sVaR), expected tail loss (ETL) and extreme value theory (EVT). Stress testing and scenario analysis are used to simulate extreme conditions to supplement these core measures.

VaR numbers are monitored daily at the 95% and 99% confidence intervals, with limits set at the 95% confidence interval. ETLs are also monitored daily at the 95% and 99% levels as is the worst case loss in the VaR distribution. Scenario analysis considers the impact of a significant market event on our current trading portfolios. We consider the impact of extreme yet plausible future economic events on the trading portfolio as well as possible worst case scenarios that are not necessarily as plausible. Scenario analysis is done at least once a week and is included in the data presented to ERRF.

The accuracy of the VaR model as a predictor of potential loss is continuously monitored through backtesting. This involves comparing the hypothetical (clean) trading revenues arising from the previous day's closing positions with the one-day VaR calculated for the previous day on these same positions. If the revenue is negative and 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.

The market risk capital requirement is calculated using the standardised approach. For certain options, the group has obtained permission from the PRA to use an internal model to calculate the delta for these positions.

The table below contains the 95% one-day VaR figures for the trading businesses and the graphs that follow show the result of backtesting the total daily 99% one-day VaR against profit and loss figures for our trading activities over the reporting period. Based on these graphs, we can gauge the accuracy of the VaR figures, i.e. 99% of the time, the total trading activities are not expected to lose more than the 99% one-day VaR.

VaR

£'000	31 March 2016 Year end	Average	High	Low	31 March 2015 Year end	Average	High	Low
(using 95% VaR)								
Equities	515	557	699	412	524	573	825	436
Foreign exchange	37	32	101	12	23	20	64	1
Interest rates	202	195	505	128	495	300	536	197
Consolidated*	**529**	**589**	**723**	**488**	**691**	**617**	**921**	**475**

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

The average VaR utilisation was lower than in 2015, largely as a result of a reduction in exposure to interest rates held within the trading businesses. Using hypothetical (clean) profit and loss data for backtesting resulted in four exceptions over the year at the 99% confidence level, i.e. where the loss was greater than the 99% one-day VaR. This is not a significant deviation from the expected number of exceptions at the 99% level and is largely attributable to increased market volatility experienced during the year.

99% ONE-DAY VaR BACKTESTING

ETL

95% (one-day) £'000	31 March 2016	31 March 2015
Equities	662	663
Foreign exchange	53	34
Interest rates	257	717
Consolidated*	**783**	**874**

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

STRESS TESTING

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

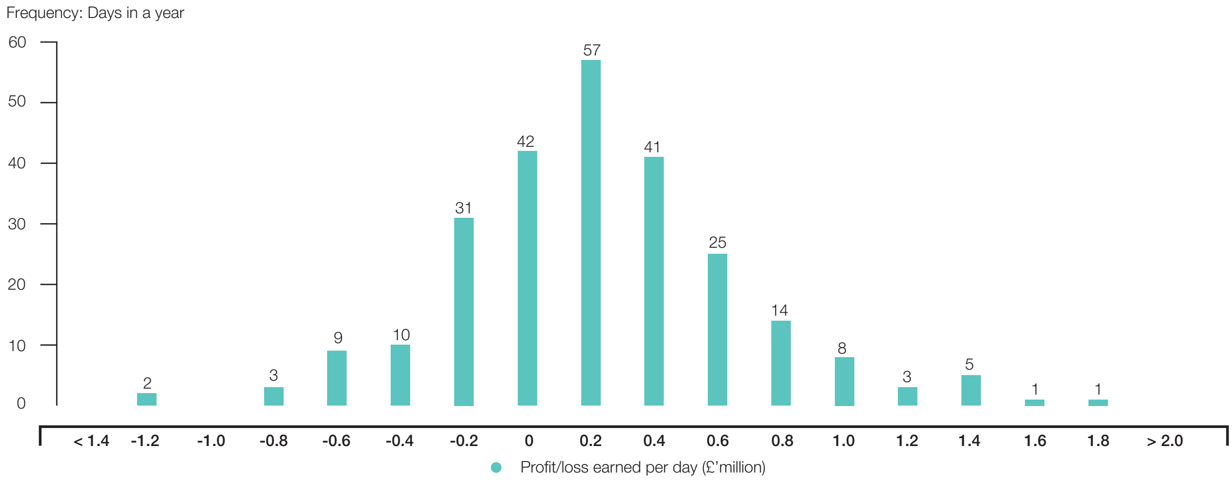
	31 March 2016				
£'000	Year end	Average	High	Low	31 March 2015 Year end
(using 99% EVT)					
Equities	1 549	1 305	2 275	761	1 658
Foreign exchange	122	80	221	31	102
Interest rates	470	438	1 312	225	1 676
Consolidated**	**1 772**	**1 349**	**2 222**	**827**	**1 413**

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

PROFIT AND LOSS HISTOGRAM

The histogram below illustrates the distribution of revenue during the financial year for our trading businesses. The distribution is skewed to the profit side and the graph shows that positive trading revenue was realised 155 days out of a total of 252 days in the trading business. The average daily trading revenue generated for the year to 31 March 2016 was £124 250 (2015: £162 486).

PROFIT AND LOSS



TRADED MARKET RISK MITIGATION

The market risk management team has a reporting line that is separate from the trading function, thereby ensuring independent oversight. 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, ensuring models used for valuation and risk are validated independently of the front office.

Risk limits are set according to guidelines set out in our risk appetite policy and are set on a statistical and non-statistical basis. Statistical limits include VaR and ETL. Full revaluation historical simulation VaR is used over a two-year historical period based on an unweighted time series. Every risk factor is exposed to daily moves with proxies only used when no or limited price history is available, and the resultant one-day VaR is scaled up to 10-day VaR using the square root of time rule for regulatory purposes. Daily moves are based on both absolute and relative returns as appropriate for the different types of risk factors. Time series data used to calculate these moves is updated monthly at a minimum, or more frequently if necessary. Stressed VaR is calculated in the same way based on a one-year historical period of extreme volatility. The sVaR period used is mid-2008 to mid-2009, which relates to high levels of volatility in all markets in which the business holds trading position, during the financial crisis.

Non-statistical limits include limits on risk exposure to individual products, transaction tenors, notionals, liquidity, tenor buckets and sensitivities. Current market conditions are taken into account when setting and reviewing these limits.

TRADED MARKET RISK YEAR IN REVIEW

Risk software was changed to be fully integrated with trading systems, while independence is maintained through independent validation of all valuation models.

There was strong growth in client activity across the interest rate and foreign exchange corporate sales desks within Treasury Products and Distribution. Increased volatility in the forex markets resulted in more active client activity and interest rate hedging activity was driven by strong internal deal flow. A challenging pricing environment resulted in lower retail equity product sales on the structured equity desk, however, the desk benefited from increased growth in their offshore distribution. Market risk exposures across all asset classes have remained low throughout the year.

MARKET RISK – DERIVATIVES

We enter into various derivatives contracts, largely on the back of customer flow for hedging foreign exchange, commodity, equity and interest rate exposures and to a small extent as principal for trading purposes. 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 to take into account possible correlations.

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 200.

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 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 market liquidity, funding, concentration, non-trading interest rate and foreign exchange, encumbrance and leverage risks on balance sheet.

BALANCE SHEET RISK GOVERNANCE STRUCTURE AND RISK MITIGATION

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

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 statutory requirements may further dictate special policies to be adopted in a region.

Detailed policies cover both domestic and foreign currency funds and set out sources and amounts of funds necessary to ensure the continuation of our operations without undue interruption. We aim to match-fund in currencies where it is practical and efficient to do so and hedge any residual currency exchange risk arising from deposit and loan banking activities.

In terms of regulatory requirements and the group's liquidity policy, Investec plc (and its subsidiaries) are ring-fenced from Investec Limited (and its subsidiaries) (and *vice versa*) and both legal entities are therefore required to be self-funded.

The ALCOs comprise the group risk director, the head of balance sheet risk, the head of corporate and institutional banking activities, head of risk, head of private banking distribution channels, economists, the treasurer, divisional heads, and the balance sheet risk management team. The ALCOs formally meet on 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 Central 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 treasurers are required to exercise tight control of funding, liquidity, concentration and non-trading interest rate risk within parameters defined by the board-approved risk appetite policy. Non-trading interest rate risk and asset funding requirements are transferred from the originating business to the treasury function.

The Central Treasury, 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 Central Treasury functions are the sole interface to the wholesale 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 and are understood by business line management, thereby ensuring that price of liquidity is integrated into business level decision-making and drives the appropriate mix of sources and uses of funds.

The balance sheet risk management team, in their respective geographies based within Group Risk Management, independently identify, quantify and monitor risks, providing daily independent governance and oversight of the treasury activities and the execution of the bank's policy, continuously assessing the risks while taking changes in market conditions into account. In carrying out its duties, the balance sheet risk management team monitors historical liquidity trends, tracks prospective on- and off-balance sheet liquidity obligations, identifies and measures internal and external liquidity warning signals which permit early detection of potential liquidity concerns through daily liquidity reporting, and further perform scenario analysis which quantifies our exposure, thus providing a comprehensive and consistent governance framework. The balance sheet risk management team proactively identifies proposed regulatory developments, best risk practice, and measures adopted in the broader market, and implements changes to the bank's risk management and governance framework, where relevant.

Scenario modelling and rigorous daily liquidity stress tests are designed to measure and manage the liquidity position such that payment obligations can be met under a wide range of normal company-specific and market-driven stress scenarios. These assume the rate and timing of deposit withdrawals and drawdowns on lending facilities are varied, and the ability to access funding and to generate funds from asset portfolios is restricted.

The parameters used in the scenarios are reviewed regularly, 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 risk on cash flow, liquidity, profitability and solvency position, so as to maintain sufficient liquidity, in an acute stress, to continue to operate for a minimum period as detailed in the board-approved risk appetite.

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

The integrated balance sheet risk management framework is based on similar methodologies to those contemplated under the Basel Committee on Banking Supervision's (BCBS) 'liquidity risk measurement standards and monitoring' and is compliant with the 'principles of sound liquidity risk management and supervision' as well as 'guidelines for the management of interest rate risk in the banking book'.

Each banking entity within the group maintains a contingency funding plan designed to protect depositors, creditors and shareholders and maintain market confidence during adverse liquidity conditions and pave the way for the group to emerge from a potential funding crisis with the best possible reputation and financial condition for continuing operations. The liquidity contingency plans outline extensive early warning indicators, clear lines of communication, and decisive crisis response strategies.

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, the Central Treasury function, ERRF, GRCC, BRCC and the board.

Statutory reports are submitted to the relevant regulators in each jurisdiction within which we operate.

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

LIQUIDITY RISK

Liquidity risk description

Liquidity risk is the risk 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, without incurring unacceptable losses. This includes repaying depositors or maturing wholesale debt. This risk 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:** which relates to the risk that the bank will be unable to meet current and/or future cash flow or collateral requirements in the normal course of business, without adversely affecting its financial position or its reputation.
- **Market liquidity:** which relates to the risk that the bank may be unable to trade in specific markets or that it may only be able to do so with difficulty due to market disruptions or a lack of market liquidity.

Sources of liquidity risk include:

- Unforeseen withdrawals of deposits
- Restricted access to new funding with appropriate maturity and interest rate characteristics
- Inability to liquidate a marketable asset in a timely manner with minimal risk of capital loss
- Unpredicted customer non-payment of loan obligations
- A sudden increased demand for loans in the absence of corresponding funding inflows of appropriate maturity.

Management and measurement of liquidity risk

Maturity transformation performed by banks is a crucial part of financial intermediation that contributes to efficient resource allocation and credit creation.

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:

- The group complies with the BCBS principles for sound liquidity risk management and supervision
- The group has committed itself to implementation of the updated BCBS guidelines for liquidity risk measurement, standards and monitoring as phased in from 2015
- Our liquidity management processes encompass principles set out by the regulatory authorities in each jurisdiction, namely the PRA, EBA, Guernsey Financial Services and Swiss Financial Supervisory Authority
- 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
- In terms of regulatory requirements and the group's liquidity policy, Investec plc (and its subsidiaries) are ring-fenced from Investec Limited (and its subsidiaries) (and *vice versa*) and both legal entities are therefore required to be self-funded
- 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
- Funding is diversified with respect to currency, term, product, client type and counterparty to ensure a satisfactory overall funding mix
- We monitor and evaluate each banking entity's maturity ladder and funding gap (cash flow maturity mismatch) on a 'liquidation', 'going concern' and 'stress' basis
- Daily liquidity stress tests are carried out to measure and manage the liquidity position such that payment obligations can be met under a wide range of normal and unlikely but plausible stressed scenarios, in which the rate and timing of deposit withdrawals and drawdowns on lending facilities are varied, and the ability to access funding and to generate funds from asset portfolios is restricted. The objective is to have sufficient liquidity, in an acute stress, to continue to operate for a minimum period as detailed in the board-approved risk appetite
- Our liquidity risk parameters reflect a collection of liquidity stress assumptions which are reviewed regularly and updated as needed. These stress factors go well beyond our experience during the height of the recent financial crisis
- 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
- The balance sheet risk management team independently monitors key daily funding metrics and liquidity ratios to assess potential risks to the liquidity position, which further act as early warning indicators of potential normal market disruption
- The group centrally manages access to funds in both domestic and offshore

markets through the Corporate and Institutional Banking division

- The maintenance of sustainable prudent liquidity resources takes precedence over profitability
- Each major banking entity maintains an internal funds transfer pricing system based on prevailing market rates. The treasury function charges out the price of long- and short-term funding to internal consumers of liquidity, which ensures that the costs, benefits, and risks of liquidity are clearly and transparently attributed to business lines and are understood by business line management. The funds transfer pricing methodology is designed to signal the right incentive to our lending business
- The group maintains adequate contingency funding plans designed to protect depositors, creditors and shareholders and maintain market confidence during adverse liquidity conditions.

Our liquidity risk management reflects evolving best practice standards in light of the challenging environment. Liquidity risk management encompasses the ongoing management of structural, tactical day-to-day and contingent stress liquidity.

Management uses assumptions-based planning and scenario modelling that considers market conditions, prevailing interest rates and projected balance sheet growth, to estimate future funding and liquidity needs while taking the desired nature and profile of liabilities into account. These metrics are used to develop our funding strategy and measure and manage the execution thereof. The funding plan details the proportion of our external assets which are funded by customer liabilities, unsecured wholesale debt, equity and loan capital, thus maintaining an appropriate mix of structural and term funding, resulting in strong balance sheet liquidity ratios.

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

- Local regulatory requirements
- Contractual run-off based actual cash flows with no modelling adjustment
- 'Business as usual' normal environment where we apply rollover and reinvestment assumptions under benign market conditions
- Basel standards for liquidity measurement:
  - Liquidity Coverage Ratio (LCR)
  - Net Stable Funding Ratio (NSFR)
- Stress conditions based on statistical historical analysis, documented experience and prudent judgement
- Quantification of a 'survival horizon' under stress conditions. The survival horizon is the number of business days it takes before the bank's cash position turns negative based on statistical historical analysis, documented experience and prudent judgement
- Other key funding and balance sheet ratios
- Monitoring and analysing market trends and the external environment.

This 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 short-term liquidity stress or market disruptions in the event of either a firm-specific or general market contingent event.

We maintain a funding structure with 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. This validates our ability to generate funding from a broad range of sources in a variety of geographic locations, which enhances financial flexibility and limits dependence on any one source so as to ensure a satisfactory overall funding mix to support loan growth.

We acknowledge the importance of our private client base as the principal source of stable and well diversified funding for Investec's risk assets. We continue to develop products to attract and service the investment needs of our Private Bank client base. We also have a number of innovative retail deposit initiatives within our Private Banking division and these continued to experience strong inflows during the financial year. Fixed and notice customer deposits have continued to grow during the year and our customers display a strong 'stickiness' and willingness to reinvest in our suite of term and notice products.

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

We have instituted various offshore syndicated loan programmes to broaden and diversify term funding in supplementary markets and currencies, enhancing the proven capacity to borrow in the money markets. The group remains committed to increasing its core deposits and accessing domestic and foreign capital markets when appropriate.

Decisions on the timing and tenor of accessing these markets are based on relative costs, general market conditions, prospective views of balance sheet growth and a targeted liquidity profile.

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.

As mentioned above, we hold a liquidity buffer in the form of cash, unencumbered readily available 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 statutory requirements as protection against unexpected disruptions in cash flows. These portfolios are managed within board-approved targets, and apart from acting as a buffer under going concern conditions, also form an integral part of the broader liquidity generation strategy. Investec remains a net liquidity provider to the interbank market, placing significantly more funds with other banks than our short-term interbank borrowings. We do not rely on interbank deposits to fund term lending.

From 1 April 2015 to 31 March 2016 average cash and near cash balances over the period amounted to £4.8 billion.

The group does not rely on committed funding lines for protection against unforeseen interruptions to cash flow. We are currently unaware of any circumstances that could significantly detract from our ability to raise funding appropriate to our needs.

The liquidity contingency plans outline extensive early warning indicators, clear lines of communication and decisive crisis response strategies. Early warning indicators span bank-specific and systemic crises.

Rapid response strategies address action plans, roles and responsibilities, composition of decision-making bodies involved in liquidity crisis management, internal and external communications including public relations, sources of liquidity, avenues available to access additional liquidity, as well as supplementary information requirements required to manage liquidity during such an event.

This plan helps 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.

Asset encumbrance

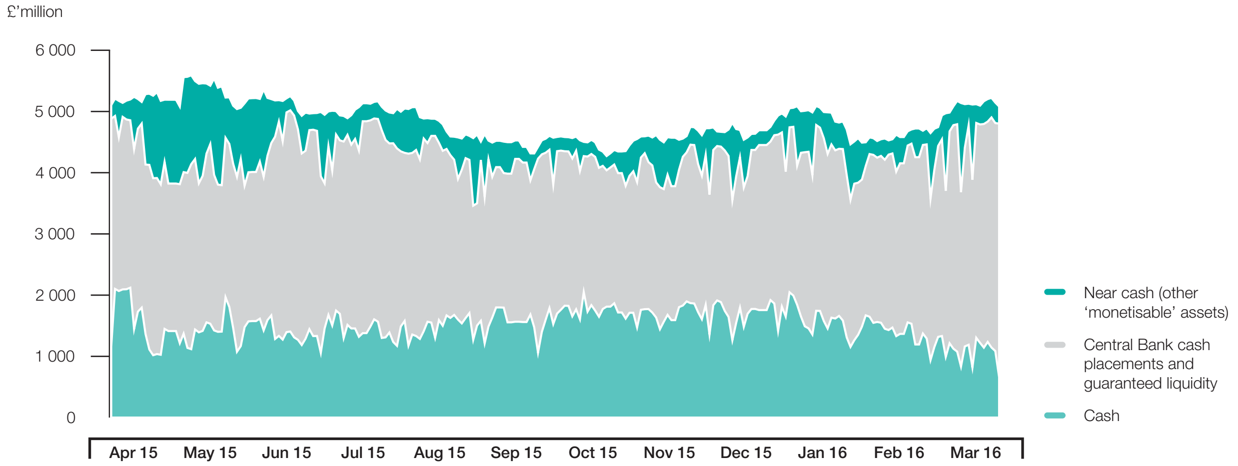
An asset is defined as encumbered if it has been pledged as collateral against an existing liability and, as a result, is no longer available to the group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. An asset is therefore categorised as unencumbered if it has not been pledged against an existing liability. Risk Management monitors and manages total balance sheet encumbrance via a board-approved risk appetite framework.

The group utilises securitisation 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 Scheme.

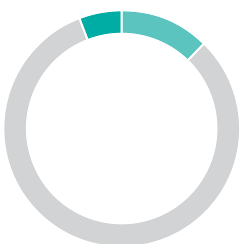
The group uses secured transactions to manage short-term cash and collateral needs. Details of assets pledged through repurchase activity and collateral pledges are reported by line item of the balance sheet on which they are reflected on page 228. Related liabilities are also reported.

On page 198 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.

CASH AND NEAR CASH TREND



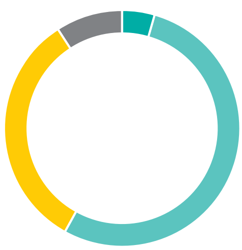
AN ANALYSIS OF CASH AND NEAR CASH AT 31 MARCH 2016



£5 046 million

12.4%	Cash
82.1%	Central Bank cash placements and guaranteed liquidity
5.5%	Near cash (other 'monetisable' assets)

BANK AND NON-BANK DEPOSITOR CONCENTRATION BY TYPE AT 31 MARCH 2016



£11 565 million

4.6%	Banks
53.5%	Individuals
33.0%	Non-financial corporates
8.9%	Small business

The liquidity position of the bank remained sound with total cash and near cash balances amounting to £5.0 billion

Liquidity mismatch

The table that follows shows our contractual liquidity mismatch.

The table will not agree directly to the balances disclosed in the balance sheet since the table incorporates cash flows on a contractual, undiscounted basis based on the earliest date on which the group can be required to pay.

The table reflects that loans and advances to customers are largely financed by stable funding sources.

With respect to the contractual liquidity mismatch:

- No assumptions are made except as mentioned below, and we record all assets and liabilities with the underlying contractual maturity as determined by the cash flow profile for each deal
- As an integral part of the broader liquidity generation strategy, we maintain a liquidity buffer in the form of unencumbered cash, government, or rated securities and near cash against both expected and unexpected cash flows
- The actual contractual profile of this asset class is of little consequence, as practically Investec would meet any unexpected net cash outflows by repo'ing or selling these securities. We have:
  - set the time horizon to 'on demand' to monetise our statutory liquid assets for which liquidity is guaranteed by the central bank;
  - set the time horizon to one month to monetise our cash and near cash portfolio of 'available-for-sale' discretionary treasury assets, where there are deep secondary markets for this elective asset class; and
  - reported the 'contractual' profile by way of a note to the tables.

With respect to the behavioural liquidity mismatch:

- Behavioural liquidity mismatch tends to display a fairly high probability, low severity liquidity position. Many retail deposits, which are included within customer accounts, are repayable on demand or at short notice on a contractual basis. In practice, these instruments form a stable base for the group's operations and liquidity needs because of the broad base of customers. To this end, behavioural profiling is applied to liabilities with an indeterminable maturity, as the contractual repayments of many customer accounts are on demand or at short notice but expected cash flows vary significantly from contractual maturity. An internal analysis model is used, based on statistical research of the historical series of products. This is used to identify significant additional sources of structural liquidity in the form of core deposits that exhibit stable behaviour. In addition, reinvestment behaviour, with profile and attrition based on history, is applied to term deposits in the normal course of business.

Contractual liquidity at 31 March 2016

£'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	2 912	624	25	1	4	–	6	3 572
Investment/trading assets	502	384	790	164	133	708	1 527	4 208
Securitised assets	–	3	–	1	4	5	138	151
Advances	288	505	718	593	1 167	3 560	1 528	8 359
Other assets	20	1 180	52	9	20	166	598	2 045
Assets	**3 722**	**2 696**	**1 585**	**768**	**1 328**	**4 439**	**3 797**	**18 335**
Deposits – banks	(24)	(130)	–	(12)	–	(249)	(112)	(527)
Deposits – non-banks	(1 274)	(3 207)	(1 596)	(1 868)	(904)	(2 052)	(137)	(11 038)
Negotiable paper	(1)	(285)	(27)	(57)	(64)	(880)	(474)	(1 788)
Securitised liabilities	–	–	(2)	(3)	(7)	(46)	(63)	(121)
Investment/trading liabilities	(11)	(115)	(84)	(76)	(267)	(217)	(420)	(1 190)
Subordinated liabilities	–	–	–	–	(22)	–	(575)	(597)
Other liabilities	(25)	(869)	(73)	(50)	(85)	(97)	(32)	(1 231)
Liabilities	**(1 335)**	**(4 606)**	**(1 782)**	**(2 066)**	**(1 349)**	**(3 541)**	**(1 813)**	**(16 492)**
Shareholders' funds	**–**	**–**	**–**	**–**	**–**	**–**	**(1 843)**	**(1 843)**
Contractual liquidity gap	**2 387**	**(1 910)**	**(197)**	**(1 298)**	**(21)**	**898**	**141**	**–**
Cumulative liquidity gap	**2 387**	**477**	**280**	**(1 018)**	**(1 039)**	**(141)**	**–**	

Behavioural liquidity

As discussed on page 83.

£'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	**4 778**	**(831)**	**445**	**(1 383)**	**(22)**	**(2 690)**	**(297)**	**–**
Cumulative	4 778	3 947	4 392	3 009	2 987	297	–	–

BALANCE SHEET RISK YEAR IN REVIEW

- Investec maintained and improved its strong liquidity position and continued to hold high levels of surplus liquid assets
- We sustained strong term funding in demanding market conditions while focusing on lowering the weighted average cost of funding
- Our liquidity risk management process remains robust and comprehensive.

The strategy to complete the normalisation of balance sheet liquidity levels following the large strategic sales in the last quarter of the previous financial year has been executed. This was achieved by mid-year through a combination of asset growth and liability management. A strong, surplus liquidity position has subsequently been maintained in line with our overall conservative approach to balance sheet risk management.

Gross asset growth has been strong throughout the year, with net asset growth strong in the second half of the year.

Both Investec Bank plc and Investec plc received ratings upgrades during the year. Moody's upgraded Investec Bank plc's long-term deposit rating first in June 2015 to A3 from Baa3, then again in February 2016 to A2 (stable outlook). Investec plc's long-term issuer rating was also upgraded by Moody's, from Ba1 to Baa3 in June 2015 to Baa2 in February 2016, and then to Baa1 on 26 April 2016. In October 2015, Investec Bank plc's long-term default rating was upgraded by Fitch to BBB (stable outlook) from BBB-.

This, together with active management of the liability channels, has supported the continued reduction of funding rates over the year. The weighted average contractual maturity of the liability book has been lengthening, to give closer matching of asset and liability maturities.

The focus continues to be on developing the retail funding strategy while maintaining good access to a diverse range of funding channels. Opportunities in the wholesale and secured funding space have been employed in a strategic manner to extend the contractual maturity of balance sheet liabilities, while avoiding refinancing risks. These include a seven-year senior unsecured bond issuance for Investec plc, a three-year syndicated loan and additional four-year BOE Funding for Lending Scheme drawings for Investec Bank plc.

The year-end cash position was particularly strong, augmented by some pre-funding of next year's anticipated asset growth at competitive levels.

Cash and near cash balances at 31 March 2016 amounted to £5.0 billion (2015: £5.0 billion). Total customer deposits increased by 4.3% to £11.0 billion at 31 March 2016 (2015: £10.6 billion). We continue to comfortably exceed regulatory liquidity requirements for the LCR and NSFR liquidity ratios.

REGULATORY CONSIDERATIONS – BALANCE SHEET RISK

In response to the global financial crisis, national and supranational regulators have introduced changes to laws and regulations designed to both strengthen and harmonise global capital and liquidity standards to ensure a strong financial sector and global economy.

Two key liquidity measures were defined:

- The liquidity coverage ratio (LCR) is designed to promote short-term resilience of one-month liquidity profile, by ensuring that banks have sufficient high-quality liquid assets to meet potential outflows in a stressed environment. The BCBS published the final calibration of the LCR in January 2013. The LCR ratio is being phased in from 2015 to 2019.
- 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. The BCBS published the final consultation document on the NSFR in October 2014. The NSFR ratio will be introduced in 2018.

The group has committed itself to implementation of the BCBS guidelines for liquidity risk measurement standards and the enhanced regulatory framework to be established. Investec has been proactively reporting on these ratios internally according to the emerging Basel definitions since February 2010. Investec already exceeds minimum requirements of these standards as a result of efforts to reshape our liquidity and funding profile where necessary.

On 1 October 2015, under European Commission Delegated Regulation 2015/16, the LCR became the PRA's primary regulatory reporting standard for liquidity. The LCR is being introduced on a phased basis, and the PRA has opted to impose higher liquidity coverage requirements during the phased-in period than the minimum required by CRD IV. UK banks are currently required to maintain a minimum of 80%, rising to 90% on 1 January 2017 and 100% on 1 January 2018.

The BCBS published its final recommendations for implementation of the NSFR in October 2014, with the minimum requirement to be introduced in January 2018 at 100%. Banks are expected to hold an NSFR of at least 100% on an ongoing basis and report its NSFR at least quarterly. Ahead of its planned implementation on 1 January 2018, the NSFR will remain subject to an observation period. We will continue to monitor these rules until final implementation.

Investec Bank plc comfortably exceeds its regulatory requirement for the LCR and NSFR liquidity ratios.

NON-TRADING INTEREST RATE RISK DESCRIPTION

Non-trading interest rate risk, otherwise known as interest rate risk in the banking book, is the impact on net interest earnings and sensitivity to economic value as a result of unexpected adverse movements in interest rates arising from the execution of our core business strategies and the delivery of products and services to our customers.

Sources of interest rate risk include:

- **Repricing risk:** arises from the timing differences in the fixed rate maturity and floating rate repricing of bank assets, liabilities and off-balance sheet derivative positions. This affects the interest rate margin realised between lending income and borrowing costs when applied to our rate sensitive portfolios
- **Yield curve risk:** repricing mismatches also expose the bank to changes in the slope and shape of the yield curve
- **Basis risk:** arises from imperfect correlation in the adjustments of the rates earned and paid on different instruments with otherwise similar repricing characteristics
- **Embedded option risk:** we are not materially exposed to embedded option risk, as contract breakage penalties on fixed-rate advances specifically cover this risk, while prepayment optionality is restricted to variable rate contracts and has no impact on interest rate risk
- **Endowment risk:** refers to the interest rate risk exposure arising from the net differential between interest rate insensitive assets, interest rate insensitive liabilities and capital.

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

MANAGEMENT AND MEASUREMENT OF NON-TRADING INTEREST RATE RISK

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 group considers the management of banking margin of vital importance, and our core non-trading interest rate risk philosophy is reflected in day-to-day practices which encompass the following:

- The group complies with the BCBS framework for assessing banking book (non-trading) interest rate risk
- The management of interest rate risk in the banking book is centralised within the Central Treasury function and Treasury is mandated by the board to actively manage the liquidity mismatch and non-trading interest rate risk arising from our asset and liability portfolios
- Treasury is the primary interface to the wholesale market
- The treasurer is required to exercise tight control of funding, liquidity, concentration and non-trading interest rate risk within parameters defined by the risk appetite policy
- Internal capital is allocated for non-trading interest rate risk
- The risk appetite is clearly defined by the board in relation to both earnings risk and economic value risk. In addition, each geographic entity has its own board-approved policies with respect to non-trading interest rate risk
- The non-trading interest rate risk policy dictates that long-term non-trading interest rate risk is materially eliminated. In accordance with the policy, interest rate swaps are used to swap fixed deposits and loans into variable rate in the wholesale market
- 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 ALCO
- It is the responsibility of the liability product and pricing forum, a sub-committee of ALCO, to review the liquidity, interest rate and concentration characteristics of all new products and approve their issuance, ensuring that both standard and non-standard deposit products, particularly those designed for the Private Banking customers, both match market curves and can be hedged if necessary
- Pricing for all deposit products is set centrally. In doing so we manage access to funding at cost-effective levels, considering also the stressed liquidity value of the liabilities
- Balance Sheet Risk Management independently measures and analyses both traditional interest rate repricing mismatch and net present value (NPV) sensitivity to changes in interest rate risk factors, detailing the sources of interest rate exposure
- The bank maintains an internal funds transfer pricing system based on prevailing market rates which charges out the price of long- and short-term funding to consumers of liquidity and provides long-term stable funding for our asset creation activity
- Daily management of interest rate risk is centralised within Treasury and is subject to independent risk and ALCO review
- 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. We detail the sources of interest rate exposure, whether repricing risk, yield curve risk, basis risk or embedded option risk. This is performed for a variety of interest rate scenarios, covering:
  - Interest rate expectations and perceived risks to the central view
  - Standard shocks to levels and shapes of interest rates and yield curves
  - Historically-based yield curve changes.

This is consistent with the standardised interest rate measurement recommended by the Basel framework for assessing interest rate risk in the banking book (non- trading interest rate risk).

- The aim is to protect and enhance net interest income and economic value in accordance with the board-approved risk appetite and ensure a high degree of net interest margin stability over an interest rate cycle. Economic value measures have the advantage that all future cash flows are considered and therefore can highlight risk beyond the earnings horizon. The repricing gap provides a basic representation of the balance sheet, with the sensitivity of earnings to changes to interest rates calculated off the repricing gap. This allows for the detection of interest rate risk by concentration of 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

- We carry out technical interest rate analysis and economic review of fundamental developments by geography, the results of this evaluation are used to estimate a set of forward-looking interest rate scenarios incorporating movements in the yield curve level and shape, after taking global trends into account
- These combinations of measures provide senior management (and the ALCOs) with an assessment of the financial impact of identified rate changes on potential future net interest income and sensitivity to changes in economic value
- Our risk appetite policy requires that interest rate risk arising from fixed interest loans is transferred from the originating business to the Central Treasury function by match-funding. In turn, Central Treasury hedges material fixed rate assets with a term of more than one year on a deal-by-deal basis with the use of variable versus fixed interest rate swaps. The market for these vanilla swaps is deep, with the result that such hedging is efficient. Likewise, Central Treasury also hedges all fixed rate deposits with a term of more than one year to variable rate. These derivative hedging trades are executed with the bank's interest rate trading desk. Limits exist to ensure there is no undesired risk retained within any business or product area.

Operationally, non-trading interest rate risk is transferred within pre-defined guidelines from the originating business to the Central Treasury function and aggregated or netted providing Central Treasury with a holistic view of the exposure. Central Treasury then implements appropriate balance sheet strategies to achieve a cost-effective source of funding and mitigates any residual undesirable risk where possible, by changing the duration of the banking group's discretionary liquid asset portfolio, or through derivative transactions which transfer the risk into the trading books within the Corporate and Institutional Banking division to be traded with the external market. The treasury mandate allows for a tactical response to market opportunities which may arise during changing interest rate cycles. Any resultant interest rate position is managed under the market risk limits.

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

The BCBS has indicated that after completing and embedding the current reforms (covering capital, leverage and liquidity), the capital framework for interest rate risk on the banking book will be revisited. In part this is due to the increase in the quantum of high-quality liquid assets (HQLA) which banks will need to hold in meeting the new liquidity ratios and the potential increase in interest rate risk thereon. The expectation is that Basel will produce additional documents in the next year on minimum standards for interest rate risk measurement in the banking book.

Interest rate sensitivity gap

The table below shows our non-trading interest rate mismatch at 31 March 2016. 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	3 392	–	–	–	–	–	3 392
Investment/trading assets and statutory liquids	1 376	107	23	335	750	–	2 591
Securitised assets	151	–	–	–	–	–	151
Advances	6 398	622	263	711	365	–	8 359
Other assets	–	–	–	–	–	1 993	1 993
Assets	**11 317**	**729**	**286**	**1 046**	**1 115**	**1 993**	**16 486**
Deposits – banks	(352)	(12)	–	–	–	–	(364)
Deposits – non-banks	(8 696)	(786)	(959)	(596)	(1)	–	(11 038)
Negotiable paper	(885)	(34)	(10)	(488)	(265)	–	(1 682)
Securitised liabilities	(121)	–	–	–	–	–	(121)
Subordinated liabilities	(4)	–	(18)	–	(575)	–	(597)
Other liabilities	(52)	–	–	–	–	(789)	(841)
Liabilities	**(10 110)**	**(832)**	**(987)**	**(1 084)**	**(841)**	**(789)**	**(14 643)**
Shareholders' funds	–	–	–	–	–	**(1 843)**	**(1 843)**
Balance sheet	**1 207**	**(103)**	**(701)**	**(38)**	**274**	**(639)**	**–**
Off-balance sheet	**769**	**185**	**(114)**	**(95)**	**(745)**	**–**	**–**
Repricing gap	**1 976**	**82**	**(815)**	**(133)**	**(471)**	**(639)**	**–**
Cumulative repricing gap	**1 976**	**2 058**	**1 243**	**1 110**	**639**	**–**	

Economic value sensitivity at 31 March 2016

For the reasons outlined above, our preference for monitoring and measuring non-trading interest rate risk is economic value sensitivity. 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	(64.5)	(8.2)	(11.7)	1.3	(6.3)	0.1	(78.3)
200bps up	58.0	8.8	16.2	(1.3)	6.3	(0.1)	72.9

Operational risk

OPERATIONAL RISK DEFINITION

Operational risk is defined as any instance where there is potential or actual impact to the group resulting from failed internal processes, people, systems or from external events. The impacts can be financial as well as non-financial such as customer detriment, reputational or regulatory consequences.

Operational risk is an inherent risk in the operations of a specialist bank and asset management group. The group aims to appropriately identify and manage operational risk within acceptable levels by adopting sound operational risk management practices which are integrated into an overall risk management framework which is fit for purpose.

OPERATIONAL RISK MANAGEMENT FRAMEWORK

The group continues to operate under the standardised approach (TSA) to operational risk for regulatory capital purposes. The framework which includes policies and procedures is embedded at all levels of the group, supported by the risk culture and enhanced on a continual basis as the discipline matures and in line with regulatory developments.

Practices and processes are supported by an operational risk management system which facilitates the identification, assessment and mitigation of operational risk.

Practices consist of the following:

	RISK AND CONTROL ASSESSMENT	INTERNAL RISK EVENTS	EXTERNAL RISK EVENTS	KEY RISK INDICATORS	SCENARIOS AND CAPITAL CALCULATION	REPORTING
DESCRIPTION	Qualitative assessments that identify key operational risks and controls	Incidents resulting from failed systems, processes, people or external events	Access to an external data provider relating to operational risk events that occur in the global financial services industry	Metrics are used to monitor risk exposures identified against thresholds	Extreme, yet plausible scenarios are evaluated for financial and non-financial impacts	Reporting and escalation framework in place
PURPOSE	Identifies ineffective controls and improves decision-making through an understanding of the operational risk profile	A causal analysis is performed and enables business to identify trends in risk events and address control weaknesses	Events are used to raise management awareness and as input to risk assessment and scenario analysis	Assists in predictive capability and assessing the risk profile of the business	Measure exposures arising from key risks which are considered in determining internal operational risk capital requirements	Ensures that risk events and exposures are identified and appropriately escalated and managed

GOVERNANCE

The governance structure relating to operational risk forms an integral part of the operational risk management framework.
The structure adopted to manage operational risk is supported and enforced by a level of defence model and includes principles relating to combined assurance.

ASSURANCE

BOARD AND BOARD COMMITTEES	EXTERNAL ASSURANCE AND SUPERVISION	INTERNAL ASSURANCE	INDEPENDENT OPERATIONAL RISK MANAGEMENT	BUSINESS UNIT MANAGEMENT
• Determination of the risk appetite and tolerance of the bank • Monitor and review operational risk exposures • Approval of the operational risk management framework.	• External assessment of operational risk environment • Onsite reviews by the FCA, PRA and other regulators.	• Independent review of framework and its effectiveness • Audit findings considered as part of the operational risk management process.	• Challenge and review business unit practices and data • Maintain operational risk management framework including policies and procedures • Report to board and board committees on operational risk events and current and emerging exposures.	• Identify, own and mitigate operational risk • Establish and maintain appropriate operational risk and control environment.

RELIANCE

RISK APPETITE AND TOLERANCE

The Operational Risk Tolerance policy defines the amount of operational risk exposure, or potential adverse impact from a risk event, that the bank is willing to accept or retain. The objective of the policy is to encourage action and mitigation of risk exposures and provides management with the guidance to respond appropriately. Additionally, the policy defines capturing and reporting thresholds for risk events and guidance to respond to key risk indicators appropriately.

LOOKING FORWARD

Key operational risk considerations

DEFINITION OF RISK	MITIGATION APPROACH	PRIORITY FOR 2016/17
CYBERSECURITY		
Risk associated with cyberattacks, including disruption of client-facing systems, data theft, cyber terrorism and espionage	• Maintaining a robust cybersecurity strategy focusing on prediction, detection, prevention and response • Sharing of threat information with relevant peers, law enforcement and industry bodies	• Active involvement of cybersecurity teams during systems development, ensuring applications are secure by design • Maintenance and testing of security incident breach response processes ensuring that these are consistent, coordinated and global in nature • Ongoing research into the latest cyberattack methods and revising controls to ensure the group is adequately protected
FINANCIAL CRIME		
Risk associated with fraud, bribery, corruption, theft, money laundering, terrorist financing, tax evasion, forgery and integrity misconduct by staff, clients, suppliers and other stakeholders	• Identify and assess financial crime risks holistically in clients, sectors and markets • Consistent implementation of standards to prevent, detect, deter and respond to all financial crime incidents • Targeted training for the specific risk roles and regular campaigns to all employees to raise awareness of financial crime risk and associated policies and to encourage escalation • Operate an integrity line which allows employees to make disclosures including regulatory breaches, allegations of bribery, fraud and corruption, and non-compliance with policies	• Proactive strategy for the effective prevention, detection and investigation measures of all financial crime types which includes business and client risk assessments • Development of financial crime prevention policies and practices which comply with regulations, industry guidance and best practices • Regular delivery of management information focused on key risk indicators • Review external and industry events by engaging with external partners and stakeholders • Increased and enhanced monitoring, analysis of root causes and review of internal controls to enhance defences against external attacks
INFORMATION SECURITY		
Risk associated with the confidentiality, integrity and availability of information assets. This includes its unauthorised access, use, disclosure, modification or destruction	• Understanding what critical information assets are and the threats to which they are exposed • Ensuring appropriate and robust security controls are in place • Raising awareness with relevant stakeholders of policies relating to information security and their responsibility in protecting information	• Identification and classification of most valuable and confidential information assets • Implementation and monitoring of information security policies, standards, processes and technical controls designed to mitigate the risks introduced by the information supply chain • Align practices with the rapidly changing legal and regulatory requirements to safeguard information
PROCESS FAILURE		
Risk associated with inadequate internal processes, including human errors and control failures within the business. This includes process origination, execution and operations	• Proactive risk identification and assessment relating to new products and projects to implement adequate and effective controls • Continuous process improvements including automation of workflow • Segregation of incompatible duties and appropriate authorisation controls	• Causal analyses 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 applications of controls • Effective management of change remains a priority
REGULATORY AND COMPLIANCE		
Risk associated with identification, implementation and monitoring of compliance with regulations	• Alignment of regulatory and compliance approach to reflect new regulatory landscapes • Managing business impact and implemented challenges as a result of significant volumes of statutory and regulatory changes and developments • Ensuring existing monitoring remains focused appropriately as areas of conduct and regulatory risk develop	• Group Compliance and Group Legal assist in the management of regulatory and compliance risk • Identification and adherence to legal and regulatory requirements • Review practices and policies as regulatory requirements change
TECHNOLOGY		
Risk associated with the reliance on technology to support business processes and client services. This relates to the ownership and usage of IT systems across the business	• Enhancing resilience of technical infrastructure and process to IT failures or service interruptions • Identifying, monitoring and reducing risks in the digital channel, following the introduction of mobile applications and increased online presence	• Ongoing identification and remediation of vulnerabilities identified in IT systems, applications and processes • Establishing appropriate IT resilience to support our global digital offerings and 24/7 business services • Maintaining and testing IT recovery capabilities to safeguard against disruptions that may result from systems failures or IT service outages

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

Insurance

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

Business continuity management

The group continues to enhance its global business continuity management capability which incorporates an appropriate level of resilience built into the bank's operations to lessen the impact of severe operational disruptions.

In the event of a major interruption, incident management teams will respond accordingly to manage the disruption. Continuity will be achieved through a flexible and adaptable response, which includes relocating impacted business to the designated recovery site and the reliance on highly available technological solutions. Dedicated resources ensure all governance processes are in place with business and technology teams responsible for ensuring the recovery process meets key business requirements to support client and industry expectations.

The group conducts regular business continuity exercises and testing of recovery strategies to ensure that its recovery capability remains appropriate and fit-for-purpose.

We are active participants in risk mitigation discussions amongst industry bodies to ensure we stay abreast with industry views, concerns and associated collaborative efforts to minimise the risk of interruptions.

Recovery and resolution planning

The recovery plan for Investec plc group:

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

A significant addition to the EU legislative framework for financial institutions has been the Bank Recovery and Resolution Directive (BRRD) which establishes a framework for the recovery and resolution of EU credit institutions and investment firms. In the EU, the BRRD was adopted in June 2014 by the European Commission. The BRRD came into effect from 1 January 2015, with the option to delay implementation of bail-in provisions until January 2016. Regardless of this, the UK introduced bail-in powers from 1 January 2015. The UK transposition of the BRRD builds on the resolution framework already in place in the UK.

As implemented, the BRRD gives resolution authorities powers to intervene in and resolve a financial institution that is no longer viable, including through the transfers of business and, when implemented in relevant member states, creditor financed recapitalisation (bail-in within resolution) that allocates losses to shareholders and unsecured and uninsured creditors in their order of seniority, at a regulator determined point of non-viability that may precede insolvency. The concept of bail-in will affect the rights of unsecured creditors subject to any bail-in in the event of a resolution of a failing bank.

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

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.

In a consultation paper published in 2015, the BoE indicated that during 2016 it will notify banks of their final MREL requirements which will be phased in from 1 January 2016 to 1 January 2020.

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

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

Reputational and strategic risk

Reputational risk is damage to our reputation, name or brand. Reputational risk is often associated with strategic decisions made by the board and also arises as a result of other risks manifesting and not being 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 value assessment, internal audit and regulatory compliance review, and risk management practices. Strategic and reputational risk is mitigated as much as possible through these detailed processes and governance/escalation procedures from business units to the board, and from regular, clear communication with shareholders, customers and all stakeholders. In addition, Investec's policy is to avoid any transaction, service or association which may bring with it the risk of a potentially unacceptable level of damage to our reputation. Transaction approval governance structures such as credit, engagement and new product committees have therefore been tasked with this responsibility in relation to all new business undertaken. A disclosure and public communications policy has also been approved by the board.

Pension risk

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

There are two defined benefit schemes within Investec plc and both are closed to new business. Pension risk arises if the net present value of future cash outflows is greater than the current value of the asset pool set aside to cover those payments.

Primary sources of risk include:

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

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

Further information is provided on pages 217 to 221.

Legal risk management

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

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

The scope of our activities is continuously reviewed and includes the following areas:

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

The legal risk policy is implemented through:

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

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

A legal risk forum is constituted in each significant legal entity within the group. Each forum meets at least half-yearly and more frequently where business needs dictate, and is chaired by the global head of legal risk or an appointed deputy.

Conduct risk

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

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

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

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

Capital management and allocation

Investec Limited (and its subsidiaries) and Investec plc (and its subsidiaries) are managed independently and have their respective capital bases ring-fenced, however, the governance of capital management is consistent across the two groups. The DLC structure requires the two groups to independently manage each group's balance sheet and hence capital is managed on this basis. This approach is overseen by the BRCC (via the Investec DLC capital committee) which is a board sub-committee with ultimate responsibility for the capital adequacy of both Investec Limited and Investec plc.

The following provides a brief outline of the regulatory environment relevant to the bank's capital management framework.

REGULATORY CAPITAL

Current regulatory framework

Investec Bank plc is authorised by the PRA and is regulated by the FCA and the PRA on a solo-consolidated basis. Since 1 January 2014 Investec Bank plc has been calculating capital resources and requirements using the Basel III framework, as implemented in the European Union through the Capital Requirements Directive IV (CRD IV). The bank continues to phase in the remaining CRD IV rule changes, notably the grandfathering provisions applicable to non-qualifying capital instruments (reducing by 10% per annum until fully derecognised in 2022) and the transitional arrangements applicable to additional tier 1 and tier 2 capital which continue to be phased out at 20% per annum, until 1 January 2018.

From 1 January 2015, UK banks are required to meet the new minimum capital requirements as prescribed by CRD IV. The common equity tier 1 capital requirement increased from 4% to 4.5% of risk-weighted assets, while the tier 1 capital requirement increased from 5.5% to 6% of risk-weighted assets. In addition Investec Bank plc continues to meet 56% of its individual capital guidance, as determined by the internal capital adequacy assessment and supervisory review process, with common equity tier 1 capital.

In July and August 2015, the PRA published its final policy and supervisory statement setting out the revisions to the new Pillar II capital framework, including introducing the PRA's methodologies for setting Pillar II capital. The new framework took effect on 1 January 2016 and includes the introduction of the PRA buffer, which has replaced the Capital Planning Buffer (known as Pillar IIB). The PRA buffer will also need to be met from common equity tier 1 capital, and will be transitioned in at 25% per annum, until fully phased in by January 2019. All firms are subject to a PRA buffer assessment and the PRA will set a PRA buffer only if it judges that the CRD IV buffers are inadequate for a particular firm given its vulnerability in a stress scenario, or where the PRA has identified risk management and governance failings, which the CRD IV buffers are not intended to address.

In line with the CRD IV provision on capital buffers, in the UK firms are required to meet a combined buffer requirement in addition to their Pillar I and Pillar II capital requirements. The combined buffer includes the capital conservation buffer and countercyclical capital buffer and must be met with common equity tier 1 capital. The buffer for global systemically important institutions (G-SIIs) and the systemic risk buffer do not apply to Investec Bank plc and will not be included in the combined buffer requirement. From 1 January 2016 Investec Bank plc began phasing in the capital conservation buffer at 0.625% of risk-weighted assets. An additional 0.625% of risk-weighted assets will be phased-in each year until fully implemented by 1 January 2019. Investec Bank plc is also subject to the countercyclical capital buffer requirement, which is calculated based on the relevant exposures held in jurisdictions in which a buffer rate has been set. As at 31 March 2016, three jurisdictions have implemented countercyclical buffer rates. Norway and Sweden have set a rate of 1% effective from 3 October 2015 and have indicated the rate will rise to 1.5% in June 2016; and Hong Kong has implemented a rate of 0.625% from 27 January 2016. This rate is also expected to rise to 1.25% from January 2017. In the UK, the Financial Policy Committee (FPC) has maintained the rate at 0% for UK exposures, but has announced that this rate will rise to 0.5% from 29 March 2017.

The firm continues to hold capital in excess of all the new capital requirements and buffers.

Investec Bank plc uses the standardised approach to calculate its credit and counterparty credit risk, securitisation and operational risk capital requirements. The mark-to-market method is used to calculate the counterparty credit risk exposure amount. The market risk capital requirement is calculated using the standardised approach. For certain options, the group has obtained permission from the PRA to use an internal model to calculate the delta for these positions.

Subsidiaries of Investec Bank plc may be subject to additional regulations, as implemented by local regulators in other relevant jurisdictions. Where capital is a relevant consideration, management within each regulated entity pays close attention to prevailing local regulatory rules as determined by their respective regulators. For capital management purposes, it is the prevailing rules applied to the consolidated Investec Bank plc group and solo-consolidated bank 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 requirements at all times.

Regulatory considerations

The regulatory environment has continued to evolve during 2016, with a vast number of new consultations, regulatory and implementing technical standards and other proposals being published or adopted, notably by the PRA, the BCBS and the European Banking Authority (EBA).

INTERNATIONAL

Credit Valuation Adjustment (CVA) risk

In July 2015 the BCBS issued for consultation the revised credit valuation risk framework, which takes into account the market risk exposure component of CVA risk. The BCBS will ensure the revisions to this framework are consistent with the revised market risk framework. The proposals will be subject to a Quantitative Impact Study (QIS), which will inform the final calibration of the framework. No implementation timelines have been set.

Simple, Transparent and Comparable (STC) securitisations

In November 2015, the BCBS released a consultation document on the capital treatment for STC securitisations. These proposals build on the revised securitisation framework adopted in December 2014. The criteria for identifying STC securitisations were published in July 2015 and the committee is proposing to reduce the minimum capital requirements for such securitisations positions. A range of potential reductions in capital charges is suggested and a final decision on the calibration will take place in 2016.

Credit risk

The BCBS continues to consult on revisions to the standardised approach for credit risk and in December 2015 issued a second consultation paper, addressing concerns raised by respondents to the first consultation. The proposals reintroduced the use of external ratings in a non-mechanistic manner for exposures to banks and corporates. The proposed risk weighting of real estate loans has also been modified, with the loan-to- value ratio as the main risk driver and the committee proposes that the assessment of a borrower's ability to pay become a key underwriting criterion. The committee will conduct a comprehensive QIS in 2016 and the information collected will help inform the overall calibration of the new standard to ensure adequate capitalisation and consistency with other components of the capital framework. Prior to finalising the framework by the end of 2016, the committee will consider this proposal along with all other reforms currently under discussion to ensure sufficient time is given for implementation.

Market risk

In January 2016, the BCBS published the revised market risk framework which will take effect on 1 January 2019. The new framework revises the boundary between the banking book and trading book to reduce scope for arbitrage, provides a revised internal models approach and a revised standardised approach which will serve as a credible fall-back and floor to the model-based approach. Over the implementation period the committee will monitor the capital impact of the revised standard to ensure consistency in the overall calibration of the Basel capital framework.

Operational risk

In March 2016, the BCBS released a consultation paper proposing revisions to the operational risk capital framework. The proposed revisions build on the earlier consultation issued by BCBS in October 2014, in particular the new standardised measurement approach will replace the three existing approaches, significantly simplifying the regulatory framework. The committee plans to conduct a QIS to help inform the calibration of the proposed standard. No implementation timeline has been set.

All the revised standards published by the BCBS, including the revised counterparty credit risk and securitisation frameworks adopted in 2014, will need to be adopted by the European Commission before they become binding on UK firms.

UK

Leverage ratio

In July 2015, the FPC directed the PRA to implement a UK leverage ratio framework. The PRA subsequently published a consultation paper setting out how they intended to meet the FPC's direction and in December 2015 issued a final policy statement. The UK leverage ratio framework is applicable to all PRA-regulated banks and building societies with retail deposits equal to or greater than £50 billion on an individual or a consolidated basis. Firms in scope of the framework will be required to meet a 3% minimum leverage ratio requirement, and to assess that they hold an amount of common equity tier 1 capital that is greater than or equal to their countercyclical leverage ratio buffer and, if the firm is a global systemically important institution (G-SII), its G-SII additional leverage ratio buffer from 1 January 2016.

Investec Bank plc is not within the scope of this framework and will therefore not be subject to the additional leverage ratio reporting and disclosure requirements.

Minimum requirement for own funds and eligible liabilities (MREL)

In December 2015, the Bank of England (BoE) published its approach to setting MREL. The consultation paper sets out the BoE's proposed policy for exercising its powers, under the EU Bank Recovery and Resolution Directive and associated UK legislation, to direct institutions to maintain a minimum MREL requirement. The purpose of MREL is to help ensure that when banks, building societies and investment firms fail, that failure can be managed in an orderly way while minimising risk to financial stability, disruption to critical economic functions, and risk to public funds. The BoE, as resolution authority, is required to determine an amount necessary for loss absorption in resolution and an amount necessary for recapitalisation. The sum of these amounts constitutes a firm's MREL. The BoE is required to set MREL in line with the statutory requirements set out in the Bank Recovery and Resolution Directive and EBA's technical standards, which were published in final draft format in July 2015.

In parallel, the PRA published a consultation paper in December 2015 setting out the relationship between MREL and regulatory buffers. In this consultation the PRA proposes that firms should not be able to double count common equity tier 1 capital towards MREL and risk-weighted capital and leverage buffers.

Other systemically important institutions (O-SIIs)

In October 2015, the PRA issued a consultation paper setting out the criteria and scoring methodology to identify O-SIIs under the Capital Requirements Directive. In February 2016, the PRA issued its final policy statement and released its 2015 list of UK firms designated as O-SIIs. The PRA will conduct the O-SII identification annually and will publish the list of firms designated as O-SIIs by 1 December each year. O-SIIs, under the UK government's current implementation of the CRD, are not required to maintain additional capital buffers. Investec Bank plc has not been designated an O-SII for 2015.

EUROPE

Leverage ratio disclosure

In February 2016, the European Commission adopted implementing technical standard 2016/200, establishing a common set of disclosure requirements for the leverage ratio, which took effect immediately in Europe. These disclosure requirements form part of the Pillar III disclosure requirements as set out in Part 8 of the Capital Requirements Regulation.

CAPITAL AND LEVERAGE RATIO TARGETS

Capital

Over recent years, capital adequacy standards for banks have been raised as part of attempts to increase the stability and resilience of the global banking sector. Investec Bank plc has always held capital in excess of regulatory requirements and continues to remain well capitalised. Accordingly, we are targeting a minimum common equity tier 1 capital ratio of above 10% by March 2016, a tier 1 capital ratio of above 11% by March 2016 and a total capital adequacy ratio target in the range of 14% to 17%. These targets are continuously assessed for appropriateness.

Leverage

Investec Bank plc is currently targeting a leverage ratio above 6%, but will continue to reassess this target for appropriateness pending the outcome of the EBA's report in July 2016.

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

In the UK, the leverage ratio is a non-risk based measure, with public disclosure applicable from 1 January 2015 applying the rules set out in the leverage ratio delegated Act. The leverage ratio is subject to a monitoring period from 1 January 2014 to 30 June 2016, at which point the EBA will report to the European Commission suggesting adequate calibration and appropriate adjustments to the capital and total exposure measure.

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 are responsible for monitoring the risk of excessive leverage.

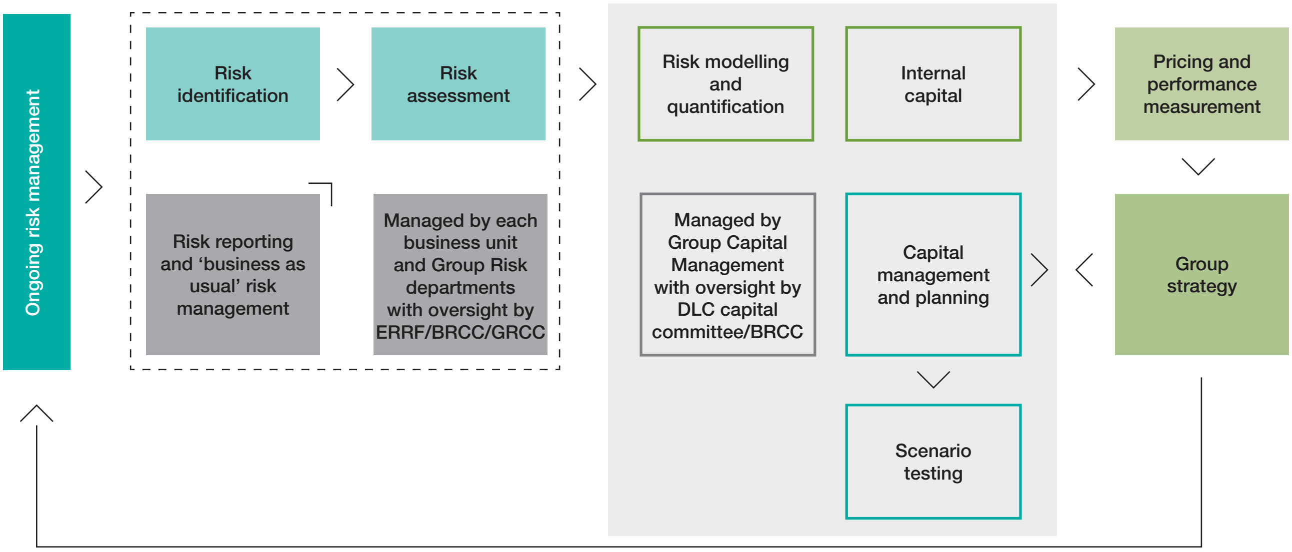
CAPITAL MANAGEMENT

Philosophy and approach

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

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

THE (SIMPLIFIED) INTEGRATION OF RISK AND CAPITAL MANAGEMENT



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 Supervisory Review and Evaluation Process (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.

RISK ASSESSMENT AND REPORTING

We review the business continuously to maintain a close understanding of our universe of risks, which are analysed through the risk management governance framework under stewardship of BRCC. Key risks are reviewed and debated by senior management on a continuous basis. Assessment of the materiality of risks is directly linked to the board's stated risk appetite and approved risk management policies covering all key risks.

Key identified risks are monitored by Group Risk Management and by Internal Audit to ensure that each risk is managed to an acceptable level. Detailed performance and control metrics of these risks are reported to each ERRF and BRCC meeting including, where appropriate, the results of scenario testing. Key risk types that are considered, fall within the following categories:

- Credit and counterparty risk
- Market risk
- Equity and investment risk in the banking book
- Balance sheet liquidity and non-trading interest rate risk
- Operational, conduct and reputational risk
- Legal risk (considered within operational risk for capital purposes).

Each of these risk categories may consist of a number of specific risks, each of which are analysed in detail and managed by ERRF, GRCC and BRCC.

RISK MODELLING AND QUANTIFICATION (INTERNAL CAPITAL)

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

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

- Credit and counterparty risk, including:
  - underlying counterparty risk;
  - concentration risk; and
  - securitisation risk.
- Market risk
- Equity and investment risk held in the banking book
- Balance sheet risk, including:
  - liquidity; and
  - banking book interest rate risk.
- Strategic and reputational risk
- Pension risk
- Operational risk, which is considered as an umbrella term and covers a range of independent risks including, but not limited to fraud, litigation, business continuity, outsourcing and out of policy trading. The specific risks covered are assessed dynamically through constant review of the underlying business environment.

CAPITAL PLANNING AND STRESS/SCENARIO TESTING

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

Capital planning is performed regularly, 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, we stress the capital plans based on conditions most likely to place us under duress. The conditions themselves are agreed by the DLC capital committee after research and consultation with relevant internal experts. 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 alternate market or operating conditions on any of the above.

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

PRICING AND PERFORMANCE MEASUREMENT

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

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

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

ACCOUNTING AND REGULATORY TREATMENT OF GROUP SUBSIDIARIES

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

BASIS OF CONSOLIDATION

The regulatory basis of consolidation differs from the basis of consolidation used for financial reporting purposes. The financial accounting position of the group is reported under IFRS and is described on page 148 of the annual financial statements.

The regulatory consolidation includes all financial sector subsidiaries, the majority of which are wholly owned by the relevant parent company. Investments in financial sector associates are equity accounted in the financial accounting consolidation. In the regulatory consolidation we proportionally consolidate our exposures to financial sector associates. Subsidiaries and associates engaged in non-financial activities are excluded from the regulatory consolidation. In addition SPEs are not consolidated for regulatory purposes, where significant credit risk has been transferred to third parties. The positions the firm continues to hold in these securitisation SPEs will either be risk-weighted and/ or deducted from common equity tier 1 capital.

The principal SPE excluded from the regulatory scope of consolidation is Tamarin Securities Limited.

Investec Bank plc, a regulated subsidiary of Investec plc, applies the provisions laid down in article 9 of the Capital Requirements Regulation (solo- consolidation waiver) and reports to the PRA on a solo-consolidation basis. Investec Bank plc has two solo-consolidation subsidiaries namely Investec Finance plc and Investec Investments (UK) Limited.

There are no current or foreseen material practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities among the parent undertaking and its subsidiary undertakings.

The table which follows reconciles the Investec Bank plc group's financial accounting balance sheet to the regulatory scope balance sheet.

The alphabetic references included in the reconciliation provide a mapping of the balance sheet items to elements included in the capital structure table, set out on page 103.

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

A detailed list of principal subsidiaries and associates included in the financial accounting scope of consolidation are disclosed on pages 235 to 237.

REGULATORY CAPITAL AND REQUIREMENTS

Regulatory capital is divided into three main categories, namely common equity tier 1, tier 1 and tier 2 capital and comprise the following:

- Common equity tier 1 capital comprises shareholders' equity and related eligible non-controlling interests after giving effect to deductions for disallowed items (for example, goodwill and intangible assets) and other adjustments
- Additional tier 1 capital includes qualifying capital instruments that are capable of being fully and permanently written down or converted into common equity tier 1 capital at the point of non-viability of the firm, and other additional tier 1 instruments, which no longer qualify as additional tier 1 capital and are subject to grandfathering provisions and related eligible non-controlling interests
- Tier 2 capital comprises qualifying subordinated debt and related eligible non-controlling interests and other tier 2 instruments, which no longer qualify as tier 2 capital and are subject to grandfathering provisions.

CAPITAL REQUIREMENTS COUNTRY-BY-COUNTRY REPORTING

HM Treasury has transposed the requirements set out under CRD IV and issued the Capital Requirements Country-by-Country Reporting Regulations 2013. The legislation requires the bank to publish certain additional information in respect of the year ended 31 March 2016. This information will be available on the Investec group website.

CAPITAL DISCLOSURES

The composition of our regulatory capital under a Basel III/CRD IV basis is provided in the table below.

RECONCILIATION OF THE FINANCIAL ACCOUNTING BALANCE SHEET TO THE REGULATORY SCOPE OF CONSOLIDATION

At 31 March 2016 £'million	Ref^	Accounting balance sheet	Deconsolidation of non-financial/other entities	Consolidation of banking associates	Regulatory balance sheet
Cash and balances at central banks		2 638	–	–	2 638
Loans and advances to banks		935	(78)	4	861
Reverse repurchase agreements and cash collateral on securities borrowed		557	–	–	557
Sovereign debt securities		1 253	–	–	1 253
Bank debt securities		188	–	–	188
Other debt securities		404	–	–	404
Derivative financial instruments		843	–	–	843
Securities arising from trading activities		524	–	–	524
Investment portfolio		420	–	–	420
Loans and advances to customers		7 781	–	–	7 781
Other loans and advances		578	32	–	610
Other securitised assets		151	–	–	151
Capital invested in insurance and other entities		–	2	–	2
Interests in associated undertakings		17	–	(12)	5
Deferred taxation assets		72	–	–	72
of which:					
– relates to losses carried forward	a	8	–	–	8
– relates to temporary differences		35	–	–	35
Other assets		1 453	(16)	9	1 446
Property and equipment		53	(20)	–	33
Investment property		79	–	–	79
Goodwill	b	262	–	7	269
Intangible assets	b	127	–	–	127
Total assets		**18 335**	**(80)**	**8**	**18 263**

^ *The references identify balance sheet components which are used in the calculation of regulatory capital.*

RECONCILIATION OF THE FINANCIAL ACCOUNTING BALANCE SHEET TO THE REGULATORY SCOPE OF CONSOLIDATION *(continued)*

At 31 March 2016 £'million	Ref^	Accounting balance sheet	Deconsolidation of non-financial/ other entities	Consolidation of banking associates	Regulatory balance sheet
Deposits by banks		527	(75)	–	452
Derivative financial instruments		964	–	–	964
Other trading liabilities		227	–	–	227
Repurchase agreements and cash collateral on securities lent		281	–	–	281
Customer accounts (deposits)		11 038	93	–	11 131
Debt securities in issue		1 509	(104)	–	1 405
Liabilities arising on securitisation of other assets		121	26	–	147
Current taxation liabilities		141	–	–	141
Deferred taxation liabilities		26	(3)	–	23
of which:					
– in respect of acquired intangibles	b	21	–	–	21
Other liabilities		1 061	–	8	1 069
Subordinated liabilities		597	–	–	597
of which:					
– term subordinated debt included in tier 2 capital	c	597	–	–	597
Total liabilities		**16 492**	**(63)**	**8**	**16 437**
Shareholders' equity excluding non-controlling interests	d	1 844	(17)	–	1 827
Non-controlling interests	e	(1)	–	–	(1)
Total equity		**1 843**	**(17)**	**–**	**1 826**
Total liabilities and equity		**18 335**	**(80)**	**8**	**18 263**

^ *The references identify balance sheet components which are used in the calculation of regulatory capital.*

RECONCILIATION OF THE FINANCIAL ACCOUNTING BALANCE SHEET TO THE REGULATORY SCOPE OF CONSOLIDATION *(continued)*

At 31 March 2015 £'million	Ref^	Accounting balance sheet	Deconsolidation of non-financial/other entities	Consolidation of banking associates	Regulatory balance sheet
Cash and balances at central banks		2 181	–	–	2 181
Loans and advances to banks		829	(33)	5	801
Reverse repurchase agreements and cash collateral on securities borrowed		1 448	–	–	1 448
Sovereign debt securities		1 213	–	–	1 213
Bank debt securities		226	–	–	226
Other debt securities		223	(1)	–	222
Derivative financial instruments		806	(3)	–	803
Securities arising from trading activities		670	–	–	670
Investment portfolio		401	5	–	406
Loans and advances to customers		7 036	–	–	7 036
Other loans and advances		776	(116)	–	660
Other securitised assets		412	(180)	–	232
Capital invested in insurance and other entities		–	3	–	3
Interests in associated undertakings		16	–	(12)	4
Deferred taxation assets		66	–	–	66
of which:					
– relates to losses carried forward	a	8	–	–	8
Other assets		1 113	(24)	12	1 101
Property and equipment		60	(23)	–	37
Investment property		66	–	–	66
Goodwill	b	261	–	7	268
Intangible assets	b	140	–	–	140
Total assets		**17 943**	**(372)**	**12**	**17 583**

^ *The references identify balance sheet components which are used in the calculation of regulatory capital.*

RECONCILIATION OF THE FINANCIAL ACCOUNTING BALANCE SHEET TO THE REGULATORY SCOPE OF CONSOLIDATION *(continued)*

At 31 March 2015 £'million	Ref^	Accounting balance sheet	Deconsolidation of non-financial/ other entities	Consolidation of banking associates	Regulatory balance sheet
Deposits by banks		214	(73)	–	141
Derivative financial instruments		953	–	–	953
Other trading liabilities		252	–	–	252
Repurchase agreements and cash collateral on securities lent		597	–	–	597
Customer accounts (deposits)		10 580	58	–	10 638
Debt securities in issue		1 334	(160)	–	1 174
Liabilities arising on securitisation of other assets		331	(134)	–	197
Current taxation liabilities		121	–	–	121
Deferred taxation liabilities		39	(11)	–	28
of which:					
– in respect of acquired intangibles	b	26	–	–	26
Other liabilities		1 124	–	12	1 136
Subordinated liabilities		597	–	–	597
of which:					
– term subordinated debt included in tier 2 capital	c	597	–	–	597
Total liabilities		**16 142**	**(320)**	**12**	**15 834**
Shareholders' equity excluding non-controlling interests	d	1 800	(51)	–	1 749
Non-controlling interests	e	1	(1)	–	–
Total equity		**1 801**	**(52)**	**–**	**1 749**
Total liabilities and equity		**17 943**	**(372)**	**12**	**17 583**

^ *The references identify balance sheet components which are used in the calculation of regulatory capital.*

CAPITAL MANAGEMENT AND ALLOCATION

Capital structure and capital adequacy

Summary information on the terms and conditions of the main features of all capital instruments is provided on page 224.

The transitional own funds disclosure template, capital instruments' main features template, leverage ratio templates and the countercyclical capital buffer disclosure templates, prescribed by the Capital Requirements Regulations, will be available on the Investec group website.

£'million	Ref*	31 March 2016°	31 March 2015°
Tier 1 capital			
Shareholders' equity		1 793	1 734
Shareholders' equity per balance sheet	d	1 844	1 800
Foreseeable dividends		(34)	(15)
Deconsolidation of special purpose entities	d	(17)	(51)
Non-controlling interests		(1)	–
Non-controlling interests per balance sheet	e	(1)	1
Non-controlling interests in deconsolidated entities		–	(1)
Regulatory adjustments to the accounting basis		(6)	(15)
Unrealised gains on available-for-sale equities		–	–
Additional value adjustments		(6)	(15)
Cash flow hedging reserve		–	–
Deductions		(386)	(394)
Goodwill and intangible assets net of deferred taxation	b	(374)	(382)
Deferred taxation assets that rely on future profitability excluding those arising from temporary differences	a	(8)	(8)
Securitisation positions		(4)	(4)
Connected funding of a capital nature		–	–
Common equity tier 1 capital		**1 400**	**1 325**
Tier 1 capital		**1 400**	**1 325**
Tier 2 capital		**590**	**590**
Tier 2 instruments	c	590	590
Phase out of non-qualifying tier 2 instruments		–	–
Non-qualifying surplus capital attributable to non-controlling interests		–	–
Total regulatory capital		**1 990**	**1 915**
Risk-weighted assets		**11 738**	**10 967**
Capital ratios			
Common equity tier 1 ratio		11.9%	12.1%
Tier 1 ratio		11.9%	12.1%
Total capital ratio		17.0%	17.5%

° *The capital adequacy disclosures for Investec Bank plc include the deduction of foreseeable dividends when calculating common equity tier 1 capital as now required under the Capital Requirements Regulation and EBA technical standards. These disclosures are different to the capital adequacy disclosures included in Investec's 2016 and 2015 integrated annual reports, which follow our normal basis of presentation and do not include the deduction of foreseeable dividends when calculating common equity tier 1 capital. Investec Bank plc's common equity tier 1 ratio would be 30bps (31 March 2015: 10bps) higher on this basis.*

* *The references refer to those in the reconciliation of the regulatory scope balance sheet set out on pages 99 to 102.*

CAPITAL MANAGEMENT AND ALLOCATION *(continued)*

Capital requirements

£'million	31 March 2016	31 March 2015
Capital requirements	**939**	**878**
Credit risk – prescribed standardised exposure classes	698	634
Corporates	338	285
Secured on real estate property	150	133
Retail	44	36
Institutions	35	33
Other exposure classes	122	136
Securitisation exposures	9	11
Equity risk – standardised approach	8	11
Listed equities	3	4
Unlisted equities	5	7
Counterparty credit risk	41	35
Credit valuation adjustment risk	5	4
Market risk	74	71
Interest rate	27	26
Foreign exchange	21	17
Equities	16	23
Options	10	5
Operational risk – standardised approach	113	123
Risk-weighted assets (banking and trading)	**11 738**	**10 967**
Credit risk – prescribed standardised exposure classes	8 720	7 923
Corporates	4 224	3 561
Secured on real estate property	1 876	1 657
Retail	550	450
Institutions	439	410
Other exposure classes	1 524	1 704
Securitisation exposures	107	141
Equity risk – standardised approach	102	140
Listed equities	43	52
Unlisted equities	59	88
Counterparty credit risk	518	436
Credit valuation adjustment risk	58	47
Market risk	924	888
Interest rate	332	328
Foreign exchange	261	212
Equities	201	291
Options	130	57
Operational risk – standardised approach	1 416	1 533

A SUMMARY OF CAPITAL ADEQUACY AND LEVERAGE RATIOS

	31 March 2016º	31 March 2015º
Common equity tier 1 (as reported)	11.9%	12.1%
Common equity tier 1 ('fully loaded')^	11.9%	12.1%
Tier 1 (as reported)	11.9%	12.1%
Total capital adequacy ratio (as reported)	17.0%	17.5%
Leverage ratio* – permanent capital	7.5%	7.5%
Leverage ratio* – current	7.5%	7.5%
Leverage ratio* – 'fully loaded'^	7.5%	7.5%

º *The capital adequacy disclosures for Investec Bank plc include the deduction of foreseeable dividends when calculating common equity tier 1 capital as now required under the CRR and EBA technical standards. These disclosures are different to the capital adequacy disclosures included in Investec's 2016 and 2015 integrated annual reports, which follow our normal basis of presentation and do not include the deduction of foreseeable dividends when calculating common equity tier 1 capital. Investec Bank plc's common equity tier 1 ratio would be 30bps (31 March 2015: 10bps) higher on this basis.*

^ *Based on the group's understanding of current regulations, 'fully loaded' is based on Basel III capital requirements as fully phased in by 2022.*

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

RECONCILIATION OF THE LEVERAGE RATIO

The leverage ratio is calculated using the CRR definition of leverage which was adopted by the European Commission via a delegated Act in October 2014 and came into force from 1 January 2015. The leverage ratio has been disclosed using both a transitional and 'fully loaded' capital measure.

Investec Bank plc's leverage ratio has remained unchanged as a result of an increase in tier 1 capital, driven by profits generated during the year, which was offset by increased exposure.

£'million	31 March 2016	31 March 2015
Total assets per accounting balance sheet	**18 335**	**17 943**
Deconsolidation of non-financial/other entities	(80)	(372)
Consolidation of banking associates	8	12
Total assets per regulatory balance sheet	18 263	17 583
Reversal of accounting values:		
Derivatives	(843)	(803)
Regulatory adjustments:	1 145	964
Derivatives market value	328	289
Derivative add-on amounts per the mark-to-market method	519	452
Securities financing transaction add-on for counterparty credit risk	126	324
Off-balance sheet items	554	301
Add-on for written credit derivatives	9	7
Exclusion of items already deducted from the capital measure	(391)	(409)
Exposure measure	**18 565**	**17 744**
Tier 1 capital	1 400	1 325
Leverage ratio* – current	**7.5%**	**7.5%**
Tier 1 capital 'fully loaded'^	1 400	1 325
Leverage ratio* – 'fully loaded'^	**7.5%**	**7.5%**

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

^ *Based on the group's understanding of current regulations, 'fully loaded' is based on CRD IV capital requirements as fully phased in by 2022.*

Investec Bank plc

Movement in risk-weighted assets

Total risk-weighted assets (RWAs) have increased by 7% over the period, predominantly within credit risk RWAs.

Credit risk RWAs

For Investec Bank plc consolidated reporting, we have adopted the standardised approach for calculating credit risk RWAs. Credit risk RWAs, which include equity risk, increased by £0.8 billion. The increase is primarily attributable to a growth in secured corporate and residential mortgage lending.

Counterparty credit risk RWAs and Credit Valuation Risk (CVA)

Counterparty credit risk and CVA RWAs increased by £93 million mainly due to increased trading values.

Market risk RWAs

We apply the standardised approach for calculating market risk RWAs. Market risk RWAs increased marginally by £36 million.

Operational risk RWAs

Operational risk RWAs are calculated using the standardised approach and decreased by £117 million. The decrease is due to a lower three-year average operating income, primarily driven by the removal of operating income relating to strategic disposals from the three-year average operating income.

MOVEMENT IN TOTAL REGULATORY CAPITAL

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

Total regulatory capital flow statement

£'million	31 March 2016	31 March 2015
Opening common equity tier 1 capital	**1 325**	**1 360**
New capital issues	–	–
Profit after taxation	95	110
Treasury shares	–	–
Acquisition of non-controlling interests	–	–
Share-based payment adjustment	5	4
Movement in other comprehensive income	(16)	(53)
Dividends	(40)	(172)
Goodwill and intangible assets (deduction net of related taxation liability)	7	49
Deferred taxation that relies on future profitability (excluding those arising from temporary differences)	–	30
Deconsolidation of special purpose entities	34	(22)
Foreseeable dividends	(19)	17
Other, including regulatory adjustments and transitional arrangements	9	2
Closing common equity tier 1 capital	**1 400**	**1 325**
Opening tier 2 capital	**590**	**637**
Redeemed capital	–	(13)
Amortisation adjustments	–	–
Sale of subsidiaries	–	(39)
Collective impairment allowances	–	–
Other, including regulatory adjustments and transitional arrangements	–	5
Closing tier 2 capital	**590**	**590**
Opening other deductions from total capital	**–**	**–**
Connected funding of a capital nature	–	–
Investments that are not material holdings or qualifying holdings	–	–
Closing other deductions from capital	**–**	**–**
Closing total regulatory capital	**1 990**	**1 915**

Credit ratings

CREDIT RATINGS

In terms of our dual listed companies structure, Investec plc and Investec Limited are treated separately from a credit point of view. As a result, the rating agencies have assigned separate ratings to the significant banking entities within the 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. Our ratings at 15 June 2016 are as follows:

Rating agency	Investec plc	Investec Bank plc – a subsidiary of Investec plc
FITCH		
Long-term rating		BBB
Short-term rating		F2
Viability rating		bbb
Support rating		5
MOODY'S		
Long-term rating	Baa1	A2
Short-term rating	Prime-2	Prime-1
Baseline Credit Assessment (BCA) and adjusted BCA		baa2
GLOBAL CREDIT RATINGS		
Long-term rating		BBB+
Short-term rating		A2

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

Annually, Internal Audit conducts a formal risk assessment of the entire business from which a comprehensive risk-based audit plan is derived. The assessment and programme are validated by executive management and approved by the responsible audit committee. Very high risk businesses and processes are audited at least every 12 months, with other areas covered at regular intervals based on their risk profile. There is an ongoing focus on identifying fraud risk as well as auditing technology risks given Investec's dependence on IT systems. Internal Audit also liaises with the external auditors and other assurance providers to enhance efficiencies in terms of integrated assurance. The annual plan is reviewed regularly to ensure it remains relevant and responsive, given changes in the operating environment. The audit committee approves any changes to the plan.

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

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

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

Compliance

The pace of regulatory change in the financial sector has shown little signs of abating, and the pressure the industry has faced to implement various regulatory initiatives, has continued to be resource intensive. In addition, the scale and frequency of regulatory fines and redress orders continues to impact firm's balance sheets with the regulators' intensive and intrusive approach to supervision expected to continue for the foreseeable future.

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

Investec remains focused on 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.

Year in review

CONDUCT RISK

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

Investec has focused over the period on delivering good customer outcomes and effectively managing conduct risk throughout our business. This has included continued and ongoing investment in and enhancement of the conduct risk and compliance frameworks in place throughout the group.

A key enhancement to our conduct framework during the period was the establishment of the Investec plc customer and market conduct committee (CMCC). The CMCC is chaired by the group CEO and is designed to ensure that Investec maintains a client-focused culture and that each business within the group has client outcomes at the centre of their business model. The CMCC is responsible for ensuring that all interactions with the FCA across Investec Asset Management, Investec Bank plc and Investec Wealth & Investment are properly managed and that customer insights and regulatory expectations were shared between the regulated entities in the group and their subsidiaries.

CONSUMER PROTECTION

The FCA has vigorously pursued its consumer protection objective during the period. Over the past 12 months this has included issuing of significant fines and performing several strategic reviews into areas such as: product design and sales practises, provision of advice, treatment of customers who suffered unauthorised transactions and product and service suitability.

WHOLESALE MARKETS

The FCA has continued to pursue a proactive and assertive approach in identifying and addressing risks arising from firm's conduct in the wholesale markets.

This has included an increasingly intensive approach to supervisory activities and thematic reviews as well as several high profile referrals to enforcement relating to LIBOR, forex and conflicts of interest.

Wholesale markets have also been the focus of significant regulatory reform over the past 12 months. The most significant proposed reforms have included the finalisation of the incoming Markets in Financial Instruments Directive (MIFID II).

The MIFID II reform package will form a revised framework governing the requirements applicable to investment firms, trading venues, data reporting service providers and third-country firms providing investment services or activities in the EU. These reforms will drive change across Investec Bank plc, Investec Asset Management and Investec Wealth & Investment, with the majority of these reforms required to be implemented by January 2018.

Material reforms also continue to take effect in the OTC markets as a result of the EU's Market Infrastructure Regulations (EMIR) and the UK's market abuse regime.

COMPETITION

On 1 April 2015, the FCA was granted enhanced powers to promote its competition objective alongside the newly established UK Competition and Markets Authority (the CMA). The FCA has made use of these powers during the period to carry out a number of competition market studies in areas such as: cash savings, credit cards, retail and SME banking and investment and corporate banking.

SENIOR MANAGERS AND CERTIFIED PERSONS REGIME

The FCA and PRA are putting in place a new regulatory framework for individuals working in the UK banking sector. The incoming regime will consist of three key components:

I. A new Senior Managers Regime which will clarify the lines of responsibility within, enhance the regulators' ability to hold senior individuals in banks accountable and require banks to regularly vet their senior managers for fitness and propriety;

II. A Certification Regime requiring firms to assess fitness and propriety of staff in positions where the decisions they make could pose significant harm to the bank or any of its customers; and

III. A new set of Conduct Rules, which take the form of brief statements of high level principles setting out the standards of behaviour for bank employees.

Investec Bank plc has successfully implemented the core components of this regime which came into force on 7 March 2016.

STRUCTURAL BANKING REFORM

The Banking Reform Act received Royal Assent on 18 December 2013 and gave the UK authorities the powers to implement key recommendations of the Independent Commission on Banking (ICB) on banking reform, including ring-fencing of UK retail banking activities of a universal bank into a legally distinct, operationally separate and economically independent entity within the same group.

Ring-fencing was a key area of strategic focus during the period for the largest UK banks. The Banking Reform Act contains a *de minimis* exemption from the requirement to ring-fence, which is relevant to all but the largest UK deposit takers. Investec falls within this *de minimis* exemption and is therefore out of scope of the ring-fencing requirement.

FINANCIAL CRIME

Financial crime continues to be a regulatory focus with regulators globally encouraging firms to adopt a dynamic approach to the management of risk and to increase efforts around systems and controls to combat both money laundering and bribery and corruption. In the past two years, the UK government made significant efforts to ramp up its capacity to enforce the Bribery Act, with notable measures including the publication of the first UK National Anti-Corruption Plan, the introduction of Deferred Prosecution Agreements (DPA) to streamline the resolution of selected corporate bribery cases, and the implementation of harsher sentencing guidelines for fraud, bribery and money laundering offences.

TAX REPORTING

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.

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 takes effect as of 1 January 2016 in the UK, with reporting commencing from 2017.

The UK government intends to create a new corporate criminal offence of failing to prevent the facilitation of tax evasion. Draft legislation has already been published and should be finalised before the introduction of the new international automatic exchange of information arrangements in 2017.

Over the last year the pace of regulatory change in the financial sector has shown little signs of abating, and the pressure the industry has faced to implement various regulatory initiatives has continued to be resource intensive

Sound corporate governance is implicit in our values, culture, processes, functions and organisational structure. Structures are designed to ensure that our values remain embedded in all businesses and processes. We continually refine these structures and a written statement of values serves as our code of ethics

Chairman's introduction

I am pleased to present the 2016 annual corporate governance report which sets out Investec Bank plc's approach to corporate governance.

Investec plc and Investec Limited, together with their subsidiaries, are managed as a single economic enterprise as a result of the dual listed companies (DLC) structure.

Investec Bank plc is a major subsidiary of Investec plc and due to the DLC operational structure, compliance with many of the specific corporate governance requirements is at the group DLC level. We encourage all stakeholders to read the corporate governance report that follows in conjunction with Investec's 2016 integrated annual report which provides a more detailed review including reports from the various board committee chairmen which provide an explanation of how those committees discharge their duties in respect of both the group and Investec Bank plc.

Before looking at the summary of our corporate governance philosophy and practices, in the report which follows, I would like to comment on some key developments during the last year and to look at some of the priorities identified for the next year. Firstly, however, I would like to provide some important context regarding our culture, values and philosophies, which are and will continue to be at the core to everything we do.

OUR CULTURE, VALUES AND PHILOSOPHY

Sound corporate governance depends upon much more than processes and procedures, it fundamentally depends upon the people and the culture within an organisation. At Investec, sound corporate governance is embedded in our values, culture, processes, functions and organisational structure. Our values require that directors and employees behave with integrity, displaying consistent and uncompromising moral strength in order to promote and maintain trust. The board sets the tone from the top in the manner in which it conducts itself and oversees the structures and the framework for corporate governance. Each business area and every employee of the group is responsible for acting in accordance with our values and philosophies and we conduct our business and measure behaviour and practices against them so as to ensure that we demonstrate the characteristics of good governance.

The past year in focus

MANAGEMENT SUCCESSION AND EXECUTIVE DIRECTORS

Succession planning has remained a key area of focus during the year. Investec announced on 9 November 2015 that, in pursuit of sustained growth across its businesses, Investec restructured certain operating responsibilities with the aim of achieving the following broad objectives:

- To maintain differentiated businesses that are integrated and coordinated under the Investec brand, while focused on providing the best solution for the client;
- To facilitate the growth of businesses with direct management responsibility and accountability; and
- To ensure talented future leaders are in place for the long-term success of the group.

In terms of Investec Bank plc, changes implemented included the appointment of joint global heads of the Specialist Bank, with Ciaran Whelan focusing on private banking and David van der Walt on corporate and institutional banking. David continues as chief executive and director of the company. The board has appointed Ciaran Whelan as an executive director.

In pursuit of the objectives described above, it has also been agreed, subject to regulatory approval, to appoint Ruth Leas as an executive director of the bank. Investec has always maintained a policy of growing talent from within, and the majority of the group's leaders have an extensive history with the group and are valued for their institutional knowledge and expertise and Ruth's appointment is in keeping with this policy. We believe that Ruth's extensive risk and regulatory knowledge and experience will strengthen the board.

Finally, Allen Zimbler retired from the board on 31 March 2016. Allen had been involved with Investec, on a consultancy basis, and then as an employee, for over 30 years. During this time, Allen has played a critical role in shaping and embedding Investec's unique culture. I would like to express my thanks, on behalf of the board, for all his work for the company and for the wider group.

NON-EXECUTIVE DIRECTORS

The board has continued to keep under review the overall composition of the board, including the diversity of skills, knowledge, and experience, and ensuring that that there is an appropriate balance of independent non-executive and executive directors, such that no one group can dominate board discussions and decisions. It has therefore been agreed to strengthen the board with the appointment of two independent non-executive directors to the board.

The changes implemented have positioned the company for sustained growth with an enhanced operational focus, with a diverse and strong board that is able to provide robust independent challenge.

Priorities for the year

In broad terms, our priorities for 2016 and 2017 from a corporate governance perspective, are as follows:

BOARD EFFECTIVENESS

An independent review of the effectiveness of the board was undertaken during 2015. In broad terms, the board was satisfied that it was operating effectively. The board has agreed an action plan to address areas identified for improvement, and will monitor progress against this plan.

MANAGEMENT SUCCESSION

The changes described above have helped to position the company to meet the challenges of the future. Having implemented these changes, ensuring the restructure is embedded and is operating effectively will be a key area of focus.

REGULATORY AND GOVERNANCE BEST PRACTICE

The last year has seen the implementation of the Senior Managers and Certification Regime (SMR), placing greater emphasis on individual accountability and providing specific responsibilities for certain non-executive directors. A critical area of focus for the board will be ensuring the SMR is implemented and understood throughout the organisation.

CULTURE AND VALUES

Our culture and values have always been at the heart of how we operate, and we believe the strength with which these are embedded and lived throughout the organisation distinguishes Investec from others. Safeguarding our culture to ensure good conduct and ethical practice will promote the delivery of our long-term success and will remain a key focus of the board.

Conclusion

The governance framework and structures that are in place ensure that the company is able to maintain the highest standards of corporate governance. Some key aspects of the framework are described below, and in greater detail in the governance report of Investec's 2016 integrated annual report.

Fani Titi
Chairman

15 June 2016

Board statement

The composition of the board of Investec Bank plc is set out on page 118.

The board seeks to exercise leadership, integrity and judgement in pursuit of strategic goals and objectives, to achieve long-term sustainability, growth and prosperity. The board is accountable for the performance and affairs of Investec Bank plc. It provides leadership for the bank within a framework of prudent and effective controls which allows risks to be assessed and managed. The board meets its objectives by reviewing and guiding corporate strategy, setting the bank's values and standards, promoting high standards of corporate governance, approving key policies and objectives, ensuring that obligations to its shareholders and other stakeholders are understood and met, understanding the key risks we face, determining our risk tolerance and approving and reviewing the processes in operation to mitigate risk from materialising, including the approval of the terms of reference of key supporting board committees.

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

Board committees

In exercising control of the bank, the directors are empowered to delegate to various board and executive committees. The committees have specific terms of reference, appropriately skilled members and access to specialist advice when necessary.

Financial reporting and going concern

The directors are required to confirm that they are satisfied that the bank has adequate resources to continue in business for the foreseeable future. The assumptions underlying the going concern statement are discussed at the time of the approval of the annual financial statements by the board and these include:

- Budgeting and forecasts
- Profitability
- Capital
- Liquidity.

In addition, the directors are responsible for monitoring and reviewing the preparation, integrity and reliability of the Investec Bank plc financial statements, accounting policies and the information contained in the annual report.

Our financial statements are prepared on a going concern basis. The board is of the opinion, based on its knowledge of the bank, key processes in operation and specific enquiries, that there are adequate resources to support Investec Bank plc as a going concern for the foreseeable future. Further information on our liquidity and capital position is provided on pages 80 to 88 and pages 94 to 107.

Furthermore, the board is of the opinion that the bank's risk management processes and the systems of internal control are effective.

Management and succession planning

Business unit heads, geographic management and the heads of central and group service functions are appointed by executive management and endorsed by the board based on the skills and experience deemed necessary to perform the required function. In general, managers do not have fixed-term employment contracts and there are no employment contracts with managers for a term of more than three years.

Our management structure, reporting lines and the division of responsibilities are built around a geographic, divisional and functional network.

Each strategic business unit has a management committee and is responsible for implementing operational decisions, managing risk and aligning divisional objectives with the group strategy and vision.

In 2015, the nomination and directors' affairs committee (the NOMDAC) received a detailed presentation from the executive regarding senior management succession and was satisfied that there is a formal management succession plan in place. During the course of 2015 and 2016, pursuant to this plan, a number of changes to senior management, as described in the chairman's letter above, were implemented.

The NOMDAC will continue to focus on ensuring that the management succession plan remains up to date and relevant.

Risk management

The board is responsible for the total process of risk management and the systems of internal control. A number of group committees and forums assist in this regard. Senior management is responsible for identifying risks and implementing appropriate mitigation processes and controls within their businesses.

The independent group risk management functions, accountable to group boards, are responsible for establishing, reviewing and monitoring the process of risk management. Group Risk Management reports regularly to the board risk and capital committee and the executive risk review forum.

More information on risk management can be found on pages 38 to 107.

Internal control

Risks and controls are reviewed and monitored regularly for relevance and effectiveness. The board risk and capital committee (BRCC), audit committees and PACC assist the board in this regard.

Sound risk management practices are promoted by the group risk management function, which is independent of operational management. The board recognises its responsibility for the overall risk and control framework and for reviewing its effectiveness. Internal control is designed to mitigate, not eliminate, significant risks faced.

It is recognised that such a system provides reasonable, but not absolute, assurance against material error, omission, misstatement or loss. The group achieves this through a combination of risk identification, evaluation and monitoring processes, appropriate decision and oversight forums, and assurance and control functions such as group risk management, internal audit and compliance. These ongoing processes, which comply with the Turnbull guidance, were in place throughout the year under review and up to the date of approval of the integrated annual report and annual financial statements.

Internal Audit reports any control recommendations to senior management, Group Risk Management and the relevant audit committee. Appropriate processes, including review by the audit committee's support structures, ensure that timely corrective action is taken on matters raised by Internal Audit. Significant risks are reviewed regularly by the executive risk review forum (ERRF) and by the BRCC. Material incidents and losses and significant breaches of systems and controls are reported to the BRCC and the audit committees. Reports from the audit committees, BRCC and risk and control functions are reviewed at each board meeting.

Certain statutory duties with respect to directors' conflicts of interest are in force under the UK Companies Act 2006. In accordance with this Act and the Articles of Association, the board may authorise any matter that otherwise may involve the directors breaching their duty to avoid conflicts of interest. The board has adopted a procedure, as set out in the Articles, that includes a requirement for directors to submit, in writing, disclosures detailing any actual or potential conflict for consideration and, if considered appropriate, approval.

Internal financial controls

Internal financial controls are based on established policies and procedures. Management is responsible for implementing internal financial controls, ensuring that personnel are suitably qualified, that appropriate segregation exists between duties, and that there is suitable independent review. These areas are monitored by the board through the audit committee and are independently assessed by Internal Audit and Compliance.

Processes are in place to monitor internal control effectiveness, identify and report material breakdowns, and ensure that timely and appropriate corrective action is taken. Group Finance and Investor Relations coordinate, review and comment on the monthly financial and regulatory reports, and facilitate the interim and annual financial reporting process, including the independent audit process.

Board of directors

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

The board has defined the limits of delegated authority within Investec Bank plc. Together with the boards of Investec plc and Investec Limited, and through the group's board committees, it is responsible for assessing and managing risk policies and philosophies, ensuring appropriate internal controls, overseeing major capital expenditure, acquisitions and disposals, approving the establishment of businesses and approving the introduction of new products and services. In fulfilling its responsibilities, the board together with management implements the plans and strategies.

For further detail of the functions of the board of Investec Bank plc, as included with the functions of the boards of Investec plc and Investec Limited, performed directly or through board committees, refer to Investec's 2016 integrated annual report.

MANAGEMENT SUCCESSION

At the end of the year under review, the board comprised six executive directors and four non-executive directors. As noted in the chairman's letter above, a new director, Ciaran Whelan, has been appointed to the board. Subject to regulatory approval, the board will appoint Ruth Leas as an executive director.

Two new non-executive directors will also be appointed, subject to regulatory approval.

Allen Zimbler has retired from the board. Following these changes, the board will comprise seven executive directors and six non-executive directors.

The names of the directors during the year and at the date of this integrated annual report and the dates of their appointments are set out in the table below:

	Date of appointment
EXECUTIVE DIRECTORS	
DM van der Walt (chief executive officer)	5 February 2002
B Kantor	16 November 1992
S Koseff	16 November 1992
KP McKenna	10 May 2012
JKC Whelan	14 April 2016
IR Wohlman	23 June 1999
A Zimbler*	10 May 2012
NON-EXECUTIVE DIRECTORS	
PKO Crosthwaite	10 November 2010
D Friedland	1 March 2013
H Fukuda OBE	3 December 2012
F Titi (chairman)	3 August 2011

** A Zimbler resigned as a director on 31 March 2016.*

BOARD MEETINGS

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

Details of directors' attendance at board meetings:

	Number of meetings attended of the six held during the year
EXECUTIVE DIRECTORS	
DM van der Walt (chief executive officer)	6
B Kantor	6
S Koseff	6
KP McKenna	5
IR Wohlman	5
A Zimbler	6
NON-EXECUTIVE DIRECTORS	
PKO Crosthwaite	5
D Friedland	6
H Fukuda OBE	5
F Titi (chairman)	6

SKILLS, KNOWLEDGE, EXPERIENCE AND ATTRIBUTES OF DIRECTORS

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

- International business and operational experience
- Understanding of the economics of the sectors in which we operate
- Knowledge of the regulatory environments in which we operate
- Financial, accounting, legal and banking experience and knowledge.

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

BOARD AND DIRECTORS' PERFORMANCE EVALUATION

The board and individual director's performance is formally evaluated annually based on recognised codes of corporate governance and covers areas of the board's processes and responsibilities, according to leading practice.

The 2016 board effectiveness review was conducted by an external independent facilitator, Professor Rob Goffee of the London Business School. Professor Goffee has no connection with the company.

Directors each completed a questionnaire and met with Professor Goffee in order to identify future challenges, current strengths and provide insight to how the board functions. Findings were collated and presented at the January 2016 board meeting.

Strengths of the board were levels of governance, leadership and robust risk management and internal controls. The committee structure was regarded as appropriate and the committees were seen to function well.

Notwithstanding the strengths, areas that the board felt required focus included the induction of new non-executive directors.

TERMS OF APPOINTMENT

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

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

ONGOING TRAINING AND DEVELOPMENT

On appointment, directors are provided with an induction pack and participate in an induction programme tailored to their needs, including meeting with business unit and central services heads to ensure they become familiar with business operations, senior management, our business environment and internal controls, policies, processes and systems for managing risk.

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

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

Following the board's and directors' performance evaluation process, any training needs are communicated to the company secretary who ensures these needs are addressed. During the period under review there were a number of director workshops arranged outside board meetings.

INDEPENDENT ADVICE

Through the chairman or the company secretary, individual directors are entitled to seek professional independent advice on matters related to the exercise of their duties and responsibilities at the expense of Investec. No such advice was sought during the 2016 financial year.

REMUNERATION

Details of the directors' remuneration and remuneration process are set out on pages 120 to 135.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the chairman and chief executive officer are distinct and separate. The chairman leads the board and is responsible for ensuring that the board receives accurate, timely and clear information to ensure that directors can perform their duties effectively.

Details of the chairman's external directorships are set out in Investec's 2016 integrated annual report.

The board does not consider that the chairman's external commitments interfere with his performance and responsibilities to Investec. The board is satisfied that the chairman makes sufficient time available to serve Investec effectively.

Further disclosures

Refer to Investec's 2016 integrated annual report for more information regarding:

- Remuneration
- Directors' dealings
- Internal Audit
- Compliance
- Regulation and supervision
- Values and code of conduct
- Sustainability
- IT governance
- Board committees – including the report prepared by the chairmen of the board committees.

The chairman of the audit committee reports to shareholders on its statutory duties. The audit committee of Investec plc performs the necessary functions required on behalf of Investec Bank plc.

The report by the chairman of the audit committee can be found in Investec's 2016 integrated annual report on pages 125 to 129.

Investec Bank plc

(details as at 30 June 2016)

An indirect subsidiary of Investec plc

FANI TITI (54)

Non-executive chairman
BSc (Hons), MA, MBA

DAVID M VAN DER WALT (51)

Chief executive officer
BCom (Hons), CA(SA)

PERRY KO CROSTHWAITE (67)

MA (Hons)

DAVID FRIEDLAND (63)

BCom, CA(SA)

HARUKO FUKUDA OBE (69)

MA (Cantab), DSc

BERNARD KANTOR (66)

CTA

STEPHEN KOSEFF (64)

BCom, CA(SA), H Dip BDP, MBA

KEVIN P MCKENNA (49)

BCom, BAcc CA(SA)

JAMES KC WHELAN (53)

FCA (Irish), H Dip Tax (SA)

IAN R WOHLMAN (61)

ACIB

Note: Allen Zimbler resigned as director effective 31 March 2016. Ciaran Whelan was appointed as a director with effect from 14 April 2016.

Four

Remuneration
report

We have a strong entrepreneurial, merit- and values-based culture, characterised by passion, energy and stamina

The remuneration committee of the bank's parent, Investec plc, comprises non-executive directors and is responsible for determining the overall reward packages of executive directors. The policy on remuneration packages for non-executive directors is agreed and determined by the board.

Remuneration philosophy

Our philosophy, which remains unchanged from prior years, is to employ the highest calibre individuals who are characterised by integrity, intellect and innovation and who adhere and subscribe to our culture, values and philosophies. We strive to inspire entrepreneurship by providing a working environment that stimulates extraordinary performance so that executive directors and employees may be positive contributors to our clients, their communities and the bank.

We reward employees generally for their contribution through:

- An annual gross remuneration package (base salary and benefits) providing an industry competitive package
- A variable short-term incentive related to performance (annual bonus)
- A long-term incentive (share awards) providing long-term equity participation
- Certain of our Material Risk Takers receive fixed monthly cash allowances (where appropriate for the role) and a commensurate reduction of variable short-term incentive.

We consider the aggregate of the above as the overall remuneration package designed to attract, retain, incentivise and drive the behaviour of our employees over the short, medium and longer term in a risk conscious manner. Overall, rewards are considered as important as our core values of work content (greater responsibility, variety of work and high level of challenge) and work affiliation (entrepreneurial feel to the company and unique culture) in the attraction, retention and motivation of employees.

We have a strong entrepreneurial, merit and values-based culture, characterised by passion, energy and stamina. The ability to live and perpetuate our culture and values in the pursuit of excellence in a regulated industry and within an effective risk management environment is considered paramount in determining overall reward levels.

The type of people the organisation attracts, and the culture and environment within which they work, remain crucial in determining our success and long-term progress. Our reward programmes are clear and transparent, designed and administered to align directors' and employees' interests with those of all stakeholders and ensure the bank's short-, medium- and long-term success.

In summary, we recognise that financial institutions have to distribute the return from their enterprises between the suppliers of capital and labour and the societies in which they do business, the latter through taxation and corporate social responsibility activities. Our remuneration philosophy seeks to maintain an appropriate balance between the interests of these stakeholders, and is closely aligned to our culture and values which include risk consciousness, meritocracy, material employee ownership and an unselfish contribution to colleagues, clients and society.

Remuneration principles

Remuneration policies, procedures and practices, collectively referred to as the 'remuneration policy', are designed, in normal market conditions, to:

- Be in line with the business strategy, objectives, values and long-term interests of the bank
- Be consistent with and promote sound and effective risk management, and not encourage risk taking that exceeds the level of tolerated risk of the bank
- Ensure that payment of variable remuneration does not limit the bank's ability to maintain or strengthen its capital base
- Target gross fixed remuneration (base salary and benefits including pension) at median market levels to contain fixed costs
- Ensure that variable remuneration is largely economic value added (EVA) – based and underpinned by our predetermined risk appetite and capital allocation
- Facilitate alignment with shareholders through deferral of a portion of short-term incentives into shares and long-term incentive share awards

- Target total compensation (base salary, benefits and incentives) to the relevant competitive market at upper quartile levels for superior performance.

Given our stance on maintaining a low fixed cost component of remuneration, our commitment to inspiring an entrepreneurial culture, and our risk-adjusted return on capital approach to EVA, we do not apply an upper limit on variable rewards other than in respect of Material Risk Takers (as discussed on page 122).

The fixed cost component of remuneration is, however, designed to be sufficient so that employees do not become dependent on their variable compensation as we are not contractually (and do not consider ourselves morally) bound to make variable remuneration awards. Investec has the ability to pay no annual bonuses and make no long-term incentive awards should the performance of the bank or individual employees require this.

We do not pay remuneration through vehicles that facilitate avoidance of applicable laws and regulations.

Furthermore, employees must undertake not to use any personal hedging strategies or remuneration or liability-related contracts of insurance to undermine the risk alignment effects embedded in their remuneration arrangements. Compliance maintains arrangements designed to ensure that employees comply with this policy.

No individual is involved in the determination of his/her own remuneration rewards and specific internal controls and processes are in place to prevent conflicts of interest between Investec and its clients from occurring and posing a risk to the bank on prudential grounds.

Remuneration policy

All remuneration payable (salary, benefits and incentives) is assessed at an Investec group, business unit and individual level. This framework seeks to balance both financial and non-financial measures of performance to ensure that the appropriate factors are considered prior to making awards, and that the appropriate mix of cash and share-based awards are made.

Our policy with respect to remuneration of employees has remained unchanged during the 2016 financial year.

DETERMINATION OF REMUNERATION LEVELS FOR EMPLOYEES

Qualitative and quantitative considerations form an integral part of the determination of overall levels of remuneration and total compensation for each individual.

Factors considered for overall levels of remuneration at the level of the Investec group include:

- **Financial measures of performance:**
  - Risk-adjusted EVA model
  - Affordability.
- **Non-financial measures of performance:**
  - Market context
  - Specific input from the risk and compliance functions.

Factors considered to determine total compensation for each individual include:

- **Financial measures of performance**
  - Achievement of individual targets and objectives
  - Scope of responsibility and individual contributions.
- **Non-financial measures of performance**
  - Alignment and adherence to our culture and values
  - The level of cooperation and collaboration fostered
  - Development of self and others
  - Attitude displayed towards risk consciousness and effective risk management
  - Adherence to internal controls procedures
  - Compliance with the bank's regulatory requirements and relevant policies and procedures, including treating customers fairly
  - The ability to grow and develop markets and client relationships
  - Multi-year contribution to performance and brand building
  - Long-term sustained performance
  - Specific input from the risk and compliance functions
  - Attitude and contribution to sustainability principles and initiatives.

Remuneration levels are targeted to be commercially competitive on the following basis:

- The most relevant competitive reference points for remuneration levels are based on the scope of responsibility and individual contributions made
- The committee recognises that we operate an international business and compete with both local and international competitors in each of our markets
- Appropriate benchmark, industry and comparable organisations' remuneration practices are reviewed regularly
- For employees generally, the FTSE 350 General Finance sector has offered the most appropriate benchmark
- In order to avoid disproportionate packages across areas of the bank and between executives, adjustments may be made at any extremes to ensure broad internal consistency. Adjustments may also be made to the competitive positioning of remuneration components for individuals, in cases where a higher level of investment is needed in order to build or grow or sustain either a business unit or our capability in a geography.

The following section outlines our remuneration policy in more detail for each element of total compensation as it applies to employees. Our remuneration arrangements for S Koseff, B Kantor and GR Burger can be found in Investec's 2016 integrated annual report.

Gross remuneration: base salary and benefits

Salaries and benefits are reviewed annually and reflect the relative skills and experience of, and contribution made by, the individual. It is the bank's policy to seek to set base salaries and benefits (together known as gross remuneration) at median market levels when compared like for like with peer group companies.

The Human Resources division provides guidelines to business units on recommended salary levels for all employees within the organisation to facilitate the review. These guidelines include a strategic message on how to set salary levels that will aid Investec in meeting its objectives while remaining true to corporate values, and incorporate guidance on increasing levels to take account of the change in the cost of living over the year to ensure that salary levels always allow employees to afford a reasonable standard of living and do not encourage a reliance on variable remuneration.

Advisers are often engaged by either the Human Resources division or the business units to obtain general benchmark information or to benchmark specific positions to ensure that gross remuneration levels are market-driven and competitive so that levels of remuneration do not inhibit our ability to recruit the people we need to develop our business.

Benefits are targeted at competitive levels and are delivered through flexible and tailored packages. Benefits include pension schemes; life, disability and personal accident insurance; medical cover; and other benefits, as dictated by competitive local market practices. Only salaries, not annual bonuses or Material Risk Takers allowances, are pensionable.

Variable short-term incentive: annual bonus

All employees are eligible to be considered for a discretionary annual bonus, subject inter alia to the factors set out above in the section dealing with the determination of remuneration levels. The structure of short-term incentives varies between employees of our two operating divisions: Wealth & Investment and Specialist Banking. This reflects differing regulatory requirements on the different legal entities and also differing competitive pressures in each distinct market.

SPECIALIST BANKING: VARIABLE SHORT-TERM INCENTIVE

Risk-weighted returns form basis for variable remuneration levels

In our ordinary course of business we face a number of risks that could affect our business operations, as highlighted on page 21.

Risk Management is independent from the business units and monitors, manages and reports on the bank's risk to ensure it is within the stated risk appetite as mandated by the board of directors through the board risk and capital committee (BRCC). The bank monitors and controls risk exposure through credit, market, liquidity, operational and legal risk divisions/forums/committees.

Risk consciousness and management is embedded in the organisational culture from the initiation of transactional activity through to the monitoring of adherence to mandates and limits and throughout everything we do.

The BRCC (comprising both executive and non-executive directors) sets the overall risk appetite for the bank and determines the categories of risk, the specific types of risks and the extent of such risks which the bank should undertake, as well as the mitigation of risks and overall capital management and allocation process. Senior members of the bank's risk management teams, who provide information for the meeting packs and present and contribute to the committee's discussions, attend these meetings.

The DLC capital committee is a sub-committee of the BRCC and provides detailed input into the bank's identification, quantification and measurement of its capital requirements, taking into account the capital requirements of the banking regulators. It determines the amount of internal capital that the bank should hold and its minimum liquidity requirements, taking into account all the associated risks plus a buffer for any future or unidentified risks. This measure of internal capital forms part of the basis for determining the variable remuneration pools of the various operating business units (as discussed above).

The executive risk review forum (ERRF), comprising members of the executive and the heads of the various risk functions, meets weekly. Its responsibilities include approving limits and mandates, ensuring these are adhered to and that agreed recommendations to mitigate risk are implemented.

The bank's central credit and risk forums provide transaction approval independent of the business unit on a deal-by-deal basis, and the riskiness of business undertaken is therefore evaluated and approved at initiation of the business through deal forum, investment committee and ERRF and is reviewed and ratified at ERRF on a regular basis. These central forums provide a level of risk management by ensuring that risk appetite and various limits are being adhered to and that an appropriate interest rate and, by implication, risk premium is built into every approved transaction. The approval of transactions by these independent central forums thus ensures that every transaction undertaken by the bank results in a contribution to profit that has already been subject to some risk adjustment.

Our EVA model as described in detail below is principally applied to realised profits against predetermined targets above risk and capital weighted returns. In terms of the EVA structure, capital is allocated based on risk and therefore the higher the risk, the higher the capital allocation and the higher the hurdle return rate required. This model ensures that risk and capital management are embedded in key processes at both a bank and transaction level, which form the basis of the bank's performance-related variable remuneration model, thus balancing the interests of all stakeholders.

Further, both the risk and compliance functions are also embedded in the operating business units and are subject to review by the internal audit and compliance monitoring teams. The risk and compliance functions also provide, on an exception-only basis, information relating to the behaviour of individuals and business areas if there has been evidence of non-compliance or behaviour which gives rise to concerns regarding the riskiness of business undertaken.

EVA model: allocation of performance-related bonus pool

Our business strategy and associated risk appetite, together with effective capital utilisation, underpin the EVA annual bonus allocation model.

Business units share in the annual bonus pool to the extent that they have generated a realised return on their allocated risk-adjusted capital base in excess of their target return on equity. Many of the potential future risks that the firm may face are avoided through ensuring that the bonus pools are based on actual realised risk-adjusted profits.

The bonus pools for non-operating business units (central services and head office functions) are generated by a levy payable by each operating business on its operating profit. This bonus pool may, in some years, be supplemented by a discretionary allocation as determined by the chief executive officer and managing director, and agreed by the remuneration committee.

Our EVA model has been consistently applied for a period of about 17 years and encompasses the following elements:

- The profitability of each operating business unit is determined as if they are a stand-alone business. Gross revenue is determined based on the activity of the business, with arm's length pricing applicable to intersegment activity. Profits are determined as follows:
  - Realised gross revenue (net margin and other income)
  - *Less:* Funding costs
  - *Less:* Impairments for bad debts
  - *Add back:* Debt coupon or preference share dividends paid out of the business (where applicable)
  - *Less:* Direct operating costs (personnel, systems, etc)
  - *Less:* Allocated costs and residual charges (certain independent bank functions are provided on a centralised basis, with an allocation model applied to charge out costs incurred to business units. Costs allocated are based on the full operational costs for the particular central service area, inclusive of the variable remuneration cost of the central service. Allocation methodologies generally use cost drivers as the basis of allocation)
  - *Less:* Profits earned on retained earnings and statutory held capital
  - *Add:* Notional profit paid by centre on internal allocated capital
  - *Equals:* Net profits.
- Capital allocated is a function of both regulatory and internal capital requirements, the risk assumed within the business and our overall business strategy
- The bank has always held capital in excess of minimum regulatory requirements, and this principle is perpetuated in our internal capital allocation process. This process ensures that risk and capital discipline is embedded at the level of deal initiation and incorporates independent approval (outside of the business unit) of transactions by the various risk and credit committees.

A detailed explanation of our capital management and allocation process is provided on pages 94 to 107.

- Internal capital comprises the regulatory capital requirement taking into account a number of specified risks plus a capital buffer which caters, inter alia, for any unspecified or future risks not specifically identified in the capital planning process. The bank then ensures that it actually holds capital in excess of this level of internal capital
- Internal capital is allocated to each business unit via a comprehensive analysis of the risks inherent within that business and an assessment of the costs of those risks
- Hurdle rates or targeted returns are determined for each business unit based on the weighted average cost of capital (plus a buffer for trading businesses to take into account additional risks not identified in the capital allocation process) applied to internal capital
- Targeted returns differ by business unit reflecting the competitive economics and shareholder expectation for the specific area of the business, and are set with reference to the degree of risk and the competitive benchmarks for each product line
- In essence, varying levels of return are required for each business unit reflecting the state of market maturity, country of operation, risk, capital invested (capital intensive businesses) or expected expense base (fee-based businesses)
- Growth in profitability over time will result in an increasing bonus pool, as long as it is not achieved at the expense of capital efficiency
- Target returns must be reflective of the inherent risk assumed in the business. Thus, an increase in absolute profitability does not automatically result in an increase in the annual bonus pool. This approach allows us to embed risk and capital discipline in our business processes. These targets are subject to annual review
- The bank's credit and risk forums provide transaction approval independent of the business unit on a deal-by-deal basis adding a level of risk consciousness to the predetermined (and risk-adjusted) capital allocation and required hurdle rates and thus ensure that each transaction generates a return that is commensurate with its associated risk profile.

In terms of our EVA process, if business and individual performance goals are exceeded, the variable element of the total remuneration package is likely to be substantially higher than the relevant target benchmark. This ensures that overall remuneration levels have the potential to be positioned at the upper quartile level for superior performance, in line with our overarching remuneration policy.

In circumstances where an operating business unit does not have an EVA pool (e.g. when it incurs a loss or when it is a start-up), the chief executive officer and managing director may consider a discretionary allocation to allow for a modest bonus for those staff who were expected to contribute to the longer-term interests of that business unit or the bank, despite the lack of EVA profits in the short term, e.g. control functions, support staff and key business staff.

It should be noted the salaries and proposed bonuses for employees responsible for risk, internal audit and compliance are not based on a formulaic approach and are independent of any revenues or profits generated by the business units where they work. The level of rewards for these employees are assessed against the overall financial performance of the bank; objectives based on their function; and compliance with the various non-financial aspects referred to above.

Key elements of the bonus allocation process are set out below:

- A fixed predetermined percentage of any return in excess of the EVA hurdle accrues to the business units' EVA pool
- A portion of the total EVA pool is allocated towards the bonus pool for central service and head office employees
- These bonus pools are reviewed regularly by the appropriate management and non-executive committees to ensure that awards are only paid when it is appropriate to do

so, considering firm-wide performance against non-financial risk (both current and future) and compliance-based objectives and in order to ensure that the payment of such discretionary bonuses does not inhibit the bank's ability to maintain/raise its capital levels. All users of capital operate within a strict philosophical framework that requires a balancing of risk and reward and that is designed to encourage behaviour in the interests of all stakeholders as opposed to just employees

- The EVA pools are calculated centrally by the bank's finance function and subject to audit as part of the year-end audit process
- Once the annual audit is complete, line managers in each business unit will make discretionary bonus recommendations for each team member taking into consideration qualitative and quantitative criteria (as mentioned above)
- Bonus recommendations are then subject to an extensive geographic review involving human resources, local management and local remuneration committees
- Thereafter, these recommendations are subject to a global review by executive management before the remuneration committee's review and approval process.

The Investec group's remuneration committee specifically reviews and approves the individual remuneration packages of the executive directors, persons discharging managerial responsibilities, and Material Risk Takers. The committee also reviews the salaries and performance bonuses awarded to a number of other senior and higher paid employees across the bank. In addition, the committee specifically reviews and approves the salaries and performance bonuses awarded to each employee within the internal audit, compliance and risk functions, both in the business units and in the central functions, ensuring that such packages are competitive and are determined independently of the other business areas. In making these decisions the committee relies on a combination of external advice and supporting information prepared internally by the bank.

Deferral of annual bonus awards: other than Material Risk Takers within the Specialist Bank

All annual bonus awards exceeding a predetermined hurdle level are subject to 60% deferral in respect of that portion that exceeds the hurdle level. The deferred amount is awarded in the form of: forfeitable share awards vesting in three equal tranches at the end of 12 months, 24 months and 36 months; or cash released in three equal tranches at the end of 12 months, 24 months and 36 months. Where shares are being awarded to employees as part of the deferral of performance bonus awards, these are referred to as short-term EVA shares. These awards are made in terms of our existing long-term incentive plans. The entire amount of the annual bonus that is not deferred is payable upfront in cash.

Deferral of variable remuneration awards: Material Risk Takers within the Specialist Bank

- Material Risk Takers include senior management, risk takers, staff engaged in central functions and any other employees whose professional activities have a material impact on Investec's risk profile within the bank
- Individual awards to Material Risk Takers are determined based on EVA pools in the same manner as is applicable to all staff (as set out above), and subject to the bank's remuneration policy and governance processes (also set out above)
- Annual bonus awards to directors of the UK Specialist Bank (excluding executive directors who are employees of a separately regulated firm) and all annual bonus awards where total variable remuneration exceeds £500 000 are subject to 60% deferral
- All other annual bonus awards to Material Risk Takers are subject to 40% deferral
- The 40% not deferred in the former instance or the 60% not deferred in the latter instance will be awarded as to 50% in cash and 50% in EVA forfeitable shares (upfront EVA forfeitable shares)
- The upfront EVA forfeitable shares will vest immediately, but will only be released after a period of six months, which we consider to be an appropriate retention period
- Variable remuneration awards for Material Risk Takers who are not exempted by the *de minimis* concession are subject to 40% deferral (60% if total variable remuneration exceeds £500 000) after taking into account the value of share awards granted to each staff member in the applicable financial year and which are included in deferred variable remuneration. The deferred portion of discretionary awards to Material Risk Takers will, at the election of the staff member, be made either entirely in the form of short-term share awards, or 50% in short-term share awards and 50% in cash
- All deferrals in the form of forfeitable shares (being either 50% or 100% of such deferral) vest in equal amounts at the end of 12 months, 24 months and 36 months and are then subject to an appropriate period of retention, being six months.

INVESTEC WEALTH & INVESTMENT: VARIABLE SHORT-TERM INCENTIVE

Investec Wealth & Investment recognises Investec's obligation to ensure that all businesses within the group satisfy their obligations under the remuneration code. Wealth & Investment recognises that the policy, procedures and practices it has adopted should not conflict with the group's obligations under the PRA and FCA Remuneration Code. The Wealth & Investment remuneration committee is responsible for considering, agreeing and overseeing all elements of remuneration and the overall remuneration philosophy and policy of Wealth & Investment within the context of the Investec group's agreed remuneration philosophy and policy. The proposals from this committee are subject to final approval by the DLC remuneration committee.

Wealth & Investment operates the following performance-related discretionary remuneration plans:

- Core incentive plan – for those in client facing roles and administrative staff who support them directly
- Bonus plan – for those in non-client facing, central services and support functions
- Growth plan – for staff primarily in client-facing roles who generate income directly.

Funding is at the discretion of the remuneration committee. Under the core plan, an incentive pool is derived from a formula that is directly related to the profitability of a team or business unit. The pool is distributed to the members of the team or business unit on a discretionary basis. Funding for bonuses is related to the overall profitability of the Wealth & Investment business and is awarded to individuals on a discretionary basis.

The growth plan incentivises growth in revenues, net of the impact of market movements. Awards relate to performance for each year to 28 February, are payable in cash, and are deferred over a three-year period. Payments do not attract employer pension contributions.

Under the core incentive and bonus plans, awards relate to performance for the financial year ending 31 March. An interim payment on account of the annual award is considered at the half-year.

Non-financial performance is reviewed, and where individuals fall below the standards expected, awards may be deferred or forfeited, in part or in full. Payments are made entirely in cash and do not attract employer pension contributions. The award may be paid directly to the individual (subject to the deduction of income tax and national insurance) or, at Wealth & Investment's discretion, as an additional employer pension contribution.

Wealth & Investment executive directors participate in the bonus plan, and where an individual's role is primarily client-facing, that director will also be eligible to participate in the core incentive and growth plans.

OTHER INFORMATION ON DEFERRED AWARDS AND CLAWBACK PROVISIONS WITHIN THE BANK

Employees who leave the employment of Investec prior to vesting of deferred incentive awards will lose their EVA forfeitable shares other than as a result of retirement, subject to the bank's normal good leaver provisions and approval process in exceptional cases.

The deferred share awards for Material Risk Takers are subject to malus and clawback adjustments. The assessment of whether any malus adjustment should be made to an individual's unvested award will be undertaken within the following framework:

- Where there is reasonable evidence of employee misbehaviour
- Where the firm or operating business unit suffers a material downturn in its financial performance
- Where the firm or business unit suffers a material failure of risk management.

In these cases, management and the remuneration committee will take into account the following factors in determining the extent (if any) to which the quantum of deferred awards should be subject to clawback:

- The extent to which the individual had control over the outcome
- Failure of internal control systems
- The impact of the risk profile of the relevant member of the bank or business unit
- Any violation of the bank's culture and values
- The long-term impact of the outcome on the bank or relevant business unit
- External factors including market conditions
- Any other relevant factors.

Specifically for EVA share awards, where profits used to determine the original EVA bonus are materially reduced after the bonus determination, the awards will be recalculated for such reduction and consideration given to clawback (if any) to the extent that the prior period's EVA pool is reduced and the extent to which it affected each employee.

The deferred share awards of non-Material Risk Takers are subject to malus adjustments.

LONG-TERM INCENTIVE: SHARE AWARDS

We have a number of share option and long-term share incentive plans that are designed to align the interests of employees with those of shareholders and long-term organisational interests, and to build material share ownership over the long term through share awards. These share option and incentive plans are also used in appropriate circumstances as a mechanism for retaining the skills of key talent.

Awards are made in the form of forfeitable share awards other than for countries where the taxation of such awards is penal. In these cases awards are made in the form of conditional awards or market strike options.

In principle all employees are eligible for long-term incentives. Awards are considered by the remuneration committee and made only in the 42-day period following the release of our interim or final financial results in accordance with the Investment Association principles of remuneration: 2014 edition (formerly ABI remuneration principles). These awards comprise three elements, namely:

- 'New starter' awards are made based on a *de facto* non-discretionary basis using an allocation table linked to salary levels
- 'General allocation' awards are also *de facto* non-discretionary awards of the same quantum as new starter awards and are made to employees who have not had any other share award in a three-year period
- 'Top up' awards are made at the discretion of line management primarily to ensure multi-year performance and long-term value generation.

All proposed long-term incentive awards are recommended by business unit management, approved by the staff share executive committee and then the remuneration committee before being awarded.

Forfeitable shares for non-Material Risk Takers are subject to one third vesting at the end of the third, fourth and fifth year, which we believe is appropriate for our business requirements. LTIP awards to Material Risk Takers are subject to performance conditions and to one third vesting at the end of two and a half years, three and a half years and four and a half years, and are then subject to a six-month retention period. The awards are forfeited on termination, but 'good leaver' discretion is applied in exceptional circumstances.

Retention is addressed through the long-term nature of awards granted, which provides an element of 'lock-in' for employees throughout the vesting period and allows for multi-year contribution to performance and brand building.

For further information on the share option and long-term share incentive plans in operation and in which the directors are eligible to participate, refer to Investec's 2016 integrated annual report.

The bank aims to apply remuneration policies to executive directors and employees that are largely consistent across the bank, but recognises that certain parts of the bank are governed by local regulations that may contain more onerous requirements in certain respects

Other remuneration structures

GUARANTEED VARIABLE REMUNERATION

Guaranteed variable remuneration comprises all forms of remuneration whose value can be determined prior to award. This includes, but is not limited to sign-on, buy-out and guarantee awards. Guaranteed variable awards will not be awarded, paid or provided to any individual within the Investec plc group unless they are:

- Exceptional
- In the context of hiring new staff
- Limited to the first year of service.

The remuneration committee at least annually reviews guaranteed variable remuneration payments and the number of guarantees awarded and approves any exceptions.

RETENTION AWARDS

Investec only pays retention awards to serving staff in exceptional circumstances. In all such cases, human resources shall review proposed payments to ensure that they are in line with this policy and any other relevant regulation. Additionally, for Material Risk Takers, the remuneration committee shall review all proposed awards. Circumstances where the bank will consider making retention awards include the case of a major restructuring of the company or any subsidiary or one of its business units (for instance in the start-up of a new business line, or the closure of a business line), where the retention of individuals is essential to the completion of the task. A valid business case for the retention of the individual must be presented in order for a retention award to be approved and the PRA should be notified prior to the retention award being made to Material Risk Takers, and should consider seeking guidance on the appropriateness of retention awards for certain individuals.

SEVERANCE AWARDS

Severance payments by Investec plc or one of its subsidiary companies for the early termination of a contract are at executive management's absolute discretion and must reflect performance achieved over time and be designed in a way that does not reward failure. Severance payments for Material Risk Takers individuals shall be subject to approval by the remuneration committee.

DISCRETIONARY EXTENDED PENSION BENEFITS POLICY

All proposed extended pension payments made to employees upon reaching retirement will be reviewed by the remuneration committee for alignment with appropriate laws, policy and regulation.

Governance

COMPLIANCE AND GOVERNANCE STATEMENT

The remuneration report complies with the provisions of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the UK Corporate Governance Code 2014, the UK Companies Act 2006, the Rules of the UK Listing Authority, the UK Financial Conduct Authority rules and the PRA and FCA Remuneration Code.

SCOPE OF OUR REMUNERATION POLICY

The bank aims to apply remuneration policies to executive directors and employees that are largely consistent across the bank, but recognises that certain parts of the bank are governed by local regulations that may contain more onerous requirements in certain respects.

In those cases, the higher requirements are applied to that part of the bank. This is relevant to Investec plc and its subsidiary companies that are subject to the PRA and FCA Remuneration Code (as a level 2 organisation as defined therein), and in particular in relation to Material Risk Takers. Additionally, where any aspect of our remuneration policy contravenes local laws or regulations, the local laws or regulations shall prevail.

The following Investec plc group entities are separately regulated by the PRA and/or FCA and as such maintain their own remuneration policies separate from the Investec group policy and in line with such entity's own risk profile and business activities:

- Investec Wealth & Investment Limited
- Hargreave Hale Limited.

Under the PRA and FCA Remuneration Code, Investec Bank plc is the only group entity which is classified as being level 2. It should be noted that our Wealth Management business has been classified as level 3 entity under the proportionality rules of the PRA and FCA Remuneration Code.

Audited information

DIRECTORS' SHAREHOLDINGS IN INVESTEC PLC AND INVESTEC LIMITED SHARES AS AT 31 MARCH 2016

	Beneficial and non-beneficial interest		% of shares in issue[1]	Beneficial and non-beneficial interest		% of shares in issue[1]
	Investec plc[1]		Investec plc	Investec Limited[1]		Investec Limited
Name	1 April 2015	31 March 2016	31 March 2016	1 April 2015	31 March 2016	31 March 2016
Executive directors						
DM van der Walt (chief executive officer)[2]	–	168 556	0.0%	690 140	690 140	0.2%
B Kantor (Investec group managing director)[3]	488 918	832 657	0.1%	3 600 500	2 800 500	1.0%
S Koseff (Investec group chief executive officer)[3]	4 773 200	5 274 035	0.9%	1 534 399	1 239 999	–
KP McKenna	102 921	68 529	–	–	–	–
IR Wohlman	122 600	25 848	–	80 000	100 000	–
Total number	**5 487 639**	**6 369 625**	**1.0%**	**5 905 039**	**3 879 454**	**1.2%**
Non-executive directors						
F Titi (chairman)	–	–	–	–	–	–
PKO Crosthwaite	115 738	115 738	0.0%	–	–	–
D Friedland	–	–	–	–	–	–
H Fukuda OBE	5 000	5 000	0.0%	–	–	–
Total number	**120 738**	**120 738**	**0.0%**	**0.0%**	**–**	**–**
Total number	**5 608 377**	**6 490 363**	**1.0%**	**5 905 039**	**3 879 454**	**1.2%**

The table above reflects holdings of shares by directors who were on the board as at 31 March 2016.

1 *The number of shares in issue and share prices for Investec plc and Investec Limited over the period is provided on page 133.*

2 *David van der Walt entered into option agreements and purchased put options over 500 000 Investec Limited ordinary shares at a strike price of R98.19 per share, expiring on 2 March 2017; and sold call options over 500 000 Investec Limited shares at a price of R142.64 per share, expiring on 2 March 2017.*

3 *The beneficial and non-beneficial holdings of S Koseff and B Kantor include 166 945 Investec plc shares which relate to the award to each of the directors of shares in respect of a £1 million fixed allowance on 1 June 2015. These shares are, however, subject to a retention period in terms of which 20% of shares will be free from retention restrictions each year over a period of five years.*

DIRECTORS' INTEREST IN PREFERENCE SHARES AT 31 MARCH 2016

	Investec plc		Investec Limited		Investec Bank Limited	
Name	1 April 2015	31 March 2016	1 April 2015	31 March 2016	1 April 2015	31 March 2016
Executive director						
S Koseff	101 198	101 198	3 000	3 000	4 000	4 000

- *The market price of an Investec plc preference share at 31 March 2016 was R104.00 (2015: R90.21).*
- *The market price of an Investec Limited preference share at 31 March 2016 was R73.20 (2015: R73.50).*
- *The market price of an Investec Bank Limited preference share at 31 March 2016 was R79.00 (2015: R83.45).*

DIRECTORS' INTERESTS IN OPTIONS AT 31 MARCH 2016

Investec plc shares

The directors do not have any interest in options over Investec plc shares.

No new option grants were made to executive directors during the financial year.

Investec Limited shares

The directors do not have any interest in options over Investec plc shares.

No new option grants were made to executive directors during the financial year.

DIRECTORS' INTERESTS IN LONG-TERM INCENTIVE PLANS AT 31 MARCH 2016

Investec plc shares

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2015	Exercised during the year	Options granted/ lapsed during the year	Balance at 31 March 2016	Market price at date of exercise	Gross gains made on date of exercise	Period exercisable
DM van der Walt	1 July 2010	Nil	187 500	(187 500)	–	–	£5.14	£964 331	
KP McKenna	1 July 2010	Nil	18 750	(18 750)	–	–	£5.83	£109 313	
	31 May 2011	Nil	50 000	(37 500)	–	12 500	£5.88	£220 845	The remaining 25% is exercisable on 31 May 2016
IR Wohlman	1 July 2010	Nil	25 000	(25 000)	–	–	£5.80	£145 100	
	31 May 2011	Nil	100 000	(75 000)	–	25 000	£5.89	£441 690	The remaining 25% is exercisable on 31 May 2016
A Zimbler	1 July 2010	Nil	68 750	(68 750)	–	–	£4.97	£342 134	

The above awards are not subject to performance conditions and were made prior to the directors being classified as Material Risk Takers in terms of the PRA requirements.

DIRECTORS' INTERESTS IN THE INVESTEC PLC EXECUTIVE INCENTIVE PLAN 2013 AT 31 MARCH 2016

Awards made in respect of the financial year ending 31 March 2013

Name	Number of Investec plc shares awarded on 16 September 2013	Exercise price	Performance period	Performance conditions met (Y/N)	Shares awarded for performance conditions being met	Total shares	Period exercisable	Retention period
S Koseff	600 000	Nil	1 April 2013 to 31 March 2016	Yes*	204 617	804 617	75% is exercisable on 16 September 2017; and	16 September 2017 to 16 March 2018
							25% on 16 September 2018, subject to performance criteria being met	16 September 2018 to 16 March 2019
B Kantor	600 000	Nil	1 April 2013 to 31 March 2016	Yes*	204 617	804 617	75% is exercisable on 16 September 2017; and	16 September 2017 to 16 March 2018
							25% on 16 September 2018, subject to performance criteria being met	16 September 2018 to 16 March 2019

The Executive Incentive Plan and the awards made on 16 September 2013 were approved at the July 2013 annual general meeting in terms of which 600 000 nil cost options each were awarded to S Koseff and B Kantor.

* *The performance criteria in respect of these awards are detailed in Investec's 2016 integrated annual report. The performance period for these awards made in 2013 has now been tested and the results are provided in Investec's 2016 integrated annual report. In terms of this assessment a total number of 804 617 shares have been awarded to S Koseff and B Kantor. Theses awards are only exercisable in 2017 and 2018 as shown above.*

Awards made in respect of the financial year ending 31 March 2016

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2015	Conditional awards made during the year	Balance at 31 March 2016	Performance period	Period exercisable	Retention period
S Koseff	2 June 2016	Nil	–	314 225	314 225	1 April 2016 to 31 March 2019	One third is exercisable on 2 June 2019; one third on 2 June 2020; and one third on 2 June 2021, subject to performance criteria being met	A further six-month retention after vesting date
B Kantor	2 June 2016	Nil	–	314 225	314 225	1 April 2016 to 31 March 2019	One third is exercisable on 2 June 2019; one third on 2 June 2020; and one third on 2 June 2021, subject to performance criteria being met	A further six-month retention after vesting date

On 2 June 2016, 314 225 nil cost options were awarded to S Koseff and B Kantor. These awards form part of their variable remuneration as approved at the 2015 annual general meeting, in respect of the financial year ending 31 March 2016.

The performance criteria in respect of these awards are detailed in Investec's 2016 integrated annual report. None of these awards have as yet vested. The face value at grant for these awards amounts to £1 480 000 for S Koseff and B Kantor based on an actual share price for Investec plc of £4.71 on 2 June 2016 (date of grant). The awards are subject to 100% of fixed remuneration at face value.

CONDITIONAL AWARDS TO MATERIAL RISK TAKERS AT 31 MARCH 2016

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2015	Exercised during the year	Options granted/ lapsed during the year	Balance at 31 March 2016	Market price at date of exercise	Gross gains made on date of exercise	Period exercisable
Executive directors									
DM van der Walt	13 June 2013	Nil	200 000	–	–	200 000	–	–	75% is exercisable on 13 December 2016 and subject to six months' retention thereafter and 25% on 13 December 2017 and subject to six months' retention thereafter
	27 May 2014	Nil	175 000	–	–	175 000	–	–	75% is exercisable on 27 November 2017 and subject to six months' retention thereafter and 25% on 27 November 2018 and subject to six months' retention thereafter
	1 June 2015	Nil	–	–	125 000	125 000	–	–	75% is exercisable on 1 December 2018 and subject to six months' retention thereafter and 25% on 1 December 2019 and subject to six months' retention thereafter
KP McKenna	29 May 2012	Nil	40 000	(30 000)	–	10 000	£5.62	£168 681	The remaining 25% is exercisable on 29 November 2016 and is subject to six months' retention thereafter
	4 June 2013	Nil	60 000	–	–	60 000	–	–	75% is exercisable on 4 December 2016 and subject to six months' retention thereafter and 25% on 4 December 2017 and subject to six months' retention thereafter
	27 May 2014	Nil	100 000	–	–	100 000	–	–	75% is exercisable on 27 November 2017 and subject to six months' retention thereafter and 25% on 27 November 2018 and subject to six months' retention thereafter
	1 June 2015	Nil	–	–	50 000	50 000	–	–	75% is exercisable on 1 December 2018 and subject to six months' retention thereafter and 25% on 1 December 2019 and subject to six months' retention thereafter

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2015	Exercised during the year	Options granted/ lapsed during the year	Balance at 31 March 2016	Market price at date of exercise	Gross gains made on date of exercise	Period exercisable
IR Wohlman	4 June 2013	Nil	50 000	–	–	50 000	–	–	75% is exercisable on 4 December 2016 and subject to six months' retention thereafter and 25% on 4 December 2017 and subject to six months' retention thereafter
	27 May 2014	Nil	100 000	–	–	100 000	–	–	75% is exercisable on 27 November 2017 and subject to six months' retention thereafter and 25% on 27 November 2018 and subject to six months' retention thereafter
	1 June 2015	Nil	–	–	60 000	60 000	–	–	75% is exercisable on 1 December 2018 and subject to six months' retention thereafter and 25% on 1 December 2019 and subject to six months' retention thereafter
A Zimbler	13 June 2013	Nil	125 000	–	–	125 000	–	–	75% is exercisable on 13 December 2016 and subject to six months' retention thereafter and 25% on 13 December 2017 and subject to six months' retention thereafter
	27 May 2014	Nil	100 000	–	–	100 000	–	–	75% is exercisable on 27 November 2017 and subject to six months' retention thereafter and 25% on 27 November 2018 and subject to six months' retention thereafter

The above awards to Material Risk Takers are subject to performance conditions and a six-month retention period after the award vests. In addition, these awards are subject to clawback in respect of some or all of the unvested portion of the award in terms of the PRA and FCA Remuneration Code.

The performance conditions will be assessed by the directors, in accordance with the rules and requirements of the PRA from time to time, at the end of each financial year of the performance period (between 31 March 2013 and 31 March 2017). For each year within the performance period that the return on risk weighted assets for Investec Bank plc is equal to or greater than 0.3%, the performance condition for 25% of the award is satisfied, in which case 25% of the award will vest on the relevant vesting date (subject to clawback).

DIRECTORS' EMOLUMENTS

	2016	2015
Aggregate emoluments (excluding pension contributions)	5 950	5 750
Contributions to defined contributions scheme	142	137
	6 092	5 887
Number of directors in defined contributions scheme	4	4
Number of directors in closed defined benefits scheme	–	–

Included in aggregate emoluments for the current year are performance awards to executive directors. Performance awards comprise £811 275 in cash, £85 828 in deferred cash (vesting annually over a three-year period) and £2 052 897 in EVA forfeitable shares (vesting annually over a three-year period). For further details of the deferral of performance awards refer to pages 124 and 125.

Emoluments of the highest paid director were £2 638 381 (2015: £2 529 728) excluding £42 000 (2015: £42 000) of pension contribution to the defined contribution scheme. The performance awards of the highest paid director comprise £382 931 in cash and £917 069 in EVA forfeitable shares (vesting annually over a three-year period).

The directors have, during the year, exercised options granted to them under various of the Investec plc group's long-term incentive plans. Full details are included on pages 129 and 130.

THE NUMBER OF SHARES IN ISSUE AND SHARE PRICES FOR INVESTEC PLC AND INVESTEC LIMITED OVER THE PERIOD ARE PROVIDED BELOW

Summary: Investec plc and Investec Limited share statistics

	31 March 2016	31 March 2015	High over the year	Low over the year
Investec plc share price	£5.13	£5.61	£6.47	£4.03
Investec Limited share price	R109.91	R100.51	R121.90	R93.91
Number of Investec plc shares in issue ('million)	617.4	613.6	–	–
Number of Investec Limited shares in issue ('million)	291.4	285.7	–	–

Additional remuneration disclosures (unaudited)

PRA AND FCA REMUNERATION CODE DISCLOSURES

In terms of the PRA's Chapter on Disclosure Requirements (BIPRU 11.5.18) the bank in the UK is required to make certain quantitative and qualitative remuneration disclosures on an annual basis with respect to Material Risk Takers.

Material Risk Takers are defined as those employees (including directors) whose professional activities could have a material impact on the bank's risk profile. A total of 45 individuals were Material Risk Takers in 2016.

The bank's qualitative remuneration disclosures are provided on pages 120 to 126 and further information is provided in Investec's 2016 integrated annual report.

The information contained in the tables below sets out the bank's quantitative disclosures in respect of Material Risk Takers for the year ended 31 March 2016.

Aggregate remuneration by remuneration type

£'million	Senior management	Other Material Risk Takers	Total
Fixed remuneration	11.4	10.5	21.9
Variable remuneration*			
– Cash	3.2	2.9	6.1
– Deferred cash	0.7	1.6	2.3
– Deferred shares	3.5	1.9	5.4
– Deferred shares – long-term incentive awards**	6.9	2.2	9.1
Total aggregate remuneration and deferred incentives	**25.7**	**19.1**	**44.8**
Ratio between fixed and variable pay	0.8:1	1:2.1	1:1

* *Total number of employees receiving variable remuneration was 45.*

** *Value represents the number of shares awarded multiplied by the applicable share price. These awards were made during the period but have not yet vested. These awards are subject to performance conditions and to 75% vesting at the end of three and a half years and the final 25% at the end of four and a half years, subject to a six-month retention period.*

Material Risk Takers received total remuneration in the following bands:

	Number of Material Risk Takers
£800 000 – £1 200 000	9
£1 200 001 – £1 600 000	2
£1 600 001 – £2 000 000	1
£2 000 001 – £2 400 000	1
£2 400 001 – £2 800 000	1
£2 800 001 – £3 200 000	1
£3 200 001 – £3 600 000	–
£3 600 001 – £4 000 000	3
£4 000 001 – £4 400 000	–
£4 400 001 – £4 800 000	–
£4 800 001 – £5 200 000	–
> £5 200 001	–

Additional disclosure on deferred remuneration

£'million	Senior management	Other Material Risk Takers	Total
Deferred unvested remuneration outstanding at the beginning of the year	18.9	39.7	58.6
Deferred unvested remuneration adjustment – employees no longer Material Risk Takers and reclassifications	(9.5)	(5.0)	(14.5)
Deferred remuneration awarded in year	11.1	5.7	16.8
Deferred remuneration reduced in year through performance adjustments	–	–	–
Deferred remuneration vested in year	(4.9)	(5.3)	(10.2)
Deferred unvested remuneration outstanding at the end of the year^^	**15.6**	**35.1**	**50.7**

^^ *All employees are subject to clawback provisions as discussed on page 125. No remuneration was reduced for ex post implicit adjustments during the year.*

£'million	Senior management	Other Material Risk Takers	Total
Deferred unvested remuneration outstanding at the end of the year			
– Equity	12.1	31.3	43.4
– Cash	2.5	2.9	5.4
– Other	1.0	0.9	1.9
	15.6	**35.1**	**50.7**

£'million	Senior management	Other Material Risk Takers	Total
Deferred remuneration vested in year			
– For awards made in 2015 financial year	(1.1)	(2.0)	(3.1)
– For awards made in 2014 financial year	(1.9)	(1.9)	(3.8)
– For awards made in 2013 financial year	(1.9)	(1.4)	(3.3)
	(4.9)	**(5.3)**	**(10.2)**

Other remuneration disclosures

£'million	Senior management	Other Material Risk Takers	Total
Sign-on payments			
Made during the year (£'million)	–	–	–
Number of beneficiaries	–	–	–
Severance payments			
Made during the year (£'million)	0.8	–	0.8
Number of beneficiaries	1	–	1
Guaranteed bonuses			
Made during the year (£'million)	–	–	–
Number of beneficiaries	–	–	–

Five

Annual financial statements

The directors present their strategic and directors' report and financial statements for the year ended 31 March 2016.

Strategic report

The strategic report for the year ended 31 March 2016 was approved by the board of directors on 15 June 2016. The operational and financial review in sections 1 and 2 of this report provides an overview of our strategic position, performance during the financial year and outlook for the business. It should be read in conjunction with the sections referenced below which elaborate on the aspects highlighted in the strategic report:

- The risk management section in section 3 of this report provides a description of the principal risks and uncertainties facing the company
- The sustainability report on our website which highlights the sustainability economic, social and environmental considerations.

Business and principal activities

- The principal activities of Investec Bank plc (the bank) and its subsidiaries are Specialist Banking and Wealth & Investment activities. The Specialist Banking activities are also undertaken by the bank's branch in Dublin.

Review of the business and future developments

A review of the bank's business for the year and future proposed activities can be found in the financial review on pages 16 to 36.

Accounting policies and disclosures

Accounting policies are set having regard to commercial practice and comply with applicable UK law. To align with the accounting policies applied in the consolidated financial statements of the bank's listed parent, Investec plc, the consolidated and unconsolidated financial statements of the bank are prepared under International Financial Reporting Standards as adopted by the EU.

These policies are set out on pages 148 to 156.

Authorised and issued share capital

Details of the share capital at 31 March 2016 are set out in note 41 to the bank's annual financial statements. No shares were issued during the year.

Results and dividends

The results for the year are shown on page 140. Movements in reserves are shown in the reconciliation of equity on pages 144 and 145 of the financial statements.

The following interim dividends were declared and paid during the year: £40 million was declared and paid on 30 March 2016.

Directors and their interests

The directors of the bank for the year ended 31 March 2016 are shown on page 118.

There have been the following changes in the composition of the board:

Allen Zimbler resigned as director effective 31 March 2016.

The interests of the directors are set out in the remuneration report on pages 120 to 135.

Except as disclosed in this report, no other director held any beneficial interest in the shares of the company or the group.

Environment

The group is committed to pursuing sound environmental policies in all aspects of its business, and seeks to encourage and promote good environmental practice among its employees and within the communities in which it operates.

Further information is provided in Investec's 2016 integrated annual report.

Employees

The group's policy is to recruit and promote on the basis of aptitude and ability, without discrimination of any kind. Applications for employment by disabled people are always considered bearing in mind the qualifications and abilities of the applicants.

In the event of employees becoming disabled, every effort is made to ensure their continued employment.

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

Further information is provided in Investec's 2016 integrated annual report.

Going concern

Refer to page 113 for the directors' statement in relation to going concern.

Auditors

Ernst & Young LLP have indicated their willingness to continue in office as auditors. A resolution proposing their reappointment as auditors will be submitted to the annual general meeting.

Signed on behalf of the board

David van der Walt
Chief executive officer

15 June 2016

Directors' responsibility statement

The following statement, which should be read in conjunction with the auditor's report set out on page 139, is made with a view to distinguishing for stakeholders the respective responsibilities of the directors and of the auditors in relation to the consolidated financial statements.

The directors are responsible for the preparation, integrity and objectivity of the consolidated annual financial statements that fairly present the state of affairs of the bank at the end of the financial year and the net income and cash flows for the year, and other information contained in this integrated annual report.

To enable the directors to meet these responsibilities:

- The board and management set standards and management implements systems of internal controls and accounting and information systems aimed at providing reasonable assurance that assets are safeguarded and the risk of fraud, error or loss is reduced in a cost effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties
- The Investec plc group's internal audit function, which operates unimpeded and independently from operational management, and has unrestricted access to the group audit committee, appraises and, when necessary, recommends improvements in the system of internal controls and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business
- The Investec plc group audit committee, together with the Internal Audit department, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

To the best of our knowledge and belief, based on the above, the directors are satisfied that no material breakdown in the operation of the system of internal control and procedures has occurred during the year under review.

The bank consistently adopts appropriate and recognised accounting policies and these are supported by reasonable judgements and estimates on a consistent basis and provides additional disclosures when compliance with the specific requirements in International Financial Reporting Standards (IFRS) as adopted by the European Union are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the bank's financial position and financial performance.

The consolidated annual financial statements of the bank have been prepared in accordance with the Companies Act 2006 and comply with IFRS as adopted by the European Union.

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

It is the responsibility of the independent auditors to report on the consolidated annual financial statements. Their report to the members of the bank is set out on page 139 of this integrated annual report. As far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. All steps which ought to have been taken as directors have been completed in order to be aware of the relevant audit information and to establish that the company's auditors are aware of that information.

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

Approval of financial statements

The directors' report and the financial statements of the bank, which appear on page 137 and pages 140 to 254, were approved by the board of directors on 15 June 2016.

Signed on behalf of the board

David van der Walt
Chief executive officer

15 June 2016

We have audited the financial statements of Investec Bank plc for the year ended 31 March 2016 which comprise the group income statement, the group and parent company statement of comprehensive income, the group and parent company balance sheet, the group and parent company cash flow statement, the group and parent company statement of changes in equity, the accounting policies set out on pages 148 to 156, and the related notes 1 to 57. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement set out on page 138, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 31 March 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the strategic and directors' report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Andrew Gilder
(Senior statutory auditor)

for and on behalf of Ernst &Young LLP,
Statutory Auditor

London

15 June 2016

Notes:

1. *The maintenance and integrity of the Investec Bank 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 financial statements since they were initially presented on the website.*
2. *Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.*

Consolidated income statement

For the year to 31 March £'000	Notes	2016	2015
Interest income	2	550 715	620 541
Interest expense	2	(280 649)	(330 673)
Net interest income		**270 066**	**289 868**
Fee and commission income	3	437 650	477 565
Fee and commission expense	3	(11 608)	(15 089)
Investment income	4	67 308	7 301
Trading income arising from			
– customer flow		92 683	88 258
– balance sheet management and other trading activities		(8 552)	(4 924)
Other operating income	5	11 642	10 074
Total operating income before impairment losses on loans and advances		**859 189**	**853 053**
Impairment losses on loans and advances	26	(84 217)	(102 084)
Operating income		**774 972**	**750 969**
Operating costs	6	(628 515)	(644 322)
Depreciation on operating leased assets	31	(2 149)	(1 535)
Operating profit before goodwill and acquired intangibles		**144 308**	**105 112**
Impairment of goodwill	33	–	(8 552)
Amortisation of acquired intangibles	34	(14 477)	(14 497)
Operating profit		**129 831**	**82 063**
Net (loss)/gain on disposal of subsidiaries	35	(4 805)	78 529
Profit before taxation		**125 026**	**160 592**
Taxation on operating profit before goodwill and acquired intangibles	8	(35 131)	(22 568)
Taxation on acquired intangibles and acquisition/disposal/integration of subsidiaries	8	4 701	(28 307)
Profit after taxation		**94 596**	**109 717**
Loss/(profit) attributable to non-controlling interests		2 039	(3 869)
Earnings attributable to shareholder		**96 635**	**105 848**

Statement of comprehensive income

For the year to 31 March £'000	Notes	Group 2016	Group 2015	Company 2016	Company 2015
Profit after taxation		94 596	109 717	112 305	57 407
Other comprehensive income/(loss):					
Items that may be reclassified to the income statement					
Fair value movements on cash flow hedges taken directly to other comprehensive income*	8	–	471	–	–
(Gains)/losses on realisation of available-for-sale assets recycled through the income statement*	8	(1 298)	1 935	322	2 180
Fair value movements on available-for-sale assets taken directly to other comprehensive income*	8	(20 170)	(3 686)	(21 097)	(2 053)
Foreign currency adjustments on translating foreign operations		3 968	(51 630)	(6 916)	11 454
Total comprehensive income		**77 096**	**56 807**	**84 614**	**68 988**
Total comprehensive (loss)/income attributable to non-controlling interests		(2 149)	3 864	–	–
Total comprehensive income attributable to ordinary shareholder		79 245	52 943	84 614	68 988
Total comprehensive income		**77 096**	**56 807**	**84 614**	**68 988**

* *Net of taxation.*

Balance sheets

At 31 March £'000	Notes	Group 2016	Group 2015	Company 2016	Company 2015
Assets					
Cash and balances at central banks	17	2 638 064	2 181 232	2 612 460	2 165 491
Loans and advances to banks	18	935 071	828 726	315 115	322 221
Reverse repurchase agreements and cash collateral on securities borrowed	19	557 025	1 448 205	557 025	1 253 935
Sovereign debt securities	20	1 252 991	1 212 910	643 352	613 267
Bank debt securities	21	188 397	226 273	188 397	226 273
Other debt securities	22	403 521	222 485	566 066	362 014
Derivative financial instruments	23	842 936	805 886	853 131	817 146
Securities arising from trading activities	24	524 344	670 298	524 344	670 298
Investment portfolio	25	419 861	400 800	210 499	239 217
Loans and advances to customers	26	7 781 386	7 035 690	6 053 931	5 501 498
Other loans and advances	26	577 584	776 305	1 774 186	1 525 222
Other securitised assets	27	150 565	411 983	8 680	231 979
Interests in associated undertakings	28	17 446	16 297	9 309	9 289
Deferred taxation assets	29	71 563	66 249	37 158	30 941
Other assets	30	1 453 050	1 113 136	1 087 288	790 837
Property and equipment	31	53 042	60 316	8 836	13 031
Investment properties	32	79 051	65 736	–	–
Goodwill	33	261 804	260 900	–	–
Intangible assets	34	126 867	140 042	381	869
Investments in subsidiaries	54	–	–	943 552	879 801
		18 334 568	**17 943 469**	**16 393 710**	**15 653 329**
Liabilities					
Deposits by banks		526 717	214 138	767 730	302 887
Derivative financial instruments	23	964 386	953 205	965 287	951 849
Other trading liabilities	36	226 598	251 879	226 598	251 879
Repurchase agreements and cash collateral on securities lent	19	281 260	597 259	281 260	597 259
Customer accounts (deposits)		11 038 164	10 579 558	9 808 014	9 279 115
Debt securities in issue	37	1 508 672	1 334 236	1 361 105	1 062 647
Liabilities arising on securitisation of other assets	27	120 617	330 526	–	197 208
Current taxation liabilities		141 064	121 198	70 651	67 662
Deferred taxation liabilities	29	26 143	39 464	–	–
Other liabilities	38	1 060 782	1 123 968	701 852	780 216
		15 894 403	**15 545 431**	**14 182 497**	**13 490 722**
Subordinated liabilities	40	597 309	596 923	598 390	598 240
		16 491 712	**16 142 354**	**14 780 887**	**14 088 962**
Equity					
Ordinary share capital	41	1 186 800	1 186 800	1 186 800	1 186 800
Share premium		143 288	143 288	143 288	143 288
Capital reserve		162 789	162 789	162 789	162 789
Other reserves		(36 181)	(18 791)	(22 096)	5 595
Retained income		387 606	326 351	142 042	65 895
Shareholder's equity excluding non-controlling interests		**1 844 302**	**1 800 437**	**1 612 823**	**1 564 367**
Non-controlling interests in partially held subsidiaries	42	(1 446)	678	–	–
Total equity		**1 842 856**	**1 801 115**	**1 612 823**	**1 564 367**
Total liabilities and equity		**18 334 568**	**17 943 469**	**16 393 710**	**15 653 329**

For the year to 31 March £'000	Notes	Group 2016	Group 2015	Company 2016	Company 2015
Profit before taxation adjusted for non-cash items	44	236 094	222 602	140 225	277 767
Taxation (paid)/repayment		(100 730)	1 103	(76 886)	11 794
Increase in operating assets	44	(580)	(132 286)	(274 298)	(212 511)
Increase in operating liabilities	44	329 042	402 548	679 715	416 601
Net cash inflow from operating activities		**463 826**	**493 967**	**468 756**	**493 651**
Cash flow on acquisition of group operations	35	–	(6 503)	–	–
Cash flow on disposal of non-controlling interest		25	39	–	–
Cash flow on disposal of group operations	35	–	55 956	–	–
Cash flow on net (acquisition)/disposal of associates		(969)	131	–	–
Cash flow on acquisition of property, equipment and intangible assets		(15 408)	(29 017)	(29)	(3 442)
Cash flow on disposal of property, equipment and intangible assets		10 497	17 533	472	3 701
Return of capital by subsidiary		–	–	–	46 076
Net cash (outflow)/inflow from investing activities		**(5 855)**	**38 139**	**443**	**46 335**
Dividends paid to ordinary shareholder		(40 000)	(172 000)	(40 000)	(172 000)
Repayment of subordinated debt		–	(33 793)	–	(33 793)
Net cash outflow from financing activities		**(40 000)**	**(205 793)**	**(40 000)**	**(205 793)**
Effects of exchange rates on cash and cash equivalents		**16 194**	**12 732**	**2 533**	**(2 642)**
Net increase in cash and cash equivalents		**434 165**	**339 045**	**431 732**	**331 551**
Cash and cash equivalents at the beginning of the year		2 878 452	2 539 407	2 484 897	2 153 346
Cash and cash equivalents at the end of the year		**3 312 617**	**2 878 452**	**2 916 629**	**2 484 897**
Cash and cash equivalents is defined as including:					
Cash and balances at central banks		2 638 064	2 181 232	2 612 460	2 165 491
On-demand loans and advances to banks		674 553	697 220	304 169	319 406
Cash and cash equivalents at the end of the year		**3 312 617**	**2 878 452**	**2 916 629**	**2 484 897**

Cash and cash equivalents have a maturity profile of less than three months.

Consolidated statement of changes in equity

£'000	Ordinary share capital	Share premium account
Group		
At 31 March 2014	1 186 800	143 288
Movement in reserves 1 April 2014 – 31 March 2015		
Profit after taxation	–	–
Fair value movements on cash flow hedges	–	–
Losses on realisation of available-for-sale assets recycled through the income statement	–	–
Fair value movements on available-for-sale assets	–	–
Foreign currency adjustments on translating foreign operations	–	–
Total comprehensive loss for the year	–	–
Share-based payments adjustments	–	–
Dividends paid to ordinary shareholder	–	–
Movement arising on reduction/acquisition of non-controlling interests	–	–
Transfer to regulatory general risk reserve	–	–
At 31 March 2015	**1 186 800**	**143 288**
Movement in reserves 1 April 2015 – 31 March 2016		
Profit after taxation	–	–
Gains on realisation of available-for-sale assets recycled through the income statement	–	–
Fair value movements on available-for-sale assets	–	–
Foreign currency adjustments on translating foreign operations	–	–
Total comprehensive loss for the year	–	–
Share-based payments adjustments	–	–
Dividends paid to ordinary shareholder	–	–
Movement arising on reduction/acquisition of non-controlling interests	–	–
At 31 March 2016	**1 186 800**	**143 288**

(continued)

Capital reserve account	Available-for-sale reserve	Regulatory general risk reserve	Cash flow hedge reserve	Foreign currency reserves	Retained income	Shareholder's equity excluding non-controlling interests	Non-controlling interests	Total equity
162 789	3 276	14 810	(6 521)	31 232	379 660	1 915 334	(3 225)	1 912 109
–	–	–	–	–	105 848	105 848	3 869	109 717
–	–	–	471	–	–	471	–	471
–	1 935	–	–	–	–	1 935	–	1 935
–	(3 686)	–	–	–	–	(3 686)	–	(3 686)
–	(1)	(138)	61	(51 547)	–	(51 625)	(5)	(51 630)
–	(1 752)	(138)	532	(51 547)	105 848	52 943	3 864	56 807
–	–	–	–	–	4 160	4 160	–	4 160
–	–	–	–	–	(172 000)	(172 000)	–	(172 000)
–	–	–	–	–	–	–	39	39
–	–	(14 672)	5 989	–	8 683	–	–	–
162 789	**1 524**	**–**	**–**	**(20 315)**	**326 351**	**1 800 437**	**678**	**1 801 115**
–	–	–	–	–	96 635	96 635	(2 039)	94 596
–	(1 298)	–	–	–	–	(1 298)	–	(1 298)
–	(20 170)	–	–		–	(20 170)	–	(20 170)
–	–	–	–	4 078	–	4 078	(110)	3 968
–	(21 468)	–	–	4 078	96 635	79 245	(2 149)	77 096
–	–	–	–	–	4 620	4 620	–	4 620
–	–	–	–	–	(40 000)	(40 000)	–	(40 000)
–	–	–	–	–	–	–	25	25
162 789	**(19 944)**	**–**	**–**	**(16 237)**	**387 606**	**1 844 302**	**(1 446)**	**1 842 856**

Statement of changes in equity

£'000	Ordinary share capital	Share premium account
Company		
At 31 March 2014	**1 186 800**	143 288
Movement in reserves 1 April 2014 – 31 March 2015		
Profit after taxation	–	–
Losses on realisation of available-for-sale assets recycled through the income statement	–	–
Fair value movements on available-for-sale assets	–	–
Foreign currency adjustments on translating foreign operations	–	–
Total comprehensive loss for the year	**–**	**–**
Share-based payments adjustments	–	–
Dividends paid to ordinary shareholder	–	–
At 31 March 2015	**1 186 800**	**143 288**
Movement in reserves 1 April 2015 – 31 March 2016		
Profit after taxation	–	–
Losses on realisation of available-for-sale assets recycled through the income statement	–	–
Fair value movements on available-for-sale assets	–	–
Foreign currency adjustments on translating foreign operations	–	–
Total comprehensive loss for the year	**–**	**–**
Share-based payments adjustments	–	–
Dividends paid to ordinary shareholder	–	–
At 31 March 2016	**1 186 800**	**143 288**

(continued)

Capital reserve account	Available-for-sale reserve	Foreign currency reserves	Retained income	Total equity
162 789	(5 739)	(247)	176 328	1 663 219
–	–	–	57 407	57 407
–	2 180	–	–	2 180
–	(2 053)	–	–	(2 053)
–	–	11 454	–	11 454
–	**127**	**11 454**	**57 407**	**68 988**
–	–	–	4 160	4 160
–	–	–	(172 000)	(172 000)
162 789	**(5 612)**	**11 207**	**65 895**	**1 564 367**
–	–	–	112 305	112 305
–	322	–	–	322
–	(21 097)	–	–	(21 097)
–	–	(6 916)	–	(6 916)
–	**(20 775)**	**(6 916)**	**112 305**	**84 614**
–	–	–	3 842	3 842
–	–	–	(40 000)	(40 000)
162 789	**(26 387)**	**4 291**	**142 042**	**1 612 823**

Basis of presentation

These group and company annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU) which comply with IFRSs as issued by the International Accounting Standards Board (IASB). At 31 March 2016, 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. However, the group has early adopted these relevant standards to ensure compliance with both frameworks.

The group and company annual financial statements have been prepared on a historical cost basis, except for investment properties, available-for-sale investments, derivative financial instruments, financial assets and financial liabilities held at fair value through profit or loss or subject to hedge accounting.

The accounting policies adopted by the group are consistent with the prior year. Standards which became effective during the year did not have an impact on the group. 'Group' refers to group and company in the accounting policies that follow.

No profit or loss account is presented for the company as permitted by section 408 of the Companies Act 2006. The company's profit for the year, determined in accordance with the Act, was £112.3 million (2015: £57.4 million).

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 38 to 107. Certain disclosures required under IAS 24 Related Party Disclosures have been included in the section marked as audited in the remuneration report on pages 120 to 135.

Restatements and presentation of information

The accounting policies adopted by the group are consistent with the prior year.

During the year the company has voluntarily changed its basis of preparation from United Kingdom Generally Accepted Accounting Practice to IFRS as adopted by the EU. The company has adopted the requirement of IFRS 1 First time adoption of IFRS to its company accounts in making this change. The transition has not had a significant impact on the financial position or cash flows of the company. Refer to Note 56 Transition to International Financial Reporting Standards for additional details.

Basis of consolidation

All subsidiaries or structured entities are consolidated when the group controls an investee. The group controls an investee if it is exposed to, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial results of subsidiaries are included in the consolidated annual financial statements of the group from the date on which control is obtained until the date the group can no longer demonstrate control.

The group performs a reassessment of control whenever there is a change in the substance of the relationship between Investec and an investee. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. Investec also holds investments, for example private equity investments, which give rise to significant, but not majority, voting rights. Assessing these voting rights and whether Investec controls these entities requires judgement that affects the date at which subsidiaries are consolidated or deconsolidated.

Entities, other than subsidiary undertakings, in which the group exercises significant influence over operating and financial policies, are treated as interests in associated undertakings. Interests in associated undertakings are accounted for using the equity method from the date that significant influence commences until the date that significant influence ceases. In circumstances where interests in associated undertakings or joint venture holdings arise in which the group has no strategic intention, these investments are classified as 'venture capital' holdings and are designated as held at fair value through profit or loss.

For equity accounted associates, the consolidated annual financial statements include the attributable share of the results and reserves of associated undertakings. The group's interests in associated undertakings are included in the consolidated balance sheet at cost plus the post-acquisition changes in the group's share of the net assets of the associate.

The consolidated balance sheet reflects the associated undertakings net of accumulated impairment losses.

Investments in subsidiaries and interests in associated undertakings are carried at their cost less any accumulated impairment in the company financial statements.

All intergroup balances, transactions and unrealised gains or losses within the group that, are eliminated in full regarding subsidiaries and to the extent of the interest in an associate.

Segmental reporting

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the group's other components, whose operating results are reviewed regularly by chief operating decision-makers, which include members of the board and for which discrete financial information is available.

The group's segmental reporting is presented in the form of a business analysis. The business analysis is presented in terms of the group's two principal business divisions, namely, Wealth and Investment and Specialist Banking.

For further detail on the group's segmental reporting basis, refer to the divisional review section of the integrated annual report.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at the acquisition date fair value and the amount of any prior non-controlling interest in the acquiree. For each business combination, the group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed immediately in the income statement.

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and the designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the group's previously held equity interest in the acquiree is remeasured to fair value at each acquisition date through the income statement.

Any contingent consideration to be transferred by the group will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in the income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration and amount recognised for non-controlling interest is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the income statement as a gain in the year of acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. The group tests goodwill acquired in a business combination for impairment annually, irrespective of whether an indication of impairment exists and in accordance with IAS 36.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units that are expected to benefit from the combination.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the cash-generating units retained.

Share-based payments to employees

The group engages in equity-settled share-based payments in respect of services received from employees. These are the shares of the company's parent, Investec plc, and are accounted for as equity-settled share-based payments at an Investec plc level but, in accordance with IFRS 2, as cash-settled share-based payment transactions by subsidiaries of Investec plc.

The fair value of the services received in respect of equity-settled share-based payments is determined by reference to the fair value of the shares or share options on the date of grant to the employee. The cost of the share-based payment, together with a corresponding increase in equity, is recognised in the income statement over the period the service conditions of the grant are met, with the amount changing according to the number of awards expected to vest. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the group's best estimate of the number of equity instruments that will ultimately vest.

Fair value measurements are based on option pricing models, taking into account the risk-free interest rate, volatility of the underlying equity instrument, expected dividends and current share prices.

Where the terms of an equity-settled award are modified, the minimum expense recognised in staff costs is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Foreign currency transactions and foreign operations

The presentation currency of the group is Pounds Sterling, being the functional currency of Investec Bank plc.

Foreign operations are subsidiaries, interests in associated undertakings or branches of the group, the activities of which are based in a functional currency other than that of the reporting entity. The 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 reclassified in the income statement on disposal of the foreign operation
- Cash flow items are translated at the exchange rates ruling at the date of the transactions.

Revenue recognition

Revenue consists of interest income, fee and commission income, investment income, trading income arising from customer flow, trading income arising from balance sheet management and other trading activities and other operating income.

Revenue is recognised when it can be reliably measured and it is probable that the economic benefits will flow to the entity.

Revenue related to provision of services is recognised when the related services are performed. Revenue is measured at the fair value of the consideration received or receivable.

Interest income is recognised in the income statement using the effective interest rate method. Fees charged on lending transactions are included in the effective yield calculation to the extent that they form an integral part of the effective interest rate yield, but exclude those fees earned for a separately identifiable significant act, which are recognised upon completion of the act. Fees and commissions charged *in lieu* of interest are recognised as income as part of the effective interest rate on the underlying loan.

The effective interest rate method is based on the estimated life of the underlying instrument and where this estimate is not readily available, the contractual life.

Fee and commission income includes fees earned from providing advisory services as well as portfolio management and includes rental income from investment properties. Investment advisory and management fees are accrued over the period to which the income relates. Performance fees are recognised when they become receivable. No revenue is recognised if there are significant uncertainties regarding the recovery of the consideration due.

Investment income includes income, other than margin from securities held for the purpose of generating interest yield, dividends and capital appreciation.

Customer flow trading income includes income from trading activities arising from making and facilitating client activities.

Trading income arising from balance sheet management and other trading activities consists of proprietary trading income and other gains and losses arising from balance sheet management.

Trading profit includes the unrealised profit on trading portfolios, which are marked to market daily. Equity investments received *in lieu* of corporate finance fees are included in investment portfolio and valued accordingly.

Dividend income is recognised when the group's right to receive payment is established.

Included in other operating income is incidental rental income, gains on realisation of properties (other than investment properties which is included in investment income), operating lease income, income from interests in associated undertakings and revenue from consolidated private equity investments. Operating costs associated with these investments are included in operating costs in the income statement.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the group measures the fair value of an instrument using the quoted price in an active market for that instrument.

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The group classifies disclosed fair values according to a hierarchy that reflects the significance of observable market inputs.

A transfer is made between the hierarchy levels when the inputs have changed or there has been a change in valuation method. Transfers are deemed to occur at the end of each semi-annual reporting period.

Financial instruments

Financial instruments are initially recognised at their fair value. For financial assets or financial liabilities not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities are included in the initial measurement. All other transaction costs are recorded in the income statement immediately.

Regular way purchase and sales transactions in respect of financial assets that require delivery of a financial instrument within the timeframe established by market convention are recorded at trade date.

FINANCIAL ASSETS AND LIABILITIES HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments held at fair value through profit or loss include all instruments classified as held-for-trading and those instruments designated as held at fair value through profit or loss.

Financial instruments classified as held-for-trading or designated as held at fair value through profit or loss are initially recorded at fair value on the balance sheet with changes in fair value subsequently recognised in the income statement. Financial instruments are classified as trading when they are held with the intention of short-term disposal, held with the intention of generating short-term profit, or are derivatives which are not designated as part of effective hedges. Financial instruments designated as held at fair value through profit or loss are designated as such on initial recognition of the instrument and remain in this classification until derecognition.

Financial assets and liabilities are designated as held at fair value through profit or loss only if:

- They eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases
- A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy and information

about the group is provided internally on that basis to the group's key management personnel

- A contract contains one or more embedded derivatives (which significantly modifies the cash flows that would be required by the contract and is not clearly prohibited from separation from the host contract) and the group has designated the entire hybrid contract as a financial instrument at fair value through profit or loss.

HELD-TO-MATURITY FINANCIAL ASSETS

Held-to-maturity financial assets are non-derivative financial instruments with fixed or determinable payments and maturity dates which the group has the intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity assets are measured at amortised cost using the effective interest rate method, less impairment losses.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in interest income in the income statement. The losses arising from impairment of such investments are recognised in the income statement.

LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and exclude the following:

- Those in which the group intends to trade in, which are classified as held-for-trading and those that the group designates at fair value through profit or loss
- Those that the group designates as available-for-sale
- Those for which the group may not recover substantially all of its initial investment, other than because of credit deterioration, which is accounted for as available-for-sale instruments.

Subsequent to initial recognition, loans and receivables are measured at amortised cost, using the effective interest rate method, less impairment losses. The effective interest rate represents the rate that exactly discounts future projected cash flows over the expected life of the financial instrument, to the net carrying amount of the financial instrument. Included in the calculation of the effective interest rate, is any discount or premium on acquisition and fees that are an integral part of the effective interest rate.

Losses arising from impairment of such investments are recognised in the income statement line 'impairment losses on loans and advances'.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

SECURITISATION/CREDIT INVESTMENT AND TRADING ACTIVITIES EXPOSURES

The group makes use of securitisation vehicles as a source of finance, as a means of risk transfer and to leverage returns through the retention of equity tranches in low default rate portfolios. The group predominantly focuses on the securitisation lease receivables. The group also trades in structured credit investments.

The structured entities are consolidated under IFRS 10 Consolidated Financial Statements when the group has exposure to or rights to, variable returns from its involvement with the investee and have the ability to affect those returns through its power over the investee.

Loans and advances that are originated are transferred to structured entities, and the structured entities issue debt securities to external investors to fund the purchase of securitised assets. When the group consolidates the structured entity, the group recognises the assets and liabilities on a gross basis. When the group does not consolidate the structured entity, the securitised assets are derecognised and only any position still held by the group in the structured entity is reflected.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity, or loans and receivables. They include strategically held equity instruments that are not interests in associated undertakings, joint ventures or subsidiaries of the group. Further, certain debt instruments that are held at fair value due to being quoted on an active market, which are neither actively traded nor held-to-maturity instruments, are classified as available-for-sale financial assets.

Financial assets classified as available-for-sale are measured at fair value with unrealised gains and losses recognised directly in other comprehensive income in the available-for-sale reserve. When the asset is disposed of, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to in the income statement. Interest earned while holding available-for-sale financial assets is reported in the income statement as interest income using the effective interest rate. Dividends earned while holding available-for-sale financial assets are recognised in the income statement when the right to payment has been established.

If an available-for-sale instrument is determined to be impaired, the respective cumulative unrealised losses previously recognised in other comprehensive income are included in the income statement in the period in which the impairment is identified.

Impairments on available-for-sale equity instruments are not reversed once recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed, limited to the impairment value previously recognised in the income statement.

FINANCIAL LIABILITIES

Financial liabilities are classified as non-trading, held-for-trading or designated as held at fair value through profit or loss.

Non-trading liabilities are recorded at amortised cost applying the effective interest rate method.

Held-for-trading liabilities or liabilities designated as held at fair value through profit or loss are measured at fair value.

All changes in fair value of financial liabilities are recognised in the income statement.

DAY-ONE PROFIT OR LOSS

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on the valuation technique whose variables include only data from observable markets, the difference between the transaction price and fair value is recognised immediately in the income statement.

In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised or over the life of the transaction.

IMPAIRMENTS OF FINANCIAL ASSETS HELD AT AMORTISED COST

Financial assets carried at amortised cost are impaired if there is objective evidence that the group would not receive cash flows according to the original contractual terms. Financial assets are assessed for impairment at each balance sheet date and when an indicator of impairment is identified.

The test for impairment is based either on specific financial assets or collectively on a portfolio of similar homogeneous assets. Over and above individual collective impairments raised at specific portfolio levels, the group recognises a collective impairment allowance at a central level (within the Specialist Banking business segment) that takes into account macroeconomic factors, mainly driven by data related to the prevailing credit markets and which indicate incurred but not specifically identified losses across the loan portfolios (that is, exposures in all business segments). Assets specifically identified as impaired are excluded from the collective assessment.

Impairments are credited to an allowance account which is carried against the carrying value of financial assets. Interest continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or transferred to the group.

An allowance for impairment is only reversed when there is objective evidence that the credit quality has improved to the extent that there is reasonable assurance of timely collection of principal and interest in terms of the original contractual agreement.

The impairment is calculated as the difference between the carrying value of the asset and the expected cash flows (including net expected proceeds on realisation of collateral) discounted at the original effective rate. Impairments of financial assets held at amortised cost are recognised in the income statement.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

A financial asset, or a portion thereof, is derecognised when the group's rights to cash flows have expired or when the group has transferred its rights to cash flows relating to the financial assets and either (a) the group has transferred substantially all the risks and rewards associated with the financial assets or (b) the group has neither transferred nor retained substantially all the risks and rewards associated with the financial assets but has transferred control of the assets.

A financial liability is derecognised when it is extinguished, that is when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced or modified with substantially different terms, such a replacement or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

RECLASSIFICATION OF FINANCIAL INSTRUMENTS

The group may reclassify, in certain rare circumstances, non-derivative financial assets out of the held-for-trading category and into the available-for-sale, loans and receivables, or held-to-maturity categories. It may also reclassify, in certain circumstances, financial instruments out of the available-for-sale category and into the loans and receivables category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

DERIVATIVE INSTRUMENTS

All derivative instruments of the group are recorded on the balance sheet at fair value. Positive and negative fair values are reported as assets and liabilities respectively.

Derivative positions are entered into either for trading purposes or as part of the group's asset and liability management activities to manage exposures to interest rate and foreign currency risks. Both realised and unrealised profit or losses arising on derivatives are recognised in the income statement as part of trading income (other than circumstances in which cash flow hedging is applied as detailed in the hedge accounting section below).

Derivative instruments entered into as economic hedges which do not qualify for hedge accounting and derivatives that are entered into for trading purposes are treated in the same way as instruments that are held-for-trading.

Credit derivatives are entered into for trading purposes. Credit derivatives are initially recognised at their fair values, being the transaction price of the derivative. Subsequently the derivatives are carried at fair value, with movements in fair value through profit or loss, based on the current market price or remeasured price. The counterparty risk from derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit value adjustment (CVA).

HEDGE ACCOUNTING

The group applies either fair value or cash flow hedge 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 or cash flows 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%

- For cash flow hedges, a forecasted transaction that is the subject of the hedge must be highly probable and must present an exposure to variation in cash flows that could ultimately affect the income statement
- The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows 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.

For qualifying cash flow hedges in respect of non-financial assets and liabilities, the change in fair value of the hedging instrument relating to the effective portion is initially recognised directly in other comprehensive income in the cash flow hedge reserve, and is included in the initial cost of any asset/liability recognised or in all other cases released to the income statement when the hedged firm commitment or forecasted transaction affects net profit. If the forecast transaction or firm commitment is no longer expected to occur, the balance included in other comprehensive income is reclassified to the income statement immediately and recognised in trading income from balance sheet management and other trading activities.

For qualifying cash flow hedges in respect of financial assets and liabilities, the change in fair value of the hedging instrument, which represents an effective hedge, is initially recognised in other comprehensive income and is reclassified to the income statement in the same period during which the relevant financial asset or liability affects the income statement. Any ineffective portion of the hedge is immediately 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, are accounted for in a way similar to cash flow hedges. Changes in the fair value of the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of any such gain or loss recorded in other comprehensive income is reclassified to the income statement.

Hedge accounting is discontinued when it is determined that the instrument ceases to be highly effective as a hedge; when the derivative expires, or is sold, terminated or exercised; when the hedged item matures or is sold or repaid; when a forecasted transaction is no longer deemed highly probable or when the designation as a hedge is revoked.

EMBEDDED DERIVATIVES

To the extent that a derivative may be embedded in a hybrid contract and the hybrid contract is not carried at fair value with changes in fair value recorded in the income statement, the embedded derivative is separated from the host contract and accounted for as a stand-alone derivative if and only if:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are offset when there is both an intention to settle on a net basis (or simultaneously) and a currently enforceable legal right to offset exists.

ISSUED DEBT AND EQUITY FINANCIAL INSTRUMENTS

Financial instruments are classified as liabilities if they contain a contractual obligation to deliver cash or another financial asset.

Financial instruments are classified as equity where they confer on the holder a residual interest in the group, and the group has no obligation to deliver either cash or another financial asset to the holder. The components of compound issued financial instruments are accounted for separately with the liability component separated first and any residual amount being allocated to the equity component.

Equity instruments issued by subsidiaries of Investec Bank plc are recorded as non-controlling interests on the balance sheet.

Equity instruments are initially measured net of directly attributable issue costs.

Dividends on ordinary shares are recognised as a deduction from equity at the earlier of payment date or the date that it is approved by Investec Bank plc shareholders.

SALE AND REPURCHASE AGREEMENTS (INCLUDING SECURITIES BORROWING AND LENDING)

Where securities are sold subject to a commitment to repurchase them, at a fixed price or a selling price plus a lender's return, they remain on balance sheet. Proceeds received are recorded as a liability on balance sheet under 'repurchase agreements and cash collateral on securities lent'. Securities that are purchased under a commitment to resell the securities at a future date are not recognised on the balance sheet. The consideration paid is recognised as an asset under 'reverse repurchase agreements and cash collateral on securities borrowed'.

The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method.

Securities borrowing transactions that are not cash collateralised are not included on the balance sheet. Securities lending and borrowing transactions which are cash collateralised are accounted for in the same manner as securities sold or purchased subject to repurchase commitments.

FINANCIAL GUARANTEES

Financial guarantee contracts issued by the group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due, in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at fair value, adjusted for the transaction costs that are directly attributable to the issuance of the guarantee.

Subsequent to initial recognition, the liability under each guarantee is measured at the higher of the amount recognised less cumulative amortisation and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Subsequent to initial measurement, all changes in the balance sheet carrying value are recognised in the income statement.

INSTALMENT CREDIT, LEASES AND RENTAL AGREEMENTS

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset/assets, even if that right is not explicitly specified in an arrangement.

A finance lease is a lease that transfers substantially all of the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

Where classified as a finance lease, amounts outstanding on these contracts, net of unearned finance charges, are included in loans and advances where the instalment credit transactions are credited or debited to the income statement in proportion to the capital balances outstanding at the rate implicit in the agreement.

Where classified as operating leases, rentals payable/receivable are charged/credited in the income statement on a straight-line basis over the lease term. Contingent rentals are accrued to the income statement when incurred.

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and impairments.

Cost is the cash equivalent paid or the fair value of the consideration given to acquire an asset and includes other expenditures that are directly attributable to the acquisition of the asset.

Depreciation is provided on the depreciable amount of each component on a straight-line basis over the expected useful life of the asset.

The depreciable amount related to each asset is determined as the difference between the cost and the residual value of the asset. The residual value is the estimated amount, net of disposal costs that the group would currently obtain from the disposal of an asset in similar age and condition as expected at the end of its useful life.

The current and comparative annual depreciation rates for each class of property and equipment is as follows:

- Computer and related equipment 20% – 33%
- Motor vehicles 20% – 25%
- Furniture and fittings 10% – 20%
- Freehold buildings 2%
- Leasehold property and improvements.*

* *Leasehold improvements depreciation rates are determined by reference to the appropriate useful life of its separate components, limited to the period of the lease. Leasehold property depreciation rates are determined by reference to the period of the lease.*

No depreciation is provided on freehold land. However, similar to other property-related assets, it is subject to impairment testing when an indication of impairment exists.

Routine maintenance and service costs for group assets are expensed as incurred. Subsequent expenditure is only capitalised if it is probable that future economic benefits associated with the item will flow to the group.

Investment properties

Properties held for capital appreciation or rental yield are classified as investment properties. Investment properties are carried at fair value, with fair value gains or losses recognised in the income statement in investment income.

Fair value of investment property is calculated by taking into account the expected rental stream associated with the property, and is supported by market evidence.

Trading properties

Trading properties are carried at the lower of cost and net realisable value.

Intangible assets

Intangible assets are recorded at cost less accumulated amortisation and impairments.

Intangible assets with a finite life are amortised over the useful economic life of the asset (currently three to 20 years) on a straight-line basis. The depreciable amount related to each intangible asset is determined as the difference between the cost and the residual value of the asset.

Impairment of non-financial assets

At each balance sheet, date the group reviews the carrying value of non-financial assets, other than investment property for indication of impairment. The recoverable amount, being the higher of fair value less cost of disposal and value in use, is determined for any assets for which an indication of impairment is identified. If the recoverable amount of an asset is less than its carrying value, the carrying value of the asset is reduced to its recoverable amount.

Impairment losses are recognised as an expense in the income statement in the period in which they are identified.

Reversals of impairment losses are recognised in income in the period in which the reversals are identified, to the extent that the carrying value of the asset does not exceed the amount that would have been calculated without impairment.

Trust and fiduciary activities

The group acts as a trustee or in other fiduciary capacities that result in the holding, placing or managing of assets for the account of and at the risk of clients.

As these are not assets of the group, they are not recognised on the balance sheet but are included at market value as part of assets under administration.

Taxation and deferred taxation

Current taxation payable is provided for based on the amount expected to be payable on taxable profit at rates that are enacted or substantively enacted and applicable to the relevant period.

Deferred taxation is provided on temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base, except where such temporary differences arise from:

- The initial recognition of goodwill
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction has no effect on the income statement or taxable profit
- In respect of temporary differences associated with the investments in subsidiaries and interests in associated undertakings, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred taxation assets or liabilities are measured using the tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised.

Items recognised directly in other comprehensive income are net of related current and deferred taxation.

Employee benefits

The group operates various defined contribution schemes. In addition, employees of the bank participate in two closed defined benefit schemes along with employees of other subsidiary undertakings of Investec plc, the bank's parent.

In respect of the defined contribution scheme, all employer contributions are charged to the income statement as incurred, in accordance with the rules of the scheme, and included under staff costs.

As there is no contractual agreement or stated policy for charging the net defined benefit cost for the defined benefit plans as a whole measured in accordance with IAS 19 to individual Investec plc group entities, the bank accounts for these schemes on a defined contribution basis.

Borrowing costs

Borrowing costs that are directly attributable to property developments which take a substantial period of time to develop are capitalised.

Provisions, contingent liabilities and contingent assets

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the income statement net of any reimbursement. Contingent assets and contingent liabilities are not recognised on balance sheet.

Standards and interpretations issued but not yet effective

The following standards and interpretations, which have been issued but are not yet effective, are applicable to the group. These standards and interpretations have not been applied in these annual financial statements. The group intends to comply with these standards from the effective dates.

IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 Financial Instruments was issued in July 2014 will replace certain key elements of IAS 39. The mandatory effective date for IFRS 9 is for annual periods beginning on or after 1 January 2018 with early adoption permitted. IFRS 9 has not yet been endorsed by the European Union. The two key elements that would impact the group's accounting policies include:

- classification and measurement of financial assets and financial liabilities: the standard requires that all financial assets be classified as either held at fair value or amortised cost. The amortised cost classification is only permitted where it is held within a business model where the underlying cash flows are held in order to collect contractual cash flows and that the cash flows arise solely from payment of principal and interest. The standard further provides that gains or losses on assets held at fair value are recognised in the income statement unless the entity has elected to recognise gains or losses on non-trading equity investments directly through comprehensive income. With reference to financial liabilities held at fair value, the standard proposes that changes to fair value attributable to credit risk are recognised directly in other comprehensive income without recycling through the income statement
- impairment methodology: the key change is related to a shift from an incurred loss to an expected loss impairment methodology. At initial recognition, an allowance (or provision in the case of commitments and guarantees) is required for expected credit losses (ECL) resulting from default events that are possible within the next 12 months (12-month ECL). In the event of a significant increase in credit risk since initial recognition, IFRS 9 requires the recognition of lifetime expected credit losses. Impairment measurement will involve increased complexity and significant judgements on areas such as the estimation of probabilities of default, loss given default, unbiased future economic scenarios, estimation of expected lives, estimation of exposures at default and assessing whether a significant increase in credit risk has occurred.

IFRS 9 also includes guidance on hedge accounting. The general hedge accounting requirements of IFRS 9 aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. The standard does not address macro hedge accounting strategies, which are being considered in a separate project. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge accounting requirements, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting. The group intends to continue applying IAS 39's hedge accounting requirements until this section of IFRS 9 has been finalised.

The group has established an IFRS 9 steering committee comprising of executive representation and key management from Risk, Finance, Analytics and IT. The committee is accountable for IFRS 9 implementation and is supported by working groups responsible for different work streams. The committee provides updates on the status of the project to the appropriate board committees.

Current assessment of classification and measurement

The group expects that generally:

- loans and advances to banks and to customers and non-trading reverse repurchase agreements that are classified as loans and receivables under IAS 39 will be measured at amortised cost under IFRS 9, with the exception of current investments for which embedded derivatives are recognised separately unless a separate derivative instrument can be recognised, the entire loan would be recognised fair value;

- financial assets designated at fair value through profit or loss (FVTPL) under IAS 39 will be measured at FVTPL under IFRS 9;
- certain debt securities held within the group's credit portfolio may be reclassified from available for sale to amortised cost. The remaining debt securities classified as available for sale will be measured at fair value through other comprehensive income (FVOCI) under IFRS 9; and
- equity instruments securities classified as available-for-sale or FVTPL will be measured at FVTPL under IFRS 9.

The group continues to assess the impact of this standard, but expects that the recognition and measurement basis of the majority of the group's financial assets will be largely unchanged on application of IFRS 9.

Current assessment of impairment
As noted, the group would also shift its impairment methodology from the current incurred loss basis to expected loss. We are in the process of developing models to determine expected credit losses for exposures subject to credit risk that are not carried at fair value through profit or loss.

We are also reviewing key definitions such as significant deterioration in credit quality and default against our current asset quality classifications. This process includes participation in industry/regulatory discussions and workshops.

We will incorporate IFRS 9 requirements info our group credit risk classification and provisioning policy.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. The standard is effective for annual periods beginning on or after 1 January 2017 with early application permitted. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for obligations as they are satisfied. The standard should be applied retrospectively, with certain practical expedients available. The group's current measurement and recognition principles are aligned to the standard and we do not anticipate an impact to measurement principles currently aligned. The impact of the standard is currently being assessed.

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. Earlier adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the period of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17. The group is currently assessing the impact of this standard but it is not practicable to quantify the effect as at the date of the publication of these financial statements.

All other standards and interpretations issued but not yet effective are not expected to have a material impact on the group.

Key management assumptions

In preparation of the annual financial statements, the group makes estimations and applies judgement that could affect the reported amount of assets and liabilities within the next financial year. Key areas in which judgement is applied include:

- Valuation of unlisted investments primarily in the private equity, direct investments portfolios and embedded derivatives. Key valuation inputs are based on the most relevant observable market inputs, adjusted where necessary for factors that specifically apply to the individual investments and recognising market volatility.

Details of unlisted investments can be found in note 25 with further analysis contained in the risk management section on pages 72 to 74.

- The determination of impairments against assets that are carried at amortised cost and impairments relating to available-for-sale financial assets involves the assessment of future cash flows which is judgemental in nature.

Refer to pages 60 to 67 in the risk management section for further analysis on impairments.

- The group's income tax charge and balance sheet provision are judgemental in nature. This arises from certain transactions for which the ultimate tax treatment can only be determined by final resolution with the relevant local tax authorities. The group has recognised in its current tax provision certain amounts in respect of taxation that involve a degree of estimation and uncertainty where the tax treatment cannot finally be determined until a resolution has been reached by the relevant tax authority. The carrying amount of this provision is sensitive to the resolution of issues, which is often dependent on the timetable and progress of discussion and negotiations with the relevant tax authorities, arbitration process and legal proceedings in the relevant tax jurisdictions in which the group operates. Issues can take many years to resolve and assumptions on the likely outcome would therefore have to be made by the group.

The nature of any assumptions made, when calculating the carrying amounts relating to any estimated tax which could be payable as a result of decisions by tax authorities in respect of any such transactions and events whose treatment for tax purposes, is uncertain. In making any estimates, management's judgement would be based on various factors, including any such transactions and events whose treatment for tax purposes, is uncertain. In making any estimates, management's judgement has been based on various factors, including:

- The current status of tax audits and enquiries
- The current status of discussions and negotiations with the relevant tax authorities
- The results of any previous claims
- Any changes to the relevant tax environments.

Where appropriate the group has utilised expert external advice as well as experience of similar situations elsewhere in making any such provisions.

Determination of interest income and interest expense using the effective interest rate method involves judgement in determining the timing and extent of future cash flows.

For the year to 31 March £'000	Wealth & Investment	Specialist Banking	Total group
1. Consolidated segmental analysis			
2016			
Segmental business analysis – income statement			
Net interest income	4 064	266 002	270 066
Fee and commission income	246 202	191 448	437 650
Fee and commission expense	(1 209)	(10 399)	(11 608)
Investment income	5 817	61 491	67 308
Trading income arising from			
– customer flow	333	92 350	92 683
– balance sheet management and other trading activities	138	(8 690)	(8 552)
Other operating income	1 191	10 451	11 642
Total operating income before impairment losses on loans and advances	**256 536**	**602 653**	**859 189**
Impairment losses on loans and advances	–	(84 217)	(84 217)
Operating income	**256 536**	**518 436**	**774 972**
Operating costs	(193 507)	(435 008)	(628 515)
Depreciation on operating leased assets	–	(2 149)	(2 149)
Operating profit before goodwill and acquired intangibles	**63 029**	**81 279**	**144 308**
Operating loss attributable to non-controlling interests	–	2 039	2 039
Operating profit before goodwill, acquired intangibles and after non-controlling interests	**63 029**	**83 318**	**146 347**
Selected returns and key statistics			
Cost to income ratio	75.4%	72.4%	73.3%
Number of employees at year end	1 254	2 050	3 304
Average number of employees over the year	1 210	1 980	3 190
Total assets (£'million)	1 026	17 309	18 335

No geographical segmental analysis is provided as the group operates in a single significant geography following the sale of Investec Bank (Australia) Limited in the prior year.

For the year to 31 March £'000	Wealth & Investment	Specialist Banking	Total group
1. Consolidated segmental analysis *(continued)*			
2015			
Segmental business analysis – income statement			
Net interest income	6 209	283 659	289 868
Fee and commission income	239 584	237 981	477 565
Fee and commission expense	(923)	(14 166)	(15 089)
Investment income	3 486	3 815	7 301
Trading income arising from			
– customer flow	895	87 363	88 258
– balance sheet management and other trading activities	356	(5 280)	(4 924)
Other operating income	1 276	8 798	10 074
Total operating income before impairment losses on loans and advances	**250 883**	**602 170**	**853 053**
Impairment losses on loans and advances	–	(102 084)	(102 084)
Operating income	**250 883**	**500 086**	**750 969**
Operating costs	(194 012)	(450 310)	(644 322)
Depreciation on operating leased assets	–	(1 535)	(1 535)
Operating profit before goodwill and acquired intangibles	**56 871**	**48 241**	**105 112**
Profit attributable to non-controlling interests	–	(3 869)	(3 869)
Operating profit before goodwill, acquired intangibles and after other non-controlling interests	**56 871**	**44 372**	**101 243**
Selected returns and key statistics			
Cost to income ratio	77.3%	75.0%	75.7%
Number of employees at year end	1 193	1 912	3 105
Average number of employees over the year	1 154	2 037	3 191
Total assets (£'million)	897	17 046	17 943

2. Net interest income

For the year to 31 March 2016 £'000	Notes	Balance sheet value	Interest income
Cash, near cash and bank debt and sovereign debt securities	1	5 571 548	47 164
Core loans and advances	2	7 781 386	424 660
Private client		3 510 327	150 060
Corporate, institutional and other clients		4 271 059	274 600
Other debt securities and other loans and advances		981 105	78 891
Other interest-earning assets	3	–	–
Total interest-earning assets		**14 334 039**	**550 715**

For the year to 31 March 2016 £'000	Notes	Balance sheet value	Interest expense
Deposits by banks and other debt-related securities	4	2 316 649	85 771
Customer accounts (deposits)		11 038 164	138 007
Other interest-bearing liabilities	5	–	–
Subordinated liabilities		597 309	56 871
Total interest-bearing liabilities		**13 952 122**	**280 649**
Net interest income			**270 066**

2. Net interest income *(continued)*

For the year to 31 March 2015 £'000	Notes	Balance sheet value	Interest income
Cash, near cash and bank debt and sovereign debt securities	1	5 897 346	49 660
Core loans and advances	2	7 035 690	419 311
Private client		3 341 869	169 247
Corporate, institutional and other clients		3 693 821	250 064
Other debt securities and other loans and advances		998 790	122 620
Other interest-earning assets	3	411 983	28 950
Total interest-earning assets		**14 343 809**	**620 541**

For the year to 31 March 2015 £'000	Notes	Balance sheet value	Interest expense
Deposits by banks and other debt-related securities	4	2 145 633	46 910
Customer accounts (deposits)		10 579 558	180 370
Other interest-bearing liabilities	5	330 526	43 522
Subordinated liabilities		596 923	59 871
Total interest-bearing liabilities		**13 652 640**	**330 673**
Net interest income			**289 868**

Notes:
1. *Comprises (as per the balance sheet) cash and balances at central banks; loans and advances to banks; reverse repurchase agreements and cash collateral on securities borrowed; sovereign debt securities and bank debt securities.*
2. *Comprises (as per the balance sheet) loans and advances to customers.*
3. *Comprises in the prior year (as per the balance sheet) other securitised assets. In the current year no securitised assets are held at amortised cost.*
4. *Comprises (as per the balance sheet) deposits by banks; debt securities in issue; and repurchase agreements and cash collateral on securities lent.*
5. *Comprises in the prior year (as per the balance sheet) liabilities arising on securitisation of other assets. In the current year no liabilities arising on securitisation are held at amortised cost.*

3. Net fee and commission income

For the year to 31 March £'000	2016	2015
Wealth management businesses net fee and commission income	**244 993**	**238 661**
Fund management fees/fees for assets under management	191 944	180 018
Private client transactional fees	54 258	59 566
Fee and commission expense	(1 209)	(923)
Specialist Banking net fee and commission income	**181 049**	**223 815**
Corporate and institutional transactional and advisory services	163 525	212 967
Private client transactional fees	27 923	25 014
Fee and commission expense	(10 399)	(14 166)
Net fee and commission income	**426 042**	**462 476**
Annuity fees (net of fees payable)	260 056	280 640
Deal fees	165 986	181 836

For the year to 31 March £'000	2016	2015
4. Investment income		
Realised	49 323	80 377
Unrealised	(2 311)	(81 131)
Dividend income	15 419	5 861
Funding and other net related income	4 877	2 194
	67 308	7 301

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
2016					
Realised	10 319	36 331	–	2 673	49 323
Unrealised	15 562	(7 468)	1 282	(11 687)	(2 311)
Dividend income	15 419	–	–	–	15 419
Funding and other net related income	–	–	–	4 877	4 877
Total investment income/(loss)	**41 300**	**28 863**	**1 282**	**(4 137)**	**67 308**
2015					
Realised	63 395	8 857	–	8 125	80 377
Unrealised	(76 853)	(14 007)	8 726	1 003	(81 131)
Dividend income	5 861	–	–	–	5 861
Funding and other net related costs	–	–	–	2 194	2 194
Total investment income/(loss)	**(7 597)**	**(5 150)**	**8 726**	**11 322**	**7 301**

* *Including embedded derivatives (warrants and profit shares).*

For the year to 31 March £'000	2016	2015
5. Other operating income		
Rental income from properties	5 724	5 643
Gains on realisation of properties	–	66
Unrealised gains on other investments	1 755	681
Income from operating leases	2 188	2 181
Operating income from associates	1 975	1 503
	11 642	10 074

For the year to 31 March £'000	2016	2015
6. Operating costs		
Staff costs	459 708	468 443
– Salaries and wages (including directors' remuneration)**	371 083	374 795
– Training and other costs	9 070	10 735
– Share-based payment expense	27 122	28 856
– Social security costs	34 086	34 154
– Pensions and provident fund contributions	18 347	19 903
Premises expenses (excluding depreciation)	26 008	30 540
Equipment expenses (excluding depreciation)	25 983	24 622
Business expenses*	77 096	79 092
Marketing expenses	29 437	27 799
Depreciation, amortisation and impairment on property, equipment and intangibles	10 283	13 826
	628 515	644 322
Depreciation on operating leased assets	2 149	1 535
	630 664	**645 857**
The following amounts were paid by the group to the auditors in respect of the audit of the financial statements and for other services provided to the group:		
Ernst & Young fees		
Fees payable to the company's auditors for the audit of the company's accounts	1 651	2 239
Fees payable to the company's auditors and its associates for other services:		
Audit of the company's subsidiaries pursuant to legislation	989	1 341
Audit-related assurance services	267	551
Tax compliance services	99	93
Tax advisory services	422	621
Other assurance services	96	393
	3 524	**5 238**
KPMG fees		
Fees payable to the company's auditors for the audit of the company's accounts	–	77
Fees payable to the company's auditors and its associates for other services:		
Audit of the company's subsidiaries pursuant to legislation	339	143
Audit-related assurance services	–	164
Tax advisory services	–	44
	339	**428**
Total	**3 863**	**5 666**

* *Business expenses mainly comprise insurance costs, consulting and professional fees, travel expenses and subscriptions.*
** *Details of the directors' emoluments, pensions and their interests are disclosed in the remuneration report on pages 120 to 135.*

7. Share-based payments

The group operates share option and long-term share incentive plans for employees, the majority of which are on an equity-settled basis in Investec plc but in accordance with IFRS 2 are cash settled in the company as set out in the accounting policies on page 149. The purpose of the staff share schemes is to promote an *esprit de corps* within the organisation, create an awareness of Investec's performance and provide an incentive to maximise individual and group performance by allowing all staff to share in the risks and rewards of the group.

Further information on the group share options and long-term incentive plans are provided on page 125 of the remuneration report and on our website.

For the year to 31 March £'000	Wealth & Investment	Specialist Banking	Total group
Share-based payment expense:			
Group			
2016			
Cash settled (equity-settled at group)	6 501	20 621	27 122
Total income statement charge	**6 501**	**20 621**	**27 122**
Cash settled (equity-settled at group): accelerated charges in respect of subsidiaries sold and restructured	–	–	–
	6 501	**20 621**	**27 122**
2015			
Cash settled (equity-settled at group)	5 617	23 239	28 856
Total income statement charge	**5 617**	**23 239**	**28 856**
Cash settled (equity-settled at group): accelerated charges in respect of subsidiaries sold and restructured	–	5 097	5 097
	5 617	**28 336**	**33 953**

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 £0.02 million (2015: £0.01 million).

Group

For the year to 31 March £'000	2016	2015
Weighted average fair value of options granted in the year		
UK schemes	**28 445**	23 785

	2016		2015	
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	28 936 488	0.06	38 364 789	0.05
Granted during the year	6 602 662	0.13	6 406 310	0.01
Exercised during the year^	(8 247 627)	0.01	(14 438 042)	0.03
Options forfeited during the year	(1 199 850)	0.41	(1 396 569)	0.13
Outstanding at the end of the year	**26 091 673**	**0.07**	**28 936 488**	**0.06**
Exercisable at the end of the year	**70 237**	**–**	**119 697**	**–**

^ *The weighted average share price during the year was £5.34 (2015: £5.41).*

7. Share-based payments *(continued)*

Additional information relating to options:	2016	2015
Options with strike prices		
Exercise price range	£3.29 – £6.00	£3.20 – £5.72
Weighted average remaining contractual life	2.17 years	2.06 years
Long-term incentive grants with no strike price		
Exercise price range	£nil	£nil
Weighted average remaining contractual life	1.77 years	1.79 years
Weighted average fair value of options and long-term grants at measurement date	£4.31	£3.71
The fair values of options granted were calculated using a Black-Scholes option pricing model. For options granted during the year, the inputs into the model were as follows:		
– Share price at date of grant	£5.68 – £6.00	£5.16 – £5.72
– Exercise price	£nil, £5.68 – £6.00	£nil, £5.16 – £5.72
– Expected volatility	30%	25.24% – 30%
– Option life	3 – 5.5 years	4.5 – 5.25 years
– Expected dividend yields	4.50% – 4.67%	4.86% – 5.04%
– Risk-free rate	1.28% – 1.31%	1.36% – 1.70%

Expected volatility was determined based on the implied volatility levels quoted by the derivatives trading desk. The expected volatility is based on the respective share price movement over the last six months but also includes an element of forward expectation.

The expected attrition rates used were determined based on historical group data with an adjustment to actual attrition on final vesting.

Company

For the year to 31 March £'000	2016	2015
Weighted average fair value of options granted in the year		
UK schemes	**15 424**	**21 885**

	2016		2015	
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	16 703 386	0.00	19 871 403	0.00
Granted during the year	3 494 062	0.00	4 209 910	0.00
Exercised during the year^	(4 900 202)	0.00	(6 413 423)	0.00
Options forfeited during the year	(598 771)	0.03	(964 504)	0.02
Outstanding at the end of the year	**14 698 475**	**0.00**	**16 703 386**	**0.00**
Exercisable at the end of the year	**18 750**	**–**	**89 743**	**–**

^ *The weighted average share price during the year was £5.34 (2015: £5.41).*

7. Share-based payments *(continued)*

Additional information relating to options:	2016	2015
Company		
Options with strike prices		
Exercise price range	–	–
Weighted average remaining contractual life	–	–
Long-term incentive grants with no strike price		
Exercise price range	£nil	£nil
Weighted average remaining contractual life	1.80 years	1.79 years
Weighted average fair value of options and long-term grants at measurement date	£4.41	£3.71
The fair values of options granted were calculated using a Black-Scholes option pricing model. For options granted during the year, the inputs into the model were as follows:		
– Share price at date of grant	£5.68 – £6.00	£5.16 – £5.72
– Exercise price	£nil	£nil
– Expected volatility	30%	25.24% – 30%
– Option life	3 – 5.5 years	4.5 – 5.25 years
– Expected dividend yields	4.50% – 4.67%	4.86% – 5.04%
– Risk-free rate	1.28% – 1.31%	1.36% – 1.70%

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	2016	2015
8. Taxation		
Current taxation		
UK		
Current tax on income for the year	38 840	15 319
Adjustments in respect of prior years	3 640	1 278
Corporation tax before double tax relief	42 480	16 597
Double taxation relief	–	–
	42 480	**16 597**
Europe	1 756	1 777
Australia	852	–
Other	1 583	3
	4 191	**1 780**
Total current taxation	**46 671**	**18 377**
Deferred taxation		
UK	(7 660)	(6 732)
Europe	(9 745)	5 030
Australia	1 164	34 200
Total deferred taxation	**(16 241)**	**32 498**
Total taxation charge for the year	**30 430**	**50 875**
Total taxation charge for the year comprises:		
Taxation on operating profit before goodwill	35 131	22 568
Taxation on acquired intangibles and acquisition/disposal/integration of subsidiaries	(4 701)	28 307
	30 430	**50 875**
Deferred taxation comprises:		
Origination and reversal of temporary differences	(9 428)	34 302
Changes in tax rates	(8 120)	155
Adjustment in respect of prior years	1 307	(1 959)
	(16 241)	**32 498**
	%	%
The rates of corporation tax for the relevant years are:		
UK	20	21
Europe (average)	10	10
Australia	30	30
Profit before taxation	**125 026**	**160 592**
Taxation on profit before taxation	**30 430**	**50 875**
Effective tax rate	**24.3%**	**31.7%**

For the year to 31 March £'000	2016	2015
8. Taxation *(continued)*		
The taxation charge on activities for the year is different from the standard rate as detailed below:		
Taxation on profit on ordinary activities before taxation at UK rate of 20% (2015: 21%)	25 005	33 725
Taxation adjustments relating to foreign earnings	(311)	(6 881)
Taxation relating to prior years	4 947	(681)
Goodwill and non-operating items	1 062	16 597
Share options accounting expense	7 858	8 940
Share options exercised during the year	(9 143)	(12 135)
Unexpired share options future tax deduction	1 885	2 056
Non-taxable income	(850)	(1 057)
Net other permanent differences	11 217	10 236
Unrealised capital (gains)	(3 086)	(3 150)
Movement of brought forward trading losses	–	3 071
Tax losses surrendered by fellow group companies for no charge	(34)	–
Change in tax rate	(8 120)	154
Total taxation charge as per income statement	**30 430**	**50 875**
Other comprehensive income taxation effects		
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	471
Pre-taxation	–	471
Taxation effect	–	–
Gains on realisation of available-for-sale assets recycled through the income statement	(1 298)	1 935
Pre-taxation	(1 399)	1 628
Taxation effect	101	307
Fair value movements on available-for-sale assets taken directly to other comprehensive income	(20 170)	(3 687)
Pre-taxation	(25 042)	(4 814)
Taxation effect	4 872	1 127
Statement of changes in equity taxation effects		
Share-based payment adjustment	4 620	4 160
Pre-taxation	–	–
Taxation effect	4 620	4 160

For the year to 31 March £'000	2016	2015
9. Dividends		
Ordinary dividends		
Interim dividends for current year	40 000	172 000
Total dividends attributable to ordinary shareholder recognised in current financial year	**40 000**	**172 000**

For the year to 31 March £'000	Group 2016	Group 2015	Company 2016	Company 2015
10. Operating lease income and expense				
Operating lease expenses recognised in operating costs expenses:				
Minimum lease payments	13 649	7 218	–	1 544
Sublease income	(3 115)	–	–	–
	10 534	**7 218**	**–**	**1 544**
Operating lease income recognised in income:				
Minimum lease payments	2 250	5 830	–	2 181
Sublease payments	(48)	–	–	–
	2 202	**5 830**	**–**	**2 181**

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' and 'Fee and commission income' respectively.

11. Analysis of income and impairments by category of financial instrument

For the year to 31 March £'000	At fair value through profit or loss – Trading	At fair value through profit or loss – Designated at inception
2016		
Net interest income	(11 650)	320
Fee and commission income	56 030	19
Fee and commission expense	50	(4)
Investment income	1 593	22 375
Trading income arising from:		
– customer flow	89 625	554
– balance sheet management and other trading activities	(8 165)	(1 534)
Other operating income	–	–
Total operating income/(expense) before impairment losses on loans and advances	**127 485**	**21 730**
Impairment losses on loans and advances	–	–
Operating income	**127 485**	**21 730**
2015		
Net interest income	(21 778)	2 086
Fee and commission income	54 085	1 507
Fee and commission expense	(971)	–
Investment income	1 195	598
Trading income arising from:		
– customer flow	78 657	8 546
– balance sheet management and other trading activities	(2 010)	(3 274)
Other operating income	–	–
Total operating income/(expense) before impairment losses on loans and advances	**109 178**	**9 463**
Impairment losses on loans and advances	–	–
Operating income	**109 178**	**9 463**

Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non-financial instruments	Other fee income	Total
–	496 468	21 439	(239 202)	(49)	2 740	270 066
–	60 756	–	2 851	11 933	306 061	437 650
–	3 960	–	(2 189)	(1 513)	(11 912)	(11 608)
–	40 003	2 891	–	436	10	67 308
–	–	–	2 201	–	303	92 683
–	1 584	(558)	109	–	12	(8 552)
–	–	–	1 678	9 964	–	11 642
–	**602 771**	**23 772**	**(234 552)**	**20 771**	**297 214**	**859 189**
–	(84 217)	–	–	–	–	(84 217)
–	**518 554**	**23 772**	**(234 552)**	**20 771**	**297 214**	**774 972**
567	527 083	24 357	(247 065)	–	4 618	289 868
–	90 037	147	2 945	21 238	307 606	477 565
–	(2 486)	–	(6 135)	(3 185)	(2 312)	(15 089)
–	(5 741)	463	–	10 786	–	7 301
–	–	–	1 055	–	–	88 258
–	559	(103)	(96)	–	–	(4 924)
–	–	–	–	10 074	–	10 074
567	**609 452**	**24 864**	**(249 296)**	**38 913**	**309 912**	**853 053**
–	(98 184)	(3 900)	–	–	–	(102 084)
567	**511 268**	**20 964**	**(249 296)**	**38 913**	**309 912**	**750 969**

12. Analysis of financial assets and liabilities by category of financial instruments

At 31 March £'000	At fair value through profit or loss: Trading	At fair value through profit or loss: Designated at inception	Available-for-sale	Total instruments at fair value
Group				
2016				
Assets				
Cash and balances at central banks	1 123	–	–	1 123
Loans and advances to banks	–	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	157 565	–	–	157 565
Sovereign debt securities	–	–	1 252 991	1 252 991
Bank debt securities	–	–	12 076	12 076
Other debt securities	–	118 536	65 809	184 345
Derivative financial instruments*	842 936	–	–	842 936
Securities arising from trading activities	321 251	203 093	–	524 344
Investment portfolio	–	363 651	56 210	419 861
Loans and advances to customers	–	87 270	–	87 270
Other loans and advances	–	–	–	–
Other securitised assets	–	147 590	–	147 590
Interests in associated undertakings	–	–	–	–
Deferred taxation assets	–	–	–	–
Other assets	301 426	–	–	301 426
Property and equipment	–	–	–	–
Investment properties	–	–	–	–
Goodwill	–	–	–	–
Intangible assets	–	–	–	–
	1 624 301	**920 140**	**1 387 086**	**3 931 527**
Liabilities				
Deposits by banks	–	–	–	–
Derivative financial instruments*	964 386	–	–	964 386
Other trading liabilities	226 598	–	–	226 598
Repurchase agreements and cash collateral on securities lent	154 142	–	–	154 142
Customer accounts (deposits)	–	–	–	–
Debt securities in issue	–	358 548	–	358 548
Liabilities arising on securitisation of other assets	–	120 617	–	120 617
Current taxation liabilities	–	–	–	–
Deferred taxation liabilities	–	–	–	–
Other liabilities	–	–	–	–
	1 345 126	**479 165**	**–**	**1 824 291**
Subordinated liabilities	–	–	–	–
	1 345 126	**479 165**	**–**	**1 824 291**

* *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 48 on pages 230 and 231.

Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
2 636 941	–	2 636 941	–	2 638 064
935 071	–	935 071	–	935 071
399 460	–	399 460	–	557 025
–	–	–	–	1 252 991
176 321	–	176 321	–	188 397
219 176	–	219 176	–	403 521
–	–	–	–	842 936
–	–	–	–	524 344
–	–	–	–	419 861
7 694 116	–	7 694 116	–	7 781 386
577 584	–	577 584	–	577 584
2 975	–	2 975	–	150 565
–	–	–	17 446	17 446
–	–	–	71 563	71 563
900 369	–	900 369	251 255	1 453 050
–	–	–	53 042	53 042
–	–	–	79 051	79 051
–	–	–	261 804	261 804
–	–	–	126 867	126 867
13 542 013	**–**	**13 542 013**	**861 028**	**18 334 568**
–	526 717	526 717	–	526 717
–	–	–	–	964 386
–	–	–	–	226 598
–	127 118	127 118	–	281 260
–	11 038 164	11 038 164	–	11 038 164
–	1 150 124	1 150 124	–	1 508 672
–	–	–	–	120 617
–	–	–	141 064	141 064
–	–	–	26 143	26 143
–	877 602	877 602	183 180	1 060 782
–	**13 719 725**	**13 719 725**	**350 387**	**15 894 403**
–	597 309	597 309	–	597 309
–	**14 317 034**	**14 317 034**	**350 387**	**16 491 712**

12. Analysis of financial assets and liabilities by category of financial instruments *(continued)*

At 31 March £'000	At fair value through profit or loss Trading	 Designated at inception	Available-for-sale	Total instruments at fair value
Group				
2015				
Assets				
Cash and balances at central banks	1 302	–	–	1 302
Loans and advances to banks	–	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	397 722	–	–	397 722
Sovereign debt securities	–	–	1 212 910	1 212 910
Bank debt securities	–	–	19 553	19 553
Other debt securities	–	20 535	91 216	111 751
Derivative financial instruments*	805 886	–	–	805 886
Securities arising from trading activities	450 959	219 339	–	670 298
Investment portfolio	–	347 587	53 213	400 800
Loans and advances to customers	–	37 847	–	37 847
Other loans and advances	–	–	–	–
Other securitised assets	–	401 375	–	401 375
Interests in associated undertakings	–	–	–	–
Deferred taxation assets	–	–	–	–
Other assets	33 200	–	–	33 200
Property and equipment	–	–	–	–
Investment properties	–	–	–	–
Goodwill	–	–	–	–
Intangible assets	–	–	–	–
	1 689 069	**1 026 683**	**1 376 892**	**4 092 644**
Liabilities				
Deposits by banks	–	–	–	–
Derivative financial instruments*	953 205	–	–	953 205
Other trading liabilities	251 879	–	–	251 879
Repurchase agreements and cash collateral on securities lent	489 822	–	–	489 822
Customer accounts (deposits)	–	–	–	–
Debt securities in issue	–	292 682	–	292 682
Liabilities arising on securitisation of other assets	–	330 526	–	330 526
Current taxation liabilities	–	–	–	–
Deferred taxation liabilities	–	–	–	–
Other liabilities	–	–	–	–
	1 694 906	**623 208**	**–**	**2 318 114**
Subordinated liabilities	–	–	–	–
	1 694 906	**623 208**	**–**	**2 318 114**

* *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 48 on pages 230 and 231.

Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
2 179 930	–	2 179 930	–	2 181 232
828 726	–	828 726	–	828 726
1 050 483	–	1 050 483	–	1 448 205
–	–	–	–	1 212 910
206 720	–	206 720	–	226 273
110 734	–	110 734	–	222 485
–	–	–	–	805 886
–	–	–	–	670 298
–	–	–	–	400 800
6 997 843	–	6 997 843	–	7 035 690
776 305	–	776 305	–	776 305
10 608	–	10 608	–	411 983
–	–	–	16 297	16 297
–	–	–	66 249	66 249
886 228	–	886 228	193 708	1 113 136
–	–	–	60 316	60 316
–	–	–	65 736	65 736
–	–	–	260 900	260 900
–	–	–	140 042	140 042
13 047 577	**–**	**13 047 577**	**803 248**	**17 943 469**
–	214 138	214 138	–	214 138
–	–	–	–	953 205
–	–	–	–	251 879
–	107 437	107 437	–	597 259
–	10 579 558	10 579 558	–	10 579 558
–	1 041 554	1 041 554	–	1 334 236
–	–	–	–	330 526
–	–	–	121 198	121 198
–	–	–	39 464	39 464
–	935 257	935 257	188 711	1 123 968
–	**12 877 944**	**12 877 944**	**349 373**	**15 545 431**
–	596 923	596 923	–	596 923
–	**13 474 867**	**13 474 867**	**349 373**	**16 142 354**

12. Analysis of financial assets and liabilities by category of financial instruments *(continued)*

At 31 March £'000	At fair value through profit or loss: Trading	At fair value through profit or loss: Designated at inception	Available-for-sale	Total instruments at fair value
Company				
2016				
Assets				
Cash and balances at central banks	1 123	–	–	1 123
Loans and advances to banks	–	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	157 565	–	–	157 565
Sovereign debt securities	–	–	643 352	643 352
Bank debt securities	–	–	12 076	12 076
Other debt securities	–	118 536	66	118 602
Derivative financial instruments*	853 131	–	–	853 131
Securities arising from trading activities	321 251	203 093	–	524 344
Investment portfolio	–	178 732	31 767	210 499
Loans and advances to customers	–	53 465	–	53 465
Other loans and advances	–	–	–	–
Other securitised assets	–	8 680	–	8 680
Interests in associated undertakings	–	–	–	–
Deferred taxation assets	–	–	–	–
Other assets	301 426	–	–	301 426
Property and equipment	–	–	–	–
Intangible assets	–	–	–	–
Investments in subsidiaries	–	–	–	–
	1 634 496	**562 506**	**687 261**	**2 884 263**
Liabilities				
Deposits by banks	–	–	–	–
Derivative financial instruments*	965 287	–	–	965 287
Other trading liabilities	226 598	–	–	226 598
Repurchase agreements and cash collateral on securities lent	154 142	–	–	154 142
Customer accounts (deposits)	–	–	–	–
Debt securities in issue	–	367 974	–	367 974
Current taxation liabilities	–	–	–	–
Other liabilities	–	–	–	–
	1 346 027	**367 974**	**–**	**1 714 001**
Subordinated liabilities	–	–	–	–
	1 346 027	**367 974**	**–**	**1 714 001**

* *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 48 on pages 230 and 231.

Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
2 611 337	–	2 611 337	–	2 612 460
315 115	–	315 115	–	315 115
399 460	–	399 460	–	557 025
–	–	–	–	643 352
176 321	–	176 321	–	188 397
447 464	–	447 464	–	566 066
–	–	–	–	853 131
–	–	–	–	524 344
–	–	–	–	210 499
6 000 466	–	6 000 466	–	6 053 931
1 774 186	–	1 774 186	–	1 774 186
–	–	–	–	8 680
–	–	–	9 309	9 309
–	–	–	37 158	37 158
589 534	–	589 534	196 328	1 087 288
–	–	–	8 836	8 836
–	–	–	381	381
–	–	–	943 553	943 553
12 313 883	**–**	**12 313 883**	**1 195 565**	**16 393 711**
–	767 730	767 730	–	767 730
–	–	–	–	965 287
–	–	–	–	226 598
–	127 118	127 118	–	281 260
–	9 808 014	9 808 014	–	9 808 014
–	993 131	993 131	–	1 361 105
–	–	–	70 651	70 651
–	585 449	585 449	116 403	701 852
–	**12 281 442**	**12 281 442**	**187 054**	**14 182 497**
–	598 390	598 390	–	598 390
–	**12 879 832**	**12 879 832**	**187 054**	**14 780 887**

12. Analysis of financial assets and liabilities by category of financial instruments *(continued)*

Company

2015

At 31 March £'000	At fair value through profit or loss			
	Trading	**Designated at inception**	**Available-for-sale**	**Total instruments at fair value**
Assets				
Cash and balances at central banks	1 302	–	–	1 302
Loans and advances to banks	–	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	397 722	–	–	397 722
Sovereign debt securities	–	–	613 267	613 267
Bank debt securities	–	–	19 553	19 553
Other debt securities	–	19 710	3 244	22 954
Derivative financial instruments*	817 147	–	–	817 147
Securities arising from trading activities	450 958	219 339	–	670 297
Investment portfolio	–	208 107	31 110	239 217
Loans and advances to customers	–	1 847	–	1 847
Other loans and advances	–	–	–	–
Other securitised assets	–	224 346	–	224 346
Interests in associated undertakings	–	–	–	–
Deferred taxation assets	–	–	–	–
Other assets	33 200	–	–	33 200
Property and equipment	–	–	–	–
Intangible assets	–	–	–	–
Investment in subsidiaries	–	–	–	–
	1 700 329	**673 349**	**667 174**	**3 040 852**
Liabilities				
Deposits by banks	–	–	–	–
Derivative financial instruments*	951 849	–	–	951 849
Other trading liabilities	251 879	–	–	251 879
Repurchase agreements and cash collateral on securities lent	489 822	–	–	489 822
Customer accounts (deposits)	–	–	–	–
Debt securities in issue	–	292 682	–	292 682
Liabilities arising on securitisation of other assets	–	197 208	–	197 208
Current taxation liabilities	–	–	–	–
Other liabilities	–	–	–	–
	1 693 550	**489 890**		**2 183 440**
Subordinated liabilities	–	–	–	–
	1 693 550	**489 890**	**–**	**2 183 440**

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*

Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
2 164 189	–	2 164 189	–	2 165 491
322 221	–	322 221	–	322 221
856 213	–	856 213	–	1 253 935
–	–	–	–	613 267
206 720	–	206 720	–	226 273
339 060	–	339 060	–	362 014
–	–	–	–	817 147
–	–	–	–	670 297
–	–	–	–	239 217
5 499 651	–	5 499 651	–	5 501 498
1 525 222	–	1 525 222	–	1 525 222
7 633	–	7 633	–	231 979
–	–	–	9 289	9 289
–	–	–	30 941	30 941
642 697	–	642 697	114 940	790 837
–	–	–	13 031	13 031
–	–	–	869	869
–	–	–	879 801	879 801
11 563 606	**–**	**11 563 606**	**1 048 871**	**15 653 329**
–	302 887	302 887	–	302 887
–	–	–	–	951 849
–	–	–	–	251 879
–	107 437	107 437	–	597 259
–	9 279 115	9 279 115	–	9 279 115
–	769 965	769 965	–	1 062 647
–	–	–	–	197 208
–	–	–	67 662	67 662
–	671 697	671 697	108 519	780 216
–	**11 131 101**	**11 131 101**	**176 181**	**13 490 722**
–	598 240	598 240	–	598 240
–	**11 729 341**	**11 729 341**	**176 181**	**14 088 962**

13. Reclassifications of financial instruments

During the year ended 31 March 2009 the company reclassified certain financial instruments out of fair value through profit or loss. These assets were originally classified as held-for-trading but the group's intentions in regard to these assets changed and the group reclassified £112.3 million and £7.8 million to the loans and receivables and available-for-sale classifications, respectively. The amount reclassified reflected the fair value of the financial assets at the date of reclassification.

The group did not undertake any further reclassifications under the amendment to IAS 39 in the current year or in the prior year.

The following table shows carrying values and fair values of the assets reclassified:

At 31 March £'000	2016 Carrying value	2016 Fair value	2015 Carrying value	2015 Fair value
Trading assets reclassified to loans and receivables	4 451	3 777	11 833	12 302
	4 451	**3 777**	**11 833**	**12 302**

If the reclassifications had not been made, the group's income before tax in 2016 would have decreased by £1.1 million (2015: an increase of £1.6 million).

In the current year the reclassified assets have contributed a £68 000 loss through the margin line and a loss of £332 000 through impairments before taxation. In the prior year, after reclassification, the assets contributed a £112 000 loss to through the margin line and a profit of £2 million through impairments before taxation.

14. Fair value hierarchy

The table below analyses recurring fair value measurements for financial assets and financial liabilities. These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to the valuation technique used.

The different levels are identified as follows:

Level 1 – quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value disclosures on investment properties are included in the Investment properties note 32 on page 210.

14. Fair value hierarchy *(continued)*

At 31 March £'000	Total instruments at fair value	Valuation technique applied Level 1	Level 2	Level 3
Group				
At 31 March				
2016				
Assets				
Cash and balances at central banks	1 123	1 123	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	157 565	–	157 565	–
Sovereign debt securities	1 252 991	1 252 991	–	–
Bank debt securities	12 076	5 044	7 032	–
Other debt securities	184 345	2 122	171 293	10 930
Derivative financial instruments	842 936	1 398	791 853	49 685
Securities arising from trading activities	524 344	493 654	23 234	7 456
Investment portfolio	419 861	46 965	25 816	347 080
Loans and advances to customers	87 270	–	–	87 270
Other securitised assets	147 590	–	–	147 590
Other assets	301 426	301 426	–	–
	3 931 527	**2 104 723**	**1 176 793**	**650 011**
Liabilities				
Derivative financial instruments	964 386	–	963 031	1 355
Other trading liabilities	226 598	226 598	–	–
Repurchase agreements and cash collateral on securities lent	154 142	–	154 142	–
Debt securities in issue	358 548	–	358 548	–
Liabilities arising on securitisation of other assets	120 617	–	–	120 617
	1 824 291	**226 598**	**1 475 721**	**121 972**
Net financial assets/(liabilities) at fair value	**2 107 236**	**1 878 125**	**(298 928)**	**528 039**
2015				
Assets				
Cash and balances at central banks	1 302	1 302	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	397 722	–	397 722	–
Sovereign debt securities	1 212 910	1 212 910	–	–
Bank debt securities	19 553	12 622	6 931	–
Other debt securities	111 751	2 083	91 035	18 633
Derivative financial instruments	805 886	204 685	544 060	57 141
Securities arising from trading activities	670 298	667 905	2 393	–
Investment portfolio	400 800	66 636	58 292	275 872
Loans and advances to customers	37 847	–	1 847	36 000
Other securitised assets	401 375	–	–	401 375
Other assets	33 200	33 200	–	–
	4 092 644	**2 201 343**	**1 102 280**	**789 021**
Liabilities				
Derivative financial instruments	953 205	327 432	623 107	2 666
Other trading liabilities	251 879	251 879	–	–
Repurchase agreements and cash collateral on securities lent	489 822	–	489 822	–
Debt securities in issue	292 682	–	292 682	–
Liabilities arising on securitisation of other assets	330 526	–	–	330 526
	2 318 114	**579 311**	**1 405 611**	**333 192**
Net financial assets/(liabilities) at fair value	**1 774 530**	**1 622 032**	**(303 331)**	**455 829**

The group transfers between levels within the fair value hierarchy when the observability of inputs change or if the valuation methods change.

14. Fair value hierarchy *(continued)*

TRANSFERS BETWEEN LEVEL 1 AND LEVEL 2

During the year derivative financial assets and liabilities to the value of £116.9 million and £210.3 million respectively were transferred from level 1 to level 2 to reflect the level of modelling which is now being used to arrive at the fair value. There were no significant transfers between level 1 and level 2 in the prior year.

For the year to 31 March £'000	Total level 3 financial instruments	Fair value through profit and loss instruments	Available-for-sale instrument
LEVEL 3 INSTRUMENTS			
The following table is a reconciliation from the opening balances to the closing balances for fair value measurements in level 3 of the fair value hierarchy:			
Balance as at 31 March 2014	**500 137**	**475 544**	**24 593**
Total gains/(losses)	73 890	72 063	1 827
In the income statement	73 464	72 063	1 401
In the statement of comprehensive income	426	–	426
Purchases	108 725	78 842	29 883
Sales	(250 231)	(213 028)	(37 203)
Issues	(805)	(805)	–
Settlements	(59 954)	(43 525)	(16 429)
Transfers into level 3	62 706	20 577	42 129
Transfers out of level 3	2 356	2 356	–
Foreign exchange adjustments	19 005	13 587	5 418
Balance as at 31 March 2015	**455 829**	**405 611**	**50 218**
Total gains/(losses)	(3 032)	(6 197)	3 165
In the income statement	(2 760)	(6 197)	3 437
In the statement of comprehensive income	(272)	–	(272)
Purchases	118 076	109 132	8 944
Sales	(240 479)	(238 022)	(2 457)
Issues	79	79	–
Settlements	166 458	177 321	(10 863)
Transfers into level 3	26 344	23 608	2 736
Transfers out of level 3	(4 607)	(4 607)	–
Foreign exchange adjustments	9 371	6 147	3 224
Balance as at 31 March 2016	**528 039**	**473 072**	**54 967**

The group transfers between levels within the fair value heirarchy when the observability of inputs change or if the valuation methods change.

For the year ended 31 March 2016, £4.6 million of assets were transferred from level 3 into level 2 (31 March 2015: liabilities of £2.4 million). In the current and prior year the valuation methodologies were reviewed and observable inputs are used to determine the fair value.

There were transfers from level 2 to the level 3 category to the value of £26.3 million (31 March 2015: £62.7 million) because the significance of the unobservable inputs used to determine the fair value increased significantly to warrant a transfer.

14. Fair value hierarchy *(continued)*

The following table quantifies the gains or (losses) included in the income statement and other comprehensive income recognised on level 3 financial instruments:

For the year to 31 March £'000	Total	Realised	Unrealised
Group			
2016			
Total gains/(losses) included in the income statement for the year			
Net interest income	238	238	–
Fee and commission income	4 938	4 938	–
Investment income	2 322	(8 118)	10 440
Trading income arising from customer flow	(10 258)	(10 962)	704
	(2 760)	**(13 904)**	**11 144**
Total gains/(losses) included in other comprehensive income for the year			
Gains on realisation of available-for-sale assets recycled through the income statement	3 437	3 437	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	(272)	–	(272)
	3 165	**3 437**	**(272)**
2015			
Total gains/(losses) included in the income statement for the year			
Fee and commission income/(expense)	7 859	(51)	7 910
Investment income	57 364	59 348	(1 984)
Trading income arising from customer flow	8 616	–	8 616
Trading income arising from balance sheet management and other trading activities	877	877	–
Other operating income	(1 252)	–	(1 252)
	73 464	**60 174**	**13 290**
Total gains included in other comprehensive income for the year			
Gains on realisation of available-for-sale assets recycled through the income statement	1 401	1 401	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	426	–	426
	1 827	**1 401**	**426**

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 2016 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	Black-Scholes Discounted cash flow model	Volatilities Discount rates, swap curves and NCD curves
Other debt securities	Discounted cash flow model	Discount rates, swap curves and NCD curves, external prices, broker quotes
Derivative financial instruments	Discounted cash flow model, Hermite interpolation, industry standard derivative pricing models including Black-Scholes	Discount rate, risk free rate, volatilities, forex forward points and spot rates, interest rate swap curves and credit curves
Securities arising from trading activities	Standard industry derivative pricing model	Interest rate curves, implied bond spreads, equity volatilities
Investment portfolio	Discounted cash flow model, net asset value model	Discount rate and fund unit price
	Comparable quoted inputs	Net assets
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	Discount rates

14. Fair value hierarchy *(continued)*

SENSITIVITY OF FAIR VALUES TO REASONABLY POSSIBLE ALTERNATIVE ASSUMPTIONS BY LEVEL 3 INSTRUMENT TYPE

The fair values of financial instruments in level 3 are measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable market data. The following table shows the sensitivity of these fair values to reasonably possible alternative assumptions, determined at a transactional level:

At 31 March 2016	Balance sheet value £'000	Significant unobservable input changed	Range which unobservable input has been changed	Reflected in income statement: Favourable changes £'000	Reflected in income statement: Unfavourable changes £'000
Group					
Assets					
Other debt securities	10 930			525	(796)
		Cash flow adjustments	(1%) – 1%	525	(472)
		Other	(5%) – 5%	–	(324)
Derivative financial instruments	49 685			8 258	(5 454)
		Volatilities	(2%) – 2%	2 471	(1 015)
		Cash flow adjustments	(1%) – 1%	834	(1 701)
		Other	(10%) – 10%	4 953	(2 738)
Securities arising from trading activities	7 456	Cash flow adjustments	(1%) – 1%	1 380	(1 050)
Investment portfolio	315 464			41 913	(25 562)
		Price Earnings multiple	(10%) – 10%	232	(355)
		EBITDA	(10%) – 10%	3 971	(3 917)
		Other^	^	37 710	(21 290)
Loans and advances to customers	87 270			1 550	(9 400)
		Discount rates	(5%) – 5%	1 550	(987)
		Other	(5%) – 5%	–	(8 413)
Other securitised assets*	147 590			2 825	(2 876)
		Cash flow adjustments	(1%) – 1%	1 569	(1 727)
		Other		1 256	(1 149)
Liabilities					
Derivative financial instruments				1 667	(797)
	1 355	Cash flow adjustment	(1%) – 1%	1 661	(790)
		Volatilities	(2%) – 2%	6	(7)
Liabilities arising on securitisation of other assets*	120 617	Cash flow adjustment	(1%) – 1%	1 356	(1 254)
Net level 3 fair value through profit or loss assets	496 423			59 474	(47 189)

At 31 March 2016	Balance sheet value £'000	Significant unobservable input changed	Range which unobservable input has been changed	Reflected in other comprehensive income: Favourable changes £'000	Reflected in other comprehensive income: Unfavourable changes £'000
Assets				5 668	(2 300)
Investment portfolio	31 616	EBITDA	(10%) – 10%	2 418	(1 340)
		Other^	^	3 250	(960)
Total net level 3 assets	528 039				

* *The sensitivity of the fair value of liabilities arising on securitisation of other assets has been considered together with other securitised assets.*

^ *Other – The valuation sensitivity for the private equity and embedded derivatives (profit share) portfolios has been assessed by adjusting various inputs such as expected cash flows, discount rates, earnings multiples rather than a single input. It is deemed appropriate to reflect the outcome on a portfolio basis for the purposes of this analysis as the sensitivity of the investments cannot be determined through the adjustment of a single input.*

14. Fair value hierarchy *(continued)*

At 31 March 2015	Balance sheet value £'000	Significant unobservable input changed	Range which unobservable input has been changed	Reflected in income statement: Favourable changes £'000	Reflected in income statement: Unfavourable changes £'000
Group					
Assets					
Other debt securities	18 633			156	(205)
		Discount rates	(5%) – 5%	14	(60)
		Credit spreads	(2%) – 3%	114	(128)
		Other	(6%) – 5%	28	(17)
Derivative financial instruments	57 141			5 858	(4 540)
		Discount rates	(5%) – 5%	358	(283)
		Volatilities	(4%) – 3%	626	(1 536)
		Credit spreads		–	(5)
		Cash flow adjustments	(3%) – 8%	7	(6)
		Other	(11%) – 10%	4 867	(2 710)
Investment portfolio	236 930			54 088	(12 515)
		Price earnings multiple	(10%) – 10%	1 517	(1 210)
		EBITDA	5x EBITDA	6 958	(2 640)
		Other^	^	45 613	(8 665)
Loans and advances to customers	36 000			6 500	(1 347)
		Cash flows	(5%) – 5%	5 407	–
		Other	(9%) – 3%	1 093	(1 347)
Other securitised assets*	401 375				
		Credit spreads	– 6 months/+12 month adjustment to CDR curve	5 228	(167)
Liabilities					
Derivative financial instruments	2 666	Cash flow adjustments	(2%) – 1%	1 830	(1 442)
Liabilities arising on securitisation of other assets*	330 526	Credit default rates, loss severity, prepayment rates	(5%) – 5%	5 228	(167)
Net level 3 fair value through profit or loss assets	**416 887**			**78 888**	**(20 383)**

At 31 March 2015	Balance sheet value £'000	Significant unobservable input changed	Range which unobservable input has been changed	Reflected in other comprehensive income: Favourable changes £'000	Reflected in other comprehensive income: Unfavourable changes £'000
Assets					
Investment portfolio	38 942	EBITDA	(10%) – 10% or 5x EBITDA	2 658	(2 058)
Total net level 3 assets	**455 829**				

* *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 are the interest rates used to discount future cash flows in a discounted cash flow valuation method. The discount rate takes into account time value of money and uncertainty of cash flows.

VOLATILITIES

Volatility is a key input in the valuation of derivative products containing optionality. Volatility is a measure of the variability or uncertainty in returns for a given derivative underlying. It represents an estimate of how much a particular underlying instrument, parameter or index will change in value over time. Volatilities are a key input into the Black-Scholes valuation method.

CASH FLOWS

Cash flows relate to the future cash flows which can be expected from the instrument and requires judgement. Cash flows are inputs into a discounted cash flow valuation.

PRICE EARNINGS MULTIPLE

The price-to-earnings ratio is an equity valuation multiple used in the adjustment of underlying market prices. It is a key driver in the valuation of unlisted investments.

EBITDA

Earnings before interest, taxes, depreciation and amortisation. This is the main input into a price earnings multiple valuation method.

Company

The table below analyses recurring fair value measurements for financial assets and financial liabilities.

14. Fair value hierarchy *(continued)*

At 31 March £'000	Total instruments at fair value	Valuation technique applied Level 1	Level 2	Level 3
Company				
At 31 March 2016				
Assets				
Cash and balances at central banks	1 123	1 123	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	157 565	–	157 565	–
Sovereign debt securities	643 352	643 352	–	–
Bank debt securities	12 076	5 044	7 032	–
Other debt securities	118 602	2 122	105 550	10 930
Derivative financial instruments	853 131	1 398	807 470	44 263
Securities arising from trading activities	524 344	493 654	23 234	7 456
Investment portfolio	210 499	3 942	13 337	193 220
Loans and advances to customers	53 465	–	–	53 465
Other securitised assets	8 680	–	–	8 680
Other assets	301 426	301 426	–	–
	2 884 263	**1 452 061**	**1 114 188**	**318 014**
Liabilities				
Derivative financial instruments	965 287	–	963 932	1 355
Other trading liabilities	226 598	226 598	–	
Repurchase agreements and cash collateral on securities lent	154 142	–	154 142	
Debt securities in issue	367 974	–	358 536	9 438
	1 714 001	**226 598**	**1 476 610**	**10 793**
Net assets	**1 170 262**	**1 225 463**	**(362 422)**	**307 221**
At 31 March 2015				
Assets				
Cash and balances at central banks	1 302	1 302	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	397 722	–	397 722	–
Sovereign debt securities	613 267	613 267	–	–
Bank debt securities	19 553	12 622	6 931	–
Other debt securities	22 954	2 083	3 244	17 627
Derivative financial instruments	817 147	204 474	558 073	54 600
Securities arising from trading activities	670 297	667 905	2 392	–
Investment portfolio	239 217	20 552	15 809	202 856
Loans and advances to customers	1 847	–	1 847	–
Other securitised assets	224 346	–	–	224 346
Other assets	33 200	33 200	–	–
	3 040 852	**1 555 405**	**986 018**	**499 429**
Liabilities				
Derivative financial instruments	951 849	327 205	621 978	2 666
Other trading liabilities	251 879	251 879	–	–
Repurchase agreements and cash collateral on securities lent	489 822	–	489 822	–
Debt securities in issue	292 682	–	292 682	–
Liabilities arising on securitisation of other assets	197 208	–	–	197 208
	2 183 440	**579 084**	**1 404 482**	**199 874**
Net assets	**857 412**	**976 321**	**(418 464)**	**299 555**

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 period derivative financial assets and liabilities to the value of £116.9 million and £210.3 million respectively were transferred from level 1 to level 2 to reflect the level of modelling which is now being used to arrive at the fair value. There were no significant transfers between level 1 and level 2 in the prior year.

14. Fair value hierarchy *(continued)*

The following table is a reconciliation of the opening balances to the closing balances for fair value measurements in level 3 of the fair value hierarchy:

For the year to 31 March £'000	Total level 3 financial instruments	Fair value through profit and loss instruments	Available-for-sale instruments
Company			
Balance as at 1 April 2014	**328 590**	**318 643**	**9 947**
Total gains or losses	27 401	31 768	(4 367)
In the income statement	26 975	31 768	(4 793)
In the statement of comprehensive income	426	–	426
Purchases	97 809	70 536	27 273
Sales	(179 075)	(145 871)	(33 204)
Settlements	(24 519)	(12 144)	(12 375)
Transfers into level 3	25 967	(297)	26 264
Transfers out of level 3	2 356	2 356	–
Foreign exchange adjustments	21 026	16 670	4 356
Balance as at 31 March 2015	**299 555**	**281 661**	**17 894**
Total gains or losses	(8 966)	(14 516)	5 550
In the income statement	(9 750)	(14 516)	4 766
In the statement of comprehensive income	784	–	784
Purchases	66 671	66 497	174
Sales	(235 458)	(234 493)	(965)
Issues	(9 359)	(9 359)	–
Settlements	190 639	195 330	(4 691)
Transfers into level 3	2 242	–	2 242
Transfers out of level 3	(4 607)	(4 607)	–
Foreign exchange adjustments	6 504	6 289	215
Balance as at 31 March 2016	**307 221**	**286 802**	**20 419**

For the year ended 31 March 2016, £4.6 million of assets were transferred from level 3 into level 2 (2015: liabilities of £2.4 million). In the current and prior years the valuation methodologies were reviewed and observable inputs are used to determine the fair value.

There were transfers from level 2 to the level 3 category to the value of £2.2 million (2015: £25.9 million) because the significance of the unobservable inputs used to determine the fair value increased significantly to warrant a transfer.

14. Fair value hierarchy *(continued)*

The following table quantifies the gains or (losses) included in the income statement and other comprehensive income recognised on level 3 financial instruments:

For the year to 31 March £'000	Total	Realised	Unrealised
Company			
2016			
Total gains/(losses) included in the income statement for the year			
Fee and commission (expense)/income	4 938	4 938	–
Investment income	(4 354)	(7 704)	3 350
Trading income arising from customer flow	(10 334)	(10 962)	628
	(9 750)	**(13 728)**	**3 978**
Total gains included in other comprehensive income for the year			
Gains on realisation of available-for-sale assets recycled through the income statement	4 766	4 766	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	784	–	784
	5 550	**4 766**	**784**
2015			
Total gains/(losses) included in the income statement for the year			
Fee and commission (expense)/income	7 859	(51)	7 910
Investment income	9 623	22 565	(12 942)
Trading income arising from customer flow	8 616	–	8 616
Trading income arising from balance sheet management and other trading activities	877	877	–
	26 975	**23 391**	**3 584**
Total gains/(losses) included in other comprehensive income for the year			
Gains on realisation of available-for-sale assets recycled through the income statement	(4 793)	(4 793)	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	426	–	426
	(4 367)	**(4 793)**	**426**

LEVEL 2 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The company follows the group's principal valuation techniques set out on page 182 in determining the fair value of its financial assets and financial liabilities that are classified within level 2 of the fair value hierarchy.

14. Fair value hierarchy *(continued)*

SENSITIVITY OF FAIR VALUES TO REASONABLY POSSIBLE ALTERNATIVE ASSUMPTIONS BY LEVEL 3 INSTRUMENT TYPE

The fair value of financial instruments in level 3 are measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable market data. The following table shows the sensitivity of these fair values to reasonably possible alternative assumptions, determined at a transactional level:

31 March 2016	Balance sheet value £'000	Significant unobservable input changed	Range which unobservable input has been changed	Reflected in income statement: Favourable changes £'000	Reflected in income statement: Unfavourable changes £'000
Company					
Assets					
Other debt securities	10 930			525	(796)
		Cash flow adjustments	(1%) – 1%	525	(472)
		Other	(5%) – 5%	–	(324)
Derivative financial instruments	44 263			8 214	(5 386)
		Volatilities	(2%) – 2%	2 471	(1 015)
		Credit spreads	(5%) – 5%	–	–
		Cash flow adjustments	(1%) – 1%	790	(1 662)
		Other	(11%) – 10%	4 953	(2 709)
Securities arising from trading activities	7 456	Cash flow adjustments	(1%) – 1%	1 380	(1 050)
Investment portfolio	179 585			13 900	(13 428)
		EBITDA	(10%) – 10%	799	(799)
		Other	(10%) – 10%	13 101	(12 629)
Loans and advances to customers	53 465				
		Other	(5%) – 5%	–	–
Other securitised assets*	8 680	Other	(1%) – 1%	1 256	(1 149)
Liabilities					
Derivative financial instruments	1 355			1 667	(797)
		Cash flow adjustments	(1%) – 1%	1 661	(790)
		Volatilities	(2%) – 2%	6	(7)
Debt securities in issue	9 438	Cash flow adjustments	(1%) – 1%	1 380	(1 050)
Net level 3 fair value through profit or loss assets	293 586			28 322	(23 656)

31 March 2016	Balance sheet value £'000	Significant unobservable input changed	Range which unobservable input has been changed	Reflected in other comprehensive income: Favourable changes £'000	Reflected in other comprehensive income: Unfavourable changes £'000
Assets					
Investment Portfolio	13 635	Other^	^	526	(18)
Total net level 3 assets	307 221				

* *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)*

31 March 2015	Balance sheet value £'000	Significant unobservable input changed	Range which unobservable input has been changed	Reflected in income statement: Favourable changes £'000	Reflected in income statement: Unfavourable changes £'000
Company					
Assets					
Other debt securities	17 627			42	(77)
		Discount rates	(5%) – 5%	14	(60)
		Other	(6%) – 5%	28	(17)
Derivative financial instruments	54 600			5 500	(4 252)
		Volatilities	(4%) – 3%	626	(1 536)
		Cash flow adjustments	(3%) – 8%	7	(6)
		Other	(11%) – 10%	4 867	(2 710)
Investment portfolio	184 962			17 589	(11 027)
		Price Earnings multiple	(10%) – 10% or	397	(397)
		EBITDA	5x EBITDA	707	(707)
		Other	(10%) – 10%	16 485	(9 923)
Other securitised assets*	224 346	Credit spreads	– 6 months/+ 12 month adjustment to CDR curve	2 780	–
Liabilities					
Derivative financial instruments	2 666	Cash flow adjustments	(2%) – 1%	1 830	(1 442)
Liabilities arising on securitisation of other assets*	197 208	Credit default rates. Loss severity, prepayment rates	(5%) – 5%	(2 780)	–
Net level 3 fair value profit or loss assets	**281 661**			**24 961**	**(16 798)**

31 March 2015	Balance sheet value £'000	Significant unobservable input changed	Range which unobservable input has been stressed	Reflected in other comprehensive income: Favourable changes £'000	Reflected in other comprehensive income: Unfavourable changes £'000
Assets					
Investment portfolio	17 894	EBITDA	(10%) – 10% or 5x EBITDA	170	(22)
Total net level 3 assets	**299 555**				

* *The sensitivity of the fair value of liabilities arising on securitisation of other assets has been considered together with other securitised assets.*

In determining the value of level 3 financial instruments, the company uses the same principal inputs that can require judgement as the group.

15. Fair value of financial instruments at amortised cost

At 31 March £'000	Carrying amount	Fair value	Level within the fair value hierarchy Level 1	Level 2	Level 3
Group					
2016					
Assets					
Cash and balances at central banks	2 636 941	2 636 941	^	^	^
Loans and advances to banks	935 071	935 071	935 071	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	399 460	399 460	^	^	^
Bank debt securities	176 321	192 776	53 123	139 653	–
Other debt securities	219 176	205 529	10 328	138 385	56 816
Loans and advances to customers	7 694 116	7 716 162	763 819	200 936	6 751 407
Other loans and advances	577 584	564 593	10 403	413 340	140 850
Other securitised assets	2 975	2 975	2 975	–	–
Other assets	900 369	900 140	571 567	318 393	10 180
	13 542 013	**13 553 646**			
Liabilities					
Deposits by banks	526 717	533 781	414 034	21 568	98 179
Repurchase agreements and cash collateral on securities lent	127 118	127 118	^	^	^
Customer accounts (deposits)	11 038 164	11 052 330	7 343 719	3 708 611	–
Debt securities in issue	1 150 124	1 026 284	1 194	982 342	42 748
Other liabilities	877 602	877 410	517 565	323 497	36 348
Subordinated liabilities	597 309	689 074	689 074	–	–
	14 317 034	**14 305 997**			

^ *Financial instruments for which fair value approximates carrying value.*

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate their fair value and have been reflected in level 1. This assumption also applies to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

15. Fair value of financial instruments at amortised cost *(continued)*

At 31 March £'000	Carrying amount	Fair value	Level within the fair value hierarchy Level 1	Level 2	Level 3
Group					
2015					
Assets					
Cash and balances at central banks	2 179 930	2 179 930	^	^	^
Loans and advances to banks	828 726	828 726	739 351	89 375	–
Reverse repurchase agreements and cash collateral on securities borrowed	1 050 483	1 050 753	^	^	^
Bank debt securities	206 720	225 508	–	225 508	–
Other debt securities	110 734	103 817	–	–	103 817
Loans and advances to customers	6 997 843	7 041 554	667 302	367 687	6 006 565
Other loans and advances	776 305	822 044	25 294	233 992	562 758
Other securitised assets	10 608	10 608	10 608	–	–
Other assets	886 228	886 421	819 036	10 909	56 476
	13 047 577	**13 149 361**			
Liabilities					
Deposits by banks	214 138	214 138	132 744	8 577	72 817
Repurchase agreements and cash collateral on securities lent	107 437	107 437	^	^	^
Customer accounts (deposits)	10 579 558	10 555 260	5 854 340	4 700 920	–
Debt securities in issue	1 041 554	1 149 530	12 522	787 766	349 242
Other liabilities	935 257	933 223	850 309	44 106	38 808
Subordinated liabilities	596 923	591 185	591 185	–	–
	13 474 867	**13 550 773**			

^ *Financial instruments for which fair value approximates carrying value.*

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate their fair value and have been reflected in level 1. This assumption also applies to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

15. Fair value of financial instruments at amortised cost *(continued)*

FIXED RATE FINANCIAL INSTRUMENTS

The fair value of fixed rate financial assets and financial liabilities carried at amortised cost are estimated by comparing spreads earned on the transactions with spreads earned on similar new transactions entered into by the group. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows, using prevailing money market interest rates for debts with similar credit risk and maturity. For quoted sub-debt issued, the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

Certain financial instruments that would normally be carried at fair value continue to be recognised at transaction price. This occurs when the fair value would normally be determined using valuation techniques which cannot be relied on due to insufficient external inputs. This results in gains or losses which have not been recognised on balance sheet.

The following table sets out the group's principal valuation techniques used in determining the fair value of its financial assets and financial liabilities:

Bank debt securities	Valued using a cashflow model of the bonds discounted by an observable market credit curve.
Other debt securities	Priced with reference to similar trades in an observable market.
Loans and advances to customers	Calculation of the present value of future cash flows, discounted as appropriate.
Other loans and advances	Calculation of the present value of future cash flows, discounted as appropriate.
Other securitised assets	Calculated using a model based on future cash flows.
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.

At 31 March £'000	Carrying amount	Fair value	Level within the fair value hierarchy Level 1	Level 2	Level 3
15. Fair value of financial instruments at amortised cost *(continued)*					
Company					
2016					
Assets					
Cash and balances at central banks	2 611 337	2 611 337	^	^	^
Loans and advances to banks	315 115	315 115	315 115	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	399 460	399 460	^	^	^
Bank debt securities	176 321	192 776	53 123	139 653	–
Other debt securities	447 464	433 817	238 616	138 385	56 816
Loans and advances to customers	6 000 466	6 031 224	–	199 953	5 831 271
Other loans and advances	1 774 186	1 752 808	10 403	1 599 889	142 516
Other assets	589 534	589 306	573 893	15 360	53
	12 313 883	**12 325 843**			
Liabilities					
Deposits by banks	767 730	760 807	730 142	21 568	9 097
Repurchase agreements and cash collateral on securities lent	127 118	127 118	^	^	^
Customer accounts (deposits)	9 808 014	9 836 026	6 060 420	3 686 524	89 082
Debt securities in issue	993 131	982 342		982 342	
Other liabilities	585 449	585 565	565 966	12 677	6 922
Subordinated liabilities	598 390	688 928	688 928	–	–
	12 879 832	**12 980 786**			

^ *Financial instruments for which fair value approximates carrying value.*

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate their fair value and have been reflected in level 1. This assumption also applies to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

15. Fair value of financial instruments at amortised cost *(continued)*

At 31 March £'000	Carrying amount	Fair value	Level within the fair value hierarchy Level 1	Level 2	Level 3
Company					
2015					
Assets					
Cash and balances at central banks	2 164 189	2 164 189	^	^	^
Loans and advances to banks	322 221	322 221	322 221	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	856 213	856 213	^	^	^
Bank debt securities	206 720	225 508	–	225 508	–
Other debt securities	339 060	331 566	–	–	331 566
Loans and advances to customers	5 499 651	5 541 152	–	367 687	5 173 465
Other loans and advances	1 525 222	1 498 465	25 294	1 097 955	375 216
Other securitised assets	7 633	7 633	7 633	–	–
Other assets	642 697	642 570	602 866	8 154	31 550
	11 563 606	**11 589 517**			
Liabilities					
Deposits by banks	302 887	302 887	129 680	173 207	–
Repurchase agreements and cash collateral on securities lent	107 437	107 437	^	^	^
Customer accounts (deposits)	9 279 115	9 255 336	4 075 065	5 180 271	–
Debt securities in issue	769 965	799 094	11 328	787 766	–
Other liabilities	671 697	669 733	625 302	40 138	4 293
Subordinated liabilities	598 240	598 240	579 911	18 329	–
	11 729 341	**11 732 727**			

16. Designated at fair value: loans and receivables and financial liabilities

At 31 March £'000	Carrying value	Fair value adjustment: Year to date	Fair value adjustment: Cumulative	Change in fair value attributable to credit risk: Year to date	Change in fair value attributable to credit risk: Cumulative	Maximum exposure to credit risk
Group						
Loans and receivables designated at fair value through profit or loss						
2016						
Loans and advances to customers	87 270	(2 752)	(30 284)	–	–	33 804
Other securitised assets	138 909	(13 541)	(29 938)	(13 541)	(29 938)	138 909
	226 179	**(16 293)**	**(60 222)**	**(13 541)**	**(29 938)**	**172 713**
2015						
Loans and advances to customers	37 847	(665)	1 197	–	–	37 847
Other securitised assets	401 375	(38 703)	(20 293)	(38 703)	(22 461)	401 375
	439 222	**(39 368)**	**(19 096)**	**(38 703)**	**(22 461)**	**439 222**

At 31 March £'000	Carrying value	Remaining contractual amount to be repaid at maturity	Fair value adjustment: Year to date	Fair value adjustment: Cumulative	Change in fair value attributable to credit risk: Year to date	Change in fair value attributable to credit risk: Cumulative
Financial liabilities designated at fair value through profit or loss						
2016						
Debt securities in issue	358 548	366 400	(7 416)	21 143	(7 406)	(3 632)
Liabilities arising on securitisation of other assets	120 617	139 851	(6 019)	(19 549)	(6 019)	(19 549)
	479 165	**506 251**	**(13 435)**	**1 594**	**(13 425)**	**(23 181)**
2015						
Debt securities in issue	292 682	285 039	(8 573)	7 643	(2 722)	(7 690)
Liabilities arising on securitisation of other assets	330 526	365 282	30 011	(34 755)	30 011	(34 755)
	623 208	**650 321**	**21 438**	**(27 112)**	**27 289**	**(42 445)**

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	Carrying value	Fair value adjustment: Year to date	Fair value adjustment: Cumulative	Change in fair value attributable to credit risk: Year to date	Change in fair value attributable to credit risk: Cumulative	Maximum exposure to credit risk

16. Designated at fair value: loans and receivables and financial liabilities

Company

Loans and receivables designated at fair value through profit or loss

At 31 March £'000	Carrying value	Fair value adjustment: Year to date	Fair value adjustment: Cumulative	Change in fair value attributable to credit risk: Year to date	Change in fair value attributable to credit risk: Cumulative	Maximum exposure to credit risk
2016						
Loans and advances to customers	53 465	–	–	–	–	–
	53 465	**–**	**–**	**–**	**–**	**–**
2015						
Loans and advances to customers	1 847	89	89	–	–	1 847
Other securitised assets	224 346	(8 679)	(15 004)	(8 679)	(15 004)	224 346
	226 193	**(8 590)**	**(14 915)**	**(8 679)**	**(15 004)**	**439 222**

As at 31 March £'000	Carrying value	Remaining contractual amount to be repaid at maturity	Fair value adjustment: Year to date	Fair value adjustment: Cumulative	Change in fair value attributable to credit risk: Year to date	Change in fair value attributable to credit risk: Cumulative
Financial liabilities designated at fair value through profit or loss						
2016						
Debt securities in issue	367 974	375 700	(7 290)	21 269	(7 280)	(3 506)
	367 974	**375 700**	**(7 290)**	**21 269**	**(7 280)**	**(3 506)**
2015						
Debt securities in issue	292 682	285 039	(8 573)	7 643	(2 722)	(7 690)
Liabilities arising on securitisation of other assets	197 208	214 872	20 286	(17 664)	20 286	(17 664)
	489 890	**499 911**	**11 713**	**(10 021)**	**17 564**	**(25 354)**

Changes in fair value due to credit risk are determined as the change in the fair value of the financial instrument that is not attributable to changes in other market inputs.

At 31 March £'000	Group 2016	Group 2015	Company 2016	Company 2015
17. Cash and balances at central banks				
The country risk of cash and bank balances at central banks lies in the following geographies:				
United Kingdom	2 589 082	2 146 936	2 588 981	2 146 837
Europe (excluding UK)	48 982	34 296	23 479	18 654
	2 638 064	2 181 232	2 612 460	2 165 491

As at 31 March £'000	Group 2016	Group 2015	Company 2016	Company 2015
18. Loans and advances to banks				
The country risk of loans and advances to banks lies in the following geographies:				
South Africa	9 307	3 547	8 044	86
United Kingdom	516 167	498 494	163 040	227 521
Europe (excluding UK)	214 399	101 379	80 476	42 088
Australia	65 213	85 855	11 126	7 673
United States of America	113 090	121 853	51 264	42 049
Other	16 895	17 598	1 165	2 804
	935 071	828 726	315 115	322 221

At 31 March £'000	Group 2016	Group 2015	Company 2016	Company 2015
19. Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent				
Assets				
Reverse repurchase agreements	476 308	1 360 696	476 308	1 166 426
Cash collateral on securities borrowed	80 717	87 509	80 717	87 509
	557 025	1 448 205	557 025	1 253 935
As part of the reverse repurchase and securities borrowing agreements the group has received securities that it is allowed to sell or repledge. £228.3 million (2015: £480.6 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	154 142	489 822	154 142	489 822
Cash collateral on securities lent	127 118	107 437	127 118	107 437
	281 260	597 259	281 260	597 259

The assets transferred and not derecognised in the above repurchase agreements are fair valued at £283.9 million (2015: £366.6 million). They are pledged as security for the term of the underlying repurchase agreement.

At 31 March £'000	Group 2016	Group 2015	Company 2016	Company 2015
20. Sovereign debt securities				
Bonds	5	–	–	–
Government securities	643 352	613 272	643 352	613 267
Treasury bills	609 634	599 638	–	–
	1 252 991	**1 212 910**	**643 352**	**613 267**
The country risk of sovereign debt securities lies in the following geographies:				
United Kingdom	1 235 317	1 196 877	625 684	597 239
Europe (excluding UK)*	17 674	16 033	17 668	16 028
	1 252 991	**1 212 910**	**643 352**	**613 267**

* *Where Europe (excluding UK) largely includes securities held in The Netherlands, Germany, Belgium and France.*

At 31 March £'000	Group and Company 2016	Group and Company 2015
21. Bank debt securities		
Bonds	57 164	95 431
Floating rate notes	131 233	130 842
	188 397	**226 273**
The country risk of bank debt securities lies in the following geographies:		
South Africa	7 033	6 931
United Kingdom	82 520	120 757
Europe (excluding UK)	98 844	98 585
	188 397	**226 273**

At 31 March £'000	Group 2016	Group 2015	Company 2016	Company 2015
22. Other debt securities				
Bonds	303 687	119 618	531 975	118 612
Commercial paper	31 969	–	31 969	–
Floating rate notes	–	12 994	–	12 993
Asset-based securities	65 743	87 790	–	228 326
Other investments	2 122	2 083	2 122	2 083
	403 521	**222 485**	**566 066**	**362 014**
The country risk of other debt securities lies in the following geographies:				
United Kingdom	160 250	126 031	338 597	286 351
Europe (excluding UK)	146 405	61 357	132 132	43 672
Australia	–	192	–	192
United States of America	58 804	17 014	57 275	13 908
Other	38 062	17 891	38 062	17 891
	403 521	**222 485**	**566 066**	**362 014**

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.

	2016			2015		
At 31 March £'000	**Notional principal amounts**	**Positive fair value**	**Negative fair value**	**Notional principal amounts**	**Positive fair value**	**Negative fair value**
Group						
Foreign exchange derivatives						
Forward foreign exchange contracts	13 249 208	192 731	218 038	9 767 479	177 817	187 782
Currency swaps	752 267	55 372	60 017	397 942	17 442	17 200
OTC options bought and sold	3 263 811	64 499	40 630	5 036 568	103 811	96 178
Other foreign exchange contracts	16 413	230	–	–	6	1 826
OTC derivatives	**17 281 699**	**312 832**	**318 685**	**15 201 989**	**299 076**	**302 986**
Interest rate derivatives						
Caps and floors	2 929 163	39 655	7 972	1 265 153	29 667	1 592
Swaps	15 031 340	161 927	170 682	11 862 050	127 615	170 823
Forward rate agreements	–	–	–	26 192	21	–
	17 960 503	**201 582**	**178 654**	**13 153 395**	**157 303**	**172 415**
Equity and stock index derivatives						
OTC options bought and sold	2 274 481	68 223	66 917	1 756 450	66 772	145 219
Equity swaps and forwards	16 071	–	–	28 428	–	11
OTC derivatives	2 290 552	68 223	66 917	1 784 878	66 772	145 230
Exchange-traded futures	295 222	1 834	1 271	1 023 132	4 368	4 076
Exchange-traded options	5 763 502	169 628	352 743	6 063 785	177 251	289 916
Warrants	321	321	–	965	965	–
	8 349 597	**240 006**	**420 931**	**8 872 760**	**249 356**	**439 222**
Commodity derivatives						
OTC options bought and sold	13 309	673	673	15 701	483	483
Commodity swaps and forwards	636 104	39 929	35 363	1 109 951	49 318	33 846
OTC derivatives	**649 413**	**40 602**	**36 036**	**1 125 652**	**49 801**	**34 329**
Credit derivatives	**592 204**	**15 333**	**10 080**	**423 062**	**15 204**	**4 253**
Embedded derivatives*		**32 581**	**–**		**35 146**	**–**
Derivatives per balance sheet		**842 936**	**964 386**		**805 886**	**953 205**

* *Mainly includes profit shares received as part of lending transactions.*

23. Derivative financial instruments *(continued)*

At 31 March £'000	2016 Notional principal amounts	2016 Positive fair value	2016 Negative fair value	2015 Notional principal amounts	2015 Positive fair value	2015 Negative fair value
Company						
Derivative financial instruments						
Foreign exchange derivatives						
Forward foreign exchange contracts	13 301 776	192 379	218 629	9 787 849	176 242	189 698
Currency swaps	730 031	51 071	59 868	340 512	15 427	13 325
OTC options bought and sold	3 259 370	64 447	40 619	5 036 568	103 817	98 003
Other foreign exchange contracts	16 413	230	–	–	–	–
OTC derivatives	**17 307 590**	**308 127**	**319 116**	**15 164 929**	**295 486**	**301 026**
Interest rate derivatives						
Caps and floors	2 929 163	39 655	7 972	1 265 153	29 667	1 592
Swaps	14 924 754	177 149	171 151	11 672 509	142 466	171 424
Forward rate agreements	–	–	–	26 192	21	–
	17 853 917	**216 804**	**179 123**	**12 963 854**	**172 154**	**173 016**
Equity and stock index derivatives						
OTC options bought and sold	2 274 481	68 223	66 917	1 756 450	66 772	145 219
Equity swaps and forwards	16 071	–	–	28 428	–	11
OTC derivatives	2 290 552	68 223	66 917	1 784 878	66 772	145 230
Exchange-traded futures	295 222	1 834	1 271	1 023 132	4 368	4 076
Exchange-traded options	5 763 502	169 628	352 744	6 063 785	177 251	289 915
Warrants	–	–	–	965	965	–
	8 349 276	**239 685**	**420 932**	**8 872 760**	**249 356**	**439 221**
Commodity derivatives						
OTC options bought and sold	13 309	673	673	15 701	483	483
Commodity swaps and forwards	636 104	39 929	35 363	1 109 951	49 318	33 846
OTC derivatives	**649 413**	**40 602**	**36 036**	**1 125 652**	**49 801**	**34 329**
Credit derivatives	**592 204**	**15 332**	**10 080**	**423 062**	**15 203**	**4 257**
Embedded derivatives*		**32 581**	**–**		**35 146**	**–**
Derivatives per balance sheet		**853 131**	**965 287**		**817 146**	**951 849**

* *Mainly includes profit shares received as part of lending transactions.*

24. Securities arising from trading activities

At 31 March £'000	Group and Company 2016	Group and Company 2015
Bonds	194 485	138 885
Government securities	198 181	380 274
Listed equities	130 013	148 746
Unlisted equities	329	–
Other investments	1 336	2 393
	524 344	**670 298**

25. Investment portfolio

At 31 March £'000	Group 2016	Group 2015	Company 2016	Company 2015
Listed equities	87 940	113 120	48 210	70 523
Unlisted equities*	331 921	287 680	162 289	168 694
	419 861	**400 800**	**210 499**	**239 217**

* *Unlisted equities includes loan instruments that are convertible into equity.*

26. Loans and advances to customers and other loans and advances

At 31 March £'000	Group 2016	Group 2015	Company 2016	Company 2015
Gross loans and advances to customers	7 924 577	7 224 134	6 187 945	5 677 118
Impairments of loans and advances to customers	(143 191)	(188 444)	(134 014)	(175 620)
Net loans and advances to customers	**7 781 386**	**7 035 690**	**6 053 931**	**5 501 498**
Gross other loans and advances	584 469	806 297	1 786 056	1 536 042
Impairments of other loans and advances	(6 885)	(29 992)	(11 870)	(10 820)
Net other loans and advances	**577 584**	**776 305**	**1 774 186**	**1 525 222**

For further analysis on loans and advances refer to pages 58 to 68 in the risk management section.

At 31 March £'000	Group 2016	Group 2015	Company 2016	Company 2015
26. Loans and advances to customers and other loans and advances *(continued)*				
Specific and portfolio impairments				
Reconciliation of movements in specific and portfolio impairments:				
Loans and advances to customers				
Specific impairment				
Balance at the beginning of the year	154 262	176 589	141 438	158 506
Charge to the income statement	102 748	79 503	97 010	62 055
Reversals and recoveries recognised in the income statement	(3 963)	(7 870)	(141)	(2 505)
Utilised	(137 058)	(83 161)	(131 448)	(67 540)
Disposals	–	(1 432)	–	(15)
Exchange adjustments	5 802	(9 367)	5 755	(9 063)
Balance at the end of the year	**121 791**	**154 262**	**112 614**	**141 438**
Portfolio impairment				
Balance at the beginning of the year	34 182	16 097	34 182	15 045
(Release)/charge to the income statement	(12 831)	19 240	(12 831)	19 214
Disposals	–	(1 127)	–	(59)
Exchange adjustments	49	(28)	49	(18)
Balance at the end of the year	**21 400**	**34 182**	**21 400**	**34 182**
Other loans and advances				
Specific impairment				
Balance at the beginning of the year	29 160	33 945	9 988	19 048
(Release)/charge to the income statement	(1 675)	7 520	1 103	8 071
Utilised	(21 650)	(7 247)	–	(14 677)
Disposals	–	(2 030)	–	(2 032)
Exchange adjustments	277	(3 028)	6	(422)
Balance at the end of the year	**6 112**	**29 160**	**11 097**	**9 988**
Portfolio impairment				
Balance at the beginning of the year	832	15 410	832	15 410
(Release)/charge to the income statement	(62)	3 582	(62)	3 582
Disposals	–	(18 160)	–	(18 160)
Exchange adjustments	3	–	3	–
Balance at the end of the year	**773**	**832**	**773**	**832**
Total specific impairments	127 902	183 422	123 711	151 426
Total portfolio impairments	22 173	35 014	22 173	35 014
Total impairments	**150 076**	**218 436**	**145 884**	**186 440**
Interest income recognised on loans that have been impaired	**3 514**	**6 480**	**3 309**	**6 235**

At 31 March £'000	Group 2016	Group 2015
26. Loans and advances to customers and other loans and advances *(continued)*		
Reconciliation of income statement charge:		
Loans and advances to customers	**85 954**	**90 873**
Specific impairment charged to income statement	98 785	71 633
Portfolio impairment (released)/charged to income statement	(12 831)	19 240
Securitised assets (refer to note 27)	**–**	**109**
Specific impairment charged to income statement	–	153
Portfolio impairment charged/(released) to income statement	–	(44)
Other loans and advances	**(1 737)**	**11 102**
Specific impairment (released)/charged to income statement	(1 675)	7 520
Portfolio impairment (released)/charged to income statement	(62)	3 582
Total income statement charge	**84 217**	**102 084**

At 31 March £'000	Group 2016	Group 2015	Company 2016	Company 2015
27. Securitised assets and liabilities arising on securitisation				
Other securitised assets are made up of the following categories of assets:				
Cash and cash equivalents	2 975	10 608	–	–
Loans and advances to customers	138 910	401 375	–	7 633
Kensington securitised assets	–	–	–	224 346
Other debt securities	8 680	–	8 680	–
Total other securitised assets	**150 565**	**411 983**	**8 680**	**231 979**
The associated liabilities are recorded on balance sheet in the following line items:				
Liabilities arising on securitisation of other assets	**120 617**	**330 526**	**–**	**197 208**

At 31 March £'000	Group 2016	Group 2015	Company 2016	Company 2015
27. Securitised assets and liabilities arising on securitisation *(continued)*				
Specific and portfolio impairments				
Reconciliation of movements in specific and portfolio impairments of assets that have been securitised:				
Specific impairment				
Balance at the beginning of the year	–	341	–	17
Charge/(release) to the income statement	–	153	–	(10)
Utilised	–	(114)	–	
Disposals	–	(352)	–	(2)
Exchange adjustment	–	(28)	–	(5)
Balance at the end of the year	**–**	**–**	**–**	**–**
Portfolio impairment				
Balance at the beginning of the year	–	525	–	40
Release to the income statement	–	(44)	–	(13)
Disposals	–	(455)	–	(29)
Exchange adjustment	–	(26)	–	2
Balance at the end of the year	**–**	**–**	**–**	**–**
Total portfolio and specific impairments on balance sheet	**–**	**–**	**–**	**–**

At 31 March £'000	2016	2015
28. Interests in associated undertakings		
Group		
Interests in associated undertakings consist of:		
Net asset value	10 035	8 886
Goodwill	7 411	7 411
Investment in associated undertakings	**17 446**	**16 297**
Associated undertakings comprise unlisted investments		
Analysis of the movement in our share of net assets:		
At the beginning of the year	8 886	9 226
Exchange adjustments	122	(164)
Disposals	–	(255)
Acquisitions	–	124
Increase in shareholding	969	–
Operating income from associates (included in other operating income)	1 975	1 503
Dividends received	(1 917)	(1 548)
At the end of the year	**10 035**	**8 886**
Analysis of the movement in goodwill:		
At the beginning of the year	7 411	7 411
Exchange adjustments	–	–
At the end of the year	**7 411**	**7 411**

At 31 March £'000	2016	2015
Company		
Analysis of the movement in investment:		
At the beginning of the year	11 612	11 564
Exchange adjustments	20	48
At the end of the year	**11 632**	**11 612**
Provision for impairment in value:		
At the beginning of the year	(2 323)	(2 323)
Exchange adjustments	–	–
At the end of the year	**(2 323)**	**(2 323)**
Net book value at the end of the year	**9 309**	**9 289**

At 31 March £'000	Group 2016	Group 2015	Company 2016	Company 2015
29. Deferred taxation				
Deferred taxation assets	71 563	66 249	37 158	30 941
Deferred taxation liabilities	(26 143)	(39 464)	–	–
Net deferred taxation assets	**45 420**	**26 785**	**37 158**	**30 941**
The net deferred taxation assets arise from:				
Deferred capital allowances	34 391	30 641	12 106	10 420
Income and expenditure accruals	2 386	(6 138)	1 425	1 714
Asset in respect of unexpired options	26 492	21 956	23 627	18 807
Unrealised fair value adjustments on financial instruments	(1 288)	(1 072)	–	–
Losses carried forward	5 948	8 153	–	–
Deferred tax on acquired intangibles	(21 655)	(26 285)	–	–
Other temporary differences	(854)	110	–	–
Net deferred taxation assets	**45 420**	**26 785**	**37 158**	**30 941**
Reconciliation of net deferred taxation assets/(liabilities):				
At the beginning of the year	26 785	59 143	30 941	27 666
Charge to income statement – current year taxation	16 241	(32 497)	3 335	(1 054)
Movement directly in other comprehensive income	2 183	6 586	3 028	4 160
Arising on disposals	–	(6 664)	–	–
Other	(197)	(422)	(146)	169
Exchange adjustments	408	639	–	–
At the end of the year	**45 420**	**26 785**	**37 158**	**30 941**

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 £177.4 million (2015: £93.9 million) (company £27.7 million), capital losses carried forward of £5.5 million (2015: £6.3 million) and excess management expenses of £7.0 million (2015: £7.0 million) on which deferred tax assets have not been recognised due to uncertainty regarding future profits against which these losses can be utilised.

The Finance Act 2015 reduced the main rate of corporate taxation to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. In addition, the bank corporation tax surcharge of 8% effective from 1 January 2016 was enacted in November 2015. 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 2016.

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. This change has not yet been substantively enacted and is therefore not reflected in the above deferred tax asset. The maximum effect on deferred tax of the reduction in the UK corporation tax rate to 17% is expected to be £1.6 million (£1.4 million for the company).

At 31 March £'000	Group 2016	Group 2015	Company 2016	Company 2015
30. Other assets				
Settlement debtors	828 356	802 237	549 031	595 664
Dealing properties	95 522	125 763	88 136	93 287
Prepayments and accruals	53 648	39 713	19 017	10 579
Trading initial margin	301 426	33 200	301 426	33 200
Other	174 098	112 223	129 678	58 107
	1 453 050	**1 113 136**	**1 087 288**	**790 837**

31. Property and equipment

At 31 March £'000	Freehold properties	Leasehold improvements	Furniture and vehicles	Equipment	Operating leases*	Total
Group						
2016						
Cost						
At the beginning of the year	2 719	70 224	5 844	27 347	25 935	132 069
Exchange adjustments	–	1 292	–	288	–	1 580
Additions	–	5 140	363	4 358	2 360	12 221
Disposals	–	(5 574)	(18)	(2 094)	(19 075)	(26 761)
At the end of the year	**2 719**	**71 082**	**6 189**	**29 899**	**9 220**	**119 109**
Accumulated depreciation						
At the beginning of the year	(219)	(27 825)	(5 527)	(20 155)	(18 027)	(71 753)
Exchange adjustments	–	(17)	–	(225)	–	(242)
Disposals	–	–	8	1 354	14 902	16 264
Depreciation charge for the year	(47)	(5 090)	(165)	(2 885)	(2 149)	(10 336)
At the end of the year	**(266)**	**(32 932)**	**(5 684)**	**(21 911)**	**(5 274)**	**(66 067)**
Net carrying value	**2 453**	**38 150**	**505**	**7 988**	**3 946**	**53 042**
2015						
Cost						
At the beginning of the year	2 659	65 914	11 921	23 044	32 832	136 370
Exchange adjustments	177	(1 205)	23	(18)	(3)	(1 026)
Additions	–	11 192	83	6 067	9 508	26 850
Disposals	(117)	(5 677)	(6 183)	(1 746)	(16 402)	(30 125)
At the end of the year	**2 719**	**70 224**	**5 844**	**27 347**	**25 935**	**132 069**
Accumulated depreciation						
At the beginning of the year	(383)	(23 986)	(9 674)	(16 282)	(22 558)	(72 883)
Exchange adjustments	211	251	(10)	88	2	542
Disposals	–	544	4 465	1 351	6 064	12 424
Depreciation charge for the year	(47)	(4 634)	(308)	(5 312)	(1 535)	(11 836)
At the end of the year	**(219)**	**(27 825)**	**(5 527)**	**(20 155)**	**(18 027)**	**(71 753)**
Net carrying value	**2 500**	**42 399**	**317**	**7 192**	**7 908**	**60 316**

* *These are assets held by the group, in circumstances where the group is lessor.*

31. Property and equipment

(continued)

At 31 March £'000	Leasehold improve-ments	Furniture and vehicles	Equipment	Operating leases*	Total
Company					
2016					
Cost					
At the beginning of the year	32 815	5 275	15 026	11 601	64 717
Exchange adjustments	29	–	–	–	29
Additions	–	–	56	–	56
Disposals	–	–	–	(11 601)	(11 601)
At the end of the year	**32 844**	**5 275**	**15 082**	**–**	**53 201**
Accumulated depreciation					
At the beginning of the year	(21 963)	(4 874)	(13 949)	(10 900)	(51 686)
Disposals	–	–	–	11 129	11 129
Depreciation charge for the year	(2 935)	(28)	(616)	(229)	(3 808)
At the end of the year	**(24 898)**	**(4 902)**	**(14 565)**	**–**	**(44 365)**
Net carrying value	**7 946**	**373**	**517**	**–**	**8 836**
2015					
Cost					
At the beginning of the year	30 462	5 275	13 937	24 028	73 702
Additions	2 353	–	1 089	–	3 442
Disposals	–	–	–	(12 427)	(12 427)
At the end of the year	**32 815**	**5 275**	**15 026**	**11 601**	**64 717**
Accumulated depreciation					
At the beginning of the year	(19 055)	(4 751)	(12 740)	(18 091)	(54 637)
Disposals	–	–	–	8 726	8 726
Depreciation charge for the year	(2 908)	(123)	(1 209)	(1 535)	(5 775)
At the end of the year	**(21 963)**	**(4 874)**	**(13 949)**	**(10 900)**	**(51 686)**
Net carrying value	**10 852**	**401**	**1 077**	**701**	**13 031**

* *These are assets held by the group, in circumstances where the group is lessor.*

On 3 December 2010 the group acquired a portfolio of operating leased assets comprising motor vehicles. The operating lease income from this portfolio has been included in other operating income (note 5) and the depreciation on these operating leased assets has been shown separately on the face of the income statement.

32. Investment properties

Investment properties are carried at fair value and are classified as level 3 in the fair value hierarchy.

At 31 March £'000	2016	2015
At the beginning of the year	65 736	61 715
Additions	8 951	–
Fair value movement	1 282	8 726
Exchange adjustment	3 082	(4 705)
At the end of the year	**79 051**	**65 736**

All investment properties are classified as level 3 in the fair value hierarchy.

FAIR VALUE HIERARCHY – INVESTMENT PROPERTY

For all investment property that is measured at fair value, the current use of the property is considered the highest and best use.

Properties are valued under the income capitalisation method and discounted cashflow method (DCF).

Under the income capitalisation method a property's fair value is estimated based on the normalised net operating income generated by the property, which is divided by the capitalisation rate.

Under the DCF method, a property's fair value is estimated using explicit assumptions about the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This involves the projection of a series of cash flows and to this an appropriate, market-derived discount rate is applied to establish the present value of the income stream.

VALUATION TECHNIQUES USED TO DERIVE LEVEL 3 FAIR VALUES

For all classes of investment property, the significant unobservable inputs listed below are used in the income capitalisation method to determine the fair value measurement at the end of the reporting period.

Significant unobservable inputs	Relationship between unobservable inputs and fair value measurement
Expected rental value (ERV)	Increases/(decreases) in ERV would increase/(decrease) estimated fair value
Equivalent yield	Increases/(decreases) in the equivalent yield would result in decreases/(increases) in the estimated fair value

At 31 March £'000	2016	2015
33. Goodwill		
Cost		
At the beginning of the year	284 236	309 852
Acquisition of subsidiaries	–	180
Disposals of subsidiaries	–	(24 623)
Exchange adjustments	904	(1 173)
At the end of the year	**285 140**	**284 236**
Accumulated impairments		
At the beginning of the year	(23 336)	(13 605)
Income statement amount	–	(8 552)
Disposals of subsidiaries	–	(1 179)
At the end of the year	**(23 336)**	**(23 336)**
Net carrying value	**261 804**	**260 900**
Analysis of goodwill by line of business:		
Wealth & Investment	248 572	248 026
Specialist Banking	13 232	12 874
Total group	**261 804**	**260 900**

Goodwill is tested annually for impairment, or more frequently if evidence exists that goodwill might be impaired, by comparing the carrying value to its recoverable amount.

The recoverable amount of goodwill is determined based on expected cash flows within the cash-generating units of the group to which the goodwill is allocated. Key assumptions within the calculation include discount rates, growth rates in revenue and related expenditure and loan impairment rates.

Discount rates are based on pre-tax rates that reflect current market conditions, adjusted for the specific risks associated with the cash-generating unit. Growth rates are based on industry growth forecasts. Cash flow forecasts are based on the most recent financial budgets for the next financial year and are extrapolated for a period of three to five years, adjusted for expected future events.

The most significant cash-generating units giving rise to goodwill is Investec Wealth & Investment (Wealth & Investment), which now includes the business of Williams de Broë (acquired in 2012 as part of the Evolution Group) which was merged with Wealth & Investment in August 2012.

For Investec Wealth & Investment, goodwill of £236.3 million has been tested for impairment on the basis of the cash flow projections for the next three years discounted at 8.9% (2015: 9.9%) which incorporate an expected revenue growth rate of 2% in perpetuity (March 2015: 2%). The valuation is based on value in use of the business.

Sensitivity analysis has been carried out and it has been concluded that no reasonably possible change in the key assumptions would cause an impairment to be recognised.

MOVEMENT IN GOODWILL

2016
There are no significant movements in goodwill during the year.

2015
Goodwill arising from acquisitions (£0.18 million) relates to the acquisition of Mann Island Finance group in 2014 (as detailed in note 35). Goodwill cost and impairment reduced following the disposal of Investec Bank (Australia) Limited (as detailed in note 35).

34. Intangible assets

At 31 March £'000	Acquired software	Internally generated software	Intellectual property	Management contracts	Client relationships	Total
Group						
2016						
Cost						
At the beginning of the year	31 289	61	–	727	182 201	214 278
Exchange adjustments	120	–	–	69	295	484
Additions	2 667	521	–	–	–	3 188
Disposals	(200)	–	–	(276)	–	(476)
At the end of the year	**33 876**	**582**	**–**	**520**	**182 496**	**217 474**
Accumulated amortisation and impairments						
At the beginning of the year	(27 281)	–	–	(313)	(46 642)	(74 236)
Exchange adjustments	(110)	–	–	(30)	(135)	(275)
Disposals	200	–	–	276	–	476
Amortisation	(2 095)	–	–	(129)	(14 348)	(16 572)
At the end of the year	**(29 286)**	**–**	**–**	**(196)**	**(61 125)**	**(90 607)**
Net carrying value	**4 590**	**582**	**–**	**324**	**121 371**	**126 867**
2015						
Cost						
At the beginning of the year	41 276	–	2 332	853	179 354	223 815
Exchange adjustments	(1 047)	–	–	(104)	(569)	(1 720)
Acquisition of a subsidiary undertaking	–	–	–	–	3 416	3 416
Additions	2 180	61	–	–	–	2 241
Disposals	(11 120)	–	(2 332)	(22)	–	(13 474)
At the end of the year	**31 289**	**61**	**–**	**727**	**182 201**	**214 278**
Accumulated amortisation and impairments						
At the beginning of the year	(33 911)	–	(388)	(199)	(32 614)	(67 112)
Exchange adjustments	574	–	–	(19)	352	907
Disposals	9 581	–	388	22	–	9 991
Amortisation	(3 525)	–	–	(117)	(14 380)	(18 022)
At the end of the year	**(27 281)**	**–**	**–**	**(313)**	**(46 642)**	**(74 236)**
Net carrying value	**4 008**	**61**	**–**	**414**	**135 559**	**140 042**

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.

At 31 March £'000	Acquired software
34. Intangible assets *(continued)*	
Company	
2016	
Cost	
At the beginning of the year	19 974
Exchange adjustments	–
Additions	–
Disposals	–
At the end of the year	**19 974**
Accumulated amortisation and impairments	
At the beginning of the year	(19 105)
Exchange adjustments	–
Disposals	–
Amortisation	(488)
At the end of the year	**(19 593)**
Net carrying value	**381**
2015	
Cost	
At the beginning of the year	19 974
Exchange adjustments	–
Additions	–
Disposals	–
At the end of the year	**19 974**
Accumulated amortisation and impairments	
At the beginning of the year	(17 928)
Exchange adjustments	–
Disposals	–
Amortisation	(1 177)
At the end of the year	**(19 105)**
Net carrying value	**869**

35. Acquisitions and disposals

Group

2016

Acquisitions

There were no significant acquisitions of subsidiaries during the year ended 31 March 2016.

Disposals

There were no significant disposals of subsidiaries during the year ended 31 March 2016.

2015

Acquisitions

On 8 April 2014 the group acquired the entire share capital of Robert Smith Group (Automative) Limited (the parent of Mann Island Finance group), a vehicle finance brokerage business.

£'000	Book value of assets and liabilities	Fair value of assets and liabilities
Loans and advances to banks	559	559
Deferred taxation assets	332	332
Other assets	2 484	2 484
Property and equipment	74	74
Intangible assets	–	5 824
Goodwill	–	180
	3 449	**9 453**
Current taxation liabilities	530	530
Other liabilities	2 396	2 396
	2 926	**2 926**
Net assets/fair value of net assets acquired	**523**	**6 527**
Fair value of cash consideration		**7 062**
Loans and advances to banks at acquisition		559
Fair value of cash consideration		(7 062)
Net cash outflow		**(6 503)**

For the post-acquisition period of 8 April 2014 to 31 March 2015, the operating income of MIF totalled £7.5 million and profit before taxation totalled £0.9 million. There is no material difference between this and the operating income and profit before taxation if the acquisition had been on 1 April 2014 as opposed to 8 April 2014.

Disposals

The net gain on sale of subsidiaries of £78.5 million in the income statement arises from the sale of Investec Bank (Australia) Limited and the sale of the Start Mortgage Holdings and Kensington Group plc companies and subsidiaries as described below. The net cash inflow on these items amount to £56 million. Cash and cash equivalents in the subsidiaries disposed of was £28 million.

The sale of Investec Bank (Australia) Limited's Professional Finance and Asset Finance and Leasing businesses and its deposit book to Bank of Queensland Limited was effective 31 July 2014 for cash proceeds of £122 million. This has resulted in the derecognition of approximately £1.7 billion of assets and approximately £1.7 billion of liabilities associated with the businesses sold.

The sale of the group's Irish intermediated mortgage business, Start Mortgage Holdings Limited, together with certain other Irish mortgage assets to an affiliate of Lone Star Funds was effective on 4 December 2014. The sale of the UK intermediated mortgage business Kensington Group plc (Kensington) together with certain other Investec mortgage assets to funds managed by Blackstone Tactical Opportunities Advisors L.L.C. and TPG Special Situations Partners was effective on 30 January 2015 for cash proceeds of £170 million to the Investec group. Within Investec Bank plc this has resulted in the derecognition of approximately £1.7 billion of assets associated with these businesses.

35. Acquisitions and disposals *(continued)*

The breakdown of the significant balance sheet line items derecognised is shown below:

£'000	IBAL	Kensington related assets	Total
	Book value of assets and liabilities		
Debt securities	299 904	42 141	342 045
Derivatives	–	4 734	4 734
Loans and advances to customers	1 009 199	755 270	1 764 469
Own originated loans and advances securitised	372 094	–	372 094
Other loans and advances	–	532 158	532 158
Other securitised assets	–	353 978	353 978
Combined other asset lines	44 377	–	44 377
Total assets	**1 725 574**	**1 688 281**	**3 413 855**
Customer accounts	1 212 467	–	1 212 467
Debt securities in issue	68 488	–	68 488
Liabilities arising on securitisation of own originated loans and advances	367 531	–	367 531
Liabilities arising on securitisation of other assets	–	232 202	232 202
Subordinated debt	42 291	–	42 291
Combined other liability lines	4 343	3 963	8 306
Total liabilities	**1 695 120**	**236 165**	**1 931 285**
Net assets and liabilities sold			**1 482 570**
Cash received in settlement of pre-existing relationships*			1 469 822
Proceeds on sale of subsidiary			55 956
Goodwill and other adjustments on sale			(35 321)
Gain on disposal of subsidiaries			78 529

* *Reflected as movements in operating assets and operating liabilities within the cash flow (note 44).*

35. Acquisitions and disposals *(continued)*

Company

2016

Acquisitions

There were no significant acquisitions of subsidiaries during the year ended 31 March 2016.

Disposals

There were no significant disposals of subsidiaries during the year ended 31 March 2016.

2015

Acquisitions

There were no acquisitions of subsidiaries during the year ended 31 March 2015.

Disposals

Certain of the mortgage assets referred to above were held directly on the bank balance sheet. The transactions resulted in the derecognition of approximately £1.5 billion of assets and £70 million of liabilities associated with these businesses.

£'000	Book value of assets and liabilities
Other debt securities	39 453
Derivative assets	3 093
Loans and advances to customers	755 270
Other loans and advances	574 787
Other securitised assets	128 920
	1 501 523
Liabilities arising on securitisation of other assets	68 088
Derivative liabilities	208
Other liabilities	477
	68 773
Net assets and liabilites sold	**1 432 750**
Cash received in settlement of pre-existing relationships	1 413 123
Loss on sale of assets and liabilities	19 627

At 31 March £'000	Group and Company 2016	 2015
36. Other trading liabilities		
Short positions		
– Equities	64 657	88 920
– Gilts	161 941	162 959
	226 598	**251 879**

At 31 March £'000	Group 2016	Group 2015	Company 2016	Company 2015
37. Debt securities in issue				
Bonds and medium-term notes repayable:				
Less than three months	35 001	38 535	23 649	19 583
Three months to one year	116 680	111 387	85 283	65 266
One to five years	853 918	643 969	819 287	598 620
Greater than five years	503 073	540 345	432 886	379 178
	1 508 672	**1 334 236**	**1 361 105**	**1 062 647**
Analysis by customer type:				
Retail	795 763	773 380	795 763	773 380
Wholesale	712 909	560 856	565 342	289 267
	1 508 672	**1 334 236**	**1 361 105**	**1 062 647**

At 31 March £'000	Group 2016	Group 2015	Company 2016	Company 2015
38. Other liabilities				
Settlement liabilities	776 249	803 156	489 575	596 743
Other creditors and accruals	225 570	248 068	131 583	150 325
Other non-interest bearing liabilities	58 963	72 744	80 694	33 148
	1 060 782	**1 123 968**	**701 852**	**780 216**

At 31 March £'000	2016	2015
39. Pension commitments		
Income statement charge		
Cost of defined contribution schemes included in staff costs	18 347	19 903
Net income statement charge in respect of pensions	**18 347**	**19 903**

The group operates pension schemes throughout its areas of operation. The majority of the schemes are defined contribution schemes with the exception of two schemes in the United Kingdom being the Guinness Mahon Pension Fund scheme (GM scheme) and the Investec Asset Management Pension scheme (IAM scheme). Both schemes are final salary pension plans with assets held in separate trustee administered funds. 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 schemes are 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 schemes are closed to new members and the accrual of service ceased on 31 March 2002. The schemes have been valued at 31 March 2016 by qualified independent actuaries in accordance with IAS 19. There were no unpaid contributions in relation to the defined contribution schemes outstanding at the year end.

Certain employees of the bank participate in both the above defined benefit schemes along with the employees from Investec plc undertakings.

As there is no contractual agreement or stated policy for charging the net defined benefit cost of the defined benefit plans as a whole, measured in accordance with IAS 19, to individual Investec plc group entities, the bank has accounted for these schemes on a defined benefit contribution basis.

Therefore, the following tables on the defined benefit schemes are provided for information only.

39. Pension commitments *(continued)*

	2016	2015
The major assumptions used were:		
Discount rate	3.40%	3.20%
Rate of increase in salaries	2.90%	3.00%
Rate of increase in pensions in payment	1.80% – 3.00%	1.80% – 3.00%
Inflation (RPI)	2.90%	3.00%
Inflation (CPI)	1.90%	2.00%
Demographic assumptions		
One of the most significant demographic assumptions underlying the valuation is mortality. The specific mortality rates used are based on the S1PA base tables with allowance for future improvements in line with the CM1 2014 core projections with a long-term improvement of 1.25% per annum. The life expectancies underlying the valuation are as follows:	**Years**	**Years**
Male aged 65	88.3	87.8
Female aged 65	90.9	89.8
Male aged 45	90.1	89.7
Female aged 45	92.8	91.2

SENSITIVITY ANALYSIS OF ASSUMPTIONS

The sensitivities are only presented for the GM scheme as the equivalent increases/decreases in assumptions for the IAM scheme do not have a material impact.

If the discount rate was 0.25% higher (lower), the scheme liabilities would decrease by approximately £5 429 000 (increase by £5 798 000) if all the other assumptions remained unchanged.

If the inflation assumption was 0.25% higher (lower), the scheme liabilities would increase by approximately £2 173 000 (decrease by £2 530 000). In this calculation all assumptions related to the inflation assumption have been appropriately adjusted, that is the salary, deferred pension and pension in payment increases. The other assumptions remain unchanged.

If the salary increase assumption was 0.25% higher (lower), the scheme liabilities would increase by approximately £209 000 (decrease by £205 000) if all the other assumptions remained unchanged.

If the deferred revaluation assumption was 0.25% higher (lower) the scheme liabilities would increase by £778 000 (decrease by £761 000) if all the other assumptions remained unchanged.

If the pension increases assumptions were 0.25% higher (lower), the scheme liabilities would increase by approximately £1 813 000 (decrease by £1 721 000) if all the other assumptions remained unchanged.

If life expectancies were to increase (decrease) by one year, the scheme liabilities would increase by approximately £4 317 000 (decrease by £3 822 000) if all the other assumptions remained unchanged.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

The sensitivity analysis has been performed on the basis that the relevant assumption would occur in isolation, holding other assumptions constant.

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the same methodology that applied in calculating the defined benefit obligation liability recognised in the balance sheet.

RISK EXPOSURES

A description of the risks which the pension schemes expose Investec can be found in the risk management report on page 93.

The group ultimately underwrites the risks relating to the defined benefit plans. If the contributions currently agreed are insufficient to pay the benefits due, the group will need to make further contributions to the plans.

39. Pension commitments *(continued)*

At 31 March £'000	2016	2015
GM scheme		
Gilts	168 451	165 729
Cash	2 792	2 600
Total market value of assets	**171 243**	**168 329**
IAM scheme		
Managed funds	21 887	24 442
Cash	84	49
Total market value of assets	**21 971**	**24 491**

There are no assets which are unquoted.

None of the group's own assets or properties occupied or used by the group is held within the assets of the scheme.

The investment strategy in place for the GM scheme is to switch to gilts over the period to 31 March 2021. At 31 March 2016, the allocation of the GM scheme's invested assets was 100% to gilts and cash. This is ahead of the investment strategy. The higher allocation is due to additional switches from equities to gilts during the first and third quarters of 2013 under the agreed outperformance trigger mechanism. Details of the investment strategy can be found in the GM scheme's Statement of Investment Principles, which the Trustees update as its policy evolves.

The Trustee's current investment strategy is to strike a balance between maximising the returns on the scheme's assets and minimising the risks associated with lower than expected returns.

39. Pension commitments *(continued)*

At 31 March £'000	2016 GM	 IAM	 Total	2015 GM	 IAM	 Total
Recognised in the balance sheet						
Fair value of fund assets	171 243	21 971	193 214	168 329	24 491	192 820
Present value of obligations	(129 467)	(17 275)	(146 742)	(137 947)	(18 973)	(156 920)
Net asset (recognised in other assets)	**41 776**	**4 696**	**46 472**	**30 382**	**5 518**	**35 900**
Recognised in the income statement						
Net interest income	1 033	175	1 208	947	272	1 219
Administration costs	(535)	(112)	(647)	(377)	(65)	(442)
Net amount recognised in the income statement	**498**	**63**	**561**	**570**	**207**	**777**
Recognised in the statement of comprehensive income						
Return on plan assets (excluding amounts in net interest income)	339	2 169	2 508	(28 219)	(1 982)	(30 201)
Actuarial (gain)/loss arising from changes in financial assumptions	(5 317)	(814)	(6 131)	22 106	2 956	25 062
Actuarial loss arising from changes in demographic assumptions	2 393	243	2 636	–	–	–
Actuarial (gain) arising from experience adjustments	(3 995)	(713)	(4 708)	(33)	(75)	(108)
Remeasurement of defined benefit liability/asset	(6 580)	885	(5 695)	(6 146)	899	(5 247)
Deferred tax	1 222	(265)	957	(1 229)	136	(1 093)
Remeasurement of net defined benefit liability	**(5 358)**	**620**	**(4 738)**	**(7 375)**	**1 035**	**(6 340)**

39. Pension commitments *(continued)*

At 31 March £'000	GM	IAM	Total
Changes in the net asset/(liabilities) recognised in the balance sheet			
Opening balance sheet asset at 1 April 2014	**19 350**	**6 210**	**25 560**
Expenses charged to the income statement	570	207	777
Amount recognised in other comprehensive income	6 146	(899)	5 247
Contributions paid	4 316	–	4 316
Opening balance sheet asset at 1 April 2015	**30 382**	**5 518**	**35 900**
Expenses charged to the income statement	498	63	561
Amount recognised in other comprehensive income	6 580	(885)	5 695
Contributions paid	4 316	–	4 316
Closing balance sheet asset at 31 March 2016	**41 776**	**4 696**	**46 472**
Changes in the present value of defined benefit obligations			
Opening defined benefit obligation at 1 April 2014	**116 083**	**16 104**	**132 187**
Interest expense	4 993	693	5 686
Remeasurement gains and losses:			
– Actuarial gain arising from changes in financial assumptions	22 106	2 956	25 062
– Actuarial (loss) arising from experience adjustments	(33)	(75)	(108)
Benefits and expenses paid	(5 202)	(705)	(5 907)
Opening defined benefit obligation at 1 April 2015	**137 947**	**18 973**	**156 920**
Interest expense	4 320	588	4 908
Remeasurement gains and losses:			
– Actuarial gain arising from demographic assumptions	2 393	243	2 636
– Actuarial (loss) arising from changes in financial assumptions	(5 317)	(814)	(6 131)
– Actuarial (loss) arising from experience adjustments	(3 995)	(713)	(4 708)
Benefits and expenses paid	(5 881)	(1 002)	(6 883)
Closing defined benefit obligation at 31 March 2016	**129 467**	**17 275**	**146 742**
Changes in the fair value of plan assets			
Opening fair value of plan assets at 1 April 2014	**135 433**	**22 314**	**157 747**
Interest income	5 940	965	6 905
Remeasurement (loss)/gain:			
– Return on plan assets (excluding amounts in net interest income)	28 219	1 982	30 201
Contributions by the employer	4 316	–	4 316
Benefits and expenses paid	(5 579)	(770)	(6 349)
Opening fair value of plan assets at 1 April 2015	**168 329**	**24 491**	**192 820**
Interest income	5 353	763	6 116
Remeasurement (loss):			
– Return on plan assets (excluding amounts in net interest income)	(339)	(2 169)	(2 508)
Contributions by the employer	4 316	–	4 316
Benefits and expenses paid	(5 881)	(1 002)	(6 883)
Administration expenses	(535)	(112)	(647)
Closing fair value of plan assets at 31 March 2016	**171 243**	**21 971**	**193 214**

There is no restriction on the pension surplus as Investec has an unconditional right to a refund of the surpluses assuming the gradual settlement of the plan over time until all members have left the scheme.

The triennial funding valuation of the schemes was carried out as at 31 March 2015. Contributions requirements, including any deficit recovery plans, were agreed between the group and the Trustees in March 2013 and March 2016 to address the scheme deficit. Under the agreed contribution plan deficit contributions of £4.3 million were paid into the GM scheme in the year to March 2016 and the group expects to make £4.3 million of contributions to the defined benefit schemes in the 2016/17 financial year, with the total agreed contributions for the years ending March 2017 to March 2021 totalling £10.8 million.

The IAM scheme is fully funded.

The weighted average duration of the GM scheme's liabilities at 31 March 2016 is 17 years (31 March 2015: 19 years). This includes average duration of active members of 21 years, average duration of deferred pensioners of 22 years and average duration of pensioners in payment of 12 years.

The weighted average duration of the IAM scheme's liabilities at 31 March 2016 is 18 years (31 March 2015: 19 years). This includes average duration of deferred pensioners of 20.4 years and average duration of pensioners in payment of 12.8 years.

At 31 March £'000	Group 2016	Group 2015	Company 2016	Company 2015
40. Subordinated liabilities				
Issued by Investec Finance plc				
Guaranteed undated subordinated callable step-up notes	18 272	18 510	–	–
Issued by Investec Bank plc				
Subordinated fixed rate medium-term notes	579 037	578 413	580 321	579 911
Subordinated loans	–	–	18 069	18 329
	597 309	**596 923**	**598 390**	**598 240**
Remaining maturity:				
In one year or less, or on demand	18 272	–	18 069	–
In more than one year, but not more than two years	–	18 510	–	18 329
In more than two years, but not more than five years	–	–	–	–
In more than five years	579 037	578 413	580 321	579 911
	597 309	**596 923**	**598 390**	**598 240**

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.

Guaranteed undated subordinated callable step-up notes

Investec Finance plc has in issue £17 861 000 of 6.25% guaranteed undated subordinated step-up notes callable in 2017 at a discount (perpetual notes). Interest is paid semi-annually. The notes are guaranteed by Investec Bank plc and are listed on the Luxembourg Stock Exchange. The step-up notes may be redeemed by the issuer, at par, at any time after 23 January 2017, subject to the prior consent of the Prudential Regulation Authority. On 23 January 2017 the interest rate will be reset to become three-month LIBOR plus 2.11% payable quarterly in arrears.

Medium term notes

Subordinated fixed rate medium term notes (denominated in Pounds Sterling)

On 17 February 2011 Investec Bank plc issued £500 000 000 of 9.625% subordinated notes due 2022 at a discount (2022 notes).

Interest is paid annually. The notes are listed on the London Stock Exchange. The notes will be redeemed at par on 17 February 2022.

On 29 June 2011 Investec Bank plc issued £75 000 000 of 9.625% subordinated notes due 2022 at a premium (2022 Notes) (to be consolidated and form a single series, and to be fungible, with the £500 000 000 2022 Notes issued on 17 February 2011).

Subordinated loans

The net proceeds of the step-up notes issued by Investec Finance plc have been on-lent to the company on a subordinated basis.

At 31 March £'000	Group and Company 2016	Group and Company 2015
41. Ordinary share capital		
Authorised		
The authorised share capital is £2 000 million (2015: £2 000 million) comprising:		
2 000 million ordinary shares of £1 each (2015: 2 000 million ordinary shares of £1 each)		
Issued, allotted and fully paid		
Number of ordinary shares	**Number**	**Number**
At the beginning of the year	1 186 800 000	1 186 800 000
Issued during the year	–	–
At the end of the year	**1 186 800 000**	**1 186 800 000**
Nominal value of ordinary shares	**£'000**	**£'000**
At the beginning of the year	**1 186 800**	**1 186 800**
Issued during the year	–	–
At the end of the year	**1 186 800**	**1 186 800**

At 31 March £'000	2016	2015
42. Non-controlling interests		
Non-controlling interests in partially held subsidiaries	(1 446)	678

	2016		2015	
At 31 March £'000	Total future minimum payments	Present value	Total future minimum payments	Present value
43. Finance lease disclosures				
Group				
Finance lease receivables included in loans and advances to customers				
Lease receivables due in:				
Less than one year	209 268	165 542	201 556	159 545
One to five years	338 891	294 898	311 830	270 249
Later than five years	5 488	5 244	4 510	4 289
	553 647	**465 684**	**517 896**	**434 083**
Unearned finance income	**87 963**	**–**	**83 813**	**–**

At 31 March 2016, unguaranteed residual values accruing to the benefit of the company were £2.4 million (2015: £2.7 million). Finance leases in the group mainly relate to leases on property, equipment and motor vehicles.

	2016		2015	
At 31 March £'000	Total future minimum payments	Present value	Total future minimum payments	Present value
Company				
Finance lease receivables included in loans and advances to customers				
Lease receivables due in:				
Less than one year	484	484	8 121	8 029
One to five years	–	–	732	724
Later than five years	–	–	–	–
	484	**484**	**8 853**	**8 753**
Unearned finance income	**–**	**–**	**100**	**–**

At 31 March 2016, unguaranteed residual values accruing to the benefit of the company were £nil million (2015: £nil million). Finance leases in the group mainly relate to leases on property, equipment and motor vehicles.

For the year to 31 March £'000	Group 2016	Group 2015	Company 2016	Company 2015

44. Notes to the cash flow statement

	Group 2016	Group 2015	Company 2016	Company 2015
Profit before taxation adjusted for non-cash items is derived as follows:				
Profit before taxation	125 026	160 592	114 906	54 471
Adjustment for non-cash items included in net income before taxation:				
Amortisation of acquired intangibles	14 477	14 497	–	–
Impairment of goodwill	–	8 552	–	–
Net gain on disposal of subsidiaries	–	(78 529)	–	–
Depreciation of operating lease assets	2 149	1 535	229	1 535
Depreciation and impairment of property, equipment and intangibles	10 283	13 826	4 011	5 417
Impairment of loans and advances	84 217	102 084	85 079	90 395
Operating income from associates	(1 975)	(1 503)	–	–
Dividends received from associates	1 917	1 548	–	–
(Release)/increase of impairment against investment in subsidiary		–	(64 000)	106 322
Net loss on disposal of assets	–	–	–	19 627
Profit before taxation adjusted for non-cash items	**236 094**	**222 602**	**140 225**	**277 767**
Increase/(decrease) in operating assets				
Loans and advances to banks	(129 012)	176 508	(8 131)	67 680
Reverse repurchase agreements and cash collateral on securities borrowed	891 180	(232 705)	696 910	(180 322)
Sovereign debt securities	(68 131)	(114 410)	(56 555)	(17 201)
Bank debt securities	37 876	(14 031)	37 876	8 455
Other debt securities	(181 036)	8 443	(204 052)	(266 699)
Derivative financial instruments	(37 050)	(27 357)	(35 984)	(90 723)
Securities arising from trading activities	145 954	(83 592)	145 953	(83 591)
Investment portfolio	(17 452)	(62 626)	29 219	(76 408)
Other loans and advances	185 662	243 937	(254 465)	780 573
Own originated loans and advances to customers securitised	(1 486)	74 058	–	–
Loans and advances to customers	(815 304)	(360 026)	(632 034)	(417 634)
Securitised assets	261 354	361 146	223 322	210 400
Other assets	(259 820)	(97 610)	(216 357)	(147 041)
Investment properties	(13 315)	(4 021)	–	–
	(580)	**(132 286)**	**(274 298)**	**(212 511)**
Increase/(decrease) in operating liabilities				
Deposits by banks	312 579	(620 738)	464 843	(830 546)
Derivative financial instruments	11 181	293 032	13 438	326 632
Other trading liabilities	(25 281)	(139 771)	(25 281)	(139 771)
Repurchase agreements and cash collateral on securities lent	(315 999)	(17 474)	(315 999)	(17 474)
Customer accounts	458 606	696 243	529 180	872 883
Debt securities in issue	174 436	86 622	298 458	88 525
Liabilities arising on securitisation of own originated loans and advances	–	(81 552)	–	–
Liabilities arising on securitisation of other assets	(209 909)	(405 017)	(197 208)	(102 085)
Other liabilities	(76 571)	591 203	(87 716)	218 437
	329 042	**402 548**	**679 715**	**416 601**

At 31 March £'000	Group 2016	Group 2015	Company 2016	Company 2015
45. Commitments				
Undrawn facilities	1 141 530	812 364	1 025 856	727 430
Other commitments	25 666	34 653	594	–
	1 167 196	**847 017**	**1 026 450**	**727 430**
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	13 266	11 124	574	–
One to five years	80 628	45 966	26 778	–
Later than five years	103 133	52 572	59 234	–
	196 027	**109 662**	**86 586**	**–**
Operating lease receivables				
Future minimum lease payments under non-cancellable operating leases:				
Less than one year	4 216	5 763	–	–
One to five years	9 633	3 706	–	–
Later than five years	749	–	–	–
	14 598	**9 469**	**–**	**–**

Investec leases assets to third parties under operating and finance lease arrangements including transport assets, machinery and property. The term of the leases range between three and five years with no annual escalation clauses. The majority of the leases have renewal options.

At 31 March £'000	Carrying amount of pledged asset 2016	Carrying amount of pledged asset 2015	Related liability 2016	Related liability 2015
Group				
Pledged assets				
Loans and advances to customers	374 394	–	176 479	–
Other loans and advances	6 731	25 253	5 246	25 253
Loans and advances to banks	174 393	210 061	157 752	164 661
Sovereign debt securities	183 881	151 841	169 587	139 202
Bank debt securities	33 564	59 516	30 955	54 562
Securities arising from trading activities	452 520	580 156	447 717	530 660
	1 225 483	**1 026 827**	**987 736**	**914 338**
Company				
Pledged assets				
Loans and advances to customers	374 394	–	176 479	–
Other loans and advances	6 731	25 253	5 246	25 253
Loans and advances to banks	174 353	210 061	157 752	164 661
Sovereign debt securities	183 881	151 841	169 587	139 202
Bank debt securities	33 564	59 516	30 955	54 562
Other debt securities	228 250	75 000	177 065	60 000
Securities arising from trading activities	452 520	580 156	447 717	530 660
	1 453 693	**1 101 827**	**1 164 801**	**974 338**

The assets pledged by the group and company are strictly for the purpose of providing collateral for the counterparty. To the extent that the counterparty is permitted to sell and/or repledge the assets, they are classified on the balance sheet as reverse repurchase agreements and cash collateral on securities borrowed.

At 31 March £'000	Group 2016	Group 2015	Company 2016	Company 2015
46. Contingent liabilities				
Guarantees and assets pledged as collateral security:				
Guarantees and irrevocable letters of credit	133 870	52 026	126 771	44 671
	133 870	**52 026**	**126 771**	**44 671**

The amounts shown above are intended only to provide an indication of the volume of business outstanding at the balance sheet date.

Guarantees are issued by Investec Bank plc on behalf of third parties and other group companies. The guarantees are issued as part of the banking business.

Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS), the UK's statutory fund of last resort, provides compensation to customers of UK authorised financial institutions in the event that an institution which is a participating member of the FSCS is unable, or is likely to be unable, to pay claims against it.

The FSCS raises annual levies from participating members based on their level of participation (in the case of deposits, the proportion that their protected deposits represent total protected deposits) as at 31 December of the year preceding the scheme year.

Following the default of a number of deposit takers in 2008, the FSCS has borrowed from HM Treasury to fund the compensation costs for customers of those firms. Although the majority of this loan is expected to be repaid from funds, the FSCS receives from asset sales, surplus cash flow or other recoveries in relation to the assets of the firms that defaulted, any shortfall will be funded by deposit-taking participants of the FSCS.

Investec Bank plc is a participating member of the FSCS and the bank has accrued £1.65 million for its share of levies that will be raised by the FSCS. The accrual is based on estimates for the interest the FSCS will pay on the loan and estimates of the level of the bank's market participation in the relevant periods. Interest will continue to accrue to the FSCS on the HM Treasury loan and will form part of future FSCS levies.

At the date of these financial statements, it is not possible to estimate whether there will ultimately be additional levies on the industry, the level of Investec's market participation or other factors that may affect the amounts or timing of amounts that may ultimately become payable, nor the effect that such levies may have upon operating results in any particular financial period.

Legal proceedings

Investec operates in a legal and regulatory environment that exposes it to litigation risks. As a result, Investec is involved in disputes and legal proceedings which arise in the ordinary course of business. Investec does not expect the ultimate resolution of any of the proceedings to which Investec is party to have a significant adverse effect on the financial position of the group. These claims, if any, cannot be reasonably estimated at this time.

Specifically, a claim has been made in the Royal Court of Guernsey against ITG Limited, a subsidiary of Investec plc, for breach of equitable duty for skill and care with a related claim for liability for the debts of a client trust. These claims are currently the subject of appeals before the Judicial Committee of the Privy Council. The outcome of these claims cannot reasonably be estimated at this time but Investec does not expect the ultimate resolution of the proceedings to have a material adverse effect on the financial position of the group.

For the year to 31 March £'000	2016	2015
47. Related party transactions		
Transactions, arrangements and agreements involving directors and others:		
Transactions, arrangements and agreements involving directors with directors and connected persons and companies controlled by them, and with officers of the company, were as follows:		
Group and Company		
Directors, key management and connected persons and companies controlled by them		
Loans		
At the beginning of the year	33 552	25 365
Increase in loans	4 269	14 405
Repayment of loans	(4 254)	(5 404)
Exchange adjustments	(378)	(814)
At the end of the year	**33 189**	**33 552**
Guarantees		
At the beginning of the year	3 613	4 409
Additional guarantees granted	3 748	820
Guarantees cancelled	(1 239)	(1 876)
Exchange adjustments	(492)	260
At the end of the year	**5 630**	**3 613**
Deposits		
At the beginning of the year	(34 663)	(26 519)
Increase in deposits	(15 355)	(26 922)
Decrease in deposits	22 561	19 493
Exchange adjustments	941	(715)
At the end of the year	**(26 516)**	**(34 663)**

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 transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment. None of these loans has been impaired.

For the year ended 31 March 2016 £'000	Investec plc and subsidiaries	Investec Limited and subsidiaries	Total
Group			
Transactions with other related parties			
Assets			
Loans and advances to banks	–	9 243	9 243
Reverse repurchase agreement	–	110 071	110 071
Bank debt securities	–	7 032	7 032
Other debt securities	9 869	–	9 869
Derivative financial instruments	5 379	6 263	11 642
Other loans and advances	160 379	–	160 379
Other assets	–	21 393	21 393
Liabilities			
Deposits from banks	–	(42 951)	(42 951)
Derivative financial instruments	(39)	(16 861)	(16 900)
Customer accounts	(229 568)	(7 928)	(237 496)
Debt securities in issue	–	(126 721)	(126 721)
Other liabilities	(4 528)	(10 678)	(15 206)

For the year ended 31 March 2015 £'000	Investec plc and subsidiaries	Investec Limited and subsidiaries	Total
47. Related party transactions *(continued)*			
Group			
Assets			
Loans and advances to banks	–	3 520	3 520
Reverse repurchase agreement	–	233 256	233 256
Bank debt securities	–	6 931	6 931
Derivative financial instruments	30 866	38 724	69 590
Other loans and advances	221 393	1 746	223 139
Other assets	–	14 962	14 962
Liabilities			
Deposits from banks	–	(13 703)	(13 703)
Derivative financial instruments	(607)	(99 144)	(99 751)
Customer accounts	(273 227)	(7 838)	(281 065)
Debt securities in issue	–	(160 328)	(160 328)
Other liabilities	(5 597)	(25 901)	(31 498)

The above outstanding balances arose from the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties.

In the normal course of business, services are provided by Investec Bank plc to other companies in the group. In the year to 31 March 2016, Investec Bank plc paid £5.6 million (2015: £14.6 million) to Investec Limited Group and its fellow subsidiaries and received £13.5 million (2015: £25.4 million) from Investec plc and its fellow subsidiaries for these services.

During the year to 31 March 2016, Investec Wealth & Investment Limited was charged £21 000 for research services provided by Grovepoint (UK) Limited (2015: £nil). Bradley Fried is a former non-executive director of Investec Wealth & Investment Limited and director of Grovepoint (UK) Limited.

In the year to 31 March 2016 Investec Bank (Channel Islands) Ltd issued guarantees of £2.2 million (2015: £2.4 million) to Investec Bank Limited.

During the year to 31 March 2016, interest of £6.6 million (2015: £15 million) was paid to entities in the Investec Limited group and £6.5 million (2015: £17.1 million) was paid to Investec plc and fellow subsidiaries. Interest of £2.8 million (2015: £1.4 million) was received from the Investec Limited group and interest of £4.9 million (2015: £25.8 million) was received from Investec plc and fellow subsidiaries.

£'000	2016	2015
Amounts due from associates	8 401	9 069
Fees and commission income from associates	1 024	1 218
Interest income from loans to associates	262	202

The above outstanding balances arose from the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties.

Balances and transactions between members of the Investec Bank plc group

In accordance with IFRS 10 Consolidated Financial Statements, transactions and balances between the company and its subsidiary undertakings, and between those subsidiary undertakings, have all been eliminated on consolidation and thus are not reported as related party transactions of the group.

47. Related party transactions *(continued)*

The company, as a result of its position as parent of a banking group, has a large number of transactions with various of its subsidiary undertakings; these are included on the balance sheet of the company as follows:

For the year ended 31 March £'000	2016	2015
Company		
Assets		
Other debt securities	228 288	228 325
Derivative financial instruments	6 263	17 096
Other loans and advances	1 281 814	943 285
Other assets	5 332	108
Liabilities		
Deposits by banks	(335 610)	(177 880)
Derivative financial instruments	(4 801)	(1 416)
Customer accounts (deposits)	(683 952)	(506 810)
Other liabilities	(53 694)	(7 311)
Subordinated liabilities	(17 851)	(17 848)

Balances and transactions with Investec plc and Investec Limited and fellow subsidiaries of Investec Bank plc

The company and its subsidiaries have balances due to and from its parent company, Investec plc, and Investec Limited and fellow subsidiaries. These are included on the balance sheet as follows:

For the year ended 31 March 2016 £'000	Investec plc and subsidiaries	Investec Limited and subsidiaries	Total
Company			
Transactions with other related parties			
Assets			
Loans and advances to banks	–	8 050	8 050
Reverse repurchase agreements and cash collateral on securities borrowed	–	110 071	110 071
Bank debt securities	–	7 032	7 032
Other debt securities	9 869	–	9 869
Derivative financial instruments	5 379	17 285	22 664
Other loans and advances	159 314	–	159 314
Other assets	499	21 577	22 076
Liabilities			
Deposits by banks	–	(30 028)	(30 028)
Derivative financial instruments	(39)	(16 861)	(16 900)
Customer accounts (deposits)	(219 039)	(7 920)	(226 959)
Debt securities in issue	–	(13 670)	(13 670)
Other liabilities	(5 122)	(10 756)	(15 878)

47. Related party transactions *(continued)*

For the year ended 31 March 2015 £'000	Investec plc and subsidiaries	Investec Limited and subsidiaries	Total
Company			
Transactions with other related parties			
Assets			
Loans and advances to banks	–	86	86
Reverse repurchase agreements and cash collateral on securities borrowed	–	233 256	233 256
Bank debt securities	–	6 931	6 931
Derivative financial instruments	30 866	38 724	69 590
Other loans and advances	161 820	–	161 820
Other assets	–	14 962	14 962
Liabilities			
Deposits by banks	–	(555)	(555)
Derivative financial instruments	(607)	(99 144)	(99 751)
Customer accounts (deposits)	(264 420)	(7 838)	(272 258)
Other liabilities	(139)	(25 901)	(26 040)

48. 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 gains or (losses) on hedging instrument	Current year gains or (losses) on hedging instrument	Cumulative gains or (losses) on hedged item	Current year gains or (losses) on hedged item
Group						
2016						
Assets	Interest rate swap	(136 927)	(136 927)	(33 458)	123 413	32 182
Liabilities	Interest rate swap	11 088	11 088	2 812	(11 003)	(2 841)
		(125 839)	**(125 839)**	**(30 646)**	**112 410**	**29 341**
2015						
Assets	Interest rate swap	(103 554)	(103 554)	(101 806)	91 472	95 474
Liabilities	Interest rate swap	8 276	8 276	3 023	(8 161)	(2 989)
		(95 278)	**(95 278)**	**(98 783)**	**83 311**	**92 485**

48. Hedges *(continued)*

At 31 March £'000	Description of financial instrument being hedged	Fair value of hedging instrument	Cumulative gains or (losses) on hedging instrument	Current year gains or (losses) on hedging instrument	Cumulative gains or (losses) on hedged item	Current year gains or (losses) on hedged item
Company						
2016						
Assets	Interest rate swap	(136 769)	(136 769)	(33 300)	123 260	32 036
Liabilities	Interest rate swap	11 088	11 088	2 812	(11 003)	(2 841)
		(125 681)	**(125 681)**	**(30 488)**	**112 257**	**29 195**
2015						
Assets	Interest rate swap	(103 547)	(103 547)	(101 604)	91 465	95 278
Liabilities	Interest rate swap	8 276	8 276	3 023	(8 161)	(2 989)
		(95 271)	**(95 271)**	**(98 581)**	**83 304**	**92 289**

49. Liquidity analysis of financial liabilities based on undiscounted cash flows

At 31 March £'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
Group								
2016								
Liabilities								
Deposits by banks	90 095	53 040	1 936	14 031	4 428	291 483	96 399	551 412
Derivative financial instruments	72 125	51 003	94 140	31 344	21 589	829 155	49 749	1 149 105
Derivative financial instruments – held for trading	63 967	–	–	–	–	–	–	63 967
Derivative financial instruments – held for hedging risk	8 158	51 003	94 140	31 344	21 589	829 155	49 749	1 085 138
Other trading liabilities	222 921	–	–	–	–	–	–	222 921
Repurchase agreements and cash collateral on securities lent	281 260	–	–	–	–	–	–	281 260
Customer accounts (deposits)	2 662 907	1 845 861	1 429 464	2 048 616	987 058	2 122 643	45 014	11 141 563
Debt securities in issue	–	8 687	67 982	122 984	264 111	942 618	258 045	1 664 427
Liabilities arising on securitisation of other assets	–	–	3 688	4 727	10 557	73 141	97 580	189 693
Other liabilities	157 105	686 013	86 918	17 490	11 390	94 582	7 649	1 061 147
Subordinated liabilities	–	–	–	561	73 767	221 375	630 344	926 047
Total on balance sheet liabilities	**3 486 413**	**2 644 604**	**1 684 128**	**2 239 753**	**1 372 900**	**4 574 997**	**1 184 780**	**17 187 571**
Contingent liabilities	35 044	19 498	1 449	–	29 440	43 246	5 193	133 870
Commitments	105 737	23 367	56 845	44 146	198 886	606 310	131 905	1 167 196
Total liabilities	**3 627 194**	**2 687 469**	**1 742 422**	**2 283 899**	**1 601 226**	**5 224 553**	**1 321 878**	**18 488 637**

49. Liquidity analysis of financial liabilities based on undiscounted cash flows

(continued)

At 31 March £'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
Group								
2015								
Liabilities								
Deposits by banks	79 022	48 801	5 008	–	–	–	107 025	239 856
Derivative financial instruments	193 433	24 453	107 903	47 158	68 183	270 830	253 138	965 098
Derivative financial instruments – held for trading	192 692	–	–	–	–	–	–	192 692
Derivative financial instruments – held for hedging risk	741	24 453	107 903	47 158	68 183	270 830	253 138	772 406
Other trading liabilities	251 879	–	–	–	–	–	–	251 879
Repurchase agreements and cash collateral on securities lent	505 160	–	–	–	–	11 925	96 261	613 346
Customer accounts (deposits)	2 767 558	1 256 623	1 656 016	2 555 973	799 230	1 465 096	135 752	10 636 248
Debt securities in issue	–	31 332	75 309	79 976	199 671	754 989	408 712	1 549 989
Liabilities arising on securitisation of other assets	–	5 726	2 194	7 688	14 835	116 944	238 262	385 649
Other liabilities	253 225	682 852	74 761	22 773	12 660	49 458	15 251	1 110 980
Subordinated liabilities	–	–	–	558	55 902	240 345	685 688	982 493
Total on balance sheet liabilities	**4 050 277**	**2 049 787**	**1 921 191**	**2 714 126**	**1 150 481**	**2 909 587**	**1 940 089**	**16 735 538**
Contingent liabilities	35 162	–	1 408	–	3 384	11 767	305	52 026
Commitments	306 725	2 230	22 054	42 773	123 180	345 054	5 001	847 017
Total liabilities	**4 392 164**	**2 052 017**	**1 944 653**	**2 756 899**	**1 277 045**	**3 266 408**	**1 945 395**	**17 634 581**

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 83 and 84.

49. Liquidity analysis of financial liabilities based on undiscounted cash flows

(continued)

At 31 March £'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
Company								
2016								
Liabilities								
Deposits by banks	83 787	91 272	8 888	177 589	130 977	291 483	8 430	792 426
Derivative financial instruments	73 026	51 003	94 140	31 344	21 589	829 155	49 749	1 150 006
Derivative financial instruments – held for trading	64 868	–	–	–	–	–	–	64 868
Derivative financial instruments – held for hedging risk	8 158	51 003	94 140	31 344	21 589	829 155	49 749	1 085 138
Other trading liabilities	222 921	–	–	–	–	–	–	222 921
Repurchase agreements and cash collateral on securities lent	281 260	–	–	–	–	–	–	281 260
Customer accounts (deposits)	1 994 975	1 683 991	831 041	1 998 063	952 529	2 350 442	113 934	9 924 975
Debt securities in issue	–	4 350	60 279	112 796	238 726	881 631	125 538	1 423 320
Other liabilities	183 911	404 362	44 948	1 906	461	65 462	804	701 854
Subordinated liabilities	–	–	–	561	73 549	221 375	630 344	925 829
Total on balance sheet liabilities	**2 839 880**	**2 234 978**	**1 039 296**	**2 322 259**	**1 417 831**	**4 639 548**	**928 799**	**15 422 590**
Contingent liabilities	35 044	19 498	–	–	25 965	41 072	5 193	126 771
Commitments	–	23 367	33 526	44 146	198 886	603 508	123 017	1 026 450
Total liabilities	**2 874 924**	**2 277 843**	**1 072 822**	**2 366 405**	**1 642 682**	**5 284 128**	**1 057 009**	**16 575 811**

The balances in the above table will not agree directly to the balances in the company balance sheet as the table incorporates all cash flow on an undiscounted basis relating to both principal and those associated with all future coupon payments (except for trading liabilities and trading derivatives). Furthermore loan commitments are generally not recognised on the balance sheet. Trading liabilities and trading derivatives have been included in the 'Demand' time bucket and not by contractual maturity because trading liabilities are typically held for short periods of time.

49. Liquidity analysis of financial liabilities based on undiscounted cash flows

(continued)

At 31 March £'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
Company								
2015								
Liabilities								
Deposits by banks	63 020	63 668	5 197	119 586	43 109	–	11 403	305 983
Derivative financial instruments	192 294	24 453	107 686	47 158	68 183	270 830	253 138	963 742
Derivative financial instruments – held for trading	191 553	–	–	–	–	–	–	191 553
Derivative financial instruments – held for hedging risk	741	24 453	107 686	47 158	68 183	270 830	253 138	772 189
Other trading liabilities	251 879	–	–	–	–	–	–	251 879
Repurchase agreements and cash collateral on securities lent	505 160	–	–	–	–	11 925	96 261	613 346
Customer accounts (deposits)	2 157 431	1 189 189	902 100	2 524 054	780 615	1 501 865	318 356	9 373 610
Debt securities in issue	–	24 610	61 909	60 908	166 784	670 788	140 510	1 125 509
Liabilities arising on securitisation of other assets	–	4 615	–	4 465	8 626	77 055	157 570	252 331
Other liabilities	229 990	486 506	33 561	619	3 686	13 105	530	767 997
Subordinated liabilities	–	–	–	561	55 904	239 862	685 688	982 015
Total on balance sheet liabilities	**3 399 774**	**1 793 041**	**1 110 453**	**2 757 351**	**1 126 907**	**2 785 430**	**1 663 456**	**14 636 412**
Contingent liabilities	31 194	–	1 376	–	1 728	10 373	–	44 671
Commitments	197 666	2 230	21 527	42 773	123 180	339 832	222	727 430
Total liabilities	**3 628 634**	1 795 271	**1 133 356**	**2 800 124**	**1 251 815**	**3 135 635**	**1 663 678**	**15 408 513**

50. Principal subsidiaries and associated companies – Investec Bank plc

At 31 March	Principal activity	Country of incorporation	Interest 2016	Interest 2015
Direct subsidiaries of Investec Bank plc				
Investec Investments (UK) Limited	Investment holding	England and Wales	100.0%	100.0%
Investec Asset Finance PLC	Leasing	England and Wales	100.0%	100.0%
Investec Bank (Channel Islands) Limited	Banking institution	Guernsey	100.0%	100.0%
Investec Bank (Switzerland) AG	Banking institution	Switzerland	100.0%	100.0%
Investec Capital Asia Limited	Investment banking	Hong Kong	100.0%	100.0%
Investec Finance plc	Debt issuer	England and Wales	100.0%	100.0%
Investec Group Investments (UK) Limited	Investment holding	England and Wales	100.0%	100.0%
Investec Holdings (Australia) Limited	Holding company	Australia	100.0%	100.0%
Rensburg Sheppards plc	Holding company	England and Wales	100.0%	100.0%
Indirect subsidiary undertakings of Investec Bank plc				
Investec Capital and Investments (Ireland) Limited	Financial services	Ireland	100.0%	100.0%
Investec Ireland Limited	Financial services	Ireland	100.0%	100.0%
Investec Wealth & Investments Limited	Investment management services	England and Wales	100.0%	100.0%
Williams de Broë Limited	Stockbroking and portfolio	England and Wales	100.0%	100.0%

All of the above subsidiary undertakings are included in the consolidated accounts.

The subsidiaries listed above are only in relation to subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the financial statements.

A complete list of subsidiary and associated undertakings as required by the Companies Act 2006 is included in note 55 on pages 245 to 247.

Consolidated structured entities

Investec Bank plc has no equity interest in the following structured entities which are consolidated. Typically a structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. The judgements to assess whether the group has control over these structures include assessing the purpose and design of the entity, considering whether the group or another involved party with power over the relevant activities is acting as a principal in its own right or as an agent on behalf of others.

Name of principal structured entity	Type of structured entity
Bedrock CMBS GMBH	Structured commercial real estate loan assets
Foundation CMBS Limited	Structured commercial real estate loan assets
Landmark Mortgage Securities No 2 plc	Securitised residential mortgages
Residential Mortgage Securities 23 plc	Securitised residential mortgages
Tamarin Securities Limited	Structured debt and loan portfolios
Temese Funding 1 Plc	Securitised receivables
Temese Funding 2 Plc	Securitised receivables
Yorker Trust	Structured debt and loan portfolios

For additional detail on the assets and liabilities arising on securitisation refer to note 27. Details of the risks to which the group is exposed through all of its securitisations are included in the risk management report on page 73.

50. Principal subsidiaries and associated companies – Investec Bank plc *(continued)*

The key assumptions for the main types of structured entities which the group consolidates are summarised below:

Securitised residential mortgages

The group has securitised residential mortgages in order to provide investors with exposure to residential mortgage risk and to raise funding. These structured entities are consolidated due to the group's holdings of equity notes combined with its control over servicing activities. The group is not required to fund any losses above those incurred on the notes it has retained; such losses are reflected in any impairment of securitised mortgages as those assets have not been derecognised.

Structured debt and loan portfolios

The group has structured debt and loan portfolios for the purpose of issuing asset-backed securities. These structured entities are consolidated due to the group's retention of equity notes and because it continues to act as the collateral manager. The group is not required to fund any losses above those incurred on the notes it has retained.

Structured commercial real estate loan assets

The group has securitised a number of commercial real estate loan assets. These structured entities are consolidated as the group has retained all of the notes issued. The group continues to recognise the commercial real estate loan assets on its balance sheet. The group is not required to fund any losses above those incurred on the notes it has retained.

Securitised receivables

The group has securitised a portfolio of medium-term lease and hire purchase receivables. These structured entities are consolidated as the group has retained the equity notes and control over servicing activities. The group is not required to fund any losses above those incurred on the notes it has retained.

Other structured entities – commercial operations

The group also consolidates a number of structured entities where control arises from rights attached to lending facilities and similar commercial involvement. These arise primarily in the areas of aircraft funds where the group has rights which allow it to maximise the value of the assets held and investments in mining projects due to its exposure to equity-like returns and ability to influence the strategic and financial decision-making.

The group is not required to fund any losses above those which could be incurred on debt positions held or swaps which exist with these structured entities. The risks to which the group is exposed from these structured entities are related to the underlying assets held in the structures. The total assets held in structured entities arising from commercial operations is £231.1 million (2015: £169.1 million).

Significant restrictions

As is typical for a large group of companies, there are restrictions on the ability of the group to obtain distributions of capital, access the assets or repay the liabilities of members of the group due to the statutory, regulatory and contractual requirements of its subsidiaries.

These are considered below:

Regulatory requirements

Subsidiary companies are subject to prudential regulation and regulatory capital requirements in the countries in which they are regulated. These require entities to maintain minimum capital, leverage and exposure ratios restricting the ability of these entities to make distributions of cash or other assets to the parent company. Regulated subsidiaries of the group are required to maintain liquidity pools to meet PRA and local regulatory requirements. The main subsidiaries affected are: Investec Bank (Channel Islands) Limited and Investec Bank (Switzerland) AG which must maintain compliance with the regulatory minimum.

Capital management within the group is discussed in the risk management report on page 94.

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 45 and 53.

50. Principal subsidiaries and associated companies – Investec Bank plc *(continued)*

Structured associates

The group has investments in a number of structured funds specialising in aircraft financing where the group acts as adviser or fund manager in addition to holding units within the fund. As a consequence of these roles and funding, the group has significant influence over the fund and therefore the funds are treated as associates.

The group applies the venture capital exemption to these holdings and, as such, the investments in the funds are accounted for at fair value and held within the investment portfolio on the balance sheet.

Type of structured entity	Nature and purpose	Interest held by the group
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 2016 £'000	Line on the balance sheet	Carrying value £'000	Maximum exposure to loss	Income earned from structured entity	£'000
Aircraft investment funds	Investment portfolio	68 904	Limited to the carrying value	Investment income	4 308

31 March 2015 £'000	Line on the balance sheet	Carrying value £'000	Maximum exposure to loss	Income earned from structured entity	£'000
Aircraft investment funds	Investment portfolio	35 443	Limited to the carrying value	Investment income	2 751

51. Unconsolidated structured entities

At 31 March 2016

The table below describes the types of structured entities that the group does not consolidate, but in which it holds an interest and original set up. In making the assessment of whether to consolidate these structured entities, the group has concluded that it does not have control after consideration in line with the accounting policies as set out on page 148.

Type of structured entity	Nature and purpose	Interest held by the group
Investment funds	To generate fees from managing assets on behalf of third party investors	Investments in units issued by the fund
	These vehicles are financed through the issue of units to investors	Management fees
Residential mortgage securitisations	To generate a return for investors by providing exposure to residential mortgage risk	Investments in notes
	These vehicles are financed through the issue of notes to investors	

51. Unconsolidated structured entities *(continued)*

The table below sets out an analysis of the carrying amounts of interests held by the group in unconsolidated structured entities. The maximum exposure to loss is the carrying amount of the assets held.

At 31 March 2016	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	5 245	Limited to the carrying value	185 724	Investment expense	1
Residential mortgage securitisations	Other debt securities	9 734	Limited to the carrying value	105 258	Investment income	113
					Net interest income	94
					Investment income	20
	Other loans and advances	15 490	Limited to the carrying value	343 604	Net interest income	(75)
At 31 March 2015						
Investment funds	Investment portfolio	5 015	Limited to the carrying value	302 703	Investment expense	(11 732)
Residential mortgage securitisations	Other debt securities	7 139	Limited to the carrying value	192 891	Investment income	260
					Net interest income	120
	Other loans and advances	77 628	Limited to the carrying value	1 642 784	Net interest income	9 057

Financial support provided to the unconsolidated structured entities

There are no contractual agreements which require the group to provide any additional financial or non-financial support to these structured entities.

During the year the group has not provided any such support and does not have any current intentions to do so in the future.

Sponsoring

The group considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity. The table below sets out information in respect of structured entities that the group sponsors, but in which the group does not have an interest.

	Structured CDO and CLO securitisation^	
	2016	**2015**
Structured entities with no interest held		
Why it is considered a structured entity	This is a CDO and CLO securitisation where Investec has no continuing interest as the notes previously held have been redeemed or fully written off. The entity is considered structured as the vehicle was set up so that the variable return does not follow the shareholding.	This is a CDO and CLO securitisation where Investec has no continuing interest as the notes previously held have been redeemed or fully written off. The entity is considered structured as the vehicle was set up so that the variable return does not follow the shareholding.
Income amount and type	Nil	Nil
Carrying amount of all assets transferred	£222 million of CDO and CLO assets	£222 million of CDO and CLO assets

^ *Collateralised Debt Obligation (CDO) and Collateralised Loan Obligation (CLO).*

Interests in structured entities which the group has not set up

Purchased securitisation positions

The group buys and sells interest in structured entities that it has not originated as part of its trading activities, for example, residential mortgage securities, commercial mortgage securities, loans to corporates and resecuritisations. In such cases the group typically has no other involvement with the structured entity other than the securities it holds as part of its trading activities and its maximum exposure to loss is restricted to the carrying value of the asset. Details of the value of these interests is included in the risk management report on page 74.

52. Offsetting

At 31 March £'000	Amounts subject to enforceable netting arrangements: Effects of offsetting on balance sheet: Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Related amounts not offset: Financial instruments (including non-cash collateral)	Cash collateral	Net amount
Group						
2016						
Assets						
Cash and balances at central banks	2 638 064	–	2 638 064	–	–	2 638 064
Loans and advances to banks	935 071	–	935 071	–	(159 775)	775 296
Reverse repurchase agreements and cash collateral on securities borrowed	557 110	(85)	557 025	(221 151)	(849)	335 025
Sovereign debt securities	1 252 991	–	1 252 991	(183 881)	–	1 069 110
Bank debt securities	188 397	–	188 397	(33 564)	–	154 833
Other debt securities	403 521	–	403 521	–	–	403 521
Derivative financial instruments	842 936	–	842 936	(247 749)	(267 660)	327 527
Securities arising from trading activities	524 344	–	524 344	(449 383)	–	74 961
Investment portfolio	419 861	–	419 861	–	–	419 861
Loans and advances to customers	7 822 386	(41 000)	7 781 386	–	–	7 781 386
Other loans and advances	577 584	–	577 584	–	(7 933)	569 651
Other securitised assets	150 565	–	150 565	–	–	150 565
Other assets	1 453 166	(116)	1 453 050	–	(183 115)	1 269 935
	17 765 996	**(41 201)**	**17 724 795**	**(1 135 728)**	**(619 332)**	**15 969 735**
Liabilities						
Deposits by banks	526 717	–	526 717	–	(69 276)	457 441
Derivative financial instruments	964 386	–	964 386	(247 749)	(518 932)	197 705
Other trading liabilities	226 598	–	226 598	(221 151)	–	5 447
Repurchase agreements and cash collateral on securities lent	281 260	–	281 260	(280 806)	(454)	–
Customer accounts (deposits)	11 079 164	(41 000)	11 038 164	–	(16 118)	11 022 046
Debt securities in issue	1 508 672	–	1 508 672	(386 022)	(1 057)	1 121 593
Liabilities arising on securitisation of other assets	120 617	–	120 617		–	120 617
Other liabilities	1 060 983	(201)	1 060 782	–	–	1 060 782
Subordinated liabilities	597 309	–	597 309	–	–	597 309
	16 365 706	**(41 201)**	**16 324 505**	**(1 135 728)**	**(605 837)**	**14 582 940**

52. Offsetting *(continued)*

At 31 March £'000	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Cash collateral	Net amount
	Amounts subject to enforceable netting arrangements					
	Effects of offsetting on balance sheet			Related amounts not offset		
Group						
2015						
Assets						
Cash and balances at central banks	2 181 232	–	2 181 232	–	–	2 181 232
Loans and advances to banks	828 726	–	828 726	–	(185 581)	643 145
Reverse repurchase agreements and cash collateral on securities borrowed	1 453 618	(5 413)	1 448 205	(480 647)	(3 657)	963 901
Sovereign debt securities	1 212 910	–	1 212 910	(151 841)	–	1 061 069
Bank debt securities	226 273	–	226 273	(59 516)	–	166 757
Other debt securities	222 485	–	222 485	–	–	222 485
Derivative financial instruments	8 749 057	(7 943 171)	805 886	(285 518)	(81 087)	439 281
Securities arising from trading activities	670 298	–	670 298	(562 139)	–	108 159
Investment portfolio	400 800	–	400 800	–	–	400 800
Loans and advances to customers	7 044 165	(8 475)	7 035 690	–	–	7 035 690
Other loans and advances	776 305	–	776 305	–	(25 253)	751 052
Other securitised assets	411 983	–	411 983	–	–	411 983
Other assets*	18 579 577	(17 466 441)	1 113 136	–	–	1 113 136
	42 757 429	**(25 423 500)**	**17 333 929**	**(1 539 661)**	**(295 578)**	**15 498 690**
Liabilities						
Deposits by banks	222 613	(8 475)	214 138	–	(46 431)	167 707
Derivative financial instruments	1 835 122	(881 917)	953 205	(386 671)	(203 056)	363 478
Other trading liabilities*	24 352 976	(24 101 097)	251 879	(243 315)	–	8 564
Repurchase agreements and cash collateral on securities lent	597 259	–	597 259	(597 259)	–	–
Customer accounts (deposits)	10 579 558	–	10 579 558	–	(18 094)	10 561 464
Debt securities in issue	1 334 236	–	1 334 236	(312 416)	(7 777)	1 014 043
Liabilities arising on securitisation of other assets	330 526	–	330 526	–	–	330 526
Other liabilities	1 555 979	(432 011)	1 123 968	–	–	1 123 968
Subordinated liabilities	596 923	–	596 923	–	–	596 923
	41 405 192	**(25 423 500)**	**15 981 692**	**(1 539 661)**	**(275 358)**	**14 166 673**

* *Obligations arising in equity transactions in our prime brokerage business and are legally enforceable and settled net.*

52. Offsetting *(continued)*

At 31 March £'000	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Cash collateral	Net amount
	Amounts subject to enforceable netting arrangements					
	Effects of offsetting on balance sheet			Related amounts not offset		
Company						
2016						
Assets						
Cash and balances at central banks	2 612 460	–	2 612 460	–	–	2 612 460
Loans and advances to banks	315 115	–	315 115	–	(159 775)	155 340
Reverse repurchase agreements and cash collateral on securities borrowed	557 110	(85)	557 025	(221 151)	(849)	335 025
Sovereign debt securities	643 352	–	643 352	(183 881)	–	459 471
Bank debt securities	188 397	–	188 397	(33 564)	–	154 833
Other debt securities	566 066	–	566 066	–	–	566 066
Derivative financial instruments	853 131	–	853 131	(247 749)	(267 660)	337 722
Securities arising from trading activities	524 344	–	524 344	(449 383)	–	74 961
Investment portfolio	210 499	–	210 499	–	–	210 499
Loans and advances to customers	6 094 931	(41 000)	6 053 931	–	–	6 053 931
Other loans and advances	1 774 186	–	1 774 186	–	(7 933)	1 766 253
Other securitised assets	8 680	–	8 680	–	–	8 680
Other assets	1 087 404	(116)	1 087 288	–	(183 115)	904 173
	15 435 675	**(41 201)**	**15 394 474**	**(1 135 728)**	**(619 332)**	**13 639 414**
Liabilities						
Deposits by banks	767 730	–	767 730	–	(69 276)	678 454
Derivative financial instruments	965 287		965 287	(247 749)	(518 932)	198 606
Other trading liabilities	226 598	–	226 598	(221 151)	–	5 447
Repurchase agreements and cash collateral on securities lent	281 260		281 260	(280 806)	(454)	–
Customer accounts (deposits)	9 849 013	(41 000)	9 808 013	–	(16 118)	9 791 895
Debt securities in issue	1 361 105	–	1 361 105	(386 022)	(1 057)	974 026
Other liabilities	702 053	(201)	701 852	–	–	701 852
Subordinated liabilities	598 390	–	598 390	–	–	598 390
	14 731 436	**(41 201)**	**14 710 235**	**(1 135 728)**	**(605 837)**	**12 968 670**

At 31 March £'000	Amounts subject to enforceable netting arrangements: Effects of offsetting on balance sheet: Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Related amounts not offset: Financial instruments (including non-cash collateral)	Cash collateral	Net amount
52. Offsetting *(continued)*						
Company						
2015						
Assets						
Cash and balances at central banks	2 165 491	–	2 165 491	–	–	2 165 491
Loans and advances to banks	322 221	–	322 221	–	(185 581)	136 640
Reverse repurchase agreements and cash collateral on securities borrowed	1 259 348	(5 413)	1 253 935	(480 647)	(3 657)	769 631
Sovereign debt securities	613 267	–	613 267	(151 841)	–	461 426
Bank debt securities	226 273	–	226 273	(59 516)	–	166 757
Other debt securities	362 014	–	362 014	–	–	362 014
Derivative financial instruments	8 760 318	(7 943 171)	817 147	(285 518)	(81 087)	450 542
Securities arising from trading activities	670 297	–	670 297	(562 139)	–	108 158
Investment portfolio	239 217	–	239 217	–	–	239 217
Loans and advances to customers	5 509 973	(8 475)	5 501 498	–	–	5 501 498
Other loans and advances	1 525 222	–	1 525 222	–	(25 253)	1 499 969
Other securitised assets	231 979	–	231 979	–	–	231 979
Other assets*	18 257 278	(17 466 441)	790 837	–	–	790 837
	40 142 898	**(25 423 500)**	**14 719 398**	**(1 539 661)**	**(295 578)**	**12 884 159**
Liabilities						
Deposits by banks	311 362	(8 475)	302 887	–	(46 431)	256 456
Derivative financial instruments	1 833 766	(881 917)	951 849	(386 671)	(203 056)	362 122
Other trading liabilities*	24 352 976	(24 101 097)	251 879	(243 315)	–	8 564
Repurchase agreements and cash collateral on securities lent	597 259	–	597 259	(597 259)	–	–
Customer accounts (deposits)	9 279 115	–	9 279 115	–	(18 094)	9 261 021
Debt securities in issue	1 062 647	–	1 062 647	(312 416)	(7 777)	742 454
Liabilities arising on securitisation of other assets	197 208	–	197 208	–	–	197 208
Other liabilities	1 212 227	(432 011)	780 216	–	–	780 216
Subordinated liabilities	598 240	–	598 240	–	–	598 240
	39 444 800	**(25 423 500)**	**14 021 300**	**(1 539 661)**	**(275 358)**	**12 206 281**

* *Obligations arising in equity transactions in our prime brokerage business and are legally enforceable and settled net.*

53. Derecognition

Group

Transfer of financial assets that do not result in derecognition

The group has been party to securitisation transactions whereby assets continue to be recognised on balance sheet (either fully or partially) although they have been subject to legal transfer to another entity. Securitisations may, depending on the individual arrangement, result in continued recognition of the securitised assets and the recognition of the debt securities issued in the transaction.

	2016		2015	
No derecognition achieved £'000	**Carrying amount of assets that are continued to be recognised**	**Carrying amount of associated liabilities**	**Carrying amount of assets that are continued to be recognised**	**Carrying amount of associated liabilities**
Loans and advances to customers	657 947	(42 478)	542 057	(110 067)
Other loans and advances	153 551	–	172 582	–
Other securitised assets	–	–	231 979	(197 208)
	811 498	**(42 748)**	**946 618**	**(307 275)**

For transfer of assets in relation to repurchase agreements see note 19.

Company

Transfer of financial assets that do not result in derecognition

The company has been party to securitisation transactions whereby assets continue to be recognised on balance sheet (either fully or partially) although they have been subject to legal transfer to another entity. Securitisations may, depending on the individual arrangement, result in continued recognition of the securitised assets and the recognition of the debt securities issued in the transaction.

	2016		2015	
No derecognition achieved £'000	**Carrying amount of assets that are continued to be recognised**	**Carrying amount of associated liabilities**	**Carrying amount of assets that are continued to be recognised**	**Carrying amount of associated liabilities**
Loans and advances to customers				
Other loans and advances	153 551	–	172 582	–
Other securitised assets	–	–	231 979	(197 208)
	153 551	**–**	**404 561**	**(197 208)**

For transfer of assets in relation to repurchase agreements see note 19.

At 31 March £'000	2016	2015
54. Investment in subsidiary companies		
Cost		
At the beginning of the year	1 051 708	1 097 784
Return of capital by subsidiary	–	(49 578)
Liquidation of subsidiaries	(1 040)	(192)
Recapitalisation of subsidiaries	–	3 694
Exchange adjustments	32	–
At the end of the year	**1 050 700**	**1 051 708**
Provision for impairment in value		
At the beginning of the year	(171 907)	(65 585)
New impairments	–	(106 322)
Liquidation of subsidiaries	759	–
Release of impairment	64 000	–
At the end of the year	**(107 148)**	**(171 907)**
Net book value at the end of the year	**943 552**	**879 801**

All subsidiary undertakings are unlisted.

The £64 million release of impairment relates to the revaluation of an underlying investment held by a subsidiary of the company. The revaluation was due to the receipt of consideration by the subsidiary. The recoverable amount of the investment in the subsidiary is calculated as fair value less costs to sell, for which the net asset value of the subsidiary is an appropriate proxy. This would be level 3 in the fair value hierarchy.

55. Subsidiaries

At 31 March 2016	Principal activity	Country of incorporation	Interest held
Rensburg Sheppards Plc	Holding company	England and Wales	100%
Investec Wealth & Investment Limited	Investment management services	England and Wales	100%
Anston Trustees Limited	Non trading	England and Wales	100%
Bell Nominees Limited	Non trading	England and Wales	100%
Carr Investment Services Nominees Limited	Non trading	England and Wales	100%
Carr PEP Nominees Limited	Non trading	England and Wales	100%
CFC Partners Limited	Venture Fund advice	England and Wales	100%
Click Nominees Limited	Non trading	England and Wales	100%
Ferlim Nominees Limited	Nominee services	England and Wales	100%
Hero Nominees Limited	Nominee services	Guernsey	100%
Investec Wealth & Investment (Channel Islands) Limited	Investment management services	Guernsey	100%
Investec Click & Invest Limited	Non trading	England and Wales	100%
Investec Wealth & Investment Trustees Limited	Trustee services	England and Wales	100%
Investment Administration Nominees Limited	Non trading	England and Wales	100%
IWI Fund Management Limited	Non trading	England and Wales	100%
PEP Services (Nominees) Limited	Non trading	England and Wales	100%
R & R Nominees Limited	Non trading	England and Wales	100%
R S Trustees Limited	Non trading	England and Wales	100%
Rensburg Client Nominees Limited	Nominee services	England and Wales	100%
Scarwood Nominees Limited	Non trading	England and Wales	100%
Spring Nominees Limited	Non trading	England and Wales	100%
Torch Nominees Limited	Nominee services	Guernsey	100%
Tudor Nominees Limited	Non trading	England and Wales	100%
Williams De Broë Limited	Non trading	England and Wales	100%
Rensburg Investment Management Limited	Non trading	England and Wales	100%
Investec Australia Property Holdings (Pty) Ltd	Holding company	Australia	100%
Investec Propco (Pty) Ltd	Property fund trustee	Australia	100%
Investec Property Limited	Property fund trustee	Australia	100%
Investec Property Management (Pty) Ltd	Property fund manager	Australia	100%
Investec Wentworth (Pty) Ltd	Security trustee	Australia	100%
Investec Holdings Australia Limited	Holding company	Australia	100%
Investec Australia Property Investments (Pty) Ltd	Investment company	Australia	100%
Investec Australia Finance (Pty) Ltd	Lending company	Australia	100%
Investec Australia Limited	Financial Services	Australia	100%
Bowden (Lot 32) Holdings (Pty) Ltd	Holding company	Australia	100%
Bowden (Lot 32) (Pty) Ltd	Development company	Australia	100%
Investec Australia Direct Investment (Pty) Ltd	Investment company	Australia	100%
Investec CWFIH (Pty) Ltd	Dormant	Australia	100%
Mannum Powerco (Pty) Ltd	Dormant	Australia	100%
Tungkillo Powerco (Pty) Ltd	Dormant	Australia	100%
Investec Australia Financial Markets (Pty) Ltd	Dormant	Australia	100%
Investec Australia Funds Management Limited	Aviation trustee company	Australia	100%
Investec (Australia) Investment Management (Pty) Ltd	Aviation fund company	Australia	100%
Investec Wentworth Private Equity (Pty) Ltd	Inactive private equity	Australia	100%
IWPE Nominees (Pty) Ltd	Custodian	Australia	100%
Wentworth Associates (Pty) Ltd	Dormant	Australia	100%
Sure Park Investments (Pty) Ltd	Holding company	Australia	100%
Sure Park Private (Pty) Ltd	Infrastructure company	Australia	100%

55. Subsidiaries *(continued)*

At 31 March 2016	Principal activity	Country of incorporation	Interest held
Sure Park (Pty) Ltd	Infrastructure company	Australia	100%
Aksala Limited	Property company	Ireland	100%
Investec Holdings (Ireland) Limited	Holding company	Ireland	100%
Investec Financial Management Limited	Financial services	Ireland	100%
Investec Ireland Limited	Financial services	Ireland	100%
Investec International Limited	Aircraft leasing	Ireland	100%
Neontar Limited	Holding company	Ireland	100%
Investec Securities Holdings Ireland Limited	Holding company	Ireland	100%
Investec Capital & Investments (Ireland) Limited	Wealth management and investment services	Ireland	100%
Aurum Nominees Limited	Nominee company	Ireland	100%
Investec (Airtricity) Nominees Ireland Limited	Nominee company	Ireland	100%
Investec (CapVest) Ireland Limited	Nominee company	Ireland	100%
Investec (Development) Nominees Ireland Limited	Nominee company	Ireland	100%
Investec (Placings) Ireland Limited	Nominee company	Ireland	100%
Investec (Thomas Street) Nominees No 2 Limited	Nominee company	Ireland	100%
Investec Broking Nominees Ireland Limited	Nominee company	Ireland	100%
Investec Corporate Finance (Ireland) Limited	Corporate finance (inactive)	Ireland	100%
Investec Ventures Ireland Limited	Venture capital	Ireland	100%
Venture Fund Principals Limited	Special partner	Ireland	100%
Investec Personal Portfolio Ireland Limited	Investment services	Ireland	100%
Nua HomeLoans Limited	Mortgage services (inactive)	Ireland	100%
Nua Mortgages Limited	Mortgage origination (inactive)	Ireland	100%
Beeson Gregory Index Nominees Limited	Dormant nominee company	England and Wales	100%
CF Corporate Finance Limited	Leasing company	England and Wales	100%
EVO Nominees Limited	Dormant nominee company	England and Wales	100%
Evolution Securities Nominees Limited	Dormant nominee company	England and Wales	100%
Investec Asia Limited	Investment banking	Hong Kong	100%
Investec (Beijing) Limited	Investment banking	People's Republic of China	100%
Investec Asset Finance (Capital No. 3) Limited	Leasing company	England and Wales	100%
Investec Asset Finance (Management) Limited	Leasing company	England and Wales	100%
Investec Asset Finance Plc	Leasing company	England and Wales	100%
Mann Island Finance Limited	Leasing company	England and Wales	100%
MI Vehicle Finance Limited	Leasing company	England and Wales	100%
The Leasing Acquisition General Partnership	Leasing partnership	England and Wales	n/a
Investec Bank (Channel Islands) Limited	Banking institution	Guernsey	100%
Investec Bank (Channel Islands) Nominees Limited	Nominee company	Guernsey	100%
Investec Bank (Nominees) Limited	Nominee company	England and Wales	100%
Investec Bank (Switzerland) AG	Banking institution	Switzerland	100%
Investec Capital Asia Limited	Investment banking	Hong Kong	100%
Investec Capital Markets Limited	Investment banking	Hong Kong	100%
Investec Finance plc	Debt issuance	England and Wales	100%
Investec Group Investments (UK) Limited	Investment holding company	England and Wales	100%
ICF Investments Limited	Investment holding company	England and Wales	100%
Investec GP (Jersey) Limited	Investment holding company	Jersey	100%
Investec Trust Holdings AG	Investment holding company	Switzerland	100%
GFT Holdings Limited	Holding company	England and Wales	100%
Bayeux Trustees Limited	Corporate trustee	Guernsey	100%
Finistere Directors Limited	Corporate director	British Virgin Islands	100%

55. Subsidiaries *(continued)*

At 31 March 2016	Principal activity	Country of incorporation	Interest held
Finistere Limited	Corporate nominee	Guernsey	100%
Finistere Nominees Limited	Corporate nominee	Guernsey	100%
Finistere Secretaries Limited	Corporate secretary	Guernsey	100%
GFT Directors Limited	Corporate director	British Virgin Islands	100%
ITG Limited	Trust and company admin	Guernsey	100%
Investec Investment Trust Plc	Debt issuer	England and Wales	100%
Investec Investments (UK) Limited	Investment holding company	England and Wales	100%
Evolution Capital Investments Limited	Investment holding company	Jersey	100%
Canada Water (Developments) Limited	Property company	England and Wales	100%
Curlew Investments Limited	Investment holding company	British Virgin Islands	100%
Curlew Group Holdings Limited	Investment holding company	Canada	42.50%
Investec Securities Limited	Investment holding company	England and Wales	100%
Guinness Mahon Leasing Limited	Leasing company	England and Wales	100%
HEV (Guernsey) Limited	Investment holding company	Guernsey	100%
Investec Capital Services (India) Private Limited	Trading company	India	75%
Investec Pallinghurst (Cayman) LP	Investment holding partnership	Cayman Islands	58.30%
Investec North America Limited	Trading company	Canada	100%
Investec Property Developments Limited	Dormant company	England and Wales	100%
PEA Leasing Limited	Leasing company	England and Wales	100%
Quantum Funding Limited	Leasing company	England and Wales	100%
Quay Nominees Limited	Nominee company	England and Wales	100%
Technology Nominees Limited	Nominee	England and Wales	100%
Torteval LM Limited	Investment holding company	England and Wales	100%
Torteval Funding LLP	Financing company	England and Wales	100%
Tudor Tree Properties Limited	Property company	England and Wales	100%
Willbrow Nominees Limited	Nominee company	England and Wales	100%
Associates			
Hargreave Hale Limited	Trade finance stockbroking and portfolio management	England and Wales	35%
Virtual lease Services	Lease services provider	England and Wales	49%
imarkets (Holdings) Limited	Online trading platform	Hong Kong	33%
Investec GLL Global special Opportunities Real Estate Fund	Property development	Luxembourg	5%
Trust Project No.9 Unit Trust	Property development	Australia	50%

56. Transition to International Financial Reporting Standards

OVERVIEW

Investec Bank plc is required to prepare its consolidated results in accordance with International Financial Reporting Standards (IFRS). Previously the company's own accounts were prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) but from 1 April 2015 the company has chosen to prepare its accounts under IFRS. The first set of IFRS-compliant financial statements prepared by the company are for the year ended 31 March 2016.

The company's transition to IFRS has been performed in accordance with IFRS 1 First-Time Adoption of International Reporting Standards and other relevant standards applicable at 31 March 2016.

The company was, as at the date of transition, fully applying the standards relating to financial instruments (IFRS 25, IFRS 26 and IFRS 29). As these standards implemented, within UK GAAP, the IFRS financial instrument standards (IAS 32, IAS 39 and IFRS 7) the impact of the transition was limited.

The following dates are applicable for the transition to IFRS:

- 1 April 2014 – date of transition to IFRS, being the start of the earliest period of comparative information
- 31 March 2015 – 12-month comparative period.

Transitional elections

IFRS 1 provides for certain exemptions in respect to the first time adoption of IFRS to comparative periods. The company has applied the following exemption:

Business combinations

The company has elected not to apply IFRS 3 Business Combinations retrospectively to business combinations prior to the date of transition (1 April 2014).

The tables below present a reconciliation between IFRS restated results and previously presented UK GAAP results for the:

- Balance sheet at 31 March 2015; and
- Balance sheet at 1 April 2014.

Commentary on key adjustments

IFRS 3 Business combinations
In accordance with the transitional provisions of IFRS 1, the company has elected to apply IFRS 3 prospectively from 1 April 2014. The carrying value of goodwill under UK GAAP (£nil) at 31 March 2014 has therefore been brought forward.

IAS 12 Income taxes
Employees of the company participate in the Investec plc group share option scheme and long-term share incentive plans. The company suffers an expense for these share-based payments and recognises a liability to its parent for these expenses which are settled in cash. In line with IAS 12, a deferred tax asset is recognised on future tax deductions available on share-based payments. To the extent that a share-based payment deduction exceeds cumulative IFRS 2 charges, then the corresponding credit is taken to equity. In restating the results for the comparative year to 31 March 2015 the company has therefore recognised a deferred tax asset of £4.16 million and credited equity.

56. Transition to International Financial Reporting Standards *(continued)*

£'000	As previously reported 31 March 2015	Balance sheet reclassifi-cations	Adjustment in respect of share-based payments	31 March 2015
Balance sheet				
Assets				
Cash and balances at central banks	2 165 491	–	–	2 165 491
Loans and advances to banks	1 573 996	(1 251 775)	–	322 221
Reverse repurchase agreements and cash collateral on securities borrowed	–	1 253 935	–	1 253 935
Sovereign debt securities	–	613 267	–	613 267
Bank debt securities	–	226 273	–	226 273
Other debt securities	–	362 014	–	362 014
Derivative assets/Derivative financial instruments	817 147	–	–	817 147
Securities arising from trading activities	–	670 297	–	670 297
Investment portfolio	–	239 217	–	239 217
Loans and advances to customers	7 260 859	(1 759 361)	–	5 501 498
Other loans and advances	–	1 525 222	–	1 525 222
Other securitised assets	–	231 979	–	231 979
Debt securities	1 723 105	(1 723 105)	–	–
Equity shares	387 963	(387 963)	–	–
Interests in associated undertakings	9 289	–	–	9 289
Tangible fixed assets	13 900	(13 900)	–	–
Deferred taxation assets	–	26 781	4 160	30 941
Other assets	807 101	(16 264)	–	790 837
Property and equipment	–	13 031	–	13 031
Intangible assets	–	869	–	869
Prepayments and accrued income	10 517	(10 517)	–	–
Shares in group undertakings/Investment in subsidiaries	879 801	–	–	879 801
	15 649 169	**–**	**4 160**	**15 653 329**
Liabilities				
Deposits by banks	900 146	(597 259)	–	302 887
Derivative liabilities/Derivative financial instruments	951 849	–	–	951 849
Trading liabilities – short positions/Other trading liabilities	251 879	–	–	251 879
Repurchase agreements and cash collateral on securities lent	–	597 259	–	597 259
Customer accounts (deposits)	9 279 115	–	–	9 279 115
Debt securities in issue	1 259 855	(197 208)	–	1 062 647
Liabilities arising on securitisation of other assets	–	197 208	–	197 208
Current taxation liabilities	–	67 662	–	67 662
Other liabilities	717 654	62 562	–	780 216
Accruals and deferred Income	130 224	(130 224)	–	–
	13 490 722	**–**	**–**	**13 490 722**
Subordinated liabilities	598 240	–	–	598 240
	14 088 962	**–**	**–**	**14 088 962**
Capital resources				
Called up share capital	1 186 800	–	–	1 186 800
Share premium account	143 288	–	–	143 288
Capital reserve	162 789	–	–	162 789
Other reserves	5 595	–	–	5 595
Profit and loss account	61 735	–	4 160	65 895
Shareholders' equity	1 560 207	–	4 160	1 564 367
	15 649 169	**–**	**4 160**	**15 653 329**

56. Transition to International Financial Reporting Standards *(continued)*

£'000	As previously reported 31 March 2014	Balance sheet reclassif-cations	1 April 2014
Balance sheet			
Assets			
Cash and balances at central banks	1 688 235	–	1 688 235
Treasury bills and other eligible bills	8 322	(8 322)	
Loans and advances to banks	1 662 098	(1 126 492)	535 606
Reverse repurchase agreements and cash collateral on securities borrowed	–	1 073 613	1 073 613
Sovereign debt securities	–	596 066	596 066
Bank debt securities	–	234 728	234 728
Other debt securities	–	95 315	95 315
Derivative assets/Derivative financial instruments	726 424	–	726 424
Securities arising from trading activities	–	586 706	586 706
Investment portfolio	–	162 682	162 682
Loans and advances to customers	7 889 185	(2 720 404)	5 168 781
Other loans and advances	–	2 330 927	2 330 927
Other securitised assets	–	442 356	442 356
Debt securities	1 355 952	(1 355 952)	–
Equity shares	311 223	(311 223)	–
Interests in associated undertakings	9 241	–	9 241
Tangible fixed assets	21 111	(21 111)	–
Deferred taxation assets	–	28 420	28 420
Other assets	663 434	(19 095)	644 339
Property and equipment	–	19 065	19 065
Intangible assets	–	2 046	2 046
Prepayments and accrued income	8 571	(8 571)	–
Shares in group undertakings/Investment in subsidiaries	1 032 199	–	1 032 199
	15 375 995	**754**	**15 376 749**
Liabilities			
Deposits by banks	1 748 166	(614 733)	1 133 433
Derivative liabilities/Derivative financial instruments	625 217	–	625 217
Trading liabilities – short positions/Other trading liabilities`	391 650	–	391 650
Repurchase agreements and cash collateral on securities lent	–	614 733	614 733
Customer accounts (deposits)	8 406 232	–	8 406 232
Debt securities in issue	1 273 415	(299 293)	974 122
Liabilities arising on securitisation of other assets	–	299 293	299 293
Current taxation liabilities	–	60 236	60 236
Deferred tax liabilities	–	754	754
Other liabilities	517 096	58 540	575 636
Accruals and deferred income	118 776	(118 776)	–
	13 080 552	**754**	**13 081 306**
Subordinated liabilities	632 224	–	632 224
	13 712 776	**754**	**13 713 530**
Capital resources			
Called up share capital	1 186 800	–	1 186 800
Share premium account	143 288	–	143 288
Capital reserve	162 789	–	162 789
Other reserves	(5 986)	–	(5 986)
Profit and loss account	176 328	–	176 328
Shareholders' equity	1 663 219	–	1 663 219
	15 375 995	**–**	**15 376 749**

57. Investec Bank plc company risk disclosures

Investec Bank plc company follows the group risk policies and appetite disclosure on pages 42 to 52. The market risk in the trading book is the same at the group and company level, the disclosure is made on pages 75 to 78. The following tables present the risk disclosures for the company which are required under IFRS 7:

£'000	31 March 2016	31 March 2015	% change	Average
Cash and balances at central banks	2 611 333	2 164 181	20.7%	2 387 757
Loans and advances to banks	315 115	322 221	(2.2%)	318 668
Reverse repurchase agreements and cash collateral on securities borrowed	557 025	1 253 935	(55.6%)	905 480
Sovereign debt securities	643 352	613 267	4.9%	628 310
Bank debt securities	188 397	226 273	(16.7%)	207 335
Other debt securities	327 909	133 689	> 100%	230 799
Derivative financial instruments	570 657	512 739	11.3%	541 698
Securities arising from trading activities	393 964	513 673	(23.3%)	453 819
Loans and advances to customers (gross)	6 187 945	5 677 119	9.0%	5 932 532
Other loans and advances (gross)	334 416	404 032	(17.2%)	369 224
Other securitised assets (gross)	8 680	50 756	(82.9%)	29 718
Other assets	397 409	55 245	> 100%	226 327
Total on-balance sheet exposures	**12 536 202**	**11 927 130**	**5.1%**	**12 231 666**
Guarantees	67 488	30 408	> 100%	48 948
Contingent liabilities, committed facilities and other	1 085 733	741 693	46.4%	913 713
Total off-balance sheet exposures	**1 153 221**	**772 101**	**49.4%**	**962 661**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**13 689 423**	**12 699 231**	**7.8%**	**13 194 327**

57. Investec Bank plc company risk disclosures *(continued)*

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

£'000	31 March 2016	31 March 2015
Gross core loans and advances to customers	**6 187 945**	**5 677 119**
Total impairments	**(134 014)**	**(175 621)**
Specific impairments	(112 614)	(141 439)
Portfolio impairments	(21 400)	(34 182)
Net core loans and advances to customers	**6 053 931**	**5 501 498**
Average gross core loans and advances to customers	**5 932 532**	**5 512 374**
Current loans and advances to customers	5 835 449	5 202 953
Past due loans and advances to customers (1 – 60 days)	53 142	58 673
Special mention loans and advances to customers	4 995	42 287
Default loans and advances to customers	294 359	373 206
Gross core loans and advances to customers	**6 187 945**	**5 677 119**
Current loans and advances to customers	5 835 449	5 202 953
Default loans that are current and not impaired	29 639	26 636
Gross core loans and advances to customers that are past due but not impaired	83 827	125 234
Gross core loans and advances to customers that are impaired	239 030	322 296
Gross core loans and advances to customers	**6 187 945**	**5 677 119**
Total income statement charge for impairments on core loans and advances	**(84 038)**	**(78 598)**
Gross default loans and advances to customers	294 359	373 206
Specific impairments	(112 614)	(141 439)
Portfolio impairments	(21 400)	(34 182)
Defaults net of impairments	**160 345**	**197 585**
Aggregate collateral and other credit enhancements on defaults	192 088	259 303
Net default loans and advances to customers (limited to zero)	**–**	**–**
Ratios		
Total impairments as a % of gross core loans and advances to customers	2.17%	3.09%
Total impairments as a % of gross default loans	45.53%	47.06%
Gross defaults as a % of gross core loans and advances to customers	4.76%	6.57%
Defaults (net of impairments) as a % of net core loans and advances to customers	2.65%	3.59%
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)	1.42%	1.43%

57. Investec Bank plc company risk disclosures *(continued)*

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

£'000	31 March 2016	31 March 2015
Default loans that are current	133 916	163 515
1 – 60 days	67 990	104 680
61 – 90 days	15 749	1 980
91 – 180 days	40 475	2 301
181 – 365 days	18 642	41 591
> 365 days	75 724	160 099
Past due and default core loans and advances to customers (actual capital exposure)	**352 496**	**474 166**
1 – 60 days	2 584	5 276
61 – 90 days	161	135
91 – 180 days	1 012	287
181 – 365 days	4 608	3 383
> 365 days	69 342	152 501
Past due and default core loans and advances to customers (actual amount in arrears)	**77 707**	**161 582**

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

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
At 31 March 2016							
Default loans that are current and not impaired							
Total capital exposure	29 639	–	–	–	–	–	29 639
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	58 339	167	15 004	345	9 972	83 827
Amount in arrears	–	2 517	9	670	19	7 664	10 879
Gross core loans and advances to customers that are impaired							
Total capital exposure	104 277	9 651	15 582	25 471	18 297	65 752	239 030
Amount in arrears	–	67	152	342	4 589	61 678	66 828
At 31 March 2015							
Default loans that are current and not impaired							
Total capital exposure	26 636	–	–	–	–	–	26 636
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	98 979	1 980	2 108	6 265	15 902	125 234
Amount in arrears	–	5 234	135	94	403	8 327	14 193
Gross core loans and advances to customers that are impaired							
Total capital exposure	136 879	5 701	–	193	35 326	144 197	322 296
Amount in arrears	–	42	–	193	2 980	144 174	147 389

57. Investec Bank plc company risk disclosures *(continued)*

£'000 Category	On-balance sheet value of investments 31 March 2016	Valuation change stress test 31 March 2016*	On-balance sheet value of investments 31 March 2015	Valuation change stress test 31 March 2015
Unlisted investments	162 289	24 343	168 694	25 304
Listed equities	48 210	12 052	70 523	17 631
Total investment portfolio	**210 499**	**36 395**	**239 217**	**42 935**
Investment and trading properties	88 136	17 627	93 287	18 657
Warrants, profit shares and other embedded derivatives	32 581	11 403	36 111	12 639
Total	**331 216**	**65 425**	**368 615**	**74 231**

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

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