Annual report 2015

VOLUME 2

Investec risk and Basel Pillar III disclosures report

Out of the Ordinary®

Investec

About this report

The 2015 integrated annual report covers the period 1 April 2014 to 31 March 2015 and provides an overview of the Investec group.

This report covers all our operations across the various geographies in which we operate and has been structured to provide stakeholders with relevant financial and non-financial information.

We value feedback and invite questions and comments on our reporting. To give feedback or request hard copies of our reports, please contact our Investor Relations division.

Audited information

Denotes information in the risk, corporate responsibility and remuneration reports that form part of the group's audited annual financial statements

Reporting standard

Denotes our consideration of a reporting standard

Page references

Refers readers to information elsewhere in this report

Sustainability

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

Website

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

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Risk and Basel Pillar III disclosures

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 within this section of the integrated annual report on pages 7 to 96 with further disclosures provided within the annual financial statements section in volume three.

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 integrated annual report is prepared on an Investec DLC consolidated basis (i.e. incorporating the results of Investec plc and Investec Limited), unless otherwise stated.

The risk disclosures comprise Investec Limited and Investec plc's Pillar III disclosures as required in terms of Regulation 43 of the regulations relating to banks in South Africa and under the Capital Requirements Regulation pertaining to banks in the UK.

The group also publishes Pillar III and other risk information for its 'silo' entity holding companies and its significant banking subsidiaries on a consolidated basis. This information is contained in the respective annual financial statements for those respective entities.

Statement from the chairman of the 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 South Africa 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 (as explained on page 4 in volume one) and allow the group to operate within its risk appetite tolerance as set out on page 9.

This volume of our integrated annual report, explains in detail our approach to managing our business within our risk appetite tolerance, across all main 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. The group predominantly remained within its risk appetite limits/targets across the various risk disciplines. Our risk appetite framework as set out on page 9 continues to be assessed in light of prevailing market conditions and group strategy.

The group has significantly derisked its balance sheet through a number of strategic sales completed during the financial year (as discussed in detail on page 22 in volume one) which resulted in a reduction in legacy assets of approximately £1.5 billion and total assets of approximately £6 billion.

Our core loan book (excluding strategic sales) has grown steadily over the year in home currencies, reflecting an increase of approximately 16% in both our UK and South African businesses. This has been supported by solid growth in our residential owner-occupied mortgage portfolios and private client lending, and steady growth in our UK Asset Finance business and other diversified corporate lending activities.

Credit and counterparty exposures are to a select target market and our risk appetite continues to favour lower risk, income-based lending, with credit risk taken over a short to medium term. We expect our target clients to demonstrate sound financial strength and integrity, a core competency and an established track record.

Our core loan book remains well diversified with commercial rent producing property loans comprising approximately 17% of the book, other lending collateralised by property 8%, HNW and private client lending 34% and corporate lending 41% (with most industry concentrations well below 5%). We anticipate that future growth in our core loan portfolios will largely come from professional mortgages, HNW mortgages, asset finance, fund finance and power and infrastructure finance. These asset classes have historically reported low default ratios with satisfactory net margins.

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 in the UK has been actively managed down from £3.4 billion at 31 March 2014 to £0.7 billion largely through strategic sales, redemptions, write-offs and transfers (at the end of the period) to the ongoing book on the back of improved performance in these loans. The remaining legacy portfolio will continue to be managed down as we see opportunities to clear this portfolio. Management believes that the remaining legacy book will still take three to five years to wind down as explained in detail in volume one on pages 88 and 89.

Impairments on loans and advances decreased from £166.2 million to £128.4 million. Since 31 March 2014 gross defaults have improved from £658.7 million to £608.4 million. The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounted to 2.07% (2014: 2.30%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.37 times (2014: 1.27 times).

The credit loss ratio on core loans in our South African business has continued to decline to the current level of 0.28%. The credit loss ratio in our UK and other businesses increased during the year to 1.16% as we divested assets and increased impairments on the legacy portfolio. Our credit losses on our core 'ongoing' UK and Other book remain low at 0.20% (2014: 0.50%).

Our investment portfolios in the UK and South Africa continued to perform well. However, our investment portfolio in Hong Kong unfortunately generated a loss during the period as a result of a poor performance from some of the underlying investments. Overall, we remain comfortable with the performance of our equity investment portfolios which comprise 4.2% of total assets.

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 0.1% of total operating income.

Investec has continued to maintain a sound balance sheet with a low gearing ratio of 9.4 times and a core loans to equity ratio of 4.3 times. We have always held capital in excess of regulatory requirements and we intend to perpetuate this philosophy. All our banking subsidiaries meet current internal targets. Investec Limited should achieve a common equity tier 1 ratio target of above 10% by March 2016 and Investec plc already achieves this target. We are comfortable with our common equity tier 1 ratio target at a 10% level, as our leverage ratios for both Investec Limited and Investec plc are well above 7%. We believe that we have sufficient capital to support our growth initiatives.

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 lending growth. Cash and near cash balances amounted to £10 billion at year end, representing 38.2% of our liability base.

We have significant surplus cash in our UK business following the sale of Kensington and we are actively focusing on reducing both cash and liquidity back to normalised levels through asset growth and further liability management, while maintaining our overall conservative approach to liquidity risk management. Our weighted average cost of funding continued to decrease in our UK business and we comfortably exceed Basel liquidity requirements for the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

In South Africa, we continued to build our structural liquidity cash resources to improve our Basel III LCR in light of regulations which were implemented from 1 January 2015. Investec Bank Limited (solo basis) ended the year with the three-month average of its LCR at 100.3%, which is well ahead of the minimum levels required. The cost of funding continued to increase for local banks, including Investec, as competition for 'Basel III friendly' deposits increased.

We continue to spend much time and effort focusing on operational, reputational, conduct, recovery and resolution risks. During the year, Investec enhanced its stress testing framework by developing a repeatable stress testing process designed to identify and regularly test the bank's key 'vulnerabilities under stress'. The key is to understand these 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 bank. This process allows the bank to identify underlying risks and manage them accordingly.

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 group risk and capital committee

10 June 2015

Geographic summary of the year in review from a risk perspective

This section should be read in conjunction with, and against the background provided in, the overview of the operating environment section on pages 28 to 31 in volume one.

Detailed information on key developments during the financial year in review is provided in the sections that follow:

Refer to pages 19 and 20, page 57 and pages 70 to 71, with a high-level geographic summary of the most salient aspects provided below.

UK and Other

Credit risk

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 and the decline in lending collateralised by property exposures. Material progress has been made during the year in our strategic portfolio rebalancing, in part through strategic divestments but also through active portfolio management and the consistent application of our risk appetite statement.

Net core loans and advances decreased by 14.1% from £8.2 billion at 31 March 2014 to £7.1 billion at 31 March 2015 due to the strategic divestments of Investec Bank (Australia) Limited and Kensington new mortgages. Excluding these sales net core loans increased by approximately 16%, largely as a result of solid growth in our diversified corporate lending activities.

Default loans (net of impairments) have decreased from 3.2% to 3.0% of core loans and advances. The credit loss ratio is at 1.16% (2014: 0.99%), impacted by the divestment of assets and increased impairments on the legacy portfolio.

Traded market risk

We continue to manage to a very low level of market risk with VaR at £0.7 million as at 31 March 2015.

There has been ongoing growth in client activity across the interest rate and foreign exchange corporate sales desks. The structured equity desk's retail product sales have remained strong and they continue to develop both their product range and distribution capacity.

Balance sheet risk

The bank entered the year with a strong surplus liquidity position. Funding rates continued to be driven down throughout the year as market liquidity and improved funding conditions persisted. This cost reduction was complemented by strategic initiatives including amendment to retail product terms. The overall impact led to a reduction in the bank's cost of funds. Cash surpluses increased further at the end of January 2015 following the strategic sale of Kensington. This is being managed in the context of the overall treasury funding plan to bring cash levels back to our normal levels of cash surpluses. Cash and near cash balances at 31 March 2015 amounted to £5.0 billion (2014: £4.3 billion) with total UK customer deposits increasing by 9.5% to £10.3 billion (2014: £9.4 billion). We continue to comfortably exceed Basel liquidity requirements.

Southern Africa

Credit risk

Net core loans and advances grew by 16% to R182.1 billion with residential owner-occupied, private client lending and corporate portfolios representing the majority of the growth for the financial year in review.

Default loans (net of impairments) as a percentage of core loans and advances reduced from 1.46% to 1.43% with an improvement in the lending collateralised by property portfolio.

The credit loss ratio improved to 0.28% from 0.42% as we saw stability in the number of new defaulted loans and sufficient collateral available for these transactions.

Our legacy default portfolio which largely relates to lending collateralised by property, notably residential land transactions earmarked for developments, continues to be managed down.

Traded market risk

Trading conditions have remained difficult. Traders have had to contend with very uncertain markets as well as declining market liquidity. While client flow has been under pressure, Investec remains committed to trading on client flow and not proprietary trading. The equity derivatives business has continued to grow both their product offering and the diversity of their client base. Currency markets have generally been illiquid and volatile. Corporate foreign exchange volumes are up leading to increased revenue, however, profit margins have tightened. The trend of low discretionary risk taking in local rates continued in the past year. Little uncertainty and stable

The group maintained a strong liquidity position well in excess of regulatory and internal policy requirements throughout the year

interest rates in the local rate environment has not encouraged corporate hedging activity.

Balance sheet risk

Investec continued to build its structural liquidity cash resources over the course of the year as part of its drive to improve the Basel III LCR in order to adhere to regulations which were implemented from 1 January 2015. We ended the year with the three-month average of Investec Bank Limited's (solo basis) LCR at 100.3% which is well ahead of the minimum level required.

The cost of funding continued to increase for local banks, including Investec, as competition for 'Basel III friendly' deposits increased.

Total customer deposits increased by 8% from 1 April 2014 to R221.4 billion at 31 March 2015 (Private Bank deposits amounted to R89.8 billion and other external deposits amounted to R131.6 billion). Cash and near cash balances increased by 5% from 1 April 2014 to R88.7 billion at 31 March 2015.

Salient features

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

	UK and Other		Southern Africa		Investec group	
	2015	2014	2015	2014	2015	2014^^
Year to 31 March	£	£	R	R	£	£
Net core loans and advances (million)	7 061	8 222	182 058	156 870	17 189	17 157
Total assets (excluding assurance assets) (million)	17 970	22 061	359 728	327 157	38 016	41 279
Total risk-weighted assets (million)	11 608	13 711	269 466	248 040	26 601^	27 836^
Total equity (million)	2 074	2 269	35 526	31 127	4 040	4 016
Cash and near cash (million)	5 039	4 324	88 691	84 476	9 975	9 135
Customer accounts (deposits) (million)	10 298	10 939	221 377	204 903	22 615	22 610
Gross defaults as a % of gross core loans and advances	5.52%	5.43%	2.04%	2.24%	3.49%	3.78%
Defaults (net of impairments) as a % of net core loans and advances	3.00%	3.21%	1.43%	1.46%	2.07%	2.30%
Net defaults (after collateral and impairments) as a % of net core loans and advances	–	–	–	–	–	–
Credit loss ratio*	1.16%	0.99%	0.28%	0.42%	0.68%	0.68%
Structured credit as a % of total assets**	1.92%	1.94%	0.44%	1.17%	1.15%	1.77%
Banking book investment and equity risk exposures as a % of total assets**	3.44%	2.46%	4.88%	5.02%	4.19%	3.59%
Level 3 (fair value assets) as a % of total assets**	4.32%	4.57%	2.32%	2.33%	3.87%	5.00%
Traded market risk: one-day value at risk (million)	0.7	0.9	3.5	2.8	n/a	n/a
Core loans to equity ratio	3.4x	3.6x	5.1x	5.0x	4.3x	4.3x
Total gearing ratio**	8.8x	10.0x	10.1x	10.5x	9.4x	10.3x
Loans and advances to customers to customer deposits	68.5%	71.0%	78.6%	72.9%	74.0%	72.0%
Capital adequacy ratio	16.7%	15.3%	14.7%	14.9%	n/a	n/a
Tier 1 ratio	11.9%	10.5%	11.3%	11.0%	n/a	n/a
Common equity tier 1 ratio	10.2%	8.8%	9.6%	9.4%	n/a	n/a
Leverage ratio	7.7%	7.4%	8.1%	7.8%	n/a	n/a
Return on average assets#	0.44%	0.43%	1.20%	1.11%	0.86%	0.75%
Return on average risk-weighted assets#	0.72%	0.75%	1.59%	1.47%	1.25%	1.14%

* *Income statement impairment charge on core loans as a percentage of average advances.*
** *Total assets excluding assurance assets to total equity.*
^^ *Restated.*
^ *The group numbers have been 'derived' by adding Investec plc and Investec Limited (Rand converted into Pounds Sterling) numbers together.*
\# *Where return represents operating profit after taxation and non-controlling interests and after deducting preference dividends, but before goodwill, acquired intangibles and non-operating items. Average balances are calculated on a straight-line average.*
• *Certain information is denoted as n/a as these statistics are not applicable at a consolidated group level and are best reflected per banking entity or jurisdiction in line with regulatory and other requirements; or were not previously disclosed.*

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 all 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 process 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 the group's overall risk tolerance framework.

Risk appetite and tolerance metrics	Positioning at 31 March 2015
• 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 56% to total operating income and capital intensive activities contributed 44%
• 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 74.2% of total operating income. Refer to page 24 in volume one for further information
• We seek to maintain strict control over fixed costs and target a group cost to income ratio of below 65%	The cost to income ratio amounted to 67.6%. Refer to page 27 in volume one for further information
• We aim to build a sustainable business generating sufficient return to shareholders over the longer-term, and target 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 return on equity amounted to 10.6% and our return on risk-weighted assets amounted to 1.25%. Refer to pages 27 and 45 in volume one for further information
• We are a lowly leveraged firm and target a leverage ratio in all our banking subsidiaries in excess of 6%	We achieved this internal target; refer to page 93 for further information
• We intend to maintain a sufficient level of capital to satisfy regulatory requirements and our internal target ratios. We target a capital adequacy ratio range of between 14% and 17% on a consolidated basis for Investec plc and Investec Limited and we target a minimum tier 1 ratio of 10.5% (11.0% by March 2016) and a common equity tier 1 ratio above 10.0% (by March 2016)	We meet current capital targets; refer to page 93 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 5% of 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 the group's main operating geographies (i.e. South Africa and UK). The group will accept exposures where we have a branch/banking business. The group will also tolerate exposures to other countries where it has core capabilities	Refer to page 22 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 1.25% under a weak economic environment/stressed scenario), and we target defaults net of impairments less than 1.5% of total core loans (less than 4% under a weak economic environment/ stressed scenario)	The credit loss charge on core loans amounted to 0.68% and defaults net of impairments amounted to 2.07% of total core loans. Refer to page 31 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 £10 billion, representing 38.2% of our liability base. Refer to page 66 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 R15 million for Investec Limited and less than £5 million for Investec plc	We meet these internal limits; refer to page 53 for further information
• We have moderate appetite for investment risk, and set a risk tolerance of less than 30% of tier 1 capital for our unlisted principal investment portfolio	Our unlisted investment portfolio is £810 million, representing 26.3% of total tier 1 capital. Refer to page 47 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 72 to 75 for further information
• We have a number of policies and practices in place to mitigate reputational, legal and conduct risks.	Refer to pages 76 to 78 for further information

An overview of key risks

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

These risks have been highlighted on page 34 in volume one.

The sections that follow provide information on a number of these risk areas.

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

Risk management framework, committees and forums

A number of committees and forums identify and manage risk at group level, as described more fully below. These committees and forums operate together with Group Risk Management and are mandated by the board.

A diagram of our governance and risk framework is provided on page 96 in volume one.

The group committees and forums listed below have mandated certain committees and forums within the jurisdictions in which the group operates to support them in their objectives:

Committee	Function
Audit committees Members: Non-executive directors Chairman: David Friedland (non-executive director) Frequency: • DLC audit committee – four times a year • Investec Limited and group audit committee – four times a year • Investec plc audit committee – four times a year	• See pages 104 and 110 in volume one • The Internal Audit, Compliance and Operational Risk departments report to the audit committees
Board risk and capital committee (BRCC) Members: Executive and non-executive directors (senior management by invitation) Chairman: David Friedland (non-executive director) Frequency: Six times a year	• See page 111 in volume one
Group risk and capital committee (GRCC) Members: Executive directors and senior management Chairman: Stephen Koseff (CEO) Frequency: Six times a year	• The purpose of the GRCC is to supplement the BRCC
DLC capital committee Members: Executive and non-executive directors and senior management Chairman: Stephen Koseff (CEO) Frequency: At least quarterly	• See page 112 in volume one
Executive risk review forum (ERRF) Members: Executive directors and senior management Chairman: Stephen Koseff (CEO) Frequency: Weekly	• See page 112 in volume one
Global credit committee Members: Executive directors and senior management Non-executive directors have a level of oversight which is exercised within the applicable committee Chairman: Glynn Burger (group risk and finance director) Frequency: Twice a week	• Considers and approves the granting of credit to counterparties in excess of the mandates granted to divisional and other credit forums on a global basis • Considers the level of acceptable counterparty and geographical exposures within the board-approved risk appetite framework • Reviews and approves changes to credit policies and methodologies
Group investment committee Members: Executive directors and senior management Chairman: Stephen Koseff (CEO) Frequency: Weekly	• Is responsible for reviewing and approving: – acquisitions or disposals of strategic investments in which we act as principal and retain an equity interest (above predetermined thresholds) – capital expenditure or disposals (above predetermined thresholds)

Committee	Function
Group deal forum Members: Executive directors and senior management. Non-executive directors have a level of oversight which is exercised within the applicable committee Chairman: Glynn Burger (group risk and finance director) Frequency: Weekly	• Considers, approves and mitigates the risks inherent in any new product or other non-standard transactions that we are considering
Group market risk forum Members: Global heads of risk, market risk and the trading desks; senior management; members of the Market Risk teams and other members of Group Risk Management Chairman: Nick Sheppard Frequency: Weekly	• Reviews and recommends limit adjustments in all existing products and markets across all desks in the group • Recommends limits for new products and new markets • Recommends methodology as to how risks are measured
Global compliance forum Members: Compliance representatives of the Investec Limited and Investec plc businesses Chairman: Bradley Tapnack; Alternate: Kathryn Farndell and Noel Sumner Frequency: Bi-annually and on *ad hoc* request	• Review and approval of all group compliance policies across Investec Limited and Investec plc businesses • Establishing and standardising of group standards where applicable • Escalation of policies to ERRF and the board for approval as required
Asset and liability committee (ALCO) Members: Executive directors, senior management, economist, treasurer, business heads and head of asset and liability management Chairmen: Glynn Burger (SA), Ian Wohlman (UK), and Craig McKenzie (MAU) Frequency: Monthly (or *ad hoc* if required)	• Recommends and monitors our funding and liquidity policy and non-trading interest rate risk policy, which translates into a suite of limits that define our risk appetite • Directs the implementation of the methodology, techniques, models and risk measures for liquidity and interest rate risk management • Reviews the structure of our balance sheet and business strategies, taking into account market conditions, including stress tests • Maintains liquidity contingency plans • The responsibilities of the liability product and pricing forum (a sub-committee of ALCO) are: – to coordinate and approve pricing of all liabilities issued and other group funding entities so as to achieve the most appropriate funding mix at the best possible cost within the balance sheet targets as set by ALCO – to review the liquidity, interest rate and concentration characteristics of all new products and approve their issuance – to monitor existing products, terms and rates – to reprice or close products where appropriate – to evaluate continuously the external rates environment including competitor analysis
Global operational risk committee Members: Heads of operational risk, heads of risk, specialist banking, asset management and wealth and investment senior management Chairman: Bradley Tapnack (global head of corporate governance and compliance) Frequency: At a minimum half-yearly	• Provides support to BRCC and ERRF in the management of operational risk • Reviews and approves the operational risk management framework, policies and appetite • Aligns operational risk policies, practices and reporting across the group
Group legal risk forum Members: Executive directors, senior management and divisional legal managers Chairman: David Nurek (global head of legal risk) Frequency: Half-yearly (or *ad hoc* if required)	• Considers and manages legal risks throughout the group

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

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

Integrated global risk management structure

Group risk and finance director	Glynn Burger
Head of risk South Africa	Kevin Kerr
Heads of risk UK	Ian Wohlman/Ruth Leas

Divisional and geographic roles	Global	UK and Other	South Africa
Credit Risk	Ian Wohlman/ Kevin Kerr	Gary Laughton	Justin Cowley/ Scott Brown
Traded Market Risk	Nick Sheppard	Nick Sheppard	Alan Wenger
Balance Sheet Risk Management	Cyril Daleski	Wendy Robinson	Cyril Daleski
Operational Risk	Chandre Griesel	Emile Dunand	Chandre Griesel
Legal Risk	David Nurek	Lauren Ekon	David Nurek
Internal Audit	Bradley Tapnack	Elizabeth Broughton	Stuart Mansfield
Compliance	Bradley Tapnack	Noel Sumner	Kathryn Farndell

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 five 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.

Credit and counterparty risks can be impacted by country risk where cross-border transactions are undertaken. 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.

Whilst we do not have a separate country risk committee, the local and global credit committees 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 is responsible for approving country limits 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 watch 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. South Africa and the UK). The group will accept exposures where we have a branch or local banking subsidiary, and tolerate exposures to other countries where we have developed a local understanding and capability or we are facilitating a transaction for a client who requires facilities in a foreign geography.

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 that good quality collateral is provided in support of obligations (refer to page 43 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.

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.

In certain instances we have elected to sell certain assets down and/or securitise them (refer to pages 48 to 51 for further information).

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 CSI 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. 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)
- Social considerations
- 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 are being 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. At a high level the 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, Moody's and DBRS have been approved as eligible external credit assessment institutions (ECAIs) for the purposes of determining external credit ratings with the following elections:

- In relation to sovereigns and securitisations, Fitch, Moody's, S&P and DBRS 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 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

During the year, Investec has enhanced its stress testing framework by developing 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 38 to 41.

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, trust and fiduciary, 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 as well as vanilla mortgage products for professional target market clients
- 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 38 to 41.

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, European and South African 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 to mid-caps. These loans are secured by the assets of the business, for example, 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 and North America, where Investec can support experienced asset managers and their funds which show strong, long-term value creation and good custodianship of investors' money. 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 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 and coal. Our clients in this sector are established mining companies which are typically domiciled and publicly listed in one of the following geographies – the UK, South Africa, 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 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, North America and in South Africa.
- 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 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 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 38 to 41.

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 Management

Investec Asset Management regularly transacts with well-known rated market counterparties. These are all on an exchange traded delivery versus payment basis and exposure is to a movement in the value of the underlying security in the unlikely event a counterparty fails. Direct cash placements follow our policy, as outlined above, of only being exposed to systemic banks of investment grade quality in Southern Africa, the UK, Europe and the US.

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 • Any 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.

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

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

Credit risk mitigation

Credit risk mitigation techniques can be defined as all methods by which Investec seeks to decrease the credit risk associated with an exposure. Investec considers credit risk mitigation techniques as part of the credit assessment of a potential client or business proposal and not as a separate consideration of mitigation of risk. Credit risk mitigants can include any collateral item over which the bank has a 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 43.

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 re-sold. 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 very 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.

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 in the UK 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 2015 amounts to £10.9 million, of which £6.3 million is used for credit mitigation purposes and the balance for trading and investment. Total protection bought amounts to £15.2 million (£9.8 million relating to credit derivatives used in credit mitigation) and total protection sold amounts to £4.3 million (£3.5 million relating to credit derivatives used in credit mitigation).

Further information on credit derivatives is provided on page 58.

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 will be 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.

Please refer to the credit quality step table disclosed on pages 94 and 95 for a breakdown of regulatory exposure values before and after credit risk mitigation has been applied.

Credit and counterparty risk year in review

UK and Other

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 and the decline in lending collateralised by property exposures. Material progress has been made during the year in our strategic portfolio rebalancing, in part through strategic divestments but also through active portfolio management and the consistent application of our risk appetite statement.

Three divestments, namely the sale of Kensington, Start (Irish mortgages) and Investec Bank (Australia) Limited's professional finance and asset finance businesses were the principal drivers behind the 56.6% decline in HNW and other private client lending, which has decreased from £2.8 billion at 31 March 2014 to £1.2 billion at 31 March 2015. The Kensington and Start divestments have significantly reduced our legacy exposures.

Active portfolio management has materially refocused the bank's core lending portfolio – lending collateralised by property has declined by 8.7% from £2.5 billion at 31 March 2014 to £2.3 billion at 31 March 2015; whilst corporate client and other lending has increased 20.2% from £3.1 billion at 31 March 2014 to £3.7 billion at 31 March 2015. On a like-for-like basis, after excluding the impact of divestments, HNW and other private client lending increased by 12% year on year.

Net core loans and advances have decreased by 14.1% to £7.1 billion at 31 March 2015 from £8.2 billion at 31 March 2014 reflecting the impact of the divestments, but partially offset by increased net loan growth. Excluding divestments, net core loans increased by approximately 16%.

Default loans (net of impairments) have decreased by 19.7% or £52 million on an absolute basis and decreased to 3.0% from 3.21% as a percentage of core loans and advances. Gross defaults decreased by 12.4% or £57 million from £457 million at 31 March 2014 to £400 million at 31 March 2015. The credit loss ratio is at 1.16% (2014: 0.99%); the increase in the credit loss ratio is largely attributable to the reduction in denominator (gross core loans and advances have decreased to £7.2 billion from £8.4 billion), due to the sale of core loans through the divestments. We have reported an increase in impairments on the legacy portfolio.

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

Lending collateralised by property

The overall exposure to property collateralised assets, as a proportion of our total loan exposures, has reduced in line with our risk appetite statement. A large proportion of property collateralised assets are located in the UK and, 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 have actively managed the legacy portfolio down, working assets to achieve optimal recovery but taking opportunistic offers on properties where appropriate. The continuing improvement in the UK property market has assisted further acceleration of this process and we expect this to continue over the forthcoming 12 months.

Private client activities

The existing high net worth mortgage book has continued to grow significantly and is expected to continue in the next 12 months as the bank moves to increase its private client offering, providing a more holistic private bank experience from transactional banking to wealth management. Investec Professional Mortgages was relaunched in October 2014 for professional individuals.

Credit and counterparty exposures decreased by 1.8% to £36.8 billion largely as a result of strategic divestments

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, whilst 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 strong during the financial year 2015, 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.

Southern Africa

The financial year in review has seen a combination of trends and factors impacting on the credit quality and assessment of credit and counterparty risk.

Further information is provided in the financial review on pages 28 to 31 in volume one.

Against this backdrop, core loans and advances grew by 16% to R182.1 billion with residential owner-occupied, private client lending, corporate and public sector portfolios representing the majority of the growth for the financial year in review.

Where we have been facing greater competitive pressure on margins, particularly in the corporate market, we have maintained a conservative lending approach. Our lending appetite is based on a client-centric approach with a strong focus on client cash flows underpinned by tangible collateral.

Default loans (net of impairments) as a percentage of core loans and advances improved slightly from 1.46% to 1.43%.

Defaults for the lending collateralised by property portfolio improved. These defaults are mostly related to historical residential land earmarked for developments and continue to be managed down. However, this process does take time as we continue to focus on maximising recoveries.

Defaults in the private client and corporate client portfolios increased slightly.

The credit loss ratio improved to 0.28% from 0.42% as we saw stability in the number of new defaulted loans and sufficient collateral available for these transactions.

Lending collateralised by property

The majority of the property assets are commercial investment properties and are located in South Africa. This investment portfolio grew by 7.1% during the year, in line with our risk appetite framework. LTVs remain conservative and transactions are supported by strong cash flows. We follow a client-centric approach, backing counterparties with strong balance sheets and requisite expertise.

Private client activities

We have seen continued growth in our private client portfolio and client base as we actively focus on increasing our positioning in this space.

Our high net worth client portfolio and residential mortgage book growth in particular has been encouraging a total increase of 17.2% over the year.

Growth in both of these areas has been achieved with strong adherence to our conservative lending appetite.

Corporate client activities

The overall portfolio continues to perform well and higher levels of activity by mid to large corporates have contributed to growth of 19.9% over the year. Major contributors to growth were renewable energy transactions, corporate facilities and public sector lending.

Credit and counterparty risk information

Pages 7 to 20 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 decreased by 2.4% to £36.7 billion largely as a result of the divestments of Kensington, Start and Investec Bank (Australia) Limited. Cash and near cash balances amount to £10.0 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, non-sovereign and non-bank cash placements and sovereign debt securities.

At 31 March £'000	2015	2014	% change	Average*
Cash and balances at central banks	2 528 133	2 072 987	22.0%	2 300 560
Loans and advances to banks	3 045 864	3 280 179	(7.1%)	3 163 022
Non-sovereign and non-bank cash placements	586 400	515 189	13.8%	550 795
Reverse repurchase agreements and cash collateral on securities borrowed	1 812 156	1 388 980	30.5%	1 600 568
Sovereign debt securities	2 958 641	3 215 432	(8.0%)	3 087 037
Bank debt securities	1 161 055	1 568 097	(26.0%)	1 364 576
Other debt securities	626 367	594 353	5.4%	610 360
Derivative financial instruments	1 343 810	1 202 278	11.8%	1 273 044
Securities arising from trading activities	570 288	461 390	23.6%	515 839
Loans and advances to customers (gross)	16 992 064	16 545 335	2.7%	16 768 700
Own originated loans and advances to customers securitised (gross)	448 921	876 595	(48.8%)	662 758
Other loans and advances (gross)	420 611	1 745 329	(75.9%)	1 082 970
Other securitised assets (gross)	51 223	197 630	(74.1%)	124 427
Other assets	63 862	171 582	(62.8%)	117 722
Total on-balance sheet exposures	32 609 395	33 835 356	(3.6%)	33 222 376
Guarantees^	750 006	664 626	12.8%	707 316
Contingent liabilities, committed facilities and other	3 291 309	3 041 499	8.2%	3 166 404
Total off-balance sheet exposures	4 041 315	3 706 125	9.0%	3 873 720
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	36 650 710	37 541 481	(2.4%)	37 096 096

* *Where the average is based on a straight-line average.*

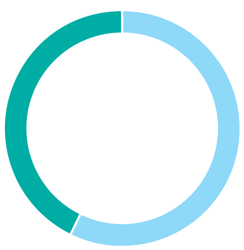
^ *Excludes guarantees provided to clients which are backed/secured by cash on deposit with the bank.*

An analysis of gross credit and counterparty exposures by geography

At 31 March £'000	UK and Other* 2015	UK and Other* 2014	Southern Africa 2015	Southern Africa 2014	Total 2015	Total 2014
Cash and balances at central banks	2 179 822	1 735 422	348 311	337 565	2 528 133	2 072 987
Loans and advances to banks	1 050 412	1 277 023	1 995 452	2 003 156	3 045 864	3 280 179
Non-sovereign and non-bank cash placements	–	–	586 400	515 189	586 400	515 189
Reverse repurchase agreements and cash collateral on securities borrowed	1 214 949	909 437	597 207	479 543	1 812 156	1 388 980
Sovereign debt securities	1 212 910	1 232 415	1 745 731	1 983 017	2 958 641	3 215 432
Bank debt securities	219 342	371 182	941 713	1 196 915	1 161 055	1 568 097
Other debt securities	221 480	218 203	404 887	376 150	626 367	594 353
Derivative financial instruments	516 034	525 526	827 776	676 752	1 343 810	1 202 278
Securities arising from trading activities	513 673	419 408	56 615	41 982	570 288	461 390
Loans and advances to customers (gross)	7 249 561	7 967 312	9 742 503	8 578 023	16 992 064	16 545 335
Own originated loans and advances to customers securitised (gross)	–	448 255	448 921	428 340	448 921	876 595
Other loans and advances (gross)	393 353	1 451 925	27 258	293 404	420 611	1 745 329
Other securitised assets (gross)	51 223	184 483	–	13 147	51 223	197 630
Other assets	55 383	137 665	8 479	33 917	63 862	171 582
Total on-balance sheet exposures	14 878 142	16 878 256	17 731 253	16 957 100	32 609 395	33 835 356
Guarantees^	31 664	46 922	718 342	617 704	750 006	664 626
Contingent liabilities, committed facilities and other	835 858	884 339	2 455 451	2 157 160	3 291 309	3 041 499
Total off-balance sheet exposures	867 522	931 261	3 173 793	2 774 864	4 041 315	3 706 125
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	15 745 664	17 809 517	20 905 046	19 731 964	36 650 710	37 541 481

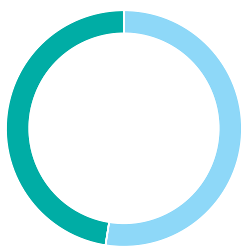
^ *Excludes guarantees provided to clients which are backed/secured by cash on deposit with the bank.*
* Includes Australia, which was previously reported separately.

An analysis of gross credit and counterparty exposures by geography



31 March 2015
£36 651 million

Southern Africa	57.0%
UK and Other	43.0%



31 March 2014
£37 542 million

Southern Africa	52.6%
UK and Other	47.4%

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

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

£'000	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note refer-ence	Total balance sheet
At 31 March 2015				
Cash and balances at central banks	2 528 133	1 429		2 529 562
Loans and advances to banks	3 045 864	–		3 045 864
Non-sovereign and non-bank cash placements	586 400	–		586 400
Reverse repurchase agreements and cash collateral on securities borrowed	1 812 156	–		1 812 156
Sovereign debt securities	2 958 641	–		2 958 641
Bank debt securities	1 161 055	–		1 161 055
Other debt securities	626 367	1 006		627 373
Derivative financial instruments	1 343 810	236 871		1 580 681
Securities arising from trading activities	570 288	516 061		1 086 349
Investment portfolio	–	947 846	1	947 846
Loans and advances to customers	16 992 064	(251 801)	2	16 740 263
Own originated loans and advances to customers securitised	448 921	(274)	2	448 647
Other loans and advances	420 611	154 219	3	574 830
Other securitised assets	51 223	729 373	3	780 596
Interest in associated undertakings	–	25 244		25 244
Deferred taxation assets	–	99 301		99 301
Other assets	63 862	1 677 851	4	1 741 713
Property and equipment	–	102 354		102 354
Investment properties	–	617 898		617 898
Goodwill	–	361 527		361 527
Intangible assets	–	147 227		147 227
Non-current assets (or disposal groups) classified as held for sale	–	40 726		40 726
Other financial instruments at fair value through profit and loss in respect of liabilities to customers	–	6 337 149		6 337 149
Total on-balance sheet exposures	32 609 395	11 744 007		44 353 402

1. *Largely relates to exposures that are classified as equity risk in the banking book. Further information is provided on pages 44 to 47.*
2. *Largely relates to impairments.*
3. *Whilst 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'. Also includes cash in the securitised vehicles.*
4. *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 reference	Total balance sheet
At 31 March 2014				
Cash and balances at central banks	2 072 987	7 203		2 080 190
Loans and advances to banks	3 280 179	–		3 280 179
Non-sovereign and non-bank cash placements	515 189	–		515 189
Reverse repurchase agreements and cash collateral on securities borrowed	1 388 980	–		1 388 980
Sovereign debt securities	3 215 432	–		3 215 432
Bank debt securities	1 568 097	–		1 568 097
Other debt securities	594 353	11 025		605 378
Derivative financial instruments	1 202 278	417 137		1 619 415
Securities arising from trading activities	461 390	408 698		870 088
Investment portfolio	–	825 745	1	825 745
Loans and advances to customers	16 545 335	(263 723)	2	16 281 612
Own originated loans and advances to customers securitised	876 595	(840)	2	875 755
Other loans and advances	1 745 329	(51 760)	3	1 693 569
Other securitised assets	197 630	3 378 896	3, 4	3 576 526
Interest in associated undertakings	–	24 316		24 316
Deferred taxation assets	–	131 142		131 142
Other assets	171 582	1 303 410	5	1 474 992
Property and equipment	–	108 738		108 738
Investment properties	–	509 228		509 228
Goodwill	–	433 571		433 571
Intangible assets	–	159 169		159 169
Non-current assets classified as held for sale	–	41 637		41 637
Other financial instruments at fair value through profit or loss in respect of liabilities to customers	–	5 862 959		5 862 959
Total on-balance sheet exposures	33 835 356	13 306 551		47 141 907

1. *Largely relates to exposures that are classified as equity risk in the banking book. Further information is provided on pages 44 to 47.*
2. *Largely relates to impairments.*
3. *Whilst 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'.*
4. *Includes net investments in Kensington securitised vehicles to which Investec has no direct exposure. Also includes liquidity facilities provided to third party securitisation vehicles in South Africa. These facilities have remained undrawn and are reflected as a contingent liability, i.e. off-balance sheet exposure of the bank.*
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.*

Gross credit and counterparty exposures by residual contractual maturity at 31 March 2015

£'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	2 528 133	–	–	–	–	–	2 528 133
Loans and advances to banks	2 953 218	30 349	10 243	47 337	4 717	–	3 045 864
Non-sovereign and non-bank cash placements	586 400	–	–	–	–	–	586 400
Reverse repurchase agreements and cash collateral on securities borrowed	1 560 359	927	56 769	118 752	75 349	–	1 812 156
Sovereign debt securities	938 901	579 355	238 710	169 278	310 381	722 016	2 958 641
Bank debt securities	228 724	140 838	88 509	425 948	227 905	49 131	1 161 055
Other debt securities	15 644	11 433	14 460	109 817	336 326	138 687	626 367
Derivative financial instruments	226 647	129 940	158 847	531 170	234 717	62 489	1 343 810
Securities arising from trading activities	373 593	79 479	1 556	77 107	7 180	31 373	570 288
Loans and advances to customers (gross)	2 727 947	1 067 863	1 422 945	7 484 478	1 770 890	2 517 941	16 992 064
Own originated loans and advances to customers securitised (gross)	25 537	52	274	72 508	23 271	327 279	448 921
Other loans and advances (gross)	29 382	439	127	91 189	46 583	252 891	420 611
Other securitised assets (gross)	467	–	–	–	–	50 756	51 223
Other assets	63 862	–	–	–	–	–	63 862
Total on-balance sheet exposures	12 258 814	2 040 675	1 992 440	9 127 584	3 037 319	4 152 563	32 609 395
Guarantees^	331 886	4 665	17 127	273 568	107 488	15 272	750 006
Contingent liabilities, committed facilities and other	776 389	114 801	340 845	1 096 640	140 796	821 838	3 291 309
Total off-balance sheet exposures	1 108 275	119 466	357 972	1 370 208	248 284	837 110	4 041 315
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	13 367 089	2 160 141	2 350 412	10 497 792	3 285 603	4 989 673	36 650 710

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

Detailed analysis of gross credit and counterparty exposures by industry at 31 March 2015

£'000	HNW and professional individuals	Lending collateralised by property – largely to private clients	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services	Finance and insurance
Cash and balances at central banks	–	–	–	–	2 528 133	–	–
Loans and advances to banks	–	–	–	–	–	–	3 045 864
Non-sovereign and non-bank cash placements	–	–	–	–	–	30 246	196 226
Reverse repurchase agreements and cash collateral on securities borrowed	32 216	–	–	54 045	–	3 977	1 668 929
Sovereign debt securities	–	–	–	–	2 958 641	–	–
Bank debt securities	–	–	–	–	–	–	1 161 055
Other debt securities	–	–	–	64 976	7 396	3 474	144 656
Derivative financial instruments	8 097	–	579	48 317	–	34 605	998 229
Securities arising from trading activities	–	–	–	35 210	395 266	9 968	97 934
Loans and advances to customers (gross)	5 402 037	4 433 910	55 159	629 184	242 777	710 874	1 211 277
Own originated loans and advances to customers securitised (gross)	448 921	–	–	–	–	–	–
Other loans and advances (gross)	–	–	–	–	–	–	144 181
Other securitised assets (gross)	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	–	63 715
Total on-balance sheet exposures	5 891 271	4 433 910	55 738	831 732	6 132 213	793 144	8 732 066
Guarantees^^	239 887	83 502	–	31 431	74 137	6 702	127 008
Contingent liabilities, committed facilities and other	1 569 702	493 792	25 803	280 445	29 012	67 625	256 054
Total off-balance sheet exposures	1 809 589	577 294	25 803	311 876	103 149	74 327	383 062
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	7 700 860	5 011 204	81 541	1 143 608	6 235 362	867 471	9 115 128

^ *Historically legacy positions to non-target market clients.*
^^ *Excludes guarantees provided to clients which are backed/secured by cash on deposit with the group.*

	Retailers and wholesalers	Manufac-turing and commerce	Construc-tion	Corporate commercial real estate	Other residential^ mortgages	Mining and resources	Leisure, entertain-ment and tourism	Transport	Com-munication	Total
	–	–	–	–	–	–	–	–	–	2 528 133
	–	–	–	–	–	–	–	–	–	3 045 864
	98 445	121 811	19 471	–	–	26 625	–	67 276	26 300	586 400
	–	48 110	–	–	–	–	–	4 879	–	1 812 156
	–	–	–	–	–	–	–	–	–	2 958 641
	–	–	–	–	–	–	–	–	–	1 161 055
	1 102	3 535	–	–	63 793	149 423	5 925	53 181	128 906	626 367
	51 163	60 924	8 937	40 286	–	40 855	14 327	18 647	18 844	1 343 810
	3 828	14 001	–	1 343	–	3 631	1 150	4 828	3 129	570 288
	513 560	996 676	215 453	463 046	–	415 206	186 534	1 083 217	433 154	16 992 064
	–	–	–	–	–	–	–	–	–	448 921
	–	–	–	9 702	266 728	–	–	–	–	420 611
	–	–	–	–	51 223	–	–	–	–	51 223
	–	138	–	9	–	–	–	–	–	63 862
	668 098	1 245 195	243 861	514 386	381 744	635 740	207 936	1 232 028	610 333	32 609 395
	44 525	46 894	–	35	430	92 757	–	899	1 799	750 006
	57 645	57 818	26 306	14 830	–	135 153	16 962	213 051	47 111	3 291 309
	102 170	104 712	26 306	14 865	430	227 910	16 962	213 950	48 910	4 041 315
	770 268	1 349 907	270 167	529 251	382 174	863 650	224 898	1 445 978	659 243	36 650 710

Detailed analysis of gross credit and counterparty exposures by industry at 31 March 2014

£'000	HNW and professional individuals	Lending collateralised by property – largely to private clients	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services	Finance and insurance
Cash and balances at central banks	–	–	–	–	2 072 987	–	–
Loans and advances to banks	–	–	–	–	–	–	3 280 179
Non-sovereign and non-bank cash placements	–	–	–	1 391	969	27 588	113 844
Reverse repurchase agreements and cash collateral on securities borrowed	27 643	–	–	1 129	–	–	1 298 322
Sovereign debt securities	–	–	–	–	3 215 432	–	–
Bank debt securities	–	–	–	–	–	–	1 568 097
Other debt securities	–	–	–	17 311	–	–	261 713
Derivative financial instruments	9 094	–	528	15 130	4 863	17 574	998 421
Securities arising from trading activities	–	–	–	241	384 436	–	65 898
Loans and advances to customers (gross)	5 957 256	4 561 536	68 191	527 034	238 738	547 296	770 278
Own originated loans and advances to customers securitised (gross)	876 562	33	–	–	–	–	–
Other loans and advances (gross)	–	–	–	–	–	–	330 500
Other securitised assets (gross)	–	–	–	–	8 958	–	4 189
Other assets	4	–	–	37	17 076	18 080	120 494
Total on-balance sheet exposures	6 870 559	4 561 569	68 719	562 273	5 943 459	610 538	8 811 935
Guarantees^^	148 850	86 814	–	8 996	48 011	2 534	148 074
Contingent liabilities, committed facilities and other	1 650 438	505 192	36 023	230 055	7 174	69 729	68 884
Total off-balance sheet exposures	1 799 288	592 006	36 023	239 051	55 185	72 263	216 958
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	8 669 847	5 153 575	104 742	801 324	5 998 644	682 801	9 028 893

^ *Historically legacy positions to non-target market clients.*

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

Retailers and wholesalers	Manufacturing and commerce	Construction	Corporate commercial real estate	Other residential mortgages^	Mining and resources	Leisure, entertainment and tourism	Transport	Communication	Total
–	–	–	–	–	–	–	–	–	2 072 987
–	–	–	–	–	–	–	–	–	3 280 179
95 828	117 513	13 648	–	–	30 827	–	102 685	10 896	515 189
–	57 392	–	–	–	–	–	4 494	–	1 388 980
–	–	–	–	–	–	–	–	–	3 215 432
–	–	–	–	–	–	–	–	–	1 568 097
–	–	–	–	32 451	126 778	–	88 096	68 004	594 353
38 584	33 691	14 090	35 737	–	9 014	11 584	11 905	2 063	1 202 278
–	8 495	–	–	–	–	–	2 320	–	461 390
530 053	864 694	218 045	457 258	16 074	468 848	206 394	760 473	353 167	16 545 335
–	–	–	–	–	–	–	–	–	876 595
–	–	–	–	1 414 829	–	–	–	–	1 745 329
–	–	–	–	184 483	–	–	–	–	197 630
1 572	9 456	–	–	137	–	–	–	4 726	171 582
666 037	1 091 241	245 783	492 995	1 647 974	635 467	217 978	969 973	438 856	33 835 356
79 067	7 833	56	64	456	120 930	11 288	1 138	515	664 626
84 401	85 623	25 018	8 585	5 293	109 498	55 873	86 097	13 616	3 041 499
163 468	93 456	25 074	8 649	5 749	230 428	67 161	87 235	14 131	3 706 125
829 505	1 184 697	270 857	501 644	1 653 723	865 895	285 139	1 057 208	452 987	37 541 481

Private client loans account for 59.0% of total gross core loans and advances, as represented by the industry classification 'HNW and professional individuals'

Summary analysis of gross credit and counterparty exposures by industry

A description of the type of private client lending and lending collateralised by property we undertake is provided on page 14, and a more detailed analysis of these loan portfolios are provided on pages 38 to 41.

The remainder of core loans and advances largely relate to corporate client lending and are evenly spread across industry sectors.

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, largely to our HNW and professional individual clients.

A description of the type of corporate client lending we undertake is provided on pages 15 and 16, and a more detailed analysis of the corporate client loan portfolio is provided on pages 38 to 41.

At 31 March £'000	Gross core loans and advances 2015	2014	Other credit and counterparty exposures 2015	2014	Total 2015	2014
HNW and professional individuals	5 850 958	6 833 818	1 849 902	1 836 029	7 700 860	8 669 847
Lending collateralised by property – largely to private clients	4 433 910	4 561 569	577 294	592 006	5 011 204	5 153 575
Agriculture	55 159	68 191	26 382	36 551	81 541	104 742
Electricity, gas and water (utility services)	629 184	527 034	514 424	274 290	1 143 608	801 324
Public and non-business services	242 777	238 738	5 992 585	5 759 906	6 235 362	5 998 644
Business services	710 874	547 296	156 597	135 505	867 471	682 801
Finance and insurance	1 211 277	770 278	7 903 851	8 258 615	9 115 128	9 028 893
Retailers and wholesalers	513 560	530 053	256 708	299 452	770 268	829 505
Manufacturing and commerce	996 676	864 694	353 231	320 003	1 349 907	1 184 697
Construction	215 453	218 045	54 714	52 812	270 167	270 857
Corporate commercial real estate	463 046	457 258	66 205	44 386	529 251	501 644
Other residential mortgages	–	16 074	382 174	1 637 649	382 174	1 653 723
Mining and resources	415 206	468 848	448 444	397 047	863 650	865 895
Leisure, entertainment and tourism	186 534	206 394	38 364	78 745	224 898	285 139
Transport	1 083 217	760 473	362 761	296 735	1 445 978	1 057 208
Communication	433 154	353 167	226 089	99 820	659 243	452 987
Total	17 440 985	17 421 920	19 209 725	20 119 551	36 650 710	37 541 481

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

Core loans and advances comprise:

- Loans and advances to customers as per the balance sheet
- Own originated loans and advances to customers securitised as per the balance sheet.

At 31 March £'000	2015	2014
Loans and advances to customers as per the balance sheet	16 740 263	16 281 612
Add: own originated loans and advances securitised as per the balance sheet	448 647	875 755
Net core loans and advances to customers	17 188 910	17 157 367

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 19 and 20.

£'000	31 March 2015	31 March 2014
Gross core loans and advances to customers	17 440 985	17 421 930
Total impairments	(252 075)	(264 563)
Specific impairments	(208 348)	(238 226)
Portfolio impairments	(43 727)	(26 337)
Net core loans and advances to customers	17 188 910	17 157 367
Average gross core loans and advances to customers	17 431 458	18 063 549
Current loans and advances to customers	16 650 156	16 405 187^
Past due loans and advances to customers (1 – 60 days)	102 832	166 537
Special mention loans and advances to customers	79 636	191 527^
Default loans and advances to customers	608 361	658 679
Gross core loans and advances to customers	17 440 985	17 421 930
Current loans and advances to customers	16 650 156	16 405 187
Default loans that are current and not impaired	70 589	30 475^
Gross core loans and advances to customers that are past due but not impaired	244 095	433 969^
Gross core loans and advances to customers that are impaired	476 145	552 299
Gross core loans and advances to customers	17 440 985	17 421 930
Total income statement charge for impairments on core loans and advances	(118 068)	(122 473)
Gross default loans and advances to customers	608 361	658 679
Specific impairments	(208 348)	(238 226)
Portfolio impairments	(43 727)	(26 337)
Defaults net of impairments	356 286	394 116
Aggregate collateral and other credit enhancements on defaults	488 258	499 267
Net default loans and advances to customers (limited to zero)	–	–
Ratios:		
Total impairments as a % of gross core loans and advances to customers	1.45%	1.52%
Total impairments as a % of gross default loans	41.44%	40.17%
Gross defaults as a % of gross core loans and advances to customers	3.49%	3.78%
Defaults (net of impairments) as a % of net core loans and advances to customers	2.07%	2.30%
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)	0.68%	0.68%

^ *The loan book age analysis amounts were restated with no impact on primary statements or key ratios.*

An analysis of core loans and advances to customers and asset quality by geography

	UK and Other^		Southern Africa		Total group	
£'000	31 March 2015	31 March 2014	31 March 2015	31 March 2014	31 March 2015	31 March 2014
Gross core loans and advances to customers	7 249 561	8 415 567	10 191 424	9 006 363	17 440 985	17 421 930
Total impairments	(188 444)	(193 303)	(63 631)	(71 260)	(252 075)	(264 563)
Specific impairments	(154 262)	(176 866)	(54 086)	(61 360)	(208 348)	(238 226)
Portfolio impairments	(34 182)	(16 437)	(9 545)	(9 900)	(43 727)	(26 337)
Net core loans and advances to customers	7 061 117*	8 222 264	10 127 793*	8 935 103	17 188 910*	17 157 367
% of total	41.1%	47.9%	58.9%	52.1%	100.0%	100.0%
Average gross core loans and advances to customers	7 832 564	8 429 433	9 598 894	9 634 116	17 431 458	18 063 549
Current loans and advances to customers	6 733 402	7 681 073	9 916 754	8 724 114	16 650 156	16 405 187
Past due loans and advances to customers (1 – 60 days)	73 489	124 033	29 343	42 504	102 832	166 537
Special mention loans and advances to customers	42 556	153 485	37 080	38 042	79 636	191 527
Default loans and advances to customers	400 114	456 976	208 247	201 703	608 361	658 679
Gross core loans and advances to customers	7 249 561	8 415 567	10 191 424	9 006 363	17 440 985	17 421 930
Current loans and advances to customers	6 733 402	7 681 073	9 916 754	8 724 114	16 650 156	16 405 187
Default loans that are current and not impaired	26 785	21 254	43 804	9 221	70 589	30 475
Gross core loans and advances to customers that are past due but not impaired	146 428	308 014	97 667	125 955	244 095	433 969
Gross core loans and advances to customers that are impaired	342 946	405 226	133 199	147 073	476 145	552 299
Gross core loans and advances to customers	7 249 561	8 415 567	10 191 424	9 006 363	17 440 985	17 421 930
Total income statement charge for impairments on core loans and advances	(90 709)	(83 232)	(27 359)	(39 241)	(118 068)	(122 473)
Gross default loans and advances to customers	400 114	456 976	208 247	201 703	608 361	658 679
Specific impairments	(154 262)	(176 866)	(54 086)	(61 360)	(208 348)	(238 226)
Portfolio impairments	(34 182)	(16 437)	(9 545)	(9 900)	(43 727)	(26 337)
Defaults net of impairments	211 670	263 673	144 616	130 443	356 286	394 116
Aggregate collateral and other credit enhancements	280 697	297 114	207 561	202 153	488 258	499 267
Net default loans and advances to customers (limited to zero)	–	–	–	–	–	–

* *Net core loans and advances in the UK have decreased by 14.1% to £7.1 billion at 31 March 2015 from £8.2 billion at 31 March 2014 reflecting the impact of the divestments, but partially offset by increased net loan growth. Excluding divestments, net core loans increased by approximately 16%. Net core loans and advances in South Africa increased by 16% to R182.1 billion at 31 March 2015 from R156.9 billion at 31 March 2014.*

^ *Includes Australia, which was previously reported separately.*

	UK and Other^		Southern Africa		Total group	
	31 March 2015	31 March 2014	31 March 2015	31 March 2014	31 March 2015	31 March 2014
Ratios						
Total impairments as a % of gross core loans and advances to customers	2.60%	2.30%	0.62%	0.79%	1.45%	1.52%
Total impairments as a % of gross default loans	47.10%	42.30%	30.56%	35.33%	41.44%	40.17%
Gross defaults as a % of gross core loans and advances to customers	5.52%	5.43%	2.04%	2.24%	3.49%	3.78%
Defaults (net of impairments) as a % of net core loans and advances to customers	3.00%	3.21%	1.43%	1.46%	2.07%	2.30%
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)	1.16%**	0.99%	0.28%	0.42%	0.68%	0.68%

** *The credit loss ratio is at 1.16% (2014: 0.99%); the increase in the credit loss ratio is largely attributable to the reduction in denominator (gross core loans and advances have decreased to £7.2 billion from £8.4 billion), due to the sale of core loans through the divestments.*

^ *Includes Australia, which was previously reported separately.*

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

At 31 March £'000	2015	2014*
Default loans that are current	262 221	190 256
1 – 60 days	201 425	316 059
61 – 90 days	10 331	71 114
91 – 180 days	21 839	39 114
181 – 365 days	56 884	91 928
> 365 days	238 129	308 272
Past due and default core loans and advances to customers (actual capital exposure)	790 829	1 016 743
1 – 60 days	35 974	18 750
61 – 90 days	2 234	4 011
91 – 180 days	9 807	10 646
181 – 365 days	12 929	40 886
> 365 days	209 923	274 314
Past due and default core loans and advances to customers (actual amount in arrears)	270 867	348 607

* *The loan book age analysis amounts were restated with no impact on primary statements or key ratios.*

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 2015							
Watchlist loans neither past due nor impaired							
Total capital exposure	70 589	–	–	–	–	–	70 589
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	172 458	8 102	15 008	16 521	32 006	244 095
Amount in arrears	–	27 436	1 944	6 215	5 760	17 951	59 306
Gross core loans and advances to customers that are impaired							
Total capital exposure	191 632	28 967	2 229	6 831	40 363	206 123	476 145
Amount in arrears	–	8 538	290	3 592	7 169	191 972	211 561
At 31 March 2014^							
Watchlist loans neither past due nor impaired							
Total capital exposure	30 475	–	–	–	–	–	30 475
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	300 761	52 879	25 079	29 695	25 555	433 969
Amount in arrears	–	15 374	1 354	4 394	15 390	17 690	54 202
Gross core loans and advances to customers that are impaired							
Total capital exposure	159 781	15 298	18 235	14 035	62 233	282 717	552 299
Amount in arrears	–	3 376	2 657	6 252	25 496	256 624	294 405

^ *The loan book age analysis amounts were restated with no impact on primary statements or key ratios.*

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)	–	102 832	–	–	–	–	102 832
Special mention	–	67 695	6 531	1 067	1 896	2 447	79 636
Special mention (1 – 90 days)	–	67 695	114	1 067*	1 896*	2 447*	73 219
Special mention (61 – 90 days and item well secured)	–	–	6 417	–	–	–	6 417
Default	262 221	30 898	3 800	20 772	54 988	235 682	608 361
Sub-standard	131 309	1 987	1 571	14 192	43 605	69 299	261 963
Doubtful	129 544	28 911	2 229	5 768	10 951	63 990	241 393
Loss	1 368	–	–	812	432	102 393	105 005
Total	262 221	201 425	10 331	21 839	56 884	238 129	790 829

* *Largely relates to solvent deceased estates and bonds under registration at the deeds office. Due to the lengthy external process with respect to these exposures, which are out of the control of Investec, these exposures have been classified as special mention and will remain there until settled or their credit quality deteriorates.*

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)	–	8 137	–	–	–	–	8 137
Special mention	–	19 271	1 260	345	1 435	1 493	23 804
Special mention (1 – 90 days)	–	19 271	3	345*	1 435*	1 493*	22 547
Special mention (61 – 90 days and item well secured)	–	–	1 257	–	–	–	1 257
Default	–	8 566	974	9 462	11 494	208 430	238 926
Sub-standard	–	31	684	6 093	5 901	56 001	68 710
Doubtful	–	8 535	290	2 557	5 161	50 036	66 579
Loss	–	–	–	812	432	102 393	103 637
Total	–	35 974	2 234	9 807	12 929	209 923	270 867

An age analysis of past due and default core loans and advances to customers at 31 March 2014^ (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)	–	166 537	–	–	–	–	166 537
Special mention	–	124 235	51 546	188	12 175	3 383	191 527
Special mention (1 – 90 days)	–	124 235	29 752	188*	12 175*	3 383*	169 733
Special mention (61 – 90 days and item well secured)	–	–	21 794	–	–	–	21 794
Default	190 256	25 287	19 568	38 926	79 753	304 889	658 679
Sub-standard	101 783	13 572	14 566	25 400	32 706	65 932	253 959
Doubtful	87 509	11 648	5 000	12 362	46 414	99 385	262 318
Loss	964	67	2	1 164	633	139 572	142 402
Total	190 256	316 059	71 114	39 114	91 928	308 272	1 016 743

An age analysis of past due and default core loans and advances to customers at 31 March 2014^ (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)	–	8 560	–	–	–	–	8 560
Special mention	–	6 771	1 303	28	10 637	601	19 340
Special mention (1 – 90 days)	–	6 771	274	28*	10 637*	601*	18 311
Special mention (61 – 90 days and item well secured)	–	–	1 029	–	–	–	1 029
Default	–	3 419	2 708	10 618	30 249	273 713	320 707
Sub-standard	–	75	1 781	4 653	6 813	59 330	72 652
Doubtful	–	3 277	925	4 801	23 260	74 811	107 074
Loss	–	67	2	1 164	176	139 572	140 981
Total	–	18 750	4 011	10 646	40 886	274 314	348 607

* *Largely relates to solvent deceased estates and bonds under registration at the deeds office. Due to the lengthy external process with respect to these exposures, which are out of the control of Investec, these exposures have been classified as special mention and will remain there until settled or their credit quality deteriorates.*

^ *The loan book age analysis amounts were restated with no impact on primary statements or key ratios.*

An analysis of core loans and advances to customers

£'000	Gross core loans and advances that are neither past due nor impaired	Gross core loans and advances that are past due but not impaired	Gross core loans and advances that are impaired	Total gross core loans and advances (actual capital exposure)	Specific impairments	Portfolio impairments	Total net core loans and advances (actual capital exposure)	Actual amount in arrears
At 31 March 2015								
Current core loans and advances	16 650 156	–	–	16 650 156	–	(43 163)	16 606 993	–
Past due (1 – 60 days)	–	102 832	–	102 832	–	(147)	102 685	8 137
Special mention	–	79 636	–	79 636	–	(415)	79 221	23 804
Special mention (1 – 90 days)	–	73 219	–	73 219	–	(384)	72 835	22 547
Special mention (61 – 90 days and item well secured)	–	6 417	–	6 417	–	(31)	6 386	1 257
Default	70 589	61 627	476 145	608 361	(208 348)	(2)	400 011	238 926
Sub-standard	70 023	61 627	130 313	261 963	(36 870)	(2)	225 091	68 710
Doubtful	566	–	240 827	241 393	(108 580)	–	132 813	66 579
Loss	–	–	105 005	105 005	(62 898)	–	42 107	103 637
Total	16 720 745	244 095	476 145	17 440 985	(208 348)	(43 727)	17 188 910	270 867
At 31 March 2014^								
Current core loans and advances	16 405 187	–	–	16 405 187	–	(25 562)	16 379 625	–
Past due (1 – 60 days)	–	166 537	–	166 537	–	(221)	166 316	8 560
Special mention	–	191 527	–	191 527	–	(544)	190 983	19 340
Special mention (1 – 90 days)	–	169 733	–	169 733	–	(487)	169 246	18 311
Special mention (61 – 90 days and item well secured)	–	21 794	–	21 794	–	(57)	21 737	1 029
Default	30 475	75 905	552 299	658 679	(238 226)	(10)	420 443	320 707
Sub-standard	30 275	75 905	147 779	253 959	(36 846)	(10)	217 103	72 652
Doubtful	–	–	262 318	262 318	(119 951)	–	142 367	107 074
Loss	200	–	142 202	142 402	(81 429)	–	60 973	140 981
Total	16 435 662	433 969	552 299	17 421 930	(238 226)	(26 337)	17 157 367	348 607

^ *The loan book age analysis amounts were restated with no impact on primary statements or key ratios.*

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

£'000	Private client professional and HNW individuals	Corporate sector	Insurance, financial services (excluding sovereign)	Public and government sector (including central banks)	Trade finance and other	Total core loans and advances to customers
At 31 March 2015						
Current core loans and advances	9 581 985	5 400 581	1 211 033	237 114	219 443	16 650 156
Past due (1 – 60 days)	95 386	3 696	–	870	2 880	102 832
Special mention	77 859	1 623	–	–	154	79 636
Special mention (1 – 90 days)	71 864	1 355	–	–	–	73 219
Special mention (61 – 90 days and item well secured)	5 995	268	–	–	154	6 417
Default	529 638	64 225	244	4 793	9 461	608 361
Sub-standard	244 048	17 800	–	–	115	261 963
Doubtful	182 129	45 221	229	4 468	9 346	241 393
Loss	103 461	1 204	15	325	–	105 005
Total gross core loans and advances to customers	10 284 868	5 470 125	1 211 277	242 777	231 938	17 440 985
Total impairments	(216 154)	(28 325)	(350)	(847)	(6 399)	(252 075)
Specific impairments	(174 498)	(26 488)	(150)	(813)	(6 399)	(208 348)
Portfolio impairments	(41 656)	(1 837)	(200)	(34)	–	(43 727)
Net core loans and advances to customers	10 068 714	5 441 800	1 210 927	241 930	225 539	17 188 910
At 31 March 2014^						
Current core loans and advances	10 544 488	4 677 036	759 941	238 084	185 638	16 405 187
Past due (1 – 60 days)	142 662	20 412	–	–	3 463	166 537
Special mention	133 455	57 992	–	–	80	191 527
Special mention (1 – 90 days)	112 271	57 462	–	–	–	169 733
Special mention (61 – 90 days and item well secured)	21 184	530	–	–	80	21 794
Default	574 781	66 611	10 594	654	6 039	658 679
Sub-standard	224 309	18 968	10 414	–	268	253 959
Doubtful	209 755	46 018	149	625	5 771	262 318
Loss	140 717	1 625	31	29	–	142 402
Total gross core loans and advances to customers	11 395 386	4 822 051	770 535	238 738	195 220	17 421 930
Total impairments	(224 304)	(35 168)	(207)	(337)	(4 547)	(264 563)
Specific impairments	(201 092)	(32 231)	(94)	(262)	(4 547)	(238 226)
Portfolio impairments	(23 212)	(2 937)	(113)	(75)	–	(26 337)
Net core loans and advances to customers	11 171 082	4 786 883	770 328	238 401	190 673	17 157 367

^ *The loan book age analysis amounts were restated with no impact on primary statements or key ratios.*

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

	UK and Other^					Southern Africa				
£'000	Gross core loans	Gross defaults	Aggregate collateral and other credit enhance-ments on defaults	Balance sheet impair-ments	Income statement impair-ments*	Gross core loans	Gross defaults	Aggregate collateral and other credit enhance-ments on defaults	Balance sheet impair-ments	Income statement impair-ments*
Lending collateralised by property	2 318 053	343 229	233 676	(134 451)	(65 477)	2 115 857	72 994	72 462	(19 791)	(10 055)
Commercial real estate	1 510 506	122 886	79 588	(51 517)	(31 193)	1 942 835	36 261	41 200	(10 219)	(8 061)
Commercial real estate – investment	1 229 217	58 142	50 302	(11 752)	(18 918)	1 726 158	15 370	24 658	(1 746)	(2 100)
Commercial real estate – development	147 707	20 129	6 544	(13 585)	(4 953)	131 974	4 020	4 217	(321)	(209)
Commercial vacant land and planning	133 582	44 615	22 742	(26 180)	(7 322)	84 703	16 871	12 325	(8 152)	(5 752)
Residential real estate	807 547	220 343	154 088	(82 934)	(34 284)	173 022	36 733	31 262	(9 572)	(1 994)
Residential real estate – investment	292 089	53 911	50 294	(10 756)	(5 738)	–	–	–	–	–
Residential real estate – development	425 258	116 163	74 975	(50 571)	(14 638)	88 448	19 262	18 510	(2 755)	(84)
Residential vacant land and planning	90 200	50 269	28 819	(21 607)	(13 908)	84 574	17 471	12 752	(6 817)	(1 910)
High net worth and other private client lending	1 203 489	30 113	29 012	(11 048)	(12 139)	4 647 469	83 302	106 385	(9 208)	(1 741)
Mortgages	952 617	7 977	13 015	(914)	(1 091)	2 764 265	25 663	41 973	(2 472)	(428)
High net worth and specialised lending	250 872	22 136	15 997	(10 134)	(11 048)	1 883 204	57 639	64 412	(6 736)	(1 313)
Corporate and other lending	3 728 019	26 772	18 009	(8 763)	(13 093)	3 428 098	51 951	28 714	(25 087)	(15 563)
Acquisition finance	731 195	–	–	–	1 231	906 000	26 784	17 389	(12 392)	(10 422)
Asset-based lending	241 859	–	–	–	–	206 814	9 461	6 527	(6 399)	(2 055)
Fund finance	495 037	–	–	–	–	–	–	–	–	–
Other corporates and financial institutions and governments	719 049	–	–	–	(3 091)	1 728 443	14 731	4 757	(5 360)	(3 187)
Asset finance	1 119 165	8 346	3 642	(4 704)	(5 464)	246 702	3	41	37	(1 245)
Small ticket asset finance	835 773	8 346	3 642	(4 704)	(5 464)	68 319	3	41	37	(932)
Large ticket asset finance	283 392	–	–	–	–	178 383	–	–	–	(313)
Project finance	407 577	4 289	2 585	(1 704)	(719)	311 357	972	–	(973)	1 346
Resource finance	14 137	14 137	11 782	(2 355)	(5 050)	28 782	–	–	–	–
Portfolio impairments				(34 182)					(9 545)	
Total	7 249 561	400 114	280 697	(188 444)	(90 709)	10 191 424	208 247	207 561	(63 631)	(27 359)

^ *Includes Australia, which was previously reported separately.*
* *Where a positive number represents a recovery.*

Risk and Basel Pillar III disclosures

1

Total group				
Gross core loans	Gross defaults	Aggregate collateral and other credit enhancements on defaults	Balance sheet impairments	Income statement impairments*
4 433 910	416 223	306 138	(154 242)	(75 532)
3 453 341	159 147	120 788	(61 736)	(39 254)
2 955 375	73 512	74 960	(13 498)	(21 018)
279 681	24 149	10 761	(13 906)	(5 162)
218 285	61 486	35 067	(34 332)	(13 074)
980 569	257 076	185 350	(92 506)	(36 278)
292 089	53 911	50 294	(10 756)	(5 738)
513 706	135 425	93 485	(53 326)	(14 722)
174 774	67 740	41 571	(28 424)	(15 818)
5 850 958	113 415	135 397	(20 256)	(13 880)
3 716 882	33 640	54 988	(3 386)	(1 519)
2 134 076	79 775	80 409	(16 870)	(12 361)
7 156 117	78 723	46 723	(33 850)	(28 656)
1 637 195	26 784	17 389	(12 392)	(9 191)
448 673	9 461	6 527	(6 399)	(2 055)
495 037	–	–	–	–
2 447 492	14 731	4 757	(5 360)	(6 278)
1 365 867	8 349	3 683	(4 667)	(6 709)
904 092	8 349	3 683	(4 667)	(6 396)
461 775	–	–	–	(313)
718 934	5 261	2 585	(2 677)	627
42 919	14 137	11 782	(2 355)	(5 050)
–	–	–	(43 727)	–
17 440 985	608 361	488 258	(252 075)	(118 068)

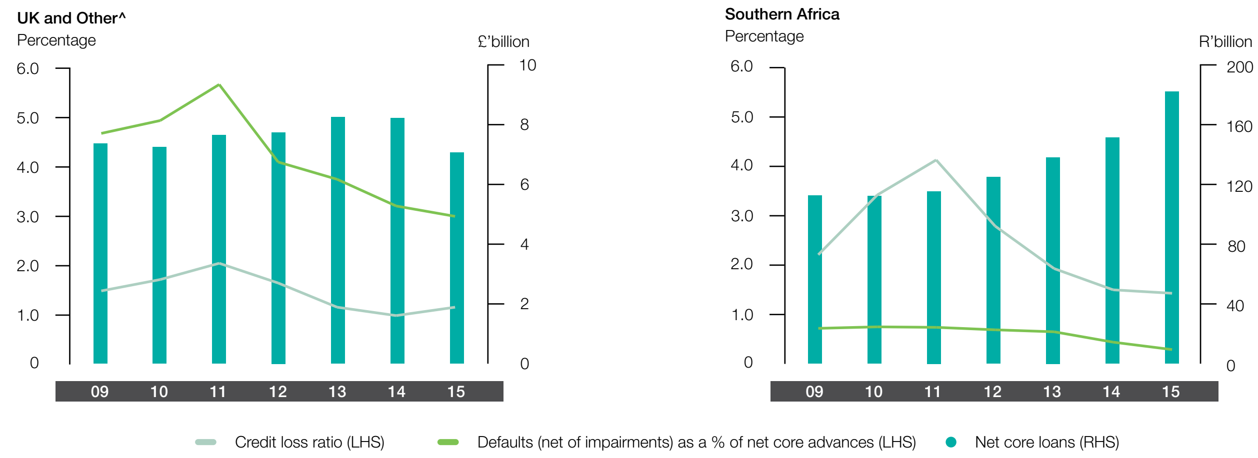
An analysis of core loans and advances by risk category at 31 March 2014

£'000	UK and Other					Southern Africa				
	Gross core loans	Gross defaults	Aggregate collateral and other credit enhancements on defaults	Balance sheet impairments	Income statement impairments*	Gross core loans	Gross defaults	Aggregate collateral and other credit enhancements on defaults	Balance sheet impairments	Income statement impairments*
Lending collateralised by property	**2 438 703**	**366 798**	**229 846**	**(138 354)**	**(39 720)**	**2 022 944**	**105 079**	**97 690**	**(35 640)**	**(12 161)**
Commercial real estate	1 623 173	128 026	76 647	(52 087)	(23 907)	1 855 220	42 658	51 175	(9 875)	(4 135)
Commercial real estate – investment	1 396 537	62 723	47 562	(13 684)	(14 549)	1 648 914	29 379	36 219	(6 278)	(1 965)
Commercial real estate – development	92 787	21 016	11 243	(10 466)	(3 182)	105 130	–	–	–	(1 021)
Commercial vacant land and planning	133 849	44 287	17 842	(27 937)	(6 176)	101 176	13 279	14 956	(3 597)	(1 149)
Residential real estate	815 530	238 772	153 199	(86 267)	(15 813)	167 724	62 421	46 515	(25 765)	(8 026)
Residential real estate – investment	327 607	39 344	29 945	(6 765)	(3 350)	–	–	–	–	–
Residential real estate – development	382 862	134 762	80 103	(56 463)	(8 765)	70 129	18 711	18 455	(2 767)	(2 828)
Residential vacant land and planning	105 061	64 666	43 151	(23 039)	(3 698)	97 595	43 710	28 060	(22 998)	(5 198)
High net worth and other private client lending	**1 497 909**	**21 144**	**17 605**	**(5 706)**	**(10 238)**	**4 057 849**	**57 964**	**68 875**	**(13 879)**	**(21 957)**
Mortgages (owner occupied)	1 143 043	4 786	6 115	(900)	(678)	2 455 188	35 247	46 649	(5 218)	(5 581)
High net worth and specialised lending	280 874	15 023	10 921	(4 041)	(9 529)	1 602 661	22 717	22 226	(8 661)	(16 376)
Professional finance	73 992	1 335	569	(765)	(31)	–	–	–	–	–
Corporate and other lending	**2 737 789**	**38 368**	**15 411**	**(22 961)**	**(11 155)**	**2 925 570**	**38 660**	**35 588**	**(11 841)**	**(5 123)**
Acquisition finance	666 069	11 603	4 133	(7 471)	(1 865)	694 168	30 014	31 703	(5 452)	515
Asset-based lending	165 569	–	–	–	98	173 738	6 039	3 121	(4 547)	(2 193)
Fund finance	277 771	–	–	–	–	–	–	–	–	–
Other corporates and financial institutions and governments	327 983	4 241	2 821	(1 421)	(1 740)	1 636 858	2 607	764	(1 842)	2 446
Asset finance	878 937	9 832	5 455	(4 378)	(3 344)	200 466	–	–	–	(560)
Small ticket asset finance	665 264	7 849	1 983	(4 378)	(4 567)	57 380	–	–	–	–
Large ticket asset finance	213 673	1 983	3 472	–	1 223	143 086	–	–	–	(560)
Project finance	410 135	12 692	3 002	(9 691)	(4 304)	183 409	–	–	–	(5 331)
Resource finance	11 325	–	–	–	–	36 931	–	–	–	–
Portfolio impairments	–	–	–	(15 045)	–	–	–	–	(9 900)	–
Total	6 674 401	426 310	262 862	(182 066)	(61 113)	9 006 363	201 703	202 153	(71 260)	(39 241)

* *Where a positive number represents a recovery.*

Australia					Total group				
Gross core loans	Gross defaults	Aggregate collateral and other credit enhance-ments on defaults	Balance sheet impair-ments	Income statement impair-ments*	Gross core loans	Gross defaults	Aggregate collateral and other credit enhance-ments on defaults	Balance sheet impair-ments	Income statement impair-ments*
99 922	14 458	10 587	(5 535)	(9 153)	4 561 569	486 335	338 123	(179 529)	(61 034)
39 545	5 196	3 195	(2 002)	(3 395)	3 517 938	175 880	131 017	(63 964)	(31 437)
33 188	5 196	3 195	(2 002)	(3 395)	3 078 639	97 298	86 976	(21 964)	(19 909)
3 285	–	–	–	–	201 202	21 016	11 243	(10 466)	(4 203)
3 072	–	–	–	–	238 097	57 566	32 798	(31 534)	(7 325)
60 377	9 262	7 392	(3 533)	(5 758)	1 043 631	310 455	207 106	(115 565)	(29 597)
330	193	78	(115)	(120)	327 937	39 537	30 023	(6 880)	(3 470)
46 149	–	–	–	(690)	499 140	153 473	98 558	(59 230)	(12 283)
13 898	9 069	7 314	(3 418)	(4 948)	216 554	117 445	78 525	(49 455)	(13 844)
1 278 060	9 339	19 128	(1 978)	(3 692)	6 833 818	88 447	105 608	(21 563)	(35 887)
16 964	–	–	–	–	3 615 195	40 033	52 764	(6 118)	(6 259)
60 591	4 391	15 581	(576)	(455)	1 944 126	42 131	48 728	(13 278)	(26 360)
1 200 505	4 948	3 547	(1 402)	(3 237)	1 274 497	6 283	4 116	(2 167)	(3 268)
363 184	6 869	4 537	(2 332)	(9 274)	6 026 543	83 897	55 536	(37 134)	(25 552)
78 358	6 024	3 800	(2 224)	(8 728)	1 438 595	47 641	39 636	(15 147)	(10 078)
–	–	–	–	–	339 307	6 039	3 121	(4 547)	(2 095)
–	–	–	–	–	277 771	–	–	–	–
92 629	–	–	–	–	2 057 470	6 848	3 585	(3 263)	706
103 872	845	737	(108)	(556)	1 183 275	10 677	6 192	(4 486)	(4 460)
85 086	845	737	(108)	(556)	807 730	8 694	2 720	(4 486)	(5 123)
18 786	–	–	–	–	375 545	1 983	3 472	–	663
28 506	–	–	–	10	622 050	12 692	3 002	(9 691)	(9 625)
59 819	–	–	–	–	108 075	–	–	–	–
–	–	–	(1 392)	–	–	–	–	(26 337)	–
1 741 166	30 666	34 252	(11 237)	(22 119)	17 421 930	658 679	499 267	(264 563)	(122 473)

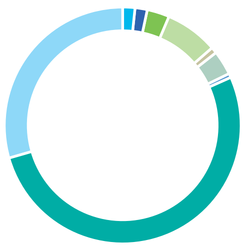
Asset quality trends



^ *Includes Australia, which was previously reported separately.*

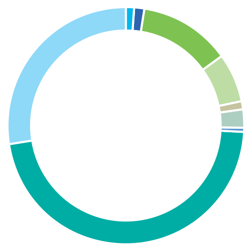
Additional information

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



31 March 2015
£17 441 million

Africa (excluding RSA)	1.9%
Asia	1.7%
Australia	3.0%
Europe (excluding UK)	7.1%
Europe (Non-EU)	0.9%
North America	3.3%
Other	0.3%
South Africa	52.5%
United Kingdom	29.3%



31 March 2014
£17 422 million

Africa (excluding RSA)	1.3%
Asia	1.4%
Australia	12.3%
Europe (excluding UK)	6.7%
Europe (Non-EU)	1.3%
North America	2.4%
Other	0.5%
South Africa	46.7%
United Kingdom	27.4%

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 2015			
Eligible financial collateral	2 295 543	2 310 860	4 606 403
Listed shares	2 055 962	1 133 577	3 189 539
Cash	118 390	535 064	653 454
Debt securities issued by sovereigns	121 191	642 219	763 410
Property charge	16 987 602	259 789	17 247 391
Residential property	8 579 139	254 565	8 833 704
Residential development	554 920	–	554 920
Commercial property development	674 921	5 224	680 145
Commercial property investments	7 178 622	–	7 178 622
Other collateral	6 942 551	757 079	7 699 630
Unlisted shares	940 251	–	940 251
Charges other than property	576 953	729 614	1 306 567
Debtors, stock and other corporate assets	2 565 083	–	2 565 083
Guarantees	1 505 080	833	1 505 913
Other	1 355 184	26 632	1 381 816
Total collateral	26 225 696	3 327 728	29 553 424
At 31 March 2014			
Eligible financial collateral	1 885 055	1 633 349	3 518 404
Listed shares	1 704 372	867 147	2 571 519
Cash	180 683	379 391	560 074
Debt securities issued by sovereigns	–	386 811	386 811
Property charge	16 805 005	1 009 478	17 814 483
Residential property	8 180 568	1 004 817	9 185 385
Residential development	636 555	184	636 739
Commercial property development	542 438	4 477	546 915
Commercial property investments	7 445 444	–	7 445 444
Other collateral	8 437 858	390 200	8 828 058
Unlisted shares	1 891 585	44 524	1 936 109
Charges other than property	514 790	304 512	819 302
Debtors, stock and other corporate assets	3 387 248	–	3 387 248
Guarantees	1 184 016	8 958	1 192 974
Other	1 460 219	32 206	1 492 425
Total collateral	27 127 918	3 033 027	30 160 945

* *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.*

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

Equity and investment risk in the banking book

Equity and investment risk description

Equity and investment risk in the banking book arises primarily from the following activities conducted within the group:

- **Principal Investments (Private Equity and Direct 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. In addition, as a result of our local market knowledge and investment banking expertise, we are well positioned to take direct positions in listed shares where we believe that the market is mispricing the value of the underlying portfolio with the intention to stimulate corporate activity. In South Africa, we also continue to pursue opportunities to help create and grow black-owned and controlled companies
- **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
- **Central Funding:** in South Africa Central Funding is the custodian of certain equity and property investments.

Management of equity and investment risk

As equity and 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 equity and investment risk	Management of risk
Listed equities	Investment committee, market risk management and ERRF
Investment Banking Principal Finance investments	Investment committee, the Investec Bank Limited Direct Investments division 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, Investec Property group investment committee in South Africa and ERRF
Central Funding investments	Investment committee and ERRF

Risk appetite targets are set to limit our exposure to equity and investment risk. An assessment of exposures against targets as well as stress testing scenario analysis are performed and reported to GRCC, BRCC and the board. 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 24 and 25 in volume three and pages 62 to 73 in volume three 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 3.9% of total assets.

Refer to page 62 in volume three for further information.

The tables below provide an analysis of income and revaluations recorded with respect to these investments.

For the year to 31 March 2015 £'000 Country/category	Income (pre-funding costs)				Fair value through equity
	Unrealised	Realised	Dividends	Total	
Unlisted investments	8 940	85 624	24 618	119 182	709
UK and Other*	(25 673)	60 017	5 106	39 450	709
Southern Africa	34 613	25 607	19 512	79 732	–
Listed equities	20 515	357	6 068	26 940	100
UK and Other*	19 770	1 505	772	22 047	425
Southern Africa	745	(1 148)	5 296	4 893	(325)
Investment and trading properties^	6 727	21 747	–	28 474	–
UK and Other*	8 664	2 354	–	11 018	–
Southern Africa	(1 937)	19 393	–	17 456	–
Warrants, profit shares and other embedded derivatives	(76 947)	19 628	–	(57 319)	–
UK and Other*	(70 947)	1 873	–	(69 074)	–
Southern Africa	(6 000)	17 755	–	11 755	–
Total	(40 765)	127 356	30 686	117 277	809

^ *For the purposes of the above analysis, the exposures arising from the consolidation of the Investec Property Fund have been reflected at the level of our economic ownership, being 33.1% in 2015. It is noted that the ultimate impact on the income statement reflects the group's net attributable earnings from the investment.*

* *Includes Australia, which was previously reported separately.*

For the year to 31 March 2014 £'000 Country/category	Income (pre-funding costs) Unrealised	Realised	Dividends	Total	Fair value through equity
Unlisted investments	383	35 657	47 658	83 698	10 996
UK and Other*	2 130	30 236	9 120	41 486	10 996
Southern Africa	(1 747)	5 421	38 538	42 212	–
Listed equities	2 724	7 432	1 603	11 759	(498)
UK and Other*	(2 033)	7 786	1 572	7 325	(888)
Southern Africa	4 757	(354)	31	4 434	390
Investment and trading properties^	11 869	17 428	–	29 297	–
UK and Other*	(4 260)	10 500	–	6 240	–
Southern Africa	16 129	6 928	–	23 057	–
Warrants, profit shares and other embedded derivatives	50 698	7 340	–	58 038	–
UK and Other*	51 962	(200)	–	51 762	–
Southern Africa	(1 264)	7 540	–	6 276	–
Total	65 674	67 857	49 261	182 792	10 498

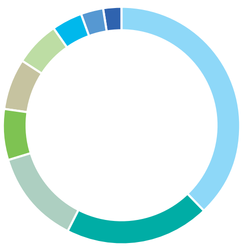
^ *For the purposes of the above analysis, the exposures arising from the consolidation of the Investec Property Fund have been reflected at the level of our economic ownership, being 44.3% in 2014. It is noted that the ultimate impact on the income statement reflects the group's net attributable earnings from the investment.*

* *Includes Australia, which was previously reported separately.*

Investec Limited continues to exclude revaluation gains posted directly to equity from their capital position.

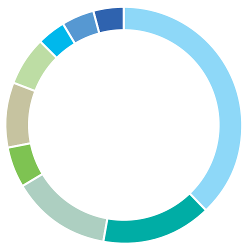
Additional information

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



31 March 2015 (£1 041 million)

Manufacturing and commerce	38.0%
Finance and insurance	19.6%
Mining and resources	12.8%
Real estate	7.0%
Retailers and wholesalers	6.8%
Communication	6.3%
Other	4.1%
Agriculture	2.9%
Business services	2.5%



31 March 2014 (£1 003 million)

Manufacturing and commerce	37.9%
Finance and insurance	15.0%
Mining and resources	13.6%
Real estate	5.5%
Retailers and wholesalers	8.9%
Communication	6.7%
Other	3.8%
Agriculture	4.5%
Business services	4.1%

Summary of investments held and stress testing analyses

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

£'000 Country/category	On-balance sheet value of investments 2015	Valuation change stress test 2015*	On-balance sheet value of investments 2014°	Valuation change stress test 2014*°
Unlisted investments**	810 031	121 505	756 534	113 481
UK and Other^^	287 821	43 173	278 728	41 810
Southern Africa	522 210	78 332	477 806	71 672
Listed equities**	178 541	44 635	110 848	27 711
UK and Other^^	113 120	28 280	63 869	15 967
Southern Africa	65 421	16 355	46 979	11 744
Total listed equities and unlisted investments	988 572	166 140	867 382	141 192
UK and Other^^	400 941	71 453	342 597	57 777
Southern Africa	587 631	94 687	524 785	83 416
Investment and trading properties^	550 367	76 641	477 711	55 181
UK and Other^^	191 499	31 726	102 059	8 069
Southern Africa	358 868	44 915	375 652	47 112
Warrants, profit shares and other embedded derivatives	52 719	18 452	136 359	47 725
UK and Other^^	36 111	12 639	112 591	39 407
Southern Africa	16 608	5 813	23 768	8 318
Total	1 591 658	261 233	1 481 452	244 098

* *In order to assess our earnings sensitivity to a movement in the valuation of these investments, the following stress testing parameters are applied.*
° *Restated.*
** *Includes the investment portfolio and non-current assets classified as held for sale lines as per the balance sheet.*
^^ *Includes Australia, which was previously reported separately.*
^ *For the purposes of the above analysis, the exposures arising from the consolidation of the Investec Property Fund have been reflected at the level of our economic ownership, being 33.1% in 2015 and 44.3% in 2014.*

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 2015, as reflected above, we could have a £261 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 Basel III capital requirements for Investec Limited, unlisted and listed equities within the banking book are represented under the category of 'equity risk' and investment properties, profit shares and embedded derivatives are considered in the calculation of capital required for credit risk. In terms of CRD IV capital requirements for Investec plc, unlisted and listed equities within the banking book are considered in the calculation of capital required for credit risk.

Refer to page 88 for further detail.

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 23 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 2015 are not regarded as material, and therefore no further information is disclosed for these exposures.

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.

UK and Other

The bank plays an originator role in the securitisation of assets it has originated. To date these have largely been traditional securitisations of residential mortgages originated through the Kensington business which was disposed of in January 2015. 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 the securitisation will be either risk-weighted and/or deducted from capital.

The bank has no securitisations backed by revolving exposures.

Fitch Ratings, Moody's, S&P and DBRS have been involved in rating these abovementioned transactions.

During the year we undertook one new securitisation transaction – Temese Funding 2 Plc, a £280 million securitisation of finance lease receivables which closed in November 2014. The deal consists of a £228 million A note (AAA rated by S&P) and unrated B and C notes of £47 million and £5.3 million, respectively. All of the notes issued by the structure were retained by Investec Bank plc. The purpose of the transaction was for long-term funding at an attractive rate. The group does not apply the securitisation rules to the above originated transactions when calculating risk-weighted assets. For regulatory capital purposes, the group continues to recognise the underlying securitised assets in the consolidated regulatory balance sheet and applies the standardised credit risk rules.

We hold rated structured credit instruments (including resecuritisation exposures). These exposures are largely in the UK and amount to £317 million at 31 March 2015 (31 March 2014: £349 million). This is intended as a hold to maturity portfolio rather than a trading portfolio. Therefore, since our commercial intention is to hold the assets to maturity, the portfolio will be valued on an amortised cost basis. These investments are risk weighted for regulatory capital purposes.

In the prior year we held £8 million rated securitised assets and £448 million of own originated private client assets, relating to Australia's professional finance business. This business and our residual exposures were sold in July 2014.

In the prior year we held residual net exposures amounting to £927 million to the assets originated, warehoused and securitised by Kensington. This business and our residual exposures were sold in January 2015.

South Africa

In South Africa, our securitisation business was established over 15 years ago. Over this time, we have arranged a number of residential and commercial mortgage-backed programmes, asset-backed commercial paper conduits (ABCP), and third party securitisations.

Historically, we have also assisted in the development of select securitisation platforms with external third party originating intermediaries. Our exposure to these platforms has reduced and been sold down over the last few years and at present we have a single limited warehouse funding line to one platform.

Furthermore, we are sponsor to and provide a standby liquidity facility to Private Mortgages 1. This facility, which totalled R0.2 billion at 31 March 2015 (31 March 2014: R1.3 billion), has not been drawn on and is reflected as off-balance sheet contingent exposures in terms of our credit analysis.

Refer to pages 50 and 51.

This exposure is risk weighted for regulatory capital purposes. The liquidity risk associated with this facility is included in the stress testing for the group and is managed in accordance with our overall liquidity position.

We have also sought out select opportunities in the credit/debt markets and traded and purchased in structured credit. These have largely been rated instruments within the UK and Europe, totalling R1.4 billion at 31 March 2015 (31 March 2014: R3.5 billion). We sold a number of these investments during the year. These investments are risk weighted for regulatory capital purposes.

In addition, we have own originated, securitised assets in our Private Client business in South Africa. The primary motivations for the securitisation of assets within our Private Client division are to:

- Provide an alternative source of funding
- Act as a mechanism to transfer risk
- Leverage returns through the retention of equity tranches in low default rate portfolios.

Total assets that have been originated and securitised by the Private Client division amount to R8.1 billion at 31 March 2015 (31 March 2014: R7.5 billion) and consist of residential mortgages (R8.1 billion). Within these securitisation vehicles loans greater than 90 days in arrears amounted to R24.1 million.

Private Residential Mortgages (PRM) Limited – Series 2 (PRM2) was refinanced internally for R3.46 billion in June 2014. During the year we arranged two new Investec Private Client originated residential mortgage securitisation transactions, namely, Fox Street 3 (RF) Limited (FS3 for R1.95 billion), and Fox Street 4 (RF) Limited (FS4 for R3.73 billion). These two RMBS transactions were structured as amortising transactions and the notes are held internally by Investec in order to make use of the SARB's committed liquidity facility (CLF). FS1 to FS4 are rated by Fitch. The group has acted as sole originator and sponsor in these securitisation transactions, which are considered to be traditional securitisations and in which a complete transfer of risk has deemed to have occurred for regulatory capital purposes. The group has retained an investment in all of these transactions. In terms of current securitisation rules, the group cannot act as liquidity provider to these transactions, and thus for these Fox Street structures, the special purpose entity has an internal liquidity reserve that has been funded. Credit mitigants have not been used in these transactions. An exemption notice in terms of securitisation rules has been applied for in relation to all the transactions.

For regulatory capital purposes, the majority of these transactions are treated as deductions against capital. The group has no resecuritisation exposures in South Africa.

Accounting policies

Refer to page 25 in volume three.

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.

In addition, securitisations of Investec own originated assets are assessed in terms of the credit risk management philosophies and principles as set out on page 48.

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.
In addition, assets that have been securitised by our Private Client division are reflected as part of our core lending exposures and not our securitisation/structured credit exposures as we believe this reflects the true nature and intent of these exposures and activities.

At 31 March Nature of exposure/activity	Exposure 2015 £'million	Exposure 2014 £'million	Balance sheet and credit risk classification	Asset quality – relevant comments
Structured credit*	437	656	Other debt securities, other loans and advances, and other securitised assets	
Rated	395	556		
Unrated	42	100		
Kensington – mortgage assets: (net exposure)	–^	927		
Loans and advances to customers and third party intermediary originating platforms (mortgage loans) (with the potential to be securitised)	180	334	Other loans and advances	
Private Client division assets which have been securitised	449	876	Own originated loans and advances to customers securitised	Analysed as part of the group's overall asset quality on core loans and advances as reflected on page 31
South Africa – liquidity facilities provided to third party corporate securitisation vehicles	11	74	Off-balance sheet credit exposure as these facilities have remained undrawn and reflect a contingent liability of the bank	

* *Analysed further on page 51.*

^ *Assets have been sold, refer to page 22 in volume one.*

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

At 31 March £'million	2015 Rated**	2015 Unrated	2015 Total	2014 Rated	2014 Unrated	2014 Total
US corporate loans	118	–	118	16	–	16
UK and European ABS	–	–	–	3	7	10
UK and European RMBS	222	29	251	419	73	492
UK and European CMBS	6	4	10	7	4	11
UK and European corporate loans	42	9	51	68	16	84
South African RMBS	–	–	–	4	–	4
South African CMBS	–	–	–	9	–	9
Australian RMBS	7	–	7	30	–	30
Total	395	42	437	556	100	656
Investec plc	317	33	350	356	84	440
Investec Limited	78	9	87	200	16	216

****Further analysis of rated structured credit at 31 March 2015**

£'million	AAA	AA	A	BBB	BB	B	C and below	Total
US corporate loans	17	61	29	11	–	–	–	118
UK and European ABS	–	–	–	–	–	–	–	–
UK and European RMBS	30	81	43	35	11	–	22	222
UK and European CMBS	–	–	–	6	–	–	–	6
UK and European corporate loans	17	14	10	1	–	–	–	42
South African RMBS	–	–	–	–	–	–	–	–
South African CMBS	–	–	–	–	–	–	–	–
Australian RMBS	–	7	–	–	–	–	–	7
Total at 31 March 2015	64	163	82	53	11	–	22	395
Total at 31 March 2014	125	135	94	142	37	2	21	556

Market risk in the trading book

Traded market risk description

Traded Market Risk is a measure of potential change in the value of a portfolio of instruments as a result of changes in the financial environment (resulting from changes in underlying market risk factors, such as interest rates, equity markets, bond markets, commodity markets, exchange rates and volatilities) between now and a future point in time. The Market Risk Management team identifies, quantifies and manages the effects of these potential changes in accordance with Basel and policies determined by the board.

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 proprietary trading, market making, arbitrage, underwriting and investments in the foreign exchange, capital and money markets. The focus of these businesses 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.

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 the ERRF in accordance with the risk appetite defined by the board. Limits are reviewed at least annually or in the event of a significant market event (e.g. 11 September 2001) or at the discretion of senior management.

Management and measurement of traded market risk

Market Risk Management teams review the market risks on our books. Detailed risk reports are produced daily for each trading desk and for the aggregate risk of the trading book.

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 every instrument traded against prescribed limits. 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. Each trading desk is monitored on an overall basis as an additional control. Trading limits are generally tiered with the most liquid and least ‘risky’ instruments being assigned the largest limits.

The Market Risk Management teams perform a profit attribution, where our daily traded revenue is attributed to the various underlying risk factors on a day-to-day basis. An understanding of the sources of profit and loss is essential to understanding the risks of the business.

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%, 99% and 100% (maximum loss) confidence intervals, with limits set at the 95% confidence interval. ETLs are also monitored daily at the 95% and 99% levels. Scenario analysis considers the impact of a significant market event on our current trading portfolios. We consider the impact for the 10 days after the event, not merely the instantaneous shock to the markets. Included in our scenario analysis are for example the following: October 1987 (Black Monday), 11 September 2001, the December Rand crisis in 2001 and the Lehmans crisis. We also consider the impact of extreme yet plausible future economic events on the trading portfolio as well as possible worst case (not necessarily plausible) scenarios. Scenario analysis is done once a week and is included in the data presented to ERRF.

All VaR models, while forward-looking, are based on past events and depend on the quality of available market data. 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 breach’ is considered to have occurred. Over time we expect the average rate of observed backtesting breaches to be consistent with the percentile of the VaR statistic being tested.

In South Africa, we have internal model approval from the SARB and so trading capital is calculated as a function of the 99% 10-day VaR as well as the 99% 10-day sVaR. Backtesting results and a detailed stress-testing pack are submitted to the regulator on a monthly basis. In the UK, the market risk capital requirement is measured using an internal risk management model, approved by the PRA, for netting certain parts of the portfolio, whilst the capital requirements of the whole portfolio are calculated using standard rules.

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

VaR

	31 March 2015				31 March 2014			
	Year end	Average	High	Low	Year end	Average	High	Low
UK and Other^ (using 95% VaR)								
Equities (£'000)	524	573	825	436	751	908	1 596	467
Foreign exchange (£'000)	23	20	64	1	9	15	73	2
Interest rates (£'000)	495	300	536	197	299	412	602	204
Consolidated (£'000)*	691	617	921	475	852^	1 055	1 496	522
Southern Africa (using 95% VaR)								
Commodities (R'million)	–	0.1	0.5	–	0.5	0.1	0.5	–
Equities (R'million)	1.7	2.7	6.7	0.7	1.7	4.3	8.9	0.5
Foreign exchange (R'million)	3.0	3.1	5.9	1.1	1.9	2.5	7.2	1.1
Interest rates (R'million)	2.7	1.6	3.5	0.9	1.3	2.2	6.0	0.7
Consolidated (R'million)*	3.5	4.4	7.7	1.7	2.8	5.3	9.3	1.7

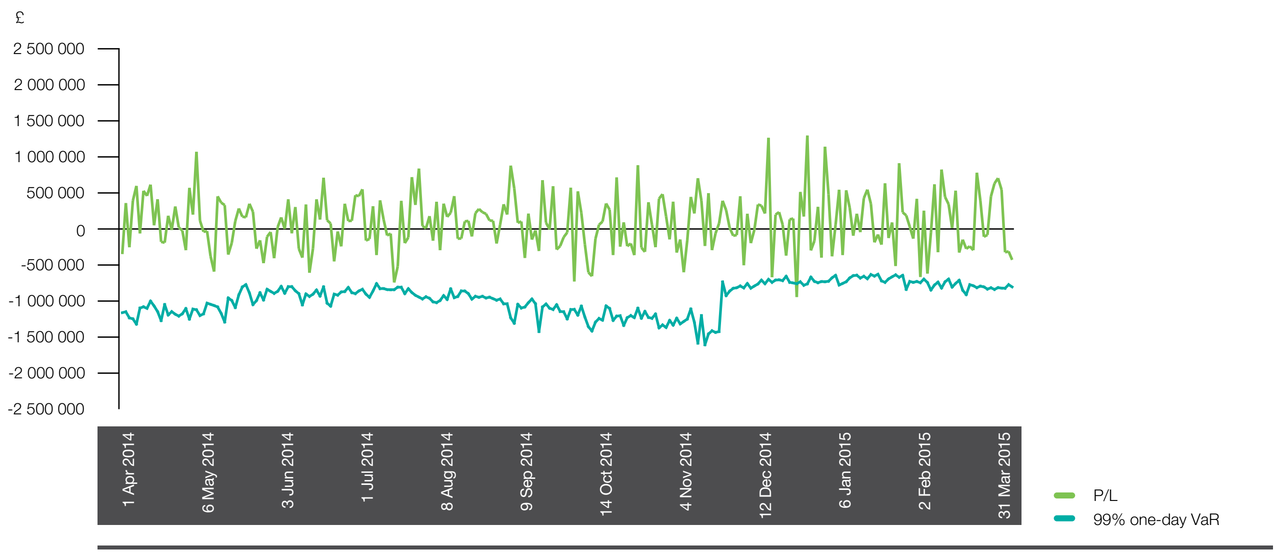
* *The consolidated VaR for each entity is lower than the sum of the individual VaRs. This arises from the consolidation offset between various asset classes (diversification).*

^ *Where 31 March 2015 includes Australia and 31 March 2014 excludes Australia. Australia consolidated VaR at 31 March 2014 was A$45 600.*

UK and Other**

The average VaR utilisation was lower than in 2014, largely as a result of a reduction in risk in the Structured Equity business. Using hypothetical (clean) profit and loss data for backtesting resulted in one exception over the year at the 99% confidence level, i.e. where the loss was greater than the 99% one-day VaR. This is less than expected at the 99% level and is largely due to continued subdued volatility levels over most of the past year.

99% one-day VaR backtesting

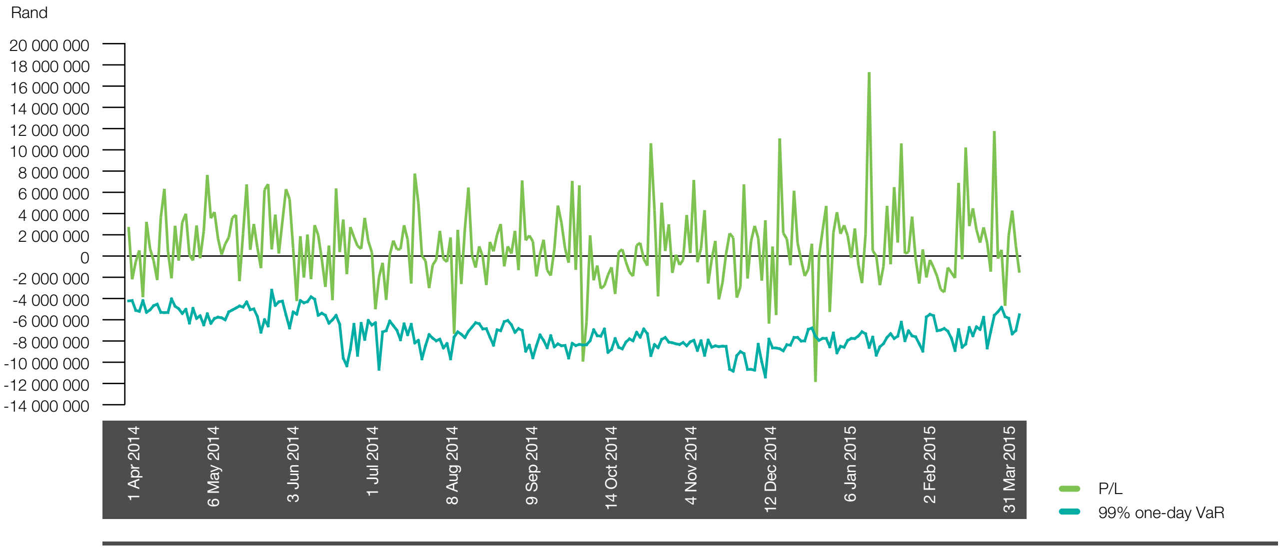


** *Includes Australia, which was previously reported separately.*

Southern Africa

VaR for 2015 in the South African trading book was marginally higher than 2014. Using hypothetical (clean) profit and loss data for backtesting resulted in two exceptions (as shown in the graph below), which is in line with the two to three exceptions that a 99% VaR implies. The exceptions were due to normal trading losses.

99% one-day VaR backtesting



ETL

	UK and Other** 95% (one-day) £'000	Southern Africa 95% (one-day) R'million
31 March 2015		
Equities	663	2.5
Foreign exchange	34	4.4
Interest rates	717	3.8
Consolidated*	874	5.1
31 March 2014		
Commodities	–	0.5
Equities	1 108	2.7
Foreign exchange	13	2.7
Interest rates	481	1.9
Consolidated*	1 202**	4.0

* *The consolidated ETL for each entity is lower than the sum of the individual ETLs. This arises from the correlation offset between various asset classes.*

** *Where 31 March 2015 includes Australia and 31 March 2014 excludes Australia, Australia consolidated ETL at 31 March 2014 was A$72 600.*

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 2015				31 March 2014
	Year end	Average	High	Low	Year end
UK and Other (using 99% EVT)^					
Equities (£'000)	1 658	1 960	3 868	1 070	3 844
Foreign exchange (£'000)	102	57	391	14	24
Interest rates (£'000)	1 676	1 269	1 929	986	1 457
Consolidated (£'000)#	1 413	1 954	3 340	1 197	3 439^
Southern Africa (using 99% EVT)					
Commodities (R'million)	0.1	0.4	4.0	–	1.6
Equities (R'million)	9.6	11.3	21.9	4.6	6.8
Foreign exchange (R'million)	16.2	10.7	26.6	4.7	12.9
Interest rates (R'million)	7.7	9.1	19.4	4.0	6.6
Consolidated (R'million)#	13.5	14.8	26.2	8.6	16.0

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

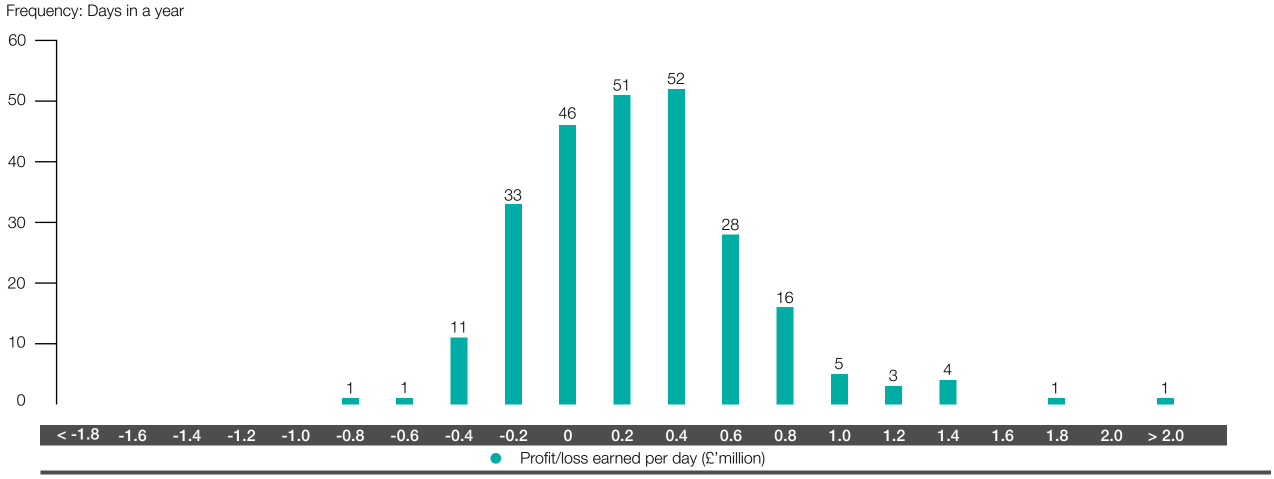
^ *Where 31 March 2015 includes Australia and 31 March 2014 excludes Australia, Australia consolidated stress test as 31 March 2014 was A$137 700.*

Profit and loss histograms

UK and Other^

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 on 161 days out of a total of 253 days in the trading business. The average daily trading revenue generated for the year to 31 March 2015 was £162 486 (2014: £132 949).

Profit and loss

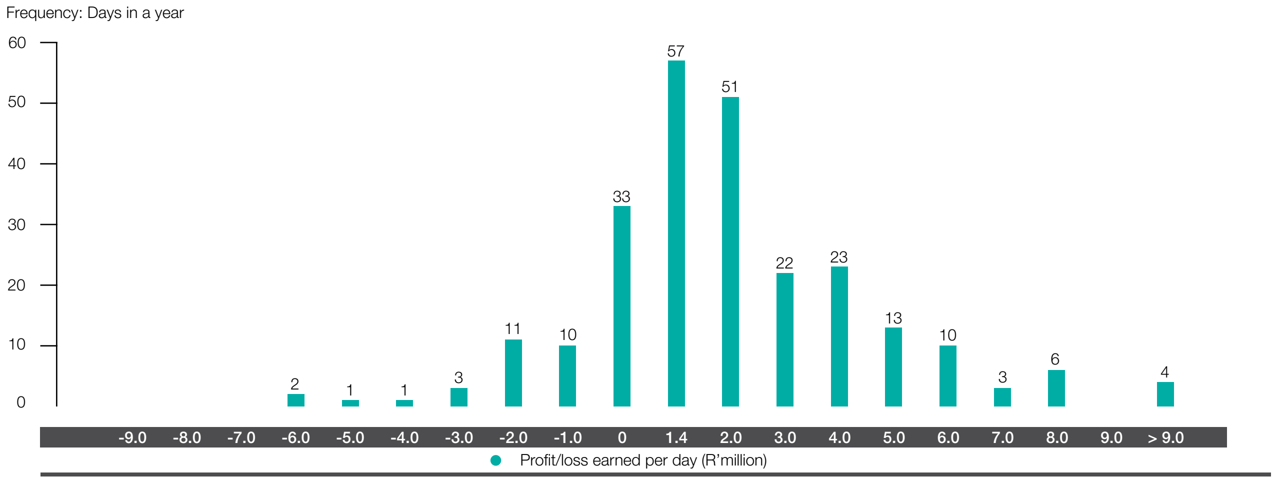


^ *Includes Australia, which was previously reported separately.*

Southern Africa

The histogram below illustrates the distribution of daily 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 on 189 days out of a total of 250 days in the trading business. The average daily trading revenue generated for the year to 31 March 2015 was R1.5 million (2014: R1.4 million).

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 runs independently from source trading systems and values all trades separately. The values from the two systems are reconciled daily. The values from the risk system are also used for profit attribution, another risk management tool.

Risk limits are set according to guidelines set out in our risk appetite policy and are calculated on a statistical and non-statistical basis. Statistical limits include VaR and ETL analyses at various confidence intervals. Historical VaR is used (over 510 days of unweighted data), where every 'risk factor' is exposed to daily moves over a sample period. With the equity markets, for example, the price history for every share and index is taken into account as opposed to techniques where a reduced set of proxies are used.

Non-statistical limits include limits on risk exposure to individual products, transaction tenors, notionals, liquidity, buckets and option sensitivities (greeks). When setting and reviewing these limits, current market conditions are taken into account. Bucket limits are set on time buckets, generally at three-month intervals out to two years and then, on a less granular basis, out to 30 years.

It is risk policy that any significant open position in a foreign currency is held in the trading book. These positions are managed within approved limits and monitored within VaR models.

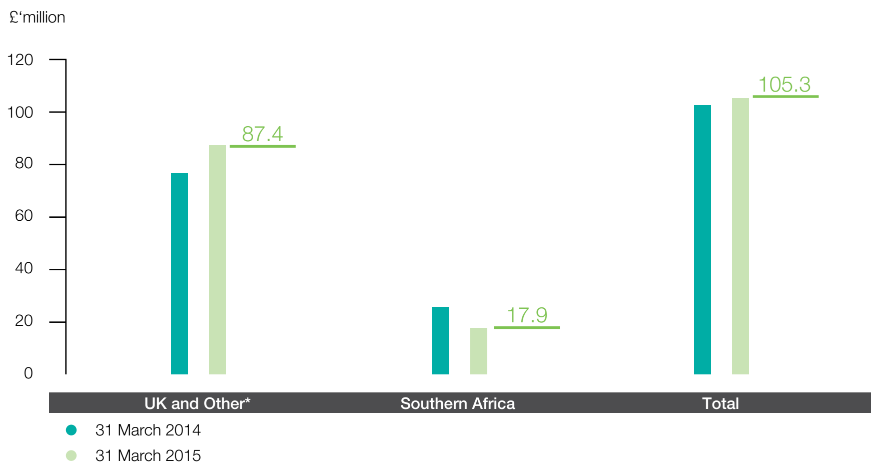
Traded market risk year in review

Trading conditions have remained difficult. Traders have had to contend with very uncertain markets as well as declining market liquidity. While client flow has been under pressure, Investec remains committed to trading on client flow and not proprietary trading. The equity derivatives business has continued to grow both their product offering and the diversity of their client base. Currency markets have generally been illiquid and volatile. Corporate foreign exchange volumes are up leading to increased revenue, however, profit margins have tightened. The trend of low discretionary risk taking in local rates continued in the past year. Little uncertainty and stable interest rates in the local rate environment has not encouraged corporate hedging activity.

In London, there continues to be ongoing growth in client activity across the interest rate and foreign exchange corporate sales desks. The structured equity desk's retail product sales have remained strong, consistent with the performance of underlying equity markets, and the desk continues to develop both their product range and distribution capacity across geographies. Equity market making has further expanded its coverage of stocks listed in the United Kingdom, Ireland and South Africa. Market risk exposures across all asset classes have remained small throughout the year.

In June 2014 responsibility for managing the market risk in the Australian portfolio was transferred to London.

Revenue arising from customer flow trading activities within our Specialist Banking division



* *UK and Other includes Australia, which was previously reported separately.*

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 pages 76 and 77 in volume three.

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

Balance sheet risk management

Balance sheet risk description

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

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, other than the domestic currency, where it is practical and efficient to do so and hedge any residual currency exchange risk arising from deposit and loan banking activities.

The group's liquidity policy requires each geography to be self-funding so that there is no reliance on inter-group lines either from or to other group entities.

Geographic entities have no responsibility for contributing to group liquidity.

The ALCOs typically comprise the group risk and finance director, the head of risk, the head of Corporate and Institutional Banking activities and private banking, economists, divisional heads, the balance sheet risk management team, the treasurer and business heads. 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 (including deposit products offered to the private clients), 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 whilst 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 liquidity issues 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 economic event risk on cash flows, 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.

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'.

It 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'. The BCBS announced that they propose to both strengthen and harmonise global liquidity standards and plan to introduce two new liquidity standards. The Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are due to be implemented by 2015 and 2018, respectively. The BCBS published the final calibration of the LCR in January 2013 to be phased in from 2015 and the final consultation paper for the NSFR was published in October 2014.

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 internal audit of the Balance Sheet Risk Management function, the frequency of which is determined by the independent audit committees.

The group operates an industry-recognised third party risk modelling system in addition to custom-built MIS 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 Audit thereby ensuring integrity of the process.

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.

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
- 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
- The non-trading interest rate risk appetite has been set based on the loss under a worst-case 200bps parallel shock as a percentage of capital. This level applies to both earnings risk and economic value risk
- Internal capital is allocated for 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 the bank swaps its fixed deposits and loans into variable rate in the wholesale market via interest rate swaps
- 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 (including deposit products offered to the private clients) is set centrally. In so doing 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 ALCO review
- Treasury is the primary interface to the wholesale market
- We carry out technical interest rate analysis and economic review of fundamental developments by geography and global trends.

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, whilst 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.

Technical interest rate analysis and economic review of fundamental developments 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, 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, 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. 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 Basel Financial Market Committee 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 consultation documents in the next year on minimum standards for interest rate risk measurement in the banking book.

Interest rate sensitivity gap

The tables below show our non-trading interest rate mismatch. These exposures affect the interest rate margin realised between lending income and borrowing costs assuming no management intervention.

UK and Other – interest rate sensitivity at 31 March 2015^

£'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	3 402	2	–	–	7	148	3 559
Investment/trading assets and statutory liquids	920	201	16	56	581	561	2 335
Securitised assets	412	–	–	–	–	–	412
Advances	5 706	603	273	772	260	–	7 614
Other assets	–	–	–	–	–	1 571	1 571
Assets	10 440	806	289	828	848	2 280	15 491
Deposits – banks	(208)	–	–	–	–	–	(208)
Deposits – non-banks	(7 888)	(825)	(776)	(809)	–	–	(10 298)
Negotiable paper	(580)	(7)	(21)	(169)	(191)	–	(968)
Securitised liabilities	(331)	–	–	–	–	–	(331)
Investment/trading liabilities	(3)	–	–	(2)	–	–	(5)
Subordinated liabilities	(4)	–	–	(18)	(575)	–	(597)
Other liabilities	–	–	–	–	–	(961)	(961)
Liabilities	(9 014)	(832)	(797)	(998)	(766)	(961)	(13 368)
Intercompany loans	71	–	–	–	–	(76)	(5)
Shareholders' funds	–	–	–	–	–	(2 074)	(2 074)
Balance sheet	1 497	(26)	(508)	(170)	82	(831)	44
Off-balance sheet	938	176	(174)	(342)	(598)	–	–
Repricing gap	2 435	150	(682)	(512)	(516)	(831)	44
Cumulative repricing gap	2 435	2 585	1 903	1 391	875	44	

^ *Includes Australia, which was previously reported separately.*

Southern Africa – interest rate sensitivity at 31 March 2015

R'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	32 494	42	–	33	–	6 188	38 757
Cash and short-term funds – non-banks	10 535	5	–	–	–	–	10 540
Investment/trading assets and statutory liquids	21 938	11 532	5 497	11 863	10 858	27 704	89 392
Securitised assets	9 215	–	–	–	–	138	9 353
Advances	154 163	6 092	798	8 596	3 755	803	174 207
Other assets	1 284	–	–	–	–	8 862	10 146
Assets	229 629	17 671	6 295	20 492	14 613	43 695	332 395
Deposits – banks	(30 536)	–	(14)	–	–	(12)	(30 562)
Deposits – non-banks	(184 533)	(11 197)	(11 363)	(10 572)	(2 195)	(1 216)	(221 076)
Negotiable paper	(4 835)	(110)	(617)	(3 864)	–	–	(9 426)
Securitised liabilities	(570)	–	–	–	(625)	(781)	(1 976)
Investment/trading liabilities	(9 504)	(678)	(3 194)	(1 076)	(233)	(11 026)	(25 711)
Subordinated liabilities	(7 659)	–	–	(200)	(2 590)	–	(10 449)
Other liabilities	(3)	–	–	–	–	(9 029)	(9 032)
Liabilities	(237 640)	(11 985)	(15 188)	(15 712)	(5 643)	(22 064)	(308 232)
Intercompany loans	14 130	(457)	(939)	1 277	(42)	2 188	16 157
Shareholders' funds	(3 274)	–	–	(408)	(1 421)	(30 423)	(35 526)
Balance sheet	2 845	5 229	(9 832)	5 649	7 507	(6 604)	4 794
Off-balance sheet	12 468	(2 828)	2 150	(8 845)	(7 613)	(126)	(4 794)
Repricing gap	15 313	2 401	(7 682)	(3 196)	(106)	(6 730)	–
Cumulative repricing gap	15 313	17 714	10 032	6 836	6 730	–	

Economic value sensitivity at 31 March 2015

For the reasons outlined above, our preference for monitoring and measuring non-trading interest rate risk is economic value sensitivity. The tables below reflect 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.

UK and Other

	Sensitivity to the following interest rates (expressed in original currencies)						
million	GBP	USD	EUR	AUD	ZAR	Other (GBP)	All (GBP)
200bps down	(72.9)	(9.7)	4.4	0.8	1.8	(0.5)	(76.9)
200bps up	65.8	10.2	(0.1)	(0.8)	(1.8)	0.5	73.3

Southern Africa

	Sensitivity to the following interest rates (expressed in original currencies)						
million	ZAR	GBP	USD	EUR	AUD	Other (ZAR)	All (ZAR)
200bps down	(123.4)	9.2	9.4	(0.8)	(2.8)	2.8	122.6
200bps up	148.0	(8.2)	(6.1)	0.7	1.2	(2.5)	(55.1)

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. Inadequate liquidity can bring about the untimely demise of any financial institution. As such, the group considers ongoing access to appropriate liquidity for all its operations to be of paramount importance, and our core liquidity philosophy is reflected in day-to-day practices which encompass the following robust and comprehensive set of policies and procedures for assessing, measuring and controlling the liquidity risk:

- Our liquidity management processes encompass principles set out by the regulatory authorities in each jurisdiction, namely the PRA, SARB, the Bank of Mauritius, Guernsey Financial Services and Swiss Financial Supervisory Authority
- 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 to be phased in from 2015
- 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
- Each geographic entity must be self-sufficient from a funding and liquidity standpoint so that there is no reliance on intergroup lines either from or to other group entities
- Geographic entities have no responsibility for contributing to group liquidity
- 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
- 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 to 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 whilst 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
- Stress conditions based on statistical historical analysis, documented experience and prudent judgement
- Basel standards for liquidity measurement:
  - Liquidity Coverage Ratio (LCR)
  - Net Stable Funding Ratio (NSFR)
- 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 private client 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. Although the contractual repayments of many Private Bank customer accounts are on demand or at short notice, in practice such accounts remain a stable source of funds. We continued to successfully raise private client deposits despite competitive pressures with total deposits (excluding divestments of businesses) increasing by 7.3% to £22.6 billion at 31 March 2015. The growth in retail deposits benefited from the wider macro-economic trend of expanded money supply, customer deleveraging and loan growth. 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. On average our fixed and notice customer deposits have amounted to approximately 84% of total deposits since April 2006 for Investec plc, thereby displaying a strong 'stickiness' and willingness to reinvest by our retail customers.

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 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 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, which puts us in a favourable position to meet the Basel III liquidity requirements. 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 2014 to 31 March 2015 average cash and near cash balances over the period amounted to £9.1 billion (£4.4 billion in UK and Other; R86.3 billion in South Africa).

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

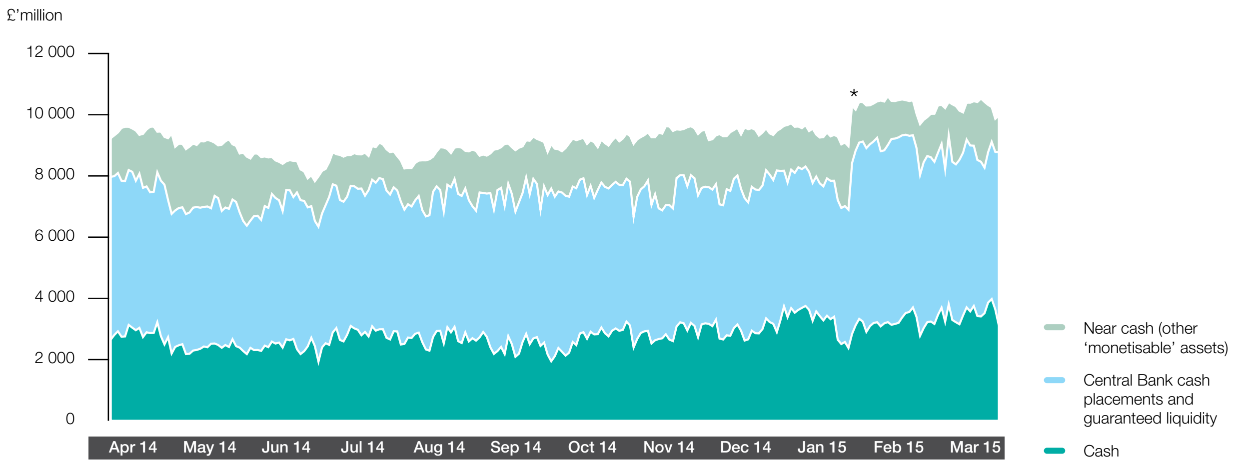
An asset is defined as encumbered if it has been pledged as collateral against an existing liability and, as a result, is no longer available to the group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. An asset is therefore categorised as unencumbered if it 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 holds a liquidity buffer in the form of unencumbered, readily available, high-quality liquid assets, typically in the form of government or rated securities eligible for repurchase with the central banks in the respective jurisdictions.

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. During the year the group issued £280 million of notes through securitisations in the UK and R6.2 billion in South Africa.

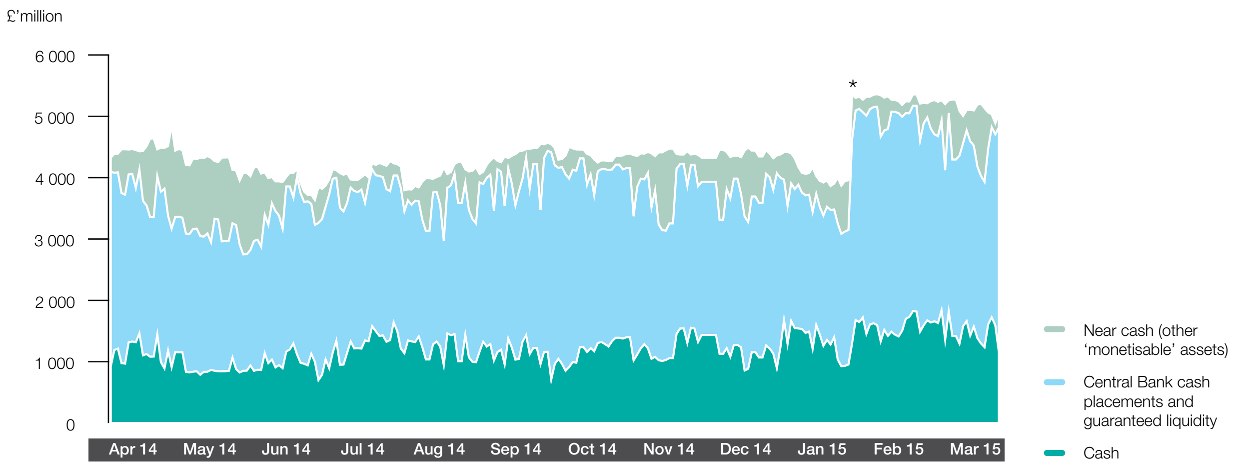
The group uses secured transactions to manage short-term cash and collateral needs. Details of assets pledged through repurchase activity and collateral pledges are reported by line item of the balance sheet on which they are reflected on page 74 in volume three. Related liabilities are also reported.

On page 74 in volume three 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.

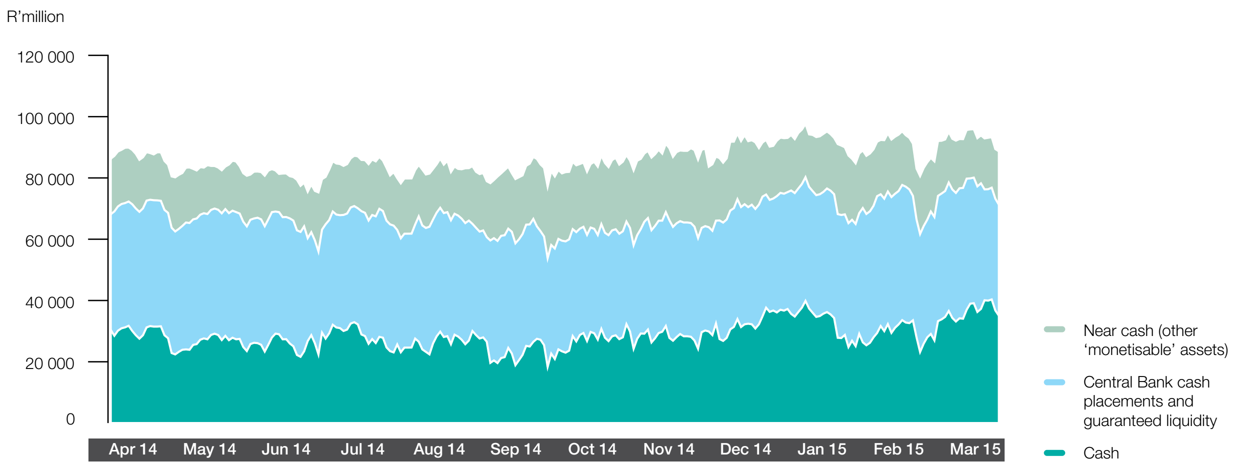
Total Investec group cash and near cash trend



Investec plc cash and near cash trend

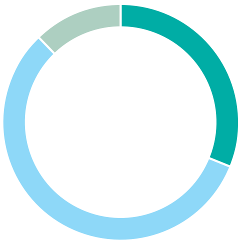


Investec Limited cash and near cash trend



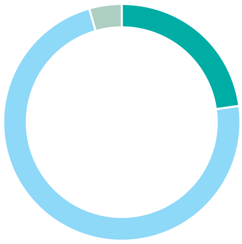
* *Increase in cash balances due to the sale of Kensington.*

An analysis of cash and near cash at 31 March 2015



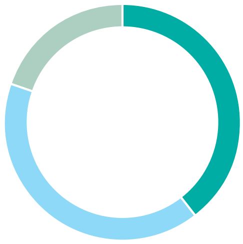
Total group
£9 974 million

Cash	31.2%
Central Bank cash placements and guaranteed liquidity	56.8%
Near cash (other 'monetisable' assets)	12.0%



Investec plc
£5 039 million

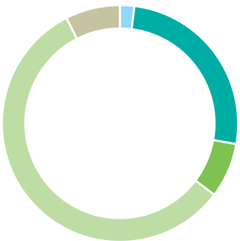
Cash	23.0%
Central Bank cash placements and guaranteed liquidity	72.6%
Near cash (other 'monetisable' assets)	4.4%



Investec Limited
R88 691 million

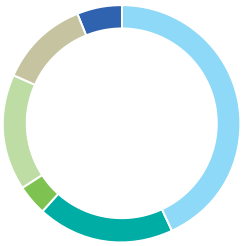
Cash	39.5%
Central Bank cash placements and guaranteed liquidity	40.8%
Near cash (other 'monetisable' assets)	19.7%

Bank and non-bank depositor concentration by type at 31 March 2015



UK and Other^
£11 103 million

Other financials	2.0%
Non-financial corporates	26.0%
Small business	7.4%
Individuals	57.3%
Banks	7.3%



Southern Africa
R251 939 million

Other financials	43.1%
Non-financial corporates	18.8%
Small business	4.0%
Individuals	15.9%
Banks	12.1%
Public sector	6.1%

^ *Includes Australia, which was previously reported separately.*

Liquidity mismatch

The tables that follow show our contractual liquidity mismatch across our core geographies.

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

The liquidity position of the group remained sound with total cash and near cash balances amounting to £10.0 billion. We continued to enjoy strong inflows of customer deposits while maintaining good access to wholesale markets despite the underlying market environment. Our liquidity and funding profile reflects our strategy, risk appetite and business activities.

The tables reflect 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.

The liquidity position of the group remained sound with total cash and near cash balances amounting to £10.0 billion

UK and Other^

Contractual liquidity at 31 March 2015

£'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	2 736	1 592	119	–	–	–	–	4 447
Investment/trading assets	226	848	212	346	121	569	1 141	3 463
Securitised assets	–	2	7	10	19	264	110	412
Advances	–	690	648	794	893	3 025	1 564	7 614
Other assets	121	986	86	7	17	74	743	2 034
Assets	**3 083**	**4 118**	**1 072**	**1 157**	**1 050**	**3 932**	**3 558**	**17 970**
Deposits – banks	(128)	(591)	(5)	–	–	–	(81)	(805)
Deposits – non-banks	(1 133)	(2 488)	(1 564)	(2 507)	(653)	(1 607)	(346)	(10 298)
Negotiable paper	–	(15)	(24)	(38)	(75)	(654)	(386)	(1 192)
Securitised liabilities	–	(4)	(5)	(8)	(15)	(99)	(200)	(331)
Investment/trading liabilities	–	(288)	(77)	(75)	(130)	(353)	(183)	(1 106)
Subordinated liabilities	–	–	–	–	–	(34)	(563)	(597)
Other liabilities	(237)	(921)	(176)	(87)	(20)	(60)	(61)	(1 562)
Liabilities	**(1 498)**	**(4 307)**	**(1 851)**	**(2 715)**	**(893)**	**(2 807)**	**(1 820)**	**(15 891)**
Intercompany	(78)	–	225	–	1	7	(160)	(5)
Shareholders' funds	–	–	–	–	–	–	(2 074)	(2 074)
Contractual liquidity gap	1 507	(189)	(554)	(1 558)	158	1 132	(496)	–
Cumulative liquidity gap	1 507	1 318	764	(794)	(636)	496	–	

Behavioural liquidity

As discussed on page 67.

£'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	> Five years	Total
Behavioural liquidity gap	3 776	(536)	(44)	(447)	158	(1 843)	(1 064)	–
Cumulative	3 776	3 240	3 196	2 749	2 907	1 064	–	

^ *Includes Australia, which was previously reported separately.*

Southern Africa

Contractual liquidity at 31 March 2015

R'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 *	31 480	7 492	1 912	168	182	894	–	42 128
Cash and short-term funds – non-banks	10 465	32	38	5	–	–	–	10 540
Investment/trading assets and statutory liquids **	34 409	13 261	1 893	2 107	4 006	27 850	29 289	112 815
Securitised assets	1 743	19	66	116	197	1 028	6 184	9 353
Advances	5 628	5 393	10 353	11 725	14 359	79 975	47 033	174 466
Other assets	2 893	3 399	293	256	–	1 881	1 704	10 426
Assets	86 618	29 596	14 555	14 377	18 744	111 628	84 210	359 728
Deposits – banks	(3 253)	(440)	(717)	–	(12 031)	(14 121)	–	(30 562)
Deposits – non-banks	(87 975)^	(27 947)	(38 728)	(15 532)	(19 546)	(28 785)	(2 864)	(221 377)
Negotiable paper	–	(1 686)	(229)	(346)	(1 318)	(5 833)	(14)	(9 426)
Securitised liabilities	–	–	–	–	–	(594)	(1 382)	(1 976)
Investment/trading liabilities	(5 507)	(13 035)	(2 669)	(2 974)	(7 087)	(7 813)	(1 252)	(40 337)
Subordinated liabilities	–	–	(125)	–	(781)	(400)	(9 143)	(10 449)
Other liabilities	(1 642)	(900)	(678)	(315)	(884)	(459)	(5 197)	(10 075)
Liabilities	(98 377)	(44 008)	(43 146)	(19 167)	(41 647)	(58 005)	(19 852)	(324 202)
Shareholders' funds	–	–	–	–	–	–	(35 526)	(35 526)
Contractual liquidity gap	(11 759)	(14 412)	(28 591)	(4 790)	(22 903)	53 623	28 832	–
Cumulative liquidity gap	(11 759)	(26 171)	(54 762)	(59 552)	(82 455)	(28 832)	–	

^ *Includes call deposits of R59 billion and the balance reflects term deposits which have finally reached/are reaching contractual maturity.*

Note: Contractual profile of 'cash and near cash' asset class

As discussed on page 67.

R'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	25 332	7 492	1 912	168	182	894	6 148	42 128
**Investment/trading assets and statutory liquids	(707)	14 449	11 461	12 176	8 816	29 298	37 323	112 816

Behavioural liquidity

As discussed on page 67.

R'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	36 808	(779)	(1 889)	(1 706)	(25 189)	(74 089)	66 844	–
Cumulative	36 808	36 029	34 140	32 434	7 245	(66 844)	–	

The group has committed itself to implementation of the BCBS guidelines for liquidity risk measurement standards and the enhanced regulatory framework to be established

Balance sheet risk year in review

- Investec maintained and improved its strong liquidity position ahead of Basel III 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.

UK and Other

The bank has maintained a strong surplus liquidity position throughout the year. During the first half of the year, the liquidity surplus was bolstered by raising funds to fund strong asset growth, including the transfer of residual assets from Australia as part of the disposal of Investec Bank (Australia) Limited.

The liquidity position in the second half of the year was then further enhanced by the disposal of the Kensington and Start (Irish) mortgage businesses. A strategy to manage down surplus liabilities was initiated following the strategic sales.

This strategy has continued through to the year end and into 2015/16, with the aim of reducing both cash and liquidity back to normalised levels through both asset growth and further liability management, while maintaining our overall conservative approach to liquidity risk management.

Funding rates continued to be driven down throughout the year, while the weighted average contractual maturity of the liability book has been lengthening, to give closer matching of asset and liability maturities.

The bank has continued to diversify its funding mix including utilisation of the Bank of England's Funding for Lending Scheme and has pre-positioned several mortgage portfolios together with retained securitisation investments.

Cash and near cash balances at 31 March 2015 amounted to £5.0 billion (2014: £4.3 billion), enhanced by the strategic business sales. Total UK customer deposits increased by 9.5% from £9.4 billion to £10.3 billion at 31 March 2015. We continue to exceed Basel liquidity requirements for the LCR and NSFR comfortably.

South Africa

The past financial year was marked by a continual increase in the cost of funds to local banks including Investec. The banking industry as a result witnessed some compression in interest rate margins. The rise in the cost of funds was driven by increased competition for deposits ahead of the implementation of new liquidity regulations introduced by the Bank of International Settlements. The LCR had to be met by banks from 1 January 2015 at a minimum compliance rate of 60% moving to 100% by 2019. This has led to increased demand for so-called Basel III friendly deposits (retail and longer dated wholesale deposits) by South African banks. This adjustment in the liability structure of the banking system could raise the cost of borrowing which may ultimately be passed on to borrowers.

Investec grew its total customer deposits by 8% from R204.9 billion to R221.4 billion at 31 March 2015. Our Private Bank's deposit raising channels grew by 17.5% to R89.8 billion over the financial year; whereas wholesale deposit growth was muted. The bankruptcy of African Bank resulted in a loss of some cash from Money Market Funds as they met requests for redemptions. This was countered by both private individuals and corporates entering the banking system directly. Our liquidity was further boosted by several successful medium-term senior unsecured bonds issued totalling R4 billion. Investec Bank Limited (solo basis) ended the financial year with the three-month average of its LCR at 100.3%, which is well ahead of the minimum level required.

Three and five year dollars amounting to US$532 million were raised in several club, bilateral and structured loan deals over the course of the year as the cost of term dollars fell to levels last witnessed over five years ago. In a world of negative rates, plentiful liquidity and quantitative easing we expect this trend to continue.

Cash and near cash balances grew by R4.2 billion to R88.7 billion at 31 March 2015. The bank's overall liquidity position is sound going into 2016.

Regulatory considerations – balance sheet risk

The banking industry continued to experience elevated levels of prospective changes to laws and regulations from national and supranational regulators.

Regulators propose to both strengthen and harmonise global liquidity standards and to ensure a strong financial sector and global economy. We believe that we are well positioned for the proposed regulatory reform as we have maintained strong capital, funding and liquidity positions.

The BCBS published the final calibration of the LCR in January 2013. The main changes to the LCR were to introduce level 2b qualifying assets and recalibrate run-off factors for non-financial commercial depositors and committed facilities. The LCR ratio will be phased in from 2015 to 2019.

The BCBS published the final consultation document on the NSFR in October 2014 with a number of changes. The main changes to the NSFR were to introduce a bucket to recognise financial deposits greater than six months in sources of available stable funding, recalibrate run-off factors for performing loans less than one year, and revise treatment of both derivative and repo' transactions. The NSFR ratio will be introduced in 2018.

The strategic impact of Basel III internationally is significant, and has the potential to change the business model of non-compliant banks while the regulatory developments could result in additional costs.

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. We continue to reshape our liquidity and funding profile where necessary as we approach the compliance timeline.

UK and Other

In June 2013, the European Union published legislation to implement within the EU Basel III, the international regulatory framework for banks via CRD IV. This requires the reporting of the LCR and the NSFR to the EBA from March 2014. The LCR will be introduced on 1 October 2015 with a minimum requirement of 60% increasing to 100% by January 2018 as stated in the regulation document. However, individual member states can require a higher standard and the PRA has indicated that it will set the initial requirement at 80% from October 2015.

Investec Bank plc currently comfortably exceeds its regulatory liquidity requirements and will progress to implement the forthcoming liquidity proposals included in the CRD IV (Basel III) package. Investec Bank plc is currently shadowing and comfortably exceeds the draft LCR and NSFR liquidity ratios. We will continue to monitor these rules until final implementation.

South Africa

South Africa, a member of the G20, is committed to implementing the BCBS guidelines for 'liquidity risk measurement standards and monitoring' published in December 2010 and January 2013, by the due dates of 2015 to 2019.

Investec is involved in the process in the following ways:

- Collectively via the Banking Association of South Africa (BASA) and their task groups
- Direct bilateral consultation with SARB and SARB task teams
- As part of the Quantitative Impact Study by BCBS via SARB
- As part of National Treasury Structural Funding and Liquidity Risk task team.

South Africa is a region with insufficient liquid assets; to address this systemic challenge, the SARB announced the introduction of a committed liquidity facility (CLF) whereby South African banks can apply to the Reserve Bank for the CLF against eligible collateral for a prescribed commitment fee. The CLF will be limited to 40% of Net Outflows under the LCR.

Investec Bank Limited already exceeds the minimum requirement for the LCR in 2015.

The South African banking industry, however, will find it difficult to meet the NSFR ratio, as currently defined, as a result of the shortcomings and constraints in the South African environment. The banking sector in South Africa is characterised by certain structural features such as a low discretionary savings rate and a higher degree of contractual savings that are captured by institutions such as pension funds, provident funds and providers of asset management services. The proposed liquidity measures have the potential to impact growth and job creation in the economy. In recognition thereof, the Finance Minister instituted a Structural Funding and Liquidity task team to investigate the constraints in the South African market and make recommendations to address these limitations.

Notwithstanding the above constraints, Investec in South Africa is committed to meet the NSFR.

Operational risk

Operational risk definition

Operational risk is defined as any instance where there is potential or actual impact to the group resulting from inadequate or 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 exists as part of the normal activities of a bank. The group aims to manage operational risk by adopting sound operational risk management practices which are fit for purpose. These include, inter alia, minimising internal losses in a cost effective manner in accordance with the operational risk appetite and tolerance.

Operational risk management framework

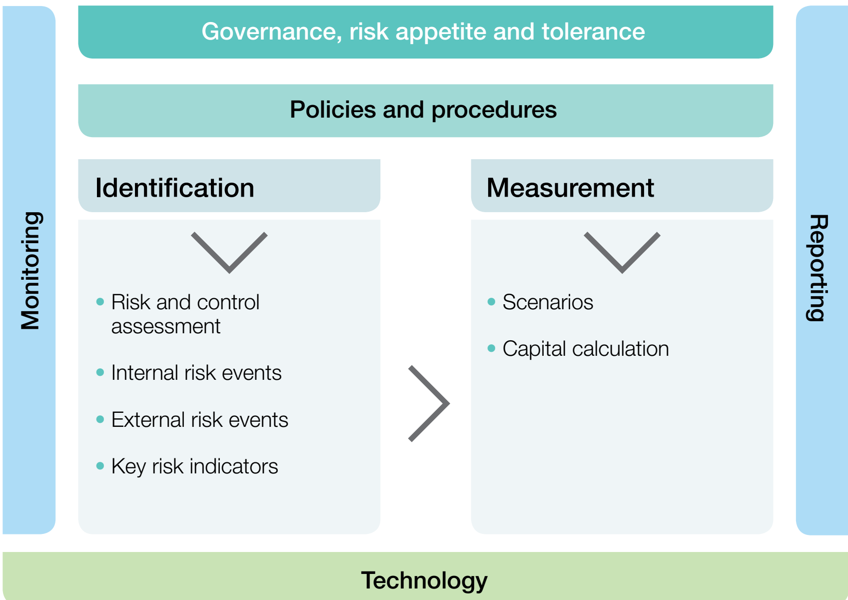
The bank continues to operate under the Standardised Approach (TSA) to operational risk which forms the basis of the operational risk management framework. The framework is embedded at all levels of the organisation and is continually reviewed to ensure appropriate and effective management of operational risk.

During the year under review, significant enhancements of all the components of the operational risk management framework have been made and the focus on advancing practices will continue.

The process of advancing practices and understanding regulatory requirements is supported by regular interaction with the regulator and with industry counterparts at formal industry forums.

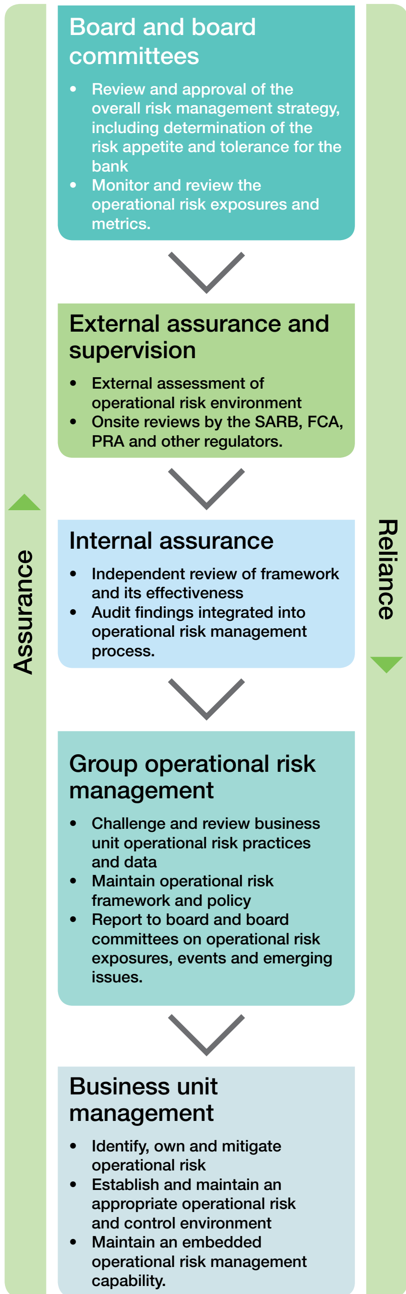
An independent group operational risk management function, mandated by the board risk and capital committee, ensures that operational risk policies and procedures are developed and applied consistently and effectively throughout the bank. Business unit management, supported by operational risk managers (ORMs) who operate at a business unit level, are responsible for embedding and implementing operational risk practices and policies. All personnel are adequately skilled at both a business unit and a group level.

The diagram below depicts how the components of operational risk are integrated.



Governance

The governance structure adopted to manage operational risk is enforced in terms of a levels of defence model and supports the principle of combined assurance in the following manner:



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 guidance to respond appropriately. Additionally, the policy defines capturing and reporting thresholds for risk events and guidance to respond to key risk indicators appropriately.

Operational risk practices

The following practices are used for the management of operational risk as illustrated in the diagram below:

Enhancement of all the components of the operational risk management framework have been made and the focus on advancing practices will continue

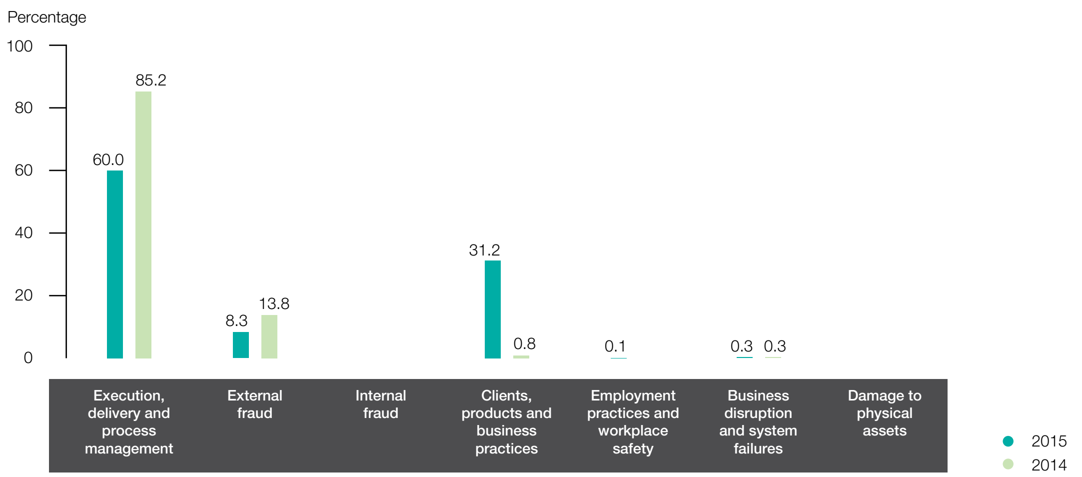
Risk and control assessment	Internal risk events	External risk events	Key risk indicators	Scenarios and capital calculation	Reporting and monitoring	Technology
Qualitative assessments that identify key operational risks and controls Identifies ineffective controls and improves decision-making through an understanding of the operational risk profile	Incidents resulting from failed systems, processes, people or external events A causal analysis is performed Enables business to identify trends in risk events and address control weaknesses	Access to data from an external data consortium Events are analysed to inform potential control failures within the bank The output of this analysis is used as input into the operational risk assessment process	Metrics are used to monitor risk exposures against identified thresholds Assists in predictive capability	Extreme, yet plausible scenarios are evaluated for financial and non-financial impacts Used to measure exposure arising from key risks, which is considered in determining internal operational risk capital requirements	A reporting process is in place to ensure that risk exposures are identified and that key risks are appropriately escalated and managed Monitoring compliance with operational risk policies and practices ensure the framework is embedded in day-to-day business activities	An operational risk system is in place to support operational risk practices and processes

Operational risk year under review and looking forward

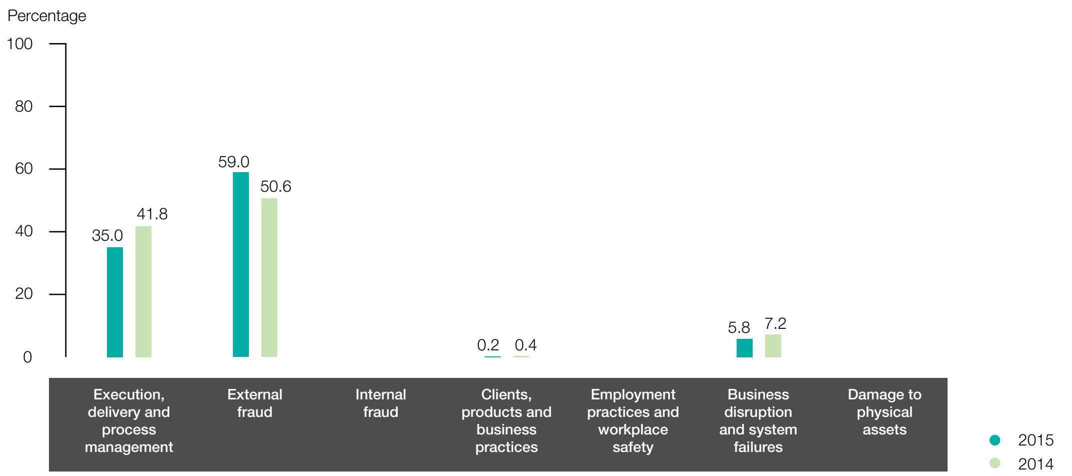
Risk event experience

The graphs and figures below represent the distribution of the value and number of risk events across the Basel risk event categories for the period April 2014 to March 2015 with comparative values.

Operational risk events by risk category — % of total value of risk events



Operational risk events by risk category — % of total number of risk events



Notes to graphs above:

- Overall, risk events and losses are managed within tolerance
- Comparative numbers have been restated due to organisational changes, including business disposals
- There has been a decline in both the number and value of risk events in the execution, delivery and process management category. Losses reported in this category are mainly as a result of process failure. Trend and causal analysis are performed to improve the control environment
- The external fraud risk event category includes credit card fraud and relates to financial crime risk. In 2015 the number of credit card-related risk events in this category has increased in line with industry trends. Included in this category are other financial crime-related incidents, e.g. phishing
- Our internal fraud experience remains low
- The clients, products and business practices category is driven by a single large loss.

Key operational risk considerations

The following key risks may result in loss of value should they materialise.

Definition of risk	Approach to mitigation	Priority for 2015/16
Financial crime		
Risk associated with money laundering, terrorist financing, bribery, fraud, and tax evasion	• Proactive strategy which includes business wide and customer risk assessments • Development of policies which comply with regulations and industry guidance • Monitoring the adequacy and effectiveness of financial crime controls and reporting to governance bodies, e.g. audit committee • Training all staff with enhanced bespoke training delivered to staff in higher risk functions • Frequent delivery of management information focused on key risk indicators • Review external and industry events by engaging with external partners such as South African Banking Risk Information Centre (SABRIC), SAPS and agency banks • Understanding and proactively managing the emerging threat of cybercrime across the industry	• Financial crime awareness training internally including the use of e-learning platforms • Development of a money laundering, counter-terrorist financing, bribery and sanctions compliance risk appetite statement • Enhance money laundering transaction monitoring capabilities and bespoke training for staff in key risk functions
Information security		
Risks associated with the confidentiality, availability or integrity of our information assets, irrespective of location or media	• Identification of threats and associated risks to our information assets including legal and regulatory requirements • Development and monitoring of policies, processes and technical controls designed to mitigate the risks to our information • Evaluation of risks introduced by our information supply chain • Maintenance and testing of our security incident and breach response processes	• Ensure appropriate controls are in place to manage cyber threats, including the sharing of information with peers, law enforcement and industry bodies • Raising awareness with internal and external stakeholders of the threats, controls and policies relating to information security and their responsibility in protecting our 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	• Weaknesses in controls are identified through the causal analysis process following the occurrence of risk events • Thematic reviews are performed to monitor the effectiveness of controls across business units • Effective management of change remains a focus area for the year ahead	• Enhancement of processes to identify risks related to new products and projects
Regulatory and compliance		
Risk associated with identification, implementation and monitoring of compliance with regulations	• Group Compliance and Group Legal Risk 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	• Alignment of regulatory and compliance approach to reflect new regulatory landscapes (particularly change of regulatory structures in UK and SA) • Managing business impact and implementation 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
Technology		
Risk associated with the reliance on technology to support business processes and client services. This relates to the operations, usage, ownership and responsibility of IT systems across the business	• Establishment and maintenance of an IT risk assessment framework to consistently and effectively assess IT exposures across the business • Monitoring risk exposures related to adoption of new technologies • Identification and remediation of vulnerabilities identified in IT systems, applications, and processes • Establishing appropriate IT recovery capabilities to safeguard against business disruptions resulting from systems failures and IT service outages	• Enhancing resilience of our technical infrastructure and our process to IT failures or service interruptions • Identifying, monitoring and reducing risks in our digital channel, following the introduction of mobile applications and our increased online presence

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 risks.

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

Business continuity management

The group maintains a global business continuity management capability which incorporates an appropriate level of resilience into the bank's operations to minimise the risk of severe operational disruptions occurring.

In the event of a major disruption, an incident management framework will be used to manage the disruption. Continuity will be achieved through a flexible and adaptable response, which includes relocating impacted business to the designated recovery site. Dedicated resources ensure all governance processes are in place with business and technology teams responsible for activating and managing the recovery process.

The group conducts regular exercises and testing of recovery procedures to ensure that its recovery capability remains appropriate.

We continue to build and enhance our infrastructure to manage the electricity supply crisis in South Africa. We remain active participants with all industry bodies to ensure we are abreast of industry views and concerns.

Recovery and resolution planning

UK and Other

In the EU, the Bank Recovery and Resolution Directive (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.

In January 2015, the PRA published a policy statement containing updated requirements for recovery and resolution planning which revises PRA rules that have been in force since 1 January 2014. In addition, the EBA has produced a number of regulatory technical standards, some of which are yet to be finalised, and will further inform the BRRD requirements.

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

South Africa

Financial Stability Board member countries are required to have recovery and resolution plans in place for all systemically significant financial institutions. The SARB has adopted this requirement and has to date required South African domestically significant banking institutions to develop recovery plans. Guidance issued by the Financial Stability Board and the SARB has been incorporated into Investec's recovery plan.

The SARB has focused on finalising the recovery plans for the local banks. It is expected that the SARB will issue guidance on resolution planning in the near future. We will then look to integrate our existing recovery plan into the SARB's resolution planning.

Group

The purpose of the recovery plans are to document how the board and management will recover from extreme financial stress to avoid liquidity and capital difficulties in Investec plc and Investec Limited, respectively. The plans are reviewed and approved by the board on an annual basis.

The recovery plan for Investec plc and Investec Limited, respectively:

- Integrates with existing contingency planning
- Analyses the potential for severe stress in the group
- Identifies roles and responsibilities
- Identifies early warning indicator 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.

Reputational risk

Reputational risk is damage to our reputation, name or brand. Reputational risk arises as a result of other risks manifesting and not being mitigated.

We have various policies and practices to mitigate reputational risk, including strong values that are regularly and proactively reinforced. We also subscribe to sound corporate governance practices, which require that activities, processes and decisions are based on carefully considered principles.

We are aware of the impact of practices that may result in a breakdown of trust and confidence in the organisation. The group's policies and practices are regularly reinforced through transparent communication, accurate reporting, continuous group culture and values assessment, internal audit and regulatory compliance review, and risk management practices.

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 at 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 92 to 95 in volume three.

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

UK and Other

As part of the regulatory restructure, the new 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, particularly in the UK, 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 risks by the business. This work is set to continue for the coming year and will aim to build on the existing controls such as the compliance monitoring, Treating Customers Fairly (TCF) and operational risk frameworks.

South Africa

The South African financial sector regulatory landscape has been under review for the last few years. A new regulatory structure is developing, and existing legislation is also being amended. The conduct of financial institutions is currently regulated under various pieces of legislation, and by various regulators.

The National Credit Act (NCA) regulates the credit industry, ensuring that credit providers guard against reckless lending and over-indebting customers. Amendments to the NCA will grant greater enforcement and rule-making powers to the National Credit regulator. The Financial Advisory and Intermediary Services Act (FAIS) regulates advice and intermediary services in relation to specific financial products. Risk and controls have been identified across the business, and these are reviewed and monitored regularly. Annual reports are also submitted to the regulators. FAIS is also being amended to include regulation of activities in relation to professional clients. The FSB has also introduced the Treating Customers Fairly (TCF) framework, which considers fairness outcomes for customers throughout the product lifecycle. A gap analysis is under way to assess the level of compliance with TCF, and to guide business on implementation and management reporting.

The draft Financial Sector Regulation Bill (Twin Peaks) proposes two new regulatory structures, the Prudential Authority and the Market Conduct Authority, incorporating portions of the Reserve Bank and the entire FSB structure. Financial institutions will be mono or dual regulated, depending on the activities they engage in.

Capital management and allocation

Capital measurement

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 legal and regulatory treatment of capital is independent of existing shareholder arrangements that are in place to ensure that shareholders have common economic and voting interests as if Investec plc and Investec Limited were a single, unified enterprise.

Investec Limited and Investec plc are separately regulated entities. They operate under different regulatory capital regimes, and therefore it is difficult to directly compare the regulatory capital adequacy of the two entities. The following provides a brief outline of the regulatory environment relevant to the group's capital management framework.

Regulatory capital – Investec Limited

Current regulatory framework

Investec Limited is supervised for capital purposes by the SARB on a consolidated basis.

Since 1 January 2013, Investec Limited has been calculating capital resources and requirements at a group level using the Basel III framework, as implemented in South Africa by the SARB, in accordance with the Bank's Act and all related regulations.

Investec Limited uses the standardised approach to calculate its credit and counterparty credit risk and operational risk capital requirements. Equity risk, capital is calculated using the IRB approach by applying the simple risk-weight method. The market risk capital requirement is measured using an internal risk management model, approved by the SARB.

Various subsidiaries of Investec Limited are subject to additional regulation covering various activities or implemented by local regulators in other jurisdictions. For capital management purposes, it is the prevailing rules applied to the consolidated Investec Limited group that are monitored most closely. Nevertheless, 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. Management of each regulated entity, with the support of the group's capital management functions, ensures that capital remains prudently above minimum requirements at all times.

Regulatory capital – Investec plc

Current regulatory framework

Investec plc is authorised by the PRA and is regulated by the FCA and the PRA on a consolidated basis. Since 1 January 2014 Investec plc has been calculating capital resources and requirements at a group level using the Basel III framework, as implemented in the European Union through the Capital Requirements Directive IV (CRD IV). The group 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 increase in the minimum regulatory capital ratios. With effect from 1 January 2015, the common equity tier 1 capital requirement increased from 4% to 4.5%, while the tier 1 capital requirement increased from 5.5% to 6%. The group continues to hold capital in excess of the new minimum requirements.

Investec plc have also implemented the PRA Pillar 2A rule change and has from 1 January 2015 met at least 56% of its individual capital guidance, as determined by the internal capital adequacy assessment and supervisory review process, with common equity tier 1 capital. During April 2015 the PRA issued the Investec plc group with a revised Pillar 2A requirement of 2.5% of risk-weighted assets effective from 30 April 2015, of which 1.4% has to be met from Common equity tier 1 capital.

The Investec plc group has changed significantly during the financial year due to three strategic disposals, namely the sale of Investec Bank (Australia) Limited and the sales of the Start Mortgage Holdings Limited and the Kensington Group plc. Further information on these disposals can be found on page 22 in volume one.

Investec 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 standard rules. The group has obtained permission from its regulator to apply an internal risk management model when netting certain over-the-counter (OTC) derivative options within its portfolio.

Subsidiaries of Investec plc may be subject to additional regulations, as implemented by local regulators in other relevant jurisdictions. Where capital is a relevant consideration, management within each regulated entity pays close attention to prevailing local regulatory rules as determined by their respective regulators. For capital management purposes, it is the prevailing rules applied to the consolidated Investec plc group that are monitored closely. With the support of the group's capital management function, 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 2015, 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, European Banking Authority (EBA) and the SARB.

International

Counterparty credit risk

The BCBS continues to review the capital framework and its balance of simplicity, comparability and risk sensitivity. In March 2014, the BCBS published a final standardised approach for measuring counterparty credit risk exposures. The new standardised approach replaces both the Current Exposure Method and the Standardised Method and will apply to OTC derivatives, exchange-traded derivatives and long settlement transactions. In August 2014, the BCBS published a technical paper explaining the different modelling assumptions used in developing this new approach. The new standardised approach for counterparty credit risk will take effect from 1 January 2017.

Pillar 3 disclosures

In June 2014, the BSCS consulted on revisions to the Pillar 3 disclosure requirements, to promote greater consistency in the way banks disclose information about risks, as well as their risk measurement and management. The review proposed greater use of templates to achieve consistency. The final standard was published in January 2015 and will take effect from year end 2016 (Investec's first disclosure will be for the financial year end March 2017).

Operational risk

In October 2014, the BCBS proposed revisions to the standardised approach for measuring operational risk capital. Once finalised, the revised standardised approach will replace the non-model based approaches, which comprise the basis indicator approach, the standardised approach and the alternative standardised approach. No implementation timeframe has been set.

Market risk

The BCBS continues to consult on the fundamental review of the trading book, and in December 2014 issued a third consultation paper, addressing outstanding issues. The proposals make further refinements to the new proposed market risk framework. A further Quantitative Impact Study (QIS) will be carried out in early 2015 to inform the final calibration of the new framework. The final standard will be published once all comments and the results of the QIS exercise have been assessed by the committee. No formal implementation date has been published by the BCBS to date.

Securitisation risk

In December 2014, the BCBS published the revised securitisation framework, which aims to address a number of shortcomings in the Basel II securitisation framework and to strengthen the capital standards for securitisations held in the banking book. The framework will take effect in January 2018. The revised framework has been through multiple consultation processes and two separate QIS exercises to ensure the standard is appropriately calibrated and refined.

Credit risk

In addition to the above reforms, the BCBS released a consultation paper in late December 2014 recommending changes to the current standardised approach. The committee seeks to substantially improve the standardised approach for credit risk in a number of ways, including reducing the reliance on external credit ratings, increasing risk sensitivity, reducing national discretions, and more importantly strengthening the link between the standardised approach and the internal ratings-based approach so as to enhance comparability of capital requirements across banks. The committee will conduct a comprehensive QIS as part of the Basel III monitoring exercise collecting data as of end December 2014. This information will help inform the overall calibration of the new standard before the final standard is published. The committee will consider this proposal along with all other reforms currently under discussion to ensure sufficient time is given for implementation, including providing appropriate grandfathering provisions where appropriate.

The revised standards published by the BCBS will need to be adopted by the European Commission and SARB before they become binding on UK firms and South African Banks, respectively.

UK

Pillar 2 framework

With effect from 1 January 2015, the PRA requires firms to meet at least 56% of their individual capital guidance under the Pillar 2A capital framework with Common equity tier 1 capital. Previously the individual capital guidance, which is determined by the internal capital adequacy assessment and supervisory review process, could be met with total capital.

In January 2015, the PRA released a consultation paper proposing changes to their Pillar 2 framework, including introducing the PRA's methodologies for setting Pillar 2 capital. In addition the PRA proposed to introduce the PRA buffer, which will replace the current Capital Planning Buffer (known as Pillar 2B). The PRA buffer will be met from Common equity tier 1 capital, and will transition in from January 2016 at 25%, increasing by 25% in each consecutive year until fully phased in by January 2019. All firms will be subject to a PRA buffer assessment and the PRA will set a PRA buffer only if it judges that the CRD IV buffers (capital conservation buffer and systemic risk buffer, if applicable) 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. To address weak risk management and governance, the PRA proposes applying a scalar ranging from 10% to 40% of a firms Common equity tier 1 Pillar 1 plus Pillar 2A capital requirement. The PRA is expected to issue final rules in July 2015, ahead of implementation on 1 January 2016.

Capital buffers

In April 2014, the PRA published its final rules and supervisory statement to implement the CRD IV provisions on capital buffers in the UK. The CRD IV creates a combined capital buffer that all firms will be expected to meet in addition to their Pillar 1 and Pillar 2 capital requirements. The combined buffer will include the capital conservation buffer, countercyclical capital buffer, buffer for global systemically important institutions (G-SIIs) and the systemic risk buffer (if applicable) and must be met with Common equity tier 1 capital. These buffers will be phased in from 1 January 2016. Firms that do not meet their combined buffer shall face restrictions on their distributions.

The CRD IV rules also require HM Treasury to designate authorities responsible for setting certain CRD IV buffers in the UK.

From 1 May 2014 the Bank of England is the designated authority for the countercyclical capital buffer (CCB) with policy decisions delegated to the Financial Policy Committee (FPC). At the FPC's policy meeting held in March 2015, the committee chose to maintain the CCB buffer rate for UK exposures at 0%.

The PRA will be responsible for identifying G-SIIs and setting their buffers and will also be responsible for identifying other systemically important institutions from 1 January 2016.

Leverage ratio

In July 2014, the FPC launched a consultation on the design of the leverage ratio framework for the UK. In November 2013, the Chancellor of the Exchequer asked the FPC to conduct a review into the role for the leverage ratio within the capital framework for UK banks, and to consider the case for the FPC having the power to implement a leverage ratio requirement ahead of the international timetable, or to set a higher baseline ratio in some circumstances for UK banks. The FPC issued it final report in October 2014 introducing a leverage ratio framework ahead of the international timetable for G-SIIs and other major domestic UK banks and building societies. The final recommendations included a minimum leverage ratio requirement of 3% to be implemented immediately, a supplementary leverage ratio buffer of 35% of corresponding risk-weighted systemic buffer rates, and a countercyclical leverage ratio buffer of 35% of the relevant risk-weighted countercyclical capital buffer rates applicable from 2018. The minimum leverage ratio requirement and countercyclical leverage ratio buffer will also apply to all PRA regulated banks, building societies and investment firms from 2018, subject to a review of progress of the international standards in 2017.

Europe

Leverage ratio

In October 2014, the European Commission adopted the leverage ratio delegated Act, establishing a common definition of the leverage ratio for EU banks which will be the basis for publishing the leverage ratio from the beginning of 2015 onwards. It does not introduce a binding leverage ratio. A decision on whether or not to introduce a binding leverage ratio will only be made in 2016. The Act aims to align the leverage ratio currently included in the Capital Requirements Regulation with the internationally agreed BCBS standard.

Capital targets

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 Limited and Investec plc have always held capital in excess of regulatory requirements and the individual groups continue 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 (current 10.5% target) and a total capital adequacy ratio target in the range of 14% to 17%. These targets are continuously assessed for appropriateness.

The DLC capital committee is responsible for ensuring that the impact of any regulatory change is analysed, understood, prepared and planned for. To allow the committee to carry out this function, the group's Regulatory and Capital Management teams 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.

Management of leverage

At present Investec Limited calculates and reports its leverage ratio based on the latest SARB regulations. The leverage ratio is a non-risk-based measure intended to prevent excessive build up of leverage and mitigate the risks associated with deleveraging during periods of market uncertainty. The reporting of the leverage ratio in South Africa has been mandatory since 1 January 2013 as part of an exercise to monitor South African banks' readiness to comply with the minimum standard of 4% from 1 January 2018. Following guidance from the SARB, Investec applies the rules as outlined in the most recent BCBS publication.

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.

Leverage ratio target

Investec 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 2016.

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 for the level of risk taken at an individual transaction or business unit level.

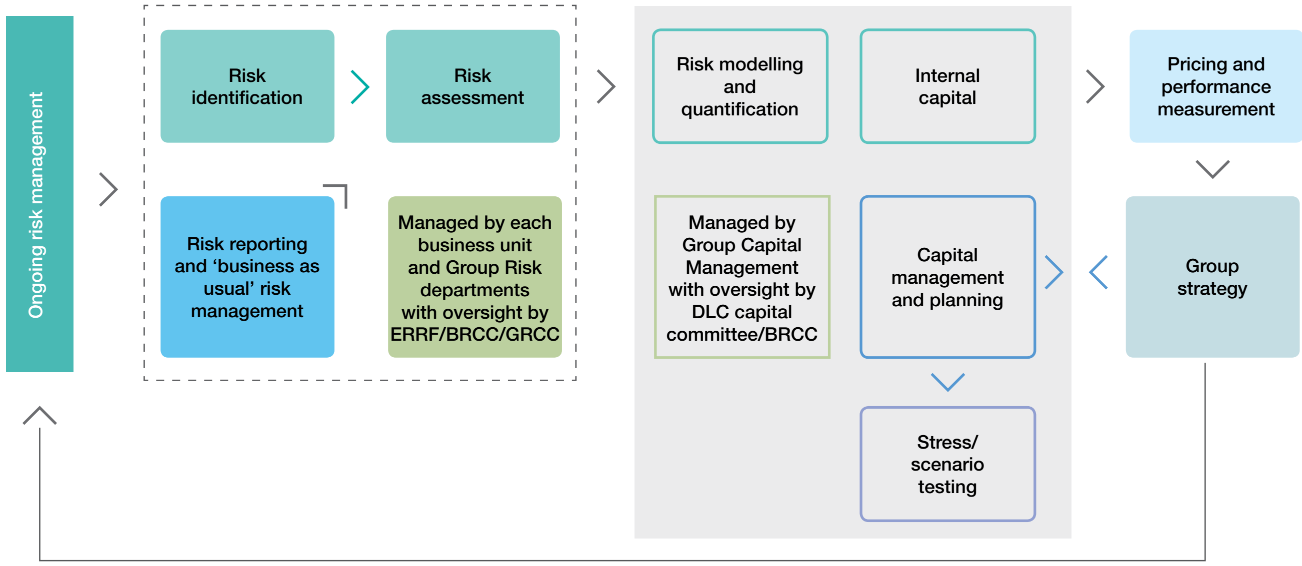
The determination of target capital is driven by our risk profile, strategy and risk appetite, taking into account regulatory and market factors applicable to the group. At the most fundamental level, we seek to balance our capital consumption between prudent capitalisation in the context of the group's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

Our internal capital framework is designed to manage and achieve this balance.

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

- Maintain sufficient capital to satisfy the board's risk appetite across all risks faced by the group
- Provide protection to depositors against losses arising from risks inherent in the business

The (simplified) integration of risk and capital management



- Provide sufficient capital surplus to ensure that the group is able to retain its going concern basis under relatively severe operating conditions
- 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
- 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 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:

- 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
  - Securitisation risk
- Market risk
- Equity and investment risk held in the banking book
- Balance sheet risk, including:
  - Liquidity
  - Banking book interest rate risk

Internal capital requirements are quantified by analysis of the potential impact of key risks to a degree consistent with our risk appetite

- Strategic and reputational risks
- Pension risk (UK only)
- 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 its 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 consideration of 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 that 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.

For an assessment of return on equity and our return on internal capital utilised refer to pages 50 to 52 in volume one.

Accounting and regulatory treatment of group subsidiaries

Investec plc and Investec Limited are the two listed holding companies in terms of the DLC structure. Investec Bank plc and Investec Bank Limited are the main banking subsidiaries of Investec plc and Investec Limited, respectively.

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 DLC group is reported under IFRS and is described on page 22 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 that are equity accounted in the financial accounting consolidation, whereas their exposures are proportionally consolidated in the regulatory consolidation. 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.

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.

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

Regulatory capital and requirements

For regulatory capital purposes, our regulatory capital is divided into three main categories, namely common equity tier 1, tier 1 and tier 2 capital as follows:

- 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 disclosures

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

Summary information on the terms and conditions of the main features of all capital instruments is provided on pages 96 to 107 in volume three.

Capital structure and capital adequacy

At 31 March 2015	Investec plc*° £'million	IBP*° £'million	Investec Limited* R'million	IBL* R'million
Tier 1 capital				
Shareholders' equity	1 699	1 749	24 988	27 365
Shareholders' equity per balance sheet	1 914	1 800	28 811	28 899
Perpetual preference share capital and share premium	(150)	–	(3 183)	(1 534)
Equity holding in deconsolidated entities	–	–	(640)	–
Deconsolidation of special purpose entities	(65)	(51)		
Non-controlling interests	9	–	–	–
Non-controlling interests per balance sheet	160	1	4 631	–
Non-controlling interests excluded for regulatory purposes	–	–	(4 631)	–
Non-controlling interests transferred to tier 1	(144)	–	–	–
Non-controlling interests in deconsolidated entities	–	(1)	–	–
Surplus non-controlling interest disallowed in common equity tier 1	(7)	–	–	–
Regulatory adjustments to the accounting basis	(44)	(15)	1 134	1 140
Defined benefit pension fund adjustment	(29)	–	–	–
Additional value adjustments	(15)	(15)	–	–
Cash flow hedging reserve	–	–	1 134	1 140
Deductions	(485)	(394)	(291)	(190)
Goodwill and intangible assets net of deferred taxation	(473)	(382)	(291)	(190)
Deferred taxation assets that rely on future profitability excluding those arising from temporary differences	(8)	(8)	–	
Securitisation positions	(4)	(4)	–	
Common equity tier 1 capital	1 179	1 340	25 831	28 315
Additional tier 1 capital	205	–	4 584	1 073
Additional tier 1 instruments	274	–	5 267	1 534
Phase out of non-qualifying Additional Tier 1 instruments	(69)	–	(1 415)	(461)
Non-qualifying surplus capital attributable to non-controlling interests	–	–	(61)	–
Non-controlling interests in non-banking entities	–	–	793	–
Tier 1 capital	1 384	1 340	30 415	29 388

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

° *The capital adequacy disclosures follow Investec's normal basis of presentation so as to show a consistent basis of calculation across the jurisdictions in which the group operates. For Investec plc and IBP this does not 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. The impact of the final proposed ordinary and preference dividends totalling £57 million for Investec plc and £15 million for IBP would be around 50bps and 10bps, respectively.*

Capital structure and capital adequacy (continued)

At 31 March 2015	Investec plc* £'million	IBP* £'million	Investec Limited* R'million	IBL* R'million
Tier 2 capital	556	590	9 213	10 319
Collective impairment allowances	–	–	169	169
Tier 2 instruments	610	590	10 449	10 449
Phase out of non-qualifying tier 2 instruments	–	–	(299)	(299)
Non-qualifying surplus capital attributable to non-controlling interests	(54)	–	(1 106)	–
Total regulatory capital	1 940	1 930	39 628	39 707
Risk-weighted assets	11 608	10 967	269 466	257 931
Capital ratios				
Common equity tier 1 ratio	10.2%	12.2%	9.6%	11.0%
Tier 1 ratio	11.9%	12.2%	11.3%	11.4%
Total capital adequacy ratio	16.7%	17.6%	14.7%	15.4%

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

Capital structure and capital adequacy (continued)

At 31 March 2014**	Investec plc*° £'million	IBP*° £'million	Investec Limited* R'million	IBL* R'million
Tier 1 capital				
Shareholders' equity	1 843	1 886	22 641	24 067
Shareholders' equity per balance sheet	2 092	1 915	26 490	25 601
Perpetual preference share capital and share premium	(150)	–	(3 183)	(1 534)
Equity holding in deconsolidated entities	–	–	(666)	–
Deconsolidation of special purpose entities	(99)	(29)	–	–
Non-controlling interests	4	(3)	470	–
Non-controlling interests per balance sheet	177	(3)	3 102	–
Non-controlling interests excluded for regulatory purposes	–	–	(2 632)	–
Non-controlling interests transferred to tier 1	(165)	–	–	–
Surplus non-controlling interest disallowed in common equity tier 1	(8)	–	–	–
Regulatory adjustments to the accounting basis	(32)	(11)	521	522
Defined benefit pension fund adjustment	(20)	–	–	–
Unrealised gains on available-for-sale equities	(7)	(7)	–	–
Additional value adjustments	(12)	(11)	–	–
Cash flow hedging reserve	7	7	521	522
Deductions	(608)	(480)	(221)	(102)
Goodwill and intangible assets net of deferred taxation	(558)	(431)	(221)	(102)
Deferred taxation assets that rely on future profitability excluding those arising from temporary differences	(38)	(38)	–	–
Securitisation positions	(4)	(3)	–	–
Connected funding of a capital nature	(8)	(8)	–	–
Common equity tier 1 capital	1 207	1 392	23 411	24 487
Additional tier 1 capital	234	–	3 764	1 227
Additional tier 1 instruments	295	–	4 717	1 534
Phase out of non-qualifying Additional Tier 1 instruments	(61)	–	(943)	(307)
Non-qualifying surplus capital attributable to non-controlling interests	–	–	(10)	–
Tier 1 capital	1 441	1 392	27 175	25 714

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° *The capital adequacy disclosures follow Investec's normal basis of presentation so as to show a consistent basis of calculation across the jurisdictions in which the group operates. For Investec plc and IBP this does not 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. The impact of the final proposed ordinary and preference dividends totalling £61 million for Investec plc and £32 million for IBP would be around 40bps and 30bps, respectively.*

** *The 31 March 2014 capital information has been restated to reflect the implementation of IFRIC 21.*

Capital structure and capital adequacy (continued)

At 31 March 2014**	Investec plc* £'million	IBP* £'million	Investec Limited* R'million	IBL* R'million
Tier 2 capital	662	637	9 846	10 670
Collective impairment allowances	–	–	172	172
Tier 2 instruments	686	642	10 498	10 498
Phase out of non-qualifying tier 2 instruments	–	(3)	–	–
Non-qualifying surplus capital attributable to non-controlling interests	(24)	(2)	(824)	–
Total regulatory capital	2 103	2 029	37 021	36 384
Risk-weighted assets	13 711	12 668	248 040	238 396
Capital ratios				
Common equity tier 1 ratio	8.8%	11.0%	9.4%	10.3%
Tier 1 ratio	10.5%	11.0%	11.0%	10.8%
Total capital adequacy ratio	15.3%	16.0%	14.9%	15.3%

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

** *The 31 March 2014 capital information has been restated to reflect the implementation of IFRIC 21.*

Capital requirements

At 31 March 2015	Investec plc* £'million	IBP* £'million	Investec Limited* R'million	IBL* R'million
Capital requirements	929	878	26 946	25 794
Credit risk – prescribed standardised exposure classes	649	634	19 826	19 073
Corporates	287	285	12 167	11 505
Secured on real estate property	133	133	1 923	1 923
Short-term claims on institutions and corporates	–	–	3 308	3 242
Retail	36	36	549	549
Institutions	36	33	872	872
Other exposure classes	146	136	302	277
Securitisation exposures	11	11	705	705
Equity risk	11	11	3 834	4 297
Listed equities	4	4	332	847
Unlisted equities	7	7	3 502	3 450
Counterparty credit risk	35	35	576	576
Credit valuation adjustment risk	3	4	32	32
Market risk	74	71	342	324
Interest rate	26	26	88	88
Foreign exchange	20	17	113	113
Commodities	–	–	10	10
Equities	23	23	131	113
Options	5	5	–	–
Operational risk – standardised approach	157	123	2 336	1 492
At 31 March 2014				
Capital requirements	1 097	1 014	24 804	23 840
Credit risk – prescribed standardised exposure classes	830	787	18 308	17 611
Corporates	298	294	11 082	10 418
Secured on real estate property	161	154	1 601	1 601
Short-term claims on institutions and corporates	–	–	2 732	2 722
Retail	102	102	544	544
Institutions	41	38	1 064	1 064
Other exposure classes	218	189	199	176
Securitisation exposures	10	10	1 086	1 086
Equity risk	21	21	3 325	3 865
Listed equities	5	5	217	757
Unlisted equities	16	16	3 108	3 108
Counterparty credit risk	22	22	550	550
Credit valuation adjustment risk	16	16	98	98
Market risk	55	52	473	395
Interest rate	21	21	117	117
Foreign exchange	8	5	98	98
Securities underwriting	1	1	–	–
Commodities	–	–	5	5
Equities	22	22	253	175
Options	3	3	–	–
Operational risk – standardised approach	153	116	2 050	1 321

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

Risk-weighted assets

At 31 March 2015	Investec plc* £'million	IBP* £'million	Investec Limited* R'million	IBL* R'million
Risk-weighted assets	11 608	10 967	269 466	257 931
Credit risk – prescribed standardised exposure classes	8 111	7 923	198 255	190 717
Corporates	3 588	3 561	121 671	115 047
Secured on real estate property	1 657	1 657	19 230	19 230
Short-term claims on institutions and corporates	–	–	33 084	32 420
Retail	453	450	5 488	5 488
Institutions	450	410	8 717	8 717
Other exposure classes	1 822	1 704	3 020	2 770
Securitisation exposures	141	141	7 045	7 045
Equity risk	140	140	38 346	42 967
Listed equities	52	52	3 324	8 472
Unlisted equities	88	88	35 022	34 495
Counterparty credit risk	436	436	5 762	5 762
Credit valuation adjustment risk	42	47	324	324
Market risk	922	888	3 424	3 240
Interest rate	328	328	878	878
Foreign exchange	246	212	1 134	1 134
Commodities	–	–	96	96
Equities	291	291	1 316	1 132
Options	57	57	–	–
Operational risk – standardised approach	1 957	1 533	23 355	14 921
At 31 March 2014				
Risk-weighted assets	13 711	12 668	248 040	238 396
Credit risk – prescribed standardised exposure classes	10 374	9 844	183 080	176 112
Corporates	3 728	3 683	110 817	104 181
Secured on real estate property	2 007	1 923	16 011	16 011
Short-term claims on institutions and corporates	–	–	27 319	27 215
Retail	1 281	1 278	5 441	5 441
Institutions	506	473	10 644	10 644
Other exposure classes	2 729	2 364	1 987	1 759
Securitisation exposures	123	123	10 861	10 861
Equity risk	267	267	33 250	38 653
Listed equities	62	62	2 167	7 570
Unlisted equities	205	205	31 083	31 083
Counterparty credit risk	271	271	5 503	5 503
Credit valuation adjustment risk	194	194	976	976
Market risk	689	648	4 731	3 947
Interest rate	262	262	1 174	1 174
Foreign exchange	98	57	978	978
Securities underwriting	13	13	–	–
Commodities	–	–	50	50
Equities	276	276	2 529	1 745
Options	40	40	–	–
Operational risk – standardised approach	1 916	1 444	20 500	13 205

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

Investec plc

Movement in risk-weighted assets

Total risk-weighted assets (RWAs) have decreased by 15% over the period, predominantly within credit risk RWAs.

Credit risk RWAs

For Investec plc consolidated reporting, we have adopted the standardised approach for calculating credit risk RWAs. Credit risk RWAs, which include equity risk, decreased by £2.4 billion. The decrease is primarily attributable to the strategic disposals, partially offset by strong loan growth across various business lines in our core loan book.

Counterparty credit risk RWAs and Credit Valuation Risk (CVA)

Counterparty credit risk RWAs increased by £165 million mainly due to increased trading volumes, while CVA RWAs decreased by £152 million driven by the application of CVA exemptions, post an internal review.

Market risk RWAs

We apply the standardised approach for calculating market risk RWAs. Market risk RWAs increased by £233 million, primarily due to an increase in foreign exchange risk, driven by the removal of an Australian Dollar hedge.

Operational risk RWAs

Operational risk RWAs are calculated using the standardised approach and increased by £41 million. The increase is due to a higher three-year average operating income.

Investec Limited

Movement in risk-weighted assets

Total RWAs grew by 8.6% over the period, with approximately 71% of this growth attributable to credit risk, 24% to equity risk and the remaining risk types contributing the balance.

Credit risk RWAs

For Investec Limited consolidated reporting, we have adopted the standardised approach for calculating credit risk RWAs. Credit risk RWAs grew by R15.2 billion with strong growth across the various businesses, including Corporate and Institutional Banking and Private Client Lending. While a portion of this growth is due to currency movement on foreign-denominated assets, the majority is the result of consistent growth across multiple asset classes, the most noticeable being term and short-dated corporate lending and lending secured by residential real estate. The impact of Basel III and the associated enhancements to the Banks Act by the South African Reserve Bank were implemented in 2013, and there has been minimal change in the methodology governing the calculation of required capital during the 2015 financial year.

Counterparty credit risk and credit valuation adjustment RWAs

Counterparty credit risk RWAs increased marginally by R259 million, driven by higher trading volumes and market fundamentals, while CVA over the period decreased by R652 million. While proportionally a large decrease, this figure is volatile due to the nature of the SARB CVA exemption notice which only implemented a CVA capital charge against foreign currency OTCs with foreign counterparties. CVA was implemented as part of Basel III in South Africa and captures the risk of deterioration in the credit quality of a bank's OTC derivative counterparties. For the 2016 financial year, the SARB has withdrawn its exemption notice, resulting in a full implementation of CVA in South Africa as per Basel III. This will result in a significantly higher (but more stable) CVA RWAs for all banks going forward. We currently apply the standardised approach to the calculation of the CVA capital requirement.

Equity risk RWAs

Equity risk grew by approximately R5.1 billion over the period. The risk weight attributable to equity investments is relatively high, with listed equities attracting an effective 318% and unlisted equities 424%.

The impact of this is a proportionally much larger increase in RWAs than the associated balance sheet equity value. The growth is attributable to new investments and revaluations of existing assets.

Market risk RWAs

Market Risk RWAs are calculated using the Value at Risk (VaR) approach and has shown a reduction due to reduced market volatility local and a portfolio that exhibits better overall hedging.

Operational risk RWAs

Operational risk is calculated using the standardised approach and is driven by the levels of income over a three-year average period, applying specific factors applicable to the nature of the business generating the 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

At 31 March 2015	Investec plc* £'million	IBP* £'million	Investec Limited* R'million	IBL* R'million
Opening common equity tier 1 capital	1 207	1 392	23 411	24 487
New capital issues	25	–	682	–
Dividends	(121)	(172)	(2 058)	(135)
(Loss)/profit after taxation	(31)	110	5 182	3 128
Treasury shares	(55)	–	(1 205)	–
Gain on transfer of non-controlling interests	(1)	–	798	–
Share-based payment adjustments	35	4	506	–
Movement in other comprehensive income	(46)	(53)	(56)	305
Goodwill and intangible assets (deduction net of related taxation liability)	85	49	(71)	(88)
Deferred taxation that relies on future profitability (excluding those arising from temporary differences)	30	30	–	–
Deconsolidation of special purpose entities	34	(22)	–	–
Transfer of non-controlling interest in non-banking entities to additional tier 1			(471)	–
Other, including regulatory adjustments and transitional arrangements	17	2	(887)	618
Closing common equity tier 1 capital	1 179	1 340	25 831	28 315
Opening additional tier 1 capital	234	–	3 764	1 227
New additional tier 1 capital issues	–	–	550	–
Other, including regulatory adjustments and transitional arrangements	(29)	–	(523)	(154)
Transfer of non-controlling interests in non-banking entities from common equity tier 1	–	–	793	–
Closing additional tier 1 capital	205	–	4 584	1 073
Closing tier 1 capital	1 384	1 340	30 415	29 388
Opening tier 2 capital	662	637	9 846	10 670
Redeemed capital	(13)	(13)	(250)	(250)
Collective impairment allowances	–	–	(2)	(2)
Sale of subsidiaries	(63)	(39)	–	–
Other, including regulatory adjustments and transitional arrangements	(30)	5	(381)	(99)
Closing tier 2 capital	556	590	9 213	10 319
Closing total regulatory capital	1 940	1 930	39 628	39 707

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

Total regulatory capital flow statement (continued)

At 31 March 2014**	Investec plc* £'million	IBP* £'million	Investec Limited* R'million	IBL* R'million
Restated common equity tier 1 capital	1 210	1 402	20 030	22 331
New capital issues	16	20	275	–
Dividends	(70)	–	(2 002)	(183)
Profit after taxation	93	52	4 094	2 150
Treasury shares	(58)	–	(770)	–
Gain on transfer of non-controlling interests	73	–	1 449	–
Share-based payment adjustments	37	–	485	–
Movement in other comprehensive income	(51)	(42)	428	125
Goodwill and intangible assets (deduction net of related taxation liability)	40	41	14	(12)
Deferred taxation that relies on future profitability (excluding those arising from temporary differences)	(38)	(38)	–	–
Deconsolidation of special purpose entities	(31)	(34)	–	–
Other, including regulatory adjustments and transitional arrangements	(14)	(9)	(592)	76
Closing common equity tier 1 capital	1 207	1 392	23 411	24 487
Opening additional tier 1 capital	295	–	4 222	1 381
Other, including regulatory adjustments and transitional arrangements	(61)	–	(458)	(154)
Closing additional tier 1 capital	234	–	3 764	1 227
Closing tier 1 capital	1 441	1 392	27 175	25 714
Opening tier 2 capital	834	681	10 526	11 493
New tier 2 capital issues	–	–	1 005	1 005
Amortisation adjustments	(27)	(15)	–	–
Redeemed capital	–	–	(3 003)	(3 003)
Collective impairment allowances	(120)	(20)	50	50
Other, including regulatory adjustments and transitional arrangements	(25)	(9)	1 268	1 125
Closing tier 2 capital	662	637	9 846	10 670
Opening other deductions from total capital	(57)	(54)	–	–
Connected funding of a capital nature	6	6	–	–
Investments that are not material holdings or qualifying holdings	51	48	–	–
Closing other deductions from total capital	–	–	–	–
Closing total regulatory capital	2 103	2 029	37 021	36 384

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

** *The 31 March 2014 capital information has been restated to reflect the implementation of IFRIC 21.*

A summary of capital adequacy and leverage ratios

At 31 March 2015	Investec plc*°	IBP*°	Investec Limited*	IBL*
Common equity tier 1 (as reported)	10.2%	12.2%	9.6%	11.0%
Common equity tier 1 (fully loaded)^^	10.2%	12.2%	9.5%	10.9%
Tier 1 (as reported)	11.9%	12.2%	11.3%	11.4%
Total capital adequacy ratio (as reported)	16.7%	17.6%	14.7%	15.4%
Leverage ratio** – permanent capital	8.1%	7.6%	8.5%#	8.5%#
Leverage ratio** – current	7.7%	7.6%	8.1%#	8.3%#
Leverage ratio** – 'fully loaded'^^	6.6%	7.6%	7.2%#	8.0%#

At 31 March 2014##	Investec plc*°	IBP*°	Investec Limited*	IBL*
Common equity tier 1 (as reported)	8.8%	11.0%	9.4%	10.3%
Common equity tier 1 (fully loaded)^^	8.9%	11.0%	9.3%	10.2%
Tier 1 (as reported)	10.5%	11.0%	11.0%	10.8%
Total capital adequacy ratio (as reported)	15.3%	16.0%	14.9%	15.3%
Leverage ratio** – permanent capital	7.7%	7.4%	8.1%#	7.9%#
Leverage ratio** – current	7.4%	7.4%	7.8%#	7.9%#
Leverage ratio** – 'fully loaded'^^	6.2%	7.4%	6.7%#	7.5%#

Reconciliation of leverage ratios At 31 March 2015	Investec plc £'million*	IBP £'million*	Investec Limited R'million*	IBL R'million*
Total assets per accounting balance sheet	18 272	17 943	473 633	332 706
Deconsolidation of non-financial/other entities	(369)	(372)	(113 905)	–
Consolidation of banking associates	20	12	–	–
Total assets per regulatory balance sheet	17 923	17 583	359 728	332 706
Reversal of accounting values:				
Derivatives	(772)	(803)	(15 177)	(15 178)
Regulatory adjustments:	792	964	32 318	35 203
Derivatives market value	264	289	7 574	8 081
Derivative add-on amounts per the mark-to-market method	449	452	4 842	5 108
Securities financing transaction add-on for counterparty credit risk	324	324	(3 420)	(2 756)
Off-balance sheet items	315	301	24 253	24 960
Add-on for written credit derivatives	7	7	–	–
Exclusion of items already deducted from the capital measure	(567)	(409)	(931)	(190)
Exposure measure	17 943	17 744	376 869	352 731
Tier 1 capital	1 384	1 340	30 415	29 388
Leverage ratio** - current	7.7%	7.6%	8.1%	8.3%
Tier 1 capital fully 'loaded'^^	1 179	1 340	27 174	28 315
Leverage ratio** - 'fully loaded'^^	6.6%	7.6%	7.2%	8.0%

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

° *The capital adequacy disclosures follow Investec's normal basis of presentation so as to show a consistent basis of calculation across the jurisdictions in which the group operates. For Investec plc and IBP this does not 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. The impact of the final proposed ordinary and preference dividends totalling £57 million for Investec plc and £15 million for IBP would be around 50bps and 10bps, respectively. At 31 March 2014 the impact of the final proposed ordinary and preference dividends totalling £61 million for Investec plc and £32 million for IBP would be around 40bps and 30bps, respectively.*

^^ *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.*

\# *Based on revised BCBS rules.*

\## *The 31 March 2014 capital information has been restated to reflect the implementation of IFRIC 21.*

Analysis of rated counterparties in each standardised credit risk exposure class

Investec plc

The table below shows the breakdown of rated credit risk exposures by credit quality step.

Credit quality step	31 March 2015 Exposure £'million	31 March 2015 Exposure after credit risk mitigation £'million	31 March 2014 Exposure £'million	31 March 2014 Exposure after credit risk mitigation £'million
Central banks and sovereigns				
1	3 374	3 374	3 187	2 950
2	23	23	–	–
3	–	–	–	–
4	–	–	–	–
5	–	–	–	–
6	–	–	–	–
Institutions*				
1	279	279	281	281
2	663	549	990	903
3	52	52	131	131
4	2	2	35	35
5	–	–	2	2
6	–	–	–	–
Corporates				
1	–	–	5	5
2	–	–	15	15
3	–	–	2	1
4	–	–	7	7
5	6	6	19	19
6	–	–	–	–
Securitisation positions				
1	184	184	171	171
2	56	56	20	20
3	76	76	34	26
4	1	1	5	1
5	–	–	–	–
Re-securitisation positions				
1	–	–	15	15
2	3	3	9	9
3	–	–	4	4
4	–	–	–	–
5	–	–	–	–
Total rated counterparty exposure	4 719	4 605	4 932	4 595

* *The institutions exposure class includes exposures to institutions with an original effective maturity of more than and less than three months.*

Analysis of rated counterparties in each standardised credit exposure class

Investec Limited

The capital requirement disclosed as held against credit risk includes a small amount of capital held for counterparty credit risk, mainly within the group's trading businesses. On the basis of materiality, no detail has been provided on this risk in the following analysis.

The table below shows the exposure amounts associated with the credit quality steps.

	31 March 2015		31 March 2014	
Credit quality step	Exposure R'million	Exposure after credit risk mitigation R'million	Exposure R'million	Exposure after credit risk mitigation R'million
Central banks and sovereigns				
1	38 800	38 800	40 716	40 716
2	–	–	–	–
3	–	–	176	176
4	113	113	–	–
5	164	164	105	105
6	–	–	–	–
Institutions original effective maturity of more than three months				
1	390	390	–	–
2	9 131	7 761	12 531	11 818
3	8 283	7 195	7 430	7 167
4	–	–	527	527
5	61	61	–	–
6	180	180	–	–
Short-term claims on institutions				
1	3 524	3 524	1 480	1 480
2	11 398	11 398	11 753	11 753
3	12 719	12 451	15 210	15 210
4	–	–	–	–
5	–	–	–	–
6	–	–	–	–
Corporates				
1	727	727	2 387	2 074
2	2 454	1 363	3 652	2 678
3	7 991	5 596	5 885	4 350
4	1 624	1 245	451	418
5	–	–	–	–
6	–	–	–	–
Securitisation positions				
1	322	322	793	793
2	1 465	1 465	5 353	4 540
3	1 018	915	2 756	1 437
4	214	214	267	267
5	909	909	1 668	1 668
Total rated counterparty exposure	101 487	94 793	113 140	107 177

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 10 June 2015 are as follows:

Rating agency	Investec Limited	Investec Bank Limited – a subsidiary of Investec Limited	Investec plc	Investec Bank plc – a subsidiary of Investec plc
Fitch				
Long-term ratings				
Foreign currency	BBB-	BBB-		BBB-
National		A+(zaf)		
Short-term ratings				
Foreign currency	F3	F3		F3
National		F1(zaf)		
Viability rating	bbb-	bbb-		bbb-
Support rating	5	3		5
Moody's				
Long-term ratings				
Foreign currency		Baa2	Baa3	A3
National		A1(za)		
Short-term ratings				
Foreign currency		Prime-2	Prime-3	Prime-2
National		P-1(za)		
Baseline Credit Assessment (BCA) and adjusted BCA		baa2		baa3
S&P				
Long-term ratings				
Foreign currency		BBB-		
National		za.AA		
Short-term ratings				
Foreign currency		A-3		
National		za.A-1		
Global Credit Ratings				
Local currency				
Long-term rating		AA-(za)		BBB+
Short-term rating		A1+(za)		A2

Internal audit

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

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 (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 officer and to BU 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, including the requirements of King III in South Africa. The audit teams comprise well-qualified, experienced staff to ensure that the function has the competence to match Investec's diverse requirements. 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.

Compliance

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. In addition, the scale and frequency of regulatory fines and redress orders continues to impact firms' 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 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.

Investec plc – 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 interests 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.

Consumer protection

The FCA has vigorously pursued its consumer protection objective since taking over from the FSA. This has included several strategic thematic reviews into most areas of consumer activity. These reviews have included: firms' complaint handling, conflict management arrangements, manufacturing and distribution of structured products, affordability assessment and forbearance policies in consumer credit and mortgage lending, as well as the way firms incentivise front line sales staff and protect client assets.

Market integrity

The FCA has adopted a markedly different approach to supervising conduct in the wholesale markets to its predecessor, the FSA. The FCA is now adopting a more interventionist and assertive approach in identifying and addressing risks arising from wholesale conduct and scrutinising these markets more broadly than before. It is driven by the recognition that poor conduct in wholesale markets can result in detriment to retail customers and erode trust and confidence in the integrity of UK markets. This has become apparent in FCA's more pronounced focus on the wholesale markets and outcomes for clients irrespective of their categorization as either retail or professional.

Specific wholesale conduct areas of regulatory focus over the past 12 months have included: conflicts of interests management; best execution and benchmark regulation.

Competition

On 1 April 2015, the FCA gained additional competition powers alongside the Competition and Markets Authority (the CMA), including investigation of breaches and enforcement of competition laws. The FCA has made use of these powers to carry out a number of competition market studies in areas such as: cash savings, credit cards and SME banking. The FCA is also planning further market studies into the investment and corporate banking sector, mortgage markets and investor charges in the asset management sector.

Investment services reform

European Regulators are in the process of reforming the rulebooks for Investment Services in the EU Markets, via enhancements to the Markets in Financial Instruments Directive (MiFID). This reform package, known as MiFID II, will form the legal 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 2017.

Segregation of client assets and funds

Following the failures of Lehman Brothers and MF Global, the FCA has proposed fundamental changes to the Client Assets Protection Regime (CASS). These changes are designed to ensure that client assets and client money are segregated at all times and capable of being returned to clients swiftly in the event of a firm failure.

These new rules will require operational changes across Investec Bank plc, Investec Asset Management and Investec Wealth & Investment. This will include the manner in which firms segregate and manage client money and assets – through customer relationships, outsourcing arrangements, operations, IT systems and related policies and procedures.

These new CASS rules come into force in stages between December 2014 and 1 June 2015.

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 at the top of banks, enhance the regulators' ability to hold senior individuals in banks to account 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.

The new regime will come 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 from the ring-fencing requirement.

Changes to regulatory landscape in the UK

On 1 April 2014 the FCA took over the regulation and supervision of consumer credit from the Office of Fair Trading. At the same time the newly established Competition and Markets Authority assumed responsibility for wider consumer protection and promotion of competition.

The Payment Systems Regulator was created on 1 April 2014 and became fully operational on 1 April 2015. The PSR is a competition-focused, economic regulator for domestic retail payment systems in the UK. It aims to promote innovation and ensure that payment systems are operated and developed in a way that promotes the interests of all the businesses and consumers that utilise them.

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 particular, the UK government published its first UK National Anti-Corruption Plan in December 2014, thereby indicating its intent to tie in anti-corruption with its efforts to strengthen the governance of banks and conduct in financial markets. The last year also saw the advent of a new type of targeted international sanctions in the midst of the Ukraine crisis. The sectoral sanctions imposed by the US and the EU on the Russian financial, energy and defence sectors will continue to be a challenge for firms as they attempt to comply with increasingly complex rules and expanding lists of banned individuals and businesses. This, together with developments around the EU fourth money laundering directive, will become a focus for Investec Bank plc.

Tax reporting

To combat tax evasion by US tax residents using offshore accounts and investments, the US has enacted the Foreign Account Tax Compliance Act (FATCA) which has a global impact on firms. Under FATCA, financial institutions outside the US are required to report specific information on their US customers to the US tax authorities, the Internal Revenue Service (IRS). Failure to meet the reporting obligations under FATCA would result in a 30% withholding tax on financial institutions. The UK, along with a number of other countries, has entered into an intergovernmental agreement with the US whereby the information will be passed over to the UK tax authorities who will then deal with the IRS.

Investec Limited – year in review

Changes to regulatory landscape in South Africa

The rapid pace of regulatory developments has continued from last year.

A second draft of the Financial Sector Regulation Bill, which was vastly different from the first draft, was released for comments in December 2014. The Bill creates the two new regulatory peaks within the financial services sector, i.e. the Bank Supervision Department of the SARB will transform into the Prudential Authority (PA), and the Financial Services Board (FSB) will transform into the Financial Sector Conduct Authority (FSCA). Both new authorities will have wider jurisdiction than the existing regulatory authorities, e.g. the PA's jurisdiction will extend beyond banks (to insurance companies for instance), and the FSCA's jurisdiction will also extend to the market conduct activities of banks; and both authorities will have wider law-making powers. The Bill also introduces consultation and co-ordination between the financial sector regulators and other regulators that have an impact on and oversight of activities of financial institutions, e.g. the National Credit Regulator.

The Financial Sector Regulatory Bill also proposes to amend the existing market conduct related legislation into an overarching 'Conduct of Financial Institutions Act' within the next two years. This will supersede existing industry-specific legislation in terms of the Banks Act, Long Term Insurance Act, Short Term Insurance Act and the Financial Advisory and Intermediary Services (FAIS).

Simultaneously, National Treasury (NT) published the Market Conduct Policy Framework for comment. This document outlined NT's policy approach to market conduct, and will form the basis for their development of the market conduct regulatory framework and legislation. The Treating Customers Fairly regime will form part of this new framework.

The FSB released the Retail Distribution Review paper for comment in November 2014. The paper proposes a more proactive and interventionist regulatory framework for distributing retail financial products to customers.

The amendments to the National Credit Act and the Regulations came into effect on 13 March 2015. The amendments include the introduction of affordability assessment regulations.

Draft regulations in respect of over-the-counter derivatives were published for comment in the course of 2014.

Conduct risk (consumer protection)

Conduct risk remains a key area of concern for the regulators. While the regulatory framework is changing to create a dedicated regulator to supervise the conduct of financial institutions, the existing regulatory and legislative framework continues to be utilised to ensure that financial institutions take heed of conduct risk and that they have measures in place to mitigate or avoid such risks. Some examples include the SARB incorporating market conduct as a flavour of the year topic in 2014, the NCR amending the National Credit Act to include affordability assessment regulations, and the FSB amending the General Code of Conduct for Authorised Financial Services Providers to prohibit sign-on bonuses. The affected businesses continue to assess the impact of the regulatory requirements and implement changes where necessary.

Although the effective date for the Protection of Personal Information Act (POPI) has not yet been published, work continues on data protection and information management.

Financial crime

Financial crime continues to be a regulatory focus with amendments to governing legislation proposed for later this year. All accountable institutions are further effected by the Financial Intelligence Centre's intended move to a new automated solution for registration and reporting, also scheduled for later this year.

Tax reporting

The intergovernmental agreement for South Africa has been ratified in parliament and is effective as of 28 October 2014. This allows South Africa to be treated as a participating country and thus avoid withholding tax on South African financial institutions. Investec is engaged in projects to ensure that operationally we are able to identify our US clients and that we comply with FATCA.

In addition to FATCA, there is also an OECD Common Reporting Standard proposal, aiming for an internationally accepted single global tax reporting standard and automatic exchange of information.

Mauritius has signed a Tax Information Exchange Agreement as well as an inter-governmental agreement with the IRS and therefore will also be treated as a participating country.

Definitions

Adjusted shareholders' equity

Refer to calculation on page 50 in volume one

Cost to income ratio

Operating costs divided by operating income (net of depreciation on leased assets). Depreciation on operating leased assets has been netted off against operating income

Core loans and advances

Net loans and advances to customers plus net own originated securitised assets

Refer to calculation on page 31

Dividend cover

Adjusted earnings per ordinary share before goodwill and non-operating items divided by dividends per ordinary share

Earnings attributable to ordinary shareholders before goodwill, acquired intangibles and non-operating items (i.e. adjusted earnings)

Refer to page 53 in volume three

Adjusted earnings per ordinary share before goodwill, acquired intangibles and non-operating items

Refer to page 53 in volume three

Effective operational tax rate

Tax on profit on ordinary activities (excluding non-operating items) divided by operating profit

Market capitalisation

Total number of shares in issue (including Investec plc and Investec Limited) multiplied by the closing share price of Investec plc on the London Stock Exchange

Net tangible asset value per share

Refer to calculation on page 48 in volume one

Non-operating items

Reflects profits and/or losses on termination, restructuring or disposal of group operations and acquisitions made

Operating profit

Operating income less administrative expenses, impairments for bad and doubtful debts and depreciation of tangible fixed assets. This amount is before goodwill, acquired intangibles and non-operating items

Operating profit per employee

Refer to calculation on page 53 in volume one

Recurring income

Net interest income plus net annuity fees and commissions expressed as a percentage of total operating income

Return on average adjusted shareholders' equity

Refer to calculation on page 50 in volume one

Return on average adjusted tangible shareholders' equity

Refer to calculation on page 50 in volume one

Return on risk-weighted assets

Adjusted earnings divided by average risk-weighted assets

Risk-weighted assets

Is calculated as the sum of risk-weighted assets for Investec plc and Investec Limited (converted into Pounds Sterling) as reflected on page 89

Staff compensation to operating income ratio

All employee-related costs expressed as a percentage of operating income

Third party assets under administration

Includes third party assets under administration managed by the Wealth & Investment, Asset Management and Property businesses

Total capital resources

Includes shareholders' equity, subordinated liabilities and non-controlling interests

Total equity

Total shareholders' equity including non-controlling interests

Weighted number of ordinary shares in issue

The number of ordinary shares in issue at the beginning of the year increased by shares issued during the year, weighted on a time basis for the period during which they have participated in the income of the group less treasury shares. Refer to calculation on page 53 in volume three

Notes

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Registration number 3633621

Investec Limited

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Directorate

Executive directors

Stephen Koseff (chief executive officer)
Bernard Kantor (managing director)
Glynn R Burger (group risk and finance director)
Hendrik J du Toit (chief executive officer, Investec Asset Management)

Non-executive directors

Fani Titi (chairman)
Zarina BM Bassa^
Laurel C Bowden°
Cheryl A Carolus
Perry KO Crosthwaite (senior independent director)
Bradley Fried
David Friedland
Haruko Fukuda OBE
Charles R Jacobs*
Ian R Kantor
Lord Malloch-Brown*
Khumo L Shuenyane*
Peter RS Thomas

George FO Alford, Olivia C Dickson and M Peter Malungani resigned with effect 7 August 2014.

Sir David Prosser resigned with effect 8 August 2014.

^ *Appointed with effect 1 November 2014.*
° *Appointed with effect 1 January 2015.*
* *Appointed with effect 8 August 2014.*

For contact details for Investec offices internationally refer to pages 135 and 136 in volume three.

For queries regarding information in this document

Investor Relations

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