

# 2016

## ANNUAL REPORT

Investec risk and Basel  
Pillar III disclosures report

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Volume 2



*Out of the Ordinary*<sup>®</sup>

 **Investec**

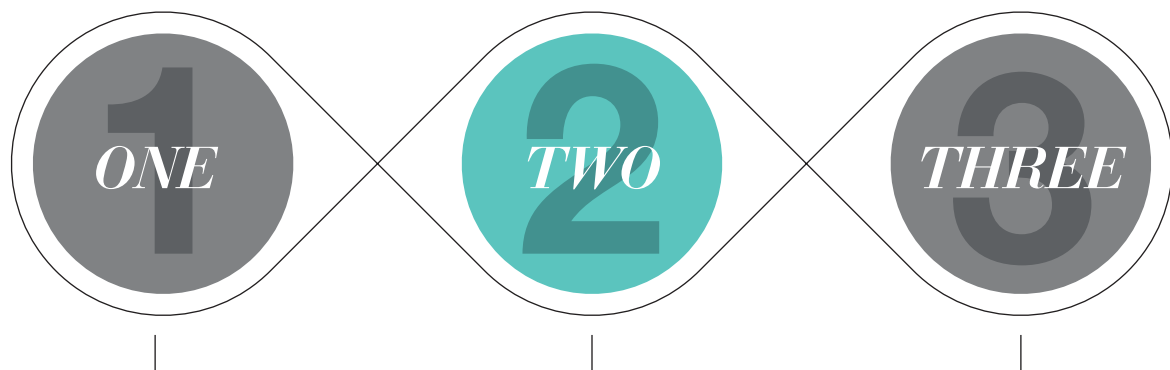




# **THE 2016** integrated annual report covers the period 1 April 2015 to 31 March 2016 and provides an overview of the Investec group

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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.



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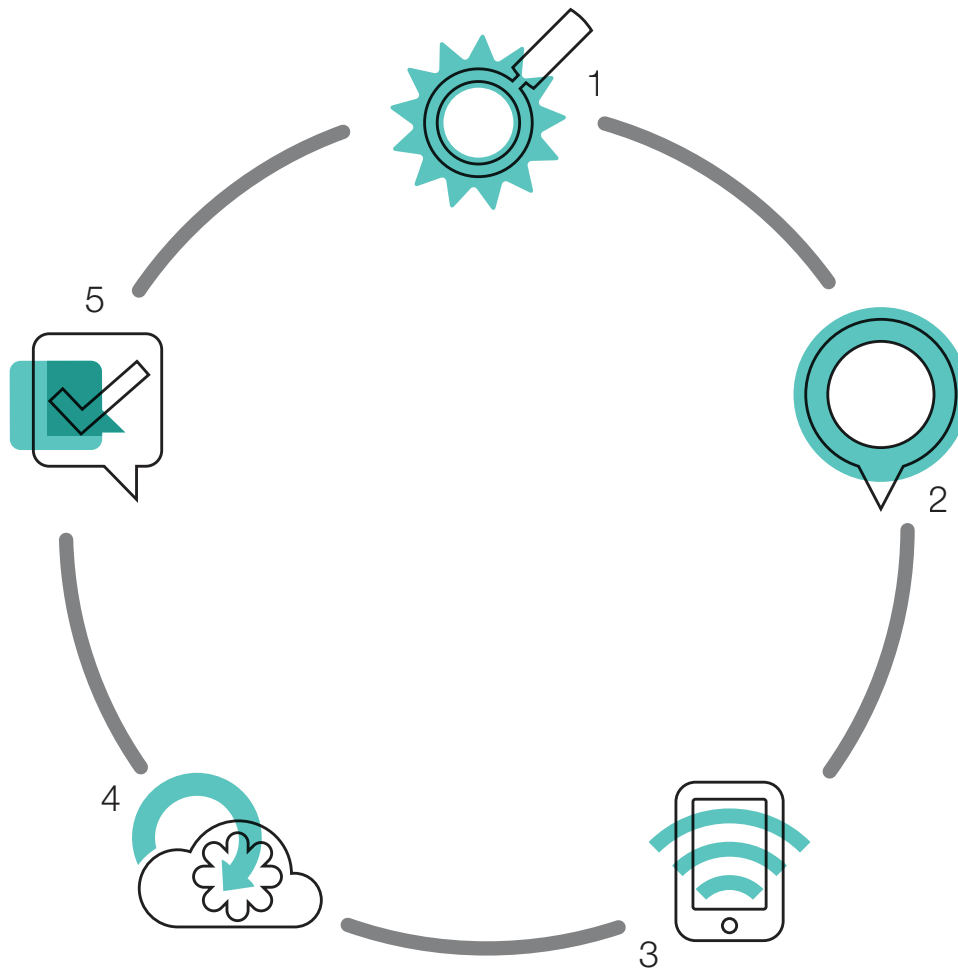
STRATEGIC REPORT  
INCORPORATING  
GOVERNANCE,  
SUSTAINABILITY AND  
THE REMUNERATION  
REPORT

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RISK AND BASEL  
PILLAR III DISCLOSURES  
REPORT

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ANNUAL FINANCIAL  
STATEMENTS



## CROSS REFERENCE TOOLS

### 1. Audited information

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

### 2. Page references

Refers readers to information elsewhere in this report

### 3. Website

Indicates that additional information is available on our website:  
[www.investec.com](http://www.investec.com)

### 4. Sustainability

Refers readers to further information in our sustainability report available on our website:  
[www.investec.com](http://www.investec.com)

### 5. Reporting standard

Denotes our consideration of a reporting standard

## FEEDBACK

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.

### For queries regarding information in this document

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# Contents

## One

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### **Risk and Basel Pillar III disclosures**

Corporate information	4
Risk management	6
Credit ratings	98
Internal Audit	99
Compliance	100
Definitions	102

## Investec plc and Investec Limited

### SECRETARY AND REGISTERED OFFICE

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### REGISTRATION NUMBER

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#### Investec plc

Registration number 3633621

#### Investec Limited

Registration number 1925/002833/06

### AUDITORS

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Ernst & Young LLP  
Ernst & Young Inc.

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Telephone (27) 11 370 5000

### DIRECTORATE

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#### 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)  
David Friedland  
Charles R Jacobs  
Ian R Kantor  
Lord Malloch-Brown KCMG  
Khumo L Shuenyane  
Peter RS Thomas

*Bradley Fried resigned effective 31 March 2016 and Haruko Fukuda OBE resigned effective 6 August 2015.*



**For contact details for Investec offices internationally refer to pages 146 to 148 in volume three.**



# One

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 9 to 98 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 certain of Investec Limited's 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 and separate Pillar III reports (where applicable) 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 14 in volume one) and allow the group to operate within its risk appetite tolerance as set out on page 11.

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

### A SUMMARY OF THE YEAR IN REVIEW FROM A RISK PERSPECTIVE

Executive management is intimately involved in ensuring stringent management of risk, liquidity, capital and conduct. We



continue to seek to achieve an appropriate balance between risk and reward in our business, taking cognisance of all stakeholders' interests.

Notwithstanding, a challenging and uncertain environment experienced in the group's core geographies, the group was able to maintain sound risk metrics throughout the year in review. The group remained within the majority of its risk appetite limits/targets across the various risk disciplines with any exceptions noted and approved by the board. Our risk appetite framework as set out on page 11 continues to be assessed in light of prevailing market conditions and group strategy.

Our core loan book has grown steadily over the year in home currencies, reflecting an increase of 19.7% in South Africa, and 10.5% in the UK. This has been supported by solid growth in our residential owner-occupied mortgage portfolios, private client and corporate client lending portfolios. Growth in our books has been diversified across our business lines, with loan to values at conservative levels and margins broadly in line with the prior year.

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

Our core loan book remains well diversified with commercial rent producing property loans comprising approximately 15% of the book, other lending collateralised by property 10%, high net worth and private client lending 35% and corporate lending 40% (with most industry concentrations well below 5%). Our focus over the past few years to realign and rebalance our portfolios in line with our risk appetite framework is reflected in the relative changes in asset classes on our balance sheet; showing an increase in private client and corporate and other lending, and a reduction in lending collateralised by property as a proportion of our book.

Our legacy portfolio in the UK has been actively managed down from £695 million at 31 March 2015 to £583 million largely through redemptions and write-offs

(notably on the Irish portfolio).

We will continue to manage this portfolio down, although we remain cautiously optimistic in this regard and our view is that the remaining legacy book will still take two to four years to clear as explained in detail in volume one on page 83.

Impairments on loans and advances decreased from £128.4 million to £109.5 million. Since 31 March 2015 gross defaults have improved from £608.4 million to £466.1 million. The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounted to 1.54% (2015: 2.07%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.35 times (2015: 1.37 times).

We reported an increase in the level of impairments taken on our South African portfolio, but remain comfortable with the overall performance of the book, as the credit loss ratio amounts to 0.26% and defaults (net of impairments but before collateral) are 1.05% of our book. The increase in interest rates in South Africa has had little impact on the performance of our book to date, as our target market is less sensitive to the moderate interest rate moves incurred to date. We will however, monitor our portfolio in light of the increasing interest rate environment. Given the weaker growth outlook in South Africa, it is likely that defaults could increase, although we would still expect our credit loss ratio to remain within our long-term trend of 30bps to 40bps. The credit loss ratio in our UK and Other businesses improved during the year to 1.13%, with the bulk of impairments taken on the legacy portfolio. Our credit losses on our core 'ongoing' UK and Other book remain low at 0.26%.

The group has minimal exposure to the agriculture sector in South Africa, and our overall group exposure to mining and resources amounts to 2.6% of our credit and counterparty exposures. Overall net defaults of the group are at a manageable level, amounting to 9.7% of our tier 1 equity, with total impairments amounting to 17.8% of our pre-provision income.

Our investment portfolios in the UK and South Africa delivered a sound performance. During the year we transferred a sizeable portion of our South African unlisted investments portfolio to an investment vehicle called Investec Equity Partners (IEP), in which we retain a 45% interest. With the backing

of external strategic investors, we believe that IEP is better positioned to deliver value from, and grow this portfolio. Overall, we remain comfortable with the performance of our equity investment portfolios which comprise 3.88% of total assets.

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

Investec has continued to maintain a sound balance sheet with a low gearing ratio of 10.2 times and a core loans to equity ratio of 4.7 times. Our current leverage ratios for Investec Limited and Investec plc are at 6.9% and 7.0% respectively.

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 for total capital adequacy. We did not meet our internal target for our common equity tier 1 ratio to be in excess of 10% at our holding companies, as a result of solid growth in credit risk-weighted assets during the year. Capital continued to grow and we are comfortable that credit growth is in line with our risk appetite framework and supported by sound risk metrics. We believe that a common equity tier 1 ratio in excess of 10% is appropriate for our business, given our high leverage ratios and we will continue to build our business in a manner that achieves this target.

Holding a high level of readily available, high quality liquid assets remains paramount in the management of our balance sheet. We continue to maintain a low reliance on interbank wholesale funding to fund core lending asset growth. Cash and near cash balances amounted to £11.0 billion at year end, representing 38.8% of our liability base.

The strategy in the UK to normalise balance sheet liquidity levels following the strategic sales in the last quarter of the previous financial year was achieved by mid-year through a combination of asset growth and liability management. Our loan to deposit ratio is at 72.2%. Our weighted average cost of funding over the year continued to decrease and we comfortably meet Basel liquidity requirements for the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).



# Risk management

(continued)

RISK AND BASEL PILLAR III DISCLOSURES

In South Africa surplus cash balances increased significantly as we remained conservative given the volatility in the markets. We ended the year with the three-month average of Investec Bank Limited's (solo) LCR at 117.3%, which is well ahead of the minimum levels required. We were successful in raising two to three year term US Dollar (USD) funding at levels last witnessed over five years ago. The bank's long-term USD liquidity position is very positive and places us in a strong position ahead of any concern over South Africa's heightened risk of a credit rating downgrade. Our USD funding merely augments our surplus cash balances, and core loans and advances are fully funded from domestic deposits, with our loan to deposit ratio (excluding USD funding) at 74.6%.

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

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

Investec's stress testing framework is well embedded in its operations and is designed to identify and regularly test the group's key 'vulnerabilities under stress'. A fundamental part of the stress testing process is a full and comprehensive analysis of all the group's material business activities, incorporating views from risk, the business and the executive – a process called the 'bottom-up' analysis. Resulting from the 'bottom-up' analysis, the Investec-specific stress scenarios are designed to specifically test the unique attributes of the group's portfolio. The key is to understand the potential threats

to our sustainability and profitability and thus a number of risk scenarios have been developed and assessed. These Investec specific stress scenarios form an integral part of our capital planning process. The stress testing process also informs the risk appetite review process and the management of risk appetite limits and is a key risk management tool of the group. This process allows the group to identify underlying risks and manage them accordingly.

During the year, Investec continued to enhance its stress testing framework. Given the volatility and uncertainty in the market, a number of new stress scenarios were incorporated into our processes, these included for example, the events that unfolded in South Africa in December 2015 with the removal of Finance Minister Nene; a sovereign rating downgrade of South Africa to below investment grade; and 'Brexit'.

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



**Our viability statement is provided in volume one on pages 121 to 123.**

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

## CONCLUSION

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

Signed on behalf of the board

**Stephen Koseff**

Chairman of the group risk and capital committee

9 June 2016

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

## 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 32 to 37 in volume one.*

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



*Refer to pages 21 and 22, pages 58 and pages 68 and 69, 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 private client mortgages and the decline in lending collateralised by property exposures. Continued progress has been made during the year in our strategic portfolio rebalancing through active portfolio management and the consistent application of our risk appetite statement.

Net core loans and advances increased by 10.5% from £7.1 billion at 31 March 2015 to £7.8 billion at 31 March 2016, largely as a result of solid growth in our diversified corporate lending and high net worth and other private client lending activities.

Default loans (net of impairments) have decreased from 3.00% to 2.19% of core loans and advances. The credit loss ratio is at 1.13% (2015: 1.16%), impacted by further impairments on the legacy portfolio.

#### Traded market risk

We continue to manage to a very low level of market risk with VaR at £0.5 million at 31 March 2016. There was strong growth in client activity across the interest rate and foreign exchange corporate sales desks within Treasury Products and Distribution.

Increased volatility in the forex markets resulted in more active client activity and interest rate hedging activity was driven by strong internal deal flow. Market risk exposures across all asset classes have remained low throughout the year.

#### Balance sheet risk

Cash and near cash balances at 31 March 2016 amounted to £5.1 billion (2015: £5.0 billion) with total UK customer deposits increasing by 4.9% to £10.8 billion (2015: £10.3 billion). We continue to comfortably exceed Basel liquidity requirements for the LCR and NSFR.

### Southern Africa

#### Credit risk

Net core loans and advances grew by 19.7% to R218.0 billion at 31 March 2016 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 improved from 1.43% to 1.05% as a result of write-offs and settlements. The credit loss ratio improved to 0.26% from 0.28%.

#### Traded market risk

We continue to manage to a very low level of market risk with VaR at R4.8 million at 31 March 2016. Trading conditions have remained challenging. Markets have been very volatile while the lack of liquidity has continued. Investec remains focused on facilitating the near-term demand of our clients. The equity derivatives business has continued to grow their synthetic product offering to a diversified client base. All trading areas have kept market risk exposures at low levels throughout the year.

#### Balance sheet risk

Total customer deposits increased by 26.4% from 1 April 2015 to R280 billion at 31 March 2016. Cash and near cash balances increased by 40.8% from 1 April 2015 to R125 billion at 31 March 2016. Investec Bank Limited (solo basis) ended the financial year with the three-month average of its LCR at 117.3%, which is well ahead of the minimum regulatory level of 70% required.



(continued)

## Salient features

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

Year to 31 March	UK and Other		Southern Africa		Investec group	
	2016 £	2015 £	2016 R	2015 R	2016 £	2015 £
Net core loans and advances (million)	7 804	7 061	217 958	182 058	18 119	17 189
Total assets (excluding assurance assets) (million)	18 489	17 970	445 239	359 728	39 505	38 016
Total risk-weighted assets (million)	12 297	11 608	309 052	269 466	26 923 <sup>^</sup>	26 601 <sup>^</sup>
Total equity (million)	1 881	2 074	41 851	35 526	3 859	4 040
Cash and near cash (million)	5 082	5 039	124 907	88 691	10 994	9 975
Customer accounts (deposits) (million)	10 801	10 298	279 820	221 377	24 044	22 615
Gross defaults as a % of gross core loans and advances	3.95%	5.52%	1.47%	2.04%	2.55%	3.49%
Defaults (net of impairments) as a % of net core loans and advances	2.19%	3.00%	1.05%	1.43%	1.54%	2.07%
Net defaults (after collateral and impairments) as a % of net core loans and advances	–	–	–	–	–	–
Credit loss ratio*	1.13%	1.16%	0.26%	0.28%	0.62%	0.68%
Structured credit as a % of total assets**	1.92%	1.92%	0.17%	0.44%	0.99%	1.15%
Banking book investment and equity risk exposures as a % of total assets**	3.56%	3.44%	4.16%	4.88%	3.88%	4.19%
Level 3 (fair value assets) as a % of total assets**	3.63%	4.32%	0.63%	2.32%	2.06%	3.87%
Traded market risk: one-day value at risk (million)	0.5	0.7	4.8	3.5	n/a	n/a
Core loans to equity ratio	4.1x	3.4x	5.2x	5.1x	4.7x	4.3x
Total gearing ratio <sup>^^</sup>	9.8x	8.8x	10.6x	10.1x	10.2x	9.4x
Loans and advances to customers to customer deposits	72.2%	68.5%	74.6%	78.6%	73.5%	74.0%
Capital adequacy ratio	15.1%	16.7%	14.0%	14.7%	n/a	n/a
Tier 1 ratio	10.7%	11.9%	10.7%	11.3%	n/a	n/a
Common equity tier 1 ratio	9.7%	10.2%	9.6%	9.6%	n/a	n/a
Leverage ratio – current	7.0%	7.7%	6.9%	8.1%	n/a	n/a
Return on average assets <sup>#</sup>	0.71%	0.44%	1.15%	1.20%	0.93%	0.86%
Return on average risk-weighted assets <sup>#</sup>	1.10%	0.72%	1.61%	1.59%	1.34%	1.25%

\* Income statement impairment charge on core loans as a percentage of average advances.

\*\* Total assets excluding assurance assets.

<sup>^</sup> The group numbers have been 'derived' by adding Investec plc and Investec Limited (Rand converted into Pounds Sterling) numbers together.

<sup>^^</sup> Total assets excluding assurance assets to total equity.

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

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

Risk appetite and tolerance metrics	Positioning at 31 March 2016
<ul style="list-style-type: none"> <li>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</li> </ul>	Capital light activities contributed 55% to total operating income and capital intensive activities contributed 45%
<ul style="list-style-type: none"> <li>We have a solid recurring income base supported by diversified revenue streams, and target a recurring income ratio in excess of 65%</li> </ul>	Recurring income amounted to 71.7% of total operating income. Refer to page 28 in volume one for further information
<ul style="list-style-type: none"> <li>We seek to maintain strict control over fixed costs and target a group cost to income ratio of below 65%</li> </ul>	The cost to income ratio amounted to 66.4%. Refer to page 31 in volume one for further information
<ul style="list-style-type: none"> <li>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%</li> </ul>	The return on equity amounted to 11.5% and our return on risk-weighted assets amounted to 1.34%. Refer to pages 31 and 59 in volume one for further information
<ul style="list-style-type: none"> <li>We are a lowly leveraged firm and target a leverage ratio in all our banking subsidiaries in excess of 6%</li> </ul>	We achieved this internal target; refer to page 94 for further information
<ul style="list-style-type: none"> <li>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 11.0% and a common equity tier 1 ratio above 10.0%</li> </ul>	We meet total capital targets; however, we have not met our common equity targets due to strong growth in credit risk-weighted assets; refer to page 94 for further information
<ul style="list-style-type: none"> <li>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</li> </ul>	We maintained this risk tolerance level in place throughout the year
<ul style="list-style-type: none"> <li>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 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</li> </ul>	Refer to page 24 for further information
<ul style="list-style-type: none"> <li>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)</li> </ul>	The credit loss charge on core loans amounted to 0.62% and defaults net of impairments amounted to 1.54% of total core loans. Refer to page 33 for further information
<ul style="list-style-type: none"> <li>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%</li> </ul>	Total cash and near cash balances amounted to £11.0 billion representing 45.7% of customer deposits. Refer to page 64 for further information
<ul style="list-style-type: none"> <li>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</li> </ul>	We meet these internal limits; refer to page 54 for further information
<ul style="list-style-type: none"> <li>We have moderate appetite for investment risk, and set a risk tolerance of less than 20% of tier 1 capital for our unlisted principal investment portfolio (excluding IEP)</li> </ul>	Our unlisted investment portfolio is £500 million, representing 17.4% of total tier 1 capital. Refer to page 49 for further information
<ul style="list-style-type: none"> <li>Our operational risk management team focuses on improving business performance and compliance with regulatory requirements through review, challenge and escalation</li> </ul>	Refer to pages 74 to 78 for further information
<ul style="list-style-type: none"> <li>We have a number of policies and practices in place to mitigate reputational, legal and conduct risks</li> </ul>	Refer to pages 79 and 80 for further information



## An overview of our principal risks

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



*These principal risks have been highlighted on pages 40 to 47 volume one.*

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

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

## Risk management framework, committees and forums

A number of committees and forums identify and manage risk at group level, as 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 112 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
<p><b>Audit committees</b>                      Members: Non-executive directors                      Chairman: David Friedland (non-executive director)                      Frequency:</p> <ul style="list-style-type: none"> <li>DLC audit committee – four times a year</li> <li>Investec Limited and group audit committee – four times a year</li> <li>Investec plc audit committee – four times a year</li> </ul>	<ul style="list-style-type: none"> <li>See pages 125 and 129 in volume one</li> <li>The Internal Audit, Compliance and Operational Risk departments report to the audit committees</li> </ul>
<p><b>Board risk and capital committee (BRCC)</b>                      Members: Executive and non-executive directors (senior management by invitation)                      Chairman: David Friedland (non-executive director)                      Frequency: Six times a year</p>	<ul style="list-style-type: none"> <li>See pages 129 and 130 in volume one</li> </ul>
<p><b>Group risk and capital committee (GRCC)</b>                      Members: Executive directors and senior management (non-executive directors by invitation)                      Chairman: Stephen Koseff (CEO)                      Frequency: Six times a year</p>	<ul style="list-style-type: none"> <li>The purpose of the GRCC is to supplement the BRCC</li> </ul>
<p><b>DLC capital committee</b>                      Members: Executive and non-executive directors and senior management                      Chairman: Stephen Koseff (CEO)                      Frequency: At least quarterly</p>	<ul style="list-style-type: none"> <li>See page 131 in volume one</li> </ul>
<p><b>Executive risk review forum (ERRF)</b>                      Members: Executive directors and senior management.                      Chairman: Stephen Koseff (CEO)                      Frequency: Weekly</p>	<ul style="list-style-type: none"> <li>See page 131 in volume one</li> </ul>
<p><b>Global credit committee</b>                      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</p>	<ul style="list-style-type: none"> <li>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</li> <li>Considers the level of acceptable counterparty and geographical exposures within the board-approved risk appetite framework</li> <li>Reviews and approves changes to credit policies and methodologies</li> </ul>
<p><b>Group investment committee</b>                      Members: Executive directors and senior management                      Chairman: Stephen Koseff (CEO)                      Frequency: Weekly</p>	<ul style="list-style-type: none"> <li>Is responsible for reviewing and approving:                             <ul style="list-style-type: none"> <li>acquisitions or disposals of strategic investments in which we act as principal and retain an equity interest (above predetermined thresholds)</li> <li>capital expenditure or disposals (above predetermined thresholds)</li> </ul> </li> </ul>

Committee	Function
<p><b>Group deal forum</b>                      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</p>	<ul style="list-style-type: none"> <li>Considers, approves and mitigates the risks inherent in any new product or other non-standard transactions that we are considering</li> </ul>
<p><b>Group market risk forum</b>                      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</p>	<ul style="list-style-type: none"> <li>Reviews and recommends limit adjustments in all existing products and markets across all desks in the group</li> <li>Recommends limits for new products and new markets</li> <li>Recommends methodology as to how risks are measured</li> </ul>
<p><b>Global compliance forum</b>                      Members: Compliance representatives of the Investec Limited and Investec plc businesses                      Chairman: Bradley Tapnack; Alternate: Kathryn Farndell and Noel Sumner                      Frequency: Half-yearly and on <i>ad hoc</i> request</p>	<ul style="list-style-type: none"> <li>Review and approval of all group compliance policies across Investec Limited and Investec plc businesses</li> <li>Establishing and standardising of group standards where applicable</li> <li>Escalation of policies to ERRF and the board for approval as required</li> </ul>
<p><b>Asset and liability committee (ALCO)</b>                      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 <i>ad hoc</i> if required)</p>	<ul style="list-style-type: none"> <li>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</li> <li>Directs the implementation of the methodology, techniques, models and risk measures for liquidity and interest rate risk management</li> <li>Reviews the structure of our balance sheet and business strategies, taking into account market conditions, including stress tests</li> <li>Maintains liquidity contingency plans</li> <li>The responsibilities of the liability product and pricing forum (a sub-committee of ALCO) are:                             <ul style="list-style-type: none"> <li>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</li> <li>to review the liquidity, interest rate and concentration characteristics of all new products and approve their issuance</li> <li>to monitor existing products, terms and rates</li> <li>to reprice or close products where appropriate</li> <li>to evaluate continuously the external rates environment including competitor analysis</li> <li>to escalate to ALCO any information deemed to be relevant to ALCO's ability to fulfil its mandate</li> <li>to consider the impact on the overall liquidity of all new liabilities to be issued by group funding entities and approve the issuance of such products</li> </ul> </li> </ul>
<p><b>Global operational risk committee</b>                      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</p>	<ul style="list-style-type: none"> <li>Provides support to BRCC and ERRF in the management of operational risk</li> <li>Reviews and approves the operational risk management framework, policies and appetite</li> <li>Aligns operational risk policies, practices and reporting across the group</li> </ul>
<p><b>Group legal risk forum</b>                      Members: Executive directors, senior management and divisional legal managers                      Chairman: David Nurek (global head of legal risk)                      Frequency: Half-yearly (or <i>ad hoc</i> if required)</p>	<ul style="list-style-type: none"> <li>Considers and manages legal risks throughout the group</li> </ul>



# Risk management

(continued)

RISK AND BASEL PILLAR III DISCLOSURES

Committee	Function
<p><b>Social and ethics committee</b>            Members: Executive and non-executive directors            Chairman: Fani Titi            Frequency: Quarterly</p>	<p>In monitoring the group's activities, having regard to any relevant legislation, other legal requirements or prevailing codes of best practice, with regard to matters relating to social and economic development, good corporate citizenship, including:</p> <ul style="list-style-type: none"> <li>Promotion of equality, prevention of unfair discrimination, and reduction of corruption</li> <li>Record of sponsorship, donations and charitable giving</li> <li>Environment, health and public safety, including the impact of the group's activities and of its products and services</li> <li>Consumer relationships, including the company's advertising, public relations and compliance with consumer protection laws</li> <li>Labour and employment, including:               <ul style="list-style-type: none"> <li>The group's standing in terms of the international Labour Organisation Protocol on decent work and working conditions</li> <li>The group's employment relationships, and its contribution towards the educational development of its employees</li> <li>In monitoring Investec Limited and its subsidiaries' activities, with regard to matters relating to the Employment Equity Act and the Broad-Based Black Economic Empowerment Act</li> <li>Contribution to development of the communities in which its activities are predominantly conducted or within which its products and services are predominantly marketed</li> </ul> </li> <li>Human Rights               <ul style="list-style-type: none"> <li>To respect and uphold the group's commitment to the United Nations principle regarding Human Rights</li> <li>To review the policies and procedures that ensure we avoid infringing on human rights of others throughout our sphere of influence</li> <li>To uphold the UK Modern Slavery Act 2015 to combat slavery and human trafficking</li> </ul> </li> </ul>

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
EBA	European Banking Authority	SARB	South African Reserve Bank
ECB	European Central 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	Thea Pomeroy-Ward
Balance Sheet Risk Management	Cyril Daleski	Jana Moore	Cyril Daleski
Operational Risk	Chandre Griesel	Martyn Carvey	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.

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

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

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

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

While we do not have a separate country risk committee, the local and global credit committees as well as investment committees and ERRF will consider, analyse and assess the appropriate limits to be recorded when required, to assume exposure to foreign jurisdictions. The local group credit committee has the authority to approve country limits within mandate. The global credit committee, global investment committee or ERRF is responsible for approving country limits that are not within the mandate of local group credit committees.

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

Credit and counterparty risk may also arise in other ways and it is the role of the global

risk management functions and the various independent credit committees to identify risks falling outside these definitions.

### CREDIT AND COUNTERPARTY RISK GOVERNANCE STRUCTURE



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

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

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

### CREDIT AND COUNTERPARTY RISK APPETITE

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



# Risk management

(continued)

RISK AND BASEL PILLAR III DISCLOSURES

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



**We have little appetite for unsecured debt and require good quality collateral in support of obligations (refer to page 45 for further information).**

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

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

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

## CONCENTRATION RISK

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

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

Credit and counterparty risk is always assessed with reference to the aggregate exposure to a single counterparty or

group of related parties to manage concentration risk.

## RISK APPETITE

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

## SUSTAINABILITY CONSIDERATIONS



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

- Environmental considerations (including animal welfare and climate-related impacts)
- Social considerations (including Human Rights)
- Economic considerations.



**Refer to our sustainability report on our website.**

## MANAGEMENT AND MEASUREMENT OF CREDIT AND COUNTERPARTY RISK



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

- A clear definition of our target market
- A quantitative and qualitative assessment of the creditworthiness of our counterparties
- Analysis of risks, including concentration risk (concentration

risk considerations include asset class, industry, counterparty and geographical concentration)

- Decisions are made with reference to risk appetite limits
- Prudential limits
- Regular monitoring and review of existing and potential exposures once facilities have been approved
- A high level of executive involvement in decision-making with non-executive review and oversight.

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

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

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

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

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

Fitch, S&P, Moody's and Global Credit Ratings have been nominated as eligible external credit assessment institutions (ECAIs) for the purposes of determining external credit ratings. Due to the group reducing its securitisation activity as a

result of the disposal of the Kensington business in January 2015, the group will no longer rely on DBRS credit assessments in respect of sovereign and securitisation exposures. The following elections have been made:

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

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

## STRESS TESTING AND PORTFOLIO MANAGEMENT

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

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

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

Notwithstanding the form of the stress testing process, the framework should not impede the group from being able to be

flexible and perform ad hoc stress tests, which by their nature need to be completed on request and in response to emerging risk issues.

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 40 to 43.**

### Private client activities

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

Lending products are tailored to meet the requirements of our clients. Central to our credit philosophy is ensuring the sustainability of cash flow and income throughout the cycle. As such, the client base has been grouped and defined to include high net worth clients (who, through diversification of income streams, will reduce income volatility) and individuals

with a profession which has historically supported a high and sustainable income stream irrespective of the stage in the economic cycle.

Credit risk arises from the following activities:

- **Personal Banking** delivers products to enable target clients to create and manage their wealth. This includes private client mortgages, transactional banking, high net worth lending, offshore banking and foreign exchange
- **Residential Mortgages** provides mortgage loan facilities for high-income professionals and high net worth individuals tailored to their individual needs 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 40 to 43.**

### 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

(continued)

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 secured corporate loans 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, North America and Australia where Investec can support experienced asset managers and their funds which show strong, long-term value creation and good custodianship of investors' money. Debt facilities to fund vehicles are secured against undrawn limited partner commitments and/or the funds underlying assets. Fund manager loans are structured against committed fund management cash flows and the managers' investment stake in their own funds.
- **Small Ticket Asset Finance:** provides highly diversified lending to small and medium-sized corporates to support asset purchases and other business requirements. These facilities 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 corporate leverage loans. The bonds are mainly investment grade rated, which benefit from a high-level of credit subordination and can withstand a significant level of portfolio defaults.
- **Treasury Placements:** The treasury function, as part of the daily management of the bank's liquidity, places funds with central banks and other commercial banks and financial institutions. These transactions are typically short term (less than one month) money market placements or secured repurchase agreements. These market counterparties are high investment grade rated entities that occupy dominant and systemic positions in their domestic banking markets. These counterparties are located in the UK, Western Europe, 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, in the UK, makes markets in shares where we are appointed corporate broker under pre-agreed market risk limits. Settlement trades are largely on a delivery versus payment basis, through major stock exchanges. Credit risk only occurs in the event

of counterparty failure and would be linked to any fair value losses on the underlying security.

- **Customer trading activities to facilitate client lending:** Our customer trading portfolio consists of derivative contracts in interest rates, foreign exchange, commodities, credit derivatives and equities that are entered to facilitate a client's hedging requirements. The counterparties to such transactions are typically corporates, in particular where they have a sizeable exposure to foreign exchange due to operating in sectors that include imports and exports of goods and services. These positions are marked to market, typically with daily margin calls to mitigate credit exposure in the event of counterparty default.



**An analysis of the corporate client loan portfolio and asset quality information is provided on pages 40 to 43.**

### 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 to five days.

### Asset Management

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

## 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
<b>Performing assets</b>	<p>For assets which form part of a homogeneous portfolio, a portfolio impairment is required which recognises asset impairments that have not been individually identified.</p> <p>The portfolio impairment takes into account past events and does not cover impairments to exposures arising out of uncertain future events.</p> <p>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.</p>	Past due	<p>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.</p>
		Special mention	<p>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:</p> <ul style="list-style-type: none"> <li>• Covenant breaches</li> <li>• There is a slowdown in the counterparty's business activity</li> <li>• An adverse trend in operations that signals a potential weakness in the financial strength of the counterparty</li> <li>• Restructured credit exposures until appropriate watchlist committee decides otherwise.</li> </ul> <p>Ultimate loss is not expected, but may occur if adverse conditions persist.</p> <p>Reporting categories:</p> <ul style="list-style-type: none"> <li>• Credit exposures overdue 1 – 60 days</li> <li>• Credit exposures overdue 61 – 90 days.</li> </ul>

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



Regulatory and economic capital classification	IFRS impairment treatment	Arrears, default and recoveries classification category	Description
<b>Assets in default (non-performing assets)</b>	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: <ul style="list-style-type: none"> <li>• Capability of the client to generate sufficient cash flow to service debt obligations and the ongoing viability of the client's business</li> <li>• Likely dividend or amount recoverable on liquidation or bankruptcy or business rescue</li> <li>• Nature and extent of claims by other creditors</li> <li>• Amount and timing of expected cash flows</li> <li>• Realisable value of security held (or other credit mitigants)</li> <li>• Ability of the client to make payments in the foreign currency, for foreign currency denominated accounts</li> </ul>	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: <ul style="list-style-type: none"> <li>• The risk that such credit exposure may become an impaired asset is probable,</li> <li>• The bank is relying, to a large extent, on available collateral, or</li> <li>• 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.</li> </ul> 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: <ul style="list-style-type: none"> <li>• 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</li> <li>• 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.</li> </ul>

### 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 45.**

Where a transaction is supported by a mortgage or charge over property, the primary credit risk is still taken on the borrower. For property backed lending such as residential mortgages, the following characteristics of the property are considered: the type of property; its location; and the ease with which the

property could be re-let and/or resold. Where the property is secured by lease agreements, the credit committee prefers not to lend for a term beyond the maximum of the lease. Commercial real estate generally takes the form of good quality property often underpinned by strong third party leases. Residential property is also generally of a high quality and based in desirable locations. Residential and commercial property valuations will continue to form part of our ongoing focus on collateral assessment. It is our policy to obtain a formal valuation of every commercial property offered as collateral for a lending facility before advancing funds. Residential properties are valued by desktop valuation and/or approved valuers, where appropriate.

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

The second primary collateral in private client lending transactions is over a high net worth individual's investment portfolio. This is typically in the form of a diversified pool of equity, fixed income, managed funds and cash. Often these portfolios are managed by Investec Wealth & Investment. Lending against investment portfolios is typically geared at conservative loan-to-value ratios after considering the quality, diversification, risk profile and liquidity of the portfolio.

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

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

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

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

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

- Debit and credit balances relate to the same obligor/counterparty
- Debit and credit balances are

denominated in the same currency and have identical maturities

- Exposures subject to set-off are risk-managed on a net basis
- Market practice considerations.

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

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

**Further information on credit derivatives is provided on page 59.**

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

For regulatory reporting purposes, exposures may be reduced by eligible collateral. Under the standardised approach credit risk mitigation can be achieved through either funded or unfunded credit protection. Where unfunded credit

protection is relied upon for mitigation purposes, the exposure to the borrower is substituted with an exposure to the protection provider, after applying a 'haircut' to the value of the collateral due to currency and/or maturity mismatches between the original exposure and the collateral provided. Unfunded credit protection includes eligible guarantees and credit derivatives. Where we rely on funded protection in the form of financial collateral, the value of collateral is adjusted using the financial collateral comprehensive method. This method applies supervisory volatility adjustments to the value of the collateral, and includes the currency and maturity haircuts discussed above.

**Please refer to the credit quality step table disclosed on pages 96 and 97 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 as a percentage of the portfolio and the decline in lending collateralised by property exposures as a percentage of the portfolio. Continued progress has been made during the year in our strategic portfolio rebalancing through active portfolio management and the consistent application of our risk appetite statement.

Lending collateralised by property has further reduced by 6.0% from £2.3 billion at 31 March 2015 to £2.2 billion at 31 March 2016, while corporate client and other lending has increased 15.6% from £3.7 billion at 31 March 2015 to £4.3 billion at 31 March 2016. High net worth and other private client lending increased by 21.2% year on year.

Net core loans and advances have increased by 10.5% to £7.8 billion at 31 March 2016 from £7.1 billion at 31 March 2015.

Gross defaults decreased by 21.5% or £86.2 million from £400.1 million at 31 March 2015 to £313.9 million at 31 March 2016. Default loans (net of impairments) have decreased by 19.3% or £40.9 million on an absolute basis and decreased to 2.19% from 3.00% as a percentage of core loans and advances.



The credit loss ratio is at 1.13% (2015: 1.16%). The credit loss ratio on an ongoing basis is 0.26% at 31 March 2016. We have reported further impairments on the legacy portfolio as we took advantage of market conditions and accelerated the exit from certain Irish legacy assets.

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

### Lending collateralised by property

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

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

### Private client activities

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

### Corporate client activities

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

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

### 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 32 to 37 in volume one.

Core loans and advances grew by 19.7% to R218 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.

The current macro-economic environment remains challenging and volatile with competitive pressure on margins. 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 from 1.43% to 1.05% as a result of write-offs and settlements.

Defaults for the lending collateralised by property portfolio declined year on year. 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.

The credit loss ratio improved to 0.26% from 0.28% notwithstanding an increase in the impairment charge.

### Lending collateralised by property

The majority of the property assets are commercial investment properties and are located in South Africa. This portfolio grew by 10.2% during the year, in line with our risk appetite framework. Loans to values 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 with a total increase of 24.8% 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 increased mainly as a result of increased exposure to a mix of corporate clients (mid to large) and continued funding requests from SOEs (government guaranteed).



## Credit and counterparty risk information



Pages 9 to 22 describe where and how credit risk is assumed in our operations.

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

### AN ANALYSIS OF GROSS CREDIT AND COUNTERPARTY EXPOSURES

Credit and counterparty exposures increased by 4.9% to £38.4 billion largely due to growth in loans and advances to customers and cash and near cash balances. Cash and near cash balances amount to £11.0 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

	2016	2015	% change	Average*
Cash and balances at central banks	3 006 026	2 528 133	18.9%	2 767 080
Loans and advances to banks	2 498 585	3 045 864	(18.0%)	2 772 224
Non-sovereign and non-bank cash placements	466 573	586 400	(20.4%)	526 486
Reverse repurchase agreements and cash collateral on securities borrowed	2 497 125	1 812 156	37.8%	2 154 640
Sovereign debt securities	3 208 862	2 958 641	8.5%	3 083 752
Bank debt securities	896 855	1 161 055	(22.8%)	1 028 955
Other debt securities	949 933	626 367	51.7%	788 150
Derivative financial instruments	1 081 393	1 343 810	(19.5%)	1 212 601
Securities arising from trading activities	419 492	570 288	(26.4%)	494 890
Loans and advances to customers (gross)	17 867 823	16 992 064	5.2%	17 429 944
Own originated loans and advances to customers securitised (gross)	437 542	448 921	(2.5%)	443 232
Other loans and advances (gross)	350 623	420 611	(16.6%)	385 616
Other securitised assets (gross)	11 341	51 223	(77.9%)	31 282
Other assets	500 043	63 862	> 100%	281 953
<b>Total on-balance sheet exposures</b>	<b>34 192 216</b>	<b>32 609 395</b>	<b>4.9%</b>	<b>33 400 805</b>
Guarantees <sup>^</sup>	823 147	750 006	9.8%	786 577
Contingent liabilities, committed facilities and other	3 415 610	3 291 309	3.6%	3 353 460
<b>Total off-balance sheet exposures</b>	<b>4 238 757</b>	<b>4 041 315</b>	<b>4.9%</b>	<b>4 140 037</b>
<b>Total gross credit and counterparty exposures pre-collateral or other credit enhancements</b>	<b>38 430 973</b>	<b>36 650 710</b>	<b>4.9%</b>	<b>37 540 842</b>

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

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



# Risk management

(continued)

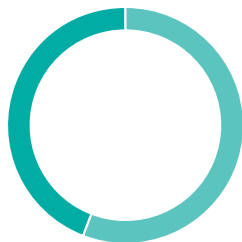
## An analysis of gross credit and counterparty exposures by geography



At 31 March £'000	UK and Other		Southern Africa		Total	
	2016	2015	2016	2015	2016	2015
Cash and balances at central banks	2 636 837	2 179 822	369 189	348 311	3 006 026	2 528 133
Loans and advances to banks	1 103 198	1 050 412	1 395 387	1 995 452	2 498 585	3 045 864
Non-sovereign and non-bank cash placements	–	–	466 573	586 400	466 573	586 400
Reverse repurchase agreements and cash collateral on securities borrowed	446 954	1 214 949	2 050 171	597 207	2 497 125	1 812 156
Sovereign debt securities	1 252 991	1 212 910	1 955 871	1 745 731	3 208 862	2 958 641
Bank debt securities	181 365	219 342	715 490	941 713	896 855	1 161 055
Other debt securities	393 652	221 480	556 281	404 887	949 933	626 367
Derivative financial instruments	572 324	516 034	509 069	827 776	1 081 393	1 343 810
Securities arising from trading activities	393 964	513 673	25 528	56 615	419 492	570 288
Loans and advances to customers (gross)	7 946 793	7 249 561	9 921 030	9 742 503	17 867 823	16 992 064
Own originated loans and advances to customers securitised (gross)	–	–	437 542	448 921	437 542	448 921
Other loans and advances (gross)	331 617	393 353	19 006	27 258	350 623	420 611
Other securitised assets (gross)	11 341	51 223	–	–	11 341	51 223
Other assets	397 409	55 383	102 634	8 479	500 043	63 862
<b>Total on-balance sheet exposures</b>	<b>15 668 445</b>	<b>14 878 142</b>	<b>18 523 771</b>	<b>17 731 253</b>	<b>34 192 216</b>	<b>32 609 395</b>
Guarantees <sup>^</sup>	68 938	31 664	754 209	718 342	823 147	750 006
Contingent liabilities, committed facilities and other	1 209 486	835 858	2 206 124	2 455 451	3 415 610	3 291 309
<b>Total off-balance sheet exposures</b>	<b>1 278 424</b>	<b>867 522</b>	<b>2 960 333</b>	<b>3 173 793</b>	<b>4 238 757</b>	<b>4 041 315</b>
<b>Total gross credit and counterparty exposures pre-collateral or other credit enhancements</b>	<b>16 946 869</b>	<b>15 745 664</b>	<b>21 484 104</b>	<b>20 905 046</b>	<b>38 430 973</b>	<b>36 650 710</b>

<sup>^</sup> 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



**31 March 2016**  
£38 431 million

- 55.9% Southern Africa
- 44.1% UK and Other




**31 March 2015**  
£36 651 million

- 57.0% Southern Africa
- 43.0% UK and Other

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

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



£'000	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note reference	Total balance sheet
<b>At 31 March 2016</b>				
Cash and balances at central banks	3 006 026	1 243		3 007 269
Loans and advances to banks	2 498 585	–		2 498 585
Non-sovereign and non-bank cash placements	466 573	–		466 573
Reverse repurchase agreements and cash collateral on securities borrowed	2 497 125	–		2 497 125
Sovereign debt securities	3 208 862	–		3 208 862
Bank debt securities	896 855	–		896 855
Other debt securities	949 933	17		949 950
Derivative financial instruments	1 081 393	499 556		1 580 949
Securities arising from trading activities	419 492	699 582		1 119 074
Investment portfolio	–	660 795	1	660 795
Loans and advances to customers	17 867 823	(186 251)	2	17 681 572
Own originated loans and advances to customers securitised	437 542	(299)	2	437 243
Other loans and advances	350 623	(29 006)	3	321 617
Other securitised assets	11 341	148 954	3	160 295
Interest in associated undertakings	–	267 099	1	267 099
Deferred taxation assets	–	112 135		112 135
Other assets	500 043	1 592 618	4	2 092 661
Property and equipment	–	90 888		90 888
Investment properties	–	938 879		938 879
Goodwill	–	368 039		368 039
Intangible assets	–	148 280		148 280
Non-current assets (or disposal groups) classified as held for sale	–	–		–
Other financial instruments at fair value through profit and loss in respect of liabilities to customers	–	5 847 036		5 847 036
<b>Total on-balance sheet exposures</b>	<b>34 192 216</b>	<b>11 159 565</b>		<b>45 351 781</b>

1. Largely relates to exposures that are classified as equity risk in the banking book. Further information is provided on pages 46 to 49.
2. Largely relates to impairments.
3. While the group manages all risks (including credit risk) from a day-to-day operational perspective, certain of these assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicles that the group has reflected in the 'total credit and counterparty exposure' with the maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'. 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.



# Risk management

(continued)

## 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
<b>At 31 March 2015</b>				
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 or loss in respect of liabilities to customers	–	6 337 149		6 337 149
<b>Total on-balance sheet exposures</b>	<b>32 609 395</b>	<b>11 744 007</b>		<b>44 353 402</b>

1. Largely relates to exposures that are classified as equity risk in the banking book. Further information is provided on pages 46 to 49.
2. Largely relates to impairments.
3. While the group manages all risks (including credit risk) from a day-to-day operational perspective, certain of these assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicles that the group has reflected in the 'total credit and counterparty exposure' with the maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'. 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.

(continued)

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

£'000	Up to three months	Three to six months	Six months to one year	One to five years	Five to 10 years	> 10 years	Total
Cash and balances at central banks	3 006 026	–	–	–	–	–	3 006 026
Loans and advances to banks	2 406 690	7 791	20 602	63 502	–	–	2 498 585
Non-sovereign and non-bank cash placements	466 573	–	–	–	–	–	466 573
Reverse repurchase agreements and cash collateral on securities borrowed	1 926 964	13 394	354 217	169 955	32 595	–	2 497 125
Sovereign debt securities	870 839	585 467	227 543	276 046	361 826	887 141	3 208 862
Bank debt securities	69 752	146 218	98 464	502 600	70 146	9 675	896 855
Other debt securities	68 470	144	3 633	344 273	309 832	223 581	949 933
Derivative financial instruments	245 236	134 428	86 169	309 342	229 227	76 991	1 081 393
Securities arising from trading activities	178 479	802	36	41 501	137 691	60 983	419 492
Loans and advances to customers (gross)	2 333 216	1 112 930	1 779 593	8 307 413	1 873 773	2 460 898	17 867 823
Own originated loans and advances to customers securitised (gross)	252	–	25	2 033	17 784	417 448	437 542
Other loans and advances (gross)	11 858	453	162	68 318	43 889	225 943	350 623
Other securitised assets (gross)	–	–	–	–	–	11 341	11 341
Other assets	500 043	–	–	–	–	–	500 043
<b>Total on-balance sheet exposures</b>	<b>12 084 398</b>	<b>2 001 627</b>	<b>2 570 444</b>	<b>10 084 983</b>	<b>3 076 763</b>	<b>4 374 001</b>	<b>34 192 216</b>
Guarantees <sup>^</sup>	247 476	25 403	28 821	436 764	62 229	22 454	823 147
Contingent liabilities, committed facilities and other	839 045	101 678	395 635	1 250 161	147 026	682 065	3 415 610
<b>Total off-balance sheet exposures</b>	<b>1 086 521</b>	<b>127 081</b>	<b>424 456</b>	<b>1 686 925</b>	<b>209 255</b>	<b>704 519</b>	<b>4 238 757</b>
<b>Total gross credit and counterparty exposures pre-collateral or other credit enhancements</b>	<b>13 170 919</b>	<b>2 128 708</b>	<b>2 994 900</b>	<b>11 771 908</b>	<b>3 286 018</b>	<b>5 078 520</b>	<b>38 430 973</b>

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



## Risk management

(continued)

### Detailed analysis of gross credit and counterparty exposures by industry at 31 March 2016

£'000	High net worth and other professional individuals	Lending collateralised by property – largely to private clients	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services	Finance and insurance
Cash and balances at central banks	–	–	–	–	3 006 026	–	–
Loans and advances to banks	–	–	–	–	–	–	2 498 585
Non-sovereign and non-bank cash placements	–	–	12	–	4 771	26 580	157 958
Reverse repurchase agreements and cash collateral on securities borrowed	29 484	–	–	–	–	7 157	2 425 013
Sovereign debt securities	–	–	–	–	3 208 862	–	–
Bank debt securities	–	–	–	–	–	–	896 855
Other debt securities	–	–	–	41 417	133 554	3 382	202 258
Derivative financial instruments	67	–	1 779	54 899	19 947	71 011	737 324
Securities arising from trading activities	–	–	–	24 940	213 788	–	160 629
Loans and advances to customers (gross)	5 956 874	4 124 131	109 985	668 342	436 712	837 229	1 538 641
Own originated loans and advances to customers securitised (gross)	437 542	–	–	–	–	–	–
Other loans and advances (gross)	–	–	–	–	–	–	130 953
Other securitised assets (gross)	–	–	–	–	–	–	–
Other assets	–	–	41	–	–	97	420 332
<b>Total on-balance sheet exposures</b>	<b>6 423 967</b>	<b>4 124 131</b>	<b>111 817</b>	<b>789 598</b>	<b>7 023 660</b>	<b>945 456</b>	<b>9 168 548</b>
Guarantees <sup>^</sup>	204 264	39 854	–	46 863	90 709	1 398	329 650
Contingent liabilities, committed facilities and other	1 306 802	352 223	20 427	272 114	20 648	72 219	520 845
<b>Total off-balance sheet exposures</b>	<b>1 511 066</b>	<b>392 077</b>	<b>20 427</b>	<b>318 977</b>	<b>111 357</b>	<b>73 617</b>	<b>850 495</b>
<b>Total gross credit and counterparty exposures pre-collateral or other credit enhancements</b>	<b>7 935 033</b>	<b>4 516 208</b>	<b>132 244</b>	<b>1 108 575</b>	<b>7 135 017</b>	<b>1 019 073</b>	<b>10 019 043</b>

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

(continued)

Retailers and wholesalers	Manufacturing and commerce	Construction	Corporate commercial real estate	Other residential mortgages	Mining and resources	Leisure, entertainment and tourism	Transport	Communication	Total
-	-	-	-	-	-	-	-	-	3 006 026
-	-	-	-	-	-	-	-	-	2 498 585
84 314	69 508	9 990	-	-	74 846	-	14 776	23 818	466 573
-	31 956	-	-	-	-	-	3 515	-	2 497 125
-	-	-	-	-	-	-	-	-	3 208 862
-	-	-	-	-	-	-	-	-	896 855
-	60 710	-	-	106 246	184 693	4 017	26 914	186 742	949 933
37 983	58 771	1 804	33 496	-	16 979	17 425	22 607	7 301	1 081 393
35	2 481	-	781	-	-	1 093	4 856	10 889	419 492
510 846	976 420	203 047	410 962	-	361 218	313 645	955 582	464 189	17 867 823
-	-	-	-	-	-	-	-	-	437 542
-	-	-	85	219 585	-	-	-	-	350 623
-	-	-	-	11 341	-	-	-	-	11 341
73 640	4 355	147	-	-	-	928	-	503	500 043
<b>706 818</b>	<b>1 204 201</b>	<b>214 988</b>	<b>445 324</b>	<b>337 172</b>	<b>637 736</b>	<b>337 108</b>	<b>1 028 250</b>	<b>693 442</b>	<b>34 192 216</b>
3 553	6 424	14	537	-	87 901	8	3 073	8 899	823 147
182 387	95 145	10 490	38 852	-	297 184	14 340	163 564	48 370	3 415 610
<b>185 940</b>	<b>101 569</b>	<b>10 504</b>	<b>39 389</b>	<b>-</b>	<b>385 085</b>	<b>14 348</b>	<b>166 637</b>	<b>57 269</b>	<b>4 238 757</b>
<b>892 758</b>	<b>1 305 770</b>	<b>225 492</b>	<b>484 713</b>	<b>337 172</b>	<b>1 022 821</b>	<b>351 456</b>	<b>1 194 887</b>	<b>750 711</b>	<b>38 430 973</b>



## Risk management

(continued)

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

£'000	High net worth and other professional individuals	Lending collateralised by property – largely to private clients	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business 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
<b>Total on-balance sheet exposures</b>	<b>5 891 271</b>	<b>4 433 910</b>	<b>55 738</b>	<b>831 732</b>	<b>6 132 213</b>	<b>793 144</b>	<b>8 732 066</b>
Guarantees <sup>^</sup>	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
<b>Total off-balance sheet exposures</b>	<b>1 809 589</b>	<b>577 294</b>	<b>25 803</b>	<b>311 876</b>	<b>103 149</b>	<b>74 327</b>	<b>383 062</b>
<b>Total gross credit and counterparty exposures pre-collateral or other credit enhancements</b>	<b>7 700 860</b>	<b>5 011 204</b>	<b>81 541</b>	<b>1 143 608</b>	<b>6 235 362</b>	<b>867 471</b>	<b>9 115 128</b>

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



(continued)

Retailers and wholesalers	Manufacturing and commerce	Construction	Corporate commercial real estate	Other residential mortgages	Mining and resources	Leisure, entertainment and tourism	Transport	Communication	Total
-	-	-	-	-	-	-	-	-	2 528 133
-	-	-	-	-	-	-	-	-	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
<b>668 098</b>	<b>1 245 195</b>	<b>243 861</b>	<b>514 386</b>	<b>381 744</b>	<b>635 740</b>	<b>207 936</b>	<b>1 232 028</b>	<b>610 333</b>	<b>32 609 395</b>
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
<b>102 170</b>	<b>104 712</b>	<b>26 306</b>	<b>14 865</b>	<b>430</b>	<b>227 910</b>	<b>16 962</b>	<b>213 950</b>	<b>48 910</b>	<b>4 041 315</b>
<b>770 268</b>	<b>1 349 907</b>	<b>270 167</b>	<b>529 251</b>	<b>382 174</b>	<b>863 650</b>	<b>224 898</b>	<b>1 445 978</b>	<b>659 243</b>	<b>36 650 710</b>



(continued)

*Private client loans account for 57.5% of total gross core loans and advances, as represented by the industry classification ‘high net worth and professional individuals and lending collateralised by property’*

**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 17, and a more detailed analysis of these loan portfolios are provided on pages 40 to 43.*

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, diversified across several industries.



*A description of the type of corporate client lending we undertake is provided on pages 17 and 18, and a more detailed analysis of the corporate client loan portfolio is provided on pages 40 to 43.*

At 31 March £'000	Gross core loans and advances		Other credit and counterparty exposures		Total	
	2016	2015	2016	2015	2016	2015
High net worth and professional individuals	6 394 416	5 850 958	1 540 617	1 849 902	7 935 033	7 700 860
Lending collateralised by property – largely to private clients	4 124 131	4 433 910	392 077	577 294	4 516 208	5 011 204
Agriculture	109 985	55 159	22 259	26 382	132 244	81 541
Electricity, gas and water (utility services)	668 342	629 184	440 233	514 424	1 108 575	1 143 608
Public and non-business services	436 712	242 777	6 698 305	5 992 585	7 135 017	6 235 362
Business services	837 229	710 874	181 844	156 597	1 019 073	867 471
Finance and insurance	1 538 641	1 211 277	8 480 402	7 903 851	10 019 043	9 115 128
Retailers and wholesalers	510 846	513 560	381 912	256 708	892 758	770 268
Manufacturing and commerce	976 420	996 676	329 350	353 231	1 305 770	1 349 907
Construction	203 047	215 453	22 445	54 714	225 492	270 167
Corporate commercial real estate	410 962	463 046	73 751	66 205	484 713	529 251
Other residential mortgages	–	–	337 172	382 174	337 172	382 174
Mining and resources	361 218	415 206	661 603	448 444	1 022 821	863 650
Leisure, entertainment and tourism	313 645	186 534	37 811	38 364	351 456	224 898
Transport	955 582	1 083 217	239 305	362 761	1 194 887	1 445 978
Communication	464 189	433 154	286 522	226 089	750 711	659 243
<b>Total</b>	<b>18 305 365</b>	<b>17 440 985</b>	<b>20 125 608</b>	<b>19 209 725</b>	<b>38 430 973</b>	<b>36 650 710</b>

## 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

	2016	2015
Loans and advances to customers as per the balance sheet	17 681 572	16 740 263
Add: own originated loans and advances securitised as per the balance sheet	437 243	448 647
<b>Net core loans and advances to customers</b>	<b>18 118 815</b>	<b>17 188 910</b>

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 21 and 22.



At 31 March  
£'000

	2016	2015
<b>Gross core loans and advances to customers</b>	<b>18 305 365</b>	<b>17 440 985</b>
<b>Total impairments</b>	<b>(186 550)</b>	<b>(252 075)</b>
Specific impairments	(154 031)	(208 348)
Portfolio impairments	(32 519)	(43 727)
<b>Net core loans and advances to customers</b>	<b>18 118 815</b>	<b>17 188 910</b>
<b>Average gross core loans and advances to customers</b>	<b>17 873 175</b>	<b>17 431 458</b>
Current loans and advances to customers	17 713 634	16 650 156
Past due loans and advances to customers (1 – 60 days)	100 664	102 832
Special mention loans and advances to customers	24 998	79 636
Default loans and advances to customers	466 069	608 361
<b>Gross core loans and advances to customers</b>	<b>18 305 365</b>	<b>17 440 985</b>
Current loans and advances to customers	17 713 634	16 650 156
Default loans that are current and not impaired	70 718	70 589
Gross core loans and advances to customers that are past due but not impaired	178 238	244 095
Gross core loans and advances to customers that are impaired	342 775	476 145
<b>Gross core loans and advances to customers</b>	<b>18 305 365</b>	<b>17 440 985</b>
<b>Total income statement charge for impairments on core loans and advances</b>	<b>(111 492)</b>	<b>(118 068)</b>
Gross default loans and advances to customers	466 069	608 361
Specific impairments	(154 031)	(208 348)
Portfolio impairments	(32 519)	(43 727)
<b>Defaults net of impairments</b>	<b>279 519</b>	<b>356 286</b>
Aggregate collateral and other credit enhancements on defaults	377 575	488 258
<b>Net default loans and advances to customers (limited to zero)</b>	<b>–</b>	<b>–</b>
<b>Ratios:</b>		
Total impairments as a % of gross core loans and advances to customers	1.02%	1.45%
Total impairments as a % of gross default loans	40.03%	41.44%
Gross defaults as a % of gross core loans and advances to customers	2.55%	3.49%
Defaults (net of impairments) as a % of net core loans and advances to customers	1.54%	2.07%
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)	0.62%	0.68%



(continued)

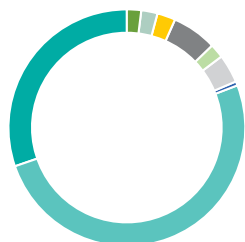
## An analysis of core loans and advances to customers and asset quality by geography



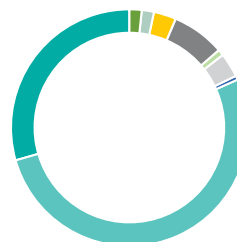
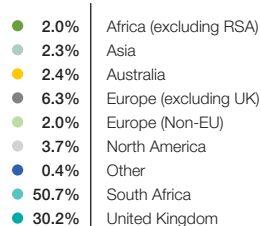
£'000	UK and Other		Southern Africa		Total group	
	31 March 2016	31 March 2015	31 March 2016	31 March 2015	31 March 2016	31 March 2015
<b>Gross core loans and advances to customers</b>	<b>7 946 793</b>	<b>7 249 561</b>	<b>10 358 572</b>	<b>10 191 424</b>	<b>18 305 365</b>	<b>17 440 985</b>
<b>Total impairments</b>	<b>(143 191)</b>	<b>(188 444)</b>	<b>(43 359)</b>	<b>(63 631)</b>	<b>(186 550)</b>	<b>(252 075)</b>
Specific impairments	(121 791)	(154 262)	(32 240)	(54 086)	(154 031)	(208 348)
Portfolio impairments	(21 400)	(34 182)	(11 119)	(9 545)	(32 519)	(43 727)
<b>Net core loans and advances to customers</b>	<b>7 803 602</b>	<b>7 061 117</b>	<b>10 315 213</b>	<b>10 127 793</b>	<b>18 118 815</b>	<b>17 188 910</b>
% of total	43.1%	41.1%	56.9%	58.9%	100.0%	100.0%
% change since March 2015	10.5%		1.9%*		5.4%	
<b>Average gross core loans and advances to customers</b>	<b>7 598 177</b>	<b>7 832 564</b>	<b>10 274 998</b>	<b>9 598 894</b>	<b>17 873 175</b>	<b>17 431 458</b>
Current loans and advances to customers	7 561 596	6 733 402	10 152 038	9 916 754	17 713 634	16 650 156
Past due loans and advances to customers (1 – 60 days)	65 909	73 489	34 755	29 343	100 664	102 832
Special mention loans and advances to customers	5 354	42 556	19 644	37 080	24 998	79 636
Default loans and advances to customers	313 934	400 114	152 135	208 247	466 069	608 361
<b>Gross core loans and advances to customers</b>	<b>7 946 793</b>	<b>7 249 561</b>	<b>10 358 572</b>	<b>10 191 424</b>	<b>18 305 365</b>	<b>17 440 985</b>
Current loans and advances to customers	7 561 596	6 733 402	10 152 038	9 916 754	17 713 634	16 650 156
Default loans that are current and not impaired	29 639	26 785	41 079	43 804	70 718	70 589
Gross core loans and advances to customers that are past due but not impaired	99 383	146 428	78 855	97 667	178 238	244 095
Gross core loans and advances to customers that are impaired	256 175	342 946	86 600	133 199	342 775	476 145
<b>Gross core loans and advances to customers</b>	<b>7 946 793</b>	<b>7 249 561</b>	<b>10 358 572</b>	<b>10 191 424</b>	<b>18 305 365</b>	<b>17 440 985</b>
<b>Total income statement charge for impairments on core loans and advances</b>	<b>(85 954)</b>	<b>(90 709)</b>	<b>(25 538)</b>	<b>(27 359)</b>	<b>(111 492)</b>	<b>(118 068)</b>
Gross default loans and advances to customers	313 934	400 114	152 135	208 247	466 069	608 361
Specific impairments	(121 791)	(154 262)	(32 240)	(54 086)	(154 031)	(208 348)
Portfolio impairments	(21 400)	(34 182)	(11 119)	(9 545)	(32 519)	(43 727)
<b>Defaults net of impairments</b>	<b>170 743</b>	<b>211 670</b>	<b>108 776</b>	<b>144 616</b>	<b>279 519</b>	<b>356 286</b>
Collateral and other credit enhancements	202 524	280 697	175 051	207 561	377 575	488 258
<b>Net default loans and advances to customers (limited to zero)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Ratios:</b>						
Total impairments as a % of gross core loans and advances to customers	1.80%	2.60%	0.42%	0.62%	1.02%	1.45%
Total impairments as a % of gross default loans	45.61%	47.10%	28.50%	30.56%	40.03%	41.44%
Gross defaults as a % of gross core loans and advances to customers	3.95%	5.52%	1.47%	2.04%	2.55%	3.49%
Defaults (net of impairments) as a % of net core loans and advances to customers	2.19%	3.00%	1.05%	1.43%	1.54%	2.07%
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)	1.13%	1.16%	0.26%	0.28%	0.62%	0.68%

\* Impacted by the depreciation of the Rand against Pounds Sterling. The South African loan portfolio grew by 19.7% in Rands, refer to page 44.

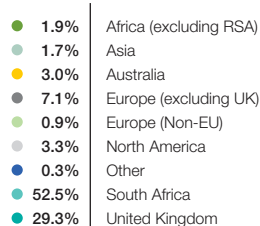
AN ANALYSIS OF GROSS CORE LOANS AND ADVANCES TO CUSTOMERS BY COUNTRY OF EXPOSURE



**31 March 2016**  
£18 305 million



**31 March 2015**  
£17 441 million



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



At 31 March  
£'000

	2016	2015
Default loans that are current	229 832	262 221
1 – 60 days	141 417	201 425
61 – 90 days	20 633	10 331
91 – 180 days	57 670	21 839
181 – 365 days	27 842	56 884
> 365 days	114 337	238 129
<b>Past due and default core loans and advances to customers (actual capital exposure)</b>	<b>591 731</b>	<b>790 829</b>
1 – 60 days	15 251	35 974
61 – 90 days	802	2 234
91 – 180 days	9 219	9 807
181 – 365 days	9 295	12 929
> 365 days	90 028	209 923
<b>Past due and default core loans and advances to customers (actual amount in arrears)</b>	<b>124 595</b>	<b>270 867</b>



(continued)

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
<b>At 31 March 2016</b>							
<b>Watchlist loans neither past due nor impaired</b>							
Total capital exposure	70 718	–	–	–	–	–	70 718
<b>Gross core loans and advances to customers that are past due but not impaired</b>							
Total capital exposure	–	124 287	3 912	26 438	4 442	19 159	178 238
Amount in arrears	–	15 001	325	6 258	834	14 460	36 878
<b>Gross core loans and advances to customers that are impaired</b>							
Total capital exposure	159 114	17 130	16 721	31 232	23 400	95 178	342 775
Amount in arrears	–	250	477	2 961	8 461	75 568	87 717
<b>At 31 March 2015</b>							
<b>Watchlist loans neither past due nor impaired</b>							
Total capital exposure	70 589	–	–	–	–	–	70 589
<b>Gross core loans and advances to customers that are past due but not impaired</b>							
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
<b>Gross core loans and advances to customers that are impaired</b>							
Total capital exposure	191 632	28 967	2 229	6 831	10 363	206 123	446 145
Amount in arrears	–	8 538	290	3 592	7 169	191 972	211 561


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

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
<b>Past due (1 – 60 days)</b>	–	100 664	–	–	–	–	100 664
<b>Special mention</b>	–	20 123	3 558	685	455	177	24 998
Special mention (1 – 90 days)	–	20 123	413	685*	455*	177*	21 853
Special mention (61 – 90 days and item well secured)	–	–	3 145	–	–	–	3 145
<b>Default</b>	<b>229 832</b>	<b>20 630</b>	<b>17 075</b>	<b>56 985</b>	<b>27 387</b>	<b>114 160</b>	<b>466 069</b>
Sub-standard	113 334	3 478	4 181	32 892	9 209	66 659	229 753
Doubtful	115 092	17 152	12 885	23 086	17 413	26 422	212 050
Loss	1 406	–	9	1 007	765	21 079	24 266
<b>Total</b>	<b>229 832</b>	<b>141 417</b>	<b>20 633</b>	<b>57 670</b>	<b>27 842</b>	<b>114 337</b>	<b>591 731</b>


\* 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.

(continued)


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

 £'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
<b>Past due (1 – 60 days)</b>	–	5 772	–	–	–	–	5 772
<b>Special mention</b>	–	7 438	314	31	41	55	7 879
Special mention (1 – 90 days)	–	7 438	10	31*	41*	55*	7 575
Special mention (61 – 90 days and item well secured)	–	–	304	–	–	–	304
<b>Default</b>	–	2 041	488	9 188	9 254	89 973	110 944
Sub-standard	–	1 807	49	6 282	3 965	55 221	67 324
Doubtful	–	234	431	1 899	4 524	13 702	20 790
Loss	–	–	8	1 007	765	21 050	22 830
<b>Total</b>	–	15 251	802	9 219	9 295	90 028	124 595

## 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
<b>Past due (1 – 60 days)</b>	–	102 832	–	–	–	–	102 832
<b>Special mention</b>	–	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
<b>Default</b>	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
<b>Total</b>	262 221	201 425	10 331	21 839	56 884	238 129	790 829

## 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
<b>Past due (1 – 60 days)</b>	–	8 137	–	–	–	–	8 137
<b>Special mention</b>	–	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
<b>Default</b>	–	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
<b>Total</b>	–	35 974	2 234	9 807	12 929	209 923	270 867

\* 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.



(continued)


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
<b>At 31 March 2016</b>								
<b>Current core loans and advances</b>	17 713 634	–	–	17 713 634	–	(32 290)	17 681 344	–
<b>Past due (1 – 60 days)</b>	–	100 664	–	100 664	–	(155)	100 509	5 772
<b>Special mention</b>	–	24 998	–	24 998	–	(69)	24 929	7 879
Special mention (1 – 90 days)	–	21 853	–	21 853	–	(56)	21 797	7 575
Special mention (61 – 90 days and item well secured)	–	3 145	–	3 145	–	(13)	3 132	304
<b>Default</b>	<b>70 718</b>	<b>52 576</b>	<b>342 775</b>	<b>466 069</b>	<b>(154 031)</b>	<b>(5)</b>	<b>312 033</b>	<b>110 944</b>
Sub-standard	70 718	52 576	106 459	229 753	(32 378)	(5)	197 370	67 324
Doubtful	–	–	212 050	212 050	(102 068)	–	109 982	20 790
Loss	–	–	24 266	24 266	(19 585)	–	4 681	22 830
<b>Total</b>	<b>17 784 352</b>	<b>178 238</b>	<b>342 775</b>	<b>18 305 365</b>	<b>(154 031)</b>	<b>(32 519)</b>	<b>18 118 815</b>	<b>124 595</b>
<b>At 31 March 2015</b>								
<b>Current core loans and advances</b>	16 650 156	–	–	16 650 156	–	(43 163)	16 606 993	–
<b>Past due (1 – 60 days)</b>	–	102 832	–	102 832	–	(147)	102 685	8 137
<b>Special mention</b>	–	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
<b>Default</b>	<b>70 589</b>	<b>61 627</b>	<b>476 145</b>	<b>608 361</b>	<b>(208 348)</b>	<b>(2)</b>	<b>400 011</b>	<b>238 926</b>
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
<b>Total</b>	<b>16 720 745</b>	<b>244 095</b>	<b>476 145</b>	<b>17 440 985</b>	<b>(208 348)</b>	<b>(43 727)</b>	<b>17 188 910</b>	<b>270 867</b>



(continued)

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

 £'000	Private client professional and high net worth individuals	Corporate sector	Insurance, financial services (excluding sovereign)	Public and government sector (including central banks)	Trade finance and other	Total core loans and advances to customers
<b>At 31 March 2016</b>						
Current core loans and advances	10 013 490	5 475 475	1 535 953	432 585	256 131	17 713 634
Past due (1 – 60 days)	79 933	15 567	41	1 299	3 824	100 664
Special mention	24 009	210	2	146	631	24 998
Special mention (1 – 90 days)	21 853	–	–	–	–	21 853
Special mention (61 – 90 days and item well secured)	2 156	210	2	146	631	3 145
Default	401 115	51 813	2 645	2 682	7 814	466 069
Sub-standard	206 269	18 786	2 482	2 058	158	229 753
Doubtful	173 229	30 793	122	250	7 656	212 050
Loss	21 617	2 234	41	374	–	24 266
<b>Total gross core loans and advances to customers</b>	<b>10 518 547</b>	<b>5 543 065</b>	<b>1 538 641</b>	<b>436 712</b>	<b>268 400</b>	<b>18 305 365</b>
<b>Total impairments</b>	<b>(151 687)</b>	<b>(27 117)</b>	<b>(297)</b>	<b>(698)</b>	<b>(6 751)</b>	<b>(186 550)</b>
Specific impairments	(121 336)	(25 334)	(102)	(508)	(6 751)	(154 031)
Portfolio impairments	(30 351)	(1 783)	(195)	(190)	–	(32 519)
<b>Net core loans and advances to customers</b>	<b>10 366 860</b>	<b>5 515 948</b>	<b>1 538 344</b>	<b>436 014</b>	<b>261 649</b>	<b>18 118 815</b>
<b>At 31 March 2015</b>						
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
<b>Total gross core loans and advances to customers</b>	<b>10 284 868</b>	<b>5 470 125</b>	<b>1 211 277</b>	<b>242 777</b>	<b>231 938</b>	<b>17 440 985</b>
<b>Total impairments</b>	<b>(216 154)</b>	<b>(28 325)</b>	<b>(350)</b>	<b>(847)</b>	<b>(6 399)</b>	<b>(252 075)</b>
Specific impairments	(174 498)	(26 488)	(150)	(813)	(6 399)	(208 348)
Portfolio impairments	(41 656)	(1 837)	(200)	(34)	–	(43 727)
<b>Net core loans and advances to customers</b>	<b>10 068 714</b>	<b>5 441 800</b>	<b>1 210 927</b>	<b>241 930</b>	<b>225 539</b>	<b>17 188 910</b>



(continued)

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

£'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 <sup>^</sup>	Gross core loans	Gross defaults	Aggregate collateral and other credit enhancements on defaults	Balance sheet impairments	Income statement impairments <sup>^</sup>
<b>Lending collateralised by property</b>	<b>2 179 999</b>	<b>264 283</b>	<b>168 722</b>	<b>(101 064)</b>	<b>(65 891)</b>	<b>1 944 132</b>	<b>45 974</b>	<b>54 685</b>	<b>(6 395)</b>	<b>(3 897)</b>
<b>Commercial real estate</b>	<b>1 314 745</b>	<b>108 746</b>	<b>64 068</b>	<b>(45 030)</b>	<b>(28 293)</b>	<b>1 783 219</b>	<b>23 698</b>	<b>31 486</b>	<b>(4 405)</b>	<b>(3 403)</b>
Commercial real estate – investment	1 096 376	61 090	43 958	(17 151)	(18 450)	1 617 704	17 345	22 798	(2 980)	(1 957)
Commercial real estate – development	109 086	11 138	3 647	(7 491)	(553)	112 861	1 450	1 122	(470)	(395)
Commercial vacant land and planning	109 283	36 518	16 463	(20 388)	(9 290)	52 654	4 903	7 566	(955)	(1 051)
<b>Residential real estate</b>	<b>865 254</b>	<b>155 537</b>	<b>104 654</b>	<b>(56 034)</b>	<b>(37 598)</b>	<b>160 913</b>	<b>22 276</b>	<b>23 199</b>	<b>(1 990)</b>	<b>(494)</b>
Residential real estate – investment	298 740	72 449	55 151	(20 907)	(11 646)	–	–	–	–	–
Residential real estate – development	516 352	56 651	30 390	(26 854)	(21 425)	78 934	9 196	10 285	(92)	(3 446)
Residential vacant land and planning	50 162	26 437	19 113	(8 273)	(4 527)	81 979	13 080	12 914	(1 898)	2 952
<b>High net worth and other private client lending</b>	<b>1 458 552</b>	<b>19 532</b>	<b>18 650</b>	<b>(5 760)</b>	<b>(7 147)</b>	<b>4 935 864</b>	<b>71 326</b>	<b>103 004</b>	<b>(8 117)</b>	<b>(13 775)</b>
Mortgages	1 146 241	4 307	7 489	(600)	(43)	2 639 243	23 782	40 167	(1 911)	(2 307)
High net worth and specialised lending	312 311	15 225	11 161	(5 160)	(7 104)	2 296 621	47 544	62 837	(6 206)	(11 468)
<b>Corporate and other lending</b>	<b>4 308 242</b>	<b>30 119</b>	<b>15 152</b>	<b>(14 967)</b>	<b>(12 916)</b>	<b>3 478 576</b>	<b>34 835</b>	<b>17 362</b>	<b>(17 728)</b>	<b>(7 866)</b>
Acquisition finance	899 190	–	–	–	(1 120)	693 535	15 581	13 515	(3 305)	(4 784)
Asset-based lending	296 389	–	–	–	–	246 614	7 814	2 667	(6 751)	(2 485)
Fund finance	673 379	–	–	–	–	–	–	–	–	–
Other corporates and financial institutions and governments	766 815	–	–	–	–	2 017 294	5 025	1 180	(1 256)	(940)
Asset finance	1 205 400	11 891	5 961	(5 930)	(3 683)	193 146	–	–	–	982
Small ticket asset finance	932 865	11 891	5 961	(5 930)	(3 683)	67 266	–	–	–	610
Large ticket asset finance	272 535	–	–	–	–	125 880	–	–	–	372
Project finance	449 266	3 708	3 708	–	(2 354)	304 005	–	–	–	5 947
Resource finance	17 803	14 520	5 483	(9 037)	(5 759)	23 982	6 415	–	(6 416)	(6 586)
<b>Portfolio impairments</b>				<b>(21 400)</b>					<b>(11 119)</b>	
<b>Total</b>	<b>7 946 793</b>	<b>313 934</b>	<b>202 524</b>	<b>(143 191)</b>	<b>(85 954)</b>	<b>10 358 572</b>	<b>152 135</b>	<b>175 051</b>	<b>(43 359)</b>	<b>(25 538)</b>

<sup>^</sup> Where a positive number represents a recovery or provision released.

Total group				
Gross core loans	Gross defaults	Aggregate collateral and other credit enhancements on defaults	Balance sheet impairments	Income statement impairments <sup>^</sup>
<b>4 124 131</b>	<b>310 257</b>	<b>223 407</b>	<b>(107 459)</b>	<b>(69 788)</b>
<b>3 097 964</b>	<b>132 444</b>	<b>95 554</b>	<b>(49 435)</b>	<b>(31 696)</b>
2 714 080	78 435	66 756	(20 131)	(20 407)
221 947	12 588	4 769	(7 961)	(948)
161 937	41 421	24 029	(21 343)	(10 341)
<b>1 026 167</b>	<b>177 813</b>	<b>127 853</b>	<b>(58 024)</b>	<b>(38 092)</b>
298 740	72 449	55 151	(20 907)	(11 646)
595 286	65 847	40 675	(26 946)	(24 871)
132 141	39 517	32 027	(10 171)	(1 575)
<b>6 394 416</b>	<b>90 858</b>	<b>121 654</b>	<b>(13 877)</b>	<b>(20 922)</b>
3 785 484	28 089	47 656	(2 511)	(2 350)
2 608 932	62 769	73 998	(11 366)	(18 572)
<b>7 786 818</b>	<b>64 954</b>	<b>32 514</b>	<b>(32 695)</b>	<b>(20 782)</b>
1 592 725	15 581	13 515	(3 305)	(5 904)
543 003	7 814	2 667	(6 751)	(2 485)
673 379	–	–	–	–
2 784 109	5 025	1 180	(1 256)	(940)
1 398 546	11 891	5 961	(5 930)	(2 701)
1 000 131	11 891	5 961	(5 930)	(3 073)
398 415	–	–	–	372
753 271	3 708	3 708	–	3 593
41 785	20 935	5 483	(15 453)	(12 345)
			<b>(32 519)</b>	
<b>18 305 365</b>	<b>466 069</b>	<b>377 575</b>	<b>(186 550)</b>	<b>(111 492)</b>



(continued)

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

£'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 <sup>^</sup>	Gross core loans	Gross defaults	Aggregate collateral and other credit enhancements on defaults	Balance sheet impairments	Income statement impairments <sup>^</sup>
<b>Lending collateralised by property</b>	<b>2 318 053</b>	<b>343 229</b>	<b>233 676</b>	<b>(134 451)</b>	<b>(65 477)</b>	<b>2 115 857</b>	<b>72 994</b>	<b>72 462</b>	<b>(19 791)</b>	<b>(10 055)</b>
<b>Commercial real estate</b>	<b>1 510 506</b>	<b>122 886</b>	<b>79 588</b>	<b>(51 517)</b>	<b>(31 193)</b>	<b>1 942 835</b>	<b>36 261</b>	<b>41 200</b>	<b>(10 219)</b>	<b>(8 061)</b>
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)
<b>Residential real estate</b>	<b>807 547</b>	<b>220 343</b>	<b>154 088</b>	<b>(82 934)</b>	<b>(34 284)</b>	<b>173 022</b>	<b>36 733</b>	<b>31 262</b>	<b>(9 572)</b>	<b>(1 994)</b>
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)
<b>High net worth and other private client lending</b>	<b>1 203 489</b>	<b>30 113</b>	<b>29 012</b>	<b>(11 048)</b>	<b>(12 139)</b>	<b>4 647 469</b>	<b>83 302</b>	<b>106 385</b>	<b>(9 208)</b>	<b>(1 741)</b>
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)
<b>Corporate and other lending</b>	<b>3 728 019</b>	<b>26 772</b>	<b>18 009</b>	<b>(8 763)</b>	<b>(13 093)</b>	<b>3 428 098</b>	<b>51 951</b>	<b>28 714</b>	<b>(25 087)</b>	<b>(15 563)</b>
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	–	–	–	–
<b>Portfolio impairments</b>				<b>(34 182)</b>					<b>(9 545)</b>	
<b>Total</b>	<b>7 249 561</b>	<b>400 114</b>	<b>280 697</b>	<b>(188 444)</b>	<b>(90 709)</b>	<b>10 191 424</b>	<b>208 247</b>	<b>207 561</b>	<b>(63 631)</b>	<b>(27 359)</b>

<sup>^</sup> Where a positive number represents a recovery or provision released.

Total group					
	Gross core loans	Gross defaults	Aggregate collateral and other credit enhancements on defaults	Balance sheet impairments	Income statement impairments <sup>^</sup>
	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)
	<b>980 569</b>	<b>257 076</b>	<b>185 350</b>	<b>(92 506)</b>	<b>(36 278)</b>
	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)
	<b>5 850 958</b>	<b>113 415</b>	<b>135 397</b>	<b>(20 256)</b>	<b>(13 880)</b>
	3 716 882	33 640	54 988	(3 386)	(1 519)
	2 134 076	79 775	80 409	(16 870)	(12 361)
	<b>7 156 117</b>	<b>78 723</b>	<b>46 723</b>	<b>(33 850)</b>	<b>(28 656)</b>
	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)
				<b>(43 727)</b>	
	<b>17 440 985</b>	<b>608 361</b>	<b>488 258</b>	<b>(252 075)</b>	<b>(118 068)</b>

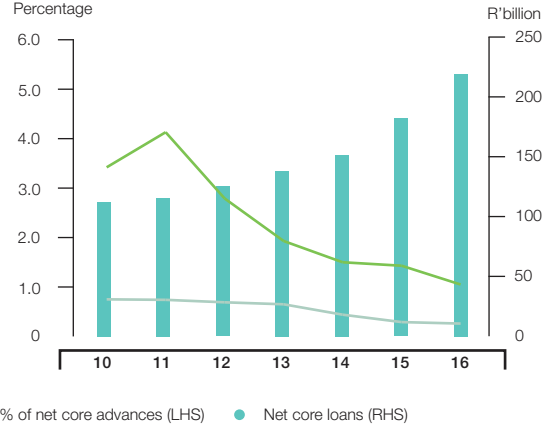
## Additional information

### ASSET QUALITY TRENDS

**UK and Other**  
Percentage



**Southern Africa**  
Percentage



### AN ANALYSIS OF GROWTH IN ONGOING CORE LOANS DURING THE FINANCIAL YEAR

**UK and Other**  
£'billion



**Southern Africa**  
R'billion



In the UK and Other ongoing business core loans grew 13.5% (£855 million) to £7.2 billion. Growth took place across the portfolio as reflected in the graph above. Credit quality remains sound with the credit loss ratio at 0.26% and net defaults (before collateral) as a percentage of book are at 0.39%. Private Client lending comprises 45% of the book and the Corporate Client book is well diversified across sectors as shown on page 40.



In Southern Africa core loans grew 19.7% (R36 billion) to R218 billion. Growth took place across the portfolio as reflected in the graph above. Credit quality remains sound with the credit loss ratio at 0.26% and net defaults (before collateral) as a percentage of book are at 1.05%. Private Client lending comprises 67% of the book and the Corporate Client book is well diversified across sectors as shown on page 40.

## COLLATERAL

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

£'000	Collateral held against		Total
	Core loans and advances	Other credit and counterparty exposures*	
<b>At 31 March 2016</b>			
<b>Eligible financial collateral</b>	<b>2 762 325</b>	<b>1 561 976</b>	<b>4 324 301</b>
Listed shares	2 645 382	450 273	3 095 655
Cash	116 943	110 224	227 167
Debt securities issued by sovereigns	–	1 001 479	1 001 479
<b>Property charge</b>	<b>18 379 627</b>	<b>237 226</b>	<b>18 616 853</b>
Residential property	9 267 056	232 275	9 499 331
Residential development	780 534	–	780 534
Commercial property developments	759 146	4 951	764 097
Commercial property investments	7 572 891	–	7 572 891
<b>Other collateral</b>	<b>6 859 833</b>	<b>199 595</b>	<b>7 059 428</b>
Unlisted shares	1 065 031	–	1 065 031
Charges other than property	552 183	135 508	687 691
Debtors, stock and other corporate assets	2 997 267	–	2 997 267
Guarantees	1 632 448	1 679	1 634 127
Other	612 904	62 408	675 312
<b>Total collateral</b>	<b>28 001 785</b>	<b>1 998 797</b>	<b>30 000 582</b>
<b>At 31 March 2015</b>			
<b>Eligible financial collateral</b>	<b>2 295 543</b>	<b>2 310 860</b>	<b>4 606 403</b>
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
<b>Property charge</b>	<b>16 987 602</b>	<b>259 789</b>	<b>17 247 391</b>
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
<b>Other collateral</b>	<b>6 942 551</b>	<b>757 079</b>	<b>7 699 630</b>
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
<b>Total collateral</b>	<b>26 225 696</b>	<b>3 327 728</b>	<b>29 553 424</b>

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



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

### Investment risk in the banking book

#### INVESTMENT RISK DESCRIPTION

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

- **Principal Investments:** Investments are selected based on the track record of management, the attractiveness of the industry and the ability to build value for the existing business by implementing an agreed strategy. Investments in listed shares may arise on the IPO of one of our investments. Additionally, listed investments may be considered where we believe that the market is mispricing the value of the underlying security or where there is the opportunity to stimulate corporate activity. In South Africa, a material portion of the principal investments have been transferred to a

new vehicle, Investec Equity Partners (IEP) on 11 January 2016. Investec Bank Limited holds a 45% stake alongside other strategic investors who hold the remaining 55% in IEP. The investment in IEP will be reflected as an investment in an associate. We 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 INVESTMENT RISK

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

Nature of investment risk	Management of risk
Listed equities	Investment committee, market risk management and ERRF
Investment Banking principal investments	Investment committee and ERRF
Embedded derivatives, profit shares and investments arising from lending transactions	Credit risk management committees and ERRF
Investment and trading properties	Investment committee, Investec Property group investment committee in South Africa and ERRF
IEP	Our executive are on the board of IEP
Central Funding investments	Investment committee and ERRF

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



(continued)

## VALUATION AND ACCOUNTING METHODOLOGIES



For a description of our valuation principles and methodologies refer to pages 30 and 31 in volume three and pages 66 to 77 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 2.1% of total assets (excluding assurance assets).



Refer to page 66 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 2016 £'000 Country/category	Income/(loss) (pre-funding costs)				Fair value through equity
	Unrealised <sup>o</sup>	Realised <sup>o</sup>	Dividends	Total	
<b>Unlisted investments</b>	<b>(144 135)</b>	<b>226 911</b>	<b>24 716</b>	<b>107 492</b>	<b>(63)</b>
UK and Other	15 674	14 099	15 419	45 192	12
Southern Africa	(159 809)	212 812	9 297	62 300	(75)
<b>Listed equities</b>	<b>15 367</b>	<b>(6 094)</b>	<b>3 680</b>	<b>12 953</b>	<b>834</b>
UK and Other	2 340	(7 249)	–	(4 909)	1 499
Southern Africa	13 027	1 155	3 680	17 862	(665)
<b>Investment and trading properties</b>	<b>377</b>	<b>12 366</b>	<b>–</b>	<b>12 743</b>	<b>–</b>
UK and Other	(3 145)	2 364	–	(781)	–
Southern Africa <sup>^</sup>	3 522	10 002	–	13 524	–
<b>Warrants, profit shares and other embedded derivatives</b>	<b>(4 772)</b>	<b>16 545</b>	<b>–</b>	<b>11 773</b>	<b>–</b>
UK and Other	(2 452)	3 469	–	1 017	–
Southern Africa	(2 320)	13 076	–	10 756	–
<b>Total</b>	<b>(133 163)</b>	<b>249 728</b>	<b>28 396</b>	<b>144 961</b>	<b>771</b>

<sup>^</sup> 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 28.6% in 2016. It is noted that the ultimate impact on the income statement reflects the group's net attributable earnings from the investment.

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



# Risk management

(continued)

RISK AND BASEL PILLAR III DISCLOSURES



For the year to 31 March 2015

£'000

Country/category

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

<sup>^</sup> 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.

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

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

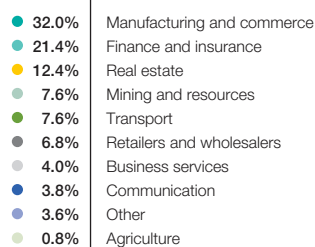
## Additional information

### AN ANALYSIS OF THE INVESTMENT PORTFOLIO, WARRANTS, PROFIT SHARES AND OTHER EMBEDDED DERIVATIVES AND INVESTMENT IN ASSOCIATE (IEP) BY INDUSTRY OF EXPOSURE



31 March 2016


£945 million



(continued)

## 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 2016	Valuation change stress test 2016*	On-balance sheet value of investments 2015	Valuation change stress test 2015*
	<b>Unlisted investments**</b>	<b>499 803</b>	<b>74 970</b>	<b>810 031</b>
UK and Other	363 060	54 459	287 821	43 173
Southern Africa	136 743	20 511	522 210	78 332
<b>Listed equities**</b>	<b>160 992</b>	<b>40 248</b>	<b>178 541</b>	<b>44 635</b>
UK and Other	87 940	21 985	113 120	28 280
Southern Africa	73 052	18 263	65 421	16 355
<b>Total listed equities and unlisted investments</b>	<b>660 795</b>	<b>115 218</b>	<b>988 572</b>	<b>166 140</b>
UK and Other	451 000	76 444	400 941	71 453
Southern Africa	209 795	38 774	587 631	94 687
<b>Investment and trading properties</b>	<b>587 089</b>	<b>70 209</b>	<b>550 367</b>	<b>76 641</b>
UK and Other	183 073	28 709	191 499	31 726
Southern Africa <sup>^</sup>	404 016	41 500	358 868	44 915
<b>Warrants, profit shares and other embedded derivatives</b>	<b>44 123</b>	<b>15 443</b>	<b>52 719</b>	<b>18 452</b>
UK and Other	32 902	11 516	36 111	12 639
Southern Africa	11 221	3 927	16 608	5 813
<b>Investment in associate (IEP)<sup>^^</sup></b>	<b>239 636</b>	<b>35 945</b>	<b>–</b>	<b>–</b>
Southern Africa	239 636	35 945	–	–
<b>Total</b>	<b>1 531 643</b>	<b>236 815</b>	<b>1 591 658</b>	<b>261 233</b>

\* In order to assess our earnings sensitivity to a movement in the valuation of these investments, the stress testing parameters are detailed below are applied.

\*\* Includes the investment portfolio and non-current assets classified as held for sale lines as per the balance sheet.

<sup>^</sup> 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 28.6% in 2016 and 33.1% in 2015.

<sup>^^</sup> As explained on page 46.

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

## STRESS TESTING SUMMARY

Based on the information at 31 March 2016, as reflected above, we could have a £237 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 89 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 25 for the balance sheet and credit risk classification.**

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

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

### UK and Other

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

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

For regulatory purposes, structured entities are not consolidated where significant risk in the structured entities has been transferred to third parties. The positions we continue to hold in these securitisations

will be either risk weighted and/or deducted from capital.

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

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

### 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 R15 million at 31 March 2016 (31 March 2015: R200 million), 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 R0.8 billion at 31 March 2016 (31 March 2015: R1.4 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 R9.2 billion at 31 March 2016 (31 March 2015: R8.1 billion) and consist of residential mortgages (R9.2 billion). Within these securitisation vehicles loans greater than 90 days in arrears amounted to R14.5 million.

SARB approval has been obtained to close our historical transactions, namely Private Residential Mortgages (PRM) Limited – Series 1 (PRM1), Private Residential Mortgages (PRM) Limited – Series 2 (PRM2), as well as Private Mortgages 1 (PM1) and Private Mortgages 2 (PM2). During the year we arranged one new Investec Private Client originated residential mortgage securitisation transaction namely, Fox Street 5 (RF) Limited (FS5) for R2.85 billion (R1.76 billion at year end). This RMBS transaction was structured as an amortising transaction and the notes are held internally by Investec in order to make use of the SARB's committed liquidity facility (CLF). FS1 to FS5 are rated by Global Credit Ratings. 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 the FS1 and FS2 transactions. The FS3 to FS5 CLF transactions are within scope of the Bank's Act.

For regulatory capital purposes, the equity tranche held in the FS1 and FS2 transaction, is treated as a deduction against capital. The group has no resecuritisation exposures in South Africa.



## ACCOUNTING POLICIES



Refer to page 31 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 50.***

## 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 2016 £'million	Exposure 2015 £'million	Balance sheet and credit risk classification	Asset quality – relevant comments
Structured credit (gross exposure)*	392	437	Other debt securities and other loans and advances	
Rated	380	395		
Unrated	12	42		
Loans and advances to customers and third party intermediary originating platforms (mortgage loans) (with the potential to be securitised)	174	180	Other loans and advances	
Private Client division assets which have been securitised	437	449	Own originated loans and advances to customers	Analysed as part of the group's overall asset quality on core loans and advances as reflected on page 33
South Africa – liquidity facilities provided to third party corporate securitisation vehicles	1	11	Off-balance sheet	

\* Analysed further on page 52.



## Risk management

(continued)

### \*Analysis of structured credit

At 31 March £'million	2016			2015		
	Rated**	Unrated	Total	Rated	Unrated	Total
US corporate loans	152	–	152	118	–	118
UK and European RMBS	182	12	194	222	29	251
UK and European CMBS	–	–	–	6	4	10
UK and European corporate loans	40	–	40	42	9	51
Australian RMBS	6	–	6	–	–	–
South African CMBS	–	–	–	7	–	7
<b>Total</b>	<b>380</b>	<b>12</b>	<b>392</b>	<b>395</b>	<b>42</b>	<b>437</b>
Investec plc	343	12	355	317	33	350
Investec Limited	37	–	37	78	9	87

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

£'million	AAA	AA	A	BBB	BB	B	C and below	Total
US corporate loans	92	25	35	–	–	–	–	152
UK and European RMBS	40	84	42	5	–	11	–	182
UK and European corporate loans	16	13	10	1	–	–	–	40
Australian RMBS	–	6	–	–	–	–	–	6
<b>Total at 31 March 2016</b>	<b>148</b>	<b>128</b>	<b>87</b>	<b>6</b>	<b>–</b>	<b>11</b>	<b>–</b>	<b>380</b>
<b>Total at 31 March 2015</b>	<b>64</b>	<b>163</b>	<b>82</b>	<b>53</b>	<b>11</b>	<b>–</b>	<b>22</b>	<b>395</b>

## Market risk in the trading book

### TRADED MARKET RISK DESCRIPTION



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

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

### TRADED MARKET RISK GOVERNANCE STRUCTURE



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

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

### MANAGEMENT AND MEASUREMENT OF TRADED MARKET RISK

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

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

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

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

The accuracy of the VaR model as a predictor of potential loss is continuously monitored through backtesting. This involves comparing the hypothetical (clean) trading revenues arising from the previous day's closing positions with the one-day VaR calculated for the previous day on these same positions. If the revenue is negative and exceeds the one-day VaR, a backtesting exception is considered to have occurred. Over time we expect the average rate of observed backtesting exceptions to be consistent with the percentile of the VaR statistic being tested.

In South Africa, we have internal model approval from the SARB for general market risk for all trading desks with the exception of credit trading and therefore trading capital is calculated as a function of the 99% 10-day VaR as well as the 99% 10-day sVaR together with standardised specific risk capital for issuer risk. 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 calculated using the standardised approach. For certain options, the group has obtained permission from the PRA to use an internal model to calculate the delta for these positions.

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



(continued)

VaR

	31 March 2016				31 March 2015			
	Year end	Average	High	Low	Year end	Average	High	Low
<b>UK and Other (using 95% VaR)</b>								
Equities (£'000)	515	557	699	412	524	573	825	436
Foreign exchange (£'000)	37	32	101	12	23	20	64	1
Interest rates (£'000)	202	195	505	128	495	300	536	197
<b>Consolidated (£'000)*</b>	<b>529</b>	<b>589</b>	<b>723</b>	<b>488</b>	<b>691</b>	<b>617</b>	<b>921</b>	<b>475</b>
<b>Southern Africa (using 95% VaR)</b>								
Commodities (R'million)	0.1	0.1	0.2	-	-	0.1	0.5	-
Equities (R'million)	2.6	2.3	5.8	1.2	1.7	2.7	6.7	0.7
Foreign exchange (R'million)	3.0	2.6	6.4	1.2	3.0	3.1	5.9	1.1
Interest rates (R'million)	1.1	1.2	3.0	0.5	2.7	1.6	3.5	0.9
<b>Consolidated (R'million)*</b>	<b>4.8</b>	<b>3.9</b>	<b>8.5</b>	<b>1.8</b>	<b>3.5</b>	<b>4.4</b>	<b>7.7</b>	<b>1.7</b>

\* 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).

UK and Other

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

99% ONE-DAY VaR BACKTESTING





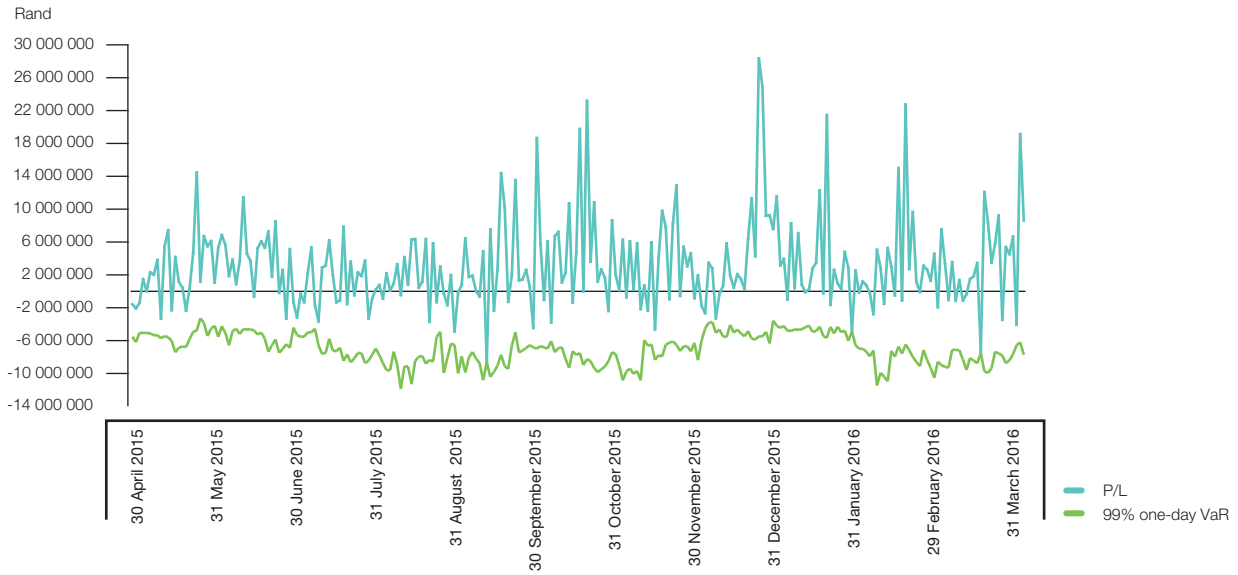


(continued)

Southern Africa

Average VaR for the year ended March 2016 in the South African trading book was lower than the previous year due to lower VaR utilisation across the main trading desks. Using hypothetical (clean) profit and loss data for backtesting resulted in one exception (as shown in the graph below), which is below the expected number of two to three exceptions that a 99% VaR implies. The exception was due to normal trading losses.

99% ONE-DAY VaR BACKTESTING





# Risk management

(continued)

RISK AND BASEL PILLAR III DISCLOSURES


## ETL

	UK and Other 95% (one-day) £'000	Southern Africa 95% (one-day) R'million
		
<b>31 March 2016</b>		
Commodities	–	0.2
Equities	662	6.2
Foreign exchange	53	4.4
Interest rates	257	1.7
<b>Consolidated*</b>	<b>783</b>	<b>8.4</b>
<b>31 March 2015</b>		
Equities	663	2.5
Foreign exchange	34	4.4
Interest rates	717	3.8
<b>Consolidated*</b>	<b>874</b>	<b>5.1</b>

\* 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 (diversification).

## STRESS TESTING

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

	31 March 2016				31 March 2015
	Year end	Average	High	Low	Year end
					
<b>UK and Other (using 99% EVT)</b>					
Equities (£'000)	1 549	1 305	2 275	761	1 658
Foreign exchange (£'000)	122	80	221	31	102
Interest rates (£'000)	470	438	1 312	225	1 676
<b>Consolidated (£'000)#</b>	<b>1 772</b>	<b>1 349</b>	<b>2 222</b>	<b>827</b>	<b>1 413</b>
<b>Southern Africa (using 99% EVT)</b>					
Commodities (R'million)	0.4	0.2	1.9	–	0.1
Equities (R'million)	48.3	20.6	50.2	3.2	9.6
Foreign exchange (R'million)	11.7	13.3	72.2	4.4	16.2
Interest rates (R'million)	7.6	5.5	12.9	3.0	7.7
<b>Consolidated (R'million)#</b>	<b>47.2</b>	<b>23.7</b>	<b>55.7</b>	<b>7.3</b>	<b>13.5</b>

# 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).



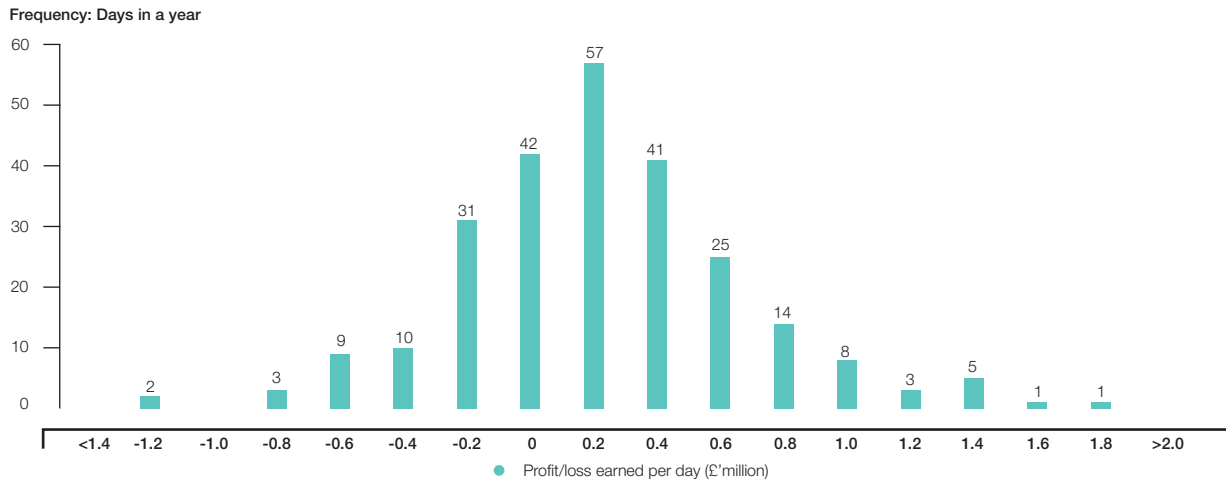
(continued)

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 155 days out of a total of 252 days in the trading business. The average daily trading revenue generated for the year to 31 March 2016 was £124 250 (2015: £162 486).

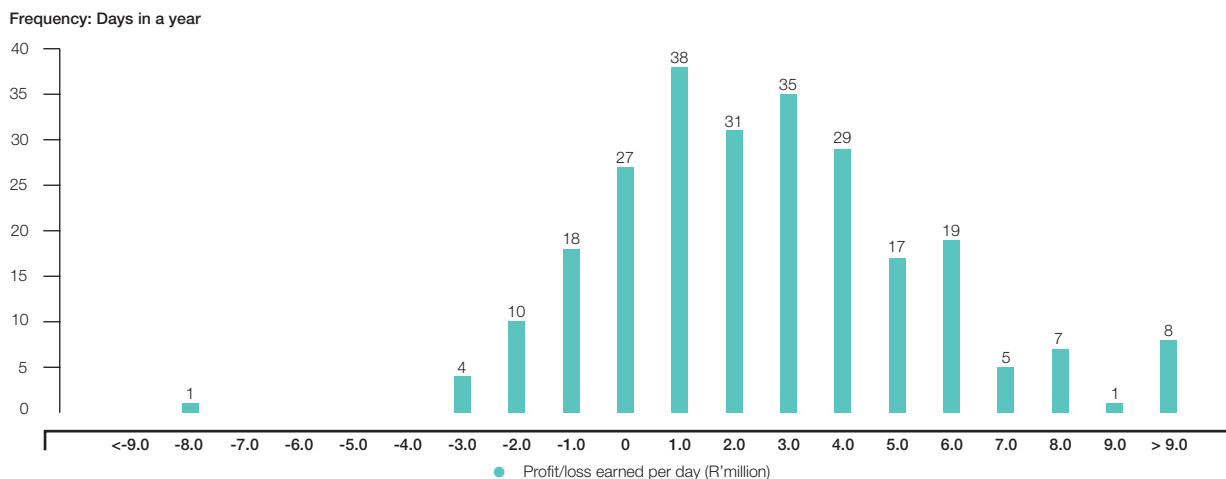
PROFIT AND LOSS



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 190 days out of a total of 250 days in the trading business. The average daily trading revenue generated for the year to 31 March 2016 was R2.1 million (2015: R1.5 million).

PROFIT AND LOSS





(continued)

## TRADED MARKET RISK MITIGATION



The Market Risk Management team has a reporting line that is separate from the trading function, thereby ensuring independent oversight. The risk management software is fully integrated with source trading systems, allowing valuation in risk and trading systems to be fully aligned. All valuation models are subject to independent validation, ensuring models used for valuation and risk are validated independently of the front office.

Risk limits are set according to guidelines set out in our risk appetite policy and are set on a statistical and non-statistical basis. Statistical limits include VaR and ETL. Full revaluation historical simulation VaR is used over a two-year historical period based on an unweighted time series. Every risk factor is exposed to daily moves with proxies only used when no or limited price history is available, and the resultant one-day VaR is scaled up to a 10-day VaR using the square root of time rule for regulatory purposes. Daily moves are based on both

absolute and relative returns as appropriate for the different types of risk factors. Time series data used to calculate these moves is updated monthly at a minimum, or more frequently if necessary. Stressed VaR is calculated in the same way based on a one-year historical period of extreme volatility. The sVaR period used is mid-2008 to mid-2009, which relates to high levels of volatility in all markets in which the business holds trading position, during the financial crisis.

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

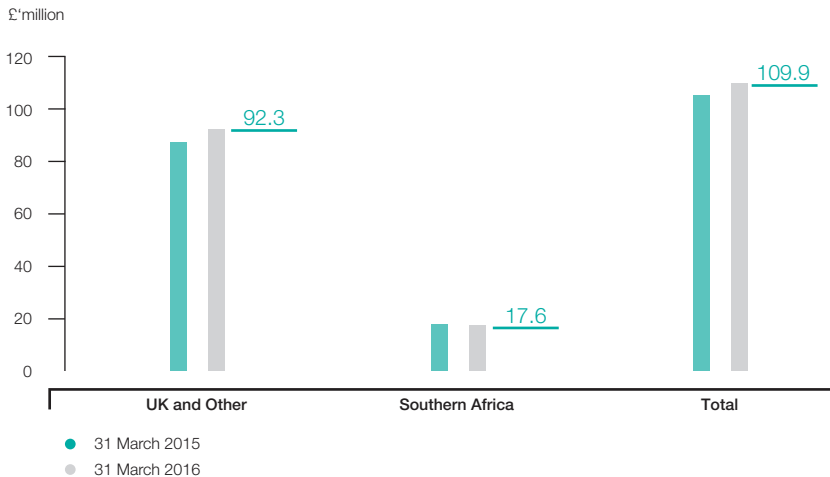
## TRADED MARKET RISK YEAR IN REVIEW

In both South Africa and the UK, risk software was changed to be fully integrated with trading systems, while independence is maintained through independent validation of all valuation models.

In South Africa trading conditions have remained challenging. Markets have been very volatile while the lack of liquidity has continued. Investec remains focused on facilitating the near-term demand of our clients. The equity derivatives business has continued to grow their synthetic product offering to a diversified client base. All trading areas have kept market risk exposures at low levels throughout the year.

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

## REVENUE ARISING FROM CUSTOMER FLOW TRADING ACTIVITIES WITHIN OUR SPECIALIST BANKING DIVISION



## 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 80 and 81 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, encumbrance and leverage risks on balance sheet.

### BALANCE SHEET RISK GOVERNANCE STRUCTURE AND RISK MITIGATION

Under delegated authority of the board, the group has established asset and liability management committees (ALCOs) within each core geography in which it operates,

using regional expertise and local market access as appropriate. The ALCOs are mandated to ensure independent supervision of liquidity risk and non-trading interest rate risk within a board-approved risk appetite.

The size, materiality, complexity, maturity and depth of the market as well as access to stable funds are all inputs considered when establishing the liquidity and non-trading interest rate risk appetite for each geographic region. Specific statutory requirements may further dictate special policies to be adopted in a region.

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

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

The ALCOs comprise the group risk director, the head of balance sheet risk, the head of risk, the head of corporate and institutional banking activities, head of private banking distribution channels, economists, the treasurer, divisional heads, and the balance sheet risk management team. The ALCOs formally meet on a monthly basis to review the exposures that lie within the balance sheet together with market conditions, and decide on strategies to mitigate any undesirable liquidity and interest rate risk. The Central Treasury function within each region is mandated to holistically manage the liquidity mismatch and non-trading interest rate risk arising from our asset and liability portfolios on a day-to-day basis.

The treasurers are required to exercise tight control of funding, liquidity, concentration and non-trading interest rate risk within parameters defined by the board-approved risk appetite policy. Non-trading interest rate risk and asset funding requirements are transferred from the originating business to the treasury function.

The central treasury, by core geography, directs pricing for all deposit products, establishes and maintains access to stable wholesale funds with the appropriate tenor and pricing characteristics, and manages

liquid securities and collateral, thus providing prudential management and a flexible response to volatile market conditions. The central treasury functions are the sole interface to the wholesale market for both cash and derivative transactions.

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

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

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



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

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

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

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

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

Daily, weekly and monthly reports are independently produced highlighting bank activity, exposures and key measures against thresholds and limits and are distributed to management, ALCO, the

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

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

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



## LIQUIDITY RISK

### Liquidity risk description

Liquidity risk is the risk that, despite being solvent, we have insufficient capacity to fund increases in assets, or are unable to meet our payment obligations as they fall due, without incurring unacceptable losses. This includes repaying depositors or maturing wholesale debt. This risk is inherent in all banking operations and can be impacted by a range of institution-specific and market-wide events.

Liquidity risk is further broken down into:

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

Sources of liquidity risk include:

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

### Management and measurement of liquidity risk

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

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

- The group complies with the BCBS principles for sound liquidity risk management and supervision
- The group has committed itself to implementation of the updated BCBS guidelines for liquidity risk measurement, standards and monitoring as phased in from 2015
- Our liquidity management processes encompass principles set out by the regulatory authorities in each jurisdiction, namely the PRA, EBA, SARB, BOM, Guernsey Financial Services and Swiss Financial Supervisory Authority
- The risk appetite is clearly defined by the board and each geographic entity must have its own board-approved policies with respect to liquidity risk management
- In terms of regulatory requirements and the group's liquidity policy, Investec plc (and its subsidiaries) are ring-fenced from Investec Limited (and its subsidiaries) (and *vice versa*) and both legal entities are therefore required to be self-funded
- We maintain a liquidity buffer in the form of unencumbered cash, government or rated securities (typically eligible for repurchase with the central bank), and near cash well in excess of the statutory requirements as protection against unexpected disruptions in cash flows

- Funding is diversified with respect to currency, term, product, client type and counterparty to ensure a satisfactory overall funding mix
- We monitor and evaluate each banking entity's maturity ladder and funding gap (cash flow maturity mismatch) on a 'liquidation', 'going concern' and 'stress' basis
- Daily liquidity stress tests are carried out to measure and manage the liquidity position such that payment obligations can be met under a wide range of normal and unlikely but plausible stressed scenarios, in which the rate and timing of deposit withdrawals and drawdowns on lending facilities are varied, and the ability to access funding and to generate funds from asset portfolios is restricted. The objective is to have sufficient liquidity, in an acute stress, to continue to operate for a minimum period as detailed in the board-approved risk appetite
- Our liquidity risk parameters reflect a collection of liquidity stress assumptions which are reviewed regularly and updated as needed. These stress factors go well beyond our experience during the height of the recent financial crisis
- We further carry out reverse stress tests to identify business model vulnerabilities which tests 'tail risks' that can be missed in normal stress tests. The group has calculated the severity of stress required to breach the liquidity requirements
- The balance sheet risk management team independently monitors key daily funding metrics and liquidity ratios to assess potential risks to the liquidity position, which further act as early warning indicators of potential normal market disruption
- The group centrally manages access to funds in both domestic and offshore markets through the Corporate and Institutional Banking division
- The maintenance of sustainable prudent liquidity resources takes precedence over profitability
- Each major banking entity maintains an internal funds transfer pricing system based on prevailing market rates. The treasury function charges out the price of long- and short-term funding to internal consumers of liquidity, which ensures that the costs, benefits, and risks of liquidity are clearly and

transparently attributed to business lines and are understood by business line management. The funds transfer pricing methodology is designed to signal the right incentive to our lending business

- The group maintains adequate contingency funding plans designed to protect depositors, creditors and shareholders and maintain market confidence during adverse liquidity conditions.

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

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

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

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

- Other key funding and balance sheet ratios
- Monitoring and analysing market trends and the external environment.

This ensures the smooth management of the day-to-day liquidity position within conservative parameters and further validates that we are able to generate sufficient liquidity to withstand short-term liquidity stress or market disruptions in the event of either a firm-specific or general market contingent event.

We maintain a funding structure with stable customer deposits and long-term wholesale funding well in excess of illiquid assets. We target a diversified funding base, avoiding undue concentrations by investor type, maturity, market source, instrument and currency. This validates our ability to generate funding from a broad range of sources in a variety of geographic locations, which enhances financial flexibility and limits dependence on any one source so as to ensure a satisfactory overall funding mix to support loan growth.

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

Entities within the group actively participate in global financial markets and our relationship is continuously enhanced through regular investor presentations internationally. Entities are only allowed to have funding exposure to wholesale markets where they can demonstrate that the market is sufficiently deep and liquid, and then only relative to the size and complexity of their business. We have instituted various offshore syndicated loan programmes to broaden and diversify term funding in supplementary markets and currencies, enhancing the proven capacity to borrow in the money markets. The group remains committed to increasing its core deposits and accessing domestic and foreign capital markets when appropriate.



## Risk management

(continued)

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

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

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

From 1 April 2015 to 31 March 2016 average cash and near cash balances over the period amounted to £9.9 billion (£4.9 billion in UK and Other; R105.7 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. In the UK, Risk Management monitors and manages total balance sheet encumbrance via a board-approved risk appetite framework.

The group utilises securitisation in order to raise external term funding as part of its diversified liability base. Securitisation notes issued are also retained by the group which are available to provide a pool of collateral eligible to support central bank liquidity facilities, including the Bank of England Funding for Lending Scheme.

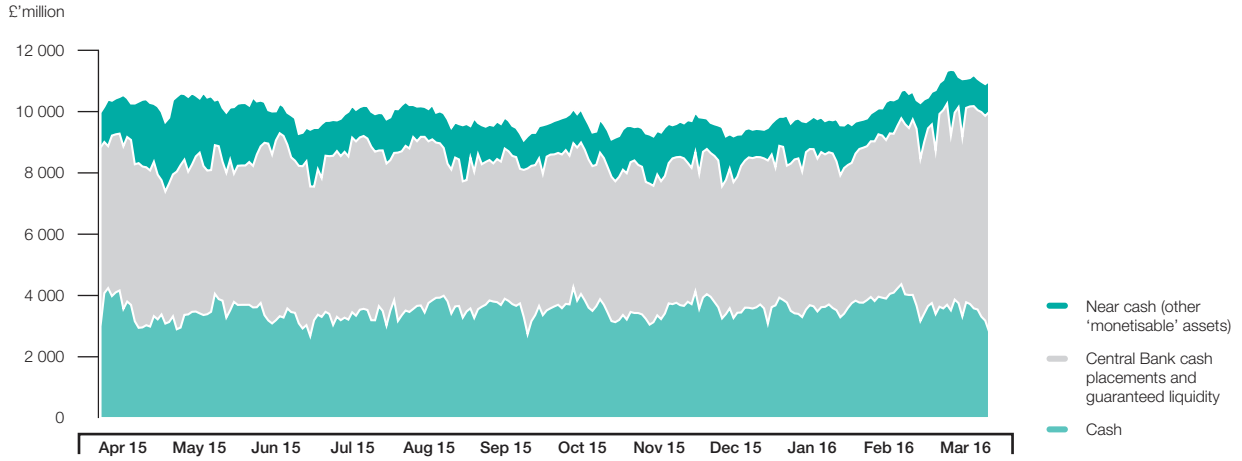
The group uses secured transactions to manage short-term cash and collateral needs. Details of assets pledged through repurchase activity and collateral pledges are reported by line item of the balance sheet on which they are reflected on page 78 in volume three. Related liabilities are also reported.



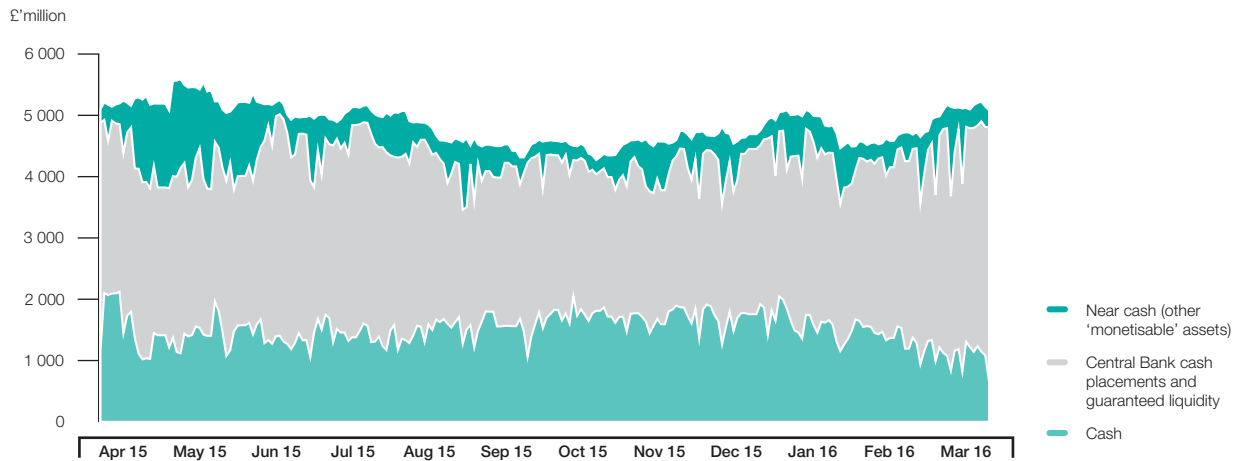
**On page 78 in volume three we disclose further details of assets that have been received as collateral under reverse repurchase agreements and securities borrowing transactions where the assets are allowed to be resold or pledged.**



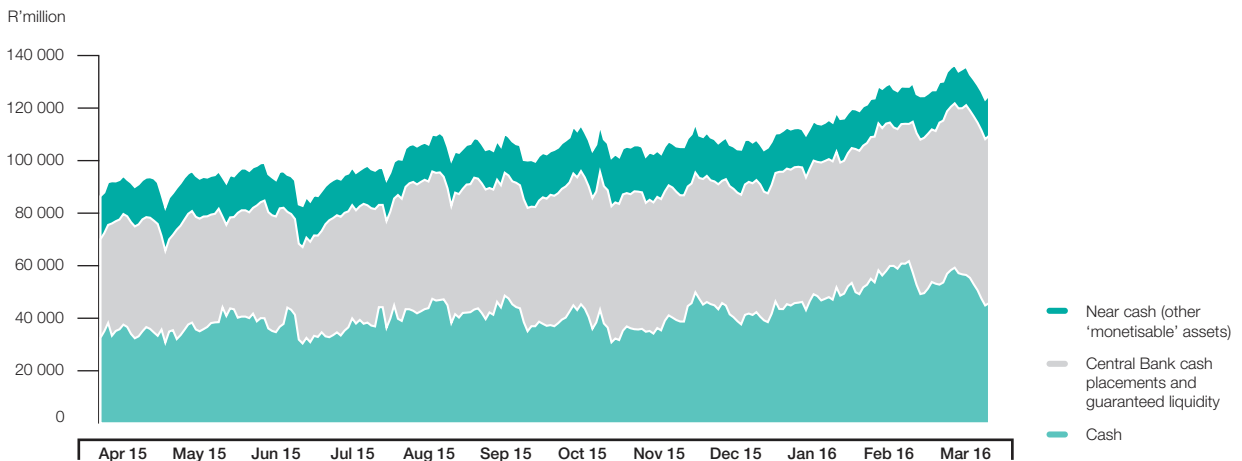
TOTAL INVESTEC GROUP CASH AND NEAR CASH TREND



INVESTEC PLC CASH AND NEAR CASH TREND



INVESTEC LIMITED CASH AND NEAR CASH TREND



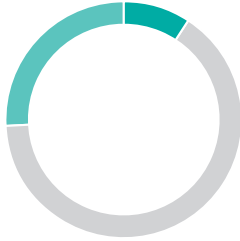


# Risk management

(continued)

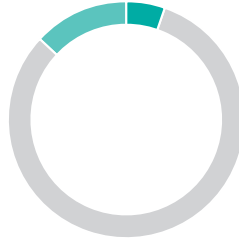
RISK AND BASEL PILLAR III DISCLOSURES

## AN ANALYSIS OF CASH AND NEAR CASH AT 31 MARCH 2016



**Total group**  
£10 962 million

- 9.2% Near cash (other 'monetisable' assets)
- 65.1% Central Bank cash placements and guaranteed liquidity
- 25.7% Cash



**Investec plc**  
£5 082 million

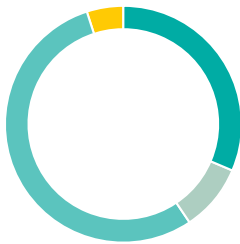
- 5.5% Near cash (other 'monetisable' assets)
- 81.5% Central Bank cash placements and guaranteed liquidity
- 13.0% Cash



**Investec Limited**  
R124 907 million

- 12.4% Near cash (other 'monetisable' assets)
- 51.0% Central Bank cash placements and guaranteed liquidity
- 36.6% Cash

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



**UK and Other**  
£11 353 million

- 31.6% Non-financial corporates
- 9.1% Small business
- 54.5% Individuals
- 4.8% Banks



**Southern Africa**  
R319 883 million

- 43.4% Other financials
- 19.7% Non-financial corporates
- 3.8% Small business
- 16.0% Individuals
- 12.5% Banks
- 4.6% Public sector

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*The liquidity position of the group remained sound with total cash and near cash balances amounting to £11.0 billion*

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### 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 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.



## Risk management

(continued)

### UK and Other Contractual liquidity at 31 March 2016

£'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	> Five years	Total
Cash and short-term funds – banks	2 974	429	337	1	4	–	6	3 751
Investment/trading assets	494	379	790	164	134	712	1 555	4 228
Securitised assets	–	3	–	1	4	5	138	151
Advances	277	510	581	599	1 164	3 561	1 529	8 221
Other assets	22	1 274	112	9	27	212	750	2 406
<b>Assets</b>	<b>3 767</b>	<b>2 595</b>	<b>1 820</b>	<b>774</b>	<b>1 333</b>	<b>4 490</b>	<b>3 978</b>	<b>18 757</b>
Deposits – banks	(40)	(130)	–	(12)	–	(250)	(112)	(544)
Deposits – non-banks	(1 261)	(3 208)	(1 378)	(1 868)	(904)	(2 053)	(137)	(10 809)
Negotiable paper	(1)	(285)	(27)	(57)	(64)	(1 197)	(477)	(2 108)
Securitised liabilities	–	–	(2)	(3)	(7)	(46)	(63)	(121)
Investment/trading liabilities	(11)	(115)	(84)	(76)	(267)	(217)	(420)	(1 190)
Subordinated liabilities	–	–	–	–	(22)	–	(575)	(597)
Other liabilities	(20)	(1 019)	(172)	(55)	(77)	(132)	(32)	(1 507)
<b>Liabilities</b>	<b>(1 333)</b>	<b>(4 757)</b>	<b>(1 663)</b>	<b>(2 071)</b>	<b>(1 341)</b>	<b>(3 895)</b>	<b>(1 816)</b>	<b>(16 876)</b>
<b>Shareholders' funds</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(1 881)</b>	<b>(1 881)</b>
<b>Contractual liquidity gap</b>	<b>2 434</b>	<b>(2 162)</b>	<b>157</b>	<b>(1 297)</b>	<b>(8)</b>	<b>595</b>	<b>281</b>	<b>–</b>
Cumulative liquidity gap	2 434	272	429	(868)	(876)	(281)	–	–

### Behavioural liquidity



As discussed on page 65.

£'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
<b>Behavioural liquidity gap</b>	<b>4 847</b>	<b>(780)</b>	<b>488</b>	<b>(1 382)</b>	<b>(9)</b>	<b>(3 000)</b>	<b>(164)</b>	<b>–</b>
Cumulative	4 847	4 067	4 555	3 173	3 164	164	–	–

(continued)

## Southern Africa Contractual liquidity at 31 March 2016

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	28 660	5 818	766	397	250	1 393	–	37 284
Cash and short-term funds – non-banks	9 582	4	232	40	–	–	–	9 858
Investment/trading assets and statutory liquids	61 907	26 672	4 653	2 930	3 651	32 632	35 467	167 912
Securitised assets	82	14	54	102	176	1 531	7 480	9 439
Advances	7 116	4 578	10 871	14 423	24 690	97 240	50 169	209 087
Other assets	1 241	1 222	433	138	419	1 658	6 548	11 659
<b>Assets</b>	<b>108 588</b>	<b>38 308</b>	<b>17 009</b>	<b>18 030</b>	<b>29 186</b>	<b>134 454</b>	<b>99 664</b>	<b>445 239</b>
Deposits – banks	(5 066)	(2 042)	(2 168)	(2 290)	(9 529)	(18 058)	(910)	(40 063)
Deposits – non-banks	(127 024) <sup>^</sup>	(26 706)	(51 978)	(20 915)	(23 954)	(26 806)	(2 437)	(279 820)
Negotiable paper	–	(661)	(2 296)	(265)	(310)	(8 896)	(351)	(12 779)
Securitised liabilities	–	–	–	–	–	–	(1 810)	(1 810)
Investment/trading liabilities	(854)	(20 047)	(6 036)	(1 153)	(10 062)	(6 990)	(639)	(45 781)
Subordinated liabilities	–	–	–	–	–	(1 032)	(10 325)	(11 357)
Other liabilities	(2 292)	(1 007)	(945)	(385)	(786)	(405)	(5 958)	(11 778)
<b>Liabilities</b>	<b>(135 236)</b>	<b>(50 463)</b>	<b>(63 423)</b>	<b>(25 008)</b>	<b>(44 641)</b>	<b>(62 187)</b>	<b>(22 430)</b>	<b>(403 388)</b>
Shareholders' funds	–	–	–	–	–	–	(41 851)	(41 851)
<b>Contractual liquidity gap</b>	<b>(26 648)</b>	<b>(12 155)</b>	<b>(46 414)</b>	<b>(6 978)</b>	<b>(15 455)</b>	<b>72 267</b>	<b>35 383</b>	<b>–</b>
Cumulative liquidity gap	(26 648)	(38 803)	(85 217)	(92 195)	(107 650)	(35 383)	–	–

<sup>^</sup> Includes call deposits of R125 billion and the balance reflects term deposits which have finally reached/are reaching contractual maturity.

## Behavioural liquidity



As discussed on page 65.

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
<b>Behavioural liquidity gap</b>	<b>46 845</b>	<b>18 812</b>	<b>(1 112)</b>	<b>(630)</b>	<b>(10 689)</b>	<b>(130 459)</b>	<b>77 233</b>	<b>–</b>
Cumulative	46 845	65 657	64 545	63 915	53 226	(77 233)	–	–



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

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

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

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

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

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

Cash and near cash balances at 31 March 2016 amounted to £5.1 billion (2015: £5.0 billion). Total UK and Other customer deposits was £10.8 billion at 31 March 2016 (2015: £10.3 billion). We continue to comfortably exceed regulatory liquidity requirements for the LCR and NSFR liquidity ratios.

#### South Africa

During the past financial year the liquidity risk profile of the balance sheet has significantly improved. Investec grew its total customer deposits by 26.4% from R221 billion to R280 billion at 31 March 2016. Our Private Bank and Cash Investments fund raising channels grew deposits by 21.8% to R110 billion over the financial year. The wholesale channels saw a marked turnaround from the previous year and Rand liabilities increased by 29.5% to R170 billion.

Two factors contributed to this. Firstly, there were renewed inflows to Money Market Funds as anxieties relating to the forced entry into curatorship of African Bank were eased; and secondly, Investec gained market share following Fitch's upgrade of Investec's national scale long-term rating to AA- in December 2015 as a result of a resilient risk profile.

Our Rand liquidity was further boosted by several successful medium-term senior unsecured bond issues totalling R5 billion. Investec Bank Limited (solo basis) ended the financial year with the three-month average of its LCR at 117.3%, which is well ahead of the minimum level of 70% required.

Two and three year term dollar transactions amounting to US\$875 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. The bank's long-term USD liquidity position is very positive and places us in a strong position ahead of any concern over South Africa's heightened risk of a credit rating downgrade. Our USD funding augments our cash and near cash balances, with core loans remaining fully funded by domestic deposits.

The strong performance across all funding channels has led to a growth of R36 billion to R125 billion in our total cash and near cash balances by the end of the financial year 2016.

### REGULATORY CONSIDERATIONS – BALANCE SHEET RISK

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

Two key liquidity measures were defined:

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

- The net stable funding ratio (NSFR) is designed to capture structural issues over a longer time horizon by requiring banks to have a sustainable maturity structure of assets and liabilities. The BCBS published the final consultation document on the NSFR in October 2014. The NSFR ratio will be introduced in 2018.

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

## UK and Other

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

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

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

## South Africa

South Africa, a member of the G20, has adopted the published BCBS guidelines for 'liquidity risk measurement standards and monitoring'.

However, there are certain shortcomings and constraints in the South African environment and 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
- There is currently no 'deposit protection scheme' in South Africa. However, the regulators plan to incorporate a deposit protection scheme within the broader amendments to the recovery and resolution framework
- South Africa has an insufficient supply of level 1 assets in domestic currency to meet the aggregate demand.

Nevertheless, there are various regulatory and economic barriers that prevent liquidity from flowing out of the domestic economy. Namely, South Africa has exchange control that limits capital flows, along with prudential requirements on financial corporates.

A positive consequence of the above is that the Rand funding that the South African banks use is contained within the financial system and therefore the Rand is unlikely to be drained by currency withdrawal from off-shore sources, or placements in offshore accounts.

To address this systemic challenge, the SARB exercised national discretion and has 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 is limited to 40% of net outflows under the LCR. Investec Bank Limited used the CLF offered by the SARB, as a buffer, to augment the LCR by approximately 10% over the financial year. Investec Bank Limited exceeds the minimum requirement for the LCR in March 2016
- A change to available stable funding factor as applied to less than six months term deposits from the financial sector. The change recognises 35% of less than six months financial sector deposits which has the impact of reducing the amount of greater than six months term deposits required by local banks to meet the NSFR, and will therefore

mitigate any increases in the overall cost of funds.

Notwithstanding the above constraints, Investec Bank in South Africa comfortably exceeds the minimum required LCR and NSFR liquidity ratios.

Global developments in the financial industry have formed a more robust regulatory approach to the industry, and the South African National Treasury has plans to adopt the Twin Peaks regulatory framework to regulate the industry in line with the IMF Financial Sector Assessment Programme (FSAP) recommendations to South Africa.

## 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.



# Risk management

(continued)

RISK AND BASEL PILLAR III DISCLOSURES

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

## MANAGEMENT AND MEASUREMENT OF NON-TRADING INTEREST RATE RISK

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

- The group complies with the BCBS framework for assessing banking book (non-trading) interest rate risk
- The management of interest rate risk in the banking book is centralised within the Central Treasury function and treasury is mandated by the board to actively manage the liquidity mismatch and non-trading interest rate risk arising from our asset and liability portfolios
- Treasury is the primary interface to the wholesale market
- The treasurer is required to exercise tight control of funding, liquidity, concentration and non-trading interest rate risk within parameters defined by the risk appetite policy
- Internal capital is allocated for non-trading interest rate risk
- The risk appetite is clearly defined by the board in relation to both earnings risk and economic value risk. In addition, each geographic entity has its own board-approved policies with respect to non-trading interest rate risk
- The non-trading interest rate risk policy dictates that long-term non-trading interest rate risk is materially eliminated. In accordance with the policy, interest rate swaps are used to swap fixed deposits and loans into variable rate in the wholesale market

- Together with the business, the treasurer develops strategies regarding changes in the volume, composition, pricing and interest rate characteristics of assets and liabilities to mitigate the interest rate risk and ensure a high degree of net interest margin stability over an interest rate cycle. These are presented, debated and challenged in the liability product and pricing forum and ALCO
- It is the responsibility of the liability product and pricing forum, a sub-committee of ALCO, to review the liquidity, interest rate and concentration characteristics of all new products and approve their issuance, ensuring that both standard and non-standard deposit products, particularly those designed for the Private Banking customers, both match market curves and can be hedged if necessary
- Pricing for all deposit products is set centrally. In doing so we manage access to funding at cost-effective levels, considering also the stressed liquidity value of the liabilities
- Balance Sheet Risk Management independently measures and analyses both traditional interest rate repricing mismatch and net present value (NPV) sensitivity to changes in interest rate risk factors, detailing the sources of interest rate exposure
- The bank maintains an internal funds transfer pricing system based on prevailing market rates which charges out the price of long- and short-term funding to consumers of liquidity and provides long-term stable funding for our asset creation activity
- Daily management of interest rate risk is centralised within Treasury and is subject to independent risk and ALCO review
- Non-trading interest rate risk is measured and analysed by utilising standard tools of traditional interest rate repricing mismatch and NPV sensitivity to changes in interest rate risk factors. We detail the sources of interest rate exposure, whether repricing risk, yield curve risk, basis risk or embedded option risk. This is performed for a variety of interest rate scenarios, covering:
  - Interest rate expectations and perceived risks to the central view

- Standard shocks to levels and shapes of interest rates and yield curves
- Historically-based yield curve changes.

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

- The aim is to protect and enhance net interest income and economic value in accordance with the board-approved risk appetite and ensure a high degree of net interest margin stability over an interest rate cycle. Economic value measures have the advantage that all future cash flows are considered and therefore can highlight risk beyond the earnings horizon. The repricing gap provides a basic representation of the balance sheet, with the sensitivity of earnings to changes to interest rates calculated off the repricing gap. This allows for the detection of interest rate risk by concentration of repricing buckets. Net interest income sensitivity measures the change in accruals expected over the specified horizon in response to a shift in the yield curve, while economic value sensitivity and stress testing to macro-economic movement or changes to the yield curve measures the interest risk implicit change in net worth as a result of a change in interest rates on the current values of financial assets and liabilities
- We carry out technical interest rate analysis and economic review of fundamental developments by geography, the results of this evaluation are used to estimate a set of forward-looking interest rate scenarios incorporating movements in the yield curve level and shape, after taking global trends into account
- These combinations of measures provide senior management (and the ALCOs) with an assessment of the financial impact of identified rate changes on potential future net interest income and sensitivity to changes in economic value
- Our risk appetite policy requires that interest rate risk arising from fixed interest loans is transferred from the



originating business to the Central Treasury function by match-funding. In turn, Central Treasury hedges material fixed rate assets with a term of more than one year on a deal-by-deal basis with the use of variable versus fixed interest rate swaps. The market for these vanilla swaps is deep, with the result that such hedging is efficient. Likewise, Central Treasury also hedges all fixed rate deposits with a term of more than one year to variable rate. These derivative hedging trades are executed with the bank's interest rate trading desk. Limits exist to ensure there is no undesired risk retained within any business or product area.

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

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

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



(continued)

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 2016

£'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	3 569	–	–	–	–	–	3 569
Investment/trading assets and statutory liquids	984	107	23	335	750	–	2 199
Securitised assets	151	–	–	–	–	–	151
Advances	6 300	611	263	688	359	–	8 221
Other assets	–	–	–	–	–	2 384	2 384
<b>Assets</b>	<b>11 004</b>	<b>718</b>	<b>286</b>	<b>1 023</b>	<b>1 109</b>	<b>2 384</b>	<b>16 524</b>
Deposits – banks	(488)	(12)	–	–	–	–	(500)
Deposits – non-banks	(8 467)	(786)	(959)	(596)	(1)	–	(10 809)
Negotiable paper	(172)	(34)	(10)	(488)	(586)	–	(1 290)
Securitised liabilities	(121)	–	–	–	–	–	(121)
Subordinated liabilities	(4)	–	(18)	–	(575)	–	(597)
Other liabilities	(52)	–	–	–	–	(1 274)	(1 326)
<b>Liabilities</b>	<b>(9 304)</b>	<b>(832)</b>	<b>(987)</b>	<b>(1 084)</b>	<b>(1 162)</b>	<b>(1 274)</b>	<b>(14 643)</b>
Shareholders' funds	–	–	–	–	–	(1 881)	(1 881)
<b>Balance sheet</b>	<b>1 700</b>	<b>(114)</b>	<b>(701)</b>	<b>(61)</b>	<b>(53)</b>	<b>(771)</b>	<b>–</b>
Off-balance sheet	468	185	(114)	(95)	(444)	–	–
<b>Repricing gap</b>	<b>2 168</b>	<b>71</b>	<b>(815)</b>	<b>(156)</b>	<b>(497)</b>	<b>(771)</b>	<b>–</b>
Cumulative repricing gap	2 168	2 239	1 424	1 268	771	–	–

Southern Africa – interest rate sensitivity at 31 March 2016

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	26 392	9	–	40	–	7 527	33 968
Cash and short-term funds – non-banks	9 814	40	–	–	–	4	9 858
Investment/trading assets and statutory liquids	46 484	24 787	–	14 490	6 024	45 981	137 766
Securitised assets	9 439	–	–	–	–	–	9 439
Advances	189 537	4 382	1 761	11 054	2 352	1	209 087
Other assets	1 177	–	–	–	–	9 496	10 673
<b>Assets</b>	<b>282 843</b>	<b>29 218</b>	<b>1 761</b>	<b>25 584</b>	<b>8 376</b>	<b>63 009</b>	<b>410 791</b>
Deposits – banks	(39 329)	(10)	(724)	–	–	–	(40 063)
Deposits – non-banks	(234 608)	(14 827)	(15 252)	(11 875)	(1 659)	(1 526)	(279 747)
Negotiable paper	(6 562)	(189)	(151)	(5 877)	–	–	(12 779)
Securitised liabilities	(1 807)	–	–	–	–	(3)	(1 810)
Investment/trading liabilities	(174)	–	(1 837)	(96)	–	(14 105)	(16 212)
Subordinated liabilities	(9 338)	(1 340)	–	(556)	–	(123)	(11 357)
Other liabilities	(103)	–	–	(25)	–	(10 767)	(10 895)
<b>Liabilities</b>	<b>(291 921)</b>	<b>(16 366)</b>	<b>(17 964)</b>	<b>(18 429)</b>	<b>(1 659)</b>	<b>(26 524)</b>	<b>(372 863)</b>
Intercompany loans	3 588	(168)	2 732	3 436	550	(5)	10 133
Shareholders' funds	(3 861)	–	–	–	(1 724)	(36 266)	(41 851)
<b>Balance sheet</b>	<b>(9 351)</b>	<b>12 684</b>	<b>(13 471)</b>	<b>10 591</b>	<b>5 543</b>	<b>214</b>	<b>6 210</b>
Off-balance sheet	12 932	(1 656)	2 046	(12 119)	(7 354)	(59)	(6 210)
<b>Repricing gap</b>	<b>3 581</b>	<b>11 028</b>	<b>(11 425)</b>	<b>(1 528)</b>	<b>(1 811)</b>	<b>155</b>	<b>–</b>
Cumulative repricing gap	3 581	14 609	3 184	1 656	(155)	–	–

### Economic value sensitivity at 31 March 2016

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

million	Sensitivity to the following interest rates (expressed in original currencies)						All (GBP)
	GBP	USD	EUR	AUD	ZAR	Other (GBP)	
200bps down	(59.4)	(8.2)	(12.5)	1.3	(6.3)	0.1	(74.5)
200bps up	55.0	8.8	17.3	(1.3)	6.3	(0.1)	69.8

#### Southern Africa

million	Sensitivity to the following interest rates (expressed in original currencies)						All (ZAR)
	ZAR	GBP	USD	EUR	AUD	Other (ZAR)	
200bps down	317.8	3.8	5.9	(9.6)	0.9	(13.3)	322.1
200bps up	(257.6)	(3.5)	(5.1)	4.1	(1.0)	11.6	(336.3)



(continued)

## Operational risk

### OPERATIONAL RISK DEFINITION

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

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

### OPERATIONAL RISK MANAGEMENT FRAMEWORK

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

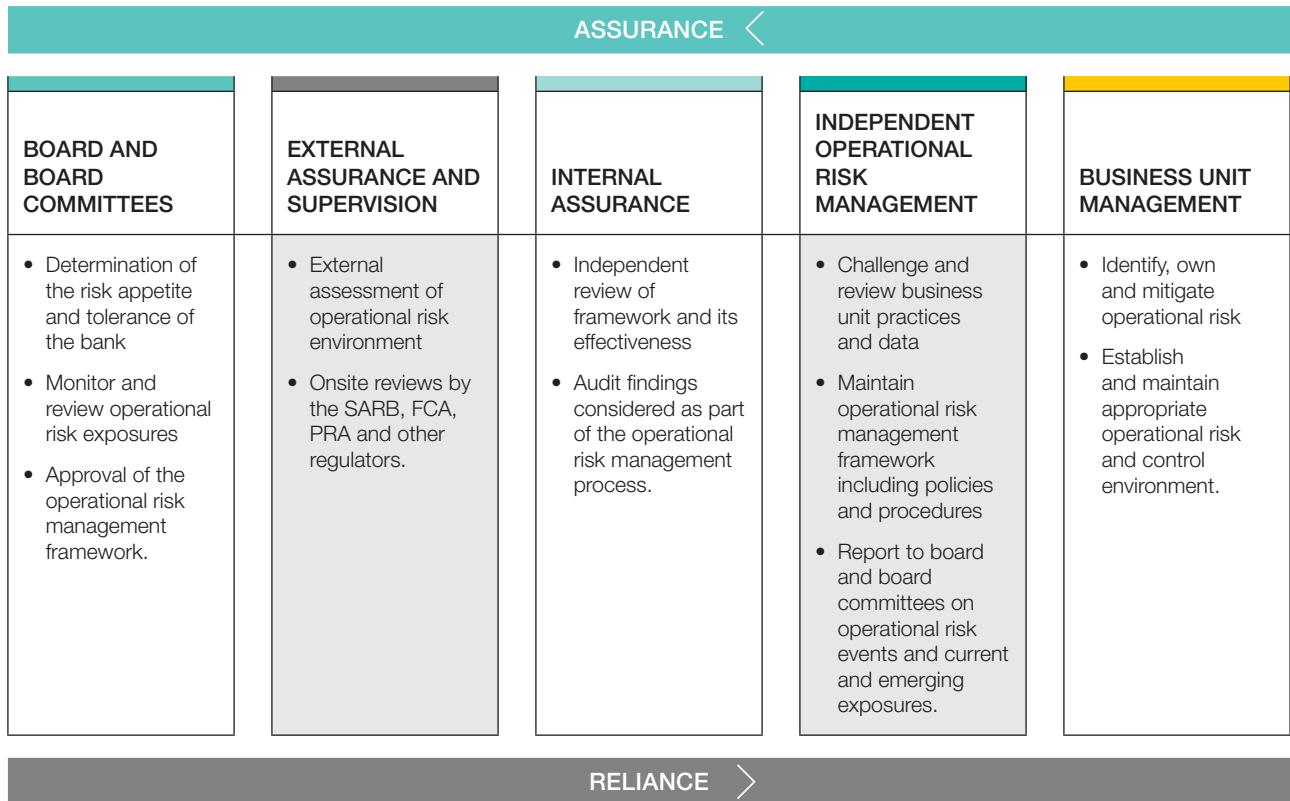
Practices and processes are supported by an operational risk management system which facilitates the identification, assessment and mitigation of operational risk.

Practices consist of the following:

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

GOVERNANCE

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



RISK APPETITE AND TOLERANCE

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



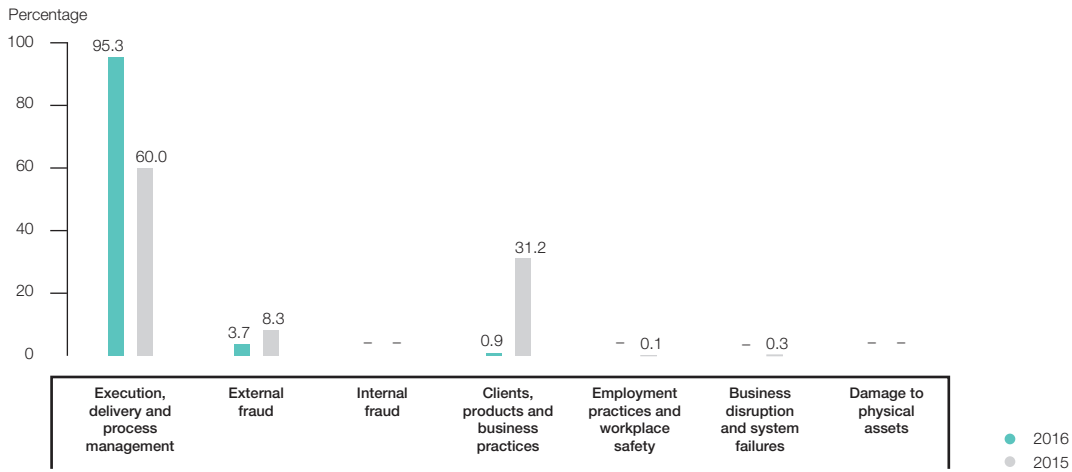
# Risk management

(continued)

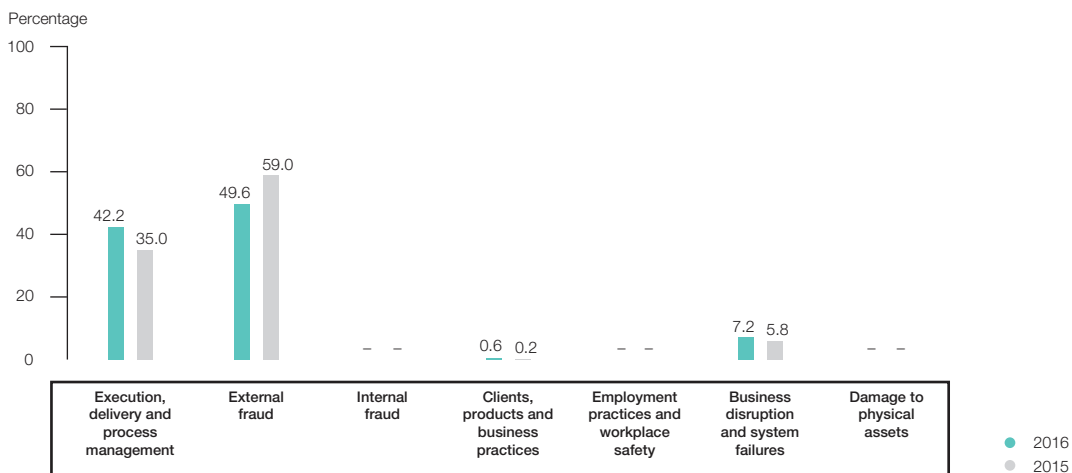
## OPERATIONAL RISK YEAR UNDER REVIEW

The risk event experience is depicted by the graphs and the figures below represent the distribution of the value and number of risk events across the Basel risk event categories for the period April 2015 to March 2016 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
- There has been an increase in the value and number of risk events relating to the execution, delivery and process management category. This is due to unique single events. There is no indication of a systemic overall weakening of the control environment. Losses reported in this category are mainly as a result of process failure
- The external fraud risk event category is largely comprised of credit card fraud. The value of the credit card related risk events is in line with industry trends. Included in this category are other financial crime-related incidents
- No significant events occurred in the clients, products and business practices category
- There have been no material cyber breaches and related financial losses in the period.

## LOOKING FORWARD

### Key operational risk considerations

DEFINITION OF RISK	MITIGATION APPROACH	PRIORITY FOR 2016/17
<b>CYBERSECURITY</b>		
Risk associated with cyberattacks, including disruption of client-facing systems, data theft, cyber terrorism and espionage	<ul style="list-style-type: none"> <li>Maintaining a robust cybersecurity strategy focusing on prediction, detection, prevention and response</li> <li>Sharing of threat information with relevant peers, law enforcement and industry bodies</li> </ul>	<ul style="list-style-type: none"> <li>Active involvement of cybersecurity teams during systems development, ensuring applications are secure by design</li> <li>Maintenance and testing of security incident breach response processes ensuring that these are consistent, coordinated and global in nature</li> <li>Ongoing research into the latest cyberattack methods and revising controls to ensure the group is adequately protected</li> </ul>
<b>FINANCIAL CRIME</b>		
Risk associated with fraud, bribery, corruption, theft, money laundering, terrorist financing, tax evasion, forgery and integrity misconduct by staff, clients, suppliers and other stakeholders	<ul style="list-style-type: none"> <li>Identify and assess financial crime risks holistically in clients, sectors and markets</li> <li>Consistent implementation of standards to prevent, detect, deter and respond to all financial crime incidents</li> <li>Targeted training for the specific risk roles and regular campaigns to all employees to raise awareness of financial crime risk and associated policies and to encourage escalation</li> <li>Operate an integrity line which allows employees to make disclosures including regulatory breaches, allegations of bribery, fraud and corruption, and non-compliance with policies</li> </ul>	<ul style="list-style-type: none"> <li>Proactive strategy for the effective prevention, detection and investigation measures of all financial crime types which includes business and client risk assessments</li> <li>Development of financial crime prevention policies and practices which comply with regulations, industry guidance and best practices</li> <li>Regular delivery of management information focused on key risk indicators</li> <li>Review external and industry events by engaging with external partners and stakeholders</li> <li>Increased and enhanced monitoring, analysis of root causes and review of internal controls to enhance defences against external attacks</li> </ul>
<b>INFORMATION SECURITY</b>		
Risk associated with the confidentiality, integrity and availability of information assets. This includes its unauthorised access, use, disclosure, modification or destruction	<ul style="list-style-type: none"> <li>Understanding what critical information assets are and the threats to which they are exposed</li> <li>Ensuring appropriate and robust security controls are in place</li> <li>Raising awareness with relevant stakeholders of policies relating to information security and their responsibility in protecting information</li> </ul>	<ul style="list-style-type: none"> <li>Identification and classification of most valuable and confidential information assets</li> <li>Implementation and monitoring of information security policies, standards, processes and technical controls designed to mitigate the risks introduced by the information supply chain</li> <li>Align practices with the rapidly changing legal and regulatory requirements to safeguard information</li> </ul>
<b>PROCESS FAILURE</b>		
Risk associated with inadequate internal processes, including human errors and control failures within the business. This includes process origination, execution and operations	<ul style="list-style-type: none"> <li>Proactive risk identification and assessment relating to new products and projects to implement adequate and effective controls</li> <li>Continuous process improvements including automation of workflow</li> <li>Segregation of incompatible duties and appropriate authorisation controls</li> </ul>	<ul style="list-style-type: none"> <li>Causal analyses is used to identify weaknesses in controls following the occurrence of risk events</li> <li>Risk and performance indicators are used to monitor the effectiveness of controls across business units</li> <li>Thematic reviews across business units to ensure consistent and efficient applications of controls</li> <li>Effective management of change remains a priority</li> </ul>
<b>REGULATORY AND COMPLIANCE</b>		
Risk associated with identification, implementation and monitoring of compliance with regulations	<ul style="list-style-type: none"> <li>Alignment of regulatory and compliance approach to reflect new regulatory landscapes (particularly change of regulatory structures in UK and South Africa)</li> <li>Managing business impact and implemented challenges as a result of significant volumes of statutory and regulatory changes and developments</li> <li>Ensuring existing monitoring remains focused appropriately as areas of conduct and regulatory risk develop</li> </ul>	<ul style="list-style-type: none"> <li>Group Compliance and Group Legal assist in the management of regulatory and compliance risk</li> <li>Identification and adherence to legal and regulatory requirements</li> <li>Review practices and policies as regulatory requirements change</li> </ul>
<b>TECHNOLOGY</b>		
Risk associated with the reliance on technology to support business processes and client services. This relates to the ownership and usage of IT systems across the business	<ul style="list-style-type: none"> <li>Enhancing resilience of technical infrastructure and process to IT failures or service interruptions</li> <li>Identifying, monitoring and reducing risks in the digital channel, following the introduction of mobile applications and increased online presence</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing identification and remediation of vulnerabilities identified in IT systems, applications and processes</li> <li>Establishing appropriate IT resilience to support our global digital offerings and 24/7 business services</li> <li>Maintaining and testing IT recovery capabilities to safeguard against disruptions that may result from systems failures or IT service outages</li> </ul>



(continued)

## INSURANCE

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

## Business continuity management

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

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

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

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

## Recovery and resolution planning

The 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. The plans are reviewed and approved by the board on an annual basis.

The recovery plans for Investec plc and Investec Limited:

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

## UK AND OTHER

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

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

The BRRD also requires competent authorities to impose a Minimum Requirement for own funds and Eligible

Liabilities (MREL) on financial institutions to facilitate the effective exercise of the bail-in tool referred to above.

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

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

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

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

## 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 continued to focus on finalising the recovery plans for the local banks and together with the South African Treasury are considering legislation to adopt a resolution framework. A discussion document for public comment has been issued during the period under review. We will be subject to this legislation once it is adopted.



## Reputational and strategic risk

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

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

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

## Pension risk

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

There are two defined benefit schemes within Investec plc and both are closed to

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

Primary sources of risk include:

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

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



Further information is provided on pages 97 to 100 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

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

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

The focus on conduct risk is intended to go beyond the current compliance monitoring frameworks in order to move away from



(continued)

the culture of ‘tick box’ compliance. As a result, firms are expected to look across their business models and strategies and assess how to balance the pursuit of profits with good outcomes for clients and proper standards of market conduct. All firms will be expected to take an holistic approach to assessing their key conduct risks and to ensure that these are being managed in accordance with FCA’s strategic objectives of protecting clients, ensuring markets function effectively and promoting competition.

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

## 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. Although the conduct of financial institutions is currently regulated under various pieces of legislation, and by various regulators, this will change under the new regulatory structure. The resultant strategic and operational impact is expected to last for at least the next five years.

## 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 operating under different regulatory capital regimes. It is therefore difficult to directly compare the capital adequacy of the two entities.

### 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. Capital requirements for equity risk is calculated using the internal ratings-based (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 transitional arrangements applicable to additional tier 1 and tier 2 capital continue to be phased out at 20% per annum, until 1 January 2018.

From 1 January 2015, UK banks are required to meet the new minimum capital requirements as prescribed by CRD IV. The common equity tier 1 capital requirement increased from 4.0% to 4.5% of risk-weighted assets, while the tier 1 capital requirement increased from 5.5% to 6.0% of risk-weighted assets. In addition Investec plc continues to meet 56% of its individual capital guidance, as determined by the internal capital adequacy assessment and supervisory review process, with common equity tier 1 capital. The PRA issued the Investec plc group with a reformatted Pillar IIA requirement of 1.8% of risk-weighted assets, of which 1.0% has to be met from common equity tier 1 capital.

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

In line with the CRD IV provision on capital buffers, in the UK firms are required to meet a combined buffer requirement in addition to their Pillar I and Pillar II capital requirements. The combined buffer includes the capital conservation buffer and countercyclical capital buffer and must be met with common equity tier 1 capital. The buffer for global systemically important institutions (G-SIIs) and the systemic risk buffer do not apply to Investec plc and will not be included in the combined buffer requirement. From 1 January 2016 Investec plc began phasing in the capital conservation buffer at 0.625% of risk-weighted assets. An additional 0.625% of

risk-weighted assets will be phased-in each year until fully implemented by 1 January 2019. Investec plc is also subject to the countercyclical capital buffer requirement, which is calculated based on the relevant exposures held in jurisdictions in which a buffer rate has been set. As at 31 March 2016, three jurisdictions have implemented countercyclical buffer rates. Norway and Sweden have set a rate of 1.0% effective from 3 October 2015 and have indicated the rate will rise to 1.5% in June 2016; and Hong Kong has implemented a rate of 0.625% from 27 January 2016. This rate is also expected to rise to 1.25% from January 2017. In the UK, the Financial Policy Committee (FPC) has maintained the rate at 0% for UK exposures, but has announced that this rate will rise to 0.5% from 29 March 2017.

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

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 the standardised approach. For certain options, the group has obtained permission from the PRA to use an internal model to calculate the delta for these positions.

Subsidiaries of Investec 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 2016, with a vast number of new consultations, regulatory and implementing technical standards and other proposals being published or adopted, notably by the PRA, the BCBS, EBA and the SARB.

## International

### Credit Valuation Adjustment (CVA) risk

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

### Simple, Transparent and Comparable (STC) securitisations

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

### Credit risk

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

### Market risk

In January 2016, the BCBS published the revised market risk framework which will

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

### Operational risk

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

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

## UK

### Leverage ratio

In July 2015, the FPC directed the PRA to implement a UK leverage ratio framework. The PRA subsequently published a consultation paper setting out how they intended to meet the FPC's direction and in December 2015 issued a final policy statement. The UK leverage ratio framework is applicable to all PRA-regulated banks and building societies with retail deposits equal to or greater than £50 billion on an individual or a consolidated basis. Firms in scope of the framework will be required to meet a 3% minimum leverage ratio requirement, and to assess that they hold an amount of common equity tier 1 capital that is greater than or equal to their countercyclical leverage ratio buffer and, if the firm is a global systemically important institution (G-SII), its G-SII additional leverage ratio buffer from 1 January 2016. Investec plc is not within the scope of this framework and will therefore not be subject to the additional leverage ratio reporting and disclosure requirements.



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## Minimum Requirement for own funds and Eligible Liabilities (MREL)

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

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

## Other systemically important institutions (O-SIIs)

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

## Europe

### Leverage ratio disclosure

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

## CAPITAL AND LEVERAGE RATIO TARGETS

### Capital

Over recent years, capital adequacy standards for banks have been raised as part of attempts to increase the stability and resilience of the global banking sector. Investec 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%, a tier 1 capital ratio of above 11%, and a total capital adequacy ratio target in the range of 14% to 17%. These targets are continuously assessed for appropriateness.

### Leverage

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 July 2016.

## MANAGEMENT OF CAPITAL AND LEVERAGE

### Capital

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

### Leverage

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

## CAPITAL MANAGEMENT

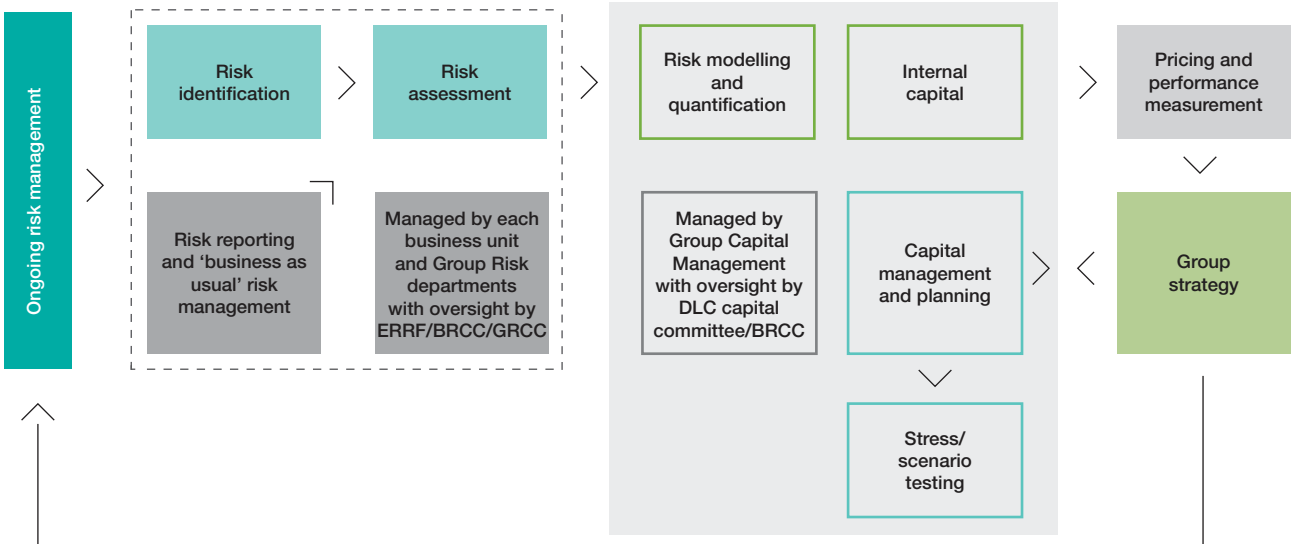
### Philosophy and approach

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

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

The internal capital framework is based on the group's risk identification, review

THE (SIMPLIFIED) INTEGRATION OF RISK AND CAPITAL MANAGEMENT



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

- maintain sufficient capital to satisfy the board’s risk appetite across all risks faced by the group;
- provide protection to depositors against losses arising from risks inherent in the business;
- provide sufficient capital surplus to ensure that the group is able to retain its going concern basis under relatively severe operating conditions; and
- inform the setting of minimum regulatory capital through the Supervisory Review and Evaluation Process (SREP).

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

- investment decision-making and pricing that is commensurate with the risk being taken;
- allocating capital according to the greatest expected marginal risk-based return, and tracking performance on this basis;

- determining transactional risk-based returns on capital;
- rewarding performance, taking into account the relative levels of risk adopted by forming a basis for the determination of economic value added at a transactional level, and hence the basis for discretionary variable remuneration; and
- comparing risk-based performance across business areas.

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

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

**RISK ASSESSMENT AND REPORTING**

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

appetite and approved risk management policies covering all key risks.

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

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

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



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

## RISK MODELLING AND QUANTIFICATION (INTERNAL CAPITAL)

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

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

- Credit and counterparty risk, including:
  - underlying counterparty risk;
  - concentration risk; and
  - securitisation risk.
- Market risk
- Equity and investment risk held in the banking book
- Balance sheet risk, including:
  - liquidity; and
  - banking book interest rate risk.
- Strategic and reputational 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 regulatory and internal capital targets. On certain occasions, especially under stressed scenarios, management may plan to undertake a number of actions. Assessment of the relative merits of undertaking various actions is then considered using an internal view of relative returns across portfolios which are themselves based on internal assessments of risk and capital.

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

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

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

## PRICING AND PERFORMANCE MEASUREMENT

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

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

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



**For an assessment of return on equity and our return on internal capital utilised refer to pages 64 to 66 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 28 of the annual financial statements.

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

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

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

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

## CAPITAL 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 101 to 113 in volume three.**



(continued)

## CAPITAL STRUCTURE AND CAPITAL ADEQUACY

At 31 March 2016	Investec plc <sup>o</sup> £'million	IBP <sup>o</sup> £'million	Investec Limited <sup>*^</sup> R'million	IBL <sup>*</sup> R'million
<b>Tier 1 capital</b>				
Shareholders' equity	1 698	1 827	28 444	30 331
Shareholders' equity per balance sheet	1 867	1 844	31 627	31 865
Perpetual preference share capital and share premium	(150)	–	(3 183)	(1 534)
Deconsolidation of special purpose entities	(19)	(17)	–	–
Non-controlling interests	10	(1)	–	–
Non-controlling interests per balance sheet	13	(1)	8 140	–
Non-controlling interests excluded for regulatory purposes	–	–	(8 140)	–
Surplus non-controlling interest disallowed in common equity tier 1	(3)	–	–	–
Regulatory adjustments to the accounting basis	(43)	(6)	1 842	1 839
Defined benefit pension fund adjustment	(37)	–	–	–
Additional value adjustments	(6)	(6)	–	–
Cash flow hedging reserve	–	–	1 842	1 839
Deductions	(478)	(386)	(762)	(695)
Goodwill and intangible assets net of deferred tax	(466)	(374)	(762)	(695)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(8)	(8)	–	–
Securitisation positions	(4)	(4)	–	–
<b>Common equity tier 1 capital</b>	<b>1 187</b>	<b>1 434</b>	<b>29 524</b>	<b>31 475</b>
<b>Additional tier 1 capital</b>	<b>130</b>	<b>–</b>	<b>3 418</b>	<b>920</b>
Additional tier 1 instruments	130	–	5 267	1 534
Phase out of non-qualifying additional tier 1 instruments	–	–	(1 887)	(614)
Non-qualifying surplus capital attributable to non-controlling interest	–	–	(36)	–
Non-controlling interest in non-banking entities	–	–	74	–
<b>Tier 1 capital</b>	<b>1 317</b>	<b>1 434</b>	<b>32 942</b>	<b>32 395</b>
<b>Tier 2 capital</b>	<b>535</b>	<b>590</b>	<b>10 253</b>	<b>10 726</b>
Collective impairment allowances	–	–	229	229
Tier 2 instruments	610	590	11 357	10 732
Phase out of non-qualifying tier 2 instruments	–	–	(235)	(235)
Non-qualifying surplus capital attributable to non-controlling interests	(75)	–	(1 098)	–
<b>Total regulatory capital</b>	<b>1 852</b>	<b>2 024</b>	<b>43 195</b>	<b>43 121</b>
<b>Risk-weighted assets</b>	<b>12 297</b>	<b>11 738</b>	<b>309 052</b>	<b>295 752</b>
<b>Capital ratios</b>				
Common equity tier 1 ratio	9.7%	12.2%	9.6%	10.6%
Tier 1 ratio	10.7%	12.2%	10.7%	11.0%
Total capital adequacy ratio	15.1%	17.2%	14.0%	14.6%

\* Where: IBP is Investec Bank plc consolidated. 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.

<sup>o</sup> 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 European Banking Authority technical standards. The impact of the final proposed ordinary and preference dividend totalling £46 million for Investec plc and £34 million for IBP would be 40bps and 30bps lower respectively.

<sup>^</sup> Investec Limited's capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, Investec Limited's common equity tier 1 ratio would be 16bps lower.



(continued)

## CAPITAL STRUCTURE AND CAPITAL ADEQUACY (continued)

At 31 March 2015	Investec plc <sup>*o</sup> £'million	IBP <sup>*o</sup> £'million	Investec Limited* R'million	IBL* R'million
<b>Tier 1 capital</b>				
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 in deconsolidated entities	–	(1)	–	–
Non-controlling interests transferred to tier 1	(144)	–	–	–
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)	–	–
<b>Common equity tier 1 capital</b>	<b>1 179</b>	<b>1 340</b>	<b>25 831</b>	<b>28 315</b>
<b>Additional tier 1 capital</b>	<b>205</b>	<b>–</b>	<b>4 584</b>	<b>1 073</b>
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	–
<b>Tier 1 capital</b>	<b>1 384</b>	<b>1 340</b>	<b>30 415</b>	<b>29 388</b>

\* 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.

<sup>o</sup> 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 European Banking Authority technical standards. The impact of the final proposed ordinary and preference dividends totalling £57 million for Investec plc and £15 million for IBP was 50bps and 10bps lower, respectively.



## Risk management

(continued)

### CAPITAL STRUCTURE AND CAPITAL ADEQUACY (continued)

At 31 March 2015	Investec plc <sup>*o</sup> £'million	IBP <sup>*o</sup> £'million	Investec Limited <sup>*</sup> R'million	IBL <sup>*</sup> R'million
<b>Tier 2 capital</b>	<b>556</b>	<b>590</b>	<b>9 213</b>	<b>10 319</b>
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)	–
<b>Total regulatory capital</b>	<b>1 940</b>	<b>1 930</b>	<b>39 628</b>	<b>39 707</b>
<b>Risk-weighted assets</b>	<b>11 608</b>	<b>10 967</b>	<b>269 466</b>	<b>257 931</b>
<b>Capital ratios</b>				
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.

o 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 European Banking Authority technical standards. The impact of the final proposed ordinary and preference dividends totalling £57 million for Investec plc and £15 million for IBP was 50bps and 10bps lower, respectively.

(continued)

CAPITAL REQUIREMENTS

At 31 March 2016	Investec plc* £'million	IBP* £'million	Investec Limited* R'million	IBL* R'million
<b>Capital requirements</b>	<b>984</b>	<b>939</b>	<b>32 064</b>	<b>30 684</b>
Credit risk – prescribed standardised exposure classes	711	698	23 978	23 603
Corporates	341	338	13 402	13 278
Secured on real estate property	150	150	2 943	2 943
Short-term claims on institutions and corporates	–	–	4 905	4 876
Retail	44	44	483	483
Institutions	32	35	813	813
Other exposure classes	135	122	1 028	806
Securitisation exposures	9	9	404	404
Equity risk	8	8	4 104	4 005
Listed equities	3	3	334	305
Unlisted equities	5	5	3 770	3 700
Counterparty credit risk	41	41	569	569
Credit valuation adjustment risk	5	5	185	185
Market risk	76	74	501	475
Interest rate	27	27	66	66
Foreign exchange	23	21	212	212
Commodities	–	–	5	4
Equities	16	16	218	193
Options	10	10	–	–
Operational risk – standardised approach	143	113	2 727	1 847
<b>At 31 March 2015</b>				
<b>Capital requirements</b>	<b>929</b>	<b>878</b>	<b>26 946</b>	<b>25 794</b>
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

\* 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.



(continued)

## RISK-WEIGHTED ASSETS

At 31 March 2016	Investec plc*	IBP*	Investec Limited*	IBL*
	£'million	£'million	R'million	R'million
<b>Risk-weighted assets</b>	<b>12 297</b>	<b>11 738</b>	<b>309 052</b>	<b>295 752</b>
Credit risk – prescribed standardised exposure classes	8 883	8 720	231 113	227 504
Corporates	4 260	4 224	129 178	127 985
Secured on real estate property	1 876	1 876	28 361	28 361
Short-term claims on institutions and corporates	–	–	47 273	47 001
Retail	550	550	4 660	4 660
Institutions	397	439	7 838	7 838
Other exposure classes	1 693	1 524	9 910	7 766
Securitisation exposures	107	107	3 893	3 893
Equity risk	103	102	39 560	38 603
Listed equities	43	43	3 219	2 937
Unlisted equities	60	59	36 341	35 666
Counterparty credit risk	515	518	5 486	5 486
Credit valuation adjustment risk	57	58	1 783	1 783
Market risk	955	924	4 825	4 578
Interest rate	332	332	636	636
Foreign exchange	292	261	2 039	2 039
Commodities	–	–	46	46
Equities	201	201	2 104	1 857
Options	130	130	–	–
Operational risk – standardised approach	1 784	1 416	26 285	17 798
<b>At 31 March 2015</b>				
<b>Risk-weighted assets</b>	<b>11 608</b>	<b>10 967</b>	<b>269 466</b>	<b>257 931</b>
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

\* 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 increased by 6% 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, increased by £0.7 billion. The increase is primarily attributable to a growth in secured corporate and residential mortgage lending.

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

Counterparty credit risk and CVA RWAs increased by £94 million mainly due to increased trading volumes.

### Market risk RWAs

We apply the standardised approach for calculating market risk RWAs. Market risk RWAs increased marginally by £33 million.

### Operational risk RWAs

Operational risk RWAs are calculated using the standardised approach and decreased by £173 million. The decrease is due to a lower three-year average operating income, primarily driven by the removal of operating income relating to strategic disposals from the three-year average operating income.

## INVESTEC LIMITED

### Movement in risk-weighted assets

Total RWAs grew by 15% over the period, with approximately 75% of this growth attributable to credit risk, 13% 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 R32.8 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 2016 financial year.

### Counterparty credit risk and credit valuation adjustment RWAs

Counterparty credit risk RWAs decreased marginally by R276 million, while CVA over the period increased by R1.5 billion. 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 resulted in a significantly higher (but more stable) CVA RWAs for Investec Limited. We currently apply the standardised approach to the calculation of the CVA capital requirement.

### Equity risk RWAs

Equity risk grew by approximately R1.2 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 an increase, due to increased market volatility.

### 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.



(continued)

## TOTAL REGULATORY CAPITAL FLOW STATEMENT

At 31 March 2016	Investec plc* £'million	IBP* £'million	Investec Limited* R'million	IBL* R'million
<b>Opening common equity tier 1 capital</b>	<b>1 179</b>	<b>1 340</b>	<b>25 831</b>	<b>28 315</b>
New capital issues	23	–	3 825	–
Dividends	(128)	(40)	(2 611)	(120)
(Loss)/profit after taxation	128	95	5 920	3 475
Treasury shares	(91)	–	(1 481)	–
Acquisition of non-controlling interests	(142)	–	–	–
Gain on transfer of non-controlling interests	–	–	34	–
Share-based payment adjustments	28	5	592	–
Movement in other comprehensive income	(10)	(16)	46	(389)
Goodwill and intangible assets (deduction net of related taxation liability)	7	7	(471)	(505)
Deconsolidation of special purpose entities	46	34	–	–
Non-controlling interests transferred to tier 1	144	–	–	–
Other, including regulatory adjustments and transitional arrangements	3	9	(2 161)	699
<b>Closing common equity tier 1 capital</b>	<b>1 187</b>	<b>1 434</b>	<b>29 524</b>	<b>31 475</b>
<b>Opening additional tier 1 capital</b>	<b>205</b>	<b>–</b>	<b>4 584</b>	<b>1 073</b>
Redeemed capital	(145)	–	–	–
Other, including regulatory adjustments and transitional arrangements	70	–	(447)	(153)
Transfer of non-controlling interests in non-banking entities from common equity tier 1	–	–	(719)	–
<b>Closing additional tier 1 capital</b>	<b>130</b>	<b>–</b>	<b>3 418</b>	<b>920</b>
<b>Closing tier 1 capital</b>	<b>1 317</b>	<b>1 434</b>	<b>32 942</b>	<b>32 395</b>
<b>Opening tier 2 capital</b>	<b>556</b>	<b>590</b>	<b>9 213</b>	<b>10 319</b>
New tier 2 capital issues	–	–	1 985	1 360
Redeemed capital	–	–	(1 283)	(1 283)
Collective impairment allowances	–	–	60	60
Other, including regulatory adjustments and transitional arrangements	(21)	–	278	270
<b>Closing tier 2 capital</b>	<b>535</b>	<b>590</b>	<b>10 253</b>	<b>10 726</b>
<b>Closing total regulatory capital</b>	<b>1 852</b>	<b>2 024</b>	<b>43 195</b>	<b>43 121</b>

\* 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.

(continued)

TOTAL REGULATORY CAPITAL FLOW STATEMENT

At 31 March 2015	Investec plc* £'million	IBP* £'million	Investec Limited* R'million	IBL* R'million
<b>Opening common equity tier 1 capital</b>	<b>1 207</b>	<b>1 392</b>	<b>23 411</b>	<b>24 487</b>
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
<b>Closing common equity tier 1 capital</b>	<b>1 179</b>	<b>1 340</b>	<b>25 831</b>	<b>28 315</b>
<b>Opening additional tier 1 capital</b>	<b>234</b>	<b>–</b>	<b>3 764</b>	<b>1 227</b>
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	–
<b>Closing additional tier 1 capital</b>	<b>205</b>	<b>–</b>	<b>4 584</b>	<b>1 073</b>
<b>Closing tier 1 capital</b>	<b>1 384</b>	<b>1 340</b>	<b>30 415</b>	<b>29 388</b>
<b>Opening tier 2 capital</b>	<b>662</b>	<b>637</b>	<b>9 846</b>	<b>10 670</b>
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)
<b>Closing tier 2 capital</b>	<b>556</b>	<b>590</b>	<b>9 213</b>	<b>10 319</b>
<b>Closing total regulatory capital</b>	<b>1 940</b>	<b>1 930</b>	<b>39 628</b>	<b>39 707</b>

\* 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.



(continued)

## A SUMMARY OF CAPITAL ADEQUACY AND LEVERAGE RATIOS

As at 31 March 2016	Investec plc <sup>o*</sup>	IBP <sup>o*</sup>	Investec Limited <sup>*^</sup>	IBL <sup>*</sup>
Common equity tier 1 (as reported)	9.7%	12.2%	9.6%	10.6%
Common equity tier 1 (fully loaded) <sup>^^</sup>	9.7%	12.2%	9.6%	10.6%
Tier 1 (as reported)	10.7%	12.2%	10.7%	11.0%
Total capital adequacy ratio (as reported)	15.1%	17.2%	14.0%	14.6%
Leverage ratio <sup>**</sup> – permanent capital	7.0%	7.7%	7.4% <sup>#</sup>	7.5% <sup>#</sup>
Leverage ratio <sup>**</sup> – current	7.0%	7.7%	6.9% <sup>#</sup>	7.3% <sup>#</sup>
Leverage ratio <sup>**</sup> – ‘fully loaded’ <sup>^^</sup>	6.3%	7.7%	6.3% <sup>#</sup>	7.1% <sup>#</sup>

As at 31 March 2015	Investec plc <sup>o*</sup>	IBP <sup>o*</sup>	Investec Limited <sup>*</sup>	IBL <sup>*</sup>
Common equity tier 1 (as reported)	10.2%	12.2%	9.6%	11.0%
Common equity tier 1 (fully loaded) <sup>^^</sup>	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 <sup>**</sup> – permanent capital	8.1%	7.6%	8.5% <sup>#</sup>	8.5% <sup>#</sup>
Leverage ratio <sup>**</sup> – current	7.7%	7.6%	8.1% <sup>#</sup>	8.3% <sup>#</sup>
Leverage ratio <sup>**</sup> – ‘fully loaded’ <sup>^^</sup>	6.6%	7.6%	7.2% <sup>#</sup>	8.0% <sup>#</sup>

Reconciliation of leverage ratios At 31 March 2016	Investec plc £'million <sup>*</sup>	IBP £'million <sup>*</sup>	Investec Limited R'million <sup>*</sup>	IBL R'million <sup>*</sup>
<b>Total assets per accounting balance sheet</b>	<b>18 756</b>	<b>18 335</b>	<b>568 779</b>	<b>405 629</b>
Deconsolidation of non-financial/other entities	(77)	(80)	(123 540)	–
Consolidation of banking associates	24	8	–	–
<b>Total assets per regulatory balance sheet</b>	<b>18 703</b>	<b>18 263</b>	<b>445 239</b>	<b>405 629</b>
Reversal of accounting values:				
Derivatives	(838)	(843)	(15 839)	(15 843)
Regulatory adjustments:	966	1 145	48 622	51 085
Derivatives market value	326	328	9 075	9 673
Derivative add-on amounts per the mark-to-market method	512	519	3 073	3 197
Securities financing transaction add-on for counterparty credit risk	126	126	389	389
Off-balance sheet items	595	554	37 595	38 521
Add-on for written credit derivatives	9	9	–	–
Exclusion of items already deducted from the capital measure	(602)	(391)	(1 510)	(695)
<b>Exposure measure</b>	<b>18 831</b>	<b>18 565</b>	<b>478 022</b>	<b>440 871</b>
Tier 1 capital	1 317	1 434	32 942	32 395
<b>Leverage ratio<sup>**</sup> – current</b>	<b>7.0%</b>	<b>7.7%</b>	<b>6.9%<sup>#</sup></b>	<b>7.3%<sup>#</sup></b>
Tier 1 capital fully loaded	1 187	1 434	30 147	31 474
<b>Leverage ratio<sup>**</sup> – ‘fully loaded’<sup>^^</sup></b>	<b>6.3%</b>	<b>7.7%</b>	<b>6.3%<sup>#</sup></b>	<b>7.1%<sup>#</sup></b>

\* 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.

<sup>o</sup> 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 Investec Bank plc this does not include the deduction of foreseeable dividends when calculating common equity tier 1 as now required under the Capital Requirements Regulation and European Banking Authority technical standards. The impact of the final proposed ordinary and preference dividends totalling £46 million for Investec plc and £34 million for Investec Bank plc would be 40bps and 30bps lower, respectively. At 31 March 2015 the impact of the final proposed ordinary and preference dividends totalling £57 million for Investec plc and £15 million for IBP was 50bps and 10bps lower, respectively.

<sup>^^</sup> Based on the group's understanding of current and draft regulations. 'Fully loaded' is based on Basel III capital requirements as fully phased in by 2022.

<sup>\*\*</sup> The leverage ratios are calculated on an end-quarter basis.

<sup>#</sup> Based on revised BIS rules.

<sup>^</sup> Investec Limited's capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, Investec Limited's common equity tier 1 ratio would be 16bps lower.



(continued)

## A SUMMARY OF CAPITAL ADEQUACY AND LEVERAGE RATIOS (continued)

Reconciliation of leverage ratios At 31 March 2015	Investec plc £'million*	IBP £'million*	Investec Limited R'million*	IBL R'million*
<b>Total assets per accounting balance sheet</b>	<b>18 272</b>	<b>17 943</b>	<b>473 633</b>	<b>332 706</b>
Deconsolidation of non-financial/other entities	(369)	(372)	(113 905)	–
Consolidation of banking associates	20	12	–	–
<b>Total assets per regulatory balance sheet</b>	<b>17 923</b>	<b>17 583</b>	<b>359 728</b>	<b>332 706</b>
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)
<b>Exposure measure</b>	<b>17 943</b>	<b>17 744</b>	<b>376 869</b>	<b>352 731</b>
Tier 1 capital	1 384	1 340	30 415	29 388
<b>Leverage ratio** – current</b>	<b>7.7%</b>	<b>7.6%</b>	<b>8.1%#</b>	<b>8.3%#</b>
Tier 1 capital 'fully loaded'^^	1 179	1 340	27 174	28 315
<b>Leverage ratio** – 'fully loaded'^^</b>	<b>6.6%</b>	<b>7.6%</b>	<b>7.2%#</b>	<b>8.0%#</b>

\* 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.

^^ 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.



(continued)

## 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 as prescribed by the Capital Requirements Regulation for the purposes of the Standardised Approach for the mapping of external credit assessments to credit quality steps.

Credit quality step	31 March 2016		31 March 2015	
	Exposure £'million	Exposure after credit risk mitigation £'million	Exposure £'million	Exposure after credit risk mitigation £'million
<b>Central banks and sovereigns</b>				
1	3 842	3 842	3 374	3 374
2	–	–	23	23
3	–	–	–	–
4	–	–	–	–
5	–	–	–	–
6	–	–	–	–
<b>Institutions*</b>				
1	388	366	279	279
2	469	455	663	549
3	155	155	52	52
4	43	19	2	2
5	–	–	–	–
6	–	–	–	–
<b>Corporates</b>				
1	2	–	–	–
2	30	4	–	–
3	51	5	–	–
4	6	2	–	–
5	2	2	6	6
6	–	–	–	–
<b>Securitisation positions</b>				
1	265	265	184	184
2	63	63	56	56
3	19	19	76	76
4	–	–	1	1
5	–	–	–	–
<b>Resecuritisation positions</b>				
1	–	–	–	–
2	3	3	3	3
3	–	–	–	–
4	–	–	–	–
5	–	–	–	–
<b>Total rated counterparty exposure</b>	<b>5 338</b>	<b>5 200</b>	<b>4 719</b>	<b>4 605</b>

\* 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

(continued)

### INVESTEC LIMITED

The capital requirement disclosed as held against credit risk as at 31 March 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 and the relevant risk weightings.

Credit quality step	31 March 2016		31 March 2015	
	Exposure R'million	Exposure after credit risk mitigation R'million	Exposure R'million	Exposure after credit risk mitigation R'million
<b>Central banks and sovereigns</b>				
1	50 117	50 117	38 800	38 800
2	–	–	–	–
3	626	555	–	–
4	146	146	113	113
5	302	302	164	164
6	–	–	–	–
<b>Institutions original effective maturity of more than three months</b>				
1	2 111	2 111	390	390
2	9 890	9 194	9 131	7 761
3	6 369	5 271	8 283	7 195
4	222	222	–	–
5	766	766	61	61
6	3 098	3 098	180	180
<b>Short-term claims on institutions</b>				
1	27	27	3 524	3 524
2	129	129	11 398	11 398
3	13 638	13 581	12 719	12 451
4	–	–	–	–
5	–	–	–	–
6	–	–	–	–
<b>Corporates</b>				
1	882	882	727	727
2	1 620	915	2 454	1 363
3	18 254	9 927	7 991	5 596
4	146	146	1 624	1 245
5	–	–	–	–
6	–	–	–	–
<b>Securitisation positions</b>				
1	–	–	322	322
2	126	126	1 465	1 465
3	3 494	3 494	1 018	915
4	65	65	214	214
5	188	188	909	909
<b>Total rated counterparty exposure</b>	<b>112 216</b>	<b>101 262</b>	<b>101 487</b>	<b>94 793</b>



## 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 9 June 2016 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
<b>FITCH</b>				
<b>Long-term ratings</b>				
Foreign currency	BBB-	BBB-		BBB
National		AA-(zaf)		
<b>Short-term ratings</b>				
Foreign currency	F3	F3		F2
National		F1+(zaf)		
<b>Viability rating</b>	bbb-	bbb-		bbb
<b>Support rating</b>	5	3		5
<b>MOODY'S</b>				
<b>Long-term ratings</b>				
Foreign currency		Baa2	Baa1	A2
National		Aa1.za		
<b>Short-term ratings</b>				
Foreign currency		Prime-2	Prime-2	Prime-1
National		P-1(za)		
<b>Baseline Credit Assessment (BCA) and adjusted BCA</b>		baa2		baa2
<b>S&amp;P</b>				
<b>Long-term ratings</b>				
Foreign currency		BBB-		
National		za.AA-		
<b>Short-term ratings</b>				
Foreign currency		A-3		
National		za.A-1		
<b>GLOBAL CREDIT RATINGS</b>				
<b>Local currency</b>				
Long-term rating		AA-(za)		BBB+
Short-term rating		A1+(za)		A2

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

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

Annually, Internal Audit conducts a formal risk assessment of the entire business from which a comprehensive risk-based audit plan is derived. The assessment and

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

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

Internal Audit proactively reviews its practices and resources for adequacy and appropriateness to meet an increasingly demanding corporate governance and regulatory environment, 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.



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

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

Investec remains focused on complying with the highest levels of compliance to professional standards and integrity in each of our jurisdictions. Our culture is a major component of our compliance framework and is supported by robust policies, processes and talented professionals who ensure that the interests of our customers and shareholders remain at the forefront of everything we do.

## 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 interest of consumers. The FCA's aim is to ensure that clients' interests are at the forefront of firms' agendas and that their needs are placed at the heart of the firms' strategy. Firms are also expected to behave appropriately in the wholesale markets in which they operate.

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

A key enhancement to our conduct framework during the period was the establishment of the Investec plc customer and market conduct committee (CMCC). The CMCC is chaired by the group CEO and is designed to ensure that Investec maintains a client-focused culture and that each business within the group has client outcomes at the centre of their business model. The CMCC is responsible for ensuring that all interactions with the

FCA across Investec Asset Management, Investec Bank plc and Investec Wealth & Investment are properly managed and that customer insights and regulatory expectations were shared between the regulated entities in the group and their subsidiaries.

### CONSUMER PROTECTION

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

### WHOLESALE MARKETS

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

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

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

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

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

### COMPETITION

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

### SENIOR MANAGERS AND CERTIFIED PERSONS REGIME

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

- I. A new Senior Managers Regime which will clarify the lines of responsibility within, enhance the regulators' ability to hold senior individuals in banks accountable and require banks to regularly vet their senior managers for fitness and propriety;
- II. A Certification Regime requiring firms to assess fitness and propriety of staff in positions where the decisions they make could pose significant harm to the bank or any of its customers; and
- III. A new set of Conduct Rules, which take the form of brief statements of high level principles setting out the standards of behaviour for bank employees.

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

### STRUCTURAL BANKING REFORM

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

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

### FINANCIAL CRIME

Financial crime continues to be a regulatory focus with regulators globally encouraging firms to adopt a dynamic approach to the management of risk and to increase efforts around systems and controls to combat both money laundering and bribery and corruption. In the past two years, the UK government made significant efforts to ramp up its capacity to enforce the Bribery Act, with notable measures including the publication of the first UK National

Anti-Corruption Plan, the introduction of Deferred Prosecution Agreements (DPA) to streamline the resolution of selected corporate bribery cases, and the implementation of harsher sentencing guidelines for fraud, bribery and money laundering offences.

## TAX REPORTING

The Foreign Account Tax Compliance Act (FATCA) aims to promote cross-border tax compliance by implementing an international standard for the automatic exchange of tax information relating to US investors. The provisions call on tax authorities all over the world to obtain detailed account information from financial institutions relating to US investors and exchange that information automatically with the United States Internal Revenue Service on an annual basis.

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

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

## Investec Limited – year in review

### CHANGES TO REGULATORY LANDSCAPE IN 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. Although the conduct of financial institutions is currently regulated under various pieces of legislation, and by various regulators, this will change under the new regulatory structure.

### CONDUCT RISK AND CONSUMER PROTECTION

The draft Financial Sector Regulation Bill (Twin Peaks) was tabled in Parliament in the third quarter of 2015, and is currently in the Parliamentary process. The Bill is

expected to be promulgated towards the latter part of 2016, and will result in affected business areas being regulated by the Prudential Authority and the Financial Sector Conduct Authority.

The Financial Advisory and Intermediary Services Act (FAIS) continues to be enforced, with added emphasis on Treating Customers Fairly. This includes the Retail Distribution Review and proposed amendments to FAIS Fit and Proper requirements and Compliance reporting. A customer and market conduct committee (CMCC) has been established for Investec Limited, as part of the conduct risk framework, with the objective to ensure that Investec Limited maintains a client-focused and fair outcomes-based culture. The CMCC is chaired by the group CEO. Conduct risk forums are being implemented across affected legal entities to ensure that identified gaps are addressed and business readiness for implementation of new regulatory requirements. The work in this regard is ongoing and will remain a focus area.

The South African Reserve Bank conducted an industry-wide review of Foreign Exchange Trading Operations in 2015. The review focused predominantly on market conduct and related governance and controls in respect of Foreign Exchange Traders' communications during 2012. There were no material findings. Investec Corporate and Institutional Banking (ICIB) implemented a Financial Markets Code of Conduct and comprehensive monitoring of traders' communications.

Amendments to the National Credit Act has increased the obligations of credit providers in respect of affordability assessments, and has extended the powers of the National Credit Regulator in respect of enforcement and rule-making powers.

A commencement date for the Protection of Personal Information Act has not been announced. The Chief Director for Legislative Development at the Department of Justice and Constitutional Development confirmed that there will be no further developments until the Information Regulator has been established. Work continues internally 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. This legislation will change the Anti-money Laundering and Combatting of Financing of Terrorism (AML CFT) regulatory framework from a rules-based to a risk-based approach, allowing accountable institutions to determine their own risk appetite

in relation to client identification and verification. All accountable institutions are further affected by the Financial Intelligence Centre's intended move to a new automated solution (GoAML) for reporting, which is scheduled to go live in April 2016.

Investec continually aims to strengthen its control environment in order to meet its regulatory obligations.

## TAX REPORTING

South Africa and Mauritius have intergovernmental agreements in place with the USA and each have enacted local law/regulation to implement FATCA locally. This allows South Africa and Mauritius to be treated as participating countries. This means that financial institutions in these countries report information annually on US clients (or non-compliant clients) to the South African Revenue Services and the local Mauritian authority respectively. These authorities in turn exchange information with the USA which reciprocates with similar information (on South African and Mauritian tax residents respectively who hold financial accounts in the US).

With South Africa being an 'early adopter' of the OECD's Common Reporting Standard (CRS), (the global version of FATCA), these requirements became effective in South Africa on 1 March 2016. South Africa has also opted for the 'wider approach' which means all South African reporting financial institutions are required to collect tax-related information on all clients, rather than only in respect of the 55 countries which have currently opted into CRS. As for FATCA, the information is reported to SARS annually. SARS then exchanges this information with relevant countries in return for reciprocal information on South Africans with financial accounts in those countries.

Mauritius has indicated that it will opt into CRS from 2017.



## ADJUSTED SHAREHOLDERS' EQUITY

Refer to calculation on page 64 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 33

## 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 57 in volume three

## ADJUSTED EARNINGS PER ORDINARY SHARE BEFORE GOODWILL, ACQUIRED INTANGIBLES AND NON-OPERATING ITEMS

Refer to page 57 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 62 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 68 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 64 in volume one

## RETURN ON AVERAGE ADJUSTED TANGIBLE SHAREHOLDERS' EQUITY

Refer to calculation on page 64 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 90

## 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 57 in volume three









