Annual Report

2017

Investec Bank plc annual financial statements

Out of the Ordinary®

Investec

Corporate information

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Registration number

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The Pavilions
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Directorate

Refer to page 111.

For contact details for Investec offices refer to pages 242 to 243.

For queries regarding information in this document

Investor relations

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e-mail: Investorrelations@investec.com
Internet address:
www.investec.com/en_za/#home/investor_relations.html

Ongoing and statutory information

During the 2015 financial year Investec Bank plc sold Investec Bank (Australia) Limited. In addition, Investec plc sold Kensington Group plc and Start Mortgage Holdings Limited. Some of these sale assets resided on Investec Bank plc's balance sheet.

The sale of these businesses had a significant effect on the comparability of our statutory financial position and results, particularly in financial year 2015 and 2016.

In order to present a more meaningful view of our performance, additional management information is presented on our ongoing businesses. This information is set out on pages 26 to 31. The additional information presented on an ongoing basis excludes items that in management's view could distort the comparison of performance between periods. Based on this principle, the following items are excluded from underlying statutory profit to derive ongoing operating profit:

- The results of the businesses sold as mentioned alongside
- The remaining legacy business (as set out on page 32).

This basis of presentation is consistent with the approach adopted for the year ended 31 March 2016.

A reconciliation between the statutory and ongoing income statement is provided on pages 27 and 28. All information in our annual report is based on our statutory accounts unless otherwise indicated.

Cross reference tools

1

Audited information

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

2

Page references

Refers readers to information elsewhere in this report

3

Website

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

4

Sustainability

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

5

Reporting standard

Denotes our consideration of a reporting standard

Contents

01

Investec Bank plc
in perspective

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

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

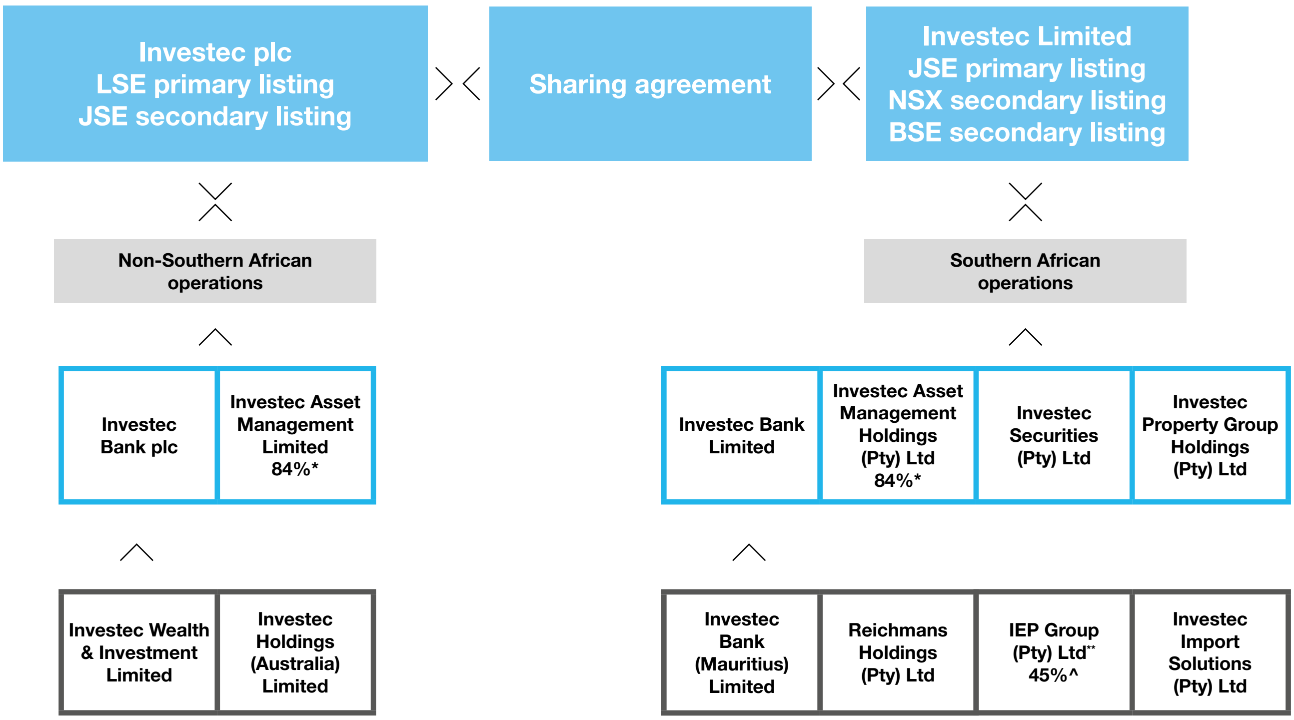
Operating structure

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

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

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

Our DLC structure and main operating subsidiaries as at 31 March 2017



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

* *16% held by senior management in the company (31 March 2016:15%).*
** *Previously Investec Equity Partners (Pty) Ltd.*
^ *55% held by third party investors in the company together with senior management of the business.*

Salient features of the DLC structure

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

Overview of the activities of Investec Bank plc

Investec Bank plc operates as a specialist bank and wealth manager

Specialist Banking

The specialist teams are well positioned to provide services for both personal and business needs right across Investment, Corporate and Institutional Banking, and Private Banking activities.

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

A highly valued partner and adviser to our clients

Focus on helping our clients create and preserve wealth

Corporates/government/institutional clients

High-income and high net worth private clients

Investment activities

Principal investments

Property investment and fund management

Australia
Hong Kong
UK and Europe

Our principal investments businesses focus on providing capital to entrepreneurs and management teams to allow them to further their growth ambitions. Investments are assessed on a case-by-case basis, with the aim to deliver returns on a risk-adjusted basis.

Our property business focuses on property fund management and property investments.

Corporate and Institutional Banking activities

Treasury and trading services

Specialised lending, funds and debt capital markets

Institutional research, sales and trading

Advisory and equity capital markets

Australia
Hong Kong
India
UK and Europe
USA

Our Corporate and Institutional Banking division is a client-focused business concentrating on traditional lending and debt origination activities, as well as the provision of advisory services and treasury and trading services that are customer-flow related.

Our target market includes small, mid-sized and listed corporates, private equity community and institutions.

In addition we provide niche, specialist solutions in aircraft, project and resource finance.

Private Banking activities

Transactional banking and foreign exchange

Lending

Deposits

Investments

UK and Europe

High tech and high touch private client offering providing day-to-day banking, savings, financing and foreign exchange tailored to suit our clients' needs.

Our target market includes high net worth individuals, wealthy entrepreneurs, high-income professionals, owner managers in mid-market companies and sophisticated investors.

Natural linkages between the private client and corporate business

Wealth & Investment

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

The UK operation is conducted through Investec Wealth & Investment Limited. The other Wealth & Investment operations are conducted through Investec Bank Switzerland, Investec Wealth & Investment Ireland, Investec Wealth & Investment Channel Islands and in Hong Kong, through Investec Capital Asia Limited.

Over 1 300 staff operate from offices located throughout the above jurisdictions, with combined funds under management of £35.6 billion. Investec Wealth & Investment is one of the UK's leading providers of private client investment management services.

Investments and savings

- Discretionary and advisory portfolio management services for private clients
- Specialist investment management services for charities, pension schemes and trusts
- Independent financial planning advice for private clients
- Specialist portfolio management services for international clients.

Pensions and retirement

- Discretionary investment management for company pension and Self Invested Personal Pensions (SIPPs)
- Advice and guidance on pension schemes and life assurance.

Financial planning

- Succession planning
- ISAs
- Retirement planning.

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

Specialist Banking

Value proposition

- High-quality specialist banking solutions to corporate and private clients with leading positions in selected areas
- Provide high touch personalised service – supported by high tech and ability to execute quickly
- Ability to leverage international, cross-border platforms
- Well positioned to capture opportunities between the developed and the emerging world – internationally mobile
- Strong ability to originate, manufacture and distribute
- Balanced business model with good business depth and breadth.

Wealth & Investment

Value proposition

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

Business leaders:

Wealth & Investment	**STEVE ELLIOTT**
Specialist Banking	**DAVID VAN DER WALT** **CIARAN WHELAN**

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

Where we operate

North America

Focus on advisory and institutional securities activities

UK and Europe

Brand well established

One of the leading private client investment managers

Proven ability to attract and recruit investment managers

Sustainable specialist banking business focused on corporate and private banking

India

Established a presence in 2010

Facilitates the link between India, UK and South Africa

Hong Kong

Investment activities

Developing Wealth & Investment capability

Australia

Experienced local team in place with industry expertise

Focus is on entrenching position as a boutique operation

Strong client activity levels supporting underlying performance

- Strong performance against a backdrop of continued macro uncertainty and volatility.
- The Wealth & Investment business has benefited from higher funds under management supported by rising market levels and net inflows.
- The Specialist Banking business reported results ahead of the prior year supported by sound levels of corporate and private client activity.
- Growth in costs primarily reflects planned investment in growing the client franchise businesses.
- The group has successfully leveraged its ability to provide clients an international offering, increasing its client base and deepening its core franchise.

Statutory financial performance

2017	2016
£161.1mn	**£146.3mn**

Operating profit* increased 10.1%

2017	2016
£132.0mn	**£111.2mn**

Adjusted attributable earnings^ increased 18.7%

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

- The legacy portfolio reduced from £583 million at 31 March 2016 to £476 million through asset sales, redemptions and write-offs.
- The legacy business reported a loss before taxation of £65.2 million (2016: £74.0 million) with impairments on the legacy portfolio reducing 20.3% from £68.1 million to £54.3 million.

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

Satisfactory performance from the ongoing business

2017	2016
£226.3mn	£220.3mn

Operating profit* increased 2.7%

2017	2016
£185.4mn	£167.2mn

Adjusted attributable earnings^ increased 10.9%

2017	2016
57.9%	61.8%

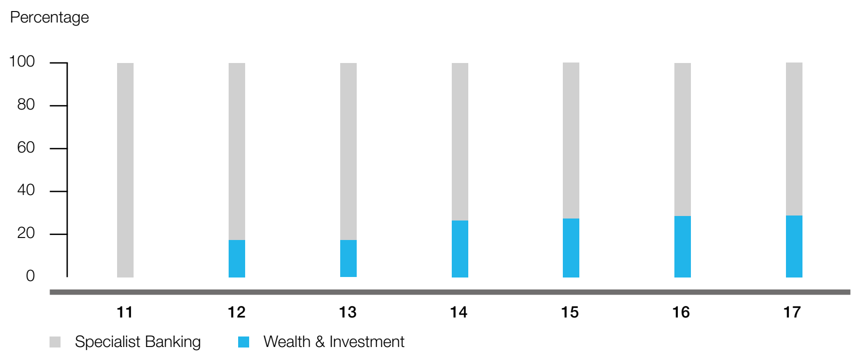
Recurring income as a % of total operating income

2017	2016
0.27%	0.26%

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

We have a diversified business model…

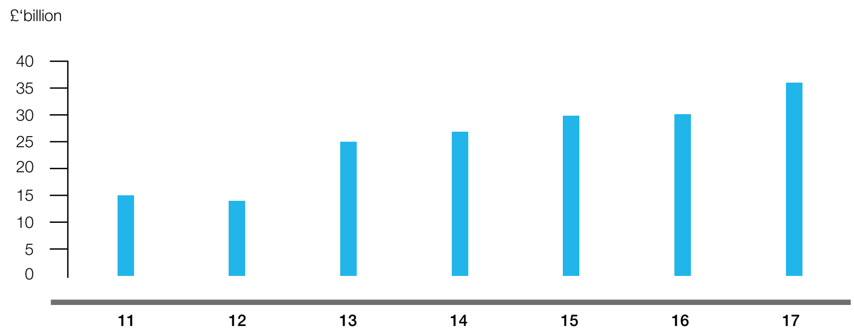
% contribution of operating profit before taxation of the ongoing business*



We continued to grow our key earnings drivers…

Funds under management up 19.4% to £35.9 billion

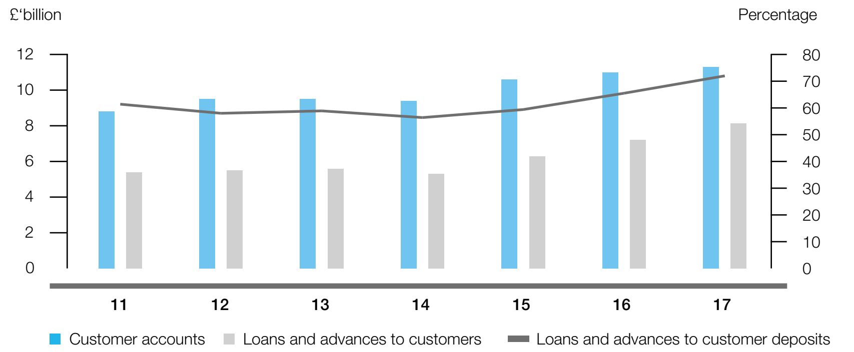
Funds under management



Customer accounts (deposits) increased 2.3% to £11.3 billion

Core loans and advances increased 12.8% to £8.1 billion – an increase of 8.8% on a currency neutral basis**

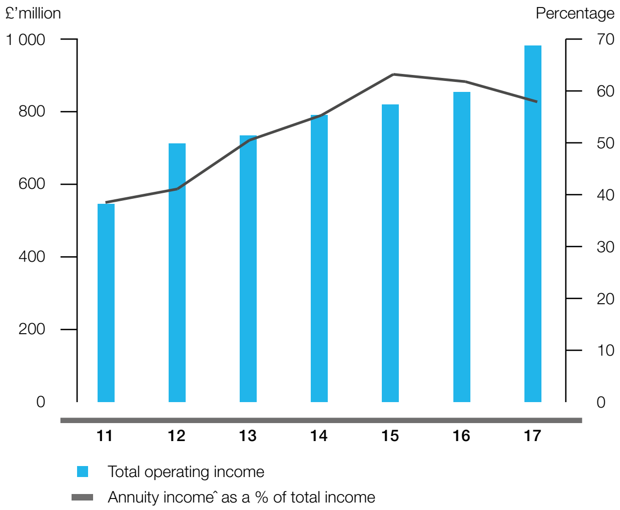
Customer accounts (deposits) and loans ongoing business



* *Before goodwill, acquired intangibles, non-operating items, taxation and after non-controlling interests.*
^ *Before goodwill, acquired intangibles, non-operating items and after non-controlling interests.*
** *Currency neutral basis: calculation assumes that the group's relevant closing exchange rates at 31 March 2017 remain the same as those at 31 March 2016.*

Supporting growth in operating income...

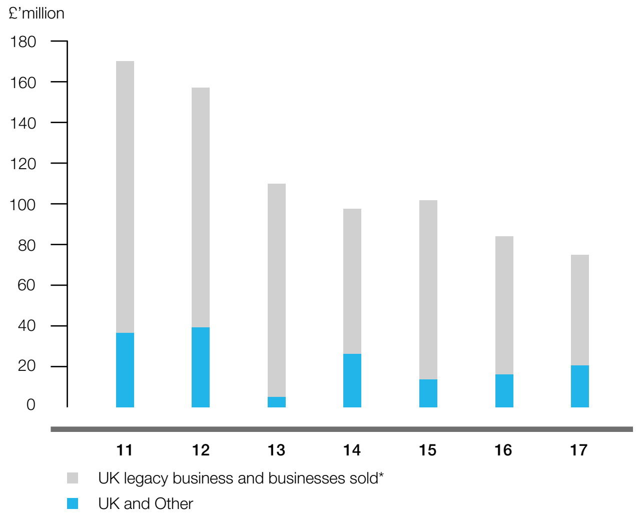
Total operating income ongoing business



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

Impairments continued to decline...

Impairments

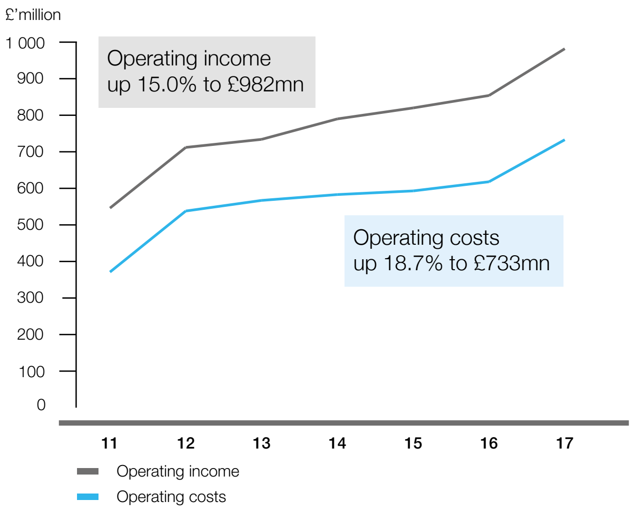


* *Refers to the remaining UK legacy business and group assets that were sold in the 2015 financial year.*

Costs increased largely due to planned investment across the business...

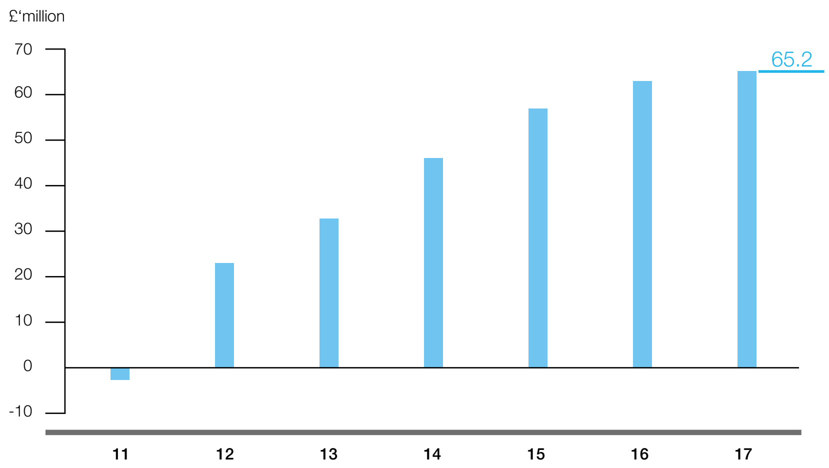
Operating costs increased reflecting: planned spend on IT infrastructure and headcount across divisions to support increased activity levels and growth initiatives (notably the build out of the UK private client offering); additional UK premises expenses; an increase in variable remuneration given improved profitability across the group.

Jaws ratio ongoing business

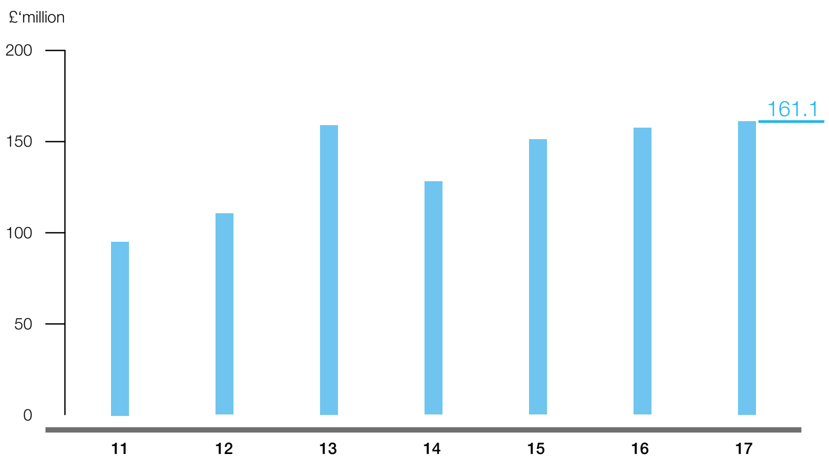


Resulting in a satisfactory performance from our ongoing business...

Operating profit* – Wealth & Investment



Operating profit* – Specialist Banking ongoing business



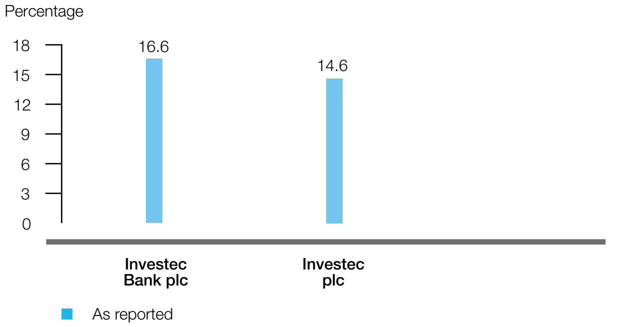
* *Before goodwill, acquired intangibles, non-operating items, taxation and after non-controlling interests.*

Maintained a sound balance sheet…

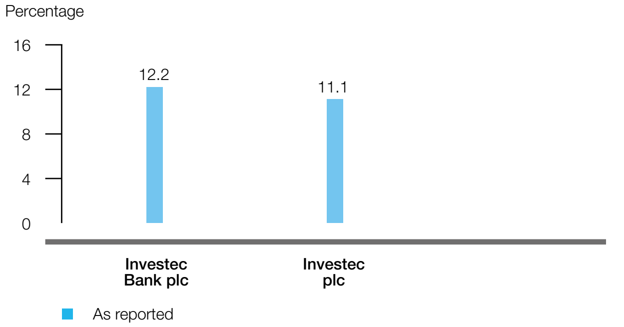
Target

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

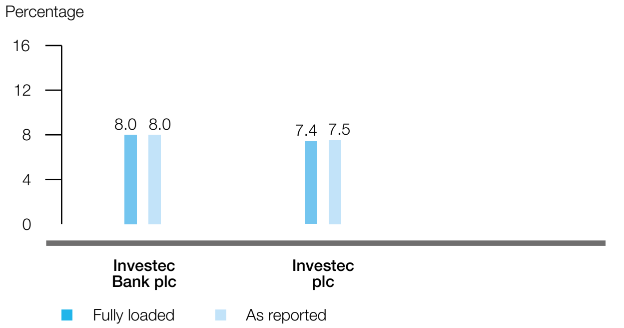
Capital adequacy



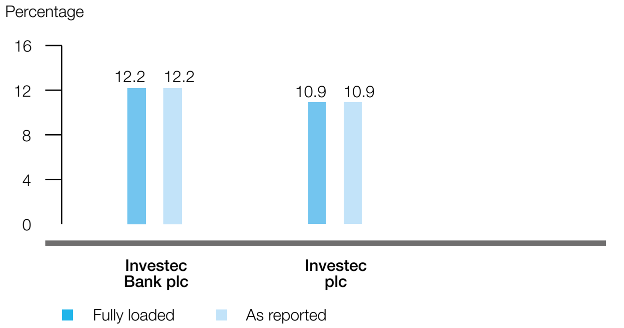
Tier 1



Leverage ratios



Common equity tier 1



Note: Refer to pages 99 to 102 for further details.

Sound capital and liquidity principles maintained…

Continue to focus on:

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

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

A well-established liquidity management philosophy remains in place

The bank's loan to deposit ratio is: 76.2% (2016: 70.5%)

Liquidity remains strong with cash and near cash balances amounting to £4.9 billion (2016: £5.0 billion)

Capital remained in excess of current regulatory requirements

We are comfortable with our common equity tier 1 ratio target at a 10% level as our current leverage ratio is 8.0%.

02

Financial review

An overview of the operating environment impacting our business

United Kingdom

GDP grew by 0.5% and 0.7% in the third and fourth quarters of 2016, respectively.

That helped the unemployment rate fall to 4.7% in January and held there in February, the lowest level seen since 2005.

Our views

The UK economy has remained surprisingly resilient.

2.0%	1.9%
2016/17 Economic growth	2015/16 Economic growth

2017	2016
£29 580	£28 768

GDP per capita has risen

This fiscal year saw the UK vote to leave the European Union. Since the shock result of the 23 June 2016 referendum, it has become increasingly clear that, as part of Brexit, the British Government will relinquish the UK's membership of the EU Single Market in exchange for powers to tighten immigration rules. But it remains unclear what Brexit will actually look like – the government only gave formal notice of its intention to leave the EU (by triggering Article 50 of the Lisbon Treaty) on 29 March 2017. The triggering of Article 50 begins a two-year negotiation period, at the end of which time the UK will have formally left the EU. We think that a bilateral UK/EU free trade deal is achievable, but it will take several years to negotiate. We therefore suspect that the UK will enter some sort of transitional arrangement between March 2019 and the point at which a longer term deal is finalised.

From a market perspective, there were two notable reactions to the Brexit vote. First, the Pound fell sharply and, by the end of the financial year, sat more than 15% below pre-referendum levels, in trade weighted terms. Second, the Bank of England (BoE) cut the Bank rate from 0.50% to 0.25% in August 2016 in order to guard against a post-referendum economic slowdown. In addition the BoE also undertook additional purchases of government bonds as part of its Quantitative Easing (QE) programme, and began a programme of corporate bond purchases.

But in spite of these cautionary responses to the Brexit vote, the UK economy has remained surprisingly resilient. By and large, households and businesses shrugged off the uncertainty associated with the UK's new economic relationship with the rest of Europe.

Towards the end of the year, though, economic momentum appeared to have slowed. The main reason is that weakness in the Pound was beginning to push up on import prices and broader consumer price inflation. The rate of CPI inflation rose above the BoE's 2% target in February 2017, with further increases in prospect. There is evidence that higher inflation was beginning to drag on household spending while underlying levels of uncertainty probably weighed somewhat on business investment. Granted, the weaker Pound provided a competitiveness boost to exporters, but that might not be enough to offset the headwinds to household and business spending. A (mild) slowdown in economic growth could in turn lead to a marginally higher unemployment rate and a somewhat slower pace of house price growth. All told, this points to a somewhat more challenging economic environment in prospect.

The 8 June 2017 General Election saw the Conservative Party fail to recapture its overall majority. While there may be agreements made with other parties, the government's effective majority would be small and there remains uncertainty over how any partnerships would play out.

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

Australia

Our views

The Australian economy expanded by 2.5% in 2016.

The pace of growth, however, was far from steady throughout the year, with the economy actually recording a period of contraction in the third quarter, with output falling by 0.5%, the first quarterly drop in output since March 2011 and only the fourth in 25 years. Australia managed to escape a technical recession, however, with the economy bouncing back robustly in the final quarter of the year, expanding by 1.1% quarter on quarter. The recovery was driven by a surge in exports in the fourth quarter of 2016 as commodity exports picked up robustly and as commodity prices firmed.

The unemployment rate has held relatively steady over the past year, holding in a range of 5.6% to 5.9% according to the fiscal year-to-date numbers published so far; the most recent reading, for March 2017, stood at the upper end of this range at 5.9%. Inflation has remained relatively subdued through this period with CPI inflation reaching a low of 1.0% in the second quarter of 2016 and ending 2016 at 1.5% year-over-year, whilst core inflation has also been subdued.

In light of this and reflecting headwinds to growth in the early part of the fiscal year, the Reserve Bank of Australia cut the official policy rate (cash rate) to a new record low, from 2.00% to 1.75% in April 2016 and again to 1.50% in August 2016. The cash rate has remained at these levels since then. Australia has maintained its triple-A rating with all of the major rating agencies during the period. However, Standard and Poor's has Australia's sovereign rating on a negative rating outlook, given its pessimism over the government's ability to close existing budget deficits.

United States

Our views

The US economy expanded by 1.6% in calendar year 2016, the softest pace of growth since 2011.

One major drag was the weak investment backdrop which suffered in part following falls in oil prices; this story looks set to reverse somewhat and provide a foot-up to growth in 2017 with oil investment already showing signs of improvement.

Household consumption remained more robust, reflecting the improvements in the US labour market through the course of 2016. The US unemployment rate fell from 5.0% in April 2016 to stand at 4.5% in March 2017 and is now consistent with 'longer-term' unemployment rates as defined by the US Federal Reserve, whilst wage growth has also firmed.

The major political event of 2016 was of course Donald Trump's November 2016 election victory which led to a pick-up in business and consumer confidence on hopes of promised tax cuts and significant infrastructure spending. Since being sworn in as President on 20 January 2017, President Trump has rubbed up against congressional restraints which have delayed him enacting these changes quickly, but overall the President is still likely to enact a fiscally supportive policy mix which is likely to be positive, on balance, for 2017 growth and more so in 2018.

Following more than seven years of record low interest rates, the Federal Reserve began tightening policy in December 2015 and enacted two subsequent hikes in interest rates in December 2016 and March 2017. Those policy moves took the federal funds rate to 0.75% to 1.00% at the end of the financial year, from a 0.25% to 0.50% starting point. Further policy tightening over the forthcoming period will be driven by the evolution of the economy and inflation, tied in part to the delivery of Presidents Trump's economic plans. The Federal Reserve's current policy guidance points to the prospect of two further federal funds hikes in calendar year 2017. Note that inflation remained below the Federal Reserve's 2% goal for almost all of 2016, though it moved above it in the early part of 2017, reflecting the dissipating drag of past falls in energy prices.

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

Eurozone

Our views

The fiscal year has seen the Euro area economic backdrop improve on several fronts and most notably with a decline in deflationary risks.

In April 2016 headline HICP inflation stood at –0.2%, a considerable distance below the ECB's price stability target of 'below, but close to 2%'. However, much of this decline in inflation was due to a fall in wholesale energy prices. Those effects have started to fade and as such headline inflation has recovered somewhat; in March 2017 HICP inflation stood at 1.5%.

The economy continued to experience a gradual recovery over the year, with quarter four 2016 registering the 15th consecutive quarter of positive growth. As the fiscal year drew to a close there were further positive economic signs with the most recent economic indicators pointing to a firming in the pace of economic activity. Other economic highlights of the fiscal year included a 2.5 million drop in unemployment, as the unemployment rate fell to 9.5% in February 2017, its lowest level since May 2009. The availability of credit, as well as lending growth also witnessed improvements during the year.

Despite the gradual improvement in the economic backdrop, European Central Bank (ECB) policy has remained ultra-loose, in part due to the continued subdued nature of 'core' CPI inflation, which averaged just +0.8% across the fiscal year. ECB policy rates remained at record low levels throughout the period, with the main refinancing rate held at 0.00% and the deposit rate at –0.40%. December 2016 saw the ECB announce an extension of its asset purchase programme. From April 2017 the ECB will continue to purchase sovereign and other debt instruments until December 2017, but at the slower pace of €60 billion per month rather than the previous pace of €80 billion per month.

Away from the economy, political risks became more evident towards the end of the under review year as elections loomed in a number of major Euro area economies. However, March's Dutch election result provided some reassurance as the populist anti-EU candidate failed to gain the foothold some had feared. Moreover in early May 2017, centrist Emmanuel Macron was elected President of France, convincingly defeating far-right candidate Marine Le Pen in the second round of voting. Elections to Germany's Bundestag are set to take place in September 2017.

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

Global stock markets

Our views

Global equity markets faced a number of key risk events over the year, with the UK's referendum on leaving the EU and the US election of particular note. Despite these events and some intervening volatility at times, global equity markets enjoyed a buoyant year.

Amongst the highlights, the S&P500 gained 14.7% over the fiscal year reaching an all-time record of 2396 in February, meanwhile the MSCI world index added 12.5% and the Euro Stoxx 50 rose by 16.5%.

The UK electorate's vote to leave the European Union on 23 June 2016 initially shocked markets, with UK and global equity indices witnessing significant falls the morning following the referendum. However, equity market weakness proved short-lived as UK listed entities' earnings benefited from currency translation effects due to the sharp fall in the Pound, whilst risk sentiment globally improved.

However, global equity markets and risk assets more broadly witnessed the largest gains in the second half of the year, following the US election. Republican nominee Donald Trump's win in November propelled equity markets and commodity prices higher as investors focused on the fiscally stimulative impact of Mr Trump's policy promises including big ticket tax cuts and increased infrastructure spending.

The S&P 500 gained 11.5% across the remainder of the financial year following the election, whilst major commodity benchmarks such as iron ore and copper gained 25% and 15% on the expectation of infrastructure related demand.

Emerging market equity indices underperformed their developed market peers following the US election as the MSCI Emerging market index notched up gains of 7%.

Operating environment

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

	Year ended 31 March 2017	Year ended 31 March 2016	% change	Average over the year 1 April 2016 to 31 March 2017
Market indicators				
FTSE All share	3 990	3 395	17.5%	3 699
S&P	2 363	2 060	14.7%	2 186
Nikkei	18 909	16 759	12.8%	17 516
Dow Jones	20 663	17 685	16.8%	18 846
Rates				
UK overnight	0.17%	0.41%		0.30%
UK 10 year	1.07%	1.42%		1.18%
UK clearing banks base rate	0.25%	0.50%		0.33%
LIBOR – three month	0.34%	0.59%		0.44%
US 10 year	2.40%	1.79%		1.97%
Commodities				
Gold	US$1 247/oz	US$1 233/oz	1.1%	US$1 258/oz
Brent crude oil	US$58/bbl	US$40/bbl	45.0%	US$50/bbl
Platinum	US$940/oz	US$976/oz	(3.7%)	US$1 003/oz
Macro-economic				
UK GDP (% change over the period)	2.0%	1.9%		
UK per capita GDP (£, calendar year)	29 580	28 768	2.8%	

Sources: Datastream, Bloomberg, Office for National Statistics.

Principal risks relating to our operations

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

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

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

Additional risks and uncertainties not presently known to us or that we currently deem immaterial may in the future also negatively impact our business operations.

15 – 19
The **financial services industry** in which we operate is intensely competitive.

15 – 19
Market, business and general economic conditions and fluctuations could adversely affect our businesses in a number of ways.

43
We may be exposed to **country risk,** i.e. the risk inherent in sovereign exposure and events in other countries.

42 – 66
Credit and counterparty risk exposes us to losses caused by financial or other problems experienced by our clients.

43 – 44
Unintended **environmental, social and economic risks** could arise in our lending and investment activities.

68 – 70
We may be exposed to **investment risk** largely in our unlisted investment portfolio.

73 – 76
Market risk arising in our trading book could affect our operational performance.

77 – 82
Liquidity risk may impair our ability to fund our operations.

82 – 85
Our net interest earnings and net asset value may be adversely affected by **interest rate risk.**

86 – 89
Operational risk (including financial crime, cybercrime and process failure) may disrupt our business or result in regulatory action.

86 – 89
We may be **vulnerable to the failure of our systems** and breaches of our security systems (including cyber and information security).

86 – 89
Employee misconduct could cause harm that is difficult to detect.

89 – 90
Reputational, strategic and business risk could impact our operational performance.

90 and 105
Compliance, legal and regulatory risks may have an impact on our business.

90
Retail conduct risk is the risk that we treat our customers unfairly and deliver inappropriate outcomes. **Wholesale conduct risk** is the risk of conducting ourselves inappropriately in the market.

91 – 102
We may have insufficient capital in the future and may be unable to secure additional financing when it is required.

90
We may be exposed to **pension risk** in our UK operations.

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

See Investec's 2017 integrated annual report on our website.

Key income drivers

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

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

Wealth & Investment

Key income drivers

- Investment management fees levied as a percentage of assets under management
- Commissions earned for executing transactions for clients.

Income statement – primarily reflected as

- Fees and commissions.

Income impacted primarily by

- Movement in the value of assets underlying client portfolios
- The level of investment activity undertaken on behalf of clients, which, in turn, is affected by, among other things, the performance of the global stock markets (which drives investment opportunities), the equity investment risk appetite of our clients, tax considerations and market liquidity.

Specialist Banking

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

Overview of our statutory results

Investec Bank plc reported a 10.1% increase in operating profit before goodwill, acquired intangibles, non-operating items and taxation and after other non-controlling interests to £161.1 million for the year ended 31 March 2017 (2016: £146.3 million). The balance sheet remains strong, supported by sound capital, leverage and liquidity ratios.

Unless the context indicates otherwise, all income statement comparatives in the review below relate to the statutory results for the year ended 31 March 2016.

Statutory income statement analysis

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

Total operating income

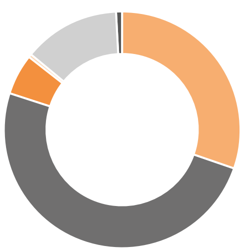
Total operating income before impairment losses on loans and advances of £982.7 million is 14.4% higher than the prior year. The various components of total operating income are analysed below.

£'000	31 March 2017	% of total income	31 March 2016	% of total income	% change
Net interest income	298 752	30.4%	270 066	31.4%	10.6%
Net fee and commission income	488 846	49.7%	426 042	49.6%	14.7%
Investment income	55 900	5.7%	67 308	7.8%	(16.9%)
Share of post taxation operating profit of associates	1 741	0.2%	1 975	0.2%	(11.8%)
Trading income arising from:					
– customer flow	129 706	13.2%	92 683	10.8%	39.9%
– balance sheet management and other trading activities	(138)	0.0%	(8 552)	(1.0%)	98.4%
Other operating income	7 883	0.8%	9 667	1.2%	(18.5%)
Total operating income before impairments	**982 690**	**100.0%**	**859 189**	**100.0%**	**14.4%**

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

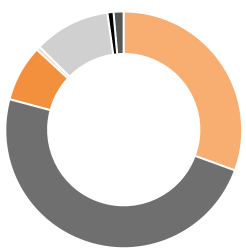
£'000	31 March 2017	% of total income	31 March 2016	% of total income	% change
Wealth & Investment	276 848	28.2%	256 536	29.9%	7.9%
Specialist Banking	705 842	71.8%	602 653	70.1%	17.1%
Total operating income before impairments	**982 690**	**100.0%**	**859 189**	**100.0%**	**14.4%**

% of total operating income before impairments



31 March 2017
£982.7 million total operating income before impairments

Net interest income	30.4%
Net fee and commission income	49.7%
Investment income	5.7%
Share of post taxation operating profit of associates	0.2%
Trading income arising from customer flow	13.2%
Trading income arising from balance sheet management and other trading activities	0.0%
Other operating income	0.8%



31 March 2016
£859.2 million total operating income before impairments

Net interest income	31.4%
Net fee and commission income	49.6%
Investment income	7.8%
Share of post taxation operating profit of associates	0.2%
Trading income arising from customer flow	10.8%
Trading income arising from balance sheet management and other trading activities	(1.0%)
Other operating income	1.2%

Net interest income

Net interest income increased by 10.6% to £298.8 million (2016: £270.1 million) supported by sound levels of lending activity across the banking business.

For a further analysis of interest received and interest paid refer to pages 150 and 151.

Net fee and commission income

Net fee and commission income increased by 14.7% to £488.8 million (2016: £426.0 million) as a result of higher average funds under management and net inflows in the Wealth Management business. The Specialist Banking business benefited from a solid performance from the corporate and advisory businesses.

For a further analysis of net fee and commission income refer to page 151.

Investment income

Investment income decreased by 16.9% to £55.9 million (2016: £67.3 million). The UK unlisted investment portfolio delivered a sound performance; however, this was offset by realisations from the debt securities portfolio not repeated in the current year, as well as the write down of an investment in the Hong Kong portfolio.

For a further analysis of investment income refer to page 152.

Share of post taxation operating profit of associates

Share of post taxation operating profit of associates of £1.7 million (2016: £2.0 million) relates to income earned on strategic investments held which are classified as associates.

Trading income

Total trading income increased considerably to £129.6 million (2016: £84.1 million) with trading income from customer flow supported by robust client activity levels and market volatility.

Other operating income

Other operating income includes income earned on operating lease rentals.

Impairment losses on loans and advances

Impairments on loans and advances decreased from £84.2 million to £75.0 million. Since 31 March 2016, gross defaults have improved from £313.9 million to £260.3 million. The percentage of default loans (net of impairments but before taking collateral into account) to net core loans and advances amounted to 1.55% (2016: 2.19%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.44 times (2016: 1.19 times).

For further information on asset quality refer to page 58.

Operating costs

The cost to income ratio amounted to 75.9% (2016: 73.3%). Total operating costs grew by 18.4% to £746.9 million (2016: £630.7 million) reflecting planned investment on IT infrastructure and headcount to support increased activity and growth initiatives, notably the build out of the private client offering. Costs are also impacted by additional premises expenses relating to the London office's future premises move and an increase in variable remuneration given improved profitability across the group.

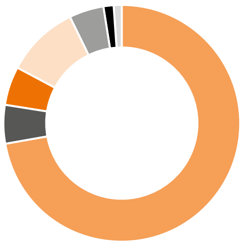
The various components of total operating costs are analysed below:

£'000	31 March 2017	% of total operating costs	31 March 2016	% of total operating costs	% change
Staff costs (including directors' remuneration)	(544 388)	72.9%	(459 708)	72.9%	18.4%
Premises expenses (excluding depreciation)	(40 074)	5.4%	(26 008)	4.1%	54.1%
Equipment expenses (excluding depreciation)	(40 456)	5.4%	(25 983)	4.1%	55.7%
Business expenses	(74 589)	10.0%	(77 096)	12.3%	(3.3%)
Marketing expenses	(34 314)	4.6%	(29 437)	4.7%	16.6%
Depreciation and impairment of property, plant, equipment and software	(10 895)	1.4%	(10 283)	1.6%	6.0%
Depreciation on operating leased assets	(2 141)	0.3%	(2 149)	0.3%	(0.4%)
Total operating costs	**(746 857)**	**100.0%**	**(630 664)**	**100.0%**	**18.4%**

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

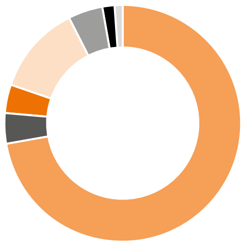
£'000	31 March 2017	% of total operating costs	31 March 2016	% of total operating costs	% change
Wealth & Investment	(211 658)	28.3%	(193 507)	30.7%	9.4%
Specialist Banking	(535 199)	71.7%	(437 157)	69.3%	22.4%
Total operating costs	**(746 857)**	**100.0%**	**(630 664)**	**100.0%**	**18.4%**

% of total operating costs



31 March 2017
£746.9 million total operating costs

Staff costs	72.9%
Premises	5.4%
Equipment	5.4%
Business expenses	10.0%
Marketing	4.6%
Depreciation and impairment of property, plant, equipment and software	1.5%
Depreciation on operating leased assets	0.3%



31 March 2016
£630.7 million total operating costs

Staff costs	72.9%
Premises	4.1%
Equipment	4.1%
Business expenses	12.3%
Marketing	4.7%
Depreciation and impairment of property, plant, equipment and software	1.6%
Depreciation on operating leased assets	0.3%

Impairment of goodwill

The current year's goodwill impairment of £3.1 million relates to a historic acquisition in the Specialist Banking businesses.

Amortisation of acquired intangibles

Amortisation of acquired intangibles of £14.4 million largely relates to the Wealth & Investment business and mainly comprises amortisation of amounts attributable to client relationships.

Statutory balance sheet analysis

Since 31 March 2016:

- Total shareholders' equity (including non-controlling interests) increased by 7.4% to £2.0 billion largely due to an increase in retained earnings.
- Total assets increased by 0.3% to £18.4 billion (2016: £18.3 billion).

Overview of our ongoing results

In order to present a more meaningful view of the group's performance, additional management information is presented on the group's ongoing businesses. This information is set out on pages 26 to 31.

The additional information presented on an ongoing basis excludes items, that in management's view, could distort the comparison of performance between periods. Based on this principle, the remaining legacy business in the UK (as set out on page 32) has been excluded from underlying statutory profit to derive the group's ongoing operating profit.

This basis of presentation is consistent with the approach adopted for the year ended 31 March 2016.

A reconciliation between the statutory and ongoing income statement is provided on pages 27 to 28.

All information in our annual report is based on our statutory accounts unless otherwise indicated.

Consolidated summarised ongoing income statement

For the year to 31 March £'000	2017	2016	Variance	% change
Net interest income	299 396	268 226	31 170	11.6%
Net fee and commission income	488 913	422 757	66 156	15.6%
Investment income	55 328	66 815	(11 487)	(17.2%)
Share of post taxation operating profit of associates	1 741	1 975	(234)	(11.8%)
Trading income arising from				
– customer flow	129 711	93 335	36 376	39.0%
– balance sheet management and other trading activities	(278)	(8 312)	8 034	96.7%
Other operating income	7 558	9 667	(2 109)	(21.8%)
Total operating income before impairment losses on loans and advances	**982 369**	**854 463**	**127 906**	**15.0%**
Impairment losses on loans and advances	(20 651)	(16 069)	(4 582)	28.5%
Operating income	**961 718**	**838 394**	**123 324**	**14.7%**
Operating costs	(733 485)	(617 969)	(115 516)	18.7%
Depreciation on operating leased assets	(2 141)	(2 149)	8	(0.4%)
Operating profit before goodwill and acquired intangibles	**226 092**	**218 276**	**7 816**	**3.6%**
Loss attributable to non-controlling interests	180	2 039	(1 859)	(91.2%)
Operating profit before goodwill, acquired intangibles and after non-controlling interests	**226 272**	**220 315**	**5 957**	**2.7%**
Taxation	(40 853)	(53 138)	12 285	(23.1%)
Attributable earnings before goodwill, acquired intangibles and non-operating items	**185 419**	**167 177**	**18 242**	**10.9%**
Cost to income ratio	74.8%	72.5%		

Reconciliation from statutory summarised income statement to ongoing summarised income statement

For the year to 31 March 2017 £'000	Statutory as disclosed^	UK legacy business	Ongoing business
Net interest income	298 752	(644)	299 396
Net fee and commission income	488 846	(67)	488 913
Investment income	55 900	572	55 328
Share of post taxation operating profit of associates	1 741	–	1 741
Trading income arising from			
– customer flow	129 706	(5)	129 711
– balance sheet management and other trading activities	(138)	140	(278)
Other operating income	7 883	325	7 558
Total operating income before impairment losses on loans and advances	**982 690**	**321**	**982 369**
Impairment losses on loans and advances	(74 956)	(54 305)	(20 651)
Operating income	**907 734**	**(53 984)**	**961 718**
Operating costs	(744 716)	(11 231)	(733 485)
Depreciation on operating leased assets	(2 141)	–	(2 141)
Operating profit/(loss) before goodwill and acquired intangibles	**160 877**	**(65 215)**	**226 092**
Loss attributable to non-controlling interests	180	–	180
Operating profit/(loss) before goodwill, acquired intangibles and after non-controlling interests	**161 057**	**(65 215)**	**226 272**
Taxation*	(29 049)	11 804	(40 853)
Attributable earnings before goodwill, acquired intangibles and non-operating items	**132 008**	**(53 411)**	**185 419**
Cost to income ratio	75.9%		74.8%

* *Applying the bank's effective statutory taxation rate of 18.1%.*

^ *Refer to page 133.*

Reconciliation from statutory summarised income statement to ongoing summarised income statement *(continued)*

For the year to 31 March 2016 £'000	Statutory as disclosed^	UK legacy business	Ongoing business
Net interest income	270 066	1 840	268 226
Net fee and commission income	426 042	3 285	422 757
Investment income	67 308	493	66 815
Share of post taxation operating profit of associates	1 975	–	1 975
Trading income arising from			
– customer flow	92 683	(652)	93 335
– balance sheet management and other trading activities	(8 552)	(240)	(8 312)
Other operating income	9 667	–	9 667
Total operating income before impairment losses on loans and advances	**859 189**	**4 726**	**854 463**
Impairment losses on loans and advances	(84 217)	(68 148)	(16 069)
Operating income	**774 972**	**(63 422)**	**838 394**
Operating costs	(628 515)	(10 546)	(617 969)
Depreciation on operating leased assets	(2 149)	–	(2 149)
Operating profit/(loss) before goodwill and acquired intangibles	**144 308**	**(73 968)**	**218 276**
Loss attributable to non-controlling interests	2 039	–	2 039
Operating profit/(loss) before goodwill, acquired intangibles and after non-controlling interests	**146 347**	**(73 968)**	**220 315**
Taxation*	(35 131)	18 007	(53 138)
Attributable earnings before goodwill, acquired intangibles and non-operating items	**111 216**	**(55 961)**	**167 177**
Cost to income ratio	73.3%		72.5%

* *Applying the bank's effective statutory taxation rate of 24.3%.*
^ *Refer to page 133.*

Reconciliation from statutory summarised income statement to ongoing summarised income statement for the Specialist Banking business

For the year to 31 March 2017 £'000	Specialist Banking statutory as disclosed^	UK legacy business	Specialist Banking ongoing business
Net interest income/(expense)	294 384	(644)	295 028
Net fee and commission income/(expense)	220 999	(67)	221 066
Investment income	53 731	572	53 159
Share of post taxation operating profit of associates	232	–	232
Trading income arising from			
– customer flow	128 966	(5)	128 971
– balance sheet management and other trading activities	(353)	140	(493)
Other operating income	7 883	325	7 558
Total operating income before impairment losses on loans and advances	**705 842**	**321**	**705 521**
Impairment losses on loans and advances	(74 956)	(54 305)	(20 651)
Operating income	**630 886**	**(53 984)**	**684 870**
Operating costs	(533 058)	(11 231)	(521 827)
Depreciation on operating leased assets	(2 141)	–	(2 141)
Operating profit/(loss) before goodwill and acquired intangibles	**95 687**	**(65 215)**	**160 902**
Loss attributable to non-controlling interests	180	–	180
Operating profit/(loss) before goodwill, acquired intangibles and non-controlling interests	**95 867**	**(65 215)**	**161 082**

For the year to 31 March 2016 £'000	Specialist Banking statutory as disclosed^	UK legacy business	Specialist Banking ongoing business
Net interest income	266 002	1 840	264 162
Net fee and commission income	181 049	3 285	177 764
Investment income	61 491	493	60 998
Share of post taxation operating profit of associates	784	–	784
Trading income arising from			
– customer flow	92 350	(652)	93 002
– balance sheet management and other trading activities	(8 690)	(240)	(8 450)
Other operating income	9 667	–	9 667
Total operating income before impairment losses on loans and advances	**602 653**	**4 726**	**597 927**
Impairment losses on loans and advances	(84 217)	(68 148)	(16 069)
Operating income	**518 436**	**(63 422)**	**581 858**
Operating costs	(435 008)	(10 546)	(424 462)
Depreciation on operating leased assets	(2 149)	–	(2 149)
Operating profit/(loss) before goodwill and acquired intangibles	**81 279**	**(73 968)**	**155 247**
Loss attributable to non-controlling interests	2 039	–	2 039
Operating profit/(loss) before goodwill, acquired intangibles and non-controlling interests	**83 318**	**(73 968)**	**157 286**

^ *Refer to pages 149 and 150.*

Ongoing segmental business analysis – summarised income statement

For the year to 31 March 2017 £'000	Wealth & Investment	Specialist Banking	Total group
Net interest income	4 368	295 028	299 396
Net fee and commission income	267 847	221 066	488 913
Investment income	2 169	53 159	55 328
Share of post taxation operating profit of associates	1 509	232	1 741
Trading income arising from			
– customer flow	740	128 971	129 711
– balance sheet management and other trading activities	215	(493)	(278)
Other operating income	–	7 558	7 558
Total operating income before impairment losses on loans and advances	**276 848**	**705 521**	**982 369**
Impairment losses on loans and advances	–	(20 651)	(20 651)
Operating income	**276 848**	**684 870**	**961 718**
Operating costs	(211 658)	(521 827)	(733 485)
Depreciation on operating leased assets	–	(2 141)	(2 141)
Operating profit before goodwill and acquired intangibles	**65 190**	**160 902**	**226 092**
Loss attributable to non-controlling interests	–	180	180
Operating profit before goodwill, acquired intangibles and after non-controlling interests	**65 190**	**161 082**	**226 272**
Cost to income ratio	76.5%	74.2%	74.8%

For the year to 31 March 2016 £'000	Wealth & Investment	Specialist Banking	Total group
Net interest income	4 064	264 162	268 226
Net fee and commission income	244 993	177 764	422 757
Investment income	5 817	60 998	66 815
Share of post taxation operating profit of associates	1 191	784	1 975
Trading income arising from			
– customer flow	333	93 002	93 335
– balance sheet management and other trading activities	138	(8 450)	(8 312)
Other operating income	–	9 667	9 667
Total operating income before impairment losses on loans and advances	**256 536**	**597 927**	**854 463**
Impairment losses on loans and advances	–	(16 069)	(16 069)
Operating income	**256 536**	**581 858**	**838 394**
Operating costs	(193 507)	(424 462)	(617 969)
Depreciation on operating leased assets	–	(2 149)	(2 149)
Operating profit before goodwill and acquired intangibles	**63 029**	**155 247**	**218 276**
Loss attributable to non-controlling interests	–	2 039	2 039
Operating profit before goodwill, acquired intangibles and after non-controlling interests	**63 029**	**157 286**	**220 315**
Cost to income ratio	75.4%	71.2%	72.5%

An analysis of core loans and advances to customers and asset quality – ongoing business

£'000	31 March 2017	31 March 2016
Gross core loans and advances to customers	**8 147 798**	**7 220 129**
Total impairments	**(25 356)**	**(21 838)**
Specific impairments	(12 393)	(20 838)
Portfolio impairments	(12 963)	(1 000)
Net core loans and advances to customers	**8 122 442**	**7 198 291**
Average gross core loans and advances to customers	**7 683 964**	**6 786 386**
Total income statement charge for impairments on core loans and advances	**(20 690)**	**(17 806)**
Gross default loans and advances to customers	34 166	49 795
Specific impairments	(12 393)	(20 838)
Portfolio impairments	(12 963)	(1 000)
Defaults net of impairments before collateral held	**8 810**	**27 957**
Collateral and other credit enhancements	25 948	34 777
Net default loans and advances to customers (limited to zero)	**–**	**–**
Ratios:		
Total impairments as a % of gross core loans and advances to customers	0.31%	0.30%
Total impairments as a % of gross default loans	74.21%	43.86%
Gross defaults as a % of gross core loans and advances to customers	0.42%	0.69%
Defaults (net of impairments) as a % of net core loans and advances to customers	0.11%	0.39%
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)	0.27%	0.26%

A reconciliation of core loans and advances: statutory basis and ongoing basis

£'000	Statutory as disclosed^	UK legacy business	Ongoing business
31 March 2017			
Gross core loans and advances to customers	**8 725 515**	**577 717**	**8 147 798**
Total impairments	**(126 876)**	**(101 520)**	**(25 356)**
Specific impairments	(83 488)	(71 095)	(12 393)
Portfolio impairments	(43 388)	(30 425)	(12 963)
Net core loans and advances to customers	**8 598 639**	**476 197**	**8 122 442**
31 March 2016			
Gross core loans and advances to customers	**7 924 577**	**704 448**	**7 220 129**
Total impairments	**(143 191)**	**(121 353)**	**(21 838)**
Specific impairments	(121 791)	(100 953)	(20 838)
Portfolio impairments	(21 400)	(20 400)	(1 000)
Net core loans and advances to customers	**7 781 386**	**583 095**	**7 198 291**

^ *Refer to page 58.*

Legacy business in the UK Specialist Bank comprises:

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

Legacy business – overview of results

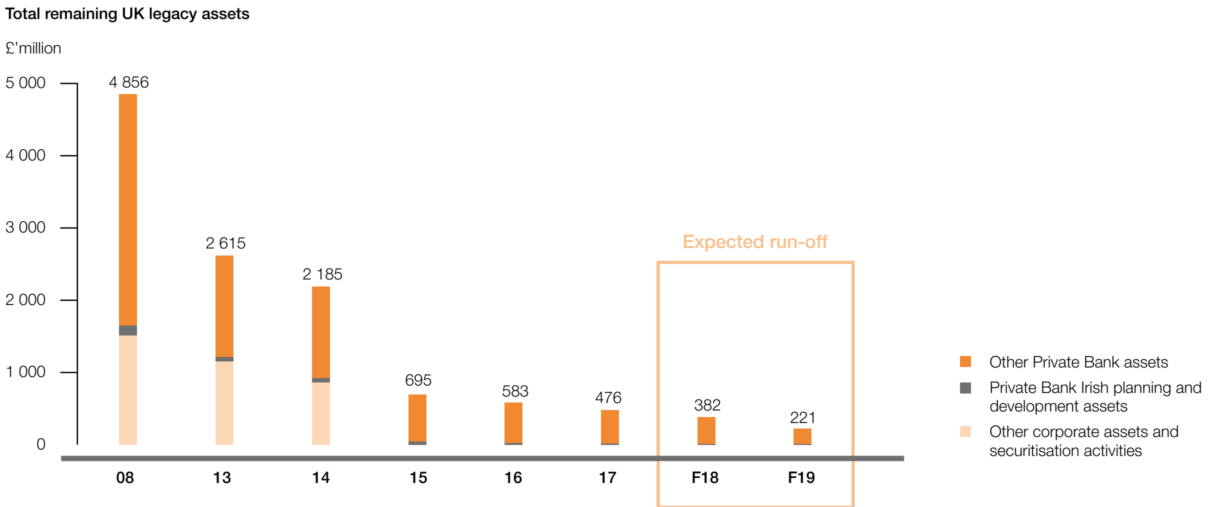
Since 31 March 2016 the group's legacy portfolio in the UK has continued to be actively managed down from £583 million to £476 million through asset sales, redemptions and write-offs. The total legacy business over the period reported a loss before taxation of £65.2 million (2016: £74.0 million), with impairments reducing 20.3% from £68.1 million to £54.3 million. The remaining legacy portfolio will continue to be managed down. Given the uncertainty in the UK following the EU referendum, the legacy book could take longer to wind down than management's original expectation of two to four years. Total net defaults in the legacy book amount to £125 million (31 March 2016: £143 million).

An analysis of assets within the legacy business

£'million	31 March 2017 Total net assets (after impairments)	31 March 2017 Total balance sheet impairment	31 March 2016 Total net assets (after impairments)	31 March 2016 Total balance sheet impairment
Private Bank Irish planning and development assets	18	9	23	14
Other Private Bank assets	458	93	560	107
Total other legacy assets	**476**	**102**	**583**	**121**
Performing	351	–	440	–
Non-performing*	125	102*	143	121*

* *Included in balance sheet impairments is a group portfolio impairment of £30.4 million (31 March 2016: £20.4 million).*

Expected run-off of legacy assets



Questions and answers

Steve Elliott — Wealth & Investment

Global head

Q. How has the operating environment in which you have operated impacted your business over the last financial year?

For the UK business, the financial year has seen two major events which have been relevant to investors, being the UK's referendum on its membership of the European Union and the US presidential elections. The periods surrounding each of these events presented significant uncertainty for investors. Despite the expectations of most commentators, after some initial volatility and a notable decline in sterling, equity markets responded favourably to both the UK's decision to leave the EU and to the election of Donald Trump, with principal market indices having subsequently reached record highs. This has presented a favourable backdrop for most of the financial year, which has been beneficial for both our clients and the performance of the business.

However, whilst the overall outcome of these events has so far been positive, our dedication to the individual needs of each of our clients remains as important as ever as we seek to ensure that we continue to provide the assurance and service our clients need to navigate through these periods of heightened uncertainty.

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

We've continued to focus and place an emphasis on enhancing our digital capabilities for our private clients. This includes expanding our self-directed investment capabilities as well as increasing access to our global investment view through our managed investment services, both on our mobile and digital platforms.

The continuing development of our digital channel, Click & Invest, has made good progress, with some important milestones in the development being achieved during the year. The final stages of development are now being undertaken as we prepare for the forthcoming launch of this new digital service.

The UK business has continued the process of rationalising its non-core operations. The business took the decision during the year to cease the provision of its Traded Options service, and this was fully completed during the financial year.

Regulation is always an area of focus which requires substantial resources to ensure the business remains fully compliant with all of its obligations.

The most significant change to regulations that we have seen for some time will come into effect over the coming months in the form of MiFID II and new data protection requirements in the UK. Planning for the implementation of these substantial changes has, and continues to be, a significant theme for the business, with considerable IT development and other work being undertaken to accommodate the new requirements. These developments further reinforce the important role that our scale plays in our current and future success in the investment management industry.

While continuing to progress its financial planning offering and strengthen all aspects of the client engagement, Wealth & Investment Ireland has seen significant growth in the conversion of new and existing clients to discretionary management. The recognition of the wealth side of Investec Ireland has continued to expand with the opening of the office in Cork.

In terms of our Swiss operation, a full strategy review has been completed and this has identified an opportunity to consider Switzerland as a multi-jurisdiction platform.

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

We've continued to advance with ongoing projects and introduced new initiatives. This involves keeping the client at the centre of all that we do. The strategy of working together with Private Bank to offer an integrated banking and investment solution to our private clients, both locally and internationally, has been a great success and will remain a key focus in the years ahead.

Our focus on servicing the ever expanding global investment needs of our private clients and in navigating the complex landscape of asset allocation, goal-based investing, fiduciary and tax information, alternative investments and the financial plans to help our clients achieve their financial plans, remains a key strategy for us.

Having a global view is integral to the continued evolution of our business as an international operation. This requires not just broadening our presence but also integrating our various businesses to ensure the best service for clients. Our Asian and Swiss operations continue to allow us to service the expatriate market across various jurisdictions.

The development of our digital capability will continue to be a principal strategic theme. The launch of Click & Invest is a key component of this, and achieving the successful delivery of this new service to the market will be a significant point of focus for the business. However, our digital development goes beyond the new Click & Invest service. We are committed to developing digital enhancements to our core investment management offering and make these available to those clients of the core business for whom they are suited.

The development and expansion of the UK business' financial planning capability remains an important part of our strategy and an aspect of our service that we continue to build as the complexity of the personal financial world continues to increase. We are also continuing to see growth in the use of our international service centres by those international clients who seek UK-based investment expertise.

We see our robust and well-resourced global investment process and research capability essential to our success. The continuous development of these areas, backed by appropriate investment, remains a principal component of our strategy.

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

We have seen some significant events over the last financial year and others remain on the horizon which have the potential to unsettle the markets, not least the detailed negotiations of the UK's exit from the EU. These continuing uncertainties present a challenge to investors, particularly in an environment where returns from traditionally lower-risk asset classes remain low. We are focussed on maintaining the quality of our client service and possess the expertise and resources to navigate through the uncertainties that may lie ahead, whilst continuing to invest in our capabilities, digital and otherwise, to build for the future.

Questions and answers

David van der Walt

Specialist Banking

CEO of Investec Bank plc

Q. How has the operating environment in which you have operated impacted your business over the last financial year?

The year ended 31 March 2017 was marked by surprise outcomes in political events in the UK and abroad. Despite these surprise results and bouts of volatility, major global equity indices witnessed double digit gains, energy prices rebounded and deflationary concerns faded. Global growth remained below historic averages, but there were signs of a pickup in many key geographies. UK economic growth remained surprisingly resilient following June's referendum, despite the uncertainty over future trade arrangements with the EU, although as the financial year closed there were some signs of a slowing in UK economic activity.

In the main the above conditions proved to be a positive environment for our clients, and as a consequence for our business, with robust activity levels across the board.

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

The Specialist Bank recorded robust levels of activity with a very strong performance by the corporate business. The private banking business continued to invest in people and infrastructure to position itself for future growth.

The Corporate and Institutional banking business saw a strong performance from our flow trading businesses, coupled with good activity across our lending, aviation and advisory businesses. Deal flow has been very good and the impact of the Brexit vote has not been felt on activity levels as yet.

Flow trading was driven by the increased volatility in markets which saw more active hedging strategies from our clients. The investment banking and advisory business had a record year and the aviation business completed a number of significant transactions. Our continued focus on building our client base and reputation in our specialist activities is reaping rewards.

The Private Banking division continues building its UK franchise and developing its client base. The change in our target market to focus on high net worth and high income earners rather than more generally on professionals, continues to prove successful and enables us to focus more clearly.

The past year has seen a continuation of this strategy, especially with increased investment in the products, people and infrastructure required for long-term success. The structured property finance business continued to successfully support selected high net worth, seasoned property investors and developers.

Our Private Capital business which can simply be described as 'investment banking for individuals' was established during the year and has completed a few deals already. This validates our view that this is a complementary addition to the services we offer our selected client base.

Overall, we continue to make good progress in the development of our niched Private Banking offering. We have seen strong flow from our South African Private Banking clients, which again affirms the attraction of our multi-geographical approach.

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

We will continue to apply our strategy of building and developing our client franchises in the UK, with the primary focus on entrepreneurs, corporates and high net worth clients. We want to grow the client base, expand our funds and investment product business, and ensure ongoing high levels of service to existing clients across our offering.

We are strengthening the infrastructure required to make sure our technology and digital offering matches the high standards of service we are targeting. We plan to complete the major investment we have made in the private banking infrastructure during the coming year which will then allow us to focus on client acquisition and retention.

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

The current global political uncertainty provides a difficult backdrop for both clients and markets, which to date have proven to be more resilient than expected. On the basis that this scenario continues we are cautiously optimistic that we can deliver another strong underlying performance.

We are anticipating a relatively large one off increase in costs that will not be matched in revenue. The costs relate to a new office move during the year and the completion of the private banking build out.

Our focus is, however, on our long term success and building scale in our business. We are measuring this by the growth in our client base and growth of recurring revenue as we build scale and are confident that in the medium term we will deliver the returns and growth on the investment.

03

Risk management and corporate governance

Group Risk Management objectives are to:

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

Overview of disclosure requirements

Risk disclosures provided in line with the requirements of International Financial Reporting Standard 7 Financial Instruments: Disclosures (IFRS 7) and disclosures on capital required by International Accounting Standard 1 Presentation of Financial Statements (IAS 1) are included within this section of the annual report on pages 39 to 103 with further disclosures provided in the annual financial statements section on pages 130 to 241.

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

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

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

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

Philosophy and approach to risk management

The board risk and capital committee (comprising both executive and nonexecutive 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. As fundamental to our values, we have a strong and embedded risk and capital management culture.

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

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

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

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

We believe that the risk management systems and processes we have in place are adequate to support the group's strategy and allow the group to operate within its risk appetite tolerance as set out on page 40.

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

A summary of the year in review from a risk perspective

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

Although the operating environment continues to present challenges, the bank was able to maintain sound asset performance and sound risk metrics throughout the year in review. The bank remained within 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 40 continues to be assessed in light of prevailing market conditions and group strategy.

In the year under review, the UK voted to leave the European Union. So far the UK economy has remained resilient, reflected in the levels of client activity we continue to see. We have benefited from increased customer flow transactions on the back of currency hedging activity in response to fluctuations in the Pound. We are closely monitoring political developments and considering any changes we may need to make to adapt to the new legal and regulatory landscape that emerges. Investec Bank plc has a long-term rating of A2 (stable outlook) from Moody's and BBB (stable outlook) from Fitch.

Our core loan book growth over the year was 10.5%. On a currency neutral basis, excluding the sharp depreciation of the Pound following the Brexit referendum, growth in the book was approximately 6.6%. Growth in our book has been diversified across our residential owner-occupied mortgage portfolio, private client and corporate client lending portfolios, with loan to values at conservative levels and gross asset 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.

Our focus over the past few years to realign and rebalance our portfolios in line with our risk appetite framework is reflected in the relative changes in asset classes on our balance sheet; showing an increase in private client and corporate and other lending, and a reduction in lending collateralised by property as a proportion of our book. Our core loan book remains well diversified with commercial rent producing property loans comprising approximately 11% of the book, other lending collateralised by property 12%, high net worth and private client lending 18% and corporate lending 59% (with most industry concentrations well below 5%).

Overall net defaults continue to reduce and are at a much lower level, amounting to 8.6% of our tier 1 equity. The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounted to 1.55% (2016: 2.19%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.44 times (2016: 1.19 times).

The asset quality trends continue to reflect the solid performance of the book. Gross defaults, predominantly relating to legacy exposures, decreased to £260 million from £314 million at 31 March 2016. Impairments on our legacy portfolio continue to reduce from £68 million to £54 million with the credit loss ratio improving to 0.90%. Impairments on our core 'ongoing' book remain low and makeup only 0.27% (£21 million) of the credit loss ratio.

Our legacy portfolio has been actively reduced from £583 million at 31 March 2016 to £476 million largely through asset sales, redemptions and write-offs. Non-performing exposures are significantly impaired and total net defaults in the legacy book amount to £125 million.

The remaining legacy portfolio will continue to be managed down, although given the uncertainty in the UK, this could take longer than management's original expectation of two to four years.

Our investment portfolio has delivered a sound performance. Overall, we remain comfortable with the performance of our equity investment portfolios which comprise 3.35% of total assets.

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

We continue to spend much time and effort focusing on operational, reputational, conduct, recovery and resolution risks. Current priorities include the link between remuneration and conduct, as well as how we measure risk culture and the risk assessment process from a conduct perspective.

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

We have continued to maintain a sound gearing ratio of 9.3 times and a core loans to equity ratio of 4.3 times. Our current leverage ratio is 8.0%.

We have always held capital in excess of regulatory requirements and we intend to perpetuate this philosophy. Investec Bank plc's common equity tier 1 ratio improved to 12.2% at 31 March 2017 (31 March 2016: 11.9%). 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 businesses, given our sound leverage ratios and we will continue to build our business in a manner that achieves this target.

In December 2016, the Bank of England (BoE) set the preferred resolution strategy for Investec Bank plc as the bank insolvency (special administration) procedure under the Investment Bank Special Administration Regulations 2011 – otherwise known as 'modified insolvency'. As the resolution strategy is 'modified insolvency', the BoE has therefore set Investec Bank plc's MREL requirement as equal to its regulatory capital requirements.

Holding a high level of readily available, high quality liquid assets remains paramount in the management of our balance sheet. We continue to maintain a low reliance on interbank wholesale funding to fund core lending asset growth. Cash and near cash balances amounted to £4.9 billion at year end, representing 43.0% of customer deposits.

We conservatively increased our liquidity levels ahead of the Brexit referendum in June 2016, and during the second half of the year we managed this down through a combination of asset growth and liability management to achieve largely normalised balance sheet liquidity levels by 31 March 2017. Our weighted average cost of funding over the year continued to reduce. As explained in detail on page 82, the LCR reported to the PRA at 31 March 2017 was 616% for Investec Bank plc (solo basis). Based on our own interpretations and in line with the BCBS' final recommendations (BCBS 295), Investec Bank plc (solo basis) comfortably exceeds the 100% minimum level for the NSFR.

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, a number of new stress scenarios were considered and incorporated into our processes. These included, for example, the impact of a global trade war resulting from political shifts in advanced economies towards protectionist policies; and a potential Brexit downside case.

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 of Investec's 2017 integrated annual report on pages 147 to 148.

Conclusion

The current regulatory, political and economic environment continues to provide new challenges 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 DLC group risk and capital committee

14 June 2017

Salient features

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

Year to 31 March	2017	2016
Net core loans and advances (£'million)	8 599	7 781
Total assets (£'million)	18 381	18 335
Total risk-weighted assets (£'million)	12 716	11 738
Total equity (£'million)	1 980	1 843
Cash and near cash (£'million)	4 853	5 046
Customer accounts (deposits) (£'million)	11 289	11 038
Gross defaults as a % of gross core loans and advances	2.98%	3.96%
Defaults (net of impairments) as a % of net core loans and advances	1.55%	2.19%
Net defaults (after collateral and impairments) as a % of net core loans and advances	–	–
Credit loss ratio*	0.90%	1.13%
Banking book investment and equity risk exposures as a % of total assets	3.35%	3.42%
Level 3 (fair value assets) as a % of total assets	3.70%	3.55%
Traded market risk: one-day value at risk (£'million)	0.5	0.5
Core loans to equity ratio	4.3x	4.1x
Total gearing ratio**	9.3x	9.9x
Loans and advances to customers to customer deposits	76.2%	70.5%
Capital adequacy ratio°	16.6%	17.0%
Tier 1 ratio°	12.2%	11.9%
Common equity tier 1 ratio°	12.2%	11.9%
Leverage ratio°	8.0%	7.5%
Return on average assets#	0.72%	0.61%
Return on average risk-weighted assets#	1.08%	0.98%

* *Income statement impairment charge on core loans as a percentage of average advances.*
** *Total assets to total equity.*
° *Takes into account the deduction of foreseeable dividends as discussed on page 101.*
\# *Where return represents operating profit after tax and non-controlling interests but before goodwill, acquired intangibles and non-operating items. Average balances are calculated on a straight-line average.*

Overall group risk appetite

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

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

Risk appetite and tolerance metrics	Investec Bank plc positioning at 31 March 2017
• We seek to maintain an appropriate balance between revenue earned from capital light and capital intensive activities. Ideally the split in revenue should be 50:50, dependent on prevailing market conditions	Capital light activities contributed 51% to total operating income and capital intensive activities contributed 49%
• We have a solid recurring income base supported by diversified revenue streams, and target a recurring income ratio in excess of 65%	Recurring income amounted to 57.9% of total operating income.
• We seek to maintain strict control over fixed costs and target a group cost to income ratio of below 70%	The cost to income ratio amounted to 75.9%.
• We are a lowly leveraged firm and target a leverage ratio in all our banking subsidiaries in excess of 6%	We achieved this internal target; refer to page 101 for further information
• We intend to maintain a sufficient level of capital to satisfy regulatory requirements and our internal target ratios. We target a capital adequacy ratio range of between 14% and 17% on a consolidated basis for Investec Bank plc and we target a minimum tier 1 ratio of 11.0% and a common equity tier 1 ratio of 10.0%	We meet these targets; Our total capital adequacy ratio was 16.6% and our common equity tier 1 ratio improved to 12.2%, refer to page 101 for further information
• We target a diversified loan portfolio, lending to clients we know and understand. We limit our exposure to a single/connected individual or company to 7.5% of common equity tier 1 capital (up to 10% if approved by the relevant board committee). We also have a number of risk tolerance limits and targets for specific asset classes	We maintained this risk tolerance level in place throughout the year
• There is a preference for primary exposure in Investec Bank plc's main operating geography (i.e. the UK). The group will accept exposures where we have a branch or local banking subsidiary and tolerate exposures to other countries where we have developed a local understanding and capability or we are facilitating a transaction for a client who requires facilities in a foreign geography	Refer to page 43 for further information
• We target a credit loss charge on core loans of less than 0.5% of average core advances (less than 1.75% under a weak economic environment/stressed scenario), and we target defaults net of impairments less than 2.0% of net core loans (less than 4.0% under a weak economic environment/stressed scenario)	The credit loss charge on core loans amounted to 0.90% (of which only 0.27% relates to the ongoing book) and defaults net of impairments amounted to 1.55% of total core loans (0.11% for the ongoing book). Refer to page 58 for further information
• We carry a high level of liquidity in all our banking subsidiaries in order to be able to cope with shocks to the system, targeting a minimum cash to customer deposit ratio of 25%	Total cash and near cash balances amounted to £4.9 billion representing 43.0% of customer deposits. Refer to page 80 for further information
• We have modest market risk as our trading activities primarily focus on supporting client activity and our appetite for proprietary trading is limited. We set an overall tolerance level of a one-day 95% VaR of less than £5 million	We meet these internal limits; refer to page 74 for further information
• We have moderate appetite for investment risk, and set a risk tolerance of less than 27.5% of tier 1 capital for our unlisted principal investment portfolio	Our unlisted investment portfolio amounted to £378 million representing 24.4% of tier 1 capital. Refer to page 70 for further information
• Our operational risk management team focuses on improving business performance and compliance with regulatory requirements through review, challenge and escalation. We have heightened focus on financial and cybercrime.	Refer to pages 86 to 89 for further information
• We have a number of policies and practices in place to mitigate reputational, legal and conduct risks	Refer to pages 89 and 90 for further information

An overview of our principal risks

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

These principal risks have been highlighted on page 20.

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

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

Risk management framework, committees and forums

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

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

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

Credit and counterparty risk management

Credit and counterparty risk description

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

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

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

The relevant credit committees 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 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 or idiosyncratic financial distress
- Arrears, default and recoveries forum which specifically reviews and manages distressed loans and potentially distressed loans for private clients. This forum also reviews and monitors counterparties who have been granted forbearance measures.

Credit and counterparty risk appetite

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

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

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

We have little appetite for unsecured debt and require good quality collateral in support of obligations (refer to page 67 for further information).

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

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

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

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

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.

Country risk

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

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

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

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

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

Corporate responsibility considerations

Investec has a holistic approach to corporate responsibility, which runs beyond recognising our own footprint on the environment and includes our many corporate social investment activities and our funding and investing activities. This is not merely for business reasons, but based on a broader responsibility to our environment and society. Accordingly, corporate responsibility risk considerations are considered by the business 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 corporate responsibility considerations:

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

Refer to our corporate responsibility report on our website.

Management and measurement of credit and counterparty risk

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

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

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

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

Fitch, S&P and Moody's have been nominated as eligible External Credit Assessment institutions (ECAIs) for the purposes of determining external credit ratings. The following elections have been made:

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

The group applies the standardised approach for calculating capital requirements in the assessment of its credit and counterparty exposures. The group's banking subsidiaries conduct their mapping of credit and counterparty exposures in accordance with the mapping procedures specified by the Central Bank, 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 may also arise in other ways and it is the role of the global risk management function and the various independent credit committees to identify risks falling outside these definitions.

Credit and counterparty risk – nature of activities

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

Lending collateralised by property

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

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

An analysis of the lending collateralised by property portfolio and asset quality information is provided on pages 64 to 65.

Private client activities

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

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

Credit risk arises from the following activities:

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

An analysis of the private client loan portfolio and asset quality information is provided on pages 64 to 65.

Corporate client activities

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

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

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

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

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

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

Risk management

(continued)

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

- **Power and Infrastructure Finance:** arranges and provides typically long-term financing for infrastructure assets, in particular renewable and traditional power projects as well as transportation assets, against contracted future cash flows of the project(s) from well established and financially sound off-take counterparties. There is a requirement for a strong upfront equity contribution from an experienced sponsor
- **Resource Finance:** debt arranging and underwriting together with structured hedging solutions mainly within the mining sectors. The underlying commodities are mainly precious and base metals and coal. Our clients in this sector are established mining companies which are typically domiciled and publicly listed in one of the following geographies – the UK, North America and Australia as well as other countries where we are facilitating a transaction for a client who requires facilities in a foreign geography. All facilities are secured by the borrower's assets and repaid from mining cash flows
- **Structured Credit:** these are bonds secured against a pool of assets, mainly UK residential mortgages or European or US corporate leverage loans. The bonds are typically investment grade rated, which benefit from a high-level of credit subordination and can withstand a significant level of portfolio defaults
- **Treasury Placements:** the treasury function, as part of the daily management of the bank's liquidity, places funds with central banks and other commercial banks and financial institutions. These transactions are typically short term (less than one month) money market placements or secured repurchase agreements. These market counterparties are mainly investment grade rated entities that occupy dominant and systemic positions in their domestic banking markets and internationally. These counterparties are located in the UK, Western Europe, North America and Australia
- **Corporate advisory and investment banking activities:** counterparty risk in this area is modest. The business also trades approved shares on an approved basis and makes markets in shares where we are appointed corporate broker under pre-agreed market risk limits. Settlement trades are largely on a delivery versus payment basis, through major stock exchanges. Credit risk only occurs in the event of counterparty failure and would be linked to any fair value losses on the underlying security
- **Customer trading activities to facilitate client lending and hedging:** our customer trading portfolio consists of derivative contracts in interest rates, foreign exchange, commodities, credit derivatives and equities that are entered into, to facilitate a client's hedging requirements. The counterparties to such transactions are typically corporates, in particular where they have an exposure to foreign exchange due to operating in sectors that include imports and exports of goods and services. These positions are marked to market, typically with daily margin calls to mitigate credit exposure in the event of counterparty default.

An analysis of the corporate client loan portfolio and asset quality information is provided on pages 64 to 65.

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 three days.

Asset quality analysis – credit risk classification and provisioning policy

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

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

Asset quality analysis – credit risk classification and provisioning policy *(continued)*

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

Credit risk mitigation

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

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

An analysis of collateral is provided on page 67.

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

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

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

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

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

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

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

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

- 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 2017 amounts to £1.6 million, of which all is used for credit mitigation purposes. Total protection bought amounts to £5.9 million and total protection sold amounts to £4.3 million relating to credit derivatives used in credit mitigation.

Further information on credit derivatives is provided on page 76.

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

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

Forbearance

Forbearance measures refer to concessions such as modification of the terms and conditions or refinancing that has been granted to a debtor in financial difficulties. These modifications are on terms that would be more advantageous compared with what other debtors with a similar risk profile could have obtained from the bank. The credit committee will assess each application to determine whether the proposed modifications will be considered as forbearance. Forbearance is distinguished from commercial renegotiations which take place as part of normal business activity and standard banking practice. The amount of exposures forborne represents 1.9% of the total gross credit and counterparty exposures (March 2016: 1.0%).

Credit and counterparty risk year in review

Underlying core assets continue to perform well. Net core loans and advances increased by 10.5% to £8.6 billion at 31 March 2017 from £7.8 billion at 31 March 2016, driven mainly by our strategy to support corporate and private client lending activities. On a currency neutral basis, net core loans grew approximately 6.6%. Corporate client and other lending increased by 20.7% (14.8% on a currency neutral basis) from £4.3 billion at 31 March 2016 to £5.2 billion at 31 March 2017. Growth has been well diversified across all asset classes. We continue to remain client-focused in our approach, with good quality corporates exhibiting strong cash flows and balance sheets.

High net worth and other private client lending increased by 9.6% year on year, driven by growth in the existing high net worth mortgage book as well as portfolio lending as the bank continues to focus on its holistic private client offering.

Lending collateralised by property has reduced by 8.9% from £2.1 billion at 31 March 2016 to £1.9 billion at 31 March 2017 and continues to reduce as a proportion of our total loan exposures in line with our risk appetite statement. The bulk of property collateralised assets are located in the UK. Underwriting criteria remains conservative and we are committed to following a client-centric approach to lending, only supporting counterparties with strong balance sheets and requisite expertise.

The asset quality trends continue to reflect the quality of the underlying book. The credit loss ratio on an ongoing basis is 0.27% at 31 March 2017. Gross defaults, predominantly relating to Legacy exposures, decreased by 17.1% to £260.3 million at 31 March 2017 from £313.9 million at 31 March 2016. Default loans (net of impairments) have decreased to £133.5 million or 1.55% as a percentage of core loans and advances, down from 2.19% at 31 March 2016. The credit loss ratio is at 0.90% down from 1.13% in 2016.

Furthermore, the bulk of impairments to date have arisen from Legacy activities, which continue to show a downward trend. Impairments on our core 'ongoing' UK and Other book remain low and make up only 0.27% (£21 million) of the credit loss ratio.

Recognising the current market conditions, we have taken advantage of opportunities to further reduce the Legacy portfolio. Legacy exposures have reduced by 18.3% to £476 million (net of impairments) or 5.5% of total core loan exposures at 31 March 2017 (2016: 7.5%). Nonperforming exposures are significantly impaired and total net defaults in the legacy book amount to £125 million. We are highly focused on reducing legacy assets and expect to reduce the Legacy portfolio significantly by March 2019.

Credit and counterparty risk information

Pages 39 to 50 describe where and how credit risk is assumed in our operations.

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

An analysis of gross credit and counterparty exposures

Gross credit and counterparty exposures increased by 3.3% to £17.4 billion since 31 March 2016 largely due to growth in loans and advances to customers and currency related impacts due to depreciation of the Pound over the period. Cash and near cash balances amount to £4.9 billion and are largely reflected in the following line items in the table below: cash and balances at central banks, loans and advances to banks and sovereign debt securities.

£'000 At 31 March	2017	2016	% change	Average*
Cash and balances at central banks	2 850 664	2 636 837	8.1%	2 743 750
Loans and advances to banks	922 764	935 071	(1.3%)	928 917
Reverse repurchase agreements and cash collateral on securities borrowed	536 173	557 025	(3.7%)	546 599
Sovereign debt securities	952 902	1 252 991	(23.9%)	1 102 946
Bank debt securities	184 626	188 397	(2.0%)	186 511
Other debt securities	408 149	393 652	3.7%	400 901
Derivative financial instruments	554 710	572 324	(3.1%)	563 517
Securities arising from trading activities	331 705	393 964	(15.8%)	362 835
Loans and advances to customers (gross)	8 725 515	7 924 577	10.1%	8 325 046
Other loans and advances (gross)	343 090	331 617	3.5%	337 354
Other securitised assets (gross)	12 851	11 341	13.3%	12 096
Other assets	49 894	397 409	(87.4%)	223 652
Total on-balance sheet exposures	**15 873 043**	**15 595 205**	**1.8%**	**15 734 124**
Guarantees^	27 204	68 938	(60.5%)	48 071
Contingent liabilities, committed facilities and other	1 517 224	1 203 323	26.1%	1 360 274
Total off-balance sheet exposures	**1 544 428**	**1 272 261**	**21.4%**	**1 408 345**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**17 417 471**	**16 867 466**	**3.3%**	**17 142 469**

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

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

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

£'000	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note reference	Total balance sheet
At 31 March 2017				
Cash and balances at central banks	2 850 664	2 903		2 853 567
Loans and advances to banks	922 764	–		922 764
Reverse repurchase agreements and cash collateral on securities borrowed	536 173	–		536 173
Sovereign debt securities	952 902	–		952 902
Bank debt securities	184 626	–		184 626
Other debt securities	408 149	–		408 149
Derivative financial instruments	554 710	55 661		610 371
Securities arising from trading activities	331 705	191 055		522 760
Investment portfolio	–	454 566	1	454 566
Loans and advances to customers	8 725 515	(126 876)	2	8 598 639
Other loans and advances	343 090	213 374	3	556 464
Other securitised assets	12 851	125 777	4	138 628
Interest in associated undertakings	–	23 818		23 818
Deferred taxation assets	–	78 945		78 945
Other assets	49 894	1 039 496	5	1 089 390
Property and equipment	–	58 857		58 857
Investment properties	–	14 500		14 500
Goodwill	–	259 965		259 965
Intangible assets	–	116 330		116 330
Total on-balance sheet exposures	**15 873 043**	**2 508 371**		**18 381 414**

1. *Relates to exposures that are classified as investment risk in the banking book.*
2. *Largely relates to impairments.*
3. *Largely intergroup lending which is deemed to have no credit exposure.*
4. *While the group manages all risks (including credit risk) from a day-to-day operational perspective, certain of these assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit the security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicle that the group has reflected in the 'total credit and counterparty exposure' with the maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'.*
5. *Other assets include settlement debtors less than 2 days which we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

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

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

1. *Relates to exposures that are classified as investment risk in the banking book.*
2. *Largely relates to impairments.*
3. *Largely intergroup lending which is deemed to have no credit exposure.*
4. *While the group manages all risks (including credit risk) from a day-to-day operational perspective, certain of these assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit the security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicle that the group has reflected in the 'total credit and counterparty exposure' with the maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'.*
5. *Other assets include settlement debtors less than 2 days which we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

Detailed analysis of gross credit and counterparty exposures by industry

£'000	High net worth and other professional individuals	Lending collateralised by property – largely to private clients	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business service	Finance and insurance
At 31 March 2017							
Cash and balances at central banks	–	–	–	–	2 850 664	–	–
Loans and advances to banks	–	–	–	–	–	–	922 764
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	–	–	536 173
Sovereign debt securities	–	–	–	–	952 902	–	–
Bank debt securities	–	–	–	–	–	–	184 626
Other debt securities	–	–	–	48 297	5 832	551	138 668
Derivative financial instruments	13 629	–	156	75 743	17	15 041	359 915
Securities arising from trading activities	–	–	–	26 280	132 415	–	154 676
Loans and advances to customers (gross)	1 598 801	1 963 754	5 539	487 089	149 220	431 659	1 321 630
Other loans and advances (gross)	–	–	–	–	–	–	118 507
Other securitised assets (gross)	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	–	47 671
Total on-balance sheet exposures	**1 612 430**	**1 963 754**	**5 695**	**637 409**	**4 091 050**	**447 251**	**3 784 630**
Guarantees^	17 652	153	–	–	–	–	–
Contingent liabilities, committed facilities and other	137 775	224 153	–	411 106	40 922	62 098	274 207
Total off-balance sheet exposures	**155 427**	**224 306**	**–**	**411 106**	**40 922**	**62 098**	**274 207**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**1 767 857**	**2 188 060**	**5 695**	**1 048 515**	**4 131 972**	**509 349**	**4 058 837**
At 31 March 2016							
Cash and balances at central banks	–	–	–	–	2 636 837	–	–
Loans and advances to banks	–	–	–	–	–	–	935 071
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	–	–	557 025
Sovereign debt securities	–	–	–	–	1 252 991	–	–
Bank debt securities	–	–	–	–	–	–	188 397
Other debt securities	–	–	–	36 787	6 429	3 382	101 474
Derivative financial instruments	53	–	53	45 174	19 947	63 632	317 338
Securities arising from trading activities	–	–	–	24 606	198 181	–	156 639
Loans and advances to customers (gross)	1 458 552	2 179 999	3 234	440 728	134 917	415 673	971 773
Other loans and advances (gross)	–	–	–	–	–	–	130 952
Other securitised assets (gross)	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	–	397 409
Total on-balance sheet exposures	**1 458 605**	**2 179 999**	**3 287**	**547 295**	**4 249 302**	**482 687**	**3 756 078**
Guarantees^	36 494	–	–	–	–	–	30 155
Contingent liabilities, committed facilities and other	109 481	245 020	–	233 600	6 036	35 213	239 966
Total off-balance sheet exposures	**145 975**	**245 020**	**–**	**233 600**	**6 036**	**35 213**	**270 121**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**1 604 580**	**2 425 019**	**3 287**	**780 895**	**4 255 338**	**517 900**	**4 026 199**

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

	Retailers and whole-salers	Manufac-turing and commerce	Construc-tion	Corporate commercial real estate	Other residential mortgages	Mining and resources	Leisure, entertain-ment and tourism	Transport	Com-munication	Total
	–	–	–	–	–	–	–	–	–	2 850 664
	–	–	–	–	–	–	–	–	–	922 764
	–	–	–	–	–	–	–	–	–	536 173
	–	–	–	–	–	–	–	–	–	952 902
	–	–	–	–	–	–	–	–	–	184 626
	195	45 106	–	–	74 338	42 694	2 775	43 434	6 259	408 149
	16 018	46 042	527	2 365	–	7 192	4 630	11 759	1 676	554 710
	39	1 771	–	–	2 892	–	–	3 037	10 595	331 705
	399 252	630 456	52 833	100 941	–	120 544	291 573	989 328	182 896	8 725 515
	–	–	–	48	224 535	–	–	–	–	343 090
	–	–	–	–	12 851	–	–	–	–	12 851
	–	2 223	–	–	–	–	–	–	–	49 894
	415 504	**725 598**	**53 360**	**103 354**	**314 616**	**170 430**	**298 978**	**1 047 558**	**201 426**	**15 873 043**
	–	–	–	–	–	9 193	–	–	206	27 204
	85 842	59 908	–	6 296	–	125 662	19 998	51 949	17 308	1 517 224
	85 842	**59 908**	**–**	**6 296**	**–**	**134 855**	**19 998**	**51 949**	**17 514**	**1 544 428**
	501 346	**785 506**	**53 360**	**109 650**	**314 616**	**305 285**	**318 976**	**1 099 507**	**218 940**	**17 417 471**
	–	–	–	–	–	–	–	–	–	2 636 837
	–	–	–	–	–	–	–	–	–	935 071
	–	–	–	–	–	–	–	–	–	557 025
	–	–	–	–	–	–	–	–	–	1 252 991
	–	–	–	–	–	–	–	–	–	188 397
	–	29 581	–	–	106 246	65 939	4 017	26 914	12 883	393 652
	26 033	49 147	1 803	1 489	–	9 474	16 424	18 682	3 075	572 324
	35	1 738	–	781	–	–	1 093	2	10 889	393 964
	383 089	490 197	41 049	115 241	–	139 621	227 573	762 899	160 032	7 924 577
	–	–	–	85	200 580	–	–	–	–	331 617
	–	–	–	–	11 341	–	–	–	–	11 341
	–	–	–	–	–	–	–	–	–	397 409
	409 157	**570 663**	**42 852**	**117 596**	**318 167**	**215 034**	**249 107**	**808 497**	**186 879**	**15 595 205**
	605	–	–	–	–	1 684	–	–	–	68 938
	101 654	37 332	–	34 114	–	83 518	14 204	59 078	4 107	1 203 323
	102 259	**37 332**	**–**	**34 114**	**–**	**85 202**	**14 204**	**59 078**	**4 107**	**1 272 261**
	511 416	**607 995**	**42 852**	**151 710**	**318 167**	**300 236**	**263 311**	**867 575**	**190 986**	**16 867 466**

Corporate client loans account for 59.2% of total gross core loans and advances, and are well diversified across various industry classifications

Summary analysis of gross credit and counterparty exposures by industry

A description of the type of corporate client lending we undertake, is provided on pages 45 and 46, and a more detailed analysis of the corporate client loan portfolio is provided on pages 64 and 65.

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

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

A description of the type of private client lending and lending collateralised by property we undertake is provided on pages 44 and 45, and a more detailed analysis of the private client loan portfolio is provided on pages 64 and 65.

At 31 March £'000	Gross core loans and advances		Other credit and counterparty exposures		Total	
	2017	2016	2017	2016	2017	2016
High net worth and professional individuals	1 598 801	1 458 552	169 056	146 028	1 767 857	1 604 580
Lending collateralised by property – largely to private clients	1 963 754	2 179 999	224 306	245 020	2 188 060	2 425 019
Agriculture	5 539	3 234	156	53	5 695	3 287
Electricity, gas and water (utility services)	487 089	440 728	561 426	340 167	1 048 515	780 895
Public and non-business services	149 220	134 917	3 982 752	4 120 421	4 131 972	4 255 338
Business services	431 659	415 673	77 690	102 227	509 349	517 900
Finance and insurance	1 321 630	971 773	2 737 207	3 054 426	4 058 837	4 026 199
Retailers and wholesalers	399 252	383 089	102 094	128 327	501 346	511 416
Manufacturing and commerce	630 456	490 197	155 050	117 798	785 506	607 995
Construction	52 833	41 049	527	1 803	53 360	42 852
Corporate commercial real estate	100 941	115 241	8 709	36 469	109 650	151 710
Other residential mortgages	–	–	314 616	318 167	314 616	318 167
Mining and resources	120 544	139 621	184 741	160 615	305 285	300 236
Leisure, entertainment and tourism	291 573	227 573	27 403	35 738	318 976	263 311
Transport	989 328	762 899	110 179	104 676	1 099 507	867 575
Communication	182 896	160 032	36 044	30 954	218 940	190 986
Total	**8 725 515**	**7 924 577**	**8 691 956**	**8 942 889**	**17 417 471**	**16 867 466**

Gross credit and counterparty exposures by residual contractual maturity at 31 March 2017

£'000	Up to three months	Three to six months	Six months to one year	One to five years	Five to 10 years	> 10 years	Total
Cash and balances at central banks	2 850 664	–	–	–	–	–	2 850 664
Loans and advances to banks	917 186	5 561	–	17	–	–	922 764
Reverse repurchase agreements and cash collateral on securities borrowed	336 157	200 016	–	–	–	–	536 173
Sovereign debt securities	693 684	120 392	–	–	–	138 826	952 902
Bank debt securities	47	28 069	132	156 378	–	–	184 626
Other debt securities	48 031	869	3 146	88 936	48 351	218 816	408 149
Derivative financial instruments	85 343	36 624	38 205	104 783	146 123	143 632	554 710
Securities arising from trading activities	8 765	871	16 279	74 886	61 980	168 924	331 705
Loans and advances to customers (gross)	1 437 389	714 060	1 174 747	3 994 270	1 020 348	384 701	8 725 515
Other loans and advances (gross)	2 542	2 608	814	5 003	60 929	271 194	343 090
Other securitised assets (gross)	–	–	–	–	–	12 851	12 851
Other assets	49 894	–	–	–	–	–	49 894
Total on-balance sheet exposures	**6 429 702**	**1 109 070**	**1 233 323**	**4 424 273**	**1 337 731**	**1 338 944**	**15 873 043**
Guarantees^	7 611	2 562	2 155	12 314	2 562	–	27 204
Contingent liabilities, committed facilities and other	214 189	214 313	160 880	716 867	163 689	47 286	1 517 224
Total off-balance sheet exposures	**221 800**	**216 875**	**163 035**	**729 181**	**166 251**	**47 286**	**1 544 428**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**6 651 502**	**1 325 945**	**1 396 358**	**5 153 454**	**1 503 982**	**1 386 230**	**17 417 471**

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

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

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

An overview of developments during the financial year is provided on page 50.

£'000	31 March 2017	31 March 2016
Gross core loans and advances to customers	**8 725 515**	**7 924 577**
Total impairments	**(126 876)**	**(143 191)**
Specific impairments	(83 488)	(121 791)
Portfolio impairments	(43 388)	(21 400)
Net core loans and advances to customers	**8 598 639**	**7 781 386**
Average gross core loans and advances to customers	**8 325 046**	**7 574 356**
Current loans and advances to customers	8 394 580	7 539 409
Past due loans and advances to customers (1 – 60 days)	48 003	65 880
Special mention loans and advances to customers	22 585	5 354
Default loans and advances to customers	260 347	313 934
Gross core loans and advances to customers	**8 725 515**	**7 924 577**
Current loans and advances to customers	8 394 580	7 539 409
Default loans that are current and not impaired	6 993	29 639
Gross core loans and advances to customers that are past due but not impaired	105 645	99 354
Gross core loans and advances to customers that are impaired	218 297	256 175
Gross core loans and advances to customers	**8 725 515**	**7 924 577**
Total income statement charge for impairments on core loans and advances	**(74 995)**	**(85 954)**
Gross default loans and advances to customers	260 347	313 934
Specific impairments	(83 488)	(121 791)
Portfolio impairments	(43 388)	(21 400)
Defaults net of impairments	**133 471**	**170 743**
Aggregate collateral and other credit enhancements on defaults	192 760	202 524
Net default loans and advances to customers (limited to zero)	**–**	**–**
Ratios		
Total impairments as a % of gross core loans and advances to customers	1.45%	1.81%
Total impairments as a % of gross default loans	48.73%	45.61%
Gross defaults as a % of gross core loans and advances to customers	2.98%	3.96%
Defaults (net of impairments) as a % of net core loans and advances to customers	1.55%	2.19%
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)	0.90%	1.13%

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

£'000 At 31 March	2017	2016
Default loans that are current	68 069	138 988
1 – 60 days	106 174	80 729
61 – 90 days	4 174	16 118
91 – 180 days	63 707	43 284
181 – 365 days	16 205	22 539
> 365 days	72 606	83 510
Past due and default core loans and advances to customers (actual capital exposure)	**330 935**	**385 168**
1 – 60 days	1 863	3 033
61 – 90 days	173	210
91 – 180 days	3 341	3 277
181 – 365 days	7 517	7 859
> 365 days	57 851	74 064
Past due and default core loans and advances to customers (actual amount in arrears)	**70 745**	**88 443**

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

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
At 31 March 2017							
Watchlist loans neither past due nor impaired							
Total capital exposure	6 993	–	–	–	–	–	6 993
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	89 947	4 171	1 270	1 331	8 926	105 645
Amount in arrears	–	1 819	170	385	344	8 403	11 121
Gross core loans and advances to customers that are impaired							
Total capital exposure	61 076	16 227	3	62 437	14 874	63 680	218 297
Amount in arrears	–	44	3	2 956	7 173	49 448	59 624
At 31 March 2016							
Watchlist loans neither past due nor impaired							
Total capital exposure	29 639	–	–	–	–	–	29 639
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	71 077	526	16 210	1 139	10 402	99 354
Amount in arrears	–	2 965	49	1 333	171	7 847	12 365
Gross core loans and advances to customers that are impaired							
Total capital exposure	109 349	9 652	15 592	27 074	21 400	73 108	256 175
Amount in arrears	–	68	161	1 944	7 688	66 217	76 078

An age analysis of past due and default core loans and advances to customers at 31 March 2017 (based on total capital exposure)

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	**–**	**48 003**	**–**	**–**	**–**	**–**	**48 003**
Special mention	**–**	**20 028**	**2 557**	**–**	**–**	**–**	**22 585**
Special mention (1 – 90 days)	–	20 028	–	–	–	–	20 028
Special mention (61 – 90 days and item well secured)	–	–	2 557	–	–	–	2 557
Default	**68 069**	**38 143**	**1 617**	**63 707**	**16 205**	**72 606**	**260 347**
Sub-standard	39 561	27 622	1 614	48 839	11 849	51 120	180 605
Doubtful	27 970	10 508	–	13 324	3 458	13 644	68 904
Loss	538	13	3	1 544	898	7 842	10 838
Total	**68 069**	**106 174**	**4 174**	**63 707**	**16 205**	**72 606**	**330 935**

An age analysis of past due and default core loans and advances to customers at 31 March 2017 (based on actual amount in arrears)

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	**–**	**1 094**	**–**	**–**	**–**	**–**	**1 094**
Special mention	**–**	**63**	**127**	**–**	**–**	**–**	**190**
Special mention (1 – 90 days)	–	63	–	–	–	–	63
Special mention (61 – 90 days and item well secured)	–	–	127	–	–	–	127
Default	**–**	**706**	**46**	**3 341**	**7 517**	**57 851**	**69 461**
Sub-standard	–	670	43	1 018	3 884	45 313	50 928
Doubtful	–	25	–	789	2 735	4 708	8 257
Loss	–	11	3	1 534	898	7 830	10 276
Total	**–**	**1 863**	**173**	**3 341**	**7 517**	**57 851**	**70 745**

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

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

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

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

An analysis of core loans and advances to customers

£'000	Gross core loans and advances that are neither past due nor impaired	Gross core loans and advances that are past due but not impaired	Gross core loans and advances that are impaired	Total gross core loans and advances (actual capital exposure)	Specific impairments	Portfolio impairments	Total net core loans and advances (actual capital exposure)	Actual amount in arrears
At 31 March 2017								
Current core loans and advances	8 394 580	–	–	8 394 580	–	(43 388)	8 351 192	–
Past due (1 – 60 days)	–	48 003	–	48 003	–	–	48 003	1 094
Special mention	–	22 585	–	22 585	–	–	22 585	190
Special mention (1 – 90 days)	–	20 028	–	20 028	–	–	20 028	63
Special mention (61 – 90 days and item well secured)	–	2 557	–	2 557	–	–	2 557	127
Default	6 993	35 057	218 297	260 347	(83 488)	–	176 859	69 461
Sub-standard	6 993	35 057	138 555	180 605	(38 237)	–	142 368	50 928
Doubtful	–	–	68 904	68 904	(37 430)	–	31 474	8 257
Loss	–	–	10 838	10 838	(7 821)	–	3 017	10 276
Total	**8 401 573**	**105 645**	**218 297**	**8 725 515**	**(83 488)**	**(43 388)**	**8 598 639**	**70 745**
At 31 March 2016								
Current core loans and advances	7 539 409	–	–	7 539 409	–	(21 400)	7 518 009	–
Past due (1 – 60 days)	–	65 880	–	65 880	–	–	65 880	2 959
Special mention	–	5 354	–	5 354	–	–	5 354	55
Special mention (1 – 90 days)	–	4 828	–	4 828	–	–	4 828	6
Special mention (61 – 90 days and item well secured)	–	526	–	526	–	–	526	49
Default	29 639	28 120	256 175	313 934	(121 791)	–	192 143	85 429
Sub-standard	29 639	28 120	106 459	164 218	(32 379)	–	131 839	53 428
Doubtful	–	–	125 450	125 450	(69 827)	–	55 623	9 171
Loss	–	–	24 266	24 266	(19 585)	–	4 681	22 830
Total	**7 569 048**	**99 354**	**256 175**	**7 924 577**	**(121 791)**	**(21 400)**	**7 781 386**	**88 443**

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

£'000	Private client, professional and high net worth individuals	Corporate sector	Insurance, financial services (excluding sovereign)	Public and government sector (including central banks)	Total core loans and advances to customers
At 31 March 2017					
Current core loans and advances	**3 252 498**	**3 673 173**	**1 321 251**	**147 658**	**8 394 580**
Past due (1 – 60 days)	**41 973**	**5 183**	**211**	**636**	**48 003**
Special mention	**22 111**	**402**	**3**	**69**	**22 585**
Special mention (1 – 90 days)	20 028	–	–	–	20 028
Special mention (61 – 90 days and item well secured)	2 083	402	3	69	2 557
Default	**245 973**	**13 352**	**165**	**857**	**260 347**
Sub-standard	176 021	4 384	8	192	180 605
Doubtful	62 844	5 704	119	237	68 904
Loss	7 108	3 264	38	428	10 838
Total gross core loans and advances to customers	**3 562 555**	**3 692 110**	**1 321 630**	**149 220**	**8 725 515**
Total impairments	**(108 189)**	**(18 036)**	**(101)**	**(550)**	**(126 876)**
Specific impairments	(76 763)	(6 074)	(101)	(550)	(83 488)
Portfolio impairments	(31 426)	(11 962)	–	–	(43 388)
Net core loans and advances to customers	**3 454 366**	**3 674 074**	**1 321 529**	**148 670**	**8 598 639**
At 31 March 2016					
Current core loans and advances	**3 296 034**	**3 140 362**	**971 565**	**131 448**	**7 539 409**
Past due (1 – 60 days)	**53 707**	**10 833**	**41**	**1 299**	**65 880**
Special mention	**4 995**	**211**	**2**	**146**	**5 354**
Special mention (1 – 90 days)	4 828	–	–	–	4 828
Special mention (61 – 90 days and item well secured)	167	211	2	146	526
Default	**283 815**	**27 930**	**165**	**2 024**	**313 934**
Sub-standard	144 030	18 786	2	1 400	164 218
Doubtful	118 168	6 910	122	250	125 450
Loss	21 617	2 234	41	374	24 266
Total gross core loans and advances to customers	**3 638 551**	**3 179 336**	**971 773**	**134 917**	**7 924 577**
Total impairments	**(128 224)**	**(14 357)**	**(102)**	**(508)**	**(143 191)**
Specific impairments	(106 824)	(14 357)	(102)	(508)	(121 791)
Portfolio impairments	(21 400)	–	–	–	(21 400)
Net core loans and advances to customers	**3 510 327**	**3 164 979**	**971 671**	**134 409**	**7 781 386**

An analysis of core loans and advances by risk category at 31 March 2017

£'000	Gross core loans	Gross defaults	Aggregate collateral and other credit enhance-ments on defaults	Balance sheet impairments	Income statement impairments*
Lending collateralised by property	**1 963 754**	**227 515**	**167 972**	**(70 633)**	**(45 114)**
Commercial real estate	**1 190 836**	**80 987**	**48 998**	**(31 989)**	**(21 748)**
Commercial real estate – investment	934 117	40 120	30 773	(9 347)	(12 373)
Commercial real estate – development	149 188	4 768	1 680	(3 088)	–
Commercial vacant land and planning	107 531	36 099	16 545	(19 554)	(9 375)
Residential real estate	**772 918**	**146 528**	**118 974**	**(38 644)**	**(23 366)**
Residential real estate – investment	262 844	46 841	43 018	(9 222)	(11 126)
Residential real estate – development	458 441	77 250	61 727	(19 754)	(10 615)
Residential vacant land and planning	51 633	22 437	14 229	(9 668)	(1 625)
High net worth and other private client lending	**1 598 801**	**18 458**	**17 139**	**(6 130)**	**(1 928)**
Mortgages	1 228 877	4 906	6 957	(1 237)	(637)
High net worth and specialised lending	369 924	13 552	10 182	(4 893)	(1 291)
Corporate and other lending	**5 162 960**	**14 374**	**7 649**	**(6 725)**	**(5 965)**
Acquisition finance	1 309 335	–	–	–	(1 951)
Asset-based lending	311 628	–	–	–	–
Fund finance	861 140	–	–	–	–
Other corporate and financial institutions and governments	718 760	–	–	–	–
Asset finance	1 488 142	10 483	3 942	(6 541)	(5 630)
Small ticket asset finance	1 062 069	10 483	3 942	(6 541)	(5 630)
Large ticket asset finance	426 073	–	–	–	–
Project finance	464 142	3 891	3 707	(184)	(176)
Resource finance	9 813	–	–	–	1 792
Portfolio impairments	**–**	**–**	**–**	**(43 388)**	**(21 988)**
Total	**8 725 515**	**260 347**	**192 760**	**(126 876)**	**(74 995)**

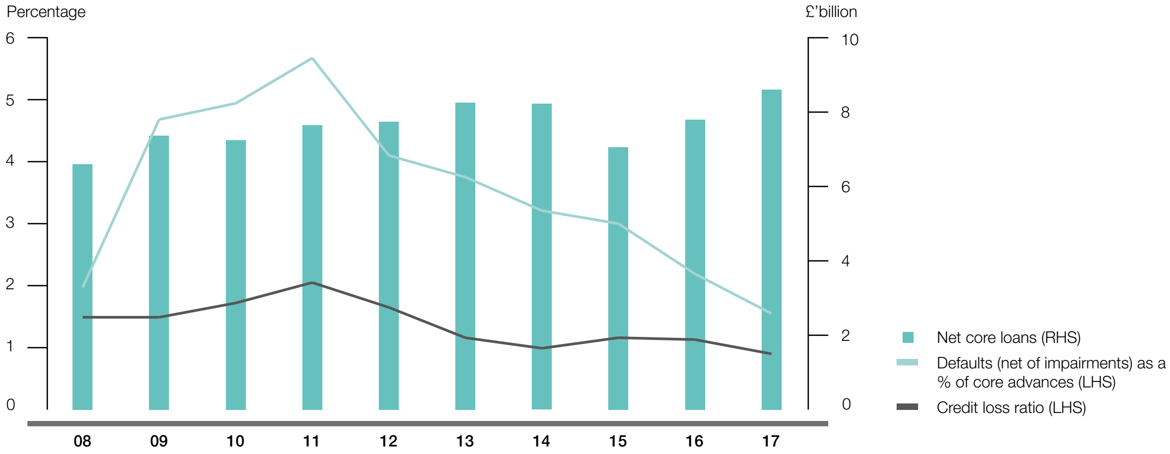
* *Where a positive number represents a recovery.*

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

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

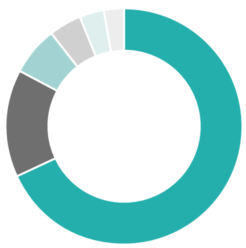
* *Where a positive number represents a recovery or provision released.*

Asset quality trends



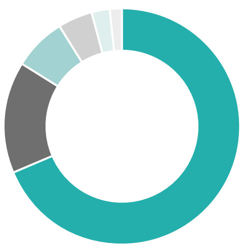
Additional information

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



31 March 2017
£8 726 million

United Kingdom	68.2%
Europe (excluding UK)	14.6%
North America	6.9%
Asia	4.3%
Australia	3.3%
Other	2.7%



31 March 2016
£7 925 million

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

Collateral

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

£'000	Collateral held against: Core loans and advances	Collateral held against: Other credit and counterparty exposures*	Total
At 31 March 2017			
Eligible financial collateral	**911 474**	**664 898**	**1 576 372**
Listed shares	692 067	84 723	776 790
Cash	219 407	194 463	413 870
Debt securities issued by sovereigns	–	385 712	385 712
Property charge	**5 121 750**	**202 096**	**5 323 846**
Residential property	2 551 729	202 096	2 753 825
Residential development	961 844	–	961 844
Commercial property developments	367 925	–	367 925
Commercial property investments	1 240 252	–	1 240 252
Other collateral	**4 884 052**	**199 809**	**5 083 861**
Unlisted shares	670 406	–	670 406
Charges other than property	3 849	199 809	203 658
Debtors, stock and other corporate assets	3 177 267	–	3 177 267
Guarantees	823 122	–	823 122
Other	209 408	–	209 408
Total collateral	**10 917 276**	**1 066 803**	**11 984 079**
At 31 March 2016			
Eligible financial collateral	**313 156**	**399 786**	**712 942**
Listed shares	242 551	76 126	318 677
Cash	70 605	109 180	179 785
Debt securities issued by sovereigns	–	214 480	214 480
Property charge	**4 940 344**	**209 478**	**5 149 822**
Residential property	2 457 252	209 478	2 666 730
Residential development	780 534	–	780 534
Commercial property developments	187 484	–	187 484
Commercial property investments	1 515 074	–	1 515 074
Other collateral	**4 247 959**	**135 508**	**4 383 467**
Unlisted shares	682 021	–	682 021
Charges other than property	21 573	135 508	157 081
Debtors, stock and other corporate assets	2 727 354	–	2 727 354
Guarantees	650 988	–	650 988
Other	166 023	–	166 023
Total collateral	**9 501 459**	**744 772**	**10 246 231**

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

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

Investment risk in the banking book

Investment risk description

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

- **Principal Investments:** Investments are selected based on the track record of management, the attractiveness of the industry and the ability to build value for the existing business by implementing an agreed strategy. Investments in listed shares may arise on the IPO of one of our investments.

Additionally, listed investments may be considered where we believe that the market is mispricing the value of the underlying security or where there is the opportunity to stimulate corporate activity

- **Lending transactions:** The manner in which we structure certain transactions results in equity, warrant and profit shares being held, predominantly within unlisted companies
- **Property activities:** We source development, investment and trading opportunities to create value and trade for profit within agreed risk parameters.

Management of investment risk

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

Nature of investment risk	Management of risk
Listed equities	Investment committee, market risk management, BRCC and GRCC
Corporate principal investments	Investment committee, BRCC and GRCC
Embedded derivatives, profit shares and investments arising from lending transactions	Credit risk management committees, BRCC and GRCC
Investment and trading properties	Investment committee, BRCC and GRCC

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

Valuation and accounting methodologies

For a description of our valuation principles and methodologies refer to pages 141 to 146 and pages 170 to 182 for factors taken into consideration in determining fair value.

We have a low level of assets exposed to the volatility of IFRS fair value accounting with level 3 assets amounting to 3.70% of total assets.

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

£'000 Category	Income/(loss) (pre-funding costs) Unrealised*	 Realised*	 Dividends	 Total	Fair value through equity
For the year to 31 March 2017					
Unlisted investments	24 391	38 512	11 066	73 969	624
Listed equities	(20 442)	21	1 273	(19 148)	(2 831)
Investment and trading properties	(14 892)	18 341	–	3 449	–
Warrants, profit shares and other embedded derivatives	(7 035)	–	–	(7 035)	–
Total	**(17 978)**	**56 874**	**12 339**	**51 235**	**(2 207)**
For the year to 31 March 2016					
Unlisted investments	15 674	14 099	15 419	45 192	184
Listed equities	2 340	(7 249)	–	(4 909)	1 424
Investment and trading properties	(3 145)	2 364	–	(781)	–
Warrants, profit shares and other embedded derivatives	(2 452)	3 469	–	1 017	–
Total	**12 417**	**12 683**	**15 419**	**40 519**	**1 608**

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

Unrealised revaluation gains, recognised in the profit and loss account, are included in common equity tier 1 capital. In line with the Capital Requirements Regulation, for the year ended 31 March 2017, Investec Bank plc did not recognise equity revaluation gains directly to equity, in regulatory capital.

Summary of investments held and stress testing analyses

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

£'000 Category	On-balance sheet value of investments 31 March 2017	Valuation change stress test 31 March 2017*	On-balance sheet value of investments 31 March 2016	Valuation change stress test 31 March 2016*
Unlisted investments	378 088	56 713	331 921	49 788
Listed equities	76 478	19 120	87 940	21 985
Total investment portfolio	**454 566**	**75 833**	**419 861**	**71 773**
Investment and trading properties	143 648	27 280	174 573	27 009
Warrants, profit shares and other embedded derivatives	18 194	6 368	32 902	11 516
Total	**616 408**	**109 481**	**627 336**	**110 298**

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

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

Stress testing summary

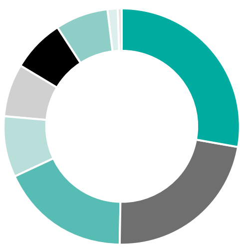
Based on the information at 31 March 2017, as reflected above, we could have a £109 million reversal in revenue (which assumes a year in which there is a 'severe stress scenario' simultaneously across all asset classes). This would not cause the group to report a loss but could have a significantly negative impact on earnings for that period. The probability of all these asset classes in all geographies in which we operate being negatively impacted at the same time is very low, although the probability of listed equities being negatively impacted at the same time is very high.

Capital requirements

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

Refer to page 100 for further detail.

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



31 March 2017
£473 million

Manufacturing and commerce	27.9%
Real estate	22.5%
Finance and insurance	18.0%
Retailer and wholesalers	8.4%
Transport	7.2%
Mining and resources	7.2%
Communication	7.2%
Business services	1.3%
Other	0.3%

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 52 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 2017 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 in the last couple of years.

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

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

We hold rated structured credit instruments. These exposures are largely in the UK and US and amount to £339 million at 31 March 2017 (31 March 2016: £343 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 is typically valued on an amortised cost basis. These investments are risk weighted for regulatory capital.

Accounting policies

Refer to page 143.

Risk management

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

Credit analysis

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

At 31 March Nature of exposure/activity	Exposure 2017 £'million	Exposure 2016 £'million	Balance sheet and credit risk classification
Structured credit* (gross exposure)	349	355	Other debt securities and other loans and advances
Rated	339	343	
Unrated	10	12	
Loans and advances to customers and third party intermediary originating platforms (mortgage loans) (net exposure)	141	154	Other loans and advances

*Analysis of rated and unrated structured credit

At 31 March £'million	2017			2016		
	Rated**	**Unrated**	**Total**	**Rated****	**Unrated**	**Total**
US corporate loans	136	–	136	152	–	152
UK and European RMBS	163	10	173	151	12	163
UK and European ABS	4	–	4	–	–	–
UK and European corporate loans	36	–	36	40	–	40
Total	**339**	**10**	**349**	**343**	**12**	**355**

**Further analysis of rated structured credit at 31 March 2017

£'million	AAA	AA	A	BBB	BB	B	CCC and below	Total
US corporate loans	55	48	33	–	–	–	–	136
UK and European RMBS	32	91	38	–	2	–	–	163
UK and European ABS	–	–	–	4	–	–	–	4
UK and European corporate loans	15	14	6	1	–	–	–	36
Total at 31 March 2017	**102**	**153**	**77**	**5**	**2**	**–**	**–**	**339**
Total at 31 March 2016	**148**	**122**	**65**	**6**	**–**	**2**	**–**	**343**

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 Review 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 shortfall (ES) 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. ESs 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. Scenario analysis is done at least once a week and is included in the data presented to Review ERRF.

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

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

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

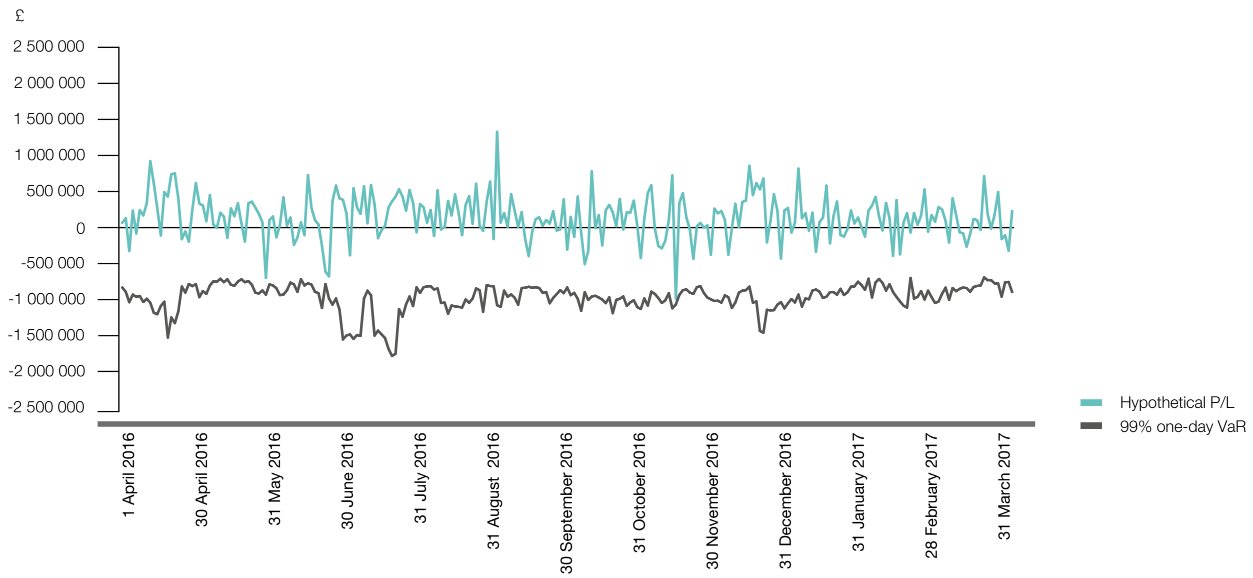
VaR

£'000	31 March 2017				31 March 2016			
	Year end	Average	High	Low	Year end	Average	High	Low
(Using 95% VaR)								
Equities	503	547	1 317	340	515	557	699	412
Foreign exchange	13	34	162	1	37	32	101	12
Interest rates	88	191	287	83	202	195	505	128
Consolidated*	**547**	**586**	**1 364**	**373**	**529**	**589**	**723**	**488**

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

The average VaR utilisation was largely unchanged from 2016. Using hypothetical (clean) profit and loss data for backtesting resulted in zero exceptions over the year at the 99% confidence level, i.e. where the loss was greater than the 99% one-day VaR.

99% one-day VaR backtesting



Expected shortfall

The table below contains the 95% one-day expected shortfall (ES) figures. The 95% one-day ES is the average loss given that the 95% one-day VaR level has been exceeded.

95% (one-day) £'000	31 March 2017	31 March 2016
Equities	731	662
Foreign exchange	24	53
Interest rates	118	257
Consolidated*	**764**	**783**

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

Stress testing

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

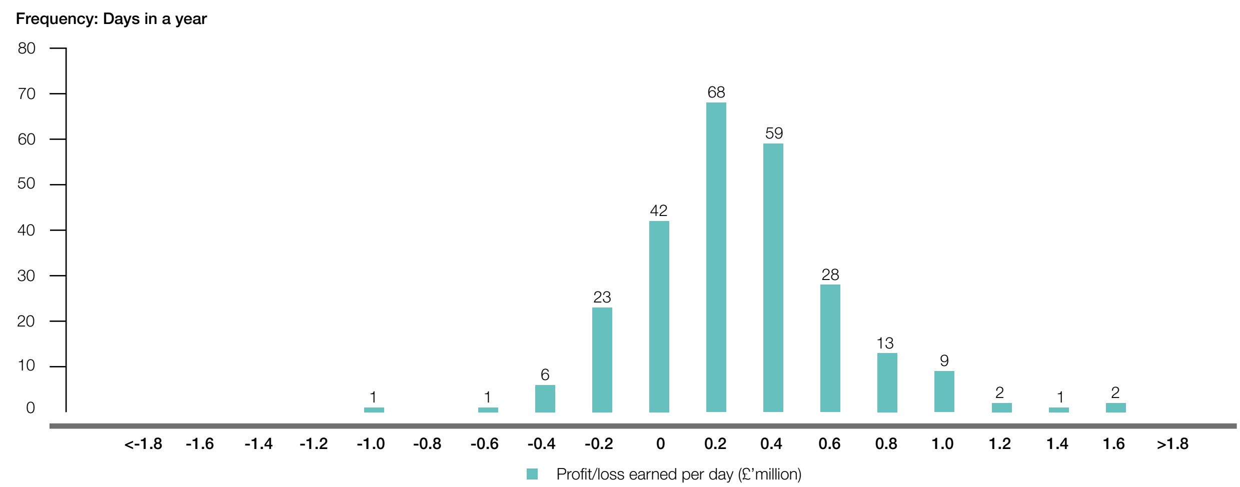
	31 March 2017				
£'000	**Year end**	**Average**	**High**	**Low**	**31 March 2016 Year end**
(Using 99% EVT)					
Equities	1 638	1 819	9 186	767	1 549
Foreign exchange	114	161	619	23	122
Interest rates	264	486	967	232	470
Consolidated**	**1 949**	**2 203**	**4 951**	**1 373**	**1 772**

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

Profit and loss histogram

The histogram below illustrates the distribution of revenue during the financial year for our trading businesses. The distribution is skewed to the profit side and the graph shows that positive trading revenue was realised 182 days out of a total of 252 days in the trading business. The average daily trading revenue generated for the year to 31 March 2017 was £184 716 (2016: £124 250).

Profit and loss



Traded market risk mitigation

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

Risk limits are set according to guidelines set out in our risk appetite policy and are set on a statistical and non-statistical basis. Statistical limits include VaR and ES. 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 on at least a monthly basis. Stressed VaR is calculated in the same way based on a one-year historical period of extreme volatility. The current sVaR period used is mid-2008 to mid-2009, which relates to high levels of volatility experienced during the financial crisis in all markets in which the business holds trading positions.

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.

Risk software is fully integrated with trading systems, while independence is maintained through independent validation of all models and market data used for valuation.

Traded market risk year in review

There was strong growth in client activity across the interest rate and foreign exchange corporate sales desks within Treasury Products and Distribution. Volatility in the forex markets post Brexit resulted in increased client activity and interest rate hedging was again supported by good client driven deal flow. There was an increase in both retail and institutional equity and credit-linked product sales within the Financial Products business. Market risk exposure across all asset classes has on average remained low throughout the year.

Market risk – derivatives

We enter into various derivatives contracts, largely on the back of customer flow for hedging foreign exchange, commodity, equity and interest rate exposures and to a small extent as principal for trading purposes. These include financial futures, options, swaps and forward rate agreements. The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range to take into account possible correlations.

Information showing our derivative trading portfolio over the reporting period on the basis of the notional principal and the fair value of all derivatives can be found on pages 192 and 193.

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, encumbrance and non-trading interest rate risk.

Balance sheet risk governance structure and risk mitigation

Under delegated authority of the board, the group has established asset and liability monitoring 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 seek to hedge residual currency exchange risk arising from deposit and loan banking activities where it is practical and effective to do so.

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 risk and non-trading 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 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 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 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) 'International framework for liquidity risk measurement, standards and monitoring' and is compliant with the 'principles for sound liquidity risk management and supervision' as well as 'principles for management and supervision 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.

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

Daily, weekly and monthly reports are independently produced highlighting bank activity, exposures and key measures against thresholds and limits and are distributed to management, ALCO, the Central Treasury function, Review ERRF, GRCC, BRCC as well as summarised reports for board meetings.

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

Liquidity risk

Liquidity risk description

Liquidity risk refers to the possibility that, despite being solvent, we have insufficient capacity to fund increases in assets, or are unable to meet our payment obligations as they fall due, 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: this 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: this relates to the risk that the bank may be unable to trade in specific markets or that it may only be able to do so with difficulty due to market disruptions or a lack of market liquidity.

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
- Our liquidity management processes encompass principles set out by the regulatory authorities in each jurisdiction, namely the PRA, EBA, Guernsey Financial Services and FINMA
- The risk appetite is clearly defined by the board and each geographic entity must have its own board-approved policies with respect to liquidity risk management
- We maintain a liquidity buffer in the form of unencumbered cash, government or rated securities (typically eligible for repurchase with the central bank), and near cash well in excess of the 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
- 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 maintenance of sustainable prudent liquidity resources takes precedence over profitability
- The group maintains adequate contingency funding plans designed to protect depositors, creditors and shareholders and maintain market confidence during adverse liquidity conditions.

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 scenarios 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 under combined stress before the bank's cash position turns negative
- 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. Customer deposits have continued to grow during the year and our customers display a strong 'stickiness' and willingness to reinvest in our suite of savings, term and notice products.

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

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

We hold a liquidity buffer in the form of cash, unencumbered high quality liquid assets (typically in the form of government or rated securities eligible for repurchase with the central bank), and near cash, well in excess of the 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 2016 to 31 March 2017 average cash and near cash balances over the period amounted to £5.9 billion.

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 both 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
- supplementary information requirements required to manage liquidity during such an event.

This plan helps to ensure that cash flow estimates and commitments can be met in the event of general market disruption or adverse bank-specific events, while minimising detrimental long-term implications for the business.

Asset encumbrance

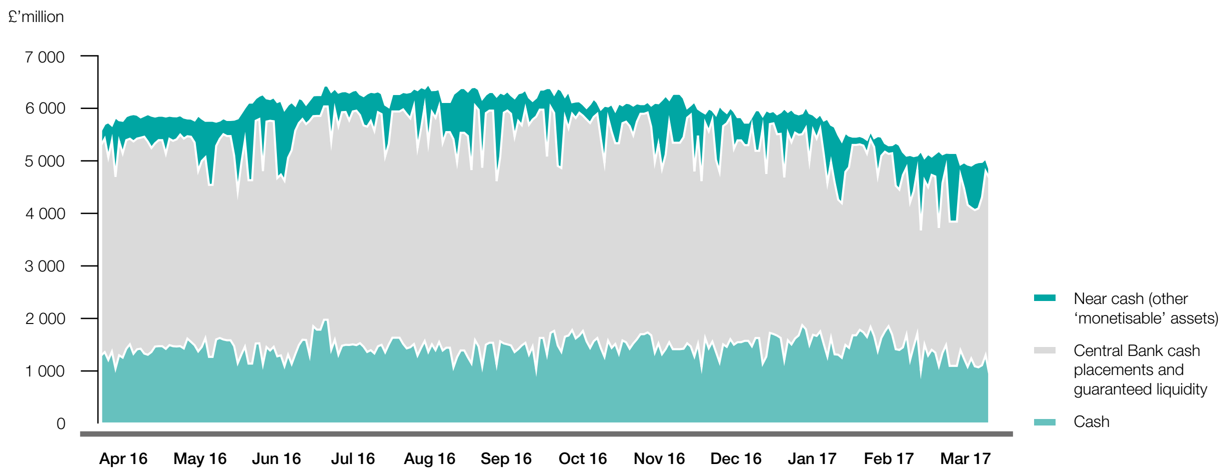
An asset is defined as encumbered if it has been pledged as collateral against an existing liability and, as a result, is no longer available to the group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. An asset is therefore categorised as unencumbered if it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

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

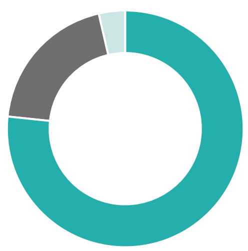
The group uses secured transactions to manage short-term cash and collateral needs. Details of assets pledged through repurchase activity and collateral pledges are reported by line item of the balance sheet on which they are reflected on page 214. Related liabilities are also reported.

On page 190 we disclose further details of assets that have been received as collateral under reverse repurchase agreements and securities borrowing transactions where the assets are allowed to be resold or pledged.

Cash and near cash trend



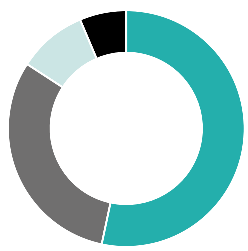
An analysis of cash and near cash at 31 March 2017



£4 853 million

Central Bank cash placements and guaranteed liquidity	76.9%
Cash	19.5%
Near cash (other 'monetisable' assets)	3.6%

Bank and non-bank depositor concentration by type at 31 March 2017



£11 963 million

Individuals	53.4%
Non-financial corporates	30.9%
Small business	9.5%
Banks	6.2%

The liquidity position of the bank remained sound with total cash and near cash balances amounting to £4.9 billion

Liquidity mismatch

The table that follows shows our contractual liquidity mismatch.

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

The table reflects that loans and advances to customers are 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 the assets in the liquidity buffer is of little consequence, as practically Investec would meet any unexpected net cash outflows by repo'ing or selling these 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 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 undefined 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.

Balance sheet risk year in review

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

A very strong, surplus liquidity position was defensively maintained ahead of the EU Referendum in June. After a brief period of volatility following the result of the referendum, markets have been strong and the excess liquidity has been managed down in the second half of the year through both net asset growth, liability management and pricing.

Following these actions, the strategy to normalise liquidity has largely been completed by the year end. The overall liquidity position still remains strong across a range of metrics in line with our overall conservative approach to balance sheet risk management.

The ratings of Investec Bank plc remained stable during the year. Investec Bank plc long-term deposit rating is A2 (stable outlook) from Moody's and BBB (stable outlook) from Fitch. In April 2016, Investec plc's long term issuer rating was upgraded by Moody's one notch further to Baa1 (stable outlook). The active management of the liability channels, particularly in the second half of the year, has enabled a reduction in funding rates across both channels and tenor. However, throughout this liability management strategy, a diverse mix of liabilities by currency, channel and tenor has continued to be maintained to avoid reliance on any particular channel and allow continued access to a range of deposits. Furthermore, selective opportunities in the wholesale and secured funding space continue to be employed in a strategic manner to extend the contractual maturity of balance sheet liabilities, while avoiding refinancing risks.

Cash and near cash balances at 31 March 2017 amounted to £5.0 billion (2016: £5.1 billion). Total UK and Other customer deposits was £11.0 billion at 31 March 2017 (2016: £10.8 billion). Investec plc and Investec Bank plc (solo basis) comfortably exceed the required minimums for the LCR and NSFR as reported below.

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 document on the NSFR in October 2014.

On 1 October 2015 under European Commission Delegated Regulation 2015/61, the LCR became the PRA's primary regulatory reporting standard for liquidity. The LCR is a Pillar 1 metric to which the PRA apply Pillar 2 add-ons. 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. From 1 January 2017, UK banks were required to maintain a minimum of 90%, rising to 100% on 1 January 2018. The published LCR excludes Pillar 2 add-ons. For Investec plc and Investec Bank plc (solo basis), the LCR is calculated using our own interpretations of the EU Delegated Act. The reported LCR may change over time with regulatory developments. The LCR reported to the PRA at 31 March 2017 was 654% for Investec plc and 616% for Investec Bank plc (solo basis).

In November 2016, the European Commission released a number of proposals amending the CRR including a number of adjustments with respect to the NSFR. Banks will be expected to hold a NSFR of at least 100% on an ongoing basis and report their NSFR at least quarterly. The implementation date of this requirement will be two years after the date entry into force of the proposed regulation. The NSFR therefore remains subject to an observation period in advance of such implementation and we will continue to monitor these rules until final implementation. The reported NSFR may change over time within regulatory developments.

Based on our own interpretations and in line with the BCBS' final recommendations (BCBS 295), Investec plc and Investec Bank plc (solo basis) comfortably exceed the 100% minimum level for the NSFR.

Non-trading interest rate risk description

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

- Repricing risk: arises from the timing differences in the fixed rate maturity and floating rate repricing of bank assets, liabilities and off-balance sheet derivative positions. This affects the interest rate margin realised between lending income and borrowing costs when applied to our rate sensitive portfolios
- Yield curve risk: repricing mismatches also expose the bank to changes in the slope and shape of the yield curve
- Basis risk: arises from imperfect correlation in the adjustments of the rates earned and paid on different instruments with otherwise similar repricing characteristics
- Embedded option risk: arises from optional elements embedded in items where the bank or its customers can alter the level and timing of their cash flows
- Endowment risk: refers to the interest rate risk exposure arising from the net differential between interest rate insensitive assets, interest rate insensitive liabilities and capital.

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

Contractual liquidity at 31 March 2017

£'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	3 575	159	21	17	–	3	2	3 777
Investment/trading assets	214	473	525	377	151	822	1 132	3 694
Securitised assets	1	3	–	–	–	11	124	139
Advances	266	393	594	526	1 394	4 412	1 570	9 155
Other assets	289	631	53	24	48	68	503	1 616
Assets	**4 345**	**1 659**	**1 193**	**944**	**1 593**	**5 316**	**3 331**	**18 381**
Deposits – banks	(168)	(3)	(4)	–	–	(411)	(88)	(674)
Deposits – non-banks	(3 300)	(1 436)	(2 352)	(851)	(574)	(2 301)	(475)	(11 289)
Negotiable paper	(2)	(22)	(26)	(26)	(48)	(962)	(555)	(1 641)
Securitised liabilities	(1)	–	(6)	(3)	(4)	(49)	(66)	(129)
Investment/trading liabilities	(184)	(176)	(44)	(26)	(26)	(98)	(390)	(944)
Subordinated liabilities	–	–	–	–	(6)	(573)	–	(579)
Other liabilities	(107)	(620)	(197)	(41)	(104)	(53)	(23)	(1 145)
Liabilities	**(3 762)**	**(2 257)**	**(2 629)**	**(947)**	**(762)**	**(4 447)**	**(1 597)**	**(16 401)**
Shareholders' funds	**–**	**–**	**–**	**–**	**–**	**–**	**(1 980)**	**(1 980)**
Contractual liquidity gap	**583**	**(598)**	**(1 436)**	**(3)**	**831**	**869**	**(246)**	**–**
Cumulative liquidity gap	583	(15)	(1 451)	(1 454)	(623)	246	–	

Behavioural liquidity

As discussed on page 81.

£'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	> Five years	Total
Behavioural liquidity gap	**2 979**	**(599)**	**590**	**(4)**	**831**	**(3 411)**	**(386)**	**–**
Cumulative	2 979	2 380	2 970	2 966	3 797	386	–	

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 importance, and our core non-trading interest rate risk philosophy is reflected in day-to-day practices.

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

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

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

The repricing gap provides a 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. Economic value measures have the advantage that all future cash flows are considered and therefore can highlight risk beyond the earnings horizon.

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

Operationally, daily management of interest rate risk is centralised within the Central Treasury of each geographic entity and is subject to local independent risk and ALCO review. 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 residual 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 Central 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.

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.

Balance Sheet Risk Management independently monitors various interest rate risk metrics to changes in interest rate risk factors, detailing the sources of interest rate exposure.

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

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

The group complies with the BCBS framework which is currently in force for assessing banking book (non-trading) interest rate risk, and is in the process of enhancing its existing framework to adhere to the new BCBS principles which come into effect in 2018.

Internal capital is allocated for non-trading interest rate risk.

Interest rate sensitivity gap

The table below shows our non-trading interest rate mismatch at 31 March 2017. These exposures affect the interest rate margin realised between lending income and borrowing costs assuming no management intervention.

£'million	Not > three months	> Three months but < six months	> Six months but < one year	> One year but < five years	> Five years	Non-rate	Total non-trading
Cash and short-term funds – banks	3 713	1	–	–	–	–	3 714
Investment/trading assets and statutory liquids	1 407	130	9	271	190	186	2 193
Securitised assets	139	–	–	–	–	–	139
Advances	7 079	519	409	940	208	–	9 155
Other assets	4	–	–	–	–	1 568	1 572
Assets	**12 342**	**650**	**418**	**1 211**	**398**	**1 754**	**16 773**
Deposits – banks	(645)	–	–	–	–	–	(645)
Deposits – non-banks	(9 404)	(543)	(595)	(747)	–	–	(11 289)
Negotiable paper	(1 310)	(2)	(5)	(254)	(70)	–	(1 641)
Securitised liabilities	(129)	–	–	–	–	–	(129)
Investment/trading liabilities	(22)	(39)	(19)	(3)	–	(1)	(84)
Subordinated liabilities	–	–	–	(575)	–	(4)	(579)
Other liabilities	(2)	–	–	–	–	(423)	(425)
Liabilities	**(11 512)**	**(584)**	**(619)**	**(1 579)**	**(70)**	**(428)**	**(14 792)**
Shareholders' funds	–	–	–	–	–	(1 980)	(1 980)
Balance sheet	**830**	**66**	**(201)**	**(368)**	**328**	**(654)**	**–**
Off-balance sheet	602	138	(222)	(252)	(267)	–	–
Repricing gap	**1 432**	**204**	**(423)**	**(620)**	**61**	**(654)**	**–**
Cumulative repricing gap	1 432	1 636	1 213	593	654	–	

Economic value sensitivity at 31 March 2017

For the reasons outlined above, our preference for monitoring and measuring non-trading interest rate risk is economic value sensitivity. The table below reflects our economic value sensitivity to a 2% parallel shift in interest rates assuming no management intervention. The numbers represent the change to the value of the interest rate sensitive portfolios should such a hypothetical scenario arise. This sensitivity effect does not have a significant direct impact on our equity.

	Sensitivity to the following interest rates (expressed in original currencies)						
million	GBP	USD	EUR	AUD	ZAR	Other (GBP)	All (GBP)
200bps down	(46.6)	(13.3)	(6.7)	0.8	(13.4)	1.1	(62.1)
200bps up	42.3	12.1	6.0	(0.8)	13.4	(0.8)	56.6

Operational risk

Operational risk definition

Operational risk is defined as the potential or actual impact to the group as a result of failures relating to internal processes, people and 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 fit for purpose.

Operational risk management framework

The group applies the standardised approach (TSA) for regulatory capital purposes in the assessment of operational risk.

The changing regulatory landscape includes The Basel Committee on Banking Supervision ("BCBS") proposing reforms on how banks calculate operational risk capital. The group continues to work closely with regulators and industry bodies to remain cognisant of reforms.

The framework 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.

The operational risk management framework is supported by practices and processes which facilitate 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 performed on key business processes, are used to identify, manage and monitor operational risks and controls	Internal risk events are analysed to enable business to identify trends in risk events and address control weaknesses	An external data service is used to analyse operational risk events from other organisations. This provides insight into possible emerging risks and input into scenarios analysis	Metrics are used to monitor risk exposures against identified thresholds. The output assists in predictive capability and assessing the risk profile of the business	Extreme yet plausible scenarios are used to analyse and manage significant operational risk. In addition, the output of this evaluation is used to determine internal operational risk capital requirements	Ongoing monitoring and reporting of the operational risk profile supports decision-making

Governance

The governance structure adopted to manage operational risk within the bank operates in terms of a levels of defence model and includes principles relating to combined assurance.

The levels of defence model is applied as follows:

- Level 1 – Business line management: responsible for identifying and managing risks inherent in the products, activities, processes and systems for which it is accountable
- Level 2 – Independent operational risk function: key function is to challenge the business lines' inputs to, and outputs from, the bank's risk management, risk measurement and reporting systems
- Level 3 – Independent review and challenge: required to review and challenge the bank's operational risk management controls, processes and systems.

Risk tolerance

The Operational Risk Tolerance policy defines the amount of operational risk exposure, or potential adverse impact of a risk event, that the bank is willing to accept. 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.

All exceptions and breaches of thresholds are reported to the relevant operational risk governance forums and to the GRCC who are responsible for escalation to the BRCC as appropriate.

Looking forward

Key operational risk considerations for the year ahead

Definition of risk	Mitigation approach and priority for 2017/2018
Business continuity	
Risk associated with disruptive incidents which can impact premises, staff, equipment, systems, and key business processes	• Enhance the global business continuity management capability through a team of dedicated resources and a thorough governance process • Respond to disruptions to maintain continuity by relocating impacted business to alternate processing sites and the use of high availability technology solutions • Incorporate resilience into business operations to lessen the impact of disruptions • Conduct ongoing verification of recovery strategies to ensure they are effective and appropriate • Participate in industry-wide discussions to keep abreast of regulatory developments and collaboratively minimise systemic continuity risks
Cybersecurity	
Risk associated with cyberattacks which can result in fraud, data theft, cyber terrorism, espionage, or disrupt client-facing services	• Maintain a risk-based and adaptive cybersecurity strategy to ensure the group is adequately protected against advanced cyberattacks • Continuous improvement of prediction, prevention, detection and response capabilities • Security testing of IT systems to ensure they are secure both by design and as they evolve • Establish an effective and globally co-ordinated security incident response process • Build robust cyber resilience to be able to anticipate, withstand, and recover from cyber events
Financial crime	
Risk associated with fraud, bribery, corruption, theft, money laundering, terrorist financing, tax evasion, forgery and integrity misconduct by staff, clients, suppliers and other stakeholders	• Targeted training for specific risk roles, regular campaigns to all employees to raise awareness of financial crime risk and associated policies and encourage escalation • Operate an Integrity Line which allows employees to make disclosures including regulatory breaches, allegations of bribery, fraud and corruption, and non-compliance with policies • Proactive strategy for the effective prevention, detection and investigation of all financial crime types which includes business and client risk assessments • Continuous monitoring of adherence to financial crime prevention policies and embedding of practices which comply with regulations, industry guidance and best practice • Research and review of external and industry events through engagement with relevant industry bodies and external partners
Information security	
Risk associated with the protection of information assets against unauthorised access, use, disclosure, modification or destruction	• Identify high-value information assets based on confidentiality and business criticality • Implement strong security controls to protect information against compromise • Manage access to systems and data in support of least-privilege and segregation of duty principles • Establish effective security monitoring to identify and swiftly respond to suspicious activity • Align practices and controls with the rapidly changing legal and regulatory privacy requirements

Risk management

(continued)

Definition of risk	Mitigation approach and priority for 2017/2018
Outsourcing	
Risk associated with the use of a service provider to perform on a continuing basis a business activity which could be undertaken by the group	• Governance structures are in place to approve outsource arrangements • Framework and policies support ongoing management and monitoring of outsource providers • Outsource arrangements are managed in accordance with regulatory requirements which includes the suitability of the outsource provider to perform services • Continuous assessment of the strategic decision to outsource including the appropriateness of the outsource provider
Process failure	
Risk associated with inadequate internal processes, including human errors and control failures within the business. This includes process origination, execution and operations	• Proactive assessment relating to new products and projects to implement adequate and effective controls including the management of change • Continuous automation of processes • Segregation of incompatible duties and appropriate authorisation controls • Causal analysis is used to identify weaknesses in controls following the occurrence of risk events • Risk and performance indicators are used to monitor the effectiveness of controls across business units • Thematic reviews across business units to ensure consistent and efficient application of controls
Regulatory and compliance	
Risk associated with identification, implementation and monitoring of compliance with regulations	• Align regulatory and compliance approach to reflect new regulatory landscapes particularly change of regulatory structures • Manage business impact and implementation challenges as a result of significant volumes of statutory and regulatory changes and developments • Ensuring existing monitoring remains focused appropriately as areas of conduct and regulatory risk develop • Group Compliance and Group Legal assist in the management of regulatory and compliance risk • Identification and adherence to legal and regulatory requirements
Technology	
Risk associated with the reliance on technology to support business processes and client services	• Align architecture across the group to reduce technical complexity and leverage common functions and processes • Enhance operational processes to better control IT changes and manage IT incidents, in order to minimise business impact • Drive automation and proactive monitoring of the technology environment to reduce human error whilst enhancing visibility • Implement infrastructure upgrades and legacy application replacements to improve technology capacity, scalability and resilience • Perform continuous risk management to proactively address control gaps in IT people, processes or systems • Maintain and test IT recovery capabilities to withstand system failures and safeguard against service disruptions

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

Insurance

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

Recovery and resolution planning

The recovery plan for the Investec plc group:

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

A significant addition to the EU legislative framework for financial institutions has been the Bank Recovery and Resolution Directive (BRRD) which establishes a framework for the recovery and resolution of EU credit institutions and investment firms. As implemented, the BRRD gives resolution authorities powers to intervene in and resolve a financial institution that is no longer viable, including through the transfers of business and, when implemented in relevant member states, creditor financed recapitalisation (bail-in within resolution) that allocates losses to shareholders and unsecured and uninsured creditors in their order of seniority, at a regulator determined point of non-viability that may precede insolvency. The concept of bail-in will affect the rights of unsecured creditors subject to any bail-in in the event of a resolution of a failing bank.

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

For more detail on MREL, please refer to pages 91 and 92.

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

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

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

Reputational and strategic risk

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

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

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

Pension risk

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

There 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 207 to 210.

Legal risk management

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

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

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

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

The legal risk policy is implemented through:

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

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

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

Conduct risk

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

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

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

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

Capital management and allocation

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

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

Regulatory capital

Current regulatory framework

Investec Bank plc is authorised by the PRA and is regulated by the FCA and the PRA on a solo-consolidated basis. Investec Bank plc calculates capital resources and requirements using the Basel III framework, as implemented in the European Union through the Capital Requirements Directive IV (CRD IV).

UK banks are required to meet minimum capital requirements as prescribed by CRD IV. The common equity tier 1 capital requirement is 4.5% of risk-weighted assets, while the tier 1 capital requirement of risk-weighted assets is 6% and total capital requirement of 8% of risk-weighted assets. In addition Investec Bank plc continues to meet 56% of its individual capital guidance, as determined by the internal capital adequacy assessment and supervisory review process, with common equity tier 1 capital.

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.

In line with the CRD IV provision on capital buffers, in the UK firms are required to meet a combined buffer requirement in addition to their Pillar I and Pillar II capital requirements. The combined buffer includes the capital conservation buffer and countercyclical capital buffer and must be met with common equity tier 1 capital. The buffer for global systemically important institutions (G-SIIs) and the systemic risk buffer do not apply to Investec Bank plc and will not be included in the combined buffer requirement. From 1 January 2016 Investec Bank plc began phasing in the capital conservation buffer at 0.625% of risk-weighted assets. An additional 0.625% of risk-weighted assets will be phased-in each year until fully implemented by 1 January 2019. Investec Bank plc is also subject to the countercyclical capital buffer requirement, which is calculated based on the relevant exposures held in jurisdictions in which a buffer rate has been set. In the UK, the Financial Policy Committee has reaffirmed that it expects to maintain a rate of 0% until at least June 2017. As at 31 March 2017, five jurisdictions have implemented countercyclical buffer rates: Norway 1.5%, Sweden 2%, Hong Kong 1.25%, Czech Republic 0.5%, Iceland 1%. Slovakia have set a rate of 0.5% effective 1 August 2017.

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

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

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

Regulatory considerations

The regulatory environment has continued to evolve during 2017, with a vast number of new consultations, regulatory technical standards and implementing technical standards and other proposals being published or adopted, notably by the PRA, the BCBS and the European Banking Authority (EBA).

International

Throughout 2016 the Basel Committee on Banking Supervision (BCBS) continued to develop their package of reforms to the existing Basel III framework. In January 2017, the BCBS announced that its finalisation of reforms to Basel III had been delayed. The BCBS is now expected to issue updated standards on the calculation of operational risk, the standardised framework for the credit risk and restrictions on the use of internal models and application of as RWA floor based on the standardised approaches later in 2017. These measures will require EU and domestic legislation to take effect, the implementation date has yet to be determined.

IFRS 9

International Financial Reporting Standard 9 Financial Instruments (IFRS 9) will come into effect from 1 January 2018. As a result, the BCBS has proposed some international arrangements that individual jurisdictions may choose to implement.

UK

Minimum requirement for own funds and eligible liabilities (MREL)

The Bank of England (BoE) has finalised its policy in setting MREL. 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, dependent on a firms resolution strategy. The three board result strategies are:

Modified insolvency process: where the BoE has assumed that firms do not provide any critical economic functions, these institutions will be able to comply with MREL by meeting their existing capital requirements.

Partial transfer: some firms may have critical economic functions that would need to continue after a firm has been placed into resolution. MREL would need to be assessed at a level that could ensure that these functions could be transferred to another institutions.

Bail in: the most complex firms will be required to maintain efficient MREL so that they can be recapitalised and continue to meet the PRA's conditions for authorisation without requiring taxpayers support.

The BoE has set the preferred strategy for Investec Bank plc to be modified Insolvency. As a results, Investec Bank plc's MREL requirement will equal its regulatory capital requirements (Pillar I + Pillar IIA). As noted in the statement of policy on the BoE's approach to setting MREL, the actual approach taken to resolve an institution will depend on the circumstances at the time of its failure. The preferred resolution strategy may not necessarily be followed if a different approach would better meet the resolution objective at the time.

Europe

CRR2/CRDV

In November 2016, The European Commission proposed a number of revisions to CRDIV which reflect some of the proposals already completed or under development by the BCBS. Together, these changes are known as the 'CRR2/CRDV' package. The CRR2/CRDV package includes the following:

- A new standardised approach for the counterparty credit risk to replace the existing current exposure and standardised methods.
- Changes to the rules for determining this lending bank boundary and the methodologies for calculating market risk capital charges.
- A binding leverage ratio for all banks. The UK leverage ratio framework is currently only applicable to PRA-regulated banks and buildings societies with retail deposit equal to or greater than £50 billion on an individual or a consolidated basis. Investec bank plc is not within scope of the framework.
- A new methodology for capital charges for equity investments in funds.
- Restriction to the capital base and changes to the exposure limits for the calculation of large exposures.
- Proposed transitional arrangements for implementation of IFRS9.

The CRR2/CRDV package is expected to apply two years after the dates of its entry into the official journal except for previsions related to IFRS9, which will apply from the date it comes into force (1 January 2018).

Capital and leverage ratio targets

Capital

Over recent years, capital adequacy standards for banks have been raised as part of attempts to increase the stability and resilience of the global banking sector. Investec Bank plc has always held capital in excess of regulatory requirements and continues to remain well capitalised. Accordingly, we are targeting a minimum common equity tier 1 capital ratio of above 10%, 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 Bank plc is currently targeting a leverage ratio above 6%.

Management of capital and leverage

Capital

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

Leverage

In the UK, the leverage ratio was subject to a monitoring period from 1 January 2014 to 30 June 2016, at which point the EBA reported to the European Commission suggesting a 3% leverage ratio was adequate. Also appropriate adjustments to the capital and total exposure measure were proposed. The latest proposal in the CRR2 implement a 3% leverage ratio which will come into effect two years from publication in the European Commissions Official Journal.

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

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

Capital management

Philosophy and approach

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

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

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

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

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

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

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

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

Risk modelling and quantification (internal capital)

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

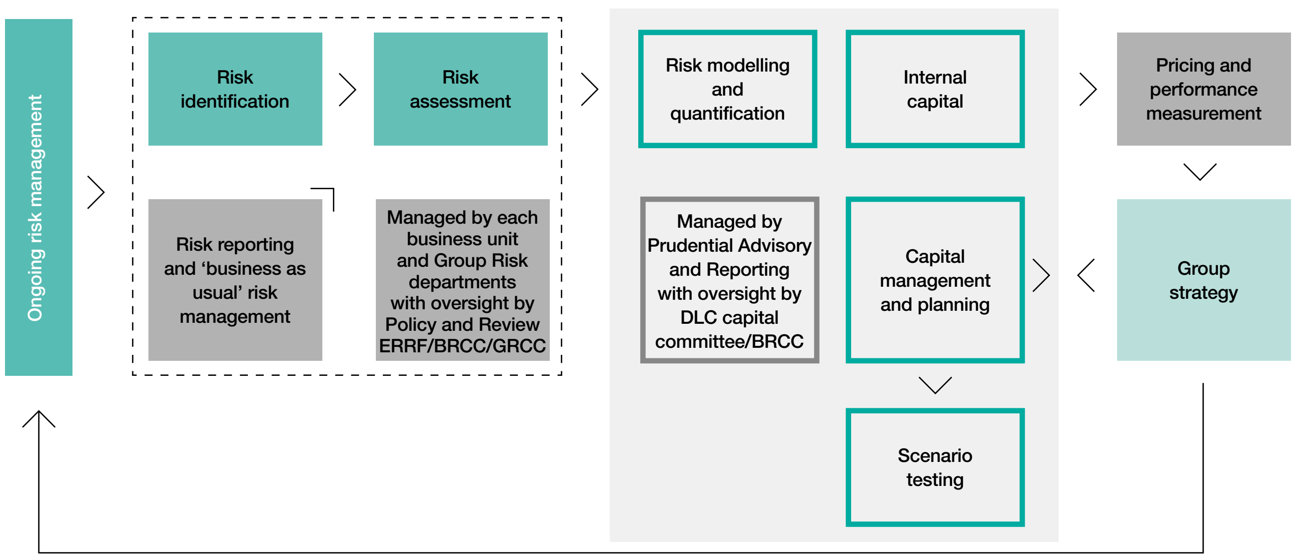
The following risks are included within the internal capital framework and quantified for capital allocation purposes:

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

Capital planning and stress/ scenario testing

A capital plan is prepared for Investec bank plc 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.

The (simplified) integration of risk and capital management



Three month capital plans are prepared monthly, with regulatory capital being the key driver of decision-making. The goal of capital planning is to provide insight into potential sources of vulnerability of capital adequacy by way of market, economic or internal events. As such, the 3 year capital plans are stressed based on conditions most likely to place us under duress. The conditions themselves are agreed by the DLC capital committee the key vulnerabilities have been determined through the stress testing workshops. Such plans are used by management to formulate balance sheet strategy and agree management actions, trigger points and influence the determination of our risk appetite.

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

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

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

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

Pricing and performance measurement

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

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

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

Accounting and regulatory treatment of group subsidiaries

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

Basis of consolidation

The regulatory basis of consolidation differs from the basis of consolidation used for financial reporting purposes. The financial accounting position of the group is reported under IFRS and is described on page 140 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 exposures to financial sector associates are proportionally consolidated. Subsidiaries and associates engaged in non-financial activities are excluded from the regulatory consolidation. In addition SPEs are not consolidated for regulatory purposes, where significant credit risk has been transferred to third parties. The positions the firm continues to hold in these securitisation SPEs will either be risk-weighted and/or deducted from common equity tier 1 capital.

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

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

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

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

The alphabetic references included in the reconciliation provide a mapping of the balance sheet items to elements included in the capital structure table, set out on page 99.

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

A detailed list of principal subsidiaries and associates included in the financial accounting scope of consolidation are disclosed on pages 234 to 237.

Regulatory capital and requirements

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

- Common equity tier 1 capital comprises shareholders' equity and related eligible non-controlling interests after giving effect to deductions for disallowed items (for example, goodwill and intangible assets) and other adjustments

- Additional tier 1 capital includes qualifying capital instruments that are capable of being fully and permanently written down or converted into common equity tier 1 capital at the point of non-viability of the firm, and other additional tier 1 instruments, which no longer qualify as additional tier 1 capital and are subject to grandfathering provisions and related eligible non-controlling interests
- Tier 2 capital comprises qualifying subordinated debt and related eligible non-controlling interests and other tier 2 instruments, which no longer qualify as tier 2 capital and are subject to grandfathering provisions.

Capital requirements country-by-country reporting

HM Treasury has transposed the requirements set out under CRD IV and issued the Capital Requirements Country-by-Country Reporting Regulations 2013. The legislation requires the bank to publish certain additional information in respect of the year ended 31 March 2017. This information will be available on the Investec group website.

Capital disclosures

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

Reconciliation of the financial accounting balance sheet to the regulatory scope of consolidation

At 31 March 2017 £'million	Ref^	Accounting balance sheet	Deconsolidation of non-financial/ other entities	Consolidation of banking associates	Regulatory balance sheet
Cash and balances at central banks		2 854	–	–	2 854
Loans and advances to banks		923	(69)	4	858
Reverse repurchase agreements and cash collateral on securities borrowed		536	–	–	536
Sovereign debt securities		953	–	–	953
Bank debt securities		185	–	–	185
Other debt securities		408	2	–	410
Derivative financial instruments		610	–	–	610
Securities arising from trading activities		523	(6)	–	517
Investment portfolio		454	1	–	455
Loans and advances to customers		8 599	–	–	8 599
Other loans and advances		556	61	–	617
Other securitised assets		139	–	–	139
Interests in associated undertakings		23	(1)	(12)	10
Deferred taxation assets		79	–	–	79
of which:					
– relates to losses carried forward	a	10	–	–	10
– relates to temporary differences		33	–	–	33
Other assets		1 089	(23)	10	1 076
Property and equipment		59	(29)	–	30
Investment properties		15	(15)	–	–
Goodwill	b	260	–	7	267
Intangible assets	b	116	–	–	116
Investment in subsidiary companies		–	7	–	7
Total assets		**18 381**	**(72)**	**9**	**18 318**

Reconciliation of the financial accounting balance sheet to the regulatory scope of consolidation *(continued)*

At 31 March 2017 £'million	Ref^	Accounting balance sheet	Deconsolidation of non-financial/ other entities	Consolidation of banking associates	Regulatory balance sheet
Deposits by banks		673	(86)	–	587
Derivative financial instruments		583	–	–	583
Other trading liabilities		136	–	–	136
Repurchase agreements and cash collateral on securities lent		224	–	–	224
Customer accounts (deposits)		11 289	90	–	11 379
Debt securities in issue		1 641	(77)	–	1 564
Liabilities arising on securitisation of other assets		129	13	–	142
Current taxation liability		147	–	–	147
Deferred taxation liabilities		27	(3)	–	24
of which:					
– in respect of acquired intangibles		18	–	–	18
Other liabilities		973	–	9	982
Subordinated liabilities		579	–	–	579
of which:					
- term subordinated debt included in tier 2 capital	c	579	–		579
Total liabilities		**16 401**	**(63)**	**9**	**16 347**
Shareholder's equity excluding non-controlling interests	d	1 982	(9)	–	1 973
Non controlling interests	e	(2)	–	–	(2)
Total equity		**1 980**	**(9)**	**–**	**1 971**
Total liabilities and equity		**18 381**	**(72)**	**9**	**18 318**

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

Reconciliation of the financial accounting balance sheet to the regulatory scope of consolidation *(continued)*

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

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

Reconciliation of the financial accounting balance sheet to the regulatory scope of consolidation *(continued)*

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

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

Capital management and allocation

Capital structure and capital adequacy

Summary information on the terms and conditions of the main features of all capital instruments is provided on page 211.

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

£'million	Ref*	31 March 2017º	31 March 2016º
Tier 1 capital			
Shareholders' equity		**1 938**	**1 793**
Shareholders' equity per balance sheet	d	1 982	1 844
Foreseeable dividends		(35)	(34)
Deconsolidation of special purpose entities	d	(9)	(17)
Non-controlling interests		**(2)**	**(1)**
Non-controlling interests per balance sheet	e	(2)	(1)
Regulatory adjustments to the accounting basis		**(4)**	**(6)**
Unrealised gains on available-for-sale equities		–	–
Additional value adjustments		(4)	(6)
Deductions		**(380)**	**(386)**
Goodwill and intangible assets net of deferred taxation	b	(366)	(374)
Deferred taxation assets that rely on future profitability excluding those arising from temporary differences	a	(10)	(8)
Securitisation positions		(3)	(4)
Debt valuation adjustment		(1)	–
Common equity tier 1 capital		**1 552**	**1 400**
Tier 1 capital		**1 552**	**1 400**
Tier 2 capital		**560**	**590**
Tier 2 instruments	c	560	590
Total regulatory capital		**2 112**	**1 990**
Risk-weighted assets		**12 716**	**11 738**
Capital ratios			
Common equity tier 1 ratio		12.2%	11.9%
Tier 1 ratio		12.2%	11.9%
Total capital ratio		16.6%	17.0%

º *The capital adequacy disclosures for Investec Bank plc include the deduction of foreseeable dividends when calculating common equity tier 1 capital as now required under the Capital Requirements Regulation and EBA technical standards. These disclosures are different to the capital adequacy disclosures included in Investec's 2016 and 2015 integrated annual reports, which follow our normal basis of presentation and do not include the deduction of foreseeable dividends when calculating common equity tier 1 capital. Investec Bank plc's common equity tier 1 ratio would be 28bps (31 March 2016: 30bps) higher on this basis.*

* *The references refer to those in the reconciliation of the regulatory scope balance sheet set out on pages 95 to 102.*

Capital management and allocation *(continued)*

Capital requirements

£'million	31 March 2017	31 March 2016
Capital requirements	**1 017**	**939**
Credit risk – prescribed standardised exposure classes	776	698
Corporates	431	338
Secured on real estate property	156	150
Retail	45	44
Institutions	28	35
Other exposure classes	108	122
Securitisation exposures	8	9
Equity risk – standardised approach	6	8
Listed equities	3	3
Unlisted equities	3	5
Counterparty credit risk	39	41
Credit valuation adjustment risk	6	5
Market risk	68	74
Interest rate	29	27
Foreign exchange	8	21
Equities	20	16
Options	11	10
Operational risk – standardised approach	122	113
Risk-weighted assets (banking and trading)	**12 716**	**11 738**
Credit risk – prescribed standardised exposure classes	9 687	8 720
Corporates	5 380	4 224
Secured on real estate property	1 948	1 876
Retail	557	550
Institutions	353	439
Other exposure classes	1 349	1 524
Securitisation exposures	100	107
Equity risk – standardised approach	80	102
Listed equities	40	43
Unlisted equities	40	59
Counterparty credit risk	494	518
Credit valuation adjustment risk	78	58
Market risk	856	924
Interest rate	360	332
Foreign exchange	106	261
Equities	248	201
Options	142	130
Operational risk – standardised approach	1 521	1 416

Investec Bank plc

Movement in risk-weighted assets

Total risk-weighted assets (RWAs) have increased by 8.3% over the period, predominantly within credit risk RWAs.

Credit risk RWAs

For Investec Bank plc consolidated reporting, we have adopted the standardised approach for calculating credit risk RWAs. Credit risk RWAs, which include equity risk, increased by £945 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 decreased by £24 million mainly due to central clearing some of our derivative exposures.

Market risk RWAs

We apply the standardised approach for calculating market risk RWAs. Market risk RWAs decreased by £68 million primarily driven by a decrease in FX Risk which was achieved by hedging.

Operational risk RWAs

Operational risk RWAs are calculated using the standardised approach and increased by £105 million. The increase is due to a higher three year average operating income.

A summary of capital adequacy and leverage ratios

	31 March 2017º	31 March 2016º
Common equity tier 1 (as reported)	12.2%	11.9%
Common equity tier 1 ('fully loaded')^	12.2%	11.9%
Tier 1 (as reported)	12.2%	11.9%
Total capital adequacy ratio (as reported)	16.6%	17.0%
Leverage ratio* – permanent capital	8.0%	7.5%
Leverage ratio* – current	8.0%	7.5%
Leverage ratio* – 'fully loaded'^	8.0%	7.5%
Leverage ratio – current UK Leverage ratio framework ^^*	9.3%	n/a

º *The capital adequacy disclosures for Investec Bank plc include the deduction of foreseeable dividends when calculating common equity tier 1 capital as now required under the CRR and EBA technical standards. These disclosures are different to the capital adequacy disclosures included in Investec's 2016 and 2015 integrated annual reports, which follow our normal basis of presentation and do not include the deduction of foreseeable dividends when calculating common equity tier 1 capital. Investec Bank plc's common equity tier 1 ratio would be 28bps (31 March 2016: 30bps) higher on this basis.*

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

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

^^ *Investec Bank plc is not subject to the UK leverage ratio framework, however, due to recent changes to the UK leverage ratio framework to exclude from the calculation of the total exposure measure those assets constituting claims on central banks where they are matched by deposits accepted by the firm that are denominated in the same currency and of identical or longer maturity, this has been included for comparative purposes.*

Reconciliation of the leverage ratio

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

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

£'million	**31 March 2017**	**31 March 2016**
Total assets per accounting balance sheet	**18 381**	**18 335**
Deconsolidation of non-financial/other entities	(72)	(80)
Consolidation of banking associates	9	8
Total assets per regulatory balance sheet	18 318	18 263
Reversal of accounting values:		
Derivatives	(610)	(843)
Regulatory adjustments:	1 709	1 145
Derivatives market value	567	328
Derivative add-on amounts per the mark-to-market method	789	519
Securities financing transaction add-on for counterparty credit risk	39	126
Off-balance sheet items	693	554
Add-on for written credit derivatives	3	9
Exclusion of items already deducted from the capital measure	(382)	(391)
Exposure measure	**19 417**	**18 565**
Tier 1 capital	1 552	1 400
Leverage ratio – current	**8.0%**	**7.5%**
Tier 1 capital fully loaded	1 552	1 400
Leverage ratio – 'fully loaded'	**8.0%**	**7.5%**

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

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

Movement in total regulatory capital

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

Total regulatory capital flow statement

£'million	31 March 2017	31 March 2016
Opening common equity tier 1 capital	**1 400**	**1 325**
Profit after taxation	118	95
Share-based payment adjustment	–	5
Movement in other comprehensive income	53	(16)
Dividends	(35)	(40)
Goodwill and intangible assets (deduction net of related taxation liability)	9	7
Deferred taxation that relies on future profitability (excluding those arising from temporary differences)	(1)	–
Deconsolidation of special purpose entities	9	34
Foreseeable dividends	(1)	(19)
Other, including regulatory adjustments and transitional arrangements	–	9
Closing Common equity tier 1 capital/core tier 1 capital	**1 552**	**1 400**
Opening tier 2 capital	**590**	**590**
Redeemed capital	(18)	–
Amortisation adjustments	(12)	–
Closing tier 2 capital	**560**	**590**
Closing total regulatory capital	**2 112**	**1 990**

Credit ratings

In terms of our dual listed companies structure, creditors are ring-fenced to either Investec Limited or Investec plc as there are no cross-guarantees between the companies. Capital and liquidity are prohibited from flowing between the two entities and thus capital and liquidity are not fungible. As a result, the rating agencies have assigned separate ratings to the significant banking entities within the 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 14 June 2017 are as follows:

Rating agency	Investec plc	Investec Bank plc – a subsidiary of Investec plc
Fitch		
Long-term rating		BBB
Short-term rating		F2
Viability rating		bbb
Support rating		5
Moody's		
Long-term rating	Baa1	A2
Short-term rating	Prime-2	Prime-1
Baseline Credit Assessment (BCA) and adjusted BCA		baa2
Global Credit Ratings		
Long-term rating		BBB+
Short-term rating		A2

Internal Audit

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. Investec Bank plc is served by the Investec plc Internal Audit department.

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

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

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

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

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

Regulatory change continues to be a key challenge in the financial sector with global political events adding to uncertainty as to the shape of financial services regulation going forward.

Global regulators remain focused on countering market abuse with heightened scrutiny and regulatory attention in this area. Accordingly, the Market Abuse Regulation (MAR) took effect across the EU on 3 July 2016 in connection with this topic.

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

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

Year in review

Conduct risk

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

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

Senior managers and certified persons regime

During the period Investec Bank plc successfully implemented the core components of the Senior Managers Regime which came into force on 7 March 2016. From 7 March 2017 the Conduct Rules will be applied to banking sector staff who are not within the Senior Managers or Certification Regime. This regime establishes a new regulatory framework for individuals working in the UK banking sector. The incoming regime consists of three key components:

- A new Senior Managers Regime which will clarify lines of responsibility, and enhance the regulators' ability to hold senior individuals in banks accountable and require banks to regularly vet their senior managers for fitness and propriety;
- 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
- 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 the regime which came into force on 7 March 2016.

Consumer protection

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

Wholesale markets

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

This has included an increasingly intensive approach to supervisory activities and thematic reviews as well as several high profile referrals to enforcement.

Wholesale markets have also been the focus of significant regulatory reform over the past 12 months. The most significant proposed reforms have included the finalisation of the incoming Markets in Financial Instruments Directive (MIFID II) which is due to be implemented by January 2018 and MAR.

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. Investec remains on course for implementation 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).

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 2016 the FCA published "Our future mission" in which it states "we see financial crime as a risk to the wider economy and market integrity". The FCA Business Plan 2016/17 also highlights financial crime and anti-money laundering as one of the seven priorities for the regulator.

Tax reporting (FATCA/CRS)

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

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

Investec Bank plc is currently compliant with its obligations.

Corporate governance

Chairman's introduction

I am pleased to present the annual corporate governance report for the year ended 31 March 2017, which describes our approach to corporate governance.

Before looking into the detail of our governance framework, I would like to make some comments on where the board's attention has been focused over the past year, how it has delivered against its priorities and where attention will be placed in the year ahead.

The past year in focus

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

Governance

A key area of focus for the board, working together with the DLC nominations and directors' affairs committee (nomdac) and the group, has been to review the bank's current committee structure within the context of a fast changing UK regulatory environment. Previously, the Investec plc and Investec Bank plc audit committee and the nomdac acted as the bank's audit and nomination committees, respectively.

Going forward, the board has approved the establishment of a bank audit committee and a bank nomination committee. We believe this change will strengthen our existing processes and make for more effective and robust decision making. The Investec Bank plc audit committee will comprise of independent non-executive directors, the majority of whom will be directors of Investec Bank plc, and will be chaired by the bank's senior independent director (subject to regulatory approval). The Investec Bank plc nomination committee will comprise of a majority of independent non-executive directors.

Implementing and bedding down this new structure will be a key focus for the board.

Board composition

The board, on the recommendation of the nomdac, agreed to the appointment of two new non-executive directors during the period under review. On 27 July 2016, Moni Mannings was appointed to the board. Moni was a senior partner of Olswang LLP until 31 March 2016 and was a partner from 2000. At Olswang, Moni specialised in banking and finance law. She joined Olswang from Clifford Chance, where she worked in the Banking and Securities group. Previously, Moni was a board member of the Solicitors Regulation Authority and chair of its equality, diversity and inclusion committee. Moni is chief operating officer at Aistemos Limited and a non-executive member of the boards of Polypipe Group Plc and Cranfield University.

On 14 September 2016, the board appointed Brian Stevenson as the senior independent director of the bank. At the same time, Perry Crosthwaite stepped down as the bank's senior independent director. Brian Stevenson was previously managing director and head of corporate and institutional banking at Royal Bank of Scotland (RBS). Brian served as Chairman of RBS's Global Transaction Services. He joined RBS from Deutsche Bank, where he was head of the global banking division for Asia-Pacific. Brian was a non-executive director of the Agricultural Bank of China from 2011 to 2016 and is an associate of the Chartered Institute of Bankers.

Perry, who chairs the DLC remuneration committee and is a director of Investec plc and Investec Limited remains as a director of the bank and the group's senior independent director. I would like to thank Perry for his service as senior independent director of the bank and look forward to his continued contribution to the board.

During the period under review, the board also appointed Ciaran Whelan and Ruth Leas as executive directors. Ciaran is the global head of private bank and Ruth Leas is the bank's chief risk officer.

Strategic initiatives

The board has continued to exercise leadership, integrity and judgment in pursuit of the bank's strategic goals and objectives. In terms of positioning for future opportunities, a particular focus has been the private bank's continued investment in infrastructure necessary to deliver an out of the ordinary client experience and the incorporation of new technologies into our core strategic planning.

This strategic initiative was discussed and debated at the board's annual strategy session, which was held in February 2017 and is an ongoing area of discussion at board meetings.

Board effectiveness

The board continues to be committed to regularly evaluating its own effectiveness and that of its committees. In this light, the board undertakes an evaluation of its performance and that of its committees and individual directors annually, with independent external input into the process every third year. Given the 2016 effectiveness review was conducted by an independent external facilitator, Professor Rob Goffee, this year the board effectiveness review was internally facilitated. No material issues were identified in this process, however, the findings of Professor Goffee's report continued to provide a useful benchmark for assessing the development of the board in terms of the areas that were identified for improvement.

Priorities for the year ahead

We approach the year ahead with confidence in our leadership and strategy. The implementation of the new governance arrangements described above, as well as delivering on the strategic objectives agreed will be a key focus for the bank.

Fani Titi
Chairman

14 June 2017

Board statement

The composition of the board of Investec Bank plc is set out on page 111.

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

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

Board committees

In exercising control of the bank, the directors are empowered to delegate to various board and executive committees.

The committees have specific terms of reference, appropriately skilled members and access to specialist advice when necessary.

During the period under review, the Investec plc and Investec Bank plc audit committee acted as the audit committee of Investec Bank plc and the nomdac, acted as the nominations committee of the bank. Working together with the audit ommittees and the nomdac, the board has agreed to the establishment of the Investec Bank plc audit committee and the Investec Bank plc nomination committee. Collectively, the board believes that these changes will strengthen its existing processes and make for more effective and robust oversight. Both committees will comprise of independent non-executive directors, the majority of whom will be directors of Investec Bank plc. The Investec bank plc audit committee will be chaired by the bank's senior independent director (subject to regulatory approval) while the Investec Bank plc nomination committee will be chaired by the bank's chairman.

Financial reporting and going concern

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

- Budgeting and forecasts
- Profitability
- Capital
- Liquidity

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

Our financial statements are prepared on a going concern basis. The board is of the opinion, based on its knowledge of the bank, key processes in operation and specific enquiries, that there are adequate resources to support Investec Bank plc as a going concern for the foreseeable future.

Further information on our liquidity and capital position is provided on pages 77 to 85 and pages 91 to 102. Furthermore, the board is of the opinion that the bank's risk management processes and the systems of internal control are effective.

Management and succession planning

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

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

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

During the past year, the nomdac received a detailed presentation from the executive regarding senior management succession and was satisfied that there is a formal management succession plan in place.

Going forward, the Investec Bank plc nomination committee will continue to focus on ensuring that the management succession plan remains up to date and relevant.

Risk management

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

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

More information on risk management can be found on pages 36 to 102.

Internal control

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

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

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

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

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

Internal financial controls

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

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

Board of directors

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

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

For further detail of the functions of the board of Investec Bank plc, as included with the functions of the boards of Investec plc and Investec Limited, performed directly or through board committees, refer to Investec's 2017 integrated annual report.

Management succession

At the end of the year under review, the board comprised seven executive directors and six non-executive directors.

In order to bolster the levels of non-executive representation on the board, the board on the recommendation of the nomdac agreed to the appointment of Brian Stevenson as senior independent director and Moni Mannings as a non-executive director.

As noted in the chairman's introduction, two new executive directors, Ciaran Whelan and Ruth Leas, have been appointed to the board during the year under review.

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

	Date of appointment
Executive directors	
DM van der Walt (chief executive officer)	5 February 2003
B Kantor	16 November 1992
S Koseff	16 November 1992
R Leas	27 July 2016
KP McKenna	10 May 2012
JKC Whelan	14 April 2016
IR Wohlman	23 June 1999
Non-executive directors	
F Titi (chairman)	3 August 2011
ZBM Bassa	1 April 2017
PKO Crosthwaite	10 November 2010
D Friedland	1 March 2013
H Fukuda OBE	3 December 2012
M Mannings	27 July 2016
B Stevenson (senior independent director)	14 September 2016

Board meetings

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

Details of directors' attendance at board meetings:

	Number of meetings attended of the seven held during the year
Executive directors	
DM van der Walt (chief executive officer)	7
B Kantor	7
S Koseff	7
R Leas*	5
KP McKenna	7
JKC Whelan	7
IR Wohlman	6
Non-executive directors	
F Titi (chairman)	6
PKO Crosthwaite	6
D Friedland	7
H Fukuda OBE	6
M Mannings**	3
B Stevenson (senior independent director)***	4

* *R Leas was appointed to the board with effect from 27 July 2016, and was therefore only eligible to attend meetings held after 27 July 2016*

** *M Mannings was appointed to the board with effect from 27 July 2016, and was therefore only eligible to attend meetings held after 27 July 2016*

*** *B Stevenson was appointed to the board with effect from 14 September 2016, and was therefore only eligible to attend meetings held after 14 September 2016*

Skills, knowledge, experience and attributes of directors

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

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

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

Board and directors' performance evaluation

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

Given the 2016 effectiveness review was conducted by an independent external facilitator, Professor Rob Goffee of the London Business School, this year the board effectiveness review was internally facilitated. The directors each completed a questionnaire and met with the chairman in order to identify future challenges, current strengths and provide insight into how the board functions. Findings were collated and presented at the January 2017 board meeting.

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

Terms of appointment

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

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

Ongoing training and development

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

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

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

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

Independent advice

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

Remuneration

Details of the directors' remuneration and remuneration process are set out on pages 113 to 128.

Chairman and chief executive officer

The roles of the chairman and chief executive officer are distinct and separate.

The chairman leads the board and is responsible for ensuring that the board receives accurate, timely and clear information to ensure that directors can perform their duties effectively.

Details of the chairman's external directorships are set out in Investec's 2017 integrated annual report.

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

Further disclosures

Refer to Investec's 2017 integrated annual report for more information regarding:

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

The report by the chairman of the DLC audit committee can be found in Investec's 2017 integrated annual report on pages 136 to 137.

Investec Bank plc

(details as at 14 June 2017)

An indirect subsidiary of Investec plc

Fani Titi (55)
Non-executive chairman
BSc (Hons), MA, MBA

David M van der Walt (52)
Chief executive officer
BCom (Hons), CA(SA)

Zarina BM Bassa (53)
BAcc, DipAcc, CA(SA)

Perry KO Crosthwaite (68)
MA (Hons)

David Friedland (64)
BCom, CA(SA)

Haruko Fukuda OBE (70)
MA (Cantab), DSc

Bernard Kantor (67)
CTA

Stephen Koseff (65)
BCom, CA(SA), H Dip BDP, MBA

Ruth Leas (45)
BA (cum laude), Hons (Economics), MPhil (Cantab)

Moni Mannings (54)
LLB

Kevin P McKenna (50)
BCom, BAcc CA(SA)

Brian D Stevenson (63)
Senior independent director
ACIB, FCIBS, MBA

James KC Whelan (54)
FCA (Irish), H Dip Tax (SA)

Ian R Wohlman (62)
ACIB

04

Remuneration report

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

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

Remuneration philosophy

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

We reward employees generally for their contribution through:

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

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

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

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

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

Remuneration principles

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

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

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

Given our stance on maintaining a low fixed cost component of remuneration, our commitment to inspiring an entrepreneurial culture, and our risk-adjusted return on capital approach to EVA, we do not apply an upper limit on variable rewards other than in respect of Material Risk Takers who have a maximum variable remuneration: fixed remuneration ratio of 2:1. This cap is defined in line with EBA discounting rules which allow, when 25% of variable remunerating is deferred over at least five years, a slightly higher cap than 2:1, depending on the length of deferral, inflation and interest rates. This is currently approximately 2.4x fixed remuneration.

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

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

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

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

Remuneration policy

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

Our policy with respect to remuneration of employees has remained unchanged during the 2017 financial year.

Determination of remuneration levels for employees

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

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

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

Factors considered to determine total compensation for each individual include:

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

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

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

The following section outlines our remuneration policy in more detail for each element of total compensation as it applies to employees. Our remuneration arrangements for S Koseff and B Kantor can be found in Investec's 2017 integrated annual report.

Gross remuneration: base salary and benefits

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

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

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

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

Variable short-term incentive: annual bonus

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

Specialist Banking: variable short-term incentive

Risk-weighted returns form basis for variable remuneration levels

In our ordinary course of business we face a number of risks that could affect our business operations, as highlighted on page 20.

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

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

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

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

The policy executive risk review forum (Policy ERRF) and review risk review forum (Review ERRF), comprising members of the executive and the heads of the various risk functions meet weekly. These committees responsibilities include approving limits and mandates, ensuring these are adhered to and that agreed recommendations to mitigate risks are implemented.

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

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

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

EVA model: allocation of performance-related bonus pool

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

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

The bonus pools for non-operating business units (central services and head office functions) are generated by a levy payable by each operating business on its operating profit. This bonus pool may, in some years, be supplemented by a discretionary allocation as determined by the chief executive officer and managing director, and agreed by the remuneration committee.

Our EVA model has been consistently applied for a period of about 18 years and encompasses the following elements:

- The profitability of each operating business unit is determined as if they are a stand-alone business. Gross revenue is determined based on the activity of the business, with arm's length pricing applicable to intersegment activity. Profits are determined as follows:
  - Realised gross revenue (net margin and other income)
  - *Less:* Funding costs
  - *Less:* Impairments for bad debts
  - *Add back:* Debt coupon or preference share dividends paid out of the business (where applicable)
  - *Less:* Direct operating costs (personnel, systems, etc)
  - *Less:* Allocated costs and residual charges (certain independent bank functions are provided on a centralised basis, with an allocation model applied to charge out costs incurred to business units. Costs allocated are based on the full operational costs for the particular central service area, inclusive of the variable remuneration cost of the central service. Allocation methodologies generally use cost drivers as the basis of allocation)
  - *Less:* Profits earned on retained earnings and statutory held capital
  - *Add:* Notional profit paid by centre on internal allocated capital
  - *Equals:* Net profits.
- Capital allocated is a function of both regulatory and internal capital requirements, the risk assumed within the business and our overall business strategy
- The bank has always held capital in excess of minimum regulatory requirements, and this principle is perpetuated in our internal capital allocation process. This process ensures that risk and capital discipline is embedded at the level of deal initiation and incorporates independent approval (outside of the business unit) of transactions by the various risk and credit committees.

A detailed explanation of our capital management and allocation process is provided on pages 91 to 102.

- Internal capital comprises the regulatory capital requirement taking into account a number of specified risks plus a capital buffer which caters, inter alia, for any unspecified or future risks not specifically identified in the capital planning process. The bank then ensures that it actually holds capital in excess of this level of internal capital
- Internal capital is allocated to each business unit via a comprehensive analysis of the risks inherent within that business and an assessment of the costs of those risks
- Hurdle rates or targeted returns are determined for each business unit based on the weighted average cost of capital (plus a buffer for trading businesses to take into account additional risks not identified in the capital allocation process) applied to internal capital
- Targeted returns differ by business unit reflecting the competitive economics and shareholder expectation for the specific area of the business, and are set with reference to the degree of risk and the competitive benchmarks for each product line
- In essence, varying levels of return are required for each business unit reflecting the state of market maturity, country of operation, risk, capital invested (capital intensive businesses) or expected expense base (fee-based businesses)
- Growth in profitability over time will result in an increasing bonus pool, as long as it is not achieved at the expense of capital efficiency
- Target returns must be reflective of the inherent risk assumed in the business. Thus, an increase in absolute profitability does not automatically result in an increase in the annual bonus pool. This approach allows us to embed risk and capital discipline in our business processes. These targets are subject to annual review
- The bank's credit and risk forums provide transaction approval independent of the business unit on a deal-by-deal basis adding a level of risk consciousness to the predetermined (and risk-adjusted) capital allocation and required hurdle rates and thus ensure that each transaction generates a return that is commensurate with its associated risk profile.

In terms of our EVA process, if business and individual performance goals are exceeded, the variable element of the total remuneration package is likely to be substantially higher than the relevant target benchmark. This ensures that overall remuneration levels have the potential to be positioned at the upper quartile level for superior performance, in line with our overarching remuneration policy.

In circumstances where an operating business unit does not have an EVA pool (e.g. when it incurs a loss or when it is a start-up), the chief executive officer and managing director may consider a discretionary allocation to allow for a modest bonus for those staff who were expected to contribute to the longer-term interests of that business unit or the bank, despite the lack of EVA profits in the short term, e.g. control functions, support staff and key business staff.

It should be noted the salaries and proposed bonuses for employees responsible for risk, internal audit and compliance are not based on a formulaic approach and are independent of any revenues or profits generated by the business units where they work. The level of rewards for these employees are assessed against the overall financial performance of the bank; objectives based on their function; and compliance with the various non-financial aspects referred to above.

Key elements of the bonus allocation process are set out below:

- A fixed predetermined percentage of any return in excess of the EVA hurdle accrues to the business units' EVA pool
- A portion of the total EVA pool is allocated towards the bonus pool for central service and head office employees
- These bonus pools are reviewed regularly by the appropriate management and non-executive committees to ensure that awards are only paid when it is appropriate to do so, considering firmwide performance against non-financial risk (both current and future) and compliance-based objectives and in order to ensure that the payment of such discretionary bonuses does not inhibit the bank's ability to maintain/raise its capital levels. All users of capital operate within a strict philosophical framework that requires a balancing of risk and reward and that is designed to encourage behaviour in the interests of all stakeholders as opposed to just employees

- The EVA pools are calculated centrally by the bank's finance function and subject to audit as part of the year-end audit process
- Once the annual audit is complete, line managers in each business unit will make discretionary bonus recommendations for each team member taking into consideration qualitative and quantitative criteria (as mentioned above)
- Bonus recommendations are then subject to an extensive geographic review involving human resources, local management and local remuneration committees
- Thereafter, these recommendations are subject to a global review by executive management before the remuneration committee's review and approval process.

The Investec group's remuneration committee specifically reviews and approves the individual remuneration packages of the executive directors, persons discharging managerial responsibilities, and Material Risk Takers. The committee also reviews the salaries and performance bonuses awarded to a number of other senior and higher paid employees across the bank. In addition, the committee specifically reviews and approves the salaries and performance bonuses awarded to each employee within the internal audit, compliance and risk functions, both in the business units and in the central functions, ensuring that such packages are competitive and are determined independently of the other business areas. In making these decisions the committee relies on a combination of external advice and supporting information prepared internally by the bank.

Deferral of annual bonus awards: other than Material Risk Takers within the Specialist Bank

All annual bonus awards exceeding a predetermined hurdle level are subject to 60% deferral in respect of that portion that exceeds the hurdle level. The deferred amount is awarded in the form of: forfeitable share awards vesting in three equal tranches at the end of 12 months, 24 months and 36 months; or cash released in three equal tranches at the end of 12 months, 24 months and 36 months. Where shares are being awarded to employees as part of the deferral of performance bonus awards, these are referred to as short term share awards. These awards are made in terms of our existing long-term incentive plans. The entire amount of the annual bonus that is not deferred is payable upfront in cash.

Deferral of variable remuneration awards: Material Risk Takers within the Specialist Bank

- Material Risk Takers include senior management, risk takers, staff engaged in central functions and any other employees whose professional activities have a material impact on Investec's risk profile within the bank
- Individual awards to Material Risk Takers are determined based on EVA pools in the same manner as is applicable to all staff (as set out above), and subject to the bank's remuneration policy and governance processes (also set out above)
- Annual bonus awards to directors of the UK Specialist Bank (excluding executive directors who are employees of a separately regulated firm) and all annual bonus awards where total variable remuneration exceeds £500 000 are subject to 60% deferral
- All other annual bonus awards to Material Risk Takers are subject to 40% deferral
- The 40% not deferred in the former instance or the 60% not deferred in the latter instance will be awarded as to 50% in cash and 50% in short term share awards
- The upfront short term share awards will vest immediately, but will only be released after a period of six months, which will increase to one year in 2018.
- Variable remuneration awards for Material Risk Takers who are not exempted by the *de minimis* concession are subject to 40% deferral (60% if total variable remuneration exceeds £500 000) after taking into account the value of share awards granted to each staff member in the applicable financial year and which are included in deferred variable remuneration. The deferred portion of discretionary awards to Material Risk Takers will, at the election of the staff member, be made either entirely in the form of short term share awards, or 50% in short term share awards and 50% in cash
- All deferrals in the form of short term share awards (being either 50% or 100% of such deferral) vest over periods of up to seven years and are then subject to an appropriate period of retention, being six months, increasing to one year in 2018.

Investec Wealth & Investment: variable short-term incentive

Investec Wealth & Investment recognises Investec's obligation to ensure that all businesses within the group satisfy their obligations under the remuneration code. Wealth & Investment recognises that the policy, procedures and practices it has adopted should not conflict with the group's obligations under the PRA and FCA Remuneration Code. The Wealth & Investment remuneration committee is responsible for considering, agreeing and overseeing all elements of remuneration and the overall remuneration philosophy and policy of Wealth & Investment within the context of the Investec group's agreed remuneration philosophy and policy. The proposals from this committee are subject to final approval by the DLC remuneration committee.

Wealth & Investment operates the following performance-related discretionary remuneration plans:

- Core incentive plan – for those in client facing roles and administrative staff who support them directly
- Bonus plan – for those in non-client facing, central services and support functions
- Growth plan – for staff primarily in client-facing roles who generate income directly.

Funding is at the discretion of the remuneration committee. Under the core plan, an incentive pool is derived from a formula that is directly related to the profitability of a team or business unit. The pool is distributed to the members of the team or business unit on a discretionary basis. Funding for bonuses is related to the overall profitability of the Wealth & Investment business and is awarded to individuals on a discretionary basis.

The growth plan incentivises growth in revenues, net of the impact of market movements. Awards relate to performance for each year to 28 February, are payable in cash, and are deferred over a three-year period. Payments do not attract employer pension contributions.

Under the core incentive and bonus plans, awards relate to performance for the financial year ending 31 March. An interim payment on account of the annual award is considered at the half-year.

Non-financial performance is reviewed, and where individuals fall below the standards expected, awards may be deferred or forfeited, in part or in full. Payments are made entirely in cash and do not attract employer pension contributions. The award may be paid directly to the individual (subject to the deduction of income tax and national insurance) or, at Wealth & Investment's discretion, as an additional employer pension contribution.

Wealth & Investment executive directors participate in the bonus plan, and where an individual's role is primarily client-facing, that director will also be eligible to participate in the core incentive and growth plans.

Other information on deferred awards and clawback provisions within the bank

Employees who leave the employment of Investec prior to vesting of deferred incentive awards will lose their EVA forfeitable shares other than as a result of retirement, subject to the bank's normal good leaver provisions and approval process in exceptional cases.

The deferred share awards for Material Risk Takers are subject to malus and clawback adjustments. The assessment of whether any malus adjustment should be made to an individual's unvested award will be undertaken within the following framework:

- Where there is reasonable evidence of employee misbehaviour
- Where the firm or operating business unit suffers a material downturn in its financial performance
- Where the firm or business unit suffers a material failure of risk management.

In these cases, management and the remuneration committee will take into account the following factors in determining the extent (if any) to which the quantum of deferred awards should be subject to clawback:

- The extent to which the individual had control over the outcome
- Failure of internal control systems
- The impact of the risk profile of the relevant member of the bank or business unit
- Any violation of the bank's culture and values
- The long-term impact of the outcome on the bank or relevant business unit
- External factors including market conditions
- Any other relevant factors.

Specifically for short term share awards, where profits used to determine the original EVA bonus are materially reduced after the bonus determination, the awards will be recalculated for such reduction and consideration given to clawback (if any) to the extent that the prior period's EVA pool is reduced and the extent to which it affected each employee.

The deferred share awards of non-Material Risk Takers are subject to malus adjustments.

Long-term incentive: share awards

We have a number of share option and long-term share incentive plans that are designed to align the interests of employees with those of shareholders and long-term organisational interests, and to build material share ownership over the long term through share awards. These share option and incentive plans are also used in appropriate circumstances as a mechanism for retaining the skills of key talent.

Awards are made in the form of forfeitable share awards other than for countries where the taxation of such awards is penal. In these cases awards are made in the form of conditional awards or market strike options.

In principle all employees are eligible for long-term incentives. Awards are considered by the remuneration committee and made only in the 42-day period following the release of our interim or final financial results in accordance with the Investment Association principles of remuneration (formerly ABI remuneration principles). These awards comprise three elements, namely:

- 'New starter' awards are made based on a *de facto* non-discretionary basis using an allocation table linked to salary levels
- 'General allocation' awards are also *de facto* non-discretionary awards of the same quantum as new starter awards and are made to employees who have not had any other share award in a three-year period
- 'Top up' awards are made at the discretion of line management primarily to ensure multi-year performance and long-term value generation.

All proposed long-term incentive awards are recommended by business unit management, approved by the staff share executive committee and then the remuneration committee before being awarded.

Forfeitable shares for non-Material Risk Takers are subject to one third vesting at the end of the third, fourth and fifth year, which we believe is appropriate for our business requirements. LTIP awards to Material Risk Takers are subject to performance conditions and to vesting over a period of two and a half to five years, or three to seven years, determined by regulatory requirements, and are then subject to a six-month retention period, which will increase to one year in 2018 and subsequent years. The awards are forfeited on termination, but 'good leaver' discretion is applied in exceptional circumstances.

Retention is addressed through the long-term nature of awards granted, which provides an element of 'lock-in' for employees throughout the vesting period and allows for multi-year contribution to performance and brand building.

For further information on the share option and long-term share incentive plans in operation and in which the directors are eligible to participate, refer to Investec's 2017 integrated annual report.

The bank aims to apply remuneration policies to executive directors and employees that are largely consistent across the bank, but recognises that certain parts of the bank are governed by local regulations that may contain more onerous requirements in certain respects

Other remuneration structures

Guaranteed variable remuneration

Guaranteed variable remuneration comprises all forms of remuneration whose value can be determined prior to award. This includes, but is not limited to sign-on, buy-out and guarantee awards. Guaranteed variable awards will not be awarded, paid or provided to any individual within the Investec plc group unless they are:

- Exceptional
- In the context of hiring new staff
- Limited to the first year of service.

The remuneration committee pre-approves all guaranteed awards above a defined threshold, and has oversight of all other guaranteed awards above a lower defined threshold.

Retention awards

Investec only pays retention awards to serving staff in exceptional circumstances. In all such cases, human resources shall review proposed payments to ensure that they are in line with this policy and any other relevant regulation. Additionally, for Material Risk Takers, the remuneration committee shall review all proposed awards. Circumstances where the bank will consider making retention awards include the case of a major restructuring of the company or any subsidiary or one of its business units (for instance in the start-up of a new business line, or the closure of a business line), where the retention of individuals is essential to the completion of the task. A valid business case for the retention of the individual must be presented in order for a retention award to be approved and the PRA should be notified prior to the retention award being made to Material Risk Takers, and should consider seeking guidance on the appropriateness of retention awards for certain individuals.

Severance awards

Severance payments for the early termination of a contract are at executive management's absolute discretion and must reflect performance achieved over time and be designed in a way that does not reward failure. Severance payments for Material Risk Takers shall be subject to approval by the remuneration committee.

Discretionary extended pension benefits policy

All proposed extended pension payments made to employees upon reaching retirement will be reviewed by the remuneration committee for alignment with appropriate laws, policy and regulation.

Governance

Compliance and governance statement

The remuneration report complies with the provisions of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the UK Corporate Governance Code 2016, the UK Companies Act 2006, the Rules of the UK Listing Authority, the UK Financial Conduct Authority rules and the PRA and FCA Remuneration Code.

Scope of our remuneration policy

The bank aims to apply remuneration policies to executive directors and employees that are largely consistent across the bank, but recognises that certain parts of the bank are governed by local regulations that may contain more onerous requirements in certain respects.

In those cases, the higher requirements are applied to that part of the bank. This is relevant to Investec plc and its subsidiary companies that are subject to the PRA and FCA Remuneration Code (as a level 2 organisation as defined therein), and in particular in relation to Material Risk Takers. Additionally, where any aspect of our remuneration policy contravenes local laws or regulations, the local laws or regulations shall prevail.

The following Investec plc group entities are separately regulated by the PRA and/or FCA and as such maintain their own remuneration policies separate from the Investec group policy and in line with such entity's own risk profile and business activities:

- Investec Wealth & Investment Limited
- Hargreave Hale Limited.

Under the PRA and FCA Remuneration Code, Investec Bank plc is the only group entity which is classified as being level 2. It should be noted that our Wealth Management business has been classified as level 3 entity under the proportionality rules of the PRA and FCA Remuneration Code.

Audited information

Directors' shareholdings in Investec plc and Investec Limited shares as at 31 March 2017

	Beneficial and non-beneficial interest		% of shares in issue[1]	Beneficial and non-beneficial interest		% of shares in issue[1]
	Investec plc[1]		Investec plc	Investec Limited[1]		Investec Limited
Name	**31 March 2017**	**1 April 2016**	**31 March 2017**	**31 March 2017**	**1 April 2016**	**31 March 2017**
Executive directors						
DM van der Walt (chief executive officer)[2]	410 460	168 556	0.1%	190 140	690 140	0.1%
B Kantor[3]	1 164 359	832 657	0.2%	2 300 500	2 800 500	0.8%
S Koseff[3]	5 295 775	5 274 035	0.8%	1 234 399	1 234 399	0.4%
R Leas[4]	115 021	27 944	–	–	–	–
KP McKenna	78 468	68 529	–	–	–	–
JKC Whelan[4/5]	164 331	61 257	–	600 156	338 333	0.2%
IR Wohlman	144 430	25 848	–	100 000	100 000	–
Total number	**7 372 844**	**6 458 826**	**1.1%**	**4 425 195**	**5 163 372**	**1.5%**
Non-executive directors						
F Titi (chairman)	–	–	–	–	–	–
PKO Crosthwaite	115 738	115 738	–	–	–	–
D Friedland	–	–	–	–	–	–
H Fukuda OBE	5 000	5 000	–	–	–	–
M Mannings	–	–	–	–	–	–
BD Stevenson	–	–	–	–	–	–
Total number	**120 738**	**120 738**	**–**	**–**	**–**	**–**
Total number	**7 493 582**	**6 579 564**	**1.1%**	**4 425 195**	**4 825 039**	**1.5%**

The table above reflects holdings of shares by current directors.

1. *The issued share capital of Investec plc and Investec Limited at 31 March 2017 was 657.1 million and 301.2 million respectively.*
2. *David van der Walt entered into option agreements and purchased put options over 500 000 Investec Limited ordinary shares at a strike price of R98.19 per share, expiring on 2 March 2017; and sold call options over 500 000 Investec Limited shares at a price of R142.64 per share, expiring on 2 March 2017.*
3. *The beneficial and non-beneficial holdings of S Koseff and B Kantor include 212 314 Investec plc shares which relate to the award to each of the directors of shares in respect of a £1 million fixed allowance on 2 June 2016. These shares are, however, subject to a retention period in terms of which 20% of shares will be free from retention restrictions each year over a period of five years.*
4. *The shareholdings as of 1 April 2016 for R Leas and JKC Whelan have been included to add clarity, although they were not directors at that time.*
5. *JKC Whelan entered into a zero cost collar on 5 September 2016 over 338 333 Investec plc shares by purchasing put options at a strike price of R86.65 per share and sold call options at a strike price of R164.64 per share. These options expire on 5 September 2019. C Whelan entered into a zero cost collar on 5 September 2016 over 61 257 Investec plc shares by purchasing put options at a strike price of R86.65 per share and sold call options at a strike price of R164.64 per share. These options expire on 5 September 2019.*

Directors' interest in preference shares at 31 March 2017

	Investec plc		Investec Limited		Investec Bank Limited	
Name	**31 March 2017**	**1 April 2016**	**31 March 2017**	**1 April 2016**	**31 March 2017**	**1 April 2016**
Executive director						
S Koseff	12 139	101 198	3 000	3 000	4 000	4 000

- *S Koseff disposed of holdings in his Investec plc preference shareholding on 27 July 2016. 80 000 Investec plc preference shares were tendered at £5.75 per share and a further 9 059 Investec plc preference shares were traded at R103.38 per share.*
- *The market price of an Investec Limited preference share at 31 March 2017 was R75.00 (2016: R73.20).*
- *The market price of an Investec Bank Limited preference share at 31 March 2017 was R82.00 (2016: R79.00).*

Directors' interests in options at 31 March 2017

Investec plc shares

The directors do not have any interest in options over Investec plc shares.

No new option grants were made to executive directors during the financial year.

Investec Limited shares

The directors do not have any interest in options over Investec plc shares.

No new option grants were made to executive directors during the financial year.

Directors' interests in long-term incentive plans at 31 March 2017

Investec plc shares

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2016	Exercised during the year	Options granted/ lapsed during the year	Balance at 31 March 2017	Market price at date of exercise	Gross gains made on date of exercise	Period exercisable
Executive directors									
R Leas	29 May 2012	Nil	30 000	(22 500)	–	7 500	£4.66	£104 927	The remaining options are exercisable on 29 May 2017
	11 December 2012	Nil	50 000	(37 500)	–	12 500	£5.98	£224 250	The remaining options are exercisable on 11 December 2017
	4 June 2013	Nil	50 000	–	–	50 000	–	–	75% is exercisable on 4 June 2017 and 25% on 4 June 2018
KP McKenna	31 May 2011	Nil	12 500	(12 500)	–	–	£4.58	£57 213	
IR Wohlman	31 May 2011	Nil	25 000	(25 000)	–	–	£4.60	£114 978	

The above awards are not subject to performance conditions and were made prior to the directors being classified as Material Risks Takers in terms of the PRA requirements.

Investec Limited shares

Name	Date of grant	Exercise price	Number of Investec Limited shares at 1 April 2016	Exercised during the year	Options granted/ lapsed during the year	Balance at 31 March 2017	Market price at date of exercise	Gross gains made on date of exercise	Period exercisable
JKC Whelan	18 December 2012	Nil	475 000	(356 250)	–	118 750	R92.15	R32 828 438	The remaining options are exercisable on 18 December 2017
	13 June 2013	Nil	150 000	–	–	150 000	–	–	75% is exercisable on 13 June 2017 and 25% on 13 June 2018
	8 December 2014	Nil	175 000	–	–	175 000	–	–	75% is exercisable on 8 December 2018 and 25% on 8 December 2019

The above awards are not subject to performance conditions and were made prior to the director being classified as a Material Risk Taker in terms of the PRA requirements.

Directors' interests in the Investec plc Executive Incentive Plan 2013 at 31 March 2017

Long-term share awards granted in respect of the 2016 financial year

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2016	Conditional awards made during the year	Balance at 31 March 2017	Performance period	Period exercisable	Retention period
S Koseff	2 June 2016	Nil	–	314 225	314 225	1 April 2016 to 31 March 2019	One third is exercisable on 2 June 2019; one third on 2 June 2020 and the final third on 2 June 2021 subject to performance criteria being met	A further six-month retention after vesting date
B Kantor	2 June 2016	Nil	–	314 225	314 225	1 April 2016 to 31 March 2019	One third is exercisable on 2 June 2019; one third on 2 June 2020 and the final third on 2 June 2021 subject to performance criteria being met	A further six-month retention after vesting date

The Executive Incentive Plan and the awards made thereunder were approved at the August 2015 annual general meeting. On 2 June 2016, 314 225 conditional awards were awarded to S Koseff and B Kantor. These awards formed part of their variable remuneration in respect of the financial year ending 31 March 2016. The performance criteria in respect of these awards are detailed in Investec's 2017 integrated annual report. These awards have not yet vested. The face value at grant for these awards amounted to £1 480 000 for S Koseff and B Kantor, based on the share price for Investec plc at the time of grant.

Long-term share awards granted in respect of the 2017 financial year

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2017	Conditional awards made during the year	Performance period	Period exercisable	Retention period
S Koseff	8 June 2017	Nil	–	252 130	1 April 2017 to 31 March 2020	Twenty per cent is exercisable on 8 June each year, commencing on 8 June 2020 until 8 June 2024 subject to performance criteria being met	A further six-month retention after vesting date
B Kantor	8 June 2017	Nil	–	252 130	1 April 2017 to 31 March 2020	Twenty per cent is exercisable on 8 June each year, commencing on 8 June 2020 until 8 June 2024 subject to performance criteria being met	A further six-month retention after vesting date

The Executive Incentive Plan and the awards made thereunder were approved at the August 2015 annual general meeting. On 8 June 2017, 252 130 conditional awards were awarded to S Koseff and B Kantor. These awards formed part of their variable remuneration in respect of the financial year ending 31 March 2017. The performance criteria in respect of these awards are detailed in Investec's 2017 integrated annual report. These awards have not yet vested. The face value at grant for these awards amounted to £1 480 000 for S Koseff and B Kantor, based on the average of the closing share price for Investec plc from 2 June 2017 to 7 June 2017.

Directors' interests in the Investec plc Executive Incentive Plan 2013 at 31 March 2017

Long-term share awards made in respect of the financial year ending 31 March 2013

Name	Number of Investec plc shares awarded on 16 September 2013	Exercise price	Performance period	Performance conditions met (Y/N)	Additional shares awarded for performance conditions being met	Balance at 31 March 2017	Period exercisable	Retention period
S Koseff	600 000	Nil	1 April 2013 to 31 March 2016	Yes	204 617	804 617	Seventy five percent is exercisable on 16 September 2017; and	16 September 2017 to 16 March 2018
							Twenty five percent on 16 September 2018, subject to performance criteria being met	16 September 2018 to 16 March 2019
B Kantor	600 000	Nil	1 April 2013 to 31 March 2016	Yes	204 617	804 617	Seventy five percent is exercisable on 16 September 2017; and	16 September 2017 to 16 March 2018
							Twenty five percent on 16 September 2018, subject to performance criteria being met	16 September 2018 to 16 March 2019

The Executive Incentive Plan and the awards made on 16 September 2013 were approved at the July 2013 annual general meeting in terms of which 600 000 nil cost options each were awarded to S Koseff and B Kantor.

The performance criteria in respect of these awards were met and detailed in Investec's 2016 integrated annual report. These awards have now vested subject to the retention periods reflected above.

Conditional awards to material risk takers at 31 March 2017

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2016	Exercised during the year	Options granted/ lapsed during the year	Balance at 31 March 2017	Market price at date of exercise	Gross gains made on date of exercise	Period exercisable
Executive directors									
R Leas	27 May 2014	Nil	30 000	–	–	30 000	–	–	75% is exercisable on 27 November 2017 and subject to six months' retention thereafter and 25% on 27 November 2018 and subject to six months' retention thereafter
	1 June 2015	Nil	60 000	–	–	60 000	–	–	75% is exercisable on 1 December 2018 and subject to six months' retention thereafter and 25% on 1 December 2019 and subject to six months' retention thereafter
	2 June 2016	Nil	–	–	30 000	30 000	–	–	One third is exercisable on 2 December 2018; one third on 2 December 2019 and the final third on 2 December 2020 and subject to six month retention after each exercise date
KP McKenna	29 May 2012	Nil	10 000	(10 000)	–	–	£5.19	£51 911	–
	4 June 2013	Nil	60 000	(45 000)	–	15 000	£5.15	£231 656	The remaining conditional shares are exercisable on 13 December 2017 and subject to six months' retention thereafter
	27 May 2014	Nil	100 000	–	–	100 000	–	–	75% is exercisable on 27 November 2017 and subject to six months' retention thereafter and 25% on 27 November 2018 and subject to six months' retention thereafter
	1 June 2015	Nil	50 000	–	–	50 000	–	–	75% is exercisable on 1 December 2018 and subject to six months' retention thereafter and 25% on 1 December 2019 and subject to six months' retention thereafter
	2 June 2016	Nil	–	–	60 000	60 000	–	–	One third is exercisable on 2 December 2018; one third on 2 December 2019 and the final third on 2 December 2020 and subject to six month retention after each exercise date

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2016	Exercised during the year	Options granted/ lapsed during the year	Balance at 31 March 2017	Market price at date of exercise	Gross gains made on date of exercise	Period exercisable
JKC Whelan	1 June 2015	Nil	125 000	–	–	125 000	–	–	75% is exercisable on 1 December 2018 and subject to six months' retention thereafter and 25% on 1 December 2019 and subject to six months' retention thereafter
	2 June 2016	Nil	–	–	150 000	150 000	–	–	One third is exercisable on 2 December 2018; one third on 2 December 2019 and the final third on 2 December 2020 and subject to six month retention after each exercise date
IR Wohlman	4 June 2013	Nil	50 000	(37 500)	–	12 500	£5.15	£193 046	The remaining conditional shares are exercisable on 4 December 2017 and subject to six months' retention thereafter
	27 May 2014	Nil	100 000	–	–	100 000	–	–	75% is exercisable on 27 November 2017 and subject to six months' retention thereafter and 25% on 27 November 2018 and subject to six months' retention thereafter
	1 June 2015	Nil	60 000	–	–	60 000	–	–	75% is exercisable on 1 December 2018 and subject to six months' retention thereafter and 25% on 1 December 2019 and subject to six months' retention thereafter
	2 June 2016	Nil	–	–	60 000	60 000	–	–	One third is exercisable on 2 December 2018; one third on 2 December 2019 and the final third on 2 December 2020 and subject to six month retention after each exercise date.
DM van der Walt	13 June 2013	Nil	200 000	(150 000)	–	50 000	£5.34	£800 910	The remaining conditional shares are exercisable on 13 December 2017 and subject to six months' retention thereafter
	27 May 2014	Nil	175 000	–	–	175 000	–	–	75% is exercisable on 27 November 2017 and subject to six months' retention thereafter and 25% on 27 November 2018 and subject to six months' retention thereafter

Remuneration report

(continued)

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2016	Exercised during the year	Options granted/ lapsed during the year	Balance at 31 March 2017	Market price at date of exercise	Gross gains made on date of exercise	Period exercisable
DM van der Walt *(cont)*	1 June 2015	Nil	125 000	–	–	125 000	–	–	75% is exercisable on 1 December 2018 and subject to six months' retention thereafter and 25% on 1 December 2019 and subject to six months' retention thereafter
	2 June 2016	Nil	–	–	150 000	150 000	–	–	One third is exercisable on 2 December 2018; one third on 2 December 2019 and the final third on 2 December 2020 and subject to six month retention after each exercise date

The above awards to Material Risk Takers are subject to performance conditions and a six-month retention period after the award vests. In addition, these awards are subject to clawback in respect of some or all of the unvested portion of the award in terms of the PRA Remuneration Code.

The performance conditions will be assessed by the directors, in accordance with the rules and requirements of the PRA from time to time, at the end of each financial year of the performance period. For each year within the performance period that the return on risk weighted assets for Investec Bank plc is equal to or greater than 0.3%, the performance condition for 25% of the award is satisfied, in which case 25% of the award will vest on the relevant vesting date (subject to clawback).

Directors' emoluments

	2017	2016
Aggregate emoluments (excluding pension contributions)	8 275	5 950
Contributions to defined contributions scheme	198	142
	8 473	6 092
Number of directors in defined contributions scheme	5	4
Number of directors in closed defined benefits scheme	–	–

Included in aggregate emoluments for the current year are performance awards to executive directors excluding Investec group executive directors, whose remuneration is disclosed individually in Investec group's 2017 integrated annual report. Performance awards comprise £1 198 750 in up front cash, £1 198 750 in up front shares (vesting immediately and subject to six month's retention thereafter), £347 860 in deferred cash (vesting equally over one to five years, or three to seven years, subject to regulatory requirements), and £1 224 640 in deferred short term share awards (vesting equally over one to five years, or three to seven years, subject to regulatory requirements).

Emoluments of the highest paid director were £2 809 740 (2016: £2 638 381) excluding £38 998 of pension contribution to the defined contribution scheme. The performance awards of the highest paid director comprise £407 250 in up front cash, £407 250 in up front shares (vesting immediately and subject to six month's retention thereafter), and £655 500 in deferred short term share awards (vesting equally over three to seven years).

The directors have, during the year, exercised options granted to them under various of the Investec plc group's long-term incentive plans. Full details are included on pages 121, 124 and 125.

The number of shares in issue and share prices for Investec plc and Investec Limited over the period are provided below

Summary: Investec plc and Investec Limited share statistics

	31 March 2017	31 March 2016	High over the year	Low over the year
Investec plc share price	£5.44	£5.13	£6.19	£4.19
Investec Limited share price	R91.46	R109.91	R112.11	R81.46
Number of Investec plc shares in issue ('million)	657.1	617.4	–	–
Number of Investec Limited shares in issue ('million)	301.2	291.4	–	–

Additional remuneration disclosures (unaudited)

PRA and FCA remuneration Code disclosures

In terms of the PRA's Chapter on Disclosure Requirements (BIPRU 11.5.18) the bank in the UK is required to make certain quantitative and qualitative remuneration disclosures on an annual basis with respect to Material Risk Takers.

Material Risk Takers are defined as those employees (including directors) whose professional activities could have a material impact on the bank's risk profile. A total of 53 individuals were Material Risk Takers in 2017.

The bank's qualitative remuneration disclosures are provided on pages 113 to 119 and further information is provided in Investec's 2017 integrated annual report.

The information contained in the tables below sets out the bank's quantitative disclosures in respect of Material Risk Takers for the year ended 31 March 2017.

Aggregate remuneration by remuneration type

£'million	Senior management	Other Material Risk Takers	Total
Fixed remuneration	**11.7**	**13.0**	**24.7**
Variable remuneration*			
– Cash	3.7	3.2	6.9
– Deferred cash	0.8	1.7	2.5
– Deferred shares	4.1	2.2	6.3
– Deferred shares – long-term incentive awards**	7.2	3.4	10.6
Total aggregate remuneration and deferred incentives	**27.5**	**23.5**	**51.0**
Ratio between fixed and variable pay	0.7	1.2	0.9

* *Total number of employees receiving variable remuneration was 48.*

** *Value represents the number of shares awarded multiplied by the applicable share price. These awards were made during the period but have not yet vested. These awards are subject to performance conditions and vest over a period of two and a half to four and a half years, up to three to seven years, determined by regulatory requirements. They are also subject to a 12-month retention period after vesting.*

Material Risk Takers received total remuneration in the following bands:

	Number of Material Risk Takers
£800 000 – £1 200 000	11
£1 200 001 – £1 600 000	7
£1 600 001 – £2 000 000	1
£2 000 001 – £2 400 000	1
£2 400 001 – £2 800 000	–
£2 800 001 – £3 200 000	2
£3 200 001 – £3 600 000	1
£3 600 001 – £4 000 000	–
£4 000 001 – £4 400 000	1
£4 400 001 – £4 800 000	–
£4 800 001 – £5 200 000	2
> £5 200 001	–

Additional disclosure on deferred remuneration

£'million	Senior management	Other Material Risk Takers	Total
Deferred unvested remuneration outstanding at the beginning of the year	15.6	35.1	50.7
Deferred unvested remuneration adjustment – employees no longer Material Risk Takers and reclassifications	(0.1)	(0.4)	(0.5)
Deferred remuneration awarded in year	12.1	7.3	19.4
Deferred remuneration reduced in year through performance adjustments	–	–	–
Deferred remuneration vested in year	(4.7)	(7.3)	(12.0)
Deferred unvested remuneration outstanding at the end of the year^^	**22.9**	**34.7**	**57.6**

^^ *All employees are subject to clawback provisions as discussed on page 118. No remuneration was reduced for ex post implicit adjustments during the year.*

£'million	Senior management	Other Material Risk Takers	Total
Deferred unvested remuneration outstanding at the end of the year			
– Equity	21.1	30.2	51.3
– Cash	1.8	4.5	6.3
– Other	–	–	–
	22.9	**34.7**	**57.6**

£'million	Senior management	Other Material Risk Takers	Total
Deferred remuneration vested in year			
– For awards made in 2015 financial year	0.3	2.4	2.7
– For awards made in 2014 financial year	2.7	3.3	6.0
– For awards made in 2013 financial year	1.5	1.5	3.0
– For awards made in 2012 financial year	0.2	0.1	0.3
	4.7	**7.3**	**12.0**

Other remuneration disclosures

£'million	Senior management	Other Material Risk Takers	Total
Sign-on payments			
Made during the year (£'million)	–	0.5	0.5
Number of beneficiaries	–	1	1
Severance payments			
Made during the year (£'million)	–	–	–
Number of beneficiaries	–	–	–
Guaranteed bonuses			
Made during the year (£'million)	–	0.4	0.4
Number of beneficiaries	–	1	1

05

Annual financial statements

Strategic and directors' report

The directors present their strategic and directors' report and financial statements for the year ended 31 March 2017.

Strategic report

The strategic report for the year ended 31 March 2017 was approved by the board of directors on 14 June 2017.

The operational and financial review in sections 1 and 2 of this report provides an overview of our strategic position, performance during the financial year and outlook for the business. It should be read in conjunction with the sections referenced below which elaborate on the aspects highlighted in the strategic report:

- The risk management section in section 3 of this report provides a description of the principal risks and uncertainties facing the company
- The sustainability report on our website which highlights the sustainability economic, social and environmental considerations.

Business and principal activities

- The principal activities of Investec Bank plc (the bank) and its subsidiaries are Specialist Banking and Wealth & Investment activities. The Specialist Banking activities are also undertaken by the bank's branch in Dublin.

Review of the business and future developments

A review of the bank's business for the year and future proposed activities can be found in the financial review on pages 15 to 34.

Accounting policies and disclosures

Accounting policies are set having regard to commercial practice and comply with applicable UK law. To align with the accounting policies applied in the consolidated financial statements of the bank's listed parent, Investec plc, the consolidated and unconsolidated financial statements of the bank are prepared under International Financial Reporting Standards as adopted by the EU.

These policies are set out on pages 140 to 148.

Authorised and issued share capital

Details of the share capital at 31 March 2017 are set out in note 41 to the bank's annual financial statements.

No shares were issued during the year.

Results and dividends

The results for the year are shown on page 133. Movements in reserves are shown in the reconciliation of equity on pages 136 and 137 of the financial statements. The following interim dividends were declared and paid during the year: £35 million was declared and paid on 15 November 2016

Directors and their interests

The directors of the bank for the year ended 31 March 2017 are shown on page 111.

There have been the following changes in the composition of the board:

Brian Stevenson was appointed as a director with effect from 14 September 2016, Moni Mannings was appointed as director with effective 27 July 2016 and Ruth Leas was appointed to the Board with effect from 27 July 2017. The interests of the directors are set out in the remuneration report on pages 113 to 128. Except as disclosed in this report, no other director held any beneficial interest in the shares of the company or the group.

Environment

The group is committed to pursuing sound environmental policies in all aspects of its business, and seeks to encourage and promote good environmental practice among its employees and within the communities in which it operates.

Further information is provided in Investec's 2017 integrated annual report.

Employees

The group's policy is to recruit and promote on the basis of aptitude and ability, without discrimination of any kind. Applications for employment by disabled people are always considered bearing in mind the qualifications and abilities of the applicants.

In the event of employees becoming disabled, every effort is made to ensure their continued employment.

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

Further information is provided in Investec's 2017 integrated annual report.

Going concern

Refer to page 107 for the directors' statement in relation to going concern.

Auditors

Ernst & Young LLP have indicated their willingness to continue in office as auditors. A resolution proposing their reappointment as auditors will be submitted to the annual general meeting.

Signed on behalf of the board

David van der Walt
Chief executive officer

14 June 2017

Directors' responsibility statement

The following statement, which should be read in conjunction with the auditor's report set out on page 132, is made with a view to distinguishing for stakeholders the respective responsibilities of the directors and of the auditors in relation to the consolidated financial statements.

The directors are responsible for the preparation, integrity and objectivity of the consolidated annual financial statements that fairly present the state of affairs of the bank at the end of the financial year and the net income and cash flows for the year, and other information contained in this annual report.

To enable the directors to meet these responsibilities:

- The board and management set standards and management implements systems of internal controls and accounting and information systems aimed at providing reasonable assurance that assets are safeguarded and the risk of fraud, error or loss is reduced in a cost effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties
- The Investec plc group's internal audit function, which operates unimpeded and independently from operational management, and has unrestricted access to the group audit committee, appraises and, when necessary, recommends improvements in the system of internal controls and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business
- The Investec plc group audit committee, together with the Internal Audit department, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

To the best of our knowledge and belief, based on the above, the directors are satisfied that no material breakdown in the operation of the system of internal control and procedures has occurred during the year under review.

The bank consistently adopts appropriate and recognised accounting policies and these are supported by reasonable judgements and estimates on a consistent basis and provides additional disclosures when compliance with the specific requirements in International Financial Reporting Standards (IFRS) as adopted by the European Union are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the bank's financial position and financial performance.

The consolidated annual financial statements of the bank have been prepared in accordance with the Companies Act 2006 and comply with IFRS as adopted by the European Union.

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

It is the responsibility of the independent auditors to report on the consolidated annual financial statements. Their report to the members of the bank is set out on page 132 of this annual report. As far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. All steps which ought to have been taken as directors have been completed in order to be aware of the relevant audit information and to establish that the company's auditors are aware of that information.

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

Approval of financial statements

The directors' report and the financial statements of the bank, which appear on page 130 and pages 133 to 242, were approved by the board of directors on 14 June 2017.

Signed on behalf of the board

David van der Walt
Chief executive officer

14 June 2017

Independent auditor's report to the member of Investec Bank plc

We have audited the financial statements of Investec Bank plc for the year ended 31 March 2017 which comprise the group income statement, the group and parent company statement of comprehensive income, the group and parent company balance sheet, the group and parent company cash flow statement, the group and parent company statement of changes in equity, the accounting policies set out on pages 140 to 148, and the related notes 1 to 56. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement set out on page 131, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. Certain disclosures required by the financial reporting framework have been presented in the risk management and corporate governance report in section 3 of the Annual Report rather than in the notes to the financial statements and have been identified as audited. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 31 March 2017 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion: – the information given in the strategic and directors' report for the financial year for which the group financial statements are prepared is consistent with the group financial statements, – the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit we have identified no material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Andrew Gilder
(Senior statutory auditor)

for and on behalf of Ernst & Young LLP,
Statutory Auditor

London

14 June 2017

Notes:

1. *The maintenance and integrity of the Investec Bank plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.*
2. *Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.*

Consolidated income statement

For the year to 31 March £'000	Notes	2017	2016
Interest income	2	562 092	550 715
Interest expense	2	(263 340)	(280 649)
Net interest income		**298 752**	**270 066**
Fee and commission income	3	502 106	437 650
Fee and commission expense	3	(13 260)	(11 608)
Investment income	4	55 900	67 308
Share of post taxation operating profit of associates		1 741	1 975
Trading income arising from			
– customer flow		129 706	92 683
– balance sheet management and other trading activities		(138)	(8 552)
Other operating income	5	7 883	9 667
Total operating income before impairment losses on loans and advances		**982 690**	**859 189**
Impairment losses on loans and advances	26	(74 956)	(84 217)
Operating income		**907 734**	**774 972**
Operating costs	6	(744 716)	(628 515)
Depreciation on operating leased assets	31	(2 141)	(2 149)
Operating profit before goodwill and acquired intangibles		**160 877**	**144 308**
Impairment of goodwill	33	(3 134)	–
Amortisation of acquired intangibles	34	(14 386)	(14 477)
Operating profit		**143 357**	**129 831**
Net loss on disposal of subsidiaries	35	–	(4 805)
Profit before taxation		**143 357**	**125 026**
Taxation on operating profit before goodwill and acquired intangibles	8	(29 049)	(35 131)
Taxation on acquired intangibles, goodwill and disposal of subsidiaries	8	3 305	4 701
Profit after taxation		**117 613**	**94 596**
Loss attributable to non-controlling interests		180	2 039
Earnings attributable to shareholder		**117 793**	**96 635**

Statement of comprehensive income

		Group		Company	
For the year to 31 March £'000	**Notes**	**2017**	**2016**	**2017**	**2016**
Profit after taxation		**117 613**	**94 596**	**129 164**	**112 305**
Other comprehensive income/(loss):					
Items that may be reclassified to the income statement:					
(Gains)/losses on realisation of available-for-sale assets recycled through the income statement*	8	(2 622)	(1 298)	1 919	322
Fair value movements on available-for-sale assets taken directly to other comprehensive income*	8	29 809	(20 170)	22 812	(21 097)
Foreign currency adjustments on translating foreign operations		27 418	3 968	(5 053)	(6 916)
Total comprehensive income		**172 218**	**77 096**	**148 842**	**84 614**
Total comprehensive loss attributable to non-controlling interests		(538)	(2 149)	–	–
Total comprehensive income attributable to ordinary shareholder		172 756	79 245	148 842	84 614
Total comprehensive income		**172 218**	**77 096**	**148 842**	**84 614**

* *Net of taxation.*

Balance sheets

For the year to 31 March £'000	Notes	Group 2017	Group 2016	Company 2017	Company 2016
Assets					
Cash and balances at central banks	17	2 853 567	2 638 064	2 820 618	2 612 460
Loans and advances to banks	18	922 764	935 071	374 414	315 115
Reverse repurchase agreements and cash collateral on securities borrowed	19	536 173	557 025	536 173	557 025
Sovereign debt securities	20	952 902	1 252 991	159 381	643 352
Bank debt securities	21	184 626	188 397	184 626	188 397
Other debt securities	22	408 149	403 521	638 110	566 066
Derivative financial instruments	23	610 371	842 936	598 534	853 131
Securities arising from trading activities	24	522 760	524 344	516 581	524 344
Investment portfolio	25	454 566	419 861	174 139	210 499
Loans and advances to customers	26	8 598 639	7 781 386	6 611 759	6 053 931
Other loans and advances	26	556 464	577 584	1 941 993	1 774 186
Other securitised assets	27	138 628	150 565	7 258	8 680
Interests in associated undertakings	28	23 818	17 446	9 388	9 309
Deferred taxation assets	29	78 945	71 563	48 580	37 158
Other assets	30	1 089 390	1 453 050	766 823	1 087 288
Property and equipment	31	58 857	53 042	5 229	8 836
Investment properties	32	14 500	79 051	–	–
Goodwill	33	259 965	261 804	–	–
Intangible assets	34	116 330	126 867	150	381
Investments in subsidiaries	54	–	–	902 833	943 552
		18 381 414	**18 334 568**	**16 296 589**	**16 393 710**
Liabilities					
Deposits by banks		673 586	526 717	900 691	767 730
Derivative financial instruments	23	583 562	964 386	581 505	965 287
Other trading liabilities	36	136 041	226 598	136 041	226 598
Repurchase agreements and cash collateral on securities lent	19	223 997	281 260	424 019	281 260
Customer accounts (deposits)		11 289 177	11 038 164	9 601 085	9 808 014
Debt securities in issue	37	1 640 839	1 508 672	1 563 019	1 361 105
Liabilities arising on securitisation of other assets	27	128 838	120 617	–	–
Current taxation liabilities		146 743	141 064	77 182	70 651
Deferred taxation liabilities	29	26 557	26 143	5 302	–
Other liabilities	38	972 787	1 060 782	700 668	701 852
		15 822 127	**15 894 403**	**13 989 512**	**14 182 497**
Subordinated liabilities	40	579 356	597 309	580 427	598 390
		16 401 483	**16 491 712**	**14 569 939**	**14 780 887**
Equity					
Ordinary share capital	41	1 186 800	1 186 800	1 186 800	1 186 800
Share premium		143 288	143 288	143 288	143 288
Capital reserve		162 789	162 789	162 789	162 789
Other reserves		18 782	(36 181)	(2 418)	(22 096)
Retained income		470 272	387 606	236 191	142 042
Shareholder's equity excluding non-controlling interests		**1 981 931**	**1 844 302**	**1 726 650**	**1 612 823**
Non-controlling interests in partially held subsidiaries	42	(2 000)	(1 446)	–	–
Total equity		**1 979 931**	**1 842 856**	**1 726 650**	**1 612 823**
Total liabilities and equity		**18 381 414**	**18 334 568**	**16 296 589**	**16 393 710**

The company's profit for the year, determined in accordance with the Companies Act 2006, was £129.2 million (2016: £112.3 million).

Cash flow statements

For the year to 31 March £'000	Notes	Group 2017	Group 2016	Company 2017	Company 2016
Profit before taxation adjusted for non-cash items	44	248 754	236 094	211 493	140 225
Taxation repayment/(paid)		43 909	(100 730)	69 423	(76 886)
Decrease/(increase) in operating assets	44	178 178	(580)	272 491	(274 298)
(Decrease)/increase in operating liabilities	44	(152 054)	329 042	(318 394)	679 715
Net cash inflow from operating activities		**318 787**	**463 826**	**235 013**	**468 756**
Cash flow on acquisition of group operations		(34 247)	–	(19 599)	–
Cash flow on disposal of non-controlling interest		(16)	25	–	–
Cash flow on net acquisition of associates		(5 528)	(969)	–	–
Cash flow on acquisition of property, equipment and intangible assets		(22 479)	(15 408)	–	(29)
Cash flow on disposal of property, equipment and intangible assets		2 751	10 497	–	472
Return of capital by subsidiary		–	–	65 194	–
Net cash (outflow)/inflow from investing activities		**(59 519)**	**(5 855)**	**45 595**	**443**
Dividends paid to ordinary shareholder		(35 000)	(40 000)	(35 000)	(40 000)
Redemption of subordinated debt		(18 053)	–	–	–
Net cash outflow from financing activities		**(53 053)**	**(40 000)**	**(35 000)**	**(40 000)**
Effects of exchange rates on cash and cash equivalents		**19 970**	**16 194**	**1 878**	**2 533**
Net increase in cash and cash equivalents		**226 185**	**434 165**	**247 486**	**431 732**
Cash and cash equivalents at the beginning of the year		3 312 617	2 878 452	2 916 629	2 484 897
Cash and cash equivalents at the end of the year		**3 538 802**	**3 312 617**	**3 164 115**	**2 916 629**
Cash and cash equivalents is defined as including:					
Cash and balances at central banks		2 853 567	2 638 064	2 820 618	2 612 460
On-demand loans and advances to banks		685 235	674 553	343 497	304 169
Cash and cash equivalents at the end of the year		**3 538 802**	**3 312 617**	**3 164 115**	**2 916 629**

Cash and cash equivalents have a maturity profile of less than three months.

05

Consolidated statement of changes in equity

£'000	Ordinary share capital	Share premium account
Group		
At 31 March 2015	**1 186 800**	**143 288**
Movement in reserves 1 April 2015 – 31 March 2016		
Profit after taxation	–	–
Gains on realisation of available-for-sale assets recycled through the income statement	–	–
Fair value movements on available-for-sale assets	–	–
Foreign currency adjustments on translating foreign operations	–	–
Total comprehensive income for the year	–	–
Share-based payments adjustments	–	–
Dividends paid to ordinary shareholder	–	–
Movement arising on non-controlling interests	–	–
At 31 March 2016	**1 186 800**	**143 288**
Movement in reserves 1 April 2016 – 31 March 2017		
Profit after taxation	–	–
Gains on realisation of available-for-sale assets recycled through the income statement	–	–
Fair value movements on available-for-sale assets	–	–
Foreign currency adjustments on translating foreign operations	–	–
Total comprehensive income for the year	–	–
Share-based payments adjustments	–	–
Dividends paid to ordinary shareholder	–	–
Movement arising on non-controlling interests	–	–
At 31 March 2017	**1 186 800**	**143 288**

Capital reserve account	Available-for-sale reserve	Foreign currency reserves	Retained income	Shareholder's equity excluding non-controlling interests	Non-controlling interests	Total equity
162 789	**1 524**	**(20 315)**	**326 351**	**1 800 437**	**678**	**1 801 115**
–	–	–	96 635	96 635	(2 039)	94 596
–	(1 298)	–	–	(1 298)	–	(1 298)
–	(20 170)		–	(20 170)	–	(20 170)
–	–	4 078	–	4 078	(110)	3 968
–	(21 468)	4 078	96 635	79 245	(2 149)	77 096
–	–	–	4 620	4 620	–	4 620
–	–	–	(40 000)	(40 000)	–	(40 000)
–	–	–	–	–	25	25
162 789	**(19 944)**	**(16 237)**	**387 606**	**1 844 302**	**(1 446)**	**1 842 856**
–	–	–	117 793	117 793	(180)	117 613
–	(2 622)	–	–	(2 622)	–	(2 622)
–	29 809	–	–	29 809	–	29 809
–	–	27 776	–	27 776	(358)	27 418
–	27 187	27 776	117 793	172 756	(538)	172 218
–	–	–	(127)	(127)	–	(127)
–	–	–	(35 000)	(35 000)	–	(35 000)
–	–	–	–	–	(16)	(16)
162 789	**7 243**	**11 539**	**470 272**	**1 981 931**	**(2 000)**	**1 979 931**

Statement of changes in equity

(continued)

£'000	Ordinary share capital	Share premium account
Company		
At 31 March 2015	**1 186 800**	**143 288**
Movement in reserves 1 April 2015 – 31 March 2016		
Profit after taxation	–	–
Losses on realisation of available-for-sale assets recycled through the income statement	–	–
Fair value movements on available-for-sale assets	–	–
Foreign currency adjustments on translating foreign operations	–	–
Total comprehensive income for the year	–	–
Share-based payments adjustments	–	–
Dividends paid to ordinary shareholder	–	–
At 31 March 2016	**1 186 800**	**143 288**
Movement in reserves 1 April 2016 – 31 March 2017		
Profit after taxation	–	–
Fair value movements on cash flow hedges	–	–
Gains on realisation of available-for-sale assets recycled through the income statement	–	–
Fair value movements on available-for-sale assets	–	–
Foreign currency adjustments on translating foreign operations	–	–
Total comprehensive income for the year	–	–
Share-based payments adjustments	–	–
Dividends paid to ordinary shareholder	–	–
At 31 March 2017	**1 186 800**	**143 288**

Statement of changes in equity

(continued)

Capital reserve account	Available-for-sale reserve	Foreign currency reserves	Retained income	Total equity
162 789	**(5 612)**	**11 207**	**65 895**	**1 564 367**
–	–	–	112 305	112 305
–	322	–	–	322
–	(21 097)	–	–	(21 097)
–	–	(6 916)	–	(6 916)
–	(20 775)	(6 916)	112 305	84 614
–	–	–	3 842	3 842
–	–	–	(40 000)	(40 000)
162 789	**(26 387)**	**4 291**	**142 042**	**1 612 823**
–	–	–	129 164	129 164
–	–	–	–	–
–	1 919	–	–	1 919
–	22 812	–	–	22 812
–	–	(5 053)	–	(5 053)
–	24 731	(5 053)	129 164	148 842
–	–	–	(15)	(15)
–	–	–	(35 000)	(35 000)
162 789	**(1 656)**	**(762)**	**236 191**	**1 726 650**

Basis of presentation

These group and company annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU) which comply with IFRSs as issued by the International Accounting Standards Board (IASB). At 31 March 2017, IFRS as endorsed by the EU are identical in all material respects to current IFRS applicable to the group, with differences only in the effective dates of certain standards.

The group and company annual financial statements have been prepared on a historical cost basis, except for investment properties, available-for-sale investments, derivative financial instruments, financial assets and financial liabilities held at fair value through profit or loss or subject to hedge accounting.

The accounting policies adopted by the group are consistent with the prior year. 'Group' refers to group and company in the accounting policies that follow.

No profit or loss account is presented for the company as permitted by section 408 of the Companies Act 2006.

Presentation of information

Disclosure under IFRS 7 Financial Instruments: Disclosures and IAS 1 Presentation of Financial Statements: Capital Disclosures relating to the nature and extent of risks have been included in sections marked as audited in the risk management report on pages 36 to 102. Certain disclosures required under IAS 24 Related Party Disclosures have been included in the section marked as audited in the remuneration report on pages 113 to 128.

Restatements and presentation of information

The accounting policies adopted by the group are consistent with the prior year.

Basis of consolidation

All subsidiaries or structured entities are consolidated when the group controls an investee. The group controls an investee if it is exposed to, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial results of subsidiaries are included in the consolidated annual financial statements of the group from the date on which control is obtained until the date the group can no longer demonstrate control.

The group performs a reassessment of control whenever there is a change in the substance of the relationship between Investec and an investee. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. Investec also holds investments, for example private equity investments, which give rise to significant, but not majority, voting rights. Assessing these voting rights and whether Investec controls these entities requires judgement that affects the date at which subsidiaries are consolidated or deconsolidated.

Entities, other than subsidiary undertakings, in which the group exercises significant influence over operating and financial policies, are treated as interests in associated undertakings. Interests in associated undertakings are accounted for using the equity method from the date that significant influence commences until the date that significant influence ceases. In circumstances where interests in associated undertakings or joint venture holdings arise in which the group has no strategic intention, these investments are classified as 'venture capital' holdings and are designated as held at fair value through profit or loss.

For equity accounted associates, the consolidated annual financial statements include the attributable share of the results and reserves of associated undertakings. The group's interests in associated undertakings are included in the consolidated balance sheet at cost plus the post-acquisition changes in the group's share of the net assets of the associate.

The consolidated balance sheet reflects the associated undertakings net of accumulated impairment losses.

Investments in subsidiaries and interests in associated undertakings are carried at their cost less any accumulated impairment in the company financial statements.

All intergroup balances, transactions and unrealised gains or losses within the group that, are eliminated in full regarding subsidiaries and to the extent of the interest in an associate.

Segmental reporting

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the group's other components, whose operating results are reviewed regularly by chief operating decision-makers, which include members of the board and for which discrete financial information is available.

The group's segmental reporting is presented in the form of a business analysis. The business analysis is presented in terms of the group's two principal business divisions, namely, Wealth and Investment and Specialist Banking.

For further detail on the group's segmental reporting basis, refer to the divisional review section of the integrated annual report.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at the acquisition date fair value and the amount of any prior non-controlling interest in the acquiree. For each business combination, the group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed immediately in the income statement.

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and the designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the group's previously held equity interest in the acquiree is remeasured to fair value at each acquisition date through the income statement.

Any contingent consideration to be transferred by the group will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in the income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration and amount recognised for non-controlling interest is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the income statement as a gain in the year of acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. The group tests goodwill acquired in a business combination for impairment annually, irrespective of whether an indication of impairment exists and in accordance with IAS 36.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units that are expected to benefit from the combination.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the cash-generating units retained.

Share-based payments to employees

The group engages in equity-settled share-based payments in respect of services received from employees. These are the shares of the company's parent, Investec plc, and are accounted for as equity-settled share-based payments at an Investec plc level but, in accordance with IFRS 2, as cash-settled share-based payment transactions by subsidiaries of Investec plc.

The fair value of the services received in respect of equity-settled share-based payments is determined by reference to the fair value of the shares or share options on the date of grant to the employee. The cost of the share-based payment, together with a corresponding increase in equity, is recognised in the income statement over the period the service conditions of the grant are met, with the amount changing according to the number of awards expected to vest. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the group's best estimate of the number of equity instruments that will ultimately vest.

Fair value measurements are based on option pricing models, taking into account the risk-free interest rate, volatility of the underlying equity instrument, expected dividends and current share prices.

Where the terms of an equity-settled award are modified, the minimum expense recognised in staff costs is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Foreign currency transactions and foreign operations

The presentation currency of the group is Pounds Sterling, being the functional currency of Investec Bank plc.

Foreign operations are subsidiaries, interests in associated undertakings or branches of the group, the activities of which are based in a functional currency other than that of the reporting entity. The functional currency of group entities is determined based on the primary economic environment in which the entity operates.

Foreign currency transactions are translated into the functional currency of the entity in which the transactions arise, based on rates of exchange ruling at the date of the transactions.

At each balance sheet date foreign currency items are translated as follows:

- Monetary items (other than monetary items that form part of the net investment in a foreign operation) are translated using closing rates, with gains or losses recognised in the income statement
- Exchange differences arising on monetary items that form part of the net investment in a foreign operation are determined using closing rates and recognised as a separate component of equity (foreign currency translation reserve) upon consolidation and is reclassified to the income statement upon disposal of the net investment
- Non-monetary items that are measured at historical costs are translated using the exchange rates ruling at the date of the transaction.

On consolidation, the results and financial position of foreign operations are translated into the presentation currency of the group as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet
- Income and expense items are translated at exchange rates ruling at the date of the transaction
- All resulting exchange differences are recognised in other comprehensive income (foreign currency translation reserve), which is reclassified in the income statement on disposal of the foreign operation
- Cash flow items are translated at the exchange rates ruling at the date of the transactions.

Revenue recognition

Revenue consists of interest income, fee and commission income, investment income, trading income arising from customer flow, trading income arising from balance sheet management and other trading activities and other operating income.

Revenue is recognised when it can be reliably measured and it is probable that the economic benefits will flow to the entity.

Revenue related to provision of services is recognised when the related services are performed. Revenue is measured at the fair value of the consideration received or receivable.

Interest income is recognised in the income statement using the effective interest rate method. Fees charged on lending transactions are included in the effective yield calculation to the extent that they form an integral part of the effective interest rate yield, but exclude those fees earned for a separately identifiable significant act, which are recognised upon completion of the act. Fees and commissions charged *in lieu* of interest are recognised as income as part of the effective interest rate on the underlying loan.

The effective interest rate method is based on the estimated life of the underlying instrument and where this estimate is not readily available, the contractual life.

Fee and commission income includes fees earned from providing advisory services as well as portfolio management and includes rental income from investment properties. Investment advisory and management fees are accrued over the period to which the income relates. Performance fees are recognised when they become receivable. No revenue is recognised if there are significant uncertainties regarding the recovery of the consideration due.

Investment income includes income, other than margin from securities held for the purpose of generating interest yield, dividends and capital appreciation.

Customer flow trading income includes income from trading activities arising from making and facilitating client activities.

Trading income arising from balance sheet management and other trading activities consists of proprietary trading income and other gains and losses arising from balance sheet management.

Trading profit includes the unrealised profit on trading portfolios, which are marked to market daily. Equity investments received *in lieu* of corporate finance fees are included in investment portfolio and valued accordingly.

Dividend income is recognised when the group's right to receive payment is established.

Included in other operating income is incidental rental income, gains on realisation of properties (other than investment properties which is included in investment income), operating lease income, income from interests in associated undertakings and revenue from consolidated private equity investments. Operating costs associated with these investments are included in operating costs in the income statement.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the group measures the fair value of an instrument using the quoted price in an active market for that instrument.

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The group classifies disclosed fair values according to a hierarchy that reflects the significance of observable market inputs.

A transfer is made between the hierarchy levels when the inputs have changed or there has been a change in valuation method. Transfers are deemed to occur at the end of each semi-annual reporting period.

Financial instruments

Financial instruments are initially recognised at their fair value. For financial assets or financial liabilities not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities are included in the initial measurement. All other transaction costs are recorded in the income statement immediately.

Regular way purchase and sales transactions in respect of financial assets that require delivery of a financial instrument within the timeframe established by market convention are recorded at trade date.

Financial assets and liabilities held at fair value through profit or loss

Financial instruments held at fair value through profit or loss include all instruments classified as held-for-trading and those instruments designated as held at fair value through profit or loss.

Financial instruments classified as held-for-trading or designated as held at fair value through profit or loss are initially recorded at fair value on the balance sheet with changes in fair value subsequently recognised in the income statement. Financial instruments are classified as trading when they are held with the intention of short-term disposal, held with the intention of generating short-term profit, or are derivatives which are not designated as part of effective hedges. Financial instruments designated as held at fair value through profit or loss are designated as such on initial recognition of the instrument and remain in this classification until derecognition.

Financial assets and liabilities are designated as held at fair value through profit or loss only if:

- They eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases
- A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy and information about the group is provided internally on that basis to the group's key management personnel
- A contract contains one or more embedded derivatives (which significantly modifies the cash flows that would be required by the contract and is not clearly prohibited from separation from the host contract) and the group has designated the entire hybrid contract as a financial instrument at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and exclude the following:

- Those in which the group intends to trade in, which are classified as held-for-trading and those that the group designates at fair value through profit or loss
- Those that the group designates as available-for-sale
- Those for which the group may not recover substantially all of its initial investment, other than because of credit deterioration, which is accounted for as available-for-sale instruments.

Subsequent to initial recognition, loans and receivables are measured at amortised cost, using the effective interest rate method, less impairment losses. The effective interest rate represents the rate that exactly discounts future projected cash flows over the expected life of the financial instrument, to the net carrying amount of the financial instrument. Included in the calculation of the effective interest rate, is any discount or premium on acquisition and fees that are an integral part of the effective interest rate.

Losses arising from impairment of such investments are recognised in the income statement line 'impairment losses on loans and advances'.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Securitisation/credit investment and trading activities exposures

The group makes use of securitisation vehicles as a source of finance, as a means of risk transfer and to leverage returns through the retention of equity tranches in low default rate portfolios. The group predominantly focuses on the securitisation lease receivables. The group also trades in structured credit investments.

The structured entities are consolidated under IFRS 10 Consolidated Financial Statements when the group has exposure to or rights to, variable returns from its involvement with the investee and have the ability to affect those returns through its power over the investee.

Loans and advances that are originated are transferred to structured entities, and the structured entities issue debt securities to external investors to fund the purchase of securitised assets. When the group consolidates the structured entity, the group recognises the assets and liabilities on a gross basis. When the group does not consolidate the structured entity, the securitised assets are derecognised and only any position still held by the group in the structured entity is reflected.

Available-for-sale financial assets

Available-for-sale financial assets are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity, or loans and receivables. They include strategically held equity instruments that are not interests in associated undertakings, joint ventures or subsidiaries of the group. Further, certain debt instruments that are held at fair value due to being quoted on an active market, which are neither actively traded nor held-to-maturity instruments, are classified as available-for-sale financial assets.

Financial assets classified as available-for-sale are measured at fair value with unrealised gains and losses recognised directly in other comprehensive income in the available-for-sale reserve. When the asset is disposed of, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to in the income statement. Interest earned while holding available-for-sale financial assets is reported in the income statement as interest income using the effective interest rate. Dividends earned while holding available-for-sale financial assets are recognised in the income statement when the right to payment has been established.

If an available-for-sale instrument is determined to be impaired, the respective cumulative unrealised losses previously recognised in other comprehensive income are included in the income statement in the period in which the impairment is identified.

Impairments on available-for-sale equity instruments are not reversed once recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed, limited to the impairment value previously recognised in the income statement.

Financial liabilities

Financial liabilities are classified as non-trading, held-for-trading or designated as held at fair value through profit or loss.

Non-trading liabilities are recorded at amortised cost applying the effective interest rate method.

Held-for-trading liabilities or liabilities designated as held at fair value through profit or loss are measured at fair value.

All changes in fair value of financial liabilities are recognised in the income statement.

Day-One profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on the valuation technique whose variables include only data from observable markets, the difference between the transaction price and fair value is recognised immediately in the income statement.

In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised or over the life of the transaction.

Impairments of financial assets held at amortised cost

Financial assets carried at amortised cost are impaired if there is objective evidence that the group would not receive cash flows according to the original contractual terms. Financial assets are assessed for impairment at each balance sheet date and when an indicator of impairment is identified.

The test for impairment is based either on specific financial assets or collectively on a portfolio of similar homogeneous assets. Over and above individual collective impairments raised at specific portfolio levels, the group recognises a collective impairment allowance at a central level (within the Specialist Banking business segment) that takes into account macroeconomic factors, mainly driven by data related to the prevailing credit markets and which indicate incurred but not specifically identified losses across the loan portfolios (that is, exposures in all business segments). Assets specifically identified as impaired are excluded from the collective assessment.

Impairments are credited to an allowance account which is carried against the carrying value of financial assets. Interest continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or transferred to the group.

An allowance for impairment is only reversed when there is objective evidence that the credit quality has improved to the extent that there is reasonable assurance of timely collection of principal and interest in terms of the original contractual agreement.

The impairment is calculated as the difference between the carrying value of the asset and the expected cash flows (including net expected proceeds on realisation of collateral) discounted at the original effective rate. Impairments of financial assets held at amortised cost are recognised in the income statement.

Derecognition of financial assets and liabilities

A financial asset, or a portion thereof, is derecognised when the group's rights to cash flows have expired or when the group has transferred its rights to cash flows relating to the financial assets and either (a) the group has transferred substantially all the risks and rewards associated with the financial assets or (b) the group has neither transferred nor retained substantially all the risks and rewards associated with the financial assets but has transferred control of the assets.

A financial liability is derecognised when it is extinguished, that is when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced or modified with substantially different terms, such a replacement or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

Reclassification of financial instruments

The group may reclassify, in certain rare circumstances, non-derivative financial assets out of the held-for-trading category and into the available-for-sale, loans and receivables, or held-to-maturity categories. It may also reclassify, in certain circumstances, financial instruments out of the available-for-sale category and into the loans and receivables category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

Derivative instruments

All derivative instruments of the group are recorded on the balance sheet at fair value. Positive and negative fair values are reported as assets and liabilities respectively.

Derivative positions are entered into either for trading purposes or as part of the group's asset and liability management activities to manage exposures to interest rate and foreign currency risks. Both realised and unrealised profit or losses arising on derivatives are recognised in the income statement as part of trading income (other than circumstances in which cash flow hedging is applied as detailed in the hedge accounting section below).

Derivative instruments entered into as economic hedges which do not qualify for hedge accounting and derivatives that are entered into for trading purposes are treated in the same way as instruments that are held-for-trading.

Credit derivatives are entered into for trading purposes. Credit derivatives are initially recognised at their fair values, being the transaction price of the derivative. Subsequently the derivatives are carried at fair value, with movements in fair value through profit or loss, based on the current market price or remeasured price. The counterparty risk from derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit value adjustment (CVA).

Hedge accounting

The group applies either fair value or hedge of net investments in foreign operations accounting when the transactions meet the specified hedge accounting criteria. To qualify for hedge accounting treatment, the group ensures that all of the following conditions are met:

- At inception of the hedge, the group formally documents the relationship between the hedging instrument(s) and hedged item(s) including the risk management objectives and the strategy in undertaking the hedge transaction. Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item
- A hedge is expected to be highly effective if the changes in fair value attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%
- The effectiveness of the hedge can be reliably measured, i.e. the fair value of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured
- The hedge effectiveness is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

For qualifying fair value hedges, the change in fair value of the hedging instrument is recognised in the income statement. Changes in fair value of the hedged item that is attributable to the hedged risk are also recognised in the income statement.

Qualifying hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment. Changes in the fair value of the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of any such gain or loss recorded in other comprehensive income is reclassified to the income statement.

Hedge accounting is discontinued when it is determined that the instrument ceases to be highly effective as a hedge; when the derivative expires, or is sold, terminated or exercised; when the hedged item matures or is sold or repaid; when a forecasted transaction is no longer deemed highly probable or when the designation as a hedge is revoked.

Embedded derivatives

To the extent that a derivative may be embedded in a hybrid contract and the hybrid contract is not carried at fair value with changes in fair value recorded in the income statement, the embedded derivative is separated from the host contract and accounted for as a stand-alone derivative if and only if:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset when there is both an intention to settle on a net basis (or simultaneously) and a currently enforceable legal right to offset exists.

Issued debt and equity financial instruments

Financial instruments are classified as liabilities if they contain a contractual obligation to deliver cash or another financial asset.

Financial instruments are classified as equity where they confer on the holder a residual interest in the group, and the group has no obligation to deliver either cash or another financial asset to the holder. The components of compound issued financial instruments are accounted for separately with the liability component separated first and any residual amount being allocated to the equity component.

Equity instruments issued by subsidiaries of Investec Bank plc are recorded as non-controlling interests on the balance sheet.

Equity instruments are initially measured net of directly attributable issue costs.

Dividends on ordinary shares are recognised as a deduction from equity at the earlier of payment date or the date that it is approved by Investec Bank plc shareholder.

Sale and repurchase agreements (including securities borrowing and lending)

Where securities are sold subject to a commitment to repurchase them, at a fixed price or a selling price plus a lender's return, they remain on balance sheet. Proceeds received are recorded as a liability on balance sheet under 'repurchase agreements and cash collateral on securities lent'. Securities that are purchased under a commitment to resell the securities at a future date are not recognised on the balance sheet. The consideration paid is recognised as an asset under 'reverse repurchase agreements and cash collateral on securities borrowed'.

The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method.

Securities borrowing transactions that are not cash collateralised are not included on the balance sheet. Securities lending and borrowing transactions which are cash collateralised are accounted for in the same manner as securities sold or purchased subject to repurchase commitments.

Financial guarantees

Financial guarantee contracts issued by the group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due, in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at fair value, adjusted for the transaction costs that are directly attributable to the issuance of the guarantee.

Subsequent to initial recognition, the liability under each guarantee is measured at the higher of the amount recognised less cumulative amortisation and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Subsequent to initial measurement, all changes in the balance sheet carrying value are recognised in the income statement.

Instalment credit, leases and rental agreements

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset/assets, even if that right is not explicitly specified in an arrangement.

A finance lease is a lease that transfers substantially all of the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

Where classified as a finance lease, amounts outstanding on these contracts, net of unearned finance charges, are included in loans and advances where the instalment credit transactions are credited or debited to the income statement in proportion to the capital balances outstanding at the rate implicit in the agreement.

Where classified as operating leases, rentals payable/receivable are charged/credited in the income statement on a straight-line basis over the lease term. Contingent rentals are accrued to the income statement when incurred.

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and impairments.

Cost is the cash equivalent paid or the fair value of the consideration given to acquire an asset and includes other expenditures that are directly attributable to the acquisition of the asset.

Depreciation is provided on the depreciable amount of each component on a straight-line basis over the expected useful life of the asset.

The depreciable amount related to each asset is determined as the difference between the cost and the residual value of the asset. The residual value is the estimated amount, net of disposal costs that the group would currently obtain from the disposal of an asset in similar age and condition as expected at the end of its useful life.

The current and comparative annual depreciation rates for each class of property and equipment is as follows:

- Computer and related equipment 20% – 33%
- Motor vehicles 20% – 25%
- Furniture and fittings 10% – 20%
- Freehold buildings 2%
- Leasehold property and improvements.*

** Leasehold improvements depreciation rates are determined by reference to the appropriate useful life of its separate components, limited to the period of the lease. Leasehold property depreciation rates are determined by reference to the period of the lease.*

No depreciation is provided on freehold land. However, similar to other property-related assets, it is subject to impairment testing when an indication of impairment exists.

Routine maintenance and service costs for group assets are expensed as incurred. Subsequent expenditure is only capitalised if it is probable that future economic benefits associated with the item will flow to the group.

Investment properties

Properties held for capital appreciation or rental yield are classified as investment properties. Investment properties are carried at fair value, with fair value gains or losses recognised in the income statement in investment income.

Fair value of investment properties are calculated by taking into account the expected rental stream associated with the property, and is supported by market evidence.

Trading properties

Trading properties are carried at the lower of cost and net realisable value.

Intangible assets

Intangible assets are recorded at cost less accumulated amortisation and impairments.

Intangible assets with a finite life are amortised over the useful economic life of the asset (currently three to 20 years) on a straight-line basis. The depreciable amount related to each intangible asset is determined as the difference between the cost and the residual value of the asset.

Impairment of non-financial assets

At each balance sheet, date the group reviews the carrying value of non-financial assets, other than investment properties for indication of impairment. The recoverable amount, being the higher of fair value less cost of disposal and value in use, is determined for any assets for which an indication of impairment is identified. If the recoverable amount of an asset is less than its carrying value, the carrying value of the asset is reduced to its recoverable amount.

Impairment losses are recognised as an expense in the income statement in the period in which they are identified.

Reversals of impairment losses are recognised in income in the period in which the reversals are identified, to the extent that the carrying value of the asset does not exceed the amount that would have been calculated without impairment.

Trust and fiduciary activities

The group acts as a trustee or in other fiduciary capacities that result in the holding, placing or managing of assets for the account of and at the risk of clients.

As these are not assets of the group, they are not recognised on the balance sheet but are included at market value as part of assets under administration.

Taxation and deferred taxation

Current taxation payable is provided for based on the amount expected to be payable on taxable profit at rates that are enacted or substantively enacted and applicable to the relevant period.

Deferred taxation is provided on temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base, except where such temporary differences arise from:

- The initial recognition of goodwill
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction has no effect on the income statement or taxable profit
- In respect of temporary differences associated with the investments in subsidiaries and interests in associated undertakings, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred taxation assets or liabilities are measured using the tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilised.

Items recognised directly in other comprehensive income are net of related current and deferred taxation.

Employee benefits

The group operates various defined contribution schemes. In addition, employees of the bank participate in two closed defined benefit schemes along with employees of other subsidiary undertakings of Investec plc, the bank's parent.

In respect of the defined contribution scheme, all employer contributions are charged to the income statement as incurred, in accordance with the rules of the scheme, and included under staff costs.

As there is no contractual agreement or stated policy for charging the net defined benefit cost for the defined benefit plans as a whole measured in accordance with IAS 19 to individual Investec plc group entities, the bank accounts for these schemes on a defined contribution basis.

Borrowing costs

Borrowing costs that are directly attributable to property developments which take a substantial period of time to develop are capitalised.

Provisions, contingent liabilities and contingent assets

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the income statement net of any reimbursement. Contingent assets and contingent liabilities are not recognised on balance sheet.

Standards and interpretations issued but not yet effective

The following standards and interpretations, which have been issued but are not yet effective, are applicable to the group. These standards and interpretations have not been applied in these annual financial statements. The group intends to comply with these standards from the effective dates.

IFRS 9 Financial instruments

IFRS 9 Financial Instruments was issued in July 2014 and will replace certain key elements of IAS 39. The mandatory effective date for IFRS 9 is for annual periods beginning on or after 1 January 2018 with early adoption permitted.

IFRS 9 was endorsed by the European Union in November 2016. The two key elements that would impact the group's accounting policies include:

- classification and measurement of financial assets and financial liabilities: the standard requires that all financial assets be classified as either held at fair value through profit or loss, fair value through other comprehensive income or amortised cost. The amortised cost classification is only permitted where it is held within a business model where the underlying cash flows are held in order to collect contractual cash flows and that the cash flows arise solely from payment of principal and interest. Financial assets which are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (and whose contractual cash flows represent solely payments of principal and interest) will be measured at fair value through other comprehensive income. The standard further provides that gains or losses on assets held at fair value are recognised in the income statement unless the entity has elected to recognise gains or losses on non-trading equity investments directly through other comprehensive income. With reference to financial liabilities held at fair value, the standard requires that changes to fair value attributable to own credit risk are recognised directly in other comprehensive income without recycling through the income statement;
- impairment methodology: the key change is related to a shift from an incurred loss to an expected loss impairment methodology. At initial recognition an allowance (or provision in the case of commitments and guarantees) is required for expected credit losses (ECL) resulting from default events that are possible within the next 12 months (12-month ECL). In the event of a significant increase in credit risk since initial recognition, IFRS 9 requires the recognition of lifetime expected credit losses. Impairment measurement will involve increased complexity and significant judgements on areas such as the estimation of probabilities of default, loss given default, unbiased future economic scenarios, estimation of expected lives, estimation of exposures at default and assessing whether a significant increase in credit risk has occurred.

IFRS 9 also includes guidance on hedge accounting. The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. The standard does not address macro hedge accounting strategies, which are being considered in a separate project. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge accounting requirements, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting. The group intends to continue applying IAS 39's hedge accounting, although it will implement the amended IFRS 7 hedge accounting disclosure requirements, until the macro hedge accounting project has been completed.

The regulatory capital impact of IFRS 9 could be affected by changes to the regulatory rules. The Basel Committee on Banking Supervision is considering amending the capital rules of IFRS 9, with discussions being held on transitional impacts and longer-term changes. It is not clear whether any transitional capital arrangements will be in place for 1 January 2018.

The group has established an IFRS 9 steering committee comprising of executive representation and key management from Risk, Finance, Analytics and IT.

The committee is accountable for IFRS 9 implementation and is supported by working groups responsible for different work streams. The committee continues to progress with documentation of the group's accounting policy and governance framework and the development of ECL models and operating and system target operating models. The committee provides updates of the status of the project to appropriate board committees. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The group does not intend to restate comparatives.

Current assessment of classification and measurement:

The group expects that generally:

- loans and advances to banks and to customers and non-trading reverse repurchase agreements that are classified as loans and receivables under IAS 39 will be measured at amortised cost under IFRS 9, with the exception of current investments for which embedded derivatives are recognised separately unless a separate derivative instrument can be recognised, the entire loan would be recognised at fair value;
- financial assets designated at fair value through profit or loss (FVTPL) under IAS 39 will be measured at FVTPL under IFRS 9;
- certain debt securities held within the group's credit portfolio may be reclassified from available-for-sale to amortised cost. The remaining debt securities classified as available for sale will be measured at fair value through other comprehensive income (FVOCI) under IFRS 9; and
- equity instruments securities classified as available-for-sale or FVTPL will be measured at FVTPL under IFRS 9.

The group continues to assess the impact of this standard, but expects that the recognition and measurement basis of the majority of the group's financial assets will be largely unchanged on application of IFRS 9.

The group is monitoring the IASB's project to amend IFRS 9 to the effect that basic lending arrangements with symmetrical break clauses continue to qualify for amortised cost accounting. These clauses are common features in fixed rate loans due to market practice and may result in compensation for early termination being paid by either the borrower or the group. The IASB has issued an exposure draft in April 2017 which will be, effective 1 January 2018 in line with IFRS 9's effective date. Based on these anticipated amendments, we expect that we can continue to measure the impacted loans at amortised cost.

Current assessment of impairments:

As noted, the group would also shift its impairment methodology from the current incurred loss basis to expected loss. Credit risk methodologies have been defined and model build and approval is underway and nearing completion. Investec intends to perform a parallel run during 2017 and in doing so models and credit risk processes will be tested during this period to embed the changes and help improve the understanding of the new impairment models.

The group has reviewed key definitions such as significant deterioration in credit quality and default against our current asset quality classifications. A framework is being established that incorporates both quantative and qualitative measures. Any decisions in relation to credit deterioration will be management decisions subject to approval by governing bodies.

The group will incorporate IFRS 9 requirements into our group credit risk classification and provisioning policy.

It will not be practical to disclose reliable financial impact estimates until the implementation programme and validation and testing is further advanced. The group intends to disclose this in the 2018 annual financial statements.

IFRS 15 Revenue from contracts with customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. The standard is effective for annual periods beginning on or after 1 January 2018 with early application permitted. The standard was endorsed by the European Union in September 2016.

IFRS 15 provides a principles-based approach for revenue recognition and introduces the concept of recognising revenue for obligations as they are satisfied. The standard should be applied retrospectively, with certain practical expedients available. The group's current measurement and recognition principles are aligned to the standard and we do not expect an impact to measurement principles currently applied. The impact of the disclosure requirements of the standard is currently being assessed.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases. The standard is effective for annual periods beginning on or after 1 January 2019 and is expected to be endorsed by the European Union in 2017. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 Leases. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the period of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17.

The group is currently assessing the impact of this standard but it is not practicable to quantify the effect as at the date of the publication of these financial statements.

All other standards and interpretations issued but not yet effective are not expected to have a material impact on the group.

Key management assumptions

In preparation of the annual financial statements, the group makes estimations and applies judgement that could affect the reported amount of assets and liabilities within the next financial year. Key areas in which judgement is applied include:

- Valuation of unlisted investments primarily in the private equity, direct investments portfolios and embedded derivatives. Key valuation inputs are based on the most relevant observable market inputs, adjusted where necessary for factors that specifically apply to the individual investments and recognising market volatility.

Details of unlisted investments can be found in note 25 with further analysis contained in the risk management section on pages 70 to 75.

- The determination of impairments against assets that are carried at amortised cost and impairments relating to available-for-sale financial assets involves the assessment of future cash flows which is judgemental in nature.

Refer to pages 58 to 65 in the risk management section for further analysis on impairments.

- The group's income tax charge and balance sheet provision are judgemental in nature. This arises from certain transactions for which the ultimate tax treatment can only be determined by final resolution with the relevant local tax authorities. The group has recognised in its current tax provision certain amounts in respect of taxation that involve a degree of estimation and uncertainty where the tax treatment cannot finally be determined until a resolution has been reached by the relevant tax authority. The carrying amount of this provision is sensitive to the resolution of issues, which is often dependent on the timetable and progress of discussion and negotiations with the relevant tax authorities, arbitration process and legal proceedings in the relevant tax jurisdictions in which the group operates. Issues can take many years to resolve and assumptions on the likely outcome would therefore have to be made by the group.

The nature of any assumptions made, when calculating the carrying amounts relating to any estimated tax which could be payable as a result of decisions by tax authorities in respect of any such transactions and events whose treatment for tax purposes, is uncertain. In making any estimates, management's judgement would be based on various factors, including any such transactions and events whose treatment for tax purposes, is uncertain. In making any estimates, management's judgement has been based on various factors, including:

  - The current status of tax audits and enquiries
  - The current status of discussions and negotiations with the relevant tax authorities
  - The results of any previous claims
  - Any changes to the relevant tax environments.

Where appropriate, the group has utilised expert external advice as well as experience of similar situations elsewhere in making any such provisions.

  - Determination of interest income and interest expense using the effective interest rate method involves judgement in determining the timing and extent of future cash flows.

For the year to 31 March 2017 £'000	Wealth & Investment	Specialist Banking	Total group
1. Consolidated segmental analysis			
Segmental business analysis – income statement			
Net interest income	4 368	294 384	298 752
Fee and commission income	268 429	233 677	502 106
Fee and commission expense	(582)	(12 678)	(13 260)
Investment income	2 169	53 731	55 900
Share of post taxation operating profit of associates	1 509	232	1 741
Trading income arising from			
– customer flow	740	128 966	129 706
– balance sheet management and other trading activities	215	(353)	(138)
Other operating income	–	7 883	7 883
Total operating income before impairment losses on loans and advances	**276 848**	**705 842**	**982 690**
Impairment losses on loans and advances	–	(74 956)	(74 956)
Operating income	**276 848**	**630 886**	**907 734**
Operating costs	(211 658)	(533 058)	(744 716)
Depreciation on operating leased assets	–	(2 141)	(2 141)
Operating profit before goodwill and acquired intangibles	**65 190**	**95 687**	**160 877**
Loss attributable to non-controlling interests	–	180	180
Operating profit before goodwill, acquired intangibles and after non-controlling interests	**65 190**	**95 867**	**161 057**
Selected returns and key statistics			
Cost to income ratio	76.5%	75.8%	75.9%
Number of employees at year end	1 279	2 167	3 446
Average number of employees over the year	1 268	2 217	3 485
Total assets (£'million)	952	17 429	18 381

For the year to 31 March 2016 £'000	Wealth & Investment	Specialist Banking	Total group
1. Consolidated segmental analysis *(continued)*			
Segmental business analysis – income statement			
Net interest income	4 064	266 002	270 066
Fee and commission income	246 202	191 448	437 650
Fee and commission expense	(1 209)	(10 399)	(11 608)
Investment income	5 817	61 491	67 308
Share of post taxation operating profit of associates	1 191	784	1 975
Trading income arising from			
– customer flow	333	92 350	92 683
– balance sheet management and other trading activities	138	(8 690)	(8 552)
Other operating income	–	9 667	9 667
Total operating income before impairment losses on loans and advances	**256 536**	**602 653**	**859 189**
Impairment losses on loans and advances	–	(84 217)	(84 217)
Operating income	**256 536**	**518 436**	**774 972**
Operating costs	(193 507)	(435 008)	(628 515)
Depreciation on operating leased assets	–	(2 149)	(2 149)
Operating profit before goodwill and acquired intangibles	**63 029**	**81 279**	**144 308**
Operating loss attributable to non-controlling interests	–	2 039	2 039
Operating profit before goodwill, acquired intangibles and after non-controlling interests	**63 029**	**83 318**	**146 347**
Selected returns and key statistics			
Cost to income ratio	75.4%	72.4%	73.3%
Number of employees at year end	1 254	2 050	3 304
Average number of employees over the year	1 210	1 980	3 190
Total assets (£'million)	1 026	17 309	18 335

2. Net interest income

For the year to 31 March 2017 £'000	Notes	Balance sheet value	Interest income
Cash, near cash and bank debt and sovereign debt securities	1	5 450 032	33 054
Core loans and advances	2	8 598 639	469 649
Private client		3 454 366	151 645
Corporate, institutional and other clients		5 144 273	318 004
Other debt securities and other loans and advances		964 613	59 389
Total interest-earning assets		**15 013 284**	**562 092**

For the year to 31 March 2017 £'000	Notes	Balance sheet value	Interest expense
Deposits by banks and other debt-related securities	3	2 538 422	75 667
Customer accounts (deposits)		11 289 177	131 791
Subordinated liabilities		579 356	55 882
Total interest-bearing liabilities		**14 406 955**	**263 340**
Net interest income			**298 752**
Net interest margin			**2.04%**

For the year to 31 March 2016 £'000	Notes	Balance sheet value	Interest income
2. Net interest income *(continued)*			
Cash, near cash and bank debt and sovereign debt securities	1	5 571 548	47 164
Core loans and advances	2	7 781 386	424 660
Private client		3 510 327	150 060
Corporate, institutional and other clients		4 271 059	274 600
Other debt securities and other loans and advances		981 105	78 891
Total interest-earning assets		**14 334 039**	**550 715**

For the year to 31 March 2016 £'000	Notes	Balance sheet value	Interest income
Deposits by banks and other debt-related securities	3	2 316 649	85 771
Customer accounts (deposits)		11 038 164	138 007
Subordinated liabilities		597 309	56 871
Total interest-bearing liabilities		**13 952 122**	**280 649**
Net interest income			**270 066**
Net interest margin			**1.88%**

Notes:
1. *Comprises (as per the balance sheet) cash and balances at central banks; loans and advances to banks; reverse repurchase agreements and cash collateral on securities borrowed; sovereign debt securities and bank debt securities.*
2. *Comprises (as per the balance sheet) loans and advances to customers.*
3. *Comprises (as per the balance sheet) deposits by banks; debt securities in issue; and repurchase agreements and cash collateral on securities lent.*

For the year to 31 March £'000	2017	2016
3. Net fee and commission income		
Wealth management businesses net fee and commission income	**267 847**	**244 993**
Fund management fees/fees for assets under management	211 474	191 944
Private client transactional fees	56 955	54 258
Fee and commission expense	(582)	(1 209)
Specialist Banking net fee and commission income	**220 999**	**181 049**
Corporate and institutional transactional and advisory services	204 233	163 525
Private client transactional fees	29 444	27 923
Fee and commission expense	(12 678)	(10 399)
Net fee and commission income	**488 846**	**426 042**
Annuity fees (net of fees payable)	269 765	260 056
Deal fees	219 081	165 986

For the year to 31 March £'000	2017	2016
4. Investment income		
Realised	46 260	49 323
Unrealised	(9 271)	(2 311)
Dividend income	12 339	15 419
Funding and other net related income	6 572	4 877
	55 900	**67 308**

For the year to 31 March £'000	Investment portfolio (listed and unlisted equities)*	Debt securities (sovereign, bank and other)	Investment properties	Other asset categories	Total
2017					
Realised	38 533	(8 482)	18 337	(2 128)	46 260
Unrealised^	(3 086)	5 138	(10 008)	(1 315)	(9 271)
Dividend income	12 339	–	–	–	12 339
Funding and other net related income	–	–	–	6 572	6 572
Total investment income/(loss)	**47 786**	**(3 344)**	**8 329**	**3 129**	**55 900**
2016					
Realised	10 319	36 331	–	2 673	49 323
Unrealised^	15 562	(7 468)	1 282	(11 687)	(2 311)
Dividend income	15 419	–	–	–	15 419
Funding and other net related income	–	–	–	4 877	4 877
Total investment income/(loss)	**41 300**	**28 863**	**1 282**	**(4 137)**	**67 308**

* *Including embedded derivatives (warrants and profit shares).*
^ *In a year of realisation, any prior period mark to market gains/(losses) are reversed in the unrealised line.*

For the year to 31 March £'000	2017	2016
5. Other operating income		
Rental income from properties	3 635	5 724
Gains on realisation of properties	325	–
Unrealised gains on other investments	1 452	1 755
Income from operating leases	2 471	2 188
	7 883	**9 667**

For the year to 31 March £'000	2017	2016
6. Operating costs		
Staff costs	544 388	459 708
– Salaries and wages (including directors' remuneration)**	439 882	371 083
– Training and other costs	13 426	9 070
– Share-based payment expense	29 500	27 122
– Social security costs	38 475	34 086
– Pensions and provident fund contributions	23 105	18 347
Premises expenses (excluding depreciation)	40 074	26 008
Equipment expenses (excluding depreciation)	40 456	25 983
Business expenses*	74 589	77 096
Marketing expenses	34 314	29 437
Depreciation, amortisation and impairment on property, equipment and intangibles	10 895	10 283
	744 716	**628 515**
Depreciation on operating leased assets	2 141	2 149
	746 857	**630 664**
The following amounts were paid by the group to the auditors in respect of the audit of the financial statements and for other services provided to the group:		
Ernst & Young fees		
Fees payable to the company's auditors for the audit of the company's accounts	1 801	1 651
Fees payable to the company's auditors and its associates for other services:		
Audit of the company's subsidiaries pursuant to legislation	1 058	989
Audit-related assurance services	370	267
Tax compliance services	390	99
Tax advisory services	196	422
Services related to corporate finance transactions	41	–
Other assurance services	80	96
	3 936	**3 524**
KPMG fees		
Audit of the company's subsidiaries pursuant to legislation	198	339
Audit-related assurance services	119	–
	317	**339**
Total	**4 253**	**3 863**

* *Business expenses mainly comprise insurance costs, consulting and professional fees, travel expenses and subscriptions.*

** *Details of the directors' emoluments, pensions and their interests are disclosed in the remuneration report on pages 113 to 128.*

7. Share-based payments

The group operates share option and long-term share incentive plans for employees, the majority of which are on an equity-settled basis in Investec plc but in accordance with IFRS 2 are cash settled in the company as set out in the accounting policies on page 141. The purpose of the staff share schemes is to promote an *esprit de corps* within the organisation, create an awareness of Investec's performance and provide an incentive to maximise individual and group performance by allowing all staff to share in the risks and rewards of the group.

Further information on the group share options and long-term incentive plans are provided on page 121 of the remuneration report and on our website.

For the year to 31 March £'000	Wealth & Investment	Specialist Banking	Total group
Share-based payment expense:			
Group			
2017			
Cash settled (equity-settled at group)	3 994	25 506	29 500
Total income statement charge	**3 994**	**25 506**	**29 500**
Cash settled (equity-settled at group): accelerated charges in respect of subsidiaries sold and restructured	–	–	–
	3 994	**25 506**	**29 500**
2016			
Cash settled (equity-settled at group)	6 501	20 621	27 122
Total income statement charge	**6 501**	**20 621**	**27 122**
Cash settled (equity-settled at group): accelerated charges in respect of subsidiaries sold and restructured	–	–	–
	6 501	**20 621**	**27 122**

Included in the above income statement charge is an accelerated share-based payment charge as a result of modifications to certain options granted. This expense for the year was £nil (2016: £0.02 million).

Group

For the year to 31 March £'000	2017	2016
Weighted average fair value of options granted in the year		
UK schemes	**23 547**	**28 445**

	2017		2016	
Details of options outstanding during the year	**Number of share options**	**Weighted average exercise price £**	**Number of share options**	**Weighted average exercise price £**
Outstanding at the beginning of the year	26 091 673	0.07	28 936 488	0.06
Granted during the year	5 216 360	0.01	6 602 662	0.13
Exercised during the year^	(7 940 815)	0.02	(8 247 627)	0.01
Options forfeited during the year	(991 729)	0.24	(1 199 850)	0.41
Outstanding at the end of the year	**22 375 489**	**0.07**	**26 091 673**	**0.07**
Exercisable at the end of the year	**11 000**	**–**	**70 237**	**–**

^ *The weighted average share price during the year was £5.09 (2016: £5.34).*

7. Share-based payments *(continued)*

Additional information relating to options:	2017	2016
Options with strike prices		
Exercise price range	£3.29 – £6.00	£3.29 – £6.00
Weighted average remaining contractual life	1.74 years	2.17 years
Long-term incentive grants with no strike price		
Exercise price range	£nil	£nil
Weighted average remaining contractual life	1.72 years	1.77 years
Weighted average fair value of options and long-term grants at measurement date	£4.76	£4.31
The fair values of options granted were calculated using a Black-Scholes option pricing model. For options granted during the year, the inputs into the model were as follows:		
– Share price at date of grant	£4.36 – £ 5.20	£5.68 – £6.00
– Exercise price	£nil, £4.36 – £5.20	£nil, £5.68 – £6.00
– Expected volatility	30%	30%
– Option life	2.5 – 5 years	3 – 5.5 years
– Expected dividend yields	5.90% – 6.75%	4.50% – 4.67%
– Risk-free rate	0.82% – 1.44%	1.28% – 1.31%

Expected volatility was determined based on the implied volatility levels quoted by the derivatives trading desk. The expected volatility is based on the respective share price movement over the last six months but also includes an element of forward expectation.

The expected attrition rates used were determined based on historical group data with an adjustment to actual attrition on final vesting.

Company

For the year to 31 March £'000	2017	2016
Weighted average fair value of options granted in the year		
UK schemes	**15 952**	**15 424**

Details of options outstanding during the year	2017 Number of share options	2017 Weighted average exercise price £	2016 Number of share options	2016 Weighted average exercise price £
Outstanding at the beginning of the year	14 698 475	0.07	16 703 386	0.00
Granted during the year	3 340 832	0.01	3 494 062	0.00
Exercised during the year^	(4 185 393)	0.02	(4 900 202)	0.00
Options forfeited during the year	(681 281)	0.24	(598 771)	0.03
Outstanding at the end of the year	**13 172 633**	**0.07**	**14 698 475**	**0.00**
Exercisable at the end of the year	**3 950**	**–**	**18 750**	**–**

^ *The weighted average share price during the year was £5.09 (2016: £5.34).*

7. Share-based payments *(continued)*

Additional information relating to options:	2017	2016
Company		
Options with strike prices		
Exercise price range	–	–
Weighted average remaining contractual life	–	–
Long-term incentive grants with no strike price		
Exercise price range	£nil	£nil
Weighted average remaining contractual life	1.72 years	1.80 years
Weighted average fair value of options and long-term grants at measurement date	£4.77	£4.41
The fair values of options granted were calculated using a Black-Scholes option pricing model. For options granted during the year, the inputs into the model were as follows:		
– Share price at date of grant	£4.36 – £5.20	£5.68 – £6.00
– Exercise price	£nil	£nil
– Expected volatility	30%	30%
– Option life	2.5 – 5 years	3 – 5.5 years
– Expected dividend yields	5.90% – 6.75%	4.50% – 4.67%
– Risk-free rate	0.82% – 1.44%	1.28% – 1.31%

Expected volatility was determined based on the implied volatility levels quoted by the derivatives trading desk. The expected volatility is based on the respective share price movement over the last six months, but also includes an element of forward expectation. The expected attrition rates used were determined based on historical group data with an adjustment to actual attrition on final vesting.

For the year to 31 March £'000	2017	2016
8. Taxation		
Current taxation		
UK		
Current tax on income for the year	44 212	38 840
Adjustments in respect of prior years	(4 448)	3 640
Corporation tax before double tax relief	39 764	42 480
Double taxation relief	(281)	–
	39 483	**42 480**
Europe	1 825	1 756
Australia	282	852
Other	(630)	1 583
	1 477	**4 191**
Total current taxation	**40 960**	**46 671**
Deferred taxation		
UK	(15 479)	(7 660)
Europe	263	(9 745)
Australia	–	1 164
Total deferred taxation	**(15 216)**	**(16 241)**
Total taxation charge for the year	**25 744**	**30 430**
Total taxation charge for the year comprises:		
Taxation on operating profit before goodwill	29 049	35 131
Taxation on acquired intangibles, goodwill and disposal of subsidiaries	(3 305)	(4 701)
	25 744	**30 430**
Deferred taxation comprises:		
Origination and reversal of temporary differences	(12 714)	(9 428)
Changes in tax rates	(1 704)	(8 120)
Adjustment in respect of prior years	(798)	1 307
	(15 216)	**(16 241)**

	%	%
The rates of corporation tax for the relevant years are:		
UK	20	20
Europe (average)	10	10
Australia	30	30
Profit before taxation	**143 357**	**125 026**
Taxation on profit before taxation	**25 744**	**30 430**
Effective tax rate	**18.0%**	**24.3%**

For the year to 31 March £'000	2017	2016
8. Taxation *(continued)*		
The taxation charge on activities for the year is different from the standard rate as detailed below:		
Taxation on profit on ordinary activities before taxation at UK rate of 20% (2016: 20%)	28 671	25 005
Taxation adjustments relating to foreign earnings	2 765	(311)
Taxation relating to prior years	(5 246)	4 947
Goodwill and non-operating items	767	1 062
Share options accounting expense	(437)	7 858
Share options exercised during the year	–	(9 143)
Unexpired share options future tax deduction	–	1 885
Non-taxable income	(627)	(850)
Net other permanent differences	19 701	11 217
Unrealised capital gains	(5 505)	(3 086)
Movement of brought forward trading losses	(12 643)	–
Tax losses surrendered by fellow group companies for no charge	–	(34)
Change in tax rate	(1 702)	(8 120)
Total taxation charge as per income statement	**25 744**	**30 430**
Other comprehensive income taxation effects		
Gains on realisation of available-for-sale assets recycled through the income statement	(2 622)	(1 298)
Pre-taxation	(3 656)	(1 399)
Taxation effect	1 034	101
Fair value movements on available-for-sale assets taken directly to other comprehensive income	29 809	(20 170)
Pre-taxation	36 159	(25 042)
Taxation effect	(6 350)	4 872
Statement of changes in equity taxation effects		
Share-based payment adjustment	(127)	4 620
Pre-taxation	(224)	–
Taxation effect	97	4 620

For the year to 31 March £'000	2017	2016
9. Dividends		
Ordinary dividends		
Interim dividends for current year	35 000	40 000
Total dividends attributable to ordinary shareholder	**35 000**	**40 000**

For the year to 31 March £'000	2017	2016
10. Operating lease income and expense		
Operating lease expenses recognised in operating costs expenses:		
Minimum lease payments	15 286	13 649
Sublease income	(3 070)	(3 115)
	12 216	**10 534**
Operating lease income recognised in income:		
Minimum lease payments	2 477	2 250
Sublease payments	–	(48)
	2 477	**2 202**

The majority of the operating lease expenses in the group relate to leases on property.

Rental income from leasing motor vehicles and properties is included in 'Other operating income'.

11. Analysis of income and impairments by category of financial instrument

For the year to 31 March £'000	At fair value through profit or loss: Trading	At fair value through profit or loss: Designated at inception
2017		
Net interest income	(5 265)	1 292
Fee and commission income	35 194	14
Fee and commission expense	–	(4)
Investment income	2 000	48 967
Share of post taxation operating profit of associates	–	–
Trading income arising from:		
– customer flow	121 547	2 424
– balance sheet management and other trading activities	4 891	(4 838)
Other operating income	–	–
Total operating income/(expense) before impairment losses on loans and advances	**158 367**	**47 855**
Impairment losses on loans and advances	–	–
Operating income/(expense)	**158 367**	**47 855**
2016		
Net interest income	(11 650)	320
Fee and commission income	56 030	19
Fee and commission expense	50	(4)
Investment income	1 593	22 375
Trading income arising from:		
Share of post taxation operating profit of associates	–	–
– customer flow	89 625	554
– balance sheet management and other trading activities	(8 165)	(1 534)
Other operating income	–	–
Total operating income/(expense) before impairment losses on loans and advances	**127 485**	**21 730**
Impairment losses on loans and advances	–	–
Operating income/(expense)	**127 485**	**21 730**

Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non-financial instruments	Other fee income	Total
527 247	8 929	(235 896)	(147)	2 592	298 752
74 324	–	3 314	14 887	374 373	502 106
2 796	–	(3 193)	2 680	(15 539)	(13 260)
(8 332)	6 917	–	6 348	–	55 900
–	–	–	1 741	–	1 741
–	–	5 063	–	672	129 706
(291)	–	–	(16)	116	(138)
–	–	–	7 883	–	7 883
595 744	**15 846**	**(230 712)**	**33 376**	**362 214**	**982 690**
(74 956)	–	–	–	–	(74 956)
520 788	**15 846**	**(230 712)**	**33 376**	**362 214**	**907 734**
496 468	21 439	(239 202)	(49)	2 740	270 066
60 756	–	2 851	11 933	306 061	437 650
3 960	–	(2 189)	(1 513)	(11 912)	(11 608)
40 003	2 891	–	436	10	67 308
–	–	–	1 975	–	1 975
–	–	2 201	–	303	92 683
1 584	(558)	109	–	12	(8 552)
–	–	1 678	7 989	–	9 667
602 771	**23 772**	**(234 552)**	**20 771**	**297 214**	**859 189**
(84 217)	–	–	–	–	(84 217)
518 554	**23 772**	**(234 552)**	**20 771**	**297 214**	**774 972**

12. Analysis of financial assets and liabilities by category of financial instruments

At 31 March £'000	At fair value through profit or loss			
	Trading	Designated at inception	Available-for-sale	Total instruments at fair value
Group				
2017				
Assets				
Cash and balances at central banks	2 497	–	–	2 497
Loans and advances to banks	–	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	71 028	–	–	71 028
Sovereign debt securities	–	–	952 902	952 902
Bank debt securities	–	–	8 067	8 067
Other debt securities	–	86 911	53 255	140 166
Derivative financial instruments*	610 371	–	–	610 371
Securities arising from trading activities	269 292	253 468	–	522 760
Investment portfolio	–	400 566	54 000	454 566
Loans and advances to customers	–	86 482	–	86 482
Other loans and advances	–	–	–	–
Other securitised assets	–	138 628	–	138 628
Interests in associated undertakings	–	–	–	–
Deferred taxation assets	–	–	–	–
Other assets	148 251	–	–	148 251
Property and equipment	–	–	–	–
Investment properties	–	–	–	–
Goodwill	–	–	–	–
Intangible assets	–	–	–	–
	1 101 439	**966 055**	**1 068 224**	**3 135 718**
Liabilities				
Deposits by banks	–	–	–	–
Derivative financial instruments*	583 562	–	–	583 562
Other trading liabilities	136 041	–	–	136 041
Repurchase agreements and cash collateral on securities lent	77 154	–	–	77 154
Customer accounts (deposits)	–	–	–	–
Debt securities in issue	–	427 576	–	427 576
Liabilities arising on securitisation of own originated loans and advances	–	–	–	–
Liabilities arising on securitisation of other assets	–	128 838	–	128 838
Current taxation liabilities	–	–	–	–
Deferred taxation liabilities	–	–	–	–
Other liabilities	–	–	–	–
	796 757	**556 414**		**1 353 171**
Subordinated liabilities	–	–	–	–
	796 757	**556 414**	**–**	**1 353 171**

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*

For more information on hedges, please refer to note 48 on pages 219 and 220.

Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
2 851 070	–	2 851 070	–	2 853 567
922 764	–	922 764	–	922 764
465 145	–	465 145	–	536 173
–	–	–	–	952 902
176 559	–	176 559	–	184 626
267 983	–	267 983	–	408 149
–	–	–	–	610 371
–	–	–	–	522 760
–	–	–	–	454 566
8 512 157	–	8 512 157	–	8 598 639
556 464	–	556 464	–	556 464
–	–	–	–	138 628
–	–	–	23 818	23 818
–	–	–	78 945	78 945
725 383	–	725 383	215 756	1 089 390
–	–	–	58 857	58 857
–	–	–	14 500	14 500
–	–	–	259 965	259 965
–	–	–	116 330	116 330
14 477 525	**–**	**14 477 525**	**768 171**	**18 381 414**
–	673 586	673 586	–	673 586
–	–	–	–	583 562
–	–	–	–	136 041
–	146 843	146 843	–	223 997
–	11 289 177	11 289 177	–	11 289 177
–	1 213 263	1 213 263	–	1 640 839
–	–	–	–	–
–	–	–	–	128 838
–	–	–	146 743	146 743
–	–	–	26 557	26 557
–	746 197	746 197	226 590	972 787
	14 069 066	**14 069 066**	**399 890**	**15 822 127**
–	579 356	579 356	–	579 356
–	**14 648 422**	**14 648 422**	**399 890**	**16 401 483**

12. Analysis of financial assets and liabilities by category of financial instruments *(continued)*

At 31 March £'000	At fair value through profit or loss: Trading	At fair value through profit or loss: Designated at inception	Available-for-sale	Total instruments at fair value
Group				
2016				
Assets				
Cash and balances at central banks	1 123	–	–	1 123
Loans and advances to banks	–	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	157 565	–	–	157 565
Sovereign debt securities	–	–	1 252 991	1 252 991
Bank debt securities	–	–	12 076	12 076
Other debt securities	–	118 536	65 809	184 345
Derivative financial instruments*	842 936	–	–	842 936
Securities arising from trading activities	321 251	203 093	–	524 344
Investment portfolio	–	363 651	56 210	419 861
Loans and advances to customers	–	87 270	–	87 270
Other loans and advances	–	–	–	–
Other securitised assets	–	147 590	–	147 590
Interests in associated undertakings	–	–	–	–
Deferred taxation assets	–	–	–	–
Other assets	301 426	–	–	301 426
Property and equipment	–	–	–	–
Investment properties	–	–	–	–
Goodwill	–	–	–	–
Intangible assets	–	–	–	–
	1 624 301	**920 140**	**1 387 086**	**3 931 527**
Liabilities				
Deposits by banks	–	–	–	–
Derivative financial instruments*	964 386	–	–	964 386
Other trading liabilities	226 598	–	–	226 598
Repurchase agreements and cash collateral on securities lent	154 142	–	–	154 142
Customer accounts (deposits)	–	–	–	–
Debt securities in issue	–	358 548	–	358 548
Liabilities arising on securitisation of other assets	–	120 617	–	120 617
Current taxation liabilities	–	–	–	–
Deferred taxation liabilities	–	–	–	–
Other liabilities	–	–	–	–
	1 345 126	**479 165**	**–**	**1 824 291**
Subordinated liabilities	–	–	–	–
	1 345 126	**479 165**	**–**	**1 824 291**

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*

For more information on hedges, please refer to note 48 on pages 219 and 220.

Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
2 636 941	–	2 636 941	–	2 638 064
935 071	–	935 071	–	935 071
399 460	–	399 460	–	557 025
–	–	–	–	1 252 991
176 321	–	176 321	–	188 397
219 176	–	219 176	–	403 521
–	–	–	–	842 936
–	–	–	–	524 344
–	–	–	–	419 861
7 694 116	–	7 694 116	–	7 781 386
577 584	–	577 584	–	577 584
2 975	–	2 975	–	150 565
–	–	–	17 446	17 446
–	–	–	71 563	71 563
900 369	–	900 369	251 255	1 453 050
–	–	–	53 042	53 042
–	–	–	79 051	79 051
–	–	–	261 804	261 804
–	–	–	126 867	126 867
13 542 013	**–**	**13 542 013**	**861 028**	**18 334 568**
–	526 717	526 717	–	526 717
–	–	–	–	964 386
–	–	–	–	226 598
–	127 118	127 118	–	281 260
–	11 038 164	11 038 164	–	11 038 164
–	1 150 124	1 150 124	–	1 508 672
–	–	–	–	120 617
–	–	–	141 064	141 064
–	–	–	26 143	26 143
–	877 602	877 602	183 180	1 060 782
–	**13 719 725**	**13 719 725**	**350 387**	**15 894 403**
–	597 309	597 309	–	597 309
–	**14 317 034**	**14 317 034**	**350 387**	**16 491 712**

12. Analysis of financial assets and liabilities by category of financial instruments *(continued)*

At 31 March £'000	At fair value through profit or loss: Trading	At fair value through profit or loss: Designated at inception	Available-for-sale	Total instruments at fair value
Company				
2017				
Assets				
Cash and balances at central banks	2 497	–	–	2 497
Loans and advances to banks	–	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	71 028	–	–	71 028
Sovereign debt securities	–	–	159 381	159 381
Bank debt securities	–	–	8 067	8 067
Other debt securities	–	88 559	53 255	141 814
Derivative financial instruments*	598 534	–	–	598 534
Securities arising from trading activities	269 291	247 290	–	516 581
Investment portfolio	–	135 864	38 275	174 139
Loans and advances to customers	–	56 814	–	56 814
Other loans and advances	–	–	–	–
Other securitised assets	–	7 258	–	7 258
Interests in associated undertakings	–	–	–	–
Deferred taxation assets	–	–	–	–
Other assets	148 251	–	–	148 251
Property and equipment	–	–	–	–
Intangible assets	–	–	–	–
Investments in subsidiaries	–	–	–	–
	1 089 601	**535 785**	**258 978**	**1 884 364**
Liabilities				
Deposits by banks	–	–	–	–
Derivative financial instruments*	581 505	–	–	581 505
Other trading liabilities	136 041	–	–	136 041
Repurchase agreements and cash collateral on securities lent	77 154	–	–	77 154
Customer accounts (deposits)	–	–	–	–
Debt securities in issue	–	427 576	–	427 576
Current taxation liabilities	–	–	–	–
Deferred taxation liabilities	–	–	–	–
Other liabilities	–	–	–	–
	794 700	**427 576**	**–**	**1 222 276**
Subordinated liabilities	–	–	–	–
	794 700	**427 576**	**–**	**1 222 276**

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*

For more information on hedges, please refer to note 48 on pages 219 and 220.

Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
2 818 121	–	2 818 121	–	2 820 618
374 414	–	374 414	–	374 414
465 145	–	465 145	–	536 173
–	–	–	–	159 381
176 559	–	176 559	–	184 626
496 296	–	496 296	–	638 110
–	–	–	–	598 534
–	–	–	–	516 581
–	–	–	–	174 139
6 554 945	–	6 554 945	–	6 611 759
1 941 993	–	1 941 993	–	1 941 993
–	–	–	–	7 258
–	–	–	9 388	9 388
–	–	–	48 580	48 580
489 341	–	489 341	129 231	766 823
–	–	–	5 229	5 229
–	–	–	150	150
–	–	–	902 833	902 833
13 316 814	**–**	**13 316 814**	**1 095 411**	**16 296 589**
–	900 691	900 691	–	900 691
–	–	–	–	581 505
–	–	–	–	136 041
–	346 865	346 865	–	424 019
–	9 601 085	9 601 085	–	9 601 085
–	1 135 443	1 135 443	–	1 563 019
–	–	–	77 182	77 182
–	–	–	5 302	5 302
–	555 360	555 360	145 308	700 668
–	**12 539 444**	**12 539 444**	**227 792**	**13 989 512**
–	580 427	580 427		580 427
–	**13 119 871**	**13 119 871**	**227 792**	**14 569 939**

12. Analysis of financial assets and liabilities by category of financial instruments *(continued)*

At 31 March £'000	At fair value through profit or loss: Trading	At fair value through profit or loss: Designated at inception	Available-for-sale	Total instruments at fair value
Company				
2016				
Assets				
Cash and balances at central banks	1 123	–	–	1 123
Loans and advances to banks	–	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	157 565	–	–	157 565
Sovereign debt securities	–	–	643 352	643 352
Bank debt securities	–	–	12 076	12 076
Other debt securities	–	118 536	66	118 602
Derivative financial instruments*	853 131	–	–	853 131
Securities arising from trading activities	321 251	203 093	–	524 344
Investment portfolio	–	178 732	31 767	210 499
Loans and advances to customers	–	53 465	–	53 465
Other loans and advances	–	–	–	–
Other securitised assets	–	8 680	–	8 680
Interests in associated undertakings	–	–	–	–
Deferred taxation assets	–	–	–	–
Other assets	301 426	–	–	301 426
Property and equipment	–	–	–	–
Intangible assets	–	–	–	–
Investments in subsidiaries	–	–	–	–
	1 634 496	**562 506**	**687 261**	**2 884 263**
Liabilities				
Deposits by banks	–	–	–	–
Derivative financial instruments*	965 287	–	–	965 287
Other trading liabilities	226 598	–	–	226 598
Repurchase agreements and cash collateral on securities lent	154 142	–	–	154 142
Customer accounts (deposits)	–	–	–	–
Debt securities in issue	–	367 974	–	367 974
Current taxation liabilities	–	–	–	–
Other liabilities	–	–	–	–
	1 346 027	**367 974**	**–**	**1 714 001**
Subordinated liabilities	–	–	–	–
	1 346 027	**367 974**	**–**	**1 714 001**

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*

For more information on hedges, please refer to note 48 on pages 219 and 220.

Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
2 611 337	–	2 611 337	–	2 612 460
315 115	–	315 115	–	315 115
399 460	–	399 460	–	557 025
–	–	–	–	643 352
176 321	–	176 321	–	188 397
447 464	–	447 464	–	566 066
–	–	–	–	853 131
–	–	–	–	524 344
–	–	–	–	210 499
6 000 466	–	6 000 466	–	6 053 931
1 774 186	–	1 774 186	–	1 774 186
–	–	–	–	8 680
–	–	–	9 309	9 309
–	–	–	37 158	37 158
589 534	–	589 534	196 328	1 087 288
–	–	–	8 836	8 836
–	–	–	381	381
–	–	–	943 552	943 552
12 313 883	**–**	**12 313 883**	**1 195 564**	**16 393 710**
–	767 730	767 730	–	767 730
–	–	–	–	965 287
–	–	–	–	226 598
–	127 118	127 118	–	281 260
–	9 808 014	9 808 014	–	9 808 014
–	993 131	993 131	–	1 361 105
–	–	–	70 651	70 651
–	585 449	585 449	116 403	701 852
–	**12 281 442**	**12 281 442**	**187 054**	**14 182 497**
–	598 390	598 390	–	598 390
–	**12 879 832**	**12 879 832**	**187 054**	**14 780 887**

13. Reclassifications of financial instruments

During the year ended 31 March 2009 the company reclassified certain financial instruments out of fair value through profit or loss. These assets were originally classified as held-for-trading but the group's intentions in regard to these assets changed and the group reclassified £112.3 million and £7.8 million to the loans and receivables and available-for-sale classifications, respectively. The amount reclassified reflected the fair value of the financial assets at the date of reclassification.

The group did not undertake any further reclassifications under the amendment to IAS 39 in the current year or in the prior year.

The following table shows carrying values and fair values of the assets reclassified:

	2017		2016	
At 31 March £'000	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Trading assets reclassified to loans and receivables	4 404	3 481	4 451	3 777
	4 404	**3 481**	**4 451**	**3 777**

If the reclassifications had not been made, the group's income before tax in 2017 would have decreased by £0.2 million (2016: a decrease of £1.1 million).

In the current year the reclassified assets have contributed a £51 000 loss through the margin line and no losses through impairments before taxation. In the prior year, after reclassification, the assets contributed a £68 000 loss through the margin line and a loss of £332 000 through impairments before taxation.

14. Fair value hierarchy

The table below analyses recurring fair value measurements for financial assets and financial liabilities. These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to the valuation technique used.

The different levels are identified as follows:

Level 1 – quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value disclosures on investment properties are included in the Investment properties note 32 on page 201.

At 31 March £'000	Total instruments at fair value	Valuation technique applied Level 1	Level 2	Level 3
14. Fair value hierarchy *(continued)*				
Group				
2017				
Assets				
Cash and balances at central banks	2 497	2 497	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	71 028	–	71 028	–
Sovereign debt securities	952 902	952 902	–	–
Bank debt securities	8 067	8 067	–	–
Other debt securities	140 166	2 147	138 019	–
Derivative financial instruments	610 371	–	551 871	58 500
Securities arising from trading activities	522 760	491 675	22 014	9 071
Investment portfolio	454 566	48 833	17 923	387 810
Loans and advances to customers	86 482	–	–	86 482
Other securitised assets	138 628	–	–	138 628
Other assets	148 251	148 251	–	–
	3 135 718	**1 654 372**	**800 855**	**680 491**
Liabilities				
Derivative financial instruments	583 562	1 676	580 838	1 048
Other trading liabilities	136 041	136 041	–	–
Repurchase agreements and cash collateral on securities lent	77 154	–	77 154	–
Debt securities in issue	427 576	–	414 894	12 682
Liabilities arising on securitisation of other assets	128 838	–	–	128 838
	1 353 171	**137 717**	**1 072 886**	**142 568**
Net financial assets/(liabilities) at fair value	**1 782 547**	**1 516 655**	**(272 031)**	**537 923**
2016				
Assets				
Cash and balances at central banks	1 123	1 123	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	157 565	–	157 565	–
Sovereign debt securities	1 252 991	1 252 991	–	–
Bank debt securities	12 076	5 044	7 032	–
Other debt securities	184 345	2 122	171 293	10 930
Derivative financial instruments	842 936	1 398	791 853	49 685
Securities arising from trading activities	524 344	493 654	23 234	7 456
Investment portfolio	419 861	46 965	25 816	347 080
Loans and advances to customers	87 270	–	–	87 270
Other securitised assets	147 590	–	–	147 590
Other assets	301 426	301 426	–	–
	3 931 527	**2 104 723**	**1 176 793**	**650 011**
Liabilities				
Derivative financial instruments	964 386	–	963 031	1 355
Other trading liabilities	226 598	226 598	–	–
Repurchase agreements and cash collateral on securities lent	154 142	–	154 142	–
Debt securities in issue	358 548	–	358 548	–
Liabilities arising on securitisation of other assets	120 617	–	–	120 617
	1 824 291	**226 598**	**1 475 721**	**121 972**
Net financial assets/(liabilities) at fair value	**2 107 236**	**1 878 125**	**(298 928)**	**528 039**

The group transfers between levels within the fair value hierarchy when the observability of inputs change or if the valuation methods change.

14. Fair value hierarchy *(continued)*

Transfers between level 1 and level 2

During the year there were no significant transfers between level 1 and level 2.

During the prior year derivative financial assets and liabilities to the value of £116.9 million and £210.3 million respectively were transferred from level 1 to level 2 to reflect the level of modelling which is now being used to arrive at the fair value.

Level 3 instruments

£'000	Total level 3 financial instruments	Fair value through profit and loss instruments	Available-for-sale instrument
Group			
The following table is a reconciliation from the opening balances to the closing balances for fair value measurements in level 3 of the fair value hierarchy:			
Balance as at 31 March 2015	**455 829**	**405 611**	**50 218**
Total gains or losses	(3 032)	(6 197)	3 165
In the income statement	(2 760)	(6 197)	3 437
In the statement of comprehensive income	(272)	–	(272)
Purchases	118 076	109 132	8 944
Sales	(240 479)	(238 022)	(2 457)
Issues	79	79	–
Settlements	166 458	177 321	(10 863)
Transfers into level 3	26 344	23 608	2 736
Transfers out of level 3	(4 607)	(4 607)	–
Foreign exchange adjustments	9 371	6 147	3 224
Balance as at 31 March 2016	**528 039**	**473 072**	**54 967**
Total gains or losses	72 550	58 374	14 176
In the income statement	74 751	58 374	16 377
In the statement of comprehensive income	(2 201)	–	(2 201)
Purchases	98 275	95 155	3 120
Sales	(134 386)	(122 877)	(11 509)
Issues	(16 226)	(16 226)	–
Settlements	(51 847)	(30 404)	(21 443)
Transfers into level 3	–	–	–
Transfers out of level 3	–	–	–
Foreign exchange adjustments	41 518	39 537	1 981
Balance as at 31 March 2017	**537 923**	**496 631**	**41 292**

The group transfers between levels within the fair value hierarchy when the observability of inputs change or if the valuation methods change.

For the year ended 31 March 2017, there were no transfers from level 3 into level 2 (31 March 2016: assets of £4.6 million). In the current and prior year the valuation methodologies were reviewed and observable inputs are used to determine the fair value.

There were no transfers from level 2 to level 3 in the current year (31 March 2016: £26.3 million).

14. Fair value hierarchy *(continued)*

The following table quantifies the gains or (losses) included in the income statement and other comprehensive income recognised on level 3 financial instruments:

For the year to 31 March £'000	Total	Realised	Unrealised
Group			
2017			
Total gains/(losses) included in the income statement for the year			
Net interest income	1 831	1 831	–
Fee and commission income	11 732	11 443	289
Investment income	34 490	35 034	(544)
Trading income arising from customer flow	26 661	16	26 645
Trading income arising from balance sheet management and other trading activities	37	37	–
	74 751	**48 361**	**26 390**
Total gains/(losses) included in other comprehensive income for the year			
Gains on realisation of available-for-sale assets recycled through the income statement	16 377	16 377	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	(2 201)	–	(2 201)
	14 176	**16 377**	**(2 201)**
2016			
Total gains/(losses) included in the income statement for the year			
Net interest income	238	238	–
Fee and commission income	4 938	4 938	–
Investment income	2 322	(8 118)	10 440
Trading income arising from customer flow	(10 258)	(10 962)	704
Trading income arising from balance sheet management and other trading activities	–	–	–
	(2 760)	**(13 904)**	**11 144**
Total gains/(losses) included in other comprehensive income for the year			
Gains on realisation of available-for-sale assets recycled through the income statement	3 437	3 437	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	(272)	–	(272)
	3 165	**3 437**	**(272)**

14. Fair value hierarchy *(continued)*

Level 2 financial assets and financial liabilities

The following table sets out the group's principal valuation techniques as at 31 March 2017 used in determining the fair value of its financial assets and financial liabilities that are classified within level 2 of the fair value hierarchy.

	Valuation basis/techniques	Main assumptions
Assets		
Reverse repurchase agreements and cash collateral on securities borrowed	Discounted cash flow model, Hermite interpolation, Black-Scholes	Discount rates
Bank debt securities	Black-Scholes Discounted cash flow model	Volatilities Discount rates, swap curves and NCD curves
Other debt securities	Discounted cash flow model	Discount rates, swap curves and NCD curves, external prices, broker quotes
Derivative financial instruments	Discounted cash flow model, Hermite interpolation, industry standard derivative pricing models including Black-Scholes	Discount rate, risk free rate, volatilities, forex forward points and spot rates, interest rate swap curves and credit curves
Securities arising from trading activities	Standard industry derivative pricing model	Interest rate curves, implied bond spreads, equity volatilities
Investment portfolio	Discounted cash flow model, net asset value model Comparable quoted inputs	Discount rate and fund unit price Net assets
Liabilities		
Derivative financial instruments	Discounted cash flow model, Hermite interpolation, industry standard derivative pricing models including Black-Scholes	Discount rate, risk-free rate, volatilities, forex forward points and spot rates, interest rate swap curves and credit curves
Repurchase agreements and cash collateral on securities lent	Discounted cash flow model, Hermite interpolation	Discount rates
Debt securities in issue	Discounted cash flow	Discount rates

14. Fair value hierarchy *(continued)*

Sensitivity of fair values to reasonably possible alternative assumptions by level 3 instrument type

The fair values of financial instruments in level 3 are measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable market data. The following table shows the sensitivity of these fair values to reasonably possible alternative assumptions, determined at a transactional level:

31 March 2017	Balance sheet value £'000	Significant unobservable input	Range of unobservable input used	Favourable changes £'000	Unfavourable changes £'000
Group					
Assets					
Derivative financial instruments	58 500	Effect on income statement		6 632	(4 956)
		Volatilities	4% – 9.5%	2 465	(1 537)
		EBITDA	5% – 6 %	648	(1 086)
		Cash flow adjustments	CPR 6.25% – 8.4%	63	–
		Other^	^	3 456	(2 333)
Securities arising from trading activities	9 071	Effect on income statement			
		Cash flow adjustments	CPR 9%	1 290	(1 074)
Investment portfolio	387 810	Effect on income statement		41 632	(32 599)
		Price earnings multiple	3 x – 10.3 x	5 429	(5 788)
		Other^	^	36 203	(26 811)
		Effect on other comprehensive income		6 228	(2 655)
		Price earnings multiple	4.0 x – 4.5 x	630	(301)
		Other^	^	5 598	(2 354)
Loans and advances to customers	86 482	Effect on income statement		9 825	(9 716)
		EBITDA	10%	5 681	(5 681)
		Other^	^	4 144	(4 035)
Other securitised assets*	138 628	Effect on income statement			
		Cash flow adjustments	CPR 6.25%	48	(38)
Liabilities					
Derivative financial instruments	1 048	Effect on income statement		734	(1 580)
		Cash flow adjustments	CPR 8%	716	(1 510)
		Volatilities	7% – 8.5%	18	(70)
Debt securities in issue	12 682	Effect on income statement			
		Volatilities	7%	401	(608)
Liabilities arising on securitisation of other assets*	128 838	Effect on income statement			
		Cash flow adjustments	CPR 6.25%	931	(847)
Net level 3 assets	**537 923**			**67 721**	**(54 073)**

* *The sensitivity of the fair value of liabilities arising on securitisation of other assets has been considered together with other securitised assets.*

^ *Other – The valuation sensitivity for the private equity and embedded derivatives (profit share) portfolios has been assessed by adjusting various inputs such as expected cash flows, discount rates, earnings multiples rather than a single input. It is deemed appropriate to reflect the outcome on a portfolio basis for the purposes of this analysis as the sensitivity of the investments cannot be determined through the adjustment of a single input.*

14. Fair value hierarchy *(continued)*

At 31 March 2016	Balance sheet value £'000	Significant unobservable input changed	Range of unobservable input used	Favourable changes £'000	Unfavourable changes £'000
Group					
Assets					
Other debt securities	10 930	Effect on income statement		525	(796)
		Cash flow adjustments	CPR 9%	525	(472)
		Other^	^	–	(324)
Derivative financial instruments	49 685	Effect on income statement		8 258	(5 454)
		Volatilities	3.75% – 9%	2 471	(1 015)
		Cash flow adjustments	CPR 5% – 7.4%	834	(1 701)
		Other^	^	4 953	(2 738)
Securities arising from trading activities	7 456	Effect on income statement			
		Cash flow adjustments	CPR 6.5% – 9%	1 380	(1 050)
Investment portfolio	347 080	Effect on income statement		41 913	(25 562)
		Price earnings multiple	3 x – 9.1 x	4 203	(4 272)
		Other^	^	37 710	(21 290)
		Effect on other comprehensive income		5 668	(2 300)
		Price earnings multiple	4.2 x	2 418	(1 340)
		Other^	^	3 250	(960)
Loans and advances to customers	87 270	Effect on income statement		1 550	(9 400)
		Discount rates	16%	1 550	(987)
		Other^	^	–	(8 413)
Other securitised assets*	147 590	Effect on income statement		2 825	(2 876)
		Cash flow adjustments	CPR 5%	1 569	(1 727)
		Other^	^	1 256	(1 149)
Liabilities					
Derivative financial instruments	1 355	Effect on income statement		1 667	(797)
		Cash flow adjustments	CPR 7.1%	1 661	(790)
		Volatilities	9%	6	(7)
Liabilities arising on securitisation of other assets*	120 617	Effect on income statement			
		Cash flow adjustments	CPR 5%	1 356	(1 254)
Net level 3 assets	**528 039**			**65 142**	**(49 488)**

* *The sensitivity of the fair value of liabilities arising on securitisation of other assets has been considered together with other securitised assets.*

^ *Other – The valuation sensitivity for the private equity and embedded derivatives (profit share) portfolios has been assessed by adjusting various inputs such as expected cash flows, discount rates, earnings multiples rather than a single input. It is deemed appropriate to reflect the outcome on a portfolio basis for the purposes of this analysis as the sensitivity of the investments cannot be determined through the adjustment of a single input.*

14. Fair value hierarchy *(continued)*

In determining the value of level 3 financial instruments, the following are the principal inputs that can require judgement:

Credit spreads

Credit spreads reflect the additional yield that a market participant would demand for taking exposure to the credit risk of an instrument. The credit spread for an instrument forms part of the yield used in a discounted cash flow calculation. In general, a significant increase in a credit spread in isolation will result in a movement in fair value that is unfavourable for the holder of a financial instrument. It is an unobservable input into a discounted cash flow valuation.

Discount rates

Discount rates are the interest rates used to discount future cash flows in a discounted cash flow valuation method. The discount rate takes into account time value of money and uncertainty of cash flows.

Volatilities

Volatility is a key input in the valuation of derivative products containing optionality. Volatility is a measure of the variability or uncertainty in returns for a given derivative underlying. It represents an estimate of how much a particular underlying instrument, parameter or index will change in value over time. Volatilities are a key input into the Black-Scholes valuation method.

Cash flows

Cash flows relate to the future cash flows which can be expected from the instrument and requires judgement. Cash flows are inputs into a discounted cash flow valuation.

Price earnings multiple

The price-to-earnings ratio is an equity valuation multiple used in the adjustment of underlying market prices. It is a key driver in the valuation of unlisted investments.

EBITDA

Earnings before interest, taxes, depreciation and amortisation. This is the main input into a price earnings multiple valuation method.

At 31 March £'000	Total instruments at fair value	Valuation technique applied Level 1	Level 2	Level 3
14. Fair value hierarchy *(continued)*				
Company				
2017				
Assets				
Cash and balances at central banks	2 497	2 497	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	71 028	–	71 028	–
Sovereign debt securities	159 381	159 381	–	–
Bank debt securities	8 067	8 067	–	–
Other debt securities	141 814	2 147	138 019	1 648
Derivative financial instruments	598 534	–	546 342	52 192
Securities arising from trading activities	516 581	491 674	22 015	2 892
Investment portfolio	174 139	5 637	11 481	157 021
Loans and advances to customers	56 814	–	–	56 814
Other securitised assets	7 258	–	–	7 258
Other assets	148 251	148 251	–	–
	1 884 364	**817 654**	**788 885**	**277 825**
Liabilities				
Derivative financial instruments	581 505	1 676	578 781	1 048
Other trading liabilities	136 041	136 041	–	–
Repurchase agreements and cash collateral on securities lent	77 154	–	77 154	–
Debt securities in issue	427 576	–	414 894	12 682
	1 222 276	**137 717**	**1 070 829**	**13 730**
Net assets/(liabilities)	**662 088**	**679 937**	**(281 944)**	**264 095**
2016				
Assets				
Cash and balances at central banks	1 123	1 123	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	157 565	–	157 565	–
Sovereign debt securities	643 352	643 352	–	–
Bank debt securities	12 076	5 044	7 032	–
Other debt securities	118 602	2 122	105 550	10 930
Derivative financial instruments	853 131	1 398	807 470	44 263
Securities arising from trading activities	524 344	493 654	23 234	7 456
Investment portfolio	210 499	3 942	13 337	193 220
Loans and advances to customers	53 465	–	–	53 465
Other securitised assets	8 680	–	–	8 680
Other assets	301 426	301 426	–	–
	2 884 263	**1 452 061**	**1 114 188**	**318 014**
Liabilities				
Derivative financial instruments	965 287	–	963 932	1 355
Other trading liabilities	226 598	226 598	–	
Repurchase agreements and cash collateral on securities lent	154 142	–	154 142	
Debt securities in issue	367 974	–	358 536	9 438
	1 714 001	**226 598**	**1 476 610**	**10 793**
Net assets/(liabilities)	**1 170 262**	**1 225 463**	**(362 422)**	**307 221**

The group transfers between levels within the fair value hierarchy when the observability of inputs change or if the valuation methods change.

Transfers between level 1 and level 2

During the year there were no significant transfers between level 1 and level 2. During the prior year derivative financial assets and liabilities of £116.9 million and £210.3 million respectively were transferred from level 1 to level 2 to reflect the level of modelling which is now being used to arrive at the fair value.

14. Fair value hierarchy *(continued)*

The following table is a reconciliation of the opening balances to the closing balances for fair value measurements in level 3 of the fair value hierarchy:

For the year to 31 March £'000	Total level 3 financial instruments	Fair value through profit and loss instruments	Available-for-sale instruments
Company			
Balance as at 1 April 2015	**299 555**	**281 661**	**17 894**
Total gains or losses	(8 966)	(14 516)	5 550
In the income statement	(9 750)	(14 516)	4 766
In the statement of comprehensive income	784	–	784
Purchases	66 671	66 497	174
Sales	(235 458)	(234 493)	(965)
Issues	(9 359)	(9 359)	–
Settlements	190 639	195 330	(4 691)
Transfers into level 3	2 242	–	2 242
Transfers out of level 3	(4 607)	(4 607)	–
Foreign exchange adjustments	6 504	6 289	215
Balance as at 31 March 2016	**307 221**	**286 802**	**20 419**
Total gains or losses	34 857	24 447	10 410
In the income statement	36 179	24 447	11 732
In the statement of comprehensive income	(1 322)	–	(1 322)
Purchases	34 138	33 391	747
Sales	(114 388)	(114 388)	–
Issues	(16 226)	(16 226)	–
Settlements	(13 622)	7 821	(21 443)
Transfers into level 3	–	–	–
Transfers out of level 3	–	–	–
Foreign exchange adjustments	32 115	30 957	1 158
Balance as at 31 March 2017	**264 095**	**252 804**	**11 291**

For the year ended 31 March 2017, there were no transfers from level 3 into level 2 (2016: assets of £4.6 million). In the current and prior years the valuation methodologies were reviewed and observable inputs are used to determine the fair value.

There were no transfers from level 2 to level 3 in the current year (2016: £2.2 million).

14. Fair value hierarchy *(continued)*

The following table quantifies the gains or (losses) included in the income statement and other comprehensive income recognised on level 3 financial instruments:

For the year to 31 March £'000	Total	Realised	Unrealised
Company			
2017			
Total gains/(losses) included in the income statement for the year			
Net interest income	3 927	–	3 927
Net fee and commission income	11 732	11 443	289
Investment income	(6 141)	26 672	(32 813)
Trading income arising from customer flow	26 661	16	26 645
	36 179	**38 131**	**(1 952)**
Total gains/(losses) included in other comprehensive income for the year			
Gains on realisation of available-for-sale assets recycled through the income statement	11 732	11 732	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	(1 322)	–	(1 322)
	10 410	**11 732**	**(1 322)**
2016			
Total gains/(losses) included in the income statement for the year			
Net fee and commission income	4 938	4 938	–
Investment income	(4 354)	(7 704)	3 350
Trading income arising from customer flow	(10 334)	(10 962)	628
	(9 750)	**(13 728)**	**3 978**
Total gains included in other comprehensive income for the year			
Gains on realisation of available-for-sale assets recycled through the income statement	4 766	4 766	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	784	–	784
	5 550	**4 766**	**784**

Level 2 financial assets and financial liabilities

The company follows the group's principal valuation techniques set out on page 174 in determining the fair value of its financial assets and financial liabilities that are classified within level 2 of the fair value hierarchy.

14. Fair value hierarchy *(continued)*

Sensitivity of fair values to reasonably possible alternative assumptions by level 3 instrument type

The fair value of financial instruments in level 3 are measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable market data. The following table shows the sensitivity of these fair values to reasonably possible alternative assumptions, determined at a transactional level:

31 March 2017	Balance sheet value £'000	Significant unobservable input changed	Range of unobservable input used	Favourable changes £'000	Unfavour-able changes £'000
Company					
Assets					
Other debt securities	1 648	Effect on income statement		25	(21)
		Cash flow adjustments	CPR 6.25%	25	(21)
Derivative financial instruments	52 192	Effect on income statement		6 531	(4 921)
		Volatilities	4% – 9.5%	2 465	(1 537)
		Cash flow adjustments	CPR 8.4%	610	(1 051)
		Other^	^	3 456	(2 333)
Securities arising from trading activities		Effect on income statement			
	2 892	Cash flow adjustments	CPR 9%	420	(219)
Investment portfolio	157 021	Effect on income statement		14 205	(13 955)
		Price earnings multiple	10.3 x	1 497	(1 497)
		Other^	^	12 708	(12 458)
		Effect on other comprehensive income			
		Other^	^	2 670	(942)
Loans and advances to customers	56 814	Effect on income statement			
		EBITA	10%	5 681	(5 681)
Other securitised assets*	7 258	Effect on income statement			
		Cash flow adjustments	CPR 6.25%	1 132	(1 027)
Liabilities					
Derivative financial instruments	1 048	Effect on income statement			
		Cash flow adjustments	CPR 8.4%	559	(1 103)
Debt securities in issue		Effect on income statement			
	12 682	Volatilities	7%	401	(608)
Net level 3 fair value	**264 095**			**31 624**	**(28 477)**

* *The sensitivity of the fair value of liabilities arising on securitisation of other assets has been considered together with other securitised assets.*
^ *Other – The valuation sensitivity for the private equity and embedded derivatives (profit share) portfolios has been assessed by adjusting various inputs such as expected cash flows, discount rates, earnings multiples rather than a single input. It is deemed appropriate to reflect the outcome on a portfolio basis for the purposes of this analysis as the sensitivity of the investments cannot be determined through the adjustment of a single input.*

14. Fair value hierarchy *(continued)*

At 31 March 2016	Balance sheet value £'000	Significant unobservable input changed	Range of unobservable input used	Favourable changes £'000	Unfavourable changes £'000
Company					
Assets					
Other debt securities	10 930	Effect on income statement		525	(796)
		Cash flow adjustments	CPR 5%	525	(472)
		Other^	^	–	(324)
Derivative financial instruments	44 263	Effect on income statement		8 214	(5 386)
		Volatilities	3.75%	2 471	(1 015)
		Cash flow adjustments	CPR 7.1% – 7.4%	790	(1 662)
		Other^	^	4 953	(2 709)
Securities arising from trading activities	7 456	Effect on income statement			
		Cash flow adjustments	CPR 6.5% – 9%	1 380	(1 050)
Investment portfolio	193 220	Effect on income statement		13 900	(13 428)
		Price earnings multiple	9.1 x	799	(799)
		Other^	^	13 101	(12 629)
		Effect on other comprehensive income			
		Other^	^	526	(18)
Loans and advances to customers	53 465	Effect on income statement			
		Other^	^	–	–
Other securitised assets*	8 680	Effect on income statement			
		Other^	^	1 256	(1 149)
Liabilities					
Derivative financial instruments	1 355	Effect on income statement		1 667	(797)
		Cash flow adjustments	CPR 7.1%	1 661	(790)
		Volatilities	3.75% – 9%	6	(7)
		Effect on income statement			
Debt securities in issue	9 438	Cash flow adjustments	CPR 7.9%	1 380	(1 050)
Net level 3 assets	**307 221**			**28 848**	**(23 674)**

* *The sensitivity of the fair value of liabilities arising on securitisation of other assets has been considered together with other securitised assets.*

^ *Other – The valuation sensitivity for the private equity and embedded derivatives (profit share) portfolios has been assessed by adjusting various inputs such as expected cash flows, discount rates, earnings multiples rather than a single input. It is deemed appropriate to reflect the outcome on a portfolio basis for the purposes of this analysis as the sensitivity of the investments cannot be determined through the adjustment of a single input.*

At 31 March £'000	Carrying amount	Fair value	Level 1	Level 2	Level 3
			Level within the fair value hierarchy		
15. Fair value of financial instruments at amortised cost					
Group					
2017					
Assets					
Cash and balances at central banks	2 851 070	2 851 070	^	^	^
Loans and advances to banks	922 764	922 764	922 764	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	465 145	465 145	^	^	^
Bank debt securities	176 559	189 296	55 499	133 797	–
Other debt securities	267 983	262 187	9 974	158 937	93 276
Loans and advances to customers	8 512 157	8 499 792	–	1 049 574	7 450 218
Other loans and advances	556 464	538 634	22 760	388 122	127 752
Other assets	725 383	725 324	482 037	229 373	13 914
	14 477 525	**14 454 212**			
Liabilities					
Deposits by banks	673 586	684 153	195 517	488 636	–
Repurchase agreements and cash collateral on securities lent	146 843	146 843	^	^	^
Customer accounts (deposits)	11 289 177	11 334 732	8 037 630	3 280 509	16 593
Debt securities in issue	1 213 263	1 229 551	1 194	1 221 266	7 091
Other liabilities	746 197	746 192	478 008	233 264	34 920
Subordinated liabilities	579 356	707 146	707 146	–	–
	14 648 422	**14 848 617**			

^ *Financial instruments for which fair value approximates carrying value.*

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate their fair value and have been reflected in level 1. This assumption also applies to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

At 31 March £'000	Carrying amount	Fair value	Level 1	Level 2	Level 3
			Level within the fair value hierarchy		
15. Fair value of financial instruments at amortised cost *(continued)*					
Group					
2016					
Assets					
Cash and balances at central banks	2 636 941	2 636 941	^	^	^
Loans and advances to banks	935 071	935 071	935 071	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	399 460	399 460	^	^	^
Bank debt securities	176 321	192 776	53 123	139 653	–
Other debt securities	219 176	205 529	10 328	138 385	56 816
Loans and advances to customers	7 694 116	7 716 162	763 819	200 936	6 751 407
Other loans and advances	577 584	564 593	10 403	413 340	140 850
Other securitised assets	2 975	2 975	2 975	–	–
Other assets	900 369	900 140	571 567	318 393	10 180
	13 542 013	**13 553 646**			
Liabilities					
Deposits by banks	526 717	533 781	414 034	21 568	98 179
Repurchase agreements and cash collateral on securities lent	127 118	127 118	^	^	^
Customer accounts (deposits)	11 038 164	11 052 330	7 343 719	3 708 611	–
Debt securities in issue	1 150 124	1 026 284	1 194	982 342	42 748
Other liabilities	877 602	877 410	517 565	323 497	36 348
Subordinated liabilities	597 309	689 074	689 074	–	–
	14 317 034	**14 305 997**			

^ *Financial instruments for which fair value approximates carrying value.*

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate their fair value and have been reflected in level 1. This assumption also applies to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

15. Fair value of financial instruments at amortised cost *(continued)*

Fixed rate financial instruments

The fair value of fixed rate financial assets and financial liabilities carried at amortised cost are estimated by comparing spreads earned on the transactions with spreads earned on similar new transactions entered into by the group. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows, using prevailing money market interest rates for debts with similar credit risk and maturity. For quoted sub-debt issued, the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

Certain financial instruments that would normally be carried at fair value continue to be recognised at transaction price. This occurs when the fair value would normally be determined using valuation techniques which cannot be relied on due to insufficient external inputs. This results in gains or losses which have not been recognised on balance sheet.

The following table sets out the group's principal valuation techniques used in determining the fair value of its financial assets and financial liabilities:

Other debt securities	Priced with reference to similar trades in an observable market.
Loans and advances to customers	Calculation of the present value of future cash flows, discounted as appropriate.
Other loans and advances	Calculation of the present value of future cash flows, discounted as appropriate.
Other securitised assets	Calculated using a model based on future cash flows, discounted as appropriate.
Other assets	Calculation of the present value of future cash flows, discounted as appropriate.
Deposits by banks	Calculation of fair value using appropriate funding rates.
Customer accounts (deposits)	Where the deposits are short-term in nature, carrying amounts are assumed to approximate fair value. Where deposits are of longer-term maturities, they are valued using a cash flow model discounted as appropriate.
Debt securities in issue	Where the debt securities are fully collateralised fair value is equal to the carrying value. Other debt securities are valued using a cash flow model discounted as appropriate to the securities for funding and interest rates.
Other liabilities	Where the other liabilities are short term in nature, carrying amounts are assumed to approximate fair value.
Subordinated liabilities	Valued with reference to market prices.

At 31 March £'000	Carrying amount	Fair value	Level within the fair value hierarchy Level 1	Level 2	Level 3
15. Fair value of financial instruments at amortised cost *(continued)*					
Company					
2017					
Assets					
Cash and balances at central banks	2 818 121	2 818 121	^	^	^
Loans and advances to banks	374 414	374 414	374 414	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	465 145	465 145	^	^	^
Bank debt securities	176 559	189 296	55 499	133 797	–
Other debt securities	496 296	495 573	9 973	158 939	326 661
Loans and advances to customers	6 554 945	6 555 219	–	156 613	6 398 606
Other loans and advances	1 941 993	1 926 413	22 760	1 771 959	131 694
Other assets	489 341	489 341	489 341	–	–
	13 316 814	**13 313 522**			
Liabilities					
Deposits by banks	900 691	896 506	508 958	387 548	–
Repurchase agreements and cash collateral on securities lent	346 865	346 865	^	^	^
Customer accounts (deposits)	9 601 085	9 677 010	6 031 330	3 629 087	16 593
Debt securities in issue	1 135 443	1 154 816	–	1 154 816	–
Other liabilities	555 360	555 360	543 490	8 620	3 250
Subordinated liabilities	580 427	708 216	708 216	–	–
	13 119 871	**13 338 773**			

^ *Financial instruments for which fair value approximates carrying value.*

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate their fair value and have been reflected in level 1. This assumption also applies to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

15. Fair value of financial instruments at amortised cost *(continued)*

At 31 March £'000	Carrying amount	Fair value	Level 1	Level 2	Level 3
			Level within the fair value hierarchy		
Company					
2016					
Assets					
Cash and balances at central banks	2 611 337	2 611 337	^	^	^
Loans and advances to banks	315 115	315 115	315 115	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	399 460	399 460	^	^	^
Bank debt securities	176 321	192 776	53 123	139 653	–
Other debt securities	447 464	433 817	238 616	138 385	56 816
Loans and advances to customers	6 000 466	6 031 224	–	199 953	5 831 271
Other loans and advances	1 774 186	1 752 808	10 403	1 599 889	142 516
Other assets	589 534	589 306	573 893	15 360	53
	12 313 883	**12 325 843**			
Liabilities					
Deposits by banks	767 730	760 807	730 142	21 568	9 097
Repurchase agreements and cash collateral on securities lent	127 118	127 118	^	^	^
Customer accounts (deposits)	9 808 014	9 836 026	6 060 420	3 686 524	89 082
Debt securities in issue	993 131	982 342	–	982 342	–
Other liabilities	585 449	585 565	565 966	12 677	6 922
Subordinated liabilities	598 390	688 928	688 928	–	–
	12 879 832	**12 980 786**			

^ *Financial instruments for which fair value approximates carrying value.*

16. Designated at fair value: loans and receivables and financial liabilities

Group

At 31 March £'000	Carrying value	Fair value adjustment Year to date	Fair value adjustment Cumulative	Change in fair value attributable to credit risk Year to date	Change in fair value attributable to credit risk Cumulative	Maximum exposure to credit risk
Loans and receivables designated at fair value through profit or loss						
2017						
Loans and advances to customers	86 482	(381)	(36 360)	–	–	86 482
Other securitised assets	138 628	5 222	(18 095)	5 222	(18 095)	138 628
	225 110	**4 841**	**(54 455)**	**5 222**	**(18 095)**	**225 110**
2016						
Loans and advances to customers	87 270	(2 752)	(30 284)	–	–	33 804
Other securitised assets	138 909	(13 541)	(29 938)	(13 541)	(29 938)	138 909
	226 179	**(16 293)**	**(60 222)**	**(13 541)**	**(29 938)**	**172 713**

At 31 March £'000	Carrying value	Remaining contractual amount to be repaid at maturity	Fair value adjustment Year to date	Fair value adjustment Cumulative	Change in fair value attributable to credit risk Year to date	Change in fair value attributable to credit risk Cumulative
Financial liabilities designated at fair value through profit or loss						
2017						
Debt securities in issue	427 576	428 264	39 000	46 564	10 453	4 691
Liabilities arising on securitisation of other assets	128 838	139 572	(6 563)	10 998	(6 563)	10 998
	556 414	**567 836**	**32 437**	**57 562**	**3 890**	**15 689**
2016						
Debt securities in issue	358 548	366 400	(7 416)	21 143	(7 406)	(3 632)
Liabilities arising on securitisation of other assets	120 617	139 851	(6 019)	(19 549)	(6 019)	(19 549)
	479 165	**506 251**	**(13 435)**	**1 594**	**(13 425)**	**(23 181)**

Changes in fair value due to credit risk are determined as the change in the fair value of the financial instrument that is not attributable to changes in other market inputs.

16. Designated at fair value: loans and receivables and financial liabilities *(continued)*

Company

At 31 March £'000	Carrying value	Fair value adjustment: Year to date	Fair value adjustment: Cumulative	Change in fair value attributable to credit risk: Year to date	Change in fair value attributable to credit risk: Cumulative	Maximum exposure to credit risk
Loans and receivables designated at fair value through profit or loss						
2017						
Loans and advances to customers	56 814	–	–	–	–	56 814
Other securitised assets	7 258	(1 422)	7 258	(1 422)	7 258	7 258
	64 072	**(1 422)**	**7 258**	**(1 422)**	**7 258**	**64 072**
2016						
Loans and advances to customers	53 465	–	–	–	–	53 465
	53 465	**–**	**–**	**–**	**–**	**53 465**

At 31 March £'000	Carrying value	Remaining contractual amount to be repaid at maturity	Fair value adjustment: Year to date	Fair value adjustment: Cumulative	Change in fair value attributable to credit risk: Year to date	Change in fair value attributable to credit risk: Cumulative
Financial liabilities designated at fair value through profit or loss						
2017						
Debt securities in issue	427 576	428 264	39 000	46 564	10 453	4 691
	427 576	**428 264**	**39 000**	**46 564**	**10 453**	**4 691**
2016						
Debt securities in issue	367 974	375 700	(7 290)	21 269	(7 280)	(3 506)
	367 974	**375 700**	**(7 290)**	**21 269**	**(7 280)**	**(3 506)**

Changes in fair value due to credit risk are determined as the change in the fair value of the financial instrument that is not attributable to changes in other market inputs.

At 31 March £'000	Group 2017	Group 2016	Company 2017	Company 2016
17. Cash and balances at central banks				
The country risk of cash and bank balances at central banks lies in the following geographies:				
United Kingdom	2 797 949	2 589 082	2 797 548	2 588 981
Europe (excluding UK)	55 618	48 982	23 070	23 479
	2 853 567	**2 638 064**	**2 820 618**	**2 612 460**

At 31 March £'000	Group 2017	Group 2016	Company 2017	Company 2016
18. Loans and advances to banks				
The country risk of loans and advances to banks lies in the following geographies:				
South Africa	32 478	9 307	27 675	8 044
United Kingdom	447 448	516 167	177 222	163 040
Europe (excluding UK)	202 207	214 399	64 857	80 476
Australia	55 775	65 213	12 646	11 126
United States of America	140 871	113 090	59 760	51 264
Other	43 985	16 895	32 254	1 165
	922 764	**935 071**	**374 414**	**315 115**

At 31 March £'000	Group 2017	Group 2016	Company 2017	Company 2016
19. Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent				
Assets				
Reverse repurchase agreements	446 326	476 308	446 326	476 308
Cash collateral on securities borrowed	89 847	80 717	89 847	80 717
	536 173	**557 025**	**536 173**	**557 025**
As part of the reverse repurchase and securities borrowing agreements the group has received securities that it is allowed to sell or repledge. £133.2 million (2016: £228.3 million) has been resold or repledged to third parties in connection with financing activities or to comply with commitments under short sale transactions.				
Liabilities				
Repurchase agreements	77 154	154 142	277 176	154 142
Cash collateral on securities lent	146 843	127 118	146 843	127 118
	223 997	**281 260**	**424 019**	**281 260**

The assets transferred and not derecognised in the above repurchase agreements are fair valued at £186.7 million (2016: £283.9 million). They are pledged as security for the term of the underlying repurchase agreement.

At 31 March £'000	Group 2017	Group 2016	Company 2017	Company 2016
20. Sovereign debt securities				
Bonds	–	5	–	–
Government securities	159 381	643 352	159 381	643 352
Treasury bills	793 521	609 634	–	–
	952 902	**1 252 991**	**159 381**	**643 352**
The country risk of sovereign debt securities lies in the following geographies:				
United Kingdom	613 605	1 235 317	139 282	625 684
Europe (excluding UK)*	12 127	17 674	12 127	17 668
United States of America	327 170	–	7 972	–
	952 902	**1 252 991**	**159 381**	**643 352**

* *Where Europe (excluding UK) largely includes securities held in Germany and France.*

At 31 March £'000	Group and Company 2017	Group and Company 2016
21. Bank debt securities		
Bonds	58 067	57 164
Floating rate notes	126 559	131 233
	184 626	**188 397**
The country risk of bank debt securities lies in the following geographies:		
South Africa	8 067	7 033
United Kingdom	77 565	82 520
Europe (excluding UK)	98 994	98 844
	184 626	**188 397**

At 31 March £'000	Group 2017	Group 2016	Company 2017	Company 2016
22. Other debt securities				
Bonds	371 613	303 687	601 574	531 975
Commercial paper	34 389	31 969	34 389	31 969
Asset-based securities	2 147	65 743	2 147	–
Other investments	–	2 122	–	2 122
	408 149	**403 521**	**638 110**	**566 066**
The country risk of other debt securities lies in the following geographies:				
United Kingdom	127 182	160 250	357 143	338 597
Europe (excluding UK)	166 515	146 405	166 515	132 132
United States of America	81 193	58 804	81 193	57 275
Other	33 259	38 062	33 259	38 062
	408 149	**403 521**	**638 110**	**566 066**

23. Derivative financial instruments

The group enters into various contracts for derivatives both as principal for trading purposes and as customer for hedging foreign exchange and interest rate exposures. These include financial futures, options, swaps and forward rate agreements. The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations.

In the tables that follow, notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair value of a derivative financial instrument represents the positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out by the group in an orderly market transaction at the balance sheet date.

At 31 March £'000	2017 Notional principal amounts	2017 Positive fair value	2017 Negative fair value	2016 Notional principal amounts	2016 Positive fair value	2016 Negative fair value
Group						
Foreign exchange derivatives						
Forward foreign exchange contracts	11 284 280	163 354	144 795	13 249 208	192 731	218 038
Currency swaps	862 355	92 639	74 483	752 267	55 372	60 017
OTC options bought and sold	1 256 596	60 220	29 906	3 263 811	64 499	40 630
Other foreign exchange contracts	–	–	–	16 413	230	–
OTC derivatives	**13 403 231**	**316 213**	**249 184**	**17 281 699**	**312 832**	**318 685**
Interest rate derivatives						
Caps and floors	5 743 182	27 173	10 499	2 929 163	39 655	7 972
Swaps	18 157 245	139 294	130 018	15 031 340	161 927	170 682
	23 900 427	**166 467**	**140 517**	**17 960 503**	**201 582**	**178 654**
Equity and stock index derivatives						
OTC options bought and sold	2 681 911	68 714	166 308	2 274 481	68 223	66 917
Equity swaps and forwards	29 800	–	–	16 071	–	–
OTC derivatives	**2 711 711**	**68 714**	**166 308**	**2 290 552**	**68 223**	**66 917**
Exchange-traded futures	269 002	24	–	295 222	1 834	1 271
Exchange-traded options	5 597 630	2 977	–	5 763 502	169 628	352 743
Warrants	11 820	479	–	321	321	–
	8 590 163	**72 194**	**166 308**	**8 349 597**	**240 006**	**420 931**
Commodity derivatives						
OTC options bought and sold	38 971	443	403	13 309	673	673
Commodity swaps and forwards	645 818	22 061	13 447	636 104	39 929	35 363
OTC derivatives	**684 789**	**22 504**	**13 850**	**649 413**	**40 602**	**36 036**
Credit derivatives	**718 103**	**15 278**	**13 703**	**592 204**	**15 333**	**10 080**
Embedded derivatives*		**17 715**	**–**		**32 581**	**–**
Derivatives per balance sheet		**610 371**	**583 562**		**842 936**	**964 386**

* *Mainly includes profit shares received as part of lending transactions.*

23. Derivative financial instruments *(continued)*

At 31 March £'000	2017 Notional principal amounts	2017 Positive fair value	2017 Negative fair value	2016 Notional principal amounts	2016 Positive fair value	2016 Negative fair value
Company						
Derivative financial instruments						
Foreign exchange derivatives						
Forward foreign exchange contracts	11 394 912	163 511	149 043	13 301 776	192 379	218 629
Currency swaps	864 583	86 792	70 391	730 031	51 071	59 868
OTC options bought and sold	1 254 384	60 220	29 782	3 259 370	64 447	40 619
Other foreign exchange contracts	–	–	–	16 413	230	–
OTC derivatives	**13 513 879**	**310 523**	**249 216**	**17 307 590**	**308 127**	**319 116**
Interest rate derivatives						
Caps and floors	5 743 182	27 173	10 499	2 929 163	39 655	7 972
Swaps	17 945 660	138 925	130 075	14 924 754	177 149	171 151
	23 688 842	**166 098**	**140 574**	**17 853 917**	**216 804**	**179 123**
Equity and stock index derivatives						
OTC options bought and sold	2 681 911	68 714	166 308	2 274 481	68 223	66 917
Equity swaps and forwards	29 800	–	–	16 071	–	–
OTC derivatives	**2 711 711**	**68 714**	**166 308**	**2 290 552**	**68 223**	**66 917**
Exchange-traded futures	269 002	24	–	295 222	1 834	1 271
Exchange-traded options	5 597 630	2 977	–	5 763 502	169 628	352 744
Warrants	10 927	15	–	–	–	–
	8 589 270	**71 730**	**166 308**	**8 349 276**	**239 685**	**420 932**
Commodity derivatives						
OTC options bought and sold	38 971	443	403	13 309	673	673
Commodity swaps and forwards	509 439	16 747	11 301	636 104	39 929	35 363
OTC derivatives	**548 410**	**17 190**	**11 704**	**649 413**	**40 602**	**36 036**
Credit derivatives	**718 103**	**15 278**	**13 703**	**592 204**	**15 332**	**10 080**
Embedded derivatives*		**17 715**	**–**		**32 581**	**–**
Derivatives per balance sheet		**598 534**	**581 505**		**853 131**	**965 287**

* *Mainly includes profit shares received as part of lending transactions.*

At 31 March £'000	Group 2017	Group 2016	Company 2017	Company 2016
24. Securities arising from trading activities				
Bonds	207 047	194 485	200 868	194 485
Government securities	130 714	198 181	130 714	198 181
Listed equities	183 730	130 013	183 730	130 013
Unlisted equities	1 269	329	1 269	329
Other investments	–	1 336	–	1 336
	522 760	**524 344**	**516 581**	**524 344**

At 31 March £'000	Group 2017	Group 2016	Company 2017	Company 2016
25. Investment portfolio				
Listed equities	76 478	87 940	34 627	48 210
Unlisted equities*	378 088	331 921	139 512	162 289
	454 566	**419 861**	**174 139**	**210 499**

* *Unlisted equities includes loan instruments that are convertible into equity.*

At 31 March £'000	Group 2017	Group 2016	Company 2017	Company 2016
26. Loans and advances to customers and other loans and advances				
Gross loans and advances to customers	8 725 515	7 924 577	6 728 308	6 187 945
Impairments of loans and advances to customers	(126 876)	(143 191)	(116 549)	(134 014)
Net loans and advances to customers	**8 598 639**	**7 781 386**	**6 611 759**	**6 053 931**
Gross other loans and advances	564 037	584 469	1 953 854	1 786 056
Impairments of other loans and advances	(7 573)	(6 885)	(11 861)	(11 870)
Net other loans and advances	**556 464**	**577 584**	**1 941 993**	**1 774 186**

For further analysis on loans and advances refer to pages 60 to 68 in the risk management section.

26. Loans and advances to customers and other loans and advances
(continued)

At 31 March £'000	Group 2017	Group 2016	Company 2017	Company 2016
Specific and portfolio impairments				
Reconciliation of movements in specific and portfolio impairments:				
Loans and advances to customers				
Specific impairment				
Balance at the beginning of the year	121 791	154 262	112 614	141 438
Charge to the income statement	57 186	102 748	50 160	97 010
Reversals and recoveries recognised in the income statement	(4 146)	(3 963)	(1 897)	(141)
Utilised	(95 203)	(137 058)	(91 447)	(131 448)
Exchange adjustments	3 860	5 802	3 731	5 755
Balance at the end of the year	**83 488**	**121 791**	**73 161**	**112 614**
Portfolio impairment				
Balance at the beginning of the year	21 400	34 182	21 400	34 182
Charge/(release) to the income statement	21 955	(12 831)	21 955	(12 831)
Exchange adjustments	33	49	33	49
Balance at the end of the year	**43 388**	**21 400**	**43 388**	**21 400**
Other loans and advances				
Specific impairment				
Balance at the beginning of the year	6 112	29 160	11 097	9 988
Charge to the income statement	18	(1 675)	134	1 103
Utilised	5	(21 650)	5	–
Exchange adjustments	722	277	(91)	6
Balance at the end of the year	**6 857**	**6 112**	**11 145**	**11 097**
Portfolio impairment				
Balance at the beginning of the year	773	832	773	832
Release to the income statement	(57)	(62)	(57)	(62)
Exchange adjustments	–	3	–	3
Balance at the end of the year	**716**	**773**	**716**	**773**
Total specific impairments	90 338	127 902	84 299	123 711
Total portfolio impairments	44 104	22 173	44 104	22 173
Total impairments	**134 442**	**150 075**	**128 403**	**145 884**
Interest income recognised on loans that have been impaired	**1 857**	**3 514**	**1 712**	**3 309**

At 31 March £'000	Group 2017	Group 2016
26. Loans and advances to customers and other loans and advances *(continued)*		
Reconciliation of income statement charge:		
Loans and advances to customers	**74 995**	**85 954**
Specific impairment charged to income statement	53 040	98 785
Portfolio impairment charged/(released) to income statement	21 955	(12 831)
Other loans and advances	**(39)**	**(1 737)**
Specific impairment charged/(released) to income statement	18	(1 675)
Portfolio impairment released to income statement	(57)	(62)
Total income statement charge	**74 956**	**84 217**

At 31 March £'000	Group 2017	Group 2016	Company 2017	Company 2016
27. Securitised assets and liabilities arising on securitisation				
Other securitised assets are made up of the following categories of assets:				
Cash and cash equivalents	–	2 975	–	–
Loans and advances to customers	131 370	138 910	–	–
Other debt securities	7 258	8 680	7 258	8 680
Total other securitised assets	**138 628**	**150 565**	**7 258**	**8 680**
The associated liabilities are recorded on balance sheet in the following line items:				
Liabilities arising on securitisation of other assets	**128 838**	**120 617**	**–**	**–**

28. Interests in associated undertakings

At 31 March £'000	2017	2016
Group		
Interests in associated undertakings consist of:		
Net asset value	16 407	10 035
Goodwill	7 411	7 411
Investment in associated undertakings	**23 818**	**17 446**
Associated undertakings comprise unlisted investments		
Analysis of the movement in our share of net assets:		
At the beginning of the year	10 035	8 886
Exchange adjustments	856	122
Additions	5 528	–
Increase in shareholding	–	969
Operating income from associates (included in other operating income)	1 741	1 975
Dividends received	(1 753)	(1 917)
At the end of the year	**16 407**	**10 035**
Analysis of the movement in goodwill:		
At the beginning of the year	7 411	7 411
Exchange adjustments	–	–
At the end of the year	**7 411**	**7 411**

At 31 March £'000	2017	2016
Company		
Analysis of the movement in investment:		
At the beginning of the year	11 632	11 612
Exchange adjustments	79	20
At the end of the year	**11 711**	**11 632**
Provision for impairment in value:		
At the beginning of the year	(2 323)	(2 323)
Exchange adjustments	–	–
At the end of the year	**(2 323)**	**(2 323)**
Net book value at the end of the year	**9 388**	**9 309**

At 31 March £'000	Group 2017	Group 2016	Company 2017	Company 2016
29. Deferred taxation				
Deferred taxation assets	78 945	71 563	48 580	37 158
Deferred taxation liabilities	(26 557)	(26 143)	(5 302)	–
Net deferred taxation assets	**52 388**	**45 420**	**43 278**	**37 158**
The net deferred taxation assets arise from:				
Deferred capital allowances	32 807	34 391	10 313	12 106
Income and expenditure accruals	8 477	2 386	9 123	1 425
Asset in respect of unexpired options	23 468	26 492	21 848	23 627
Unrealised fair value adjustments on financial instruments	(5 201)	(1 288)	(5 046)	–
Losses carried forward	10 460	5 948	7 221	–
Deferred tax on acquired intangibles	(17 767)	(21 655)	–	–
Other temporary differences	144	(854)	(181)	–
Net deferred taxation assets	**52 388**	**45 420**	**43 278**	**37 158**
Reconciliation of net deferred taxation assets				
At the beginning of the year	45 420	26 785	37 158	30 941
Charge to income statement – current year taxation	15 216	16 241	12 333	3 335
Movement directly in other comprehensive income	(5 328)	2 183	(6 213)	3 028
Arising on disposals	(3 085)	–	–	–
Other	–	(197)	–	(146)
Exchange adjustments	165	408	–	–
At the end of the year	**52 388**	**45 420**	**43 278**	**37 158**

Deferred tax assets are recognised to the extent it is likely that profits will arise in future periods. The assessment of the likelihood of future profits is based on past performance and current projections. Deferred taxation assets are not recognised in respect of capital losses and excess management expenses as crystallisation of capital gains and the eligibility of potential losses is uncertain.

There are trading losses carried forward of £204.1 million (2016: £177.4 million) (company £27.7 million), capital losses carried forward of £24.2 million (2016: £5.5 million) and excess management expenses of £7.0 million (2016: £7.0 million) on which deferred tax assets have not been recognised due to uncertainty regarding future profits against which these losses can be utilised.

The Finance Act 2015 reduced the main rate of corporate taxation to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. In addition, the bank corporation tax surcharge of 8% effective from 1 January 2016 was enacted in November 2015. The effect of these legislative changes is reflected in the above calculation of the deferred taxation asset as the rate was substantially enacted before 31 March 2016.

At 31 March £'000	Group 2017	Group 2016	Company 2017	Company 2016

30. Other assets

	Group 2017	Group 2016	Company 2017	Company 2016
Settlement debtors	668 595	828 356	467 080	549 031
Trading properties	129 148	95 522	92 217	88 136
Prepayments and accruals	71 564	53 648	31 488	19 017
Trading initial margin	148 251	301 426	148 251	301 426
Other	71 832	174 098	27 787	129 678
	1 089 390	**1 453 050**	**766 823**	**1 087 288**

31. Property and equipment

At 31 March £'000	Freehold properties	Leasehold improvements	Furniture and vehicles	Equipment	Operating leases*	Total
Group						
2017						
Cost						
At the beginning of the year	2 719	71 082	6 189	29 899	9 220	119 109
Exchange adjustments	–	3 788	43	353	–	4 184
Acquisition of subsidiary undertakings	–	2 062	276	250	–	2 588
Additions	36	8 609	942	2 050	3 197	14 834
Disposals	–	(1 098)	(330)	(7 356)	(2 871)	(11 655)
At the end of the year	**2 755**	**84 443**	**7 120**	**25 196**	**9 546**	**129 060**
Accumulated depreciation						
At the beginning of the year	(266)	(32 932)	(5 684)	(21 911)	(5 274)	(66 067)
Exchange adjustments	–	(471)	(6)	(191)	–	(668)
Disposals	–	353	269	5 029	2 524	8 175
Acquisition of subsidiary undertakings	–	(302)	(74)	(114)	–	(490)
Depreciation charge for the year	(81)	(6 331)	(903)	(1 697)	(2 141)	(11 153)
At the end of the year	**(347)**	**(39 683)**	**(6 398)**	**(18 884)**	**(4 891)**	**(70 203)**
Net carrying value	**2 408**	**44 760**	**722**	**6 312**	**4 655**	**58 857**
2016						
Cost						
At the beginning of the year	2 719	70 224	5 844	27 347	25 935	132 069
Exchange adjustments	–	1 292	–	288	–	1 580
Additions	–	5 140	363	4 358	2 360	12 221
Disposals	–	(5 574)	(18)	(2 094)	(19 075)	(26 761)
At the end of the year	**2 719**	**71 082**	**6 189**	**29 899**	**9 220**	**119 109**
Accumulated depreciation						
At the beginning of the year	(219)	(27 825)	(5 527)	(20 155)	(18 027)	(71 753)
Exchange adjustments	–	(17)	–	(225)	–	(242)
Disposals	–	–	8	1 354	14 902	16 264
Depreciation charge for the year	(47)	(5 090)	(165)	(2 885)	(2 149)	(10 336)
At the end of the year	**(266)**	**(32 932)**	**(5 684)**	**(21 911)**	**(5 274)**	**(66 067)**
Net carrying value	**2 453**	**38 150**	**505**	**7 988**	**3 946**	**53 042**

* *These are assets held by the group, in circumstances where the group is lessor.*

At 31 March £'000	Leasehold improve-ments	Furniture and vehicles	Equipment	Operating leases*	Total
31. Property and equipment *(continued)*					
Company					
2017					
Cost					
At the beginning of the year	32 844	5 275	15 082	–	53 201
Acquisition of subsidiary undertakings	–	–	–	–	–
Exchange adjustments	–	–	–	–	–
Additions	–	–	–	–	–
Disposals	–	–	–	–	–
At the end of the year	**32 844**	**5 275**	**15 082**	**–**	**53 201**
Accumulated depreciation					
At the beginning of the year	(24 898)	(4 902)	(14 565)	–	(44 365)
Exchange adjustments	–	–	–	–	–
Disposals	–	–	–	–	–
Acquisition of subsidiary undertakings	–	–	–	–	–
Depreciation charge for the year	(3 204)	(28)	(375)	–	(3 607)
At the end of the year	**(28 102)**	**(4 930)**	**(14 940)**	**–**	**(47 972)**
Net carrying value	**4 742**	**345**	**142**	**–**	**5 229**
2016					
Cost					
At the beginning of the year	32 815	5 275	15 026	11 601	64 717
Exchange adjustments	29	–	–	–	29
Additions	–	–	56	–	56
Disposals	–	–	–	(11 601)	(11 601)
At the end of the year	**32 844**	**5 275**	**15 082**	**–**	**53 201**
Accumulated depreciation					
At the beginning of the year	(21 963)	(4 874)	(13 949)	(10 900)	(51 686)
Disposals	–	–	–	11 129	11 129
Depreciation charge for the year	(2 935)	(28)	(616)	(229)	(3 808)
At the end of the year	**(24 898)**	**(4 902)**	**(14 565)**	**–**	**(44 365)**
Net carrying value	**7 946**	**373**	**517**	**–**	**8 836**

* *These are assets held by the group, in circumstances where the group is lessor.*

On 3 December 2010 the group acquired a portfolio of operating leased assets comprising motor vehicles. The operating lease income from this portfolio has been included in other operating income (note 5) and the depreciation on these operating leased assets has been shown separately on the face of the income statement.

32. Investment properties

Group £'000	2017	2016
At the beginning of the year	79 051	65 736
Additions	14 500	8 951
Disposals	(90 904)	–
Fair value movement	–	1 282
Exchange adjustment	11 853	3 082
At the end of the year	**14 500**	**79 051**

All investment properties are classified as level 3 in the fair value hierarchy.

Fair value hierarchy – Investment properties

For all investment properties that are measured at fair value, the current use of the property is considered the highest and best use.

Properties are valued under the income capitalisation method and discounted cashflow method (DCF).

Under the income capitalisation method a property's fair value is estimated based on the normalised net operating income generated by the property, which is divided by the capitalisation rate.

Under the DCF method, a property's fair value is estimated using explicit assumptions about the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This involves the projection of a series of cash flows and to this an appropriate, market-derived discount rate is applied to establish the present value of the income stream.

Valuation techniques used to derive level 3 fair values

For all classes of investment property, the significant unobservable inputs listed below are used in the income capitalisation method to determine the fair value measurement at the end of the reporting period.

Significant unobservable inputs	Relationship between unobservable inputs and fair value measurement
Expected rental value (ERV)	Increases/(decreases) in ERV would increase/(decrease) estimated fair value
Equivalent yield	Increases/(decreases) in the equivalent yield would result in decreases/(increases) in the estimated fair value

At 31 March £'000	2017	2016
33. Goodwill		
Cost		
At the beginning of the year	285 140	284 236
Acquisition of subsidiaries	148	–
Exchange adjustments	1 147	904
At the end of the year	**286 435**	**285 140**
Accumulated impairments		
At the beginning of the year	(23 336)	(23 336)
Income statement amount	(3 134)	–
At the end of the year	**(26 470)**	**(23 336)**
Net carrying value	**259 965**	**261 804**
Analysis of goodwill by line of business:		
Wealth & Investment	249 069	248 572
Specialist Banking	10 896	13 232
Total group	**259 965**	**261 804**

Goodwill is tested annually for impairment, or more frequently if evidence exists that goodwill might be impaired, by comparing the carrying value to its recoverable amount.

The recoverable amount of goodwill is determined based on expected cash flows within the cash-generating units of the group to which the goodwill is allocated. Key assumptions within the calculation include discount rates, growth rates in revenue and related expenditure and loan impairment rates.

Discount rates are based on pre-tax rates that reflect current market conditions, adjusted for the specific risks associated with the cash-generating unit. Growth rates are based on industry growth forecasts. Cash flow forecasts are based on the most recent financial budgets for the next financial year and are extrapolated for a period of three to five years, adjusted for expected future events.

The most significant cash-generating unit giving rise to goodwill is Investec Wealth & Investment (Wealth & Investment), which includes the business of Williams de Broë (acquired in 2012 as part of the Evolution Group) which was merged with Wealth & Investment in August 2012.

For Investec Wealth & Investment, goodwill of £236.3 million has been tested for impairment on the basis of the cash flow projections for the next three years discounted at 8.8% (2016: 8.9%) which incorporate an expected revenue growth rate of 2% in perpetuity (March 2016: 2%). The valuation is based on value in use of the business.

Sensitivity analysis has been carried out and it has been concluded that no reasonably possible change in the key assumptions would cause an impairment to be recognised.

Movement in goodwill

2017

An impairment of £3.1 million was recognised in relation to a historic acquisition in the Specialist Banking businesses, due to a change in the nature of the ongoing business.

2016

There are no significant movements in goodwill during the year.

At 31 March £'000	Acquired software	Internally generated software	Management contracts	Client relationships	Total
34. Intangible assets					
Group					
2017					
Cost					
At the beginning of the year	33 876	582	520	182 496	217 474
Exchange adjustments	122	–	63	(549)	(364)
Additions	3 587	1 961	–	–	5 548
Disposals	(16)	–	–	–	(16)
At the end of the year	**37 569**	**2 543**	**583**	**181 947**	**222 642**
Accumulated amortisation and impairments					
At the beginning of the year	(29 286)	–	(196)	(61 125)	(90 607)
Exchange adjustments	(107)	–	(37)	692	548
Disposals	16	–	–	–	16
Amortisation	(1 883)	–	(139)	(14 247)	(16 269)
At the end of the year	**(31 260)**	**–**	**(372)**	**(74 680)**	**(106 312)**
Net carrying value	**6 309**	**2 543**	**211**	**107 267**	**116 330**
2016					
Cost					
At the beginning of the year	31 289	61	727	182 201	214 278
Exchange adjustments	120	–	69	295	484
Additions	2 667	521	–	–	3 188
Disposals	(200)	–	(276)	–	(476)
At the end of the year	**33 876**	**582**	**520**	**182 496**	**217 474**
Accumulated amortisation and impairments					
At the beginning of the year	(27 281)	–	(313)	(46 642)	(74 236)
Exchange adjustments	(110)	–	(30)	(135)	(275)
Disposals	200	–	276	–	476
Amortisation	(2 095)	–	(129)	(14 348)	(16 572)
At the end of the year	**(29 286)**	**–**	**(196)**	**(61 125)**	**(90 607)**
Net carrying value	**4 590**	**582**	**324**	**121 371**	**126 867**

Client relationships all relate to the acquisition of Rensburg Sheppards plc in June 2010 and EVG in December 2011, Investec Capital Asia Limited in April 2011 and NCB Group in June 2012.

At 31 March £'000	Acquired software
34. Intangible assets *(continued)*	
Company	
2017	
Cost	
At the beginning of the year	19 974
Exchange adjustments	–
Additions	–
Disposals	–
At the end of the year	**19 974**
Accumulated amortisation and impairments	
At the beginning of the year	(19 593)
Exchange adjustments	–
Disposals	–
Amortisation	(231)
At the end of the year	**(19 824)**
Net carrying value	**150**
2016	
Cost	
At the beginning of the year	19 974
Exchange adjustments	–
Additions	–
Disposals	–
At the end of the year	**19 974**
Accumulated amortisation and impairments	
At the beginning of the year	(19 105)
Exchange adjustments	–
Disposals	–
Amortisation	(488)
At the end of the year	**(19 593)**
Net carrying value	**381**

35. Acquisitions and disposals

Group

2017

Acquisitions

During the year the group acquired group companies in the United States from the parent company at net book value.

Disposals

There were no significant disposals of subsidiaries during the year ended 31 March 2017.

2016

Acquisitions

There were no significant acquisitions of subsidiaries during the year ended 31 March 2016.

Disposals

There were no significant disposals of subsidiaries during the year ended 31 March 2016. As part of the sale of Kensington assets, a final net settlement was paid after the 31 March 2015 year end. As a result of this payment, a further loss of £4.8 million was recognised during the 2016 financial year.

Company

2017

Acquisitions

During the year the company acquired Investec USA Holding Corporation Inc from its parent company.

Disposals

There were no significant disposals of subsidiaries during the year ended 31 March 2017.

2016

Acquisitions

There were no significant acquisitions of subsidiaries during the year ended 31 March 2016.

Disposals

There were no significant disposals of subsidiaries during the year ended 31 March 2016.

At 31 March £'000	Group and Company 2017	Group and Company 2016
36. Other trading liabilities		
Short positions		
– Equities	83 932	64 657
– Gilts	52 109	161 941
	136 041	**226 598**

At 31 March £'000	Group 2017	Group 2016	Company 2017	Company 2016
37. Debt securities in issue				
Bonds and medium-term notes repayable:				
Less than three months	48 630	35 001	48 630	23 649
Three months to one year	72 773	116 680	72 773	85 283
One to five years	955 682	853 918	954 488	819 287
Greater than five years	563 754	503 073	487 128	432 886
	1 640 839	**1 508 672**	**1 563 019**	**1 361 105**
Analysis by customer type:				
Retail	1 026 078	795 763	1 026 078	795 763
Wholesale	614 761	712 909	536 941	565 342
	1 640 839	**1 508 672**	**1 563 019**	**1 361 105**

At 31 March £'000	Group 2017	Group 2016	Company 2017	Company 2016
38. Other liabilities				
Settlement liabilities	623 765	776 249	426 586	489 575
Other creditors and accruals	283 468	225 570	172 141	131 583
Other non-interest bearing liabilities	65 554	58 963	101 941	80 694
	972 787	**1 060 782**	**700 668**	**701 852**

At 31 March £'000	2017	2016
39. Pension commitments		
Income statement charge		
Cost of defined contribution schemes included in staff costs	23 105	18 347
Net income statement charge in respect of pensions	**23 105**	**18 347**

The group operates pension schemes throughout its areas of operation. The majority of the schemes are defined contribution schemes with the exception of two schemes in the United Kingdom being the Guinness Mahon Pension Fund scheme (GM scheme) and the Investec Asset Management Pension scheme (IAM scheme). Both schemes are final salary pension plans with assets held in separate trustee administered funds. The plan is subject to UK regulations, which require the trustees to agree a funding strategy and contribution schedule for the plan. The role of the trustees is to ensure that the schemes are administered in accordance with the scheme rules and relevant legislation, and to safeguard the assets in the best interest of all members and beneficiaries.

The trustees are solely responsible for setting investment policy and for agreeing funding requirements with the employer through the triennial valuation process. The schemes are closed to new members and the accrual of service ceased on 31 March 2002. The schemes have been valued at 31 March 2017 by qualified independent actuaries in accordance with IAS 19. There were no unpaid contributions in relation to the defined contribution schemes outstanding at the year end.

In November 2016, the trustees of the GM scheme entered into a "buy-in" insurance agreement with Aviva Annuity UK Ltd ("Aviva").

As a result Aviva provide the accrued pension benefits of members of the scheme, as the previous assets held in the scheme are now replaced by this insurance agreement. As a result the group has reduced its exposure to the risks associated with the scheme. The administrative transition between the scheme trustees and Aviva is ongoing.

Certain employees of the bank participate in both the above defined benefit schemes along with the employees from the Investec plc undertakings.

As there is no contractual agreement or stated policy for charging the net defined benefit cost of the defined benefit plans as a whole, measured in accordance with IAS 19, to individual Investec plc group entities, the bank has accounted for these schemes on a defined benefit contribution basis.

Therefore, the following tables on the defined benefit schemes are provided for information only.

	2017	2016
The major assumptions used were:		
Discount rate	2.50%	3.40%
Rate of increase in salaries	3.20%	2.90%
Rate of increase in pensions in payment	1.80%-3.00%	1.80%-3.00%
Inflation (RPI)	3.20%	2.90%
Inflation (CPI)	2.10%	1.90%
Demographic assumptions		
One of the most significant demographic assumptions underlying the valuation is mortality. The specific mortality rates used are based on the S1PA base tables with allowance for future improvements in line with CMI 2014 core projections and a long term improvement of 1.25% per annum. The life expectancies underlying the valuation are as follows:	**Years**	**Years**
Male aged 65	88.4	88.3
Female aged 65	91.0	90.9
Male aged 45	90.2	90.1
Female aged 45	92.9	92.8

Sensitivity analysis of assumptions

The sensitivities are only presented for the GM scheme as the equivalent increases/decreases in assumptions for the IAM scheme do not have a material impact.

If the discount rate was 0.25% higher (lower), the scheme liabilities would decrease by approximately £6 801 000 (increase by £7 284 000) if all the other assumptions remained unchanged.

39. Pension commitments *(continued)*

If the inflation assumption was 0.25% higher (lower), the scheme liabilities would increase by approximately £3 047 000 (decrease by £2 877 000). In this calculation all assumptions related to the inflation assumption have been appropriately adjusted, that is the salary, deferred pension and pension in payment increases. The other assumptions remain unchanged.

If the salary increase assumption was 0.25% higher (lower), the scheme liabilities would increase by approximately £274 000 (decrease by £269 000) if all the other assumptions remained unchanged.

If the deferred revaluation assumption was 0.25% higher (lower) the scheme liabilities would increase by £890 000 (decrease by £872 000) if all the other assumptions remained unchanged.

If the pension increases assumptions were 0.25% higher (lower), the scheme liabilities would increase by approximately £2 426 000 (decrease by £2 296 000) if all the other assumptions remained unchanged.

If life expectancies were to increase (decrease) by 1 year, the scheme liabilities would increase by approximately £6 257 000 (decrease by £5 455 000) if all the other assumptions remained unchanged.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

The sensitivity analysis has been performed on the basis that the relevant assumption would occur in isolation, holding other assumptions constant.

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the same methodology that applied in calculating the defined benefit obligation liability recognised in the balance sheet.

Risk exposures

A description of the risks which the pension schemes expose Investec can be found in the Risk Management report on page 90.

The group ultimately underwrites the risks relating to the defined benefit plans. If the contributions currently agreed are insufficient to pay the benefits due, the group will need to make further contributions to the plans.

At 31 March £'000	2017	2016
GM scheme		
Gilts	–	168 451
Bulk annuity insurance agreement	141 419	–
Cash	2 914	2 792
Total market value of assets	**144 333**	**171 243**
IAM scheme		
Managed funds	21 637	21 887
Cash	12	84
Total market value of assets	**21 649**	**21 971**

There are no assets which are unquoted.

None of the group's own assets or properties occupied or used by the Group held within the assets of the scheme.

The investment strategy previously in place for the GM scheme was to switch to gilts over the period to 31 March 2021. At 31 March 2016, the allocation of the GM scheme's invested assets was 100% to gilts and cash, ahead of the investment strategy. The higher allocation is due to additional switches from equities to gilts during the first and third quarter of 2013 under the agreed outperformance trigger mechanism. However, as set out above during the year to 31 March 2017 the trustees have converted to a buy-in insurance agreement. Details of the investment strategy can be found in the GM scheme's Statement of Investment Principles, which the Trustees update as its policy evolves.

The Trustee's current investment strategy is to strike a balance between maximising the returns on the scheme's assets and minimising the risks associate with lower than expected returns.

39. Pension commitments *(continued)*

At 31 March £'000	2017 GM	2017 IAM	2017 Total	2016 GM	2016 IAM	2016 Total
Recognised in the balance sheet						
Fair value of fund assets	144 333	21 649	165 982	171 243	21 971	193 214
Present value of obligations	(148 862)	(19 573)	(168 435)	(129 467)	(17 275)	(146 742)
Net (liability)/asset (recognised in other liabilities/ other assets)	**(4 529)**	**2 076**	**(2 453)**	**41 776**	**4 696**	**46 472**
Recognised in the income statement						
Net interest income	1 473	158	1 631	1 033	175	1 208
Administration costs	(887)	(111)	(998)	(535)	(112)	(647)
Net amount recognised in the income statement	**586**	**47**	**633**	**498**	**63**	**561**
Recognised in the statement of comprehensive income						
Return on plan assets (excluding amounts in net interest income)	27 769	(886)	26 883	339	2 169	2 508
Actuarial loss/(gain) arising from changes in financial assumptions	23 139	3 553	26 692	(5 317)	(814)	(6 131)
Actuarial loss arising from changes in demographic assumptions	–	–	–	2 393	243	2 636
Actuarial gain arising from experience adjustments	–	–	–	(3 995)	(713)	(4 708)
Remeasurement of defined benefit liability/asset	50 908	2 667	53 575	(6 580)	885	(5 695)
Deferred tax	(9 497)	(498)	(9 995)	1 222	(265)	957
Remeasurement of net defined benefit liability	**41 411**	**2 169**	**43 580**	**(5 358)**	**620**	**(4 738)**

At 31 March £'000	GM	IAM	Total
Changes in the net asset/(liabilities) recognised in the balance sheet			
Opening balance sheet asset at 1 April 2015	**30 382**	**5 518**	**35 900**
Expenses charged to the income statement	498	63	561
Amount recognised in other comprehensive income	6 580	(885)	5 695
Contributions paid	4 316	–	4 316
Opening balance sheet asset at 1 April 2016	**41 776**	**4 696**	**46 472**
Expenses charged to the income statement	586	47	633
Amount recognised in other comprehensive income	(50 908)	(2 667)	(53 575)
Contributions paid	4 017	–	4 017
Closing balance sheet liability/(asset) at 31 March 2017	**(4 529)**	**2 076**	**(2 453)**

At 31 March £'000	GM	IAM	Total
39. Pension commitments *(continued)*			
Changes in the present value of defined benefit obligations			
Opening defined benefit obligation at 1 April 2015	**137 947**	**18 973**	**156 920**
Interest expense	4 320	588	4 908
Remeasurement gains and losses:			
– Actuarial gain arising from changes in financial assumptions	2 393	243	2 636
– Actuarial (loss) arising from changes in financial assumptions	(5 317)	(814)	(6 131)
– Actuarial (loss) arising from experience adjustments	(3 995)	(713)	(4 708)
Benefits and expenses paid	(5 881)	(1 002)	(6 883)
Opening defined benefit obligation at 1 April 2016	**129 467**	**17 275**	**146 742**
Interest expense	4 266	568	4 834
Remeasurement gains and losses:			
– Actuarial gain/(loss) arising from changes in financial assumptions	23 139	3 553	26 692
Benefits and expenses paid	(8 010)	(1 823)	(9 833)
Closing defined benefit obligation at 31 March 2017	**148 862**	**19 573**	**168 435**
Changes in the fair value of plan assets			
Opening fair value of plan assets at 1 April 2015	**168 329**	**24 491**	**192 820**
Interest income	5 353	763	6 116
Remeasurement gain/loss:			
– Return on plan assets (excluding amounts in net interest income)	(339)	(2 169)	(2 508)
Contributions by the employer	4 316	–	4 316
Benefits and expenses paid	(5 881)	(1 002)	(6 883)
Administration expenses	(535)	(112)	(647)
Opening fair value of plan assets at 1 April 2016	**171 243**	**21 971**	**193 214**
Interest income	5 739	726	6 465
Remeasurement gain/loss:			
– Return on plan assets (excluding amounts in net interest income)	(27 769)	886	(26 883)
Contributions by the employer	4 017	–	4 017
Benefits and expenses paid	(8 010)	(1 934)	(9 944)
Administration expenses	(887)	–	(887)
Closing fair value of plan assets at 31 March 2017	**144 333**	**21 649**	**165 982**

There is no restriction on the pension surplus as Investec has an unconditional right to a refund of the surpluses assuming the gradual settlement of the plan over time until all members have left the scheme.

The triennial funding valuation of the schemes was carried out as at 31 March 2015. Contributions requirements, including any deficit recovery plans, were agreed between the Group and the Trustees in March 2013 and March 2016 to address the scheme deficit.

Under the agreed contribution plan deficit contributions of £4.0mn were paid into the GM scheme in the year to March 2017 and the group will make an additional contribution to the GM scheme in the 2017/18 financial year when the finalisation of the transfer of the administration from the trustees to Aviva is completed.

The IAM scheme is fully funded.

The weighted average duration of the GM scheme's liabilities at 31 March 2017 is 18 years (31 March 2016: 17 years). This includes average duration of active members of 22 years, average duration of deferred pensioners of 22 years and average duration of pensioners in payment of 12 years.

The weighted average duration of the IAM scheme's liabilities at 31 March 2017 is 19 years (31 March 2016: 18 years). This includes average duration of deferred pensioners of 22.3 years and average duration of pensioners in payment of 13.5 years.

At 31 March £'000	Group 2017	Group 2016	Company 2017	Company 2016
40. Subordinated liabilities				
Issued by Investec Finance plc				
Guaranteed undated subordinated callable step-up notes	–	18 272	–	–
Issued by Investec Bank plc				
Subordinated fixed rate medium-term notes	579 356	579 037	580 427	580 321
Subordinated loans	–	–	–	18 069
	579 356	**597 309**	**580 427**	**598 390**
Remaining maturity:				
In one year or less, or on demand	–	18 272	–	18 069
In more than one year, but not more than two years	–	–	–	–
In more than two years, but not more than five years	579 356	–	580 427	–
In more than five years	–	579 037	–	580 321
	579 356	**597 309**	**580 427**	**598 390**

The only event of default in relation to the subordinated debt is the non-payment of principal or interest. The only remedy available to the holders of the subordinated debt in the event of default is to petition for the winding up of the issuing entity. In a winding up no amount will be paid in respect of the subordinated debt until all other creditors have been paid in full.

Guaranteed undated subordinated callable step-up notes
At 31 March 2016 Investec Finance plc had in issue £17 861 000 of 6.25% guaranteed undated subordinated step-up notes callable in 2017 at a discount (perpetual notes). Interest was paid semi-annually. The notes were guaranteed by Investec Bank plc and were listed on the Luxembourg Stock Exchange. The step-up notes were redeemed by the issuer, at par, on 23 January 2017.

Medium term notes
Subordinated fixed rate medium term notes (denominated in Pounds Sterling).

On 17 February 2011 Investec Bank plc issued £500 000 000 of 9.625% subordinated notes due 2022 at a discount (2022 notes).

Interest is paid annually. The notes are listed on the London Stock Exchange. The notes will be redeemed at par on 17 February 2022.

On 29 June 2011 Investec Bank plc issued £75 000 000 of 9.625% subordinated notes due 2022 at a premium (2022 Notes) (to be consolidated and form a single series, and to be fungible, with the £500 000 000 2022 Notes issued on 17 February 2011).

Subordinated loans
The net proceeds of the step-up notes issued by Investec Finance plc were on-lent to the company on a subordinated basis.

At 31 March £'000	Group and Company 2017	Group and Company 2016
41. Ordinary share capital		
Authorised		
The authorised share capital is £2 000 million (2016: £2 000 million) comprising:		
2 000 million ordinary shares of £1 each (2016: 2 000 million ordinary shares of £1 each)		
Issued, allotted and fully paid		
Number of ordinary shares	**Number**	**Number**
At the beginning of the year	1 186 800 000	1 186 800 000
Issued during the year	–	–
At the end of the year	**1 186 800 000**	**1 186 800 000**
Nominal value of ordinary shares	**£'000**	**£'000**
At the beginning of the year	1 186 800	1 186 800
Issued during the year	–	–
At the end of the year	**1 186 800**	**1 186 800**

At 31 March £'000	2017	2016
42. Non-controlling interests		
Non-controlling interests in partially held subsidiaries	**2 000**	**1 446**

At 31 March £'000	2017 Total future minimum payments	2017 Present value	2016 Total future minimum payments	2016 Present value
43. Finance lease disclosures				
Group				
Finance lease receivables included in loans and advances to customers				
Lease receivables due in:				
Less than one year	237 007	188 749	209 268	165 542
One to five years	361 949	315 763	338 891	294 898
Later than five years	2 247	2 129	5 488	5 244
	601 203	**506 641**	**553 647**	**465 684**
Unearned finance income	**94 562**	**–**	**87 963**	–

At 31 March 2017, unguaranteed residual values accruing to the benefit of the company were £2.0 million (2016: £2.4 million). Finance leases in the group mainly relate to leases on property, equipment and motor vehicles.

At 31 March £'000	2017 Total future minimum payments	2017 Present value	2016 Total future minimum payments	2016 Present value
Company				
Finance lease receivables included in loans and advances to customers				
Lease receivables due in:				
Less than one year	433	433	484	484
	433	**433**	**484**	**484**
Unearned finance income	**–**	**–**	–	–

At 31 March 2017, unguaranteed residual values accruing to the benefit of the company were £nil (2016: £nil). Finance leases in the group mainly relate to leases on property, equipment and motor vehicles.

44. Notes to the cash flow statement

At 31 March £'000	Group 2017	Group 2016	Company 2017	Company 2016
Profit before taxation adjusted for non-cash items is derived as follows:				
Profit before taxation	143 357	125 026	137 360	114 906
Adjustment for non-cash items included in net income before taxation:				
Amortisation of acquired intangibles	14 386	14 477	–	–
Impairment of goodwill	3 134	–	–	–
Depreciation of operating lease assets	2 141	2 149	–	229
Depreciation and impairment of property, equipment and intangibles	10 895	10 283	3 838	4 011
Impairment of loans and advances	74 956	84 217	70 295	85 079
Operating income from associates	(1 741)	(1 975)	–	–
Dividends received from associates	1 753	1 917	–	–
Release of impairment against investment in subsidiary	–	–	–	(64 000)
Share based payments adjustments	(127)	–	–	–
Profit before taxation adjusted for non-cash items	**248 754**	**236 094**	**211 493**	**140 225**
Decrease/(increase) in operating assets				
Loans and advances to banks	22 989	(129 012)	(19 971)	(8 131)
Reverse repurchase agreements and cash collateral on securities borrowed	20 852	891 180	20 852	696 910
Sovereign debt securities	300 089	(68 131)	516 518	(56 555)
Bank debt securities	3 771	37 876	(72 044)	37 876
Other debt securities	(4 628)	(181 036)	3 771	(204 052)
Derivative financial instruments	232 565	(37 050)	254 597	(35 984)
Securities arising from trading activities	1 585	145 954	7 763	145 953
Investment portfolio	(2 202)	(17 452)	35 048	29 219
Other loans and advances	21 159	185 662	(173 308)	(254 465)
Own originated loans and advances to customers securitised	–	(1 486)	–	–
Loans and advances to customers	(892 249)	(815 304)	(622 645)	(632 034)
Securitised assets	11 937	261 354	1 445	223 322
Other assets	397 759	(259 820)	320 465	(216 357)
Investment properties	64 551	(13 315)	–	–
	178 178	**(580)**	**272 491**	**(274 298)**
(Decrease)/increase in operating liabilities				
Deposits by banks	146 869	312 579	132 961	464 843
Derivative financial instruments	(380 824)	11 181	(383 782)	13 438
Other trading liabilities	(90 557)	(25 281)	(90 557)	(25 281)
Repurchase agreements and cash collateral on securities lent	(57 262)	(315 999)	142 759	(315 999)
Customer accounts	251 013	458 606	(206 929)	529 180
Debt securities in issue	132 166	174 436	201 914	298 458
Liabilities arising on securitisation of other assets	8 221	(209 909)	–	(197 208)
Other liabilities	(161 680)	(76 571)	(114 760)	(87 716)
	(152 054)	**329 042**	**(318 394)**	**679 715**

At 31 March £'000	Group 2017	Group 2016	Company 2017	Company 2016
45. Commitments				
Undrawn facilities	1 264 485	1 141 530	1 146 454	1 025 856
Other commitments	39 524	25 666	640	594
	1 304 009	**1 167 196**	**1 147 094**	**1 026 450**
The group has entered into forward foreign exchange contracts and loan commitments in the normal course of its banking business for which the fair value is recorded on balance sheet.				
Operating lease commitments				
Future minimum lease payments under non-cancellable operating leases:				
Less than one year	18 518	13 266	688	574
One to five years	83 053	80 628	26 778	26 778
Later than five years	96 300	103 133	58 546	59 234
	197 871	**196 027**	**86 012**	**86 586**
Operating lease receivables				
Future minimum lease payments under non-cancellable operating leases:				
Less than one year	4	4 216	–	–
One to five years	6 343	9 633	–	–
Later than five years	–	749	–	–
	6 347	**14 598**	**–**	**–**

Investec leases assets to third parties under operating and finance lease arrangements including transport assets, machinery and property. The term of the leases range between three and five years with no annual escalation clauses. The majority of the leases have renewal options.

At 31 March £'000	Carrying amount of pledged assets 2017	Carrying amount of pledged assets 2016	Related liability 2017	Related liability 2016
Group				
Pledged assets				
Loans and advances to customers	351 650	374 394	209 550	176 479
Other loans and advances	5 031	6 731	2 998	5 246
Loans and advances to banks	112 096	174 393	65 907	157 752
Sovereign debt securities	139 879	183 881	86 667	169 587
Bank debt securities	28 516	33 564	23 641	30 955
Securities arising from trading activities	427 665	452 520	430 020	447 717
	1 064 837	**1 225 483**	**818 783**	**987 736**
Company				
Pledged assets				
Loans and advances to customers	351 650	374 394	209 550	176 479
Other loans and advances	5 031	6 731	2 998	5 246
Loans and advances to banks	112 096	174 393	65 907	157 752
Sovereign debt securities	139 879	183 881	86 667	169 587
Bank debt securities	28 516	33 564	23 641	30 955
Other debt securities	228 313	228 250	196 165	177 065
Securities arising from trading activities	427 665	452 520	430 020	447 717
	1 293 150	**1 453 693**	**1 014 948**	**1 164 801**

The assets pledged by the group and company are strictly for the purpose of providing collateral for the counterparty. To the extent that the counterparty is permitted to sell and/or repledge the assets, they are classified on the balance sheet as reverse repurchase agreements and cash collateral on securities borrowed.

At 31 March £'000	Group 2017	Group 2016	Company 2017	Company 2016
46. Contingent liabilities				
Guarantees and assets pledged as collateral security:				
Guarantees and irrevocable letters of credit	282 275	133 870	271 699	126 771
	282 275	**133 870**	**271 699**	**126 771**

The amounts shown above are intended only to provide an indication of the volume of business outstanding at the balance sheet date.

Guarantees are issued by Investec Bank plc on behalf of third parties and other group companies. The guarantees are issued as part of the banking business.

Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS), the UK's statutory fund of last resort, provides compensation to customers of UK authorised financial institutions in the event that an institution which is a participating member of the FSCS is unable, or is likely to be unable, to pay claims against it.

The FSCS raises annual levies from participating members based on their level of participation (in the case of deposits, the proportion that their protected deposits represent total protected deposits) as at 31 December of the year preceding the scheme year.

Following the default of a number of deposit takers in 2008, the FSCS has borrowed from HM Treasury to fund the compensation costs for customers of those firms. Although the majority of this loan is expected to be repaid from funds, the FSCS receives from asset sales, surplus cash flow or other recoveries in relation to the assets of the firms that defaulted, any shortfall will be funded by deposit-taking participants of the FSCS.

Investec Bank plc is a participating member of the FSCS and the bank has accrued £1.65 million for its share of levies that will be raised by the FSCS. The accrual is based on estimates for the interest the FSCS will pay on the loan and estimates of the level of the bank's market participation in the relevant periods. Interest will continue to accrue to the FSCS on the HM Treasury loan and will form part of future FSCS levies.

At the date of these financial statements, it is not possible to estimate whether there will ultimately be additional levies on the industry, the level of Investec's market participation or other factors that may affect the amounts or timing of amounts that may ultimately become payable, nor the effect that such levies may have upon operating results in any particular financial period.

Legal proceedings

Investec operates in a legal and regulatory environment that exposes it to litigation risks. As a result, Investec is involved in disputes and legal proceedings which arise in the ordinary course of business. Investec does not expect the ultimate resolution of any of the proceedings to which Investec is party to have a significant adverse effect on the financial position of the group. These claims, if any, cannot be reasonably estimated at this time.

Specifically, a claim has been made in the Royal Court of Guernsey against ITG Limited, a subsidiary of Investec Bank plc, for breach of equitable duty for skill and care with a related claim for liability for the debts of a client trust. These claims are currently the subject of appeals before the Judicial Committee of the Privy Council. The outcome of these claims cannot reasonably be estimated at this time but Investec does not expect the ultimate resolution of the proceedings to have a material adverse effect on the financial position of the group.

For the year to 31 March £'000	2017	2016
47. Related party transactions		
Transactions, arrangements and agreements involving directors and others:		
Transactions, arrangements and agreements involving directors with directors and connected persons and companies controlled by them, and with officers of the company, were as follows:		
Group and Company		
Directors, key management and connected persons and companies controlled by them		
Loans		
At the beginning of the year	33 189	33 552
Increase in loans	10 312	4 269
Repayment of loans	(9 641)	(4 254)
Exchange adjustments	(3 054)	(378)
At the end of the year	**30 806**	**33 189**
Guarantees		
At the beginning of the year	5 630	3 613
Additional guarantees granted	213	3 748
Guarantees cancelled	(178)	(1 239)
Exchange adjustments	578	(492)
At the end of the year	**6 243**	**5 630**
Deposits		
At the beginning of the year	(26 516)	(34 663)
Increase in deposits	(22 844)	(15 355)
Decrease in deposits	18 340	22 561
Exchange adjustments	(4 353)	941
At the end of the year	**(35 373)**	**(26 516)**

The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment. None of these loans has been impaired.

For the year ended 31 March 2017 £'000	Investec plc and subsidiaries	Investec Limited and subsidiaries	Total
Group			
Transactions with other related parties			
Assets			
Loans and advances to banks	–	28 645	28 645
Bank debt securities	–	8 067	8 067
Other debt securities	9 871	–	9 871
Derivative financial instruments	6 195	5 216	11 411
Other loans and advances	143 034	–	143 034
Other assets	2 193	15 101	17 294
Liabilities			
Deposits from banks	–	67 605	67 605
Derivative financial instruments	968	35 278	36 246
Customer accounts (deposits)	267 596	8 772	276 368
Debt securities in issue	–	94 106	94 106
Other liabilities	–	8 276	8 276

For the year ended 31 March 2016 £'000	Investec plc and subsidiaries	Investec Limited and subsidiaries	Total

47. Related party transactions *(continued)*

For the year ended 31 March 2016 £'000	Investec plc and subsidiaries	Investec Limited and subsidiaries	Total
Group			
Assets			
Loans and advances to banks	–	9 243	9 243
Reverse repurchase agreement	–	110 071	110 071
Bank debt securities	–	7 032	7 032
Other debt securities	9 869	–	9 869
Derivative financial instruments	5 379	6 263	11 642
Other loans and advances	160 379	–	160 379
Other assets	–	21 393	21 393
Liabilities			
Deposits from banks	–	42 951	42 951
Derivative financial instruments	39	16 861	16 900
Customer accounts (deposits)	229 568	7 928	237 496
Debt securities in issue	–	126 721	126 721
Other liabilities	4 528	10 678	15 206

The above outstanding balances arose from the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties.

In the normal course of business, services are provided by Investec Bank plc to other companies in the group. In the year to 31 March 2017, Investec Bank plc paid £2.3 million (2016: £5.6 million) to Investec Limited Group and its fellow subsidiaries and received £10.0 million (2016: £13.5 million) from Investec plc and its fellow subsidiaries for these services.

During the year to 31 March 2017, Investec Wealth & Investment Limited was charged £75 000 for research services provided by Grovepoint (UK) Limited (2016: £21 000). Bradley Fried is a former non-executive director of Investec Wealth & Investment Limited, a former director of Investec Bank plc and Investec plc and is a director of Grovepoint (UK) Limited.

In the year to 31 March 2017 Investec Bank (Channel Islands) Ltd issued guarantees of £2.3 million (2016: £2.2 million) to Investec Bank Limited.

During the year to 31 March 2017, interest of £3.9 million (2016: £6.6 million) was paid to entities in the Investec Limited group and £2.2 million (2016: £6.5 million) was paid to Investec plc and fellow subsidiaries. Interest of £1.2 million (2016: £2.8 million) was received from the Investec Limited group and interest of £2.0 million (2016: £4.9 million) was received from Investec plc and fellow subsidiaries.

£'000	2017	2016
Amounts due from associates	4 634	8 401
Fees and commission income from associates	632	1 024
Interest income from loans to associates	–	262

The above outstanding balances arose from the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties.

Balances and transactions between members of the Investec Bank plc group

In accordance with IFRS 10 Consolidated Financial Statements, transactions and balances between the company and its subsidiary undertakings, and between those subsidiary undertakings, have all been eliminated on consolidation and thus are not reported as related party transactions of the group.

47. Related party transactions *(continued)*

The company, as a result of its position as parent of a banking group, has a large number of transactions with various of its subsidiary undertakings; these are included on the balance sheet of the company as follows:

For the year ended 31 March £'000	2017	2016
Company		
Assets		
Other debt securities	228 313	228 288
Derivative financial instruments	3 546	6 263
Other loans and advances	1 453 014	1 281 814
Other assets	6 993	5 332
Liabilities		
Deposits by banks	347 564	335 610
Repurchase agreements and cash collateral on securities lending	200 021	–
Derivative financial instruments	1 678	4 801
Customer accounts (deposits)	637 901	683 952
Other liabilities	29 499	53 694
Subordinated liabilities	–	17 851

Balances and transactions with Investec plc and Investec Limited and fellow subsidiaries of Investec Bank plc

The company and its subsidiaries have balances due to and from its parent company, Investec plc, and Investec Limited and fellow subsidiaries. These are included on the balance sheet as follows:

For the year ended 31 March 2017 £'000	Investec plc and subsidiaries	Investec Limited and subsidiaries	Total
Company			
Transactions with other related parties			
Assets			
Loans and advances to banks	–	27 675	27 675
Bank debt securities	–	8 067	8 067
Other debt securities	9 871	–	9 871
Derivative financial instruments	6 195	5 216	11 411
Other loans and advances	143 034	–	143 034
Other assets	3 646	15 101	18 747
Liabilities			
Deposits by banks	–	52 651	52 651
Derivative financial instruments	968	35 278	36 246
Customer accounts (deposits)	260 194	7 930	268 124
Debt securities in issue	–	17 481	17 481
Other liabilities	42 250	8 276	50 526

47. Related party transactions *(continued)*

For the year ended 31 March 2016 £'000	Investec plc and subsidiaries	Investec Limited and subsidiaries	Total
Company			
Transactions with other related parties			
Assets			
Loans and advances to banks	–	8 050	8 050
Reverse repurchase agreements and cash collateral on securities borrowed	–	110 071	110 071
Bank debt securities	–	7 032	7 032
Other debt securities	9 869	–	9 869
Derivative financial instruments	5 379	17 285	22 664
Other loans and advances	159 314	–	159 314
Other assets	499	21 577	22 076
Liabilities			
Deposits by banks	–	30 028	30 028
Derivative financial instruments	39	16 861	16 900
Customer accounts (deposits)	219 039	7 920	226 959
Debt securities in issue	–	13 670	13 670
Other liabilities	5 122	10 756	15 878

48. Hedges

The group uses derivatives for the management of financial risks relating to its asset and liability portfolios, mainly associated with non-trading interest rate risks and exposures to foreign currency risk. Most non-trading interest rate risk is transferred from the originating business to the Central Treasury in the Specialist Bank. Once aggregated and netted Central Treasury, as the sole interface to the wholesale market for cash and derivative transactions, actively manages the liquidity mismatch and non-trading interest rate risk from our asset and liability portfolios. In this regard, Treasury is required to exercise tight control of funding, liquidity, concentration and non-trading interest rate risk within defined parameters.

The accounting treatment of accounting hedges is dependent on the classification between fair value hedges and cash flow hedges and in particular, accounting hedges require the identification of a direct relationship between a hedged item and hedging instrument. This relationship is established in limited circumstances based on the manner in which the group manages its risk exposure. Below is a description of each category of accounting hedges achieved by the group.

Fair value hedges

Fair value hedges are entered into mainly to hedge the exposure of changes in fair value of fixed rate financial instruments attributable to interest rates.

At 31 March £'000	Description of financial instrument designated as hedging instrument	Fair value of hedging instrument	Cumulative gains or (losses) on hedging instrument	Current year gains or (losses) on hedging instrument	Cumulative gains or (losses) on hedged item	Current year gains or (losses) on hedged item
Group						
2017						
Assets	Interest rate swap	(44 917)	(44 917)	92 010	43 524	(79 889)
Liabilities	Interest rate swap	6 661	6 661	(4 427)	(6 578)	4 424
		(38 256)	**(38 256)**	**87 583**	**36 946**	**(75 465)**
2016						
Assets	Interest rate swap	(136 927)	(136 927)	(33 458)	123 413	32 182
Liabilities	Interest rate swap	11 088	11 088	2 812	(11 003)	(2 841)
		(125 839)	**(125 839)**	**(30 646)**	**112 410**	**29 341**

48. Hedges *(continued)*

At 31 March £'000	Description of financial instrument designated as hedging instrument	Fair value of hedging instrument	Cumulative gains or (losses) on hedging instrument	Current year gains or (losses) on hedging instrument	Cumulative gains or (losses) on hedged item	Current year gains or (losses) on hedged item
Company						
2017						
Assets	Interest rate swap	(44 873)	(44 873)	91 896	43 450	(79 809)
Liabilities	Interest rate swap	6 661	6 661	(4 427)	(6 578)	4 424
		(38 212)	**(38 212)**	**87 469**	**36 872**	**(75 385)**
2016						
Assets	Interest rate swap	(136 769)	(136 769)	(33 300)	123 260	32 036
Liabilities	Interest rate swap	11 088	11 088	2 812	(11 003)	(2 841)
		(125 681)	**(125 681)**	**(30 488)**	**112 257**	**29 195**

Hedges of net investments in foreign operates

During the current year Investec Bank plc has entered into foreign exchange contracts to hedge its balance sheet exposure to its net investment, in Australia Dollars, in the Australian operations of the group.

At 31 March	Hedging instrument Negative fair value
Group	
2017	**36**
2016	–

49. Liquidity analysis of financial liabilities based on undiscounted cash flows

At 31 March £'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
Group								
2017								
Liabilities								
Deposits by banks	183 167	–	3 780	531	1 069	408 974	87 784	685 305
Derivative financial instruments	76 350	21 294	51 392	21 077	35 991	243 033	146 639	595 776
Derivative financial instruments – held for trading	65 883	–	–	–	–	–	–	65 883
Derivative financial instruments - held for hedging risk	10 467	21 294	51 392	21 077	35 991	243 033	146 639	529 893
Other trading liabilities	136 041	–	–	–	–	–	–	136 041
Repurchase agreements and cash collateral on securities lent	223 997	–	–	–	–	–	–	223 997
Customer accounts (deposits)	3 287 568	1 526 270	2 371 572	929 161	694 734	2 489 498	111 570	11 410 373
Debt securities in issue	–	39 085	95 142	120 588	228 040	946 811	404 289	1 833 955
Liabilities arising on securitisation of other assets	–	–	7 644	3 521	5 851	66 081	86 891	169 988
Other liabilities	99 190	605 748	175 161	20 575	14 848	44 136	12 744	972 402
Subordinated liabilities	–	–	–	–	55 344	796 375	–	851 719
Total on balance sheet liabilities	**4 006 313**	**2 192 397**	**2 704 691**	**1 095 453**	**1 035 877**	**4 994 908**	**849 917**	**16 879 556**
Contingent liabilities	5 701	16	6 911	148 275	36 496	68 461	16 415	282 275
Commitments	145 782	106 193	19 393	52 214	116 924	621 645	241 858	1 304 009
Total liabilities	**4 157 796**	**2 298 606**	**2 730 995**	**1 295 942**	**1 189 297**	**5 685 014**	**1 108 190**	**18 465 840**

49. Liquidity analysis of financial liabilities based on undiscounted cash flows
(continued)

At 31 March £'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
Group								
2016								
Liabilities								
Deposits by banks	90 095	53 040	1 936	14 031	4 428	291 483	96 399	551 412
Derivative financial instruments	72 125	51 003	94 140	31 344	21 589	829 155	49 749	1 149 105
Derivative financial instruments – held for trading	63 967	–	–	–	–	–	–	63 967
Derivative financial instruments – held for hedging risk	8 158	51 003	94 140	31 344	21 589	829 155	49 749	1 085 138
Other trading liabilities	222 921	–	–	–	–	–	–	222 921
Repurchase agreements and cash collateral on securities lent	281 260	–	–	–	–	–	–	281 260
Customer accounts (deposits)	2 662 907	1 845 861	1 429 464	2 048 616	987 058	2 122 643	45 014	11 141 563
Debt securities in issue	–	8 687	67 982	122 984	264 111	942 618	258 045	1 664 427
Liabilities arising on securitisation of other assets	–	–	3 688	4 727	10 557	73 141	97 580	189 693
Other liabilities	157 105	686 013	86 918	17 490	11 390	94 582	7 649	1 061 147
Subordinated liabilities	–	–	–	561	73 767	221 375	630 344	926 047
Total on balance sheet liabilities	**3 486 413**	**2 644 604**	**1 684 128**	**2 239 753**	**1 372 900**	**4 574 997**	**1 184 780**	**17 187 571**
Contingent liabilities	35 044	19 498	1 449	–	29 440	43 246	5 193	133 870
Commitments	105 737	23 367	56 845	44 146	198 886	606 310	131 905	1 167 196
Total liabilities	**3 627 194**	**2 687 469**	**1 742 422**	**2 283 899**	**1 601 226**	**5 224 553**	**1 321 878**	**18 488 637**

The balances in the above table will not agree directly to the balances in the consolidated balance sheet as the table incorporates all cash flow on an undiscounted basis relating to both principal and those associated with all future coupon payments (except for trading liabilities and trading derivatives). Furthermore loan commitments are generally not recognised on the balance sheet. Trading liabilities and trading derivatives have been included in the 'Demand' time bucket and not by contractual maturity because trading liabilities are typically held for short periods of time. For an unaudited analysis based on discounted cash flows please refer to pages 81 and 83.

49. Liquidity analysis of financial liabilities based on undiscounted cash flows *(continued)*

At 31 March £'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
Company								
2017								
Liabilities								
Deposits by banks	241 227	–	98 132	176 472	1 069	394 044	1 448	912 392
Derivative financial instruments	72 614	21 294	51 392	21 077	35 991	243 033	146 639	592 040
Derivative financial instruments – held for trading	62 147	–	–	–	–	–	–	62 147
Derivative financial instruments – held for hedging risk	10 467	21 294	51 392	21 077	35 991	243 033	146 639	529 893
Other trading liabilities	136 041	–	–	–	–	–	-	136 041
Repurchase agreements and cash collateral on securities lent	224 018	200 001	–	–	–	–	–	424 019
Customer accounts (deposits)	2 207 604	1 435 261	1 730 612	790 199	668 749	2 628 446	361 490	9 822 361
Debt securities in issue	–	38 906	94 786	120 053	226 970	937 061	280 812	1 698 588
Other liabilities	140 329	405 970	122 926	1 125	5 387	14 690	9 740	700 167
Subordinated liabilities	–	–	–	–	55 344	796 375	–	851 719
Total on balance sheet liabilities	**3 021 833**	**2 101 432**	**2 097 848**	**1 108 926**	**993 510**	**5 013 649**	**800 129**	**15 137 327**
Contingent liabilities	5 701	–	197	148 518	34 836	66 032	16 415	271 699
Commitments	4 104	106 193	19 393	51 763	116 924	606 860	241 858	1 147 095
Total liabilities	**3 031 638**	**2 207 625**	**2 117 438**	**1 309 207**	**1 145 270**	**5 686 541**	**1 058 402**	**16 556 121**

The balances in the above table will not agree directly to the balances in the company balance sheet as the table incorporates all cash flow on an undiscounted basis relating to both principal and those associated with all future coupon payments (except for trading liabilities and trading derivatives). Furthermore loan commitments are generally not recognised on the balance sheet. Trading liabilities and trading derivatives have been included in the 'Demand' time bucket and not by contractual maturity because trading liabilities are typically held for short periods of time.

49. Liquidity analysis of financial liabilities based on undiscounted cash flows *(continued)*

At 31 March £'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
Company								
2016								
Liabilities								
Deposits by banks	83 787	91 272	8 888	177 589	130 977	291 483	8 430	792 426
Derivative financial instruments	73 026	51 003	94 140	31 344	21 589	829 155	49 749	1 150 006
Derivative financial instruments – held for trading	64 868	–	–	–	–	–	–	64 868
Derivative financial instruments – held for hedging risk	8 158	51 003	94 140	31 344	21 589	829 155	49 749	1 085 138
Other trading liabilities	222 921	–	–	–	–	–	–	222 921
Repurchase agreements and cash collateral on securities lent	281 260	–	–	–	–	–	–	281 260
Customer accounts (deposits)	1 994 975	1 683 991	831 041	1 998 063	952 529	2 350 442	113 934	9 924 975
Debt securities in issue	–	4 350	60 279	112 796	238 726	881 631	125 538	1 423 320
Other liabilities	183 911	404 362	44 948	1 906	461	65 462	804	701 854
Subordinated liabilities	–	–	–	561	73 549	221 375	630 344	925 829
Total on balance sheet liabilities	**2 839 880**	**2 234 978**	**1 039 296**	**2 322 259**	**1 417 831**	**4 639 548**	**928 799**	**15 422 590**
Contingent liabilities	35 044	19 498	–	–	25 965	41 072	5 193	126 771
Commitments	–	23 367	33 526	44 146	198 886	603 508	123 017	1 026 450
Total liabilities	**2 874 924**	2 277 843	**1 072 822**	**2 366 405**	**1 642 682**	**5 284 128**	**1 057 009**	**16 575 811**

50. Principal subsidiaries and associated companies – Investec Bank plc

At 31 March	Principal activity	Country of incorporation	Interest 2017	Interest 2016
Direct subsidiaries of Investec Bank plc				
Investec Investments (UK) Limited	Investment holding	England and Wales	100.0%	100.0%
Investec Asset Finance PLC	Leasing	England and Wales	100.0%	100.0%
Investec Bank (Channel Islands) Limited	Banking institution	Guernsey	100.0%	100.0%
Investec Bank (Switzerland) AG	Banking institution	Switzerland	100.0%	100.0%
Investec Capital Asia Limited	Investment banking	Hong Kong	100.0%	100.0%
Investec Finance Limited (previously Investec Finance plc)	Debt issuer	England and Wales	100.0%	100.0%
Investec Group Investments (UK) Limited	Investment holding	England and Wales	100.0%	100.0%
Investec Holdings (Australia) Limited	Holding company	Australia	100.0%	100.0%
Rensburg Sheppards plc	Holding company	England and Wales	100.0%	100.0%
Investec Securities (US) LLC	Financial services	USA	100.0%	0.0%
Indirect subsidiary undertakings of Investec Bank plc				
Investec Capital and Investments (Ireland) Limited	Financial services	Ireland	100.0%	100.0%
Investec Ireland Limited	Financial services	Ireland	100.0%	100.0%
Investec Wealth & Investments Limited	Investment management services	England and Wales	100.0%	100.0%
Williams de Broë Limited	Stockbroking and portfolio	England and Wales	100.0%	100.0%

All of the above subsidiary undertakings are included in the consolidated accounts.

The subsidiaries listed above are only in relation to subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the financial statements.

A complete list of subsidiary and associated undertakings as required by the Companies Act 2006 is included in note 55 on pages 234 to 237.

Consolidated structured entities

Investec Bank plc has no equity interest in the following structured entities which are consolidated. Typically a structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. The judgements to assess whether the group has control over these structures include assessing the purpose and design of the entity, considering whether the group or another involved party with power over the relevant activities is acting as a principal in its own right or as an agent on behalf of others.

Name of principal structured entity	Type of structured entity
Bedrock CMBS GMBH	Structured commercial real estate loan assets
Foundation CMBS Limited	Structured commercial real estate loan assets
Landmark Mortgage Securities No 2 plc	Securitised residential mortgages
Residential Mortgage Securities 23 plc	Securitised residential mortgages
Tamarin Securities Limited	Structured debt and loan portfolios
Temese Funding 1 Plc	Securitised receivables
Temese Funding 2 Plc	Securitised receivables
Yorker Trust	Structured debt and loan portfolios

For additional detail on the assets and liabilities arising on securitisation refer to note 27. Details of the risks to which the group is exposed through all of its securitisations are included in the risk management report on page 71.

50. Principal subsidiaries and associated companies – Investec Bank plc *(continued)*

The key assumptions for the main types of structured entities which the group consolidates are summarised below:

Securitised residential mortgages

The group has securitised residential mortgages in order to provide investors with exposure to residential mortgage risk and to raise funding. These structured entities are consolidated due to the group's holdings of equity notes combined with its control over servicing activities. The group is not required to fund any losses above those incurred on the notes it has retained; such losses are reflected in any impairment of securitised mortgages as those assets have not been derecognised.

Structured debt and loan portfolios

The group has structured debt and loan portfolios for the purpose of issuing asset-backed securities. These structured entities are consolidated due to the group's retention of equity notes and because it continues to act as the collateral manager. The group is not required to fund any losses above those incurred on the notes it has retained.

Structured commercial real estate loan assets

The group has securitised a number of commercial real estate loan assets. These structured entities are consolidated as the group has retained all of the notes issued. The group continues to recognise the commercial real estate loan assets on its balance sheet. The group is not required to fund any losses above those incurred on the notes it has retained.

Securitised receivables

The group has securitised a portfolio of medium-term lease and hire purchase receivables. These structured entities are consolidated as the group has retained the equity notes and control over servicing activities. The group is not required to fund any losses above those incurred on the notes it has retained.

Other structured entities – commercial operations

The group also consolidates a number of structured entities where control arises from rights attached to lending facilities and similar commercial involvement. These arise primarily in the areas of aircraft funds where the group has rights which allow it to maximise the value of the assets held and investments in mining projects due to its exposure to equity-like returns and ability to influence the strategic and financial decision-making.

The group is not required to fund any losses above those which could be incurred on debt positions held or swaps which exist with these structured entities. The risks to which the group is exposed from these structured entities are related to the underlying assets held in the structures. The total assets held in structured entities arising from commercial operations is £130.0 million (2016: £231.1 million).

Significant restrictions

As is typical for a large group of companies, there are restrictions on the ability of the group to obtain distributions of capital, access the assets or repay the liabilities of members of the group due to the statutory, regulatory and contractual requirements of its subsidiaries.

These are considered below:

Regulatory requirements

Subsidiary companies are subject to prudential regulation and regulatory capital requirements in the countries in which they are regulated. These require entities to maintain minimum capital, leverage and exposure ratios restricting the ability of these entities to make distributions of cash or other assets to the parent company. Regulated subsidiaries of the group are required to maintain liquidity pools to meet PRA and local regulatory requirements. The main subsidiaries affected are: Investec Bank (Channel Islands) Limited and Investec Bank (Switzerland) AG which must maintain compliance with the regulatory minimum.

Capital management within the group is discussed in the risk management report on page 91.

Statutory requirements

The group's subsidiaries are subject to statutory requirements not to make distributions of capital and unrealised profits and generally maintain solvency. These requirements restrict the ability of subsidiaries to remit dividends, except in the case of a legal capital reduction or liquidation.

Contractual requirements

Asset encumbrance – the group uses its financial assets to raise finance in the form of securitisations and through the liquidity schemes of central banks. Once encumbered, the assets are not available for transfer around the group. The assets typically affected are disclosed in notes 45 and 53.

50. Principal subsidiaries and associated companies – Investec Bank plc *(continued)*

Structured associates

The group has investments in a number of structured funds specialising in aircraft financing where the group acts as adviser or fund manager in addition to holding units within the fund. As a consequence of these roles and funding, the group has significant influence over the fund and therefore the funds are treated as associates.

The group applies the venture capital exemption to these holdings and, as such, the investments in the funds are accounted for at fair value and held within the investment portfolio on the balance sheet.

Type of structured entity	Nature and purpose	Interest held by the group/income earned
Aircraft investment funds	To generate fees from managing assets on behalf of third party investors	Investments in units issued by the fund
	These vehicles are financed through the issue of units to investors	Management fees

The table below sets out an analysis of the carrying amounts of interests held by the group in structured associate entities.

31 March 2017 £'000	Line on the balance sheet	Carrying value £'000	Maximum exposure to loss	Income earned from structured entity	£'000
Aircraft investment funds	Investment portfolio	19 963	Limited to the carrying value	Investment income	3 302

31 March 2016 £'000	Line on the balance sheet	Carrying value £'000	Maximum exposure to loss	Income earned from structured entity	£'000
Aircraft investment funds	Investment portfolio	68 904	Limited to the carrying value	Investment income	4 308

51. Unconsolidated structured entities

At 31 March 2017

The table below describes the types of structured entities that the group does not consolidate, but in which it holds an interest and original set up. In making the assessment of whether to consolidate these structured entities, the group has concluded that it does not have control after consideration in line with the accounting policies as set out on page 140.

Type of structured entity	Nature and purpose	Interest held by the group/ income earned
Investment funds	To generate fees from managing assets on behalf of third party investors	Investments in units issued by the fund
	These vehicles are financed through the issue of units to investors	Management fees
Residential mortgage securitisations	To generate a return for investors by providing exposure to residential mortgage risk	Investments in notes
	These vehicles are financed through the issue of notes to investors	

51. Unconsolidated structured entities *(continued)*

The table below sets out an analysis of the carrying amounts of interests held by the group in unconsolidated structured entities. The maximum exposure to loss is the carrying amount of the assets held.

At 31 March 2017	Line on the balance sheet	Carrying value £'000	Maximum exposure to loss of the group	Total assets of the entity £'000	Income earned from structured entity	£'000
Investment funds	Investment portfolio	4 916	Limited to the carrying value	166 896	Investment expense	329
Residential mortgage securitisations	Other debt securities	15 349	Limited to the carrying value	214 072	Investment income	530
					Net interest income	12
	Other loans and advances	31 641	Limited to the carrying value	271 591	Investment income	–
					Net interest income	112
At 31 March 2016						
Investment funds	Investment portfolio	5 245	Limited to the carrying value	185 724	Investment expense	1
Residential mortgage securitisations	Other debt securities	9 734	Limited to the carrying value	105 258	Investment income	113
					Net interest income	94
	Other loans and advances	15 490	Limited to the carrying value	343 604	Investment income	20
					Net interest income	(75)

Financial support provided to the unconsolidated structured entities

There are no contractual agreements which require the group to provide any additional financial or non-financial support to these structured entities.

During the year the group has not provided any such support and does not have any current intentions to do so in the future.

Sponsoring

The group considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity. The table below sets out information in respect of structured entities that the group sponsors, but in which the group does not have an interest.

	Structured CDO and CLO securitisation^	
	2017	**2016**
Structured entities with no interest held		
Why it is considered a structured entity	This is a CDO and CLO securitisation where Investec has no continuing interest as the notes previously held have been redeemed or fully written off. The entity is considered structured as the vehicle was set up so that the variable return does not follow the shareholding.	This is a CDO and CLO securitisation where Investec has no continuing interest as the notes previously held have been redeemed or fully written off. The entity is considered structured as the vehicle was set up so that the variable return does not follow the shareholding.
Income amount and type	Nil	Nil
Carrying amount of all assets transferred	£222 million of CDO and CLO assets	£222 million of CDO and CLO assets

^ *Collateralised Debt Obligation (CDO) and Collateralised Loan Obligation (CLO).*

Interests in structured entities which the group has not set up

Purchased securitisation positions

The group buys and sells interest in structured entities that it has not originated as part of its trading activities, for example, residential mortgage securities, commercial mortgage securities, loans to corporates and resecuritisations. In such cases the group typically has no other involvement with the structured entity other than the securities it holds as part of its trading activities and its maximum exposure to loss is restricted to the carrying value of the asset. Details of the value of these interests is included in the risk management report on page 72.

52. Offsetting

At 31 March £'000	Amounts subject to enforceable netting arrangements: Effects of offsetting on balance sheet: Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Related amounts not offset: Financial instruments (including non-cash collateral)	Cash collateral	Net amount
Group						
2017						
Assets						
Cash and balances at central banks	2 853 567	–	2 853 567	–	–	2 853 567
Loans and advances to banks	922 764	–	922 764	–	(195 242)	727 522
Reverse repurchase agreements and cash collateral on securities borrowed	536 173	–	536 173	(131 867)	–	404 306
Sovereign debt securities	952 902	–	952 902	(14 198)	–	938 704
Bank debt securities	184 626	–	184 626	(28 516)	–	156 110
Other debt securities	408 149	–	408 149	–	–	408 149
Derivative financial instruments	610 371	–	610 371	(167 564)	(188 518)	254 289
Securities arising from trading activities	522 760	–	522 760	(367 890)	–	154 870
Investment portfolio	454 566	–	454 566	–	–	454 566
Loans and advances to customers	8 598 639	–	8 598 639	–	–	8 598 639
Other loans and advances	556 464	–	556 464	–	–	556 464
Other securitised assets	138 628	–	138 628	–	–	138 628
Other assets	1 090 157	(767)	1 089 390	–	–	1 089 390
	17 829 766	**(767)**	**17 828 999**	**(710 035)**	**(383 760)**	**16 735 204**
Liabilities						
Deposits by banks	673 586	–	673 586	–	(211 802)	461 784
Derivative financial instruments	583 562	–	583 562	(167 564)	(66 239)	349 759
Other trading liabilities	136 041	–	136 041	(131 867)	–	4 174
Repurchase agreements and cash collateral on securities lent	224 507	(510)	223 997	(147 368)	(21 404)	55 225
Customer accounts (deposits)	11 289 177	–	11 289 177	–	(21 145)	11 268 032
Debt securities in issue	1 640 839	–	1 640 839	(263 236)	(40 264)	1 337 339
Liabilities arising on securitisation of other assets	128 838	–	128 838	–	–	128 838
Other liabilities	973 044	(257)	972 787	–	–	972 787
Subordinated liabilities	579 356	–	579 356	–	–	579 356
	16 228 950	**(767)**	**16 228 183**	**(710 035)**	**(360 854)**	**15 157 294**

At 31 March £'000	Amounts subject to enforceable netting arrangements					
	Effects of offsetting on balance sheet			Related amounts not offset		
	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Cash collateral	Net amount
52. Offsetting *(continued)*						
Group						
2016						
Assets						
Cash and balances at central banks	2 638 064	–	2 638 064	–	–	2 638 064
Loans and advances to banks	935 071	–	935 071	–	(159 775)	775 296
Reverse repurchase agreements and cash collateral on securities borrowed	557 110	(85)	557 025	(221 151)	(849)	335 025
Sovereign debt securities	1 252 991	–	1 252 991	(183 881)	–	1 069 110
Bank debt securities	188 397	–	188 397	(33 564)	–	154 833
Other debt securities	403 521	–	403 521	–	–	403 521
Derivative financial instruments	842 936	–	842 936	(247 749)	(267 660)	327 527
Securities arising from trading activities	524 344	–	524 344	(449 383)	–	74 961
Investment portfolio	419 861	–	419 861	–	–	419 861
Loans and advances to customers	7 822 386	(41 000)	7 781 386	–	–	7 781 386
Other loans and advances	577 584	–	577 584	–	(7 933)	569 651
Other securitised assets	150 565	–	150 565	–	–	150 565
Other assets	1 453 166	(116)	1 453 050	–	(183 115)	1 269 935
	17 765 996	**(41 201)**	**17 724 795**	**(1 135 728)**	**(619 332)**	**15 969 735**
Liabilities						
Deposits by banks	526 717	–	526 717	–	(69 276)	457 441
Derivative financial instruments	964 386	–	964 386	(247 749)	(518 932)	197 705
Other trading liabilities	226 598	–	226 598	(221 151)	–	5 447
Repurchase agreements and cash collateral on securities lent	281 260	–	281 260	(280 806)	(454)	–
Customer accounts (deposits)	11 079 164	(41 000)	11 038 164	–	(16 118)	11 022 046
Debt securities in issue	1 508 672	–	1 508 672	(386 022)	(1 057)	1 121 593
Liabilities arising on securitisation of other assets	120 617	–	120 617		–	120 617
Other liabilities	1 060 983	(201)	1 060 782	–	–	1 060 782
Subordinated liabilities	597 309	–	597 309	–	–	597 309
	16 365 706	**(41 201)**	**16 324 505**	**(1 135 728)**	**(605 837)**	**14 582 940**

At 31 March £'000	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Cash collateral	Net amount
	Amounts subject to enforceable netting arrangements					
	Effects of offsetting on balance sheet			Related amounts not offset		

52. Offsetting *(continued)*

At 31 March £'000	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Cash collateral	Net amount
Company						
2017						
Assets						
Cash and balances at central banks	2 820 618	–	2 820 618	–	–	2 820 618
Loans and advances to banks	374 414	–	374 414	–	(127 908)	246 506
Reverse repurchase agreements and cash collateral on securities borrowed	536 173	–	536 173	(131 867)	–	404 306
Sovereign debt securities	159 381	–	159 381	(14 198)	–	145 183
Bank debt securities	184 626	–	184 626	(28 516)	–	156 110
Other debt securities	638 110	–	638 110	–	–	638 110
Derivative financial instruments	598 534	–	598 534	(167 536)	(185 224)	245 774
Securities arising from trading activities	516 581	–	516 581	(367 890)	–	148 691
Investment portfolio	174 139	–	174 139	–	–	174 139
Loans and advances to customers	6 611 759	–	6 611 759	–	–	6 611 759
Other loans and advances	1 941 993	–	1 941 993	–	–	1 941 993
Other securitised assets	7 258	–	7 258	–	–	7 258
Other assets	767 590	(767)	766 823	–	–	766 823
	15 331 176	**(767)**	**15 330 409**	**(710 007)**	**(313 132)**	**14 307 270**
Liabilities						
Deposits by banks	900 691	–	900 691	–	(141 325)	759 366
Derivative financial instruments	581 505	–	581 505	(167 536)	(66 240)	347 729
Other trading liabilities	136 041	–	136 041	(131 867)	–	4 174
Repurchase agreements and cash collateral on securities lent	424 529	(510)	424 019	(147 368)	(21 404)	255 247
Customer accounts (deposits)	9 601 085	–	9 601 085	–	(20 993)	9 580 092
Debt securities in issue	1 563 019	–	1 563 019	(263 236)	(40 264)	1 259 519
Other liabilities	700 925	(257)	700 668	–	–	700 668
Subordinated liabilities	580 427	–	580 427	–	–	580 427
	14 488 222	**(767)**	**14 487 455**	**(710 007)**	**(290 226)**	**13 487 222**

At 31 March £'000	Amounts subject to enforceable netting arrangements					
	Effects of offsetting on balance sheet			Related amounts not offset		
	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Cash collateral	Net amount
52. Offsetting *(continued)*						
Company						
2016						
Assets						
Cash and balances at central banks	2 612 460	–	2 612 460	–	–	2 612 460
Loans and advances to banks	315 115	–	315 115	–	(159 775)	155 340
Reverse repurchase agreements and cash collateral on securities borrowed	557 110	(85)	557 025	(221 151)	(849)	335 025
Sovereign debt securities	643 352	–	643 352	(183 881)	–	459 471
Bank debt securities	188 397	–	188 397	(33 564)	–	154 833
Other debt securities	566 066	–	566 066	–	–	566 066
Derivative financial instruments	853 131	–	853 131	(247 749)	(267 660)	337 722
Securities arising from trading activities	524 344	–	524 344	(449 383)	–	74 961
Investment portfolio	210 499	–	210 499	–	–	210 499
Loans and advances to customers	6 094 931	(41 000)	6 053 931	–	–	6 053 931
Other loans and advances	1 774 186	–	1 774 186	–	(7 933)	1 766 253
Other securitised assets	8 680	–	8 680	–	–	8 680
Other assets	1 087 404	(116)	1 087 288	–	(183 115)	904 173
	15 435 675	**(41 201)**	**15 394 474**	**(1 135 728)**	**(619 332)**	**13 639 414**
Liabilities						
Deposits by banks	767 730	–	767 730	–	(69 276)	678 454
Derivative financial instruments	965 287		965 287	(247 749)	(518 932)	198 606
Other trading liabilities	226 598	–	226 598	(221 151)	–	5 447
Repurchase agreements and cash collateral on securities lent	281 260		281 260	(280 806)	(454)	–
Customer accounts (deposits)	9 849 013	(41 000)	9 808 013	–	(16 118)	9 791 895
Debt securities in issue	1 361 105	–	1 361 105	(386 022)	(1 057)	974 026
Other liabilities	702 053	(201)	701 852	–	–	701 852
Subordinated liabilities	598 390	–	598 390	–	–	598 390
	14 731 436	**(41 201)**	**14 710 235**	**(1 135 728)**	**(605 837)**	**12 968 670**

53. Derecognition

Group

Transfer of financial assets that do not result in derecognition

The group has been party to securitisation transactions whereby assets continue to be recognised on balance sheet (either fully or partially) although they have been subject to legal transfer to another entity. Securitisations may, depending on the individual arrangement, result in continued recognition of the securitised assets and the recognition of the debt securities issued in the transaction.

	2017		2016	
No derecognition achieved £'000	**Carrying amount of assets that are continued to be recognised**	**Carrying amount of associated liabilities**	**Carrying amount of assets that are continued to be recognised**	**Carrying amount of associated liabilities**
Loans and advances to customers	295 182	–	657 947	(42 478)
Other loans and advances	141 136	–	153 551	–
	436 318	**–**	**811 498**	**(42 748)**

For transfer of assets in relation to repurchase agreements see note 19.

Company

Transfer of financial assets that do not result in derecognition

The company has been party to securitisation transactions whereby assets continue to be recognised on balance sheet (either fully or partially) although they have been subject to legal transfer to another entity. Securitisations may, depending on the individual arrangement, result in continued recognition of the securitised assets and the recognition of the debt securities issued in the transaction.

	2017		2016	
No derecognition achieved £'000	**Carrying amount of assets that are continued to be recognised**	**Carrying amount of associated liabilities**	**Carrying amount of assets that are continued to be recognised**	**Carrying amount of associated liabilities**
Other loans and advances	141 136	–	153 551	–
	141 136	**–**	**153 551**	**–**

For transfer of assets in relation to repurchase agreements see note 19.

At 31 March £'000	2017	2016
54. Investment in subsidiary companies		
Cost		
At the beginning of the year	1 050 700	1 051 708
Acquisitions of subsidiaries	19 599	–
Return of capital by subsidiary	(65 194)	–
Liquidation of subsidiaries	–	(1 040)
Recapitalisation of subsidiaries	2 562	–
Exchange adjustments	74	32
At the end of the year	**1 007 740**	**1 050 700**
Provision for impairment in value		
At the beginning of the year	(107 148)	(171 907)
New impairments	–	–
Liquidation of subsidiaries	–	759
Release of impairment	2 240	64 000
At the end of the year	**(104 908)**	**(107 148)**
Net book value at the end of the year	**902 833**	**943 552**

All subsidiary undertakings are unlisted.

The £2.2 million (2016: £64 million) release of impairment relates to the revaluation of an underlying investment held by a subsidiary of the company. The revaluation was due to the receipt of consideration by the subsidiary. The recoverable amount of the investment in the subsidiary is calculated as fair value less costs to sell, for which the net asset value of the subsidiary is an appropriate proxy. This would be level 3 in the fair value hierarchy.

At 31 March 2017	Principal activity	Interest held

55. Subsidiaries

**Directly owned by Investec Bank plc*		
United Kingdom		
Registered office: 2 Gresham Street, London, EC2V 7QP, UK		
Rensburg Sheppards Plc*	Holding company	100%
Investec Wealth & Investment Limited	Investment management services	100%
Anston Trustees Limited	Non trading	100%
Bell Nominees Limited	Non trading	100%
Carr Investment Services Nominees Limited	Non trading	100%
Carr PEP Nominees Limited	Non trading	100%
Click Nominees Limited	Non trading	100%
Ferlim Nominees Limited	Nominee services	100%
Investec Click & Invest Limited	Non trading	100%
Investec Wealth & Investment Trustees Limited	Trustee services	100%
Investment Administration Nominees Limited	Non trading	100%
IWI Fund Management Limited	Non trading	100%
PEP Services (Nominees) Limited	Non trading	100%
R & R Nominees Limited	Non trading	100%
R S Trustees Limited	Non trading	100%
Rensburg Client Nominees Limited	Nominee services	100%
Scarwood Nominees Limited	Non trading	100%
Spring Nominees Limited	Non trading	100%
Tudor Nominees Limited	Non trading	100%
Williams De Broe Limited	Non trading	100%
Rensburg Investment Management Limited	Non trading	100%
PIF Investments Ltd (G. P. International Ltd*)	Dormant	100%
Beeson Gregory Index Nominees Limited*	Dormant nominee company	100%
CF Corporate Finance Limited*	Leasing company	100%
EVO Nominees Limited*	Dormant nominee company	100%
Evolution Securities Nominees Limited*	Dormant nominee company	100%
Investec Asset Finance (Capital No. 3) Limited*	Leasing company	100%
Investec Asset Finance (Management) Limited*	Leasing company	100%
Mann Island Finance Limited	Leasing company	100%
MI Vehicle Finance Limited	Leasing company	100%
The Leasing Acquisition General Partnership*	Leasing partnership	
Investec Bank (Nominees) Limited*	Nominee company	100%
Investec Finance Ltd (previously Investec Finance plc)*	Debt issuance	100%
Investec Group Investments (UK) Limited*	Investment holding company	100%
ICF Investments Limited	Investment holding company	100%
GFT Holdings Limited	Holding company	100%
Investec Investment Trust plc*	Debt issuer	100%
Investec Investments (UK) Limited*	Investment holding company	100%
Panarama Properties (UK) Limited	Property holding company	100%
Inv-German Retail Ltd (previously Canada Water (Developments) Limited)	Property company	100%
Investec Securities Limited	Investment holding company	100%
PEA Leasing Limited*	Leasing company	100%
Quantum Funding Limited*	Leasing company	100%
Quay Nominees Limited*	Nominee company	100%
Technology Nominees Limited*	Nominee	100%
Torteval LM Limited*	Investment holding company	100%
Torteval Funding LLP*	Financing company	100%
Tudor Tree Properties Limited*	Property company	100%
Willbro Nominees Limited*	Nominee company	100%
Evolution Capital Investment Limited	Investment holding company	100%
Registered office: Reading International Business Park, Reading, RG2 6AA, UK		
Investec Asset Finance plc*	Leasing company	100%

55. Subsidiaries *(continued)*

At 31 March 2017	Principal activity	Interest held
Australia		
Registered office: Level 23, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000, Australia		
Investec Australia Property Holdings Pty Ltd *	Holding company	100%
Investec Propco Pty Ltd	Property fund trustee	100%
Investec Property Ltd	Property fund trustee	100%
Investec Property Management Pty Ltd	Property fund manager	100%
Investec Wentworth Pty Limited	Security trustee	100%
Investec Holdings Australia Limited *	Holding company	100%
Investec Australia Property Investments Pty Ltd	Investment company	100%
Investec Australia Finance Pty Limited	Lending company	100%
Investec Australia Limited	Financial Services	100%
Bowden (Lot 32) Holdings Pty Ltd	Holding company	100%
Bowden (Lot 32) Pty Ltd	Development company	100%
Investec Australia Direct Investment Pty Limited	Investment company	100%
Investec CWFIH Pty Limited	Dormant	100%
Mannum Powerco Pty Limited	Dormant	100%
Tungkillo Powerco Pty Limited	Dormant	100%
Investec Australia Financial Markets Pty Limited	Dormant	100%
Investec Australia Funds Management Limited	Aviation trustee company	100%
Investec (Australia) Investment Management Pty Limited	Aviation fund company	100%
Investec Wentworth Private Equity Pty Limited	Inactive private equity	100%
IWPE Nominees Pty Limited	Custodian	100%
Wentworth Associates Pty Limited	Dormant	100%
British Virgin Islands		
Registered office: Palm Grove House, PO Box 438, Road Town, Tortola, British Virgin Islands		
Finistere Directors Limited	Corporate Director	100%
GFT Directors Limited	Corporate Director	100%
Registered office: PO Box 186 Road Town, Tortola, British Virgin Islands		
Curlew Investments Limited	Investment holding company	100%
Canada		
Registered office: One Brunswick Square, Suite 1500, PO Box 1324, Saint John, New Brunswick, Canada E2L 4H8		
Curlew Group Holdings Limited	Investment holding company	42.50%
Registered office: 44 Chipman Hill Suite 1000, Saint John NB, E2L 4S6, Canada		
Investec North America Limited *	Trading company	100%
Cayman Islands		
Registered office: 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005		
Investec Pallinghurst (Cayman) LP	Investment holding partnership	58.30%
Guernsey		
Registered office: Glategny Court, Glategny Esplanade, St. Peter Port, GY1 1WR, Guernsey, Channel Islands		
Hero Nominees Limited	Nominee services	100%
Torch Nominees Limited	Nominee services	100%
Investec Bank (Channel Islands) Limited *	Banking institution	100%
Bayeux Limited	Corporate Trustee	100%
Finistere Limited	Corporate Nominee	100%
Finistere Secretaries Limited	Corporate Secretary	100%
ITG Limited	Trust & company admin	100%
Investec Bank (Channel Islands) Nominees Limited	Nominee company	100%

At 31 March 2017	Principal activity	Interest held
55. Subsidiaries *(continued)*		
Registered office: PO Box 290, Glategny Court, Glategny Esplanade, St Peter Port, Guernsey, GY1 3RP, Channel Islands		
Investec Wealth & Investment (Channel Islands) Limited	Investment management services	100%
Registered office: P.O. Box 188, Glategny Court, Glategny Esplanade, St Peter Port, Guernsey, GY1 3LP, Channel Islands		
Investec Asset Finance (Channel Islands) Limited	Leasing company	100%
Registered office: Western Suite, Ground Floor, Mill Court, La Charroterie, St Peter Port, Guernsey, GY1 1EJ, Channel Islands		
HEV (Guernsey) Limited	Investment holding company	100%
Hong Kong		
Registered office: Room 3609-3613, 36/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong		
Investec Asia Limited *	Investment banking	100%
Investec Capital Asia Limited *	Investment banking	100%
Investec Capital Markets Limited *	Investment banking	100%
India		
Registered office: A 607, The Capital, Bandra Kurla Complex, Mumbai – 400 051, India		
Investec Capital Services (India) Private Limited	Trading company	75%
Ireland		
Registered office: The Harcourt Building, Harcourt Street, Dublin 2, Ireland		
Aksala Limited *	Property company	100%
Investec Holdings (Ireland) Ltd *	Holding company	100%
Investec Ireland Ltd	Financial services	100%
Investec International Ltd	Aircraft leasing	100%
Neontar Limited	Holding company	100%
Investec Securities Holdings Ireland Ltd	Holding company	100%
Investec Capital & Investments (Ireland) Ltd	Wealth Management & Investment Services	100%
Aurum Nominees Ltd	Nominee company	100%
Investec (Airtricity) Nominees Ireland Ltd	Nominee company	100%
Investec (CapVest) Ireland Ltd	Nominee company	100%
Investec (Development) Nominees Ireland Ltd	Nominee company	100%
Investec (Placings) Ireland Ltd	Nominee company	100%
Investec (Thomas Street) Nominees No 2 Ltd	Nominee company	100%
Investec Broking Nominees Ireland Ltd	Nominee company	100%
Investec Corporate Finance (Ireland) Limited	Corporate Finance (inactive)	100%
Investec Ventures Ireland Limited	Venture capital	100%
Venture Fund Principals Limited	Special Partner	100%
Investec Personal Portfolio Ireland Limited	Investment services	100%
Jersey		
Registered office: PO Box 344 One The Esplanade St Helier Jersey JE4 8UW, Channel Islands		
Investec GP (Jersey) Limited	Investment holding company	100%
Singapore		
Registered office: 8 Wilkie Road, #03-01 Wilkie Edge, Singapore 228095		
Investec Singapore Pte Ltd	Securities services	100%
Switzerland		
Registered offices: Löwenstrasse 29, CH-8001 Zurich, Switzerland		
Investec Bank (Switzerland) AG *	Banking institution	100%

55. Subsidiaries (continued)

At 31 March 2017	Principal activity	Interest held
Registered office: c/o Dr. Leo Granziol, Bahnhofstrasse 32, 6300 Zug, Switzerland		
Investec Trust Holdings AG	Investment holding company	100%
United States of America		
Registered office: 10 E. 53rd St., 22nd floor, New York, NY 10022, USA		
Investec USA Holdings Corporation Inc *	Holding company	100%
Investec Inc	Investment holding	100%
Fuel Cell IP 1 LLC	Investment holding	100%
Fuel Cell IP 2 LLC	Investment holding	100%
Investec Securities (US) LLC	Financial Services	100%

Associates

At 31 March 2017	Principal activity	Interest held
United Kingdom		
Registered office: Talisman House, Boardmans Way, Blackpool, England, FY4 5FY		
Hargreave Hale Limited	Stockbroking and portfolio management	35%
Registered office: Dee House Lakeside Business Village, St. Davids Park, Ewloe, Deeside, Clwyd, CH5 3XF		
Virtual Lease Services	Lease services provider	49%
Australia		
Registered office: Point Cook Road, Point Cook, Victoria, Australia		
Point Cook (Trust Project No 9)	Property development	50%
British Virgin Islands		
Registered office: Vistra Corporate Service Centre, Wickhams Cay II, Road Town, Tortola VG1110, British Virgin Islands		
imarkets (Holdings) Limited	Online trading platform	33%
Luxembourg		
Registered office: 15, Rue Bender, L1229 Luxembourg		
Investec GLL Global Special Opportunities Real Estate Fund	Property development	5%

56. Investec Bank plc company risk disclosures

Investec Bank plc company follows the group risk policies and appetite disclosure on pages 40 to 50. The market risk in the trading book is the same at the group and company level, the disclosure is made on pages 73 to 75. The following tables present the risk disclosures for the company which are required under IFRS 7:

£'000	31 March 2017	31 March 2016	% change	Average*
Cash and balances at central banks	2 818 116	2 611 333	7.9%	2 714 724
Loans and advances to banks	374 414	315 115	18.8%	344 764
Reverse repurchase agreements and cash collateral on securities borrowed	536 173	557 025	(3.7%)	546 599
Sovereign debt securities	159 381	643 352	(75.2%)	401 366
Bank debt securities	184 626	188 397	(2.0%)	186 512
Other debt securities	399 926	327 909	22.0%	363 918
Derivative financial instruments	545 635	570 657	(4.4%)	558 146
Securities arising from trading activities	331 705	393 964	(15.8%)	362 834
Loans and advances to customers (gross)	6 728 308	6 187 945	8.7%	6 458 127
Other loans and advances (gross)	347 008	334 416	3.8%	340 712
Other securitised assets (gross)	7 258	8 680	(16.4%)	7 969
Other assets	49 894	397 409	(87.4%)	223 652
Total on-balance sheet exposures	**12 482 444**	**12 536 202**	**(0.4%)**	**12 509 323**
Guarantees^	25 501	67 488	(62.2%)	46 495
Contingent liabilities, committed facilities and other	1 392 653	1 085 733	28.3%	1 239 193
Total off-balance sheet exposures	**1 418 154**	**1 153 221**	**23.0%**	**1 285 688**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**13 900 598**	**13 689 423**	**1.5%**	**13 795 011**

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

56. Investec Bank plc company risk disclosures *(continued)*

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

£'000	31 March 2017	31 March 2016
Gross core loans and advances to customers	**6 728 308**	**6 187 945**
Total impairments	**(116 549)**	**(134 014)**
Specific impairments	(73 161)	(112 614)
Portfolio impairments	(43 388)	(21 400)
Net core loans and advances to customers	**6 611 759**	**6 053 931**
Average gross core loans and advances to customers	**6 458 127**	**5 932 532**
Current loans and advances to customers	6 427 253	5 835 449
Past due loans and advances to customers (1 – 60 days)	38 180	53 142
Special mention loans and advances to customers	22 091	4 995
Default loans and advances to customers	240 784	294 359
Gross core loans and advances to customers	**6 728 308**	**6 187 945**
Current loans and advances to customers	6 427 253	5 835 449
Default loans that are current and not impaired	4 477	29 639
Gross core loans and advances to customers that are past due but not impaired	94 637	83 827
Gross core loans and advances to customers that are impaired	201 941	239 030
Gross core loans and advances to customers	**6 728 308**	**6 187 945**
Total income statement charge for impairments on core loans and advances	**(70 218)**	**(84 038)**
Gross default loans and advances to customers	240 784	294 359
Specific impairments	(73 161)	(112 614)
Portfolio impairments	(43 388)	(21 400)
Defaults net of impairments	**124 235**	**160 345**
Aggregate collateral and other credit enhancements on defaults	183 822	192 088
Net default loans and advances to customers (limited to zero)	**–**	**–**
Ratios		
Total impairments as a % of gross core loans and advances to customers	1.73%	2.17%
Total impairments as a % of gross default loans	48.40%	45.53%
Gross defaults as a % of gross core loans and advances to customers	3.58%	4.76%
Defaults (net of impairments) as a % of net core loans and advances to customers	1.88%	2.65%
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)	1.09%	1.42%

56. Investec Bank plc company risk disclosures *(continued)*

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

£'000	31 March 2017	31 March 2016
Default loans that are current	61 335	133 916
1 – 60 days	96 316	67 990
61 – 90 days	3 662	15 749
91 – 180 days	61 108	40 475
181 – 365 days	14 129	18 642
> 365 days	64 505	75 724
Past due and default core loans and advances to customers (actual capital exposure)	**301 055**	**352 496**
1 – 60 days	1 138	2 584
61 – 90 days	58	161
91 – 180 days	842	1 012
181 – 365 days	5 563	4 608
> 365 days	52 654	69 342
Past due and default core loans and advances to customers (actual amount in arrears)	**60 255**	**77 707**

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

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
At 31 March 2017							
Default loans that are current and not impaired							
Total capital exposure	4 477	–	–	–	–	–	4 477
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	80 104	3 662	902	1 165	8 804	94 637
Amount in arrears	–	1 105	58	105	291	8 369	9 928
Gross core loans and advances to customers that are impaired							
Total capital exposure	56 858	16 212	–	60 206	12 964	55 701	201 941
Amount in arrears	–	33	–	737	5 272	44 285	50 327
At 31 March 2016							
Default loans that are current and not impaired							
Total capital exposure	29 639	–	–	–	–	–	29 639
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	58 339	167	15 004	345	9 972	83 827
Amount in arrears	–	2 517	9	670	19	7 664	10 879
Gross core loans and advances to customers that are impaired							
Total capital exposure	104 277	9 651	15 582	25 471	18 297	65 752	239 030
Amount in arrears	–	67	152	342	4 589	61 678	66 828

56. Investec Bank plc company risk disclosures *(continued)*

£'000 Category	On-balance sheet value of investments 31 March 2017	Valuation change stress test 31 March 2017	On-balance sheet value of investments 31 March 2016	Valuation change stress test 31 March 2016
Unlisted investments	139 512	20 972	162 289	24 343
Listed equities	34 627	8 657	48 210	12 052
Total investment portfolio	**174 139**	**29 629**	**210 499**	**36 395**
Investment and trading properties	92 217	18 443	88 136	17 627
Warrants, profit shares and other embedded derivatives	17 715	6 200	32 581	11 403
Total	**284 071**	**54 272**	**331 216**	**65 425**

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

Stress testing summary

Based on the information at 31 March 2017, as reflected above, we could have a £54 million reversal in revenue (which assumes a year in which there is a 'severe stress scenario' simultaneously across all asset classes). 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.

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Notes