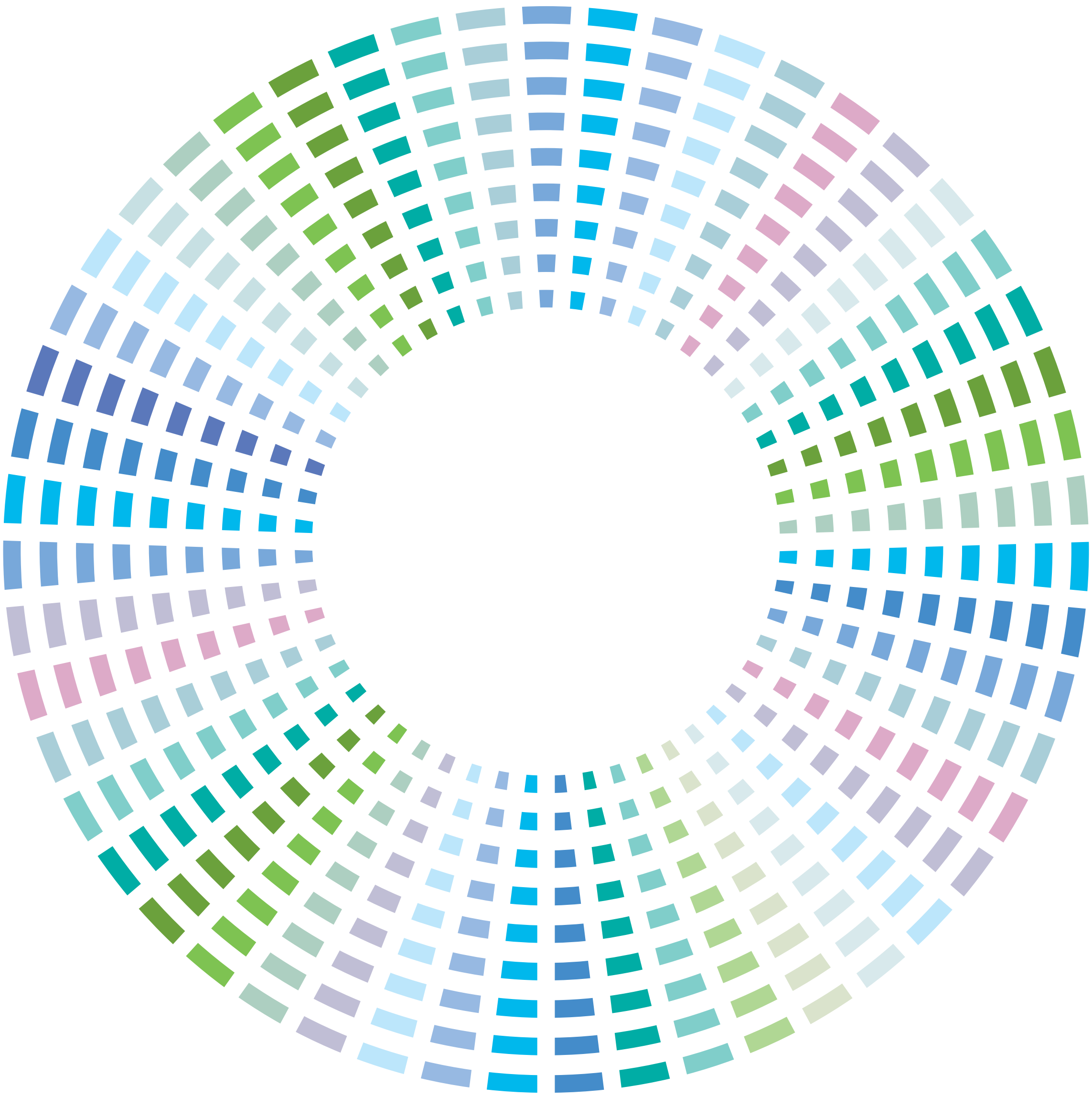


Annual report 2015

Investec Bank Limited group and company annual financial statements

Out of the Ordinary®

Investec

About this report

Cross referencing tools:

Audited information

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

Reporting standard

Denotes our consideration of a reporting standard.

Page references

Refers readers to information elsewhere in this report

Sustainability

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

Website

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

Contents

1

Investec Bank Limited in perspective

Overview of Investec's and Investec Bank Limited's organisational structure

Investec Limited, which houses our Southern African and Mauritius operations, has been listed in South Africa since 1986

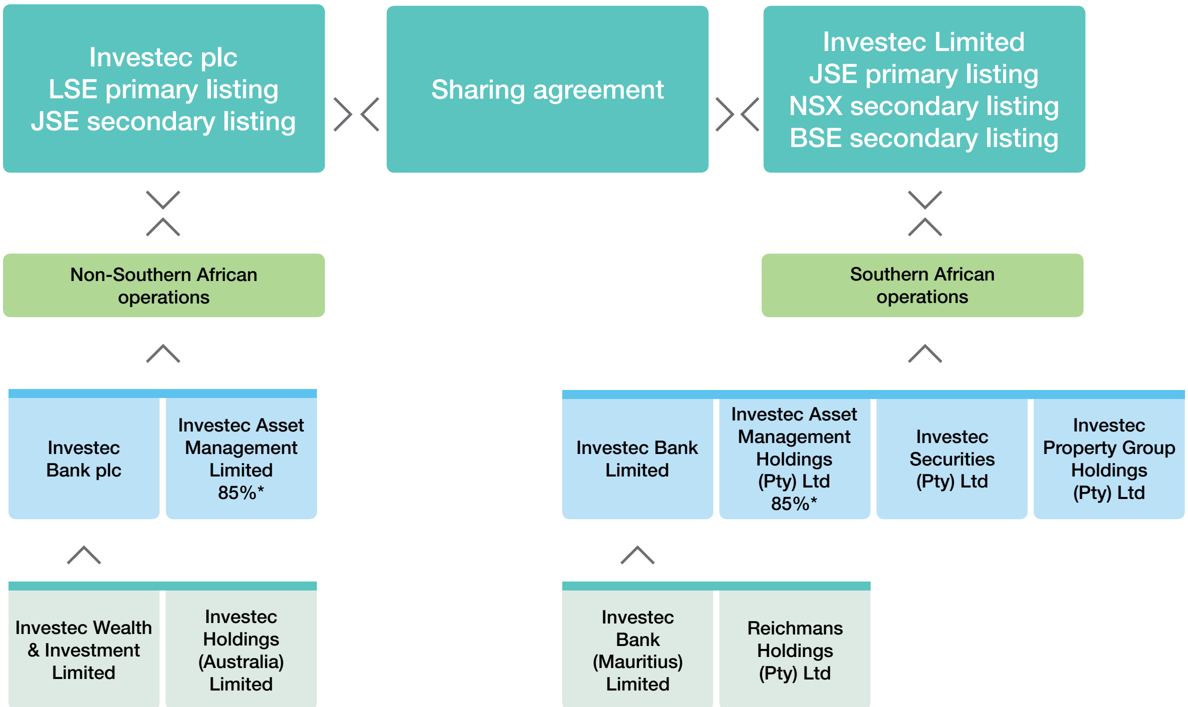
Operating structure

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. Investec Bank Limited (referred to in this report as the bank) is a subsidiary of Investec Limited.

Our DLC structure and main operating subsidiaries at 31 March 2015



Kensington Group plc was sold on 30 January 2015. Investec Bank (Australia) Limited was sold on 31 July 2014.

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

** 15% is held by senior management in the company.*

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 Limited

What we do

Specialist Banking...

Investec Bank Limited operates as a specialist bank within Southern Africa. The bank is operationally managed as a single banking entity within Investec Limited.

Corporates/government/institutional clients

Corporate Advisory and Investment activities

Advisory
Principal investments

Corporate Advisory and Investment Activities engages in a range of investment banking activities and positions itself as an integrated business focused on local client delivery with international access. We target clients seeking a highly customised service, which we offer through a combination of domestic depth and expertise within each geography and a client-centric approach.

Our activities include advisory and principal investments.

Our target market includes corporates, government and institutional clients.

Corporate and Institutional Banking activities

Treasury and trading services
Specialised lending, funds and debt capital markets

Corporate and Institutional Banking Activities provides a wide range of specialist products, services and solutions to select corporate clients, public sector bodies and institutions. The division undertakes the bulk of Investec's wholesale debt, structuring, proprietary trading, capital markets and derivatives business.

Our institutional stockbroking activities are conducted outside of the bank in Investec Securities Limited.

High-income and high net worth private clients

Private Banking activities

Transactional banking and foreign exchange
Lending
Deposits
Investments

Private Banking Activities positions itself as the 'investment bank for private clients', offering both credit and investment services to our select clientele.

Through strong partnerships, we have created a community of clients who thrive on being part of an entrepreneurial and innovative environment. Our target market includes ultra high net worth individuals, active wealthy entrepreneurs, high-income professionals, self-employed entrepreneurs, owner managers in mid-market companies and sophisticated investors.

Integrated systems and infrastructure

Specialist expertise delivered with dedication and energy

Business leaders
Stephen Koseff
Bernard Kantor
Glynn Burger

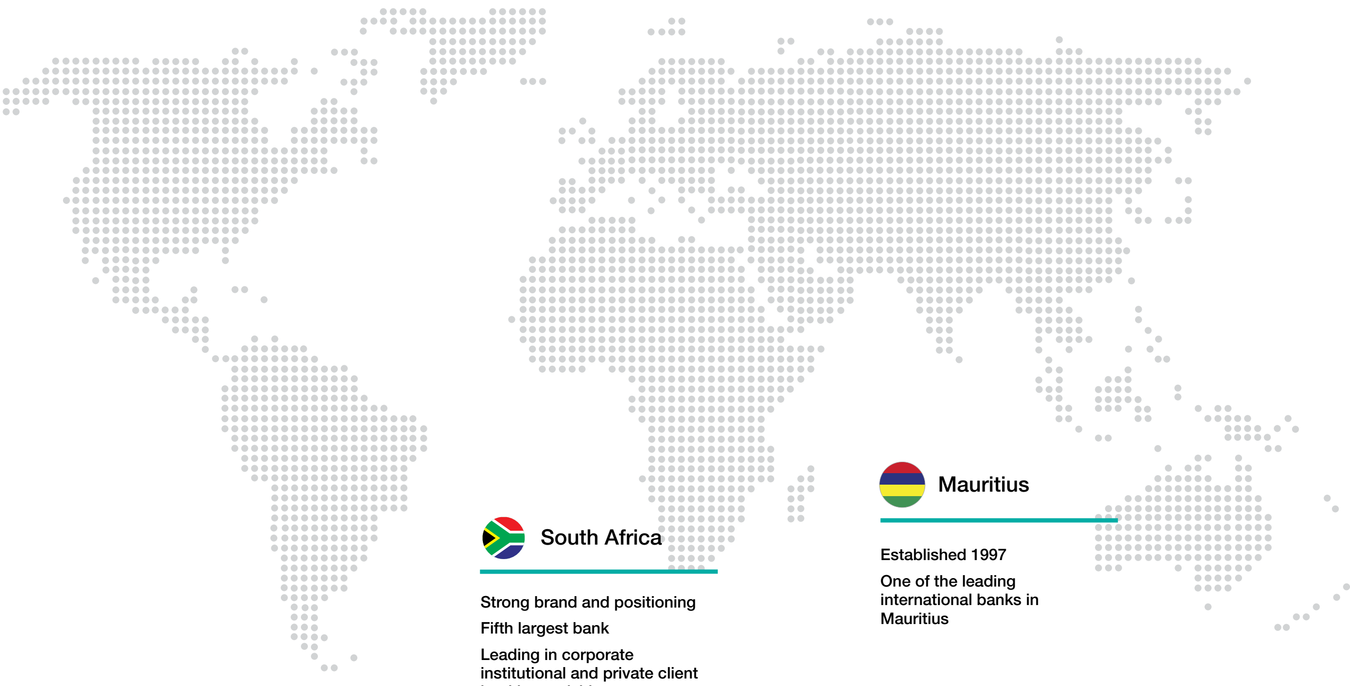
Further information on the Specialist Banking management structure is available on our website.

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

Our value proposition

- High-quality specialist banking solution to corporate, institutional, government and private clients with leading positions in selected areas
- Provide high touch personalised service
- Ability to leverage international, cross-border platforms
- Well positioned to capture opportunities between the developed and the emerging world
- Balanced business model with good business depth and breadth.

Where we operate



South Africa

Strong brand and positioning

Fifth largest bank

Leading in corporate institutional and private client banking activities

Mauritius

Established 1997

One of the leading international banks in Mauritius

A diversified business model continues to support a large recurring revenue base, totalling 70.4% of operating income

We have a strong franchise that supports a solid revenue base

Total operating income increased 24.0% to R8 946 million
(2014: R7 216 million)

Financial performance

Investec Bank Limited recorded a 49.0% increase in profit before taxation

2015	2014
R3 673mn	R2 465mn

Cost to income ratios

2015	2014
53.9%	57.0%

Improving credit loss ratio

2015	2014
0.29%	0.44%

Cash and near cash balances up 5.0%

2015	2014
R88.7bn	R84.5bn

Core loans and advances increased 17.3%

2015	2014
R177.5bn	R151.4bn

Customer deposits increased 8.0%

2015	2014
R221.4bn	R204.9bn

Ratio of loans and advances to deposits remains strong

2015	2014
78.1%	72.5%

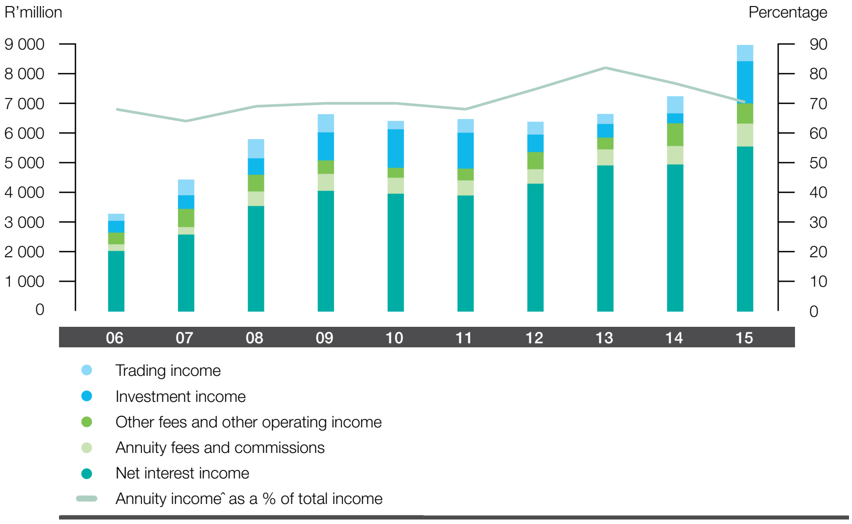
Low gearing ratios

2015	2014
11.4 times	11.8 times

Other financial features

R'million	31 March 2015	31 March 2014	% change
Headline earnings	3 014	2 086	44.5%
Total capital resources (including subordinated liabilities)	39 348	36 099	9.0%
Total equity	28 899	25 601	12.9%
Total assets	332 706	303 218	9.7%

Total operating and annuity income^



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

Credit quality on core loans and advances has improved

Core loans and advances increased by 17.3% to R177.5 billion

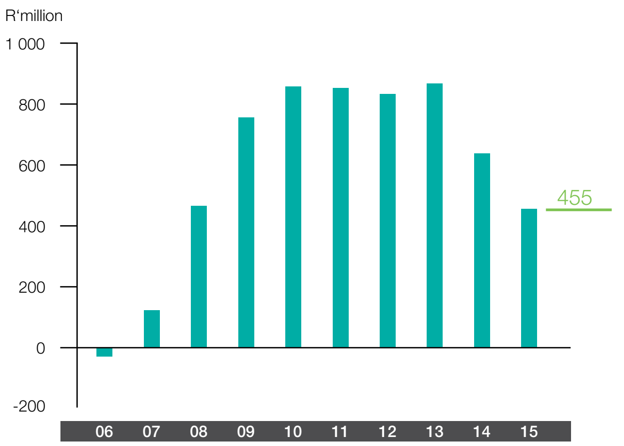
Default loans (net of impairments) as a percentage of core loans and advances decreased from 1.50% to 1.46%

The credit loss ratio improved from 0.44% to 0.29%

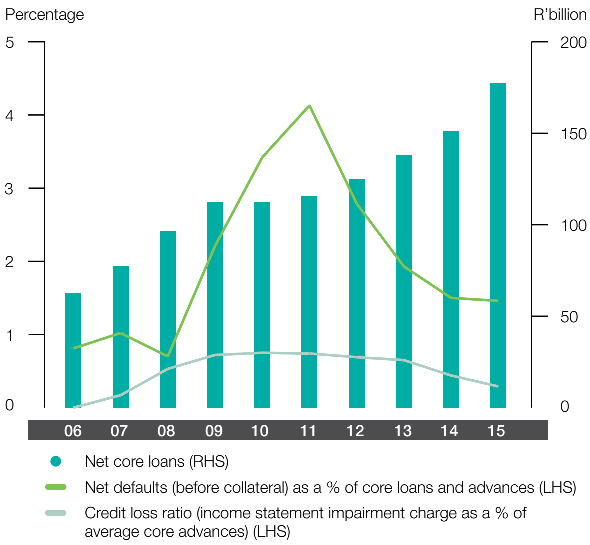
Net defaults (after impairments) remain adequately collateralised.

Impairment levels have normalised

Impairments/(recoveries)



Default and core loans



Investec Bank Limited in perspective

1

Sound capital and liquidity principles maintained

Continue to focus on:

- Maintaining a high level of readily available, high-quality liquid assets – approximately 34.1% of the bank's liability base
- Diversifying funding sources
- Limiting concentration risk
- Reduced reliance on wholesale funding.

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

Our policy has always been to hold capital in excess of regulatory requirements and we intend to perpetuate this philosophy

Investec has maintained a stable capital base

A well-established liquidity management philosophy remains in place

Benefited from a growing retail deposit franchise and recorded an increase in customer deposits

Advances as a percentage of customer deposits is at 78.1% (2014: 72.5%)

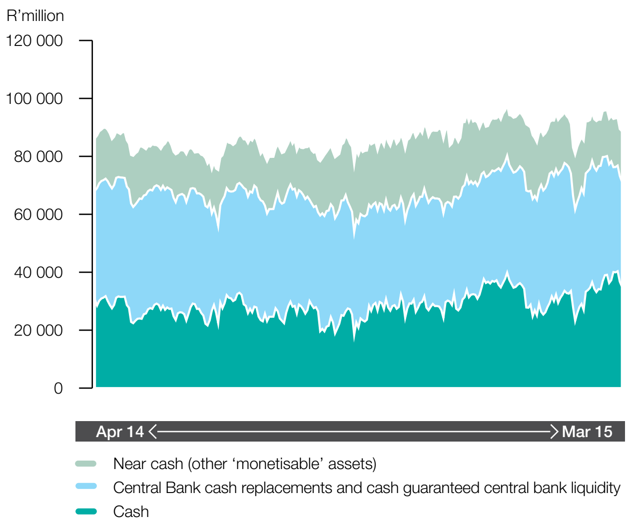
We ended the year with the three-month average of Investec Bank Limited's (solo basis) liquidity coverage ratio at 100.3% which is well ahead of the minimum level required.

Capital adequacy and tier 1 ratios

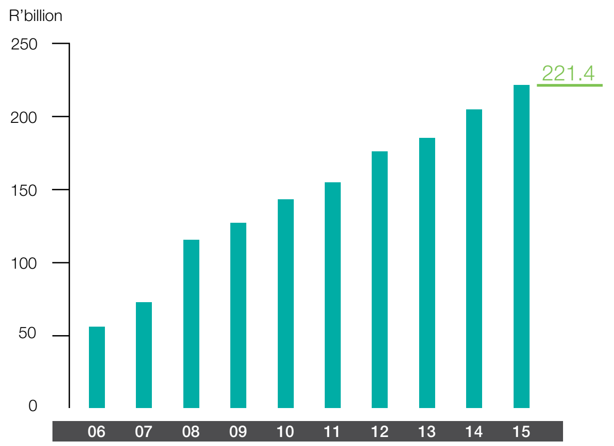
	31 March 2015 (Basel III)			31 March 2014 (Basel III)		
	Capital adequacy ratio	Tier 1 ratio	Common equity tier 1 ratio	Capital adequacy ratio	Tier 1 ratio	Common equity tier 1 ratio
Investec Bank Limited	15.4%	11.4%	11.0%	15.3%	10.8%	10.3%
Investec Limited	14.7%	11.3%	9.6%	14.9%	11.0%	9.4%

Benefiting from a growing retail deposit franchise

Cash and near cash trend



Customer accounts (deposits)



Investec Bank Limited in perspective

1

2

Financial review

An overview of the operating environment impacting our business

South Africa

Our views

South Africa faced a difficult year in 2014, with strike action in the platinum belt persisting for close to two quarters and GDP growth consequently slipping to 1.5% year-on-year as consumer spending, domestic fixed investment and production were all negatively affected. Nevertheless, gains were still made as GDP per capita rose to R56 122 in real terms from R56 044, and real disposable income per capita also lifted.

1.5%	2.2%
2014/15 Economic growth	**2013/14** Economic growth

GDP per capita has risen

2015	2014
R56 122	R56 044

The World Bank evidences that South Africa has established a more equitable society over the past 20 years via social assistance programmes, particularly spend on education and healthcare

Upward social mobility persisted, largely on the ongoing roll-out of social services, which accounted for 68% of government revenue. Redistribution between the rich and poor via direct (personal income) taxation is progressive, and the World Bank shows South Africa achieved the largest reduction in poverty and inequality compared to the other middle income economies studied on the provision of free basic services and direct monetary transfers to households. South Africa's Gini coefficient on income is measured at 0.77 before taxes and social spending and 0.59 after. It is still high, but the fiscal space to spend more to achieve even greater redistribution is extremely limited, with South Africa already receiving a number of credit rating downgrades over the past few years. More needs to be done to reduce inequality, in particular South Africa needs substantially faster economic growth via a tripling in the size of the private corporate sector in order to achieve single digit unemployment, an eradication of poverty and a further reduction in inequality.

South Africa increased its interest rates by 75bp over 2014 and further hikes are expected from current, still low, levels. Electricity supply constraints have proved an inhibitor to economic performance, while higher interest rates and indebtedness impacted household consumption expenditure in 2014.

2014/15 has seen a more conservative budget released than in recent years, detailing reduced projections on government net debt as a percentage of GDP, and projected consolidation of the fiscal deficit, with some reduction in government expenditure. If achieved, this should assist South Africa to maintain its credit rating of BBB- from Standard and Poor's on its long-term foreign currency sovereign debt.

Operating environment

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

	Period ended 31 March 2015	Period ended 31 March 2014	% change	Average over the period 1 April 2014 to 31 March 2015
Market indicators				
FTSE All share	3 664	3 556	3.0%	3 591
JSE All share	52 182	47 771	9.2%	50 611
Australia All ords	5 862	5 403	8.5%	5 494
S&P	2 068	1 872	10.5%	1 988
Nikkei	19 207	14 828	29.5%	16 256
Dow Jones	17 776	16 458	8.0%	17 180
Rates				
SA R186	7.80%	8.40%		8.00%
Rand overnight	5.53%	5.33%		5.46%
SA prime overdraft rate	9.25%	9.00%		9.16%
JIBAR – three-month	6.11%	5.73%		6.00%
Reserve Bank of Australia cash target rate	2.25%	2.50%		2.46%
UK overnight	0.42%	0.33%		0.43%
UK 10-year	1.58%	2.74%		2.25%
UK clearing banks base rate	0.50%	0.50%		0.50%
LIBOR – three-month	0.57%	0.52%		0.55%
US 10-year	1.93%	2.73%		2.34%
Commodities				
Gold	US$1 188/oz	US$1 289/oz	(7.8%)	US$1 248/oz
Gas Oil	US$526/mt	US$904/mt	(41.8%)	US$746/mt
Platinum	US$1 129/oz	US$1 418/oz	(20.4%)	US$1 236/oz
Macro-economic				
South Africa GDP (% real growth over the calendar year in Rands, historical revised)	1.5%	2.2%		
South Africa per capita GDP (real value in Rands, historical revised)	56 122	56 044	0.1%	

Sources: Datastream, Bloomberg, Office for National Statistics, SARB Quarterly Bulletin, Australian Bureau of Statistics.

Key income drivers

The bank operates as a specialist bank providing a wide range of financial products and services to a niche client base in South Africa and Mauritius.

Key income drivers	Income impacted primarily by	Income statement – primarily reflected as
• Lending activities	• Size of portfolios • Clients' capital and infrastructural investments • Client activity • Credit spreads • Shape of yield curve.	• Net interest income • Fees and commission.
• 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.	• 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.	• Net interest income • Fees and commissions.
• Investments made (including listed and unlisted equities and debt securities • 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.	• Net interest income • Investment income.
• Advisory services	• The demand for our specialised advisory services, which, in turn, is affected by applicable tax, regulatory and other macro- and micro-economic fundamentals.	• Fees and commissions.
• Derivative sales, trading and hedging	• Client activity • Market conditions/volatility • Asset and liability creation • Product innovation • Market risk factors, primarily volatility and liquidity.	• 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.

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.

25 – 48

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

69 – 73

Operational risk may disrupt our business or result in regulatory action.

73

Legal and regulatory risks are substantial in our businesses.

61 – 68

Liquidity risk may impair our ability to fund our operations.

72 and 73

Reputational, strategic and **business risk.**

59 – 61

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

69 – 73

We may be **vulnerable to the failure of our systems** and breaches of our security systems.

54 – 57

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

73 – 79

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

69 – 73

Employee misconduct could cause harm that is difficult to detect.

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

See Investec's 2015 integrated annual report on our website.

11 and 12

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

73

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 negatively in the market.

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.

Overview

The bank posted an increase in headline earnings attributable to ordinary shareholders of 44.5% to R3 014 million (2014: R2 086 million). The balance sheet remains strong with a capital adequacy ratio of 15.4% as calculated in terms of Basel III (2014: 15.3%).

Unless the context indicates otherwise, all income statement comparatives in the review below relate to the results for the year ended 31 March 2014.

Income statement analysis

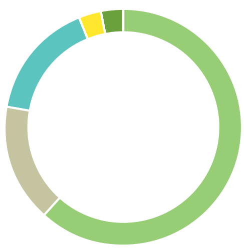
The overview that follows will highlight the main reasons for the variance in the major category line items on the face of the income statement during the year under review.

Total operating income

Total operating income before impairment losses on loans and advances increased by 24.0% to R8 946 million (2014: R7 216 million). The various components of total operating income are analysed below.

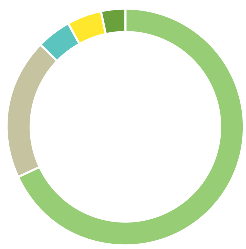
R'million	31 March 2015	% of total income	31 March 2014	% of total income	% change
Net interest income	5 521	61.7%	4 916	68.1%	12.3%
Net fee and commission income	1 454	16.3%	1 393	19.3%	4.4%
Investment income	1 420	15.9%	334	4.6%	> 100.0%
Trading income arising from					
– customer flow	290	3.2%	343	4.8%	(15.5%)
– balance sheet management and other trading activities	260	2.9%	235	3.2%	10.6%
Other operating income/(loss)	1	–	(5)	–	> 100.0%
Total operating income before impairment losses on loans and advances	8 946	100.0%	7 216	100.0%	24.0%

% of total operating income before impairment losses on loans and advances



31 March 2015
R8 946 million total operating income before impairment losses on loans and advances

Net interest income	61.7%
Net fee and commission income	16.3%
Investment income	15.9%
Trading income arising from customer flow	3.2%
Trading income arising from balance sheet management and other trading activities	2.9%



31 March 2014
R7 216 million total operating income before impairment losses on loans and advances

Net interest income	68.1%
Net fee and commission income	19.3%
Investment income	4.6%
Trading income arising from customer flow	4.8%
Trading income arising from balance sheet management and other trading activities	3.2%

Net interest income

Net interest income increased by 12.3% to R5 521 million (2014: R4 916 million) with the bank benefiting from an increase in its loan portfolio and a positive endowment impact.

For a further analysis of interest received and interest paid refer to page 122.

Net fee and commission income

Net fee and commission income increased 4.4% to R1 454 million (2014: R1 393 million) as a result of a good performance from the private banking professional finance business, with corporate fees remaining largely in line with the prior year.

For a further analysis of net fee and commission income refer to page 123.

Investment income

Investment income increased to R1 420 million (2014: R334 million) with the bank's unlisted investments portfolio continuing to perform well.

For a further analysis of investment income refer to pages 123 and 124.

Trading income

Trading income arising from customer flow and other trading activities decreased to R550 million (2014: R578 million) largely reflecting less activity in respect of balance sheet management.

Impairment losses on loans and advances

Impairments on loans and advances decreased from R638 million to R455 million. The credit loss charge as a percentage of average gross core loans and advances has improved from 0.44% at 31 March 2014 to 0.29%. The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounts to 1.46% (2014: 1.50%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.44 times (2014: 1.55 times).

For further information on asset quality refer to pages 40 to 48.

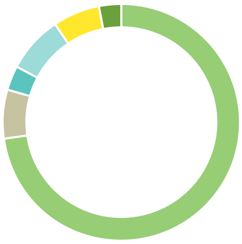
Operating costs

The ratio of total operating costs to total operating income amounts to 53.9% (2014: 57.0%). Total operating expenses at R4 818 million were 17.1% higher than the prior year (2014: R4 113 million), largely as a result of increased variable remuneration given improved profitability.

The various components of total expenses are analysed below.

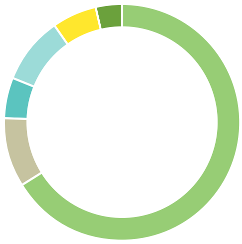
R'million	31 March 2015	% of total expenses	31 March 2014	% of total expenses	% change
Staff costs (including directors' remuneration)	3 510	72.9%	2 724	66.2%	28.9%
Business expenses	329	6.8%	393	9.6%	(16.3%)
Equipment expenses (excluding depreciation)	161	3.3%	222	5.4%	(27.5%)
Premises expenses (excluding depreciation)	376	7.8%	380	9.2%	(1.1%)
Marketing expenses	304	6.3%	247	6.0%	23.1%
Depreciation	138	2.9%	147	3.6%	(6.1%)
Total operating costs	4 818	100.0%	4 113	100.0%	17.1%

% of total operating costs



31 March 2015
R4 818 million total operating costs

Staff costs	72.9%
Business expenses	6.8%
Equipment expenses	3.3%
Premises expenses	7.8%
Marketing expenses	6.3%
Depreciation	2.9%



31 March 2014
R4 113 million total operating costs

Staff costs	66.2%
Business expenses	9.6%
Equipment expenses	5.4%
Premises expenses	9.2%
Marketing expenses	6.0%
Depreciation	3.6%

Balance sheet analysis

Since 31 March 2014:

- Total shareholders' equity (including non-controlling interests) increased by 12.9% to R28.9 billion, largely as a result of retained earnings
- Total assets increased by 9.7% to R332.7 billion, largely as a result of an increase in core loans and advances and cash and near cash balances.

Questions and answers

Stephen Koseff Glynn Burger Bernard Kantor

Business leaders

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

A The South African operating environment has been mixed. On the one hand, the economic and political environments have been fragile. There has been slow economic growth which impacted spending, domestic fixed investment and production. The Rand continues to weaken against major currencies. Furthermore, strike action persisted and electricity supply constraints have proved an inhibitor to economic performance, while high indebtedness impacted consumer spending.

On the other hand, we have had very positive growth in the equity markets with the JSE All Share Index up 9.2% for the period and overall good activity in corporate South Africa.

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

A Notwithstanding the economic environment, it has been a particularly good year for the bank with operating profit up 49.0%. All businesses have done well largely as a result of reasonable activity levels across both corporates and private clients. We have experienced strong growth in our key drivers with underlying lending up some 17% over the past year and a positive endowment impact.

We continued to be recognised for this focus and performance. From a corporate perspective, the Aviation Finance team won the Corporate Jet Investor Award again this past year and our Corporate Finance team came out top in both value and volume of transactions in the DealMakers awards. In the private client space, the Retail Funding business has increased its profile and we were once again recognised as the Best Private Bank in South Africa by *Financial Times* and *Euromoney.*

It has been particularly rewarding to see how the collaboration between the Private Bank and Wealth & Investment businesses (housed outside of the bank) has benefited the overall South African business. Furthermore, good progress has been made with rolling out our digitisation strategy as we continually look to enhance this offering to ensure it's the best solution for our clients.

What are your key strategic objectives for the coming year?

A We will continue with the existing strategy of building and developing our client franchises which remain integral to the growth and development of our business. This is focused on delivering integrated solutions to both our private and corporate clients, extending the quality of our service and products to attract new clients and ensuring we deepen our existing client relationships.

In the private client space, we will continue to organically grow the existing businesses of transactional banking, property and private capital. Our strategy of cross-selling products across different client bases, providing services between Private Bank and the Wealth & Investment businesses has proved successful and we will continue to leverage these relationships.

What is your outlook for the coming year?

A The South African business has had a particularly good year and this may be hard to sustain going forward. There are structural challenges in the economy and we are cautious about the political uncertainty which can create a difficult environment for our business. However, the recent national budget proposed is more conservative than in recent years and, if achieved, should assist South Africa in maintaining its investment grade rating. Furthermore, South African corporates tend to be more resilient in a disrupted environment and there are potential opportunities to support them both domestically, on the continent and internationally.

How do you incorporate environmental and sustainability considerations into your business?

A Developing the communities and environment in which we operate is critical to the upliftment of our economy. During the year, we received the *Mail & Guardian's* 2014 Investing in the Future Award for our Promaths programme which commended Investec for taking a long-term view to social development by improving skills in Maths and Science for the past 10 years. We also experienced good momentum in the Enterprise Development programme which was launched in the previous financial year and which continues to share valuable strategic, financial and marketing skills to selected entrepreneurs. Our staff remain vital in delivering on our promise to provide exceptional client experiences and hence we continue to focus on attracting, retaining and developing talent. In this regard, Investec was voted one of the most attractive employers in the 2015 Universum Most Attractive Employer awards where Investec was voted Best Bank by both professionals and graduates

3

Risk management and corporate governance

Group Risk Management objectives are to:

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

Overview of disclosure requirements

Risk disclosures provided in line with the requirements of International Financial Reporting Standard 7 Financial Instruments: Disclosures (IFRS 7) and disclosures on capital required by International Accounting Standard 1 Presentation of Financial Statements (IAS 1) are included within this section of the integrated annual report.

On pages 21 to 80 with further disclosures provided within the annual financial statements section on pages 105 to 109.

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

The risk disclosures comprise the majority of the bank's Pillar III risk disclosures as required in terms of Regulation 43 of the regulations relating to banks in South Africa.

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

Philosophy and approach to risk management

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

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

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

We monitor and control risk exposure through independent Credit, Market, Liquidity, Operational, Legal Risk, Internal Audit and Compliance teams. This approach is core to assuming a tolerable risk and reward profile, helping us to pursue controlled growth across our business.

Group Risk Management operates within an integrated geographical and divisional structure, in line with our management approach, ensuring that the appropriate processes are used to address all risks across the group.

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 that we have in place are adequate to support our strategy and allow us to operate within our risk appetite tolerance.

Overall 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. The group predominantly remained within its risk appetite limits/targets across the various risk disciplines. Our risk appetite framework as set out on page 23 continues to be assessed in light of prevailing market conditions and group strategy.

Credit risk

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

Our 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 the book.

Our core loan book remains well diversified with commercial rent producing property loans comprising approximately 17.4% of the book, other lending collateralised by property 3.9%, HNW and private client lending 44.2% and corporate lending 34.5% (with most industry concentrations well below 5%). We anticipate that future growth in our core loan portfolios will largely come from professional mortgages, and across most of our corporate categories.

Net core loans and advances grew by 17.3% to R177.5 billion with residential owner-occupied, private client lending and corporate portfolios representing the majority of the growth for the financial year in review.

Default loans (net of impairments) as a percentage of core loans and advances reduced from 1.50% to 1.46%.

The credit loss ratio improved to 0.29% from 0.44% as we saw stability in the number of new defaulted loans and sufficient collateral available for these transactions.

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

Traded market risk

Market risk within our trading portfolio remains modest with value at risk and stress testing scenarios remaining at prudent levels. Potential losses that could arise in our trading book portfolio when stress tested under extreme market conditions (i.e. per extreme value theory) amount to approximately 0.1% of total operating income.

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

Capital Management

We continued to maintain a sound balance sheet with a low gearing ratio of 11.4 times and a core loans to equity ratio of 6.1 times. We have always held capital in excess of regulatory requirements and we intend to perpetuate this philosophy. All our banking subsidiaries meet current internal targets. We are comfortable with our common equity tier 1 ratio target at a 10% level, as our fully loaded leverage ratios for Investec Bank Limited are above 8%. We believe that we have sufficient capital to support our growth initiatives.

Balance sheet and liquidity risk

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 R88.7 billion at year end, representing 34.1% of our liability base.

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

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

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

Investment risk

Our Investment portfolio continued to perform well. Overall, we remain comfortable with the performance of our equity investment portfolios which comprise 3.39% of total assets.

Conduct, operational and reputational risk

We continue to spend much time and effort focusing on operational, reputational, conduct, recovery and resolution risks.

The bank has a stress testing process which 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.

Salient features

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

Year to 31 March	2015 R	2014 R
Total assets (million)	332 706	303 218
Total risk-weighted assets (million)	257 931	238 396
Total equity (million)	28 899	25 601
Net core loans and advances (million)	177 528	151 384
Cash and near cash (million)	88 691	84 476
Customer accounts (deposits) (million)	221 377	204 903
Gross defaults as a % of gross core loans and advances	2.09%	2.31%
Defaults (net of impairments) as a % of net core loans and advances	1.46%	1.50%
Net defaults (after collateral and impairments) as a % of net core loans and advances	–	–
Credit loss ratio*	0.29%	0.44%
Structured credit as a % of total assets	1.33%	1.60%
Banking book investment and equity risk exposures as a % of total assets	3.39%	3.41%
Level 3 (fair value assets) as a % of total assets	1 96%	1.96%
Traded market risk: one-day value at risk (million)	3.4	2.1
Core loans to equity ratio	6.1	5.9
Total gearing ratio**	11.4	11.8
Loans and advances to customers to customer deposits	78.1%	72.5%
Capital adequacy ratio	15.4%	15.3%
Tier 1 ratio	11.4%	10.8%
Common equity tier 1 ratio	11.0%	10.3%
Leverage ratio	8.3%	7.9%
Return on average assets#	0.95%	0.70%
Return on average risk-weighted assets#	1.21%	0.90%

* *Income statement impairment change on core loans as a percentage of average gross core loans and advances.*
** *Total assets excluding intergroup loans to total equity.*
\# *Where return represents headline earnings. 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 all aspects of risk. In addition, a number of committees and forums identify and manage risk at a group level. The group risk appetite statement and framework sets out the board's mandated risk appetite. The group risk appetite framework acts as a guide to determine the acceptable risk profile of the group by the owners of the group's capital. The group risk appetite statement ensures that limits/targets are applied and monitored across all key operating jurisdictions and legal entities. The group risk appetite statement is a high level, strategic framework that supplements and does not replace the detailed risk policy documents at each entity and geographic level. The group risk appetite framework is a function of business strategy, budget process and the regulatory and economic environment in which the group is operating. The group risk appetite framework is reviewed (in light of the above aspects) and approved at least annually or as business needs dictate. A documented process exists where our risk profile is measured against our risk appetite and this positioning is presented to the group risk and capital committee and the board risk and capital committee.

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

Risk appetite and tolerance metrics	Positioning at 31 March 2015
• We seek to maintain an appropriate balance between revenue earned from capital light and capital intensive activities at an Investec Limited group level. Ideally the split in revenue should be 50:50, dependent on prevailing market conditions	Capital light activities for Investec Limited contributed 44% to total operating income and capital intensive activities contributed 56%
• 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 70.4% of total operating income. Refer to page 7 for further information
• We seek to maintain strict control over fixed costs and target a group cost to income ratio of below 55%	The cost to income ratio amounted to 53.9%. Refer to page 6
• We aim to build a sustainable business generating sufficient return to shareholders for the Investec group over the longer-term, and target a long-term return on equity ratio range of between 12% and 16%, and a return on risk-weighted assets in excess of 1.2%	The return on equity for the Investec group amounted to 10.6% and our return on risk-weighted assets amounted to 1.25%
• 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 78 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% and we target a minimum tier 1 ratio of 10.5% (11.0% by March 2016) and a common equity tier 1 ratio above 10.0% (by March 2016)	We meet current capital targets, refer to page 78 for further information
• We target a diversified loan portfolio, lending to clients we know and understand. We limit our exposure to a single/connected individual or company to 5% of tier 1 capital (up to 10% if approved by the relevant board committee). We also have a number of risk tolerance limits and targets for specific asset classes	We maintained this risk tolerance level in place throughout the year
• There is a preference for primary exposure in the group's main operating geographies (i.e. South Africa and Mauritius). The group will accept exposures where we have a branch/banking business. The group will also tolerate exposures to other countries where it has core capabilities	
• The level of defaults and impairments continues to improve and we target a credit loss charge on core loans of less than 0.5% of average core advances (less than 1.25% under a weak economic environment/stressed scenario), and we target defaults net of impairments less than 1.5% of total core loans (less than 4% under a weak economic environment/ stressed scenario)	The credit loss charge on core loans amounted to 0.29% and defaults net of impairments amounted to 1.46% of total core loans. Refer to page 40 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 R88.7 billion, representing 34.1% of our liability base. Refer to page 63 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 1 day 95% VaR of less than R15 million	We meet these internal limits, refer to page 55 for further information
• We have moderate appetite for investment risk, and set a risk tolerance of less than 30% of tier 1 capital for our unlisted principal investment portfolio	Our unlisted investment portfolio is, representing 26.5% of total tier 1 capital. Refer to page 50 for further information
• Our Operational Risk Management team focuses on improving business performance and compliance with regulatory requirements through review, challenge and escalation	Refer to pages 69 to 71 for further information
• We have a number of policies and practices in place to mitigate reputational, legal and conduct risks	Refer to pages 72 and 73 for further information

An overview of key risks

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

These risks have been highlighted on page 14.

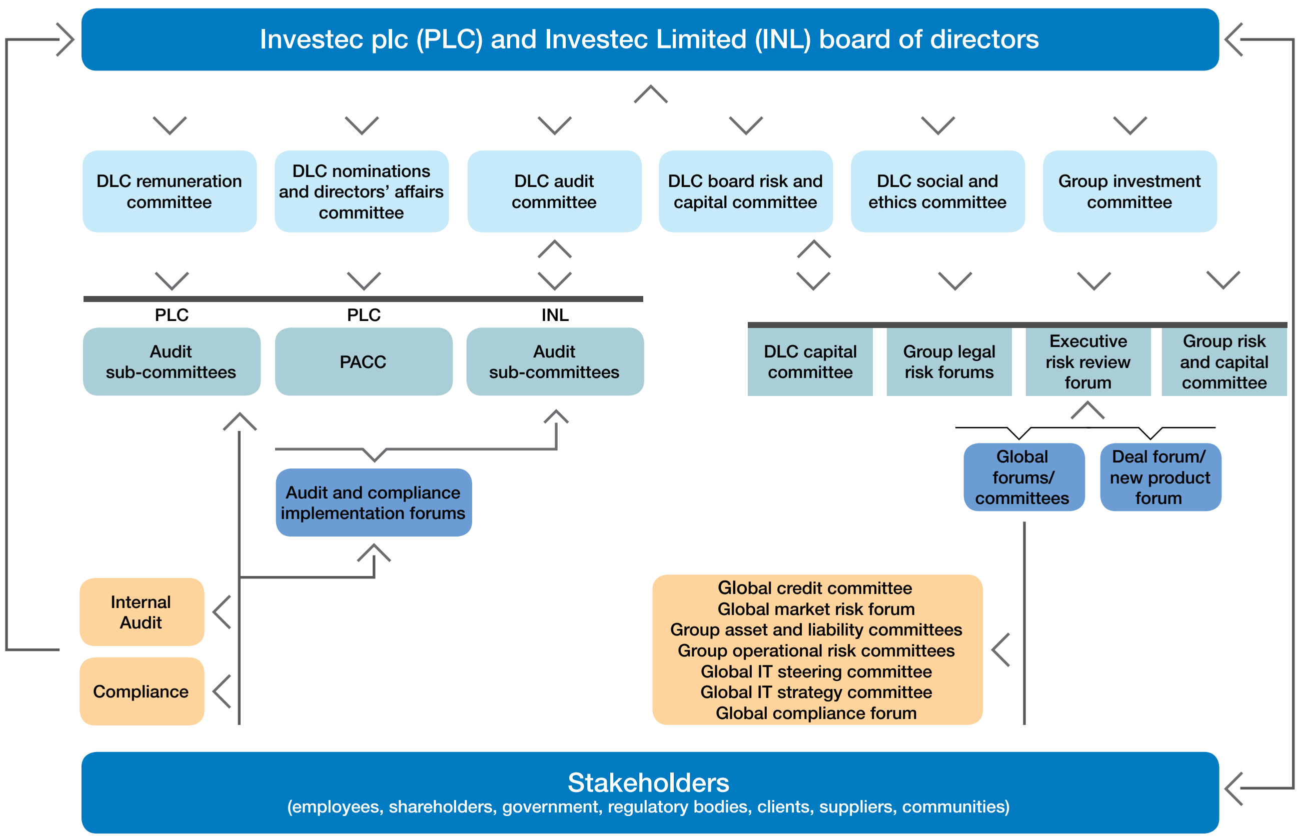
The sections that follow provide information on a number of these risk areas.

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

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.

Governance framework



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

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

Credit and counterparty risk management

Credit and counterparty risk description

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

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

- Lending transactions through loans and advances to clients and counterparties creates the risk that an obligor will be unable or unwilling to repay capital and/or interest on loans and advances granted to them. This category includes bank placements, where we have placed funds with other financial institutions
- Issuer risk on financial instruments where payments due from the issuer of a financial instrument will not be received
- Trading transactions, giving rise to settlement and replacement risk (collectively counterparty risk):
  - Settlement risk is the risk that the settlement of a transaction does not take place as expected. Our definition of a settlement debtor is a short-term receivable (i.e. less than five days) which is excluded from credit and counterparty risk due to market guaranteed settlement mechanisms
  - Replacement risk is the financial cost of having to enter into a replacement contract with an alternative market counterparty, following default by the original counterparty.

Credit and counterparty risks can be impacted by country risk where cross-border transactions are undertaken. This can include geopolitical risks, transfer and convertibility risks, and the impact on the borrower's credit profile due to local economic and political conditions.

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

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

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

Credit and counterparty risk governance structure

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

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

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

Credit and counterparty risk appetite

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

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

We have little appetite for unsecured debt and require that good quality collateral is provided in support of obligations (refer to page 48 for further information).

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

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

Risk appetite

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

Sustainability considerations

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

- Environmental considerations (including animal welfare)
- Social considerations
- Economic considerations.

Refer to our sustainability report on our website.

Management and measurement of credit and counterparty risk

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

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

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

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

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

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

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

Fitch, S&P and Moody's have been approved as eligible external credit assessment institutions (ECAIs) for the purposes of determining external credit ratings with the following elections:

- In relation to sovereigns and securitisations, Fitch, Moody's 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 capital requirements in the assessment of its credit and counterparty exposures. The group's banking subsidiaries conduct their mapping of credit and counterparty exposures in accordance with the mapping procedures specified by the Central Bank Registrar, in the respective geographies in which the group operates.

Credit and counterparty risk – nature of lending activities

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

Lending collateralised by property

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

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

An analysis of the lending collateralised by property portfolio and asset quality information is provided on pages 46 to 47.

Private client activities

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

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

Credit risk arises from the following activities:

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

An analysis of the private client loan portfolio and asset quality information is provided on pages 46 and 47.

Corporate client activities

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

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

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

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

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

- Corporate Loans: provides senior secured loans to mid-to-large cap companies. Credit risk is assessed against debt service coverage from the robustness of the cash generation for the business based on historic and forecast information. We typically act as transaction lead or arranger, and have a close relationship with management and the sponsor.
- Corporate Debt Securities: these are tradable corporate debt instruments, purchased based on acceptable credit fundamentals typically with a medium-term hold strategy where the underlying risk is largely to South African corporates. This is a highly diversified, granular portfolio that is robust and spread across a variety of industries.
- Acquisition Finance: provides debt funding to proven management teams, running small to mid-cap sized companies. Credit risk is assessed against debt service coverage from the robustness of the cash generation of the business. This will be based on historic and forecast information. We typically lend on a bilateral basis and benefit from a close relationship with management.
- Asset-based Lending: provides working capital and corporate loans secured to mid-caps. These loans are secured by the assets of the business, for example, the accounts receivable, inventory, plant and machinery.
- Small Ticket Asset Finance: provides highly diversified lending to small and medium sized corporates to support asset purchases and other business requirements. These facilities are secured against the asset being financed and are a direct obligation of the company.
- Large Ticket Asset Finance: provides the finance and structuring expertise for aircraft and larger lease assets, the majority of which are senior secured loans with a combination of corporate, cash flow and asset-backed collateral against the exposure.

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

An analysis of the corporate client loan portfolio and asset quality information is provided on pages 46 and 47.

Asset quality analysis – credit risk classification and provisioning policy

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

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

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

Credit risk mitigation

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

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

An analysis of collateral is provided on page 48.

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

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

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

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

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

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

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

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

- Debit and credit balances relate to the same obligor/counterparty
- Debit and credit balances are denominated in the same currency and have identical maturities

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

- 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.

Further information on credit derivatives is provided on page 57.

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

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

Credit and counterparty risk year in review

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

Further information is provided in the financial review on pages 11 to 18.

Against this backdrop, core loans and advances grew by 17.3% to R177.5 billion with residential owner-occupied, private client lending, corporate and public sector portfolios representing the majority of the growth for the financial year in review.

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

Default loans (net of impairments) as a percentage of core loans and advances improved slightly from 1.50% to 1.46%.

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

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

The credit loss ratio improved to 0.29% from 0.44% as we saw stability in the number of new defaulted loans and sufficient collateral available for these transactions.

Lending collateralised by property

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

Private client activities

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

Our high net worth client portfolio and residential mortgage book grew by 20.1% over the year.

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

Corporate client activities

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

Credit and counterparty risk information

Pages 20 to 32 describe where and how credit risk is assumed in our operations.

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

An analysis of gross credit and counterparty exposures

Credit and counterparty exposures increased by 10.8% to R374.9 billion largely as a result of an increase in core loans and advances and cash and near cash balances. Cash and near cash balances increased by 5% to R88.7 billon and are largely reflected in the following line items in the table below: cash and balances at central banks, loans and advances to banks, non-sovereign and non-bank cash placements and sovereign debt securities.

R'million	31 March 2015	31 March 2014	% change	Average*
Cash and balances at central banks	6 261	5 927	5.6%	6 094
Loans and advances to banks	33 422	32 672	2.3%	33 047
Non-sovereign and non-bank cash placements	10 540	9 045	16.5%	9 793
Reverse repurchase agreements and cash collateral on securities borrowed	10 095	6 442	56.7%	8 269
Sovereign debt securities	31 378	34 815	(9.9%)	33 097
Bank debt securities	17 332	21 538	(19.5%)	19 435
Other debt securities	12 749	11 933	6.8%	12 341
Derivative financial instruments	14 879	11 882	25.2%	13 381
Securities arising from trading activities	1 018	994	2.4%	1 006
Loans and advances to customers (gross)	174 132	149 810	16.2%	161 971
Own originated loans and advances to customers securitised (gross)	4 537	2 824	60.7%	3 681
Other loans and advances (gross)	490	597	(17.9%)	544
Other securitised assets (gross)	–	231	(100.0%)	116
Other assets	13	48	(72.9%)	31
Total on-balance sheet exposures	316 846	288 758	9.7%	302 803
Guarantees^	14 551	12 507	16.3%	13 529
Contingent liabilities, committed facilities and other	43 480	37 158	17.0%	40 319
Total off-balance sheet exposures	58 031	49 665	16.8%	53 848
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	374 877	338 423	10.8%	356 650

* *Where the average is based on a straight-line average for period 1 April 2014 to 31 March 2015.*
^ *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.

R'million	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note refer-ence	Total balance sheet
At 31 March 2015				
Cash and balances at central banks	6 261	–		6 261
Loans and advances to banks	33 422	–		33 422
Non-sovereign and non-bank cash placements	10 540	–		10 540
Reverse repurchase agreements and cash collateral on securities borrowed	10 095	–		10 095
Sovereign debt securities	31 378	–		31 378
Bank debt securities	17 332	–		17 332
Other debt securities	12 749	–		12 749
Derivative financial instruments	14 879	299	1	15 178
Securities arising from trading activities	1 018	271		1 289
Investment portfolio	–	9 972	1	9 972
Loans and advances to customers	174 132	(1 139)	2	172 993
Own originated loans and advances to customers securitised	4 537	(2)	2	4 535
Other loans and advances	490	(18)	2	472
Other securitised assets	–	618	3	618
Interest in associated undertakings	–	60		60
Deferred taxation assets	–	88		88
Other assets	13	1 249	4	1 262
Property and equipment	–	192		192
Investment properties	–	80		80
Intangible assets	–	190		190
Loans to group companies	–	3 268		3 268
Non-current assets classified as held for sale	–	732		732
Total on-balance sheet exposures	316 846	15 860		332 706

1. *Largely relates to exposures that are classified as equity risk in the banking book. Further information is provided on pages 49 to 51.*
2. *Largely relates to impairments.*
3. *Largely includes cash in the securitised vehicles.*
4. *Other assets include settlement debtors which we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

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

R'million	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note reference	Total balance sheet
At 31 March 2014				
Cash and balances at central banks	5 927	–		5 927
Loans and advances to banks	32 672	–		32 672
Non-sovereign and non-bank cash placements	9 045	–		9 045
Reverse repurchase agreements and cash collateral on securities borrowed	6 442	–		6 442
Sovereign debt securities	34 815	–		34 815
Bank debt securities	21 538	–		21 538
Other debt securities	11 933	–		11 933
Derivative financial instruments	11 882	417		12 299
Securities arising from trading activities	994	322		1 316
Investment portfolio	–	8 834	1	8 834
Loans and advances to customers	149 810	(1 248)	2	148 562
Own originated loans and advances to customers securitised	2 824	(2)	2	2 822
Other loans and advances	597	(45)	2	552
Other securitised assets	231	1 272	3	1 503
Interest in associated undertakings	–	52		52
Deferred taxation assets	–	75		75
Other assets	48	1 723	4	1 771
Property and equipment	–	219		219
Investment properties	–	84		84
Intangible assets	–	102		102
Loans to group companies	–	1 924		1 924
Non-current assets classified as held for sale	–	731		731
Total on-balance sheet exposures	288 758	14 460		303 218

1. *Largely relates to exposures that are classified as equity risk in the banking book. Further information is provided on pages 49 to 51.*
2. *Largely relates to impairments.*
3. *While the group manages all risks (including credit risk) from a day-to-day operational perspective, certain of these assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicles that the group has reflected in the 'total credit and counterparty exposure' with the maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'.*
4. *Other assets include settlement debtors which we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

Detailed analysis of gross credit and counterparty exposures by industry

R'million	HNW and professional individuals	Lending collateralised by property – largely to private clients	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services
At 31 March 2015						
Cash and balances at central banks	–	–	–	–	6 261	–
Loans and advances to banks	–	–	–	–	–	–
Non-sovereign and non-bank cash placements	–	–	–	–	–	544
Reverse repurchase agreements and cash collateral on securities borrowed	579	–	–	971	–	71
Sovereign debt securities	–	–	–	–	31 378	–
Bank debt securities	–	–	–	–	–	–
Other debt securities	–	–	–	1 097	–	–
Derivative financial instruments	90	–	10	368	–	178
Securities arising from trading activities	–	–	–	6	270	165
Loans and advances to customers (gross)	74 466	38 031	869	4 794	1 004	6 777
Own originated loans and advances to customers securitised (gross)	4 537	–	–	–	–	–
Other loans and advances (gross)	–	–	–	–	–	–
Other assets	–	–	–	–	–	–
Total on-balance sheet exposures	79 672	38 031	879	7 236	38 913	7 735
Guarantees^	3 805	1 501	–	565	1 333	109
Contingent liabilities, committed facilities and other	25 594	5 388	464	2 243	213	656
Total off-balance sheet exposures	29 399	6 889	464	2 808	1 546	765
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	109 071	44 920	1 343	10 044	40 459	8 500
At 31 March 2014						
Cash and balances at central banks	–	–	–	–	5 927	–
Loans and advances to banks	–	–	–	–	–	–
Non-sovereign and non-bank cash placements	–	–	–	24	17	484
Reverse repurchase agreements and cash collateral on securities borrowed	485	–	–	20	–	–
Sovereign debt securities	–	–	–	–	34 815	–
Bank debt securities	–	–	–	–	–	–
Other debt securities	–	–	–	304	–	–
Derivative financial instruments	61	–	9	85	–	52
Securities arising from trading activities	–	–	–	4	654	–
Loans and advances to customers (gross)	62 932	35 515	823	3 119	918	5 173
Own originated loans and advances to customers securitised (gross)	2 824	–	–	–	–	–
Other loans and advances (gross)	–	–	–	–	–	–
Other securitised assets	–	–	–	–	157	–
Other assets	–	–	–	1	–	–
Total on-balance sheet exposures	66 302	35 515	832	3 557	42 488	5 709
Guarantees^	2 354	1 518	–	158	843	33
Contingent liabilities, committed facilities and other	21 783	5 946	588	2 868	7	613
Total off-balance sheet exposures	24 137	7 464	588	3 026	850	646
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	90 439	42 979	1 420	6 583	43 338	6 355

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

Finance and insurance	Retailers and wholesalers	Manufac-turing and commerce	Construc-tion	Corporate commercial real estate	Other residential mortgages	Mining and resources	Leisure, entertain-ment and tourism	Transport	Communi-cation	Total
–	–	–	–	–	–	–	–	–	–	6 261
33 422	–	–	–	–	–	–	–	–	–	33 422
3 527	1 769	2 189	350	–	–	479	–	1 209	473	10 540
7 521	–	865	–	–	–	–	–	88	–	10 095
–	–	–	–	–	–	–	–	–	–	31 378
17 332	–	–	–	–	–	–	–	–	–	17 332
6 212	1	–	–	–	–	2 268	–	956	2 215	12 749
12 470	126	575	2	711	–	276	15	40	18	14 879
299	–	165	–	–	–	26	–	87	–	1 018
8 602	2 140	9 505	2 749	6 441	–	4 010	1 605	7 088	6 051	174 132
–	–	–	–	–	–	–	–	–	–	4 537
–	–	–	–	–	490	–	–	–	–	490
13	–	–	–	–	–	–	–	–	–	13
89 398	4 036	13 299	3 101	7 152	490	7 059	1 620	9 468	8 757	316 846
3 906	800	843	–	1	–	1 640	–	16	32	14 551
3 569	364	392	170	263	–	1 800	65	1 553	746	43 480
7 475	1 164	1 235	170	264	–	3 440	65	1 569	778	58 031
96 873	5 200	14 534	3 271	7 416	490	10 499	1 685	11 037	9 535	374 877
–	–	–	–	–	–	–	–	–	–	5 927
32 672	–	–	–	–	–	–	–	–	–	32 672
2 000	1 682	2 063	240	–	–	541	–	1 803	191	9 045
4 850	–	1 008	–	–	–	–	–	79	–	6 442
–	–	–	–	–	–	–	–	–	–	34 815
21 538	–	–	–	–	–	–	–	–	–	21 538
6 662	–	–	–	–	–	2 226	–	1 547	1 194	11 933
10 114	247	469	5	607	–	138	11	84	–	11 882
148	–	149	–	–	–	–	–	39	–	994
4 977	2 921	8 468	2 443	6 756	–	5 123	799	4 801	5 042	149 810
–	–	–	–	–	–	–	–	–	–	2 824
–	–	–	–	–	597	–	–	–	–	597
74	–	–	–	–	–	–	–	–	–	231
47	–	–	–	–	–	–	–	–	–	48
83 082	4 850	12 157	2 688	7 363	597	8 028	810	8 353	6 427	288 758
4 226	1 325	110	–	1	–	1 713	197	20	9	12 507
548	772	628	31	112	–	1 816	685	634	127	37 158
4 774	2 097	738	31	113	–	3 529	882	654	136	49 665
87 856	6 947	12 895	2 719	7 476	597	11 557	1 692	9 007	6 563	338 423

Private client loans account for 65.5% of total gross core loans and advances, as represented by the industry classification 'HNW and professional individuals'

Summary analysis of gross credit and counterparty exposures by industry

A description of the type of private client lending we undertake is provided on page 27, and a more detailed analysis of the private client loan portfolio is provided on pages 46 and 47.

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

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

A description of the type of corporate client lending we undertake is provided on pages 27 and 28 and a more detailed analysis of the corporate client loan portfolio is provided on pages 46 and 47.

At 31 March R'million	Gross core loans and advances 2015	Gross core loans and advances 2014	Other credit and counterparty exposures 2015	Other credit and counterparty exposures 2014	Total 2015	Total 2014
HNW and professional individuals	79 003	65 756	30 068	24 683	109 071	90 439
Lending collateralised by property – largely to private clients	38 031	35 515	6 889	7 464	44 920	42 979
Agriculture	869	823	474	597	1 343	1 420
Electricity, gas and water (utility services)	4 794	3 119	5 250	3 464	10 044	6 583
Public and non-business services	1 004	918	39 455	42 420	40 459	43 338
Business services	6 777	5 173	1 723	1 182	8 500	6 355
Finance and insurance	8 602	4 977	88 271	82 879	96 873	87 856
Retailers and wholesalers	2 140	2 921	3 060	4 026	5 200	6 947
Manufacturing and commerce	9 505	8 468	5 029	4 427	14 534	12 895
Construction	2 749	2 443	522	276	3 271	2 719
Corporate commercial real estate	6 441	6 756	975	720	7 416	7 476
Other residential mortgages	–	–	490	597	490	597
Mining and resources	4 010	5 123	6 489	6 434	10 499	11 557
Leisure, entertainment and tourism	1 605	799	80	893	1 685	1 692
Transport	7 088	4 801	3 949	4 206	11 037	9 007
Communication	6 051	5 042	3 484	1 521	9 535	6 563
Total	178 669	152 634	196 208	185 789	374 877	338 423

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

R'million	Up to three months	Three to six months	Six months to one year	One to five years	Five to 10 years	> 10 years	Total
Cash and balances at central banks	6 261	–	–	–	–	–	6 261
Loans and advances to banks	31 759	545	182	851	85	–	33 422
Non-sovereign and non-bank cash placements	10 540	–	–	–	–	–	10 540
Reverse repurchase agreements and cash collateral on securities borrowed	5 570	17	1 020	2 134	1 354	–	10 095
Sovereign debt securities	8 724	7 583	4 171	3 043	5 579	2 278	31 378
Bank debt securities	4 109	1 841	1 589	8 342	1 451	–	17 332
Other debt securities	137	201	177	5 874	6 072	288	12 749
Derivative financial instruments	2 009	1 186	1 382	6 789	3 111	402	14 879
Securities arising from trading activities	491	7	–	255	50	215	1 018
Loans and advances to customers (gross)	21 567	5 584	12 010	77 736	19 420	37 815	174 132
Own originated loans and advances to customers securitised (gross)	177	–	5	1 292	195	2 868	4 537
Other loans and advances (gross)	–	–	–	490	–	–	490
Other assets	13	–	–	–	–	–	13
Total on-balance sheet exposures	91 357	16 964	20 536	106 806	37 317	43 866	316 846
Guarantees^	6 845	205	407	4 895	1 930	269	14 551
Contingent liabilities, committed facilities and other	13 272	1 175	3 347	11 674	2 140	11 872	43 480
Total off-balance sheet exposures	20 117	1 380	3 754	16 569	4 070	12 141	58 031
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	111 474	18 344	24 290	123 375	41 387	56 007	374 877

^ *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

Core loans and advances comprise:

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

At 31 March R'million	2015	2014
Loans and advances to customers as per the balance sheet	172 993	148 562
Add: own originated loans and advances securitised as per the balance sheet	4 535	2 822
Net core loans and advances to customers	177 528	151 384

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 32.

R'million	31 March 2015	31 March 2014
Gross core loans and advances to customers	178 669	152 634
Total impairments	(1 141)	(1 250)
Specific impairments	(971)	(1 077)
Portfolio impairments	(170)	(173)
Net core loans and advances to customers	177 528	151 384
Average gross core loans and advances to customers	165 652	146 047
Current loans and advances to customers	173 775	147 724
Past due loans and advances to customers (1 – 60 days)	505	729
Special mention loans and advances to customers	660	658
Default loans and advances to customers	3 729	3 523
Gross core loans and advances to customers	178 669	152 634
Current loans and advances to customers	173 775	147 724
Default loans that are current and not impaired	787	162
Gross core loans and advances to customers that are past due but not impaired	1 720	2 171
Gross core loans and advances to customers that are impaired	2 387	2 577
Gross core loans and advances to customers	178 669	152 634
Total income statement charge for impairments on core loans and advances	(482)	(638)
Gross default loans and advances to customers	3 729	3 523
Specific impairments	(971)	(1 077)
Portfolio impairments	(170)	(173)
Defaults net of impairments	2 588	2 273
Aggregate collateral and other credit enhancements on defaults	3 717	3 520
Net default loans and advances to customers (limited to zero)	–	–
Ratios		
Total impairments as a % of gross core loans and advances to customers	0.64%	0.82%
Total impairments as a % of gross default loans	30.60%	35.48%
Gross defaults as a % of gross core loans and advances to customers	2.09%	2.31%
Defaults (net of impairments) as a % of net core loans and advances to customers	1.46%	1.50%
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)	0.29%	0.44%

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

At 31 March R'million	2015	2014
Default loans that are current	1 533	785
1 – 60 days	1 448	1 140
61 – 90 days	144	235
91 – 180 days	253	453
181 – 365 days	194	584
> 365 days	1 322	1 713
Past due and default core loans and advances to customers (actual capital exposure)	4 894	4 910
1 – 60 days	543	231
61 – 90 days	36	29
91 – 180 days	130	106
181 – 365 days	147	470
> 365 days	962	1 425
Past due and default core loans and advances to customers (actual amount in arrears)	1 818	2 261

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

R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
At 31 March 2015							
Watchlist loans neither past due nor impaired							
Total capital exposure	787	–	–	–	–	–	787
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	1 030	104	173	128	285	1 720
Amount in arrears	–	389	32	108	94	172	795
Gross core loans and advances to customers that are impaired							
Total capital exposure	746	418	40	80	66	1 037	2 387
Amount in arrears	–	154	4	22	53	790	1 023
At 31 March 2014							
Watchlist loans neither past due nor impaired							
Total capital exposure	162	–	–	–	–	–	162
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	993	168	275	326	409	2 171
Amount in arrears	–	188	18	39	246	296	787
Gross core loans and advances to customers that are impaired							
Total capital exposure	623	147	67	178	258	1 304	2 577
Amount in arrears	–	43	11	67	224	1 129	1 474

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

R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	–	505	–	–	–	–	505
Special mention	–	490	76	19	34	41	660
Special mention (1 – 90 days)	–	490	2	19*	34*	41*	586
Special mention (61 – 90 days and item well secured)	–	–	74	–	–	–	74
Default	1 533	453	68	234	160	1 281	3 729
Sub-standard	787	36	28	155	94	244	1 344
Doubtful	746	417	40	79	66	1 037	2 385
Total	1 533	1 448	144	253	194	1 322	4 894

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

R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	–	49	–	–	–	–	49
Special mention	–	340	19	6	26	26	417
Special mention (1 – 90 days)	–	340	–	6*	26*	26*	398
Special mention (61 – 90 days and item well secured)	–	–	19	–	–	–	19
Default	–	154	17	124	121	936	1 352
Sub-standard	–	1	12	102	68	146	329
Doubtful	–	153	5	22	53	790	1 023
Total	–	543	36	130	147	962	1 818

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

An age analysis of past due and default core loans and advances to customers at 31 March 2014 (based on total capital exposure)

R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	–	729	–	–	–	–	729
Special mention	–	241	145	3	214	55	658
Special mention (1 – 90 days)	–	241	23	3*	214*	55*	536
Special mention (61 – 90 days and item well secured)	–	–	122	–	–	–	122
Default	785	170	90	450	370	1 658	3 523
Sub-standard	162	26	25	272	112	355	952
Doubtful	623	144	65	178	258	1 303	2 571
Total	785	1 140	235	453	584	1 713	4 910

An age analysis of past due and default core loans and advances to customers at 31 March 2014 (based on actual amount in arrears)

R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	–	77	–	–	–	–	77
Special mention	–	111	17	1	187	10	326
Special mention (1 – 90 days)	–	111	3	1*	187*	10*	312
Special mention (61 – 90 days and item well secured)	–	–	14	–	–	–	14
Default	–	43	12	105	283	1 415	1 858
Sub-standard	–	1	1	38	59	286	385
Doubtful	–	42	11	67	224	1 129	1 473
Total	–	231	29	106	470	1 425	2 261

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

An analysis of core loans and advances to customers

R'million	Gross core loans and advances that are neither past due nor impaired	Gross core loans and advances that are past due but not impaired	Gross core loans and advances that are impaired	Total gross core loans and advances (actual capital exposure)	Specific impairments	Portfolio impairments	Total net core loans and advances (actual capital exposure)	Actual amount in arrears
At 31 March 2015								
Current core loans and advances	173 775	–	–	173 775	–	(159)	173 616	–
Past due (1 – 60 days)	–	505	–	505	–	(3)	502	49
Special mention	–	660	–	660	–	(8)	652	417
Special mention (1 – 90 days)	–	586	–	586	–	(7)	579	398
Special mention (61 – 90 days and item well secured)	–	74	–	74	–	(1)	73	19
Default	787	555	2 387	3 729	(971)	–	2 758	1 352
Sub-standard	787	555	2	1 344	–	–	1 344	329
Doubtful	–	–	2 385	2 385	(971)	–	1 414	1 023
Total	174 562	1 720	2 387	178 669	(971)	(170)	177 528	1 818
At 31 March 2014								
Current core loans and advances	147 724	–	–	147 724	–	(159)	147 565	–
Past due (1 – 60 days)	–	729	–	729	–	(4)	725	77
Special mention	–	658	–	658	–	(10)	648	326
Special mention (1 – 90 days)	–	536	–	536	–	(9)	527	312
Special mention (61 – 90 days and item well secured)	–	122	–	122	–	(1)	121	14
Default	162	784	2 577	3 523	(1 077)	–	2 446	1 858
Sub-standard	162	784	6	952	–	–	952	385
Doubtful	–	–	2 571	2 571	(1 077)	–	1 494	1 473
Total	147 886	2 171	2 577	152 634	(1 077)	(173)	151 384	2 261

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

R'million	Private client, professional and HNW individuals	Corporate sector	Insurance, financial services (excluding sovereign)	Public and government sector (including central banks)	Trade finance and other	Total core loans and advances to customers
At 31 March 2015						
Current core loans and advances	113 153	47 598	8 602	933	3 489	173 775
Past due (1 – 60 days)	453	–	–	–	52	505
Special mention	633	24	–	–	3	660
Special mention (1 – 90 days)	562	24	–	–	–	586
Special mention (61 – 90 days and item well secured)	71	–	–	–	3	74
Default	2 795	692	–	71	171	3 729
Sub-standard	1 277	64	–	–	3	1 344
Doubtful	1 518	628	–	71	168	2 385
Total gross core loans and advances to customers	117 034	48 314	8 602	1 004	3 715	178 669
Total impairments	(652)	(363)	(4)	(7)	(115)	(1 141)
Specific impairments	(519)	(331)	–	(6)	(115)	(971)
Portfolio impairments	(133)	(32)	(4)	(1)	–	(170)
Net core loans and advances to customers	116 382	47 951	8 598	997	3 600	177 528
At 31 March 2014						
Current core loans and advances	97 307	41 825	4 794	918	2 880	147 724
Past due (1 – 60 days)	468	200	–	–	61	729
Special mention	652	–	–	–	6	658
Special mention (1 – 90 days)	535	–	–	–	1	536
Special mention (61 – 90 days and item well secured)	117	–	–	–	5	122
Default	2 844	390	183	–	106	3 523
Sub-standard	761	3	183	–	5	952
Doubtful	2 083	387	–	–	101	2 571
Total gross core loans and advances to customers	101 271	42 415	4 977	918	3 053	152 634
Total impairments	(987)	(180)	(2)	(1)	(80)	(1 250)
Specific impairments	(869)	(128)	–	–	(80)	(1 077)
Portfolio impairments	(118)	(52)	(2)	(1)	–	(173)
Net core loans and advances to customers	100 284	42 235	4 975	917	2 973	151 384

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

R'million	Gross core loans	Gross defaults	Aggregate collateral and other credit enhancements on defaults	Balance sheet impairments	Income statement impairments^
Lending collateralised by property	38 031	1 311	1 303	(430)	(179)
Commercial real estate	34 924	651	741	(251)	(144)
Commercial real estate – investment	31 030	276	443	(93)	(38)
Commercial real estate – development	2 372	72	76	(7)	(4)
Commercial vacant land and planning	1 522	303	222	(151)	(102)
Residential real estate	3 107	660	562	(179)	(35)
Residential real estate – development	1 590	346	333	(52)	(1)
Residential vacant land and planning	1 517	314	229	(127)	(34)
High net worth and other private client lending	79 003	1 484	1 897	(222)	(29)
Mortgages	46 155	448	739	(71)	(6)
High net worth and specialised lending	32 848	1 036	1 158	(151)	(23)
Corporate and other lending	61 635	934	517	(489)	(274)
Acquisition finance	16 303	481	313	(198)	(186)
Asset-based lending	3 717	170	117	(115)	(36)
Other corporate and financial institutions and governments	31 067	265	86	(127)	(56)
Asset finance	4 434	–	1	(31)	(21)
Small ticket asset finance	1 228	–	1	1	(16)
Large ticket asset finance	3 206	–	–	(32)	(5)
Project finance	5 597	18	–	(18)	25
Resource finance	517	–	–	–	–
Total	178 669	3 729	3 717	(1 141)	(482)

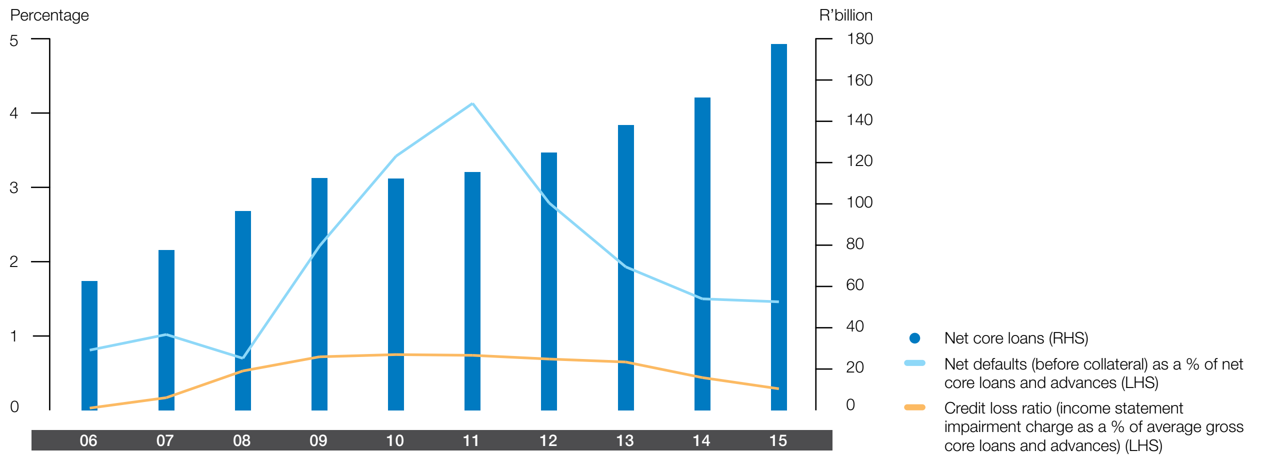
^ *Where a positive number represents a recovery.*

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

R'million	Gross core loans	Gross defaults	Aggregate collateral and other credit enhancements on defaults	Balance sheet impairments	Income statement impairments^
Lending collateralised by property	35 515	1 844	1 716	(695)	(197)
Commercial real estate	32 571	749	899	(237)	(67)
Commercial real estate – investment	28 949	516	636	(168)	(32)
Commercial real estate – development	1 846	–	–	(3)	(16)
Commercial vacant land and planning	1 776	233	263	(66)	(19)
Residential real estate	2 944	1 095	817	(458)	(130)
Residential real estate – development	1 231	328	324	(50)	(46)
Residential vacant land and planning	1 713	767	493	(408)	(84)
High net worth and other private client lending	65 756	1 000	1 179	(292)	(357)
Mortgages	38 412	601	789	(116)	(92)
High net worth and specialised lending	27 344	399	390	(176)	(265)
Corporate and other lending	51 363	679	625	(263)	(84)
Acquisition finance	12 188	527	557	(100)	8
Asset-based lending	3 050	106	55	(80)	(35)
Other corporate and financial institutions and governments	28 738	46	13	(75)	38
Asset finance	3 519	–	–	(8)	(9)
Small ticket asset finance	1 007	–	–	–	–
Large ticket asset finance	2 512	–	–	(8)	(9)
Project finance	3 220	–	–	–	(86)
Resource finance	648	–	–	–	–
Total	152 634	3 523	3 520	(1 250)	(638)

^ *Where a positive number represents a recovery.*

Asset quality trends



Risk management and corporate governance

3

Collateral

A summary of total collateral is provided in the table below

R'million	Collateral held against: Core loans and advances	Collateral held against: Other credit and counterparty exposures*	Total
At 31 March 2015			
Eligible financial collateral	28 458	24 925	53 383
Listed shares	25 567	12 288	37 855
Cash	713	8 242	8 955
Debt securities issued by sovereigns	2 178	4 395	6 573
Property charge	218 022	760	218 782
Residential property	106 774	666	107 440
Commercial property developments	7 245	94	7 339
Commercial property investments	104 003	–	104 003
Other collateral	51 727	494	52 221
Unlisted shares	8 155	–	8 155
Charges other than property	9 464	–	9 464
Debtors, stock and other corporate assets	3 796	–	3 796
Guarantees	13 355	15	13 370
Other	16 957	479	17 436
Total collateral	298 207	26 179	324 386
At 31 March 2014			
Eligible financial collateral	22 118	6 922	29 040
Listed shares	20 894	6 920	27 814
Cash	1 224	2	1 226
Property charge	211 125	631	211 756
Residential property	105 588	552	106 140
Commercial property developments	6 323	79	6 402
Commercial property investments	99 214	–	99 214
Other collateral	75 252	1 497	76 749
Unlisted shares	29 784	782	30 566
Charges other than property	8 622	–	8 622
Debtors, stock and other corporate assets	9 922	–	9 922
Guarantees	12 136	157	12 293
Other	14 788	558	15 346
Total collateral	308 495	9 050	317 545

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

Equity and investment risk in the banking book

Equity and investment risk description

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

- **Principal Investments (Private Equity and Direct Investments):** investments are selected based on the track record of management, the attractiveness of the industry and the ability to build value for the existing business by implementing an agreed strategy. In addition, as a result of our local market knowledge and investment banking expertise, we are well positioned to take direct positions in listed shares where we believe that the market is mispricing the value of the underlying portfolio with the intention to stimulate corporate activity. In South Africa, we also continue to pursue opportunities to help create and grow black-owned and controlled companies
- **Lending transactions:** the manner in which we structure certain transactions results in equity, warrant and profit shares being held, predominantly within unlisted companies
- **Property Activities:** we source development, investment and trading opportunities to create value and trade for profit within agreed risk parameters
- **Central Funding:** Central Funding is the custodian of certain equity and property investments, which have largely arisen from corporate acquisitions made.

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

Management of equity and investment risk

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

Nature of equity and investment risk	Management of risk
Listed equities	Investment committee, market risk management and ERRF
Investment Banking Principal Finance investments	Investment committee, the Investec Bank Limited Direct Investments division investment committee and ERRF
Embedded derivatives, profit shares and investments arising from lending transactions	Credit risk management committees and ERRF
Investment and trading properties	Investment committee and ERRF
Central Funding investments	Investment committee and ERRF

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

Valuation and accounting methodologies

For a description of our valuation principles and methodologies refer to pages 142 to 155 for factors taken into consideration in determining fair value.

We have a low level of assets exposed to the volatility of IFRS fair value accounting with level 3 assets amounting to 2.0% of total assets.

Refer to page 142 for further information.

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

For the year to 31 March R'million	Income (pre-funding costs) Unrealised	Realised	Dividends	Total	Fair value through equity
2015					
Unlisted investments	451	456	308	1 215	–
Listed equities	50	(105)	203	148	(176)
Investment and trading properties	4	27	–	31	–
Warrants, profit shares and other embedded derivatives	(107)	318	–	211	–
Total	398	696	511	1 605	(176)
2014					
Unlisted investments	(245)	93	629	477	–
Listed equities	26	(6)	17	37	(210)
Investments and trading properties	59	14	–	73	–
Warrants, profit shares and other embedded derivatives	(21)	129	–	108	–
Total	(181)	230	646	695	(210)

Unrealised revaluation gains through profit and loss are included in tier 1 capital. The bank excludes revaluation gains posted directly to equity from its capital position.

Summary of investments held and stress testing analyses

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

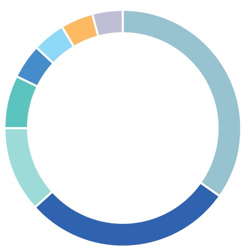
R'million	On-balance sheet value of investments 2015	Valuation change stress test 2015*	On-balance sheet value of investments 2014	Valuation change stress test 2014*
Unlisted investments^	7 791	1 169	7 184	1 078
Listed equities	2 913	728	2 381	595
Investment and trading properties	289	50	348	61
Warrants, profit shares and other embedded derivatives	299	105	417	146
Total	11 292	2 052	10 330	1 880

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

Additional information

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



31 March 2015 (R11.0 billion)

Manufacturing and commerce	34.8%
Finance and insurance	28.6%
Mining and resources	11.7%
Retailer and wholesalers	7.4%
Communication	4.7%
Real estate	4.4%
Business services	4.4%
Other	4.0%

Stress testing summary

Based on the information at 31 March 2015, as reflected above we could have a R2.1 billion 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.

Capital requirements

In terms of Basel III capital requirements for Investec Bank Limited, unlisted and listed equities within the banking book are represented under the category of 'equity risk' and investment properties, profit shares and embedded derivatives are considered in the calculation of capital required for credit risk.

Refer to page 77 for further detail.

Securitisation/structured credit activities exposures

Overview

The bank'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 bank's credit and counterparty exposure information.

Refer to page 34 for the balance sheet and credit risk classification.

The bank applies the standardised approach in the assessment of regulatory capital for securitisation exposures within its banking book and trading book. The trading book exposures at 31 March 2015 are not regarded as material, and therefore no further information is disclosed for these exposures.

The information below sets out the initiatives we have focused on over the past few years, albeit that some of these business lines have been curtailed given the current economic climate.

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

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

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

Refer to pages 52 and 53.

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

We have also sought out select opportunities in the credit/debt markets and traded and purchased in structured credit. These have largely been rated instruments within the UK and Europe, totalling R1.4 billion at 31 March 2015 (31 March 2014: R4.8 billion). We sold a number of these investments during the year. These investments are risk-weighted for regulatory capital purposes.

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

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

Total assets that have been originated and securitised by the Private Client division amount to R4.5 billion at 31 March 2015 (31 March 2014: R2.8 billion) and consist of residential mortgages (R4.5 billion). Within these securitisation vehicles loans greater than 90 days in arrears amounted to R24.1 million.

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

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

Accounting policies

Refer to page 116.

Risk management

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

In addition, securitisations of Investec own originated assets are assessed in terms of the credit risk management philosophies and principles as set out on page 20.

Credit analysis

In terms of our analysis of our credit and counterparty risk, exposures arising from securitisation/structured credit activities reflect only those exposures to which we consider ourselves to be at risk.
In addition, assets that have been securitised by our Private Client division are reflected as part of our core lending exposures and not our securitisation/credit investment and trading exposures as we believe this reflects the true nature and intent of these exposures and activities.

At 31 March Nature of exposure/activity	Exposure 2015 R'million	Exposure 2014 R'million	Balance sheet and credit risk classification	Asset quality – relevant comments
Structured credit (gross exposure)*	4 419	4 852	Other debt securities and other loans and advances	
Rated	1 420	3 447		
Unrated	36	94		
Other (internally held)	2 963	1 311		
Loans and advances to customers and third party intermediary platforms (mortgage loans) (with the potential to be securitised) (net exposure)	472	552	Other loans and advances	
Private Banking division assets	4 535	2 822	Own originated loans and advances to customers securitised	Analysed as part of the group's overall asset quality on core loans and advances as reflected on page 40.
Liquidity facilities provided to third party corporate securitisation vehicles	200	1 305	Off-balance sheet credit exposure as these facilities have remained undrawn and reflect a contingent liability on the bank	

* *Analysed further on page 53.*

*Analysis of rated and unrated structured credit

At 31 March R'million	2015 Rated**	2015 Unrated	2015 Other (internally held, unrated)	2015 Total	2014 Rated	2014 Unrated	2014 Other (internally held, rated)	2014 Total
US corporate loans	35	–	–	35	32	11	–	43
UK and European RMBS	1 251	–	–	1 251	2 892	–	–	2 892
UK and European CMBS	–	–	–	–	1	–	–	1
UK and European corporate loans	–	36	–	36	–	83	–	83
Australian RMBS	134	–	–	134	365	–	–	365
South African CMBS	–	–	–	–	157	–	–	157
South African RMBS	–	–	2 963	2 963^	–	–	1 311	1 311^
Total	1 420	36	2 963	4 419	3 447	94	1 311	4 852

^ *Investments held in own-originated vehicles.*

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

R'million	AAA	AA	A	BBB	BB	B	C and below	Total
US corporate loans	–	–	–	35	–	–	–	35
UK and European RMBS	–	323	482	268	178	–	–	1 251
Australian RMBS	–	134	–	–	–	–	–	134
Total at 31 March 2015	–	457	482	303	178	–	–	1 420
Total at 31 March 2014	–	915	869	1 395	268	–	–	3 447

Market risk in the trading book

Traded market risk description

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

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

Traded market risk governance structure

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

A global market risk forum (mandated by the various boards of directors) manages the market risks in accordance with pre-approved principles and policies. Risk limits are reviewed and set at the global market risk forum and ratified at the ERRF in accordance with the risk appetite defined by the board. Limits are reviewed at least annually or in the event of a significant market event (e.g. 11 September 2001) or at the discretion of senior management.

Management and measurement of traded market risk

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

These reports are distributed to management and traders. There is a formal process for management recognition and authorisation for any risk excesses incurred. The production of risk reports allows for the monitoring of every instrument traded against prescribed limits. Valuation models for new instruments or products are independently validated by Market Risk Management before trading can commence. Each traded instrument undergoes various stresses to assess potential losses. Each trading desk is monitored on an overall basis as an additional control. Trading limits are generally tiered with the most liquid and least 'risky' instruments being assigned the largest limits.

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

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

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

All VaR models, while forward-looking, are based on past events and depend on the quality of available market data. The accuracy of the VaR model as a predictor of potential loss is continuously monitored through backtesting. This involves comparing the hypothetical (clean) trading revenues arising from the previous day's closing positions with the one-day VaR calculated for the previous day on these same positions. If the revenue is negative and exceeds the one-day VaR, a 'backtesting breach' is considered to have occurred. Over time we expect the average rate of observed backtesting breaches to be consistent with the percentile of the VaR statistic being tested.

In South Africa, we have internal model approval from the SARB and so trading capital is calculated as a function of the 99% 10-day VaR as well as the 99% 10-day sVaR. Backtesting results and a detailed stress-testing pack are submitted to the regulator on a monthly basis.

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

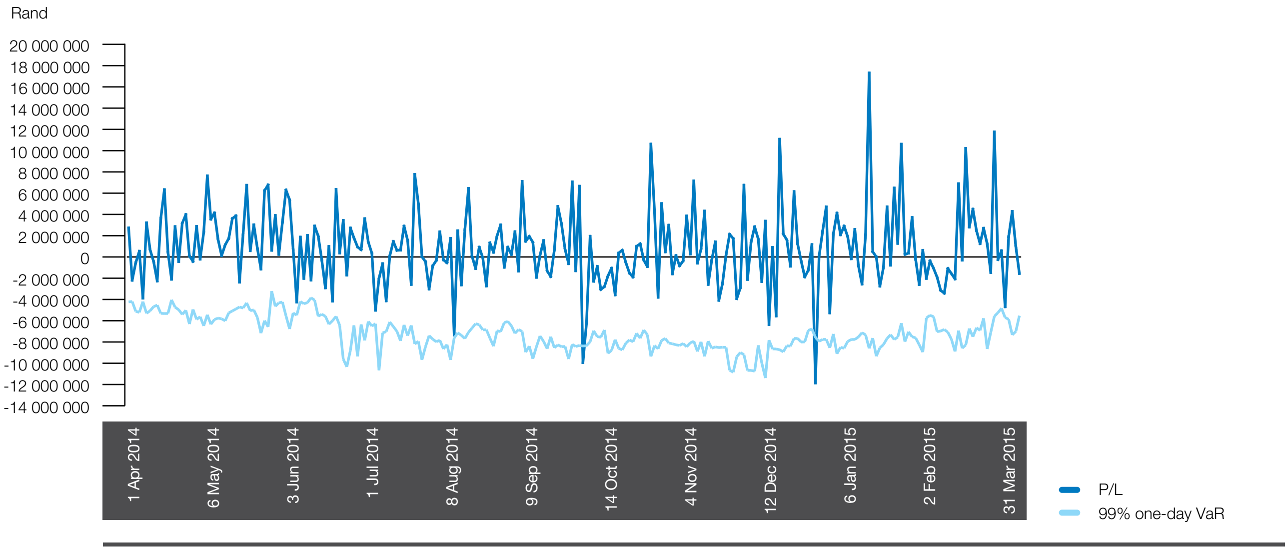
VaR

R'million	31 March 2015 Year end	Average	High	Low	31 March 2014 Year end	Average	High	Low
95% (one-day)								
Commodities	–	0.1	0.5	–	0.5	0.1	0.5	–
Equities	1.8	2.7	6.4	1.0	1.6	4.5	9.0	0.9
Foreign exchange	3.0	3.1	5.9	1.1	1.9	2.5	7.2	1.1
Interest rates	2.7	1.6	3.5	0.9	1.3	2.2	6.0	0.7
Consolidated*	3.4	4.3	7.6	2.0	2.1	5.5	9.9	2.0

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

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

99% one-day VaR backtesting



ETL 95% (one-day)

For the year to 31 March R'million	2015	2014
Commodities	–	0.5
Equities	2.5	2.5
Foreign exchange	4.4	2.7
Interest rates	3.8	1.9
Consolidated*	5.0	3.1

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

Stress testing

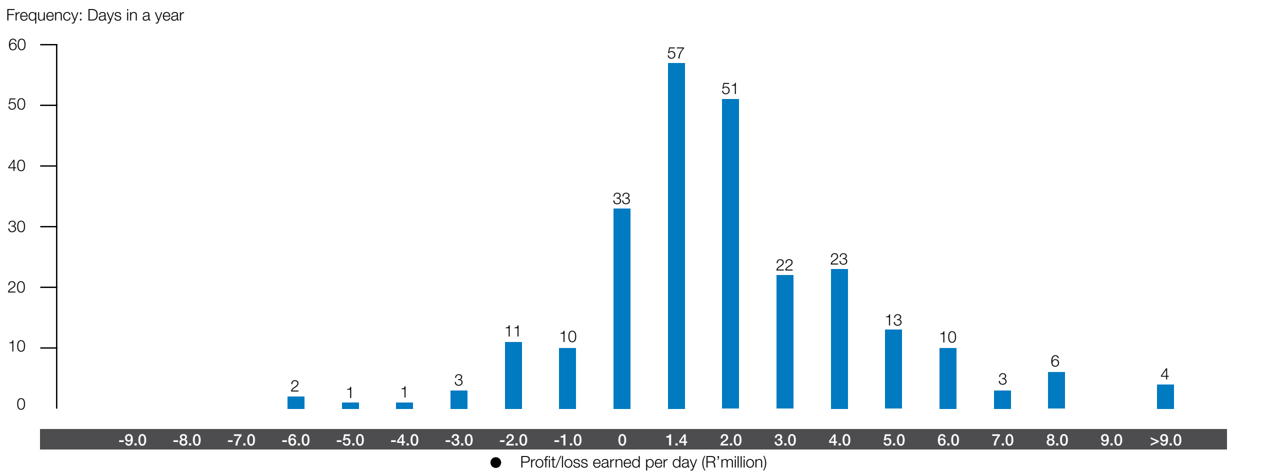
The table below indicates the potential losses that could arise if the portfolio is stress tested under extreme market conditions. The method used is known as extreme value theory (EVT), the reported stress scenario below calculates the 99% EVT which is a 1-in-8 year possible loss event. These numbers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

	31 March 2015				31 March 2014
R'million	Year end	Average	High	Low	Year end
99% (using 99% EVT)					
Commodities	0.1	0.4	4.0	–	1.6
Equities	9.7	11.5	22.2	4.6	6.4
Foreign exchange	16.2	10.7	26.6	4.7	12.9
Interest rates	7.7	9.7	19.4	4.0	6.6
Consolidated	13.4	14.6	26.0	8.5	12.1

Profit and loss histograms

The histogram below illustrates the distribution of daily revenue during the financial year for our trading businesses. The distribution is skewed to the profit side and the graph shows that positive trading revenue was realised on 189 days out of a total of 250 days in the trading business. The average daily trading revenue generated for the year to 31 March 2015 was R1.5 million (2014: R1.4 million).

Profit and loss



Traded market risk mitigation

The Market Risk Management team has a reporting line that is separate from the trading function, thereby ensuring independent oversight. The risk management software runs independently from source trading systems and values all trades separately. The values from the two systems are reconciled daily. The values from the risk system are also used for profit attribution, another risk management tool.

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

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

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

Traded market risk year in review

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

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 161 and 162.

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 future positive or negative cash flows which would have occurred had we closed out the rights and obligations arising from that instrument in an orderly market transaction at year end. Both these amounts reflect only derivatives exposure and exclude the value of the physical financial instruments used to hedge these positions.

Balance sheet risk management

Balance sheet risk description

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

Balance sheet risk governance structure and risk mitigation

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

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

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

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

Geographic entities have no responsibility for contributing to group liquidity.

The ALCOs typically comprise of the group risk and finance director, the head of risk, the head of Corporate and Institutional Banking activities and Private banking, economists, divisional heads, the Balance Sheet Risk Management team, the treasurer and business heads. The ALCOs formally meet on a monthly basis to review the exposures that lie within the balance sheet together with market conditions, and decide on strategies to mitigate any undesirable liquidity and interest rate risk. The Central Treasury function within each region is mandated to holistically manage the liquidity mismatch and non-trading interest rate risk arising from our asset and liability portfolios on a day-to-day basis. The treasurers are required to exercise tight control of funding, liquidity, concentration and non-trading interest rate risk within parameters defined by the board-approved risk appetite policy. Non-trading interest rate risk and asset funding requirements are transferred from the originating business to the treasury function.

The Central Treasury, by core geography, directs pricing for all deposit products (including deposit products offered to the private clients), establishes and maintains access to stable wholesale funds with the appropriate tenor and pricing characteristics, and manages liquid securities and collateral, thus providing prudential management and a flexible response to volatile market conditions. The Central Treasury functions are the sole interface to the wholesale market for both cash and derivative transactions.

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

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

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

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

The integrated balance sheet risk management framework is based on similar methodologies to those contemplated under the Basel Committee on Banking Supervision's (BCBS) 'liquidity risk measurement standards and monitoring'.

It is compliant with the 'principles of sound liquidity risk management and supervision' as well as 'guidelines for the management of interest rate risk in the banking book'. The BCBS announced that they propose to both strengthen and harmonise global liquidity standards and plan to introduce two new liquidity standards. The Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are due to be implemented by 2015 and 2018, respectively. The BCBS published the final calibration of the LCR in January 2013 to be phased in from 2015 and the final consultation paper for the NSFR was published in October 2014.

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

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

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

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

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

Non-trading interest rate risk description

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

Sources of interest rate risk include:

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

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

Management and measurement of non-trading interest rate risk

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

- The group complies with the BCBS framework for assessing banking book (non-trading) interest rate risk
- The management of interest rate risk in the banking book is centralised within the Central Treasury function and treasury is mandated by the board to actively manage the liquidity mismatch and non-trading interest rate risk arising from our asset and liability portfolios
- The treasurer is required to exercise tight control of funding, liquidity, concentration and non-trading interest rate risk within parameters defined by the risk appetite policy
- The non-trading interest rate risk appetite has been set based on the loss under a worst-case 200bp parallel shock as a percentage of capital. This level applies to both earnings risk and economic value risk
- Internal capital is allocated for non-trading interest rate risk
- The non-trading interest rate risk policy dictates that long-term non-trading interest rate risk is materially eliminated. In accordance with the policy the bank swaps its fixed deposits and loans into variable rate in the wholesale market via interest rate swaps
- Together with the business, the treasurer develops strategies regarding changes in the volume, composition, pricing and interest rate characteristics of assets and liabilities to mitigate the interest rate risk and ensure a high degree of net interest margin stability over an interest rate cycle. These are presented, debated and challenged in the liability product and pricing forum and ALCO
- It is the responsibility of the liability product and pricing forum, a sub-committee of ALCO, to review the liquidity, interest rate and concentration characteristics of all new products and approve their issuance, ensuring that both standard and non-standard deposit products, particularly those designed for the Private Banking customers, both match market curves and can be hedged if necessary
- Pricing for all deposit products (including deposit products offered to the private clients) is set centrally, in so doing we manage access to funding at cost-effective levels, considering also the stressed liquidity value of the liabilities
- Balance Sheet Risk Management independently measures and analyses both traditional interest rate repricing mismatch and net present value (NPV) sensitivity to changes in interest rate risk factors, detailing the sources of interest rate exposure
- The bank maintains an internal funds transfer pricing system based on prevailing market rates which charges out the price of long- and short-term funding to consumers of liquidity and provides long-term stable funding for our asset creation activity
- Daily management of interest rate risk is centralised within Treasury and is subject to independent ALCO review
- Treasury is the primary interface to the wholesale market
- We carry out technical interest rate analysis and economic review of fundamental developments by geography and global trends.

Non-trading interest rate risk is measured and analysed by utilising standard tools of traditional interest rate repricing mismatch and NPV sensitivity to changes in interest rate risk factors. We detail the sources of interest rate exposure, whether repricing risk, yield curve risk, basis risk or embedded option risk. This is performed for a variety of interest rate scenarios, covering:

- Interest rate expectations and perceived risks to the central view
- Standard shocks to levels and shapes of interest rates and yield curves
- Historically based yield curve changes.

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

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

Technical interest rate analysis and economic review of fundamental developments are used to estimate a set of forward-looking interest rate scenarios incorporating movements in the yield curve level and shape, after taking global trends into account.

These combinations of measures provide senior management (and the ALCOs) with an assessment of the financial impact of identified rate changes on potential future net interest income and sensitivity to changes in economic value.

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

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

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

The Basel Financial Market Committee has indicated that after completing and embedding the current reforms (covering capital, leverage and liquidity), the capital framework for interest rate risk on the banking book will be revisited. In part this is due to the increase in the quantum of high-quality liquid assets (HQLA) banks will need to hold in meeting the new liquidity ratios and the potential increase in interest rate risk thereon.

The expectation is that Basel will produce additional consultation documents in the next year on minimum standards for interest rate risk measurement in the banking book.

Interest rate sensitivity gap

The table below shows our non-trading interest rate mismatch at 31 March 2015. These exposures affect the interest rate margin realised between lending income and borrowing costs assuming no management intervention.

R'million	Not > three months	> Three months but < six months	> Six months but < one year	> One year but < five years	> Five years	Non-rate	Total non-trading
Cash and short-term funds – banks	30 048	42	–	33	–	6 189	36 312
Cash and short-term funds – non-banks	10 535	5	–	–	–	–	10 540
Investment/trading assets and statutory liquids	24 234	11 532	5 497	10 731	10 858	12 588	75 440
Securitised assets	5 017	–	–	–	–	136	5 153
Advances	153 164	6 092	798	8 596	3 755	1 060	173 465
Other assets	15	–	–	–	–	1 441	1 456
Assets	223 013	17 671	6 295	19 360	14 613	21 414	302 366
Deposits – banks	(29 766)	–	(14)	–	–	(12)	(29 792)
Deposits – non-banks	(184 534)	(11 197)	(11 363)	(10 572)	(2 195)	(1 215)	(221 076)
Negotiable paper	(1 350)	–	(540)	(3 627)	–	–	(5 517)
Securitised liabilities	(53)	–	–	–	(625)	(411)	(1 089)
Investment/trading liabilities	(9 579)	(678)	(3 194)	(1 076)	(233)	(1 194)	(15 954)
Subordinated liabilities	(7 659)	–	–	(200)	(2 590)	–	(10 449)
Other liabilities	(3)	–	–	–	–	(3 959)	(3 962)
Liabilities	(232 944)	(11 875)	(15 111)	(15 475)	(5 643)	(6 791)	(287 839)
Intercompany loans	13 791	707	(953)	3 738	323	1 560	19 166
Shareholders' funds	(1 163)	–	–	–	(11)	(27 725)	(28 899)
Balance sheet	2 697	6 503	(9 769)	7 623	9 282	(11 542)	4 794
Off-balance sheet	10 810	(2 828)	2 150	(7 647)	(7 155)	(124)	(4 794)
Repricing gap	13 507	3 675	(7 619)	(24)	2 127	(11 666)	–
Cumulative repricing gap	13 507	17 182	9 563	9 539	11 666	–	

Economic value sensitivity at 31 March 2015

For the reasons outlined above, our preference for monitoring and measuring non-trading interest rate risk is economic value sensitivity. The 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	ZAR	GBP	USD	EUR	AUD	Other (ZAR)	All (ZAR)
200bps down	6.6	9.2	9.4	(0.8)	(2.2)	2.8	258.9
200bps up	26.8	(8.2)	(6.1)	0.7	0.6	(2.5)	(182.6)

Liquidity risk

Liquidity risk description

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

Liquidity risk is further broken down into:

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

Sources of liquidity risk include:

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

Management and measurement of liquidity risk

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

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

- Our liquidity management processes encompass principles set out by the regulatory authorities in each jurisdiction, namely the SARB, and the Bank of Mauritius
- The group complies with the BCBS Principles for Sound Liquidity Risk Management and Supervision
- The group has committed itself to implementation of the updated BCBS guidelines for liquidity risk measurement, standards and monitoring to be phased in from 2015
- The risk appetite is clearly defined by the board and each geographic entity must have its own board-approved policies with respect to liquidity risk management
- Each geographic entity must be self-sufficient from a funding and liquidity standpoint so that there is no reliance on intergroup lines either from or to other group entities
- Geographic entities have no responsibility for contributing to group liquidity
- We maintain a liquidity buffer in the form of unencumbered, cash, government or rated securities (typically eligible for repurchase with the central bank), and near cash well in excess of the statutory requirements as protection against unexpected disruptions in cash flows
- Funding is diversified with respect to currency, term, product, client type and counterparty to ensure a satisfactory overall funding mix
- We monitor and evaluate each banking entity’s maturity ladder and funding gap (cash flow maturity mismatch) on a ‘liquidation’, ‘going concern’ and ‘stress’ basis
- Daily liquidity stress tests are carried out to measure and manage the liquidity position such that payment obligations can be met under a wide range of normal and unlikely but plausible stressed scenarios, in which the rate and timing of deposit withdrawals and drawdowns on lending facilities are varied, and the ability to access funding and to generate funds from asset portfolios is restricted. The objective is to have sufficient liquidity, in an acute stress, to continue to operate for a minimum period as detailed in the board-approved risk appetite
- Our liquidity risk parameters reflect a collection of liquidity stress assumptions which are reviewed regularly and updated as needed. These stress factors go well beyond our experience during the height of the recent financial crisis

- The Balance Sheet Risk Management team independently monitors key daily funding metrics and liquidity ratios to assess potential risks to the liquidity position, which further act as early warning indicators to potential normal market disruption
- The group centrally manages access to funds in both domestic and offshore markets through the Corporate and Institutional Banking division
- The maintenance of sustainable prudent liquidity resources takes precedence over profitability
- Each major banking entity maintains an internal funds transfer pricing system based on prevailing market rates. The treasury function charges out the price of funding to internal consumers of liquidity, which ensures that the costs, benefits, and risks of liquidity are clearly and transparently attributed to business lines and are understood by business line management. The funds transfer pricing methodology is designed to signal the right incentive to our lending business
- The group maintains adequate contingency funding plans designed to protect depositors, creditors and shareholders and maintain market confidence during adverse liquidity conditions.

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

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

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

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

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

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

We acknowledge the importance of our private client base as the principal source of stable and well diversified funding for Investec’s risk assets. We continue to develop products to attract and service the investment needs of our Private Bank client base. Although the contractual repayments of many Private Bank customer accounts are on demand or at short notice, in practice such accounts remain a stable source of funds. We continued to successfully raise private client deposits despite competitive pressures with total deposits increasing by 8% to R221.4 billion at 31 March 2015. The growth in retail deposits benefited from the wider macro-economic trend of expanded money supply, customer deleveraging and loan growth. We also have a number of innovative retail deposit initiatives within our Private Banking division and these continued to experience strong inflows during the financial year. On average our fixed and notice customer deposits have amounted to approximately 70% of total deposits since April 2006 for Investec Limited, thereby displaying a strong ‘stickiness’ and willingness to reinvest by our retail customers.

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

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

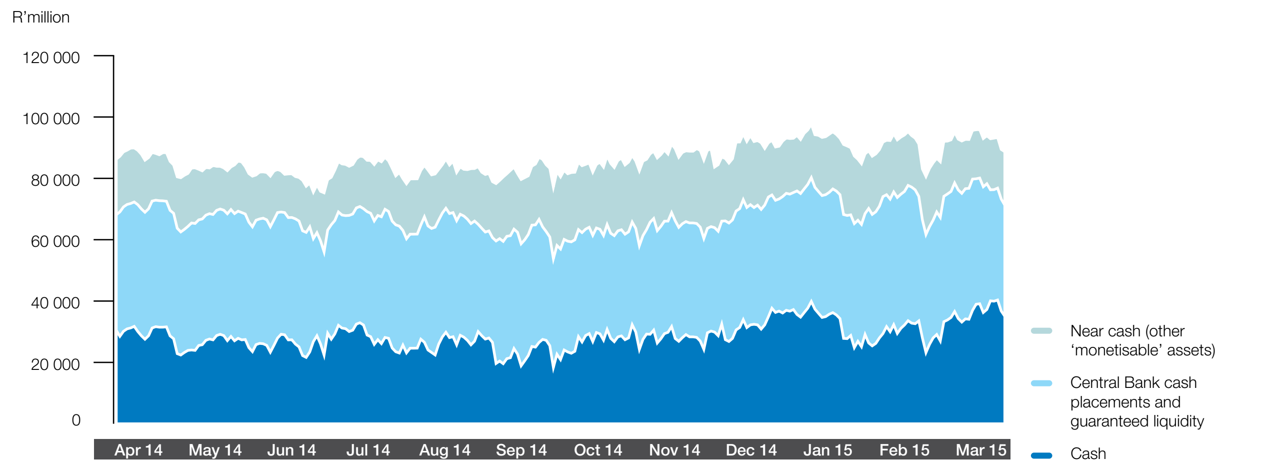
As mentioned above, we hold a liquidity buffer in the form of unencumbered readily available, high quality liquid assets, typically in the form of government or rated securities eligible for repurchase with the central bank, and near cash well in excess of the statutory requirements as protection against unexpected disruptions in cash flows. This puts us in a favourable position to meet the Basel III liquidity requirements. These portfolios are managed within board-approved targets, and apart from acting as a buffer under going concern conditions, also form an integral part of the broader liquidity generation strategy.

Investec remains a net liquidity provider to the interbank market, placing significantly more funds with other banks than our short-term interbank borrowings. We do not rely on interbank deposits to fund term lending. From 1 April 2014 to 31 March 2015 average cash and near cash balances over the period amounted to R86.3 billion.

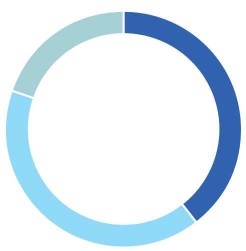
The group does not rely on committed funding lines for protection against unforeseen interruptions to cash flow. We are currently unaware of any circumstances that could significantly detract from our ability to raise funding appropriate to our needs.

The liquidity contingency plans outline extensive early warning indicators, clear lines of communication and decisive crisis response strategies. Early warning indicators span bank-specific and systemic crises. Rapid response strategies address action plans, roles and responsibilities, composition of decision-making bodies involved in liquidity crisis management, internal and external communications including public relations, sources of liquidity, avenues available to access additional liquidity, as well as supplementary information requirements required to manage liquidity during such an event. This plan helps to ensure that cash flow estimates and commitments can be met in the event of general market disruption or adverse bank-specific events, while minimising detrimental long-term implications for the business.

Cash and near cash trend



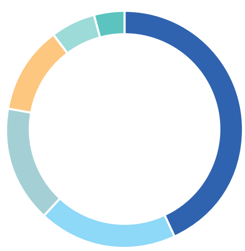
An analysis of cash and near cash at 31 March 2015



R88 691 million

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

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



R251 169 million

Other financials	43.2%
Non-financial corporates	18.8%
Individuals	15.9%
Banks	11.9%
Public sector	6.1%
Small business	4.1%

The liquidity position of the bank remained sound with total cash and near cash balances amounting to R88.7 billion

Asset encumbrance

An asset is defined as encumbered if it has been pledged as collateral against an existing liability and, as a result, is no longer available to the group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. An asset is therefore categorised as unencumbered if it has not been pledged against an existing liability. Risk Management monitors and manages total balance sheet encumbrance via a board-approved risk appetite framework. The group holds a liquidity buffer in the form of unencumbered, readily available, high-quality liquid assets, typically in the form of government or rated securities eligible for repurchase with the central banks in the respective jurisdictions.

The group utilises securitisation in order to raise external term funding as part of its diversified liability base. Securitisation notes issued are also retained by the group which are available to provide a pool of collateral eligible to support central bank liquidity facilities. During the year the group issued R5.7 billion of notes through securitisations in South Africa.

The group uses secured transactions to manage short-term cash and collateral needs. Details of assets pledged through repurchase activity and collateral pledges are reported by line item of the balance sheet on which they are reflected on page 107. Related liabilities are also reported.

On page 158 we disclose further details of assets that have been received as collateral under reserve repurchase agreements and securities borrowing transactions where the assets are allowed to be resold or pledged.

Liquidity mismatch

The tables that follow show our contractual liquidity mismatch.

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

The liquidity position of the bank remained sound with total cash and near cash balances amounting to R88.7 billion. We continued to enjoy strong inflows of customer deposits while maintaining good access to wholesale markets despite the underlying market environment. Our liquidity and funding profile reflects our strategy, risk appetite and business activities.

The tables reflect that loans and advances to customers are largely financed by stable funding sources.

With respect to the contractual liquidity mismatch:

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

With respect to the behavioural liquidity mismatch:

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

Contractual liquidity at 31 March 2015

R'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	> Five years	Total
Cash and short-term funds – banks*	29 036	7 492	1 912	168	182	893	–	39 683
Cash and short-term funds – non-banks	10 465	32	38	5	–	–	–	10 540
Investment/trading assets and statutory liquids**	34 409	6 425	1 893	2 107	4 006	16 938	33 087	98 865
Securitised assets	976	9	35	63	103	348	3 619	5 153
Advances	5 628	5 393	10 353	11 725	14 359	79 976	46 031	173 465
Other assets	2	–	182	–	115	1 580	3 121	5 000
Assets	**80 516**	**19 351**	**14 413**	**14 068**	**18 765**	**99 735**	**85 858**	**332 706**
Deposits – banks	(3 253)	(440)	(717)	–	(12 031)	(13 351)	–	(29 792)
Deposits – non-banks	(87 975)^	(27 947)	(38 728)	(15 532)	(19 546)	(28 785)	(2 864)	(221 377)
Negotiable paper	–	(3)	(72)	(75)	(1 059)	(4 308)	–	(5 517)
Securitised liabilities	–	–	–	–	–	(28)	(1 061)	(1 089)
Investment/trading liabilities	(5 507)	(3 279)	(2 669)	(2 974)	(7 087)	(7 813)	(1 251)	(30 580)
Subordinated liabilities	–	–	(125)	–	(781)	(400)	(9 143)	(10 449)
Other liabilities	(211)	(247)	(62)	(102)	(169)	(3)	(4 209)	(5 003)
Liabilities	**(96 946)**	**(31 916)**	**(42 373)**	**(18 683)**	**(40 673)**	**(54 688)**	**(18 528)**	**(303 807)**
Shareholders' funds	–	–	–	–	–	–	(28 899)	(28 899)
Contractual liquidity gap	(16 430)	(12 565)	(27 960)	(4 615)	(21 908)	45 047	38 431	–
Cumulative liquidity gap	(16 430)	(28 995)	(56 955)	(61 570)	(83 478)	(38 431)	–	

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

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

As discussed on page 64.

R'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	> Five years	Total
*Cash and short-term funds – banks	22 888	7 492	1 912	168	182	893	6 148	39 683
**Investment/trading assets and statutory liquids	(707)	7 613	11 461	12 176	8 816	18 386	41 120	98 865

Behavioural liquidity

As discussed on page 64.

R'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	> Five years	Total
Behavioural liquidity gap	32 137	1 068	(1 258)	(1 531)	(24 194)	(82 665)	76 443	–
Cumulative	32 137	33 205	31 947	30 416	6 222	(76 443)	–	

Balance sheet risk year in review

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

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

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

Three and five year dollars amounting to USD532 million were raised in several club, bilateral and structured loan deals over the course of the year as the cost of term dollars fell to levels last witnessed over five years ago. In a world of negative rates, plentiful liquidity and quantitative easing we expect this trend to continue.

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

Regulatory considerations – balance sheet risk

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

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

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

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

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

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

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

Investec is involved in the process in the following ways:

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

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

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

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

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

Liquidity coverage ratio

National and supranational regulators have set standards designed to promote resiliency and harmonise liquidity risk supervision to ensure a strong financial sector within the global economy.

Two key liquidity measures were defined:

Liquidity coverage ratio (LCR)

- This ratio is designed to promote short-term resilience of the one-month liquidity profile by ensuring that banks have sufficient high-quality liquid assets to meet potential outflows in a stressed environment.

Net stable funding ratio (NSFR)

- This ratio is designed to capture structural issues over a longer time horizon by requiring banks to have a sustainable maturity structure of assets and liabilities.

In terms of South African Reserve Bank Regulations, banks are expected to commence reporting on the LCR in 2015 and the NSFR in 2018.

The values in the table are calculated as the simple average of daily observations over the period 1 January 2015 to 31 March 2015 for Investec Bank Limited bank solo. Sixty business day observations were used. Investec Bank Limited consolidated group values use daily values for Investec Bank Limited bank solo, while those for other group entities use the average of January, February and March 2015 month-end values.

The minimum requirement for the LCR over the quarter, as specified by both the Basel Committee of Banking Supervision and the South African Reserve Bank, is 60%. This applies to both Investec Bank Limited bank solo and Investec Bank Limited consolidated group.

Investec Bank Limited bank solo:

The main drivers of the LCR results and the evolution of the contribution of inputs to the LCR's calculation over time:

- The structure and nature of deposits inside the 30-day window is the key driver of the LCR. This weighted outflow is determined by the customer type of liabilities falling into the 30-day contractual bucket. In turn these deposit characteristics determine the targeted level of high-quality liquid assets (HQLA) required to be held as a counterbalance to the modelled stressed outflows
- In order to manage the deposit mix in relation to tenor and client type, we establish targets for deposits to be raised by market, channel, product, tenor band and client type designed to limit the weighted outflows falling into the 30-day window.

The composition of HQLA:

- The HQLA comprises primarily South African sovereign and central bank Rand-denominated securities and debt instruments, all of which are eligible to be repo'ed to the SARB or any other external market participants
- Some foreign-denominated government securities are included in the HQLA, subject to regulatory limitations
- At the end of March the CLF contributed 4% to the HQLA.

Investec Bank Limited consolidated group:

Our two banks, Investec Bank Limited and Investec Bank (Mauritius) Limited (IBM), contributed over 98% of the group's combined HQLA and stressed cash inflows and outflows. IBM's average stressed cash outflows of R3.1 billion are primarily to non-financial corporates, while their stressed inflows of R2.1 billion are largely from banks. IBM bank solo currently has no LCR requirement. There is no restriction on the contribution of IBM's cash inflows to the group.

R'million	Investec Bank Limited Bank Solo Total unweighted value	Total weighted value	Investec Bank Limited Consolidated Group Total unweighted value	Total weighted value
High-quality liquid assets				
Total high-quality liquid assets		41 206		41 318
Cash outflows				
Retail deposits and deposits from small business customers, of which:	36 475	3 647	38 697	3 870
Stable deposits	–	–	–	–
Less stable deposits	36 475	3 647	38 697	3 870
Unsecured wholesale funding, of which:	82 246	58 190	87 567	60 622
Operational deposits (all counterparties) and deposits in institutional networks of cooperative banks	–	–	–	–
Non-operational deposits (all counterparties)	81 242	57 186	85 173	58 228
Unsecured debt	1 004	1 004	2 394	2 394
Secured wholesale funding		202		182
Additional requirements, of which:	49 408	6 121	51 734	5 819
Outflows related to derivatives exposures and other collateral requirements	11 164	1 813	11 097	1 747
Outflows related to loss of funding on debt products	726	726	200	200
(Undrawn committed) credit and liquidity facilities	37 518	3 582	40 437	3 872
Other contractual funding obligations	557	557	546	546
Other contingent funding obligations	105 972	5 487	104 734	5 439
Total cash outflows		74 206		76 477
Cash inflows				
Secured lending (e.g. reverse repos)	1 193	139	1 193	139
Inflows from fully performing exposures	33 163	30 179	35 171	31 281
Other cash inflows	2 486	2 486	4 068	2 549
Total cash inflows	36 842	32 804	40 432	33 969

	Total adjusted value		Total adjusted value
Total high-quality liquid assets	41 206		41 318
Total net cash outflows	41 402		42 508
Liquidity coverage ratio (%)	100.3		98.7

Operational risk

Operational risk definition

Operational risk is the risk of loss arising from inadequate or failed internal processes, people or systems, or external events. Operational risk has both financial and non-financial impacts.

We recognise that there is significant operational risk inherent in the operations of a bank. Our objective is therefore to manage and mitigate risk exposures and events by adopting sound operational risk management practises.

Operational risk management framework

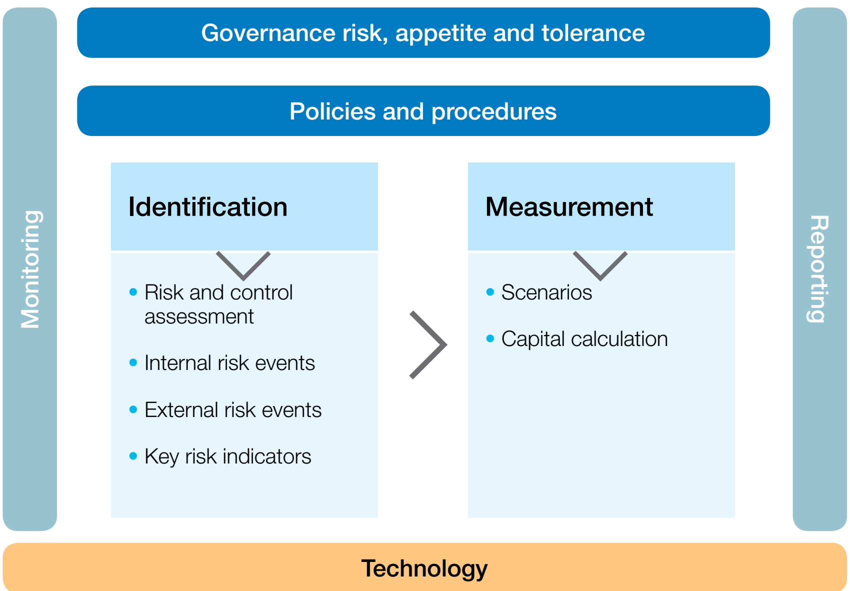
The bank continues to operate under the Standardised Approach (TSA) to operational risk which forms the basis of the operational risk management framework. The framework is embedded at all levels of the organisation and is continually reviewed to ensure appropriate and effective management of operational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

During the year under review, enhancement of all the components of the operational risk management framework remained an area of focus.

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

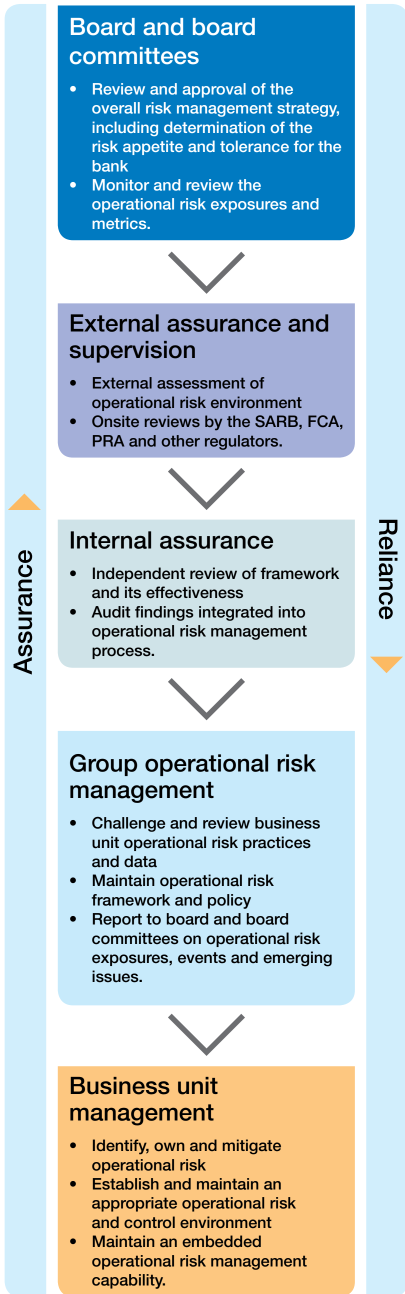
An independent group operational risk management function, mandated by the board risk and capital committee, ensures that operational risk policies and procedures are developed and applied consistently and effectively throughout the bank. Business unit management, supported by operational risk managers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

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



Governance

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



Enhancement of all the components of the operational risk management framework remained an area of focus

Risk appetite and tolerance

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

Operational risk practices

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

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

Key operational risk considerations

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

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

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 risks.

Business continuity management

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

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

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

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

Recovery and resolution planning

Financial Stability Board member countries are required to have recovery and resolution plans in place for all systemically significant financial institutions. The SARB has adopted this requirement and has to date required South African domestically significant banking institutions to develop recovery plans.

Guidance issued by the Financial Stability Board and the SARB has been incorporated into Investec's recovery plan.

The SARB has focused on finalising the recovery plans for the local banks.

It is expected that the SARB will issue guidance on resolution planning in the near future. We will then look to integrate our existing recovery plan into the SARB's resolution planning.

The purpose of the recovery plan is to document how the board and management will recover from extreme financial stress to avoid liquidity and capital difficulties. The plan is reviewed and approved by the board on an annual basis.

The recovery plan for Investec Limited:

- 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.

Reputational risk

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

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

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

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

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

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

Capital management and allocation

Regulatory capital – Investec Bank Limited

Current regulatory framework

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

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

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

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

Capital targets

Over recent years, capital adequacy standards for banks have been raised as part of attempts to increase the stability and resilience of the global banking sector. Investec Limited and Investec plc have always held capital in excess of regulatory requirements and the individual groups continue to remain well capitalised. Accordingly, we are targeting a minimum common equity tier 1 capital ratio of above 10% by March 2016, a tier 1 capital ratio of above 11% by March 2016 (current 10.5% target) and a total capital adequacy ratio target in the range of 14% to 17%. These targets are continuously assessed for appropriateness.

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

Management of leverage

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

Leverage ratio target

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

Capital management

Philosophy and approach

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

The determination of target capital is driven by our risk profile, strategy and risk appetite, taking into account regulatory and market factors applicable to the group.

At the most fundamental level, we seek to balance our capital consumption between prudent capitalisation in the context of the group's risk profile and optimisation of shareholder returns.

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

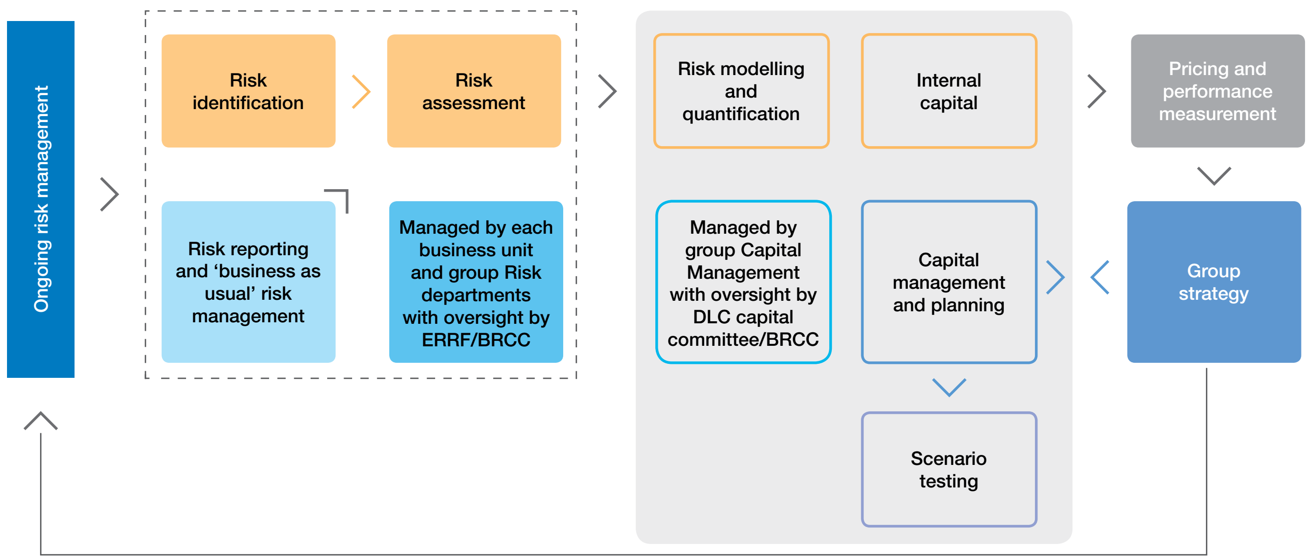
The internal capital framework is based on the group's risk identification, review and assessment processes and is used to provide a risk-based approach to capital allocation, performance and structuring of our balance sheet. The objectives of the internal capital framework are to quantify the minimum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

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

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

Risk management framework

The (simplified) integration of risk and capital management



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

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

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

Risk assessment and reporting

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

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

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

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

Risk modelling and quantification (internal capital)

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

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

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

Capital planning and stress/ scenario testing

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

Capital planning is performed regularly, with regulatory capital being the key driver of decision-making. The goal of capital planning is to provide insight into potential sources of vulnerability of capital adequacy by way of market, economic or internal events. As such, we stress the capital plans based on conditions most likely to place us under duress. The conditions themselves are agreed by the DLC capital committee after research and consultation with relevant internal experts. Such plans are used by management to formulate balance sheet strategy and agree management actions, trigger points and influence the determination of our risk appetite.

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

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

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

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

Pricing and performance measurement

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

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

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

Regulatory capital and requirements

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

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

Capital disclosures

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

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 pages 73 to 76.

At 31 March R'million	2015	2014
Tier 1 capital		
Shareholders' equity	27 365	24 067
Shareholders' equity per balance sheet	28 899	25 601
Perpetual preference share capital and share premium	(1 534)	(1 534)
Regulatory adjustments to the accounting basis	1 140	522
Cash flow hedging reserve	1 140	522
Deductions	(190)	(102)
Goodwill and intangible assets net of deferred tax	(190)	(102)
Common equity tier 1 capital	28 315	24 487
Additional tier 1 capital before deductions	1 073	1 227
Additional tier 1 instruments	1 534	1 534
Phase out of non-qualifying additional tier 1 instruments	(461)	(307)
Total tier 1 capital	29 388	25 714
Tier 2 capital	10 319	10 670
Collective impairment allowances	169	172
Tier 2 instruments	10 449	10 498
Phase out of non-qualifying tier 2 instruments	(299)	–
Total regulatory capital	39 707	36 384
Risk-weighted assets	257 931	238 396
Capital ratios		
Common equity tier 1 ratio	11.0%	10.3%
Tier 1 ratio	11.4%	10.8%
Total capital adequacy ratio	15.4%	15.3%

Capital management and allocation (continued)

Capital requirements

At 31 March R'million	2015	2014
Capital requirements	25 794	23 840
Credit risk – prescribed standardised exposure classes	19 073	17 611
Corporates	11 505	10 418
Secured on real estate property	1 923	1 601
Short-term claims on institutions and corporates	3 242	2 722
Retail	549	544
Institutions	872	1 064
Other exposure classes	277	176
Securitisation exposures	705	1 086
Equity risk	4 297	3 865
Listed equities	847	757
Unlisted equities	3 450	3 108
Counterparty credit risk	576	550
Credit valuation adjustment risk	32	98
Market risk	324	395
Interest rate	88	117
Foreign exchange	113	98
Commodities	10	5
Equities	113	175
Operational risk – standardised approach	1 492	1 321

Risk-weighted assets

At 31 March R'million	2015	2014
Risk-weighted assets	257 931	238 396
Credit risk – prescribed standardised exposure classes	190 717	176 112
Corporates	115 047	104 181
Secured on real estate property	19 230	16 011
Short-term claims on institutions and corporates	32 420	27 215
Retail	5 488	5 441
Institutions	8 717	10 644
Other exposure classes	2 770	1 759
Securitisation exposures	7 045	10 861
Equity risk	42 967	38 653
Listed equities	8 472	7 570
Unlisted equities	34 495	31 083
Counterparty credit risk	5 762	5 503
Credit valuation adjustment risk	324	976
Market risk	3 240	3 947
Interest rate	878	1 174
Foreign exchange	1 134	978
Commodities	96	50
Equities	1 132	1 745
Operational risk – standardised approach	14 921	13 205

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

As at 31 March R'million	2015	2014
Opening common equity tier 1 capital	24 487	22 331
Dividends	(135)	(183)
Profit after taxation	3 128	2 150
Movement in other comprehensive income	305	125
Goodwill and intangible assets (deduction net of related tax liability)	(88)	(12)
Other, including regulatory adjustments and transitional arrangements	618	76
Closing common equity tier 1 capital	28 315	24 487
Opening additional tier 1 capital	1 227	1 381
Other, including regulatory adjustments and transitional arrangements	(154)	(154)
Closing additional tier 1 capital	1 073	1 227
Closing tier 1 capital	29 388	25 714
Opening tier 2 capital	10 670	11 493
New tier 2 capital issues	–	1 005
Redeemed capital	(250)	(3 003)
Collective impairment allowances	(2)	50
Other, including regulatory adjustments and transitional arrangements	(99)	1 125
Closing tier 2 capital	10 319	10 670
Closing total regulatory capital	39 707	36 384

A summary of capital adequacy and leverage ratios

As at 31 March	2015	2014
Common equity tier 1 (as reported)	11.0%	10.3%
Common equity tier 1 (fully loaded)^^	10.9%	10.2%
Tier 1 (as reported)	11.4%	10.8%
Total capital adequacy ratio (as reported)	15.4%	15.3%
Leverage ratio* – permanent capital	8.5%#	7.9%#
Leverage ratio* – current	8.3%#	7.9%#
Leverage ratio* – 'fully loaded'^^	8.0%#	7.5%#

* *Based on revised BIS rules.*

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

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

Summary comparison of accounting assets versus leverage ratio exposure measure

Line #	At 31 March 2015	R'million
1	Total consolidated assets as per published financial statements	332 706
	Adjustments for:	
2	Investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	–
3	Fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	–
4	Derivative financial instruments	(1 989)
5	Securities financing transactions (i.e. repos and similar secured lending)	(2 756)
6	Off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	24 960
7	Other adjustments	(190)
8	Leverage ratio exposure	352 731

Leverage ratio common disclosure template

Line #	At 31 March 2015	R'million
	Leverage ratio framework	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	307 433
2	Asset amounts deducted in determining Basel III Tier 1 capital	(190)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	307 243
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	8 081
5	Add-on amounts for PFE associated with all derivatives transactions	5 108
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	–
7	Deductions of receivables assets for cash variation margin provided in derivatives transactions	–
8	Exempted CCP leg of client-cleared trade exposures	–
9	Adjusted effective notional amount of written credit derivatives	–
10	Adjusted effective notional offsets and add-on deductions for written credit derivatives	–
11	Total derivative exposures (sum of lines 4 to 10)	13 189
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	6 672
13	Netted amounts of cash payables and cash receivables of gross SFT assets	–
14	Counterparty Credit Risk (CCR) exposures for SFT assets	667
15	Agent transaction exposures	–
16	Total securities financing transaction exposures (sum line 12 to 15)	7 339
17	Off-balance sheet exposure at gross notional amount	80 821
18	Adjustments for conversion to credit equivalent amounts	(55 861)
19	Off-balance sheet items (sum line 17 and 18)	24 960
20	Tier 1 capital	29 388
21	Total exposures (sum of lines 3, 11, 16 and 19)	352 731
22	Basel III leverage ratio	8.3%

Credit ratings

In terms of our dual listed companies structure, Investec plc and Investec Limited are treated separately from a credit point of view. As a result, the rating agencies have assigned ratings to the significant banking entities within the group, namely Investec Bank plc and Investec Bank Limited. Certain rating agencies have assigned ratings to the holding companies, namely Investec plc and Investec Limited. Our ratings at 10 June 2015 are as follows:

Rating agency	Investec Limited	Investec Bank Limited – a subsidiary of Investec Limited
Fitch		
Long-term ratings		
Foreign currency	BBB-	BBB-
National		A+(zaf)
Short-term ratings		
Foreign currency	F3	F3
National		F1 (zaf)
Viability rating	bbb-	bbb-
Support rating	5	3
Moody's		
Long-term ratings		
Foreign currency	BBB-	Baa2
National		A1(za)
Short-term ratings		
Foreign currency		Prime-2
National		P1 (za)
Baseline credit assessment		baa2
S&P		
Long-term ratings		
Foreign currency		BBB-
National		za.AA
Short-term ratings		
Foreign currency		A-3
National		za.A-1
Global Credit Ratings		
Local currency		
Short-term rating		A1+(za)
Long-term rating		AA-(za)

Internal Audit

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

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

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

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

Internal Audit 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

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

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

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

Year in review

Changes to regulatory landscape in South Africa

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

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

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

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

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

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

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

Conduct risk (consumer protection)

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

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

Financial crime

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

Tax reporting

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

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

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

Corporate governance

Introduction

It is pleasing to present the 2015 annual corporate governance report which sets out Investec Bank Limited's approach to corporate governance.

Investec Limited and Investec plc, together with their subsidiaries, are managed as a single economic enterprise as a result of the dual listed companies (DLC) structure. Investec Bank Limited is a major subsidiary of Investec Limited and due to the DLC operational structure, compliance with many of the specific corporate governance requirements are at a group level.

This section provides a summary of our corporate governance philosophy and practices.

A more detailed review is provided in the corporate governance report of Investec's 2015 integrated annual report and can be found on our website.

The board encourages all stakeholders to read the corporate governance report as the detailed reports from the various board committee chairmen included in that report provide an explanation of how each committee discharges its duties in respect of both the group and its major subsidiaries.

Board composition

The nomination and directors' affairs committee (NOMDAC) continued to focus on ensuring that the board has the appropriate balance of skills, experience, independence and knowledge.

A structured refreshment programme has been implemented by the boards of Investec plc and Investec Limited, and in this regard, Peter Malungani and Busi Tshili did not offer themselves for re-election at the August 2014 annual general meeting and accordingly, stepped down from the board. Sir David Prosser decided in 2014 that it would be appropriate for him to retire and therefore stepped down following the annual general meeting on 7 August 2014.

While non-executive appointments are based on merit and overall suitability for the role, the NOMDAC will be mindful of the value of diversity as it considers any recommendations for the board.

The board of Investec Bank Limited, on the recommendation of the NOMDAC and following regulatory approval, appointed Khumo Shuenyane and Zarina Bassa as independent non-executive directors on 8 August 2014 and 1 November 2014 respectively. Karl Socikwa indicated that he will not be seeking re-election at the August 2015 annual general meeting.

Governance framework

The group has adopted a risk and governance structure which allows for the operation of the various committees and forums at group level. This avoids the necessity of having to duplicate various committees and forums at group subsidiary levels. There are, however, sub-committees that specifically oversee the governance and control processes of Investec Bank Limited's operations.

A diagram of the group's governance framework as well as reports on the various board committees can be found in the corporate governance report of Investec group's 2015 integrated annual report.

Board committees

The DLC (combined) board committees of Investec Limited and Investec plc act as the board committees of Investec Bank Limited as well. The reports by the chairmen of these committees can be found in the corporate governance report of Investec group's 2015 integrated annual report.

- Audit committee:
  In terms of the King Code of Governance Principles for South Africa (King III) and the Companies Act, No 71 of 2008, as amended (the Companies Act), the chairman of the audit committee should report to shareholders on its statutory duties. The Investec Limited audit committee performs the necessary functions required on behalf of Investec Bank Limited.
- Social and ethics committee:
  In terms of the Companies Act, the chairman of the social and ethics committee should report to shareholders on the matters within its mandate. The DLC social and ethics committee performs the necessary functions required on behalf of Investec Bank Limited.
- The DLC NOMDAC acts as the NOMDAC for the group (including Investec Bank Limited).
- The DLC remuneration committee acts as the remuneration committee for the group (including Investec Bank Limited) and the report from the remuneration committee, explaining the group's policies and processes, as well as required disclosures can be found on pages 90 to 99.

Issues specific to Investec Bank Limited are considered at each meeting of the various committees and the Investec Bank Limited board receives a report on the proceedings of the committees at each of their meetings. The board of Investec Bank Limited takes comfort from the group's corporate governance processes as well as the fact that the board of Investec Bank Limited includes common membership with the boards of Investec Limited and Investec plc. In addition, certain members, who are only appointed to the board of Investec Bank Limited, represent the company at the audit committee, NOMDAC as well as the DLC board risk and capital committee (BRCC) of the group.

Our culture and values

Underpinning legislative, regulatory and best practice requirements are Investec's values and philosophies which provide the framework against which we measure behaviour and practices so as to assess the characteristics of good governance. Our values require that directors and employees act with integrity, displaying consistent and uncompromising moral strength and conduct in order to promote and maintain trust. Sound corporate governance is therefore implicit in our values, culture, processes, functions and organisational structure. Structures are designed to ensure that our values remain embedded in all businesses and processes. We continually refine these structures and a written statement of values serves as our code of ethics.

As noted, we operate under a DLC structure, and consider the corporate governance principles and regulations of both the UK and South Africa before adopting the appropriate approach for the group.

Conclusion

We acknowledge that the environment in which we operate provides challenges from a governance and regulatory perspective; however, we are confident that our culture and values will continue to provide the further group with a strong foundation that will enable the board and group to meet these challenges going forward.

Fani Titi
Chairman

10 June 2015

Board statement

The board, management and employees of Investec Bank Limited are in full support of and are committed to complying with applicable regulatory requirements and King III. As a result of our listed non-redeemable, non-cumulative, non-participating preference shares, we are also committed to complying with the JSE Limited (JSE) Listings Requirements.

Stakeholders are therefore assured that we are being managed ethically and in compliance with the latest legislation, regulations and best practice.

King III

The board is of the opinion that, based on the practices disclosed throughout this report, which were in operation during the year under review, Investec has applied the King III principles.

For a complete list of all principles and a reference to demonstrate how Investec has applied these principles, please refer to our website.

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 financial results by the board and these include:

- Budgeting and forecasts
- Profitability
- Capital
- Liquidity.

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 the bank as a going concern for the foreseeable future.

Further information on the bank's liquidity and capital position is provided on pages 61 to 68 of this report.

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

In addition, the directors are responsible for monitoring and reviewing the preparation, integrity and reliability of the bank's annual financial statements, accounting policies and the information contained in the integrated annual report. In undertaking this responsibility, the directors are supported by an ongoing process for identifying, evaluating and managing the significant risks Investec faces in preparing the financial and other information contained in this integrated annual report. This process was in place for the year under review and up to the date of approval of the integrated annual report and financial statements. The process is implemented by management and independently monitored for effectiveness by the audit, risk and other sub-committees of the board.

Management and succession planning

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

Our management structure, reporting lines and the division of responsibilities are built around a geographic, divisional and functional network. Each strategic business unit has a management committee and is responsible for implementing operational decisions, managing risk and aligning divisional objectives with the group strategy and vision.

The NOMDAC received a detailed presentation from the executive regarding senior management succession and the NOMDAC is satisfied that there is a formal management succession plan in place. The NOMDAC will continue to focus on ensuring that the management succession plan remains up to date.

Risk management

The board is responsible for the total process of risk management and the systems of internal control. A number of group committees and forums assist in this regard. Senior management is responsible for identifying risks and implementing appropriate mitigation processes and controls within their businesses. The independent group risk management functions, accountable to group boards, are responsible for establishing, reviewing and monitoring the process of risk management. Group Risk Management reports regularly to the BRCC, the group risk and capital committee (GRCC) and the executive risk review forum (ERRF).

More information on risk management can be found on pages 20 to 80.

Internal control

Risks and controls are reviewed and monitored regularly for relevance and effectiveness. The GRCC, BRCC and audit committees 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. This is achieved within the group 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 were in place throughout the year under review and up to the date of approval of the integrated annual report and accounts.

Internal Audit reports any control recommendations to senior management, group risk management and the audit committee. Appropriate processes, including review by the audit and compliance implementation forums, ensure that timely corrective action is taken on matters raised by Internal Audit. Significant risks are regularly considered by ERRF, GRCC and by the BRCC. Material incidents and losses and significant breaches of systems and controls are reported to the BRCC and the audit committee. Reports from the audit committee, BRCC and risk and control functions are reviewed at each board meeting.

Conflict of interests

Certain statutory duties with respect to directors' conflicts of interest are in force under the Companies Act. In accordance with the Companies Act and the Memorandum of Incorporation (MOI) of Investec Bank Limited, 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 MOI, 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 committees 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 external 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 Limited. The board meets its objectives by reviewing and following the corporate strategy as determined by the boards of Investec Limited and Investec plc.

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

For further detail of the functions of the board of Investec Bank Limited, as included with the functions of the boards of Investec Limited and Investec plc, performed directly or through board committees, refer to Investec group's 2015 integrated annual report.

Membership

At the end of the year under review, the board comprised five executive directors and seven non-executive directors. As set out below, the board concluded that all of the non-executive directors are independent in terms of King III.

During the year under review we appointed Zarina Bassa and Khumo Shuenyane as independent non-executive directors. All directors are subject to election at the first annual general meeting following their appointment. Thereafter and in accordance with King III, a third of the non-executive directors should retire by rotation and accordingly, Sam Abrahams, David Friedland and Peter Thomas will offer themselves for re-election at the 2015 annual general meeting.

Karl Socikwa will not offer himself for re-election at the August 2015 annual general meeting.

The names of the directors at the date of this report, the year of their appointment and their independence status, are set out in the table below.

	Date of appointment	Independent
Executive directors		
S Koseff (chief executive officer)	30 June 1990	
B Kantor (managing director)	30 June 1990	
DM Lawrence (deputy chairman)	1 July 1997	
GR Burger (group risk and finance director)	30 June 1990	
B Tapnack	1 July 1997	
Non-executive directors		
F Titi (chairman)	3 July 2002	Yes
SE Abrahams	1 July 1997	Yes
ZBM Bassa	1 November 2014	Yes
D Friedland	1 March 2013	Yes
KL Shuenyane	8 August 2014	Yes
KXT Socikwa	18 July 2006	Yes
PRS Thomas	1 July 1997	Yes

Peter Malungani and Busi Tshili did not offer themselves for re-election at the August 2014 annual general meetings of Investec plc and Investec Limited and accordingly, stepped down from the board of Investec Bank Limited at the same time. Sir David Prosser decided in 2014 that it would be appropriate for him to retire and therefore stepped down following the annual general meeting on 7 August 2014.

Independence

At 31 March 2015, the board is compliant with Chapter 2, Principle 2.18 of King III in that the majority of non-executive directors are independent.

A summary of the factors the board uses to determine the independence of non-executive directors is detailed below.

Tenure

The board follows a thorough process of assessing independence on an annual basis for each director whose tenure exceeds nine years.

The board does not believe that tenure of any of the current non-executive directors interferes with their independence of judgement and ability to act in Investec's best interests. Accordingly, the board has concluded that Fani Titi, Peter Thomas, Sam Abrahams and Karl Socikwa, despite having been directors of Investec Bank Limited for nine years or more, retain both financial independence and independence of character and judgement.

Notwithstanding the guidelines set out in King III, the board is of the view that these non-executive directors are independent of management and promote the interests of stakeholders. The balance of executive and non-executive directors is such that there is a clear division of responsibility to ensure a balance of power, such that no one individual or group can dominate board processes or have unfettered powers of decision-making. The board believes that it functions effectively and evaluates its performance annually.

Attendance at credit meetings

David Friedland and Peter Thomas regularly attend, by invitation, certain credit committees of the group. The board considers their attendance at these committees to be desirable in terms of developing an understanding of the day-to-day issues facing the business. The board concluded that David and Peter retain independence of character and judgement.

Board meetings

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

Details of directors' attendance at board meetings during the financial year ended 31 March 2015:

	Number of meetings attended of the six held during the year
Executive directors	
S Koseff (chief executive officer)	6
B Kantor (managing director)	5
DM Lawrence (deputy chairman)	6
GR Burger (group risk and finance director)	6
B Tapnack	6
Non-executive directors	
F Titi (chairman)	6
SE Abrahams	5
ZBM Bassa*	3
D Friedland	6
MP Malungani**	1
Sir David Prosser**	1
KXT Socikwa	3
KL Shuenyane***	5
PRS Thomas	6
CB Tshili**	1

* *ZBM Bassa was appointed to the board with effect from 1 November 2014, and was therefore only eligible to attend meetings held after 1 November 2014.*

** *MP Malungani and CB Tshili did not offer themselves for re-election at the annual general meeting held on 7 August 2014, and were therefore only eligible to attend meetings held prior to 7 August 2014, Sir David Prosser stepped down from the board on 8 August 2014 and was therefore only eligible to attend meetings held prior to 8 August 2014*

*** *KL Shuenyane was appointed to the board with effect from 8 August 2014, and was therefore only eligible to attend meetings held after 8 August 2014*

Skills, knowledge, experience and attributes of directors

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

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

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

Board and directors' performance evaluation

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

The performance evaluation process takes place both informally, through personal observations and discussions, and in the form of evaluation questionnaires. The results are considered and discussed by the board.

The chairman holds regular one-on-one meetings with each director to discuss the results of the formal and informal evaluations and, in particular, to seek comments on strengths and developmental areas of the members, the chairman and the board as a whole. Individual training and development needs are discussed with each board member and any requests for training are communicated to the company secretary for implementation. Performance evaluation of the board and directors as well as training and development are matters that are standing agenda items of the NOMDAC.

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. This includes meeting with the 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 board meetings and some topics covered during the past year included recovery and resolution planning, cybercrime, twin peaks legislation and advanced internal risk-based modelling.

Independent advice

Through the chairman or deputy 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 2015 financial year.

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

The deputy chairman is David Lawrence.

Company secretary

Benita Coetsee was the company secretary of Investec Bank Limited until she stepped down on 30 June 2014. From 1 July 2014 Niki van Wyk assumed the role of company secretary of Investec Bank Limited. Niki is professionally qualified and has experience, gained over a number of years. The company secretary's services are evaluated by board members during the annual board evaluation process. The company secretary is responsible for the flow of information to the board and its committees and for ensuring compliance with board procedures. All directors have access to the advice and services of the company secretary, whose appointment and removal are a board matter.

The board has considered and is satisfied that the company secretary is competent, has the relevant qualifications and experience and maintains an arm's length relationship with the board. In evaluating these qualities, the board has considered the prescribed role and duties pursuant to the requirements codified in the Companies Act and the listings and governance requirements as applicable.

In addition, the board confirms that for the period 1 April 2014 to 31 March 2015 neither Niki nor Benita served as a director on the board of Investec Bank Limited, nor did they take part in board deliberations and only advised on matters of governance, form or procedure.

Further disclosures

Refer to Investec group's 2015 integrated annual report for more information regarding:

- Remuneration
- Directors' dealings
- Internal audit
- Compliance
- Regulation and supervision
- Values and code of conduct
- Sustainability
- IT governance.

Directorate

Investec Bank Limited

(details as at 30 June 2015)

A subsidiary of Investec Limited

Fani Titi (53)

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

David M Lawrence (64)

Deputy chairman
BA (Econ) (Hons), MCom

Samuel E Abrahams (76)

FCA, CA(SA)

Zarina BM Bassa (51)

BAcc, DipAcc, CA(SA)

Glynn R Burger (58)

BAcc, CA(SA), H Dip BDP, MBL

David Friedland (62)

BCom, CA(SA)

Bernard Kantor (65)

CTA

Stephen Koseff (63)

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

Khumo L Shuenyane (44)

BEcon, CA(England & Wales)

Karl-Bart XT Socikwa (46)

BCom, LLB, MAP, IPBM (IMD)

Bradley Tapnack (68)

BCom, CA(SA)

Peter RS Thomas (70)

CA(SA)

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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 Limited, 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 policy

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 plan (share awards) providing long-term equity participation.

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.

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.

Determination of remuneration levels for employees

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 2015 financial year.

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 bases:

- 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 JSE Financial 15 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 pay components for individuals in cases where a higher level of investment is needed in order to build or grow or sustain either a business unit or our capability in a geography.

The following section outlines our remuneration policy in more detail for each element of total compensation as it applies to employees. Our remuneration arrangements for S Koseff, B Kantor and GR Burger can be found in Investec's 2015 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, 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.

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 14.

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

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

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

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

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

EVA model: allocation of performance-related bonus pool

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

Business units share in the annual bonus pool to the extent that they have generated a realised return on their allocated risk-adjusted capital base in excess of their target return on equity. Many of the potential future risks that the firm may face are avoided by 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 16 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 73 to 76.

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

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

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

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

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

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

The group remuneration committee specifically reviews and approves the individual remuneration packages of the executive directors and persons discharging managerial responsibilities. 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

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 entire 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. Where shares are being awarded to employees as part of the deferral of performance bonus awards, these are referred to as EVA shares. These awards are made in terms of our existing long-term incentive plans (refer below). The entire amount of the annual bonus that is not deferred is payable up front in cash.

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 nil cost options other than for countries where the taxation of such awards is penal. In these cases awards are made in the form of forfeitable shares, 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 Association of British Insurers (ABI) guidelines. 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 (LTIPs) are recommended by business unit management, approved by the staff share executive committee and then the remuneration committee before being awarded.

LTIP awards are subject to 75% vesting at the end of four years and the final 25% at the end of the fifth year, which we believe is appropriate for our business requirements. 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 2015 integrated annual report.

Non-executive directors’ remuneration

Non-executive directors receive fees for being a member of the Investec Bank Limited board and fees are also payable for any additional time committed to the bank including attendance at certain meetings. Furthermore, non-executive directors may not participate in our share option plans or our long-term share incentive and pension plans.

Governance

Compliance and governance statement

The remuneration report complies with the provisions of the South African King III Code of Corporate Practice and Conduct, the South African Companies Act 2008 and the JSE Listings Requirements and the South African Notice on the Governance and Risk Management Framework for Insurers, 2014.

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. Additionally, where any aspect of our remuneration policy contravenes local laws or regulations, the local laws or regulations shall prevail.

Audited information

Directors' annual remuneration

	Salaries, directors' fees and other remuneration 2015 R	Annual bonus 2015* R	Total remuneration expense 2015 R	Salaries, directors' fees and other remuneration 2014 R	Annual bonus 2014* R	Total remuneration 2014 R
Executive directors						
S Koseff (chief executive officer)	2 493 828	4 064 000	6 557 828	2 158 109	3 200 000	5 358 109
B Kantor (managing director)	1 648 741	4 064 000	5 712 741	1 426 849	3 200 000	4 626 849
DM Lawrence (deputy chairman)	1 462 500	2 880 000	4 342 500	1 445 625	3 600 000	5 045 625
GR Burger (group risk and finance director)	2 100 000	10 021 199	12 121 199	1 979 167	7 133 273	9 112 440
B Tapnack	1 950 000	2 700 000	4 650 000	1 780 000	2 400 000	4 180 000
Total in Rands	9 655 069	23 729 199	33 384 268	8 789 750	19 533 273	28 323 023
Non-executive directors						
F Titi (chairman)	2 912 829	–	2 912 829	1 841 393	–	1 841 393
SE Abrahams	1 260 000	–	1 260 000	674 723	–	674 723
ZBM Bassa^^	114 583	–	114 583	–	–	–
D Friedland	2 145 991	–	2 145 991	2 014 066	–	2 014 066
MP Malungani^	–	–	–	904 290	–	904 290
Sir DJ Prosser^	114 583	–	114 583	260 000	–	260 000
KL Shuenyane^^	183 333	–	183 333	–	–	–
KXT Socikwa	483 500	–	483 500	460 000	–	460 000
PRS Thomas	1 446 578	–	1 446 578	1 331 928	–	1 331 928
B Tshili^	–	–	–	385 000	–	385 000
Total in Rands	8 661 397	–	8 661 397	7 871 400	–	7 871 400
Total in Rands	18 316 466	23 729 199	42 045 665	16 661 150	19 533 273	36 194 423

* *As discussed on page 94, a portion of the bonus is received in cash and a portion is deferred with reference to the value of a predetermined number of Investec Limited shares over a three-year period.*

^ *MP Malungani, Sir DJ Prosser and B Tshili resigned from the board on 8 August 2014.*

^^ *KL Shuenyane was appointed to the board on 8 August 2014 and ZBM Bassa was appointed to the board on 1 November 2014.*

Directors' shareholdings in Investec plc and Investec Limited shares at 31 March 2015

	Beneficial and non-beneficial interest		% of shares in issue[1]	Beneficial and non-beneficial interest		% of shares in issue[1]
	Investec plc[2]		Investec plc	Investec Limited[3]		Investec Limited
	1 April 2014	31 March 2015	31 March 2015	1 April 2014	31 March 2015	31 March 2015
Executive directors						
S Koseff (chief executive officer)	4 589 355	4 773 200	0.8%	1 809 399	1 534 399	0.5%
B Kantor (managing director)	57 980	488 918	0.1%	4 301 000	3 600 500	1.3%
DM Lawrence (deputy chairman)	799 410	749 410	0.1%	100 590	200 590	0.1%
GR Burger (group risk and finance director)	2 402 135	2 848 944	0.5%	737 076	627 076	0.2%
B Tapnack	75 595	75 595	–	40 000	40 000	–
Total number	7 924 475	8 936 067	1.5%	6 988 065	6 002 565	2.1%
Non-executive directors						
F Titi (chairman)	–	–	–	–	–	–
ZBM Bassa	–	–	–	–	–	–
D Friedland	–	–	–	–	–	–
KL Shuenyane	–	19 900	–	–	–	–
KXT Socikwa	–	–	–	250	250	–
PRS Thomas	–	–	–	–	–	–
Total number	–	19 900	–	250	250	–
Total number	7 924 475	8 955 967	1.5%	6 988 315	6 002 815	2.1%

The table above reflects holdings of shares by current directors.

1. *The issued share capital of Investec plc and Investec Limited at 31 March 2015 was 613.6 million and 285.7 million shares, respectively.*
2. *The market price of an Investec plc share at 31 March 2015 was £5.61 (2014: £4.85), ranging from a low of £4.91 to a high of £6.06 during the financial year.*
3. *The market price of an Investec Limited share as at 31 March 2015 was R100.51 (2014: R84.84), ranging from a low of R86.02 to a high of R107.35 during the financial year.*

Directors' interest in preference shares at 31 March 2015

	Investec Bank Limited		Investec Limited		Investec plc	
	1 April 2014	31 March 2015	1 April 2014	31 March 2015	1 April 2014	31 March 2015
Executive directors						
S Koseff	4 000	4 000	3 000	3 000	101 198	101 198
DM Lawrence	4 000	4 000	5 400	5 400	–	–
B Tapnack	2 000	2 000	8 620	8 620	9 058	9 058

- *The market price of an Investec plc preference share at 31 March 2015 was R73.50 (2014: R87.99).*
- *The market price of an Investec Limited preference share at 31 March 2015 was R83.45 (2014: R84.01).*
- *The market price of an Investec Bank Limited preference share at 31 March 2015 was R90.21 (2014: R90.00).*

Directors' interest in options at 31 March 2015

Investec plc shares

The directors do not have any interest in options over Investec plc shares.

Investec Limited shares

The directors do not have any interest in options over Investec Limited shares.

Directors' interest in long-term incentive plans at 31 March 2015

Investec Limited shares

Name	Date of grant	Exercise price	Number of Investec Limited shares at 1 April 2014	Exercised during the year	Options granted/ lapsed during the year	Balance at 31 March 2015	Market price at date of exercise	Gross gains made on date of exercise	Period exercisable
DM Lawrence	25 June 2009	Nil	25 000	(25 000)	–	–	R95.14	R2 378 500	–
	1 July 2010	Nil	100 000	(75 000)	–	25 000	R97.03	R7 277 250	Exercisable on 1 July 2015
B Tapnack	23 December 2011	Nil	100 000	–	–	100 000			75% is exercisable on 23 December 2015 and 25% on 23 December 2016
	13 June 2013	Nil	50 000	–	–	50 000			75% is exercisable on 13 June 2017 and 25% on 13 June 2018

These options are not subject to any performance conditions.

DM Lawrence exercised his options and sold 25 000 Investec Limited shares on 26 June 2014, at a share price of R95.14 per share.
DM Lawrence exercised his options and sold 75 000 Investec Limited shares on 4 July 2014, at a share price of R97.03 per share.

Directors' interests in the Investec plc Executive Incentive Plan 2013 at 31 March 2015

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2014	Conditional awards made during the year	Balance at 31 March 2015	Performance period	Period exercisable	Retention period
S Koseff	16 September 2013	Nil	600 000	–	600 000	1 April 2013 to 31 March 2016	75% is exercisable on 16 September 2017; and	16 September 2017 to 16 March 2018
							25% on 16 September 2018, subject to performance criteria being met	16 September 2018 to 16 March 2019
B Kantor	16 September 2013	Nil	600 000	–	600 000	1 April 2013 to 31 March 2016	75% is exercisable on 16 September 2017; and	16 September 2017 to 16 March 2018
							25% on 16 September 2018, subject to performance criteria being met	16 September 2018 to 16 March 2019
GR Burger	16 September 2013	Nil	600 000	–	600 000	1 April 2013 to 31 March 2016	75% is exercisable on 16 September 2017; and	16 September 2017 to 16 March 2018
							25% on 16 September 2018, subject to performance criteria being met	16 September 2018 to 16 March 2019

The Executive Incentive Plan and the awards made on 16 September 2013 were approved at the 2013 annual general meeting in terms of which 600 000 nil cost options each were awarded to S Koseff, B Kantor and GR Burger.

The performance criteria in respect of these awards are detailed in Investec's 2015 integrated annual report. None of these awards have as yet vested.

South African Companies Act 2008 disclosures

Subsequent to regulatory developments in South Africa, Investec Bank Limited is required to disclose the remuneration of those individuals that are defined by the South African Companies Act, No 71 of 2008, as amended, read together with the Companies Regulations 2011 (together the Act), as prescribed officers.

The bank operates as a specialist bank within Southern Africa and in keeping with the integrated management structure, the prescribed officers for Investec Bank Limited, as per the Act, are the following three executive directors:

- Stephen Koseff
- Bernard Kantor
- Glynn Burger

For disclosure of their remuneration, refer to page 95 of the remuneration report.

Additional remuneration disclosures (unaudited)

Pillar III remuneration disclosures

The bank is required to make certain quantitative and qualitative remuneration disclosures on an annual basis in terms of the South African Reserve Bank's Basel Pillar III disclosure requirements.

The bank's qualitative remuneration disclosures are provided on pages 90 to 94 and further information is provided in Investec's 2015 integrated annual report.

The information contained in the tables below sets out the bank's quantitative disclosures for the year ended 31 March 2015.

Aggregate remuneration by remuneration type

R'million	Senior management^	Risk takers^	Financial and risk control staff^	Total
Fixed remuneration	47.4	47.6	143.5	238.5
Variable remuneration*				
– Cash	100.1	88.5	57.9	246.5
– Deferred shares	43.5	72.0	3.1	118.6
– Deferred cash	59.4	–	–	59.4
– Deferred shares – long-term incentive awards**	124.9	91.0	87.5	303.4
Total aggregate remuneration and deferred incentives	375.3	299.1	292.0	966.4

^ *Senior management:* *all members of our South African general management forum, excluding executive directors.*
Risk takers: *includes anyone (not categorised above) who is deemed to be responsible for a division/function (e.g. lending, balance sheet management, advisory and transactional banking activities) which could be incurring risk on behalf of the bank.*
Financial and risk control staff: *includes everyone in central group finance and central group risk as well as employees responsible for risk and finance functions within the operating business units.*

* *Total number of employees receiving variable remuneration was 265.*

** *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 75% vesting at the end of four years and the final 25% at the end of five years.*

Additional disclosure on deferred remuneration

R'million	Senior management^	Risk takers^	Financial and risk control staff^	Total
Deferred unvested remuneration outstanding at the beginning of the year	377.1	186.1	76.4	639.6
Deferred unvested remuneration adjustment – employees that are no longer employed by the bank and reclassifications	–	39.2	3.5	42.7
Deferred remuneration awarded in year	227.8	163.0	90.6	481.4
Deferred remuneration reduced in year through performance adjustments	–	–	–	–
Deferred remuneration vested in year	(39.4)	(20.0)	(0.9)	(60.3)
Deferred unvested remuneration outstanding at the end of the year	565.5	368.3	169.6	1 103.4

R'million	Senior management^	Risk takers^	Financial and risk control staff^	Total
Deferred unvested remuneration outstanding at the end of the year				
– Equity	506.1	368.3	169.6	1 044.0
– Cash	59.4	–	–	59.4
– Other	–	–	–	–
	565.5	368.3	169.6	1 103.4

R'million	Senior management^	Risk takers^	Financial and risk control staff^	Total
Deferred remuneration vested in year				
– For awards made in 2014 financial year	–	–	–	–
– For awards made in 2013 financial year	16.4	9.7	0.3	26.4
– For awards made in 2012 financial year	23.0	10.3	0.6	33.9
	39.4	20.0	0.9	60.3

Other remuneration disclosures

R'million	Senior management^	Risk takers^	Financial and risk control staff^	Total
Sign-on payments				
Made during the year (R'million)	–	–	–	–
Number of beneficiaries	–	–	–	–
Severance payments				
Made during the year (R'million)	–	–	–	–
Number of beneficiaries	–	–	–	–
Guaranteed bonuses				
Made during the year (R'million)	–	–	–	–
Number of beneficiaries	–	–	–	–

^ *Senior management: all members of our South African general management forum, excluding executive directors.*
Risk takers: includes anyone (not categorised above) who is deemed to be responsible for a division/function (e.g. lending, balance sheet management, advisory and transactional banking activities) which could be incurring risk on behalf of the bank.
Financial and risk control staff: includes everyone in central group finance and central group risk as well as employees responsible for risk and finance functions within the operating business units.

5

Annual financial statements

Directors' responsibility statement

The directors are responsible for the preparation and fair presentation of the group annual financial statements and the annual financial statements of Investec Bank Limited, comprising the balance sheets at 31 March 2015, and the income statements and statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the annual financial statements, accounting policies, and the directors' report, in accordance with International Financial Reporting Standards, SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Standards Council, and in the manner required by the Companies Act, No 71 of 2008, as amended.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these annual financial statements.

The directors have made an assessment of the ability of the company and its subsidiaries to continue as going concerns and have no reason to believe that the businesses will not be a going concern in the year ahead.

In addition, the board considers that this integrated annual report and annual financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary to assess the company's performance, business model and strategy.

The auditors are responsible for reporting on whether the group annual financial statements and annual financial statements of Investec Bank Limited are fairly presented in accordance with the applicable financial reporting framework.

Approval of Investec Bank Limited's group and company annual financial statements

The Investec Bank Limited group and company annual financial statements, as identified in the first paragraph, were approved by the board of directors on 10 June 2015 and signed on its behalf by:

Fani Titi	Stephen Koseff
Chairman	*Chief executive officer*

10 June 2015

Declaration by the company secretary

In terms of section 88(2)(e) of the South African Companies Act, No 71 of 2008, as amended (the Act), I hereby certify that, to the best of my knowledge and belief, Investec Bank Limited has lodged with the Companies and Intellectual Property Commission, for the financial year ended 31 March 2015, all such returns as are required in terms of the Act and that all such returns are true, correct and up to date.

Niki van Wyk
Company secretary, Investec Bank Limited

10 June 2015

Independent auditors' report to the members of Investec Bank Limited

To the Shareholders of Investec Bank Limited

We have audited the consolidated and separate financial statements of Investec Bank Limited, which comprise balance sheets of Investec Bank Limited at 31 March 2015, and its income statements, statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended, accounting policies and notes to financial statements, as set out on pages 105 to 191 and the specified disclosures within the risk management, remuneration and directors' report that are marked as audited.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Investec Bank Limited at 31 March 2015, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 31 March 2015, we have read the declaration by the company secretary and the directors' report for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion thereon.

KPMG Inc.

KPMG Inc.
Registered Auditor

Per Gavin de Lange
Chartered Accountant (SA)
Registered Auditor
Director

KPMG Crescent
85 Empire Road
Parktown 2193
Johannesburg

10 June 2015

Ernst + Young Inc.

Ernst & Young Inc.
Registered Auditor

Per Ernest van Rooyen
Chartered Accountant (SA)
Registered Auditor
Director

102 Rivonia Road
Sandton
Private Bag X14
Sandton 2146
Johannesburg

10 June 2015

Directors' report

Nature of business

Investec Bank Limited is a specialist bank providing a diverse range of financial products and services to a niche client base in South Africa and Mauritius.

Financial results

The group and company financial results of Investec Bank Limited are set out in the annual financial statements and accompanying notes for the year ended 31 March 2015.

A review of the operations for the year can be found on pages 11 to 18.

The preparation of the group and company annual financial statements was supervised by the group risk and finance director, Glynn Burger.

Authorised and issued share capital

Details of the share capital are set out in notes 38 and 39 to the annual financial statements.

Ordinary dividends

The following dividends were declared and paid during the year:

- R21 000 000 was declared and paid on 20 June 2014.

Preference dividends

Non-redeemable, non-cumulative, non-participating preference shares

Preference dividend number 23 for the six months ended 30 September 2014, amounting to 380.29301 cents per share, was declared to members holding preference shares registered on 5 December 2014 and was paid on 15 December 2014.

Preference dividend number 24 for the six months ended 31 March 2015, amounting to 384.34536 cents per share, was declared to members holding preference shares registered on 12 June 2015 and will be paid on 22 June 2015.

Directors

Details of the directors are reflected on pages 85 to 88.

Directors' shareholdings

No director holds any ordinary shares in Investec Bank Limited.

Directors' shareholdings in Investec Limited and Investec plc and in Investec Bank Limited's preference shares are set out on pages 96 and 97.

Directors' remuneration

Directors' remuneration is disclosed on pages 90 to 99.

Company secretary and registered office

As from 1 July 2014 the company secretary is Niki van Wyk. Benita Coetsee resigned with effect from 30 June 2014.

The registered office is c/o Company Secretarial, Investec Limited, 100 Grayston Drive, Sandown, Sandton 2196.

Audit committee

As allowed under the Companies Act, No 71 of 2008, as amended, and the Banks Act No 96 of 1990, as amended, the audit committee of Investec Limited performs the necessary functions required on behalf of Investec Bank Limited.

An audit committee comprising non-executive directors meets regularly with senior management, the external auditors, Operational Risk, the Internal Audit, Compliance and the Finance division, to consider the nature and scope of the audit reviews and the effectiveness of the group's risk and control systems. Further details on the role and responsibilities of the audit committee are set out in Investec's 2015 integrated annual report.

Social and ethics committee

As allowed under the Companies Act, No 71 of 2008, as amended, the social and ethics committee of the group performs the necessary functions required on behalf of Investec Bank Limited. Further details on the role and responsibilities of the social and ethics committee are set out in Investec's 2015 integrated annual report.

Auditors

KPMG Inc. and Ernst & Young Inc. have expressed their willingness to continue in office as joint auditors. A resolution to reappoint KPMG Inc. and Ernst & Young Inc. as joint auditors will be proposed at the annual general meeting taking place on 6 August 2015.

Holding company

The bank's holding company is Investec Limited.

Major shareholders

Investec Limited owns 100% of the issued ordinary shares.

Subsidiary and associated companies

Details of principal subsidiary companies are reflected on page 170 and the associate companies on page 166.

The interest of the company in the aggregate profits after taxation of its subsidiary companies is R488.0 million (2014: R634.9 million) and its share in aggregate losses is R3.0 million (2014: R48.4 million).

Special resolutions

At the annual general meeting of members held on 7 August 2014, the following special resolutions were passed in terms of which:

- The board of directors of Investec Bank Limited may authorise Investec Bank Limited to provide direct or indirect financial assistance by way of loan, guarantee, the provision of security or otherwise, not in the ordinary course of business

- The remuneration of the non-executive directors was approved for a period of 24 months from the date of passing the special resolution

Accounting policies and disclosure

Accounting policies are set having regard to commercial practice and are in accordance with International Financial Reporting Standards, SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Standards Council, as well as the requirements of the Companies Act, No 71 of 2008, as amended.

These policies are set out on pages 113 to 121.

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 schemes.

Further information is provided in Investec group's 2015 integrated annual report.

Political donations and expenditure

Invested Bank Limited made political donations totalling R1 million in 2015 (2014: R2.5 million).

Empowerment and transformation

In South Africa, transformation and black economic empowerment remain high on the corporate agenda. Our approach is to utilise our own entrepreneurial expertise to foster the creation of new black entrepreneurial platforms, and continue to be one of the prime sources of empowerment financing. We also recognise the need for our own internal transformation and are bringing about greater representivity within our workplace by creating black entrepreneurs within the organisation.

Environment

Investec Bank Limited 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 group's 2015 integrated annual report.

Subsequent events

There are no material facts or circumstances which occurred between the balance sheet date and the date of this report that would require adjustment or disclosure in the annual financial statements.

Going concern

The directors have made an assessment of the ability of the company and its subsidiaries to continue as going concerns and have no reason to believe that the businesses will not be a going concern in the year ahead.

Fani Titi Chairman	Stephen Koseff Chief executive officer

10 June 2015

Income statements

For the year to 31 March R'million	Notes	Group 2015	Group 2014	Company 2015	Company 2014
Interest income	1	19 587	17 063	18 750	16 117
Interest expense	1	(14 066)	(12 147)	(14 118)	(11 982)
Net interest income		5 521	4 916	4 632	4 135
Fee and commission income	2	1 661	1 567	1 521	1 458
Fee and commission expense	2	(207)	(174)	(159)	(145)
Investment income	3	1 420	334	1 531	248
Trading income arising from					
– customer flow		290	343	317	325
– balance sheet management and other trading activities		260	235	269	234
Other operating income/(loss)	4	1	(5)	–	(7)
Total operating income before impairment losses on loans and advances		8 946	7 216	8 111	6 248
Impairment losses on loans and advances	24	(455)	(638)	(468)	(579)
Operating income		8 491	6 578	7 643	5 669
Operating costs	5	(4 818)	(4 113)	(4 553)	(3 838)
Profit before taxation		3 673	2 465	3 090	1 831
Taxation	7	(545)	(315)	(447)	(269)
Profit after taxation		3 128	2 150	2 643	1 562

Statements of comprehensive income

For the year to 31 March R'million	Notes	Group 2015	2014	Company 2015	2014
Profit after taxation		3 128	2 150	2 643	1 562
Other comprehensive income:					
Items that may be reclassified to the income statement					
Fair value movements on cash flow hedges taken directly to other comprehensive income	7	(619)	(75)	(612)	(75)
Fair value movements on available-for-sale assets taken directly to other comprehensive income	7	322	(212)	328	(216)
Gain on realisation of available-for-sale assets recycled through the income statement	7	–	(2)	–	(2)
Foreign currency adjustments on translating foreign operations		602	414	–	–
Total comprehensive income		3 433	2 275	2 359	1 269
Total comprehensive income attributable to ordinary shareholders		3 319	2 167	2 245	1 161
Total comprehensive income attributable to perpetual preference shareholders		114	108	114	108
Total comprehensive income		3 433	2 275	2 359	1 269

Balance sheets

At 31 March R'million	Notes	Group 2015	Group 2014	Company 2015	Company 2014
Assets					
Cash and balances at central banks	15	6 261	5 927	6 148	5 751
Loans and advances to banks	16	33 422	32 672	30 284	29 672
Non-sovereign and non-bank cash placements		10 540	9 045	10 540	9 045
Reverse repurchase agreements and cash collateral on securities borrowed	17	10 095	6 442	9 926	6 442
Sovereign debt securities	18	31 378	34 815	31 358	34 815
Bank debt securities	19	17 332	21 538	15 981	20 233
Other debt securities	20	12 749	11 933	13 390	13 019
Derivative financial instruments	21	15 178	12 299	14 969	11 957
Securities arising from trading activities	22	1 289	1 316	1 289	1 316
Investment portfolio	23	9 972	8 834	9 581	8 657
Loans and advances to customers	24	172 993	148 562	159 028	134 611
Own originated loans and advances to customers securitised	25	4 535	2 822	–	–
Other loans and advances	24	472	552	476	–
Other securitised assets	25	618	1 503	137	527
Interest in associated undertakings	26	60	52	–	–
Deferred taxation assets	27	88	75	–	–
Other assets	28	1 262	1 771	994	1 492
Property and equipment	29	192	219	187	215
Investment properties	30	80	84	80	84
Intangible assets	31	190	102	177	96
Loans to group companies	32	3 268	1 924	2 825	2 797
Investment in subsidiaries	33	–	–	6 430	4 766
Non-current assets classified as held for sale	11	732	731	732	731
		332 706	303 218	314 532	286 226
Liabilities					
Deposits by banks		29 792	22 407	29 652	22 266
Derivative financial instruments	21	12 401	9 259	12 401	9 259
Other trading liabilities	34	1 623	1 431	1 623	1 431
Repurchase agreements and cash collateral on securities lent	17	16 556	17 686	15 225	16 407
Customer accounts (deposits)		221 377	204 903	211 914	196 177
Debt securities in issue	35	5 517	5 366	4 522	4 386
Liabilities arising on securitisation of own originated loans and advances	25	1 089	1 369	–	–
Liabilities arising on securitisation of other assets	25	–	156	–	–
Current taxation liabilities		1 186	1 288	1 369	1 450
Deferred taxation liabilities	27	76	61	36	54
Other liabilities	36	3 741	3 193	3 492	2 673
		293 358	267 119	280 234	254 103
Subordinated liabilities	37	10 449	10 498	10 449	10 498
		303 807	277 617	290 683	264 601
Equity					
Ordinary share capital	38	32	32	32	32
Share premium	40	14 885	14 885	14 885	14 885
Other reserves		764	364	(909)	(625)
Retained income		13 218	10 320	9 841	7 333
Total equity		28 899	25 601	23 849	21 625
Total liabilities and equity		332 706	303 218	314 532	286 226

Statements of changes in equity

R'million	Ordinary share capital	Share premium
Group		
At 1 April 2013	32	14 885
Movement in reserves 1 April 2013 – 31 March 2014		
Profit after taxation	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–
Gain on realisation of available-for-sale assets recycled through the income statement	–	–
Foreign currency adjustments on translating foreign operations	–	–
Total comprehensive income for the year	–	–
Dividends paid to ordinary shareholders	–	–
Dividends paid to perpetual preference shareholders	–	–
Transfer to regulatory general risk reserve	–	–
At 31 March 2014	32	14 885
Movement in reserves 1 April 2014 – 31 March 2015		
Profit after taxation	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–
Fair value movements on available-for sale assets taken directly to other comprehensive income	–	–
Foreign currency adjustments on translating foreign operations	–	–
Total comprehensive income for the year	–	–
Dividends paid to ordinary shareholders	–	–
Dividends paid to perpetual preference shareholders	–	–
Transfer to regulatory general risk reserve	–	–
At 31 March 2015	32	14 885

Other reserves					
Available-for-sale reserve	Regulatory general risk reserve	Cash flow hedge reserve	Foreign currency reserve	Retained income	Total equity
110	323	(446)	188	8 417	23 509
–	–	–	–	2 150	2 150
–	–	(75)	–	–	(75)
(212)	–	–	–	–	(212)
(2)	–	–	–	–	(2)
–	–	–	414	–	414
(214)	–	(75)	414	2 150	2 275
–	–	–	–	(75)	(75)
–	–	–	–	(108)	(108)
–	64	–	–	(64)	–
(104)	387	(521)	602	10 320	25 601
–	–	–	–	3 128	3 128
–	–	(619)	–	–	(619)
322	–	–	–	–	322
–	–	–	602	–	602
322	–	(619)	602	3 128	3 433
–	–	–	–	(21)	(21)
–	–	–	–	(114)	(114)
–	95	–	–	(95)	–
218	482	(1 140)	1 204	13 218	28 899

Statements of changes in equity (continued)

R'million	Ordinary share capital	Share premium
Company		
At 1 April 2013	32	14 885
Movement in reserves 1 April 2013 – 31 March 2014		
Profit after taxation	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–
Gain on realisation of available-for-sale assets recycled through the income statement	–	–
Total comprehensive income for the year	–	–
Dividends paid to ordinary shareholders	–	–
Dividends paid to perpetual preference shareholders	–	–
At 31 March 2014	32	14 885
Movement in reserves 1 April 2014 – 31 March 2015		
Profit after taxation	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–
Total comprehensive income for the year	–	–
Dividends paid to ordinary shareholders	–	–
Dividends paid to perpetual preference shareholders	–	–
At 31 March 2015	32	14 885

Other reserves				
Available-for-sale reserve	Cash flow hedge reserve	Foreign currency reserve	Retained income	Total equity
111	(446)	3	5 954	20 539
–	–	–	1 562	1 562
–	(75)	–	–	(75)
(216)	–	–	–	(216)
(2)	–	–	–	(2)
(218)	(75)	–	1 562	1 269
–	–	–	(75)	(75)
–	–	–	(108)	(108)
(107)	(521)	3	7 333	21 625
–	–	–	2 643	2 643
–	(612)	–	–	(612)
328	–	–	–	328
328	(612)	–	2 643	2 359
–	–	–	(21)	(21)
–	–	–	(114)	(114)
221	(1 133)	3	9 841	23 849

Cash flow statements

For the year to 31 March R'million	Notes	Group 2015	Group 2014	Company 2015	Company 2014
Cash flows from operating activities					
Profit before taxation adjusted for non-cash items	42	4 266	3 253	3 692	2 560
Taxation paid		(546)	(71)	(445)	(34)
Increase in operating assets	42	(25 117)	(18 330)	(23 992)	(17 660)
Increase in operating liabilities	42	24 864	22 565	26 230	21 527
Net cash inflow from operating activities		3 467	7 417	5 485	6 393
Cash flow on acquisition of property, equipment and intangible assets		(224)	(218)	(210)	(211)
Cash flow on disposal of property, equipment and intangible assets		26	59	23	57
(Increase)/decrease in investment in subsidiaries		–	–	(1 664)	989
Net cash (outflow)/inflow from investing activities		(198)	(159)	(1 851)	835
Dividends paid to ordinary shareholders		(21)	(75)	(21)	(75)
Dividends paid to perpetual preference shareholders		(114)	(108)	(114)	(108)
Repayment of subordinated debt		(250)	(1 998)	(250)	(1 998)
Net cash outflow from financing activities		(385)	(2 181)	(385)	(2 181)
Effects of exchange rates on cash and cash equivalents		439	410	–	–
Net increase in cash and cash equivalents		3 323	5 487	3 249	5 047
Cash and cash equivalents at the beginning of the year		20 460	14 973	17 284	12 237
Cash and cash equivalents at the end of the year		23 783	20 460	20 533	17 284
Cash and cash equivalents is defined as including:					
Cash and balances at central banks		6 261	5 927	6 148	5 751
On demand loans and advances to banks		6 982	5 488	3 845	2 488
Non-sovereign and non-bank cash placements		10 540	9 045	10 540	9 045
Cash and cash equivalents at the end of the year		23 783	20 460	20 533	17 284

Cash and cash equivalents have a maturity profile of less than three months.

Accounting policies

Basis of presentation

The group and company financial statements are prepared in accordance with the International Financial Reporting Standards, SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Standards Council, as well as the requirements of the Companies Act.

The group and company financial statements have been prepared on a historical cost basis, except for investment properties, available-for-sale investments, derivative financial instruments and financial assets and liabilities held at fair value through profit or loss or subject to hedge accounting, that have been measured at fair value.

Accounting policies applied are consistent with those of the prior year. 'Group' refers to group and company in the accounting policies that follow.

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 20 to 80.

Certain disclosures required under IAS 24 Related Party Disclosures have been included in the section marked as audited in the remuneration report in Investec's 2015 integrated annual report.

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.

Investec performs a reassessment of consolidation whenever there is a change in the substance of the relationship between Investec and an entity. 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 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 group balance sheet reflects the associated undertakings net of accumulated impairment losses.

Investments in subsidiaries (including loan advances to subsidiaries) are carried at their cost less any accumulated impairment losses in the company financial statements.

All intergroup balances, transactions and unrealised gains and losses within the group that do not reflect an impairment to the asset, are eliminated in full regarding subsidiaries and to the extent of the interest in an associate.

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.

No additional disclosures have been provided regarding the segmental results as the bank has one segment.

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 in the income statement. 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 this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating units retained.

Share-based payments to employees

The group engages in equity-settled share-based payments in respect of services received from employees.

The fair value of the services received in respect of equity-settled share-based payments is determined by reference to the fair value of the shares or share options on the date of grant to the employee. The cost of the share-based payment, together with a corresponding increase in equity, is recognised in the income statement over the period the service conditions of the grant are met with the amount changing according to the number of awards expected to vest. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the group's best estimate of the number of equity instruments that will ultimately vest.

The increase in equity is offset by a payment made to the holding company of Investec Bank Limited for the provision of the equity-settled shares. In addition, all entities of the group account for any share-based recharge costs allocated to equity in the period during which it is levied in their separate annual financial statements. Any excess over and above the recognised share-based payment expense is accounted for as an expense within profit and loss. This cost is presented with the share-based payment expense in note 6.

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 South African Rand, being the functional currency of the company and the currency in which the company mainly operates, except Mauritius which is in US Dollars.

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 transaction arises based on rates of exchange ruling at the date of the transaction. 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 and 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 recognised in the income statement upon disposal of the net investment
- Non-monetary items that are measured at historical costs are translated using the exchange rates ruling at the date of the transaction.

On consolidation, the results and financial position of foreign operations are translated into the presentation currency of the group as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet
- Income and expense items are translated at exchange rates ruling at the date of the transaction
- All resulting exchange differences are recognised in other comprehensive income (foreign currency translation reserve), which is recognised in the income statement on disposal of the foreign operation
- Cash flow items are translated at the exchange rates ruling at the date of the transaction.

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 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 excludes 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 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 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 is shown net of the funding costs of the underlying positions and includes the unrealised profits 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 and income from interests in associated undertakings.

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 takes 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 when the inputs have changed or there has been a change in the 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 fair value. All other transaction costs are recorded in the income statement immediately.

Regular way purchase and sales transactions in respect of financial assets that require delivery of a financial instrument within the timeframe established by market convention are recorded at settlement date.

Financial assets and liabilities held at fair value through profit or loss

Financial instruments held at fair value through profit or loss include all instruments classified as held-for-trading and those instruments designated as held at fair value through profit or loss.

Financial instruments classified as held-for-trading or designated as held at fair value through profit or loss are recorded at fair value on the balance sheet with changes in fair value recognised in the income statement. Financial instruments are classified as trading when they are held with the intention of short-term disposal, held with intention of generating short-term profits, or are derivatives which are not designated as part of effective hedges. Financial instruments designated as held at fair value through profit or loss are designated as such on initial recognition of the instrument and remain in this classification until derecognition.

Financial assets and liabilities are designated as held at fair value through profit or loss only if:

- It eliminates or significantly reduces an inconsistent measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy and information about the group is provided internally on that basis to the group's key management personnel; and
- If a contract contains one or more embedded derivatives (which significantly modifies the cash flows that would be required by the contract and is not clearly prohibited from separation from the host contract) and the group has designated the entire hybrid contract as a financial instrument at fair value through profit or loss.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial instruments with fixed or determinable payments and maturity dates which the group has the intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity assets are measured at amortised cost using the effective interest method, less impairment losses.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in interest income in the income statement. The losses arising from impairment of such investments are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and exclude the following:

- Those that the group intends to trade in, which are classified as held-for-trading and those that the group designates as at fair value through profit or loss
- Those that the group designates as available-for-sale
- Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which is accounted for as available-for-sale instruments.

Subsequent to initial recognition, loans and receivables are measured at amortised cost, using the effective interest rate method, less impairment losses. The effective interest rate represents the rate that exactly discounts future projected cash flows through the expected life of the financial instrument, to the net carrying amount of the financial instrument. Included in the calculation of the effective interest rate is any discount or premium on acquisition and fees that are an integral part of the effective interest rate.

Losses arising from impairment of such investments are recognised in the income statement line 'impairment losses on loans and advances'.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Securitisation/credit investment and trading activities exposures

The group makes use of securitisation vehicles as a source of finance, as a means of risk transfer and to leverage returns through the retention of equity tranches in low default rate portfolios. The group predominately focuses on the securitisation of residential and commercial mortgages. The group also trades in structured credit investments.

The structured entities are consolidated under IFRS 10 Consolidated Financial Statements when the group has exposure to or rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Loans and advances that are originated are transferred to structured entities, and the structured entities issue debt securities to external investors to fund the purchase of the securitised assets. When the group consolidates the structured entity, the group recognises the assets and liabilities on a gross basis. When the group does not consolidate the structured entity the impact is that the securitised assets are derecognised and only any position still held by the group in the structured entity is reflected.

Available-for-sale financial assets

Available-for-sale financial assets are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity, or loans and receivables. They include strategically held equity instruments that are not interests in associated undertakings, joint ventures or subsidiaries of the group. Further, certain debt instruments that are held at fair value due to being quoted on an active market, which are neither actively traded nor held-to-maturity instruments, are classified as available-for-sale financial assets.

Financial assets classified as available-for-sale are measured at fair value, with unrealised gains 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 recognised in the income statement. Interest earned while holding available-for-sale financial assets is reported 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 of 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 1 profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on the valuation technique whose variables include only data from observable markets, the difference between the transaction price and fair value is recognised immediately in the income statement.

In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, 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 that takes into account macro-economic factors, mainly driven by data related to the prevailing credit markets and which indicate incurred but not specifically identified losses across the loan portfolios (i.e. exposures in all business segments). Assets specifically identified as impaired are excluded from the collective assessment.

Impairments are credited to an allowance account which is carried against the carrying value of financial assets. Interest continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or transferred to the group.

An allowance for impairment is only reversed when there is objective evidence that the credit quality has improved to the extent that there is reasonable assurance of timely collection of principal and interest in terms of the original contractual agreement.

The impairment is calculated as the difference between the carrying value of the asset and the expected cash flows (including net expected proceeds on realisation of collateral) discounted at the original effective rate. Impairments of financial assets held at amortised cost are recognised in the income statement.

To cater for any shortfall between regulatory provision requirements (in the respective jurisdictions) and impairments based on the principles above, a transfer is made from distributable to non-distributable reserves, being the regulatory general risk reserve. The non-distributable regulatory risk reserve ensures that minimum regulatory provisioning requirements are maintained.

Derecognition of financial assets and liabilities

A financial asset, or a portion thereof, is derecognised when the group's rights to cash flows have expired or when the group has transferred its rights to cash flows relating to the financial assets and either (a) the group has transferred substantially all the risk 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 asset.

A financial liability is derecognised when it is extinguished, i.e. when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced or modified with substantially different terms, such a replacement or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

Reclassification of financial instruments

The group may reclassify, in rare circumstances, non-derivative financial assets out of the held-for-trading category and into the available-for-sale, loans and receivables or held-to-maturity categories. It may also reclassify, in certain circumstances, financial instruments out of the available-for-sale category and into the loans and receivables category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

Derivative instruments

All derivative instruments of the group are recorded on the balance sheet at fair value. Positive and negative fair values are reported as assets and liabilities, respectively.

Derivative positions are entered into either for trading purposes or as part of the group's asset and liability management activities to manage exposures to interest rate and foreign currency risks. Both realised and unrealised profits and losses arising on derivatives are recognised in the income statement as part of trading income (other than circumstances in which cash flow hedging is applied as detailed below).

Derivative instruments transacted as economic hedges which do not qualify for hedge accounting and derivatives that are entered into for trading purposes are treated in the same way as instruments that are held-for-trading.

Credit derivatives are entered into largely for trading purposes. Credit derivatives are initially recognised at their fair values, being the transaction price of the derivative. Subsequently the derivatives are carried at fair value, with movements in fair value through profit and loss, based on the remeasured price. The counterparty risk from derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit value adjustment (CVA).

Hedge accounting

The group applies either fair value or cash flow hedge or hedge of net investments in foreign operations accounting when the transactions meet the specified hedge accounting criteria. To qualify for hedge accounting treatment, the group ensures that all of the following conditions are met:

- At inception of the hedge, the group formally documents the relationship between the hedging instrument(s) and hedged item(s) including the risk management objectives and the strategy in undertaking the hedge transaction. Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%
- For cash flow hedges, a forecasted transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit and loss
- The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured
- The hedge effectiveness is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

For qualifying fair value hedges, the change in fair value of the hedging instrument is recognised in the income statement. Changes in fair value of the hedged item that is attributable to the hedged risk are also recognised in the income statement.

For qualifying cash flow hedges in respect of non-financial assets and liabilities, the change in fair value of the hedging instrument, relating to the effective portion is initially recognised directly in other comprehensive income in the cash flow hedge reserve and is included in the initial cost of any asset/liability recognised or in all other cases released to the income statement when the hedged firm commitment or forecasted transaction affects net profit. If the forecast transaction or firm commitment is no longer expected to occur, the balance included in other comprehensive income is reclassified to the income statement immediately and recognised in trading income from balance sheet management and other trading activities.

For qualifying cash flow hedges in respect of financial assets and liabilities, the change in fair value of the hedging instrument, which represents an effective hedge are initially recognised in other comprehensive income and is released to the income statement in the same period during which the relevant financial asset or liability affects the income statement. Any ineffective portion of the hedge is immediately recognised in the income statement.

Qualifying hedges of a net investment in a foreign operation including a hedge of a monetary item that is accounted for as part of the net investment are accounted for in a way similar to cash flow hedges. Changes in the fair value of the hedging instrument relating to the effective portion of the hedge are recognised in the foreign currency translation reserve 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 hedge 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 standalone derivative if and only if:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset when there is both an intention to settle on a net basis (or simultaneously) and a currently enforceable legal right to offset exists.

Issued debt and equity financial instruments

Financial instruments issued by the group are classified as liabilities if they contain a contractual obligation to deliver cash or another financial asset.

Financial instruments issued by the group are classified as equity where they confer on the holder a residual interest in the group, and the group has no obligation to deliver either cash or another financial asset to the holder. The components of compound issued financial instruments are accounted for separately with the liability component separated first and any residual amount being allocated to the equity component.

Equity instruments are initially measured net of directly attributable issue costs.

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 in 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.

The cash collateral from agency-based scrip lending transactions are disclosed on a net basis, in accordance with master netting agreements and the group's intention to settle net.

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

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 financial lease.

Where classified as a finance lease, amounts outstanding on these contracts, net of unearned finance charges, are included in loans and advances where the group is the lessor and included in liabilities where the group is the lessee. Finance charges on finance leases and instalment credit transactions are credited or debited to income 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 (if any) 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%
- Leasehold 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.*

The useful lives, depreciation methods and residual values are assessed annually.

Routine maintenance and service costs of 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 property

Properties held by the group which are held for capital appreciation or rental yield are classified as investment properties. Investment properties are carried at fair value, with fair value gains and losses recognised in the income statement in 'investment income'.

Fair value of investment property is calculated by taking into account the expected rental stream associated with the property, and is supported by market evidence.

Trading property

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.

For intangible assets with a finite life, amortisation is provided on the depreciable amount of each intangible asset on a straight-line basis over the expected useful life of the asset (currently three to eight years). The depreciable amount related to each intangible asset is determined as the difference between the cost and the residual value of the asset.

Impairment of non-financial assets

At each balance sheet date the group reviews the carrying value of non-financial assets, other than investment property for indication of impairment. The recoverable amount, being the higher of fair value less cost of disposal and value in use, is determined for any assets for which an indication of impairment is identified. If the recoverable amount of an asset is less than its carrying value, the carrying value of the asset is reduced to its recoverable value.

Impairment losses are recognised as an expense in the income statement in the period in which they are identified. Reversal of impairment losses are recognised in income in the period in which the reversal is 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 tax payable is provided on the amount expected to be payable on taxable profits at rates that are enacted or substantively enacted and applicable to the relevant period.

Deferred taxation is provided using the balance sheet method on temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base, except where such temporary differences arise from:

- The initial recognition of goodwill
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction has no effect on the income statement
- In respect of temporary differences associated with the investments in subsidiaries and interests in associated undertakings, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets or liabilities are measured using the tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised.

Items recognised directly in other comprehensive income are net of related current and deferred taxation.

Employee benefits

The group operates various defined contribution schemes.

In respect of the defined contribution scheme, all employer contributions are charged to income as incurred, in accordance with the rules of the scheme, and included under staff costs.

The group has no liabilities for other post-retirement benefits.

Borrowing costs

Borrowing costs that are directly attributable to property developments which take a substantial period of time to develop are capitalised.

Provisions, contingent liabilities and contingent assets

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the income statement net of any reimbursement. Contingent assets and contingent liabilities are not recognised on balance sheet.

Standards and interpretations issued, but not yet effective

The following significant standards and interpretations, which have been issued but are not yet effective, are applicable to the group. These standards and interpretations have not been applied in these annual financial statements. The group intends to comply with these standards from the effective dates.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments was issued in July 2014 will replace certain key elements of IAS 39. The mandatory effective date for IFRS 9 is from 1 January 2018 with early adoption permitted. However, IFRS 9 has not yet been endorsed by the European Union. The two key elements that would impact the group's accounting policies include:

- Classification and measurement of financial assets and financial liabilities – the standard requires that all financial assets be classified as either held at fair value or amortised cost. The amortised cost classification is only permitted where it is held within a business model where the underlying cash flows are held in order to collect contractual cash flows and that the cash flows arise solely from payment of principal and interest. The standard further provides that gains and losses on assets held at fair value are measured through the income statement unless the entity has elected to present gains and losses on non-trading equity investments (individually elected) directly through comprehensive income. With reference to financial liabilities held at fair value, the standard proposes that changes to fair value attributable to credit risk is taken directly to other comprehensive income without recycling.
- Impairment methodology – the key change is related to a shift from an incurred loss to an expected loss impairment methodology. At initial recognition, 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, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime ECL).

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.

There are additional disclosures and consequential amendments in IFRS 7 resulting from the introduction of the hedge accounting chapter in IFRS 9; these will become effective when IFRS 9 is applied.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. The standard is effective for annual periods beginning on or after 1 January 2017 with early application permitted. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for obligations as they are satisfied. The standard should be applied retrospectively, with certain practical expedients available. The group does not anticipate a material impact on adoption of this standard.

All other standards and interpretations issued but not yet effective are not expected to have an 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 and 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 23 with further analysis contained in the risk management section on page 49 to 51.

- Valuation of investment properties is performed twice annually by directors who are qualified valuators.

  Refer to note 30 for the carrying value of investment property with further analysis contained in the risk management section on pages 49 to 51.

- 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 40 to 48 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 recognises liabilities for taxation based on estimates of levels of taxation expected to be payable, taking into consideration expert external advice where appropriate. The final resolution may result in different amounts of cash flows to those initially provided and any necessary adjustments are taken into consideration in the period in which they are identified
- Determination of interest income and interest expense using the effective interest method involves judgement in determining the timing and extent of future cash flows
- In order to meet the objectives of IFRS 12, management performs an assessment of the value of each associate in relation to the value of total assets, as well as any qualitative consideration that may exist, in order to determine materiality to the reporting entity for disclosure purposes.

For the year to 31 March 2015 R'million	Notes	Group Balance sheet value	Group Interest income	Company Balance sheet value	Company Interest income
1. Net interest income					
Cash, near cash and bank debt and sovereign debt securities	1	109 028	4 768	104 237	4 709
Core loans and advances	2	177 528	14 091	159 028	12 574
Private client		116 382	9 071	106 252	8 592
Corporate, institutional and other clients		61 146	5 020	52 776	3 982
Other debt securities and other loans and advances		13 221	411	13 866	365
Other interest-earning assets	3	3 886	317	8 487	1 102
Total interest-earning assets		303 663	19 587	285 618	18 750

For the year to 31 March 2015 R'million	Notes	Group Balance sheet value	Group Interest expense	Company Balance sheet value	Company Interest expense
Deposits by banks and other debt-related securities	4	51 865	(642)	49 399	(569)
Customer accounts		221 377	(12 613)	211 914	(12 563)
Other interest-bearing liabilities	5	1 089	(35)	–	(210)
Subordinated liabilities		10 449	(776)	10 449	(776)
Total interest-bearing liabilities		284 780	(14 066)	271 762	(14 118)
Net interest income			5 521		4 632

For the year to 31 March 2014 R'million	Notes	Group Balance sheet value	Group Interest income	Company Balance sheet value	Company Interest income
Cash, near cash and bank debt and sovereign debt securities	1	110 439	4 617	105 958	5 019
Core loans and advances	2	151 384	11 775	134 611	10 602
Private client		93 720	7 456	91 924	7 086
Corporate, institutional and other clients		57 664	4 319	42 687	3 516
Other debt securities and other loans and advances		12 485	504	13 019	378
Other interest-earning assets	3	3 427	167	3 324	118
Total interest-earning assets		277 735	17 063	256 912	16 117

For the year to 31 March 2014 R'million	Notes	Group Balance sheet value	Group Interest expense	Company Balance sheet value	Company Interest expense
Deposits by banks and other debt-related securities	4	45 459	(825)	43 059	(804)
Customer accounts		204 903	(10 313)	196 177	(10 250)
Other interest-bearing liabilities	5	1 525	(308)	–	(226)
Subordinated liabilities		10 498	(701)	10 498	(702)
Total interest-bearing liabilities		262 385	(12 147)	249 734	(11 982)
Net interest income			4 916		4 135

See notes on next page.

Notes:
1. *Comprises (as per the balance sheet) cash and balances at central banks; loans and advances to banks; non-sovereign and non-bank cash placements; reverse repurchase agreements and collateral on securities borrowed; sovereign debt securities; bank debt securities.*
2. *Comprises (as per the balance sheet) loans and advances to customers; own originated loans and advances to customers securitised.*
3. *Comprises (as per the balance sheet) other securitised assets; loans to group companies.*
4. *Comprises (as per the balance sheet) deposits by banks; debt securities in issue; repurchase agreements and cash collateral on securities lent.*
5. *Comprises (as per the balance sheet) liabilities arising on securitisation of own originated assets; liabilities arising on securitisation.*

2. Net fee and commission income

For the year to 31 March R'million	Group 2015	 2014	Company 2015	 2014
Corporate and institutional transactional and advisory services	1 076	1 123	986	1 070
Private client transactional fees	585	444	535	388
Fee and commission income	1 661	1 567	1 521	1 458
Fee and commission expense	(207)	(174)	(159)	(145)
Net fee and commission income	1 454	1 393	1 362	1 313
Annuity fees (net of fees payable)	772	622	740	574
Deal fees	682	771	622	739

Trust and fiduciary fees amounted to Rnil (2014: R18.4 million) for the group and Rnil (2014: Rnil) for the company and were included in private client transactional fees.

3. Investment income

The following table analyses investment income generated by the asset portfolio shown on the balance sheet:

For the year to 31 March R'million	Investment portfolio (listed and unlisted equities)*	Debt securities (sovereign, bank and other)	Investment properties	Other asset categories	Total
Group					
2015					
Investment income comprises:					
Realised	669	68	–	34	771
Unrealised	394	(8)	–	6	392
Dividend income	511	–	–	–	511
Funding cost and other net related costs	(253)	–	–	(1)	(254)
	1 321	60	–	39	1 420
2014					
Investment income comprises:					
Realised	216	–	–	14	230
Unrealised	(240)	(175)	63	(6)	(358)
Dividend income	646	–	–	–	646
Funding cost and other net related costs	(181)	–	–	(3)	(184)
	441	(175)	63	5	334

* *Including embedded derivatives (warrants and profit shares).*

For the year to 31 March R'million	Investment portfolio (listed and unlisted equities)*	Debt securities (sovereign, bank and other)	Investment properties	Other asset categories	Total

3. Investment income (continued)

The following table analyses investment income generated by the asset portfolio shown on the balance sheet:

Company					
2015					
Investment income comprises:					
Realised	470	67	–	(3)	534
Unrealised	456	–	–	6	462
Dividend income	511	–	–	278	789
Funding cost and other net related costs	(253)	–	–	(1)	(254)
	1 184	67	–	280	1 531
2014					
Investment income comprises:					
Realised	212	–	–	(8)	204
Unrealised	(351)	(117)	63	(4)	(409)
Dividend income	633	–	–	4	637
Funding cost and other net related costs	(181)	–	–	(3)	(184)
	313	(117)	63	(11)	248

* *Including embedded derivatives (warrants and profit shares).*

For the year to 31 March R'million	Group 2015	Group 2014	Company 2015	Company 2014

4. Other operating income/(loss)

Rental income from properties	1	–	–	–
Losses on realisation of trading properties	–	(5)	–	(7)
	1	(5)	–	(7)

For the year to 31 March R'million	Group		Company	
	2015	2014	2015	2014
5. Operating costs				
Staff costs	3 510	2 724	3 366	2 585
– Salaries and wages (including directors' remuneration)*	2 745	2 134	2 630	2 014
– Training and other costs	80	87	78	84
– Share-based payments expense	510	367	493	354
– Social security costs	34	18	33	18
– Pensions and provident fund contributions	141	118	132	115
Premises expenses (excluding depreciation)	376	380	344	342
Equipment expenses (excluding depreciation)	161	222	125	182
Business expenses**	329	393	292	344
Marketing expenses	304	247	292	240
Depreciation, amortisation and impairment of property, equipment and intangibles	138	147	134	145
	4 818	4 113	4 553	3 838
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	7	7	7	7
Fees payable to the company's auditors and its associates for other services:				
– Audit of the company's subsidiaries pursuant to legislation	8	6	–	–
– Other services	–	2	–	–
	15	15	7	7
KPMG fees:				
Fees payable to the company's auditors for the audit of the company's accounts	15	14	13	12
Fees payable to the company's auditors and its associates for other services:				
– Audit of the company's subsidiaries pursuant to legislation	9	9	3	2
– Other services	2	–	2	–
	26	23	18	14
Total	41	38	25	21
Operating lease expenses				
Minimum lease payments^	314	327	314	327

* *Details of the directors' emoluments, pensions and their interests are disclosed in the remuneration report on pages 90 to 99.*

** *Business expenses mainly comprise insurance costs, consulting and professional fees, travel expenses and subscriptions.*

^ *In the prior year, minimum lease payments was incorrectly reflected as R380 million. This has been corrected in the note with impact on the income statement.*

For the year to 31 March R'million	Group 2015	2014	Company 2015	2014
6. Share-based payments				
The group operates share option and long-term share incentive plans for employees the majority of which are on an equity-settled basis. The purpose of the staff share schemes is to promote an esprit de corps within the organisation, create an awareness of the Investec group's performance and provide an incentive to maximise individual and group performance by allowing all staff to share in the risks and rewards of the group.				
Further information on the group share options and long-term incentive plans are provided in the remuneration report and on our website.				
Equity-settled share-based payment expense charged to the income statement	510	367	493	354
Fair value of options at grant date	609	503	589	485
Details of options outstanding during the year				
Outstanding at the beginning of the year	32 113 711	30 993 741	30 854 481	29 867 875
Relocation of employees during the year	245 965	(90 182)	244 527	(90 182)
Granted during the year	8 755 401	9 724 953	8 477 151	9 362 503
Exercised during the year^	(8 658 071)	(7 095 346)	(8 314 349)	(6 882 973)
Lapsed during the year	(905 252)	(1 419 455)	(899 002)	(1 402 742)
Outstanding at the end of the year	31 551 754	32 113 711	30 362 808	30 854 481
Exercisable at the end of the year	84 188	5 250	84 188	2 750

^ *The weighted average exercise price for all options is Rnil (2014: Rnil) for the group and company.*

For the year to 31 March	Group 2015	2014	Company 2015	2014
The exercise price range and weighted average remaining contractual life for the options outstanding were as follows:				
Long-term incentive options with no strike price				
Weighted average remaining contractual life	2.22 years	2.79 years	2.23 years	2.79 years
Weighted average fair value of options granted at measurement date	R69.58	R51.77	R69.51	R51.78
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 grants	R90.00 – R100.57	R66.84 – R71.20	R90.00 – R100.57	R66.84 – R71.20
– Exercise price	Rnil	Rnil	Rnil	Rnil
– Expected volatility	25.24% – 30%	30%	25.24% – 30%	30%
– Option life	4.5 – 5.0 years	3.0 – 5.0 years	4.5 – 5.0 years	3.0 – 5.0 years
– Expected dividend yields	4.45% – 4.62%	3.89% – 5.08%	4.45% – 4.62%	3.89% – 5.08%
– Risk-free rate	6.78% – 7.18%	6.04% – 7.08%	6.78% – 7.18%	6.04% – 7.08%

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 information on the share options granted to directors, refer to the remuneration report on pages 96 and 97.

For the year to 31 March R'million	Group 2015	Group 2014	Company 2015	Company 2014
7. Taxation				
Income statement tax charge				
Taxation on income				
South Africa	520	300	447	269
– Current taxation	661	318	597	269
in respect of current year	661	416	597	367
in respect of prior year adjustments	–	(98)	–	(98)
– Deferred taxation	(141)	(18)	(150)	–
Foreign taxation – Mauritius	25	15	–	–
Total taxation charge as per income statement	545	315	447	269
Tax rate reconciliation:				
Profit before taxation as per income statement	3 673	2 465	3 090	1 831
Total taxation charge as per income statement	545	315	447	269
Effective rate of taxation	14.8%	12.8%	14.5%	14.7%
The standard rate of South African normal taxation has been affected by:				
Dividend income	10.3%	13.0%	15.1%	16.0%
Foreign earnings*	4.1%	4.7%	–	–
Prior year taxation adjustments	–	3.6%	–	5.4%
Profits of capital nature	1.6%	0.2%	1.9%	0.2%
Other permanent differences	(2.8%)	(6.3%)	(3.5%)	(8.3%)
	28.0%	28.0%	28.0%	28.0%

* *Includes the effect of cumulative tax losses and other permanent differences relating to foreign subsidiaries.*

For the year to 31 March R'million	Group 2015	Group 2014	Company 2015	Company 2014
7. Taxation (continued)				
Other comprehensive income taxation effects				
Fair value movements on cash flow hedges taken directly to other comprehensive income	(619)	(75)	(612)	(75)
– Pre-taxation	(576)	(175)	(569)	(175)
– Current tax	31	119	31	100
– Deferred tax	(74)	(19)	(74)	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	322	(212)	328	(216)
– Pre-taxation	380	(230)	386	(235)
– Deferred tax	(58)	18	(58)	19
Gain on realisation of available-for-sale assets recycled through the income statement	–	(2)	–	(2)
– Pre-taxation	–	(3)	–	(3)
– Deferred tax	–	1	–	1

For the year to 31 March R'million	Group 2015	Group 2014	Company 2015	Company 2014
8. Headline earnings				
Profit after taxation	3 128	2 150	2 643	1 562
Preference dividends paid	(114)	(108)	(114)	(108)
Earnings attributable to ordinary shareholders	3 014	2 042	2 529	1 454
Headline adjustments, net of taxation	–	44	–	44
Revaluation of investment properties*	–	46		46
Gain on realisation of available-for-sale assets recycled through the income statement*	–	(2)	–	(2)
Headline earnings attributable to ordinary shareholders	3 014	2 086	2 529	1 498

* *Amount is net of taxation of Rnil (2014: R18.2 million) for both group and company.*

	Group				Company			
	2015		2014		2015		2014	
For the year to 31 March	Cents per share	R'million	Cents per share	R'million	Cents per share	R'million	Cents per share	R'million
9. Dividends								
Perpetual preference dividend								
Final dividend in prior year	360.15	55	353.18	53	360.15	55	353.18	53
Interim dividend for current year	380.29	59	355.12	55	380.29	59	355.12	55
Total dividend attributable to perpetual preference shareholders recognised in current financial year	740.44	114	708.30	108	740.44	114	708.30	108

The directors have declared a final dividend in respect of the financial year ended 31 March 2015 of 384.34536 cents per perpetual preference share.

For the year to 31 March R'million	At fair value through profit or loss Trading	 Designated at inception
10. Analysis of income and impairments by category of financial instrument		
Group		
2015		
Net interest income	468	781
Fee and commission income	–	8
Fee and commission expense	–	(14)
Investment income	–	1 246
Trading income arising from		
– customer flow	288	2
– balance sheet management and other trading activities	461	(212)
Other operating income	–	–
Total operating income before impairment losses on loans and advances	1 217	1 811
Impairment losses on loans and advances	–	–
Operating income	1 217	1 811
2014		
Net interest income	469	1 507
Fee and commission income	–	25
Fee and commission expense	–	(30)
Investment income	–	264
Trading income arising from		
– customer flow	346	(3)
– balance sheet management and other trading activities	138	4
Other operating income	–	–
Total operating income before impairment losses on loans and advances	953	1 767
Impairment losses on loans and advances	–	–
Operating income	953	1 767

Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non-financial instruments	Other fee income	Total
831	15 476	641	(12 676)	–	–	5 521
–	458	–	36	1	1 158	1 661
–	(76)	–	(64)	(2)	(51)	(207)
(17)	45	116	–	30	–	1 420
–	–	–	–	–	–	290
–	11	–	–	–	–	260
–	–	–	–	1	–	1
814	15 914	757	(12 704)	30	1 107	8 946
–	(455)	–	–	–	–	(455)
814	15 459	757	(12 704)	30	1 107	8 491
639	12 275	571	(10 535)	(10)	–	4 916
–	503	–	27	20	992	1 567
–	(69)	–	(11)	(18)	(46)	(174)
–	–	16	–	54	–	334
–	–	–	–	–	–	343
–	93	–	–	–	–	235
–	–	–	–	(5)	–	(5)
639	12 802	587	(10 519)	41	946	7 216
–	(638)	–	–	–	–	(638)
639	12 164	587	(10 519)	41	946	6 578

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For the year to 31 March R'million	At fair value through profit or loss Trading	 Designated at inception
10. Analysis of income and impairments by category of financial instrument (continued)		
Company		
2015		
Net interest income	557	775
Fee and commission income	–	8
Fee and commission expense	–	(14)
Investment income	–	1 116
Trading income arising from		
– customer flow	317	–
– balance sheet management and other trading activities	466	(212)
Total operating income before impairment losses on loans and advances	1 340	1 673
Impairment losses on loans and advances	–	–
Operating income	1 340	1 673
2014		
Net interest income	471	1 547
Fee and commission income	–	25
Fee and commission expense	–	(30)
Investment income	–	179
Trading income arising from		
– customer flow	326	(1)
– balance sheet management and other trading activities	144	3
Other operating income	–	–
Total operating income before impairment losses on loans and advances	941	1 723
Impairment losses on loans and advances	–	–
Operating income	941	1 723

Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non-financial instruments	Other fee income	Total
773	14 395	605	(12 473)	–	–	4 632
–	367	–	(1)	1	1 146	1 521
–	(31)	–	(64)	–	(50)	(159)
(17)	40	113	–	279	–	1 531
–	–	–	–	–	–	317
–	15	–	–	–	–	269
756	14 786	718	(12 538)	280	1 096	8 111
–	(468)	–	–	–	–	(468)
756	14 318	718	(12 538)	280	1 096	7 643
584	11 471	544	(10 475)	(7)	–	4 135
–	443	–	1	20	969	1 458
–	(47)	–	(11)	(11)	(46)	(145)
–	–	16	–	53	–	248
–	–	–	–	–	–	325
–	87	–	–	–	–	234
–	–	–	–	(7)	–	(7)
584	11 954	560	(10 485)	48	923	6 248
–	(579)	–	–	–	–	(579)
584	11 375	560	(10 485)	48	923	5 669

At 31 March R'million	At fair value through profit or loss Trading	 Designated at inception
11. Analysis of financial assets and liabilities by measurement basis		
Group		
2015		
Assets		
Cash and balances at central banks	–	–
Loans and advances to banks	–	–
Non-sovereign and non-bank cash placements	3	–
Reverse repurchase agreements and cash collateral on securities borrowed	10 095	–
Sovereign debt securities	–	23 337
Bank debt securities	–	4 485
Other debt securities	–	36
Derivative financial instruments*	15 178	–
Securities arising from trading activities	1 289	–
Investment portfolio	–	7 811
Loans and advances to customers	–	12 034
Own originated loans and advances to customers securitised	–	–
Other loans and advances	–	–
Other securitised assets	–	–
Interests in associated undertakings	–	–
Deferred taxation assets	–	–
Other assets	2	–
Property and equipment	–	–
Investment properties	–	–
Intangible assets	–	–
Loans to group companies	–	–
Non-current assets classified as held for sale**	–	–
	26 567	47 703
Liabilities		
Deposits by banks	–	–
Derivative financial instruments*	12 401	–
Other trading liabilities	1 623	–
Repurchase agreements and cash collateral on securities lent	1 148	–
Customer accounts (deposits)	–	16 609
Debt securities in issue	–	3 366
Liabilities arising on securitisation of own originated loans and advances	–	–
Current taxation liabilities	–	–
Deferred taxation liabilities	–	–
Other liabilities	690	–
	15 862	19 975
Subordinated liabilities	–	–
	15 862	19 975

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*

** *Non-current assets held for sale relates to an acquisition of a 100% interest in an entity. Management have entered into negotiations to dispose of a controlling interest in the entity.*

For more information refer to note 47.

Available-for-sale	Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
–	–	–	6 261	–	6 261	–	6 261
–	–	–	33 422	–	33 422	–	33 422
–	3	–	10 537	–	10 537	–	10 540
–	10 095	–	–	–	–	–	10 095
4 487	27 824	3 554	–	–	3 554	–	31 378
3 132	7 617	8 426	1 289	–	9 715	–	17 332
6 787	6 823	1 468	4 458	–	5 926	–	12 749
–	15 178	–	–	–	–	–	15 178
–	1 289	–	–	–	–	–	1 289
2 161	9 972	–	–	–	–	–	9 972
–	12 034	–	160 959	–	160 959	–	172 993
–	–	–	4 535	–	4 535	–	4 535
–	–	–	472	–	472	–	472
–	–	–	618	–	618	–	618
–	–	–	–	–	–	60	60
–	–	–	–	–	–	88	88
–	2	–	875	–	875	385	1 262
–	–	–	–	–	–	192	192
–	–	–	–	–	–	80	80
–	–	–	–	–	–	190	190
–	–	–	3 268	–	3 268	–	3 268
–	–	–	–	–	–	732	732
16 567	90 837	13 448	226 694	–	240 142	1 727	332 706
–	–	–	–	29 792	29 792	–	29 792
–	12 401	–	–	–	–	–	12 401
–	1 623	–	–	–	–	–	1 623
–	1 148	–	–	15 408	15 408	–	16 556
–	16 609	–	–	204 768	204 768	–	221 377
–	3 366	–	–	2 151	2 151	–	5 517
–	–	–	–	1 089	1 089	–	1 089
–	–	–	–	–	–	1 186	1 186
–	–	–	–	–	–	76	76
–	690	–	–	835	835	2 216	3 741
–	35 837	–	–	254 043	254 043	3 478	293 358
–	–	–	–	10 449	10 449	–	10 449
–	35 837	–	–	264 492	264 492	3 478	303 807

At 31 March R'million	At fair value through profit or loss Trading	 Designated at inception

11. Analysis of financial assets and liabilities by measurement basis (continued)

Group	Trading	Designated at inception
2014		
Assets		
Cash and balances at central banks	–	–
Loans and advances to banks	–	26
Non-sovereign and non-bank cash placements	27	–
Reverse repurchase agreements and cash collateral on securities borrowed	6 442	–
Sovereign debt securities	–	26 802
Bank debt securities	–	6 085
Other debt securities	–	59
Derivative financial instruments*	12 299	–
Securities arising from trading activities	1 316	–
Investment portfolio	–	6 781
Loans and advances to customers	–	13 008
Own originated loans and advances to customers securitised	–	–
Other loans and advances	–	–
Other securitised assets	–	–
Interests in associated undertakings	–	–
Deferred taxation assets	–	–
Other assets	2	–
Property and equipment	–	–
Investment properties	–	–
Intangible assets	–	–
Loans to group companies	(1 341)	–
Non-current assets classified as held for sale**	–	–
	18 745	52 761
Liabilities		
Deposits by banks	–	1
Derivative financial instruments*	9 259	–
Other trading liabilities	1 431	–
Repurchase agreements and cash collateral on securities lent	3 320	–
Customer accounts (deposits)	–	19 473
Debt securities in issue	–	3 135
Liabilities arising on securitisation of own originated loans and advances	–	–
Liabilities arising on securitisation of other assets	–	–
Current taxation liabilities	–	–
Deferred taxation liabilities	–	–
Other liabilities	517	–
	14 527	22 609
Subordinated liabilities	–	–
	14 527	22 609

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*

** *Non-current assets held for sale relates to an acquisition of a 100% interest in an entity. Management have entered into negotiations to dispose of a controlling interest in the entity.*

For more information refer to note 47.

	Available-for-sale	Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
	–	–	–	5 927	–	5 927	–	5 927
	–	26	–	32 646	–	32 646	–	32 672
	–	27	–	9 018	–	9 018	–	9 045
	–	6 442	–	–	–	–	–	6 442
	4 616	31 418	3 397	–	–	3 397	–	34 815
	2 227	8 312	11 906	1 320	–	13 226	–	21 538
	5 278	5 337	2 077	4 519	–	6 596	–	11 933
	–	12 299	–	–	–	–	–	12 299
	–	1 316	–	–	–	–	–	1 316
	2 053	8 834	–	–	–	–	–	8 834
	–	13 008	–	135 554	–	135 554	–	148 562
	–	–	–	2 822	–	2 822	–	2 822
	–	–	–	552	–	552	–	552
	–	–	–	1 503	–	1 503	–	1 503
	–	–	–	–	–	–	52	52
	–	–	–	–	–	–	75	75
	–	2	–	1 288	–	1 288	481	1 771
	–	–	–	–	–	–	219	219
	–	–	–	–	–	–	84	84
	–	–	–	–	–	–	102	102
	–	(1 341)	–	3 265	–	3 265	–	1 924
	–	–	–	–	–	–	731	731
	14 174	85 680	17 380	198 414	–	215 794	1 744	303 218
	–	1	–	–	22 406	22 406	–	22 407
	–	9 259	–	–	–	–	–	9 259
	–	1 431	–	–	–	–	–	1 431
	–	3 320	–	–	14 366	14 366	–	17 686
	–	19 473	–	–	185 430	185 430	–	204 903
	–	3 135	–	–	2 231	2 231	–	5 366
	–	–	–	–	1 369	1 369	–	1 369
	–	–	–	–	156	156	–	156
	–	–	–	–	–	–	1 288	1 288
	–	–	–	–	–	–	61	61
	–	517	–	–	989	989	1 687	3 193
	–	37 136	–	–	226 947	226 947	3 036	267 119
	–	–	–	–	10 498	10 498	–	10 498
	–	37 136	–	–	237 445	237 445	3 036	277 617

11. Analysis of financial assets and liabilities by measurement basis (continued)

At 31 March R'million	At fair value through profit or loss Trading	Designated at inception
Company		
2015		
Assets		
Cash and balances at central banks	–	–
Loans and advances to banks	–	–
Non-sovereign and non-bank cash placements	3	–
Reverse repurchase agreements and cash collateral on securities borrowed	9 926	–
Sovereign debt securities	–	23 337
Bank debt securities	–	4 485
Other debt securities	–	–
Derivative financial instruments*	14 969	–
Securities arising from trading activities	1 289	–
Investment portfolio	–	7 420
Loans and advances to customers	–	12 034
Other loans and advances	–	–
Other securitised assets	–	–
Other assets	2	–
Property and equipment	–	–
Investment properties	–	–
Intangible assets	–	–
Loans to group companies	–	–
Investment in subsidiaries	–	–
Non-current assets classified as held for sale**	–	–
	26 189	47 276
Liabilities		
Deposits by banks	–	–
Derivative financial instruments*	12 401	–
Other trading liabilities	1 623	–
Repurchase agreements and cash collateral on securities lent	1 149	–
Customer accounts (deposits)	–	16 609
Debt securities in issue	–	3 366
Current taxation liabilities	–	–
Deferred taxation liabilities	–	–
Other liabilities	691	–
	15 864	19 975
Subordinated liabilities	–	–
	15 864	19 975

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*

** *Non-current assets held for sale relates to an acquisition of a 100% interest in an entity. Management have entered into negotiations to dispose of a controlling interest in the entity.*

For more information refer to note 47.

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Available-for-sale	Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
–	–	–	6 148	–	6 148	–	6 148
–	–	–	30 284	–	30 284	–	30 284
–	3	–	10 537	–	10 537	–	10 540
–	9 926	–	–	–	–	–	9 926
4 467	27 804	3 554	–	–	3 554	–	31 358
3 132	7 617	7 075	1 289	–	8 364	–	15 981
6 132	6 132	1 290	5 968	–	7 258	–	13 390
–	14 969	–	–	–	–	–	14 969
–	1 289	–	–	–	–	–	1 289
2 161	9 581	–	–	–	–	–	9 581
–	12 034	–	146 994	–	146 994	–	159 028
–	–	–	476	–	476	–	476
–	–	–	137	–	137	–	137
–	2	–	780	–	780	212	994
–	–	–	–	–	–	187	187
–	–	–	–	–	–	80	80
–	–	–	–	–	–	177	177
–	–	–	2 825	–	2 825	–	2 825
–	–	–	–	–	–	6 430	6 430
–	–	–	–	–	–	732	732
15 892	89 357	11 919	205 438	–	217 357	7 818	314 532
–	–	–	–	29 652	29 652	–	29 652
–	12 401	–	–	–	–	–	12 401
–	1 623	–	–	–	–	–	1 623
–	1 149	–	–	14 076	14 076	–	15 225
–	16 609	–	–	195 305	195 305	–	211 914
–	3 366	–	–	1 156	1 156	–	4 522
–	–	–	–	–	–	1 369	1 369
–	–	–	–	–	–	36	36
–	691	–	–	681	681	2 120	3 492
–	35 839	–	–	240 870	240 870	3 525	280 234
–	–	–	–	10 449	10 449	–	10 449
–	35 839	–	–	251 319	251 319	3 525	290 683

11. Analysis of financial assets and liabilities by measurement basis (continued)

At 31 March R'million	At fair value through profit or loss Trading	 Designated at inception
Company		
2014		
Assets		
Cash and balances at central banks	–	–
Loans and advances to banks	–	26
Non-sovereign and non-bank cash placements	27	–
Reverse repurchase agreements and cash collateral on securities borrowed	6 442	–
Sovereign debt securities	–	26 802
Bank debt securities	–	6 085
Other debt securities	–	–
Derivative financial instruments*	11 957	–
Securities arising from trading activities	1 316	–
Investment portfolio	–	6 605
Loans and advances to customers	–	13 008
Other securitised assets	–	–
Other assets	2	–
Property and equipment	–	–
Investment properties	–	–
Intangible assets	–	–
Loans to group companies	(1 347)	–
Investment in subsidiaries	–	–
Non-current assets classified as held for sale**	–	–
	18 397	52 526
Liabilities		
Deposits by banks	–	1
Derivative financial instruments*	9 259	–
Other trading liabilities	1 431	–
Repurchase agreements and cash collateral on securities lent	3 320	–
Customer accounts (deposits)	–	19 473
Debt securities in issue	–	3 135
Current taxation liabilities	–	–
Deferred taxation liabilities	–	–
Other liabilities	517	–
	14 527	22 609
Subordinated liabilities	–	–
	14 527	22 609

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*
** *Non-current assets held for sale relates to an acquisition of a 100% interest in an entity. Management have entered into negotiations to dispose of a controlling interest in the entity.*

For more information refer to note 47.

Available-for-sale	Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
–	–	–	5 751	–	5 751	–	5 751
–	26	–	29 646	–	29 646	–	29 672
–	27	–	9 018	–	9 018	–	9 045
–	6 442	–	–	–	–	–	6 442
4 616	31 418	3 397	–	–	3 397	–	34 815
2 227	8 312	10 601	1 320	–	11 921	–	20 233
4 686	4 686	4 643	3 690	–	8 333	–	13 019
–	11 957	–	–	–	–	–	11 957
–	1 316	–	–	–	–	–	1 316
2 052	8 657	–	–	–	–	–	8 657
–	13 008	–	121 603	–	121 603	–	134 611
–	–	–	527	–	527	–	527
–	2	–	1 216	–	1 216	274	1 492
–	–	–	–	–	–	215	215
–	–	–	–	–	–	84	84
–	–	–	–	–	–	96	96
–	(1 347)	–	4 144	–	4 144	–	2 797
–	–	–	–	–	–	4 766	4 766
–	–	–	–	–	–	731	731
13 581	84 504	18 641	176 915	–	195 556	6 166	286 226
–	1	–	–	22 265	22 265	–	22 266
–	9 259	–	–	–	–	–	9 259
–	1 431	–	–	–	–	–	1 431
–	3 320	–	–	13 087	13 087	–	16 407
–	19 473	–	–	176 704	176 704	–	196 177
–	3 135	–	–	1 251	1 251	–	4 386
–	–	–	–	–	–	1 450	1 450
–	–	–	–	–	–	54	54
–	517	–	–	568	568	1 588	2 673
–	37 136	–	–	213 875	213 875	3 092	254 103
–	–	–	–	10 498	10 498	–	10 498
–	37 136	–	–	224 373	224 373	3 092	264 601

12. 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).

For the year to 31 March R'million	Financial instruments at fair value	Fair value category		
		Level 1	Level 2	Level 3
Group				
2015				
Assets				
Non-sovereign and non-bank cash placements	3	–	3	–
Reverse repurchase agreements and cash collateral on securities borrowed	10 095	–	10 095	–
Sovereign debt securities	27 824	27 804	20	–
Bank debt securities	7 617	3 233	4 384	–
Other debt securities	6 823	6 787	–	36
Derivative financial instruments	15 178	–	15 423	(245)
Securities arising from trading activities	1 289	1 289	–	–
Investment portfolio	9 972	2 640	614	6 718
Loans and advances to customers	12 034	–	12 034	–
Other assets	2	2	–	–
	90 837	41 755	42 573	6 509
Liabilities				
Derivative financial instruments	12 401	–	12 401	–
Other trading liabilities	1 623	826	797	–
Repurchase agreements and cash collateral on securities lent	1 148	–	1 148	–
Customer accounts (deposits)	16 609	–	16 609	–
Debt securities in issue	3 366	–	3 366	–
Other liabilities	690	–	690	–
	35 837	826	35 011	–
Net assets	55 000	40 929	7 562	6 509

12. Fair value hierarchy (continued)

For the year to 31 March R'million	Financial instruments at fair value	Fair value category Level 1	Level 2	Level 3
Group				
2014				
Assets				
Loans and advances to banks	26	–	26	–
Non-sovereign and non-bank cash placements	27	–	27	–
Reverse repurchase agreements and cash collateral on securities borrowed	6 442	–	6 442	–
Sovereign debt securities	31 418	31 418	–	–
Bank debt securities	8 312	2 227	6 085	–
Other debt securities	5 337	5 278	–	59
Derivative financial instruments	12 299	–	12 545	(246)
Securities arising from trading activities	1 316	1 316	–	–
Investment portfolio	8 834	2 357	362	6 115
Loans and advances to customers	13 008	–	13 008	–
Other assets	2	2	–	–
Loans to group companies	(1 341)	–	(1 341)	–
	85 680	42 598	37 154	5 928
Liabilities				
Deposits by banks	1	–	1	–
Derivative financial instruments	9 259	–	9 259	–
Other trading liabilities	1 431	763	668	–
Repurchase agreements and cash collateral on securities lent	3 320	–	3 320	–
Customer accounts (deposits)	19 473	–	19 473	–
Debt securities in issue	3 135	–	3 135	–
Other liabilities	517	–	517	–
	37 136	763	36 373	–
Net assets	48 544	41 835	781	5 928

For the year to 31 March R'million	Total instruments at fair value	Fair value category Level 1	Level 2	Level 3
12. Fair value hierarchy (continued)				
Company				
2015				
Assets				
Non-sovereign and non-bank cash placements	3	–	3	–
Reverse repurchase agreements and cash collateral on securities borrowed	9 926	–	9 926	–
Sovereign debt securities	27 804	27 804	–	–
Bank debt securities	7 617	3 233	4 384	–
Other debt securities	6 132	6 132	–	–
Derivative financial instruments	14 969	–	15 214	(245)
Securities arising from trading activities	1 289	1 289	–	–
Investment portfolio	9 581	2 639	366	6 576
Loans and advances to customers	12 034	–	12 034	–
Other assets	2	2	–	–
	89 357	41 099	41 927	6 331
Liabilities				
Derivative financial instruments	12 401	–	12 401	–
Other trading liabilities	1 623	826	797	–
Repurchase agreements and cash collateral on securities lent	1 149	–	1 149	–
Customer accounts (deposits)	16 609	–	16 609	–
Debt securities in issue	3 366	–	3 366	–
Other liabilities	691	–	691	–
	35 839	826	35 013	–
Net assets	53 518	40 273	6 914	6 331

12. Fair value hierarchy (continued)

For the year to 31 March R'million	Total instruments at fair value	Fair value category Level 1	Level 2	Level 3
Company				
2014				
Loans and advances to banks	26	–	26	–
Non-sovereign and non-bank cash placements	27	–	27	–
Reverse repurchase agreements and cash collateral on securities borrowed	6 442	–	6 442	–
Sovereign debt securities	31 418	31 418	–	–
Bank debt securities	8 312	2 227	6 085	–
Other debt securities	4 686	4 686	–	–
Derivative financial instruments	11 957	–	12 203	(246)
Securities arising from trading activities	1 316	1 316	–	–
Investment portfolio	8 657	2 354	188	6 115
Loans and advances to customers	13 008	–	13 008	–
Other assets	2	2	–	–
Loans to group companies	(1 347)	–	(1 347)	–
	84 504	42 003	36 632	5 869
Liabilities				
Deposits by banks	1	–	1	–
Derivative financial instruments	9 259	–	9 259	–
Other trading liabilities	1 431	763	668	–
Repurchase agreements and cash collateral on securities lent	3 320	–	3 320	–
Customer accounts (deposits)	19 473	–	19 473	–
Debt securities in issue	3 135	–	3 135	–
Other liabilities	517	–	517	–
	37 136	763	36 373	–
Net assets	47 368	41 240	259	5 869

12. Fair value hierarchy (continued)

Transfers between level 1 and level 2

There were no transfers between level 1 and level 2 in the current and prior year.

Level 3 instruments

The following table is a reconciliation of the opening balances to the closing balances for financial instruments in level 3 of the fair value category. All instruments are at fair value through profit and loss.

For the year to 31 March R'million	Group	Company
Balance as at 1 April 2013	83	(36)
Transfers due to application of IFRS 13^	6 230	6 230
Total gains or losses recognised in the income statement	(78)	(26)
Purchases	832	832
Sales	(363)	(338)
Issues	(175)	(175)
Transfers into level 3	239	239
Transfers out of level 3	(126)	(126)
Transfers into non-current assets held for sale	(731)	(731)
Foreign exchange adjustments	17	–
Balance as at 31 March 2014	5 928	5 869
Total gains or losses recognised in the income statement	693	700
Purchases	677	535
Sales	(532)	(520)
Issues	(110)	(110)
Settlements	(161)	(161)
Transfers into level 3	15	15
Transfers out of level 3	(32)	(32)
Foreign exchange adjustments	31	35
Balance as at 31 March 2015	6 509	6 331

^ *All reclassifications into level 3 at 1 April 2013 occurred as a result of inputs to the valuation model being regarded as unobservable as a result of applying the principles in IFRS 13. Observable inputs are defined as inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability. All other inputs have been considered to be unobservable.*

For the year ended 31 March 2014, investments to the value of R239 million were transferred into level 3 due to inputs into the valuation model becoming unobservable. R126 million was transferred out of level 3 due to inputs becoming observable.

For the remaining transfers, the group transfers between levels within the fair value hierarchy when the observability of inputs change or if the valuation methods change.

12. Fair value hierarchy (continued)

The following table quantifies the gains or (losses) included in the income statement recognised on level 3 financial instruments:

For the year to 31 March R'million	Total	Realised	Unrealised
Group			
2015			
Total gains or (losses) recognised in the income statement for the year			
Investment income	614	267	347
Trading income arising from customer flow	97	–	97
Trading loss arising from balance sheet management and other trading activities	(18)	–	(18)
	693	267	426
2014			
Total gains or (losses) recognised in the income statement for the year			
Net interest expense	(2)	–	(2)
Investment income	(133)	73	(206)
Trading income arising from customer flow	57	–	57
	(78)	73	(151)

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For the year to 31 March R'million	Total	Realised	Unrealised
12. Fair value hierarchy (continued)			
Company			
2015			
Total gains or (losses) recognised in the income statement for the year			
Investment income	621	267	354
Trading income arising from customer flow	97	–	97
Trading loss arising from balance sheet management and other trading activities	(18)	–	(18)
	700	267	433
2014			
Total gains or (losses) recognised in the income statement for the year			
Net interest expense	(2)	–	(2)
Investment income	(81)	81	(162)
Trading income arising from customer flow	57	–	57
	(26)	81	(107)

12. Fair value hierarchy (continued)

Measurement of financial assets and liabilities at level 2

The table below sets out information about the valuation techniques used at the end of the reporting period in measuring financial instruments categorised as level 2 in the fair value hierarchy:

	Valuation basis/techniques	Main inputs
Assets		
Loans and advances to banks	Discounted cash flow model	Discount rates
Non-sovereign and non-bank cash placements	Discounted cash flow model	Discount rates
Reverse repurchase agreements and cash collateral on securities borrowed	Discounted cash flow model Black-Scholes	Yield curve Volatilities
Sovereign debt securities	Discounted cash flow model	Discount rates
Bank debt securities	Discounted cash flow model	Swap curves and NCD curves
Other debt securities	Discounted cash flow model	Swap curves and NCD curves
Derivative financial instruments	Discounted cash flow model Black-Scholes	Yield curve Volatilities
Investment portfolio	Comparable quoted inputs	Net assets
Loans and advances to customers	Discounted cash flow model	Swap curves and discount rates
Loans to group companies	Discounted cash flow model	Discount rates
Liabilities		
Derivative financial instruments	Discounted cash flow model Black-Scholes	Yield curve Volatilities
Other trading liabilities	Discounted cash flow model	Discount rates
Repurchase agreements and cash collateral on securities lent	Discounted cash flow model	Discount rates
Customer accounts (deposits)	Discounted cash flow model	Swap curves
Debt securities in issue	Discounted cash flow model	Swap curves
Other liabilities	Discounted cash flow model	Discount rates

12. Fair value hierarchy (continued)

Sensitivity of fair values to reasonably possible alternative assumptions by level 3 instrument type (continued)

At 31 March 2015	Level 3 balance sheet value	Valuation method	Significant unobservable input changed	Range which unobservable input has been stressed	Reflected in the income statement: Favourable changes	Reflected in the income statement: Unfavourable changes
Group						
Assets						
Other debt securities	36				5	(4)
		Discounted cash flows	Discount rates	(3%)/3%	5	(4)
Derivative financial instruments	(245)				195	(118)
		Black-Scholes	Volatilities	(25%)/40%	58	(25)
		Discounted cash flows	Credit spreads	(50bps)/50bps	23	(12)
		Price earnings	Change in PE multiple	*	69	(73)
		Other	Various	**	45	(8)
Investment portfolio	6 718				1 639	(1 111)
		Price earnings	Change in PE multiple	*	1 357	(893)
		Other	Various	**	282	(218)
Total	6 509				1 839	(1 233)

At 31 March 2015	Level 3 balance sheet value	Valuation method	Significant unobservable input changed	Range which unobservable input has been stressed	Reflected in the income statement: Favourable changes	Reflected in the income statement: Unfavourable changes
Company						
Assets						
Derivative financial instruments	(245)				195	(118)
		Black-Scholes	Volatilities	(25%)/40%	58	(25)
		Discounted cash flows	Credit spreads	(50bps)/50bps	23	(12)
		Price earnings	Change in PE multiple	*	69	(73)
		Other	Various	**	45	(8)
Investment portfolio	6 576				1 632	(1 111)
		Price earnings	Change in PE multiple	*	1 357	(893)
		Other	Various	**	275	(218)
Total	6 331				1 827	(1 229)

* *The price-earnings multiple has been stressed on an investment by investment basis in order to obtain aggressive and conservative valuations.*

** *These valuation sensitivities have been stressed individually using varying scenario based techniques to obtain the aggressive and conservative valuations.*

12. Fair value hierarchy (continued)

Sensitivity of fair values to reasonably possible alternative assumptions by level 3 instrument type (continued)

At 31 March 2014	Level balance sheet value	Valuation method	Significant unobservable input changed	Range which unobservable input has been stressed	Reflected in the income statement Favourable changes	Unfavourable changes
Group						
Assets						
Other debt securities	59	Discounted cash flows	Discount rates	(3%)/2%	8	(7)
Derivative financial instruments	(246)				134	(77)
		Black-Scholes	Volatilities	25%/40%	74	(41)
		Discounted cash flows	Credit spreads	(50bps)/50bps	4	(12)
		Other^	Various^	^	56	(24)
Investment portfolio	6 115	Other^	Various^	^	1 260	(702)
Total	5 928				1 402	(786)

At 31 March 2014	Level balance sheet value	Valuation method	Significant unobservable input changed	Range which unobservable input has been stressed	Reflected in the income statement Favourable changes	Unfavourable changes
Company						
Assets						
Derivative financial instruments	(246)				134	(77)
		Black-Scholes	Volatilities	25%/40%	74	(41)
		Discounted cash flows	Credit spreads	(50bps)/50bps	4	(12)
		Other^	Various^	^	56	(24)
Investment portfolio	6 115	Other^	Various^	^	1 260	(702)
Total	5 869				1 394	(779)

^ *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 and earnings multiples. 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.*

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 a counter party. 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.

Discount rates

Discount rates are the interest rates used to discount future cash flows in the 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.

Price-earnings multiple

The price-to-earnings ratio is an equity valuation multiple. It is a key driver in the valuation of unlisted investments.

At 31 March R'million	Carrying amount	Fair value	Fair value category Level 1	Level 2	Level 3
13. Fair value of financial instruments at amortised cost					
Group					
2015					
Assets					
Cash and balances at central banks	6 261	6 261	^	^	^
Loans and advances to banks	33 422	33 422	^	^	^
Non-sovereign and non-bank cash placements	10 537	10 543	10 543	–	–
Sovereign debt securities	3 554	3 648	3 648	–	–
Bank debt securities	9 715	9 993	8 704	1 289	–
Other debt securities	5 926	6 020	606	5 414	–
Loans and advances to customers*	160 959	161 072	2 365	139 526	19 181
Own originated loans and advances to customers securitised	4 535	4 535	^	^	^
Other loans and advances	472	472	^	^	^
Other securitised assets	618	618	^	^	^
Other assets	875	875	^	^	^
Loans to group companies	3 268	3 268	^	^	^
	240 142	240 727			
Liabilities					
Deposits by banks	29 792	30 005	569	29 436	–
Repurchase agreements and cash collateral on securities lent	15 408	15 395	–	15 395	–
Customer accounts (deposits)	204 768	206 029	22 727	183 302	–
Debt securities in issue	2 151	2 166	–	2 166	–
Liabilities arising on securitisation of own originated loans and advances	1 089	1 089	^	^	^
Other liabilities	835	835	^	^	^
Subordinated liabilities	10 449	10 593	10 593	–	–
	264 492	266 112			

* *Management has re-evaluated the significance of the unobservable inputs for certain loans and advances and have concluded that it is appropriate to transfer these instruments to a level 2 valuation.*

^ *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 and savings accounts without a specific maturity included in customer accounts (deposits) and variable rate financial instruments.

13. Fair value of financial instruments at amortised cost (continued)

At 31 March R'million	Carrying amount	Fair value	Fair value category Level 1	Level 2	Level 3
Group					
2014					
Assets					
Cash and balances at central banks	5 927	5 927	^	^	^
Loans and advances to banks	32 646	32 646	^	^	^
Non-sovereign and non-bank cash placements	9 018	9 018	^	^	^
Sovereign debt securities	3 397	3 476	3 476	–	–
Bank debt securities	13 226	13 790	11 105	2 685	–
Other debt securities	6 596	6 780	1 212	5 568	–
Loans and advances to customers	135 554	135 958	–	–	135 958
Own originated loans and advances to customers securitised	2 822	2 822	^	^	^
Other loans and advances	552	552	^	^	^
Other securitised assets	1 503	1 503	^	^	^
Other assets	1 288	1 288	^	^	^
Loans to group companies	3 265	3 265	^	^	^
	215 794	217 025			
Liabilities					
Deposits by banks	22 406	22 718	776	21 942	–
Repurchase agreements and cash collateral on securities lent	14 366	14 419	–	14 419	–
Customer accounts (deposits)	185 430	185 657	13 135	172 522	–
Debt securities in issue	2 231	2 231	^	^	^
Liabilities arising on securitisation of own originated loans and advances	1 369	1 369	^	^	^
Liabilities arising on securitisation of other assets	156	156	^	^	^
Other liabilities	989	989	^	^	^
Subordinated liabilities	10 498	10 575	10 575	–	–
	237 445	238 114			

^ *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 and savings accounts without a specific maturity included in customer accounts (deposits) and variable rate financial instruments.

At 31 March R'million	Carrying amount	Fair value	Fair value category Level 1	Level 2	Level 3
13. Fair value of financial instruments at amortised cost (continued)					
Company					
2015					
Assets					
Cash and balances at central banks	6 148	6 148	^	^	^
Loans and advances to banks	30 284	30 284	^	^	^
Non-sovereign and non-bank cash placements	10 537	10 543	10 543	–	–
Sovereign debt securities	3 554	3 648	3 648	–	–
Bank debt securities	8 364	8 468	7 179	1 289	–
Other debt securities	7 258	7 336	606	6 730	–
Loans and advances to customers	146 994	147 011	2 365	140 409	4 237
Other loans and advances	476	476	^	^	^
Other securitised assets	137	137	^	^	^
Other assets	780	780	^	^	^
Loans to group companies	2 825	2 825	^	^	^
	217 357	217 656			
Liabilities					
Deposits by banks	29 652	29 864	569	29 295	–
Repurchase agreements and cash collateral on securities lent	14 076	14 063	–	14 063	–
Customer accounts (deposits)	195 305	196 565	22 727	173 838	–
Debt securities in issue	1 156	1 171	–	1 171	–
Other liabilities	681	681	^	^	^
Subordinated liabilities	10 449	10 593	10 593	–	–
	251 319	252 937			

* *Management has re-evaluated the significance of the unobservable inputs for certain loans and advances and have concluded that it is appropriate to transfer these instruments to a level 2 valuation.*

^ *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 and savings accounts without a specific maturity included in customer accounts (deposits) and variable rate financial instruments.

At 31 March R'million	Carrying amount	Fair value	Fair value category Level 1	Level 2	Level 3
13. Fair value of financial instruments at amortised cost (continued)					
Company					
2014					
Assets					
Cash and balances at central banks	5 751	5 751	^	^	^
Loans and advances to banks	29 646	29 646	^	^	^
Non-sovereign and non-bank cash placements	9 018	9 018	^	^	^
Sovereign debt securities	3 397	3 476	3 476	–	–
Bank debt securities	11 921	12 325	9 641	2 684	–
Other debt securities	8 333	8 396	1 470	6 926	–
Loans and advances to customers	121 603	121 603	^	^	^
Other securitised assets	527	527	^	^	^
Other assets	1 216	1 216	^	^	^
Loans to group companies	4 144	4 144	^	^	^
	195 556	196 102			
Liabilities					
Deposits by banks	22 265	22 577	776	21 801	–
Repurchase agreements and cash collateral on securities lent	13 087	13 141	–	13 141	–
Customer accounts (deposits)	176 704	176 931	13 135	163 796	–
Debt securities in issue	1 251	1 251	^	^	^
Other liabilities	568	568	^	^	^
Subordinated liabilities	10 498	10 575	10 575	–	–
	224 373	225 043			

^ *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 and savings accounts without a specific maturity included in customer accounts (deposits) and variable rate financial instruments.

The table below sets out information about the valuation techniques used at the end of the reporting period in measuring level 2 and level 3 financial instruments not held at fair value:

	Valuation basis/technique	Main inputs
Assets		
Bank debt securities	Discounted cash flow model	Discount rates
Other debt securities	Discounted cash flow model	Discount rates
Loans and advances to customers	Discounted cash flow model	Discount rates
Liabilities		
Deposits by banks	Discounted cash flow model	Interest rate yield curve
Customer accounts (deposits)	Discounted cash flow model	Interest rate yield curve
Debt securities in issue	Discounted cash flow model	Discount rates

At 31 March R'million	Carrying value	Fair value adjustment Year to date	Fair value adjustment Cumulative	Maximum exposure to credit risk

14. Designated at fair value: loans and receivables and financial liabilities

At 31 March R'million	Carrying value	Fair value adjustment Year to date	Fair value adjustment Cumulative	Maximum exposure to credit risk
Group				
Loans and receivables				
2015				
Loans and advances to customers	12 034	112	267	11 883
	12 034	112	267	11 883
2014				
Loans and advances to banks	26	(88)	(88)	26
Other debt securities	59	58	(166)	59
Loans and advances to customers	13 008	(771)	177	13 008
	13 093	(801)	(77)	13 093

At 31 March R'million	Carrying value	Remaining contractual amount to be repaid at maturity	Fair value adjustment Year to date	Fair value adjustment Cumulative
Group				
Financial liabilities				
2015				
Customer accounts (deposits)	16 609	16 503	(228)	106
Debt securities in issue	3 366	3 382	(19)	(15)
	19 975	19 885	(247)	91
2014				
Deposits by banks	1	1	(4)	–
Customer accounts (deposits)	19 473	19 595	(402)	(122)
Debt securities in issue	3 135	3 171	(39)	(36)
	22 609	22 767	(445)	(158)

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.

Year-to-date and cumulative changes in fair value of financial liabilities attributable to credit risk were both Rnil (2014: Rnil).

At 31 March R'million	Carrying value	Fair value adjustment Year to date	Fair value adjustment Cumulative	Maximum exposure to credit risk
14. Designated at fair value: loans and receivables and financial liabilities (continued)				
Company				
Loans and receivables				
2015				
Loans and advances to customers	12 034	112	267	11 883
	12 034	112	267	11 883
2014				
Loans and advances to banks	26	(88)	(88)	26
Loans and advances to customers	13 008	(771)	177	13 008
	13 034	(859)	89	13 034

At 31 March R'million	Carrying value	Remaining contractual amount to be repaid at maturity	Fair value adjustment Year to date	Fair value adjustment Cumulative
Company				
Financial liabilities				
2015				
Customer accounts (deposits)	16 609	16 503	(228)	106
Debt securities in issue	3 366	3 382	(19)	(15)
	19 975	19 885	(247)	91
2014				
Deposits by banks	1	1	(4)	–
Customer accounts (deposits)	19 473	19 595	(402)	(122)
Debt securities in issue	3 135	3 171	(39)	(36)
	22 609	22 767	(445)	(158)

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.

Year-to-date and cumulative changes in fair value of financial liabilities attributable to credit risk were both Rnil (2014: Rnil).

At 31 March R'million	Group and company 2015	Group and company 2014
Fair value adjustments to loans and receivables attributable to credit risk		
Year to date	–	48
Cumulative	–	(46)

At 31 March R'million	Group 2015	Group 2014	Company 2015	Company 2014
15. Cash and balances at central banks				
The country risk of cash and balances at central banks lies in the following geographies:				
South Africa	6 148	5 751	6 148	5 751
Other	113	176	–	–
	6 261	5 927	6 148	5 751

At 31 March R'million	Group 2015	Group 2014	Company 2015	Company 2014
16. Loans and advances to banks				
The country risk of loans and advances to banks lies in the following geographies				
South Africa	12 355	14 305	12 325	14 297
United Kingdom	6 204	4 490	6 085	3 870
Europe (excluding UK)	8 224	7 208	8 090	6 302
Australia	129	89	116	63
United States of America	5 301	2 923	3 015	1 862
Other	1 209	3 657	653	3 278
	33 422	32 672	30 284	29 672

At 31 March R'million	Group 2015	Group 2014	Company 2015	Company 2014
17. Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent				
Assets				
Reverse repurchase agreements	6 221	3 389	6 052	3 389
Cash collateral on securities borrowed	3 874	3 053	3 874	3 053
	10 095	6 442	9 926	6 442
As part of the reverse repurchase and securities borrowing agreements, the group has received securities that it is allowed to sell or re-pledge. R7.0 billion (2014: R7.1 billion) has been re-sold or re-pledged to third parties in connection with financing activities or to comply with commitments under short sale transactions.				
Liabilities				
Repurchase agreements	16 556	17 329	15 225	16 051
Cash collateral on securities lent	–	357	–	356
	16 556	17 686	15 225	16 407
The assets transferred and not derecognised in the above repurchase agreements are fair valued at R16.0 billion (2014: R18.8 billion). They are pledged as security for the term of the underlying repurchase agreement.				

At 31 March R'million	Group 2015	Group 2014	Company 2015	Company 2014
18. Sovereign debt securities				
Bonds	11 990	9 405	11 990	9 405
Government securities	20	–	–	–
Treasury bills	19 368	25 410	19 368	25 410
	31 378	34 815	31 358	34 815
The country risk of the sovereign debt securities lies in the following geographies:				
South Africa	31 358	34 815	31 358	34 815
Other	20	–	–	–
	31 378	34 815	31 358	34 815

At 31 March R'million	Group 2015	Group 2014	Company 2015	Company 2014
19. Bank debt securities				
Bonds	10 279	10 109	8 928	8 804
Debentures	967	1 044	967	1 044
Floating rate notes	6 086	10 385	6 086	10 385
	17 332	21 538	15 981	20 233
The country risk of the bank debt securities lies in the following geographies:				
South Africa	6 600	6 857	6 600	6 857
United Kingdom	5 886	7 937	5 235	7 361
Europe (excluding UK)	397	1 106	397	1 106
Australia	–	22	–	22
United States of America	4 288	5 513	3 588	4 783
Other	161	103	161	104
	17 332	21 538	15 981	20 233

At 31 March R'million	Group 2015	Group 2014	Company 2015	Company 2014
20. Other debt securities				
Bonds	7 654	6 247	6 821	5 470
Commercial paper	75	1 042	75	3 212
Floating rate notes	4 850	1 413	6 494	1 413
Other investments	170	3 231	–	2 924
	12 749	11 933	13 390	13 019
The country risk of the above assets lies in the following geographies:				
South Africa	10 275	7 149	11 264	8 728
United Kingdom	1 466	3 732	1 429	3 696
Europe (excluding UK)	177	224	–	–
Australia	209	379	75	367
Other	622	449	622	228
	12 749	11 933	13 390	13 019

21. 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 present value of future 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 balance sheet date.

	2015			2014		
At 31 March R'million	Notional principal amounts	Positive fair value	Negative fair value	Notional principal amounts	Positive fair value	Negative fair value
Group						
Foreign exchange derivatives						
Forward foreign exchange contracts	10 110	295	388	70 844	547	511
Currency swaps	120 532	6 948	12 934	112 308	4 370	10 078
OTC options bought and sold	10 001	206	165	18 828	96	78
Other foreign exchange contracts	4 212	65	87	15 725	40	68
	144 855	7 514	13 574	217 705	5 053	10 735
Interest rate derivatives						
Caps and floors	2 647	7	6	7 623	19	18
Swaps	332 442	3 178	4 484	372 015	3 285	4 246
Forward rate agreements	311 225	167	159	819 850	434	436
OTC options bought and sold	1 600	27	27	11	30	27
Other interest rate contracts	500	175	92	480	208	128
	648 414	3 554	4 768	1 199 979	3 976	4 855
Equity and stock index derivatives						
OTC options bought and sold	30 039	4 253	887	48 177	3 450	807
Equity swaps and forwards	15 599	89	255	3 492	34	14
OTC derivatives	45 638	4 342	1 142	51 669	3 484	821
Exchange traded futures	585	2	–	6 396	–	4
Exchange traded options	5 328	5	–	31 049	4	–
Warrants	1 799	–	2 511	253	–	1 375
	53 350	4 349	3 653	89 367	3 488	2 200
Commodity derivatives						
OTC options bought and sold	1 717	^	^	279	71	49
Commodity swaps and forwards	3	174	190	18	53	83
	1 720	174	190	297	124	132
Credit derivatives	5 608	2	36	5 719	36	36
Embedded derivatives*		299	–		417	–
Cash collateral		(714)	(9 820)		(795)	(8 699)
Derivatives per balance sheet		15 178	12 401		12 299	9 259

* *Mainly includes profit shares received as part of lending transactions.*
^ *Less than R1 million.*

21. Derivative financial instruments (continued)

At 31 March R'million	2015 Notional principal amounts	2015 Positive fair value	2015 Negative fair value	2014 Notional principal amounts	2014 Positive fair value	2014 Negative fair value
Company						
Foreign exchange derivatives						
Forward foreign exchange contracts	10 108	295	388	85 918	547	511
Currency swaps	120 532	6 948	12 934	112 286	4 370	10 078
OTC options bought and sold	10 001	206	165	18 828	96	78
Other foreign exchange contracts	4 212	65	87	15 725	40	68
	144 853	7 514	13 574	232 757	5 053	10 735
Interest rate derivatives						
Caps and floors	2 647	7	6	7 623	19	18
Swaps	332 442	3 178	4 484	371 673	3 285	4 246
Forward rate agreements	311 225	167	159	819 850	434	436
OTC options bought and sold	1 600	27	27	11	30	27
Other interest rate contracts	330	174	92	480	208	128
	648 244	3 553	4 768	1 199 637	3 976	4 855
Equity and stock index derivatives						
OTC options bought and sold	30 039	4 253	887	48 177	3 450	807
Equity swaps and forwards	15 599	89	255	3 492	34	14
OTC derivatives	45 638	4 342	1 142	51 669	3 484	821
Exchange traded futures	585	2	–	6 396	–	4
Exchange traded options	5 328	5	–	31 049	4	–
Warrants	1 799	–	2 511	253	–	1 375
	53 350	4 349	3 653	89 367	3 488	2 200
Commodity derivatives						
OTC options bought and sold	1 717	^	^	279	71	49
Commodity swaps and forwards	3	174	190	18	53	83
	1 720	174	190	297	124	132
Credit derivatives	5 608	2	36	5 719	36	36
Embedded derivatives*		91	–		75	–
Cash collateral		(714)	(9 820)		(795)	(8 699)
Derivatives per balance sheet		14 969	12 401		11 957	9 259

* *Mainly includes profit shares received as part of lending transactions.*
^ *Less than R1 million.*

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At 31 March R'million	Group 2015	Group 2014	Company 2015	Company 2014
22. Securities arising from trading activities				
Bonds	978	797	978	797
Floating rate notes	40	197	40	197
Listed equities	271	322	271	322
	1 289	1 316	1 289	1 316

At 31 March R'million	Group 2015	Group 2014	Company 2015	Company 2014
23. Investment portfolio				
Listed equities	2 913	2 381	2 664	2 377
Unlisted equities*	7 059	6 453	6 917	6 280
	9 972	8 834	9 581	8 657

* *Unlisted equities includes loan instruments that are convertible into equity.*

At 31 March R'million	Group 2015	Group 2014	Company 2015	Company 2014
24. Loans and advances to customers and other loans and advances				
Gross loans and advances to customers	174 132	149 810	159 971	135 750
Impairments of loans and advances to customers	(1 139)	(1 248)	(943)	(1 139)
Net loans and advances to customers	172 993	148 562	159 028	134 611
Gross other loans and advances to customers	490	597	528	–
Impairments of other loans and advances to customers	(18)	(45)	(52)	–
Net other loans and advances to customers	472	552	476	–

For further analysis on loans and advances refer to pages 40 to 48 in the risk management section.

At 31 March R'million	Group 2015	Group 2014	Company 2015	Company 2014
24. Loans and advances to customers and other loans and advances (continued)				
Specific and portfolio impairments				
Reconciliation of movements in specific and portfolio impairments:				
Loans and advances to customers				
Specific impairment				
Balance at the beginning of the year	1 076	1 227	1 053	1 154
Charge to the income statement	648	711	538	660
Reversals and recoveries recognised in the income statement	(149)	(114)	(126)	(110)
Utilised	(605)	(716)	(612)	(664)
Transfers	–	(32)	–	13
Balance at the end of the year	970	1 076	853	1 053
Portfolio impairment				
Balance at the beginning of the year	172	122	86	56
(Release)/charge to the income statement	(17)	43	4	29
Transfers	–	(1)	–	1
Exchange adjustment	14	8	–	–
Balance at the end of the year	169	172	90	86
Other loans and advances				
Specific impairment				
Balance at the beginning of the year	44	12	–	12
(Release)/charge to the income statement	(27)	–	52	–
Transfers	–	32	–	(12)
Balance at the end of the year	17	44	52	–
Portfolio impairment				
Balance at the beginning of the year	1	–	–	–
Transfer to securitised assets	–	1	–	–
Balance at the end of the year	1	1	–	–
Total specific impairments	987	1 120	905	1 053
Total portfolio impairments	170	173	90	86
Total impairments	1 157	1 293	995	1 139
Reconciliation of income statement charge:				
Loans and advances	482	640	416	579
Specific impairment charged to income statement	499	597	412	550
Portfolio impairment (released)/charged to income statement	(17)	43	4	29
Securitised assets (refer to note 25)	–	(2)	–	–
Specific impairment released to income statement	–	(2)	–	–
Other loans and advances	(27)	–	52	–
Specific impairment (released)/charged to income statement	(27)	–	52	–
Total income statement charge	455	638	468	579

At 31 March R'million	Group 2015	Group 2014	Company 2015	Company 2014
25. Securitised assets and liabilities arising on securitisation				
Gross own originated loans and advances to customers securitised	4 537	2 824	–	–
Impairments of own originated loans and advances to customers securitised	(2)	(2)	–	–
Net own originated loans and advances to customers securitised	**4 535**	**2 822**	**–**	**–**
Other securitised assets are made up of the following categories of assets:				
Cash and cash equivalents	544	1 272	–	–
Loans and advances to customers	–	157	–	–
Other debt securities	74	74	137	527
Total other securitised assets	**618**	**1 503**	**137**	**527**
The associated liabilities are recorded on balance sheet in the following line items:				
Liabilities arising on securitisation of own originated loans and advances	1 089	1 369	–	–
Liabilities arising on securitisation of other assets	–	156	–	–
Specific and portfolio impairments				
Reconciliation of movements in group-specific and portfolio impairments of assets that have been securitised:				
Specific impairment				
Balance at the beginning of the year	1	1	–	1
Charge to the income statement	–	(2)	–	–
Utilised	–	1	–	–
Recoveries	–	1	–	–
Transfers from other loans and advance	–	–	–	(1)
Balance at the end of the year	**1**	**1**	**–**	**–**
Portfolio impairment				
Balance at the beginning of the year	1	1	–	1
Transfers from other loans and advance	–	–	–	(1)
Balance at the end of the year	**1**	**1**	**–**	**–**
Total portfolio and specific impairments on balance sheet	**2**	**2**	**–**	**–**

At 31 March R'million	Group 2015	Group 2014
26. Interest in associated undertakings		
Associated undertakings comprise unlisted investments.		
Analysis is the movement in our share of net assets:		
At the beginning of the year	52	45
Exchange adjustments	8	7
At the end of the year	60	52

At 31 March R'million	Group 2015	Group 2014	Company 2015	Company 2014
27. Deferred taxation				
Deferred taxation assets	88	75	–	–
Deferred taxation liabilities	(76)	(61)	(36)	(54)
Net deferred taxation assets/(liabilities)	12	14	(36)	(54)
The net deferred taxation assets/(liabilities) arise from:				
Income and expenditure accruals	642	461	663	449
Unrealised fair value adjustments on financial instruments	(625)	(490)	(625)	(490)
Tax relief from assessed losses	1	2	–	–
Impairment of loans and advances to customers	7	4	–	–
Fair value on cash flow hedges	(74)	(13)	(74)	(13)
Finance lease accounting	61	50	–	–
Net deferred taxation assets/(liabilities)	12	14	(36)	(54)
Reconciliation of net deferred taxation assets/(liabilities):				
At the beginning of the year	14	(6)	(54)	(54)
Charge to income statement – current year taxation	141	18	150	–
Charge directly in other comprehensive income	(132)	–	(132)	–
Prior year tax adjustments	(11)	–	–	–
Exchange adjustments	–	2	–	–
At year end	12	14	(36)	(54)

Deferred taxation assets are recognised to the extent it is likely that profits will be available 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 as crystallisation of capital gains and the eligibility of potential losses is uncertain.

At 31 March R'million	Group 2015	Group 2014	Company 2015	Company 2014
28. Other assets				
Settlement debtors	17	188	16	179
Trading properties	209	264	39	71
Prepayments and accruals	280	573	196	551
Trading initial margins	204	204	204	204
Fee debtors	83	59	83	59
Other	469	483	456	428
	1 262	1 771	994	1 492

At 31 March R'million	Leasehold improvements	Furniture and vehicles	Equipment	Total
29. Property and equipment				
Group				
2015				
Cost				
At the beginning of the year	24	152	582	758
Additions	11	9	39	59
Disposals	(1)	(1)	(3)	(5)
At the end of the year	34	160	618	812
Accumulated depreciation				
At the beginning of the year	(20)	(105)	(414)	(539)
Disposals	–	–	1	1
Depreciation charge for the year	(1)	(8)	(73)	(82)
At the end of the year	(21)	(113)	(486)	(620)
Net carrying value	13	47	132	192
2014				
Cost				
At the beginning of the year	24	147	560	731
Additions	1	9	134	144
Disposals	(1)	(4)	(112)	(117)
At the end of the year	24	152	582	758
Accumulated depreciation				
At the beginning of the year	(19)	(84)	(404)	(507)
Disposals	–	1	61	62
Depreciation charge for the year	(1)	(22)	(71)	(94)
At the end of the year	(20)	(105)	(414)	(539)
Net carrying value	4	47	168	219

At 31 March R'million	Leasehold improvements	Furniture and vehicles	Equipment	Total
29. Property and equipment (continued)				
Company				
2015				
Cost				
At the beginning of the year	24	141	586	751
Additions	11	7	36	54
Disposals	(1)	(1)	(1)	(3)
At the end of the year	34	147	621	802
Accumulated depreciation				
At the beginning of the year	(21)	(107)	(408)	(536)
Depreciation charge for the year	(1)	(6)	(72)	(79)
At the end of the year	(22)	(113)	(480)	(615)
Net carrying value	12	34	141	187
2014				
Cost				
At the beginning of the year	24	136	565	725
Additions	1	9	133	143
Disposals	(1)	(4)	(112)	(117)
At the end of the year	24	141	586	751
Accumulated depreciation				
At the beginning of the year	(20)	(88)	(397)	(505)
Disposals	–	1	61	62
Depreciation charge for the year	(1)	(20)	(72)	(93)
At the end of the year	(21)	(107)	(408)	(536)
Net carrying value	3	34	178	215

At 31 March	Group		Company	
R'million	2015	2014	2015	2014
30. Investment properties				
At the beginning of the year	84	1	84	1
Additions	–	20	–	20
Fair value movement	–	63	–	63
Exchange adjustment	(4)	–	(4)	–
At the end of the year	80	84	80	84

Investment properties are carried at fair value and falls within level 3 of the fair value hierarchy.

Exchange adjustments are recognised in trading income on the income statement and are unrealised.

The group values its investment properties twice annually. The properties are valued by directors. The valuation is performed by capitalising the annual net income of a property at a market-related yield applicable at the time.

At 31 March R'million	Group Acquired software	Group Internally generated software	Group Total	Company Acquired software	Company Internally generated software	Company Total
31. Intangible assets						
2015						
Cost						
At the beginning of the year	428	104	532	421	99	520
Additions	155	10	165	154	2	156
Disposals	(24)	(2)	(26)	(23)	(2)	(25)
At the end of the year	559	112	671	552	99	651
Accumulated amortisation and impairments						
At the beginning of the year	(336)	(94)	(430)	(329)	(95)	(424)
Disposals	5	–	5	5	–	5
Amortisation	(53)	(3)	(56)	(53)	(2)	(55)
At the end of the year	(384)	(97)	(481)	(377)	(97)	(474)
Net carrying value	175	15	190	175	2	177
2014						
Cost						
At the beginning of the year	381	86	467	377	84	461
Additions	56	18	74	53	15	68
Disposals	(9)	–	(9)	(9)	–	(9)
At the end of the year	428	104	532	421	99	520
Accumulated amortisation and impairments						
At the beginning of the year	(294)	(83)	(377)	(288)	(84)	(372)
Amortisation	(42)	(11)	(53)	(41)	(11)	(52)
At the end of the year	(336)	(94)	(430)	(329)	(95)	(424)
Net carrying value	92	10	102	92	4	96

At 31 March R'million	Group 2015	Group 2014	Company 2015	Company 2014
32. Loans to group companies				
Loans from holding company – Investec Limited	(682)	(1 353)	(774)	(1 353)
Loans to fellow subsidiaries	3 608	3 218	2 515	3 243
Preference share investment in Investec Limited	319	400	–	–
Preference share investment/(funding) in fellow subsidiaries	174	(181)	1 084	1 081
Intergroup derivative instruments	(151)	(160)	–	(174)
	3 268	1 924	2 825	2 797

R2.8 billion (2014: R1.9 billion) is unsecured interest-bearing, with no fixed terms of repayment.

There were no subordinated loan amounts included in the loans to group companies.

At 31 March	Nature of business	Issued ordinary capital	Holding %	Shares at book value 2015 R'million	Shares at book value 2014 R'million	Net indebtedness 2015 R'million	Net indebtedness 2014 R'million
33. Investment in subsidiaries							
Material direct subsidiaries of Investec Bank Limited							
Investec Bank (Mauritius) Limited^	Banking institution	$56 478 463	100	535	535	1 874	1 406
Reichmans Holdings (Pty) Ltd	Trade and asset financing	R15	100	112	112	2 930	2 355
Sechold Finance Services (Pty) Ltd	Investment holding	R1 000	100	*	*	119	382
KWJ Investments (Pty) Ltd	Investment holding	R100	100	*	*	(199)	484
AEL Investment Holdings (Pty) Ltd	Investment holding	R1 000	100	*	*	773	(286)
Investpref Ltd	Investment holding	R1 000	100	*	*	(190)	(552)
Copperleaf Country Estate (Pty) Ltd	Leisure activities	R100	100	*	*	205	242
Matzopath (Pty) Ltd	Investment holding	R185 000 000	100	178	–	*	–
Other				80	80	13	8
				905	727	5 525	4 039

Details of subsidiary and associated companies which are not material to the financial position of the group are not reflected above.

Loans to/(from) group companies are unsecured interest-bearing, with no fixed terms of repayment.

^ *Mauritius.*
* *Less than R1 million.*

33. Investment in subsidiaries (continued)

Consolidated structured entities

Investec Bank Limited has no subordinated investment 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
Private Mortgages 1 (RF) (Pty) Ltd	Securitised residential mortgages
Private Residential Mortgages (RF) Ltd	Securitised residential mortgages
Fox Street 2 (RF) Ltd	Securitised residential mortgages
Fox Street 3 (RF) Ltd	Securitised residential mortgages
Fox Street 4 (RF) Ltd	Securitised residential mortgages
Integer Home Loans (Pty) Ltd	Securitised third party originated residential mortgages

Grayston Conduit 1 (RF) Limited has been wound up.

For additional detail on the assets and liabilities arising on securitisation refer to note 25. For details of the risks to which the group is exposed through its all of its securitisations are included in the risk management report on page 51 and 52.

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 subordinated notes. 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.

Securitised third party originated residential mortgages

The group has a senior and subordinated investment in a third party originated structured entity. The structured entity is consolidated due to the group's exposure to residual economic benefits. The group is not required to fund any losses above those incurred on the investments made.

At 31 March R'million	Group 2015	 2014	Company 2015	 2014
34. Other trading liabilities				
Deposits	797	668	797	668
Short positions – gilts	826	763	826	763
	1 623	**1 431**	**1 623**	**1 431**

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At 31 March R'million	Group 2015	Group 2014	Company 2015	Company 2014
35. Debt securities in issue				
Repayable in:				
Less than three months	77	56	77	56
Three months to one year	1 149	612	319	612
One to five years	4 291	4 698	4 126	3 718
	5 517	5 366	4 522	4 386

At 31 March R'million	Group 2015	Group 2014	Company 2015	Company 2014
36. Other liabilities				
Settlement liabilities	885	802	788	528
Other creditors and accruals	2 267	1 899	2 161	1 794
Other non-interest-bearing liabilities	589	492	543	351
	3 741	3 193	3 492	2 673

At 31 March R'million	Group		Company	
	2015	2014	2015	2014
37. Subordinated liabilities				
Issued by Investec Bank Limited				
IV08 13.735% subordinated unsecured callable upper tier 2 bonds	200	200	200	200
IV09 variable rate subordinated unsecured callable upper tier 2 bonds	200	200	200	200
IV012 variable rate subordinated unsecured callable bonds	–	250	–	250
IV013 variable rate subordinated unsecured callable bonds	50	50	50	50
IV014 10.545% subordinated unsecured callable bonds	125	125	125	125
IV015 variable rate subordinated unsecured callable bonds	1 350	1 350	1 350	1 350
IV016 variable rate subordinated unsecured callable bonds	325	325	325	325
IV017 indexed rate subordinated unsecured callable bonds	2 063	1 936	2 063	1 936
IV019 indexed rate subordinated unsecured callable bonds	86	79	86	79
IV019A indexed rate subordinated unsecured callable bonds	317	295	317	295
IV022 variable rate subordinated unsecured callable bonds	997	997	997	997
IV023 variable rate subordinated unsecured callable bonds	860	860	860	860
IV024 variable rate subordinated unsecured callable bonds	106	106	106	106
IV025 variable rate subordinated unsecured callable bonds	1 000	1 000	1 000	1 000
IV026 variable rate subordinated unsecured callable bonds	750	750	750	750
IV030 indexed rate subordinated unsecured callable bonds	342	321	342	321
IV030A indexed rate subordinated unsecured callable bonds	368	344	368	344
IV031 variable rate subordinated unsecured callable bonds	500	500	500	500
IV032 variable rate subordinated unsecured callable bonds	810	810	810	810
	10 449	10 498	10 449	10 498
All subordinated debt issued by Investec Bank Limited and its subsidiaries is denominated in South African Rand.				
Remaining maturity:				
In one year or less, or on demand	175	250	175	250
In more than one year, but not more than two years	–	175	–	175
In more than two years, but not more than five years	400	6 784	400	6 784
In more than five years	9 874	3 289	9 874	3 289
	10 449	10 498	10 449	10 498

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.

37. Subordinated liabilities (continued)

IV08 13.735% subordinated unsecured callable upper tier 2 bonds

R200 million Investec Bank Limited IV08 locally registered subordinated unsecured callable bonds without a maturity date. Interest is paid six-monthly in arrears on 31 October and 30 April at a rate of 13.735% per annum until 30 April 2018. The company has the option to call the bonds from 30 April 2013 or on any interest payment date falling after 30 April 2018. If not called by 30 April 2018, the bonds will pay interest of 5.625% above JIBAR payable quarterly in arrears until called.

IV09 variable rate subordinated unsecured callable upper tier 2 bonds

R200 million Investec Bank Limited IV09 locally registered subordinated unsecured callable bonds without a maturity date. Interest is paid quarterly in arrears on 31 July, 31 October, 31 January and 30 April at a rate equal to three-month JIBAR plus 3.75% until 30 April 2018. The company has the option to call the bonds from 30 April 2013 or on any interest payment date falling after 30 April 2018. If not called by 30 April 2018, the bonds will pay interest of 5.625% above JIBAR payable quarterly in arrears until called.

IV012 variable rate subordinated unsecured callable bonds

Rnil (2014: R250 million) Investec Bank Limited IV012 locally registered subordinated unsecured callable bonds were due in November 2019. Interest is payable quarterly in arrears on 26 November, 26 February, 26 May and 26 August at a rate equal to three-month JIBAR plus 3.25% until 26 November 2014. From and including 26 November 2014, up to and excluding 26 November 2019 interest is paid at a rate equal to three-month JIBAR plus 4.50%. The maturity date was 26 November 2019, but the company had the option to call the bonds from 26 November 2014. The bonds were called on 26 November 2014.

IV013 variable rate subordinated unsecured callable bonds

R50 million Investec Bank Limited IV013 locally registered subordinated unsecured callable bonds are due in June 2020. Interest is payable quarterly in arrears on 22 March, 22 June, 22 September and 22 December at a rate equal to three-month JIBAR plus 2.75% until 22 June 2015. From and including 22 June 2015, up to and excluding 22 June 2020, interest is paid at a rate equal to three-month JIBAR plus 5.50%. The maturity date is 22 June 2020, but the company has the option to call the bonds from 22 June 2015.

IV014 10.545% subordinated unsecured callable bonds

R125 million Investec Bank Limited IV014 locally registered subordinated unsecured callable bonds are due in June 2020. Interest is payable six-monthly in arrears on 22 June and 22 December at a fixed rate of 10.545% until 22 June 2015. From and including 22 June 2015, up to and excluding 22 June 2020, interest is paid quarterly in arrears on 22 June, 22 September, 22 December and 22 March at a rate equal to three-month JIBAR plus 5.50%. The maturity date is 22 June 2020, but the company has the option to call the bonds from 22 June 2015.

IV015 variable rate subordinated unsecured callable bonds

R1 350 million Investec Bank Limited IV015 locally registered subordinated unsecured callable bonds are due in September 2022. Interest is payable quarterly in arrears on 20 December, 20 March, 20 June and 20 September at a rate equal to three-month JIBAR plus 2.65% until 20 September 2017. From and including 20 September 2017, up to and excluding 20 September 2022 interest is paid at a rate equal to three-month JIBAR plus 4.00%. The maturity date is 20 September 2022, but the company has the option to call the bonds upon regulatory capital disqualification or from 20 September 2017.

IV016 variable rate subordinated unsecured callable bonds

R325 million Investec Bank Limited IV016 locally registered subordinated unsecured callable bonds are due in December 2021. Interest is payable quarterly in arrears on 6 December, 6 March, 6 June and 6 September at a rate equal to three-month JIBAR plus 2.75%, up to and excluding 6 December 2021. The maturity date is 6 December 2021, but the company has the option to call the bonds upon regulatory disqualification or from 6 December 2016.

IV017 indexed rate subordinated unsecured callable bonds

R2 063million (2014: R1 936 million) Investec Bank Limited IV017 locally registered subordinated unsecured callable bonds are due in January 2022. Interest on these inflation-linked bonds is payable semi-annually on 31 January and 31 July at a rate of 2.75%. The IV017 is a replica of the R212 South African government bond. The maturity date is 31 January 2022, but the company has the option to call the bonds upon regulatory capital disqualification or from 31 January 2017.

IV019 indexed rate subordinated unsecured callable bonds

R86 million (2014: R79 million) Investec Bank Limited IV019 locally registered subordinated unsecured callable bonds are due in March 2028. Interest on these inflation-linked bonds is payable semi-annually on 31 March and 30 September at a rate of 2.60%. The IV019 is a replica of the R210 South African government bond. The maturity date is 31 March 2028, but the company has the option to call the bonds upon regulatory capital disqualification from 3 April 2023.

37. Subordinated liabilities (continued)

IV019A indexed rate subordinated unsecured callable bonds

R317 million (2014: R295 million) Investec Bank Limited IV019A locally registered subordinated unsecured callable bonds are due in March 2028. Interest on these inflation-linked bonds is payable semi-annually on 31 March and 30 September at a rate of 2.60%. The IV019A is a replica of the R210 South African government bond. The maturity date is 31 March 2028, but the company has the option to call the bonds upon regulatory capital disqualification from 3 April 2023.

IV022 variable rate subordinated unsecured callable bonds

R997 million Investec Bank Limited IV022 locally registered subordinated unsecured callable bonds are due in April 2022. Interest is payable quarterly on 2 January, 2 April, 2 July and 2 October at a rate equal to the three-month JIBAR plus 2.50% up to and excluding 2 April 2022. The maturity date is 2 April 2022, but the company has the option to call the bonds upon regulatory capital disqualification from 2 April 2017.

IV023 variable rate subordinated unsecured callable bonds

R860 million Investec Bank Limited IV023 locally registered subordinated unsecured callable bonds are due in July 2022. Interest is payable quarterly on 11 January, 11 April, 11 July and 11 October at a rate equal to the three-month JIBAR plus 2.50% up to and excluding 11 July 2022. The maturity date is 11 July 2022, but the company has the option to call the bonds upon regulatory capital disqualification from 11 July 2017.

IV024 variable rate subordinated unsecured callable bonds

R106 million Investec Bank Limited IV024 locally registered subordinated unsecured callable bonds are due in July 2022. Interest is payable quarterly on 27 January, 27 April, 27 July and 27 October at a rate equal to the three-month JIBAR plus 2.70% up to and excluding 27 July 2022. The maturity date is 27 July 2022, but the company has the option to call the bonds upon regulatory capital disqualification from 27 July 2017.

IV025 variable rate subordinated unsecured callable bonds

R1 000 million Investec Bank Limited IV025 locally registered subordinated unsecured callable bonds are due in September 2024. Interest is payable quarterly on 12 December, 12 March, 12 June and 12 September at a rate equal to the three-month JIBAR plus 2.50% up to and excluding 12 September 2024. The maturity date is 12 September 2024, but the company has the option to call the bonds upon regulatory capital disqualification from 12 September 2019.

IV026 variable rate subordinated unsecured callable bonds

R750 million Investec Bank Limited IV026 locally registered subordinated unsecured callable bonds are due in September 2024. Interest is payable quarterly on 27 December, 27 March, 27 June and 27 September at a rate equal to the three-month JIBAR plus 2.45% up to and excluding 27 September 2024. The maturity date is 27 September 2024, but the company has the option to call the bonds upon regulatory capital disqualification from 27 September 2019.

IV030 indexed rate subordinated unsecured callable bonds

R342 million (2014: R321 million) Investec Bank Limited IV030 locally registered subordinated unsecured callable bonds are due in January 2025. Interest on these inflation-linked bonds is payable semi-annually on 31 January and 31 July at a rate of 2.00%. The IV030 is a replica of the I2025 South African government bond. The maturity date is 31 January 2025, but the company has the option to call the bonds upon regulatory capital disqualification from 31 January 2020.

IV030A indexed rate subordinated unsecured callable bonds

R368 million (2014: R344 million) Investec Bank Limited IV030A locally registered subordinated unsecured callable bonds are due in January 2025. Interest on these inflation-linked bonds is payable semi-annually on 31 January and 31 July at a rate of 2.00%. The IV030A is a replica of the I2025 South African government bond. The maturity date is 31 January 2025, but the company has the option to call the bonds upon regulatory capital disqualification from 31 January 2020.

IV031 variable rate subordinated unsecured callable bonds

R500 million Investec Bank Limited IV031 locally registered subordinated unsecured callable bonds are due in March 2025. Interest is payable quarterly on 11 December, 11 March, 11 June and 11 September at a rate equal to the three-month JIBAR plus 2.95% up to and excluding 11 March 2025. The maturity date is 11 March 2025, but the company has the option to call the bonds upon regulatory capital disqualification from 11 March 2020.

IV032 variable rate subordinated unsecured callable bonds

R810 million Investec Bank Limited IV032 locally registered subordinated unsecured callable bonds are due in August 2023. Interest is payable quarterly on 14 November, 14 February, 14 May, 14 August at a rate equal to the three-month JIBAR plus 2.95%. The maturity date is 14 August 2023, but the company has the option to call the bonds upon regulatory capital disqualification from 14 August 2018.

At 31 March R'million	Group 2015	Group 2014	Company 2015	Company 2014
38. Ordinary share capital				
Authorised				
105 000 000 (2014: 105 000 000) ordinary shares of 50 cents each				
Issued				
63 019 022 (2014: 63 019 022) ordinary shares of 50 cents each	32	32	32	32

At 31 March R'million	Group 2015	Group 2014	Company 2015	Company 2014
39. Perpetual preference shares				
Authorised				
70 000 000 (2014: 70 000 000) non-redeemable, non-cumulative, non-participating preference shares of one cent each.				
20 000 000 non-redeemable, non-cumulative, non-participating preference shares with a par value of one cent each (Non-redeemable programme preference shares)				
Issued				
15 447 630 (2014: 15 447 630) non-redeemable, non-cumulative, non-participating preference shares of one cent each, issued at a premium of between R96.46 and R99.99 per share.	1 534	1 534	1 534	1 534
– Perpetual preference share capital	*	*	*	*
– Perpetual preference share premium	1 534	1 534	1 534	1 534

* *Less than R1 million.*

Share premium on perpetual preference shares is included in the line item share premium on the balance sheet. Refer to note 40.

Preference shareholders will be entitled to receive dividends, if declared, at a rate limited to 83.33% of the South African prime interest rate on R100 being the deemed value of the issue price of the preference share held.

Preference shareholders receive dividends in priority to any payment of dividends to the holder of any other class of shares in the capital of the company not ranking prior or *pari passu* with the preference shares.

An ordinary dividend will not be declared by Investec Bank Limited unless the preference dividend has been declared. If declared, preference dividends are payable semi-annually at least seven business days prior to the date on which Investec Bank Limited pays its ordinary dividends, if any, but shall be payable no later than 120 business days after 31 March and 30 September, respectively.

At 31 March R'million	Group 2015	Group 2014	Company 2015	Company 2014
40. Share premium				
Share premium on ordinary shares	13 366	13 366	13 366	13 366
Share premium on perpetual preference shares (refer to note 39)	1 534	1 534	1 534	1 534
Share issue expenses written off	(15)	(15)	(15)	(15)
	14 885	14 885	14 885	14 885

At 31 March R'million	Group 2015 Total future minimum payments	Group 2015 Present value	Group 2014 Total future minimum payments	Group 2014 Present value
41. Finance lease disclosures				
Finance lease receivables included in loans and advances to customers				
Lease receivables due in:				
Less than one year	666	543	572	461
One to five years	634	561	634	557
	1 300	1 104	1 206	1 018
Unearned finance income	196		188	

At 31 March 2015 and 31 March 2014, there were no unguaranteed residual values.

At 31 March R'million	Group 2015	Group 2014	Company 2015	Company 2014
42. Notes to cash flow statement				
Profit before taxation adjusted for non-cash items is derived as follows:				
Profit before taxation	3 673	2 465	3 090	1 831
Depreciation and impairment of property, equipment and intangibles	138	147	134	145
Impairment of loans and advances	455	638	468	579
Loss on realisation of fixed assets	–	5	–	7
Gain on realisation of available-for-sale assets recycled through the income statement	–	(2)	–	(2)
Profit before taxation adjusted for non-cash items	4 266	3 253	3 692	2 560
Increase in operating assets				
Loans and advances to banks	744	(7 296)	745	(7 788)
Reverse repurchase agreements and cash collateral on securities borrowed	(3 639)	1 226	(3 484)	1 226
Sovereign debt securities	3 466	(1 085)	3 484	(1 085)
Bank debt securities	4 182	(406)	4 045	(385)
Other debt securities	(757)	(5 584)	(448)	(7 733)
Derivative financial instruments	(3 232)	(292)	(3 394)	(249)
Securities arising from trading activities	27	41	27	41
Investment portfolio	(781)	76	(597)	96
Loans and advances to customers	(23 509)	(12 405)	(24 958)	(10 863)
Own originated loans and advances to customers securitised	(1 713)	(443)	–	919
Other loans and advances	80	120	(476)	672
Other securitised assets	885	(335)	390	(113)
Other assets	515	(598)	498	(627)
Investment properties	4	(83)	4	(83)
Loans to group companies	(1 388)	9 465	173	9 043
Non-current assets held for sale	(1)	(731)	(1)	(731)
	(25 117)	(18 330)	(23 992)	(17 660)
Increase in operating liabilities				
Deposits by banks	7 385	4 543	7 386	4 578
Derivative financial instruments	3 142	27	3 142	27
Other trading liabilities	192	368	192	368
Repurchase agreements and cash collateral on securities lent	(1 310)	(661)	(1 182)	(682)
Customer accounts (deposits)	15 223	18 635	15 737	17 005
Debt securities in issue	151	1 275	136	1 125
Liabilities arising on securitisation of own originated loans and advances	(280)	(1 564)	–	(919)
Liabilities arising on securitisation of other assets	(156)	(432)	–	–
Other liabilities	517	374	819	25
	24 864	22 565	26 230	21 527

At 31 March R'million	Group 2015	Group 2014	Company 2015	Company 2014
43. Commitments				
Undrawn facilities	43 479	36 943	41 513	35 316
Other commitments	–	215	–	98
	43 479	37 158	41 513	35 414
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	423	410	423	408
One to five years	1 873	1 457	1 873	1 457
Later than five years	1 123	1 862	1 123	1 862
	3 419	3 729	3 419	3 727

At 31 March 2015, Investec was obligated under a number of operating leases for properties, computer equipment and office equipment for which the future minimum lease payments extend over a number of years. The annual escalation clauses range between 7.0% and 10.0% per annum. The majority of the leases have renewal options. Contingent rent represents payments made to landlords for operating, tax and other escalation expenses.

At 31 March R'million	2015 Carrying amount of pledged asset	2015 Carrying value of related liability Repurchase agreements and cash collateral on securities lent	2014 Carrying amount of pledged asset	2014 Carrying value of related liability Repurchase agreements and cash collateral on securities lent
Pledged assets				
Group				
Sovereign debt securities	5 055	8 220	3 475	7 635
Bank debt securities	7 466	4 144	10 829	4 718
Other debt securities	3 083	1 712	1 542	735
Securities arising from trading activities	357	1 146	688	688
Reverse repurchase agreements and cash collateral on securities borrowed	698	472	2 275	2 275
	16 659	15 694	18 809	16 051
Company				
Sovereign debt securities	5 055	8 220	3 475	7 635
Bank debt securities	7 466	4 144	10 829	4 718
Other debt securities	3 083	1 712	1 542	735
Securities arising from trading activities	357	1 146	688	688
Reverse repurchase agreements and cash collateral on securities borrowed	698	472	2 275	2 275
	16 659	15 694	18 809	16 051

The assets pledged by the group are strictly for the purpose of providing collateral for the counterparty. To the extent that the counterparty is permitted to sell and/or re-pledge the assets, they are classified on the balance sheet as reverse repurchase agreements and cash collateral on securities borrowed.

At 31 March R'million	Group 2015	Group 2014	Company 2015	Company 2014
44. Contingent liabilities				
Guarantees and assets pledged as collateral security:				
– Guarantees and irrevocable letters of credit	19 757	16 252	20 353	16 906
	19 757	16 252	20 353	16 906

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 Limited on behalf of third parties and other group companies. The guarantees are issued as part of the banking business.

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 a 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.

For the year to 31 March R'million	Group and company 2015	Group and company 2014
45. 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:		
Directors, key management and connected persons and companies controlled by them:		
Loans		
At the beginning of the year	531	508
Increase in loans	250	72
Repayment of loans	(173)	(182)
Exchange adjustment	6	133
At the end of the year	614	531
Guarantees		
At the beginning of the year	77	64
Additional guarantees granted	30	77
Guarantees cancelled	(33)	(81)
Exchange adjustments	1	17
At the end of the year	75	77
Deposits		
At the beginning of the year	(554)	(388)
Increase in deposits	(399)	(359)
Decrease in deposits	344	323
Exchange adjustment	(12)	(130)
At the end of the year	(621)	(554)

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 have been impaired.

For the year to 31 March R'million	Group and company 2015	 2014
45. Related party transactions (continued)		
Transactions with Investec plc and its subsidiaries		
Assets		
Loans and advances to banks	234	289
Loans and advances to customers	–	284
Other debt securities	2 882	4 588
Derivative financial instruments	1 782	454
Other assets	–	204
Liabilities		
Deposits from banks	63	537
Customer accounts (deposits)	31	20
Repurchase agreements and cash collateral on securities lent	4 193	5 379
Derivative financial instruments	696	20
Debt securities in issue	125	–
Other liabilities	55	–
Income statement		
Interest income	157	502
Interest expense	26	27

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 rendered between Investec plc and Investec Bank Limited. In the year to 31 March 2015, this resulted in a net payment by Investec plc group of R383.0 million (2014: R140.3 million). Specific transactions of an advisory nature between group entities resulted in a net fee payment by Investec plc group of R5.3 million (2014: Rnil).

Transactions with other related parties	2015	2014
Loan from Investec Bank (Mauritius) Limited to Forty Two Point Two	463	751

The loan arises from Investec's portion of funding in relation to the 15% acquisition of Investec Asset Management by senior management of the business

Refer to pages 90 to 99 in the directors' remuneration report for other transactions relating to directors.

Refer to note 32 for loans to group companies and note 33 for loans to/(from) subsidiary companies.

46. Liquidity analysis of financial liabilities based on undiscounted cash flows

At 31 March R'million	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	> Five years	Total
Group								
2015								
Liabilities								
Deposits by banks	710	1 643	742	10	12 188	14 499	–	29 792
Derivative financial instruments	12 390	–	–	–	–	–	21	12 411
– held for trading	12 354	–	–	–	–	–	–	12 354
– held for hedging risk	36	–	–	–	–	–	21	57
Other trading liabilities	1 623	–	–	–	–	–	–	1 623
Repurchase agreements and cash collateral on securities lent	1 237	9 493	2	681	1 340	3 931	–	16 684
Customer accounts (deposits)	88 651	27 923	39 490	13 919	20 091	28 596	2 729	221 399
Debt securities in issue	–	–	77	81	1 068	4 291	–	5 517
Liabilities arising on securitisation of own originated loans and advances	–	–	–	8	2	4 229	1 014	5 253
Other liabilities	679	518	894	516	68	512	608	3 795
Subordinated liabilities	–	61	315	163	356	5 993	7 277	14 165
Total on balance sheet liabilities	105 290	39 638	41 520	15 378	35 113	62 051	11 649	310 639
Contingent liabilities	5 447	54	5 405	303	320	7 404	1 289	20 222
Commitments	3 169	43	10 246	1 141	3 627	11 438	14 088	43 752
Total liabilities	113 906	39 735	57 171	16 822	39 060	80 893	27 026	374 613

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 analysis based on discounted cash flows, please refer to page 65.

46. Liquidity analysis of financial liabilities based on undiscounted cash flows
(continued)

At 31 March R'million	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	> Five years	Total
Group								
2014								
Liabilities								
Deposits by banks	915	2 095	2 066	352	257	16 723	–	22 408
Derivative financial instruments	9 238	–	–	–	–	–	21	9 259
– held for trading	9 238	–	–	–	–	–	–	9 238
– held for hedging risk	–	–	–	–	–	–	21	21
Other trading liabilities	1 431	–	–	–	–	–	–	1 431
Repurchase agreements and cash collateral on securities lent	3 411	3 515	–	–	4 638	5 130	993	17 687
Customer accounts (deposits)	77 611	27 656	31 094	18 585	23 551	24 639	1 906	205 042
Debt securities in issue	–	4	52	131	480	4 698	–	5 365
Liabilities arising on securitisation of own originated loans and advances	–	–	299	–	–	6 951	–	7 250
Liabilities arising on securitisation of other assets	–	–	156	–	–	–	–	156
Other liabilities	1 035	765	882	171	340	445	621	4 259
Subordinated liabilities	–	56	134	154	339	6 584	6 802	14 069
Total on balance sheet liabilities	93 641	34 091	34 683	19 393	29 605	65 170	10 343	286 926
Contingent liabilities	7 200	537	733	220	920	4 121	2 521	16 252
Commitments	–	102	5 287	717	2 802	12 173	16 077	37 158
Total liabilities	100 841	34 730	40 703	20 330	33 327	81 464	28 941	340 336

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.

46. Liquidity analysis of financial liabilities based on undiscounted cash flows
(continued)

At 31 March R'million	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	> Five years	Total
Company								
2015								
Liabilities								
Deposits by banks	570	1 643	742	10	12 188	14 499	–	29 652
Derivative financial instruments	12 390	–	–	–	–	–	21	12 411
– held for trading	12 354	–	–	–	–	–	–	12 354
– held for hedging risk	36	–	–	–	–	–	21	57
Other trading liabilities	1 623	–	–	–	–	–	–	1 623
Repurchase agreements and cash collateral on securities lent	1 149	9 492	–	679	1 335	2 570	–	15 225
Customer accounts (deposits)	81 020	27 347	38 974	13 637	20 032	28 175	2 729	211 914
Debt securities in issue	–	–	77	81	238	4 126	–	4 522
Other liabilities	517	511	821	516	64	512	608	3 549
Subordinated liabilities	–	61	315	163	356	5 993	7 277	14 165
Total on balance sheet liabilities	97 269	39 054	40 929	15 086	34 213	55 875	10 635	293 061
Contingent liabilities	5 573	–	5 163	279	220	8 339	1 246	20 820
Commitments	3 136	43	10 219	1 141	3 154	10 762	13 330	41 785
Total liabilities	105 978	39 097	56 311	16 506	37 587	74 976	25 211	355 666

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.

46. Liquidity analysis of financial liabilities based on undiscounted cash flows
(continued)

At 31 March R'million	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	> Five years	Total
Company								
2014								
Liabilities								
Deposits by banks	774	2 095	2 066	352	257	16 723	–	22 267
Derivative financial instruments	9 238	–	–	–	–	–	21	9 259
– held for trading	9 238	–	–	–	–	–	–	9 238
– held for hedging risk	–	–	–	–	–	–	21	21
Other trading liabilities	1 431	–	–	–	–	–	–	1 431
Repurchase agreements and cash collateral on securities lent	3 320	3 515	–	–	4 638	4 935	–	16 408
Customer accounts (deposits)	71 178	27 002	30 809	18 220	22 651	24 548	1 906	196 314
Debt securities in issue	–	4	52	131	480	3 718	–	4 385
Other liabilities	697	648	816	151	338	429	621	3 700
Subordinated liabilities	–	56	134	154	339	6 584	6 802	14 069
Total on balance sheet liabilities	86 638	33 320	33 877	19 008	28 703	56 937	9 350	267 833
Contingent liabilities	7 200	537	613	183	911	4 941	2 521	16 906
Commitments	–	66	5 061	717	2 785	10 708	16 077	35 414
Total liabilities	93 838	33 923	39 551	19 908	32 399	72 586	27 948	320 153

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.

47. 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 dependant 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.

47. Hedges (continued)

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 R'million	Description of financial instrument being hedged	Fair value of hedging instrument	Cumulative losses on hedging instrument	Current year gains/(losses) on hedging instrument	Cumulative gains on hedged item	Current year gains on hedged item
2015						
Interest rate swaps	Bonds	(635)	(192)	(16)	179	37
2014						
Interest rate swaps	Bonds	(631)	(355)	94	337	36

At year end the hedges were both retrospectively and prospectively effective.

Cash flow hedges

The group is exposed to variability in cash flows on future liabilities arising from changes in base interest rates. The aggregate expected cash flows are hedged based on cash flow forecasts with reference to terms and conditions present in the affected contractual arrangements. Changes in fair value are initially recognised in other comprehensive income and transferred to the income statement when the cash flow affects the income statement.

At 31 March R'million	Description of financial instrument being hedged	Fair value of hedging instrument	Period cash flows are expected to occur and affect income statement
2015			
Cross-currency swaps	Bonds	4 356	Three months
2014			
Cross-currency swaps	Bonds	4 824	Three months

There are cash flow hedges during the year to mitigate interest rate and currency risk. A reconciliation of the cash flow hedge reserve can be found in the statement of changes in equity. There was no ineffective portion recognised in the income statement.

Releases to the income statement for cash flow hedges are included in net interest income.

Hedges of net investments in foreign operations

Investec Bank Limited has entered into foreign exchange contracts to hedge its balance sheet exposure to its net investment, in US Dollars, in Investec Bank (Mauritius) Limited.

At 31 March R'million	Hedging instrument fair value
2015	(351)
2014	(33)

There was no ineffective portion recognised in the income statement in the current and prior year.

At 31 March R'million	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Net amount
	Amounts subject to enforceable netting arrangements				
	Effects of offsetting on-balance sheet			Related amounts not offset	
48. Offsetting					
2015					
Group					
Assets					
Cash and balances at central banks	6 261	–	6 261	–	6 261
Loans and advances to banks	43 242	(9 820)	33 421	–	33 421
Non-sovereign and non-bank cash placements	10 540	–	10 540	–	10 540
Reverse repurchase agreements and cash collateral on securities borrowed	10 095	–	10 095	–	10 095
Sovereign debt securities	31 378	–	31 378	(8 220)	23 158
Bank debt securities	17 332	–	17 332	(4 144)	13 188
Other debt securities	12 749	–	12 749	(1 712)	11 037
Derivative financial instruments	15 892	(714)	15 178	(6 374)	8 804
Securities arising from trading activities	1 289	–	1 289	(1 146)	143
Investment portfolio	9 972	–	9 972	–	9 972
Loans and advances to customers	174 839	(1 846)	172 993	–	172 993
Own originated loans and advances to customers securitised	4 535	–	4 535	–	4 535
Other loans and advances	472	–	472	–	472
Other securitised assets	618	–	618	–	618
Other assets	1 262	–	1 262	–	1 262
	340 476	(12 380)	328 095	(21 596)	306 499
Liabilities					
Deposits by banks	30 506	(714)	29 792	–	29 792
Derivative financial instruments	22 221	(9 820)	12 401	(6 374)	6 027
Other trading liabilities	1 623	–	1 623	–	1 623
Repurchase agreements and cash collateral on securities lent	16 556	–	16 556	(15 222)	1 334
Customer accounts (deposits)	223 223	(1 846)	221 377	–	221 377
Debt securities in issue	5 517	–	5 517	–	5 517
Liabilities arising on securitisation of own originated loans and advances	1 089	–	1 089	–	1 089
Other liabilities	3 741	–	3 741	–	3 741
Subordinated liabilities	10 449	–	10 449	–	10 449
	314 925	(12 380)	302 545	(21 596)	280 949

At 31 March R'million	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Net amount
	Amounts subject to enforceable netting arrangements: Effects of offsetting on-balance sheet			Related amounts not offset	
48. Offsetting (continued)					
2014					
Group					
Assets					
Cash and balances at central banks	5 927	–	5 927	–	5 927
Loans and advances to banks	41 371	(8 699)	32 672	–	32 672
Non-sovereign and non-bank cash placements	9 045	–	9 045	–	9 045
Reverse repurchase agreements and cash collateral on securities borrowed	6 442	–	6 442	(2 275)	4 167
Sovereign debt securities	34 815	–	34 815	(7 635)	27 180
Bank debt securities	21 538	–	21 538	(4 718)	16 820
Other debt securities	11 933	–	11 933	(735)	11 198
Derivative financial instruments	13 094	(795)	12 299	(5 753)	6 546
Securities arising from trading activities	1 316	–	1 316	(688)	628
Investment portfolio	8 834	–	8 834	–	8 834
Loans and advances to customers	148 562	–	148 562	–	148 562
Own originated loans and advances to customers securitised	2 822	–	2 822	–	2 822
Other loans and advances	552	–	552	–	552
Other securitised assets	1 503	–	1 503	–	1 503
Other assets	1 771	–	1 771	–	1 771
	309 525	(9 494)	300 031	(21 804)	278 227
Liabilities					
Deposits by banks	23 202	(795)	22 407	–	22 407
Derivative financial instruments	17 958	(8 699)	9 259	(5 753)	3 506
Other trading liabilities	1 431	–	1 431	–	1 431
Repurchase agreements and cash collateral on securities lent	17 686	–	17 686	(16 051)	1 635
Customer accounts (deposits)	204 903	–	204 903	–	204 903
Debt securities in issue	5 366	–	5 366	–	5 366
Liabilities arising on securitisation of own originated loans and advances	1 369	–	1 369	–	1 369
Liabilities arising on securitisation of other assets	156	–	156	–	156
Other liabilities	3 193	–	3 193	–	3 193
Subordinated liabilities	10 498	–	10 498	–	10 498
	285 762	(9 494)	276 268	(21 804)	254 464

At 31 March R'million	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Net amount
	Amounts subject to enforceable netting arrangements				
	Effects of offsetting on-balance sheet			Related amounts not offset	
48. Offsetting (continued)					
2015					
Company					
Assets					
Cash and balances at central banks	6 148	–	6 148	–	6 148
Loans and advances to banks	40 104	(9 820)	30 284	–	30 284
Non-sovereign and non-bank cash placements	10 540	–	10 540	–	10 540
Reverse repurchase agreements and cash collateral on securities borrowed	9 926	–	9 926	–	9 926
Sovereign debt securities	31 358	–	31 358	(8 220)	23 138
Bank debt securities	15 981	–	15 981	(4 144)	11 837
Other debt securities	13 390	–	13 390	(1 712)	11 678
Derivative financial instruments	15 683	(714)	14 969	(6 374)	8 595
Securities arising from trading activities	1 289	–	1 289	(1 146)	143
Investment portfolio	9 581	–	9 581	–	9 581
Loans and advances to customers	160 854	(1 826)	159 028	–	159 028
Other loans and advances	476	–	476	–	476
Other securitised assets	137	–	137	–	137
Other assets	994	–	994	–	994
	316 461	(12 360)	304 101	(21 596)	282 505
Liabilities					
Deposits by banks	30 366	(714)	29 652	–	29 652
Derivative financial instruments	22 221	(9 820)	12 401	(6 374)	6 027
Other trading liabilities	1 623	–	1 623	–	1 623
Repurchase agreements and cash collateral on securities lent	15 225	–	15 225	(15 222)	3
Customer accounts (deposits)	213 740	(1 826)	211 914	–	211 914
Debt securities in issue	4 522	–	4 522	–	4 522
Other liabilities	3 492	–	3 492	–	3 492
Subordinated liabilities	10 449	–	10 449	–	10 449
	301 638	(12 360)	289 278	(21 596)	267 682

48. Offsetting (continued)

At 31 March R'million	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Net amount
	Amounts subject to enforceable netting arrangements				
	Effects of offsetting on-balance sheet			Related amounts not offset	
2014					
Company					
Assets					
Cash and balances at central banks	5 751	–	5 751	–	5 751
Loans and advances to banks	38 371	(8 699)	29 672	–	29 672
Non-sovereign and non-bank cash placements	9 045	–	9 045	–	9 045
Reverse repurchase agreements and cash collateral on securities borrowed	6 442	–	6 442	(2 275)	4 167
Sovereign debt securities	34 815	–	34 815	(7 635)	27 180
Bank debt securities	20 233	–	20 233	(4 718)	15 515
Other debt securities	13 019	–	13 019	(735)	12 284
Derivative financial instruments	12 752	(795)	11 957	(5 411)	6 546
Securities arising from trading activities	1 316	–	1 316	(688)	628
Investment portfolio	8 657	–	8 657	–	8 657
Loans and advances to customers	134 611	–	134 611	–	134 611
Other securitised assets	527	–	527	–	527
Other assets	1 492	–	1 492	–	1 492
	287 031	(9 494)	277 537	(21 462)	256 075
Liabilities					
Deposits by banks	23 061	(795)	22 266	–	22 266
Derivative financial instruments	17 958	(8 699)	9 259	(5 411)	3 848
Other trading liabilities	1 431	–	1 431	–	1 431
Repurchase agreements and cash collateral on securities lent	16 407	–	16 407	(16 051)	356
Customer accounts (deposits)	196 177	–	196 177	–	196 177
Debt securities in issue	4 386	–	4 386	–	4 386
Other liabilities	2 673	–	2 673	–	2 673
Subordinated liabilities	10 498	–	10 498	–	10 498
	272 591	(9 494)	263 097	(21 462)	241 635

49. Derecognition

Transfer of financial assets that do not result in derecognition

Investec Bank Limited 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.

	2015	
R'million	Carrying amount of assets that are continued to be recognised	Carrying amount of associated liabilities
Company		
No derecognition achieved		
Loans and advances to customers	3 323	3 323
	3 323	3 323

All the above derecognised assets in the company relate to Fox Street 3 (RF) Ltd and Fox Street 4 (RF) Ltd. For additional information refer to page 51 in the risk management report.

For transfer of assets in relation to repurchase agreements see note 43.

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Refer to page 88

For contact details for Investec offices refer to page 192.

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