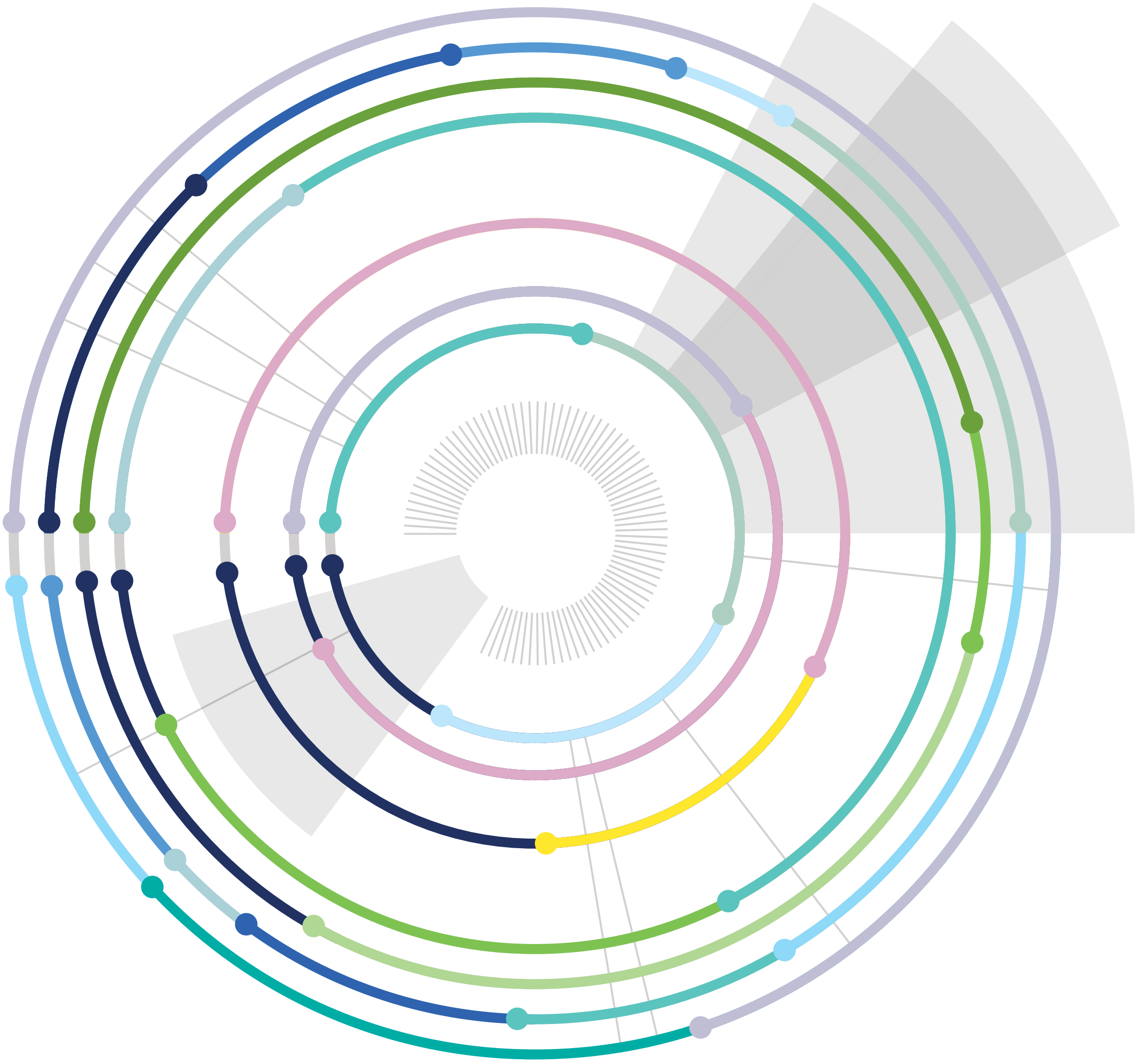


Annual report 2015

Investec Bank plc annual financial statements

Out of the Ordinary®

Investec

About this report

Cross-referencing tools:

Audited information

Denotes information in the risk and remuneration 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

Ongoing and statutory information

During the year Investec Bank plc sold Investec Bank (Australia) Limited. In addition, Investec plc sold Kensington Group plc and Start Mortgage Holdings Limited. Some of these sale assets resided on Investec Bank plc's balance sheet (as discussed on page 20).

The sale of these businesses has had a significant effect on the comparability of our financial statutory position and results. As a result, comparison on a statutory basis of the 2015 results with 2014 would be less meaningful.

In order to present a more meaningful view of our performance, additional management information is presented on our ongoing businesses. This information is only set out on pages 24 to 29. The additional information presented on an ongoing basis excludes items that in management's view could distort the comparison of performance between periods. Based on this principle, the following items are excluded from underlying statutory profit to derive ongoing operating profit:

- The results of the businesses sold as mentioned above
- The remaining legacy business in the UK (as set out on page 30).

A reconciliation between the statutory and ongoing income statement is provided on pages 25 and 26. All information in our annual report is based on our statutory accounts unless otherwise indicated.

Contents

1

Investec Bank plc in perspective

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

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

Operating structure

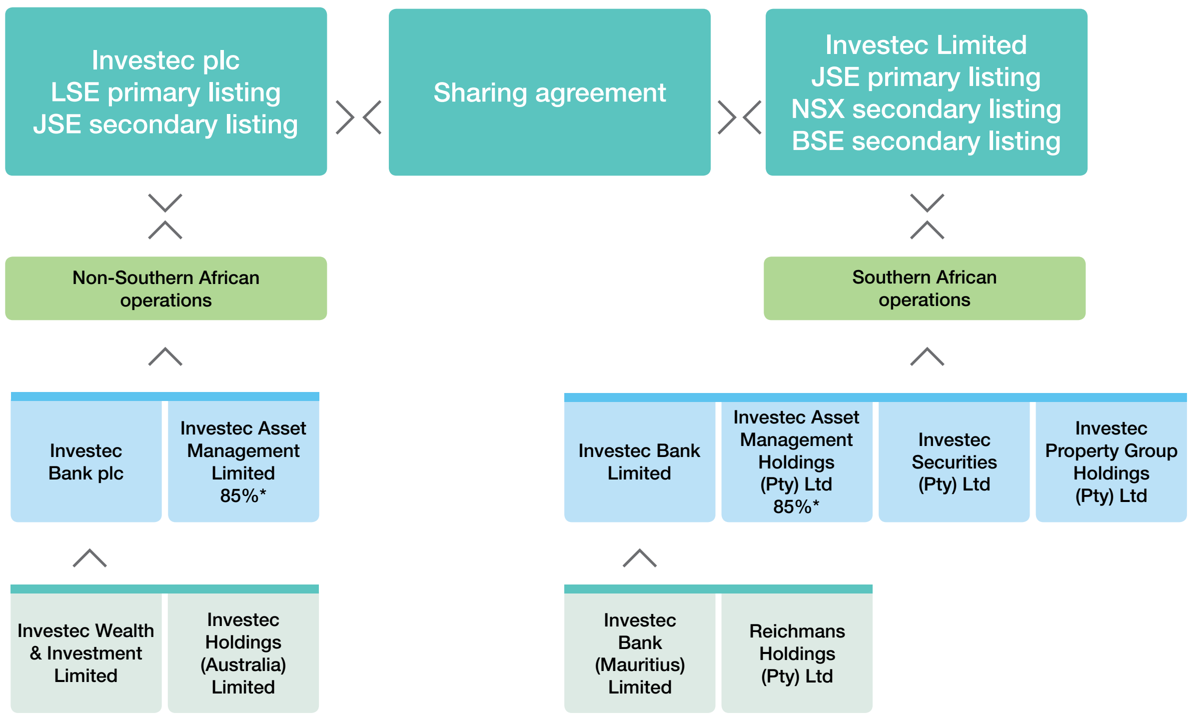
During July 2002 Investec Group Limited (since renamed Investec Limited) implemented a dual listed companies (DLC) structure and listed its offshore business on the London Stock Exchange.

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

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

Operating structure

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.

The bank operates as a specialist bank and wealth manager

What we do. . .
Specialist Banking

The bank operates as a specialist bank, focusing on three key areas of activity: Investment activities, Corporate and Institutional Banking activities and Private Banking activities. Each business provides specialised products and services to defined target markets. Our head office also provides certain group-wide integrating functions including risk management, information technology, finance, investor relations, marketing, human resources and organisational development. The head office is also responsible for our central funding.

Corporates/government/institutional clients		High income and high-net-worth private clients
Investment activities	**Corporate and Institutional Banking activities**	**Private Banking activities**
Principal investments Property investment and fund management	Treasury and trading services Specialised lending, funds and debt capital markets Advisory and institutional research, sales and trading	Transactional banking and foreign exchange Lending Deposits
Australia Hong Kong UK and Europe	Australia Hong Kong India UK and Europe USA	UK and Europe
Our principal investments business in Hong Kong largely focuses on pre-IPO investment opportunities in Chinese companies with good track records, while our business in the UK focuses on opportunistic investment alongside credible clients. Our Property business focuses on property fund management and property investments.	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. The investment banking and securities business (a part of the corporate and institutional banking division) 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; institutional research; sales; and trading.	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 high-net-worth individuals, wealthy entrepreneurs, high-income professionals, owner managers in mid-market companies and sophisticated investors.

Integrated systems and infrastructure

What we do. . .
Wealth & Investment

Europe

Investments and savings

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

Pensions and retirement

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

Tax planning

- Succession planning
- ISAs
- Retirement planning
- Venture Capital Trusts (VCT) and Enterprise Investment Schemes (EIS)

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

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

Over 1 150 staff operate from offices located throughout the UK and Europe, with combined funds under management of £29.6 billion. Investec Wealth & Investment is one of the UK's leading providers of private client investment management services.

Our operational footprint

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

Specialist Banking value proposition

- High-quality specialist banking solution to corporate, institutional 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.

Wealth & Investment value proposition

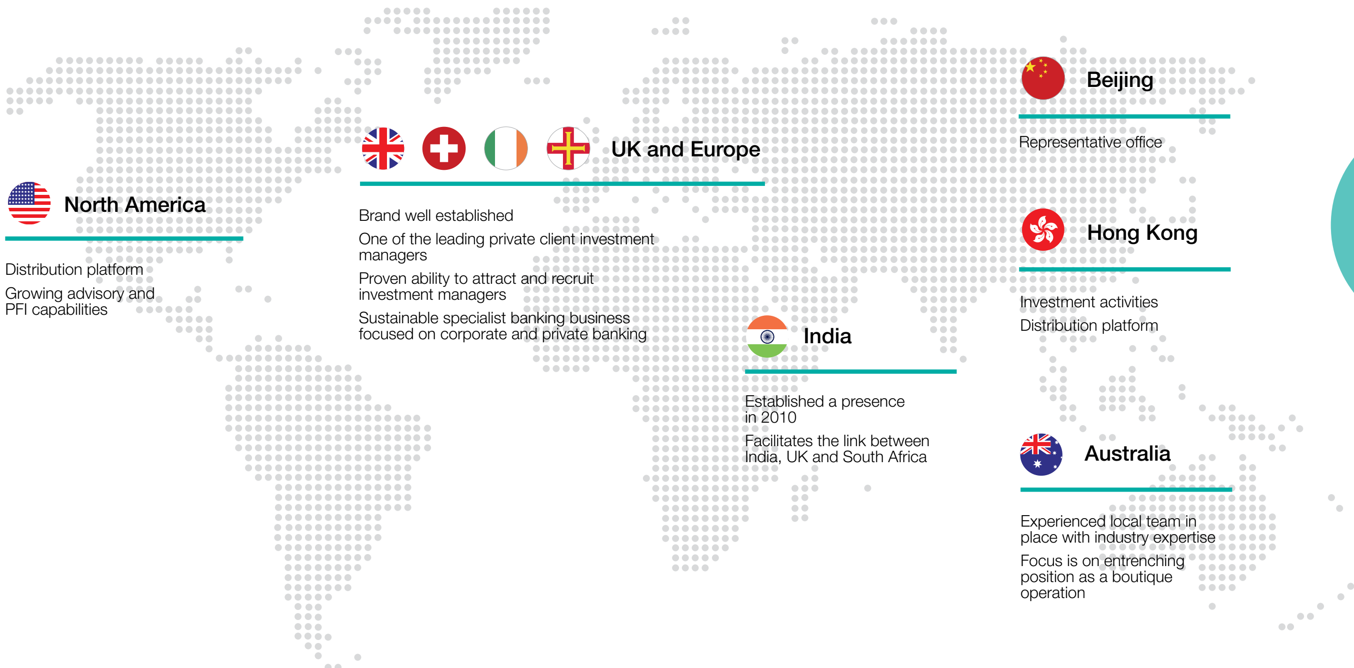
- Investec Wealth & Investment has been built via the acquisition and integration of businesses and organic growth over a long period of time
- Well established platforms in the UK, Switzerland, Ireland and Guernsey
- The business currently has four distinct channels: direct, intermediaries, charities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

Business leaders

David van der Walt	Specialist Banking UK and CEO of Investec Bank plc
Steve Elliott	Wealth & Investment

Further information on the Specialist Banking and Wealth & Investment management structures is available on our website.

Where we operate



Delivering on our strategic objectives – continued to grow core franchises and simplified the Specialist Banking business through restructuring and sales

- Continued investment in our Wealth & Investment platforms – supported net inflows of approximately £1.9 billion
- The core corporate banking franchise performed well, benefiting from increased client activity
- The Private Banking business enhanced its offering through the launch of its Private Bank Account and the development of its online and digital platforms
- Operational diversity continued to support a high recurring income base with a sound balance of earnings generated between capital light businesses and capital intensive businesses.

Statutory financial performance

Operating profit* decreased 6.6%

2015	2014
£101.2mn	£108.4mn

Adjusted attributable earnings^ increased 4.7%

2015	2014
£78.7mn	£75.2mn

We continued to actively manage down the UK legacy portfolio…

- The legacy portfolio reduced to £0.7 billion largely through strategic sales, redemptions, write-offs and transfers to the ongoing book on the back of improved performance in these loans
- The legacy business reported a loss before taxation of £107.7 million (2014: £69.1 million) as the group accelerated the clearance of the portfolio, which resulted in an increase in impairments on these assets
- The bank posted a non-operating net gain after tax of £47.1 million on the sale of businesses.

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

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

Solid performance from the ongoing business

Operating profit* increased 19.5%

2015	2014
£207.8mn	£173.9mn

Adjusted attributable earnings^ increased 34.3%

2015	2014
£162.3mn	£120.9mn

Recurring income as a % of total operating income

2015	2014
63.5%	55.4%

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

2015	2014
0.23%	0.52%

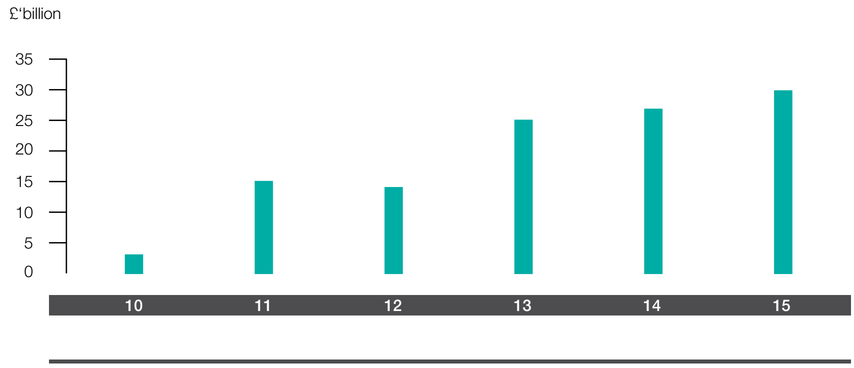
We have a diversified business model…

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

We continued to grow our key earnings drivers…

Funds under management up 11.2% to £29.8 billion

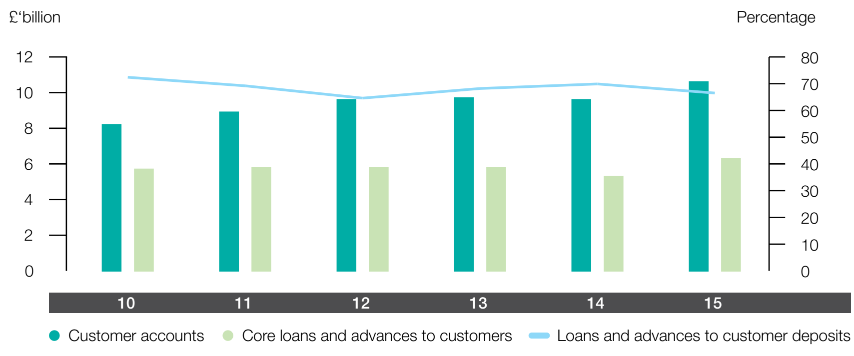
Funds under management ongoing business



Customer accounts (excluding divestments) up 10.6% to £10.6 billion

Core loans and advances (excluding divestments) up 16.4% to £7.0 billion

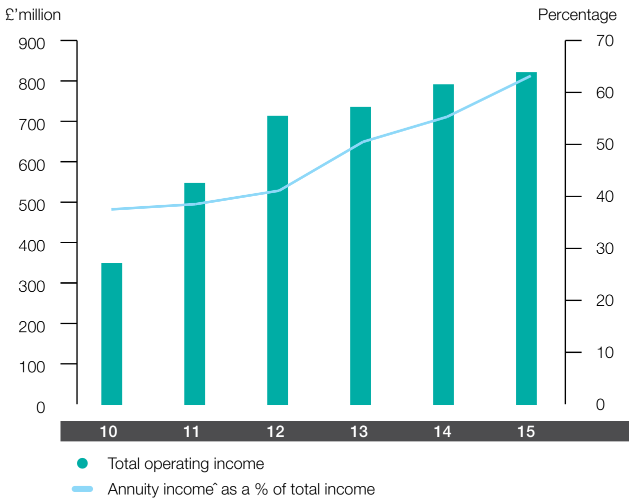
Customer accounts (deposits) and loans ongoing business



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

Supporting growth in operating income…

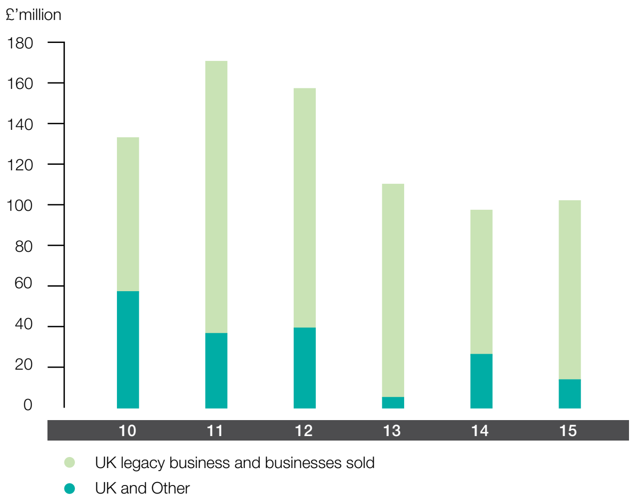
Total operating income ongoing business



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

Impairments continue downward trend…

Impairments



Fixed costs marginally up…

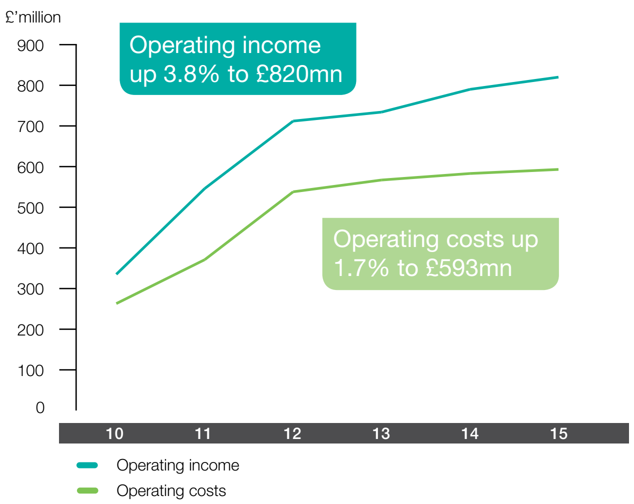
Wealth & Investment

- **Headcount increased: 150 people**
- **Investment in IT, online infrastructure and experienced portfolio managers**
- **Operating margin: 22.7% (2014: 20.1%)**

Specialist Banking

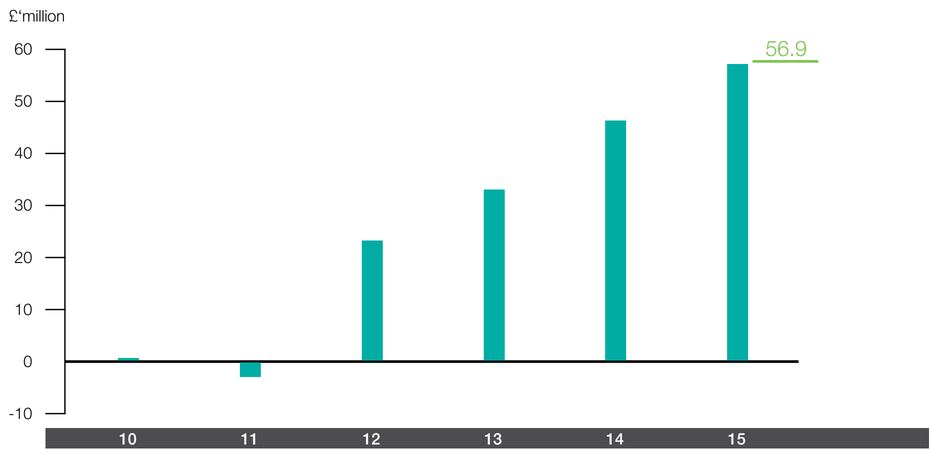
- **Headcount down: 290 people**
- **Cost to income ratio ongoing business: 70.3% (2014: 72.1%)**

Jaws ratio ongoing business

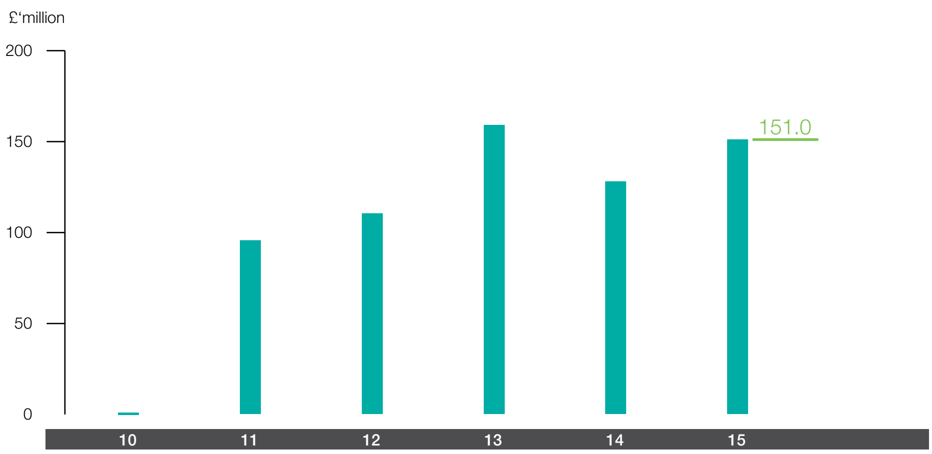


Resulting in increased operating profit* from our businesses…

Operating profit – Wealth & Investment



Operating profit – Specialist Banking ongoing business



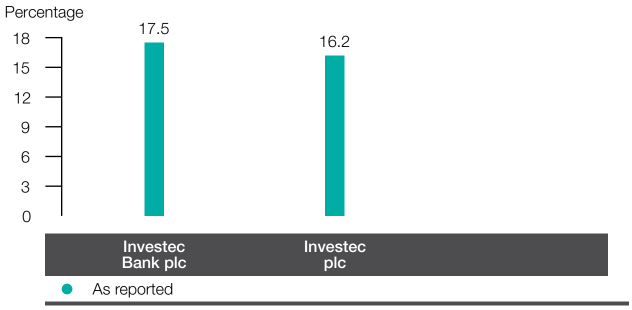
* *Before goodwill, acquired intangibles, non-operating items, taxation and after non-controlling interests.*

Maintained a sound balance sheet…

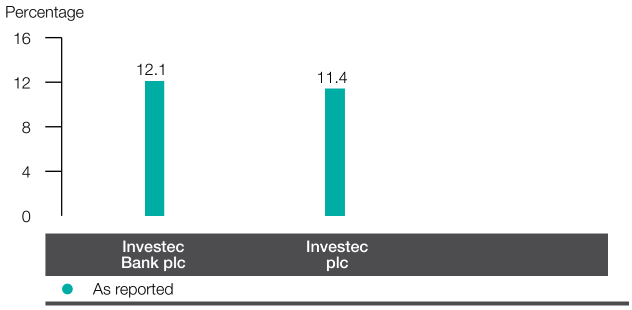
Target

Total capital adequacy: 14.0% – 17.0%
Common equity tier 1 ratio: > 10.0% by March 2016
Total tier 1 ratio: > 11.0% by March 2016
Leverage ratio: > 6.0%

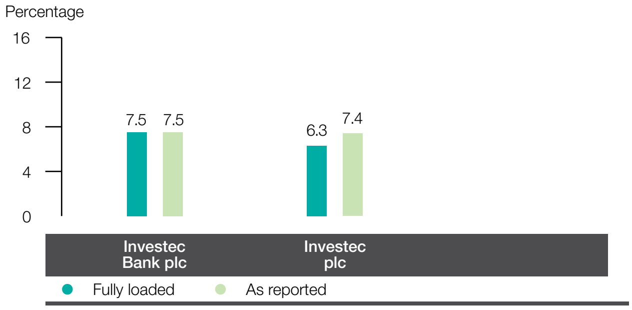
Capital adequacy



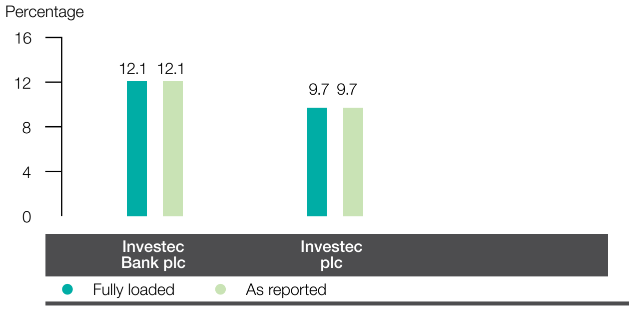
Tier 1



Leverage ratios



Common equity tier 1



Note: Refer to page 102 for detailed definitions and explanations.

Sound capital and liquidity principles maintained

Continue to focus on:

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

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

A well-established liquidity management philosophy remains in place

The bank's loan to deposit ratios is as follows: 66.5% (2014: 69.9%)

Liquidity remains strong with cash and near cash balances amounting to £5.0 billion (2014: £4.3 billion)

Capital remained well in excess of current regulatory requirements and we meet current internal targets

We are comfortable with our common equity tier 1 ratio target at a 10% level, as our current leverage ratio is well above 7%.

2

Financial review

An overview of the operating environment impacting our business

United Kingdom

Our views

The UK recorded the firmest pace of growth of all the advanced economies in 2014, and saw its fastest growth pace since 2006.

2.8%	2.1%
2014/15 Economic growth	**2013/14** Economic growth

GDP per capita has risen

2015	2014
£27 770	£26 731

The health of the labour market has also continued to improve markedly with the latest unemployment reading at 5.6% – the lowest level seen since July 2008

UK monetary policy remained steady throughout the financial year, with the bank rate held at 0.5%, marking six years at a record low. Meanwhile the level of the Bank of England's asset purchase scheme was maintained at £375 billion. Over the same period the UK's economic fundamentals continued to strengthen.

Employment growth has also been robust with 617 000 more in work than a year earlier.

The inflation backdrop has been one of very subdued price growth, particularly in the latter part of the fiscal year where CPI inflation fell to a record low of zero in February and March 2015; the main driver has been lower fuel prices, reflecting the sharp decline in the wholesale price of oil. Hence despite the strengthening recovery, there has been little appetite on the MPC for higher interest rates, with the UK Monetary Policy Committee looking to see out the soft price patch and not adjust policy until it gains confidence that inflation is headed back to the 2% target; hence immediate talk of rate hikes has been limited.

The recovery of the UK's housing market stuttered from summer 2014 onwards as the pace of house price growth eased from its 11.9% June 2014 high as activity, particularly mortgage approvals, stumbled after tighter checks on loan affordability and limits on high loan to income ratio mortgage origination were introduced.

Australia

Our views

Australia experienced moderate economic performance over the last calendar year, with GDP growth firming to 2.5%, from the 2.3% that was witnessed over 2013

2.5%	2.3%
2014/15 Economic growth	**2013/14** Economic growth

GDP per capita has risen

2015	2014
A$68 102	A$67 061

On a quarterly basis the pace of growth was slower than historical averages, with quarter-on-quarter growth averaging just 0.5% over the year.

Headwinds to the economy were centred on the resources sector where falling commodity prices contributed further to a decline in mining investment, weighing on output overall. Outside of mining, activity was mixed with household consumption below trend, dampened by slow income growth and rising unemployment. Additionally, the strength of the Australian Dollar over the first half of the fiscal year also posed a headwind. Subsequently, the Australian Dollar weakened to A$0.76 against the US Dollar by the end of the period under review, having started at A$0.93. The housing market has, however, seen strength, with house prices rising 9.4% over 2014.

Having kept policy stable through almost the whole of the 2014/15 fiscal year the Reserve Bank of Australia cut the cash rate from 2.50% to a new record low of 2.25%, as the economy proceeded at a below trend pace and inflation hit its lowest level since Q2 2012.

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

United States

Our views

The US economy notched up growth of 2.3% in 2014 – the fastest rate since 2010.

The US labour market saw a more substantial improvement over the past financial year with the unemployment rate falling from 6.2% in April 2014 to 5.5% by March 2015 – the lowest level since May 2008

US growth slowed to a near standstill in Q1 2015, recorded at just a 0.2% annualised rate, albeit with several transitory factors, not least adverse weather being a particular drag.

Further, gains in non-farm payrolls averaged 260 000 over the 2014/15 year – the strongest run since the late 1990s.

Reflecting these improvements in the US labour market, the US Federal Reserve's efforts through the first part of the 2014/15 year were focused on bringing its quantitative easing purchases to a close, with the last 'taper' taking place in October 2014 while the Federal funds target rate range was held at 0% – 0.25% throughout the period. From October 2014 onwards the Federal Open Market Committee's (FOMC) communications were focused on adjusting communications to bring the prospect of a near-term rise in interest rates into sight, with the FOMC in its March 2015 communication going as far as removing reference to the committee being 'patient' in beginning its normalisation of monetary policy.

Eurozone

Amidst concerns that deflation was becoming a more serious threat in the Eurozone, the European Central Bank (ECB) eased policy further over the 2014/15 year. It opted to cut the ECB's main lending rates twice, taking the main refinancing rate down to a new record low of 0.05% in September 2014 while the deposit rate reached a low of (0.20%); both rates remained at these levels as the financial year closed. However, ECB policy easing did not stop there as the collapse in oil prices heightened deflation concerns in winter 2014 and culminated in the ECB unveiling a full-scale quantitative easing programme in January 2015, including the purchase of Euro area sovereign bonds. The programme is set to amount to some €1 trillion with purchases of around €60 billion per month running until at least Q3 2016; purchases got underway in March 2015.

The economic background has been one of modest growth with a 0.9% expansion seen in calendar year 2014. Euro area growth has now been mildly positive since Q2 2013 but, with the exception of Q1 2014, has failed to surpass a +0.3% quarterly growth rate in any individual period. However, early indications are that we will see something of a pick-up in growth in 2015.

On the Euro crisis front, Greek troubles reared their head again late in 2014 as the failure of the government to see its presidential candidate elected paved the way for new elections in January 2015. They ushered in a new administration, a coalition between Syriza and the Independent Greeks which has since sought a full-out renegotiation of Greece's existing arrangements with the IMF, ECB and the European Commission. Progress in putting the details to a reform plan which would see Greece granted disbursements of cash under a four-month extension to the existing bailout has stalled. Furthermore, its cash estimates indicate that a third bailout will be needed before the summer. Finally, note that the Euro area expanded geographically over the period as well, with Lithuania becoming the nineteenth member of the currency union.

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
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				
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%
Reserve Bank of Australia cash target rate	2.25%	2.50%		2.46%
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$1 236/oz
Macro-economic				
UK GDP (% change over the period)	2.8%	2.1%		
UK per capita GDP (£)	27 770	26 731	3.9%	
Australia GDP (% change over the period)	2.5%	2.3%		
Australia per capita GDP (A$)	68 102	67 061	1.6%	

Sources: Datastream, Bloomberg's, Office for National Statistics, Australian Bureau of Statistics.

Key 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.

41 – 67

Credit and counterparty risk exposes the bank to losses caused by financial or other problems experienced by its clients.

86 – 88

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

90

Legal and regulatory risks are substantial in our businesses.

80 – 85

Liquidity risk may impair the bank's ability to fund its operations.

89

Reputational, strategic and **business risk.**

77 – 79

The bank's net interest earnings and net asset value may be adversely affected by **interest rate risk.**

86 – 89

The bank may be **vulnerable to the failure of its systems** and breaches of its security systems.

89 – 90

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

68 – 76

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

90 – 95

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

86 – 89

Employee misconduct could cause harm that is difficult to detect.

14 – 16

The **financial services industry** in which the bank operates is intensely competitive.

90

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

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

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

Additional risks and uncertainties not presently known to the bank or that are currently deemed immaterial may in the future also negatively impact the bank's business operations.

Key income drivers

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

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

Specialist Banking

Wealth & Investment

Key income drivers	Income impacted primarily by
• Investment management fees levied as a percentage of assets under management • Commissions earned for executing transactions for clients.	• Movement in the value of assets underlying client portfolios • The level of investment activity undertaken on behalf of clients which, in turn, is affected by, among other things, the performance of the global stock markets (which drives investment opportunities), the equity investment risk appetite of our clients, tax considerations and market liquidity.
Income statement – primarily reflected as	
• Fees and commissions.	

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 commissions.
• 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; debt securities; investment properties) • Gains or losses on investments • Dividends received.	• Macro- and micro-economic market conditions • Availability of profitable exit routes • Whether appropriate market conditions exist to maximise gains on sale • Attractive investment opportunities.	• 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.

Introduction – understanding our results

Sale of businesses

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

Sale of Investec Bank (Australia) Limited

The sale of Investec Bank (Australia) Limited's Professional Finance and Asset Finance and Leasing businesses and its deposit book to Bank of Queensland Limited was effective 31 July 2014 for cash proceeds of £122 million. This has resulted in the derecognition of approximately £1.7 billion of assets and approximately £1.7 billion of liabilities associated with the businesses sold. Investec Bank plc continues to have a presence in Australia, focusing on its core activities of Specialised Finance, Corporate Advisory, Property Fund Management and Asset Management. The remaining business will operate as a non-banking subsidiary of the Investec group. As a result, we have decided to no longer report the activities of our Australian businesses separately, with these activities now reported under the 'UK and Other' Specialist Banking segment.

Sales of Kensington Group plc and Start Mortgage Holdings Limited

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

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

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

Impact of these sales on our operational performance

The sale of these businesses have had an effect on the comparability of our financial statutory position and results.

As a result, comparison on a statutory basis of the 2015 results with 2014 would be less meaningful.

In order to present a more meaningful view of our performance, additional management information is presented on our ongoing businesses. This information is set out on pages 24 to 29. The additional information presented on an ongoing basis excludes items that, in management's view, could distort the comparison of performance between periods. Based on this principle, the following items are excluded from underlying statutory profit to derive ongoing operating profit:

- The results of the businesses sold as mentioned above
- The remaining legacy business in the UK (as set out on page 30).

A reconciliation between the statutory and ongoing income statement is provided on pages 25 and 26. All information in our annual report is based on our statutory accounts unless otherwise indicated.

Overview of our statutory results

Investec Bank plc reported a 6.6% decrease in operating profit before goodwill, acquired intangibles, non-operating items and taxation and after non-controlling interests to £101.2 million for the year ended 31 March 2015 (2014: £108.4 million). The balance sheet remains strong, supported by sound capital and liquidity ratios.

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

Statutory income – statement analysis

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

Total operating income

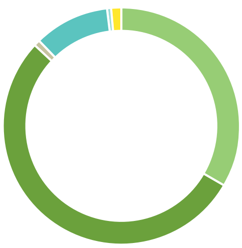
Total operating income before impairment losses on loans and advances of £853.1 million is 2.5% lower than the prior year. The various components of total operating income are analysed below.

£'000	31 March 2015	% of total income	31 March 2014	% of total income	% change
Net interest income	289 868	34.0%	301 446	34.4%	(3.8%)
Net fee and commission income	462 476	54.2%	385 529	44.0%	20.0%
Investment income	7 301	0.9%	98 491	11.3%	(92.6%)
Trading income arising from:					
– customer flow	88 258	10.3%	77 052	8.8%	14.5%
– balance sheet management and other trading activities	(4 924)	(0.6%)	639	0.1%	> 100.0%
Other operating income	10 074	1.2%	12 207	1.4%	(17.5%)
Total operating income before impairment losses on loans and advances	853 053	100.0%	875 364	100.0%	(2.5%)

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

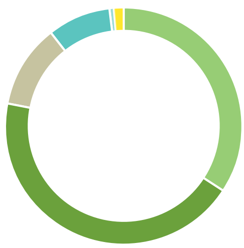
£'000	31 March 2015	% of total income	31 March 2014	% of total income	% change
Wealth & Investment	250 883	29.4%	228 825	26.1%	9.6%
Specialist Banking	602 170	70.6%	646 539	73.9%	(6.9%)
Total operating income before impairment losses on loans and advances	853 053	100.0%	875 364	100.0%	(2.5%)

% of total operating income



31 March 2015
£853.1 million total operating income before impairment losses on loans and advances

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



31 March 2014
£875.4 million total operating income before impairment losses on loans and advances

Net interest income	34.4%
Net fee and commission income	44.0%
Investment income	11.3%
Trading income arising from customer flow	8.8%
Trading income arising from balance sheet management and other trading activities	0.1%
Other operating income	1.4%

Net interest income

Net interest income decreased by 3.8% to £289.9 million (2014: £301.4 million) largely due to a lower return earned on the legacy portfolios which are running down and the sale of Investec Bank (Australia) Limited. This was partially offset by solid book growth and a lower cost of funding.

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

Net fee and commission income

Net fee and commission income increased by 20.0% to £462.5 million (2014: £385.5 million) as a result of higher average funds under management and net inflows in the Wealth & Investment business. The Specialist Banking division benefited from a solid performance from the corporate finance and corporate treasury businesses.

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

Investment income

Investment income decreased by 92.6% to £7.3 million (2014: £98.5 million) as a result of a poor performance from the Hong Kong portfolio.

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

Trading income

Trading income from customer flow increased 14.5% to £88.3 million (2014: £77.1 million) while trading income from other trading activities reflected a loss of £4.9 million (2014: profit of £0.6 million) due to foreign currency losses.

Arising from customer flow

£'000	31 March 2015	31 March 2014	Variance	% change
Wealth & Investment	895	389	506	> 100.0%
Specialist Banking	87 363	76 663	10 700	14.0%
Trading income arising from customer flow	88 258	77 052	11 206	14.5%

Arising from balance sheet management and other trading activities

£'000	31 March 2015	31 March 2014	Variance	% change
Wealth & Investment	356	(72)	428	(> 100.0%)
Specialist Banking	(5 280)	711	(5 991)	(> 100.0%)
Trading income arising from balance sheet management and other trading activities	(4 924)	639	(5 563)	(> 100.0%)

Other operating income

Other operating income includes associate income and income earned on an operating lease portfolio acquired.

Impairment losses on loans and advances

Impairments on loans and advances increased from £97.5 million to £102.1 million as a result of increased impairments on the legacy portfolio. Since 31 March 2014, gross defaults have improved from £457.0 million to £400.1 million. The percentage of default loans (net of impairments but before taking collateral into account) to net core loans and advances amounted to 3.01% (2014: 3.22%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.33 times (2014: 1.13 times).

For further information on asset quality refer to pages 57 to 67.

Operating costs

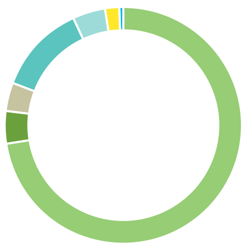
The ratio of total operating costs to total operating income amounted to 75.7% (2014: 76.2%). Total operating costs decreased 3.4% to £645.9 million (2014: £668.4 million) reflecting: an increase in headcount in the Wealth & Investment business to support growth initiatives; inflationary increases in fixed costs in the Specialist Bank; an increase in variable remuneration given increased profitability in certain businesses; and a reduction in costs arising from the sale of certain businesses in Australia.

The various components of total expenses are analysed below:

£'000	31 March 2015	% of total expenses	31 March 2014*	% of total expenses	% change
Staff costs (including directors' remuneration)	468 443	72.5%	473 949	70.9%	(1.2%)
Premises expenses (excluding depreciation)	30 540	4.7%	32 843	4.9%	(7.0%)
Equipment expenses (excluding depreciation)	24 622	3.8%	26 043	3.9%	(5.5%)
Business expenses	79 092	12.3%	86 277	12.9%	(8.3%)
Marketing expenses	27 799	4.3%	27 272	4.1%	1.9%
Depreciation	13 826	2.1%	16 020	2.4%	(13.7%)
Depreciation on operating leased assets	1 535	0.3%	6 044	0.9%	(74.6%)
Total operating costs	645 857	100.0%	668 448	100.0%	(3.4%)

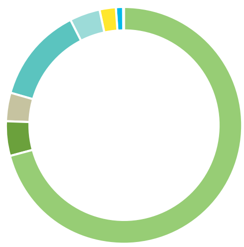
* *Restated for adoption of IFRIC 21 as detailed in note 54 on page 210.*

% of total operating costs



31 March 2015
£645.9 million total operating costs

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



31 March 2014
£668.4 million total operating costs*

Staff costs	70.9%
Premises	4.9%
Equipment	3.9%
Business expenses	12.9%
Marketing	4.1%
Depreciation	2.4%
Depreciation on operating leased assets	0.9%

Impairment of goodwill

The impairment of goodwill largely relates to the restructure of the Australian business.

Amortisation of acquired intangibles

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

Net gain on sale of subsidiaries

Net gain on sale of subsidiaries largely comprises a net profit on the sale of Investec Bank (Australia) Limited as detailed on page 20.

Statutory balance sheet analysis

Since 31 March 2014:

Total shareholders' equity (including non-controlling interests) decreased by 5.8% to £1.8 billion and total assets decreased by 10.4% to £17.9 billion largely as a result of the sale of Investec Bank (Australia) Limited as detailed on page 20.

Overview of our ongoing results

Consolidated summarised ongoing income statement

For the year to £'000	31 March 2015	31 March 2014	Variance	% change
Net interest income	239 952	215 416	24 536	11.4%
Net fees and commission income	459 461	365 352	94 109	25.8%
Investment income	25 527	116 549	(91 022)	(78.1%)
Trading income arising from				
– customer flow	88 533	76 653	11 880	15.5%
– balance sheet management and other trading activities	(3 838)	3 886	(7 724)	> 100.0%
Other operating income	10 026	12 117	(2 091)	(17.3%)
Total operating income before impairment losses on loans and advances	819 661	789 973	29 688	3.8%
Impairment losses on loans and advances	(13 679)	(26 181)	12 502	(47.8%)
Operating income	805 982	763 792	42 190	5.5%
Operating costs	(592 753)	(582 739)	(10 014)	1.7%
Depreciation on operating leased assets	(1 535)	(6 044)	4 509	(74.6%)
Operating profit before goodwill and acquired intangibles	211 694	175 009	36 685	21.0%
Profit attributable to non-controlling interests	(3 869)	(1 063)	(2 806)	> 100.0%
Operating profit before taxation	207 825	173 946	33 879	19.5%
Taxation	(45 483)	(53 072)	7 589	(14.3%)
Attributable earnings to shareholders before goodwill, acquired intangibles and non-operating items	162 342	120 874	41 468	34.3%
Cost to income ratio	72.5%	74.3%		

Reconciliation from statutory summarised income statement to ongoing summarised income statement

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

* *Applying the bank's effective taxation rate of 21.5%.*
^ *Refer to page 134.*
** *Where:*
- The UK legacy business is as described on page 30.
- Sale assets UK refer to the sale of Kensington and Start and other assets as discussed on page 20.
- Sale assets Australia refer to the sale of Investec Bank (Australia) Limited as discussed on page 20.

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

For the year to 31 March 2014 £'000	Statutory as disclosed^	Removal of** UK legacy business excluding sale assets	Removal of** Sale assets UK	Removal of** Sale assets Australia	Ongoing business
Net interest income	301 446	19 355	24 109	42 566	215 416
Net fees and commission income	385 529	8 981	1 022	10 174	365 352
Investment income	98 491	(11 793)	(6 265)	–	116 549
Trading income arising from					
– customer flow	77 052	695	(626)	330	76 653
– balance sheet management and other trading activities	639	(1 762)	(551)	(934)	3 886
Other operating income	12 207	–	–	90	12 117
Total operating income before impairment losses on loans and advances	875 364	15 476	17 689	52 226	789 973
Impairment losses on loans and advances	(97 491)	(59 157)	(8 382)	(3 771)	(26 181)
Operating income	777 873	(43 681)	9 307	48 455	763 792
Operating costs	(662 404)	(25 370)	(17 109)	(37 186)	(582 739)
Depreciation on operating leased assets	(6 044)	–	–	–	(6 044)
Operating profit before goodwill and acquired intangibles	109 425	(69 051)	(7 802)	11 269	175 009
Profit attributable to non-controlling interests	(1 063)	–	–	–	(1 063)
Operating profit before taxation	108 362	(69 051)	(7 802)	11 269	173 946
Taxation*	(33 200)	20 922	2 364	(3 415)	(53 072)
Attributable earnings to shareholders before goodwill, acquired intangibles and non-operating items	75 162	(48 129)	(5 438)	7 854	120 874

* *Applying the bank's effective taxation rate of 30.3%.*
^ *Refer to page 134.*
** *Where:*
- The UK legacy business is as described on page 30.
- Sale assets UK refer to the sale of Kensington and Start and other assets as discussed on page 20.
- Sale assets Australia refer to the sale of Investec Bank (Australia) Limited as discussed on page 20.

Financial review

2

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

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

For the year to 31 March 2014 £'000	Specialist Banking statutory as disclosed^	Removal of** UK legacy business excluding sale assets	Sale assets UK	Sale assets Australia	Specialist Banking ongoing business
Net interest income	293 459	19 355	24 109	42 566	207 429
Net fees and commission income	168 115	8 981	1 022	10 174	147 938
Investment income	96 616	(11 793)	(6 265)	–	114 674
Trading income arising from					
– customer flow	76 663	695	(626)	330	76 264
– balance sheet management and other trading activities	711	(1 762)	(551)	(934)	3 958
Other operating income	10 975	–	–	90	10 885
Total operating income before impairment losses on loans and advances	646 539	15 476	17 689	52 226	561 148
Impairment losses on loans and advances	(97 491)	(59 157)	(8 382)	(3 771)	(26 181)
Operating income	549 048	(43 681)	9 307	48 455	534 967
Operating costs	(479 645)	(25 370)	(17 109)	(37 186)	(399 980)
Depreciation on operating leased assets	(6 044)	–	–	–	(6 044)
Operating profit before goodwill and acquired intangibles	63 359	(69 051)	(7 802)	11 269	128 943
Profit attributable to non-controlling interests	(1 063)	–	–	–	(1 063)
Operating profit before taxation	62 296	(69 051)	(7 802)	11 269	127 880

^ *Refer to pages 149 and 150.*

** *Where:*

- The UK legacy business is as described on page 30.
- Sale assets UK refer to the sale of Kensington and Start and other assets as discussed on page 20.
- Sale assets Australia refer to the sale of Investec Bank (Australia) Limited as discussed on page 20.

Segmental business analysis of operating profit before goodwill, acquired intangibles, non-operating items, taxation and after non-controlling interests – ongoing business

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

For the year to 31 March 2014 £'000	Wealth & Investment	Specialist Banking	Total ongoing business
Net interest income	7 987	207 429	215 416
Net fees and commission income	217 414	147 938	365 352
Investment income	1 875	114 674	116 549
Trading income arising from			
– customer flow	389	76 264	76 653
– balance sheet management and other trading activities	(72)	3 958	3 886
Other operating income	1 232	10 885	12 117
Total operating income before impairment losses on loans and advances	**228 825**	**561 148**	**789 973**
Impairment losses on loans and advances	–	(26 181)	(26 181)
Operating income	**228 825**	**534 967**	**763 792**
Operating costs	(182 759)	(399 980)	(582 739)
Depreciation on operating leased assets	–	(6 044)	(6 044)
Operating profit before goodwill and acquired intangibles	**46 066**	**128 943**	**175 009**
Profit attributable to non-controlling interests	–	(1 063)	(1 063)
Operating profit before taxation	**46 066**	**127 880**	**173 946**
Cost to income ratio	79.9%	72.1%	74.3%

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

£'000	31 March 2015	31 March 2014
Gross core loans and advances to customers	6 352 643	5 345 935
Total impairments	(45 573)	(40 527)
Specific impairments	(11 391)	(24 090)
Portfolio impairments	(34 182)	(16 437)
Net core loans and advances to customers	6 307 070	5 305 408
Average gross core loans and advances to customers	5 849 289	5 038 291
Current loans and advances to customers	6 212 118	5 131 946
Past due loans and advances to customers (1-60 days)	71 669	92 662
Special mention loans and advances to customers	30 013	66 596
Default loans and advances to customers	38 843	54 731
Gross core loans and advances to customers	6 352 643	5 345 935
Total income statement charge for impairments on core loans and advances	(13 679)	(26 181)
Gross default loans and advances to customers	38 843	54 731
Specific impairments	(11 391)	(24 090)
Portfolio impairments	(34 182)	(16 437)
Defaults net of impairments before collateral held	(6 730)	14 204
Collateral and other credit enhancements	12 297	31 401
Net default loans and advances to customers (limited to zero)	–	–
Ratios:		
Total impairments as a % of gross core loans and advances to customers	0.72%	0.76%
Total impairments as a % of gross default loans	117.33%	74.05%
Gross defaults as a % of gross core loans and advances to customers	0.61%	1.02%
Defaults (net of impairments) as a % of net core loans and advances to customers	–	0.27%
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)	0.23%	0.52%

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

		Removal of**			
	Statutory as disclosed^	UK legacy business excluding sale assets	Sale assets UK	Sale assets Australia	Ongoing business
31 March 2015 (£'000)					
Gross core loans and advances to customers	7 224 134	871 491	–	–	6 352 643
Total impairments	(188 444)	(142 871)	–	–	(45 573)
Specific impairments	(154 262)	(142 871)	–	–	(11 391)
Portfolio impairments	(34 182)	–	–	–	(34 182)
Net core loans and advances to customers	7 035 690	728 620	–	–	6 307 070
31 March 2014 (£'000)					
Gross core loans and advances to customers	8 393 848	1 257 077	427 690	1 363 146	5 345 935
Total impairments	(193 303)	(150 636)	(54)	(2 086)	(40 527)
Specific impairments	(176 866)	(150 636)	(54)	(2 086)	(24 090)
Portfolio impairments	(16 437)	–	–	–	(16 437)
Net core loans and advances to customers	8 200 545	1 106 441	427 636	1 361 060	5 305 408

^ *Refer to page 57.*

** *Where:*

- The UK legacy business is as described on page 30.
- Sale assets UK refer to the sale of Kensington and Start and other assets as discussed on page 20.
- Sale assets Australia refer to the sale of Investec Bank (Australia) Limited as discussed on page 20.

Legacy business in the UK Specialist Bank

The legacy business in the UK Specialist Bank comprises:

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

During the year management performed a comprehensive review of the group's legacy portfolio on the back of improved market performance. As a result, assets of £0.9 billion were transferred to the ongoing book (core loans and other assets) where assets generate yields that support targeted return on equity, are performing and no longer meet the definition of the legacy business.

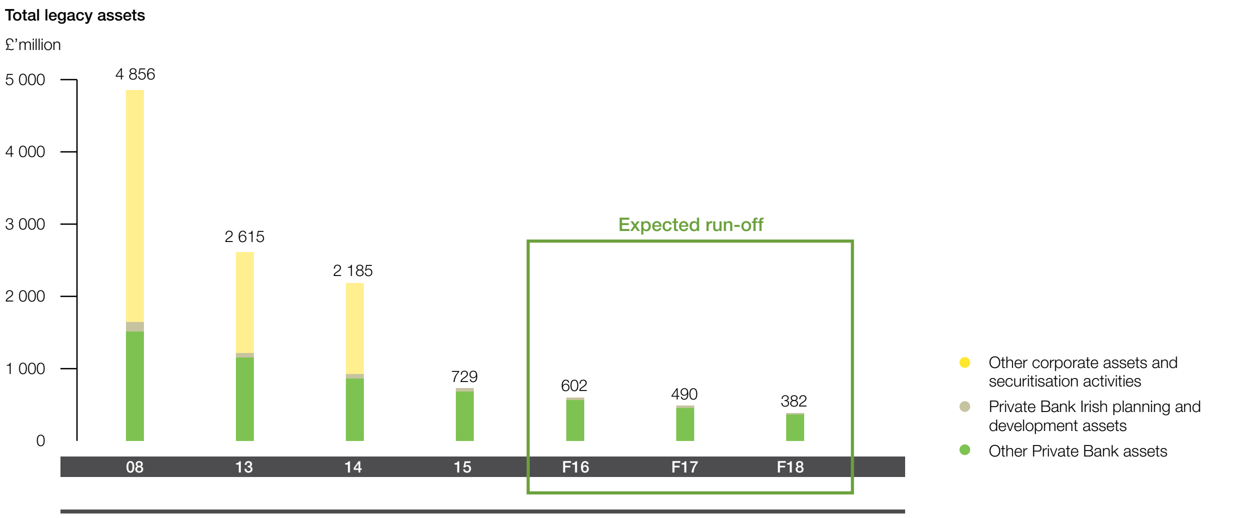
Legacy business – overview of results

The group's legacy portfolio in the UK has been actively managed down from £2.2 billion at 31 March 2014 to £0.7 billion largely through strategic sales (mentioned on page 20), redemptions, write-offs and transfers (at the end of the period) to the ongoing book on the back of improved performance in these loans. The total legacy business over the period reported a loss before taxation of £107.7 million (2014: £69.1 million) as the group accelerated the clearance of the portfolio, which resulted in an increase in impairments on these assets. The remaining legacy portfolio will continue to be managed down as the group sees opportunities to clear the portfolio. Management believes that the remaining legacy book will still take three to five years to wind down. Total net defaults in the legacy book amount to £218 million.

An analysis of assets within the legacy business

£'million	31 March 2015 Total net assets (after impairments)	31 March 2015 Total balance sheet impairment	31 March 2014 Total net assets (after impairments)	31 March 2014 Total balance sheet impairment
Other corporate assets and securitisation activities	–	–	864	51
Private Bank Irish planning and development assets	47	50	60	59
Other Private Bank assets	682	93	1 261	82
Total legacy assets	729	143	2 185	192
Performing	511	–	1 798	4
Non-performing	218	143	387	188

Expected run-off of legacy assets



Questions and answers

Steve Elliott

Global head

Wealth & Investment...

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

A UK equity markets saw much greater volatility during the second half of the financial year than the first half. Equity indices had begun the year in positive mood but by September 2014 political and economic risks caused the main indices to fall sharply. Despite a period of volatility, equity indices recovered their lost ground and the FTSE 100 reached an all-time high, finally breaking through 7 000 points. While the UK business has benefited from this recovery during the second half, income growth has been pegged back somewhat by the level of transactional volumes, which have remained subdued in reflection of the element of caution which remains in investor sentiment.

The regulatory environment continues to place increasing pressures on UK investment management businesses. This is contributing to consolidation within the UK investment management sector, which remains a continuing feature of the landscape. We continue to pursue opportunities to recruit experienced investment managers who are attracted by the strength of our offering.

Recent events in the Swiss financial markets have given us a chance to examine a wider range of opportunities to grow the business.

The recent positive momentum and growth in the Irish economy continued. With confidence returning, clients are actively seeking investment solutions, particularly in light of the low interest rate environment, and there has been greater demand for portfolio management, diversification, and risk-adjusted returns.

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

A In the UK, we recognised the increasing need for investment management services to be delivered digitally. Hence we recently announced the development of Investec Click & Invest, which will be one of the first online discretionary investment management services. This new offering will complement our core investment management service and ensure that we are ready to meet the needs of our clients as they change over time, and reach out to individuals who may not otherwise have formed part of our traditional client base. Our business is built on delivering a bespoke service to our clients, which is tailored to the need of each individual, and our digital capability must reflect this. Consequently, we are continuing to enhance those elements of our core offering that can be delivered digitally, in addition to the development of Investec Click & Invest.

The UK business has formally launched its Private Office service during the year, which draws on all of the resources we can offer to meet the needs of high-net-worth individuals. Our ability to offer clients a choice of jurisdictions in which to custody their assets, along with access to banking services that the wider Investec group can provide, enables us to meet the more complex needs of these individuals.

While we pursue specific and measured opportunities for growth, our focus on ensuring that we provide our existing clients with the highest possible service will always be fundamental to what we do. Our offices across the UK have achieved rates of net organic growth in funds under management during the year, which are ahead of our long-term target. This achievement reflects our continuing focus on the quality of our service and the strength of our investment processes.

What are your strategic objectives in the coming year?

A Serving our existing client base to the best of our ability is central to the strategy of our global Wealth & Investment business, and the foundation on which our future growth and success will be built. We strive to always look forward to predict how our clients' needs will change over time, in order that we can plan to meet those needs into the future. We expect that an increasing portion of our clients will demand more of the service they receive from us to be delivered digitally going forward. With this in mind, we are investing resources to enhance our digital offering to our current and future clients across all geographies.

In the UK, a key priority is the development of the Investec Click & Invest service which we aim to launch during the 2016 financial year. We are also developing digital enhancements to our core service, which are becoming increasingly relevant to our clients. While the digital world brings with it opportunities to enhance the service we provide to our clients, it also brings challenges and risks. The security of our clients' assets is imperative and we continue to invest in our security infrastructure as our digital offering develops.

We remain committed to the continuous development and expansion of our financial planning capability, which is key to our offering and enables clients to access advice in relation to their wider financial position and objectives. Financial planning seems to be growing in importance and the complexity of the personal financial world continues to increase.

We are also seeking to selectively broaden our international presence and build on the opportunities that the geographical spread of our platforms presents. We expect to launch a small operation hosted by the group's Hong Kong office over the coming months, which will enable us to explore the potential for growth in that market.

In Switzerland we will continue to look for opportunities in the domestic market by offering services mainly to external asset managers and expatriates.

What is your outlook for the coming year?

A While UK equity indices have recovered from the low point of the second half of the financial year and the FTSE 100 has reached a record high, there remain significant economic and geopolitical risks which have the potential to cause further volatility.

The proven resilience of our business model and the opportunities which we are pursuing through our strategy means we look forward to the forthcoming financial year with confidence.

Questions and answers

David van der Walt

Geographical business leader and CEO of Investec Bank plc

Specialist Banking...

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

A The UK recorded the firmest pace of growth of all the advanced economies in 2014 and saw its fastest growth pace since 2006. Indeed, at 2.8%, UK growth surpassed that of the United States (2.3%) and our Eurozone neighbours (0.9%). Furthermore, with 2014/15 having been a quieter year for Euro crisis developments, the UK benefited from a more positive risk backdrop. Responding to the solid recovery momentum, the health of the labour market continued to improve markedly over the financial year with the latest unemployment reading at 5.6%, the lowest level seen since July 2008.

The UK inflation background has been one of very subdued price growth, particularly in the latter part of the financial year where CPI inflation fell to a record low of zero in February and March 2015; the main driver has been lower fuel prices, reflecting the sharp decline in the wholesale price of oil. Hence despite the strengthening recovery, there has been little appetite on the UK Monetary Policy Committee (MPC) for higher interest rates, with the MPC not keen to adjust policy until it gains confidence that inflation is headed back to the 2% target. Hence, the bank rate remained at 0.5% through the financial year, marking six years at a record low. Meanwhile the level of the BoE's asset purchase scheme was maintained at £375 billion.

Geopolitical concerns combined with the regulatory effects on liquidity has meant that volatility in markets has increased.

The conditions above translated into a very favourable business environment with good levels of activity.

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

A The major development during the year has been the effective execution of our strategy to divest ourselves of the Professional Finance business in Australia and the sale of Kensington and Start. This completes the process of simplifying the business and allows us to now focus all our energy on building the core business.

In addition to this we have made substantial progress on reducing our legacy portfolio, which was helped by the sale of Kensington and Start, however, good progress was also made on the other corporate, structured credit and property assets. Impairment losses have been higher than budget mostly as a result of accelerating the tidy-up of the legacy portfolio.

Corporate activity was very good. M&A activity was at a high, helping a very good performance from the Investment Banking and Securities business. The high levels of activity also drove good underlying lending growth in both the Corporate and Specialist Banking activities.

Good progress was made within the Private Banking business. The Private Bank account was successfully launched and very good progress was made with our online and digital platforms. Particular emphasis has been placed on improving the client experience with improvements in security and functionality. We are now in a position to roll out our offering and we are working closely with the Wealth & Investment teams to ensure our clients have the benefit of our full product offering.

Overall, we have made very good progress with the only disappointment being the underperformance of the Hong Kong investment portfolio.

What are your strategic objectives in the coming year?

A The business is now simplified and focused. We have significant momentum in the corporate and specialist business. Our main objective in the coming year is to grow and increase our core businesses with particular emphasis on growing and gaining traction in the Private Banking business.

To this end, we will continue to invest in our private banking infrastructure to ensure our customer experience is the best in the market. In addition, we will roll out our strategy of targeting the professional market with particular emphasis on the accounting, legal and medical professions.

In addition to the client strategy we have a number of projects running to focus on cost efficiencies, reducing the overall cost of funds and the drag from surplus liquidity following the sale of Kensington.

We will continue to actively manage the legacy portfolio and reduce our exposure in the most appropriate manner.

What is your outlook for the coming year?

A Our central view is that we should see another year of good economic growth in the UK with some of the early election uncertainty out of the way. The event of a Grexit may lead to a drop in confidence and business activity. A certain amount of volatility is to be expected given the geopolitical situation and overall reduced liquidity in markets. Overall, we are expecting our growth momentum to continue.

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

A We continue to focus on developing our people and investing in our communities and the environment, receiving a number of awards for our efforts in the past year. We won the Business Charity Award for our partnership with the Bromley by Bow Beyond Business incubator. With our support, the programme has launched 55 new social enterprise businesses creating over 325 new jobs and generating combined annual turnover of over £4 million. We also received recognition for our environmental efforts with the Gresham Street head office placed as a runner-up in the 2014 Clean City Awards Scheme. We continue to raise awareness around environmental concerns with staff through Team Green which was extended to 14 of our other UK offices during the year. Further, volunteerism remains core to our values and community efforts and through employees' ongoing support of the Amherst School initiative we have volunteered over 50 days per year consistently for the past five years.

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 annual report on pages 38 to 104 with further disclosures provided within the annual financial statements section on pages 131 to 210.

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

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

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

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

Philosophy and approach to risk management

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

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

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

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

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

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

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

We believe that the risk management systems and processes we have in place are adequate to support the bank's strategy and allow the bank to operate within its risk appetite tolerance as set out on page 39.

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

A summary of the year in review from a risk perspective

Executive management is intimately involved in ensuring stringent management of risk, liquidity, capital and conduct. The bank predominantly remained within its risk appetite limits/targets across the various risk disciplines. Our risk appetite framework as set out on page 39 continues to be assessed in light of prevailing market conditions and group strategy.

The bank has significantly derisked its balance sheet through a number of strategic sales completed during the financial year (as discussed in detail on page 20), which resulted in a reduction in legacy assets of approximately £1 billion and total assets of approximately £3.4 billion.

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

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

Our core loan book remains well diversified with commercial rent producing property loans comprising approximately 17% of the book, other lending collateralised by property 15%, HNW and private client lending 17% and corporate lending 51% (with most industry concentrations well below 5%). We anticipate that future growth in our core loan portfolios will largely come from professional mortgages, HNW mortgages, asset finance, fund finance and power and infrastructure finance. These asset classes have historically reported low default ratios with satisfactory net margins.

Our focus over the past few years to realign and rebalance our portfolios in line with our risk appetite framework is reflected in the relative changes in asset classes on our balance sheet showing an increase in private client and corporate and other lending, and a reduction in lending collateralised by property as a proportion of the book.

Our legacy portfolio has been actively managed down to £0.7 billion largely through strategic sales, redemptions, write-offs and some transfers (at the end of the period) to the ongoing book on the back of improved performance in these loans. The remaining legacy portfolio will continue to be managed down and we are starting to see opportunities to clear this portfolio. Management believes that the remaining legacy book will still take three to five years to wind down as explained in detail on page 30.

Impairments on loans and advances increased from £97.5 million to £102.1 million, impacted by divestments and increased impairments on the legacy portfolio. Since 31 March 2014 gross defaults have improved from £457.0 million to £400.1 million. The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounted to 3.01% (2014: 3.22%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.33 times (2014: 1.13 times).

The credit loss ratio increased during the year to 1.16% as we divested assets and increased impairments on the legacy portfolio. Our credit losses on our core ‘ongoing’ book remain low at 0.23% (2014: 0.52%).

Our investment portfolios in the UK continued to perform well. However, our investment portfolio in Hong Kong unfortunately generated a loss during the period as a result of a poor performance from some of the underlying investments. Overall, we remain comfortable with the performance of our equity investment portfolios which comprise 3.5% of total assets.

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

The bank has continued to maintain a sound balance sheet with a low gearing ratio of 10.0 times and a core loans to equity ratio of 3.9 times. We have always held capital in excess of regulatory requirements and we intend to perpetuate this philosophy. Both Investec Bank plc and its holding company, Investec plc, meet current internal targets. We are comfortable with our common equity tier 1 ratio target at a 10% level, as our current leverage ratios for both Investec Bank plc and Investec plc are above 7%. We believe that we have sufficient capital to support our growth initiatives.

Holding a high level of readily available, high-quality liquid assets remains paramount in the management of our balance sheet. We continue to maintain a low reliance on interbank wholesale funding to fund lending growth. Cash and near cash balances amounted to £5 billion at year end, representing 43.1% of our liability base.

We have significant surplus cash following the sale of group assets and we are actively focusing on reducing both cash and liquidity back to normalised levels through asset growth and further liability management, while maintaining our overall conservative approach to liquidity risk management. Our weighted average cost of funding continued to decrease and we comfortably exceed Basel liquidity requirements for the liquidity coverage ratio and net stable funding ratio.

We continue to spend much time and effort focusing on operational, reputational, conduct, recovery and resolution risks. During the year, the bank enhanced its stress testing framework by developing a repeatable stress testing process designed to identify and regularly test the bank’s key ‘vulnerabilities under stress’. The key is to understand these potential threats to our sustainability and profitability and thus a number of risk scenarios have been developed and assessed. These Investec-specific stress scenarios form an integral part of our capital planning process. The stress testing process also informs the risk appetite review process and the management of risk appetite limits, and is a key risk management tool of the bank. This process allows the bank to identify underlying risks and manage them accordingly.

Conclusion

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

Stephen Koseff

Chairman of the Investec DLC group risk and capital committee

19 June 2015

Salient features

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

Year to 31 March	2015	2014
Net core loans and advances (£'million)	7 036	8 201
Total assets (£'million)	17 943	20 035
Total risk-weighted assets (£'million)	10 967	12 668
Total equity (£'million)	1 801	1 912
Cash and near cash (£'million)	5 011	4 253
Customer accounts (deposits) (£'million)	10 580	11 096
Gross defaults as a % of gross core loans and advances	5.54%	5.44%
Defaults (net of impairments) as a % of net core loans and advances	3.01%	3.22%
Net defaults (after collateral and impairments) as a % of net core loans and advances	–	–
Credit loss ratio*	1.16%	1.00%
Structured credit as a % of total assets	1.95%	2.11%
Banking book investment and equity risk exposures as a % of total assets	3.50%	2.78%
Level 3 (fair value assets) as a % of total assets	4.40%	5.17%
Traded market risk: one-day value at risk (£'million)	0.7	0.9
Core loans to equity ratio	3.9x	4.3x
Total gearing ratio**	10.0x	10.5x
Loans and advances to customers to customer deposits	66.5%	69.9%
Capital adequacy ratio°	17.5%	15.8%^
Tier 1 ratio°	12.1%	10.7%^
Common equity tier 1 ratio°	12.1%	10.7%^
Leverage ratio°	7.5%	7.2%^
Return on average assets#	0.41%	0.36%
Return on average risk-weighted assets#	0.67%	0.59%

* *Income statement impairment charge on core loans as a percentage of average advances.*
** *Total assets to total equity.*
^ *Restated for adoption of IFRIC 21 as detailed in note 54 on page 210.*
\# *Where return represents operating profit after tax and non-controlling interests but before goodwill, acquired intangibles and non-operating items. Average balances are calculated on a straight-line average.*
° *Takes into account the deduction of foreseeable dividends as discussed on page 100.*

Overall group risk appetite

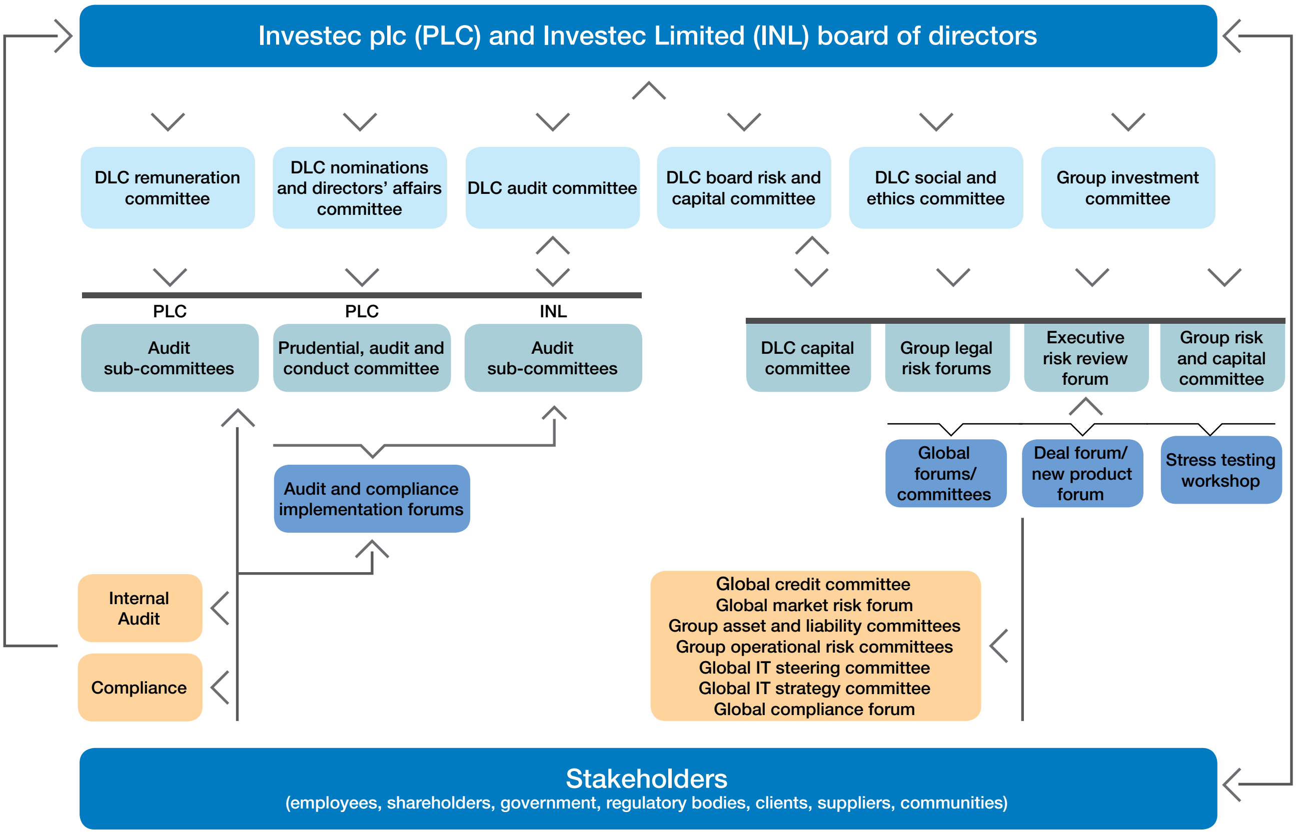
The group has a number of board-approved risk appetite statements and policy documents covering our risk tolerance and approach to all aspects of risk. In addition, a number of committees and forums identify and manage risk at a group level. The group risk appetite statement and framework sets out the 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 Investec Bank plc's overall risk tolerance framework.

Investec Bank plc risk appetite and tolerance metrics	Investec Bank plc positioning at 31 March 2015
• We seek to maintain an appropriate balance between revenue earned from capital light and capital intensive activities. Ideally the split in revenue should be 50:50, dependent on prevailing market conditions	Capital light activities contributed 55% to total operating income and capital intensive activities contributed 45%
• 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 66.9% of total operating income
• We seek to maintain strict control over fixed costs and target a group cost to income ratio of below 70%	The cost to income ratio amounted to 75.7%.
• We aim to build a sustainable business generating sufficient return to shareholders over the longer-term. The Investec group targets a long-term return on equity ratio range of between 12% and 16%, and a return on risk-weighted assets in excess of 1.2%	The Investec groups's return on equity amounted to 10.6% and its 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 102 for further information
• We intend to maintain a sufficient level of capital to satisfy regulatory requirements and our internal target ratios. We target a capital adequacy ratio range of between 14% and 17% on a consolidated basis 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 102 for further information
• We target a diversified loan portfolio, lending to clients we know and understand. We limit our exposure to a single/connected individual or company to 7.5% of common equity tier 1 capital (up to 10% if approved by the relevant board committee). We also have a number of risk tolerance limits and targets for specific asset classes	We maintained this risk tolerance level in place throughout the year
• There is a preference for primary exposure in the bank's main operating geography (i.e. the UK). We will accept exposures where we have a branch/banking business. We will also tolerate exposures to other countries where we have core capabilities	Refer to page 66 for further information
• The level of defaults and impairments continues to improve and we target a credit loss charge on core loans of less than 0.5% of average core advances (less than 1.5% under a weak economic environment/stressed scenario), and we target defaults net of impairments less than 2% of total core loans (less than 4% under a weak economic environment/stressed scenario)	The credit loss charge on core loans amounted to 1.16% and defaults net of impairments amounted to 3.01% of total core loans. Refer to page 57 for further information
• We carry a high level of liquidity in all our banking subsidiaries in order to be able to cope with shocks to the system, targeting a minimum cash to customer deposit ratio of 25%	Total cash and near cash balances amounted to £5.0 billion, representing 43.1% of our liability base. Refer to page 82 for further information
• We have modest market risk as our trading activities primarily focus on supporting client activity and our appetite for proprietary trading is limited. We set an overall tolerance level of a 1 day 95% VaR of less than £5 million	We meet these internal limits, refer to page 74 for further information
• We have moderate appetite for investment risk, and set a risk tolerance of less than 27.5% of common equity tier 1 capital for our unlisted principal investment portfolio	Our unlisted investment portfolio is £288 million, representing 21.7% of total common equity tier 1 capital. Refer to page 70 for further information
• Our Operational Risk Management team focuses on improving business performance and compliance with regulatory requirements, through review, challenge and escalation	Refer to pages 86 to 88 for further information
• We have a number of policies and practices in place to mitigate reputational, legal and conduct risks	Refer to pages 89 and 90 for further information

Risk management framework, committees and forums

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



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

ALCO	Asset and liability committee	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
BRCC	Board risk and capital committee	PACC	Prudential audit and conduct committee
ECB	European Central Bank	PRA	Prudential Regulation Authority

An overview of key risks

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

These risks have been highlighted on page 17.

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

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

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 settlement debtors is a short-term receivable (i.e. less than two days) which is excluded from credit and counterparty risk due to market guaranteed settlement mechanisms
  - Replacement risk is the financial cost of having to enter into a replacement contract with an alternative market counterparty, following default by the original counterparty.

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 and mitigate credit and counterparty risk, independent credit committees exist in each geography where we assume credit risk. These committees operate under board-approved delegated limits, policies and procedures. There is a high level of executive involvement and non-executive review and oversight in the credit decision-making forums. It is our policy that all centralised credit committees are comprised of voting members who are independent of the originating business

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

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

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 committee, which reviews 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 geography (i.e. the UK). The group will accept exposures where we have a branch or local banking subsidiary, and tolerate exposures to other countries where we have developed a local understanding and capability or we are facilitating a transaction for a client who requires facilities in a foreign geography.

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 67 for further information).

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

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

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

In certain instances we have elected to sell certain assets down and/or securitise them (refer to page 71 for further information).

Concentration risk

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

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

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

Risk appetite

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

Sustainability considerations

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

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

Refer to our sustainability report on our website.

Management and measurement of credit and counterparty risk

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

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

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

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

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

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

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

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

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

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

Stress testing and portfolio management

During the year, Investec has enhanced its stress testing framework by developing a repeatable stress testing process, designed to identify and regularly test the bank's key 'vulnerabilities under stress'.

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

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

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

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

Credit and counterparty risk – nature of lending activities

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

Lending collateralised by property

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

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

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

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 64 and 65.

Corporate client activities

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

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

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

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

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

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

- **Small Ticket Asset Finance:** provides highly diversified lending to small and medium sized corporates to support asset purchases and other business requirements. These facilities are secured against the asset being financed and are a direct obligation of the company.
- **Large Ticket Asset Finance:** provides the finance and structuring expertise for aircraft and larger lease assets, the majority of which are senior secured loans with a combination of corporate, cash flow and asset-backed collateral against the exposure.
- **Power and Infrastructure Finance:** arranges and provides typically long-term financing for infrastructure assets, in particular renewable power projects and transport, against contracted future cash flows of the project(s) from recognised utilities and power companies as well as the balance sheet of the corporate. There is a strong equity contribution from an experienced sponsor.
- **Resource Finance:** debt arranging and underwriting together with structured hedging solutions mainly within the mining sectors. The underlying commodities are mainly precious and base metals and coal. Our clients in this sector are established mining companies which are typically domiciled and publicly listed in one of the following geographies – the UK, North America and Australia. All facilities are secured by the borrower's assets and repaid from mining cash flows.
- **Structured Credit:** these are bonds secured against a pool of assets, typically UK residential mortgages or European or US leverage loans. The bonds are mainly investment grade rated, which benefit from a high-level of credit subordination and can withstand a significant level of portfolio defaults.
- **Treasury Placements:** The Treasury function, as part of the daily management of the bank's liquidity, places funds with central banks and other commercial banks and financial institutions. These transactions are typically short term (less than one month) money market placements or secured repurchase agreements. These market counterparties are high investment grade rated entities that occupy dominant and systemic positions in their domestic banking markets. These counterparties are located in the UK, Western Europe and North America.
- **Corporate advisory and investment banking activities:** Counterparty risk in this area is modest. The business also trades approved shares on an approved basis and makes markets in shares where we are appointed corporate broker under pre-agreed market risk limits. Settlement trades are largely on a delivery versus payment basis, through major stock exchanges. Credit risk only occurs in the event of counterparty failure and would be linked to any fair value losses on the underlying security.
- **Customer trading activities to facilitate client lending:** Our customer trading portfolio consists of derivative contracts in interest rates, foreign exchange, commodities 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 64 and 65.

Wealth & Investment

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

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

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

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).

<table>
<tr><th>Regulatory and economic capital classification</th><th>IFRS impairment treatment</th><th>Arrears, default and recoveries classification category</th><th>Description</th></tr>
<tr><td rowspan="2">Performing assets</td><td rowspan="2">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.</td><td>Past due</td><td>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.</td></tr>
<tr><td>Special mention</td><td>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.</td></tr>
</table>

<table>
<thead>
<tr><th>Regulatory and economic capital classification</th><th>IFRS impairment treatment</th><th>Arrears, default and recoveries classification category</th><th>Description</th></tr>
</thead>
<tbody>
<tr><td rowspan="3">Assets in default (non-performing assets)</td><td rowspan="3">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.</td><td>Sub-standard</td><td>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).</td></tr>
<tr><td>Doubtful</td><td>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.</td></tr>
<tr><td>Loss</td><td>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.</td></tr>
</tbody>
</table>

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 67.

Where a transaction is supported by a mortgage or charge over property, the primary credit risk is still taken on the borrower. For property-backed lending such as residential mortgages, the following characteristics of the property are considered: the type of property; its location; and the ease with which the property could be re-let and/or 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 cash and share portfolios. In addition, the relevant credit committee normally requires a suretyship or guarantee in support of a transaction in our private client business.

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

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

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

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

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

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

- Debit and credit balances relate to the same obligor/counterparty
- Debit and credit balances are denominated in the same currency and have identical maturities
- Exposures subject to set-off are risk-managed on a net basis
- Market practice considerations.

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

Investec places minimal reliance on credit derivatives in its credit risk mitigation techniques. Periodically the bank in the UK will enter into credit default swaps (CDS) in order to hedge a specific asset held or to create a more general or macro hedge against a group of exposures in one industry or geography. In these instances, the bank is deemed to be 'buying protection' against the assets. Depending on the perceived risk, or 'spread', of the underlying exposure, the CDS will fluctuate in value; increasing in value when the asset has become more risky and decreasing when risk has reduced. Occasionally, the bank will enter into trading/investment CDS positions where we buy protection or sell protection without owning the underlying asset. The total amount of net credit derivatives outstanding at 31 March 2015 amounts to £10.9 million, of which £6.3 million is used for credit mitigation purposes and the balance for trading and investment. Total protection bought amounts to £15.2 million (£9.8 million relating to credit derivatives used in credit mitigation) and total protection sold amounts to £4.3 million (£3.5 million relating to credit derivatives used in credit mitigation).

Further information on credit derivatives is provided on page 76.

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

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

Forbearance

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

Credit and counterparty risk year in review

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

The sale of certain mortgage assets and Investec Bank (Australia) Limited's professional finance business were the principal drivers behind the 56.6% decline in HNW and other private client lending, which has decreased from £2.8 billion at 31 March 2014 to £1.2 billion at 31 March 2015.

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

Net core loans and advances have decreased by 14.2% to £7.0 billion at 31 March 2015 from £8.2 billion at 31 March 2014 reflecting the impact of the divestments, but partially offset by increased net loan growth. Excluding divestments, net core loans increased by approximately 16%, largely as a result of solid growth in our diversified corporate lending activities.

Default loans (net of impairments) have decreased by 19.7% or £52 million on an absolute basis and decreased to 3.01% from 3.22% as a percentage of net core loans and advances. Gross defaults decreased by 12.4% or £56.9 million from £457.0 million at 31 March 2014 to £400.1 million at 31 March 2015. The credit loss ratio is at 1.16% (2014: 1.00%); the increase in the credit loss ratio is largely attributable to the reduction in denominator (gross core loans and advances have decreased to £7.2 billion from £8.4 billion), due to the sale of core loans through the divestments. We have reported an increase in impairments on the legacy portfolio.

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

Lending collateralised by property

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

We have actively managed the legacy portfolio down, working assets to achieve optimal recovery but taking opportunistic offers on properties where appropriate. The continuing improvement in the UK property market has assisted further acceleration of this process and we expect this to continue over the forthcoming 12 months.

Private client activities

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

Corporate client activities

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

Performance of the Corporate portfolio, including Small Ticket Asset finance, Large Ticket Asset finance, Power and Infrastructure finance and Fund finance, has remained strong during the financial year 2015, with the markets seeing lending activity levels increase, bolstered by strong private equity sponsor appetite for assets. Underlying asset cover quality is good, and portfolios remain well diversified by borrower, sector and geography, albeit with a natural skew towards the UK.

Credit and counterparty risk information

Pages 38 to 49 describe where and how credit risk is assumed in our operations.

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

An analysis of gross credit and counterparty exposures

Credit and counterparty exposures decreased by 9.8% to £15.7 billion largely as a result of the divestments of certain mortgage assets and Investec Bank (Australia) Limited. Cash and near cash balances amount to £5.0 billion and are largely reflected in the following line items in the table below: cash and balances at central banks, loans and advances to banks and sovereign debt securities.

At 31 March £'000	2015	2014	% change	Average*
Cash and balances at central banks	2 179 822	1 735 333	25.6%	1 957 578
Loans and advances to banks	828 726	1 105 205	(25.0%)	966 966
Reverse repurchase agreements and cash collateral on securities borrowed	1 448 205	1 215 500	19.1%	1 331 853
Sovereign debt securities	1 212 910	1 232 415	(1.6%)	1 222 663
Bank debt securities	226 273	371 182	(39.0%)	298 728
Other debt securities	221 480	218 190	1.5%	219 835
Derivative financial instruments	516 034	525 218	(1.7%)	520 626
Securities arising from trading activities	513 673	419 408	22.5%	466 541
Loans and advances to customers (gross)	7 224 134	7 945 593	(9.1%)	7 584 864
Own originated loans and advances to customers securitised (gross)	–	448 255	(100.0%)	224 128
Other loans and advances (gross)	393 353	879 773	(55.3%)	636 563
Other securitised assets (gross)	51 223	159 030	(67.8%)	105 127
Other assets	55 383	137 665	(59.8%)	96 524
Total on-balance sheet exposures	14 871 216	16 392 767	(9.3%)	15 631 992
Guarantees^	31 664	187 686	(83.1%)	109 675
Contingent liabilities, committed facilities and other	831 179	859 984	(3.3%)	845 582
Total off-balance sheet exposures	862 843	1 047 670	(17.6%)	955 256
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	15 734 059	17 440 437	(9.8%)	16 587 248

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

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

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

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

1. *Relates to exposures that are classified as equity risk in the banking book. Further information is provided on pages 68 to 70.*
2. *Largely relates to impairments and the impact of hedge accounting.*
3. *Largely intergroup lending which is deemed to have no credit exposure.*
4. *While the group manages all risks (including credit risk) from a day-to-day operational perspective, certain of these assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicles that the group has reflected in the 'total credit and counterparty exposure' with the maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'.*
5. *Other assets include settlement debtors which we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

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

£'000	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note reference	Total balance sheet
At 31 March 2014				
Cash and balances at central banks	1 735 333	7 272		1 742 605
Loans and advances to banks	1 105 205	–		1 105 205
Reverse repurchase agreements and cash collateral on securities borrowed	1 215 500	–		1 215 500
Sovereign debt securities	1 232 415	–		1 232 415
Bank debt securities	371 182	–		371 182
Other debt securities	218 190	11 038		229 228
Derivative financial instruments	525 218	257 729		782 947
Securities arising from trading activities	419 408	167 298		586 706
Investment portfolio	–	341 360	1	341 360
Loans and advances to customers	7 945 593	(192 686)	2	7 752 907
Own originated loans and advances to customers securitised	448 255	(617)	2	447 638
Other loans and advances	879 773	629 941	3	1 509 714
Other securitised assets	159 030	852 227	4	1 011 257
Interest in associated undertakings	–	16 637		16 637
Deferred taxation assets	–	97 614		97 614
Other assets	137 665	876 751	5	1 014 416
Property and equipment	–	63 487		63 487
Investment properties	–	61 715		61 715
Goodwill	–	296 247		296 247
Intangible assets	–	156 703		156 703
Total on-balance sheet exposures	16 392 767	3 642 716		20 035 483

1. Relates to exposures that are classified as equity risk in the banking book. Further information is provided on pages 68 to 70.
2. Largely relates to impairments and the impact of hedge accounting.
3. Largely intergroup lending which is deemed to have no credit exposure.
4. While the group manages all risks (including credit risk) from a day-to-day operational perspective, certain of these assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicles that the group has reflected in the 'total credit and counterparty exposure' with the maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'.
5. Other assets include settlement debtors which we deem to have no credit risk exposure as they are settled on a delivery against payment basis.

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

£'000	Up to three months	Three to six months	Six months to one year	One to five years	Five to 10 years	> 10 years	Total
Cash and balances at central banks	2 179 822	–	–	–	–	–	2 179 822
Loans and advances to banks	828 726	–	–	–	–	–	828 726
Reverse repurchase agreements and cash collateral on securities borrowed	1 448 205	–	–	–	–	–	1 448 205
Sovereign debt securities	453 514	157 468	6 639	–	–	595 289	1 212 910
Bank debt securities	65	45 350	132	33 569	147 157	–	226 273
Other debt securities	1 308	272	4 615	49 925	49 479	115 881	221 480
Derivative financial instruments	114 939	63 930	81 953	153 463	61 608	40 141	516 034
Securities arising from trading activities	346 299	79 098	1 556	62 932	4 372	19 416	513 673
Loans and advances to customers (gross)	1 460 248	745 252	753 573	3 160 536	690 441	414 084	7 224 134
Other loans and advances (gross)	29 381	439	127	63 932	46 583	252 891	393 353
Other securitised assets (gross)	467	–	–	–	–	50 756	51 223
Other assets	55 383	–	–	–	–	–	55 383
Total on-balance sheet exposures	6 918 357	1 091 809	848 595	3 524 357	999 640	1 488 458	14 871 216
Guarantees^	28 070	–	2 370	1 224	–	–	31 664
Contingent liabilities, committed facilities and other	59 631	48 761	154 607	447 093	15 753	105 334	831 179
Total off-balance sheet exposures	87 701	48 761	156 977	448 317	15 753	105 334	862 843
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	7 006 058	1 140 570	1 005 572	3 972 674	1 015 393	1 593 792	15 734 059

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

Detailed analysis of gross credit and counterparty exposures by industry

£'000	HNW and other professional individuals	Lending collate-ralised by property – largely to private clients	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business service	Finance and insurance
At 31 March 2015							
Cash and balances at central banks	–	–	–	–	2 179 822	–	–
Loans and advances to banks	–	–	–	–	–	–	828 726
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	–	–	1 448 205
Sovereign debt securities	–	–	–	–	1 212 910	–	–
Bank debt securities	–	–	–	–	–	–	226 273
Other debt securities	–	–	–	3 935	7 396	3 474	103 486
Derivative financial instruments	3 084	–	–	27 827	–	24 675	304 498
Securities arising from trading activities	–	–	–	34 894	380 262	794	81 267
Loans and advances to customers (gross)	1 203 497	2 318 053	6 789	362 488	187 120	333 764	732 597
Other loans and advances (gross)	–	–	–	–	–	–	144 181
Other securitised assets (gross)	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	–	55 245
Total on-balance sheet exposures	1 206 581	2 318 053	6 789	429 144	3 967 510	362 707	3 924 478
Guarantees^	29 017	–	–	–	–	650	27
Contingent liabilities, committed facilities and other	77 227	193 955	–	155 654	17 165	31 149	89 493
Total off-balance sheet exposures	106 244	193 955	–	155 654	17 165	31 799	89 520
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	1 312 825	2 512 008	6 789	584 798	3 984 675	394 506	4 013 998
At 31 March 2014							
Cash and balances at central banks	–	–	–	–	1 735 333	–	–
Loans and advances to banks	–	–	–	–	–	–	1 105 205
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	–	–	1 215 500
Sovereign debt securities	–	–	–	–	1 232 415	–	–
Bank debt securities	–	–	–	–	–	–	371 182
Other debt securities	–	–	–	–	–	–	185 739
Derivative financial instruments	5 598	–	34	10 277	4 863	14 603	422 055
Securities arising from trading activities	–	–	–	–	361 830	–	57 463
Loans and advances to customers (gross)	2 327 713	2 538 625	21 326	349 371	186 485	252 460	486 882
Own originated loans and advances to customers securitised (gross)	448 255	–	–	–	–	–	–
Other loans and advances (gross)	–	–	–	–	–	–	77 652
Other securitised assets (gross)	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	18 072	103 702
Total on-balance sheet exposures	2 781 566	2 538 625	21 360	359 648	3 520 926	285 135	4 025 380
Guarantees^	14 397	368	–	–	–	631	2 396
Contingent liabilities, committed facilities and other	331 081	166 522	2 519	66 695	6 751	34 643	57 708
Total off-balance sheet exposures	345 478	166 890	2 519	66 695	6 751	35 274	60 104
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	3 127 044	2 705 515	23 879	426 343	3 527 677	320 409	4 085 484

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

	Retailers and wholesalers	Manufac-turing and commerce	Construc-tion	Corporate commercial real estate	Other residential mortgages	Mining and resources	Leisure, entertain-ment and tourism	Transport	Com-munication	Total
	–	–	–	–	–	–	–	–	–	2 179 822
	–	–	–	–	–	–	–	–	–	828 726
	–	–	–	–	–	–	–	–	–	1 448 205
	–	–	–	–	–	–	–	–	–	1 212 910
	–	–	–	–	–	–	–	–	–	226 273
	1 030	3 535	–	–	63 793	23 237	5 925	–	5 669	221 480
	44 136	28 948	8 853	730	–	25 517	13 489	16 445	17 832	516 034
	3 828	4 817	–	1 343	–	2 187	1 150	2	3 129	513 673
	375 195	462 507	62 500	104 740	–	192 082	97 214	688 852	96 736	7 224 134
	–	–	–	9 702	239 470	–	–	–	–	393 353
	–	–	–	–	51 223	–	–	–	–	51 223
	–	138	–	–	–	–	–	–	–	55 383
	424 189	499 945	71 353	116 515	354 486	243 023	117 778	705 299	123 366	14 871 216
	–	–	–	–	430	1 540	–	–	–	31 664
	36 372	32 476	16 855	208	–	34 996	13 327	126 641	5 661	831 179
	36 372	32 476	16 855	208	430	36 536	13 327	126 641	5 661	862 843
	460 561	532 421	88 208	116 723	354 916	279 559	131 105	831 940	129 027	15 734 059
	–	–	–	–	–	–	–	–	–	1 735 333
	–	–	–	–	–	–	–	–	–	1 105 205
	–	–	–	–	–	–	–	–	–	1 215 500
	–	–	–	–	–	–	–	–	–	1 232 415
	–	–	–	–	–	–	–	–	–	371 182
	–	–	–	–	32 451	–	–	–	–	218 190
	24 529	6 977	13 816	1 144	–	1 153	10 962	7 144	2 063	525 218
	–	–	–	–	–	–	–	115	–	419 408
	346 712	378 194	78 865	72 470	16 074	176 663	160 907	486 845	66 001	7 945 593
	–	–	–	–	–	–	–	–	–	448 255
	–	–	–	–	802 121	–	–	–	–	879 773
	–	–	–	–	159 030	–	–	–	–	159 030
	1 572	9 456	–	–	137	–	–	–	4 726	137 665
	372 813	394 627	92 681	73 614	1 009 813	177 816	171 869	494 104	72 790	16 392 767
	3 585	1 571	56	–	141 221	23 375	86	–	–	187 686
	37 528	46 637	23 229	2 208	5 293	6 023	16 828	49 960	6 359	859 984
	41 113	48 208	23 285	2 208	146 514	29 398	16 914	49 960	6 359	1 047 670
	413 926	442 835	115 966	75 822	1 156 327	207 214	188 783	544 064	79 149	17 440 437

Corporate client loans account for 51.3% of total gross core loans and advances, and are well diversified across various industry classifications

Summary analysis of gross credit and counterparty exposures by industry

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

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

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

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

At 31 March £'000	Gross core loans and advances		Other credit and counterparty exposures		Total	
	2015	2014	2015	2014	2015	2014
HNW and professional individuals	1 203 497	2 775 968	109 328	351 076	1 312 825	3 127 044
Lending collateralised by property – largely to private clients	2 318 053	2 538 625	193 955	166 890	2 512 008	2 705 515
Agriculture	6 789	21 326	–	2 553	6 789	23 879
Electricity, gas and water (utility services)	362 488	349 371	222 310	76 972	584 798	426 343
Public and non-business services	187 120	186 485	3 797 555	3 341 192	3 984 675	3 527 677
Business service	333 764	252 460	60 742	67 949	394 506	320 409
Finance and insurance	732 597	486 882	3 281 401	3 598 602	4 013 998	4 085 484
Retailers and wholesalers	375 195	346 712	85 366	67 214	460 561	413 926
Manufacturing and commerce	462 507	378 194	69 914	64 641	532 421	442 835
Construction	62 500	78 865	25 708	37 101	88 208	115 966
Corporate commercial real estate	104 740	72 470	11 983	3 352	116 723	75 822
Other residential mortgages	–	16 074	354 916	1 140 253	354 916	1 156 327
Mining and resources	192 082	176 663	87 477	30 551	279 559	207 214
Leisure, entertainment and tourism	97 214	160 907	33 891	27 876	131 105	188 783
Transport	688 852	486 845	143 088	57 219	831 940	544 064
Communication	96 736	66 001	32 291	13 148	129 027	79 149
Total	7 224 134	8 393 848	8 509 925	9 046 589	15 734 059	17 440 437

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

Core loans and advances comprise:

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

At 31 March £'000	2015	2014
Loans and advances to customers as per the balance sheet	7 035 690	7 752 907
Add: own originated loans and advances securitised as per the balance sheet	–	447 638
Net core loans and advances to customers	7 035 690	8 200 545

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 49.

£'000	31 March 2015	31 March 2014
Gross core loans and advances to customers	7 224 134	8 393 848
Total impairments	(188 444)	(193 303)
Specific impairments	(154 262)	(176 866)
Portfolio impairments	(34 182)	(16 437)
Net core loans and advances to customers*	7 035 690	8 200 545
Average gross core loans and advances to customers	7 808 991	8 411 907
Current loans and advances to customers	6 707 975	7 659 353^
Past due loans and advances to customers (1 – 60 days)	73 489	124 033
Special mention loans and advances to customers	42 556	153 485^
Default loans and advances to customers	400 114	456 977
Gross core loans and advances to customers	7 224 134	8 393 848
Current loans and advances to customers	6 707 975	7 659 353^
Default loans that are current and not impaired	26 785	21 254^
Gross core loans and advances to customers that are past due but not impaired	146 428	308 014^
Gross core loans and advances to customers that are impaired	342 946	405 227
Gross core loans and advances to customers	7 224 134	8 393 848
Total income statement charge for impairments on core loans and advances	(90 709)	(84 327)
Gross default loans and advances to customers	400 114	456 977
Specific impairments	(154 262)	(176 866)
Portfolio impairments	(34 182)	(16 437)
Defaults net of impairments	211 670	263 674
Aggregate collateral and other credit enhancements on defaults	280 697	297 114
Net default loans and advances to customers (limited to zero)	–	–
Ratios:		
Total impairments as a % of gross core loans and advances to customers	2.61%	2.30%
Total impairments as a % of gross default loans	47.10%	42.30%
Gross defaults as a % of gross core loans and advances to customers	5.54%	5.44%
Defaults (net of impairments) as a % of net core loans and advances to customers	3.01%	3.22%
Net defaults as a % of net core loans and advances to customers	–	–
Credit loss ratio (i.e. income statement impairment charge on core loans as a % of average core gross loans and advances)**	1.16%	1.00%

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

* *Net core loans and advances have decreased by 14.2% to £7.0 billion at 31 March 2015 from £8.2 billion at 31 March 2014 reflecting the impact of divestments, but partially offset by increased net loan growth. Excluding divestments, net core loans increased by approximately 16%. The assets that were not sold as part of the sale of Investec Bank (Australia) Limited were transferred to the UK and South African balance sheets. The 2015 numbers above include approximately £140 million of assets transferred.*

** *The credit loss ratio is at 1.16% (2014: 1.00%). The increase in the credit loss ratio is largely attributable to the reduction in denominator (gross core loans and advances have decreased to £7.2 billion from £8.4 billion), due to strategic sales.*

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

At 31 March £'000	2015	2014^
Default loans that are current	176 913	145 578
1 – 60 days	119 496	249 900
61 – 90 days	2 249	57 441
91 – 180 days	7 639	13 077
181 – 365 days	45 758	58 634
> 365 days	164 104	209 865
Past due and default core loans and advances to customers (actual capital exposure)	516 159	734 495
1 – 60 days	5 796	5 415
61 – 90 days	172	2 361
91 – 180 days	2 566	4 645
181 – 365 days	4 742	14 162
> 365 days	156 328	192 952
Past due and default core loans and advances to customers (actual amount in arrears)	169 604	219 535

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

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

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
At 31 March 2015							
Watchlist loans neither past due nor impaired							
Total capital exposure	26 785	–	–	–	–	–	26 785
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	113 795	2 249	5 287	9 195	15 902	146 428
Amount in arrears	–	5 754	172	214	525	8 327	14 992
Gross core loans and advances to customers that are impaired							
Total capital exposure	150 128	5 701	–	2 352	36 563	148 202	342 946
Amount in arrears	–	42	–	2 352	4 217	148 001	154 612
At 31 March 2014^							
Watchlist loans neither past due nor impaired							
Total capital exposure	21 254	–	–	–	–	–	21 254
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	243 020	42 999	9 298	11 134	1 563	308 014
Amount in arrears	–	4 497	333	2 197	1 399	724	9 150
Gross core loans and advances to customers that are impaired							
Total capital exposure	124 324	6 880	14 442	3 779	47 500	208 302	405 227
Amount in arrears	–	918	2 028	2 448	12 763	192 228	210 385

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

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

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

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

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

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

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	–	124 033	–	–	–	–	124 033
Special mention	–	110 486	42 999	–	–	–	153 485
Special mention (1 – 90 days)	–	110 486	28 470	–	–	–	138 956
Special mention (61 – 90 days and item well secured)	–	–	14 529	–	–	–	14 529
Default	145 578	15 381	14 442	13 077	58 634	209 865	456 977
Sub-standard	92 563	11 938	13 135	9 785	26 320	45 321	199 062
Doubtful	52 052	3 376	1 305	2 128	31 681	24 971	115 513
Loss	963	67	2	1 164	633	139 573	142 402
Total	145 578	249 900	57 441	13 077	58 634	209 865	734 495

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

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	–	4 136	–	–	–	–	4 136
Special mention	–	339	333	–	–	–	672
Special mention (1 – 90 days)	–	339	129	–	–	–	468
Special mention (61 – 90 days and item well secured)	–	–	204	–	–	–	204
Default	–	940	2 028	4 645	14 162	192 952	214 727
Sub-standard	–	30	1 723	2 473	3 459	42 964	50 649
Doubtful	–	843	303	1 008	10 527	10 416	23 097
Loss	–	67	2	1 164	176	139 572	140 981
Total	–	5 415	2 361	4 645	14 162	192 952	219 535

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

An analysis of core loans and advances to customers

£'000	Gross core loans and advances that are neither past due nor impaired	Gross core loans and advances that are past due but not impaired	Gross core loans and advances that are impaired	Total gross core loans and advances (actual capital exposure)	Specific impairments	Portfolio impairments	Total net core loans and advances (actual capital exposure)	Actual amount in arrears
At 31 March 2015								
Current core loans and advances	6 707 975	–	–	6 707 975	–	(34 182)	6 673 793	–
Past due (1 – 60 days)	–	73 489	–	73 489	–	–	73 489	5 399
Special mention	–	42 556	–	42 556	–	–	42 556	527
Special mention (1 – 90 days)	–	40 307	–	40 307	–	–	40 307	355
Special mention (61 – 90 days and item well secured)	–	2 249	–	2 249	–	–	2 249	172
Default	26 785	30 383	342 946	400 114	(154 262)	–	245 852	163 678
Sub-standard	26 219	30 383	130 198	186 800	(36 870)	–	149 930	50 379
Doubtful	566	–	107 743	108 309	(54 494)	–	53 815	9 662
Loss	–	–	105 005	105 005	(62 898)	–	42 107	103 637
Total	6 734 760	146 428	342 946	7 224 134	(154 262)	(34 182)	7 035 690	169 604
At 31 March 2014^								
Current core loans and advances	7 659 353	–	–	7 659 353	–	(16 437)	7 642 916	–
Past due (1 – 60 days)	–	124 033	–	124 033	–	–	124 033	4 136
Special mention	–	153 485	–	153 485	–	–	153 485	672
Special mention (1 – 90 days)	–	138 956	–	138 956	–	–	138 956	468
Special mention (61 – 90 days and item well secured)	–	14 529	–	14 529	–	–	14 529	204
Default	21 254	30 496	405 227	456 977	(176 866)	–	280 111	214 727
Sub-standard	21 055	30 496	147 511	199 062	(36 846)	–	162 216	50 649
Doubtful	–	–	115 513	115 513	(58 591)	–	56 922	23 097
Loss	199	–	142 203	142 402	(81 429)	–	60 973	140 981
Total	7 680 607	308 014	405 227	8 393 848	(176 866)	(16 437)	8 200 545	219 535

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

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

£'000	Private client, professional and HNW individuals	Corporate sector	Insurance, financial services (excluding sovereign)	Public and government sector (including central banks)	Total core loans and advances to customers
At 31 March 2015					
Current core loans and advances	3 036 997	2 753 200	732 353	185 425	6 707 975
Past due (1 – 60 days)	68 923	3 696	–	870	73 489
Special mention	42 288	268	–	–	42 556
Special mention (1 – 90 days)	40 307	–	–	–	40 307
Special mention (61 – 90 days and item well secured)	1 981	268	–	–	2 249
Default	373 342	25 703	244	825	400 114
Sub-standard	172 581	14 219	–	–	186 800
Doubtful	97 300	10 280	229	500	108 309
Loss	103 461	1 204	15	325	105 005
Total gross core loans and advances to customers	3 521 550	2 782 867	732 597	187 120	7 224 134
Total impairments	(179 681)	(8 128)	(150)	(485)	(188 444)
Specific impairments	(145 499)	(8 128)	(150)	(485)	(154 262)
Portfolio impairments	(34 182)	–	–	–	(34 182)
Net core loans and advances to customers	3 341 869	2 774 739	732 447	186 635	7 035 690
At 31 March 2014^					
Current core loans and advances	4 692 371	2 294 450	486 702	185 830	7 659 353
Past due (1 – 60 days)	114 989	9 044	–	–	124 033
Special mention	95 493	57 992	–	–	153 485
Special mention (1 – 90 days)	81 494	57 462	–	–	138 956
Special mention (61 – 90 days and item well secured)	13 999	530	–	–	14 529
Default	411 740	44 403	180	654	456 977
Sub-standard	180 246	18 816	–	–	199 062
Doubtful	90 776	23 963	149	625	115 513
Loss	140 718	1 624	31	29	142 402
Total gross core loans and advances to customers	5 314 593	2 405 889	486 882	186 484	8 393 848
Total impairments	(168 010)	(24 937)	(94)	(262)	(193 303)
Specific impairments	(151 573)	(24 937)	(94)	(262)	(176 866)
Portfolio impairments	(16 437)	–	–	–	(16 437)
Net core loans and advances to customers	5 146 583	2 380 952	486 788	186 222	8 200 545

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

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

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

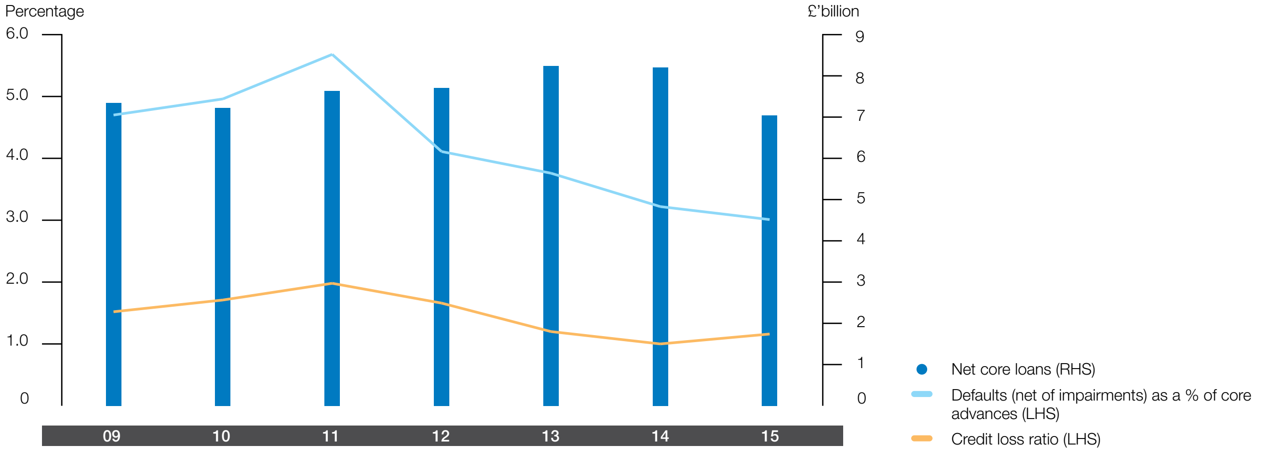
* *Where a positive number represents a recovery.*

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

£'000	Gross core loans	Gross defaults	Aggregate collateral and other credit enhancements on defaults	Balance sheet impairments	Income statement impairments*
Lending collateralised by property	2 538 625	381 257	240 435	(143 890)	(40 976)
Commercial real estate	1 662 718	133 222	79 842	(54 089)	(25 369)
Commercial real estate – investment	1 429 725	67 919	50 757	(15 686)	(17 543)
Commercial real estate – development	96 072	21 016	11 243	(10 466)	(2 689)
Commercial vacant land and planning	136 921	44 287	17 842	(27 937)	(5 137)
Residential real estate	875 907	248 035	160 593	(89 801)	(15 607)
Residential real estate – investment	327 937	39 537	30 023	(6 880)	(2 548)
Residential real estate – development	429 011	134 763	80 105	(56 463)	(5 931)
Residential vacant land and planning	118 959	73 735	50 465	(26 458)	(7 128)
High net worth and other private client lending	2 775 968	30 483	36 733	(7 683)	(13 692)
Mortgages	1 160 007	4 786	6 115	(900)	(520)
High net worth and specialised lending	341 465	19 414	26 502	(4 617)	(9 630)
Professional finance	1 274 496	6 283	4 116	(2 166)	(3 542)
Corporate and other lending	3 079 255	45 237	19 946	(25 293)	(19 918)
Acquisition finance	744 428	17 627	7 933	(9 695)	(10 709)
Asset-based lending	143 703	–	–	–	98
Fund finance	277 771	–	–	–	–
Other corporates and financial institutions and governments	420 762	4 241	2 821	(1 421)	(1 641)
Asset finance	982 806	10 677	6 192	(4 486)	(3 670)
Small ticket asset finance	750 347	8 694	4 209	(4 486)	(4 940)
Large ticket asset finance	232 459	1 983	1 983	–	1 270
Project finance	438 641	12 692	3 000	(9 691)	(3 996)
Resource finance	71 144	–	–	–	–
Portfolio impairments	–	–	–	(16 437)	(9 741)
Total	8 393 848	456 977	297 114	(193 303)	(84 327)

* *Where a positive number represents a recovery.*

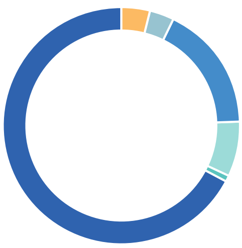
Asset quality trends*



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

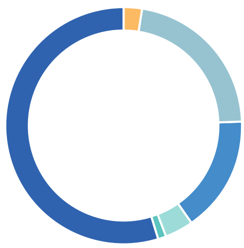
Additional information

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



31 March 2015
£7 224 million

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



31 March 2014
£8 394 million

Asia	2.7%
Australia	21.8%
Europe (excluding UK)	15.9%
North America	4.0%
Other	1.1%
United Kingdom	54.5%

Collateral

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

£'000	Collateral held against: Core loans and advances	Collateral held against: Other credit and counterparty exposures*	Total
At 31 March 2015			
Eligible financial collateral	381 651	557 158	938 809
Listed shares	302 938	82 925	385 863
Cash	78 713	76 511	155 224
Debt securities issued by sovereigns	–	397 722	397 722
Property charge	4 399 279	217 531	4 616 810
Residential property	2 180 115	217 531	2 397 646
Residential development	554 920	–	554 920
Commercial property developments	271 843	–	271 843
Commercial property investments	1 392 401	–	1 392 401
Other collateral	4 034 402	729 614	4 764 016
Unlisted shares	486 524	–	486 524
Charges other than property	32 806	729 614	762 420
Debtors, stock and other corporate assets	2 353 919	–	2 353 919
Guarantees	762 092	–	762 092
Other	399 061	–	399 061
Total collateral	8 815 332	1 504 303	10 319 635
At 31 March 2014			
Eligible financial collateral	407 003	861 779	1 268 782
Listed shares	296 068	95 668	391 736
Cash	110 935	379 300	490 235
Debt securities issued by sovereigns	–	386 811	386 811
Property charge	4 779 482	494 360	5 273 842
Residential property	2 166 383	494 176	2 660 559
Residential development	636 555	184	636 739
Commercial property development	182 186	–	182 186
Commercial property investments	1 794 358	–	1 794 358
Other collateral	4 128 206	304 944	4 433 150
Unlisted shares	194 838	–	194 838
Charges other than property	9 295	304 512	313 807
Debtors, stock and other corporate assets	2 822 119	–	2 822 119
Guarantees	492 741	–	492 741
Other	609 213	432	609 645
Total collateral	9 314 691	1 661 083	10 975 774

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

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

Equity and investment risk in the banking book

Equity and investment risk description

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

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

Management of 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 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

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 analyses are performed and reported to GRCC, BRCC and the board. As a matter of course, concentration risk is avoided and investments are well spread across geographies and industries.

Valuation and accounting methodologies

For a description of our valuation principles and methodologies refer to pages 142 to 146 and pages 164 to 173 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 4.4% of total assets.

Refer to page 165 for further information.

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

£'000 Category	Income (pre-funding costs)				Fair value through equity
	Unrealised	Realised	Dividends	Total	
For the year to 31 March 2015*					
Unlisted investments	(25 676)	60 017	5 089	39 430	709
Listed equities	19 770	1 505	772	22 047	425
Investment and trading properties	8 664	2 354	–	11 018	–
Warrants, profit shares and other embedded derivatives	(70 947)	1 873	–	(69 074)	–
Total	(68 189)	65 749	5 861	3 421	1 134
For the year to 31 March 2014*					
Unlisted investments	2 130	30 235	9 084	41 449	10 996
Listed equities	(2 034)	7 791	1 571	7 328	(888)
Investment and trading properties	(4 260)	10 500	–	6 240	–
Warrants, profit shares and other embedded derivatives	51 962	(200)	–	51 762	–
Total	47 798	48 326	10 655	106 779	10 108

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

Unrealised revaluation gains, recognised in the profit and loss account, are included in common equity tier 1 capital. In line with the Capital Requirements Regulation, for the period ended 31 March 2014, Investec Bank plc did not recognise equity revaluation gains, posted directly to equity, in regulatory capital.

Summary of investments held and stress testing analyses

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

£'000 Category	On-balance sheet value of investments 31 March 2015^	Valuation change stress test 31 March 2015*^	On-balance sheet value of investments 31 March 2014^o	Valuation change stress test 31 March 2014*^o
Unlisted investments	287 680	43 152	277 491	41 624
Listed equities	113 120	28 280	63 869	15 967
Total investment portfolio	400 800	71 432	341 360	57 591
Investment and trading properties	191 499	31 726	102 058	8 069
Warrants, profit shares and other embedded derivatives	36 111	12 639	112 591	39 407
Total	628 410	115 797	556 009	105 067

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

o *Restated.*

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

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

Stress testing summary

Based on the information at 31 March 2015, as reflected above, we could have a £116 million reversal in revenue (which assumes a year in which there is a 'severe stress scenario' simultaneously across all asset classes). This would not cause the group to report a loss but could have a significantly negative impact on earnings for that period. The probability of all these asset classes in all geographies in which we operate being negatively impacted at the same time is very low, although the probability of listed equities being negatively impacted at the same time is very high.

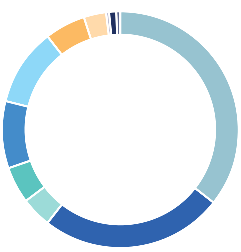
Capital requirements

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

Refer to page 101 for further detail.

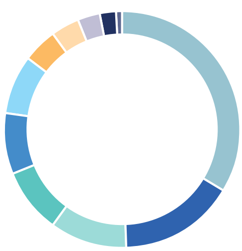
An analysis of the investment portfolio, warrants, profit shares and other embedded derivatives by industry of exposure

31 March 2015 (£437 million)



Manufacturing and commerce	35.7%
Finance and insurance	25.2%
Retailer and wholesalers	4.2%
Agriculture	4.9%
Mining and resources	9.2%
Real estate	10.7%
Communication	5.4%
Transport	3.0%
Business services	0.1%
Medical	1.2%
Other	0.4%

31 March 2014 (£454 million)o



Manufacturing and commerce	33.8%
Finance and insurance	15.8%
Retailer and wholesalers	10.4%
Agriculture	9.0%
Mining and resources	8.4%
Real estate	8.0%
Communication	4.9%
Transport	4.0%
Business services	3.0%
Medical	2.3%
Other	0.4%

o *Restated.*

Securitisation/structured credit activities exposures

Overview

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

Refer to page 51 for the balance sheet and credit risk classification.

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

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

The bank plays an originator role in the securitisation of assets it has originated. For regulatory purposes, structured entities are not consolidated where significant risk in the structured entity has been transferred to third parties. The positions we continue to hold in the securitisation will be either risk-weighted and/or deducted from capital.

The bank has no securitisations backed by revolving exposures.

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

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

We hold rated structured credit instruments (including resecuritisation exposures). These exposures are largely in the UK and amount to £317 million at 31 March 2015 (31 March 2014: £346 million). This is intended as a hold to maturity portfolio rather than a trading portfolio. Therefore, since our commercial intention is to hold the assets to maturity, the portfolio will be valued on an amortised cost basis. These investments are risk-weighted for regulatory capital purposes.

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

Accounting policies

Refer to page 143.

Risk management

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

Credit analysis

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

At 31 March Nature of exposure/activity	Exposure 2015 £'million	Exposure 2014 £'million	Balance sheet and credit risk classification
Structured credit* (gross exposure)	350	422	Other debt securities and other loans and advances
Rated	317	354	
Unrated	33	68	
Loans and advances to customers and third party intermediary originating platforms (mortgage loans) (with the potential to be securitised) (net exposure)	170	789	Other loans and advances
Private client division assets which have been securitised (net exposure)	–^	448	Own originated loans and advances to customers securitised

* *Analysed further below.*
^ *Assets have been sold, refer to page 20.*

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

At 31 March £'million	2015			2014		
	Rated**	Unrated	Total	Rated**	Unrated	Total
US corporate loans	116	–	116	15	–	15
UK and European ABS	–	–	–	3	7	10
UK and European RMBS	153	29	182	253	57	310
UK and European CMBS	6	4	10	7	4	11
UK and European corporate loans	42	–	42	68	–	68
Australian RMBS	–	–	–	8	–	8
Total	317	33	350	354	68	422

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

£'million	AAA	AA	A	BBB	BB	B	C and below	Total
US corporate loans	17	61	29	9	–	–	–	116
UK and European RMBS	30	63	17	20	1	–	22	153
UK and European CMBS	–	–	–	6	–	–	–	6
UK and European corporate loans	17	14	10	1	–	–	–	42
Total at 31 March 2015	64	138	56	36	1	–	22	317
Total at 31 March 2014	125	76	48	61	22	1	21	354

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, 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 back testing. 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 'back testing breach' is considered to have occurred. Over time we expect the average rate of observed back testing breaches to be consistent with the percentile of the VaR statistic being tested.

The market risk capital requirement is measured using an internal risk management model, approved by the PRA, for netting certain parts of the portfolio, while the capital requirements of the whole portfolio are calculated using standard rules.

The graph that follows shows 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 this graph, we can gauge the accuracy of the VaR figures.

VaR

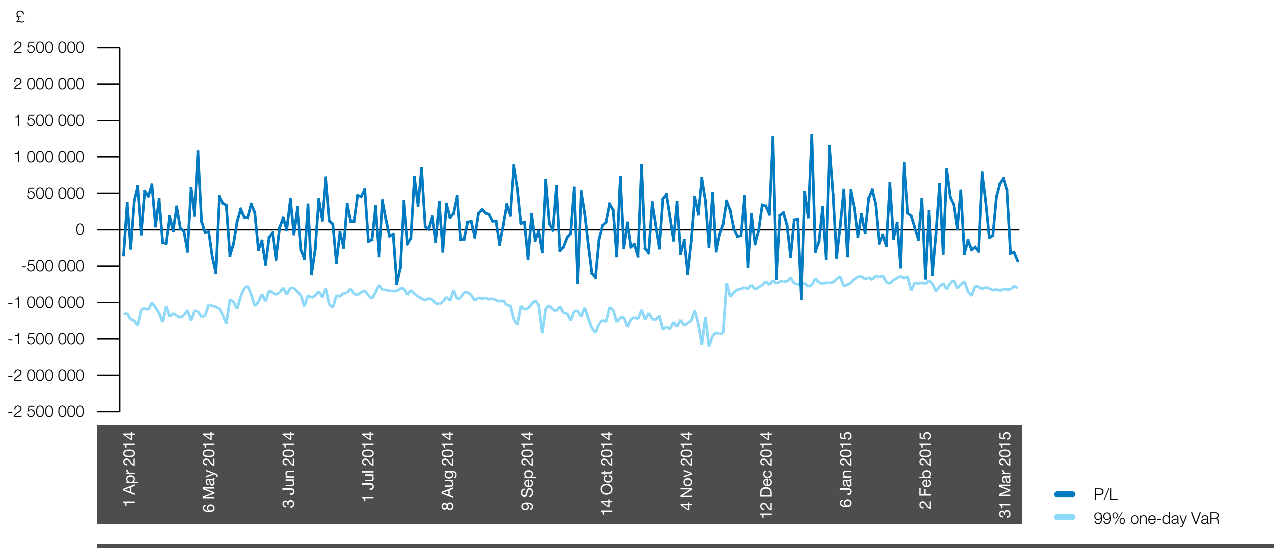
£'000	31 March 2015 Year end	Average	High	Low	31 March 2014 Year end	Average	High	Low
(using 95% VaR)								
Equities	524	573	825	436	751	908	1 596	467
Foreign exchange	23	20	64	1	9	15	73	2
Interest rates	495	300	536	197	299	412	602	204
Consolidated*	691^	617	921	475	852^	1 055	1 496	522

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

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

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

99% one-day VaR backtesting**



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

ETL

95% (one-day) £'000	31 March 2015	31 March 2014
Equities	663	1 108
Foreign exchange	34	13
Interest rates	717	481
Consolidated*	874^	1 202^

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

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

Stress testing

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

	31 March 2015				31 March 2014
£'000	Year end	Average	High	Low	Year end
(using 99% EVT)					
Equities	1 658	1 960	3 868	1 070	3 844
Foreign exchange	102	57	391	14	24
Interest rates	1 676	1 269	1 929	986	1 457
Consolidated**	1 413^^	1 954	3 340	1 197	3 439^^

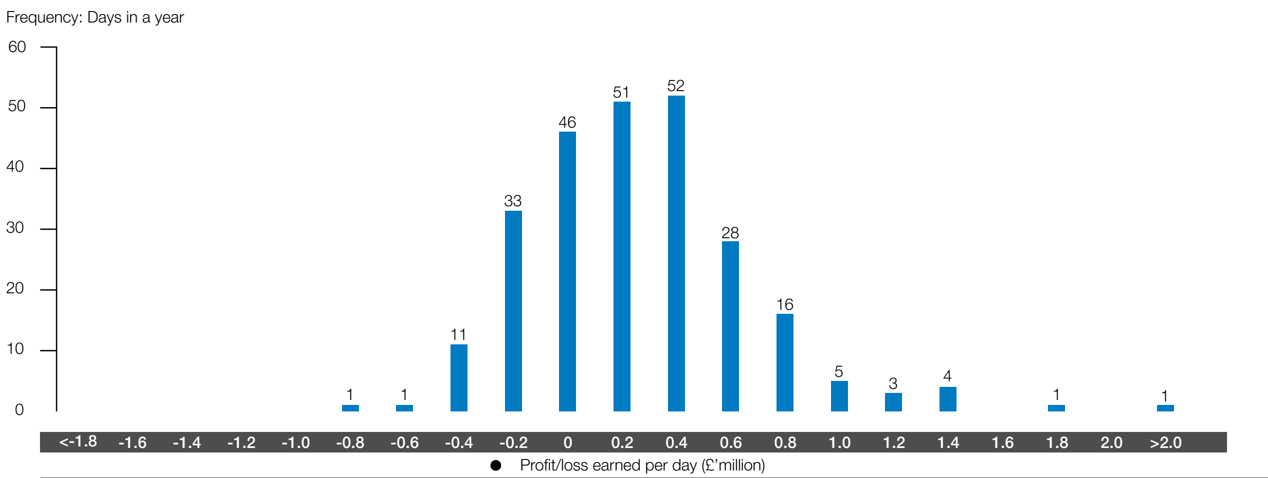
** *The consolidated stress test numbers are lower than the sum of the individual stress test numbers. This arises from correlation offset between various asset classes (diversification).*

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

Profit and loss histogram

The histogram below illustrates the distribution of revenue during the financial year for our trading businesses. The distribution is skewed to the profit side and the graph shows that positive trading revenue was realised on 161 days out of a total of 253 days in the trading business. The average daily trading revenue generated for the year to 31 March 2015 was £162 486 (2014: £132 949).

Profit and loss**



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

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

There continues to be ongoing growth in client activity across the Interest Rate and Foreign Exchange Corporate Sales desks. The Structured Equity desk's retail product sales have remained strong, consistent with the performance of underlying equity markets, and the desk continues to develop both their product range and distribution capacity across geographies. Equity market making has further expanded its coverage of stocks listed in the United Kingdom, Ireland and South Africa. Market risk exposures across all asset classes have remained small throughout the year.

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

Market risk – derivatives

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

Information showing our derivative trading portfolio over the reporting period on the basis of the notional principal and the fair value of all derivatives can be found on page 177.

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

Balance sheet risk management

Balance sheet risk description

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

Balance sheet risk governance structure and risk mitigation

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

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

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

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

Geographic entities have no responsibility for contributing to group liquidity.

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

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

The Central Treasury functions are the sole interface to the wholesale market for both cash and derivative transactions.

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

The Balance Sheet Risk Management teams, 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 teams proactively identify proposed regulatory developments, best risk practice, and measures adopted in the broader market, and implement changes to the bank's risk management and governance framework where relevant.

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

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

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

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

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

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

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

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

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

Non-trading interest rate risk description

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

Sources of interest rate risk include:

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

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

Management and measurement of non-trading interest rate risk

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

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

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

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

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

The aim is to protect and enhance net interest income and economic value in accordance with the board-approved risk appetite and ensure a high degree of net interest margin stability over an interest rate cycle. Economic value measures have the advantage that all future cash flows are considered and therefore can highlight risk beyond the earnings horizon. The repricing gap provides a basic representation of the balance sheet, with the sensitivity of earnings to changes to interest rates calculated off the repricing gap. This allows for the detection of interest rate risk by concentration of repricing buckets. Net interest income sensitivity measures the change in accruals expected over the specified horizon in response to a shift in the yield curve, 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. These exposures affect the interest rate margin realised between lending income and borrowing costs assuming no management intervention.

Interest rate sensitivity at 31 March 2015^

£'million	Not > three months	> Three months but < six months	> Six months but < one year	> One year but < five years	> Five years	Non-rate	Total non-trading
Cash and short-term funds – banks	3 402	2	–	–	7	–	3 411
Investment/trading assets and statutory liquids	920	201	16	56	581	561	2 335
Securitised assets	412	–	–	–	–	–	412
Advances	5 681	603	273	772	260	–	7 589
Other assets	–	–	–	–	–	1 381	1 381
Assets	10 415	806	289	828	848	1 942	15 128
Deposits – banks	(208)	–	–	–	–	–	(208)
Deposits – non-banks	(7 888)	(825)	(776)	(809)	–	–	(10 298)
Negotiable paper	(580)	(7)	(21)	(169)	(173)	–	(950)
Securitised liabilities	(331)	–	–	–	–	–	(331)
Investment/trading liabilities	(3)	–	–	(2)	–	–	(5)
Subordinated liabilities	(4)	–	–	(18)	(575)	–	(597)
Other liabilities	–	–	–	–	–	(861)	(861)
Liabilities	(9 014)	(832)	(797)	(998)	(748)	(861)	(13 250)
Intercompany loans	(65)	(1)	(83)	(1)	–	115	(35)
Shareholders' funds	–	–	–	–	–	(1 801)	(1 801)
Balance sheet	1 336	(27)	(591)	(171)	100	(605)	42
Off-balance sheet	938	176	(174)	(342)	(598)	–	–
Repricing gap	2 274	149	(765)	(513)	(498)	(605)	42
Cumulative repricing gap	2 274	2 423	1 658	1 145	647	42	

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

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	GBP	USD	EUR	AUD	ZAR	Other (GBP)	All (GBP)
200bps down	(72.9)	(9.7)	4.4	0.8	1.8	(0.5)	(76.9)
200bps up	65.8	10.2	(0.1)	(0.8)	(1.8)	0.5	73.3

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

Liquidity risk

Liquidity risk description

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

Liquidity risk is further broken down into:

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

Sources of liquidity risk include:

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

Management and measurement of liquidity risk

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

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

- Our liquidity management processes encompass principles set out by the regulatory authorities in each jurisdiction, namely the PRA, the Guernsey Financial Service Commission and the Swiss Financial Market Supervisory Authority
- The group complies with the BCBS Principles for Sound Liquidity Risk Management and Supervision
- The group has committed itself to implementation of the updated BCBS guidelines for liquidity risk measurement, standards and monitoring to be phased in from 2015
- The risk appetite is clearly defined by the board and each geographic entity must have its own board-approved policies with respect to liquidity risk management
- Each geographic entity must be self-sufficient from a funding and liquidity standpoint so that there is no reliance on intergroup lines either from or to other group entities
- Geographic entities have no responsibility for contributing to group liquidity
- We maintain a liquidity buffer in the form of unencumbered, cash, government or rated securities (typically eligible for repurchase with the central bank), and near cash well in excess of the statutory requirements as protection against unexpected disruptions in cash flows
- Funding is diversified with respect to currency, term, product, client type and counterparty to ensure a satisfactory overall funding mix
- We monitor and evaluate each banking entity's maturity ladder and funding gap (cash flow maturity mismatch) on a 'liquidation', 'going concern' and 'stress' basis
- Daily liquidity stress tests are carried out to measure and manage the liquidity position such that payment obligations can be met under a wide range of normal and unlikely but plausible stressed scenarios, in which the rate and timing of deposit withdrawals and drawdowns on lending facilities are varied, and the ability to access funding and to generate funds from asset portfolios is restricted. The objective is to have sufficient liquidity, in an acute stress, to continue to operate for a minimum period as detailed in the board-approved risk appetite
- Our liquidity risk parameters reflect a collection of liquidity stress assumptions which are reviewed regularly and updated as needed. These stress factors go well beyond our experience during the height of the recent financial crisis
- The Balance Sheet Risk Management teams independently monitors key daily funding metrics and liquidity ratios to assess potential risks to the liquidity position, which further act as early warning indicators to potential normal market disruption
- The group centrally manages access to funds in both domestic and offshore markets through the Corporate and Institutional Banking division
- The maintenance of sustainable prudent liquidity resources takes precedence over profitability
- Each major banking entity maintains an internal funds transfer pricing system based on prevailing market rates. The Treasury function charges out the price of long- and short-term funding to internal consumers of liquidity, which ensures that the costs, benefits, and risks of liquidity are clearly and transparently attributed to business lines and are understood by business line management. The funds transfer pricing methodology is designed to signal the right incentive to our lending business
- The group maintains adequate contingency funding plans designed to protect depositors, creditors and shareholders and maintain market confidence during adverse liquidity conditions.

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

Management uses assumptions-based planning and scenario modelling that considers market conditions, prevailing interest rates and projected balance sheet growth, to estimate future funding and liquidity needs 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 and continue to develop products to attract and service their investment needs. We continued to successfully raise private client deposits with total deposits (excluding divestments of businesses) increasing by 10.6% to £10.6 billion at 31 March 2015. The growth in retail deposits benefited from the wider macro-economic trend of expanded money supply, customer deleveraging and loan growth. We also have a number of innovative retail deposit initiatives within our Private Banking division and these continued to experience strong inflows during the financial year. On average our fixed and notice customer deposits have amounted to approximately 84% of total deposits since April 2006 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 £4.3 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.

Asset encumbrance

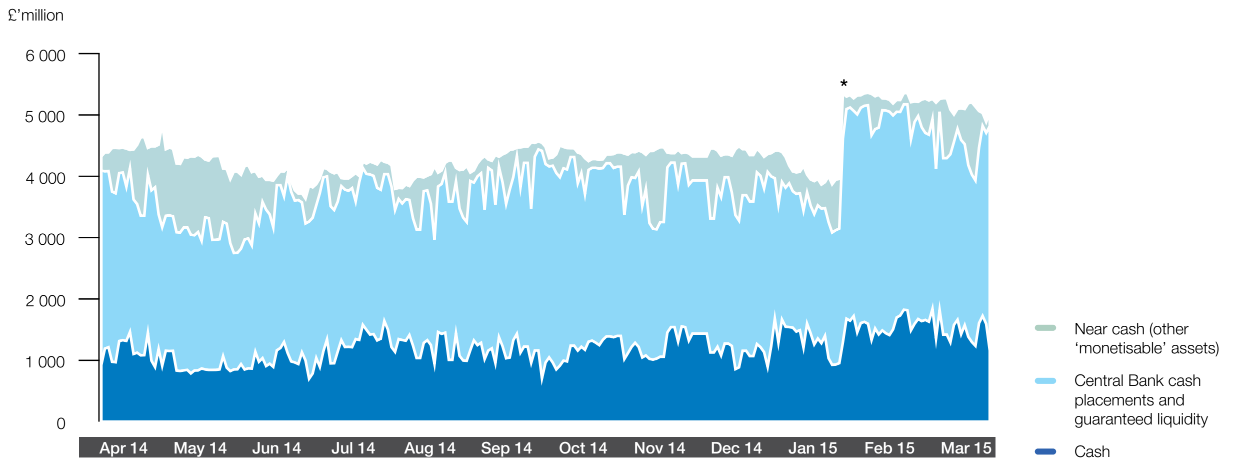
An asset is defined as encumbered if it has been pledged as collateral against an existing liability and, as a result, is no longer available to the group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. An asset is therefore categorised as unencumbered if it 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 and are available to provide a pool of collateral eligible to support central bank liquidity facilities including the Bank of England Funding for Lending Scheme. During the year the bank issued £280 million of notes through securitisations in the UK.

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 198. Related liabilities are also reported.

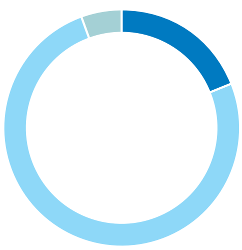
On page 175 we disclose further details of assets that have been received as collateral under reverse repurchase agreements and securities borrowing transactions where the assets are allowed to be resold or pledged.

Cash and near cash trend



* *Increase in cash balances due to the sale of group assets.*

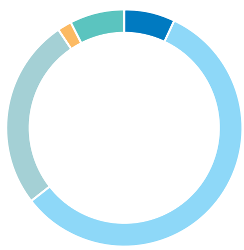
An analysis of cash and near cash at 31 March 2015



£5 011 million

Cash	22.5%
Central Bank cash placements and guaranteed liquidity	73.1%
Near cash (other 'monetisable' assets)	4.4%

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



£11 096 million^

Banks	7.2%
Individuals	57.4%
Non-financial corporates	26.0%
Other financials	2.0%
Small business	7.4%

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

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

Liquidity mismatch

The table on the next page shows our contractual liquidity mismatch.

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

The liquidity position of the group remained sound with total cash and near cash balances amounting to £5.0 billion. We continued to enjoy strong inflows of customer deposits while maintaining good access to wholesale markets despite the underlying market environment. Our liquidity and funding profile reflects our strategy, risk appetite and business activities.

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

With respect to the contractual liquidity mismatch:

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

With respect to the behavioural liquidity mismatch:

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

Contractual liquidity at 31 March 2015^

£'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	> Five years	Total
Cash and short-term funds – banks	2 639	1 462	119	–	–	–	–	4 220
Investment/trading assets	226	848	212	346	121	569	1 141	3 463
Securitised assets	–	2	7	10	19	264	110	412
Advances	–	688	635	786	893	3 025	1 562	7 589
Other assets	121	809	25	7	6	52	688	1 708
Assets	**2 986**	**3 809**	**998**	**1 149**	**1 039**	**3 910**	**3 501**	**17 392**
Deposits – banks	(121)	(591)	(5)	–	–	–	(81)	(798)
Deposits – non-banks	(1 133)	(2 488)	(1 564)	(2 507)	(653)	(1 607)	(346)	(10 298)
Negotiable paper	–	(15)	(24)	(38)	(75)	(636)	(386)	(1 174)
Securitised liabilities	–	(4)	(5)	(8)	(15)	(99)	(200)	(331)
Investment/trading liabilities	–	(288)	(77)	(75)	(130)	(353)	(182)	(1 105)
Subordinated liabilities	–	–	–	–	–	(34)	(563)	(597)
Other liabilities	(220)	(781)	(45)	(87)	(20)	(45)	(55)	(1 253)
Liabilities	**(1 474)**	**(4 167)**	**(1 720)**	**(2 715)**	**(893)**	**(2 774)**	**(1 813)**	**(15 556)**
Intercompany	**(64)**	**208**	**(27)**	**–**	**1**	**7**	**(160)**	**(35)**
Shareholders' funds	**–**	**–**	**–**	**–**	**–**	**–**	**(1 801)**	**(1 801)**
Contractual liquidity gap	**1 448**	**(150)**	**(749)**	**(1 566)**	**147**	**1 143**	**(273)**	**–**
Cumulative liquidity gap	1 448	1 298	549	(1 017)	(870)	273	–	

Behavioural liquidity^

As discussed on page 83.

£'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	> Five years	Total
Behavioural liquidity gap	3 717	(497)	(239)	(455)	147	(1 832)	(841)	–
Cumulative	3 717	3 220	2 981	2 526	2 673	841	–	–

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

Balance sheet risk year in review

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

The liquidity position in the second half of the year was then further enhanced by the disposal of group assets. A strategy to manage down surplus liabilities was initiated following the strategic sales.

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

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

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

Cash and near cash balances at 31 March 2015 amounted to £5.0 billion (2014: £4.3 billion), enhanced by the strategic business sales. Total customer deposits (excluding divestments) increased by 10.6% to £10.6 billion at 31 March 2015. We continue to exceed Basel liquidity requirements for the LCR and NSFR comfortably.

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.

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

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

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

Operational risk

Operational risk definition

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

Operational risk exists as part of the normal activities of a bank. The group aims to manage operational risk by adopting sound operational risk management practices which are fit for purpose. These include, inter alia, minimising internal losses in a cost effective manner in accordance with the operational risk appetite and tolerance.

Operational risk management framework

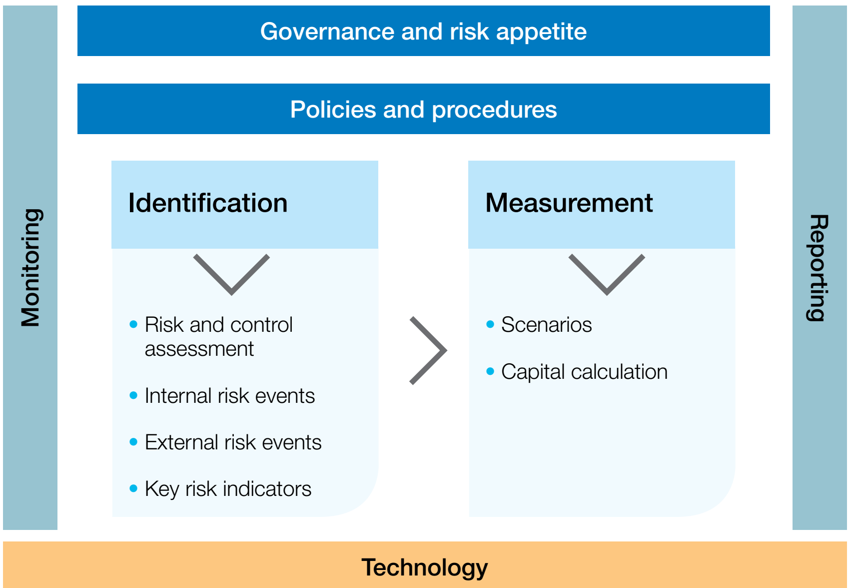
The bank continues to operate under the Standardised Approach (TSA) to operational risk which forms the basis of the operational risk management framework. The framework is embedded at all levels of the organisation and is continually reviewed to ensure appropriate and effective management of operational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

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

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

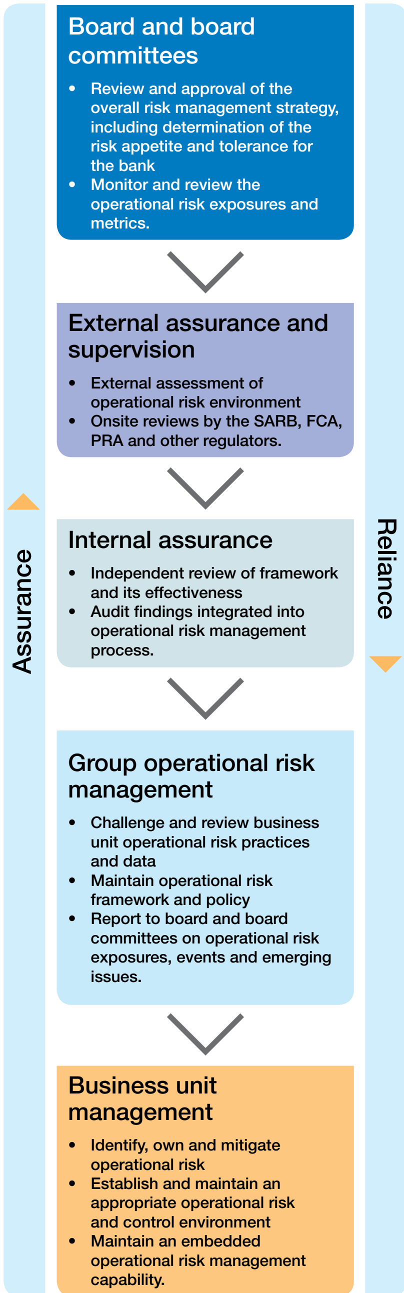
An independent group operational risk management function, mandated by the board risk and capital committee, ensures that operational risk policies and procedures are developed and applied consistently and effectively throughout the bank. Business unit management, supported by operational risk managers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

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



Governance

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



Risk appetite and tolerance

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

Operational risk practices

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

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

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

Key operational risk considerations

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

Definition of risk	Approach to mitigation	Priority for 2015/16
Financial crime		
Risk associated with money laundering, terrorist financing, bribery, fraud and tax evasion.	• Proactive strategy which includes business-wide and customer risk assessments • Development of policies which comply with regulations and industry guidance • Monitoring the adequacy and effectiveness of financial crime controls and reporting to governance bodies, e.g. audit committee • Training all staff with enhanced bespoke training delivered to staff in higher risk functions • Frequent delivery of management information focused on key risk indicators • 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 the UK) • Managing business impact and implementation challenges as a result of significant volumes of statutory and regulatory changes and developments • Ensuring existing monitoring remains focused appropriately as areas of conduct and regulatory risk develop.
Technology		
Risk associated with the reliance on technology to support business processes and client services. This relates to the operations, usage, ownership and responsibility of IT systems across the business.	• Establishment and maintenance of an IT risk assessment framework to consistently and effectively assess IT exposures across the business • Monitoring risk exposures related to adoption of new technologies • Identification and remediation of vulnerabilities identified in IT systems, applications, and processes • Establishing appropriate IT recovery capabilities to safeguard against business disruptions resulting from systems failures and IT service outages.	• Enhancing resilience of our technical infrastructure and our process to IT failures or service interruptions • Identifying, monitoring and reducing risks in our digital channel following the introduction of mobile applications and our increased online presence.

Insurance

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

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.

Recovery and resolution planning

In the EU, the Bank Recovery and Resolution Directive (BRRD) was adopted in June 2014 by the European Commission. The BRRD came into effect from 1 January 2015, with the option to delay implementation of bail-in provisions until 1 January 2016. Regardless of this, the UK introduced bail-in powers from 1 January 2015. The UK transposition of the BRRD builds on the resolution framework already in place in the UK.

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

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

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

The recovery plan for Investec plc (including Investec Bank plc):

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

Reputational risk

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

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

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

Pension risk

Pension risk arises from obligations arising from defined benefit pension schemes, where Investec plc is required to fund any deficit in the schemes. Investec Bank plc is also exposed to these risks as a participant in the schemes.

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

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

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

Primary sources at risk include:

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

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

Further information is provided on pages 190 to 194.

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

As part of the regulatory restructure, the new Financial Conduct Authority (FCA) in the UK has outlined its approach to managing firms' conduct.

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

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

The group's work on conduct risk, particularly in the UK, includes assessing key risks across the business, identifying key controls and ensuring that the board is receiving the right information to enable it to challenge effectively the management of risks by the business. This work is set to continue for the coming year and will aim to build on the existing controls such as the compliance monitoring, Treating Customers Fairly (TCF) and operational risk frameworks.

Capital management and allocation

Capital measurement

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

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

Regulatory capital

Current regulatory framework

Investec Bank plc is authorised by the PRA and is regulated by the FCA and the PRA on a solo-consolidation basis. Since 1 January 2014 Investec Bank plc has been calculating capital resources and requirements using the Basel III framework, as implemented in the European Union through the Capital Requirements Directive IV (CRD IV). The bank continues to phase-in the remaining CRD IV rule changes, notably the grandfathering provisions applicable to non-qualifying capital instruments (reducing by 10% per annum until fully derecognised in 2022) and the increase in the minimum regulatory capital ratios. With effect from 1 January 2015, the common equity tier 1 capital requirement increased from 4% to 4.5%, while the tier 1 capital requirement increased from 5.5% to 6%. The group continues to hold capital in excess of the new minimum requirements.

Investec Bank plc has also implemented the PRA Pillar II A rule change and has from 1 January 2015 met at least 56% of its individual capital guidance, as determined by the internal capital adequacy assessment and supervisory review process, with common equity tier 1 capital.

The Investec Bank plc consolidated group has changed significantly during the financial year due to the sale of Investec Bank (Australia) Limited's professional finance business, asset finance and leasing businesses and deposit book and Start Mortgage Holdings Limited.

Investec Bank plc uses the standardised approach to calculate its credit and counterparty credit risk, securitisation and operational risk capital requirements. The mark-to-market method is used to calculate the counterparty credit risk exposure amount. The market risk capital requirement is calculated using standard rules. The bank has obtained permission from its regulator to apply an internal risk management model when netting certain over-the-counter (OTC) derivative options within its portfolio.

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

Regulatory considerations

The UK regulatory environment has continued to evolve during 2015, with a vast number of new consultations, regulatory and implementing technical standards and other proposals being published or adopted, notably by the PRA, the BCBS and the European Banking Authority (EBA).

International

Counterparty credit risk

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

Pillar III disclosures

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

Operational risk

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

Market risk

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

Securitisation risk

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

Credit risk

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

The revised standards published by the BCBS will need to be adopted by the European Commission before they become binding on UK firms.

UK

Pillar II framework

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

In January 2015, the PRA released a consultation paper proposing changes to their Pillar II framework, including introducing the PRA's methodologies for setting Pillar II capital. In addition the PRA proposed to introduce the PRA buffer, which will replace the current Capital Planning Buffer (known as Pillar II B). The PRA buffer will be met from common equity tier 1 capital, and will transition in from January 2016 at 25%, increasing by 25% in each consecutive year until fully phased-in by January 2019. All firms will be subject to a PRA buffer assessment and the PRA will set a PRA buffer only if it judges that the CRD IV buffers (capital conservation buffer and systemic risk buffer, if applicable) are inadequate for a particular firm given its vulnerability in a stress scenario, or where the PRA has identified risk management and governance failings, which the CRD IV buffers are not intended to address. To address weak risk management and governance, the PRA proposes applying a scalar ranging from 10% to 40% of a firm's common equity tier 1 Pillar I plus Pillar II A capital requirement. The PRA are expected to issue final rules in July 2015, ahead of implementation from 1 January 2016.

Capital buffers

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

The CRD IV rules also require HM Treasury to designate authorities responsible for setting certain CRD IV buffers in the UK. From 1 May 2014 the Bank of England is the designated authority for the countercyclical capital buffer (CCB) with policy decisions delegated to the Financial Policy Committee (FPC). At the FPC's policy meeting held in March 2015, the committee chose to maintain the CCB buffer rate for UK exposures at 0%.

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

Leverage ratio

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

Europe

Leverage ratio

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

Capital targets

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

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

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

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 Process (SREP).

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

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

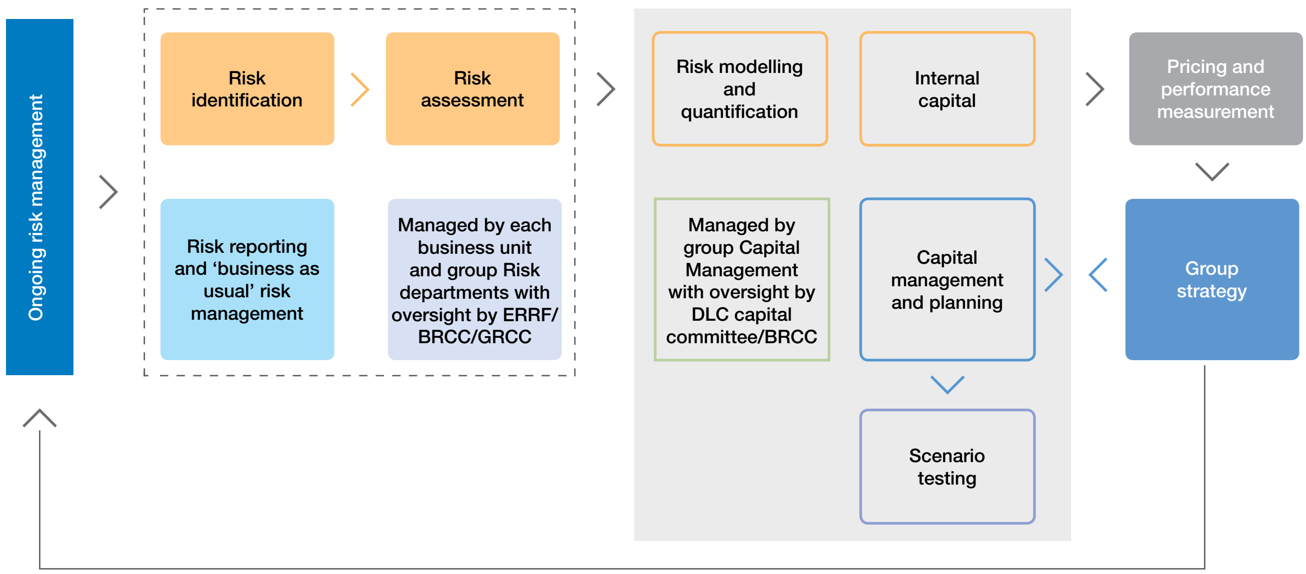
The framework has been approved by the board and is managed by the DLC capital committee, which is responsible for oversight of the management of capital on a regulatory and an internal basis.

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

Risk assessment and reporting

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

The (simplified) integration of risk and capital management



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

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
- Pension risk
- Operational risk, which is considered as an umbrella term and covers a range of independent risks including, but not limited to, fraud, litigation, business continuity, outsourcing and out of policy trading. The specific risks covered are assessed dynamically through constant review of the underlying business environment.

Capital planning and stress/ scenario testing

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

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

The output of capital planning allows senior management to make decisions to ensure that the group continues to hold sufficient capital to meet 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.

Accounting and regulatory treatment of group subsidiaries

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

Basis of consolidation

The regulatory basis of consolidation differs from the basis of consolidation used for financial reporting purposes. The financial accounting position of the Investec Bank plc group is reported under IFRS and is described on page 140 of the annual financial statements.

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

The principal SPEs excluded from the regulatory scope of consolidation are Landmark Mortgage Securites No. 2 plc and Tamarin Securities Limited.

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

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

The tables which follow reconcile the Investec Bank plc group's financial accounting balance sheet to the regulatory scope balance sheet.

The alphabetic references included in the reconciliation provide a mapping of the balance sheet items to elements included in the capital structure table, set out on page 100.

The regulatory capital requirements are driven by the regulatory balance sheet and not the financial accounting balance sheet. A detailed list of subsidiaries and associates included in the financial accounting scope of consolidation are disclosed on pages 204 to 206.

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

Capital requirements country-by-country reporting

HM Treasury has transposed the requirements set out under CRD IV and issued the Capital Requirements Country-by-Country Reporting Regulations 2013. The legislation requires the bank to publish certain additional information in respect of the year ended 31 March 2015, by 31 December 2015. This information will be available before this date on the Investec group website.

Capital disclosures

The composition of our regulatory capital under a CRD IV basis is provided in the tables that follow.

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

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

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

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

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

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

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

(continued)

At 31 March 2014* £'million	Ref^	Accounting balance sheet	Deconsolidation of non-financial/ other entities	Consolidation of banking associates	Regulatory balance sheet
Cash and balances at central banks		1 743	–	–	1 743
Loans and advances to banks		1 105	(25)	6	1 086
Reverse repurchase agreements and cash collateral on securities borrowed		1 215	–	–	1 215
Sovereign debt securities		1 232	–	–	1 232
Bank debt securities		371	–	–	371
Other debt securities		229	(11)	–	218
Derivative financial instruments		783	(10)	–	773
Securities arising from trading activities		587	–	–	587
Investment portfolio		341	12	–	353
Loans and advances to customers		7 753	–	–	7 753
Own originated loans and advances to customers securitised		448	–	–	448
Other loans and advances		1 510	(107)	–	1 403
Other securitised assets		1 011	(389)	–	622
Capital invested in insurance and other entities		–	3	–	3
Interests in associated undertakings		17	–	(13)	4
Deferred taxation assets		98	(2)	–	96
of which:					
– relates to losses carried forward	a	38	–	–	38
Other assets		1 014	(17)	17	1 014
Property and equipment		63	(17)	–	46
Investment property		62	–	–	62
Goodwill	b	296	–	7	303
Intangible assets	b	157	–	–	157
Total assets		20 035	(563)	17	19 489

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

* *Restated for the adoption of IFRIC 21.*

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

(continued)

At 31 March 2014* £'million	Ref^	Accounting balance sheet	Deconsolidation of non-financial/ other entities	Consolidation of banking associates	Regulatory balance sheet
Deposits by banks		835	(69)	–	766
Derivative financial instruments		669	–	–	669
Other trading liabilities		392	–	–	392
Repurchase agreements and cash collateral on securities lent		615	–	–	615
Customer accounts (deposits)		11 096	75	–	11 171
Debt securities in issue		1 316	(236)	–	1 080
Liabilities arising on securitisation of own originated loans and advances		449	30	–	479
Liabilities arising on securitisation of other assets		962	(333)	–	629
Current taxation liabilities		103	–	–	103
Deferred taxation liabilities		38	(5)	–	33
of which:					
– in respect of acquired intangibles	b	29	–	–	29
Other liabilities		978	4	17	999
Subordinated liabilities		670	–	–	670
of which:					
– term subordinated debt included in tier 2 capital	c	670	–	–	670
Total liabilities		18 123	(534)	17	17 606
Shareholders' equity excluding non-controlling interests	d	1 915	(29)	–	1 886
Non-controlling interests	e	(3)	–	–	(3)
Total equity		1 912	(29)	–	1 883
Total liabilities and equity		20 035	(563)	17	19 489

^ *The references identify balance sheet components which are used in the calculation of regulatory capital.*
* *Restated for the adoption of IFRIC 21.*

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 195 and 196.

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

£'million	Ref*	31 March 2015°	31 March 2014**°
Tier 1 capital			
Shareholders' equity		1 734	1 854
Shareholders' equity per balance sheet	d	1 800	1 915
Foreseeable dividends		(15)	(32)
Deconsolidation of special purpose entities	d	(51)	(29)
Non-controlling interests		–	(3)
Non-controlling interests per balance sheet	e	1	(3)
Non-controlling interests in deconsolidated entities		(1)	–
Regulatory adjustments to the accounting basis		(15)	(11)
Unrealised gains on available-for-sale equities		–	(7)
Additional value adjustments		(15)	(11)
Cash flow hedging reserve		–	7
Deductions		(394)	(480)
Goodwill and intangible assets net of deferred taxation	b	(382)	(431)
Deferred taxation assets that rely on future profitability excluding those arising from temporary differences	a	(8)	(38)
Securitisation positions		(4)	(3)
Connected funding of a capital nature		–	(8)
Common equity tier 1 capital		1 325	1 360
Tier 1 capital		1 325	1 360
Tier 2 capital		590	637
Tier 2 instruments	c	590	642
Phase out of non-qualifying tier 2 instruments		–	(3)
Non-qualifying surplus capital attributable to non-controlling interests		–	(2)
Total regulatory capital		1 915	1 997
Risk-weighted assets		10 967	12 668
Capital ratios			
Common equity tier 1 ratio		12.1%	10.7%
Tier 1 ratio		12.1%	10.7%
Total capital ratio		17.5%	15.8%

° *The capital adequacy disclosures for IBP include the deduction of foreseeable dividends when calculating common equity tier 1 capital as now required under the Capital Requirements Regulation and EBA technical standards. These disclosures are different to the capital adequacy disclosures included in Investec's 2015 integrated annual report, which follow our normal basis of presentation and do not include the deduction of foreseeable dividends when calculating common equity tier 1 capital. IBP's common equity tier 1 ratio will be 10bps (31 March 2014: 30bps) higher on this basis.*

* *The references refer to those in the reconciliation of the regulatory scope balance sheet set out on pages 96 to 99.*

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

Capital management and allocation (continued)

Capital requirements

£'million	31 March 2015	31 March 2014
Capital requirements	878	1 014
Credit risk – prescribed standardised exposure classes	634	787
Corporates	285	294
Secured on real estate property	133	154
Retail	36	102
Institutions	33	38
Other exposure classes	136	189
Securitisation exposures	11	10
Equity risk – standardised approach	11	21
Listed equities	4	5
Unlisted equities	7	16
Counterparty credit risk	35	22
Credit valuation adjustment risk	4	16
Market risk	71	52
Interest rate	26	21
Foreign exchange	17	5
Securities underwriting	–	1
Equities	23	22
Options	5	3
Operational risk – standardised approach	123	116
Risk-weighted assets (banking and trading)	10 967	12 668
Credit risk – prescribed standardised exposure classes	7 923	9 844
Corporates	3 561	3 683
Secured on real estate property	1 657	1 923
Retail	450	1 278
Institutions	410	473
Other exposure classes	1 704	2 364
Securitisation exposures	141	123
Equity risk – standardised approach	140	267
Listed equities	52	62
Unlisted equities	88	205
Counterparty credit risk	436	271
Credit valuation adjustment risk	47	194
Market risk	888	648
Interest rate	328	262
Foreign exchange	212	57
Securities underwriting	–	13
Equities	291	276
Options	57	40
Operational risk – standardised approach	1 533	1 444

A summary of capital adequacy and leverage ratios

	31 March 2015º	31 March 2014º
Common equity tier 1 (as reported)	12.1%	10.7%
Common equity tier 1 ('fully loaded')^	12.1%	10.8%
Tier 1 (as reported)	12.1%	10.7%
Total capital adequacy ratio (as reported)	17.5%	15.8%
Leverage ratio* – permanent capital	7.5%	7.2%
Leverage ratio* – current	7.5%	7.2%
Leverage ratio* – 'fully loaded'^	7.5%	7.3%

º *The capital adequacy disclosures for IBP include the deduction of foreseeable dividends when calculating common equity tier 1 capital as now required under the CRR and EBA technical standards. These disclosures are different to the capital adequacy disclosures included in Investec's 2015 integrated annual report, which follow our normal basis of presentation and do not include the deduction of foreseeable dividends when calculating common equity tier 1 capital. IBP's common equity tier 1 ratio will be 10bps (31 March 2014: 30bps) higher on this basis.*

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

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

Reconciliation of the leverage ratio

The 31 March 2015 leverage ratio is calculated using the CRR definition of leverage which was adopted by the European Commission via a delegated Act in October 2014 and came into force from 1 January 2015. The leverage ratio has been disclosed using both a transitional and 'fully loaded' capital measure. The 2014 comparative leverage ratios included in the summary of capital adequacy and leverage ratios table were calculated following the original definition of leverage as per the CRR adopted in June 2013.

Investec Bank plc's leverage ratio has improved with the increase mainly attributable to a decrease in the exposure measure due to the strategic disposals. A change in the credit conversion factors applied to off-balance sheet exposures as required by the delegated Act, has also contributed to the decrease in the exposure measure. These improvements in the exposure measure are marginally offset by the delegated Act requirement to include securities financing transactions at their accounting value plus a further add-on for counterparty credit risk.

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

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

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

Risk management and corporate governance

3

Investec Bank plc

Movement in risk-weighted assets

Total risk-weighted assets (RWAs) have decreased by 13% over the period, predominantly within credit risk RWAs.

Credit risk RWAs

For Investec Bank plc consolidated reporting, we have adopted the standardised approach for calculating credit risk RWAs. Credit risk RWAs, which include equity risk, decreased by £2 billion. The decrease is primarily attributable to the strategic disposals, partially offset by strong loan growth across various business lines in our core loan book.

Counterparty credit risk RWAs and Credit Valuation Risk

Counterparty credit risk RWAs increased by £165 million mainly due to increased trading volumes, while CVA RWAs decreased by £147 million driven by the application of CVA exemptions post an internal review.

Market risk RWAs

We apply the standardised approach for calculating market risk RWAs. Market risk RWAs increased by £240 million, primarily due to an increase in foreign exchange risk, driven by the removal of an Australian Dollar hedge.

Operational risk RWAs

Operational risk RWAs are calculated using the standardised approach and increased by £89 million. The increase is due to a higher three-year average operating income.

Movement in total regulatory capital

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

Total regulatory capital flow statement

£'million	31 March 2015	31 March 2014*
Opening common equity tier 1 capital	1 360	1 402
New capital issues	–	20
Profit after taxation	110	52
Share-based payment adjustment	4	–
Movement in other comprehensive income	(53)	(42)
Dividends	(172)	–
Goodwill and intangible assets (deduction net of related taxation liability)	49	41
Deferred taxation that relies on future profitability (excluding those arising from temporary differences)	30	(38)
Deconsolidation of special purpose entities	(22)	(34)
Foreseeable dividends	17	(32)
Other, including regulatory adjustments and transitional arrangements	2	(9)
Closing common equity tier 1 capital	1 325	1 360
Closing tier 1 capital	1 325	1 360
Opening tier 2 capital	637	681
Redeemed capital	(13)	–
Amortisation adjustments	–	(15)
Sale of subsidiaries	(39)	–
Collective impairment allowances	–	(20)
Other, including regulatory adjustments and transitional arrangements	5	(9)
Closing tier 2 capital	590	637
Opening other deductions from total capital	–	(54)
Connected funding of a capital nature	–	6
Investments that are not material holdings or qualifying holdings	–	48
Closing other deductions from capital	–	–
Closing total regulatory capital	1 915	1 997

* *Restated for the adoption of IFRIC 21.*

Credit ratings

Credit ratings

In terms of our dual listed companies structure, Investec plc and Investec Limited are treated separately from a credit point of view. As a result, the rating agencies have assigned separate ratings to the significant banking entities within the group, namely Investec Bank plc and Investec Bank Limited. Certain rating agencies have also assigned ratings to the holding companies, namely, Investec plc and Investec Limited. Our ratings at 19 June 2015 are as follows:

Rating agency	Investec plc	Investec Bank plc – a subsidiary of Investec plc
Fitch		
Long-term rating		BBB-
Short-term rating		F3
Viability rating		bbb-
Support rating		5
Moody's		
Long-term rating	Baa3	A3
Short-term rating	Prime-3	Prime-2
Baseline Credit Assessment (BCA) and adjusted BCA		baa3
Global Credit Ratings		
Long-term rating		BBB+
Short-term rating		A2

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 functions comply with the International Standards for the Professional Practice of Internal Auditing, and are subject to an independent Quality Assurance Review (QAR) at appropriate intervals. The most recent independent QAR benchmarked the functions against the July 2013 publication by the Chartered Institute for Internal Auditors entitled *Effective Internal Audit in the Financial Services Sector*. The results were communicated to the audit committees in March 2014 and to the respective regulators. A QAR follow-up review was completed and results issued to the audit committees in January 2015 as well as to the respective regulators.

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

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

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

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

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

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

Conduct risk

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

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

Consumer protection

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

Market integrity

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

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

Competition

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

Investment services reform

European regulators are in the process of reforming the rulebooks for Investment Services in the EU markets, via enhancements to the Markets in Financial Instruments Directive (MiFID). This reform package, known as MiFID II, will form the legal framework governing the requirements applicable to investment firms, trading venues, data reporting service providers and third-country firms providing investment services or activities in the EU.

These reforms will drive change across Investec Bank plc and Investec Wealth & Investment, with the majority of these reforms required to be implemented by January 2017.

Segregation of client assets and funds

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

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

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

Senior managers and certified persons regime

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

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

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

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

The new regime will come into force on 7 March 2016.

Structural banking reform

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

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

Changes to regulatory landscape in the UK

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

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

Financial crime

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

Tax reporting

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

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

Chairman's introduction

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

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

Investec Bank plc is a major subsidiary of Investec plc and due to the DLC operational structure, compliance with many of the specific corporate governance requirements is at the group DLC level.

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

We encourage all stakeholders to read the corporate governance report of Investec's 2015 integrated annual report which provides a more detailed review including reports from the various board committee chairmen which provide an explanation of how those committees discharge their duties in respect of both the group and Investec Bank plc.

Our culture and values

Our culture, values and philosophies provide the framework for how we conduct our business and measure behaviour and practices to ensure that we demonstrate the characteristics of good governance. Our values require that directors and employees act with moral strength and integrity and conduct themselves to the highest ethical standard 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.

The past year in focus

Sir David Prosser

Sir David decided in 2014 that it would be an appropriate time for him to retire and therefore stepped down from the boards of Investec plc, Investec Limited and Investec Bank plc following the annual general meetings held on 7 August 2014. I assumed the role of chairman of the Investec Bank plc board, with effect from 8 August 2014.

Board composition

As noted in our previous annual report, the board, on the recommendation of the Nomination and Directors' Affairs Committee (NOMDAC), has implemented a structured refreshment programme to ensure that new independent non-executive directors are appointed and retiring some longer serving non-executive directors. In this regard, George Alford did not offer himself for re-election at the August 2014 annual general meetings of Investec plc and Investec Limited. George stepped down from the board of Investec Bank plc at the same time.

Discussions have been concluded with Haruko Fukuda who has served on the boards of Investec plc and Investec Limited for a period exceeding nine years, and has agreed that she will not stand for re-election at the August 2015 annual general meetings of Investec plc and Investec Limited. Haruko will remain on the board of Investec Bank plc.

The board continues to monitor the impact of its ancillary regulatory landscape in the UK, and consideration is being given to appoint a UK independent non-executive directors with specific and recent financial services knowledge to the board.

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 plc's operations.

Board committees

A diagram of the group's governance framework can be found on page 40 and reports of the various board committees can be found in the corporate governance section of Investec's 2015 integrated annual report.

The Investec plc group audit committee, supported by the Prudential Audit and Conduct Committee (PACC), acts as the audit committee for both the group and Investec Bank plc.

The DLC remuneration committee acts as the remuneration committee for the group (including Investec Bank plc) and the statement of the remuneration committee, explaining the group's policies and processes, as well as required disclosures can be found on pages 116 to 129.

Issues specific to Investec Bank plc are considered at each meeting of the various committees and the Investec Bank plc board receives a report on the proceedings of the committees at each of its meetings.

The chairmen of the main board committees are all directors of Investec Bank plc.

The board of Investec Bank plc takes comfort from the group's corporate governance process as well as the fact that the board of Investec Bank plc includes common membership with the boards of Investec plc and Investec Limited.

Priorities for the new year

Board diversity and effectiveness

The board will continue with its structured refreshment programme to ensure its composition is the most appropriate to provide effective entrepreneurial leadership and robust scrutiny and challenge.

The board believes that diversity in terms of a broad range of skills, experience, background and outlook is required for it to be effective. Whilst non-executive appointments are based on merit and overall suitability for the role, the NOMDAC is mindful of all aspects of diversity when making recommendations for appointments to the board.

Management succession

Succession planning for senior management is also a key area of focus and the identification of talented future leaders is essential for Investec's long-term success.

The NOMDAC received a detailed presentation from the executive management 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.

Regulatory and governance best practice

The year ahead will see the finalisation of the Financial Services (Banking Reform) Act 2013 bringing about a new Senior Managers Regime which will include specific responsibilities for non-executive directors.

Conclusion

The governance framework and structures that are in place ensure that the Investec group including its major operating subsidiaries are able to maintain the highest standards of corporate governance. The framework is described in further detail in the governance report of Investec's 2015 integrated annual report.

It is important to emphasise that underpinning the corporate governance framework and at the core of everything we do, are Investec's culture, values and philosophies. Our culture and values have always been at the heart of how we operate, and we believe the strength with which these are embedded and lived throughout the organisation distinguishes Investec from others. We believe that these will, as ever, provide the group with a strong foundation to enable it to meet the challenges of the future.

Fani Titi
Chairman

19 June 2015

Board statement

The composition of the board of Investec Bank plc is set out on page 114.

The board seeks to exercise leadership, integrity and judgement in pursuit of strategic goals and objectives, to achieve long-term sustainability, growth and prosperity. The board is accountable for the performance and affairs of Investec Bank plc. It provides leadership for the bank within a framework of prudent and effective controls which allows risks to be assessed and managed.

The board meets its objectives by reviewing and guiding corporate strategy, setting the bank's values and standards, promoting high standards of corporate governance, approving key policies and objectives, ensuring that obligations to its shareholders and other stakeholders are understood and met, understanding the key risks we face, determining our risk tolerance and approving and reviewing the processes in operation to mitigate risk from materialising, including the approval of the terms of reference of key supporting board committees.

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

Board committees

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

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

Financial reporting and going concern

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

- Budgeting and forecasts
- Profitability
- Capital
- Liquidity.

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

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

Further information on our liquidity and capital position is provided on pages 80 to 85 and pages 90 to 103.

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

Management and succession planning

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

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

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

The NOMDAC received a detailed presentation from the executive regarding senior management succession and 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 and relevant.

Risk management

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

More information on risk management can be found on pages 36 to 103.

Internal control

Risks and controls are reviewed and monitored regularly for relevance and effectiveness. The board risk and capital committee (BRCC), audit committees and PACC assist the board in this regard. Sound risk management practices are promoted by the group risk management function, which is independent of operational management. The board recognises its responsibility for the overall risk and control framework and for reviewing its effectiveness.

Internal control is designed to mitigate, not eliminate, significant risks faced.

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

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

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

Internal financial controls

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

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

Board of directors

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

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

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

Membership

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

During the period under review George Alford resigned as a director and Sir David Prosser resigned as chairman and director on 7 August 2014.

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

	Date of appointment
Executive directors	
DM van der Walt (chief executive officer)	5 February 2002
B Kantor	16 November 1992
S Koseff	16 November 1992
KP McKenna	10 May 2012
IR Wohlman	23 June 1999
A Zimbler	10 May 2012
Non-executive directors	
Sir DJ Prosser (chairman)*	7 July 2011
GFO Alford**	5 April 2000
PKO Crosthwaite	10 November 2010
D Friedland	1 March 2013
H Fukuda OBE	3 December 2012
F Titi (chairman)***	3 August 2011

* *Sir DJ Prosser resigned as chairman of the board and as a director on 7 August 2014.*
** *GFO Alford resigned from the board of directors on 7 August 2014.*
*** *F Titi was appointed as chairman of the board following the resignation of Sir DJ Prosser on 7 August 2014.*

Board meetings

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

Details of directors' attendance at board meetings:

	Number of meetings attended of the six held during the year
Executive directors	
DM van der Walt (chief executive officer)	6
B Kantor	6
S Koseff	6
KP McKenna	5
IR Wohlman	5
A Zimbler	6
Non-executive directors	
GFO Alford**	3
PKO Crosthwaite	5
D Friedland	6
H Fukuda OBE	5
Sir DJ Prosser*	2
F Titi	6

* *Sir DJ Prosser resigned as chairman of the board and as a director on 7 August 2014 and was therefore only eligible to attend meetings held prior to this date.*
** *GFO Alford resigned from the board of directors on 7 August 2014 and was therefore only eligible to attend meetings held prior to this date.*

Skills, knowledge, experience and attributes of directors

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

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

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

Board and directors' performance evaluation

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

The performance evaluation process takes place both informally, through personal observations and discussions, and/or 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, including meeting with business unit and central services heads to ensure they become familiar with business operations, senior management, our business environment and internal controls, policies, processes and systems for managing risk.

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

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

Following the board's and directors' performance evaluation process, any training needs are communicated to the company secretary who ensures these needs are addressed.

During the period under review there were a number of director workshops arranged outside board meetings.

Independent advice

Through the chairman or the company secretary, individual directors are entitled to seek professional independent advice on matters related to the exercise of their duties and responsibilities at the expense of Investec. No such advice was sought during the 2015 financial year.

Remuneration

Details of the directors' remuneration and remuneration process are set out on pages 123 to 127.

Chairman and chief executive officer

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

Details of the chairman's external directorships are set out in Investec's 2015 integrated annual report.

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

Further disclosures

Refer to Investec's 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
- Board committees – including the report prepared by the chairmen of the board committees.

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

The report by the chairman of the audit committee can be found in Investec's 2015 integrated annual report on pages 104 to 107.

Directorate

Investec Bank plc

(details as at 30 June 2015)

An indirect subsidiary of Investec plc

Fani Titi (53)

Chairman
BSc (Hons), MA, MBA

David M van der Walt (50)

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

Perry KO Crosthwaite (66)

MA (Hons)

David Friedland (62)

BCom, CA(SA)

Haruko Fukuda OBE (68)

MA (Cantab), DSc

Bernard Kantor (65)

CTA

Stephen Koseff (63)

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

Kevin P McKenna (48)

BCom, BAcc CA(SA)

Ian R Wohlman (60)

ACIB

Allen Zimbler (65)

BA (Hons), MBA, PhD

4

Remuneration report

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

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

Details of the directors' remuneration are shown in the notes to the annual financial statements.

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
- Certain of our Prudential Regulation Authority (PRA) Code Staff receive fixed monthly cash Code Staff allowances and a commensurate reduction of variable short-term incentive in order to comply with the two times cap in terms of the Capital Requirements Directive IV (CRD IV).

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 pre-determined risk appetite and capital allocation

- Facilitate alignment with shareholders through deferral of a portion of short-term incentives into shares and long-term incentive share awards
- Target total compensation (base salary, benefits and incentives) to the relevant competitive market at upper quartile levels for superior performance.

Given our stance on maintaining a low fixed cost component of remuneration, our commitment to inspiring an entrepreneurial culture, and our risk-adjusted return on capital approach to EVA, we do not apply an upper limit on variable rewards other than in respect of PRA Code Staff (as discussed on page 118).

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

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

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

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

Remuneration policy

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

Determination of remuneration levels

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 FTSE 350 General Finance sector has offered the most appropriate benchmark
- In order to avoid disproportionate packages across areas of the bank and between executives, adjustments may be made at any extremes to ensure broad internal consistency. Adjustments may also be made to the competitive positioning of 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 and B Kantor 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 or PRA Code Staff allowances, are pensionable.

Variable short-term incentive: annual bonus

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

Specialist Banking: variable short-term incentive

Risk-weighted returns form basis for variable remuneration levels

In our ordinary course of business we face a number of risks that could affect our business operations, as highlighted on page 17.

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 group should undertake, as well as the mitigation of risks and overall capital management and allocation process. Senior members of the bank's risk management teams who provide information for the meeting packs and present and contribute to the committee's discussions, attend these meetings.

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

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

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

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

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

EVA model: allocation of performance-related bonus pool

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

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

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

Our EVA model has been consistently applied for a period of about 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 inter-segment 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 90 to 103.

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

of all stakeholders as opposed to just employees

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

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

Deferral of annual bonus awards: other than UK PRA Code Staff within the Specialist Bank

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

Deferral of annual bonus awards: UK PRA Code Staff within the Specialist Bank

- PRA Code Staff include senior management, risk takers, staff engaged in central functions and any other employees whose professional activities have a material impact on Investec's risk profile within the bank
- Individual awards to PRA Code Staff are determined based on EVA pools in the same manner as is applicable to all staff (as set out above), and subject to the bank's remuneration policy and governance processes (also set out above)
- Annual bonus awards to directors of the UK Specialist Bank (excluding executive directors who are employees of a separately regulated firm) and all annual bonus awards where total variable remuneration exceeds £500 000 are subject to 60% deferral
- All other annual bonus awards to PRA Code Staff are subject to 40% deferral
- The 40% not deferred in the former instance or the 60% not deferred in the latter instance will be awarded as to 50% in cash and 50% in EVA forfeitable shares (up-front EVA forfeitable shares)
- The up-front EVA forfeitable shares will vest immediately but will only be released after a period of six months, which we consider to be an appropriate retention period
- Discretionary bonuses for PRA Code Staff who are not exempted by the *de minimis* concession are subject to 40% deferral (60% if total variable remuneration exceeds £500 000) after taking into account the value of LTIPs granted to each staff member in the applicable financial year and which are included in deferred variable remuneration. The deferred portion of discretionary awards to PRA Code Staff will, at the election of the staff member, be made either entirely in the form of EVA forfeitable shares, or 50% in EVA forfeitable shares and 50% in cash
- All deferrals in the form of EVA forfeitable shares (being either 50% or 100% of such deferral) vest in equal amounts at the end of 12 months, 24 months and 36 months and are then subject to an appropriate period of retention, being six months.

Investec Wealth & Investment: variable short-term incentive

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

IW&I operates the following performance related discretionary remuneration plans:

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

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

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

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

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

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

Other information on deferred awards and clawback provisions within the bank

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

The deferred share awards for PRA Code Staff are subject to malus adjustment of unpaid EVA. The assessment of whether any malus adjustment should be made to an individual's unvested award will be undertaken within the following framework:

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

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

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

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

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 for non-PRA Code Staff 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. LTIP awards to PRA Code Staff are subject to 75% vesting at the end of three and a half years and the final 25% at the end of four and a half years, and are then subject to performance conditions and a six-month retention period. The awards are forfeited on termination, but 'good leaver' discretion is applied in exceptional circumstances.

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

For further information on the share option and long-term share incentive plans in operation and in which the directors are eligible to participate refer to Investec's 2015 integrated annual report.

Other remuneration structures

Guaranteed variable remuneration

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

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

The remuneration committee at least annually reviews guaranteed variable remuneration payments and the number of guarantees awarded and approves any exceptions.

Retention awards

Investec only pays retention awards to serving staff in exceptional circumstances. In all such cases, Human Resources shall review proposed payments to ensure that

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

they are in line with this policy and any other relevant regulation. Additionally for PRA Code Staff, the remuneration committee shall review all proposed awards.

Circumstances where the bank will consider paying a retention award are in the case of a major restructuring of the company or any subsidiary or one of its business units (for instance in the start-up of a new business line, or the closure of a business line), where the retention of individuals is essential to the completion of the task.

A valid business case for the retention of the individual must be presented in order for a retention award to be approved and the PRA should be notified prior to the retention award being made to PRA Code Staff, and should consider seeking guidance on the appropriateness of retention awards for certain individuals.

Severance awards

Severance payments by Investec plc or one of its subsidiary companies for the early termination of a contract are at executive management's absolute discretion and must reflect performance achieved over time and be designed in a way that does not reward failure. Severance payments for PRA Code Staff individuals shall be subject to approval by the remuneration committee.

Discretionary extended pension benefits policy

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

Governance

Compliance and governance statement

The remuneration report complies with the UK Corporate Governance Code 2012, the UK Companies Act 2006, the Rules of the UK Listing Authority, the UK Financial Conduct Authority the rules and the PRA Remuneration Code.

Scope of our remuneration policy

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

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

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

- Investec Wealth & Investment Limited
- Hargreave Hale Limited.

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

Audited information

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

	Beneficial and non-beneficial interest Investec plc[1]		% of shares in issue[1]	Beneficial and non-beneficial interest Investec Limited[1]		% of shares in issue[1]
Name	1 April 2014	31 March 2015	31 March 2015	1 April 2014	31 March 2015	31 March 2015
Executive directors						
DM van der Walt (chief executive officer)[2]	3 800	–	–	690 140	690 140	0.2%
B Kantor[3]	57 980	488 918	0.1%	4 301 000	3 600 500	1.3%
S Koseff[3]	4 589 355	4 773 200	0.8%	1 809 399	1 534 399	0.5%
KP McKenna	144 135	102 921	–	–	–	–
IR Wohlman	96 052	122 600	–	80 000	80 000	–
A Zimbler	–	–	–	754 415	154 415	0.1%
Total number	4 891 322	5 487 639	0.9%	7 634 954	6 059 454	2.1%
Non-executive directors						
F Titi (chairman)	–	–	–	–	–	–
PKO Crosthwaite	132 908	115 738	–	–	–	–
D Friedland	–	–	–	–	–	–
H Fukuda OBE	5 000	5 000	–	–	–	–
Total number	137 908	120 738	–	–	–	–
Total number	5 029 230	5 608 377	0.9%	7 634 954	6 059 454	2.1%

The table above reflects holdings of shares by current directors.

1 *The number of shares in issue and share prices for Investec plc and Investec Limited over the period is provided on page 124.*

2 *David Van Der Walt entered into option agreements and purchased put options over 500,000 Investec Limited ordinary shares at a strike price of R98.19 per share, expiring on 2 March 2017; and sold call options over 500,000 Investec Limited shares at a price of R142.64 per share, expiring on 2 March 2017.*

3 *The beneficial and non-beneficial holdings of S Koseff and B Kantor include 203 418 Investec plc shares which relate to the award to each of the directors of shares in respect of a £1 million fixed allowance on 8 August 2014. The shares are subject to a retention period of four years in respect of 75% of the shares and the remaining 25% of the shares are subject to a retention period of five years.*

Directors' interests in preference shares at 31 March 2015

	Investec plc		Investec Limited		Investec Bank Limited	
Name	1 April 2014	31 March 2015	1 April 2014	31 March 2015	1 April 2014	31 March 2015
Executive director						
S Koseff	101 198	101 198	3 000	3 000	4 000	4 000

- *The market price of an Investec plc preference share at 31 March 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' interests 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' interests in long-term incentive plans at 31 March 2015

Investec plc shares

Name	Date of grant	Exercise price	Number of Investec plc 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 van der Walt	25 June 2009	Nil	75 000	(75 000)	–	–	£5.52	£413 955	
	1 July 2010	Nil	750 000	(562 500)	–	187 500	£5.20	£2 923 481	The remaining nil cost options are exercisable from 1 July 2015
KP McKenna	25 June 2009	Nil	25 000	(25 000)	–	–	£5.23	£130 713	
	1 July 2010	Nil	75 000	(56 250)	–	18 750	£5.36	£301 500	The remaining nil cost options are exercisable from 1 July 2015
	31 May 2011	Nil	50 000	–	–	50 000	–	–	75% is exercisable on 31 May 2015 and 25% on 31 May 2016
IR Wohlman	25 June 2009	Nil	18 750	(18 750)	–	–	£5.51	£103 219	
	1 July 2010	Nil	100 000	(75 000)	–	25 000	£5.48	£411 338	The remaining nil cost options are exercisable from 1 July 2015
	31 May 2011	Nil	100 000	–	–	100 000	–	–	75% is exercisable on 31 May 2015 and 25% on 31 May 2016
A Zimbler	25 June 2009	Nil	45 000	(45 000)	–	–	£5.56	£249 989	
	1 July 2010	Nil	275 000	(206 250)	–	68 750	£5.54	£1 142 873	The remaining nil cost options are exercisable from 1 July 2015

The above awards are not subject to performance conditions and were made prior to the directors being classified as Code Staff in terms of the PRA requirements.

The number of shares in issue and share prices for Investec plc and Investec Limited over the period are provided below.

Summary: Investec plc and Investec Limited share statistics

	31 March 2015	31 March 2014	High over the year	Low over the year
Investec plc share price	£5.61	£4.85	£6.06	£4.91
Investec Limited share price	R100.51	R84.84	R107.35	R86.02
Number of Investec plc shares in issue (million)	613.6	608.8	–	–
Number of Investec Limited shares in issue (million)	285.7	282.9	–	–

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
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
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

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

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

Conditional awards to PRA Code Staff at 31 March 2015

Investec plc shares

Name	Date of grant	Exercise price	Number of Investec plc 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 van der Walt	13 June 2013	Nil	200 000	–	–	200 000	–	–	75% is exercisable on 13 December 2016 and subject to six months' retention thereafter and 25% on 13 December 2017 and subject to six months' retention thereafter
	27 May 2014	Nil	–	–	175 000	175 000	–	–	75% is exercisable on 27 November 2017 and subject to six months' retention thereafter and 25% on 27 November 2018 and subject to six months' retention thereafter
KP McKenna	29 May 2012	Nil	40 000	–	–	40 000	–	–	75% is exercisable on 29 November 2015 and subject to six months' retention thereafter and 25% on 29 November 2016 and subject to six months' retention thereafter
	4 June 2013	Nil	60 000	–	–	60 000	–	–	75% is exercisable on 4 December 2016 and subject to six months' retention thereafter and 25% on 4 December 2017 and subject to six months' retention thereafter
	27 May 2014	Nil	–	–	100 000	100 000	–	–	75% is exercisable on 27 November 2017 and subject to six months' retention thereafter and 25% on 27 November 2018 and subject to six months' retention thereafter

Conditional awards to PRA Code Staff at 31 March 2015 (continued)

Investec plc shares

Name	Date of grant	Exercise price	Number of Investec plc 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
IR Wohlman	4 June 2013	Nil	50 000	–	–	50 000	–	–	75% is exercisable on 4 December 2016 and subject to six months' retention thereafter and 25% on 4 December 2017 and subject to six months' retention thereafter
	27 May 2014	Nil	–	–	100 000	100 000	–	–	75% is exercisable on 27 November 2017 and subject to six months' retention thereafter and 25% on 27 November 2018 and subject to six months' retention thereafter
A Zimbler	13 June 2013	Nil	125 000	–	–	125 000	–	–	75% is exercisable on 13 December 2016 and subject to six months' retention thereafter and 25% on 13 December 2017 and subject to six months' retention thereafter
	27 May 2014	Nil	–	–	100 000	100 000	–	–	75% is exercisable on 27 November 2017 and subject to six months' retention thereafter and 25% on 27 November 2018 and subject to six months' retention thereafter

The above awards to PRA Code Staff are subject to performance conditions and a six-month retention period after the award vests. In addition, these awards are subject to clawback in respect of some or all of the unvested portion of the award in terms of the PRA Remuneration Code.

The performance conditions will be assessed by the directors, in accordance with the rules and requirements of the PRA from time to time, at the end of each financial year of the performance period (between 31 March 2013 and 31 March 2017). For each year within the performance period that the return on risk-weighted assets for Investec Bank plc is equal to or greater than 0.3%, the performance condition for 25% of the award is satisfied, in which case 25% of the award will vest on the relevant vesting date (subject to clawback).

Additional remuneration disclosures (unaudited)

PRA Remuneration Code disclosures

In terms of the PRA's Chapter on Disclosure Requirements (BIPRU 11.5.18) the bank in the UK is required to make certain quantitative and qualitative remuneration disclosures on an annual basis with respect to PRA Code Staff. PRA Code Staff are defined as those employees (including directors) whose professional activities could have a material impact on the bank's risk profile. A total of 47 individuals were PRA Code Staff in 2015.

The bank's qualitative remuneration disclosures are provided on pages 116 to 122 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 in respect of PRA Code Staff for the year ended 31 March 2015.

Aggregate remuneration by remuneration type

£'million	Senior management	Other PRA Code Staff	Total
Fixed remuneration	6.3	14.3	20.6
Variable remuneration*			
– Cash	1.4	4.6	6.0
– Deferred cash	0.4	1.5	1.9
– Deferred shares	2.3	11.1	13.4
– Deferred shares – long-term incentive awards**	3.3	3.7	7.0
Total aggregate remuneration and deferred incentives	13.7	35.2	48.9
Ratio between fixed and variable pay			

* *Total number of employees receiving variable remuneration was 46.*

** *Value represents the number of shares awarded multiplied by the applicable share price. These awards were made during the period but have not yet vested. These awards are subject to performance conditions and to 75% vesting at the end of three and a half years and the final 25% at the end of four and a half years, subject to a six-month retention period.*

PRA Code Staff received total remuneration in the following bands:

	Number of PRA Code Staff
£800 000 – £1 200 000	8
£1 200 001 – £1 600 000	6
£1 600 001 – £2 000 000	2
£2 000 001 – £2 400 000	–
£2 400 001 – £2 800 000	1
£2 800 001 – £3 200 000	–
£3 200 001 – £3 600 000	2
£3 600 001 – £4 000 000	2
£4 000 001 – £4 400 000	–
£4 400 001 – £4 800 000	–
£4 800 001 – £5 200 000	–
> £5 200 001	–

Additional disclosure on deferred remuneration

£'million	Senior management	Other PRA Code Staff	Total
Deferred unvested remuneration outstanding at the beginning of the year	15.0	25.7	40.7
Deferred unvested remuneration adjustment – employees no longer Code Staff and reclassifications	2.5	4.3	6.8
Deferred remuneration awarded in year	6.0	16.3	22.3
Deferred remuneration reduced in year through performance adjustments	–	–	–
Deferred remuneration vested in year	(4.6)	(6.6)	(11.2)
Deferred unvested remuneration outstanding at the end of the year^^	**18.9**	**39.7**	**58.6**

^^ *All employees are subject to clawback provisions as discussed on page 121. No remuneration was reduced for ex post implicit adjustments during the year.*

£'million	Senior management	Other PRA Code Staff	Total
Deferred unvested remuneration outstanding at the end of the year			
– Equity	15.4	33.0	48.4
– Cash	2.0	4.9	6.9
– Other	1.5	1.8	3.3
	18.9	39.7	58.6

£'million	Senior management	Other PRA Code Staff	Total
Deferred remuneration vested in year			
– For awards made in 2014 financial year	(2.4)	(3.3)	(5.7)
– For awards made in 2013 financial year	(1.3)	(2.0)	(3.3)
– For awards made in 2012 financial year	(0.9)	(1.3)	(2.2)
	(4.6)	(6.6)	(11.2)

Other remuneration disclosures

£'million	Senior management	Other PRA Code Staff	Total
Sign-on payments			
Made during the year (£'million)	–	–	–
Number of beneficiaries	–	–	–
Severance payments			
Made during the year (£'million)	–	0.1	0.1
Number of beneficiaries	–	1	1
Guaranteed bonuses			
Made during the year (£'million)	–	–	–
Number of beneficiaries	–	–	–

5

Annual financial statements

The directors present their strategic and directors' report and financial statements for the year ended 31 March 2015.

Strategic report

The strategic report for the year ended 31 March 2015 was approved by the board of directors on 19 June 2015. The operational and financial review in sections 1 and 2 of this report provides an overview of our strategic position, performance during the financial year and outlook for the business. It should be read in conjunction with the sections referenced below which elaborate on the aspects highlighted in the strategic report:

- The risk management section in section 3 of this report provides a description of the principal risks and uncertainties facing the company
- The sustainability report on our website which highlights the sustainability economic, social and environmental considerations.

Business and principal activities

The principal activities of Investec Bank plc (the bank) and its subsidiaries are Specialist Banking and Wealth & Investment activities. The Specialist Banking activities are also undertaken by the bank's branch in Dublin.

Review of the business and future developments

A review of the bank's business for the year and future proposed activities can be found in the financial review on pages 14 to 34.

Accounting policies and disclosures

Accounting policies are set having regard to commercial practice and comply with applicable UK law. To align with the accounting policies applied in the consolidated financial statements of the bank's listed parent, Investec plc, the consolidated financial statements of the bank are prepared under International Financial Reporting Standards as adopted by the EU.

These policies are set out on pages 140 to 148.

The annual financial statements of the bank itself continue to be drawn up under UK Generally Accepted Accounting Practice.

The accounting policies for the bank's own annual financial statements are set out on pages 215 to 221.

Authorised and issued share capital

Details of the share capital at 31 March 2015 are set out in note 41 to the bank's consolidated annual financial statements. No shares were issued during the year.

Results and dividends

The results for the year are shown on page 134. Movements in reserves are shown in the reconciliation of equity on pages 138 and 139 of the financial statements.

The following interim dividends were declared and paid during the year: £32 million was declared and paid on 28 May 2014; £140 million was declared and paid on 14 November 2014.

Directors and their interests

The directors of the bank for the year ended 31 March 2015 are shown on page 111.

There have been the following changes in the composition of the board: Sir DJ Prosser resigned as chairman of the board and as a director, and GFO Alford resigned as a director on 7 August 2014.

The interests of the directors are set out in the remuneration report on pages 116 to 129.

Except as disclosed in this report, no other director held any beneficial interest in the shares of the company or the group.

Environment

The group is committed to pursuing sound environmental policies in all aspects of its business, and seeks to encourage and promote good environmental practice among its employees and within the communities in which it operates.

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

Employees

The group's policy is to recruit and promote on the basis of aptitude and ability, without discrimination of any kind. Applications for employment by disabled people are always considered bearing in mind the qualifications and abilities of the applicants. In the event of employees becoming disabled, every effort is made to ensure their continued employment.

The group's policy is to adopt an open management style, thereby encouraging informal consultation at all levels about aspects of the group's operations, and motivating staff involvement in the group's performance by means of employee share and option schemes.

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

Going concern

Refer to pages 109 and 110 for the directors' statement in relation to going concern.

Auditors

Ernst & Young LLP have indicated their willingness to continue in office as auditors. A resolution proposing their reappointment as auditors will be submitted to the annual general meeting.

Signed on behalf of the board

David van der Walt
Chief executive officer

19 June 2015

Directors' responsibility statement

The following statement, which should be read in conjunction with the auditor's report set out on page 133, is made with a view to distinguishing for stakeholders the respective responsibilities of the directors and of the auditors in relation to the consolidated financial statements.

The directors are responsible for the preparation, integrity and objectivity of the consolidated annual financial statements that fairly present the state of affairs of the bank at the end of the financial year and the net income and cash flows for the year, and other information contained in this annual report.

To enable the directors to meet these responsibilities:

- The board and management set standards and management implements systems of internal controls and accounting and information systems aimed at providing reasonable assurance that assets are safeguarded and the risk of fraud, error or loss is reduced in a cost effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties
- The Investec plc group's internal audit function, which operates unimpeded and independently from operational management, and has unrestricted access to the group audit committee, appraises and, when necessary, recommends improvements in the system of internal controls and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business
- The Investec plc group audit committee, together with the Internal Audit department, plays an integral role in matters relating to financial and internal control, accounting policies, reporting and disclosure.

To the best of our knowledge and belief, based on the above, the directors are satisfied that no material breakdown in the operation of the system of internal control and procedures has occurred during the year under review.

The bank consistently adopts appropriate and recognised accounting policies and these are supported by reasonable judgements and estimates on a consistent basis and provides additional disclosures when compliance with the specific requirements in International Financial Reporting Standards (IFRS) as adopted by the European Union are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the bank's financial position and financial performance.

The consolidated annual financial statements of the bank have been prepared in accordance with the Companies Act 2006 and comply with IFRS as adopted by the European Union.

The directors are of the opinion, based on their knowledge of the company, key processes in operation and specific enquiries that adequate resources exist to support the group on a going concern basis over the next year. These financial statements have been prepared on this basis.

It is the responsibility of the independent auditors to report on the consolidated annual financial statements. Their report to the members of the bank is set out on page 133 of this integrated annual report. As far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. All steps which ought to have been taken as directors have been completed in order to be aware of the relevant audit information and to establish that the company's auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the group's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Approval of financial statements

The directors' report and the financial statements of the bank, which appear on page 131 and pages 134 to 235, were approved by the board of directors on 19 June 2015.

Signed on behalf of the board

David van der Walt
Chief executive officer

19 June 2015

Independent auditor's report to the member of Investec Bank plc

We have audited the group financial statements of Investec Bank plc for the year ended 31 March 2015 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity, the accounting policies set out on pages 215 to 221, and the related notes 1 to 54. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement set out on page 132, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion, the group financial statements:

- Give a true and fair view of the state of the group's affairs as at 31 March 2015 and of its profit for the year then ended;
- Have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the strategic and directors' report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- The financial statements are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the parent company financial statements of Investec Bank plc for the year ended 31 March 2015.

Ernst & Young LLP

Michael-John Albert
(Senior statutory auditor)

For and on behalf of Ernst &Young LLP, Statutory Auditor

London

19 June 2015

Notes:

1. The maintenance and integrity of the Investec Bank plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

For the year to 31 March £'000	Notes	2015	2014*
Interest income	2	620 541	723 962
Interest expense	2	(330 673)	(422 516)
Net interest income		**289 868**	**301 446**
Fee and commission income	3	477 565	420 570
Fee and commission expense	3	(15 089)	(35 041)
Investment income	4	7 301	98 491
Trading income arising from			
– customer flow		88 258	77 052
– balance sheet management and other trading activities		(4 924)	639
Other operating income	5	10 074	12 207
Total operating income before impairment losses on loans and advances		**853 053**	**875 364**
Impairment losses on loans and advances	26	(102 084)	(97 491)
Operating income		**750 969**	**777 873**
Operating costs	6	(644 322)	(662 404)
Depreciation on operating leased assets	31	(1 535)	(6 044)
Operating profit before goodwill and acquired intangibles		**105 112**	**109 425**
Impairment of goodwill	33	(8 552)	(11 233)
Amortisation of acquired intangibles	34	(14 497)	(13 393)
Operating costs arising from integration and restructuring of subsidiaries		–	(16 911)
Operating profit		**82 063**	**67 888**
Net gain on disposal of subsidiaries	35	78 529	9 653
Profit before taxation		**160 592**	**77 541**
Taxation on operating profit before goodwill and acquired intangibles	8	(22 568)	(33 200)
Taxation on acquired intangibles and acquisition/disposal/integration of subsidiaries	8	(28 307)	7 389
Profit after taxation		**109 717**	**51 730**
Profit attributable to non-controlling interests		(3 869)	(1 063)
Earnings attributable to shareholder		**105 848**	**50 667**

* *As restated for restatements detailed in note 54.*

Consolidated statement of comprehensive income

For the year to 31 March £'000	Note	2015	2014*
Profit after taxation		109 717	51 730
Other comprehensive income/(loss):			
Items that may be reclassified to the income statement			
Fair value movements on cash flow hedges taken directly to other comprehensive income**	8	471	2 799
Loss/(gains) on realisation of available-for-sale assets recycled through the income statement**	8	1 935	(2 898)
Fair value movements on available-for-sale assets taken directly to other comprehensive income**	8	(3 686)	1 250
Foreign currency adjustments on translating foreign operations		(51 630)	(43 387)
Total comprehensive income		56 807	9 494
Total comprehensive income attributable to non-controlling interests		3 864	1 597
Total comprehensive income attributable to ordinary shareholder		52 943	7 897
Total comprehensive income		56 807	9 494

* *As restated for restatements detailed in note 54.*
** *Net of taxation.*

Consolidated balance sheet

At 31 March £'000	Notes	2015	2014*
Assets			
Cash and balances at central banks	17	2 181 232	1 742 605
Loans and advances to banks	18	828 726	1 105 205
Reverse repurchase agreements and cash collateral on securities borrowed	19	1 448 205	1 215 500
Sovereign debt securities	20	1 212 910	1 232 415
Bank debt securities	21	226 273	371 182
Other debt securities	22	222 485	229 228
Derivative financial instruments	23	805 886	782 947
Securities arising from trading activities	24	670 298	586 706
Investment portfolio	25	400 800	341 360
Loans and advances to customers	26	7 035 690	7 752 907
Own originated loans and advances to customers securitised	27	–	447 638
Other loans and advances	26	776 305	1 509 714
Other securitised assets	27	411 983	1 011 257
Interests in associated undertakings	28	16 297	16 637
Deferred taxation assets	29	66 249	97 614
Other assets	30	1 113 136	1 014 416
Property and equipment	31	60 316	63 487
Investment properties	32	65 736	61 715
Goodwill	33	260 900	296 247
Intangible assets	34	140 042	156 703
		17 943 469	20 035 483
Liabilities			
Deposits by banks		214 138	834 876
Derivative financial instruments	23	953 205	669 159
Other trading liabilities	36	251 879	391 650
Repurchase agreements and cash collateral on securities lent	19	597 259	614 733
Customer accounts (deposits)		10 579 558	11 095 782
Debt securities in issue	37	1 334 236	1 316 102
Liabilities arising on securitisation of own originated loans and advances	27	–	449 083
Liabilities arising on securitisation of other assets	27	330 526	962 253
Current taxation liabilities		121 198	103 432
Deferred taxation liabilities	29	39 464	38 471
Other liabilities	38	1 123 968	978 057
		15 545 431	17 453 598
Subordinated liabilities	40	596 923	669 776
		16 142 354	18 123 374
Equity			
Ordinary share capital	41	1 186 800	1 186 800
Share premium		143 288	143 288
Capital reserve		162 789	162 789
Other reserves		(18 791)	42 797
Retained income		326 351	379 660
Shareholder's equity excluding non-controlling interests		1 800 437	1 915 334
Non-controlling interests in partially held subsidiaries	42	678	(3 225)
Total equity		1 801 115	1 912 109
Total liabilities and equity		17 943 469	20 035 483

* *As restated for restatements detailed in note 54.*

Consolidated cash flow statement

For the year to 31 March £'000	Notes	2015	2014
Operating profit adjusted for non-cash items	44	222 602	211 797
Taxation (paid)/repayment		1 103	(11 625)
Increase in operating assets	44	(132 286)	1 466 918
Increase in operating liabilities	44	402 548	(1 344 805)
Net cash inflow/(outflow) from operating activities		**493 967**	**322 285**
Cash flow on acquisition of subsidiaries	35	(6 503)	–
Cash flow on acquisition/(disposal) of non-controlling interests		39	(270)
Cash flow on disposal of group operations	35	55 956	37 836
Cash flow on net disposal/(acquisition) of associates		131	(296)
Cash flow on acquisition of property, equipment and intangible assets		(29 017)	(21 158)
Cash flow on disposal of property, equipment and intangible assets		17 533	19 501
Net cash inflow/(outflow) from investing activities		**38 139**	**35 613**
Dividends paid to ordinary shareholders		(172 000)	–
Proceeds on issue of shares, net of related costs		–	20 020
Repayment of subordinated debt		(33 793)	–
Net cash inflow from financing activities		**(205 793)**	**20 020**
Effects of exchange rates on cash and cash equivalents		**12 732**	**(7 526)**
Net increase/(decrease) in cash and cash equivalents		**339 045**	**370 392**
Cash and cash equivalents at the beginning of the year		2 539 407	2 169 015
Cash and cash equivalents at the end of the year		**2 878 452**	**2 539 407**
Cash and cash equivalents is defined as including:			
Cash and balances at central banks		2 181 232	1 742 605
On-demand loans and advances to banks		697 220	796 802
Cash and cash equivalents at the end of the year		**2 878 452**	**2 539 407**

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

Consolidated statement of changes in equity

£'000	Ordinary share capital	Share premium account
Balance at 1 April 2013 as previously reported	1 173 800	136 268
Restatements on adoption of IFRIC 21	–	–
Balance at 1 April 2013 as restated	1 173 800	136 268
Movement in reserves 1 April 2013 – 31 March 2014		
Profit after taxation	–	–
Fair value movements on cash flow hedges	–	–
Gains on realisation of available-for-sale assets recycled through the income statement	–	–
Fair value movements on available-for-sale assets	–	–
Foreign currency adjustments on translating foreign operations	–	–
Total comprehensive loss for the year	–	–
Issue of ordinary shares	13 000	7 020
Movement arising on reduction/acquisition of non-controlling interest	–	–
Transfer to regulatory general risk reserve	–	–
At 31 March 2014	1 186 800	143 288
Movement in reserves 1 April 2014 – 31 March 2015		
Profit after taxation	–	–
Fair value movements on cash flow hedges	–	–
Losses on realisation of available-for-sale assets recycled through the income statement	–	–
Fair value movements on available-for-sale assets	–	–
Foreign currency adjustments on translating foreign operations	–	–
Total comprehensive gain/(loss) for the year	–	–
Share-based payment adjustment	–	–
Dividends paid to ordinary shareholders	–	–
Movement arising on reduction/acquisition of non-controlling interest	–	–
Transfer from other reserves	–	–
At 31 March 2015	1 186 800	143 288

	Other reserves							
Capital reserve account	Available-for-sale reserve	Regulatory general risk reserve	Cash flow hedge reserve	Foreign currency reserves	Retained income	Shareholders' equity excluding non-controlling interests	Non-controlling interests	Total equity
162 789	5 195	17 107	(11 509)	73 817	326 212	1 883 679	(4 552)	1 879 127
–	–	–	–	–	3 738	3 738	–	3 738
162 789	5 195	17 107	(11 509)	73 817	329 950	1 887 417	(4 552)	1 882 865
–	–	–	–	–	50 667	50 667	1 063	51 730
–	–	–	2 799	–	–	2 799	–	2 799
–	(2 898)	–	–	–	–	(2 898)	–	(2 898)
–	1 250	–	–	–	–	1 250	–	1 250
–	(271)	(3 254)	2 189	(42 585)	–	(43 921)	534	(43 387)
–	(1 919)	(3 254)	4 988	(42 585)	50 667	7 897	1 597	9 494
–	–	–	–	–	–	20 020	–	20 020
–	–	–	–	–	–	–	(270)	(270)
–	–	957	–	–	(957)	–	–	–
162 789	3 276	14 810	(6 521)	31 232	379 660	1 915 334	(3 225)	1 912 109
–	–	–	–	–	105 848	105 848	3 869	109 717
–	–	–	471	–	–	471	–	471
–	1 935	–	–	–	–	1 935	–	1 935
–	(3 686)	–	–	–	–	(3 686)	–	(3 686)
–	(1)	(138)	61	(51 547)	–	(51 625)	(5)	(51 630)
–	(1 752)	(138)	532	(51 547)	105 848	52 943	3 864	56 807
–	–	–	–	–	4 160	4 160	–	4 160
–	–	–	–	–	(172 000)	(172 000)	–	(172 000)
–	–	–	–	–	–	–	39	39
–	–	(14 672)	5 989	–	8 683	–	–	–
162 789	1 524	–	–	(20 315)	326 351	1 800 437	678	1 801 115

Accounting policies

Basis of presentation

These group annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU) which comply with IFRSs as issued by the International Accounting Standards Board (IASB). At 31 March 2015, IFRS as endorsed by the EU are identical in all material respects to current IFRS applicable to the group, with differences only in the effective dates of certain standards. However, the group has early adopted these relevant standards to ensure compliance with both frameworks.

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

Presentation of information

Disclosure under IFRS 7 Financial Instruments: Disclosures and IAS 1 Presentation of Financial Statements: Capital Disclosures relating to the nature and extent of risks have been included in sections marked as audited in the risk management report on pages 36 to 103.

Certain disclosures required under IAS 24 Related Party Disclosures have been included in the section marked as audited in the remuneration report on pages 116 to 129.

Restatements and presentation of information

The group has adopted the following new or revised standards from 1 April 2014:

IFRIC 21 Levies

The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy and an entity does not have a constructive obligation to pay a levy that will be triggered in a future period as a result of being economically compelled to continue to operate in that future period. The new interpretation has been applied retrospectively and its application has caused the recognition date for the Financial Services Compensation Scheme (FSCS) levy to be changed from the 31 December prior to the beginning of the relevant levy year to the following 1 April. The group has accordingly restated the prior periods to reflect this change and additional details are shown in note 54.

Other standards became effective during the year which did not have an impact on the group.

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 investee. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. Investec also holds investments, for example private equity investments, which give rise to significant, but not majority, voting rights. Assessing these voting rights and whether Investec controls these entities requires judgement that affects the date at which subsidiaries are consolidated or deconsolidated.

Entities, other than subsidiary undertakings, in which the group exercises significant influence over operating and financial policies, are treated as interests in associated undertakings. Interests in associated undertakings are accounted for using the equity method from the date that significant influence commences until the date that significant influence ceases. In circumstances where interests in associated undertakings or joint venture holdings arise in which the group has no strategic intention, these investments are classified as 'venture capital' holdings and are designated as held at fair value through profit or loss.

For equity accounted associates, the consolidated annual financial statements include the attributable share of the results and reserves of associated undertakings. The group's interests in associated undertakings are included in the consolidated balance sheet at cost plus the post-acquisition changes in the group's share of the net assets of the associate.

The consolidated balance sheet reflects the associated undertakings net of accumulated impairment losses.

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.

The group's segmental reporting is presented in the form of a business analysis. The business analysis is presented in terms of the group's two principal business divisions, namely, Wealth & Investment and Specialist Banking.

For further detail on the group's segmental reporting basis refer to the divisional review section of the integrated annual report.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at the acquisition date fair value and the amount of any prior non-controlling interest in the acquiree. For each business combination, the group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed immediately in the income statement.

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and the designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the group's previously held equity interest in the acquiree is remeasured to fair value at each acquisition date through the income statement.

Any contingent consideration to be transferred by the group will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in the income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration and amount recognised for non-controlling interest is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the income statement as a gain in the year of acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. The group tests goodwill acquired in a business combination for impairment annually, irrespective of whether an indication of impairment exists and in accordance with IAS 36.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units that are expected to benefit from the combination.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in 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.

Fair value measurements are based on option pricing models, taking into account the risk-free interest rate, volatility of the underlying equity instrument, expected dividends and current share prices.

Where the terms of an equity-settled award are modified, the minimum expense recognised in staff costs is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Foreign currency transactions and foreign operations

The presentation currency of the group is Pounds Sterling, being the functional currency of Investec Bank plc.

Foreign operations are subsidiaries, interests in associated undertakings or branches of the group, the activities of which are based in a functional currency other than that of the reporting entity. The functional currency of group entities is determined based on the primary economic environment in which the entity operates.

Foreign currency transactions are translated into the functional currency of the entity in which the 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 exclude those fees earned for a separately identifiable significant act, which are recognised upon completion of the act. Fees and commissions charged in lieu of interest are recognised as income as part of the effective interest rate on the underlying loan.

The effective interest method is based on the estimated life of the underlying instrument and where this estimate is not readily available, the contractual life.

Fee and commission income includes fees earned from providing advisory services as well as portfolio management and includes rental income from investment properties. Investment advisory and management fees are accrued over the period to which the income relates. Performance fees are recognised when they become receivable. No revenue is recognised if there are significant uncertainties regarding the recovery of the consideration due.

Investment income includes income, other than margin from securities held for the purpose of generating interest yield, dividends and capital appreciation.

Customer flow trading income includes income from trading activities arising from making and facilitating client activities.

Trading income arising from balance sheet management and other trading activities consists of proprietary trading income and other gains and losses arising from balance sheet management.

Trading profit includes the unrealised profit on trading portfolios, which are marked to market daily. Equity investments received in lieu of corporate finance fees are included in investment portfolio and valued accordingly.

Dividend income is recognised when the group's right to receive payment is established.

Included in other operating income is incidental rental income, gains on realisation of properties (other than investment properties which is included in investment income), operating lease income, income from interests in associated undertakings, income from assurance activities and revenue from consolidated private equity investments. Operating costs associated with these investments are included in operating costs in the income statement.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the group measures the fair value of an instrument using the quoted price in an active market for that instrument.

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The group classifies disclosed fair values according to a hierarchy that reflects the significance of observable market inputs. A transfer is made between the hierarchy when the inputs have changed or there has been a change in valuation method. Transfers are deemed to occur at the end of each semi-annual reporting period.

Financial instruments

Financial instruments are initially recognised at their fair value. For financial assets or financial liabilities not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities are included in the initial 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 time frame established by market convention are recorded at trade date.

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

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

Financial instruments classified as held-for-trading or designated as held at fair value through profit or loss are 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 the intention of generating short-term profit, or are derivatives which are not designated as part of effective hedges. Financial instruments designated as held at fair value through profit or loss are designated as such on initial recognition of the instrument and remain in this classification until derecognition.

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

- It eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; 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

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

Subsequent to initial recognition, loans and receivables are measured at amortised cost, using the effective interest 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 predominantly focuses on the securitisation of residential and commercial mortgages and lease receivables. The group also trades in structured credit investments.

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

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

Available-for-sale financial assets

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

Financial assets classified as available-for-sale are measured at fair value with unrealised gains and losses recognised directly in other comprehensive income in the available-for-sale reserve. When the asset is disposed of, the cumulative gain or loss previously recognised in other comprehensive income is 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 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 (within the Specialist Banking business segment) 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 (that is, exposures in all business segments). Assets specifically identified as impaired are excluded from the collective assessment.

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

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

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

Derecognition of financial assets and liabilities

A financial asset, or a portion thereof, is derecognised when the group's rights to cash flows have expired or when the group has transferred its rights to cash flows relating to the financial assets and either (a) the group has transferred substantially all the 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, that is when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced or modified with substantially different terms, such a replacement or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

Reclassification of financial instruments

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

Derivative instruments

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

Derivative positions are entered into either for trading purposes or as part of the group's asset and liability management activities to manage exposures to interest rate and foreign currency risks. Both realised and unrealised profit 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 in the hedge accounting section 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 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 current market price or remeasured price. The counterparty risk from derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit value adjustment (CVA).

Hedge accounting

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

- At inception of the hedge, the group formally documents the relationship between the hedging instrument(s) and hedged item(s) including the risk management objectives and the strategy in undertaking the hedge transaction. Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item
- A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%
- For cash flow hedges, a forecasted transaction that is the subject of the hedge must be highly probable and must present an exposure to variation in cash flows that could ultimately affect 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, is 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 other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of any such gain or loss recorded in other comprehensive income is reclassified to the income statement.

Hedge accounting is discontinued when it is determined that the instrument ceases to be highly effective as a hedge; when the derivative expires, or is sold, terminated or exercised; when the hedged item matures or is sold or repaid; when a forecasted transaction is no longer deemed highly probable or when the designation as a hedge is revoked.

Embedded derivatives

To the extent that a derivative may be embedded in a hybrid contract and the hybrid contract is not carried at fair value with changes in fair value recorded in the income statement, the embedded derivative is separated from the host contract and accounted for as a stand-alone derivative if and only if:

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

Offsetting of financial assets and liabilities

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

Issued debt and equity financial instruments

Financial instruments 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 issued by subsidiaries of Investec Bank plc are recorded as non-controlling interests on the balance sheet.

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

Dividends on ordinary shares are recognised as a deduction from equity at the earlier of payment date or the date that it is approved by Investec Bank plc shareholders.

Sale and repurchase agreements (including securities borrowing and lending)

Where securities are sold subject to a commitment to repurchase them, at a fixed price or a selling price plus a lender's return, they remain on balance sheet. Proceeds received are recorded as a liability on balance sheet under 'repurchase agreements and cash collateral on securities lent'. Securities that are purchased under a commitment to resell the securities at a future date are not recognised on the balance sheet. The consideration paid is recognised as an asset under 'reverse repurchase agreements and cash collateral on securities borrowed'.

The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest 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.

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 are accrued to the income statement when incurred.

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and impairments.

Cost is the cash equivalent paid or the fair value of the consideration given to acquire an asset and includes other expenditures that are directly attributable to the acquisition of the asset.

Depreciation is provided on the depreciable amount of each component on a straight-line basis over the expected useful life of the asset.

The depreciable amount related to each asset is determined as the difference between the cost and the residual value of the asset. The residual value is the estimated amount, net of disposal costs that the group would currently obtain from the disposal of an asset in similar age and condition as expected at the end of its useful life.

The current and comparative annual depreciation rates for each class of property and equipment is as follows:

- Computer and related equipment 20% – 33%
- Motor vehicles 20% – 25%
- Furniture and fittings 10% – 20%
- Freehold buildings 2%
- Leasehold property and improvements.*

* *Leasehold improvements depreciation rates are determined by reference to the appropriate useful life of its separate components, limited to the period of the lease. Leasehold property depreciation rates are determined by reference to the period of the lease.*

No depreciation is provided on freehold land. However, similar to other property-related assets, it is subject to impairment testing when an indication of impairment exists.

Routine maintenance and service costs for group assets are expensed as incurred. Subsequent expenditure is only capitalised if it is probable that future economic benefits associated with the item will flow to the group.

Investment property

Properties 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 properties

Trading properties are carried at the lower of cost and net realisable value.

Intangible assets

Intangible assets are recorded at cost less accumulated amortisation and impairments.

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 3 to 20 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. Reversals of impairment losses are recognised in income in the period in which the reversals are identified, to the extent that the carrying value of the asset does not exceed the amount that would have been calculated without impairment.

Trust and fiduciary activities

The group acts as a trustee or in other fiduciary capacities that result in the holding, placing or managing of assets for the account of and at the risk of clients.

As these are not assets of the group, they are not recognised on the balance sheet but are included at market value as part of assets under administration.

Taxation and deferred taxation

Current tax payable is provided on the amount expected to be payable on taxable profit at rates that are enacted or substantively enacted and applicable to the relevant period.

Deferred taxation is provided 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 or taxable profit
- In respect of temporary differences associated with the investments in subsidiaries and interests in associated undertakings, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred 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 addition, employees of the bank participate in two closed defined benefit schemes along with employees of other subsidiary undertakings of Investec plc, the bank's parent.

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

As there is no contractual agreement or stated policy for charging the net defined benefit cost for the defined benefit plans as a whole measured in accordance with IAS 19 to individual Investec plc group entities, the bank accounts for these schemes on a defined contribution basis.

Borrowing costs

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

Provisions, contingent liabilities and contingent assets

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

Standards and interpretations issued but not yet effective

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

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments was issued in July 2014 will replace certain key elements of IAS 39. The mandatory effective date for IFRS 9 is 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 of IFRS 9 aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. The standard does not address macro hedge accounting strategies, which are being considered in a separate project. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge accounting requirements, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting.

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.

The group is currently assessing the impact of this standard but it is not practicable to quantify the effect as at the date of the publication of these financial statements.

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 is currently assessing the impact of this standard but it is not practicable to quantify the effect as at the date of the publication of these financial statements.

All other standards and interpretations issued but not yet effective are not expected to have a material impact on the group.

Key management assumptions

In preparation of the annual financial statements the group makes estimations and applies judgement that could affect the reported amount of assets and liabilities within the next financial year. Key areas in which judgement is applied include:

- Valuation of unlisted investments primarily in the private equity, direct investments portfolios and embedded derivatives. Key valuation inputs are based on the most relevant observable market inputs, adjusted where necessary for factors that specifically apply to the individual investments and recognising market volatility

Details of unlisted investments can be found in note 25 with further analysis contained in the risk management section on pages 70 to 72.

- 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 57 to 65 in the risk management section for further analysis on impairments.

- The group's income tax charge and balance sheet provision are judgemental in nature. This arises from certain transactions for which the ultimate tax treatment can only be determined by final resolution with the relevant local tax authorities. The group 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.

For the year to 31 March £'000	Wealth & Investment	Specialist Banking	Total group
1. Consolidated segmental analysis			
2015			
Segmental business analysis – income statement			
Net interest income	6 209	283 659	289 868
Fee and commission income	239 584	237 981	477 565
Fee and commission expense	(923)	(14 166)	(15 089)
Investment income	3 486	3 815	7 301
Trading income arising from			
– customer flow	895	87 363	88 258
– balance sheet management and other trading activities	356	(5 280)	(4 924)
Other operating income	1 276	8 798	10 074
Total operating income before impairment losses on loans and advances	250 883	602 170	853 053
Impairment losses on loans and advances	–	(102 084)	(102 084)
Operating income	250 883	500 086	750 969
Operating costs	(194 012)	(450 310)	(644 322)
Depreciation on operating leased assets	–	(1 535)	(1 535)
Operating profit before goodwill and acquired intangibles	56 871	48 241	105 112
Profit attributable to non-controlling interests	–	(3 869)	(3 869)
Operating profit before goodwill, acquired intangibles and after non-controlling interests	56 871	44 372	101 243
Selected returns and key statistics			
Cost to income ratio	77.3%	74.8%	75.5%
Number of employees at year end	1 193	1 912	3 105
Average number of employees over the year	1 154	2 037	3 191
Total assets (£'million)	897	17 046	17 943

No geographical segmental analysis is provided as the group operates on a single significant geography following the sale of Investec Bank (Australia) Limited in the current year.

For the year to 31 March £'000	Wealth & Investment	Specialist Banking	Total group
1. Consolidated segmental analysis (continued)			
2014			
Segmental business analysis – income statement			
Net interest income	7 987	293 459	301 446
Fee and commission income	219 434	201 136	420 570
Fee and commission expense	(2 020)	(33 021)	(35 041)
Investment income	1 875	96 616	98 491
Trading income arising from			
– customer flow	389	76 663	77 052
– balance sheet management and other trading activities	(72)	711	639
Other operating income	1 232	10 975	12 207
Total operating income before impairment losses on loans and advances	228 825	646 539	875 364
Impairment losses on loans and advances	–	(97 491)	(97 491)
Operating income	228 825	549 048	777 873
Operating costs	(182 759)	(479 645)	(662 404)
Depreciation on operating leased assets		(6 044)	(6 044)
Operating profit before goodwill and acquired intangibles	46 066	63 359	109 425
Profit attributable to non-controlling interests	–	(1 063)	(1 063)
Operating profit before goodwill, acquired intangibles and after other non-controlling interests	46 066	62 296	108 362
Selected returns and key statistics			
Cost to income ratio	79.9%	74.7%	76.1%
Number of employees at year end	1 105	2 116	3 221
Average number of employees over the year	1 035	2 274	3 309
Total assets (£'million)	927	19 108	20 035

For the year to 31 March 2015 £'000	Notes	Balance sheet value	Interest income
2. Net interest income			
Cash, near cash and bank debt and sovereign debt securities	1	5 897 346	49 660
Core loans and advances	2	7 035 690	419 311
Private client		3 341 869	169 247
Corporate, institutional and other clients		3 693 821	250 064
Other debt securities and other loans and advances		998 790	122 620
Other interest-earning assets	3	411 983	28 950
Total interest-earning assets		14 343 809	620 541

For the year to 31 March 2015 £'000	Notes	Balance sheet value	Interest expense
Deposits by banks and other debt-related securities	4	2 145 633	46 910
Customer accounts (deposits)		10 579 558	180 370
Other interest-bearing liabilities	5	330 526	43 522
Subordinated liabilities		596 923	59 871
Total interest-bearing liabilities		13 652 640	330 673
Net interest income			289 868

For the year to 31 March 2014 £'000	Notes	Balance sheet value	Interest income
2. Net interest income (continued)			
Cash, near cash and bank debt and sovereign debt securities	1	5 666 907	62 889
Core loans and advances	2	8 200 545	542 688
Private client		5 146 583	267 386
Corporate, institutional and other clients		3 053 962	275 302
Other debt securities and other loans and advances		1 738 942	75 269
Other interest-earning assets	3	1 011 257	43 116
Total interest-earning assets		16 617 651	723 962

For the year to 31 March 2014 £'000	Notes	Balance sheet value	Interest expense
Deposits by banks and other debt-related securities	4	2 765 711	61 369
Customer accounts (deposits)		11 095 782	238 919
Other interest-bearing liabilities	5	1 411 336	59 914
Subordinated liabilities		669 776	62 314
Total interest-bearing liabilities		15 942 605	422 516
Net interest income			301 446

Notes:

1. Comprises (as per the balance sheet) cash and balances at central banks; loans and advances to banks; reverse repurchase agreements and cash collateral on securities borrowed; sovereign debt securities; 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.

4. Comprises (as per the balance sheet) deposits by banks; debt securities in issue; reverse 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.

For the year to 31 March £'000	2015	2014
3. Net fee and commission income		
Wealth management businesses net fee and commission income	238 661	217 414
Fund management fees/fees for assets under management	180 018	157 565
Private client transactional fees	59 566	61 869
Fee and commission expense	(923)	(2 020)
Specialist Banking net fee and commission income	223 815	168 115
Corporate and institutional transactional and advisory services	212 967	171 281
Private client transactional fees	25 014	29 855
Fee and commission expense	(14 166)	(33 021)
Net fee and commission income	462 476	385 529
Annuity fees (net of fees payable)	280 640	221 670
Deal fees	181 836	163 859

Trust and fiduciary fees amounted to £33 000 (2014: £8.1 million) and is included in private client transactional fees.

For the year to 31 March £'000	2015	2014
4. Investment income		
Realised	80 377	53 960
Unrealised	(81 131)	34 464
Dividend income	5 861	10 848
Funding and other net related income/(costs)	2 194	(781)
	7 301	98 491

For the year to 31 March £'000	Investment portfolio (listed and unlisted equities)*	Debt securities (sovereign, bank and other)	Investment properties	Other asset categories	Total
2015					
Realised	63 395	8 857	–	8 125	80 377
Unrealised	(76 853)	(14 007)	8 726	1 003	(81 131)
Dividend income	5 861	–	–	–	5 861
Funding and other net related income	–	–	–	2 194	2 194
Total investment income/(loss)	(7 597)	(5 150)	8 726	11 322	7 301
2014					
Realised	37 826	11 452	–	4 682	53 960
Unrealised	52 058	(13 363)	–	(4 231)	34 464
Dividend income	10 655	–	–	193	10 848
Funding and other net related costs	–	–	–	(781)	(781)
Total investment income/(loss)	100 539	(1 911)	–	(137)	98 491

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

For the year to 31 March £'000	2015	2014
5. Other operating income		
Rental income from properties	5 643	980
Gains on realisation of properties	66	–
Unrealised gains on other investments	681	–
Income from operating leases	2 181	9 336
Operating income from associates	1 503	1 891
	10 074	12 207

For the year to 31 March £'000	2015	2014
6. Operating costs		
Staff costs	468 443	473 949
– Salaries and wages (including directors' remuneration)*	374 795	371 006
– Training and other costs	10 735	15 445
– Share-based payment expense	28 856	34 453
– Social security costs	34 154	33 768
– Pensions and provident fund contributions	19 903	19 277
Premises expenses (excluding depreciation)	30 540	32 843
Equipment expenses (excluding depreciation)	24 622	26 043
Business expenses**	79 092	86 277
Marketing expenses	27 799	27 272
Depreciation, amortisation and impairment on property, equipment and intangibles	13 826	16 020
	644 322	662 404
Depreciation on operating leased assets	1 535	6 044
	645 857	668 448
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	2 239	2 545
Fees payable to the company's auditors and its associates for other services:		
Audit of the company's subsidiaries pursuant to legislation	1 341	1 260
Audit-related assurance services	551	153
Tax compliance services	93	150
Tax advisory services	621	562
Other assurance services	393	10
	5 238	4 680
KPMG fees		
Fees payable to the company's auditors for the audit of the company's accounts	77	89
Fees payable to the company's auditors and its associates for other services:		
Audit of the company's subsidiaries pursuant to legislation	143	149
Audit-related assurance services	164	160
Tax advisory services	44	69
	428	467
Total	5 666	5 147

* *Details of the directors' emoluments, pensions and their interests are disclosed in note 3 of the parent company annual financial statements. Details of directors' interests are disclosed in the remuneration report on pages 116 to 129.*

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

7. Share-based payments

The group operates share option and long-term share incentive plans for employees, the majority of which are on an equity-settled basis. The purpose of the staff share schemes is to promote an *esprit de corps* within the organisation, create an awareness of Investec's performance and provide an incentive to maximise individual and group performance by allowing all staff to share in the risks and rewards of the group.

Further information on the group share options and long-term incentive plans are provided on page 121 of the remuneration report and on our website.

For the year to 31 March £'000	Wealth & Investment	Specialist Banking	Total group
Share-based payment expense:			
2015			
Equity-settled	5 617	23 239	28 856
Total income statement charge	5 617	23 239	28 856
Equity-settled: accelerated charges in respect of subsidiaries sold and restructured	–	5 097	5 097
	5 617	28 336	33 953
2014			
Equity-settled	5 715	28 738	34 453
Total income statement charge	5 715	28 738	34 453
Equity-settled: accelerated charges in respect of subsidiaries sold and restructured	–	1 480	1 480
	5 715	30 218	35 933

Included in the above income statement charge is an accelerated share-based payment charge as a result of modifications to certain options granted. This expense for the year was £0.01 million (2014: £0.3 million).

For the year to 31 March £'000	2015	2014
Fair value of options granted in the year		
UK Schemes	23 785	23 619

	2015		2014	
Details of options outstanding during the year	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of the year	38 364 789	0.05	43 549 331	0.04
Granted during the year	6 406 310	0.01	7 301 989	0.05
Exercised during the year*	(14 438 042)	0.03	(10 293 787)	0.02
Options forfeited during the year	(1 396 569)	0.13	(2 192 744)	0.28
Outstanding at the end of the year	28 936 488	0.06	38 364 789	0.05
Exercisable at the end of the year	119 697	–	561 720	0.11

* *The weighted average share price during the year was £5.41 (2014: £4.35).*

7. Share-based payments (continued)

Additional information relating to options:	2015	2014
Options with strike prices		
Exercise price range	£3.20 – £5.72	£3.20 – £5.00
Weighted average remaining contractual life	2.06 years	2.79 years
Long-term incentive grants with no strike price		
Exercise price range	£nil	£nil
Weighted average remaining contractual life	1.79 years	2.58 years
Weighted average fair value of options and long-term grants at measurement date	£3.71	£3.23
The fair values of options granted where calculated using a Black-Scholes option pricing model. For options granted during the year, the inputs into the model were as follows:		
– Share price at date of grant	£5.16 – £5.72	£4.26 – £4.59
– Exercise price	£nil, £5.16 – £5.72	£nil, £4.26 – £4.59
– Expected volatility	25.24% – 30%	30%
– Option life	4.5 – 5.25 years	4.5 – 5.25 years
– Expected dividend yields	4.86% – 5.04%	4.42% – 5.90%
– Risk-free rate	1.36% – 1.70%	0.98% – 1.44%

Expected volatility was determined based on the implied volatility levels quoted by the derivatives trading desk. The expected volatility is based on the respective share price movement over the last six months but also includes an element of forward expectation.

The expected attrition rates used were determined based on historical group data with an adjustment to actual attrition on final vesting.

For the year to 31 March £'000	2015	2014
8. Taxation		
Income statement tax charge		
Current taxation		
UK		
Current tax on income for the year	15 319	25 242
Adjustments in respect of prior years	1 278	98
	16 597	25 340
Europe	1 777	2 074
Other	3	580
	1 780	2 654
Total current taxation	18 377	27 994

For the year to 31 March £'000	2015	2014
8. Taxation (continued)		
Deferred taxation		
UK	(6 732)	(2 125)
Europe	5 030	96
Australia	34 200	(154)
Total deferred taxation	32 498	(2 183)
Total taxation charge for the year	50 875	25 811
Total taxation charge for the year comprises:		
Taxation on operating profit before goodwill	22 568	33 200
Taxation on acquired intangibles and acquisition/disposal/integration of subsidiaries	28 307	(7 389)
	50 875	25 811
Deferred taxation comprises:		
Origination and reversal of temporary differences	34 302	(1 617)
Changes in tax rates	155	3 401
Adjustment in respect of prior years	(1 959)	(3 967)
	32 498	(2 183)
The rates of corporation tax for the relevant years are:	%	%
UK	21	23
Europe (average)	10	10
Australia	30	30
Profit before taxation	160 592	77 541
Taxation on profit before taxation	50 875	25 811
Effective tax rate	31.7%	33.3%
The taxation charge on activities for the year is different from the standard rate as detailed below:		
Taxation on profit on ordinary activities before taxation at UK rate of 21% (2014: 23%)	33 725	17 834
Taxation adjustments relating to foreign earnings	(6 881)	(6 033)
Taxation relating to prior years	(681)	(3 869)
Goodwill and non-operating items	16 597	4 208
Share options accounting expense	8 940	5 709
Share options exercised during the year	(12 135)	(8 873)
Unexpired share options future tax deduction	2 056	2 029
Non-taxable income	(1 057)	(4 309)
Net other permanent differences	10 236	15 733
Unrealised capital losses	(3 150)	789
Utilisation of brought forward capital losses	–	(18)
Movement of brought forward trading losses	3 070	(804)
Tax losses surrendered by fellow group companies for no charge	–	(9)
Change in tax rate	155	3 424
Total taxation charge as per income statement	50 875	25 811

For the year to 31 March £'000	2015	2014
8. Taxation (continued)		
Other comprehensive income taxation effects		
Fair value movements on cash flow hedges taken directly to other comprehensive income	471	2 799
Pre-taxation	471	3 999
Taxation effect	–	(1 200)
Gains on realisation of available-for-sale assets recycled through the income statement	1 935	(2 898)
Pre-taxation	1 628	(3 980)
Taxation effect	307	1 082
Fair value movements on available-for-sale assets taken directly to other comprehensive income	(3 686)	1 250
Pre-taxation	(4 814)	1 405
Taxation effect	1 128	(155)
In addition, there is a deferred tax movement through the statement of changes in equity of £4.16 million (2014: £nil) relating to the share-based payments calculated according to IAS 12. The deferred tax asset has been held in the employing company at Investec Bank plc level but the IFRS 2 reserves are held at Investec plc level.		

For the year to 31 March £'000	2015	2014
9. Dividends		
Ordinary dividends		
Interim dividends for current year	172 000	–
Total dividends attributable to ordinary shareholder recognised in current financial year	172 000	–

For the year to 31 March £'000	2015	2014
10. Operating lease income and expense		
Operating lease expenses recognised in operating costs expenses:		
Minimum lease payments	7 218	9 706
	7 218	9 706
Operating lease income recognised in income:		
Minimum lease payments	5 830	8 131
	5 830	8 131

The majority of the operating lease expenses in the group relate to leases on property.

Rental income from leasing motor vehicles and properties is included in 'Other operating income'.

11. Analysis of income and impairments by category of financial instruments

For the year to 31 March £'000	At fair value through profit or loss Trading	At fair value through profit or loss Designated at inception
2015		
Net interest income/(expense)	(21 778)	2 086
Fee and commission income	54 085	1 507
Fee and commission expense	(971)	–
Investment income	1 195	598
Trading income arising from:		
– customer flow	78 657	8 546
– balance sheet management and other trading activities	(2 010)	(3 274)
Other operating income	–	–
Total operating income/(expense) before impairment losses on loans and advances	109 178	9 463
Impairment losses on loans and advances	–	–
Operating income	109 178	9 463
2014		
Net interest income/(expense)	(19 711)	14 318
Fee and commission income	40 567	77
Fee and commission expense	(122)	(6 113)
Investment income	–	63 855
Trading income arising from:		
– customer flow	75 411	1 677
– balance sheet management and other trading activities	3 666	(2 441)
Other operating income	–	–
Total operating income/(expense) before impairment losses on loans and advances	99 811	71 373
Impairment losses on loans and advances	–	–
Operating income	99 811	71 373

Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non-financial instruments	Other fee income	Total
567	527 083	24 357	(247 065)	–	4 618	289 868
–	90 037	147	2 945	21 238	307 606	477 565
–	(2 486)	–	(6 135)	(3 185)	(2 312)	(15 089)
–	(5 741)	463	–	10 786	–	7 301
–	–	–	1 055	–	–	88 258
–	559	(103)	(96)	–	–	(4 924)
–	–	–	–	10 074	–	10 074
567	609 452	24 864	(249 296)	38 913	309 912	853 053
–	(98 184)	(3 900)	–	–	–	(102 084)
567	511 268	20 964	(249 296)	38 913	309 912	750 969
4 990	611 499	20 724	(336 806)	–	6 432	301 446
–	71 932	134	3 180	11 235	293 445	420 570
(68)	(2 516)	–	(2 468)	(89)	(23 665)	(35 041)
–	7 082	13 499	–	14 055	–	98 491
–		–	(36)	–	–	77 052
–	(709)	154	(31)	–	–	639
–	–	–	–	12 207	–	12 207
4 922	687 288	34 511	(336 161)	37 408	276 212	875 364
–	(97 491)	–	–	–	–	(97 491)
4 922	589 797	34 511	(336 161)	37 408	276 212	777 873

Annual financial statements

5

At 31 March £'000	At fair value through profit or loss Trading	Designated at inception	Available-for-sale
12. Analysis of financial assets and liabilities by category of financial instruments			
2015			
Assets			
Cash and balances at central banks	1 302	–	–
Loans and advances to banks	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	397 722	–	–
Sovereign debt securities	–	–	1 212 910
Bank debt securities	–	–	19 553
Other debt securities	–	20 535	91 216
Derivative financial instruments*	805 886	–	–
Securities arising from trading activities	450 959	219 339	–
Investment portfolio	–	347 587	53 213
Loans and advances to customers	–	37 847	–
Other loans and advances	–	–	–
Other securitised assets	–	401 375	–
Interests in associated undertakings	–	–	–
Deferred taxation assets	–	–	–
Other assets	33 200	–	–
Property and equipment	–	–	–
Investment properties	–	–	–
Goodwill	–	–	–
Intangible assets	–	–	–
	1 689 069	1 026 683	1 376 892
Liabilities			
Deposits by banks	–	–	–
Derivative financial instruments*	953 205	–	–
Other trading liabilities	251 879	–	–
Repurchase agreements and cash collateral on securities lent	489 822	–	–
Customer accounts (deposits)	–	292 682	–
Debt securities in issue	–	330 526	–
Liabilities arising on securitisation of other assets	–	–	–
Current taxation liabilities	–	–	–
Deferred taxation liabilities	–	–	–
Other liabilities	–	–	–
	1 694 906	623 208	–
Subordinated liabilities	–	–	–
	1 694 906	623 208	–

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*

For more information on hedges, please refer to note 48 on pages 201 and 202.

Annual financial statements

5

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
1 302	–	2 179 930	–	2 179 930	–	2 181 232
–	–	828 726	–	828 726	–	828 726
397 722	–	1 050 483	–	1 050 483	–	1 448 205
1 212 910	–	–	–	–	–	1 212 910
19 553	–	206 720	–	206 720	–	226 273
111 751	–	110 734	–	110 734	–	222 485
805 886	–	–	–	–	–	805 886
670 298	–	–	–	–	–	670 298
400 800	–	–	–	–	–	400 800
37 847	–	6 997 843	–	6 997 843	–	7 035 690
–	–	776 305	–	776 305	–	776 305
401 375	–	10 608	–	10 608	–	411 983
–	–	–	–	–	16 297	16 297
–	–	–	–	–	66 249	66 249
33 200	–	886 228	–	886 228	193 708	1 113 136
–	–	–	–	–	60 316	60 316
–	–	–	–	–	65 736	65 736
–	–	–	–	–	260 900	260 900
–	–	–	–	–	140 042	140 042
4 092 644	–	13 047 577	–	13 047 577	803 248	17 943 469
–	–	–	214 138	214 138	–	214 138
953 205	–	–	–	–	–	953 205
251 879	–	–	–	–	–	251 879
489 822	–	–	107 437	107 437	–	597 259
–	–	–	10 579 558	10 579 558	–	10 579 558
292 682	–	–	1 041 554	1 041 554	–	1 334 236
330 526	–	–	–	–	–	330 526
–	–	–	–	–	121 198	121 198
–	–	–	–	–	39 464	39 464
–	–	–	935 257	935 257	188 711	1 123 968
2 318 114	–	–	12 877 944	12 877 944	349 373	15 545 431
–	–	–	596 923	596 923	–	596 923
2 318 114	–	–	13 474 867	13 474 867	349 373	16 142 354

12. Analysis of financial assets and liabilities by category of financial instruments (continued)

At 31 March £'000	At fair value through profit or loss Trading	 Designated at inception	Available-for-sale
2014			
Assets			
Cash and balances at central banks	7 143	–	–
Loans and advances to banks	–	–	–
Non-sovereign and non-bank cash placements	–	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	277 952	–	–
Sovereign debt securities	–	–	1 232 415
Bank debt securities	–	1 928	166 114
Other debt securities	–	72 272	132 358
Derivative financial instruments*	782 947	–	–
Securities arising from trading activities	503 818	82 888	–
Investment portfolio	–	274 178	67 182
Loans and advances to customers	–	48 052	
Own originated loans and advances to customers securitised	–	–	–
Other loans and advances	–	–	–
Other securitised assets	–	624 245	–
Interests in associated undertakings	–	–	–
Deferred taxation assets	–	–	–
Other assets	48 399	–	–
Property and equipment	–	–	–
Investment properties	–	–	–
Goodwill	–	–	–
Intangible assets	–	–	–
	1 620 259	1 103 563	1 598 069
Liabilities			
Deposits by banks			
Derivative financial instruments*	669 159	–	–
Other trading liabilities	391 650	–	–
Repurchase agreements and cash collateral on securities lent	336 246	–	–
Customer accounts (deposits)	–	–	–
Debt securities in issue	–	323 108	–
Liabilities arising on securitisation of own originated loans and advances	–	–	–
Liabilities arising on securitisation of other assets	–	524 222	–
Current taxation liabilities	–	–	–
Deferred taxation liabilities	–	–	–
Other liabilities	42 279	–	–
	1 439 334	847 330	–
Subordinated liabilities	–	–	–
	1 439 334	847 330	–

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*

For more information on hedges, please refer to note 48 on pages 201 and 202.

Annual financial statements

5

	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
	7 143	–	1 735 462	–	1 735 462	–	1 742 605
	–	–	1 105 205	–	1 105 205	–	1 105 205
	–	–	–	–	–	–	–
	277 952	–	937 548	–	937 548	–	1 215 500
	1 232 415	–	–	–	–	–	1 232 415
	168 042	–	203 140	–	203 140	–	371 182
	204 630	–	24 598	–	24 598	–	229 228
	782 947	–	–	–	–	–	782 947
	586 706	–	–	–	–	–	586 706
	341 360	–	–	–	–	–	341 360
	48 052	40 234	7 664 621	–	7 704 855	–	7 752 907
	–	–	447 638	–	447 638	–	447 638
	–	–	1 509 714	–	1 509 714	–	1 509 714
	624 245	–	387 012	–	387 012	–	1 011 257
	–	–	–	–	–	16 637	16 637
	–	–	–	–	–	97 614	97 614
	48 399	–	838 992	–	838 992	127 025	1 014 416
	–	–	–	–	–	63 487	63 487
	–	–	–	–	–	61 715	61 715
	–	–	–	–	–	296 247	296 247
	–	–	–	–	–	156 703	156 703
	4 321 891	40 234	14 853 930	–	14 894 164	819 428	20 035 483
	–	–	–	834 876	834 876	–	834 876
	669 159	–	–	–	–	–	669 159
	391 650	–	–	–	–	–	391 650
	336 246	–	–	278 487	278 487	–	614 733
	–	–	–	11 095 782	11 095 782	–	11 095 782
	323 108	–	–	992 994	992 994	–	1 316 102
	–	–	–	449 083	449 083	–	449 083
	524 222	–	–	438 031	438 031	–	962 253
	–	–	–	–	–	103 432	103 432
	–	–	–	–	–	38 471	38 471
	42 279	–	–	759 438	759 438	176 340	978 057
	2 286 664	–	–	14 848 691	14 848 691	318 243	17 453 598
	–	–	–	669 776	669 776	–	669 776
	2 286 664	–	–	15 518 467	15 518 467	318 243	18 123 374

13. Reclassifications of financial instruments

During the year ended 31 March 2009 the group reclassified certain financial instruments out of fair value through profit or loss. These assets were originally classified as held-for-trading but the group's intentions in regard to these assets changed and the group reclassified £112.3 million and £7.8 million to the loans and receivables and available-for-sale classifications, respectively. The amount reclassified reflected the fair value of the financial assets at the date of reclassification.

The group did not undertake any further reclassifications under the amendment to IAS 39 in the current year or in the prior year.

The following table shows carrying values and fair values of the assets reclassified:

At 31 March £'000	2015 Carrying value	2015 Fair value	2014 Carrying value	2014 Fair value
Trading assets reclassified to loans and receivables	11 833	12 302	11 400	10 266
	11 833	12 302	11 400	10 266

If the reclassifications had not been made, the group's profit before taxation in 2015 would have increased by £1.6 million (2014: a decrease of £0.4 million).

In the current year the reclassified assets have contributed a £112 000 loss through the margin line and a profit of £2 million through impairments before taxation. In the prior year, after reclassification, the assets contributed a £134 000 loss through the margin line and a profit of £79 000 through impairments before taxation.

14. Fair value hierarchy

The table below analyses recurring fair value measurements for financial assets and financial liabilities. These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to the valuation technique used.

The different levels are identified as follows:

Level 1 – quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value disclosures on investment properties are included in the Investment properties note 32 on page 185.

At 31 March £'000	Total instruments at fair value	Fair value category		
		Level 1	Level 2	Level 3

14. Fair value hierarchy (continued)

2015				
Assets				
Cash and balances at central banks	1 302	1 302	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	397 722	–	397 722	–
Sovereign debt securities	1 212 910	1 212 910	–	–
Bank debt securities	19 553	12 622	6 931	–
Other debt securities	111 751	2 083	91 035	18 633
Derivative financial instruments	805 886	204 685	544 060	57 141
Securities arising from trading activities	670 298	667 905	2 393	–
Investment portfolio	400 800	66 636	58 292	275 872
Loans and advances to customers	37 847	–	1 847	36 000
Other securitised assets	401 375	–	–	401 375
Other assets	33 200	33 200	–	–
	4 092 644	2 201 343	1 102 280	789 021
Liabilities				
Derivative financial instruments	953 205	327 432	623 107	2 666
Other trading liabilities	251 879	251 879	–	–
Repurchase agreements and cash collateral on securities lent	489 822	–	489 822	–
Debt securities in issue	292 682	–	292 682	–
Liabilities arising on securitisation of other assets	330 526	–	–	330 526
	2 318 114	579 311	1 405 611	333 192
Net assets/(liabilities)	1 774 530	1 622 032	(303 331)	455 829
2014				
Assets				
Cash and balances at central banks	7 143	7 143	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	277 952	–	277 952	–
Sovereign debt securities	1 232 415	1 232 415	–	–
Bank debt securities	168 042	29 659	138 383	–
Other debt securities	204 630	1 808	130 688	72 134
Derivative financial instruments	782 947	166 734	493 901	122 312
Securities arising from trading activities	586 706	586 706	–	–
Investment portfolio	341 360	69 838	97 086	174 436
Loans and advances to customers	48 052	–	4 899	43 153
Other securitised assets	624 245	–	–	624 245
Other assets	48 399	47 973	426	–
	4 321 891	2 142 276	1 143 335	1 036 280
Liabilities				
Derivative financial instruments	669 159	268 740	389 114	11 305
Other trading liabilities	391 650	391 650	–	–
Repurchase agreements and cash collateral on securities lent	336 246	–	336 246	–
Debt securities in issue	323 108	–	322 492	616
Liabilities arising on securitisation of other assets	524 222	–	–	524 222
Other liabilities	42 279	42 279	–	–
	2 286 664	702 669	1 047 852	536 143
Net assets	2 035 227	1 439 607	95 483	500 137

The group transfers between levels within the fair value hierarchy when the observability of inputs change or if the valuation methods change.

Transfers between level 1 and level 2

There were no significant transfers between level 1 and level 2 in the current or prior year.

14. Fair value hierarchy (continued)

Level 3 instruments

The following table is a reconciliation from the opening balances to the closing balances for fair value measurements in level 3 of the fair value hierarchy:

At 31 March £'000	Total level 3 financial instruments	Fair value movements through income statement	Fair value movements through comprehensive income
Balance at 1 April 2013	422 667	394 296	28 371
Total gains or losses	48 490	49 807	(1 317)
In the income statement	49 706	49 706	–
In the statement of comprehensive income	(1 216)	101	(1 317)
Purchases	67 611	67 611	–
Sales	(29 716)	(26 639)	(3 077)
Issues	537	537	–
Settlements	(12 417)	(12 411)	(6)
Transfers into level 3	33 965	33 965	–
Transfers out of level 3	(19 240)	(19 831)	591
Foreign exchange adjustments	(11 760)	(11 791)	31
Balance at 31 March 2014	500 137	475 544	24 593
Total gains or losses	73 890	72 063	1 827
In the income statement	73 464	72 063	1 401
In the statement of comprehensive income	426	–	426
Purchases	108 725	78 842	29 883
Sales	(250 231)	(213 028)	(37 203)
Issues	(805)	(805)	–
Settlements	(59 954)	(43 525)	(16 429)
Transfers into level 3	62 706	20 577	42 129
Transfers out of level 3	2 356	2 356	–
Foreign exchange adjustments	19 005	13 587	5 418
Balance at 31 March 2015	455 829	405 611	50 218

For the year ended 31 March 2015, instruments to the value of £2.4 million were transferred from level 3 (31 March 2014: £19.2 million). The valuation methodologies were reviewed and observable inputs are used to determine the fair value.

There were transfers from level 2 to the level 3 category to the value of £62.7 million (31 March 2014: £34.0 million) because the significance of the unobservable inputs used to determine the fair value increased significantly to warrant a transfer.

The following table quantifies the gains or (losses) included in the income statement and other comprehensive income recognised on level 3 financial instruments:

14. Fair value hierarchy (continued)

For the year to 31 March £'000	Total	Realised	Unrealised
2015			
Total gains/(losses) included in the income statement for the year			
Fee and commission (expense)/income	7 859	(51)	7 910
Investment income	57 364	59 348	(1 984)
Trading income arising from customer flow	8 616	–	8 616
Trading income arising from balance sheet management and other trading activities	877	877	–
Other operating income	(1 252)	–	(1 252)
	73 464	60 174	13 290
Total gains included in other comprehensive income for the year			
Gains on realisation of available-for-sale assets recycled through the income statement	1 401	1 401	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	426	–	426
	1 827	1401	426
2014			
Total gains/(losses) included in the income statement for the year			
Net interest income	15 047	–	15 047
Fee and commission (expense)	(485)	–	(485)
Investment income	37 227	5 611	31 616
Trading income arising from customer flow	(1 246)	–	(1 246)
Trading income arising from balance sheet management and other trading activities	(837)	4 895	(5 732)
	49 706	10 506	39 200
Total gains/(losses) included in other comprehensive income for the year			
Gains on realisation of available-for-sale assets recycled through the income statement	101	101	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	(1 317)	–	(1 317)
	(1 216)	101	(1 317)

14. Fair value hierarchy (continued)

Level 2 financial assets and financial liabilities

The following table sets out the group's principal valuation techniques as at 31 March 2015 used in determining the fair value of its financial assets and financial liabilities that are classified within level 2 of the fair value hierarchy.

	Valuation basis/techniques	Main assumptions
Assets		
Reverse repurchase agreements and cash collateral on securities borrowed	Discounted cash flow model, Hermite interpolation, Black-Scholes	Discount rates
Bank debt securities	Black-Scholes Discounted cash flow model	Volatilities Discount rates, swap curves and NCD curves
Other debt securities	Discounted cash flow	Discount rates, swap curves and NCD curves, external prices, broker quotes
Derivative financial instruments	Discounted cash flow model, Hermite interpolation, industry standard derivative pricing models including Black-Scholes	Discount rate, risk free rate, volatilities, forex forward points and spot rates, interest rate swap curves and credit curves
Securities arising from trading activities	Standard industry derivative pricing model	Interest rate curves, implied bond spreads, equity volatilities
Investment portfolio	Discounted cash flow model, net asset value model Comparable quoted inputs	Discount rate and fund unit price Net assets
Loans and advances to customers	Discounted cash flow	Discount rates
Other assets	Discounted cash flow	Discount rates
Liabilities		
Derivative financial instruments	Discounted cash flow model, Hermite interpolation, industry standard derivative pricing models including Black-Scholes	Discount rate, risk-free rate, volatilities, forex forward points and spot rates, interest rate swap curves and credit curves
Repurchase agreements and cash collateral on securities lent	Discounted cash flow model, Hermite interpolation	Discount rates
Debt securities in issue	Discounted cash flow	Discount rates

14. Fair value hierarchy (continued)

Sensitivity of fair values to reasonably possible alternative assumptions by level 3 instrument type

The fair values of financial instruments in level 3 are measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable market data. The following table shows the sensitivity of these fair values to reasonably possible alternative assumptions, determined at a transactional level:

At 31 March 2015	Balance sheet value £'000	Significant unobservable input changed	Range which unobservable input has been stressed	Reflected in income statement Favourable changes £'000	Reflected in income statement Unfavourable changes £'000
Assets					
Other debt securities	18 633			156	(205)
		Discount rates	(5%) – 5%	14	(60)
		Credit spreads	(2%) – 3%	114	(128)
		Other	(6%) – 5%	28	(17)
Derivative financial instruments	57 141			5 858	(4 540)
		Discount rates	(5%) – 5%	358	(283)
		Volatilities	(4%) – 3%	626	(1 536)
		Credit spreads		–	(5)
		Cash flow adjustments	(3%) – 8%	7	(6)
		Other	(11%) – 10%	4 867	(2 710)
Investment portfolio	236 930			54 088	(12 515)
		Price earnings multiple	(10%) – 10% or 5x EBITDA	1 517	(1 210)
		EBITDA	(10%) – 10% or 5x EBITDA	6 958	(2 640)
		Other	(10%) – 10%	45 613	(8 665)
Loans and advances to customers	36 000			6 500	(1 347)
		Cash flows	(5%) – 5%	5 407	–
		Other	(9%) – 3%	1 093	(1 347)
Other securitised assets*	401 375	Credit spreads	– 6 months/+12 month adjustment to CDR curve	5 228	(167)
Liabilities					
Derivative financial instruments	2 666	Cash flow adjustments	(2%) – 1%	1 830	(1 442)
Liabilities arising on securitisation of other assets*	330 526	Credit default rates, loss severity, prepayment rates	(5%) – 5%	5 228	(167)
				78 888	(20 383)

At 31 March 2015	Balance sheet value £'000	Significant unobservable input changed	Range which unobservable input has been stressed	Reflected in other comprehensive income Favourable changes	Reflected in other comprehensive income Unfavourable changes
Assets					
Investment portfolio	38 942	EBITDA	(10%) – 10% or 5x EBITDA	2 658	(2 058)

* *The sensitivity of the fair value of liabilities arising on securitisation of other assets has been considered together with other securitised assets.*

Annual financial statements

5

14. Fair value hierarchy (continued)

At 31 March 2014	Balance sheet value £'000	Significant unobservable input changed	Range which unobservable input has been stressed	Reflected in income statement: Favourable changes £'000	Reflected in income statement: Unfavourable changes £'000
Assets					
Other debt securities	72 134			2 004	(1 688)
		Discount rates	(5%) – 5%	5	(19)
		Credit spreads	(2%) – 3%	1 135	(1 038)
		Other	(6%) – 5%	864	(631)
Derivative financial instruments	122 312			4 754	(2 116)
		Volatilities	(2%) – 2%	601	(698)
		Credit spreads	(6.5bps) – 6.5bps	42	(21)
		Other	(11%) – 10%	4 111	(1 397)
Investment portfolio	149 290			17 146	(11 185)
		Volatilities	(10%) – 10%	4	(4)
		EBITDA	(10%) – 10% or 5x EBITDA	606	(9 665)
		Other	(10%) – 10%	16 536	(1 516)
Loans and advances to customers	43 153			2 439	(5 616)
		Cash flows	(5%) – 5%	1 337	(4 076)
		Other	(9%) – 3%	1 102	(1 540)
Other securitised assets*	624 245	Underlying market price adjustments Credit spreads	(6.5bps) – 6.5bps – 6 months/+12 month adjustment to CDR curve	8 122	(8 810)
Liabilities					
Derivative financial instruments	11 305	Volatilities	(4%) – 4%	648	(438)
Debt securities in issue	616	Volatilities	(2%) – 4%	15	(8)
Liabilities arising on securitisation of other assets*	524 222	Credit spreads	(6.5bps) – 6.5bps	6 078	(6 120)
				41 206	(35 981)

At 31 March 2014	Balance sheet value £'000	Significant unobservable input changed	Range which unobservable input has been stressed	Reflected in other comprehensive income: Favourable changes	Reflected in other comprehensive income: Unfavourable changes
Assets					
Investment portfolio	25 146			13 001	(1 007)
		EBITDA	(10%) – 10% or 5x EBITDA	12 769	(891)
		Other	(10%) – 10%	232	(116)

* *The sensitivity of the fair value of liabilities arising on securitisation of other assets has been considered together with other securitised assets.*

14. Fair value hierarchy (continued)

In determining the value of level 3 financial instruments, the following are the principal inputs that can require judgement:

Credit spreads

Credit spreads reflect the additional yield that a market participant would demand for taking exposure to the credit risk of an instrument. The credit spread for an instrument forms part of the yield used in a discounted cash flow calculation. In general, a significant increase in a credit spread in isolation will result in a movement in fair value that is unfavourable for the holder of a financial instrument. It is an unobservable input into a discounted cash flow valuation.

Discount rates

Discount rates are the interest rates used to discount future cash flows in a discounted cash flow valuation method. The discount rate takes into account time value of money and uncertainty of cash flows.

Volatilities

Volatility is a key input in the valuation of derivative products containing optionality. Volatility is a measure of the variability or uncertainty in returns for a given derivative underlying. It represents an estimate of how much a particular underlying instrument, parameter or index will change in value over time. Volatilities are a key input into the Black-Scholes valuation method.

Cash flows

Cash flows relate to the future cash flows which can be expected from the instrument and requires judgement. Cash flows are inputs into a discounted cash flow valuation.

EBITDA

A company's earnings before interest, taxes, depreciation and amortisation. This is the main input into a price earnings multiple valuation method.

Price earnings multiple

The price-to-earnings ratio is an equity valuation multiple used in the adjustment of underlying market prices. It is a key driver in the valuation of unlisted investments.

15. Fair value of financial instruments at amortised cost

At 31 March £'000	Carrying amount	Fair value	Fair value category Level 1	 Level 2	 Level 3
2015					
Assets					
Cash and balances at central banks	2 179 930	2 179 930	^	^	^
Loans and advances to banks	828 726	828 726	739 351	89 375	–
Reverse repurchase agreements and cash collateral on securities borrowed	1 050 483	1 050 753	^	^	^
Bank debt securities	206 720	225 508	–	225 508	–
Other debt securities	110 734	103 817	–	–	103 817
Loans and advances to customers	6 997 843	7 041 554	667 302	367 687	6 006 565
Other loans and advances	776 305	822 044	25 294	233 992	562 758
Other securitised assets	10 608	10 608	10 608	–	–
Other assets	886 228	886 421	819 036	10 909	56 476
	13 047 577	13 149 361			
Liabilities					
Deposits by banks	214 138	214 138	132 744	8 577	72 817
Repurchase agreements and cash collateral on securities lent	107 437	107 437	^	^	^
Customer accounts (deposits)	10 579 558	10 555 260	5 854 340	4 700 920	–
Debt securities in issue	1 041 554	1 149 530	12 522	787 766	349 242
Other liabilities	935 257	933 223	850 309	44 106	38 808
Subordinated liabilities	596 923	591 185	591 185	–	–
	13 474 867	13 550 773			

15. Fair value of financial instruments at amortised cost (continued)

At 31 March £'000	Carrying amount	Fair value	Fair value category Level 1	Level 2	Level 3
2014					
Assets					
Cash and balances at central banks	1 735 462	1 735 458	^	^	^
Loans and advances to banks	1 105 205	1 098 868	1 035 185	63 683	–
Reverse repurchase agreements and cash collateral on securities borrowed	937 548	937 548	^	^	^
Bank debt securities	203 140	203 460	–	203 460	–
Other debt securities	24 598	24 061	–	–	24 061
Loans and advances to customers	7 704 855	7 698 672	49 312	934 067	6 715 293
Own originated loans and advances to customers securitised	447 638	465 235	–	465 235	–
Other loans and advances	1 509 714	1 496 716	182 818	68 970	1 244 928
Other securitised assets	387 012	381 047	87 981	–	293 066
Other assets	838 992	829 757	737 525	79 917	12 315
	14 894 164	14 870 822			
Liabilities					
Deposits by banks	834 876	834 981	328 140	442 010	64 831
Repurchase agreements and cash collateral on securities lent	278 487	278 487	^	^	^
Customer accounts (deposits)	11 095 782	11 076 940	4 596 977	6 479 963	–
Debt securities in issue	992 994	977 045	–	720 555	256 490
Liabilities arising on securitisation of own originated loans and advances	449 083	449 083	–	418 897	30 186
Liabilities arising on securitisation of other assets	438 031	435 886	–	–	435 886
Other liabilities	759 438	746 193	675 482	41 332	29 379
Subordinated liabilities	669 776	666 277	666 277	–	–
	15 518 467	15 464 892			

^Financial instruments for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value and have been reflected in level 1. This assumption also applies to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

15. Fair value of financial instruments at amortised cost (continued)

Fixed rate financial instruments

The fair value of fixed rate financial assets and financial liabilities carried at amortised cost are estimated by comparing spreads earned on the transactions with spreads earned on similar new transactions entered into by the group. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows, using prevailing money market interest rates for debts with similar credit risk and maturity. For quoted sub-debt issued, the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

Certain financial instruments that would normally be carried at fair value continue to be recognised at transaction price. This occurs when the fair value would normally be determined using valuation techniques which cannot be relied on due to insufficient external inputs. This results in gains or losses which have not been recognised on balance sheet.

The following table sets out the group's principal valuation techniques used in determining the fair value of its financial assets and financial liabilities:

Bank debt securities	Valued using a cash flow model of the bonds, discounted by an observable market credit curve.
Other debt securities	Priced with reference to similar trades in an observable market.
Loans and advances to customers	Calculation of the present value of future cash flows, discounted as appropriate.
Own originated loans and advances to customers securitised	Calculation of the current cash flows of fixed rate loans at current expected interest rates.
Other loans and advances	Calculation of the present value of future cash flows, discounted as appropriate.
Other securitised assets	Calculated using a model based on future cash flows.
Deposits by banks	Calculation of fair value using appropriate funding rates.
Customer accounts (deposits)	Where the deposits are short-term in nature, carrying amounts are assumed to approximate fair value. Where deposits are of longer-term maturities, they are valued using a cash flow model discounted as appropriate.
Debt securities in issue	Where the debt securities are fully collateralised, fair value is equal to the carrying value. Other debt securities are valued using a cash flow model discounted as appropriate to the securities for funding and interest rates.
Liabilities arising on securitisation of other assets	Valued using a cash flow model taking into account any hedging and discounted as appropriate.
Other liabilities	Where the other liabilities are short-term, in nature carrying amounts are assumed to approximate fair value.
Subordinated liabilities	Valued with reference to market prices.

At 31 March £'000	Carrying value	Fair value adjustment Year to date	Fair value adjustment Cumulative	Change in fair value attributable to credit risk Year to date	Change in fair value attributable to credit risk Cumulative	Maximum exposure to credit risk

16. Designated at fair value: loans and receivables and financial liabilities

Loans and receivables designated at fair value through profit or loss						
2015						
Loans and advances to customers	37 847	(665)	1 197	–	–	37 847
Other securitised assets	401 375	(38 703)	(20 293)	(38 703)	(22 461)	401 375
	439 222	(39 368)	(19 096)	(38 703)	(22 461)	439 222
2014						
Loans and advances to customers	48 052	2 582	773	–	–	48 052
Other securitised assets	624 245	26 674	(99 870)	26 674	(123 546)	624 245
	672 297	29 256	(99 097)	26 674	(123 546)	672 297

At 31 March £'000	Carrying value	Remaining contractual amount to be repaid at maturity	Fair value adjustment Year to date	Fair value adjustment Cumulative	Change in fair value attributable to credit risk Year to date	Change in fair value attributable to credit risk Cumulative
Financial liabilities designated at fair value through profit or loss						
2015						
Debt securities in issue	292 682	285 039	(8 573)	7 643	(2 722)	(7 690)
Liabilities arising on securitisation of other assets	330 526	365 282	30 011	(34 755)	30 011	(34 755)
	623 208	650 321	21 438	(27 112)	27 289	(42 445)
2014						
Debt securities in issue	323 108	308 350	29 977	14 758	3 470	5 229
Liabilities arising on securitisation of other assets	524 222	652 106	42 629	42 629	43 209	(118 954)
	847 330	960 456	72 606	57 387	46 679	(113 725)

Changes in fair value due to credit risk are determined as the change in the fair value of the financial instrument that is not attributable to changes in other market inputs.

At 31 March £'000	2015	2014

17. Cash and balances at central banks

The country risk of cash and bank balances at central banks lies in the following geographies:		
United Kingdom	2 146 936	1 681 917
Europe (excluding UK)	34 296	24 490
Australia	–	36 198
	2 181 232	1 742 605

At 31 March £'000	2015	2014
18. Loans and advances to banks		
The country risk of loans and advances to banks lies in the following geographies:		
South Africa	3 547	30 559
United Kingdom	498 494	762 132
Europe (excluding UK)	101 379	126 158
Australia	85 855	64 114
United States of America	121 853	114 595
Other	17 598	7 647
	828 726	1 105 205

At 31 March £'000	2015	2014
19. Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent		
Assets		
Reverse repurchase agreements	1 360 696	1 104 430
Cash collateral on securities borrowed	87 509	111 070
	1 448 205	1 215 500
As part of the reverse repurchase and securities borrowing agreements the group has received securities that it is allowed to sell or repledge. £480.6 million (2014: £602.5 million) has been resold or repledged to third parties in connection with financing activities or to comply with commitments under short sale transactions.		
Liabilities		
Repurchase agreements	489 822	525 588
Cash collateral on securities lent	107 437	89 145
	597 259	614 733

The assets transferred and not derecognised in the above repurchase agreements are fair valued at £366.6 million (2014: £431.0 million). They are pledged as security for the term of the underlying repurchase agreements.

At 31 March £'000	2015	2014
20. Sovereign debt securities		
Bonds	–	357 341
Floating rate notes	–	48 855
Government securities	613 272	476 286
Treasury bills	599 638	349 933
	1 212 910	1 232 415
The country risk of sovereign debt securities lies in the following geographies:		
United Kingdom	1 196 877	826 219
Europe (excluding UK)*	16 033	119 785
Australia	–	286 411
	1 212 910	1 232 415

* *Where Europe (excluding UK) largely includes securities held in Germany and France.*

At 31 March £'000	2015	2014
21. Bank debt securities		
Bonds	95 431	120 307
Floating rate notes	130 842	248 947
Other	–	1 928
	226 273	371 182
The country risk of bank debt securities lies in the following geographies:		
South Africa	6 931	6 042
United Kingdom	120 757	131 382
Europe (excluding UK)	98 585	128 561
Australia	–	99 661
Other	–	5 536
	226 273	371 182

At 31 March £'000	2015	2014
22. Other debt securities		
Bonds	119 618	40 362
Floating rate notes	12 994	23 105
Asset-based securities	87 790	154 598
Residual notes	–	9 340
Other investments	2 083	1 823
	222 485	229 228
The country risk of other debt securities lies in the following geographies:		
United Kingdom	126 031	141 477
Europe (excluding UK)	61 357	55 480
Australia	192	8 150
United States of America	17 014	24 121
Other	17 891	–
	222 485	229 228

23. Derivative financial instruments

The group enters into various contracts for derivatives both as principal for trading purposes and as customer for hedging foreign exchange and interest rate exposures. These include financial futures, options, swaps and forward rate agreements. The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations.

In the tables that follow, notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair value of a derivative financial instrument represents the positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out by the group in an orderly market transaction at balance sheet date.

	2015			2014		
At 31 March £'000	Notional principal amounts	Positive fair value	Negative fair value	Notional principal amounts	Positive fair value	Negative fair value
Foreign exchange derivatives						
Forward foreign exchange contracts	9 767 479	177 817	187 782	10 246 738	66 423	57 466
Currency swaps	397 942	17 442	17 200	885 519	49 167	25 794
OTC options bought and sold	5 036 568	103 811	96 178	2 690 830	41 091	40 219
Other foreign exchange contracts	–	6	1 826	14 320	9	15
OTC derivatives	15 201 989	299 076	302 986	13 837 407	156 690	123 494
Interest rate derivatives						
Caps and floors	1 265 153	29 667	1 592	685 563	4 660	7 257
Swaps	11 862 050	127 615	170 823	19 103 318	193 259	97 476
Forward rate agreements	26 192	21	–	454 785	16	63
OTC derivatives	13 153 395	157 303	172 415	20 243 666	197 935	104 796
Exchange-traded futures	–	–	–	28 636	87	66
	13 153 395	157 303	172 415	20 272 302	198 022	104 862
Equity and stock index derivatives						
OTC options bought and sold	1 756 450	66 772	145 219	2 050 660	33 556	93 273
Equity swaps and forwards	28 428	–	11	177 105	3 832	77
OTC derivatives	1 784 878	66 772	145 230	2 227 765	37 388	93 350
Exchange-traded futures	1 023 132	4 368	4 076	1 748 014	38 531	75 664
Exchange-traded options	6 063 785	177 251	289 916	4 789 428	119 093	158 046
Warrants	965	965	–	1 018	1 018	–
	8 872 760	249 356	439 222	8 766 225	196 030	327 060
Commodity derivatives						
OTC options bought and sold	15 701	483	483	58 549	118	–
Commodity swaps and forwards	1 109 951	49 318	33 846	748 682	105 921	107 738
OTC derivatives	1 125 652	49 801	34 329	807 231	106 039	107 738
Credit derivatives	423 062	15 204	4 253	447 349	14 593	6 005
Embedded derivatives*		35 146	–		111 573	–
Derivatives per balance sheet		805 886	953 205		782 947	669 159

* *Mainly includes profit shares received as part of lending transactions.*

At 31 March £'000	2015	2014
24. Securities arising from trading activities		
Bonds	138 885	76 335
Government securities	380 274	361 830
Listed equities	148 746	148 541
Other investments	2 393	–
	670 298	586 706

At 31 March £'000	2015	2014
25. Investment portfolio		
Listed equities	113 120	63 869
Unlisted equities*	287 680	277 491
	400 800	341 360

* *Unlisted equities includes loan instruments that are convertible into equity.*

At 31 March £'000	2015	2014
26. Loans and advances to customers and other loans and advances		
Gross loans and advances to customers	7 224 134	7 945 593
Impairments of loans and advances to customers	(188 444)	(192 686)
Net loans and advances to customers	7 035 690	7 752 907
Gross other loans and advances to customers	806 297	1 559 069
Impairments of other loans and advances to customers	(29 992)	(49 355)
Net other loans and advances to customers	776 305	1 509 714

For further analysis on loans and advances refer to pages 56 to 66 in the risk management section.

At 31 March £'000	2015	2014
26. Loans and advances to customers and other loans and advances (continued)		
Specific and portfolio impairments		
Reconciliation of movements in specific and portfolio impairments:		
Loans and advances to customers		
Specific impairment		
Balance at the beginning of the year	176 589	186 355
Charge to the income statement	79 503	77 516
Reversals and recoveries recognised in the income statement	(7 870)	(4 702)
Utilised	(83 161)	(78 267)
Disposals	(1 432)	–
Exchange adjustments	(9 367)	(4 313)
Balance at the end of the year	154 262	176 589
Portfolio impairment		
Balance at the beginning of the year	16 097	6 275
Charge to the income statement	19 240	10 068
Disposals	(1 127)	–
Exchange adjustments	(28)	(246)
Balance at the end of the year	34 182	16 097
Other loans and advances		
Specific impairment		
Balance at the beginning of the year	33 945	30 013
Charge to the income statement	7 520	11 171
Utilised	(7 247)	(6 242)
Disposals	(2 030)	–
Exchange adjustments	(3 028)	(997)
Balance at the end of the year	29 160	33 945
Portfolio impairment		
Balance at the beginning of the year	15 410	13 711
Charge to the income statement	3 582	1 888
Disposals	(18 160)	–
Exchange adjustments	–	(189)
Balance at the end of the year	832	15 410
Total specific impairments	183 422	210 534
Total portfolio impairments	35 014	31 507
Total impairments	218 436	242 041
Interest income recognised on loans that have been impaired	6 480	19 125

At 31 March £'000	2015	2014
26. Loans and advances to customers and other loans and advances (continued)		
Reconciliation of income statement charge:		
Loans and advances to customers	90 873	82 882
Specific impairment charged to income statement	71 633	72 814
Portfolio impairment charged to income statement	19 240	10 068
Securitised assets (refer to note 27)	109	1 550
Specific impairment charged to income statement	153	1 511
Portfolio impairment (released)/charged to income statement	(44)	39
Other loans and advances	11 102	13 059
Specific impairment charged to income statement	7 520	11 171
Portfolio impairment charged to income statement	3 582	1 888
Total income statement charge	102 084	97 491

At 31 March £'000	2015	2014
27. Securitised assets and liabilities arising on securitisation		
Gross own originated loans and advances to customers securitised	–	448 255
Impairments of own originated loans and advances to customers securitised	–	(617)
Net own originated loans and advances to customers securitised	–	447 638
Other securitised assets are made up of the following categories of assets:		
Cash and cash equivalents	10 608	85 590
Loans and advances to customers	401 375	925 667
Total other securitised assets	411 983	1 011 257
The associated liabilities are recorded on balance sheet in the following line items:		
Liabilities arising on securitisation of own originated loans and advances	–	449 083
Liabilities arising on securitisation of other assets	330 526	962 253

At 31 March £'000	2015	2014
27. Securitised assets and liabilities arising on securitisation (continued)		
Specific and portfolio impairments		
Reconciliation of movements in specific and portfolio impairments of assets that have been securitised:		
Specific impairment		
Balance at the beginning of the year	341	140
Charge to the income statement	153	1 511
Utilised	(114)	(1 525)
Disposals	(352)	–
Exchange adjustments	(28)	215
Balance at the end of the year	**–**	**341**
Own originated loans and advances to customers securitised	–	277
Other securitised assets	–	64
Portfolio impairment		
Balance at the beginning of the year	525	449
Charge to the income statement	(44)	39
Disposals	(455)	–
Exchange adjustments	(26)	37
Balance at the end of the year	**–**	**525**
Own originated loans and advances to customers securitised	–	340
Other securitised assets	–	185
Total portfolio and specific impairments on balance sheet	**–**	**866**

At 31 March £'000	2015	2014
28. Interests in associated undertakings		
Interests in associated undertakings consist of:		
Net asset value	8 886	9 226
Goodwill	7 411	7 411
Investment in associated undertakings	16 297	16 637
Analysis of the movement in our share of net assets:		
At the beginning of the year	9 226	9 578
Exchange adjustments	(164)	(921)
Disposals	(255)	–
Acquisitions	124	296
Operating income from associates (included in other operating income)	1 503	1 891
Dividends received	(1 548)	(1 618)
At the end of the year	8 886	9 226
Analysis of the movement in goodwill:		
At the beginning of the year	7 411	7 411
Exchange adjustments	–	–
At the end of the year	7 411	7 411

At 31 March £'000	2015	2014
29. Deferred taxation		
Deferred taxation assets	66 249	97 614
Deferred taxation liabilities	(39 464)	(38 471)
Net deferred taxation assets	**26 785**	**59 143**
The net deferred taxation assets/(liabilities) arise from:		
Deferred capital allowances	30 061	25 053
Income and expenditure accruals	(6 138)	3 960
Asset in respect of unexpired options	21 956	21 174
Unrealised fair value adjustments on financial instruments	(1 072)	515
Losses carried forward	8 153	40 819
Deferred tax on acquired intangibles	(26 285)	(28 575)
Other temporary differences	110	(3 803)
Net deferred taxation assets	**26 785**	**59 143**
Reconciliation of net deferred taxation assets:		
At the beginning of the year	59 143	67 227
(Charge)/credit to income statement – current year taxation	(32 497)	2 183
Credit/(charge) directly in other comprehensive income	6 586	(604)
Disposals	(6 664)	–
Other	(422)	(314)
Exchange adjustments	639	(9 349)
At the end of the year	**26 785**	**59 143**

Deferred tax assets are recognised to the extent it is likely that profits will arise in future periods. The assessment of the likelihood of future profits is based on past performance and current projections. Deferred taxation assets are not recognised in respect of capital losses and excess management expenses as crystallisation of capital gains and the eligibility of potential losses is uncertain.

There are trading losses carried forward of £93.9 million (2014: £53.8 million), capital losses carried forward of £6.3 million (2014: £0.9 million) and excess management expenses of £7 million (£7.0 million) on which deferred tax assets have not been recognised due to uncertainty regarding future profits against which these losses can be utilised.

The Finance Act 2013 reduced the main rate of corporate taxation to 20% with effect from 1 April 2015. The effect of these reductions is reflected in the above calculation as the rate was substantially enacted before 31 March 2015.

At 31 March £'000	2015	2014
30. Other assets		
Settlement debtors	802 237	801 382
Dealing properties	125 763	40 343
Prepayments and accruals	39 713	43 161
Deferred consideration	–	31 679
Trading initial margin	33 200	426
Other	112 223	97 425
	1 113 136	**1 014 416**

31. Property and equipment

At 31 March £'000	Freehold properties	Leasehold improve-ments	Furniture and vehicles	Equipment	Operating leases*	Total
2015						
Cost						
At the beginning of the year	2 659	65 914	11 921	23 044	32 832	136 370
Exchange adjustments	177	(1 205)	23	(18)	(3)	(1 026)
Additions	–	11 192	83	6 067	9 508	26 850
Disposals	(117)	(5 677)	(6 183)	(1 746)	(16 402)	(30 125)
At the end of the year	2 719	70 224	5 844	27 347	25 935	132 069
Accumulated depreciation						
At the beginning of the year	(383)	(23 986)	(9 674)	(16 282)	(22 558)	(72 883)
Exchange adjustments	211	251	(10)	88	2	542
Disposals	–	544	4 465	1 351	6 064	12 424
Depreciation charge for the year	(47)	(4 634)	(308)	(5 312)	(1 535)	(11 836)
At the end of the year	(219)	(27 825)	(5 527)	(20 155)	(18 027)	(71 753)
Net carrying value	2 500	42 399	317	7 192	7 908	60 316
2014						
Cost						
At the beginning of the year	2 685	62 583	16 265	23 767	63 247	168 547
Exchange adjustments	–	(1 279)	(528)	(503)	–	(2 310)
Disposal of subsidiary undertakings	–	(1 824)	(1 951)	(1 722)	–	(5 497)
Additions	–	6 876	492	3 705	3 428	14 501
Disposals	(26)	(442)	(2 357)	(2 203)	(33 843)	(38 871)
At the end of the year	2 659	65 914	11 921	23 044	32 832	136 370
Accumulated depreciation						
At the beginning of the year	(340)	(21 254)	(11 484)	(16 073)	(32 793)	(81 944)
Exchange adjustments	–	483	145	360	–	988
Disposals	–	301	2 357	2 088	16 279	21 025
Disposal of subsidiary undertakings	–	1 379	939	1 443	–	3 761
Depreciation charge for the year	(43)	(4 895)	(1 631)	(4 100)	(6 044)	(16 713)
At the end of the year	(383)	(23 986)	(9 674)	(16 282)	(22 558)	(72 883)
Net carrying value	2 276	41 928	2 247	6 762	10 274	63 487

* *These are assets held by the group, in circumstances where the group is lessor.*

On 3 December 2010 the group acquired a portfolio of operating leased assets comprising motor vehicles. The operating lease income from this portfolio has been included in other operating income (note 5) and the depreciation on these operating leased assets has been shown separately on the face of the income statement.

32. Investment properties

Investment properties are carried at fair value and are classified as level 3 in the fair value hierarchy.

At 31 March £'000	2015	2014
At the beginning of the year	61 715	11 500
Additions	–	61 715
Disposals	–	(11 500)
Fair value movement	8 726	–
Exchange adjustment	(4 705)	–
At the end of the year	65 736	61 715

All investment properties are classified as level 3 in the fair value hierarchy.

Fair value hierarchy – Investment property

For all investment property that is measured at fair value, the current use of the property is considered the highest and best use.

Properties are valued under the income capitalisation method and discounted cashflow method (DCF).

Under the income capitalisation method a property's fair value is estimated based on the normalised net operating income generated by the property, which is divided by the capitalisation rate.

Under the DCF method, a property's fair value is estimated using explicit assumptions about the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This involves the projection of a series of cash flows and to this; an appropriate, market-derived discount rate is applied to establish the present value of the income stream.

Valuation techniques used to derive level 3 fair values

For all classes of investment property, the significant unobservable inputs listed below are used in the income capitalisation method to determine the fair value measurement at the end of the reporting period.

Significant unobservable inputs	Relationship between unobservable inputs and fair value measurement
Expected rental value (ERV)	Increases/(decreases) in ERV would increase/(decrease) estimated fair value.
Equivalent yield	Increases/(decreases) in the equivalent yield would result in decreases/(increases) in the estimated fair value.

At 31 March £'000	2015	2014
33. Goodwill		
Cost		
At the beginning of the year	309 852	346 540
Acquisition of subsidiaries	180	–
Disposals of subsidiaries	(24 623)	(8 148)
Written off	–	(17 327)
Exchange adjustments	(1 173)	(11 213)
At the end of the year	284 236	309 852
Accumulated impairments		
At the beginning of the year	(13 605)	(19 699)
Income statement charge	(8 552)	(11 233)
Written off	–	17 327
Disposals of subsidiaries	(1 179)	–
At the end of the year	(23 336)	(13 605)
Net carrying value	260 900	296 247
Analysis of goodwill by line of business:		
Wealth & Investment	248 026	248 850
Specialist Banking	12 874	47 397
Total group	260 900	296 247

Goodwill is tested annually for impairment, or more frequently if evidence exists that goodwill might be impaired, by comparing the carrying value to its recoverable amount.

The recoverable amount of goodwill is determined based on expected cash flows within the cash-generating units of the group to which the goodwill is allocated. Key assumptions within the calculation include discount rates, growth rates in revenue and related expenditure and loan impairment rates.

Discount rates are based on pre-tax rates that reflect current market conditions, adjusted for the specific risks associated with the cash-generating unit. Growth rates are based on industry growth forecasts. Cash flow forecasts are based on the most recent financial budgets for the next financial year and are extrapolated for a period of three to five years, adjusted for expected future events.

The two most significant cash-generating units giving rise to goodwill are Investec Wealth & Investment (IWI), which now includes the business of Williams de Broe (acquired in 2012 as part of the Evolution Group) which was merged with IWI in August 2012, and the Specialist Banking activities of the group's Australian operations.

For IWI, goodwill of £236.3 million has been tested for impairment on the basis of the cash flow projections for the next three years discounted at 9.9% (2014 :10.3%) which incorporate an expected revenue growth rate of 2% (March 2014: 2%). Sensitivity analysis has been carried out and it has been concluded that no reasonable possible change in the key assumptions would cause an impairment to be recognised.

The sale of Investec Bank (Australia) Limited's (IBAL) Professional Finance (Experian), Asset Finance and deposit-taking businesses was effective 31 July 2014. Goodwill of £24.6 million was disposed of in relation to these businesses. The balance of goodwill in Australia mainly relates to the Specialist Banking business and following an assessment it has now been fully impaired.

Movement in goodwill

2015
Goodwill arising from acquisitions (£0.18 million) relates to the acquisition of Mann Island Finance group in April 2014 (as detailed in note 35). Goodwill cost and impairment reduced following the disposal of Investec Bank (Australia) Ltd (as detailed in note 35).

2014
Goodwill cost and impairment reduced following the disposal of certain subsidiaries in 2014 (as detailed in note 35).

34. Intangible assets

At 31 March £'000	Acquired software	Internally generated software	Intellectual property	Manage-ment contracts	Client relation-ships	Total
2015						
Cost						
At the beginning of the year	41 276	–	2 332	853	179 354	223 815
Exchange adjustments	(1 047)	–	–	(104)	(569)	(1 720)
Acquisition of a subsidiary undertaking	–	–	–	–	3 416	3 416
Additions	2 180	61	–	–	–	2 241
Disposals	(11 120)	–	(2 332)	(22)	–	(13 474)
At the end of the year	31 289	61	–	727	182 201	214 278
Accumulated amortisation and impairments						
At the beginning of the year	(33 911)	–	(388)	(199)	(32 614)	(67 112)
Exchange adjustments	574	–	–	(19)	352	907
Disposals	9 581	–	388	22	–	9 991
Amortisation	(3 525)	–	–	(117)	(14 380)	(18 022)
At the end of the year	(27 281)	–	–	(313)	(46 642)	(74 236)
Net carrying value	4 008	61	–	414	135 559	140 042
2014						
Cost						
At the beginning of the year	42 530	–	3 824	822	179 521	226 697
Exchange adjustments	(2 269)	–	(565)	31	(167)	(2 970)
Additions	2 356	–	727	–	–	3 083
Disposals	(1 341)	–	(1 654)	–	–	(2 995)
At the end of the year	41 276	–	2 332	853	179 354	223 815
Accumulated amortisation and impairments						
At the beginning of the year	(31 475)	–	(314)	(63)	(19 367)	(51 219)
Exchange adjustments	1 442	–	60	(2)	12	1 512
Disposals	1 340	–	–	–	–	1 340
Amortisation	(5 218)	–	(134)	(134)	(13 259)	(18 745)
At the end of the year	(33 911)	–	(388)	(199)	(32 614)	(67 112)
Net carrying value	7 365	–	1 944	654	146 740	156 703

Client relationships all relate to the acquisition of Rensburg Sheppards plc in June 2010 and EVG in December 2011, Investec Capital Asia Limited in April 2011 and NCB Group in June 2012.

35. Acquisitions and disposals

2015

Acquisitions

On 8 April 2014 the group acquired the entire share capital of Robert Smith Group (Automotive) Limited (the parent of Mann Island Finance group) a vehicle finance brokerage business.

£'000	Book value of assets and liabilities	Fair value of assets and liabilities
Loans and advances to banks	559	559
Deferred taxation assets	332	332
Other assets	2 484	2 484
Property and equipment	74	74
Intangible assets	–	5 824
Goodwill	–	180
	3 449	9 453
Current taxation liabilities	530	530
Other liabilities	2 396	2 396
	2 926	2 926
Net assets/fair value of net assets acquired	523	6 527
Fair value of cash consideration		7 062
Loans and advances to banks at acquisition		559
Fair value of cash consideration		(7 062)
Net cash outflow		(6 503)

For the post-acquisition period of 8 April 2014 to 31 March 2015, the operating income of MIF totalled £7.5 million and profit before taxation totalled £0.9 million. There is no material difference between this and the operating income and profit if the acquisition had been on 1 April 2014 as opposed to 8 April 2014.

Disposals

The net gain on sale of subsidiaries of £78.5 million in the income statement arises from the sale of Investec Bank (Australia) Limited and the sale of the assets on the group's balance sheet as part of the sale of Start Mortgage Holdings and Kensington Group plc companies and subsidiaries as described below.

The net cash inflow on these items amount to £56 million.

Cash and cash equivalents in the subsidiaries disposed of was £28 million.

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

The sale of Investec plc's Irish intermediated mortgage business, Start Mortagage Holdings Limited, together with certain other Irish mortgage assets to an affiliate of Lone Star Funds was effective on 4 December 2014.

The sale of the UK intermediated mortgage business Kensington Group plc (Kensington) together with certain other Investec Bank plc mortgage assets to funds managed by Blackstone Tactical Opportunities Advisors L.L.C. and TPG Special Situations Partners was effective on 30 January 2015 for cash proceeds of £170 million to the Investec plc group. Within Investec Bank plc this has resulted in the derecognition of approximately £1.7 billion of assets associated with these businesses.

35. Acquisitions and disposals (continued)

The breakdown of the significant balance sheet line items derecognised is shown below:

£'000	Book value of assets and liabilities IBAL	Kensington related assets	Total
Debt securities	299 904	42 141	342 045
Derivatives	–	4 734	4 734
Loans and advances to customers	1 009 199	755 270	1 764 469
Own originated loans and advances securitised	372 094	–	372 094
Other loans and advances	–	532 158	532 158
Other securitised assets	–	353 978	353 978
Combined other asset lines	44 377	–	44 377
Total assets	**1 725 574**	**1 688 281**	**3 413 855**
Customer accounts	1 212 467	–	1 212 467
Debt securities in issue	68 488	–	68 488
Liabilities arising on securitisation of own originated loans and advances	367 531	–	367 531
Liabilities arising on securitisation of other assets	–	232 202	232 202
Subordinated debt	42 291	–	42 291
Combined other liability lines	4 343	3 963	8 306
Total liabilities	**1 695 120**	**236 165**	**1 931 285**
Net assets and liabilities sold			**1 482 570**
Cash received in settlement of pre-existing relationships*			1 469 822
Proceeds on sale of subsidiary			55 956
Goodwill and other adjustments on sale			(35 321)
Gain on disposal of subsidiaries			78 529

* *Reflected as movements in operating assets and operating liabilities within the cash flow (note 44).*

2014

Acquisitions

There were no significant acquisitions of subsidiaries during the year ended 31 March 2014.

Disposals

The net gain on the sale of subsidiaries of £9.7 million in the income statement arises from the sale of Lease Direct Finance Limited and the sale of Investec Trust (Switzerland) SA and Investec Trust (Jersey) Limited.

The net cash inflow on these items amounted to £38.2 million.

At 31 March £'000	2015	2014
36. Other trading liabilities		
Short positions		
– Equities	88 920	114 041
– Gilts	162 959	277 609
	251 879	391 650

At 31 March £'000	2015	2014
37. Debt securities in issue		
Bonds and medium-term notes repayable:		
Less than three months	24 365	9 210
Three months to one year	74 911	127 459
One to five years	212 833	121 988
Greater than five years	66 766	34 427
	378 875	293 084
Other unlisted debt securities in issue repayable:		
Less than three months	14 170	11 258
Three months to one year	36 476	38 765
One to five years	431 136	445 850
Greater than five years	473 579	527 145
	955 361	1 023 018
	1 334 236	1 316 102
Analysis by customer type:		
Retail	773 380	723 000
Wholesale	560 856	593 102
	1 334 236	1 316 102

At 31 March £'000	2015	2014
38. Other liabilities		
Settlement liabilities	803 156	646 347
Other creditors and accruals	248 068	250 474
Other non-interest-bearing liabilities	72 744	81 236
	1 123 968	978 057

At 31 March £'000	2015	2014
39. Pension commitments		
Income statement charge		
Cost of defined contribution schemes included in staff costs	19 903	19 227
Net income statement charge in respect of pensions	19 903	19 227

The group operates pension schemes throughout its areas of operation. The majority of the schemes are defined contribution schemes with the exception of two schemes in the United Kingdom being the Guinness Mahon Pension Fund scheme (GM scheme) and the Investec Asset Management Pension scheme (IAM scheme). Both schemes are final salary pension plans with assets held in separate trustee administered funds. The plan is subject to UK regulations, which require the trustees to agree a funding strategy and contribution schedule for the plan. The role of the trustees is to ensure that the schemes are administered in accordance with the scheme rules and relevant legislation, and to safeguard the assets in the best interest of all members and beneficiaries.

The trustees are solely responsible for setting investment policy and for agreeing funding requirements with the employer through the triennial valuation process. The schemes are closed to new members and the accrual of service ceased on 31 March 2002. The schemes have been valued at 31 March 2015 by qualified independent actuaries in accordance with IAS 19. There were no unpaid contributions in relation to the defined contribution schemes outstanding at the year end.

39. Pension commitments (continued)

Certain employees of the bank participate in both the above defined benefit schemes along with the employees from the Investec plc undertakings.

As there is no contractual agreement or stated policy for charging the net defined benefit cost of the defined benefit plans as a whole, measured in accordance with IAS 19, to individual Investec plc group entities, the bank has accounted for these schemes on a defined contribution basis.

Therefore, the following tables on the defined benefit schemes are provided for information only:

	2015	2014
The major assumptions used were:		
Discount rate	3.20%	4.40%
Rate of increase in salaries	3.00%	3.40%
Rate of increase in pensions in payment	1.80% – 3.00%	1.80% – 3.40%
Inflation (RPI)	3.00%	3.40%
Inflation (CPI)	2.00%	2.40%
Demographic assumptions		
One of the most significant demographic assumptions underlying the valuation is mortality. The specific mortality rates used are based on the PCMA00 MC and PCFA00 base tables with allowance for future improvements in line with the medium cohort projection subject to a 1% underpin. The life expectancies underlying the valuation are as follows:	Years	Years
Male aged 65	87.8	87.7
Female aged 65	89.8	89.7
Male aged 45	89.7	89.6
Female aged 45	91.2	91.1

Sensitivity analysis of assumptions

The sensitivities are only presented for the GM scheme as the equivalent increases/decreases in assumptions for the IAM scheme do not have a material impact.

If the discount rate was 0.25% higher (lower), the scheme liabilities would decrease by approximately £6.2 million (increase by £6.6 million) if all the other assumptions remained unchanged.

If the inflation assumption was 0.25% higher (lower), the scheme liabilities would increase by approximately £3.4 million (decrease by £3.4 million). In this calculation all assumptions related to the inflation assumption have been appropriately adjusted, that is the salary, deferred pension and pension in payment increases. The other assumptions remain unchanged.

If the salary increase assumption was 0.25% higher (lower), the scheme liabilities would increase by approximately £0.4 million (decrease by £0.4 million) if all the other assumptions remained unchanged.

If the pension increases assumptions were 0.25% higher (lower), the scheme liabilities would increase by approximately £2.4 million (decrease by £2.4 million) if all the other assumptions remained unchanged.

If life expectancies were to increase (decrease) by one year, the scheme liabilities would increase by approximately £5.1 million (decrease by £5.1 million) if all the other assumptions remained unchanged.

If the deferred revaluation assumption was 0.25% higher the scheme liabilities would increase by £1.4 million, or decrease by £1.3 million if the deferred revaluation assumption decreased by 0.25%.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. The sensitivity analysis has been performed on the basis that the relevant assumption would occur in isolation, holding other assumptions constant.

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the same methodology that applied in calculating the defined benefit obligation liability recognised in the balance sheet.

39. Pension commitments (continued)

Risk exposures

A description of the risks to which the pension schemes expose Investec can be found in the risk management report on pages 89 and 90.

The group ultimately underwrites the risks relating to the defined benefit plans. If the contributions currently agreed are insufficient to pay the benefits due, the group will need to make further contributions to the plans.

The plan assets held in the schemes were:

At 31 March £'000	2015	2014
GM scheme		
Gilts	165 729	132 799
Cash	2 600	2 634
Total market value of assets	168 329	135 433
IAM scheme		
Managed funds	24 442	22 280
Cash	49	34
Total market value of assets	24 491	22 314

There are no assets which are unquoted.

None of the group's own assets or properties occupied or used by the group held are within the assets of the schemes.

The investment strategy in place for the GM scheme is to switch to gilts over the period to 31 March 2021. At 31 March 2015, the allocation of the GM scheme's invested assets was 100% to gilts and cash. This is ahead of the investment strategy. The higher allocation is due to additional switches from equities to gilts during the first and third quarter of 2013 under the agreed outperformance trigger mechanism. Details of the investment strategy can be found in the GM scheme's Statement of Investment Principles, which the trustees update as its policy evolves.

The trustee's current investment strategy is to strike a balance between maximising the returns on the scheme's assets and minimising the risks associate with lower than expected returns.

39. Pension commitments (continued)

At 31 March £'000	2015 GM	2015 IAM	2015 Total	2014 GM	2014 IAM	2014 Total
Recognised in the balance sheet						
Fair value of fund assets	168 329	24 491	192 820	135 433	22 314	157 747
Present value of obligations	(137 947)	(18 973)	(156 920)	(116 083)	(16 104)	(132 187)
Net asset (recognised in other assets)	30 382	5 518	35 900	19 350	6 210	25 560
Recognised in the income statement						
Net interest income	947	272	1 219	1 057	272	1 329
Past service costs	(377)	(65)	(442)	(310)	(172)	(482)
Net amount recognised in the income statement	570	207	777	747	100	847
Recognised in the statement of comprehensive income						
Return on plan assets (excluding amounts in net interest income)	(28 219)	(1 982)	(30 201)	7 858	197	8 055
Actuarial gain arising from changes in financial assumptions	22 106	2 956	25 062	–	–	–
Actuarial loss arising from experience adjustments	(33)	(75)	(108)	(285)	(84)	(369)
Remeasurement of defined benefit asset	(6 146)	899	(5 247)	7 573	113	7 686
Deferred tax	(1 229)	136	(1 093)	(1 501)	(315)	(1 816)
Remeasurement of net defined benefit asset	(7 375)	1 035	(6 340)	6 072	(202)	5 870

39. Pension commitments (continued)

At 31 March £'000	GM	IAM	Total
Changes in the net assets recognised in the balance sheet			
Balance at 1 April 2013	21 860	6 223	28 083
Net income charged to the income statement	747	100	847
Amount recognised in other comprehensive income	(7 573)	(113)	(7 686)
Contributions paid	4 316	–	4 316
Balance at 1 April 2014	19 350	6 210	25 560
Net income charged to the income statement	570	207	777
Amount recognised in other comprehensive income	6 146	(899)	5 247
Contributions paid	4 316	–	4 316
Balance at 31 March 2015	30 382	5 518	35 900
Changes in the present value of defined benefit obligations			
Defined benefit obligation at 1 April 2013	115 643	15 721	131 364
Interest expense	4 994	685	5 679
Remeasurement gains and losses:			
– Actuarial gain arising from experience adjustments	(285)	(84)	(369)
Past service cost	–	172	172
Benefits and expenses paid	(4 269)	(390)	(4 659)
Defined benefit obligation at 1 April 2014	116 083	16 104	132 187
Interest expense	4 993	693	5 686
Remeasurement gains and losses:			
– Actuarial gain arising from changes in financial assumptions	22 106	2 956	25 062
– Actuarial loss arising from experience adjustments	(33)	(75)	(108)
Benefits and expenses paid	(5 202)	(705)	(5 907)
Defined benefit obligation at 31 March 2015	137 947	18 973	156 920
Changes in the fair value of plan assets			
Fair value of plan assets at 1 April 2013	137 503	21 944	159 447
Interest income	6 051	957	7 008
Remeasurement (loss)/gain:			
– Return on plan assets (excluding amounts in net interest income)	(7 858)	(197)	(8 055)
Contributions by the employer	4 316	–	4 316
Benefits and expenses paid	(4 579)	(390)	(4 969)
Fair value of plan assets at 1 April 2014	135 433	22 314	157 747
Interest income	5 940	965	6 905
Remeasurement gain:			
– Return on plan assets (excluding amounts in net interest income)	28 219	1 982	30 201
Contributions by the employer	4 316	–	4 316
Benefits and expenses paid	(5 579)	(770)	(6 349)
Fair value of plan assets at 31 March 2015	168 329	24 491	192 820

The triennial funding valuation of the schemes was carried out as at 31 March 2012. Contributions requirements, including any deficit recovery plans, were agreed between the group and the trustees in March 2013 to address the scheme deficit. Under the agreed contribution plan deficit contributions of £6 million were paid into the IAM scheme in March 2013 such that the scheme is now fully funded.

Under the agreed contribution plan deficit contributions of £4.3 million were paid into the GM scheme in the year to March 2015 and the group expects to make £4.3 million of contributions to the defined benefit schemes in the 2015/16 financial year.

The weighted average duration of the GM scheme's liabilities at 31 March 2015 is 19 years (31 March 2014: 17 years). This includes average duration of active members of 25 years, average duration of deferred pensioners of 24 years and average duration of pensioners in payment of 11 years.

The weighted average duration of the IAM scheme's liabilities at 31 March 2015 is 19 years (31 March 2014: 18 years).
This includes average duration of deferred pensioners of 20.5 years and average duration of pensioners in payment of 11.5 years.

At 31 March £'000	2015	2014
40. Subordinated liabilities		
Issued by Investec Finance plc		
Guaranteed subordinated step-up notes	–	33 979
Guaranteed undated subordinated callable step-up notes	18 510	18 750
Issued by Investec Bank plc		
Subordinated floating rate medium-term notes	578 413	577 941
Issued by Investec Bank (Australia) Limited		
Subordinated floating rate medium-term notes	–	39 106
	596 923	669 776
Remaining maturity:		
In one year or less, or on demand	–	–
In more than one year, but not more than two years	18 510	33 979
In more than two years, but not more than five years	–	18 750
In more than five years	578 413	617 047
	596 923	669 776

The only event of default in relation to the subordinated debt is the non-payment of principal or interest. The only remedy available to the holders of the subordinated debt in the event of default is to petition for the winding up of the issuing entity. In a winding up no amount will be paid in respect of the subordinated debt until all other creditors have been paid in full.

Guaranteed subordinated step-up notes

On 13 February 2015, Investec Finance plc redeemed at par the entire issue £33 793 000 of guaranteed subordinated step-up notes due in 2016. The notes had been guaranteed by Investec Bank plc and listed on the Luxembourg Stock Exchange.

Guaranteed undated subordinated callable step-up notes

Investec Finance plc has in issue £17 861 000 of 6.25% guaranteed undated subordinated step-up notes callable in 2017 at a discount (perpetual notes). Interest is paid semi-annually. The notes are guaranteed by Investec Bank plc and are listed on the Luxembourg Stock Exchange. The step-up notes may be redeemed by the issuer, at par, at any time after 23 January 2017, subject to the prior consent of the Prudential Regulation Authority. On 23 January 2017 the interest rate will be reset to become three-month LIBOR plus 2.11% payable quarterly in arrears.

Medium term notes

Subordinated fixed rate medium term notes (denominated in Pounds Sterling)

On 17 February 2011 Investec Bank plc issued £500 000 000 of 9.625% subordinated notes due 2022 at a discount (2022 notes). Interest is paid annually. The notes are listed on the London Stock Exchange. The notes will be redeemed at par on 17 February 2022. On 29 June 2011 Investec Bank plc issued £75 000 000 of 9.625% subordinated notes due 2022 at a premium (to be consolidated and form a single series, and to be fungible, with the £500 000 000 2022 notes issued on 17 February 2011).

Subordinated floating rate medium term notes (denominated in Australian Dollars)

The group disposed of its interest in Investec Bank (Australia) Limited on 31 July 2014. At that date the A$20 000 000 of floating rate medium-term notes issued by the company on 12 February 2010 and the A$50 000 000 of floating rate medium-term notes issued by the company on 20 December 2012, due to parties outside of the Investec group, were removed from the balance sheet.

At 31 March	2015	2014

41. Ordinary share capital

Authorised

The authorised share capital is £2 000 million (2014: £2 000 million) comprising:
2 000 million ordinary shares of £1 each (2014: 2 000 million ordinary shares of £1 each).

Issued, allotted and fully paid

Number of ordinary shares	Number	Number
At the beginning of the year	1 186 800 000	1 173 800 000
Issued during the year	–	13 000 000
At the end of the year	1 186 800 000	1 186 800 000

Nominal value of ordinary shares	£'000	£'000
At the beginning of the year	1 186 800	1 173 800
Issued during the year	–	13 000
At the end of the year	1 186 800	1 186 800

At 31 March £'000	2015	2014

42. Non-controlling interests

Non-controlling interests in partially held subsidiaries	678	(3 225)

	2015		2014	
At 31 March £'000	Total future minimum payments	Present value	Total future minimum payments	Present value

43. Finance lease disclosures

Finance lease receivables included in loans and advances to customers				
Lease receivables due in:				
Less than one year	201 556	159 545	239 218	188 594
One to five years	311 830	270 249	521 637	439 811
Later than five years	4 510	4 289	20 055	15 159
	517 896	434 083	780 910	643 564
Unearned finance income	83 813		137 346	

At 31 March 2015, unguaranteed residual values accruing to the benefit of Investec were £2.7 million (2014: £29.4 million). Finance leases in the group mainly relate to leases on property, equipment and motor vehicles.

For the year to 31 March £'000	2015	2014
44. Notes to the cash flow statement		
Profit before taxation adjusted for non-cash items is derived as follows:		
Profit before taxation	160 592	77 541
Adjustment for non-cash items included in net income before taxation:		
Amortisation of acquired intangibles	14 497	13 393
Impairment of goodwill	8 552	11 233
Net gain on disposal of subsidiaries	(78 529)	(9 653)
Depreciation of operating lease assets	1 535	6 044
Depreciation and impairment of property, equipment and intangibles	13 826	16 021
Impairment of loans and advances	102 084	97 491
Operating income from associates	(1 503)	(1 891)
Dividends received from associates	1 548	1 618
Profit before taxation adjusted for non-cash items	222 602	211 797
(Increase)/decrease in operating assets		
Loans and advances to banks	176 508	35 352
Reverse repurchase agreements and cash collateral on securities borrowed	(232 705)	313 093
Sovereign debt securities	(114 410)	427 962
Bank debt securities	(14 031)	84 019
Other debt securities	8 443	(39 969)
Derivative financial instruments	(27 357)	168 441
Securities arising from trading activities	(83 592)	87 057
Investment portfolio	(62 626)	(9 717)
Other loans and advances	243 937	42 070
Own originated loans and advances to customers securitised	74 058	230 115
Loans and advances to customers	(360 026)	(106 929)
Securitised assets	361 146	93 709
Other assets	(97 610)	191 930
Investment properties	(4 021)	(50 215)
	(132 286)	1 466 918
Increase/(decrease) in operating liabilities		
Deposits by banks	(620 738)	(161 961)
Derivative financial instruments	293 032	(148 530)
Other trading liabilities	(139 771)	18 888
Repurchase agreements and cash collateral on securities lent	(17 474)	(327 663)
Customer accounts	696 243	(259 693)
Debt securities in issue	86 622	(397 634)
Liabilities arising on securitisation of own originated loans and advances	(81 552)	(28 820)
Liabilities arising on securitisation of other assets	(405 017)	111 366
Other liabilities	591 203	(150 758)
	402 548	(1 344 805)

At 31 March £'000	2015	2014
45. Commitments		
Undrawn facilities	812 364	850 236
Other commitments	34 653	9 748
	847 017	859 984
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	11 124	22 363
One to five years	45 966	65 310
Later than five years	52 572	25 558
	109 662	113 231
Operating lease receivables		
Future minimum lease payments under non-cancellable operating leases:		
Less than one year	5 763	3 847
One to five years	3 706	2 838
Later than five years	–	320
	9 468	7 005

Investec leases assets to third parties under operating and finance lease arrangements including transport assets, machinery and property. The terms of the leases range between three and five years with no annual escalation clauses. The majority of the leases have renewal options.

At 31 March	Carrying amount of pledged asset		Related liability	
£'000	2015	2014	2015	2014
Pledged assets				
Other loans and advances	25 253	–	25 253	–
Loans and advances to banks	210 061	224 254	164 661	247 937
Sovereign debt securities	151 841	339 455	139 202	336 246
Bank debt securities	59 516	38 173	54 562	28 639
Securities arising from trading activities	580 156	514 089	530 660	424 619
	1 026 827	1 115 971	914 338	1 037 441

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 repledge the assets, they are classified on the balance sheet as reverse repurchase agreements and cash collateral on securities borrowed.

At 31 March £'000	2015	2014
46. Contingent liabilities		
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	52 026	215 231
	52 026	215 231

The amounts shown above are intended only to provide an indication of the volume of business outstanding at the balance sheet date.

Guarantees are issued by Investec Bank plc and its subsidiaries on behalf of third parties and other group companies. The guarantees are issued as part of the banking business.

46. Contingent liabilities (continued)

Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS), the UK's statutory fund of last resort, provides compensation to customers of UK authorised financial institutions in the event that an institution which is a participating member of the FSCS is unable, or is likely to be unable, to pay claims against it.

The FSCS raises annual levies from participating members based on their level of participation (in the case of deposits, the proportion that their protected deposits represent of total protected deposits) as at 31 December of the year preceding the scheme year.

Following the default of a number of deposit takers in 2008, the FSCS has borrowed from HM Treasury to fund the compensation costs for customers of those firms. Although the majority of this loan is expected to be repaid from funds the FSCS receives from asset sales, surplus cash flow or other recoveries in relation to the assets of the firms that defaulted, any shortfall will be funded by deposit-taking participants of the FSCS.

Investec Bank plc is a participating member of the FSCS and the bank has accrued £1.65 million for its share of levies that will be raised by the FSCS. The accrual is based on estimates for the interest the FSCS will pay on the loan and estimates of the level of the bank's market participation in the relevant periods. Interest will continue to accrue to the FSCS on the HM Treasury loan and will form part of future FSCS levies.

At the date of these financial statements, it is not possible to estimate whether there will ultimately be additional levies on the industry, the level of Investec's market participation or other factors that may affect the amounts or timing of amounts that may ultimately become payable, nor the effect that such levies may have upon operating results in any particular financial period.

Legal proceedings

Investec operates in a legal and regulatory environment that exposes it to litigation risks. As a result, Investec is involved in disputes and legal proceedings which arise in the ordinary course of business. Investec does not expect the ultimate resolution of any of the proceedings to which Investec is party to have a significant adverse effect on the financial position of the group. These claims, if any, cannot be reasonably estimated at this time.

Specifically, a claim has been made in the Royal Court of Guernsey against ITG Limited (formerly Investec Trust (Guernsey) Limited), a subsidiary of Investec plc, for breach of equitable duty for skill and care with a related claim for liability for the debts of a client trust. The outcome of these claims cannot reasonably be estimated at this time but Investec does not expect the ultimate resolution of the proceedings to have a material adverse effect on the financial position of the group.

47. Related party transactions

For the year ended 31 March £'000	2015	2014
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	25 365	33 403
Increase in loans	14 405	1 058
Repayment of loans	(5 404)	(9 096)
Exchange adjustments	(814)	–
At the end of the year	33 552	25 365
Guarantees		
At the beginning of the year	4 409	4 591
Additional guarantees granted	820	4 409
Guarantees cancelled	(1 876)	(4 591)
Exchange adjustments	260	–
At the end of the year	3 613	4 409
Deposits		
At the beginning of the year	(26 519)	(23 436)
Increase in deposits	(26 922)	(20 310)
Decrease in deposits	19 493	16 588
Exchange adjustment	(715)	639
At the end of the year	(34 663)	(26 519)

The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or where applicable, with other employees. The transactions did not involve more than the normal risk of repayment. None of these loans has been impaired.

For the year ended 31 March 2015	Investec plc and subsidiaries	Investec Limited and subsidiaries	Total
47. Related party transactions (continued)			
Transactions with other related parties			
Assets			
Loans and advances to banks	–	3 520	3 520
Other loans and advances	221 393	1 746	223 139
Reverse repo	–	233 256	233 256
Derivative financial instruments	30 866	38 724	69 590
Bank debt securities	–	6 931	6 931
Other assets	–	14 962	14 962
Liabilities			
Deposits from banks	–	(13 703)	(13 703)
Customer accounts	(273 227)	(7 838)	(281 065)
Debt securities in issue	–	(160 328)	(160 328)
Derivative financial instruments	(607)	(99 144)	(99 751)
Other liabilities	(5 597)	(25 901)	(31 498)
For the year ended 31 March 2014			
Assets			
Loans and advances to banks	–	30 547	30 547
Other loans and advances	558 448	1 196	559 644
Reverse repo	–	306 063	306 063
Derivative financial instruments	1 949	1 146	3 095
Other assets	31 704	16 269	47 973
Liabilities	–	(16 445)	(16 445)
Deposits from banks			
Customer accounts	(139 647)	(17 346)	(156 993)
Debt securities in issue	–	(237 612)	(237 612)
Derivative financial instruments	(845)	(25 852)	(26 697)
Other liabilities	–	(42 279)	(42 279)
Subordinated liabilities	–	(27 874)	(27 874)

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 counter parties. In the normal course of business, services are provided by Investec Bank plc to other companies in the group. In the year to 31 March 2015, Investec Bank plc received £10.5 million (2014: £13.5 million) for these services. Specific transactions of an advisory nature between group entities have resulted in a net fee receipt of £0.3 million (2014: £nil). During the year to 31 March 2015, interest of £15.0 million (2014: £31.1 million) was paid to entities in the Investec Limited group and £17.1 million (2014: £16.3 million) was paid to Investec plc and fellow subsidiaries. Interest of £1.4 million (2014: £1.7 million) was received from the Investec Limited group and interest of £25.8 million (2014: £45.6 million) was received from Investec plc and fellow subsidiaries.

For the year ended 31 March £'000	2015	2014
Amounts due from associates	9 069	16 409
Interest income from associates	1 218	959
Fees and commission income from associates	202	108

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.

48. Hedges

The group uses derivatives for the management of financial risks relating to its asset and liability portfolios, mainly associated with non-trading interest rate risks and exposures to foreign currency risk. Most non-trading interest rate risk is transferred from the originating business to the Central Treasury in the Specialist Bank. Once aggregated and netted, Central Treasury, as the sole interface to the wholesale market for cash and derivative transactions, actively manages the liquidity mismatch and non-trading interest rate risk from our asset and liability portfolios. In this regard, Central Treasury is required to exercise tight control of funding, liquidity, concentration and non-trading interest rate risk within defined parameters.

The accounting treatment of accounting hedges is dependent on the classification between fair value hedges and cash flow hedges and in particular accounting hedges require the identification of a direct relationship between a hedged item and hedging instrument. This relationship is established in limited circumstances based on the manner in which the group manages its risk exposure. Below is a description of each category of accounting hedges achieved by the group.

Fair value hedges

Fair value hedges are entered into mainly to hedge the exposure of changes in fair value of fixed rate financial instruments attributable to interest rates.

At 31 March £'000	Description of financial instrument designated as hedging instrument	Fair value of hedging instrument	Cumulative gains or (losses) on hedging instrument	Current year gains or (losses) on hedging instrument	Cumulative gains or (losses) on hedged item	Current year gains or (losses) on hedged item
2015						
Assets	Interest rate swap	(103 554)	(103 554)	(101 806)	91 472	95 474
Liabilities	Interest rate swap	8 276	8 276	3 023	(8 161)	(2 989)
		(95 278)	(95 278)	(98 783)	83 311	92 485
2014						
Assets	Interest rate swap	(2 039)	(2 039)	39 090	(3 711)	(38 197)
	Cross-currency swap	(165)	(165)	306	165	(306)
Liabilities	Interest rate swap	5 616	5 616	(14 054)	(5 536)	14 836
	Cross-currency swap	(124)	(124)	336	124	(336)
		3 288	3 288	25 678	(8 958)	(24 003)

Cash flow hedges

As at 31 March 2015, the group had no financial instruments designated as cash flow hedges. During the year certain cash flow hedges had existed where changes in fair value were initially recognised in other comprehensive income and then recycled to the income statement when the cash flow occurred. In the prior year the nominal expected future cash flows subject to cash flow hedges were:

At 31 March £'000	Description of financial instrument designated as hedging instrument	Fair value of hedging instrument	Period cash flows are expected to occur and affect income statement
2014			
Assets	Interest rate swap	516	Three months to five years
	Cross-currency swap	370	One to five years
Liabilities	Interest rate swap	(6 084)	One to five years
		(5 198)	

There was no ineffective portion recognised in the income statement for the current and prior year. The release to the income statement for cash flow hedges has been included in net interest income.

48. Hedges (continued)

Hedges of net investments in foreign operations

During the current year the group has closed out various foreign exchange contracts it held to hedge the exposure of the Investec Bank plc group balance sheet to its net investment, in Australian Dollars, in the Australian operations of the group.

At 31 March £'000	Hedging instrument fair value
2015	–
2014	(1 081)

There was no ineffective portion recognised in the income statement for the current or prior years.

49. Liquidity analysis of financial liabilities based on undiscounted cash flows

At 31 March £'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
2015								
Liabilities								
Deposits by banks	79 022	48 801	5 008	–	–	–	107 025	239 856
Derivative financial instruments	193 433	24 453	107 903	47 158	68 183	270 830	253 138	965 098
Derivative financial instruments – held for trading	192 692	–	–	–	–	–	–	192 692
Derivative financial instruments – held for hedging risk	741	24 453	107 903	47 158	68 183	270 830	253 138	772 406
Other trading liabilities	251 879	–	–	–	–	–	–	251 879
Repurchase agreements and cash collateral on securities lent	505 160	–	–	–	–	11 925	96 261	613 346
Customer accounts (deposits)	2 767 558	1 256 623	1 656 016	2 555 973	799 230	1 465 096	135 752	10 636 248
Debt securities in issue	–	31 332	75 309	79 976	199 671	754 989	408 712	1 549 989
Liabilities arising on securitisation of other assets	–	5 726	2 194	7 688	14 835	116 944	238 262	385 649
Other liabilities	253 225	682 852	74 761	22 773	12 660	49 458	15 251	1 110 980
Subordinated liabilities	–	–	–	558	55 902	240 345	685 688	982 493
Total on-balance sheet liabilities	4 050 277	2 049 787	1 921 191	2 714 126	1 150 481	2 909 587	1 940 089	16 735 538
Contingent liabilities	35 162	–	1 408	–	3 384	11 767	305	52 026
Commitments	306 725	2 230	22 054	42 773	123 180	345 054	5 001	847 017
Total liabilities	4 392 164	2 052 017	1 944 653	2 756 899	1 277 045	3 266 408	1 945 395	17 634 581

49. Liquidity analysis of financial liabilities based on undiscounted cash flows

(continued)

At 31 March £'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	Greater than five years	Total
2014								
Liabilities								
Deposits by banks	377 905	105 192	113 602	70 787	81 962	69 016	92 431	910 895
Derivative financial instruments	227 877	2 738	147 274	6 727	42 624	194 880	76 692	698 812
Derivative financial instruments – held for trading	200 406	–	–	–	–	–	–	200 406
Derivative financial instruments – held for hedging risk	27 471	2 738	147 274	6 727	42 624	194 880	76 692	498 406
Other trading liabilities	391 650	–	–	–	–	–	–	391 650
Repurchase agreements and cash collateral on securities lent	425 391	–	–	–	189 773	–	–	615 164
Customer accounts (deposits)	2 280 286	1 395 270	2 758 975	2 931 338	715 480	1 057 359	98 463	11 237 171
Debt securities in issue	3 947	15 730	153 283	119 973	273 976	500 671	563 356	1 630 936
Liabilities arising on securitisation of own originated loans and advances	301	15 499	41 314	47 388	165 880	230 499	3 352	504 233
Liabilities arising on securitisation of other assets	–	25 277	33 013	42 808	84 055	439 531	724 861	1 349 545
Other liabilities	191 885	586 260	87 392	33 443	29 002	38 756	14 906	981 644
Subordinated liabilities	–	222	942	1 732	72 029	350 003	830 973	1 255 901
Total on-balance sheet liabilities	3 899 242	2 146 188	3 335 795	3 254 196	1 654 781	2 880 715	2 405 034	19 575 951
Contingent liabilities	40 401	26 876	15 485	1 795	4 068	126 466	140	215 231
Commitments	444 491	42 436	25 784	8 379	76 806	246 392	15 696	859 984
Total liabilities	4 384 134	2 215 500	3 377 064	3 264 370	1 735 655	3 253 573	2 420 870	20 651 166

The balances in the above table will not agree directly to the balances in the consolidated balance sheet as the table incorporates all cash flow on an undiscounted basis relating to both principal and those associated with all future coupon payments (except for trading liabilities and trading derivatives). Furthermore loan commitments are generally not recognised on the balance sheet.

Trading liabilities and trading derivatives have been included in the 'demand' time bucket and not by contractual maturity because trading liabilities are typically held for short periods of time. For an unaudited analysis based on discounted cash flows please refer to pages 83 and 84.

50. Principal subsidiaries

At 31 March	Principal activity	Country of incorporation	Interest 2015	Interest 2014
Direct subsidiaries of Investec Bank plc				
Investec Asset Finance plc	Leasing	England and Wales	100.0%	100.0%
Investec Bank (Channel Islands) Limited	Banking Institution	Guernsey	100.0%	100.0%
Investec Bank (Switzerland) AG	Banking Institution	Switzerland	100.0%	100.0%
Investec Capital Asia Limited	Investment banking	Hong Kong	100.0%	100.0%
Investec Finance plc	Debt issuer	England and Wales	100.0%	100.0%
Investec Group Investments (UK) Limited	Investment holding	England and Wales	100.0%	100.0%
Investec Holdings (Australia) Limited	Holding company	Australia	100.0%	100.0%
Investec Investments (UK) Limited	Investment holding	England and Wales	100.0%	100.0%
Rensburg Sheppards plc	Holding company	England and Wales	100.0%	100.0%
Indirect subsidiary undertakings of Investec Bank plc				
Investec Asset Finance & Leasing (Pty) Ltd	Leasing	Australia	–	100.0%
Investec Bank (Australia) Ltd	Banking Institution	Australia	–	100.0%
Investec Capital and Investments (Ireland) Limited	Financial services	Ireland	100.0%	100.0%
Investec Ireland Limited	Financial services	Ireland	100.0%	100.0%
Investec Professional Finance (Pty) Ltd	Financial services	Australia	–	100.0%
Investec Wealth & Investments Limited	Stockbroking and portfolio management	England and Wales	100.0%	100.0%
Williams de Broë Limited	Stockbroking and portfolio management	England and Wales	100.0%	100.0%

All of the above subsidiary undertakings are included in the consolidated accounts. There have been no changes to the subsidiaries listed above as a result of the adoption of IFRS 10 as control over these entities continues to be demonstrated through the ownership of the majority of voting equity shares.

The company has taken advantage of the exemption under section 410(2) of the Companies Act 2006 by providing information only in relation to subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the financial statements. A complete list of subsidiary and associated undertakings will be included in the next Investec Bank plc annual return filed with the Registrar of Companies.

Consolidated structured entities

Investec plc has no equity interest in the following structured entities which are consolidated. Typically a structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. The judgements to assess whether the group has control over these structures include assessing the purpose and design of the entity, considering whether the group or another involved party with power over the relevant activities is acting as a principal in its own right or as an agent on behalf of others.

Name of principal structured entity	Type of structured entity
Bedrock CMBS GMBH	Structured commercial real estate loan assets
Foundation CMBS Limited	Structured commercial real estate loan assets
Landmark Mortgage Securities No 2 plc	Securitised Residential Mortgages
Landmark Mortgage Securities No 3 plc	Securitised Residential Mortgages
Residential Mortgage Securities 23 plc	Securitised Residential Mortgages
Tamarin Securities Limited	Structured debt and loan portfolios
Temese Funding 1 plc	Securitised receivables
Temese Funding 2 Plc	Securitised receivables
Yorker Trust	Structured debt and loan portfolios

For additional detail on the assets and liabilities arising on securitisation refer to note 27. For details of the risks to which the group is exposed through all of its securitisations are included in the risk management report on page 71.

50. Principal subsidiaries (continued)

The key assumptions for the main types of structured entities which the group consolidates are summarised below:

Securitised residential mortgages

The group has securitised residential mortgages in order to provide investors with exposure to residential mortgage risk and to raise funding. These structured entities are consolidated due to the group's holdings of equity notes combined with its control over servicing activities. The group is not required to fund any losses above those incurred on the notes it has retained, such losses are reflected in any impairment of securitised mortgages as those assets have not been derecognised.

Structured debt and loan portfolios

The group has structured debt and loan portfolios for the purpose of issuing asset-backed securities. These structured entities are consolidated due to the group's retention of equity notes and because it continues to act as the collateral manager. The group is not required to fund any losses above those incurred on the notes it has retained.

Structured commercial real estate loan assets

The group has securitised a number of commercial real estate loan assets. These structured entities are consolidated as the group has retained all of the notes issued. The group continues to recognise the commercial real estate loan assets on its balance sheet. The group is not required to fund any losses above those incurred on the notes it has retained.

Securitised receivables

The group has securitised a portfolio of medium-term lease and hire purchase receivables. These structured entities are consolidated as the group has retained the equity notes and control over servicing activities. The group is not required to fund any losses above those incurred on the notes it has retained.

Other structured entities – commercial operations

The group also consolidates a number of structured entities where control arises from rights attached to lending facilities and similar commercial involvement. These arise primarily in the areas of aircraft funds where the group has rights which allow it to maximise the value of the assets held and investments in mining projects due to its exposure to equity like returns and ability to influence the strategic and financial decision-making.

The group is not required to fund any losses above those which could be incurred on debt positions held or swaps which exist with these structured entities. The risks to which the group is exposed from these structured entities are related to the underlying assets held in the structures. The total assets held in structured entities arising from commercial operations is £169.1 million (2014: £157.9 million).

Significant restrictions

As is typical for a large group of companies there are restrictions on the ability of the group to obtain distributions of capital, access the assets or repay the liabilities of members of the group due to the statutory, regulatory and contractual requirements of its subsidiaries. These are considered below:

Regulatory requirements

Subsidiary companies are subject to prudential regulation and regulatory capital requirements in the countries in which they are regulated. These require entities to maintain minimum capital, leverage and exposure ratios restricting the ability of these entities to make distributions of cash or other assets to the parent company. Regulated subsidiaries of the group are required to maintain liquidity pools to meet PRA and local regulatory requirements. The main subsidiaries affected are: Investec Bank plc, Investec Bank (Channel Islands) Limited and Investec Bank (Switzerland) AG which must maintain compliance with the regulatory minimum.

Capital management within the group is discussed in the risk management report on pages 90 to 95.

Statutory requirements

The group's subsidiaries are subject to statutory requirements not to make distributions of capital and unrealised profits and generally or liquidation.

Contractual requirements

Asset encumbrance – the group uses its financial assets to raise finance in the form of securitisations and through the liquidity schemes of central banks. Once encumbered, the assets are not available for transfer around the group. The assets typically affected are disclosed in notes 45 and 53.

50. Principal subsidiaries (continued)

Structured associates

The group has investments in a number of structured funds specialising in aircraft financing where the group acts as adviser or fund manager in addition to holding units within the fund. As a consequence of these roles and funding, the group has significant influence over the fund and therefore the funds are treated as associates.

The group applies the venture capital exemption to these holdings and, as such, the investments in the funds are accounted for at fair value and held within the investment portfolio on the balance sheet.

Type of structured entity	Nature and purpose	Interest held by the group
Aircraft investment funds	To generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.	Investments in units issued by the fund Management fees

The table below sets out an analysis of the carrying amounts of interests held by the group in structured associate entities.

At 31 March 2015	Line on the balance sheet	Carrying value £'000	Maximum exposure to loss	Income earned from structured entity	£'000
Aircraft investment funds	Investment portfolio	35 443	Limited to the carrying value	Investment income	2 751

At 31 March 2014	Line on the balance sheet	Carrying value £'000	Maximum exposure to loss	Income earned from structured entity	£'000
Aircraft investment funds	Investment portfolio	39 883	Limited to the carrying value	Investment income	1 825

51. Unconsolidated structured entities

At 31 March 2015

The table below describes the types of structured entities that the group does not consolidate but in which it holds an interest and originally set up. In making the assessment of whether to consolidate these structured entities, the group has concluded that it does not have control after consideration in line with the accounting policies as set out on page 140.

Type of structured entity	Nature and purpose	Interest held by the group
Investment funds	To generate fees from managing assets on behalf of third party investors These vehicles are financed through the issue of units to investors.	Investments in units issued by the fund Management fees
Residential mortgage securitisations	To generate a return for investors through providing exposure to residential mortgage risk These vehicles are financed through the issue of notes to investors	Investments in notes

51. Unconsolidated structured entities (continued)

The table below sets out an analysis of the carrying amounts of interests held by the group in unconsolidated structured entities.

The maximum exposure to loss is the carrying amount of the assets held.

At 31 March 2015	Line on the balance sheet	Carrying value £'000	Maximum exposure to loss of the group	Total assets of the entity £'000	Income earned from structured entity	£'000
Investment funds	Investment portfolio	5 015	Limited to the carrying value	302 703	Investment loss	(11 732)
Residential mortgage securitisations	Other debt securities	7 139	Limited to the carrying value	192 891	Investment income Net interest income	260 120
	Other loans and advances	77 628	Limited to the carrying value	1 642 784	Net interest income	9 057

At 31 March 2014	Line on the balance sheet	Carrying value £'000	Maximum exposure to loss of the group	Total assets of the entity £'000	Income earned from structured entity	£'000
Investment funds	Investment portfolio	5 568	Limited to the carrying value	199 946	Investment income	15 139
Residential mortgage securitisations	Other debt securities	41 791	Limited to the carrying value	163 829	Interest expense Investment expense	(1 042) (98)

Financial support provided to the unconsolidated structured entity

There are no contractual agreements which require the group to provide any additional financial or non-financial support to these structured entities.

During the year, the group has not provided any such support and does not have any current intentions to do so in the future.

Sponsoring

The group considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity.

The table below sets out information in respect of structured entities that the group sponsors, but in which the group does not have an interest.

Structured entities with no interest held

	2015 Structured CDO and CLO securitisations^	2014 Residential mortgage securitisations
Why it is considered a structured entity	This is a CDO and CLO securitisation where Investec has no continuing interest as the notes previously held have been redeemed or fully written off. The entity is considered structured as the vehicle was set up so that the variable return does not follow the shareholding.	These are residential mortgage securitisations where Investec has no continuing interest as the notes previously held have been redeemed or fully written off. The entities are considered structured as the vehicles are set up so that the variable returns do not follow the shareholding.
Income amount and type	Nil	Mortgage manager fees of £83 000 per annum.
Carrying amount of all assets transferred	£222 million of CDO and CLO assets.	£269 million of mortgage assets.

^ *Collateralised Debt Obligation (CDO) and Collateralised Loan Obligation (CLO).*

Interests in structured entities which the group has not set up

Purchased securitisation positions

The group buys and sells interest in structured entities that it has not originated as part of its trading activities, e.g. residential mortgage securities, commercial mortgage securities, loans to corporates and resecuritisations. In such cases, the group typically has no other involvement with the structured entity other than the securities it holds as part of its trading activities and its maximum exposure to loss is restricted to the carrying value of the asset. Details of the value of these interests is included in the risk management report on page 72.

52. Offsetting

At 31 March 2015 £'000	Amounts subject to enforceable netting arrangements Effects of offsetting on-balance sheet Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Related amounts not offset Financial instruments (including non-cash collateral)	Cash collateral	Net amount
Assets						
Cash and balances at central banks	2 181 232	–	2 181 232	–	–	2 181 232
Loans and advances to banks	828 726	–	828 726	–	(185 581)	643 145
Reverse repurchase agreements and cash collateral on securities borrowed	1 453 618	(5 413)	1 448 205	(480 647)	(3 657)	963 901
Sovereign debt securities	1 212 910	–	1 212 910	(151 841)	–	1 061 069
Bank debt securities	226 273	–	226 273	(59 516)	–	166 757
Other debt securities	222 485	–	222 485	–	–	222 485
Derivative financial instruments	8 749 057	(7 943 171)	805 886	(285 518)	(81 087)	439 281
Securities arising from trading activities	670 298	–	670 298	(562 139)	–	108 159
Investment portfolio	400 800	–	400 800	–	–	400 800
Loans and advances to customers	7 044 165	(8 475)	7 035 690	–	–	7 035 690
Other loans and advances	776 305	–	776 305	–	(25 253)	751 052
Other securitised assets	411 983	–	411 983	–	–	411 983
Other assets*	18 579 577	(17 466 441)	1 113 136	–	–	1 113 136
	42 757 429	(25 423 500)	17 333 929	(1 539 661)	(295 578)	15 498 690
Liabilities						
Deposits by banks	222 613	(8 475)	214 138	–	(46 431)	167 707
Derivative financial instruments	1 835 122	(881 917)	953 205	(386 671)	(203 056)	363 478
Other trading liabilities*	24 352 976	(24 101 097)	251 879	(243 315)	–	8 564
Repurchase agreements and cash collateral on securities lent	597 259	–	597 259	(597 259)	–	–
Customer accounts (deposits)	10 579 558	–	10 579 558	–	(18 094)	10 561 464
Debt securities in issue	1 334 236	–	1 334 236	(312 416)	(7 777)	1 014 043
Liabilities arising on securitisation of other assets	330 526	–	330 526	–	–	330 526
Other liabilities	1 555 979	(432 011)	1 123 968	–	–	1 123 968
Subordinated liabilities	596 923	–	596 923	–	–	596 923
	41 405 192	(25 423 500)	15 981 692	(1 539 661)	(275 358)	14 166 673

* *Obligations arising in equity transactions in our prime brokerage business and are legally enforceable and settled net.*

52. Offsetting (continued)

At 31 March 2014 £'000	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Cash collateral	Net amount
	Amounts subject to enforceable netting arrangements					
	Effects of offsetting on-balance sheet			Related amounts not offset		
Assets						
Cash and balances at central banks	1 742 605	–	1 742 605	–	–	1 742 605
Loans and advances to banks	1 106 678	(1 473)	1 105 205	–	(167 766)	937 439
Reverse repurchase agreements and cash collateral on securities borrowed	1 421 139	(205 639)	1 215 500	(272 846)	(122 792)	819 862
Sovereign debt securities	1 232 415	–	1 232 415	(196 073)	–	1 036 342
Bank debt securities	371 182	–	371 182	(44 656)	–	326 526
Other debt securities	229 228	–	229 228	–	–	229 228
Derivative financial instruments	1 938 139	(1 155 192)	782 947	(158 514)	(356 769)	267 664
Securities arising from trading activities	586 706	–	586 706	(417 401)	–	169 305
Investment portfolio	341 360	–	341 360	–	–	341 360
Loans and advances to customers	7 791 035	(38 128)	7 752 907	–	(150)	7 752 757
Own originated loans and advances to customers securitised	447 638	–	447 638	–	–	447 638
Other loans and advances	1 812 007	(302 293)	1 509 714	–	–	1 509 714
Other securitised assets	1 011 257	–	1 011 257	–	–	1 011 257
Other assets*	24 148 451	(23 134 035)	1 014 416	–	(15 661)	998 755
	44 179 840	(24 836 760)	19 343 080	(1 089 490)	(663 138)	17 590 452
Liabilities						
Deposits by banks	834 887	(11)	834 876	–	(226 667)	608 209
Derivative financial instruments	675 212	(6 053)	669 159	(131 235)	(281 705)	256 219
Other trading liabilities*	24 373 527	(23 981 877)	391 650	(272 846)	–	118 804
Repurchase agreements and cash collateral on securities lent	614 836	(103)	614 733	(363 525)	(68 073)	183 135
Customer accounts (deposits)	11 436 203	(340 421)	11 095 782	–	(33 748)	11 062 034
Debt securities in issue	1 316 102	–	1 316 102	(321 884)	(1 224)	992 994
Liabilities arising on securitisation of own originated loans and advances	449 083	–	449 083	–	–	449 083
Liabilities arising on securitisation of other assets	962 253	–	962 253	–	–	962 253
Other liabilities	1 486 352	(508 295)	978 057	–	–	978 057
Subordinated liabilities	669 776	–	669 776	–	–	669 776
	42 818 231	(24 836 760)	17 981 471	(1 089 490)	(611 417)	16 280 564

* *Obligations arising in equity transactions in our prime brokerage business and are legally enforceable and settled net.*

53. Derecognition

Transfers of financial assets that do not result in derecognition

The group has been party to securitisation transactions whereby assets continue to be recognised on balance sheet (either fully or partially) although they have been subject to legal transfer to another entity. Securitisations may, depending on the individual arrangement, result in continued recognition of the securitised assets and the recognition of the debt securities issued in the transaction.

At 31 March £'000	2015 Carrying amount of assets that are continued to be recognised	2015 Carrying amount of associated liabilities	2014 Carrying amount of assets that are continued to be recognised	2014 Carrying amount of associated liabilities
No derecognition achieved				
Loans and advances to customers	542 057	(110 067)	837 711	(233 450)
Other loans and advances	172 582	–	560 461	(181 996)
Other securitised assets	231 979	(197 208)	428 513	(347 234)
	946 618	(307 275)	1 826 685	(762 680)

For transfer of assets in relation to repurchase agreements see note 19.

54. Restatements

The group has adopted the following new or revised standards from 1 April 2014:

IFRIC 21 Levies

The group has adopted IFRIC 21 Levies from 1 April 2014. The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy and an entity does not have a constructive obligation to pay a levy that will be triggered in a future period as a result of being economically compelled to continue to operate in that future period. The new interpretation has been applied retrospectively and its application has caused the recognition date for the Financial Services Compensation Scheme levy in the UK to be changed from 31 December prior to the beginning of the relevant levy year to the following 1 April. The group has accordingly restated the prior periods to reflect this change.

The impact in the year to 31 March 2013 is a decrease in operating costs and other liabilities of £4.7 million and an increase in taxation on operating profit before goodwill and deferred taxation liabilities of £1.0 million. The net impact on retained income at 31 March 2014 is an increase of £2.8 million.

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and accounting estimates that are reasonable and prudent
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on the going-concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the board

David van der Walt
Chief executive officer

19 June 2015

Independent auditor's report to the members of Investec Bank plc

We have audited the parent company financial statements of Investec Bank plc for the year ended 31 March 2015 which comprise the balance sheet, the statement of total recognised gains and losses, the accounting policies set out on pages 215 to 221 and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement set out on page 211, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent company financial statements:

- Give a true and fair view of the state of the company's affairs as at 31 March 2015;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the strategic and directors' report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the group financial statements of Investec Bank plc for the year ended 31 March 2015.

Ernst & Young LLP

Michael-John Albert
Senior statutory auditor

For and on behalf of Ernst & Young LLP
Statutory Auditor

London
19 June 2015

Notes:

1. *The maintenance and integrity of the Investec Bank plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.*
2. *Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.*

Balance sheet

At 31 March £'000	Notes	2015	2014*
Assets			
Cash and balances at central banks		2 165 491	1 688 235
Treasury bills and other eligible bills	6	–	8 322
Loans and advances to banks	5	1 573 996	1 662 098
Loans and advances to customers	5/7	7 260 859	7 889 185
Debt securities	8	1 723 105	1 355 952
Equity shares	10	387 963	311 223
Interests in associated undertakings	11	9 289	9 241
Shares in group undertakings	12	879 801	1 032 199
Tangible fixed assets	13	13 900	21 111
Derivative assets	22	817 147	726 424
Other assets	14	807 101	663 434
Prepayments and accrued income		10 517	8 571
		15 649 169	15 375 995
Liabilities			
Deposits by banks	5	900 146	1 748 166
Customer accounts	5	9 279 115	8 406 232
Debt securities in issue	5	1 259 855	1 273 415
Derivative liabilities	22	951 849	625 217
Trading liabilities – short positions		251 879	391 650
Other liabilities	15	717 654	517 096
Accruals and deferred income		130 224	118 776
		13 490 722	13 080 552
Subordinated liabilities	5/17	598 240	632 224
		14 088 962	13 712 776
Equity			
Called up share capital	18	1 186 800	1 186 800
Share premium account		143 288	143 288
Capital reserve		162 789	162 789
Other reserves		5 595	(5 986)
Profit and loss account		61 735	176 328
Total shareholder's equity	1	1 560 207	1 663 219
Total liabilities and shareholder's equity		15 649 169	15 375 995

The notes on pages 222 to 235 form an integral part of these accounts.

The directors approved the accounts and authorised them for issue on 19 June 2015.

David van der Walt
Chief executive officer

* *Restated for adoption of IFRIC 21, refer to note 21.*

Annual financial statements

5

Statement of total recognised gains and losses

For the year to 31 March £'000	2015	2014*
Profit for the year attributable to shareholder	57 407	40 369
Fair value movements on available for sale assets	127	(2 418)
Currency translation movements	11 454	39 236
Total recognised gains relating to the year	68 988	77 187

There was no material difference between the results as reported and the results that would have been reported on an unmodified historical cost basis.

Accordingly, no notes of historical cost profits and losses has been included.

** Restated for adoption of IFRIC 21, refer to note 21.*

Significant accounting policies

Basis of presentation

The bank's financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice and on a going concern basis. The bank's financial statements have been prepared under the historical cost convention, except for those assets and liabilities which are held at fair value in line with accounting standards requirements.

Accounting policies applied are consistent with those of the prior year, except that the company has voluntarily changed the accounting policy for Levies under IFRS 12 as it is felt to be more appropriate to align to the group policy following the adoption of IFRIC 21. This accounting policy change has been reflected in the comparatives. Refer to the consolidated accounting policies on 'Restatements and presentation of information' on page 231 for further details.

Share-based payments to employees

The bank 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 bank's best estimate of the number of equity instruments that will ultimately vest.

Fair value measurements are based on option pricing models, taking into account the risk-free interest rate, volatility of the underlying equity instrument, expected dividends and current share prices.

Where the terms of an equity-settled award are modified, the minimum expense recognised in staff costs is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Foreign currency transactions and foreign operations

The presentation currency of the bank is Pounds Sterling, being the functional currency of Investec Bank plc.

Foreign operations are subsidiaries, interests in associated undertakings or branches of the bank, the activities of which are based in a functional currency other than that of the reporting entity. The functional currency of bank 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.

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 exclude those fees earned for a separately identifiable significant act, which are recognised upon completion of the act. Fees and commissions charged in lieu of interest are recognised as income as part of the effective interest rate on the underlying loan.

The effective interest 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 income includes income, other than margin, from securities held for the purpose of generating interest yield, dividends and capital appreciation.

Customer flow trading income includes income from trading activities arising from making and facilitating client activities.

Trading income arising from balance sheet management and other trading activities consists of proprietary trading income and other gains and losses arising from balance sheet management.

Trading profit includes the unrealised profit on trading portfolios, which are marked to market daily. Equity investments received in lieu of corporate finance fees are included in investment portfolio and valued accordingly.

Dividend income is recognised when the bank's right to receive payment is established.

Included in other operating income is incidental rental income, gains on realisation of properties operating lease income and income from interests in associated undertakings. Operating costs associated with these investments are included in operating costs in the income statement.

Significant accounting policies (continued)

Interests in subsidiary and associated undertakings

Interests in subsidiary and associated undertakings are stated at cost less any impairment in value.

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 bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the bank measures the fair value of an instrument using the quoted price in an active market for that instrument.

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the bank 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 bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The bank 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 time frame established by market convention are recorded at trade date.

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

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

Financial instruments classified as held-for-trading or designated as held at fair value through profit or loss are 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 the intention of generating short-term profit, or are derivatives which are not designated as part of effective hedges. Financial instruments designated as held at fair value through profit or loss are designated as such on initial recognition of the instrument and remain in this classification until derecognition.

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

- It eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases, 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 bank is provided internally on that basis to the bank's key management personnel
- A contract contains one or more embedded derivatives (which significantly modifies the cash flows that would be required by the contract and is not clearly prohibited from separation from the host contract) and the bank 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 bank 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 in which the bank intends to trade, which are classified as held-for-trading and those that the bank designates at fair value through profit or loss
- Those that the bank designates as available-for-sale
- Those for which the bank 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 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.

Significant accounting policies (continued)

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 bank 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 bank predominantly focuses on the securitisation of residential and commercial mortgages. The bank also trades in structured credit investments.

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. The bank's exposure to the structured entities are the reserves provided as credit enhancement to the holders of the structured entities debt securities, with the first loss positions treated as long-term, interest-bearing lending to the structured entities.

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 bank. Further, certain loans and receivables 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 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 bank would not receive cash flows according to the original contractual terms. Financial assets are assessed for objective evidence of impairment at each balance sheet reporting 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 bank recognises a collective impairment allowance at a central level (within the Specialist Banking business segment) 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 (that is, exposures in all business segments). Assets specifically identified as impaired are excluded from the collective assessment.

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

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

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

Derecognition of financial assets and liabilities

A financial asset, or a portion thereof, is derecognised when the bank's rights to cash flows have expired or when the bank

Significant accounting policies (continued)

has transferred its rights to cash flows relating to the financial assets and either: (a) the bank has transferred substantially all the risk and rewards associated with the financial assets; or (b) the bank 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, that is when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced or modified with substantially different terms, such a replacement or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

Reclassification of financial instruments

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

Derivative instruments

All derivative instruments of the bank 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 bank's asset and liability management activities to manage exposures to interest rate and foreign currency risks. Both realised and unrealised profit 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 in the hedge accounting section 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 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 current market price or remeasured price. The counterparty risk from derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit value adjustment (CVA).

Hedge accounting

The bank 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 bank ensures that all of the following conditions are met:

- At inception of the hedge, the bank 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, is 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 statement of total recognised gains and losses 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 the statement of total recognised gains and losses is reclassified to the income statement.

Hedge accounting is discontinued when it is determined that the instrument ceases

Significant accounting policies (continued)

to be highly effective as a hedge; when the derivative expires, or is sold, terminated or exercised; when the hedged item matures or is sold or repaid; when a forecasted transaction is no longer deemed highly probable or when the designation as a hedge is revoked.

Embedded derivatives

To the extent that a derivative may be embedded in a hybrid contract and the hybrid contract is not carried at fair value with changes in fair value recorded in the income statement, the embedded derivative is separated from the host contract and accounted for as a stand-alone derivative if and only if:

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

Offsetting of financial assets and liabilities

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

Issued debt and equity financial instruments

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

Financial instruments issued by the bank are classified as equity where they confer on the holder a residual interest in the bank, and the bank 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.

Dividends on ordinary shares are recognised as a deduction from equity at the earlier of payment date or the date that it is approved.

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. 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.

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 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.

Financial guarantees

Financial guarantee contracts issued by the bank 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 bank is the lessor and included in liabilities where the bank 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 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 anticipated 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 bank 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 property and improvements*

Significant accounting policies (continued)

** Leasehold improvements depreciation rates are determined by reference to the appropriate useful life of its separate components, limited to the period of the lease. Leasehold property depreciation rates are determined by reference to the period of the lease.*

No depreciation is provided on freehold land. However, similar to other property-related assets, it is subject to impairment testing when deemed necessary.

Routine maintenance and service costs for bank 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 bank.

Dealing properties

Dealing 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 twenty years). The depreciable amount related to each intangible 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, which the bank would currently obtain from the disposal of an intangible asset in similar age and condition as expected at the end of its useful life.

Impairment of non-financial assets

At each balance sheet date the bank 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. Reversals of impairment losses are recognised in income in the period in which the reversals are identified, to the extent that the carrying value of the asset does not exceed the amount that would have been calculated without impairment.

Trust and fiduciary activities

The bank 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 bank, 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 profit at rates that are enacted or substantively enacted and applicable to the relevant period.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profit from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences between the company's taxable profit and its results as stated in the financial statements, which are capable of reversal in one or more subsequent periods.

Deferred tax is measured at a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Items recognised directly in the statement of total recognised gains and losses are net of related current and deferred taxation.

Employee benefits

The bank operates various defined contribution schemes. In addition, certain employees of the bank participate in two closed defined benefit schemes along with employees of other subsidiary undertakings of Investec plc, the bank's parent.

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

As there is no contractual agreement or stated policy for charging the net defined benefit cost for the defined benefit plans as a whole to individual Investec plc group entities, the bank accounts for these schemes on a defined contribution basis.

Borrowing costs

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

Provisions, contingent liabilities and contingent assets

Provisions are recognised when the bank 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.

Significant accounting policies (continued)

Bank's own profit and loss account

The bank has taken advantage of the exemption in section 408 of the Companies Act 2006 to not present its own profit and loss account.

Cash flow statement

The bank has taken advantage of the exemption in Financial Reporting Standard 1 to not present its own cash flow statement. A cash flow statement, prepared under International Financial Reporting Standards as adopted by the EU, is included in the consolidated financial statements of the bank.

Financial instruments: Disclosures

The bank has taken advantage of the exemption in Financial Reporting Standard 29 to not present its own disclosures in respect of financial instruments as disclosures, prepared in accordance with International Financial Reporting Standard 7, are included in the consolidated financial statements of the bank.

Key management assumptions

In preparation of the annual financial statements the bank 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 in the private equity, direct investments portfolios and embedded derivates. 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
- 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
- The bank'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 bank 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.

Notes to the financial statements

1. Reconciliation of shareholder's funds and movements in reserves

£'000	Share capital	Share premium account	Other reserves: Capital reserve	Other reserves: Available-for-sale reserves	Other reserves: Revaluation reserve	Other reserves: Foreign currency reserves	Profit and loss account	Total
At 31 March 2013 – as previously reported	1 173 800	136 268	162 789	(3 321)	114	(39 483)	132 107	1 562 274
Restatement on adoption of IFRIC 21	–	–	–	–	–	–	3 738	3 738
At 31 March 2013 – as restated	1 173 800	136 268	162 789	(3 321)	114	(39 483)	135 845	1 566 012
Movement in reserves 1 April 2013 – 31 March 2014								
Retained profit for the year	–	–	–	–	–	–	40 369	40 369
Fair value movements on available-for-sale assets	–	–	–	(2 418)	–	–	–	(2 418)
Disposal of investment property	–	–	–	–	(114)	–	114	–
Foreign currency adjustments	–	–	–	–	–	39 236	–	39 236
Total recognised gains/ (losses) for the year	–	–	–	(2 418)	(114)	39 236	40 483	77 187
Issue of ordinary shares	13 000	7 020	–	–	–	–	–	20 020
At 31 March 2014	1 186 800	143 288	162 789	(5 739)	–	(247)	176 328	1 663 219
Retained profit for the year	–	–	–	–	–	–	57 407	57 407
Fair value movements on available-for-sale assets	–	–	–	127	–	–	–	127
Foreign currency adjustments	–	–	–	–	–	11 454	–	11 454
Total recognised gains for the year	–	–	–	127	–	11 454	57 407	68 988
Dividends paid to ordinary shareholder	–	–	–	–	–	–	(172 000)	(172 000)
At 31 March 2015	1 186 800	143 288	162 789	(5 612)	–	11 207	61 735	1 560 207

2. Parent company profit and loss account

No profit and loss account is presented for the bank as permitted by section 408 of the Companies Act 2006.

The bank's profit for the year, determined in accordance with the Act, was £57 407 000 (2014: £40 369 000, as restated. See note 21).

Audit fees

Details of the bank's audit fees are set out in note 6 of the group financial statements.

	2015 £'000	2014 £'000
3. Directors' emoluments		
Aggregate emoluments (excluding pension contributions)	5 750	5 152
Contributions to defined contributions scheme	137	143
	5 887	5 295
	Number	Number
Number of directors in defined contributions scheme	4	4
Number of directors in closed defined benefits scheme	–	–

Included in aggregate emoluments for the current year are performance awards to executive directors. Performance awards comprise £972 118 in cash, £364 642 in deferred cash (vesting annually over a three-year period) and £1 463 238 in EVA forfeitable shares (vesting annually over a three-year period). For further details of the deferral of performance awards refer to the remuneration report on pages 116 to 129.

Emoluments of the highest paid director were £2 527 728 (2014 – £2 219 097) excluding £42 000 (2014 – £41 000) of pension contributions to the defined contribution scheme. The performance awards of the highest paid director comprise £600 000 in cash and £600 000 in EVA forfeitable shares (vesting annually over a three-year period).

The directors have, during the year, exercised options granted to them under various of the Investec plc group's long-term incentive plans.

Full details are included in the remuneration report on pages 123 to 127.

4. Classification of financial assets and financial liabilities

At 31 March 2015 £'000	At fair value through profit and loss						
	Trading	Designated at inception	Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non-financial instruments	Total
Assets							
Cash and balances at central banks	1 302	–	2 164 189	–	–	–	2 165 491
Loans and advances to banks	397 722	–	1 176 274	–	–	–	1 573 996
Loans and advances to customers	–	226 193	7 034 666	–	–	–	7 260 859
Debt securities	521 551	19 710	545 780	636 064	–	–	1 723 105
Equity shares	148 746	208 107	–	31 110	–	–	387 963
Interests in associated undertakings	–	–	–	–	–	9 289	9 289
Shares in group undertakings	–	–	–	–	–	879 801	879 801
Tangible fixed assets	–	–	–	–	–	13 900	13 900
Derivative assets	817 147	–	–	–	–	–	817 147
Other assets	33 200	–	634 915	–	–	138 986	807 101
Prepayments and accrued income	–	–	–	–	–	10 517	10 517
	1 919 668	454 010	11 555 824	667 174	–	1 052 493	15 649 169
Liabilities							
Deposits by banks	489 822	–	–	–	410 324	–	900 146
Customer accounts	–	–	–	–	9 279 115	–	9 279 115
Debt securities in issue	–	489 890	–	–	769 965	–	1 259 855
Derivative liabilities	951 849	–	–	–	–	–	951 849
Trading liabilities – short positions	251 879	–	–	–	–	–	251 879
Other liabilities	–	–	–	–	622 058	95 596	717 654
Accruals and deferred income	–	–	–	–	–	130 224	130 224
Subordinated liabilities	–	–	–	–	598 240	–	598 240
	1 693 550	489 890	–	–	11 679 702	225 820	14 088 962

Notes to the financial statements (continued)

4. Classification of financial assets and financial liabilities (continued)

At 31 March 2014* £'000	At fair value through profit and loss: Trading	At fair value through profit and loss: Designated at inception	Loans and receivables	Available-for-sale	Held for maturity	Financial liabilities at amortised cost	Non-financial instruments	Total
Assets								
Cash and balances at central banks	–	–	1 688 235	–	–	–	–	1 688 235
Treasury bills and other eligible bills	–	–	–	8 322	–	–	–	8 322
Loans and advances to banks	277 952	–	1 384 146	–	–	–	–	1 662 098
Loans and advances to customers	–	249 675	7 599 276	–	40 234	–	–	7 889 185
Debt securities	355 277	155 523	227 739	617 413	–	–	–	1 355 952
Equity shares	148 541	130 577	–	32 105	–	–	–	311 223
Interests in associated undertakings	–	–	–	–	–	–	9 241	9 241
Shares in group undertakings	–	–	–	–	–	–	1 032 199	1 032 199
Tangible fixed assets	–	–	–	–	–	–	21 111	21 111
Derivative assets	726 424	–	–	–	–	–	–	726 424
Other assets	55 289	–	554 938	–	–	–	53 207	663 434
Prepayments and accrued income	–	–	–	–	–	–	8 571	8 571
	1 563 483	535 775	11 454 334	657 840	40 234	–	1 124 329	15 375 995
Liabilities								
Deposits by banks	336 246	–	–	–	–	1 411 920	–	1 748 166
Customer accounts	–	–	–	–	–	8 406 232	–	8 406 232
Debt securities in issue	–	514 606	–	–	–	758 809	–	1 273 415
Derivative liabilities	625 217	–	–	–	–	–	–	625 217
Trading liabilities – short positions	391 650	–	–	–	–	–	–	391 650
Other liabilities	47 637	–	–	–	–	431 440	38 019	517 096
Accruals and deferred income	–	–	–	–	–	–	118 776	118 776
Subordinated liabilities	–	–	–	–	–	632 224	–	632 224
	1 400 750	514 606	–	–	–	11 640 625	156 795	13 712 776

* *Restated for adoption of IFRIC 21, refer to note 21.*

5. Maturity of loans and deposits

At 31 March £'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	>Five years	Total	Balances with group companies
2015									
Assets									
Loans and advances to banks	195 131	1 048 450	316 415	–	–	–	14 000	1 573 996	233 342
Loans and advances to customers	287 034	367 095	688 698	693 395	735 897	2 905 746	1 582 994	7 260 859	1 105 102
	482 165	1 415 545	1 005 113	693 395	735 897	2 905 746	1 596 994	8 834 855	1 338 444
Liabilities									
Deposits by banks	136 553	716 118	5 000	34 000	–	–	8 475	900 146	178 435
Customer accounts	1 230 840	1 600 831	1 037 034	2 459 580	645 809	1 863 007	442 014	9 279 115	783 066
Debt securities in issue	–	6 371	14 403	25 418	55 218	653 476	504 969	1 259 855	–
Subordinated liabilities	–	–	–	–	–	18 329	579 911	598 240	–
	1 367 393	2 323 320	1 056 437	2 518 998	701 027	2 534 812	1 535 369	12 037 356	961 501

Notes to the financial statements (continued)

At 31 March £'000	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	>Five years	Total	Balances with group companies
5. Maturity of loans and deposits (continued)									
2014									
Assets									
Loans and advances to banks	453 472	816 079	128 358	–	264 189	–	–	1 662 098	266 402
Loans and advances to customers	318 142	241 032	1 035 053	687 886	719 079	2 506 107	2 381 886	7 889 185	1 452 706
	771 614	1 057 111	1 163 411	687 886	983 268	2 506 107	2 381 886	9 551 283	1 719 108
Liabilities									
Deposits by banks	564 326	440 188	112 698	8 268	407 222	189 540	25 924	1 748 166	408 119
Customer accounts	1 415 744	1 016 176	1 367 053	2 547 766	485 992	1 420 146	153 355	8 406 232	741 417
Debt securities in issue	–	–	1 053	–	49 446	598 742	624 174	1 273 415	2 009
Subordinated liabilities	–	–	–	–	–	52 570	579 654	632 224	–
	1 980 070	1 456 364	1 480 804	2 556 034	942 660	2 260 998	1 383 107	12 060 037	1 151 545

At 31 March £'000	2015	2014
6. Treasury bills and other eligible bills		
Securities designated as available-for-sale		
Treasury bills	–	–
Other eligible bills – other issuers	–	8 322
	–	8 322
Total treasury bills and other eligible bills	–	8 322
Available-for-sale securities		
At the beginning of the year	8 322	8 560
Maturities	(8 322)	–
Movement in fair value during the year	–	(47)
Exchange adjustments	–	(191)
Fair value at the end of the year	–	8 322

Treasury bills and other eligible bills are unlisted, mainly short term in maturity, and have a book value not materially different from market value.

At 31 March £'000	2015	2014
7. Customer accounts		
Total loans and advances to customers (net of impairments)	7 260 859	7 889 185
Less: Trading book loans and cash equivalent debtors	(9 793)	–
	7 251 066	7 889 185
Category analysis		
Private client	2 932 964	3 379 356
Corporate and public sector	3 389 637	3 265 189
Other	1 114 905	1 452 706
	7 437 506	8 097 251
Specific impairment	(151 424)	(177 571)
Portfolio impairment	(35 016)	(30 495)
	7 251 066	7 889 185
Specific and portfolio impairments		
Reconciliation of movements in specific and portfolio impairments for bad and doubtful debts:		
Specific impairment		
At the beginning of the year	177 571	186 969
Charge to the income statement	67 611	50 095
Utilised	(82 217)	(58 319)
Disposals	(2 049)	–
Exchange adjustments	(9 492)	(1 174)
At the end of the year	151 424	177 571
Portfolio impairment		
At the beginning of the year	30 495	18 738
Charge to the income statement	22 784	11 945
Disposals	(18 248)	–
Exchange adjustments	(15)	(188)
At the end of the year	35 016	30 495

At 31 March £'000	2015	2014
8. Debt securities		
Unlisted debt securities		
– designated as held for trading or designated as held at fair value through profit and loss	541 261	510 800
– held at amortised cost	545 780	227 739
	1 087 041	738 539
Securities designated as available-for-sale		
Other unlisted debt securities	636 064	617 413
	636 064	617 413
Total debt securities	1 723 105	1 355 952
The cost of trading securities has not been disclosed as it cannot be determined without unreasonable expense.		
Available for sale securities		
At the beginning of the year	617 413	1 051 954
Additions	236 304	119 860
Sold/matured	(299 071)	(520 101)
Movement in fair value during the year	81 708	(31 434)
Exchange adjustments	(290)	(2 866)
Fair value at the end of the year	636 064	617 413

Notes to the financial statements (continued)

9. Securitisation

The bank has not entered into any new securitisation transactions during the year. In the prior year the bank completed a transaction in which it transferred a £397 million portfolio of financial assets directly to a special purpose entity, but the financial assets transferred did not qualify for derecognition. The financial assets continued to be disclosed on the face of the balance sheet.

10. Equity shares

At 31 March £'000	2015	2014
Trading securities and securities designated as at fair value through profit and loss		
Listed	216 593	172 331
Unlisted	140 260	106 787
	356 853	279 118
Securities designated as available-for-sale		
Listed	2 676	3 458
Unlisted	28 434	28 647
	31 110	32 105
Total equity shares	387 963	311 223

The cost of trading securities has not been disclosed as it cannot be determined without unreasonable expense.

	2015	2014
Available-for-sale securities		
At the beginning of the year net of provisions	32 105	24 754
Additions	6 566	13 374
Disposals	(8 944)	(2 840)
Exchange adjustments	(23)	(1 442)
Movement in fair value during the year	1 406	(1 741)
Fair value at the end of the year	31 110	32 105

11. Interests in associated undertakings

At 31 March £'000	2015	2014
Analysis of the movement in investment		
At the beginning of the year	11 564	11 609
Exchange adjustments	48	(45)
At the end of the year	11 612	11 564
Provision for impairment in value		
At the beginning of the year	(2 323)	(2 323)
At the end of the year	(2 323)	(2 323)
Net book value at the end of the year	9 289	9 241

The associated undertakings are unlisted.

Notes to the financial statements (continued)

At 31 March £'000	2015	2014
12. Shares in group undertakings		
Cost		
At the beginning of the year	1 097 784	1 067 819
Return of capital by subsidiary	(49 578)	–
Liquidation of subsidiaries	(192)	(1 458)
Recapitalisation of subsidiaries	3 694	31 423
At the end of the year	1 051 708	1 097 784
Provision for impairment in value		
At the beginning of the year	(65 585)	(49 259)
New impairments	(106 322)	(17 462)
Liquidation of subsidiaries	–	598
Release of impairment	–	538
At the end of the year	(171 907)	(65 585)
Net book value at the end of the year	879 801	1 032 199

All subsidiary undertakings are unlisted.

£'000	Leasehold improvements	Furniture and vehicles	Computer equipment	Operating leases	Total
13. Tangible fixed assets					
Cost or valuation					
At the beginning of the year	30 462	5 275	33 911	24 028	93 676
Additions	2 353	–	1 089	–	3 442
Disposals	–	–	–	(12 427)	(12 427)
At the end of the year	32 815	5 275	35 000	11 601	84 691
Accumulated depreciation and amortisation					
At the beginning of the year	(19 055)	(4 751)	(30 668)	(18 091)	(72 565)
Disposals	–	–	–	8 726	8 726
Charge for the year	(2 908)	(123)	(2 386)	(1 535)	(6 952)
At the end of the year	(21 963)	(4 874)	(33 054)	(10 900)	(70 791)
Net book value at 31 March 2015	10 852	401	1 946	701	13 900
Net book value at 31 March 2014	11 407	524	3 243	5 937	21 111

At 31 March £'000	2015	2014*
14. Other assets		
Settlement debtors	595 664	549 776
Trading initial margin	33 200	426
Net deferred tax asset (note 16)	26 781	27 666
Dealing properties	93 287	10 221
Deferred consideration	–	38 569
Other debtors	58 169	36 776
	807 101	663 434

Dealing properties are recorded at the lower of cost or selling price less cost to sell.

* *Restated for adoption of IFRIC 21, refer to note 21.*

Notes to the financial statements (continued)

At 31 March £'000	2015	2014*
15. Other liabilities		
Settlement creditors	596 743	406 165
Corporation and other taxes	67 662	60 236
Trade creditors and maintenance liabilities arising from operating leased assets	25 243	39 882
Other creditors and accruals	28 006	10 813
	717 654	517 096

** Restated for adoption of IFRIC 21, refer to note 21.*

At 31 March £'000	2015	2014*
16. Deferred tax		
Deferred tax asset		
Deferred capital allowances	10 420	9 192
Arising from unexpired share options	14 647	14 172
Income and expenditure accruals	1 714	2 131
Losses carried forward	–	2 925
	26 781	28 420
Deferred tax liability		
Other timing differences	–	(754)
Net deferred tax asset	26 781	27 666
Reconciliation of net deferred tax asset		
At the beginning of the year – as previously reported		32 773
Restatement on adoption of IFRIC 21		(994)
At the beginning of the year – as restated	27 666	31 779
Movement directly in equity	(754)	–
Credit to profit and loss	(299)	(4 019)
Other movement	168	(94)
At the end of the year	26 781	27 666

Deferred tax assets are recognised to the extent it is likely that profits will arise in future periods. The assessment of the likelihood of future profits is based on past performance and current projections. Deferred tax assets are not recognised in respect of capital losses as crystallisation of capital gains and the eligibility of potential capital losses is uncertain.

The Finance Act 2013 reduced the main rate of corporate taxation to 20% with effect from 1 April 2015. The effect of this reduction is reflected in the above calculation as the rate was enacted before 31 March 2015.

** Restated for adoption of IFRIC 21, refer to note 21.*

At 31 March £'000	2015	2014
17. Subordinated liabilities		
Dated subordinated debt		
Medium-term subordinated notes	579 911	579 653
Subordinated loans	18 329	52 571
	598 240	632 224
Remaining maturity		
In more than one year, but not more than two years	18 329	33 979
In more than two years, but not more than five years	–	18 592
In more than five years	579 911	579 653
	598 240	632 224

17. Subordinated liabilities (continued)

Subordinated loans

Medium-term notes
On 17 February 2011 Investec Bank plc issued £500 000 000 of 9.625% subordinated notes due 2022 at a discount. Interest is paid annually. The notes are listed on the London Stock Exchange. The notes will be redeemed at par on 17 February 2022.

On 29 June 2011 Investec Bank plc issued £75 000 000 of 9.625% subordinated notes due 2022 at a premium. These notes were consolidated to form a single series, and are fungible, with the £500 000 000 2022 notes issued on 17 February 2011.

Subordinated loans
The net proceeds of the step-up notes issued by a subsidiary of the bank, Investec Finance plc, have been on-lent to the bank on a subordinated basis.

The terms of the step-up notes, which are guaranteed by the bank, are detailed in note 40 of the consolidated financial statements of the bank.

18. Ordinary share capital

Authorised

The authorised share capital is £2 000 million (2014: £2 000 million) comprising £2 000 million ordinary shares of £1 each (2014: £2 000 million shares of £1 each).

	2015	2014
Issued, allotted and fully paid		
Number of ordinary shares	Number	Number
At the beginning of the year	1 186 800 000	1 173 800 000
Issued during the year	–	13 000 000
At the end of the year	1 186 800 000	1 186 800 000
Nominal value of ordinary shares	£’000	£’000
At the beginning of the year	1 186 800	1 173 800
Issued during the year	–	13 000
At the end of the year	1 186 800	1 186 800

The unissued shares are under the control of the directors until the next annual general meeting.

19. Commitments

At 31 March £’000	2015	2014
Undrawn facilities and other commitments	727 430	526 229

The bank has entered into loan commitments in the normal course of its banking business.

20. Contingent liabilities

At 31 March £’000	2015	2014
Guarantees and irrevocable letters of credit	44 671	181 127

The amounts shown above are only intended to provide an indication of the volume of business outstanding at the balance sheet date.

Guarantees are issued by the bank on behalf of third parties and other group companies. The guarantees are issued as part of the banking business.

A subsidiary of the bank, Investec Finance plc, has issued certain medium-term notes. The proceeds of these issues have been placed on deposit with the bank.

The bank has issued a guarantee to the holders of these notes. The amount of the guarantee is supported by, and limited to, the amount of the cash deposits.

20. Contingent liabilities (continued)

Financial Services Compensation Scheme

The UK Financial Services Compensation Scheme (FSCS), the UK's statutory fund of last resort, provides compensation to customers of UK authorised financial institutions in the event that an institution which is a participating member of the FSCS is unable, or is likely to be unable, to pay claims against it.

The FSCS raises annual levies from participating members to meet its management expenses and compensation costs. Individual participating members make payments based on their level of participation (in the case of deposits, the proportion that their protected deposits represent of total protected deposits) as at 31 December of the year preceding the scheme year.

Following the default of a number of deposit takers in 2008, the FSCS has borrowed from HM Treasury to fund the compensation costs for customers of those firms. Although the majority of this loan is expected to be repaid from funds the FSCS receives from asset sales, surplus cash flow or other recoveries in relation to the assets of the firms that defaulted, any shortfall will be funded by deposit-taking participants of the FSCS.

Investec Bank plc is a participating member of the FSCS and the bank has accrued £1.65 million for its share of levies that will be raised by the FSCS. The accrual is based on estimates for the interest the FSCS will pay on the loan and estimates of the level of the bank's market participation in the relevant periods. Interest will continue to accrue to the FSCS on the HM Treasury loan and will form part of future FSCS levies.

At the date of these financial statements, it is not possible to estimate whether there will ultimately be additional levies on the industry, the level of Investec's market participation or other factors that may affect the amounts or timing of amounts that may ultimately become payable, nor the effect that such levies may have upon operating results in any particular financial period.

Legal proceedings

Investec operates in a legal and regulatory environment that exposes it to litigation risks. As a result, Investec is involved in disputes and legal proceedings which arise in the ordinary course of business. Investec does not expect the ultimate resolution of any of the proceedings to which Investec is party to have adverse effect on the financial position of the bank. These claims, if any, cannot be reasonably estimated at this time.

Specifically, a claim has been made in Royal Court of Guernsey against ITG Limited (formerly Investec Trust (Guernsey) Limited), a subsidiary of Investec Bank plc, for breach of equitable duty of skill and care with a related claim for liability for debts of a client trust. The outcome of these claims cannot reasonably be estimated at this time but Investec does not expect the ultimate resolution of the proceedings to have a material adverse effect on the financial position of the bank.

21. Restatement

Restatement of comparatives – IFRIC 21 Levies

The bank has adopted IFRIC 21 Levies from 1 April 2014. The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy and an entity does not have a constructive obligation to pay a levy that will be triggered in a future period as a result of being economically compelled to continue to operate in that future period. The new interpretation has been applied retrospectively and its application has caused the recognition date for the FSCS levy to be changed from the 31 December prior to the beginning of the relevant levy year to the following 1 April. The bank has accordingly restated the prior periods to reflect this change.

The net impact on the profit and loss account at 31 March 2014 is an increase of £2.8 million.

22. Derivatives

The bank 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 table below, notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair value of a derivative financial instrument represents the positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out by the bank in an orderly market transaction at balance sheet date.

Notes to the financial statements (continued)

At 31 March £000	2015 Notional principal amounts	2015 Positive fair value	2015 Negative fair value	2014 Notional principal amounts	2014 Positive fair value	2014 Negative fair value
22. Derivatives (continued)						
Foreign exchange derivatives						
Forward foreign exchange contracts	9 787 849	176 242	189 698	8 245 421	61 932	53 921
Currency swaps	340 512	15 427	13 325	1 047 291	37 136	28 012
OTC options bought and sold	5 036 568	103 817	98 003	2 690 830	41 091	40 219
OTC derivatives	15 164 929	295 486	301 026	11 983 542	140 159	122 152
Interest rate derivatives						
Caps and floors	1 265 153	29 667	1 592	501 180	4 585	7 260
Swaps	11 672 509	142 466	171 424	13 255 755	158 461	58 985
Forward rate agreements	26 192	21	–	204 587	13	13
OTC derivatives	12 963 854	172 154	173 016	13 961 522	163 059	66 258
Equity and stock index derivatives						
OTC options bought and sold	1 756 450	66 772	145 219	2 051 165	33 556	93 781
Equity swaps and forwards	28 428	–	11	177 105	3 832	77
OTC derivatives	1 784 878	66 772	145 230	2 228 270	37 388	93 858
Exchange-traded futures	1 023 132	4 368	4 076	1 748 014	38 532	75 664
Exchange-traded options	6 063 785	177 251	289 915	4 789 428	119 093	158 046
Warrants	965	965	–	–	–	–
	8 872 760	249 356	439 221	8 765 712	195 013	327 568
Commodity derivatives						
OTC options bought and sold	15 701	483	483	–	–	–
Commodity swaps and forwards	1 109 951	49 318	33 846	480 839	103 520	103 234
OTC derivatives	1 125 652	49 801	34 329	480 839	103 520	103 234
Credit derivatives	423 062	15 204	4 257	367 849	13 100	6 005
Embedded derivatives		35 146	–		111 573	–
Derivatives per balance sheet		817 417	951 849		726 424	625 217

At 31 March £'000	Description of financial instrument designated as hedging instrument	Fair value of hedging instrument	Cumulative gains/(losses) on hedging instrument	Current year gains/(losses) on hedging instrument	Cumulative gains/(losses) on hedged item	Current year gains/(losses) on hedged item
23. Hedges						
Fair value hedges						
2015						
Assets	Interest rate swap	(103 547)	(103 547)	(101 604)	91 465	95 278
Liabilities	Interest rate swap	8 276	8 276	3 023	(8 161)	(2 989)
		(95 271)	(95 271)	(98 581)	83 304	92 289
2014						
Assets	Interest rate swap	(1 995)	(1 995)	35 782	(3 756)	(35 879)
Liabilities	Interest rate swap	5 253	5 253	(7 593)	(5 172)	8 421
		3 258	3 258	28 189	(8 928)	(27 458)

Annual financial statements

5

23. Hedges (continued)

Hedge of net investment in foreign operations

During the year the bank has closed out various foreign exchange contracts it held to hedge a portion of the exposure of the bank's balance sheet to its net investment, in Australian Dollars, in its Australian subsidiary group. The change in fair value of the hedge was recorded as currency translation movements within the statement of total recognised gains and losses.

24. Related party transactions

At 31 March £'000	2015	2014
Transactions, arrangements and agreements involving directors, key management and connected persons and companies controlled by them:		
Loans		
At the beginning of the year	25 365	33 403
Increase in loans	14 405	1 058
Repayment of loans	(5 404)	(9 096)
Exchange adjustments	(814)	–
At the end of the year	33 552	25 365
Guarantees		
At the beginning of the year	4 409	4 591
Additional guarantees granted	820	4 409
Guarantees cancelled	(1 876)	(4 591)
Exchange adjustments	260	–
At the end of the year	3 613	4 409
Deposits		
At the beginning of the year	(26 519)	(23 436)
Increase in deposits	(26 922)	(20 310)
Decrease in deposits	19 493	16 588
Exchange adjustments	(715)	639
At the end of the year	(34 663)	(26 519)

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 the loans have been impaired.

Transactions with other related parties of the group

As the bank is a 100% subsidiary undertaking, and consolidated financial statements for its ultimate parent, Investec plc, are publicly available, group transactions have not been disclosed pursuant to exemptions permitted in Financial Reporting Standard Number 8.

25. Reclassifications

During the 2009 year the bank reclassified certain financial instruments out of fair value through profit and loss. These assets were originally classified as held for trading but the bank's intentions in regard to these assets changed and the bank reclassified £112.3 million and £7.8 million to the loans and receivables and available for sale classifications, respectively. The amount reclassified reflected the fair value of the financial assets at the date of reclassification.

The bank did not undertake any further reclassifications in the current year.

At 31 March £'000	2015	2014
26. Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent		
Assets		
Reverse repurchase agreements	1 166 426	962 544
Cash collateral on securities borrowed	87 509	111 070
	1 253 935	1 073 614
As part of the reverse repurchase and securities borrowing agreements, the bank has received securities that it is allowed to sell or pledge. £481 million (2014: £603 million) of securities has been resold or repledged to third parties in connection with financing activities or to comply with commitments under short sale transactions.		
Liabilities		
Repurchase agreements	489 822	525 588
Cash collateral on securities lent	107 437	89 145
	597 259	614 733
Reverse repurchase agreements and cash collateral on securities borrowed are reported within the following balance sheet categories:		
Loans and advances to banks	1 244 142	1 073 614
Loans and advances to customers	9 793	–
	1 253 935	1 073 614
Repurchase agreements and cash collateral on securities lent are reported within the following balance sheet categories:		
Deposits by banks	597 259	614 733
	597 259	614 733

27. Ultimate parent undertaking

The bank's immediate parent undertaking is Investec 1 Limited.

The bank's ultimate parent undertaking and controlling party is Investec plc, a company incorporated in the UK and registered in England and Wales, which is the smallest and largest company into which the bank is consolidated.

The consolidated financial statements of Investec plc are available to the public and may be obtained from Investec plc at 2 Gresham Street, London, EC2V 7QP.

Notes to the financial statements (continued)

At 31 March £'000	Principal activity	Country of incorporation	Interest 2015 %	Interest 2014 %

28. Principal subsidiary

Direct subsidiary undertakings of Investec Bank plc				
Investec Asset Finance PLC	Leasing	England and Wales	100.0%	100.0%
Investec Bank (Channel Islands) Limited	Banking institution	Guernsey	100.0%	100.0%
Investec Bank (Switzerland) AG	Banking institution	Switzerland	100.0%	100.0%
Investec Capital Asia Limited	Investment banking	Hong Kong	100.0%	100.0%
Investec Finance plc	Debt issuer	England and Wales	100.0%	100.0%
Investec Group Investments (UK) Limited	Investment holding	England and Wales	100.0%	100.0%
Investec Holdings (Australia) Limited	Holding company	Australia	100.0%	100.0%
Investec Investments (UK) Limited	Investment holding	England and Wales	100.0%	100.0%
Rensburg Sheppards plc	Holding company	England and Wales	100.0%	100.0%
Indirect subsidiary undertakings of Investec Bank plc				
Investec Asset Finance & Leasing (Pty) Ltd	Leasing	Australia	–	100.0%
Investec Bank (Australia) Limited	Banking institution	Australia	–	100.0%
Investec Capital and Investments (Ireland) Limited	Financial services	Ireland	100.0%	100.0%
Investec Ireland Limited	Financial services	Ireland	100.0%	100.0%
Investec Professional Finance (Pty) Ltd	Financial services	Australia	–	100.0%
Investec Wealth & Investments Limited	Stockbroking and portfolio management	England and Wales	100.0%	100.0%
Williams de Broë Limited	Stockbroking and portfolio management	England and Wales	100.0%	100.0%

All of the above subsidiary undertakings are included in the consolidated annual financial statements.

Contact details

Australia, Brisbane

Level 8 Riverside Centre
123 Eagle Street Brisbane
QLD 4001 Australia
Telephone (61) 7 3106 8970
Facsimile (61) 2 9293 6301
e-mail australia@investec.com.au

Australia, Melbourne

Level 13 120 Collins Street
Melbourne
GPO Box 2280
VIC 3001
Telephone (61) 3 8660 1000
Facsimile (61) 3 8660 1010
e-mail australia@investec.com.au

Australia, Sydney

Level 23, The Chifley Tower
2 Chifley Square
Phillip Street Sydney
GPO Box 4411 NSW 2000 Australia
Telephone (61) 2 9293 6300
Facsimile (61) 2 9293 6301
e-mail australia@investec.com.au

Canada, Toronto

66 Wellington Street, West Suite 2701
PO Box 307 Toronto-Dominion Centre
Toronto Ontario M5K 1K2
Telephone (1 416) 687 2400
Facsimile (1 416) 364 3434

Channel Islands, St Helier

One The Esplanade St Helier
Jersey
JE2 3QA Channel Islands
Telephone (44) 1534 512 650
Facsimile (44) 1534 512 513
e-mail enquiries@investectrust.com

Channel Islands, St Peter Port

Glategny Court
Glategny Esplanade, GY1 1WR
Channel Islands
Telephone +(44) 1481 723 506

China, Beijing

Room 11 5/F West Tower
World Finance Centre
No. 1 East 3rd Ring Middle Road
Chaoyang District
Beijing 10 002 P.R. China
Telephone (86 10) 8535 6200
Facsimile (86 10) 8535 6299

Hong Kong

Suite 3609 36/F
Two International Finance Centre
8 Finance Street
Central Hong Kong
Telephone (852) 3187 5000
Facsimile (852) 2524 3360
e-mail investec.asia@investecmail.com

Suites 2604 – 2606 Tower 2 The Gateway
Harbour City Tsimshatsui Kowloon
Hong Kong
Telephone (852) 2861 6888
Facsimile (852) 2861 6861

India, Mumbai

902, The Capital
Plot No. C-70 Block
Bandra Kurla Complex Bandra (East)
Mumbai 400051
India
Telephone (91) 226 136 7410

Ireland, Dublin

The Harcourt Building
Harcourt Street, 2
Dublin Ireland
Telephone (353 1) 421 0000
Facsimile (353 1) 421 0500
e-mail info@investec.ie

Switzerland, Geneva

3 Place des Bergues
Geneva 1201 Switzerland
Telephone (41) 22 807 2000
Facsimile (41) 22 807 2005
e-mail enquiries@investectrust.ch

Switzerland, Zurich

Loewenstrasse 29
Zurich CH-8001 Switzerland
Telephone (41 44) 226 1000
Facsimile (41 44) 226 1010
e-mail info@investecbank.ch

United Kingdom, Bath

Royal Mead, Railway Place
Bath, BA1 1SR, UK
Telephone (44122) 534 1580
Facsimile (44122) 534 1581

Northern Ireland, Belfast

5th Floor Centrepoint
58-60 Bedford Street, Belfast
BT2 7DR, Northern Ireland
Telephone (44 2890) 321 002
Facsimile (44 2890) 244 852

United Kingdom, Birmingham

Colmore Plaza, Colmore Circus
Birmingham, B4 6AT, UK
Telephone (44121) 232 0700
Facsimile (44121) 232 0701

United Kingdom, Bournemouth

Midland House, 2 Poole Road
Bournemouth, BH2 5QY, UK
Telephone (44120) 220 8100
Facsimile (44120) 220 8101

United Kingdom, Cheltenham

Festival House
Jessop Avenue Cheltenham
GL50 3SH, UK
Telephone (44 1242) 514 756
Facsimile (44 1242) 583 936

United Kingdom, Edinburgh

Quartermile One, 15 Lauriston Place
Edinburgh
EH3 9EN, UK
Telephone (44 131) 226 5000
Fax: (44 131) 226 5700

United Kingdom, Exeter

Keble House, Southernhay Gardens
Exeter, EX1 1NT, UK
Telephone (44139) 220 4404
Facsimile (44139) 242 6176

United Kingdom, Glasgow

4th Floor, 5 George Square
Glasgow, G2 1DY, UK
Telephone: (44141) 333 9323
Facsimile (44141) 332 9920

United Kingdom, Guildford

Unit 4, The Billings, 3 Walnut Tree Close
Guildford, GU1 4UL, UK
Telephone (44148) 330 4707
Facsimile (44148) 345 5271

United Kingdom, London

2 Gresham Street, London
EC2V 7QP, UK
Telephone (44 207) 597 4000
Facsimile (44 207) 597 4070

100 Wood Street, London
EC2V 7AN, UK
Telephone (44 207) 597 1234
Facsimile (44 207) 597 1000

25 Basinghall Street London
EC2V 5HA UK
Telephone (44 207) 597 2000
Facsimile (44 207) 597 1818

United Kingdom, Leeds

Quayside House, Canal Wharf
Leeds, LS11 5PU, UK
Telephone (44113) 245 4488
Facsimile (44113) 245 1188

Contact details (continued)

United Kingdom, Liverpool

100 Old Hall Street Liverpool
L3 9AB, UK
Telephone (44 151) 227 2030
Facsimile (44 151) 227 2444

United Kingdom, Manchester

3 Hardman Street Spinningfields
Manchester M3 3HF UK
Telephone (44 161) 832 6868
Facsimile (44 161) 832 1233

United Kingdom, Reading

Investec Asset Finance plc
Reading International Business Park
RG2 6AA, UK
Telephone (0844) 243 4111

United Kingdom, Reigate

43 London Road Reigate, Surrey
RH2 9PW, UK
Telephone (44 173) 722 4223
Facsimile (44 173) 722 4197

United Kingdom, Sheffield

Beech House
61 Napier Street Sheffield
S11 8HA, UK
Telephone (44 114) 275 5100
Facsimile (44 114) 270 1109

United States, New York

1270 Avenue of the Americas
29th Floor
New York, NY 10020
Telephone (212) 259 5610
Facsimile (917) 206 5103

Corporate information

Secretary and registered office

David Miller
2 Gresham Street
London EC2V 7QP
United Kingdom
Telephone (44) 20 7597 4000
Facsimile (24) 20 7597 4491

Internet address

www.investec.com

Registration number

Reg. No. 489604

Auditors

Ernst & Young LLP

Transfer secretaries

Computershare Investor Services plc
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
United Kingdom
Telephone (44) 879 702 0003

Directorate

Refer to page 114.

For contact details for Investec offices refer to pages 236 to 237.

For queries regarding information in this document

Investor relations

Telephone (44) 20 7597 5546
e-mail: Investorrelations@investec.com
Internet address:
www.investec.com/en_za/#home/investor_relations.html

Notes

Annual financial statements

5

Notes