2016

ANNUAL REPORT

Investec plc silo
(excluding Investec Limited)
annual financial statements

Out of the Ordinary®

Investec

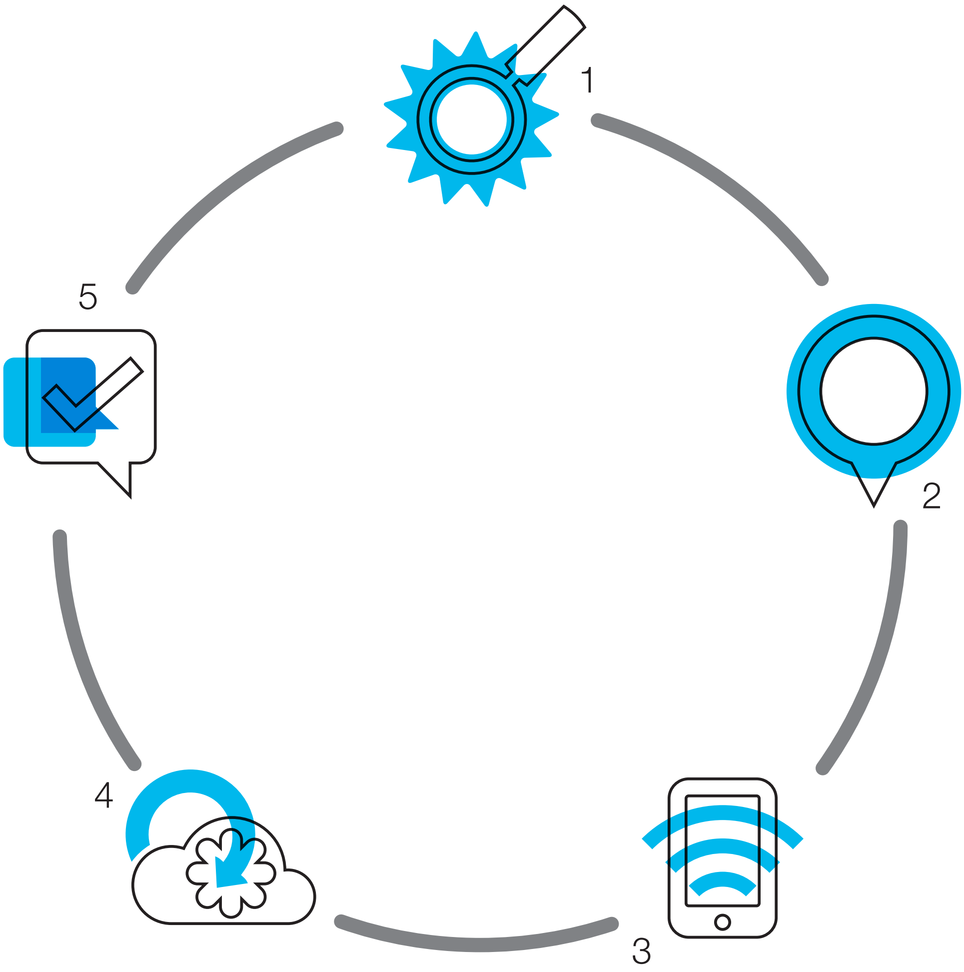
Ongoing and statutory information

The sale of certain group businesses during the previous financial year (as explained on page 29) has had a significant effect on the comparability of our statutory financial position and results. Consequently, comparison on a statutory basis of these full year results with the prior year 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 34 to 39. The additional information presented on an ongoing basis excludes items that in management's view could distort the comparison of performance between periods. Based on this principle, the following items are excluded from underlying statutory profit to derive ongoing operating profit:

- The results of the businesses sold as mentioned alongside
- The remaining legacy business in the UK (as set out on page 40).

A reconciliation between the statutory and ongoing income statement is provided on pages 35 and 36. All information in our annual report is based on our statutory accounts unless otherwise indicated.



CROSS REFERENCE TOOLS

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

2. Page references
Refers readers to information elsewhere in this report

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

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

5. Reporting standard
Denotes our consideration of a reporting standard

FEEDBACK

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

For queries regarding information in this document
Investor Relations
Telephone (44) 20 7597 5546
e-mail: Investorrelations@investec.com
Internet address:
www.investec.com/en_za/#home/investor_relations.html

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2 Financial review

3 Risk management and corporate governance

4 Annual financial statements

One

Investec plc
in perspective

Investec plc, which houses our non-Southern African businesses, has been listed on the London Stock Exchange since 2002

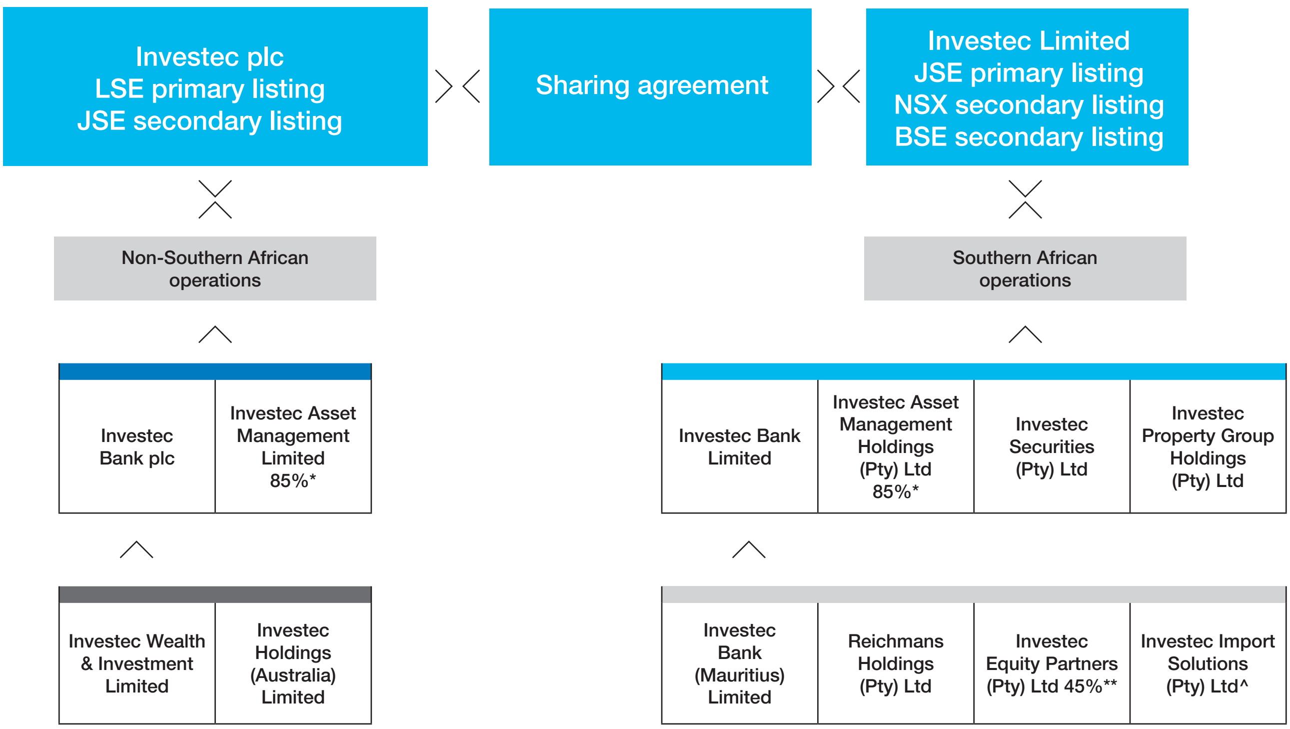
Operating structure

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

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

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

OUR DLC STRUCTURE AND MAIN OPERATING SUBSIDIARIES AS AT 31 MARCH 2016



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

* *15% held by senior management in the company.*
** *55% held by third party investors in the company together with senior management of the business.*
^ *Previously Blue Strata Trading (Pty) Ltd.*

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.

What we do ASSET MANAGEMENT

At Investec Asset Management, we want to assist people around the globe to retire with dignity or to meet their financial objectives by offering specialist, active investment expertise. Our clients include some of the world's largest private and public sector pension funds, insurers and corporates, and range from foundations and central banks to intermediaries serving individual investors. Our business is to manage our clients' investments to the highest standard possible by exceeding their investment and client service expectations

Established in South Africa in 1991, we have built a successful global investment management firm from emerging markets. We are still managed by our founding members whose tenure and continuity has balanced stability and growth.

Our investment team of over 180 investment professionals applies clear investment philosophies and processes across multiple asset classes. Our client group is organised across five geographically defined units serving our clients around the globe. These teams are supported by our global operations platform.

We manage £75.7 billion assets globally.

What we do WEALTH & INVESTMENT

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 1 200 staff operate from offices located throughout the UK and Europe, with combined funds under management of £29.8 billion. Investec Wealth & Investment is one of the UK's leading providers of private client investment management services.

Investments and savings	Pensions and retirement	Financial planning
• 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.	• Discretionary investment management for company pension and Self Invested Personal Pensions (SIPPs) • Advice and guidance on pension schemes, life assurance and income protection schemes.	• Succession planning • ISAs • Retirement planning.

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.

A highly valued partner and adviser to our clients		Focus on helping our clients create and preserve wealth
Corporates/government/institutional clients		High-income and high net worth private clients
Investment activities	**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 Institutional research, sales and trading Advisory and equity capital markets	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 businesses in the UK and Australia focus on opportunistic investment alongside credible clients. Our property business focuses on property fund management and property investments.	Our Corporate and Institutional Banking is a client-focused business concentrating on traditional lending and debt origination activities, as well as the provision of advisory services and treasury and trading services that are customer flow-related. Our target market includes small, mid-sized and listed corporates, private equity community and institutions. In addition we provide niche, specialist solutions in aircraft, project, resource and marine finance.	High-tech and high touch private client offering providing day-to-day banking, savings, financing and foreign exchange tailored to suit our clients' needs. Our target market includes high net worth individuals, wealthy entrepreneurs, high-income professionals, owner managers in mid-market companies and sophisticated investors.

Natural linkages between the private client and corporate business

ONE

Our operational footprint

ASSET MANAGEMENT

Value proposition

- Organically built an independent global platform from an emerging market base
- Independently managed entity within the Investec group
- Competitive investment performance in chosen specialities
- Global approach to:
  - Investing
  - Client base
  - Operations platform
- Institutional and advisor focus
- Unique and clearly understood culture
- Stable and experienced leadership.

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 progressing with the development of 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.

SPECIALIST BANKING

Value proposition

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

Business leaders

Asset Management:	Hendrik du Toit
Wealth & Investment:	Steve Elliott
Specialist Banking:	David van der Walt
	Ciaran Whelan

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

WHERE we operate

North America

Distribution platform

Growing advisory and PFI capabilities

UK and Europe

Brand well established

Leading asset manager with market leading products

One of the leading private client investment managers

Proven ability to attract and recruit investment managers

Sustainable specialist banking business focused on corporate and private banking

India

Established a presence in 2010

Facilitates the link between India, UK and South Africa

Hong Kong

Investment activities

Distribution platform

Developing Wealth & Investment capability

Singapore

Distribution platform

Taiwan

Distribution platform

Australia

Experienced local team in place with industry expertise

Focus is on entrenching position as a boutique operation

Sound performance notwithstanding challenging operating environments

- Macro uncertainty and volatility in the group's key operating geographies during the financial year impacted overall results.
- Net new fund inflows and reasonable levels of activity in the group's banking businesses supported sound performance.
- The Specialist Banking business reported results ahead of the prior year.
- Strong loan growth was supported by client activity in both the corporate and private banking businesses and the investment and debt securities portfolios delivered good results.
- The Asset Management and Wealth & Investment businesses reported solid net inflows of £4.7 billion.
- Continued investment in infrastructure, digital platforms and increased headcount are supporting growth initiatives in the overall business.
- Operational diversity continues to support a stable recurring income base and earnings through varying market conditions.

STATUTORY FINANCIAL PERFORMANCE

Operating profit* increased 26.9%

2016	2015
£182.9mn	£144.1mn

Adjusted attributable earnings^ increased 29.9%

2016	2015
£137.3mn	£105.7mn

We continued to actively manage down the UK legacy portfolio…

- The legacy portfolio reduced from £695 million at 31 March 2015 to £583 million largely through redemptions and write-offs.
- The legacy business reported a loss before taxation of £78.3 million (2015: £107.7 million) with impairments on the legacy portfolio reducing 18.4% from £83.5 million to £68.1 million.

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

Highlights

(continued)

SATISFACTORY PERFORMANCE FROM THE ONGOING BUSINESS

Operating profit* increased 12.8%

2016	2015
£261.2mn	£231.7mn

Adjusted attributable earnings^ increased 15.2%

2016	2015
£200.1mn	£173.7mn

Recurring income as a % of total operating income

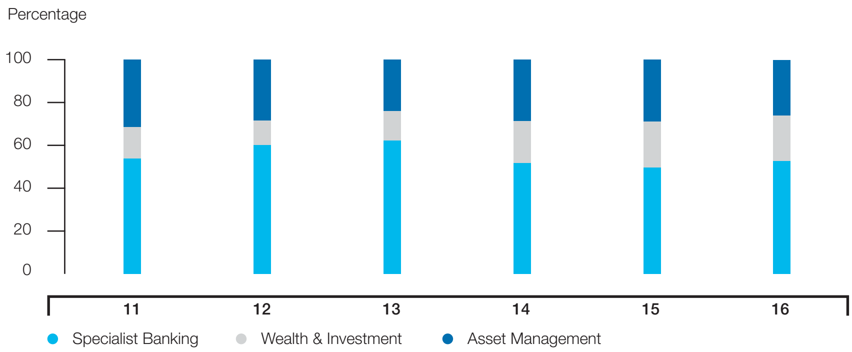
2016	2015
71.3%	73.1%

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

2016	2015
0.26%	0.12%

WE HAVE A DIVERSIFIED BUSINESS MODEL…

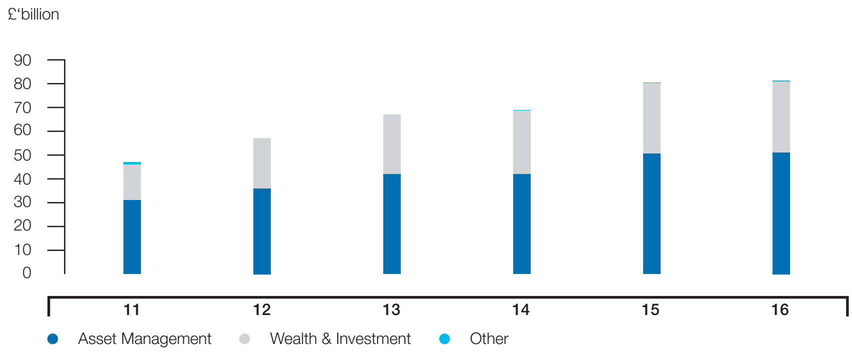
% CONTRIBUTION OF OPERATING PROFIT BEFORE TAXATION OF THE ONGOING BUSINESS (excluding group costs)*



WE CONTINUED TO GROW OUR KEY EARNINGS DRIVERS…

Funds under management up 0.9% to £81.2 billion

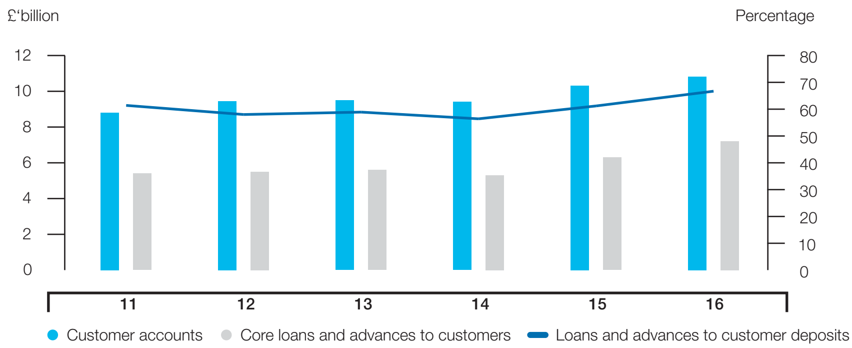
FUNDS UNDER MANAGEMENT ONGOING BUSINESS



Customer accounts (deposits) increased 4.9% to £10.8 billion

Core loans and advances increased 13.4% to £7.2 billion

CUSTOMER ACCOUNTS (DEPOSITS) AND LOANS ONGOING BUSINESS

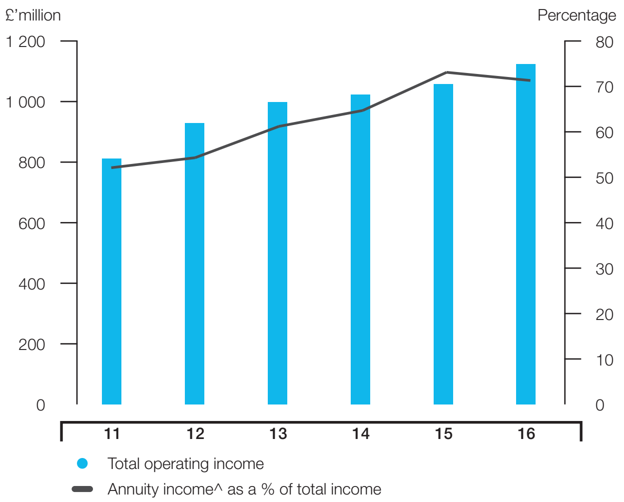


* *Before goodwill, acquired intangibles, non-operating items, taxation and after other non-controlling interests.*

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

SUPPORTING GROWTH IN OPERATING INCOME…

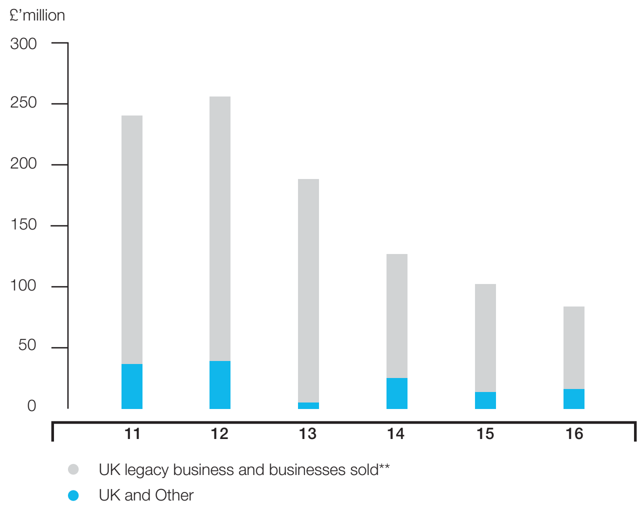
TOTAL OPERATING INCOME ONGOING BUSINESS



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

IMPAIRMENTS CONTINUED TO DECLINE…

IMPAIRMENTS

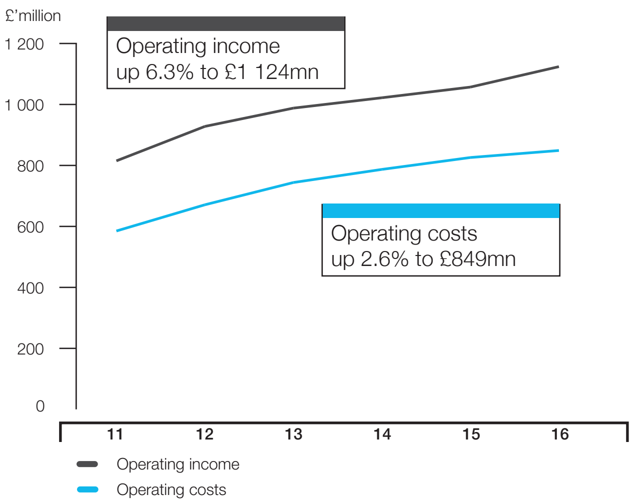


** *Refers to the remaining UK legacy business and group assets that were sold in the 2015 financial year.*

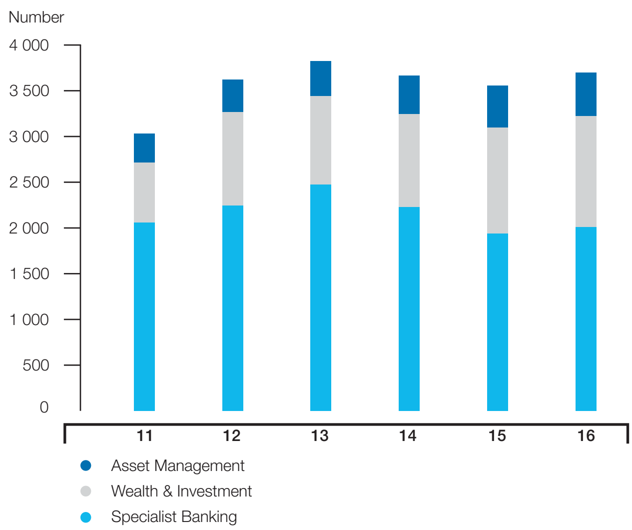
FIXED COSTS IN ONGOING BUSINESS INCREASED…

Increase in headcount and business infrastructure expenses across divisions to support increased activity and growth initiatives

JAWS RATIO ONGOING BUSINESS



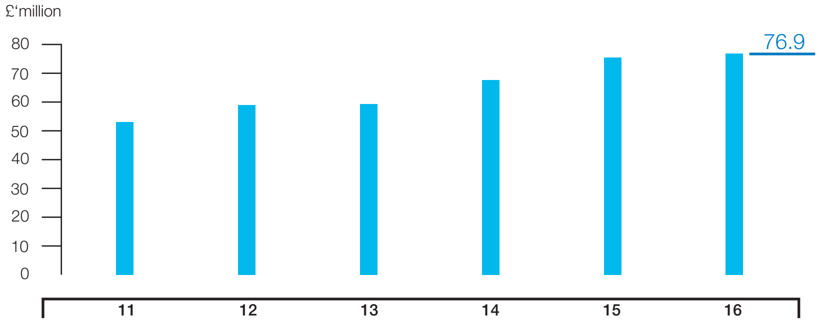
HEADCOUNT*



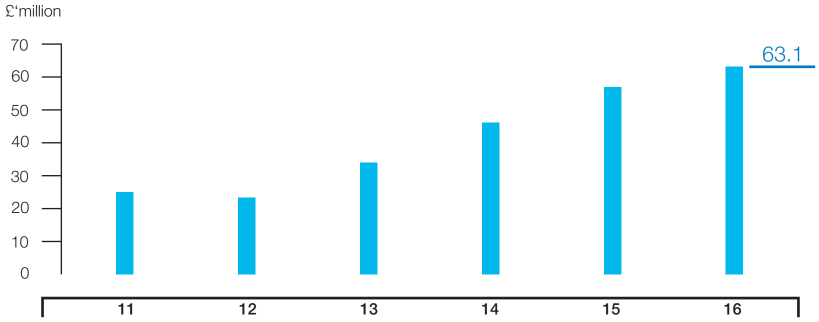
* *Permanent headcount and includes acquisitions.*

RESULTING IN A SATISFACTORY PERFORMANCE FROM OUR ONGOING BUSINESS...

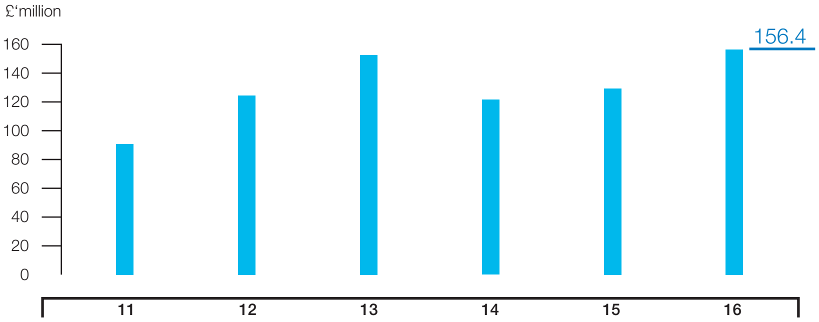
OPERATING PROFIT* – ASSET MANAGEMENT



OPERATING PROFIT* – WEALTH & INVESTMENT



OPERATING PROFIT* – SPECIALIST BANKING ONGOING BUSINESS



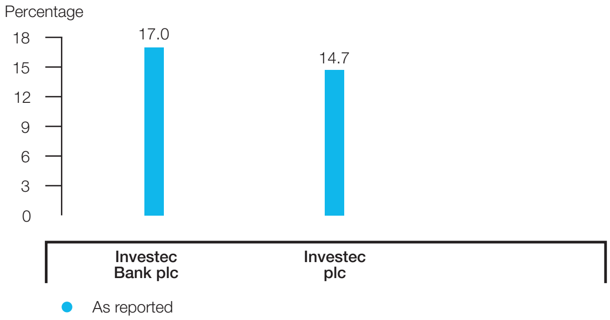
* *Before goodwill, acquired intangibles, non-operating items, taxation and after other non-controlling interests.*

MAINTAINED A SOUND BALANCE SHEET...

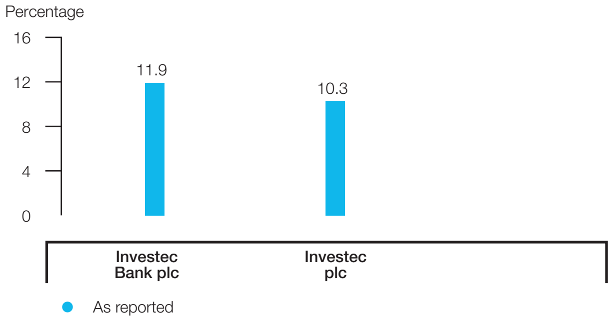
Target

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

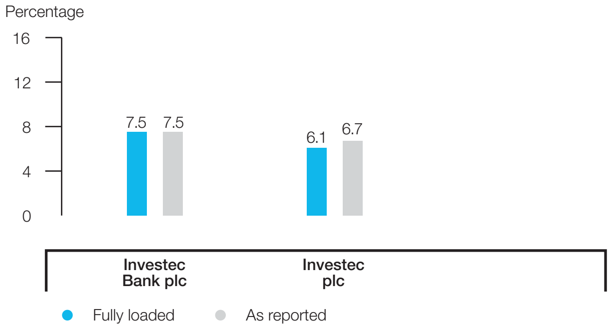
CAPITAL ADEQUACY



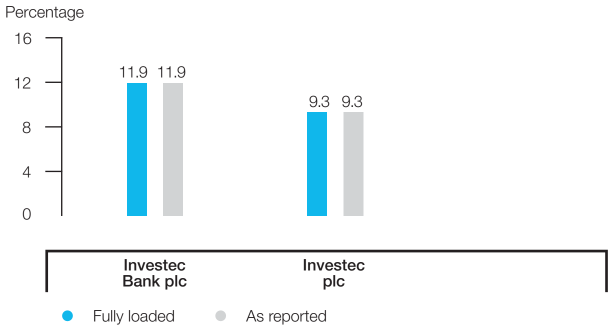
TIER 1



LEVERAGE RATIOS



COMMON EQUITY TIER 1



Note: Refer to pages 113 to 117 for further details.

SOUND CAPITAL AND LIQUIDITY PRINCIPLES MAINTAINED...

Continue to focus on:

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

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

A well-established liquidity management philosophy remains in place

The bank's loan to deposit ratio is as follows: 72.2% (2015: 68.5%)

Liquidity remains strong with cash and near cash balances amounting to £5.1 billion (2015: £5.0 billion)

Capital remained well in excess of current regulatory requirements

We are comfortable with our common equity tier 1 ratio target at a 10% level, as our current leverage ratio is 6.7%.

Two

Financial
review

An overview of the operating environment impacting our business

United Kingdom

OUR VIEWS

The continued recovery has also been evident in the labour market where the unemployment rate has fallen to 5.1%

GDP now stands above its pre-crisis peak.

2.2%	2.8%
2015/16 Economic growth	**2014/15** Economic growth

2016	2015
£28 644	£28 132

GDP per capita has risen

The fiscal year witnessed a continued recovery in the UK economy, with the first quarter of 2016 seeing the thirteenth consecutive quarter of expansion. Once again, the last year has seen household consumption as the driving factor behind the recovery, although investment also contributed positively.

1.7 million people are now unemployed in the UK, down one million from the peak of 2.7 million seen in 2011. Employment has been firm through the year, although the pace of employment growth slowed somewhat over the second half of 2015.

The inflation backdrop has been subdued, with headline CPI inflation falling into negative territory, troughing at -0.1%, and averaging just +0.1% across the fiscal year as a whole. There are two primary reasons for the softness in the inflation readings, one being the significant fall in energy prices since quarter four 2014, the other being the strength in the Pounds Sterling over much of 2015. Given the temporary nature of these factors, inflation should gradually trend back to the Bank of England's target of 2% over the medium term.

UK monetary policy remained on hold throughout the period, with the bank rate steady at 0.50%, marking the seventh year of record low interest rates. At the same time the level of outstanding asset purchases was maintained at £375 billion. Given the current subdued nature of inflation, as well as rising downside risks to the global outlook there has been little appetite for raising interest rates among the Monetary Policy Committee, with any future tightening dependent on the committee's confidence that inflation is returning to target in the medium term.

Activity in the housing market continued to recover over the course of the year with transactions and mortgage approvals rising to within 10% of their long-run averages, underpinned by easing credit conditions and households' confidence in the outlook. Meanwhile, prices continued to trend upwards, standing 4.8% higher on year on year levels as the fundamental backdrop of a supply and demand imbalance supported prices.

As the financial year closed, the biggest point of uncertainty hanging over the economy was the UK's referendum on EU membership, with the vote set to take place on 23 June 2016. Uncertainty over the vote outcome and the potential ramifications of a leave vote represents the primary risk to the UK outlook.

Australia

OUR VIEWS

Australian GDP continued to grow at an annual pace, slightly below trend at 2.5% in 2015 (2.6% over the financial year).

On a quarterly basis the year witnessed a degree of variation as swings in GDP were driven by weather-related export volatility.

The Australian Dollar fell to its lowest level since 2009 during the year, reaching $0.68 versus the US Dollar, as it continued to be correlated to movements in commodity prices, which for much of 2015/16 witnessed significant falls. Despite the fall in the Australian Dollar providing support to the export sector, headwinds to the economy remain, primarily from the decline in commodity prices. Certainly the low commodity price environment is hurting investment, with the latest official estimates suggesting that 2015/16 capital expenditure in the mining sector may be 30% lower than in 2014/15.

Rebalancing in the economy has continued over the year. Outside of the mining sector services have continued to see expansion, while household consumption has also witnessed positive growth, albeit at below trend levels. The labour market has also seen improvements with the unemployment rate falling to 5.7%, its lowest level since July 2013. Meanwhile the upward trend in house prices seen in recent years continued in 2015, with national prices rising over 9%.

Amidst headwinds to the economy, below trend growth and subdued inflation the Reserve Bank of Australia cut the official policy rate (Cash rate) to a new record low of 2.00% in May 2015.

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

United States

OUR VIEWS

A range of indicators continued to show the labour market witnessing sustained strength as non-farm payrolls growth averaged US$233 000 a month over the last year and unemployment fell to 5.0% from 5.4% at the end of the last fiscal year

The US economy grew by 2.4% in the calendar year 2015, equalling the expansion seen in 2014.

Growth in the first quarter of 2016 had been disappointing at an annualised rate of 0.5%, reflecting the continued drag from net trade, inventories and also business investment. In terms of the overall recovery, household consumption remains the predominant driver of growth and remains relatively robust.

Following more than seven years of record low interest rates, the Federal Reserve began tightening policy in December 2015, raising the Federal Funds Target range by 0.25% to 0.25% – 0.50%. However, as the financial year closed, the Federal Reserve had refrained from taking further action, citing potential downside risks from global economic and financial developments. Further policy tightening over the forthcoming period will be very much driven by the evolution of the economy and, in particular, inflation.

Given the tightening in labour market conditions, wage growth has begun to firm although it remains below historical trends.

Inflation has remained below the Federal Reserve's 2% goal over the year, with the targeted measure of inflation currently standing at just 0.8%. However, there are tentative signs that previous disinflationary pressures from a strong US Dollar over 2015 and falling energy prices are beginning to fade. Meanwhile domestic factors, including a strengthening labour market point to a background of inflationary pressures.

Eurozone

OUR VIEWS

Following a year of policy easing, 2015/16 witnessed the European Central Bank (ECB) going even further in providing monetary stimulus, driven by weak inflation and rising deflationary risks.

Over the fiscal year, headline CPI inflation averaged just +0.1%, a considerable margin below the ECB's target of 'below, but close to 2%' as the collapse in wholesale energy prices weighed and the still gradual recovery meant the inflation outlook remained subdued.

Having taken the historic step of introducing a negative deposit rate in June 2014, the ECB cut the key policy rates further, with the deposit rate ending the fiscal year at -0.40% and the main refinancing rate at 0.0%. Non-standard policy measures were also expanded with the central bank increasing the size of its asset purchase programme to €80 billion per month, which is now set to run until March 2017. The ECB also expanded the universe of eligible assets for purchase to corporate bonds, resulting in a significant rally in Euro-denominated corporate debt. Additionally, a new four-year secured lending facility (TLTRO II) was introduced, providing cheap funding to Eurozone banks.

The economic background has been one of gradual growth, with the Euro area registering its third consecutive year of expansion: calendar 2015 recorded GDP growth of 1.5%. Household consumption has been positive, helped by improving confidence and the level of unemployment gradually coming down, although the latter remains elevated at 10.2%. Meanwhile investment has also returned to growth. Credit growth has been encouraging over the year, with lending to both households and corporates firming to multi-year highs, supported by improving credit conditions.

Greece remained a point of concern over the year, as the introduction of capital controls, a referendum on a third bailout and the re-election of the leftist party Syriza in a coalition all contributed to a period of uncertainty. Ultimately a third (€86 billion) bailout package was agreed between the Greek government and its creditors. In a departure from previous Euro crisis episodes, while local Greek markets were impacted, contagion to the rest of the Eurozone was limited, with yields in peripheral Euro area markets contained. Away from Greece there was better news as Cyprus became the latest country to exit its assistance programme, following Ireland, Portugal and Spain which exited in prior years.

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

Global stock markets

OUR VIEWS

Equity markets began the financial year in a buoyant mood, with the UK's FTSE 100 breaking through the significant 7 000 point milestone to set a new high during April 2015. These gains reflected the belief that global economic growth was set to accelerate and Europe and emerging economies were managing their challenges.

But that early optimism turned into a challenging year as a whole for financial markets, with the price of risky assets lower, in general, than when the year began. After a surge in the middle of 2015, the Shanghai share index in China was 20% lower by financial year end. In the Eurozone, the Euro Stoxx 50 index slid 19%. The UK's FTSE All Share declined 7%. In the US, the S&P 500 was more resilient, ending the year 0.4% lower. Commodity prices slid too, especially the oil price, where declines were driven partly by Saudi Arabia's continued bid to maintain market share by keeping output high and prices low.

This pattern of declines (oil supply issues notwithstanding) reflects two major global economic risks. The first relates to China, where issues came to a head last August. A depreciation of the Chinese Yuan triggered a sell-off in equity markets worldwide as investors fretted about a Chinese 'hard landing'. However, after a volatile few weeks, markets recovered as it turned out that global economic fundamentals appeared to remain relatively sound.

The second risk, of a broader, deflationary global slowdown, particularly in the Euro area, sharpened in January and February 2016. The immediate trigger for a downward lurch in global markets was a sell-off in Eurozone banking stocks. In part, this could have been driven by fears about the impact of the ECB's negative interest rate policy on banks' profitability. More generally, a worry emerged that central banks and other policymakers are running out of scope to combat economic stagnation and deflation.

Partly as a result of last year's market gyrations, our view is that risks to the global outlook have become more tilted to the downside. Various organisations, such as the OECD, IMF and World Bank, appear to concur. But our view is that economic fundamentals remain on a steady, if unspectacular, footing – a view borne out by the 'hard' data, which have continued to point to sustained economic growth. Consistent with, and in part because of, the data remaining broadly on track, the last few weeks of the financial year saw equity markets recover most of their January and February losses.

Operating environment

THE TABLE BELOW PROVIDES AN OVERVIEW OF SOME KEY STATISTICS THAT SHOULD BE CONSIDERED WHEN REVIEWING OUR OPERATIONAL PERFORMANCE.

	Year ended 31 March 2016	Year ended 31 March 2015	% change	Average over the year 1 April 2015 to 31 March 2016
Market indicators				
FTSE All share	3 395	3 664	(7.3%)	3 500
S&P	2 060	2 068	(0.4%)	2 033
Nikkei	16 759	19 207	(12.7%)	18 844
Dow Jones	17 685	17 776	(0.5%)	17 306
Rates				
UK overnight	0.41%	0.42%		0.46%
UK 10 year	1.42%	1.58%		1.81%
UK clearing banks base rate	0.50%	0.50%		0.50%
LIBOR – three month	0.59%	0.57%		0.59%
US 10 year	1.79%	1.93%		2.12%
Commodities				
Gold	US$1 233/oz	US$1 188/oz	3.8%	US$1 151/oz
Brent crude oil	US$40/bbl	US$56/bbl	(28.6%)	US$49/bbl
Platinum	US$976/oz	US$1 129/oz	(13.6%)	US$983/oz
Macro-economic				
UK GDP (% change over the period)	2.2%	2.8%		
UK per capita GDP (£, calendar year)	28 644	28 132	1.8%	

Sources: Datastream, Bloomberg, Office for National Statistics.

Key income drivers

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

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

ASSET MANAGEMENT

Key income drivers

- Fixed management fees as a percentage of assets under management
- Variable performance fees.

Income statement – primarily reflected as

- Fees and commissions.

Income impacted primarily by

- Movements in the value of the assets underlying client portfolios
- Performance of portfolios against set benchmarks
- Net flows.

WEALTH & INVESTMENT

Key income drivers

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

Income statement – primarily reflected as

- Fees and commissions.

Income impacted primarily by

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

SPECIALIST BANKING

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

An overview of the principal risks relating to our operations

The most material and significant risks we face, which the board and senior management believe could have an impact on our operations, financial performance, viability and prospects are summarised briefly below with further details provided in section three of this annual report. The board, through its various sub-committees, has performed a robust assessment of these principal risks. For additional information pertaining to the management and monitoring of these principal risks, see the references provided. Regular reporting of these risks is made to senior management, the executives and the board at the group risk and capital committee (GRCC) and board risk and capital committee (BRCC).

The group's board approved risk appetite framework is provided on page 49. The board recognises even with sound appetite and judgement that extreme events can happen that are completely outside of the board's control. It is however, necessary to assess these events and their impact and how they may be mitigated by changing the risk appetite framework if necessary. It is policy to regularly carry out multiple stress testing scenarios which in theory test extreme, but plausible events and from that assess and plan what can be done to mitigate the potential outcome.

PRINCIPAL RISKS	KEY MITIGATING ACTIONS	FURTHER INFORMATION PROVIDED
Credit and counterparty risk		
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 thereby resulting in a loss to the group.	• 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. • Our credit exposures are to a select target market comprising high-income and high net worth individuals, established corporates, and medium-sized enterprises. • Our risk appetite continues to favour lower risk, income-based lending, with exposures well collateralised and credit risk taken over a short to medium term. • Investec has a limited appetite for unsecured debt, thus the credit risk mitigation technique most commonly used is the taking of collateral, with a strong preference for tangible assets. • Portfolio reviews (including stress testing analyses) are 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.	Pages 51 to 77.

PRINCIPAL RISKS	KEY MITIGATING ACTIONS	FURTHER INFORMATION PROVIDED
Country risk		
Country risk refers to the risk of lending to a counterparty operating in a particular country or the risk inherent in sovereign exposure, i.e. the risk of exposure to loss caused by events in other countries. Country risk covers all forms of lending or investment activity whether to/with individuals, corporates, banks or governments.	• Exposures are only to politically stable jurisdictions that we understand and have preferably operated in before. • There is little appetite for exposures outside of the group's pre-existing core geographies or target markets. • The group limits exposures to peripheral European countries. • In certain cases, we may make use of political risk insurance to mitigate exposure where deemed necessary.	Page 51.
Investment risk		
Investment risk in the banking book arises primarily from the group's principal investments (private equity) and property investment activities, where the group invests in largely unlisted companies and select property investments, with risk taken directly on the group's balance sheet.	• Independent credit and investment committees exist in each geography where we assume investment risk. • Risk appetite limits and targets are set to limit our exposure to equity and investment risk. • As a matter of course, concentration risk is avoided and investments are well spread across geographies and industries.	Pages 78 to 83.

PRINCIPAL RISKS	KEY MITIGATING ACTIONS	FURTHER INFORMATION PROVIDED
Market risk in the trading book		
Traded market risk is the risk that the value of a portfolio of instruments changes as a result of changes in underlying market risk factors such as interest rates, equity prices, commodity prices, exchange rates and volatilities.	• To manage, measure and mitigate market risk, we have independent market risk management teams in our core geographies where we assume market risk. • The focus of our trading activities is primarily on supporting client activity. Our strategic intent is that proprietary trading should be limited and that trading should be conducted largely to facilitate clients in deal execution. • Within our trading activities, we act as principal with clients or the market. Market risk, therefore, exists where we have taken on principal positions resulting from market-making, underwriting, investments and limited proprietary trading in the foreign exchange, capital and money markets. The focus of these businesses is primarily on supporting client activity. • 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.	Pages 84 to 87.
Liquidity risk		
Liquidity risk is the risk that, despite being solvent, we have insufficient capacity to fund increases in assets or are unable to meet our payment obligations as they fall due, without incurring unacceptable losses. This includes repaying depositors or maturing wholesale debt. This risk is inherent in all banking operations and can be impacted by a range of institution specific and market-wide events.	• Our banking entities in South Africa and the UK are ring-fenced from one another and are required to meet the regulatory liquidity requirements in the jurisdictions in which they operate. • 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. • The maintenance of sustainable prudent liquidity resources takes precedence over profitability. • We target a diversified funding base, avoiding undue concentrations by investor type, maturity, market source, instrument and currency. • Stable customer deposits must fully fund our core loan book, with little reliance therefore placed on wholesale funding. • The group does not rely on committed funding lines for protection against unforeseen interruptions to cash flow. • The balance sheet risk management team independently monitors key daily funding metrics and liquidity ratios to assess potential risks to the liquidity position, which further act as early warning indicators of potential normal market disruption. • Daily liquidity stress tests are carried out.	Pages 89 to 92.

PRINCIPAL RISKS	KEY MITIGATING ACTIONS	FURTHER INFORMATION PROVIDED
Capital risk		
The risk that we do not have sufficient capital to meet regulatory requirements or that capital is inefficiently deployed across the group.	• 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. • The determination of target capital is driven by our risk profile, strategy and risk appetite, taking into account the regulatory and market factors applicable to the group. • At the most fundamental level, we seek to balance our capital consumption between prudent capitalisation in the context of the group's risk profile and optimisation of shareholder returns. • Our internal capital framework is designed to manage and achieve this balance. • The framework has been approved by the board and is managed by the DLC capital committee, which is responsible for oversight of the management of capital on a regulatory and an internal capital basis.	Pages 104 to 118.
Non-trading interest rate risk		
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. 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 management of interest rate risk in the banking book is centralised within the Central Treasury function. 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. • 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 the asset and liability committee (ALCO). • Our non-trading interest rate risk policy dictates that long-term non-trading interest rate risk is materially eliminated. In accordance with the policy, interest rate swaps are used to swap fixed deposits and loans into variable rate in the wholesale market. • The balance sheet risk management team 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.	Pages 95 to 97.

PRINCIPAL RISKS	KEY MITIGATING ACTIONS	FURTHER INFORMATION PROVIDED
Operational risk		
Operational risk is defined as any instance where there is potential or actual impact to the group resulting from failed internal processes, people, systems or from external events. The impacts can be financial as well as non-financial such as customer detriment, reputational or regulatory consequences. Operational risk includes key aspects such as: cybersecurity; information security; financial crime; technology; and process failure.	• An independent Group Operational Risk Management function ensures that operational risk policies and procedures are developed and applied consistently and effectively throughout the group. • Business unit management, supported by operational risk managers 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.	Pages 99 to 102.
Reputational and strategic risk		
Reputational risk is damage to our reputation, name or brand. Reputational risk is often associated with strategic decisions made by the board and also arises as a result of other risks manifesting and not being mitigated.	• We have various policies and practices to mitigate reputational risk, including strong values that are regularly and proactively reinforced. • Strategic and reputational risk is mitigated as much as possible through detailed processes and governance/escalation procedures from business units to the board, and from regular, clear communication with shareholders, customers and all stakeholders. • A disclosure and public communications policy has been approved by the board.	Page 103.

PRINCIPAL RISKS	KEY MITIGATING ACTIONS	FURTHER INFORMATION PROVIDED
Conduct risk		
Conduct risk means the risk that detriment is caused to the group, its customers, its counterparties or the market, as a result of inappropriate execution of business activities.	• Investec's approach to conduct risk is driven by our values and philosophies, ensuring that Investec operates in the wholesale arena and markets with integrity and puts the well-being of Investec clients at the heart of how the business is run. • Investec ensures that its products and services are scrutinised and regularly reviewed to identify any issues early on and to make sure they are escalated for appropriate resolution and, where necessary, remedial action. • Investec's conduct risk policy aims to create an environment for consumer protection and market integrity within the business, supported with the right conduct risk management framework. • Customer and market conduct committees exist in South Africa and the UK, with the objective of ensuring that Investec maintains a client-focused and fair outcomes-based culture.	Page 104.
Compliance, governance and regulatory risk		
The risks of changing legislation, regulation, policies, voluntary codes of practice and their interpretation in the markets in which we operate can have a significant impact on the group's operations, business prospects, costs, liquidity and capital requirements.	• Investec remains focused on complying with the highest levels of compliance to professional standards and integrity in each of our jurisdictions. Our culture is a major component of our compliance framework and is supported by robust policies, processes and talented professionals who ensure that the interests of our customers and shareholders remain at the forefront of everything we do. • We have independent compliance functions in each of our core operating jurisdictions, which ensure that the group implements the required processes, practices and policies to adhere to applicable regulations and legislation. • A global compliance forum exists which establishes and standardises group standards where applicable.	Pages 122 to 123.

PRINCIPAL RISKS	KEY MITIGATING ACTIONS	FURTHER INFORMATION PROVIDED
Legal risk		
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.	• A legal risk forum is constituted in each significant legal entity within the group 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. • We have a central independent in-house legal team with embedded business units' legal officers where business volumes or needs dictate. • This is supplemented by a pre-approved panel of third party firms to be utilised where necessary.	Page 103.
Business risk		
Business risk means the risk that external market factors create income volatility.	• The risk of loss caused by income volatility is mitigated through diversification of income sources, reducing concentration of income from any one type of business or geography and maintaining a flexible cost base. • Group strategy is directed towards generating and sustaining a diversified income base for the group. • In the instance where income falls we retain the flexibility to reduce costs (particularly variable remuneration), thereby maintaining a competitive cost to income ratio.	Pages 13 to 17.

PRINCIPAL RISKS	KEY MITIGATING ACTIONS	FURTHER INFORMATION PROVIDED
Environmental, social and economic risk		
The risk that our lending and investment activities give rise to unintended environmental, social and economic consequences.	• Investec has a broad-based approach to sustainability, which runs beyond recognising our own footprint on the environment and includes our many corporate social investment activities and our funding and investing activities. • This is not merely for business reasons but also our recognition of a broader responsibility to our environment and society. • Accordingly, sustainability risk considerations are considered by the credit committee and investment committee when making lending or investment decisions. • There is also oversight by the social and ethics committee on social and environmental issues.	Page 143 and in our sustainability report.
People risk		
The risk that we may be unable to recruit, retain and motivate key personnel.	• We focus on building a strong, diverse and capable workforce by providing a workplace that stimulates and rewards distinctive performance. • We invest significantly in a number of opportunities for developing and upskilling employees, and in leadership programmes to develop current and future leaders of the group. • Our internal people activities involve dedicated divisions such as Human Resources (HR) and Organisation Development (OD), which serve to supplement the ongoing people focus of our individual business units. • The Investec careers and HR teams are mandated to enable the attraction, development and retention of talent who can perform in a manner consistent with our culture and values. OD acts to strengthen the culture of the business, ensure its values are lived, build capability and contribute to the long-term sustainability of the organisation.	Page 143 and in our sustainability report.

Emerging and other risks

In addition to the principal risks outlined above, the risks below may have the potential to impact and/or influence our principal risks and consequently the operations, financial performance, viability and prospects of the Investec plc group. A number of these risks are beyond the group's control and are considered in our capital plans, stress testing analyses and budget processes, where applicable. These emerging risks are briefly highlighted below and should be read in the context of our approach to risk management and our overall group risk appetite framework (refer to section three of this report).

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

- **Macro-economic and geopolitical risks**: The group is subject to inherent risks arising from general macro-economic and geopolitical conditions in the countries in which it operates, including in particular the UK as well as global economic and geopolitical conditions.

A macro-economic overview is provided on pages 13 to 17, and the impact of changes in the external environment during our financial year is discussed for each of the divisions on pages 41 to 43.

- **Fluctuations in exchange rates could have an adverse impact on the group's results of operations**: The group's reporting currency is Pounds Sterling. Certain of our operations are conducted by entities outside the UK. The results of operations and the financial position of individual companies are reported in the local currencies of the countries in which they are domiciled, including Australian Dollars, Euros and US Dollars. These results are then translated into Pounds Sterling at the applicable foreign currency exchange rates for inclusion in the group's financial statements. In the case of the income statement, the weighted average rate for the relevant period is applied and, in the case of the balance sheet, the relevant closing rate is used. Exchange rates between local currencies and Pounds Sterling have fluctuated significantly during recent periods.

- **The group's borrowing costs and its access to the debt capital markets depend significantly on its credit ratings:** Rating agencies have, in the past, altered their ratings of all or a majority of the participants in a given industry as a result of the risks affecting that industry. A reduction in the group's respective banking entities long- or short-term credit ratings could increase their borrowing costs, limit their access to the capital markets and trigger additional collateral requirements in derivative contracts and other secured funding arrangements.

The group has recently received rating upgrades as discussed on page 47.

- **The group may be exposed to pension risk in relation to its UK operations**: Pension risk arises from obligations arising from defined benefit pension schemes where the group is required to fund any deficit in the schemes. There are two defined benefit pension schemes within the group and both are closed to new business.

Refer to page 103 for further information.

- **The financial services industry in which the group operates is intensely competitive**: The financial services industry is competitive and the group faces substantial competition in all aspects of its business. The group has developed leading positions in many of its core areas of activity, but does not take competition lightly, and our strategic objectives continue to focus on building business depth; providing the best integrated solution to our clients; and leveraging our digitisation strategy in order to remain competitive.

Refer to pages 13 to 17 for further information.

An emerging risk which attracted particular attention during the year, and which was incorporated into our stress tests is:

- **A UK exit from the European Union**: A referendum will be held in the UK on 23 June 2016 on whether the UK will remain in the European Union. The group faces risks associated with a vote to exit the European Union. For example, because a significant proportion of the regulatory regime applicable to the group in the UK and anticipated regulatory reform is derived from EU directives and regulations, a vote in favour of the UK exiting the European Union could materially change the legal framework applicable to the group's UK operations, including in relation to its regulatory capital requirements. In addition, a UK exit from the European Union could result in restrictions on the movement of capital and the mobility of personnel.

Introduction – understanding our results

SALE OF BUSINESSES

During the 2015 financial year the group sold a number of businesses namely, Investec Bank (Australia) Limited, 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 resulted in the derecognition of approximately £1.7 billion of assets and approximately £1.7 billion of liabilities associated with the businesses sold.

We continue to have a presence in Australia, focusing on our core activities of Specialised Finance, Corporate Advisory, Property Fund Management and Asset Management. The remaining business operates as a non-banking subsidiary of the Investec group. As a result, we no longer report the activities of our Australian businesses separately.

Sales of Kensington Group plc and Start Mortgage Holdings Limited

On 9 September 2014 we announced the sale of our UK intermediated mortgage business Kensington Group plc (Kensington) together with certain other Investec 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 we announced the sale of our 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.

This resulted in the derecognition of approximately £4.1 billion of assets and approximately £2 billion of external liabilities associated with these businesses sold.

As part of the sale of Kensington, a final net settlement amount was paid after the 31 March 2015 year end. As a result of this payment, a further loss before tax of £4.8 million was recognised during the current period.

Impact of these sales on our operational performance

The sales of these businesses have had a significant effect on the comparability of our financial statutory position and results. As a result, comparison on a statutory basis of the 2016 year-end results with the 2015 year-end results would be less meaningful.

In order to present a more meaningful view of our performance, additional management information is presented on our ongoing businesses. 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 40).

This basis of presentation is consistent with the approach adopted for the year ended 31 March 2015.

A reconciliation between the statutory and ongoing income statement is provided on pages 35 and 36.

Overview of our statutory results

Investec plc reported a 26.9% increase in operating profit before goodwill, acquired intangibles, non-operating items and taxation and after other non-controlling interests to £182.9 million for the year ended 31 March 2016 (2015: £144.1 million). The balance sheet remains strong, supported by sound capital, leverage and liquidity ratios.

Unless the context indicates otherwise, all income statement comparatives in the review below relate to the statutory results for the year ended 31 March 2015.

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

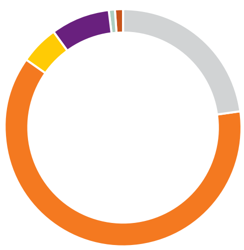
Total operating income before impairment losses on loans and advances of £1 128 million is 0.1% higher than the prior year. The various components of total operating income are analysed below.

£'000	31 March 2016	% of total income	31 March 2015	% of total income	% change
Net interest income	260 945	23.1%	327 482	29.1%	(20.3%)
Net fee and commission income	709 758	62.9%	731 097	64.9%	(2.9%)
Investment income	62 120	5.5%	(2 210)	(0.2%)	> 100.0%
Trading income arising from					
– customer flow	92 681	8.2%	88 259	7.8%	5.0%
– balance sheet management and other trading activities	(7 983)	(0.7%)	(28 186)	(2.5%)	(71.7%)
Other operating income	10 853	1.0%	10 639	0.9%	2.0%
Total operating income before impairments	**1 128 374**	**100.0%**	**1 127 081**	**100.0%**	**0.1%**

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

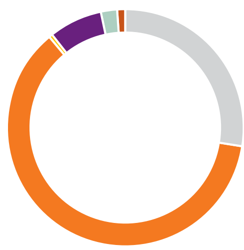
£'000	31 March 2016	% of total income	31 March 2015	% of total income	% change
Asset Management	276 063	24.5%	269 048	23.9%	2.6%
Wealth & Investment	256 634	22.7%	250 883	22.2%	2.3%
Specialist Banking	595 677	52.8%	607 150	53.9%	(1.9%)
Total operating income before impairments	**1 128 374**	**100.0%**	**1 127 081**	**100.0%**	**0.1%**

% OF TOTAL OPERATING INCOME BEFORE IMPAIRMENTS



31 March 2016
£1 128.4 million total operating income before impairments

23.1%	Net interest income
62.9%	Net fee and commission income
5.5%	Investment income
8.2%	Trading income arising from customer flow
(0.7%)	Trading income arising from balance sheet management and other trading activities
1.0%	Other operating income



31 March 2015
£1 127.1 million total operating income before impairments

29.1%	Net interest income
64.9%	Net fee and commission income
(0.2%)	Investment income
7.8%	Trading income arising from customer flow
(2.5%)	Trading income arising from balance sheet management and other trading activities
0.9%	Other operating income

Net interest income

Net interest income decreased by 20.3% to £260.9 million (2015: £327.5 million) largely due to a lower return earned on the legacy portfolios which are running down and the sales of Investec Bank (Australia) Limited, Kensington UK and Start Irish operations. This was partially offset by strong book growth and an increase in margin earned on early redemption of loans, reflecting higher activity levels.

£'000	31 March 2016	31 March 2015	Variance	% change
Asset Management	290	300	(10)	(3.3%)
Wealth & Investment	4 064	6 209	(2 145)	(34.5%)
Specialist Banking	256 591	320 973	(64 382)	(20.1%)
Net interest income	**260 945**	**327 482**	**(66 537)**	**(20.3%)**

For a further analysis of interest received and interest paid refer to page 168.

Net fee and commission income

Net fee and commission income decreased by 2.9% to £709.8 million (2015: £731.1 million) largely as a result of lower corporate fees earned following a strong prior year. The deal pipeline has, however, remained sound. This was partially offset by a sound performance from the private banking business and the asset management and wealth and investment businesses.

£'000	31 March 2016	31 March 2015	Variance	% change
Asset Management	275 252	267 111	8 141	3.0%
Wealth & Investment	244 993	238 661	6 332	2.7%
Specialist Banking	189 513	225 325	(35 812)	(15.9%)
Net fees and commissions	**709 758**	**731 097**	**(21 339)**	**(2.9%)**

For a further analysis on net fee and commission income refer to page 169.

Investment income

Investment income increased substantially to a profit of £62.1 million (2015: loss of £2.2 million) as a result of higher earnings from the debt securities portfolio and improved results from the Hong Kong portfolio.

£'000	31 March 2016	31 March 2015	Variance	% change
Asset Management	–	–	–	–
Wealth & Investment	5 817	3 486	2 331	66.9%
Specialist Banking	56 303	(5 696)	61 999	> 100.0%
Investment income	**62 120**	**(2 210)**	**64 330**	**> 100.0%**

For a further analysis on investment income refer to pages 169 and 170.

Trading income

Trading income from customer flow increased 5.0% to £92.7 million (2015: £88.3 million) while trading income from other trading activities reflected a loss of £8.0 million (2015: loss of £28.2 million) due to foreign currency losses largely offset in non-controlling interests as discussed on page 33.

Arising from customer flow

£'000	31 March 2016	31 March 2015	Variance	% change
Asset Management	–	–	–	–
Wealth & Investment	333	895	(562)	(62.8%)
Specialist Banking	92 348	87 364	4 984	5.7%
Trading income arising from customer flow	**92 681**	**88 259**	**4 422**	**5.0%**

Arising from balance sheet management and other trading activities

£'000	31 March 2016	31 March 2015	Variance	% change
Asset Management	1 656	1 501	155	10.3%
Wealth & Investment	236	356	(120)	(33.7%)
Specialist Banking	(9 875)	(30 043)	20 168	67.1%
Trading income arising from balance sheet management and other trading activities	**(7 983)**	**(28 186)**	**20 203**	**71.7%**

Other operating income

Other operating income includes associate income and income earned on operating lease rentals.

IMPAIRMENT LOSSES ON LOANS AND ADVANCES

Impairments on loans and advances decreased from £102.7 million to £84.2 million. Since 31 March 2015, gross defaults have improved from £400.1 to £313.9 million. The percentage of default loans (net of impairments but before taking collateral into account) to net core loans and advances amounted to 2.19% (2015: 3.00%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.19 times (2015: 1.33 times).

For further information on asset quality refer to page 67.

OPERATING COSTS

The ratio of total operating costs to total operating income amounted to 76.7% (2015: 79.6%). Total operating costs decreased by 3.6% to £863.6 million (2015: £895.6 million) reflecting: a reduction in costs arising from the sale of certain businesses; partially offset by an increase in headcount and business infrastructure expenses across divisions to support increased activity and growth initiatives; and an increase in variable remuneration given increased profitability in certain businesses.

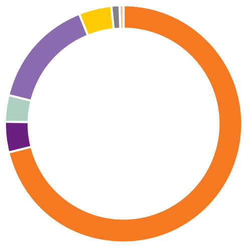
The various components of total expenses are analysed below.

£'000	31 March 2016	% of total expenses	31 March 2015	% of total expenses	% change
Staff costs (including directors' remuneration)	(618 475)	71.4%	(633 208)	70.6%	(2.3%)
Premises expenses (excluding depreciation)	(35 998)	4.2%	(38 039)	4.2%	(5.4%)
Equipment expenses (excluding depreciation)	(31 328)	3.6%	(30 545)	3.4%	2.6%
Business expenses	(128 769)	14.9%	(142 689)	15.9%	(9.8%)
Marketing expenses	(38 012)	4.4%	(36 336)	4.1%	4.6%
Depreciation and impairment of property, plant, equipment and software	(11 066)	1.3%	(14 769)	1.6%	(25.1%)
Total operating costs	**(863 648)**	**99.8%**	**(895 586)**	**99.8%**	**(3.6%)**
Depreciation on operating leased assets	(2 149)	0.2%	(1 535)	0.2%	40.0%
Total expenses	**(865 797)**	**100.0%**	**(897 121)**	**100.0%**	**(3.5%)**

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

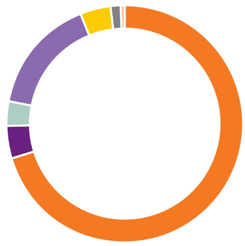
£'000	31 March 2016	% of total expenses	31 March 2015	% of total expenses	% change
Asset Management	(199 210)	23.0%	(193 557)	21.6%	2.9%
Wealth & Investment	(193 507)	22.3%	(194 012)	21.6%	(0.3%)
Specialist Banking	(437 920)	50.6%	(479 504)	53.4%	(8.7%)
Group costs	(35 160)	4.1%	(30 048)	3.4%	17.0%
Total expenses	**(865 797)**	**100.0%**	**(897 121)**	**100.0%**	**(3.5%)**

% OF TOTAL EXPENSES



31 March 2016
£865.8 million total expenses

71.4%	Staff costs
4.2%	Premises
3.6%	Equipment
14.9%	Business expenses
4.4%	Marketing
1.3%	Depreciation
0.2%	Depreciation on operating leased assets



31 March 2015
£897.1 million total expenses

70.6%	Staff costs
4.2%	Premises
3.4%	Equipment
15.9%	Business expenses
4.1%	Marketing
1.6%	Depreciation
0.2%	Depreciation on operating leased assets

IMPAIRMENT OF GOODWILL

There was no impairment of goodwill in the current year. The impairment of goodwill in the prior year largely relates to the restructure of the Australian businesses.

AMORTISATION OF ACQUIRED INTANGIBLES

Amortisation of acquired intangibles of £14.5 million largely relates to the Wealth & Investment business and mainly comprises amortisation of amounts attributable to client relationships.

NET LOSS ON DISPOSAL OF SUBSIDIARIES

As part of the sale of Kensington (as discussed on page 29) a final net settlement amount was paid after the 31 March 2015 year end. As a result of this payment, a further loss before tax of £4.8 million was recognised during the 2016 financial year.

NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

Net loss attributable to non-controlling interests mainly comprises:

- £10.3 million profit attributable to non-controlling interests in the Asset Management business
- A reduction of £2.5 million relating to Euro-denominated preferred securities issued by a subsidiary of Investec plc which were reflected on the balance sheet as part of non-controlling interests. The transaction was hedged and a forex transaction loss arising on the hedge is reflected in operating profit before goodwill with the equal and opposite impact reflected in earnings attributable to non-controlling interests. These securities were redeemed on 24 June 2015.

Statutory balance sheet analysis

Since 31 March 2015:

- Total shareholders' equity (including non-controlling interests) decreased by 9.3% to £1.9 billion largely as a result of the redemption of the preferred securities (as referred to above)
- Total assets increased by 2.7% to £18.8 billion largely as a result of strong loan book growth.

Overview of our ongoing results

CONSOLIDATED SUMMARISED ONGOING INCOME STATEMENT

For the year to £'000	31 March 2016	31 March 2015	Variance	% change
Net interest income	259 105	231 546	27 559	11.9%
Net fees and commission income	706 473	732 489	(26 016)	(3.6%)
Investment income	61 627	21 304	40 323	189.3%
– customer flow	93 333	88 534	4 799	5.4%
– balance sheet management and other trading activities	(7 743)	(27 803)	20 060	(72.2%)
Other operating (loss)/income	10 853	10 591	262	2.5%
Total operating income before impairment losses on loans and advances	**1 123 648**	**1 056 661**	**66 987**	**6.3%**
Impairment losses on loans and advances	(16 069)	(13 678)	(2 391)	17.5%
Operating income	**1 107 579**	**1 042 983**	**64 596**	**6.2%**
Operating costs	(848 735)	(826 890)	(21 845)	2.6%
Depreciation on operating leased assets	(2 149)	(1 294)	(855)	66.1%
Operating profit before goodwill, acquired intangibles and non-operating items	**256 695**	**214 799**	**41 896**	**19.5%**
Loss attributable to other non-controlling interests	4 503	16 856	(12 353)	(73.3%)
Profit attributable to Asset Management non-controlling interests	(10 263)	(10 053)	(210)	2.1%
Operating profit before taxation	**250 935**	**221 602**	**29 333**	**13.2%**
Taxation	(50 854)	(47 885)	(2 969)	6.2%
Attributable earnings to shareholders before goodwill, acquired intangibles and non-operating items	**200 081**	**173 717**	**26 364**	**15.2%**
Cost to income ratio	75.7%	78.4%		

RECONCILIATION FROM STATUTORY SUMMARISED INCOME STATEMENT TO ONGOING SUMMARISED INCOME STATEMENT

For the year to 31 March 2016 £'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	260 945	1 840	–	–	259 105
Net fees and commission income	709 758	3 285	–	–	706 473
Investment income	62 120	493	–	–	61 627
Trade income arising from					
– customer flow	92 681	(652)	–	–	93 333
– balance sheet management and other trading activities	(7 983)	(240)	–	–	(7 743)
Other operating income	10 853	–	–	–	10 853
Total operating income before impairment losses on loans and advances	**1 128 374**	**4 726**	**–**	**–**	**1 123 648**
Impairment losses on loans and advances	(84 217)	(68 148)	–	–	(16 069)
Operating income	**1 044 157**	**(63 422)**	**–**	**–**	**1 107 579**
Operating costs	(863 648)	(14 913)	–	–	(848 735)
Depreciation on operating leased assets	(2 149)	–	–	–	(2 149)
Operating profit/(loss) before goodwill, acquired intangibles and non-operating items	**178 360**	**(78 335)**	**–**	**–**	**256 695**
Loss attributable to other non-controlling interests	4 503	–	–	–	4 503
Profit attributable to Asset Management non-controlling interests	(10 263)	–	–	–	(10 263)
Operating profit/(loss) before taxation	**172 600**	**(78 335)**	**–**	**–**	**250 935**
Taxation*	(35 335)	15 519	–	–	(50 854)
Attributable earnings to shareholders before goodwill, acquired intangibles and non-operating items	**137 265**	**(62 816)**	**–**	**–**	**200 081**
Cost to income ratio	76.7%				75.7%

* *Applying Investec plc's effective taxation rate of 19.8%.*

^ *Refer to page 153.*

** • The results of the businesses sold, i.e. Investec Bank (Australia) Limited, the UK Kensington business and the Start (Irish) mortgage business
• The remaining legacy business.

RECONCILIATION FROM STATUTORY SUMMARISED INCOME STATEMENT TO ONGOING SUMMARISED INCOME STATEMENT *(continued)*

For the year to 31 March 2015 £'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	327 482	12 526	71 143	12 267	231 546
Net fees and commission income	731 097	756	(4 876)	2 728	732 489
Investment income	(2 210)	(16 204)	(5 443)	(1 867)	21 304
Trading income arising from					
– customer flow	88 259	350	(415)	(210)	88 534
– balance sheet management and other trading activities	(28 186)	19	(248)	(154)	(27 803)
Other operating income	10 639	–	–	48	10 591
Total operating income before impairment losses on loans and advances	**1 127 081**	**(2 553)**	**60 161**	**12 812**	**1 056 661**
Impairment losses on loans and advances	(102 707)	(83 468)	(4 085)	(1 476)	(13 678)
Operating income	**1 024 374**	**(86 021)**	**56 076**	**11 336**	**1 042 983**
Operating costs	(895 586)	(21 648)	(34 245)	(12 803)	(826 890)
Depreciation on operating leased assets	(1 535)	–	(241)	–	(1 294)
Operating profit/(loss) before goodwill, acquired intangibles and non-operating items	**127 253**	**(107 669)**	**21 590**	**(1 467)**	**214 799**
Loss attributable to other non-controlling interests	16 856	–	–	–	16 856
Profit attributable to Asset Management non-controlling interests	(10 053)	–	–	–	(10 053)
Operating profit/(loss) before taxation	**134 056**	**(107 669)**	**21 590**	**(1 467)**	**221 602**
Taxation*	(28 362)	24 010	(4 815)	327	(47 885)
Attributable earnings to shareholders before goodwill, acquired intangibles and non-operating items	**105 694**	**(83 659)**	**16 775**	**(1 140)**	**173 717**
Cost to income ratio	79.6%				78.4%

* *Applying Investec plc's effective taxation rate of 22.3%.*

^ *Refer to page 153.*

** • The results of the businesses sold, i.e. Investec Bank (Australia) Limited, the UK Kensington business and the Start (Irish) mortgage business
• The remaining legacy business.

RECONCILIATION FROM STATUTORY SUMMARISED INCOME STATEMENT TO ONGOING SUMMARISED INCOME STATEMENT FOR THE SPECIALIST BANKING BUSINESS

		Removal of**			
For the year to 31 March 2016 £'000	**Specialist Banking statutory as disclosed^**	**UK legacy business excluding sale assets**	**Sale assets UK**	**Sale assets Australia**	**Specialist Banking ongoing business**
Net interest income	256 591	1 840	–	–	254 751
Net fees and commission income	189 513	3 285	–	–	186 228
Investment income	56 303	493	–	–	55 810
Trading income arising from		–	–	–	–
– customer flow	92 348	(652)	–	–	93 000
– balance sheet management and other trading activities	(9 875)	(240)	–	–	(9 635)
Other operating (loss)/income	10 797	–	–	–	10 797
Total operating income before impairment losses on loans and advances	**595 677**	**4 726**	**–**	**–**	**590 951**
Impairment losses on loans and advances	(84 217)	(68 148)	–	–	(16 069)
Operating income	**511 460**	**(63 422)**	**–**	**–**	**574 882**
Operating costs	(435 771)	(14 913)	–	–	(420 858)
Depreciation on operating leased assets	(2 149)	–	–	–	(2 149)
Operating profit/(loss) before goodwill, acquired intangibles and non-operating items	**73 540**	**(78 335)**	**–**	**–**	**151 875**
Loss attributable to other non-controlling interests	4 503	–	–	–	4 503
Operating profit/(loss) before taxation	**78 043**	**(78 335)**	**–**	**–**	**156 378**

		Removal of**			
For the year to 31 March 2015 £'000	**Specialist Banking statutory as disclosed^**	**UK legacy business excluding sale assets**	**Sale assets UK**	**Sale assets Australia**	**Specialist Banking ongoing business**
Net interest income	320 973	12 526	71 143	12 267	225 037
Net fees and commission income	225 325	756	(4 876)	2 728	226 717
Investment income	(5 696)	(16 204)	(5 443)	(1 867)	17 818
Trading income arising from					
– customer flow	87 364	350	(415)	(210)	87 639
– balance sheet management and other trading activities	(30 043)	19	(248)	(154)	(29 660)
Other operating income	9 227	–	–	48	9 179
Total operating income before impairment losses on loans and advances	**607 150**	**(2 553)**	**60 161**	**12 812**	**536 730**
Impairment losses on loans and advances	(102 707)	(83 468)	(4 085)	(1 476)	(13 678)
Operating income	**504 443**	**(86 021)**	**56 076**	**11 336**	**523 052**
Operating costs	(477 969)	(21 648)	(34 245)	(12 803)	(409 273)
Depreciation on operating leased assets	(1 535)	–	(241)	–	(1 294)
Operating profit/(loss) before goodwill, acquired intangibles and non-operating items	**24 939**	**(107 669)**	**21 590**	**(1 467)**	**112 485**
Loss attributable to other non-controlling interests	16 856	–	–	–	16 856
Operating profit/(loss) before taxation	**41 795**	**(107 669)**	**21 590**	**(1 467)**	**129 341**

^ *Refer to page 167.*

** • The results of the businesses sold, i.e. Investec Bank (Australia) Limited, the UK Kensington business and the Start (Irish) mortgage business
• The remaining legacy business.

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 2016 £'000	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Ongoing business
Net interest income	290	4 064	254 751	–	259 105
Net fees and commission income	275 252	244 993	186 228	–	706 473
Investment income	–	5 817	55 810	–	61 627
Trading income arising from					
– customer flow	–	333	93 000	–	93 333
– balance sheet management and other trading activities	1 656	236	(9 635)	–	(7 743)
Other operating (loss)/income	(1 135)	1 191	10 797	–	10 853
Total operating income before impairment losses on loans and advances	**276 063**	**256 634**	**590 951**	**–**	**1 123 648**
Impairment losses on loans and advances	–	–	(16 069)	–	(16 069)
Operating income	**276 063**	**256 634**	**574 882**	**–**	**1 107 579**
Operating costs	(199 210)	(193 507)	(420 858)	(35 160)	(848 735)
Depreciation on operating leased assets	–	–	(2 149)	–	(2 149)
Operating profit before goodwill, acquired intangibles and non-operating items	**76 853**	**63 127**	**151 875**	**(35 160)**	**256 695**
Loss attributable to other non-controlling interests	–	–	4 503	–	4 503
Profit attributable to Asset Management non-controlling interests	(10 263)	–	–	–	(10 263)
Operating profit before taxation	**66 590**	**63 127**	**156 378**	**(35 160)**	**250 935**
Cost to income ratio	72.2%	75.4%	71.5%		75.7%

For the year to 31 March 2015 £'000	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Ongoing business
Net interest income	300	6 209	225 037	–	231 546
Net fees and commission income	267 111	238 661	226 717	–	732 489
Investment income	–	3 486	17 818	–	21 304
Trading income arising from					
– customer flow	–	895	87 639	–	88 534
– balance sheet management and other trading activities	1 501	356	(29 660)	–	(27 803)
Other operating (loss)/income	136	1 276	9 179	–	10 591
Total operating income before impairment losses on loans and advances	**269 048**	**250 883**	**536 730**	**–**	**1 056 661**
Impairment losses on loans and advances	–	–	(13 678)	–	(13 678)
Operating income	**269 048**	**250 883**	**523 052**	**–**	**1 042 983**
Operating costs	(193 557)	(194 012)	(409 273)	(30 048)	(826 890)
Depreciation on operating leased assets	–	–	(1 294)	–	(1 294)
Operating profit before goodwill, acquired intangibles and non-operating items	**75 491**	**56 871**	**112 485**	**(30 048)**	**214 799**
Loss attributable to other non-controlling interests	–	–	16 856	–	16 856
Profit attributable to Asset Management non-controlling interests	(10 053)	–	–	–	(10 053)
Operating profit before taxation	**65 438**	**56 871**	**129 341**	**(30 048)**	**221 602**
Cost to income ratio	71.9%	77.3%	76.4%		78.4%

AN ANALYSIS OF CORE LOANS AND ADVANCES TO CUSTOMERS AND ASSET QUALITY – ONGOING BUSINESS

£'000	31 March 2016	31 March 2015*
Gross core loans and advances to customers	**7 242 345**	**6 378 070**
Total impairments	**(21 838)**	**(12 391)**
Specific impairments	(20 838)	(11 391)
Portfolio impairments	(1 000)	(1 000)
Net core loans and advances to customers	**7 220 507**	**6 365 679**
Average gross core loans and advances to customers	6 810 208	5 872 862
Total income statement charge for impairments on core loans and advances	**(17 806)**	**(7 241)**
Gross default loans and advances to customers	49 795	38 843
Specific impairments	(20 838)	(11 391)
Portfolio impairments	(1 000)	(1 000)
Defaults net of impairments before collateral held	**27 957**	**26 452**
Collateral and other credit enhancements	34 777	28 736
Net default loans and advances to customers (limited to zero)	**–**	**–**
Ratios:		
Total impairments as a % of gross core loans and advances to customers	0.30%	0.19%
Total impairments as a % of gross default loans	43.86%	31.90%
Gross defaults as a % of gross core loans and advances to customers	0.69%	0.61%
Defaults (net of impairments) as a % of net core loans and advances to customers	0.39%	0.42%
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)	0.26%	0.12%

* *The 31 March 2015 disclosures have been adjusted to reflect the allocation of the portfolio impairment to the legacy portfolio.*

A RECONCILIATION OF CORE LOANS AND ADVANCES: STATUTORY BASIS AND ONGOING BASIS

		Removal of**	
	Statutory as disclosed^	UK legacy business excluding sale assets	Ongoing business
31 March 2016 (£'000)			
Gross core loans and advances to customers	**7 946 793**	**704 448**	**7 242 345**
Total impairments	(143 191)	(121 353)	(21 838)
Specific impairments	(121 791)	(100 953)	(20 838)
Portfolio impairments	(21 400)	(20 400)	(1 000)
Net core loans and advances to customers	**7 803 602**	**583 095**	**7 220 507**
31 March 2015 (£'000)			
Gross core loans and advances to customers	**7 249 561**	**871 491**	**6 378 070**
Total impairments	(188 444)	(176 053)	(12 391)
Specific impairments	(154 262)	(142 871)	(11 391)
Portfolio impairments	(34 182)	(33 182)	(1 000)
Net core loans and advances to customers	**7 061 117**	**695 438**	**6 365 679**

^ *Refer to page 67.*
** *The remaining legacy business.*

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.

LEGACY BUSINESS – OVERVIEW OF RESULTS

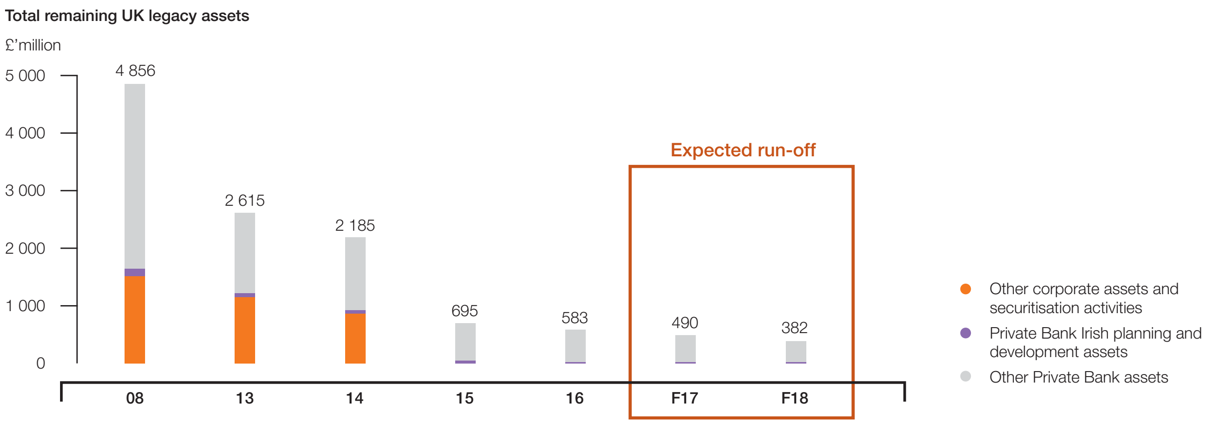
Since 31 March 2015 the group's legacy portfolio in the UK has continued to be actively managed down from £695 million to £583 million largely through redemptions and write-offs. The total legacy business over the year reported a loss before taxation of £78.3 million (2015: £107.7 million). The remaining 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 take a further two to four years to clear. Total net defaults in the legacy book amount to £143 million (31 March 2015: £185 million).

AN ANALYSIS OF ASSETS WITHIN THE LEGACY BUSINESS

	31 March 2016		31 March 2015	
£'million	**Total net assets (after impairments)**	**Total balance sheet impairment**	**Total net assets (after impairments)**	**Total balance sheet impairment**
Private Bank Irish planning and development assets	23	14	47	50
Other Private Bank assets	560	107	648	126
Total other legacy assets	**583**	**121**	**695**	**176**
Performing	440	–	510	–
Non-performing	143	121*	185	176*

* *Included in balance sheet impairments is a group portfolio impairment of £20.4 million (31 March 2015: £33.2 million). The 31 March 2015 disclosures have been adjusted to reflect the allocation of this portfolio impairment to the legacy portfolio.*

EXPECTED RUN-OFF OF LEGACY ASSETS



QUESTIONS and answers

Hendrik du Toit

CHIEF EXECUTIVE OFFICER

> ASSET MANAGEMENT

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

Markets were characterised by weakness in financial asset prices, especially emerging market equities and currencies. The weakness in the Rand made a noticeable impact on our revenues. Clients are demanding more for the fees they pay. Although attractive and growing, our industry remains fiercely competitive which requires ongoing productivity increases to ensure margin retention. On top of this, regulatory initiatives continue across the globe, requiring additional investment in time, resources and reporting.

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

In spite of a difficult market environment, we concluded the year with net inflows of £3.2 billion which were achieved with good momentum in the Europe, Americas and Asia Pacific client groups. Furthermore, there was a turnaround in our Africa client group which generated positive net flows over the year, after outflows in the prior year.

We continued to attract and retain the very best talent in the business while maintaining stability across our firm. We have made good progress in diversifying our offering to the market, thereby improving the quality of our revenue stream.

During the final quarter of the financial year, market conditions changed significantly, which impacted our investment performance figures negatively. In general, this was a tough quarter for active managers. However, as long-term investors using well-tested investment processes, we are confident that we will continue to deliver value for our clients.

What are your strategic objectives in the coming financial year?

Our primary objective remains unchanged: we want to assist people around the globe to retire with dignity or meet their financial objectives. We aim to manage our clients' money to the highest possible standard and in line with their expectations and product and strategy specifications.

We will continue to organically develop our investment capabilities, operate across channels and approach our growth sustainably, based on client needs and medium to long-term targets. Over the coming year, we are particularly focused on building our Advisor business alongside our successful Institutional business and diversifying our growth drivers.

Above all, this is a people business and for this reason, we continue to invest in our people and nurture the culture that binds us together.

What is your outlook for the coming financial year?

We have a long-term horizon and do not manage our business for the short term. We believe that the opportunity for growth over the next five years is significant.

After 25 successful years, our momentum is positive and we are confident about the long-term future of our business.

How do you incorporate environmental, social and governance (ESG) considerations into your business?

In our role as a global asset manager, our primary goal is to preserve and grow the real purchasing power of our clients' assets over the long term. We do this by assuming a stewardship role which includes exercising the client's ownership rights. We believe that each investment should be looked at individually, but also that the managers of our various strategies have the right to integrate material environmental, social and governance (ESG) considerations into their decision-making in a manner that is consistent with the mandates they have from our clients. This approach benefits both our clients and the social realms in which we invest and operate.

QUESTIONS and answers

Steve Elliott
GLOBAL HEAD

> WEALTH & INVESTMENT

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

The year ended 31 March 2016 was a challenging one for the global financial markets. 2015/16 was characterised by weak global growth, a declining oil price, inflationary and deflationary concerns, unpredictability around interest rate trajectories, and not least geopolitical uncertainty in our regions and the world.

Refer to pages 13 to 17 for further information.

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

Our drive to enhance the digital aspects of our offering to clients remains a key feature for the business currently. The substantial task of building our digital channel (Investec Click & Invest), which will provide a discretionary investment management service based on the concept of simplified advice, and was announced in the previous financial year, is continuing to make good progress.

We are looking forward to the launch of this new offering which will supplement our core investment management service and reach out to individuals who may not otherwise have formed part of our traditional client base. Enhancements to the digital aspects of our core offering also remain very much in focus as we seek to ensure that our bespoke services meet the varying needs of all of our clients now and in the future.

As we build and enhance our core services in an increasingly competitive and regulated marketplace, it is right that we look to review those areas of our business which do not form part of our central offering. During the year, we have completed or have commenced the discontinuation of a number of small non-core elements of our UK offering. These include the disposal of the UK's small fund management operation and certain specialist investment services, which were acquired in 2012 as part of the wider Williams de Broë business, along with Venture Capital Trust management services.

The level of regulatory pressure remains high in the UK marketplace for investment management businesses and consolidation in the sector continues. We have maintained our appetite to pursue opportunities to recruit experienced investment managers who are attracted by the strength of our offering, where they share our culture and values and have the ability to contribute to the future success of the business.

We remain focused on delivering the high standards of client service on which our strategy for organic growth is built, along with increasing the appeal of our services to a wider potential client base through initiatives such as our Private Office service and coordination of our services with those of the Investec Private Bank.

What are your strategic objectives in the coming financial year?

Reaching key milestones in the development and launch of our digital offering remains a key objective for the forthcoming financial year as we move closer to the launch of the Click & Invest service.

The business remains committed to the development and expansion of its financial planning capability and we continue to see this as a key and increasingly important part of our service, as the complexity of the personal financial world continues to increase.

Broadening our international presence in a measured and evolutionary way is something we are continuing to prioritise. The launch of our Asian operation hosted by the group's existing Hong Kong presence has now been completed and we look forward to achieving measured growth in this new offering over the coming year. The initial focus will be on the expatriate market via professional advisors; over time we look to broaden both our offering and client base. We also remain committed to our internationalisation programme with Switzerland as one of the service centres for our international clients.

The Wealth & Investment team in Dublin is integrated within the global investment process to ensure that we can meet the requirements of clients in a growing Irish economy. We continue to expand our regional presence in Ireland, with our operations represented at the Investec Cork offices launched during February 2016.

The continued success of our core business is built on achieving and maintaining high and consistent standards of client service, supported by a robust and well-resourced research capability and investment process. Our strategic priorities for the forthcoming financial year include initiatives which focus on the continuous development of these important areas.

The past financial year has been marked by a period of turbulence in the financial markets. We have built a business that has proved its resilience to adverse conditions in the past and we remain focused on those aspects of our business which drive and maintain us throughout periods of increased uncertainty.

What is your outlook for the coming financial year?

We continue to be mindful of the risk factors which remain in the global and domestic economies.

We are however confident in our strategy to invest for the future success of the business while remaining focused on the resilience of our business model to provide the balance that will optimise the performance of the business, over both the short and longer terms, while continuing to ensure that we deliver the most suitable client outcomes.

QUESTIONS and answers

David van der Walt
Ciaran Whelan

GLOBAL BUSINESS LEADERS

SPECIALIST BANKING

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

The year ended 31 March 2016 was a challenging one for the global financial markets. 2015/16 was characterised by weak global growth, a declining oil price, inflationary and deflationary concerns, unpredictability around interest rate trajectories, and not least geopolitical uncertainty in our regions and the world.

Refer to pages 13 to 17 for further information.

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

Notwithstanding the volatile markets, the Specialist Bank enjoyed high levels of activity and had a solid performance across the board.

Asset growth was well spread with no concentrations in any particular area. Overall property exposure reduced as a percentage of our book in line with our plans and the legacy book continued to reduce ahead of plan.

Although M&A activity was down on a relative basis, we were ranked number one in the mid-cap market for the number of deals and number four by value. In addition, we received a number of awards recognising our performance in the FX, structured products, asset finance and corporate lending businesses.

A number of credit rating agency upgrades were given in recognition of our good progress.

The Private Banking division continued to make progress in building its UK franchise and developing its client base. We have changed our target market to focus on high net worth and high-income earners rather than a more general focus on professionals. We strengthened our direct and intermediary business channels, which resulted in record levels of new mortgage originations and acquisition of high net worth private clients.

The structured property finance business continued to successfully support selected high net worth seasoned property investors and developers. Transaction volumes remained healthy and a number of joint venture projects were successfully concluded.

What are your strategic objectives in the coming financial year?

We will continue with our existing strategy of building and developing our client franchises with the primary focus on entrepreneurs, corporates and high net worth clients. The focus is on growing the client base and ensuring continued high levels of service to existing clients across our offering.

We will continue building out the infrastructure required to ensure our technology and digital offering matches the high standards of service we are targeting. In line with our ambition to grow the client base, we will be investing in various marketing strategies to ensure we reach our prospective clients.

What is your outlook for the coming financial year?

The environment remains very volatile for both macro-economic and political reasons. Despite this, we are continuing to meet our objectives and if the status quo continues, we would expect to see good top line growth, which is to some extent offset by the investment in building out the private banking franchise.

In the event of a Brexit or failure of economic policy we would expect to see a significant slowdown in activity which would impact results negatively.

How do you incorporate environmental, social and governance (ESG) considerations into your business?

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 are a finalist in the Business Charity Awards 2016 for community impact for our partnership with the Bromley by Bow Beyond Business incubator. With our support, the programme has launched over 60 new social enterprise businesses creating over 330 new jobs and generating combined annual turnover of over £5 million. We have also been highly commended on the Business Charity Awards Partnership (Financial Services) and Community Impact categories, for the Beyond Business programme. Our 2 Gresham Street office won our ninth Platinum award for our waste management in the City of London Corporation's Clean City Award Scheme. We continue to raise awareness around environmental concerns with staff through Team Green which was extended to 17 of our 19 offices in the UK as well as our Dublin office. 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 six years amounting to approximately 2 100 hours overall.

Three

Risk management and
corporate governance

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 48 to 119 with further disclosures provided in the annual financial statements section on pages 145 to 236.

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 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 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 group's strategy and allow the group to operate within its risk appetite tolerance as set out on page 49.

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

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.

A SUMMARY OF THE YEAR IN REVIEW FROM A RISK PERSPECTIVE

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

Notwithstanding a challenging and uncertain environment experienced, Investec plc was able to maintain sound risk metrics throughout the year in review. Investec plc remained within the majority of its risk appetite limits/targets across the various risk disciplines with any exceptions noted and approved by the board. Our risk appetite framework as set out on page 49 continues to be assessed in light of prevailing market conditions and group strategy.

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

Our core loan book remains well diversified with commercial rent producing property loans comprising approximately 14% of the book, other lending collateralised by property 14%, high net worth and private client lending 18% and corporate lending 54% (with most industry concentrations well below 5%). Our focus over the past few years to realign and rebalance our portfolios in line with our risk appetite framework is reflected in the relative changes in asset classes on our balance sheet, showing an increase in private client and corporate and other lending, and a reduction in lending collateralised by property as a proportion of our book.

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

Our legacy portfolio has been actively managed down from £695 million at 31 March 2015 to £583 million largely through redemptions and write-offs (notably on the Irish portfolio).

We will continue to manage this portfolio down, although we remain cautiously optimistic in this regard and our view is that the remaining legacy book will still take two to four years to clear as explained in detail on page 40.

Impairments on loans and advances decreased from £102.7 million to £84.2 million. The credit loss ratio improved during the year to 1.13%, with the bulk of impairments taken on the legacy portfolio. Our credit losses on our core 'ongoing' book remain low at 0.26%. Since 31 March 2015 gross defaults have improved from £400.1 million to £313.9 million. The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounted to 2.19% (2015: 3.00%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.19 times (2015: 1.33 times).

Our investment portfolios delivered a sound performance. Overall, we remain comfortable with the performance of our equity investment portfolios which comprise 3.56% of total assets.

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

Investec plc 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 4.1 times. Our current leverage ratio is at 6.7%.

We have always held capital in excess of regulatory requirements and we intend to perpetuate this philosophy. All our banking subsidiaries meet current internal targets for total capital adequacy. We did not meet our internal target for our common equity tier 1 ratio to be in excess of 10% for Investec plc, as a result of solid growth in credit risk-weighted assets during the year. Capital continued to grow and we are comfortable that credit growth is in line with our risk appetite framework and supported by sound risk metrics. We believe that a common equity tier 1 ratio in excess of 10% is appropriate for our business, given our high leverage ratios and we will continue to build our business in a manner that achieves this target.

Holding a high level of readily available, high quality liquid assets remains paramount in the management of our balance sheet. We continue to maintain a low reliance on interbank wholesale funding to fund core lending asset growth. Cash and near cash balances amounted to £5.1 billion at year end, representing 47.0% of customer deposits.

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

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

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

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

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

During the year, Investec continued to enhance its stress testing framework. Given the volatility and uncertainty in the market, a number of new stress scenarios were incorporated into our processes, included in these, for example, was 'Brexit'.

The board, through its various risk and capital committees, continued to assess the impact of its principal risks and the abovementioned stress scenarios on its business. The board has concluded that the group has robust systems and processes in place to manage these risks, and that while under a severe stress scenario, business activity would be very subdued, the group would continue to maintain adequate liquidity and capital balances to support the continued operation of the group. Our viability statement is provided on pages 129 and 130.

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

CONCLUSION

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

Signed on behalf of the board

Stephen Koseff

Chairman of the Investec DLC group risk and capital committee

15 June 2016

Salient features

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

Year to 31 March	2016	2015
Net core loans and advances (£'million)	7 804	7 061
Total assets (£'million)	18 757	18 272
Total risk-weighted assets (£'million)	12 297	11 608
Total equity (£'million)	1 881	2 074
Cash and near cash (£'million)	5 082	5 039
Customer accounts (deposits) (£'million)	10 809	10 306
Gross defaults as a % of gross core loans and advances	3.95%	5.52%
Defaults (net of impairments) as a % of net core loans and advances	2.19%	3.00%
Net defaults (after collateral and impairments) as a % of net core loans and advances	–	–
Credit loss ratio*	1.13%	1.16%
Structured credit investments as a % of total assets	1.89%	1.92%
Banking book investment and equity risk exposures as a % of total assets	3.56%	3.44%
Level 3 (fair value assets) as a % of total assets	3.63%	4.32%
Traded market risk: one day value at risk (£'million)	0.5	0.7
Core loans to equity ratio	4.1x	3.4x
Total gearing ratio**	10.0x	8.8x
Loans and advances to customers to customer deposits	72.2%	68.5%
Capital adequacy ratio°	14.7%	16.2%
Tier 1 ratio°	10.3%	11.4%
Common equity tier 1 ratio°	9.3%	9.7%
Leverage ratio°	6.7%	7.4%
Return on average assets#	0.71%	0.44%
Return on average risk-weighted assets#	1.10%	0.72%

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

** *Total assets to total equity.*

\# *Where return represents operating profit after taxation and non-controlling interests and after deducting preference dividends, but before goodwill, acquired intangibles and non-operating items. Average balances are calculated on a straight-line average.*

° *Takes into account the deduction of foreseeable dividends as discussed on page 113.*

Overall group risk appetite

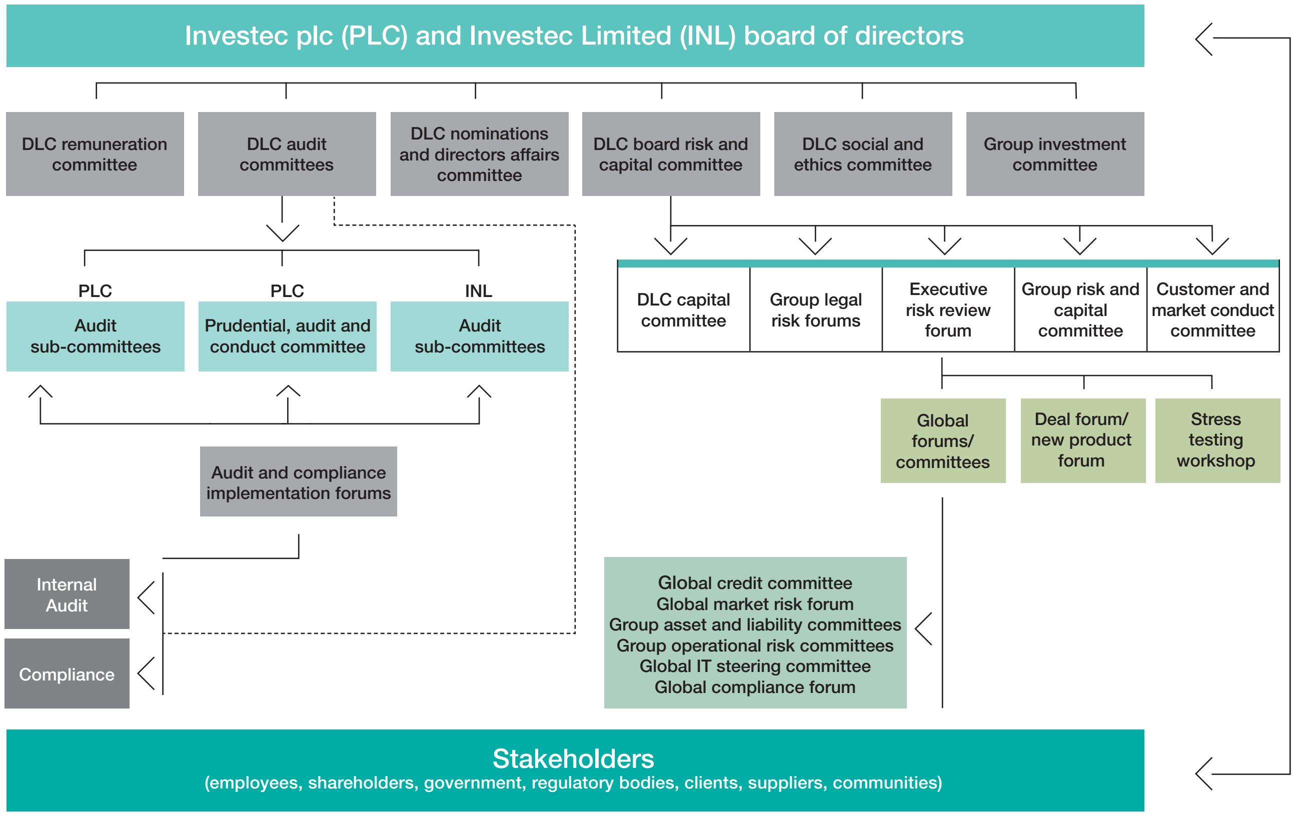
The group has a number of board-approved risk appetite statements and policy documents covering our risk tolerance and approach to our principal aspects of risk. In addition, a number of committees and forums identify and manage risk at a group level. The group risk appetite statement and framework sets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

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

INVESTEC PLC RISK APPETITE AND TOLERANCE METRICS	INVESTEC PLC POSITIONING AT 31 MARCH 2016
• 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 64% to total operating income and capital intensive activities contributed 36%
• 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 71.2% 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 76.7%.
• 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 group's return on equity amounted to 11.5% and its return on risk-weighted assets amounted to 1.34%
• 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 116 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, a minimum tier 1 ratio of 11.0% and a common equity tier 1 ratio above 10.0%	We meet our total capital targets; however we have not met our common equity targets due to strong growth in credit risk-weighted assets; refer to page 116 for further information
• We target a diversified loan portfolio, lending to clients we know and understand. We limit our exposure to a single/connected individual or company to 7.5% of common equity tier 1 capital (up to 10% if approved by the relevant board committee). We also have a number of risk tolerance limits and targets for specific asset classes	We maintained this risk tolerance level in place throughout the year
• There is a preference for primary exposure in Investec plc's main operating geography (i.e. the UK). We will accept exposures where we have a branch or local banking subsidiary and tolerate exposures to other countries where we have developed a local understanding and capability or we are facilitating a transaction for a client who requires facilities in a foreign geography	Refer to page 76 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 1.75% 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 1.13% and defaults net of impairments amounted to 2.19% of total core loans. Refer to page 67 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 £5.1 billion representing 47.0% of customer deposits. Refer to page 91 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 85 for further information
• We have moderate appetite for investment risk, and set a risk tolerance of less than 30.0% of total tier 1 capital for our unlisted principal investment portfolio	Our unlisted investment portfolio is £363 million, representing 27.6% of total tier 1 capital. Refer to page 80 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 99 to 102 for further information
• We have a number of policies and practices in place to mitigate reputational, legal and conduct risks	Refer to pages 102 and 104 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
BCBS	Basel Committee of Banking Supervision
BIS	Bank for International Settlements
BoE	Bank of England
BRCC	Board risk and capital committee
ECB	European Central Bank
EBA	European Banking Authority
ERRF	Executive risk review forum
FCA	Financial Conduct Authority
FSB	Financial Services Board
GRCC	Group risk and capital committee
PACC	Prudential audit and conduct committee
PRA	Prudential Regulation Authority

An overview of principal risks

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

These principal risks have been highlighted on pages 20 to 27.

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

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

Credit and counterparty risk management

CREDIT AND COUNTERPARTY RISK DESCRIPTION

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

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

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

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

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

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

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

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

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

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

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

CREDIT AND COUNTERPARTY RISK GOVERNANCE STRUCTURE

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

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

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

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

CREDIT AND COUNTERPARTY RISK APPETITE

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

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

We have little appetite for unsecured debt and require good quality collateral in support of obligations (refer to page 77 for further information).

Target clients include high net worth and/ or high-income individuals, professionally qualified individuals, established corporates, small and medium enterprises, financial institutions and sovereigns.

Corporates must have scale and relevance in their market, an experienced management team, able board members, strong earnings and cash flow.

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

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

CONCENTRATION RISK

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

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

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

RISK APPETITE

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

SUSTAINABILITY CONSIDERATIONS

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

- Environmental considerations (including animal welfare and climate-related impacts)
- Social considerations (including human rights)
- Economic considerations.

Refer to our sustainability report on our website.

MANAGEMENT AND MEASUREMENT OF CREDIT AND COUNTERPARTY RISK

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

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

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

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

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

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

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

Fitch, S&P and Moody's have been nominated as eligible external credit assessment institutions (ECAIs) for the purposes of determining external credit ratings. Due to the group reducing its securitisation activity as a result of the disposal of the Kensington business in January 2015, the group will no longer rely on DBRS credit assessments in respect of sovereign and securitisation exposures. The following elections have been made:

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

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

STRESS TESTING AND PORTFOLIO MANAGEMENT

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

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

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

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

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 74 and 75.

Private client activities

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

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

Credit risk arises from the following activities:

- **Personal Banking** delivers products to enable target clients to create and manage their wealth. This includes private client mortgages, transactional banking, high net worth lending, offshore banking and foreign exchange.
- **Residential Mortgages** provides mortgage loan facilities for high-income professionals and high net worth individuals tailored to their individual needs.
- **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 74 and 75.

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, North America and Australia where Investec can support experienced asset managers and their funds which show strong, long-term value creation and good custodianship of investors' money. Debt facilities to fund vehicles are secured against undrawn limited partner commitments and/or the funds underlying assets. Fund manager loans are structured against committed fund management cash flows and the managers' investment stake in their own funds.
- **Small Ticket Asset Finance:** provides highly diversified lending to small and medium-sized corporates to support asset purchases and other business requirements. These facilities are secured against the asset being financed and are a direct obligation of the company.
- **Large Ticket Asset Finance:** provides the finance and structuring expertise for aircraft and larger lease assets, the majority of which are senior secured loans with a combination of corporate, cash flow and asset-backed collateral against the exposure.

- **Power and Infrastructure Finance:** arranges and provides typically long-term financing for infrastructure assets, in particular renewable power projects and transport, against contracted future cash flows of the project(s) from recognised utilities and power companies as well as the balance sheet of the corporate. There is a strong equity contribution from an experienced sponsor.
- **Resource Finance:** debt arranging and underwriting together with structured hedging solutions mainly within the mining sectors. The underlying commodities are mainly precious and base metals. 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 corporate leverage loans. The bonds are mainly investment grade rated, which benefit from a high level of credit subordination and can withstand a significant level of portfolio defaults.
- **Treasury Placements:** the treasury function, as part of the daily management of the bank's liquidity, places funds with central banks and other commercial banks and financial institutions. These transactions are typically short-term (less than one month) money market placements or secured repurchase agreements. These market counterparties are high investment grade rated entities that occupy dominant and systemic positions in their domestic banking markets. These counterparties are located in the UK, Western Europe 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, credit derivatives and equities that are entered to facilitate a client's hedging requirements. The counterparties to such transactions are typically corporates, in particular where they have a sizeable exposure to foreign exchange due to operating in sectors that include imports and exports of goods and services. These positions are marked to market, typically with daily margin calls to mitigate credit exposure in the event of counterparty default.

An analysis of the corporate client loan portfolio and asset quality information is provided on pages 74 and 75.

Wealth & Investment

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

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

Asset Management

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

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).

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

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

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

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

CREDIT RISK MITIGATION

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

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

An analysis of collateral is provided on page 77.

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

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

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

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

The majority of credit mitigation techniques linked to trading activity is in the form of netting agreements and daily margining. The primary market standard legal documents that govern this include the International Swaps and Derivatives Association Master Agreements (ISDA), Global Master Securities Lending Agreement (GMSLA) and Global Master Repurchase Agreement (GMRA). In addition to having ISDA documentation in place with all market and trading counterparties in over-the-counter (OTC) derivatives, a Credit Support Annex (CSA) ensures that all 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 will enter into Credit Default Swaps (CDS) in order to hedge a specific asset held or to create a more general or macro hedge against a group of exposures in one industry or geography. In these instances, the bank is deemed to be 'buying protection' against the assets. Depending on the perceived risk, or 'spread', of the underlying exposure, the CDS will fluctuate in value; increasing in value when the asset has become more risky and decreasing when risk has reduced. Occasionally, the bank will enter into trading/investment CDS positions where we buy protection or sell protection without owning the underlying asset. The total amount of net credit derivatives outstanding at 31 March 2016 amounts to £5.3 million, of which £3.3 million is used for credit mitigation purposes and the balance for trading and investment. Total protection bought amounts to £3.5 million (£3.5 million relating to credit derivatives used in credit mitigation) and total protection sold amounts to £1.8 million (£0.2 million relating to credit derivatives used in credit mitigation).

Further information on credit derivatives is provided on page 87.

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

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

Please refer to the credit quality step table disclosed on page 119 for a breakdown of regulatory exposure values before and after credit risk mitigation has been applied.

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 as a percentage of the portfolio and the decline in lending collateralised by property exposures as a percentage of the portfolio. Continued progress has been made during the year in our strategic portfolio rebalancing through active portfolio management and the consistent application of our risk appetite statement.

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

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

Gross defaults decreased by 21.5% or £86.2 million from £400.1 million at 31 March 2015 to £313.9 million at 31 March 2016. The credit loss ratio is at 1.13% (2015: 1.16%). Default loans (net of impairments) have decreased by 19.3% or £40.9 million on an absolute basis and decreased to 2.19% from 3.00% as a percentage of core loans and advances. The credit loss ratio on an ongoing basis is 0.26% at 31 March 2016. We have reported further impairments on the legacy portfolio as we took advantage of market conditions and accelerated the exit from certain Irish legacy assets.

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

Lending collateralised by property

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

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

Private client activities

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

Corporate client activities

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

Performance of the corporate portfolio, including Small Ticket Asset finance, Large Ticket Asset finance, Power and

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

Credit and counterparty risk information

Pages 48 to 60 describe where and how credit risk is assumed in our operations.

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

AN ANALYSIS OF GROSS CREDIT AND COUNTERPARTY EXPOSURES

Credit and counterparty exposures increased by 6.8% to £17.1 billion largely due to growth in loans and advances to customers. Cash and near cash balances amount to £5.1 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	**2016**	**2015**	**% change**	**Average***
Cash and balances at central banks	2 636 837	2 179 822	21.0%	2 408 330
Loans and advances to banks	1 112 441	1 053 932	5.6%	1 083 187
Reverse repurchase agreements and cash collateral on securities borrowed	557 025	1 448 205	(61.5%)	1 002 615
Sovereign debt securities	1 252 991	1 212 910	3.3%	1 232 951
Bank debt securities	188 397	226 273	(16.7%)	207 335
Other debt securities	393 652	221 480	77.7%	307 566
Derivative financial instruments	572 324	516 034	10.9%	544 179
Securities arising from trading activities	393 964	513 673	(23.3%)	453 819
Loans and advances to customers (gross)	7 946 793	7 249 561	9.6%	7 598 177
Other loans and advances (gross)	331 617	393 353	(15.7%)	362 485
Other securitised assets (gross)	11 341	51 223	(77.9%)	31 282
Other assets	397 409	55 383	> 100%	226 396
Total on-balance sheet exposures	**15 794 791**	**15 121 849**	**4.5%**	**15 458 320**
Guarantees^	68 938	31 664	> 100%	50 301
Contingent liabilities, committed facilities and other	1 209 486	835 858	44.7%	1 022 672
Total off-balance sheet exposures	**1 278 424**	**867 522**	**47.4%**	**1 072 973**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**17 073 215**	**15 989 371**	**6.8%**	**16 531 293**

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

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

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

£'000	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note refer-ence	Total balance sheet
At 31 March 2016				
Cash and balances at central banks	2 636 837	1 232		2 638 069
Loans and advances to banks	1 112 441	–		1 112 441
Reverse repurchase agreements and cash collateral on securities borrowed	557 025	–		557 025
Sovereign debt securities	1 252 991	–		1 252 991
Bank debt securities	188 397	–		188 397
Other debt securities	393 652	–		393 652
Derivative financial instruments	572 324	265 234		837 558
Securities arising from trading activities	393 964	130 380		524 344
Investment portfolio	–	451 000	1	451 000
Loans and advances to customers	7 946 793	(143 191)	2	7 803 602
Other loans and advances	331 617	85 588		417 205
Other securitised assets	11 341	139 224	3	150 565
Interest in associated undertakings	–	23 587		23 587
Deferred taxation assets	–	85 050		85 050
Other assets	397 409	1 307 794	4	1 705 203
Property and equipment	–	56 374		56 374
Investment properties	–	79 051		79 051
Goodwill	–	356 994		356 994
Intangible assets	–	123 480		123 480
Total on-balance sheet exposures	**15 794 791**	**2 961 797**		**18 756 588**

1. *Relates to exposures that are classified as equity risk in the banking book. Further information is provided on pages 78 to 80.*
2. *Largely relates to impairments.*
3. *While the group manages all risks (including credit risk) from a day-to-day operational perspective, certain of these assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicles that the group has reflected in the 'total credit and counterparty exposure' with the maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'.*
4. *Other assets include settlement debtors which we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

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 2015				
Cash and balances at central banks	2 179 822	1 420		2 181 242
Loans and advances to banks	1 053 932	–		1 053 932
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	258 987		775 021
Securities arising from trading activities	513 673	156 625		670 298
Investment portfolio	–	400 941	1	400 941
Loans and advances to customers	7 249 561	(188 444)	2	7 061 117
Other loans and advances	393 353	161 559		554 912
Other securitised assets	51 223	360 760	3	411 983
Interest in associated undertakings	–	21 931		21 931
Deferred taxation assets	–	73 618		73 618
Other assets	55 383	1 280 197	4	1 335 580
Property and equipment	–	63 069		63 069
Investment properties	–	65 736		65 736
Goodwill	–	356 090		356 090
Intangible assets	–	136 655		136 655
Total on-balance sheet exposures	**15 121 849**	**3 150 149**		**18 271 998**

1. *Relates to exposures that are classified as equity risk in the banking book. Further information is provided on pages 78 to 80.*
2. *Largely relates to impairments.*
3. *While the group manages all risks (including credit risk) from a day-to-day operational perspective, certain of these assets are within special purpose vehicles that ring-fence the assets to specific credit providers and limit security to the assets in the vehicle. The table above reflects the net credit exposure in the vehicles that the group has reflected in the 'total credit and counterparty exposure' with the maximum credit exposure referenced to credit providers external to the group in the column headed 'assets that we deem to have no legal credit exposure'.*
4. *Other assets include settlement debtors which we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

RISK MANAGEMENT AND CORPORATE GOVERNANCE

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

£'000	Up to three months	Three to six months	Six months to one year	One to five years	Five to 10 years	> 10 years	Total
Cash and balances at central banks	2 636 837	–	–	–	–	–	2 636 837
Loans and advances to banks	1 108 512	833	3 082	14	–	–	1 112 441
Reverse repurchase agreements and cash collateral on securities borrowed	557 025	–	–	–	–	–	557 025
Sovereign debt securities	532 714	91 089	5 613	–	–	623 575	1 252 991
Bank debt securities	64	12 068	132	176 133	–	–	188 397
Other debt securities	8 834	144	3 633	109 795	53 620	217 626	393 652
Derivative financial instruments	72 836	65 641	45 954	181 050	129 852	76 991	572 324
Securities arising from trading activities	171 151	731	36	37 772	123 291	60 983	393 964
Loans and advances to customers (gross)	1 479 349	694 369	1 052 063	3 470 126	823 446	427 440	7 946 793
Other loans and advances (gross)	11 857	453	162	49 313	43 889	225 943	331 617
Other securitised assets (gross)	–	–	–	–	–	11 341	11 341
Other assets	397 409	–	–	–	–	–	397 409
Total on-balance sheet exposures	**6 976 588**	**865 328**	**1 110 675**	**4 024 203**	**1 174 098**	**1 643 899**	**15 794 791**
Guarantees^	36 494	–	2 289	30 155	–	–	68 938
Contingent liabilities, committed facilities and other	226 446	83 270	262 915	595 211	40 733	911	1 209 486
Total off-balance sheet exposures	**262 940**	**83 270**	**265 204**	**625 366**	**40 733**	**911**	**1 278 424**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**7 239 528**	**948 598**	**1 375 879**	**4 649 569**	**1 214 831**	**1 644 810**	**17 073 215**

^ *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	High net worth and professional individuals	Lending collateralised by property – largely to private clients	Agriculture	Electricity, gas and water (utility services)	Public and non-business services	Business services	Finance and insurance
At 31 March 2016							
Cash and balances at central banks	–	–	–	–	2 636 837	–	–
Loans and advances to banks	–	–	–	–	–	–	1 112 441
Reverse repurchase agreements and cash collateral on securities borrowed	–	–	–	–	–	–	557 025
Sovereign debt securities	–	–	–	–	1 252 991	–	–
Bank debt securities	–	–	–	–	–	–	188 397
Other debt securities	–	–	–	36 787	6 429	3 382	101 474
Derivative financial instruments	53	–	53	45 174	19 947	63 632	317 338
Securities arising from trading activities	–	–	–	24 606	198 181	–	156 639
Loans and advances to customers (gross)	1 458 552	2 179 999	3 234	440 728	134 917	415 673	971 773
Other loans and advances (gross)	–	–	–	–	–	–	130 952
Other securitised assets (gross)	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	–	397 409
Total on-balance sheet exposures	**1 458 605**	**2 179 999**	**3 287**	**547 295**	**4 249 302**	**482 687**	**3 933 448**
Guarantees^	36 494	–	–	–	–	–	30 155
Contingent liabilities, committed facilities and other	109 481	245 020	–	233 600	6 036	35 213	240 355
Total off-balance sheet exposures	**145 975**	**245 020**	**–**	**233 600**	**6 036**	**35 213**	**270 510**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**1 604 580**	**2 425 019**	**3 287**	**780 895**	**4 255 338**	**517 900**	**4 203 958**
At 31 March 2015							
Cash and balances at central banks	–	–	–	–	2 179 822	–	–
Loans and advances to banks	–	–	–	–	–	–	1 053 932
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)	1 203 489	2 318 053	6 789	362 488	187 120	333 841	732 676
Other loans and advances (gross)	–	–	–	–	–	–	144 181
Other securitised assets (gross)	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	–	55 245
Total on-balance sheet exposures	**1 206 573**	**2 318 053**	**6 789**	**429 144**	**3 967 510**	**362 784**	**4 149 763**
Guarantees^	29 017	–	–	–	–	650	27
Contingent liabilities, committed facilities and other	77 227	193 955	–	155 654	17 165	31 149	89 661
Total off-balance sheet exposures	**106 244**	**193 955**	**–**	**155 654**	**17 165**	**31 799**	**89 688**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**1 312 817**	**2 512 008**	**6 789**	**584 798**	**3 984 675**	**394 583**	**4 239 451**

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

Retailers and wholesalers	Manufacturing and commerce	Construction	Corporate commercial real estate	Other residential mortgages	Mining and resources	Leisure, entertainment and tourism	Transport	Communication	Total
–	–	–	–	–	–	–	–	–	2 636 837
–	–	–	–	–	–	–	–	–	1 112 441
–	–	–	–	–	–	–	–	–	557 025
–	–	–	–	–	–	–	–	–	1 252 991
–	–	–	–	–	–	–	–	–	188 397
–	29 581	–	–	106 246	65 939	4 017	26 914	12 883	393 652
26 033	49 147	1 803	1 489	–	9 474	16 424	18 682	3 075	572 324
35	1 738	–	781	–	–	1 093	2	10 889	393 964
398 288	497 214	41 049	115 241	–	139 621	227 573	762 899	160 032	7 946 793
–	–	–	85	200 580	–	–	–	–	331 617
–	–	–	–	11 341	–	–	–	–	11 341
–	–	–	–	–	–	–	–	–	397 409
424 356	**577 680**	**42 852**	**117 596**	**318 167**	**215 034**	**249 107**	**808 497**	**186 879**	**15 794 791**
605	–	–	–	–	1 684	–	–	–	68 938
103 655	41 105	–	34 114	–	83 518	14 204	59 078	4 107	1 209 486
104 260	**41 105**	**–**	**34 114**	**–**	**85 202**	**14 204**	**59 078**	**4 107**	**1 278 424**
528 616	**618 785**	**42 852**	**151 710**	**318 167**	**300 236**	**263 311**	**867 575**	**190 986**	**17 073 215**
–	–	–	–	–	–	–	–	–	2 179 822
–	–	–	–	–	–	–	–	–	1 053 932
–	–	–	–	–	–	–	–	–	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
394 747	468 103	62 591	104 740	–	192 082	97 214	688 892	96 736	7 249 561
–	–	–	9 702	239 470	–	–	–	–	393 353
–	–	–	–	51 223	–	–	–	–	51 223
–	138	–	–	–	–	–	–	–	55 383
443 741	**505 541**	**71 444**	**116 515**	**354 486**	**243 023**	**117 778**	**705 339**	**123 366**	**15 121 849**
–	–	–	–	430	1 540	–	–	–	31 664
37 370	35 989	16 855	208	–	34 996	13 327	126 641	5 661	835 858
37 370	**35 989**	**16 855**	**208**	**430**	**36 536**	**13 327**	**126 641**	**5 661**	**867 522**
481 111	**541 530**	**88 299**	**116 723**	**354 916**	**279 559**	**131 105**	**831 980**	**129 027**	**15 989 371**

Corporate client loans account for 54.2% of total gross core loans and advances, and are well diversified across various industry classifications

Summary analysis of gross credit and counterparty exposures by industry

A description of the type of corporate client lending we undertake, is provided on pages 54 and 55, and a more detailed analysis of the corporate client loan portfolio is provided on pages 74 and 75.

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

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

A description of the type of private client lending and lending collateralised by property we undertake is provided on page 54, and a more detailed analysis of the private client loan portfolio is provided on pages 74 and 75.

	Gross core loans and advances		Other credit and counterparty exposures		Total	
At 31 March £'000	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
High net worth and professional individuals	1 458 552	1 203 489	146 028	109 328	1 604 580	1 312 817
Lending collateralised by property – largely to private clients	2 179 999	2 318 053	245 020	193 955	2 425 019	2 512 008
Agriculture	3 234	6 789	53	–	3 287	6 789
Electricity, gas and water (utility services)	440 728	362 488	340 167	222 310	780 895	584 798
Public and non-business services	134 917	187 120	4 120 421	3 797 555	4 255 338	3 984 675
Business services	415 673	333 841	102 227	60 742	517 900	394 583
Finance and insurance	971 773	732 676	3 232 185	3 506 775	4 203 958	4 239 451
Retailers and wholesalers	398 288	394 747	130 328	86 364	528 616	481 111
Manufacturing and commerce	497 214	468 103	121 571	73 427	618 785	541 530
Construction	41 049	62 591	1 803	25 708	42 852	88 299
Corporate commercial real estate	115 241	104 740	36 469	11 983	151 710	116 723
Other residential mortgages	–	–	318 167	354 916	318 167	354 916
Mining and resources	139 621	192 082	160 615	87 477	300 236	279 559
Leisure, entertainment and tourism	227 573	97 214	35 738	33 891	263 311	131 105
Transport	762 899	688 892	104 676	143 088	867 575	831 980
Communication	160 032	96 736	30 954	32 291	190 986	129 027
Total	**7 946 793**	**7 249 561**	**9 126 422**	**8 739 810**	**17 073 215**	**15 989 371**

AN ANALYSIS OF OUR CORE LOANS AND ADVANCES, ASSET QUALITY AND IMPAIRMENTS

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

An overview of developments during the financial year is provided on pages 59 and 60.

At 31 March £'000	2016	2015
Gross core loans and advances to customers	**7 946 793**	**7 249 561**
Total impairments	**(143 191)**	**(188 444)**
Specific impairments	(121 791)	(154 262)
Portfolio impairments	(21 400)	(34 182)
Net core loans and advances to customers	**7 803 602**	**7 061 117**
Average gross core loans and advances to customers	**7 598 177**	**7 832 564**
Current loans and advances to customers	7 561 596	6 733 402
Past due loans and advances to customers (1 – 60 days)	65 909	73 489
Special mention loans and advances to customers	5 354	42 556
Default loans and advances to customers	313 934	400 114
Gross core loans and advances to customers	**7 946 793**	**7 249 561**
Current loans and advances to customers	7 561 596	6 733 402
Default loans that are current and not impaired	29 639	26 785
Gross core loans and advances to customers that are past due but not impaired	99 383	146 428
Gross core loans and advances to customers that are impaired	256 175	342 946
Gross core loans and advances to customers	**7 946 793**	**7 249 561**
Total income statement charge for impairments on core loans and advances	**(85 954)**	**(90 709)**
Gross default loans and advances to customers	313 934	400 114
Specific impairments	(121 791)	(154 262)
Portfolio impairments	(21 400)	(34 182)
Defaults net of impairments	**170 743**	**211 670**
Aggregate collateral and other credit enhancements on defaults	202 524	280 697
Net default loans and advances to customers (limited to zero)	**–**	**–**
Ratios:		
Total impairments as a % of gross core loans and advances to customers	1.80%	2.60%
Total impairments as a % of gross default loans	45.61%	47.10%
Gross defaults as a % of gross core loans and advances to customers	3.95%	5.52%
Defaults (net of impairments) as a % of net core loans and advances to customers	2.19%	3.00%
Net defaults as a % of net core loans and advances to customers	–	–
Credit loss ratio (i.e. income statement impairment charge on core loans as a % of average gross core loans and advances)	1.13%	1.16%

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

At 31 March £'000	2016	2015
Default loans that are current	138 988	176 913
1 – 60 days	80 758	119 496
61 – 90 days	16 118	2 249
91 – 180 days	43 284	7 639
181 – 365 days	22 539	45 758
> 365 days	83 510	164 104
Total past due and default core loans and advances to customers (actual capital exposure)	**385 197**	**516 159**
1 – 60 days	3 062	5 796
61 – 90 days	210	172
91 – 180 days	3 277	2 566
181 – 365 days	7 859	4 742
> 365 days	74 064	156 328
Total past due and default core loans and advances to customers (actual amount in arrears)	**88 472**	**169 604**

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 2016							
Watchlist loans neither past due nor impaired							
Total capital exposure	29 639	–	–	–	–	–	29 639
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	71 106	526	16 210	1 139	10 402	99 383
Amount in arrears	–	2 994	49	1 333	171	7 847	12 394
Gross core loans and advances to customers that are impaired							
Total capital exposure	109 349	9 652	15 592	27 074	21 400	73 108	256 175
Amount in arrears	–	68	161	1 944	7 688	66 217	76 078
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

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

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	**–**	**65 909**	**–**	**–**	**–**	**–**	**65 909**
Special mention	**–**	**4 828**	**526**	**–**	**–**	**–**	**5 354**
Special mention (1 – 90 days)	–	4 828	–	–	–	–	4 828
Special mention (61 – 90 days and item well secured)	–	–	526	–	–	–	526
Default	**138 988**	**10 021**	**15 592**	**43 284**	**22 539**	**83 510**	**313 934**
Sub-standard	72 254	369	3 828	23 327	6 361	58 079	164 218
Doubtful	65 328	9 652	11 755	18 950	15 413	4 352	125 450
Loss	1 406	–	9	1 007	765	21 079	24 266
Total	**138 988**	**80 758**	**16 118**	**43 284**	**22 539**	**83 510**	**385 197**

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

£'000	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	**–**	**2 988**	**–**	**–**	**–**	**–**	**2 988**
Special mention	**–**	**6**	**49**	**–**	**–**	**–**	**55**
Special mention (1 – 90 days)	–	6	–	–	–	–	6
Special mention (61 – 90 days and item well secured)	–	–	49	–	–	–	49
Default	**–**	**68**	**161**	**3 277**	**7 859**	**74 064**	**85 429**
Sub-standard	–	1	39	1 383	3 343	48 662	53 428
Doubtful	–	67	114	887	3 751	4 352	9 171
Loss	–	–	8	1 007	765	21 050	22 830
Total	**–**	**3 062**	**210**	**3 277**	**7 859**	**74 064**	**88 472**

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 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 2016								
Current core loans and advances	7 561 596	–	–	7 561 596	–	(21 400)	7 540 196	–
Past due (1 – 60 days)	–	65 909	–	65 909	–	–	65 909	2 988
Special mention	–	5 354	–	5 354	–	–	5 354	55
Special mention (1 – 90 days)	–	4 828	–	4 828	–	–	4 828	6
Special mention (61 – 90 days and item well secured)	–	526	–	526	–	–	526	49
Default	29 639	28 120	256 175	313 934	(121 791)	–	192 143	85 429
Sub-standard	29 639	28 120	106 459	164 218	(32 379)	–	131 839	53 428
Doubtful	–	–	125 450	125 450	(69 827)	–	55 623	9 171
Loss	–	–	24 266	24 266	(19 585)	–	4 681	22 830
Total	7 591 235	99 383	256 175	7 946 793	(121 791)	(21 400)	7 803 602	88 472
At 31 March 2015								
Current core loans and advances	6 733 402	–	–	6 733 402	–	(34 182)	6 699 220	–
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	6 760 187	146 428	342 946	7 249 561	(154 262)	(34 182)	7 061 117	169 604

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

£'000	Private client, professional and high net worth individuals	Corporate sector	Insurance, financial services (excluding sovereign)	Public and government sector (including central banks)	Trade finance and other	Total core loans and advances to customers
At 31 March 2016						
Current core loans and advances	**3 296 034**	**3 140 362**	**971 565**	**131 448**	**22 187**	**7 561 596**
Past due (1 – 60 days)	**53 707**	**10 833**	**41**	**1 299**	**29**	**65 909**
Special mention	**4 995**	**211**	**2**	**146**	**–**	**5 354**
Special mention (1 – 90 days)	4 828	–	–	–	–	4 828
Special mention (61 – 90 days and item well secured)	167	211	2	146	–	526
Default	**283 815**	**27 930**	**165**	**2 024**	**–**	**313 934**
Sub-standard	144 030	18 786	2	1 400	–	164 218
Doubtful	118 168	6 910	122	250	–	125 450
Loss	21 617	2 234	41	374	–	24 266
Total gross core loans and advances to customers	**3 638 551**	**3 179 336**	**971 773**	**134 917**	**22 216**	**7 946 793**
Total impairments	**(128 224)**	**(14 357)**	**(102)**	**(508)**	**–**	**(143 191)**
Specific impairments	(106 824)	(14 357)	(102)	(508)	–	(121 791)
Portfolio impairments	(21 400)	–	–	–	–	(21 400)
Net core loans and advances to customers	**3 510 327**	**3 164 979**	**971 671**	**134 409**	**22 216**	**7 803 602**
At 31 March 2015						
Current core loans and advances	**3 036 989**	**2 753 200**	**732 432**	**185 425**	**25 356**	**6 733 402**
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	**3 521 542**	**2 782 867**	**732 676**	**187 120**	**25 356**	**7 249 561**
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	**3 341 861**	**2 774 739**	**732 526**	**186 635**	**25 356**	**7 061 117**

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

£'000	Gross core loans	Gross defaults	Aggregate collateral and other credit enhancements on defaults	Balance sheet impairments	Income statement impairments^
Lending collateralised by property	**2 179 999**	**264 283**	**168 722**	**(101 064)**	**(75 732)**
Commercial real estate	**1 314 745**	**108 746**	**64 068**	**(45 030)**	**(32 441)**
Commercial real estate – investment	1 096 376	61 090	43 958	(17 151)	(21 155)
Commercial real estate – development	109 086	11 138	3 647	(7 491)	(634)
Commercial vacant land and planning	109 283	36 518	16 463	(20 388)	(10 652)
Residential real estate	**865 254**	**155 537**	**104 654**	**(56 034)**	**(43 291)**
Residential real estate – investment	298 740	72 449	55 151	(20 907)	(13 353)
Residential real estate – development	516 352	56 651	30 390	(26 854)	(24 747)
Residential vacant land and planning	50 162	26 437	19 113	(8 273)	(5 191)
High net worth and other private client lending	**1 458 552**	**19 532**	**18 650**	**(5 760)**	**(8 194)**
Mortgages	1 146 241	4 307	7 489	(600)	(49)
High net worth and specialised lending	312 311	15 225	11 161	(5 160)	(8 145)
Corporate and other lending	**4 308 242**	**30 119**	**15 152**	**(14 967)**	**(14 810)**
Acquisition finance	899 190	–	–	–	(1 284)
Asset-based lending	296 389	–	–	–	–
Fund finance	673 379	–	–	–	–
Other corporates and financial institutions and governments	766 815	–	–	–	–
Asset finance	1 205 400	11 891	5 961	(5 930)	(4 223)
Small ticket asset finance	932 865	11 891	5 961	(5 930)	(4 223)
Large ticket asset finance	272 535	–	–	–	–
Project finance	449 266	3 708	3 708	–	(2 699)
Resource finance	17 803	14 520	5 483	(9 037)	(6 604)
Portfolio impairments				**(21 400)**	**12 782**
Total	**7 946 793**	**313 934**	**202 524**	**(143 191)**	**(85 954)**

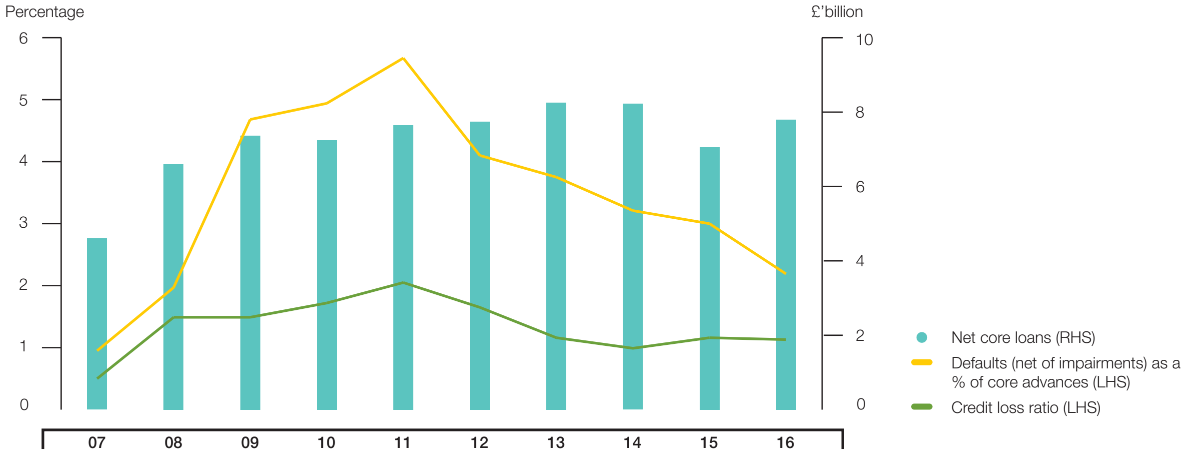
^ *Where a positive number represents a recovery or a provision released.*

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	**1 203 489**	**30 113**	**29 012**	**(11 048)**	**(10 529)**
Mortgages	952 617	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	**3 728 019**	**26 772**	**18 009**	**(8 763)**	**(11 821)**
Acquisition finance	731 195	–	–	–	1 231
Asset-based lending	241 859	–	–	–	–
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	**7 249 561**	**400 114**	**280 697**	**(188 444)**	**(90 709)**

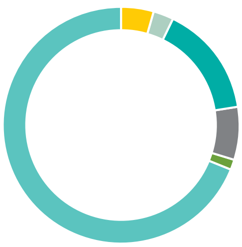
^ *Where a positive number represents a recovery or a provision released.*

ASSET QUALITY TRENDS



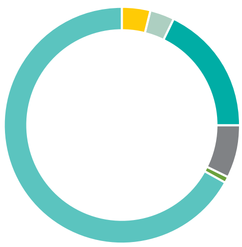
Additional information

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



31 March 2016
£7 947 million

4.6%	Asia
2.7%	Australia
15.2%	Europe (excluding UK)
7.4%	North America
1.4%	Other
68.7%	United Kingdom



31 March 2015
£7 250 million

3.9%	Asia
3.4%	Australia
17.7%	Europe (excluding UK)
7.4%	North America
0.9%	Other
66.7%	United Kingdom

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 2016			
Eligible financial collateral	**313 156**	**399 786**	**712 942**
Listed shares	242 551	76 126	318 677
Cash	70 605	109 180	179 785
Debt securities issued by sovereigns	–	214 480	214 480
Property charge	**4 940 344**	**209 478**	**5 149 822**
Residential mortgages	2 457 252	209 478	2 666 730
Residential development	780 534	–	780 534
Commercial property developments	187 484	–	187 484
Commercial property investments	1 515 074	–	1 515 074
Other collateral	**4 269 427**	**135 508**	**4 404 935**
Unlisted shares	682 021	–	682 021
Charges other than property	34 404	135 508	169 912
Debtors, stock and other corporate assets	2 727 354	–	2 727 354
Guarantees	650 988	–	650 988
Other	174 660	–	174 660
Total collateral	**9 522 927**	**744 772**	**10 267 699**
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 mortgages	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	**4 064 743**	**729 614**	**4 794 357**
Unlisted shares	486 524	–	486 524
Charges other than property	50 423	729 614	780 037
Debtors, stock and other corporate assets	2 353 919	–	2 353 919
Guarantees	762 092	–	762 092
Other	411 785	–	411 785
Total collateral	**8 845 673**	**1 504 303**	**10 349 976**

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

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

Investment risk in the banking book

INVESTMENT RISK DESCRIPTION

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

- **Principal Investments:** investments are selected based on the track record of management, the attractiveness of the industry and the ability to build value for the existing business by implementing an agreed strategy. Investments in listed shares may arise on the IPO of one of our investments. Additionally, listed investments may be considered where we believe that the market is mispricing the value of the underlying security or where there is an opportunity to stimulate corporate activity.
- **Lending transactions:** the manner in which we structure certain transactions results in equity, warrant and profit shares being held, predominantly within unlisted companies.
- **Property activities:** we source development, investment and trading opportunities to create value and trade for profit within agreed risk parameters.

MANAGEMENT OF INVESTMENT RISK

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

Nature of investment risk	Management of risk
Listed equities	Investment committee, market risk management and ERRF
Investment Banking principal investments	Investment committee and ERRF
Embedded derivatives, profit shares and investments arising from lending transactions	Credit risk management committees and ERRF
Investment and trading properties	Investment committee and ERRF
Central Funding investments	Investment committee and ERRF

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

VALUATION AND ACCOUNTING METHODOLOGIES

For a description of our valuation principles and methodologies refer to pages 160 to 164 and pages 184 to 196 for factors taken into consideration in determining fair value.

We have a low level of assets exposed to the volatility of IFRS fair value accounting with level 3 assets amounting to 3.6% of total assets.

Refer to page 185 for further information.

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

£'000 Category	Income/(loss) (pre-funding costs) Unrealised*	Realised*	Dividends	Total	Fair value through equity
For the year to 31 March 2016					
Unlisted investments	15 674	14 099	15 419	45 192	12
Listed equities	2 340	(7 249)	–	(4 909)	1 499
Investment and trading properties	(3 145)	2 364	–	(781)	–
Warrants, profit shares and other embedded derivatives	(2 452)	3 469	–	1 017	–
Total	**12 417**	**12 683**	**15 419**	**40 519**	**1 511**
For the year to 31 March 2015					
Unlisted investments	(25 673)	60 017	5 106	39 450	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	**(68 186)**	**65 749**	**5 878**	**3 441**	**1 134**

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

Unrealised revaluation gains, recognised in the profit and loss account, are included in common equity tier 1 capital. In line with Capital Requirements Regulation, for the year ended 31 March 2016, Investec plc did not recognise equity revaluation gains directly to equity, in regulatory capital.

SUMMARY OF INVESTMENTS HELD AND STRESS TESTING ANALYSES

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

£'000 Category	On-balance sheet value of investments 31 March 2016	Valuation change stress test 31 March 2016*	On-balance sheet value of investments 31 March 2015	Valuation change stress test 31 March 2015*
Unlisted investments	363 060	54 459	287 821	43 173
Listed equities	87 940	21 985	113 120	28 280
Total investment portfolio	**451 000**	**76 444**	**400 941**	**71 453**
Investment and trading properties	183 073	28 709	191 499	31 726
Warrants, profit shares and other embedded derivatives	32 902	11 516	36 111	12 639
Total	**666 975**	**116 669**	**628 551**	**115 818**

* *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

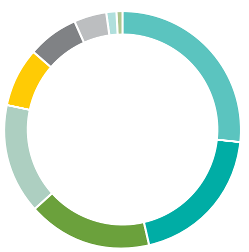
Based on the information at 31 March 2016, as reflected above, we could have a £117 million reversal in revenue (which assumes a year in which there is a 'severe stress scenario' simultaneously across all asset classes). This would not cause the group to report a loss but could have a significantly negative 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 plc, unlisted and listed equities within the banking book are considered in the calculation of capital required for credit risk.

Refer to page 115 for further detail.

AN ANALYSIS OF THE INVESTMENT PORTFOLIO, WARRANTS, PROFIT SHARES AND OTHER EMBEDDED DERIVATIVES BY INDUSTRY OF EXPOSURE



31 March 2016
£484 million

- 26.9% Manufacturing and commerce
- 19.6% Finance and insurance
- 17.1% Real estate
- 14.8% Transport
- 8.1% Retailer and wholesalers
- 7.1% Mining and resources
- 4.3% Communication
- 1.5% Business services
- 0.6% Other

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 61 for the balance sheet and credit risk classification.

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

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

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

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

For regulatory purposes, structured entities are not consolidated where significant risk in the structured entities has been transferred to third parties. The positions we continue to hold in these securitisations will be either risk-weighted and/or deducted from capital.

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

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

ACCOUNTING POLICIES

Refer to page 161.

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 2016 £'million	Exposure 2015 £'million	Balance sheet and credit risk classification
Structured credit (gross exposure)*	355	350	Other debt securities and other loans and advances
Rated	343	317	
Unrated	12	33	
Loans and advances to customers and third party intermediary originating platforms (mortgage loans) (with the potential to be securitised) (net exposure)	154	170	Other loans and advances

* Analysed further below.

*Analysis of rated and unrated structured credit

At 31 March £'million	2016 Rated**	2016 Unrated	2016 Total	2015 Rated**	2015 Unrated	2015 Total
US corporate loans	152	–	152	116	–	116
UK and European RMBS	151	12	163	153	29	182
UK and European CMBS	–	–	–	6	4	10
UK and European corporate loans	40	–	40	42	–	42
Total	**343**	**12**	**355**	**317**	**33**	**350**

**A further analysis of rated structured credit at 31 March 2016

£'million	AAA	AA	A	BBB	BB	B	C and below	Total
US corporate loans	92	25	35	–	–	–	–	152
UK and European RMBS	40	84	20	5	–	2	–	151
UK and European corporate loans	16	13	10	1	–	–	–	40
Total at 31 March 2016	**148**	**122**	**65**	**6**	**–**	**2**	**–**	**343**
Total at 31 March 2015	**64**	**138**	**56**	**36**	**1**	**–**	**22**	**317**

The information provided below is provided for Investec plc in terms of regulatory definitions and requirements.

Aggregate amount of securitisation positions retained or purchased

At 31 March 2016 £'million	Banking book Retained^^	 Purchased^	 Total
Exposure type			
Residential mortgages	–	143	143
Commercial mortgages	–	4	4
Loans to corporates	–	203	203
Resecuritisation	–	3	3
	–	**353**	**353**

Aggregate amount of securitisation positions retained or purchased

At 31 March 2015 £'million	Banking book Retained^^	 Purchased^	 Total
Exposure type			
Residential mortgages	14	144	158
Commercial mortgages	–	7	7
Loans to corporates	–	154	154
Resecuritisation	–	3	3
	14	**308**	**322**

^ *Purchased positions include positions we hold as sponsor or investor.*
^^ *Retained positions include positions we have retained in securitisations we have originated.*

Securitisation positions retained or purchased by risk-weight bands

	Exposure values		Capital requirement	
	Banking book		Banking book	
At 31 March 2016 £'million	**Retained^^**	**Purchased^**	**Retained^^**	**Purchased^**
Risk-weight band				
Greater than 0% and less than or equal to 40%	–	265	–	4
Greater than 40% but less than or equal to 100%	–	84	–	5
Greater than 100% but less than and equal to 225%	–	–	–	–
Greater than 225% but less than and equal to 350%	–	–	–	–
Greater than 350% but less than and equal to 650%	–	–	–	–
Greater than 650% but less than 1 250%	–	–	–	–
Greater than 1 250%/deduction	–	4	–	–
	–	**353**	**–**	**9**

Securitisation positions retained or purchased by risk-weight bands

	Exposure values		Capital requirement	
	Banking book		Banking book	
At 31 March 2015 £'million	**Retained^^**	**Purchased^**	**Retained^^**	**Purchased^**
Risk-weight band				
Greater than 0% and less than or equal to 40%	14	180	–	3
Greater than 40% but less than or equal to 100%	–	123	–	8
Greater than 100% but less than and equal to 225%	–	–	–	–
Greater than 225% but less than and equal to 350%	–	1	–	–
Greater than 350% but less than and equal to 650%	–	–	–	–
Greater than 650% but less than 1 250%	–	–	–	–
Greater than 1 250%/deduction	–	4	–	4
	14	**308**	**–**	**15**

^ *Purchased positions include positions we hold as sponsor or investor.*
^^ *Retained positions include positions we have retained in securitisations we have originated.*

No further disclosure is provided for deductions due to the materiality of the numbers.

Market risk in the trading book

TRADED MARKET RISK DESCRIPTION

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

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

TRADED MARKET RISK GOVERNANCE STRUCTURE

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

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

MANAGEMENT AND MEASUREMENT OF TRADED MARKET RISK

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

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

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

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

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

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

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

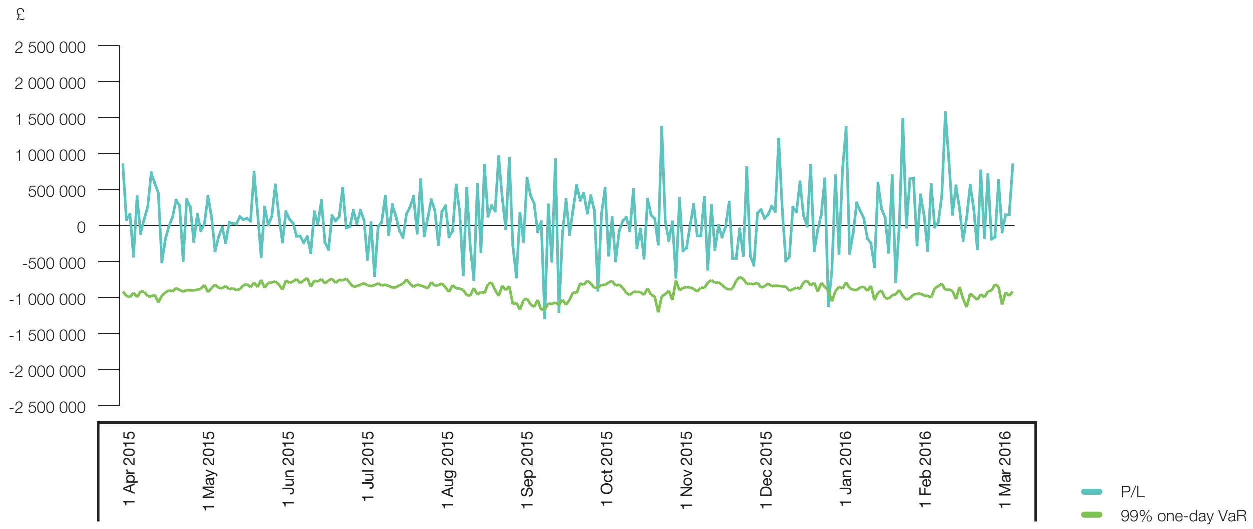
VaR

£'000	31 March 2016 Year end	Average	High	Low	31 March 2015 Year end	Average	High	Low
(Using 95% VaR)								
Equities	515	557	699	412	524	573	825	436
Foreign exchange	37	32	101	12	23	20	64	1
Interest rates	202	195	505	128	495	300	536	197
Consolidated*	**529**	**589**	**723**	**488**	**691**	**617**	**921**	**475**

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

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

99% ONE-DAY VaR BACKTESTING



ETL

95% (one-day) £'000	31 March 2016	31 March 2015
Equities	662	663
Foreign exchange	53	34
Interest rates	257	717
Consolidated*	**783**	**874**

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

STRESS TESTING

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

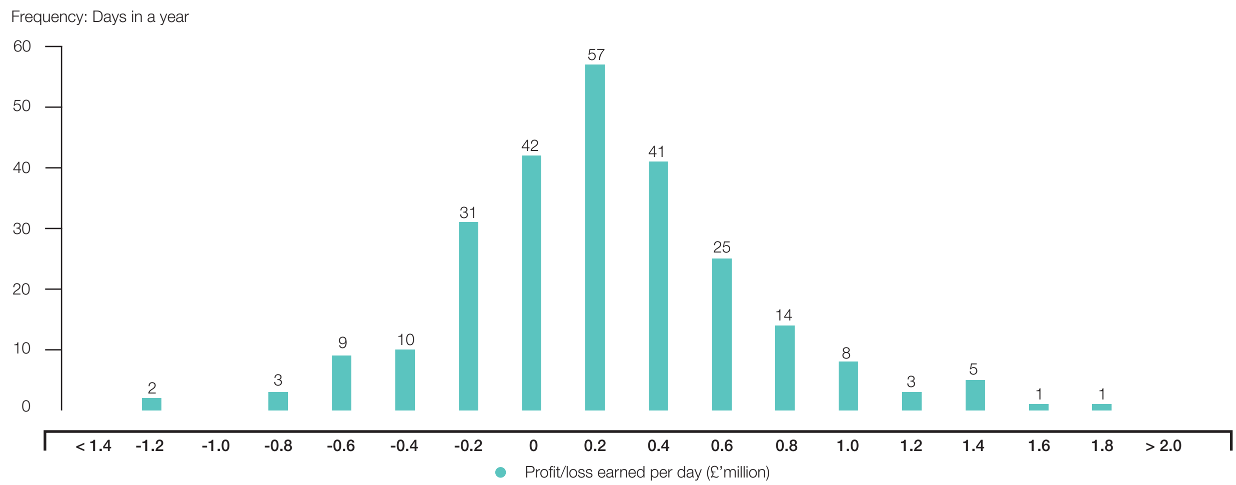
£'000	31 March 2016 Year end	31 March 2016 Average	31 March 2016 High	31 March 2016 Low	31 March 2015 Year end
(Using 99% EVT)					
Equities	1 549	1 305	2 275	761	1 658
Foreign exchange	122	80	221	31	102
Interest rates	470	438	1 312	225	1 676
Consolidated**	**1 772**	**1 349**	**2 222**	**827**	**1 413**

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

PROFIT AND LOSS HISTOGRAM

The histogram below illustrates the distribution of revenue during the financial year for our trading businesses. The distribution is skewed to the profit side and the graph shows that positive trading revenue was realised 155 days out of a total of 252 days in the trading business. The average daily trading revenue generated for the year to 31 March 2016 was £124 250 (2015: £162 486).

PROFIT AND LOSS



TRADED MARKET RISK MITIGATION

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

Risk limits are set according to guidelines set out in our risk appetite policy and are set on a statistical and non-statistical basis. Statistical limits include VaR and ETL. Full revaluation historical simulation VaR is used over a two-year historical period based on an unweighted time series. Every risk factor is exposed to daily moves with proxies only used when no or limited price history is available, and the resultant one-day VaR is scaled up to a 10-day VaR using the square root of time rule for regulatory purposes. Daily moves are based on both absolute and relative returns as appropriate for the different types of risk factors. Time series data used to calculate these moves is updated monthly at a minimum, or more frequently if necessary. Stressed VaR is calculated in the same way based on a one-year historical period of extreme volatility. The sVaR period used is mid-2008 to mid-2009, which relates to high levels of volatility in all markets in which the business holds trading position, during the financial crisis.

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

TRADED MARKET RISK YEAR IN REVIEW

Risk software was changed to be fully integrated with trading systems, while independence is maintained through independent validation of all valuation models.

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

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 199.

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

Balance sheet risk management

BALANCE SHEET RISK DESCRIPTION

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

BALANCE SHEET RISK GOVERNANCE STRUCTURE AND RISK MITIGATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

LIQUIDITY RISK

Liquidity risk description

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

Liquidity risk is further broken down into:

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

Sources of liquidity risk include:

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

Management and measurement of liquidity risk

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

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

- The group complies with the BCBS principles for sound liquidity risk management and supervision
- The group has committed itself to implementation of the updated BCBS guidelines for liquidity risk measurement, standards and monitoring as phased in from 2015
- Our liquidity management processes encompass principles set out by the regulatory authorities in each jurisdiction, namely the PRA, EBA, Guernsey Financial Services and Swiss Financial Supervisory Authority
- The risk appetite is clearly defined by the board and each geographic entity must have its own board-approved policies with respect to liquidity risk management
- In terms of regulatory requirements and the group's liquidity policy, Investec plc (and its subsidiaries) are ring-fenced from Investec Limited (and its subsidiaries) (and *vice versa*) and both legal entities are therefore required to be self-funded
- We maintain a liquidity buffer in the form of unencumbered cash, government or rated securities (typically eligible for repurchase with the central bank), and near cash well in excess of the statutory requirements as protection against unexpected disruptions in cash flows
- Funding is diversified with respect to currency, term, product, client type and counterparty to ensure a satisfactory overall funding mix
- We monitor and evaluate each banking entity's maturity ladder and funding gap (cash flow maturity mismatch) on a 'liquidation', 'going concern' and 'stress' basis
- Daily liquidity stress tests are carried out to measure and manage the liquidity position such that payment obligations can be met under a wide range of normal and unlikely but plausible stressed scenarios, in which the rate and timing of deposit withdrawals and drawdowns on lending facilities are varied, and the ability to access funding and to generate funds from asset portfolios is restricted. The objective is to have sufficient liquidity, in an acute stress, to continue to operate for a minimum period as detailed in the board-approved risk appetite
- Our liquidity risk parameters reflect a collection of liquidity stress assumptions which are reviewed regularly and updated as needed. These stress factors go well beyond our experience during the height of the recent financial crisis
- We further carry out reverse stress tests to identify business model vulnerabilities which tests 'tail risks' that can be missed in normal stress tests. The group has calculated the severity of stress required to breach the liquidity requirements
- The balance sheet risk management team independently monitors key daily funding metrics and liquidity ratios to assess potential risks to the liquidity position, which further act as early warning indicators of potential normal market disruption
- The group centrally manages access to funds in both domestic and offshore markets through the Corporate and Institutional Banking division
- The maintenance of sustainable prudent liquidity resources takes precedence over profitability
- Each major banking entity maintains an internal funds transfer pricing system based on prevailing market rates.

The treasury function charges out the price of long- and short-term funding to internal consumers of liquidity, which ensures that the costs, benefits, and risks of liquidity are clearly and transparently attributed to business lines and are understood by business line management. The funds transfer pricing methodology is designed to signal the right incentive to our lending business

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

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

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

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

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

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

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

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

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

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

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

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

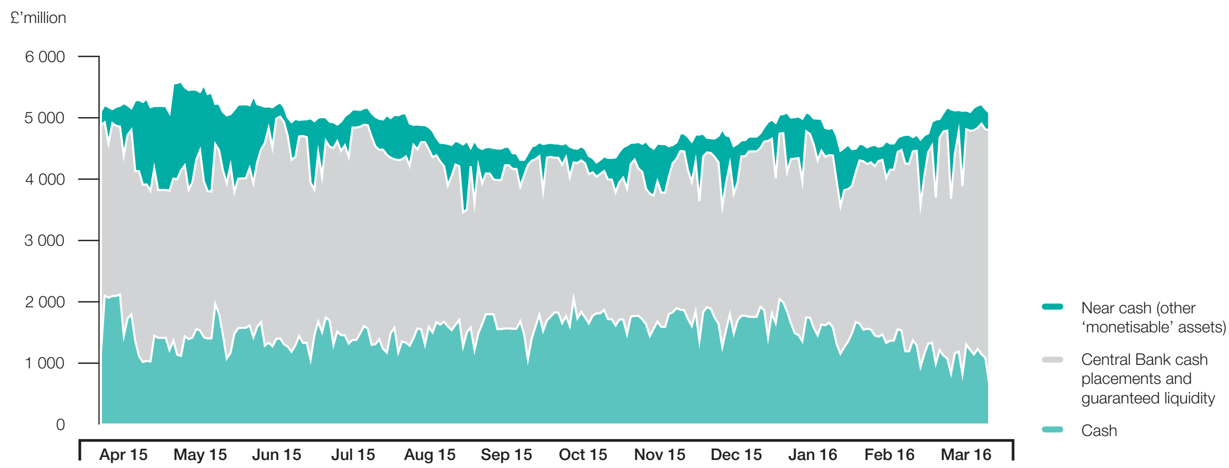
From 1 April 2015 to 31 March 2016 average cash and near cash balances over the period amounted to £4.9 billion.

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

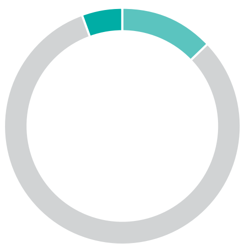
The liquidity contingency plans outline extensive early warning indicators, clear lines of communication and decisive crisis response strategies. Early warning indicators span bank-specific and systemic crises. Rapid response strategies address action plans, roles and responsibilities, composition of decision-making bodies involved in liquidity crisis management, internal and external communications including public relations, sources of liquidity, avenues available to access additional liquidity, as well as supplementary information requirements required to manage liquidity during such an event.

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

CASH AND NEAR CASH TREND



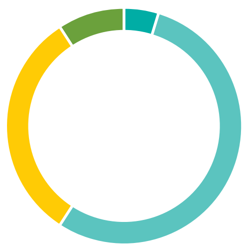
AN ANALYSIS OF CASH AND NEAR CASH AT 31 MARCH 2016



£5 082 million

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

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



£11 353 million

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

The liquidity position of the bank remained sound with total cash and near cash balances amounting to £5.1 billion

Liquidity mismatch

The table that follows shows our contractual liquidity mismatch.

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

The table reflects that loans and advances to customers are 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 2016

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

Behavioural liquidity

As discussed on page 92.

£'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	**4 847**	**(780)**	**488**	**(1 382)**	**(9)**	**(3 000)**	**(164)**	**–**
Cumulative	4 847	4 067	4 555	3 173	3 164	164	–	–

BALANCE SHEET RISK YEAR IN REVIEW

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

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

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

Both Investec Bank plc and Investec plc received ratings upgrades during the year. Moody's upgraded Investec Bank plc's long-term deposit rating first in June 2015 to A3 from Baa3, then again in February 2016 to A2 (stable outlook). Investec plc's long-term issuer rating was also upgraded by Moody's, from Ba1 to Baa3 in June 2015, to Baa2 in February 2016, and then to Baa1 on 26 April 2016. In October 2015, Investec Bank plc's long-term default rating was upgraded by Fitch to BBB (stable outlook) from BBB-.

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

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

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

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

REGULATORY CONSIDERATIONS – BALANCE SHEET RISK

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

Two key liquidity measures were defined:

- The liquidity coverage ratio (LCR) is designed to promote short-term resilience of one-month liquidity profile, by ensuring that banks have sufficient high quality liquid assets to meet potential outflows in a stressed environment. The BCBS published the final calibration of the LCR in January 2013. The LCR ratio is being phased in from 2015 to 2019.
- The net stable funding ratio (NSFR) is designed to capture structural issues over a longer time horizon by requiring banks to have a sustainable maturity structure of assets and liabilities. The BCBS published the final consultation document on the NSFR in October 2014. The NSFR ratio will be introduced in 2018.

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

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

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

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
- Treasury is the primary interface to the wholesale market
- The treasurer is required to exercise tight control of funding, liquidity, concentration and non-trading interest rate risk within parameters defined by the risk appetite policy
- Internal capital is allocated for non-trading interest rate risk
- The risk appetite is clearly defined by the board in relation to both earnings risk and economic value risk. In addition, each geographic entity has its own board-approved policies with respect to non-trading interest rate risk
- The non-trading interest rate risk policy dictates that long-term non-trading interest rate risk is materially eliminated. In accordance with the policy, interest rate swaps are used to swap fixed deposits and loans into variable rate in the wholesale market
- Together with the business, the treasurer develops strategies regarding changes in the volume, composition, pricing and interest rate characteristics of assets and liabilities to mitigate the interest rate risk and ensure a high degree of net interest margin stability over an interest rate cycle. These are presented, debated and challenged in the liability product and pricing forum and ALCO
- It is the responsibility of the liability product and pricing forum, a sub-committee of ALCO, to review the liquidity, interest rate and concentration characteristics of all new products and approve their issuance, ensuring that both standard and non-standard deposit products, particularly those designed for the Private Banking customers, both match market curves and can be hedged if necessary
- Pricing for all deposit products is set centrally. In doing so we manage access to funding at cost-effective levels, considering also the stressed liquidity value of the liabilities
- Balance Sheet Risk Management independently measures and analyses both traditional interest rate repricing mismatch and net present value (NPV) sensitivity to changes in interest rate risk factors, detailing the sources of interest rate exposure
- The bank maintains an internal funds transfer pricing system based on prevailing market rates which charges out the price of long- and short-term funding to consumers of liquidity and provides long-term stable funding for our asset creation activity
- Daily management of interest rate risk is centralised within Treasury and is subject to independent risk and ALCO review
- Non-trading interest rate risk is measured and analysed by utilising standard tools of traditional interest rate repricing mismatch and NPV sensitivity to changes in interest rate risk factors. We detail the sources of interest rate exposure, whether repricing risk, yield curve risk, basis risk or embedded option risk. This is performed for a variety of interest rate scenarios, covering:
  - Interest rate expectations and perceived risks to the central view
  - Standard shocks to levels and shapes of interest rates and yield curves
  - Historically-based yield curve changes.

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

- The aim is to protect and enhance net interest income and economic value in accordance with the board-approved risk appetite and ensure a high degree of net interest margin stability over an interest rate cycle. Economic value measures have the advantage that all future cash flows are considered and therefore can highlight risk beyond the earnings horizon. The repricing gap provides a basic representation of the balance sheet, with the sensitivity of earnings to changes to interest rates calculated off the repricing gap. This allows for the detection of interest rate risk by concentration of repricing buckets. Net interest income sensitivity measures the change in accruals expected over the specified horizon in response to a shift in the yield curve, while economic value sensitivity and stress testing to macro-economic movement or changes to the yield curve measures the interest risk implicit change in net worth as a result of a change in interest rates on the current values of financial assets and liabilities
- We carry out technical interest rate analysis and economic review of fundamental developments by geography, the results of this evaluation are used to estimate a set of forward-looking interest rate scenarios incorporating movements in the yield curve level and shape, after taking global trends into account
- These combinations of measures provide senior management (and the ALCOs) with an assessment of the financial impact of identified rate changes on potential future net interest income and sensitivity to changes in economic value
- Our risk appetite policy requires that interest rate risk arising from fixed interest loans is transferred from the originating business to the Central Treasury function by match-funding. In turn, Central Treasury hedges material fixed rate assets with a term of more than one year on a deal-by-deal basis with the use of variable versus fixed interest rate swaps. The market for these vanilla swaps is deep, with the result that such hedging is efficient. Likewise, Central Treasury also hedges all fixed rate deposits with a term of more than one year to variable rate. These derivative hedging trades are executed with the bank's interest rate trading desk. Limits exist to ensure there is no undesired risk retained within any business or product area.

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

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

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

Interest rate sensitivity gap

The table below shows our non-trading interest rate mismatch at 31 March 2016. These exposures affect the interest rate margin realised between lending income and borrowing costs assuming no management intervention.

£'million	Not > three months	> Three months but < six months	> Six months but < one year	> One year but < five years	> Five years	Non-rate	Total non-trading
Cash and short-term funds – banks	3 569	–	–	–	–	–	3 569
Investment/trading assets and statutory liquids	984	107	23	335	750	–	2 199
Securitised assets	151	–	–	–	–	–	151
Advances	6 300	611	263	688	359	–	8 221
Other assets	–	–	–	–	–	2 384	2 384
Assets	**11 004**	**718**	**286**	**1 023**	**1 109**	**2 384**	**16 524**
Deposits – banks	(488)	(12)	–	–	–	–	(500)
Deposits – non-banks	(8 467)	(786)	(959)	(596)	(1)	–	(10 809)
Negotiable paper	(172)	(34)	(10)	(488)	(586)	–	(1 290)
Securitised liabilities	(121)	–	–	–	–	–	(121)
Subordinated liabilities	(4)	–	(18)	–	(575)	–	(597)
Other liabilities	(52)	–	–	–	–	(1 274)	(1 326)
Liabilities	**(9 304)**	**(832)**	**(987)**	**(1 084)**	**(1 162)**	**(1 274)**	**(14 643)**
Shareholders' funds	**–**	**–**	**–**	**–**	**–**	**(1 881)**	**(1 881)**
Balance sheet	**1 700**	**(114)**	**(701)**	**(61)**	**(53)**	**(771)**	**–**
Off-balance sheet	**468**	**185**	**(114)**	**(95)**	**(444)**	**–**	**–**
Repricing gap	**2 168**	**71**	**(815)**	**(156)**	**(497)**	**(771)**	**–**
Cumulative repricing gap	**2 168**	**2 239**	**1 424**	**1 268**	**771**	**–**	

Economic value sensitivity at 31 March 2016

For the reasons outlined above, our preference for monitoring and measuring non-trading interest rate risk is economic value sensitivity. The 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	(59.4)	(8.2)	(12.5)	1.3	(6.3)	0.1	(74.5)
200bps up	55.0	8.8	17.3	(1.3)	6.3	(0.1)	69.8

Asset encumbrance

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

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

The group uses secured transactions to manage short-term cash and collateral needs. Details of assets pledged through repurchase activity and collateral pledges are reported by line item of the balance sheet on which they are reflected on page 222. Related liabilities are also reported.

On page 197 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.

The below asset encumbrance disclosures are based on the requirements set out in the Capital Requirements Regulation and the related guidelines issued by the European Banking Authority in June 2014.

Information on importance of encumbrance

Encumbered assets have been identified in accordance with the reporting requirements under European Capital Requirements Regulation (CRR). As at 31 March 2016, £1 925 million of the group's assets were encumbered. An asset is defined as encumbered if it has been pledged as collateral against an existing liability and as a result is no longer freely available to the group.

Assets

£'million		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
010**	**Assets of the reporting institution***	1 925	–	15 399	–
030**	Equity instruments	138	138	565	565
040**	Debt securities	684	684	1 778	1 778
120**	Other assets	575	–	1 126	–

Collateral received

£'million		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
130**	**Collateral received by the reporting institution***	227	1 356
150**	Equity instruments	–	101
160**	Debt securities	225	1 020
230**	Other collateral received	–	130
240**	**Own debt securities issued other than own covered bonds or ABSs**	–	–

Encumbered assets/collateral received and associated liabilities

£'million		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
010**	**Carrying amount of selected financial liabilities**	1 574	1 650

* *The above tables only include a subset of underlying product categories and therefore when aggregated may not agree back to the total line items indicated.*

** *The numerical row references included in the above tables reference the asset encumbrance reporting instructions specified in Annexure XVII of the Commission Implementing Regulation and can also be found in the European Banking Authority encumbrance disclosure guidelines which were published in June 2014.*

Operational risk

OPERATIONAL RISK DEFINITION

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

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

OPERATIONAL RISK MANAGEMENT FRAMEWORK

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

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

Practices consist of the following:

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

GOVERNANCE

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

ASSURANCE

BOARD AND BOARD COMMITTEES	EXTERNAL ASSURANCE AND SUPERVISION	INTERNAL ASSURANCE	INDEPENDENT OPERATIONAL RISK MANAGEMENT	BUSINESS UNIT MANAGEMENT
• Determination of the risk appetite and tolerance of the bank • Monitor and review operational risk exposures • Approval of the operational risk management framework.	• External assessment of operational risk environment • Onsite reviews by the FCA, PRA and other regulators.	• Independent review of framework and its effectiveness • Audit findings considered as part of the operational risk management process.	• Challenge and review business unit practices and data • Maintain operational risk management framework including policies and procedures • Report to board and board committees on operational risk events and current and emerging exposures.	• Identify, own and mitigate operational risk • Establish and maintain appropriate operational risk and control environment.

RELIANCE

RISK APPETITE AND TOLERANCE

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

LOOKING FORWARD

Key operational risk considerations

DEFINITION OF RISK	MITIGATION APPROACH	PRIORITY FOR 2016/17
CYBERSECURITY		
Risk associated with cyberattacks, including disruption of client-facing systems, data theft, cyber terrorism and espionage	• Maintaining a robust cybersecurity strategy focusing on prediction, detection, prevention and response • Sharing of threat information with relevant peers, law enforcement and industry bodies	• Active involvement of cybersecurity teams during systems development, ensuring applications are secure by design • Maintenance and testing of security incident breach response processes ensuring that these are consistent, coordinated and global in nature • Ongoing research into the latest cyberattack methods and revising controls to ensure the group is adequately protected
FINANCIAL CRIME		
Risk associated with fraud, bribery, corruption, theft, money laundering, terrorist financing, tax evasion, forgery and integrity misconduct by staff, clients, suppliers and other stakeholders	• Identify and assess financial crime risks holistically in clients, sectors and markets • Consistent implementation of standards to prevent, detect, deter and respond to all financial crime incidents • Targeted training for the specific risk roles and regular campaigns to all employees to raise awareness of financial crime risk and associated policies and to encourage escalation • Operate an integrity line which allows employees to make disclosures including regulatory breaches, allegations of bribery, fraud and corruption, and non-compliance with policies	• Proactive strategy for the effective prevention, detection and investigation measures of all financial crime types which includes business and client risk assessments • Development of financial crime prevention policies and practices which comply with regulations, industry guidance and best practices • Regular delivery of management information focused on key risk indicators • Review external and industry events by engaging with external partners and stakeholders • Increased and enhanced monitoring, analysis of root causes and review of internal controls to enhance defences against external attacks
INFORMATION SECURITY		
Risk associated with the confidentiality, integrity and availability of information assets. This includes its unauthorised access, use, disclosure, modification or destruction	• Understanding what critical information assets are and the threats to which they are exposed • Ensuring appropriate and robust security controls are in place • Raising awareness with relevant stakeholders of policies relating to information security and their responsibility in protecting information	• Identification and classification of most valuable and confidential information assets • Implementation and monitoring of information security policies, standards, processes and technical controls designed to mitigate the risks introduced by the information supply chain • Align practices with the rapidly changing legal and regulatory requirements to safeguard 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	• Proactive risk identification and assessment relating to new products and projects to implement adequate and effective controls • Continuous process improvements including automation of workflow • Segregation of incompatible duties and appropriate authorisation controls	• Causal analyses is used to identify weaknesses in controls following the occurrence of risk events • Risk and performance indicators are used to monitor the effectiveness of controls across business units • Thematic reviews across business units to ensure consistent and efficient applications of controls • Effective management of change remains a priority
REGULATORY AND COMPLIANCE		
Risk associated with identification, implementation and monitoring of compliance with regulations	• Alignment of regulatory and compliance approach to reflect new regulatory landscapes • Managing business impact and implemented challenges as a result of significant volumes of statutory and regulatory changes and developments • Ensuring existing monitoring remains focused appropriately as areas of conduct and regulatory risk develop	• Group Compliance and Group Legal assist in the management of regulatory and compliance risk • Identification and adherence to legal and regulatory requirements • Review practices and policies as regulatory requirements change
TECHNOLOGY		
Risk associated with the reliance on technology to support business processes and client services. This relates to the ownership and usage of IT systems across the business	• Enhancing resilience of technical infrastructure and process to IT failures or service interruptions • Identifying, monitoring and reducing risks in the digital channel, following the introduction of mobile applications and increased online presence	• Ongoing identification and remediation of vulnerabilities identified in IT systems, applications and processes • Establishing appropriate IT resilience to support our global digital offerings and 24/7 business services • Maintaining and testing IT recovery capabilities to safeguard against disruptions that may result from systems failures or IT service outages

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

Insurance

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

Business continuity management

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

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

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

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

Recovery and resolution planning

The recovery plan for Investec plc group:

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

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

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

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

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

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

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

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

Reputational and strategic risk

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

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

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

Pension risk

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

There are two defined benefit schemes within Investec plc and both are closed to new business. Pension risk arises if the net present value of future cash outflows is greater than the current value of the asset pool set aside to cover those payments.

Primary sources of risk include:

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

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

Further information is provided on pages 211 to 214.

Legal risk management

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

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

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

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

The legal risk policy is implemented through:

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

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

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

Conduct risk

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

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

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

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

Capital management and allocation

CAPITAL MEASUREMENT

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

The legal and regulatory treatment of capital is independent of existing shareholder arrangements that are in place to ensure that shareholders have common economic and voting interests as if Investec plc and Investec Limited were a single, unified enterprise. Investec Limited and Investec plc are separately regulated entities operating under different regulatory capital regimes. It is therefore difficult to directly compare the capital adequacy of the two entities.

REGULATORY CAPITAL

Current regulatory framework

Investec plc is authorised by the PRA and is regulated by the FCA and the PRA on a consolidated basis. Since 1 January 2014 Investec plc has been calculating capital resources and requirements at a group level using the Basel III framework, as implemented in the European Union through the Capital Requirements Directive IV (CRD IV). The group continues to phase in the remaining CRD IV rule changes, notably the grandfathering provisions applicable to non-qualifying capital instruments (reducing by 10% per annum until fully derecognised in 2022) and the transitional arrangements applicable to additional tier 1 and tier 2 capital which continue to be phased out at 20% per annum, until 1 January 2018.

From 1 January 2015, UK banks are required to meet the new minimum capital requirements as prescribed by CRD IV. The common equity tier 1 capital requirement increased from 4% to 4.5% of risk-weighted assets, while the tier 1 capital requirement increased from 5.5% to 6% of risk-weighted assets. In addition Investec Bank plc continues to meet 56% of its individual capital guidance, as determined by the internal capital adequacy assessment and supervisory review process, with common equity tier 1 capital. The PRA issued the Investec plc group with a reformatted Pillar IIA requirement of 1.8% of risk-weighted assets, of which 1.0% has to be met from common equity tier 1 capital.

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

In line with the CRD IV provision on capital buffers, in the UK firms are required to meet a combined buffer requirement in addition to their Pillar I and Pillar II capital requirements. The combined buffer includes the capital conservation buffer and countercyclical capital buffer and must be met with common equity tier 1 capital. The buffer for global systemically important institutions (G-SIIs) and the systemic risk buffer do not apply to Investec plc and will not be included in the combined buffer requirement. From 1 January 2016 Investec plc began phasing in the capital conservation buffer at 0.625% of risk-weighted assets. An additional 0.625% of risk-weighted assets will be phased-in each year until fully implemented by 1 January 2019. Investec plc is also subject to the countercyclical capital buffer requirement, which is calculated based on the relevant exposures held in jurisdictions in which a buffer rate has been set. As at 31 March 2016, three jurisdictions have implemented countercyclical buffer rates. Norway and Sweden have set a rate of 1% effective from 3 October 2015 and have indicated the rate will rise to 1.5% in June 2016; and Hong Kong has implemented a rate of 0.625% from 27 January 2016. This rate is also expected to rise to 1.25% from January 2017. In the UK, the Financial Policy Committee (FPC) has maintained the rate at 0% for UK exposures, but has announced that this rate will rise to 0.5% from 29 March 2017.

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

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

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

REGULATORY CONSIDERATIONS

The regulatory environment has continued to evolve during 2016, with a vast number of new consultations, regulatory and implementing technical standards and other proposals being published or adopted, notably by the PRA, the BCBS, and the European Banking Authority (EBA).

INTERNATIONAL

Credit Valuation Adjustment (CVA) risk

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

Simple, Transparent and Comparable (STC) securitisations

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

Credit risk

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

Market risk

In January 2016, the BCBS published the revised market risk framework which will take effect on 1 January 2019. The new framework revises the boundary between the banking book and trading book to reduce scope for arbitrage, provides a revised internal models approach and a revised standardised approach which will serve as a credible fall-back and floor to the model-based approach. Over the implementation period the committee will monitor the capital impact of the revised standard to ensure consistency in the overall calibration of the Basel capital framework.

Operational risk

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

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

UK

Leverage ratio

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

Minimum requirement for own funds and eligible liabilities (MREL)

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

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

Other systemically important institutions (O-SIIs)

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

EUROPE

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

CAPITAL AND LEVERAGE RATIO TARGETS

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

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

MANAGEMENT OF CAPITAL AND LEVERAGE

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

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

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

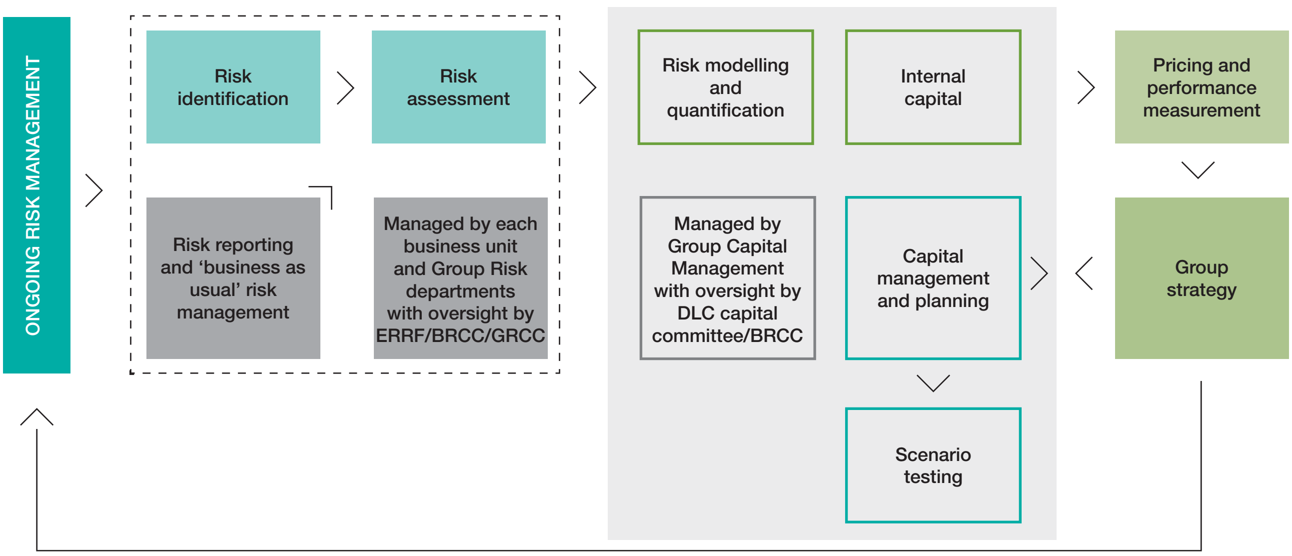
The leverage exposure measure is calculated on a monthly and quarterly basis and is presented to the DLC capital committee on a regular basis. The DLC capital committee are responsible for monitoring the risk of excessive leverage.

CAPITAL MANAGEMENT

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

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

THE (SIMPLIFIED) INTEGRATION OF RISK AND CAPITAL MANAGEMENT



At the most fundamental level, we seek to balance our capital consumption between prudent capitalisation in the context of the group's risk profile and optimisation of shareholder returns. Our internal capital framework is designed to manage and achieve this balance.

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

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

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

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

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

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

RISK ASSESSMENT AND REPORTING

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

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

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

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

RISK MODELLING AND QUANTIFICATION (INTERNAL CAPITAL)

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

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

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

CAPITAL PLANNING AND STRESS/SCENARIO TESTING

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

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

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

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

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

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

PRICING AND PERFORMANCE MEASUREMENT

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

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

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

ACCOUNTING AND REGULATORY TREATMENT OF GROUP SUBSIDIARIES

Investec plc and Investec Limited are the two listed holding companies in terms of the DLC structure. Investec Bank is the main banking subsidiary of Investec plc.

BASIS OF CONSOLIDATION

The regulatory basis of consolidation differs from the basis of consolidation used for financial reporting purposes. The financial accounting position of the group is reported under IFRS and is described on page 158 of the annual financial statements.

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

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

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

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

The table which follows reconciles the Investec 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 pages 113 and 114.

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

A detailed list of principal subsidiaries and associates included in the financial accounting scope of consolidation are disclosed on pages 228 to 231.

REGULATORY CAPITAL AND REQUIREMENTS

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

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

CAPITAL DISCLOSURES

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

RECONCILIATION OF THE FINANCIAL ACCOUNTING BALANCE SHEET TO THE REGULATORY SCOPE OF CONSOLIDATION

At 31 March 2016 £'million	Ref^	Accounting balance sheet	Deconsolidation of non-financial/ other entities	Consolidation of banking associates	Regulatory balance sheet
Cash and balances at central banks		2 638	–	–	2 638
Loans and advances to banks		1 112	(78)	6	1 040
Reverse repurchase agreements and cash collateral on securities borrowed		557	–	–	557
Sovereign debt securities		1 253	–	–	1 253
Bank debt securities		188	–	–	188
Other debt securities		394	–	–	394
Derivative financial instruments		838	–	–	838
Securities arising from trading activities		524	–	–	524
Investment portfolio		451	–	–	451
Loans and advances to customers		7 804	–	20	7 824
Other loans and advances		417	32	–	449
Other securitised assets		151	–	–	151
Capital invested in insurance and other entities		–	4	–	4
Interests in associated undertakings		24	–	(17)	7
Deferred taxation assets		85	–	1	86
of which:					
– relates to losses carried forward	a	8	–	–	8
– relates to temporary differences		35	–	–	35
Other assets		1 705	(15)	8	1 698
of which:					
– pension asset	b	46	–	–	46
Property and equipment		56	(20)	–	36
Investment property		79	–	–	79
Goodwill	c	357	–	6	363
Intangible assets	c	123	–	–	123
Total assets		**18 756**	**(77)**	**24**	**18 703**

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

RECONCILIATION OF THE FINANCIAL ACCOUNTING BALANCE SHEET TO THE REGULATORY SCOPE OF CONSOLIDATION *(continued)*

At 31 March 2016 £'million	Ref^	Accounting balance sheet	Decon-solidation of non-financial/ other entities	Consolidation of banking associates	Regulatory balance sheet
Deposits by banks		544	(75)	15	484
Derivative financial instruments		964	–	–	964
Other trading liabilities		227	–	–	227
Repurchase agreements and cash collateral on securities lent		281	–	–	281
Customer accounts (deposits)		10 809	99	–	10 908
Debt securities in issue		1 829	(104)	–	1 725
Liabilities arising on securitisation of other assets		121	26	–	147
Current taxation liabilities		141	–	–	141
Deferred taxation liabilities		34	(3)	–	31
of which:					
– in respect of acquired intangibles	c	21	–	–	21
– in respect of pension assets	b	8	–	–	8
Other liabilities		1 329	(1)	9	1 337
Subordinated liabilities		597	–	–	597
of which:					
– term subordinated debt included in tier 2 capital	d	597	–	–	597
Total liabilities		**16 876**	**(58)**	**24**	**16 842**
Shareholders' equity excluding non-controlling interests	e	1 867	(19)	–	1 848
of which:					
– perpetual preference shares included in additional tier 1 capital	f	130	–	–	130
– perpetual preference shares included in tier 2 capital	d	20	–	–	20
Non-controlling interests	g	13	–	–	13
of which:					
– preferred securities included in additional tier 1 capital	h	–	–	–	–
Total equity		**1 880**	**(19)**	**–**	**1 861**
Total liabilities and equity		**18 756**	**(77)**	**24**	**18 703**

^ *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**
Cash and balances at central banks		2 181	–	–	2 181
Loans and advances to banks		1 054	(33)	6	1 027
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		222	(1)	–	221
Derivative financial instruments		775	(3)	–	772
Securities arising from trading activities		670	–	–	670
Investment portfolio		401	5	–	406
Loans and advances to customers		7 061	–	13	7 074
Other loans and advances		555	(116)	–	439
Other securitised assets		412	(180)	–	232
Capital invested in insurance and other entities		–	6	–	6
Interests in associated undertakings		22	–	(17)	5
Deferred taxation assets		74	–	–	74
of which:					
– relates to losses carried forward	a	8	–	–	8
Other assets		1 336	(24)	12	1 324
of which:					
– pension asset	b	36	–	–	36
Property and equipment		63	(23)	–	40
Investment property		66	–	–	66
Goodwill	c	356	–	6	362
Intangible assets	c	137	–	–	137
Total assets		**18 272**	**(369)**	**20**	**17 923**

^ *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	Deconsolidation of non-financial/ other entities	Consolidation of banking associates	Regulatory balance sheet
Deposits by banks		222	(73)	7	156
Derivative financial instruments		953	–	–	953
Other trading liabilities		252	–	–	252
Repurchase agreements and cash collateral on securities lent		597	–	–	597
Customer accounts (deposits)		10 306	64	–	10 370
Debt securities in issue		1 352	(160)	–	1 192
Liabilities arising on securitisation of other assets		331	(134)	–	197
Current taxation liabilities		105	–	–	105
Deferred taxation liabilities		45	(11)	–	34
of which:					
– in respect of acquired intangibles	c	26	–	–	26
– in respect of pension assets	b	7	–	–	7
Other liabilities		1 438	10	13	1 461
Subordinated liabilities		597	–	–	597
of which:					
– term subordinated debt included in tier 2 capital	d	597	–	–	597
Total liabilities		**16 198**	**(304)**	**20**	**15 914**
Shareholders' equity excluding non-controlling interests	e	1 914	(65)	–	1 849
of which:					
– perpetual preference shares included in additional tier 1 capital	f	130	–	–	130
– perpetual preference shares included in tier 2 capital	d	20	–	–	20
Non-controlling interests	g	160	–	–	160
of which:					
– preferred securities included in additional tier 1 capital	h	144	–	–	144
Total equity		**2 074**	**(65)**	**–**	**2 009**
Total liabilities and equity		**18 272**	**(369)**	**20**	**17 923**

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

CAPITAL MANAGEMENT AND ALLOCATION

Capital structure and capital adequacy

Summary information on the terms and conditions of the main features of all capital instruments is provided on pages 215 to 220.

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

		31 March 2016		31 March 2015	
£'million	Ref^	Investec plc*°	IBP*°	Investec plc*°	IBP*°
Tier 1 capital					
Shareholders' equity		1 652	1 793	1 642	1 734
Shareholders' equity per balance sheet	e	1 867	1 844	1 914	1 800
Foreseeable dividends		(46)	(34)	(57)	(15)
Perpetual preference share capital and share premium	f; d	(150)	–	(150)	–
Deconsolidation of special purpose entities	e	(19)	(17)	(65)	(51)
Non-controlling interests		10	(1)	9	–
Non-controlling interests per balance sheet	g	13	(1)	160	1
Non-controlling interests transferred to tier 1	h	–	–	(144)	–
Non-controlling interests in deconsolidated entities		–	–	–	(1)
Surplus non-controlling interest disallowed in common equity tier 1		(3)	–	(7)	–
Regulatory adjustments to the accounting basis		(43)	(6)	(44)	(15)
Defined benefit pension fund adjustment	b	(37)	–	(29)	–
Additional value adjustments		(6)	(6)	(15)	(15)
Deductions		(478)	(386)	(485)	(394)
Goodwill and intangible assets net of deferred taxation	c	(466)	(374)	(473)	(382)
Deferred taxation assets that rely on future profitability excluding those arising from temporary differences	a	(8)	(8)	(8)	(8)
Securitisation positions		(4)	(4)	(4)	(4)
Common equity tier 1 capital		**1 141**	**1 400**	**1 122**	**1 325**
Additional tier 1 capital		**130**	**–**	**205**	**–**
Additional tier 1 instruments	f; h	130	–	274	–
Phase out of non-qualifying additional tier 1 instruments		–	–	(69)	–
Tier 1 capital		**1 271**	**1 400**	**1 327**	**1 325**

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

° *The capital adequacy disclosures for Investec plc and 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 2016 and 2015 integrated annual report, which follow our normal basis of presentation and do not include the deduction for foreseeable dividends when calculating common equity tier 1 capital. Investec plc and IBP's common equity tier 1 ratios would be 40bps (31 March 2015: 50bps) and 30bps (31 March 2015: 10bps) higher, respectively, on this basis.*

^ *The references refer to those in the reconciliation of the regulatory scope balance sheet set out on pages 109 to 112.*

CAPITAL MANAGEMENT AND ALLOCATION *(continued)*

Capital structure and capital adequacy *(continued)*

		31 March 2016		31 March 2015	
£'million	Ref^	**Investec plc***	**IBP***	**Investec plc***	**IBP***
Tier 2 capital		**535**	**590**	**556**	**590**
Tier 2 instruments	d	610	590	610	590
Phase out of non-qualifying tier 2 instruments		–	–	–	–
Non-qualifying surplus capital attributable to non-controlling interests		(75)	–	(54)	–
Total regulatory capital		**1 806**	**1 990**	**1 883**	**1 915**
Risk-weighted assets		**12 297**	**11 738**	**11 608**	**10 967**
Capital ratios					
Common equity tier 1 ratio		9.3%	11.9%	9.7%	12.1%
Tier 1 ratio		10.3%	11.9%	11.4%	12.1%
Total capital ratio		14.7%	17.0%	16.2%	17.5%

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

^ *The references refer to those in the reconciliation of the regulatory scope balance sheet set out on pages 109 to 112.*

CAPITAL MANAGEMENT AND ALLOCATION *(continued)*

Capital requirements

£'million	31 March 2016 Investec plc*	31 March 2016 IBP*	31 March 2015 Investec plc*	31 March 2015 IBP*
Capital requirements	**984**	**939**	**929**	**878**
Credit risk – prescribed standardised exposure classes	711	698	649	634
Corporates	341	338	287	285
Secured on real estate property	150	150	133	133
Retail	44	44	36	36
Institutions	32	35	36	33
Other exposure classes	135	122	146	136
Securitisation exposures	9	9	11	11
Equity risk – standardised approach	8	8	11	11
Listed equities	3	3	4	4
Unlisted equities	5	5	7	7
Counterparty credit risk	41	41	35	35
Credit valuation adjustment risk	5	5	3	4
Market risk	76	74	74	71
Interest rate	27	27	26	26
Foreign exchange	23	21	20	17
Equities	16	16	23	23
Options	10	10	5	5
Operational risk – standardised approach	143	113	157	123
Risk-weighted assets (banking and trading)	**12 297**	**11 738**	**11 608**	**10 967**
Credit risk – prescribed standardised exposure classes	8 883	8 720	8 111	7 923
Corporates	4 260	4 224	3 588	3 561
Secured on real estate property	1 876	1 876	1 657	1 657
Retail	550	550	453	450
Institutions	397	439	450	410
Other exposure classes	1 693	1 524	1 822	1 704
Securitisation exposures	107	107	141	141
Equity risk – standardised approach	103	102	140	140
Listed equities	43	43	52	52
Unlisted equities	60	59	88	88
Counterparty credit risk	515	518	436	436
Credit valuation adjustment risk	57	58	42	47
Market risk	955	924	922	888
Interest rate	332	332	328	328
Foreign exchange	292	261	246	212
Securities underwriting	–	–	–	–
Equities	201	201	291	291
Options	130	130	57	57
Operational risk – standardised approach	1 784	1 416	1 957	1 533

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

Investec plc

Movement in risk-weighted assets

Total risk-weighted assets (RWAs) have increased by 6% over the period, predominantly within credit risk RWAs.

Credit risk RWAs

For Investec plc consolidated reporting, we have adopted the standardised approach for calculating credit risk RWAs. Credit risk RWAs, which include equity risk, increased by £0.7 billion. The increase is primarily attributable to a growth in secured corporate and residential mortgage lending.

Counterparty credit risk RWAs and Credit Valuation Risk (CVA)

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

Market risk RWAs

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

Operational risk RWAs

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

A SUMMARY OF CAPITAL ADEQUACY AND LEVERAGE RATIOS

	31 March 2016		31 March 2015	
	Investec plc^*	IBP^*	Investec plc^*	IBP^*
Common equity tier 1 (as reported)	9.3%	11.9%	9.7%	12.1%
Common equity tier 1 ('fully loaded')^^	9.3%	11.9%	9.7%	12.1%
Tier 1 (as reported)	10.3%	11.9%	11.4%	12.1%
Total capital adequacy ratio (as reported)	14.7%	17.0%	16.2%	17.5%
Leverage ratio** – permanent capital	6.7%	7.5%	7.8%	7.5%
Leverage ratio** – current	6.7%	7.5%	7.4%	7.5%
Leverage ratio** – 'fully loaded'^^	6.1%	7.5%	6.3%	7.5%

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

^ *The capital adequacy disclosures for Investec plc and IBP include the deduction of foreseeable dividends when calculating common equity tier 1 capital as now required under CRR and EBA technical standards. These disclosures are different to the capital adequacy disclosures included in Investec's 2016 and 2015 integrated annual report, which follow our normal basis of presentation and do not include the deduction for foreseeable dividends when calculating common equity tier 1 capital. Investec plc and IBP's common equity tier 1 ratios would be 40bps (31 March 2015: 50bps) and 30bps (31 March 2015: 10bps) higher, respectively 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 leverage ratio is calculated using the CRR definition of leverage which was adopted by the European Commission via a delegated Act in October 2014 and came into force from 1 January 2015. The leverage ratio has been disclosed using both a transitional and 'fully loaded' capital measure.

Investec plc's leverage ratio has increased as a result of increased exposures driven by loans and other advances to customers and cash and balances to central banks.

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

	31 March 2016		31 March 2015	
£'million	**Investec plc***	**IBP***	**Investec plc***	**IBP***
Total assets per accounting balance sheet	**18 756**	**18 335**	**18 272**	**17 943**
Deconsolidation of non-financial/other entities	(77)	(80)	(369)	(372)
Consolidation of banking associates	24	8	20	12
Total assets per regulatory balance sheet	18 703	18 263	17 923	17 583
Reversal of accounting values:				
Derivatives	(838)	(843)	(772)	(803)
Regulatory adjustments:	966	1 145	729	964
Market risk				
Derivatives market value	326	328	264	289
Derivative add-on amounts per the mark-to-market method	512	519	449	452
Securities financing transaction add-on for counterparty credit risk	126	126	324	324
Off-balance sheet items	595	554	315	301
Add-on for written credit derivatives	9	9	7	7
Exclusion of items already deducted from the capital measure	(602)	(391)	(567)	(409)
Exposure measure	**18 831**	**18 565**	**17 943**	**17 744**
Tier 1 capital	1 271	1 400	1 327	1 325
Leverage ratio – current	**6.7%**	**7.5%**	**7.4%**	**7.5%**
Tier 1 capital 'fully loaded'^	1 141	1 400	1 122	1 325
Leverage ratio – 'fully loaded'^	**6.1%**	**7.5%**	**6.3%**	**7.5%**

* *Where: IBP is Investec Bank plc consolidated. The information for Investec plc includes the information for IBP.*
^ *Based on the group's understanding of current regulations 'fully loaded' is based on capital requirements as fully phased in by 2022.*

MOVEMENT IN TOTAL REGULATORY CAPITAL

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

Total regulatory capital flow statement

£'million	31 March 2016 Investec plc*	31 March 2016 IBP*	31 March 2015 Investec plc*	31 March 2015 IBP*
Opening common equity tier 1 capital	**1 122**	**1 325**	**1 146**	**1 360**
New capital issues	23	–	25	–
Dividends	(128)	(40)	(121)	(172)
Profit/(loss) after taxation	128	95	(31)	110
Treasury shares	(91)	–	(55)	–
Acquisition of non-controlling interest	(142)	–	–	–
Gain on transfer of non-controlling interests	–	–	(1)	–
Share-based payment adjustments	28	5	35	4
Movement in other comprehensive income	(10)	(16)	(46)	(53)
Goodwill and intangible assets (deduction net of related taxation liability)	7	7	85	49
Deferred taxation that relies on future profitability (excluding those arising from temporary differences)	–	–	30	30
Deconsolidation of special purpose entities	46	34	34	(22)
Non-controlling interest transferred to tier 1	144	–	–	–
Foreseeable dividend	11	(19)	4	17
Other, including regulatory adjustments and transitional arrangements	3	9	17	2
Closing common equity tier 1 capital	**1 141**	**1 400**	**1 122**	**1 325**
Opening additional tier 1 capital	**205**	**–**	**234**	**–**
Redeemed capital	(145)	–	–	–
Other, including regulatory adjustments and transitional arrangements	70	–	(29)	–
Closing additional tier 1 capital	**130**	**–**	**205**	**–**
Closing tier 1 capital	**1 271**	**1 400**	**1 327**	**1 325**
Opening tier 2 capital	**556**	**590**	**662**	**637**
Redeemed capital	–	–	(13)	(13)
Sale of subsidiaries	–	–	(63)	(39)
Other, including regulatory adjustments and transitional arrangements	(21)	–	(30)	5
Closing tier 2 capital	**535**	**590**	**556**	**590**
Opening other deductions from total capital	**–**	**–**	**–**	**–**
Connected funding of a capital nature	–	–	–	–
Investments that are not material holdings or qualifying holdings	–	–	–	–
Closing other deductions from total capital	**–**	**–**	**–**	**–**
Closing total regulatory capital	**1 806**	**1 990**	**1 883**	**1 915**

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

Analysis of rated counterparties in each standardised credit exposure class

The table below shows the breakdown of rated credit risk exposures by credit quality step as prescribed by the Capital Requirements Regulation for the purposes of The Standardised approach for the mapping of external credit assessments for credit quality steps.

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

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

THREE

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 15 June 2016 are as follows:

Rating agency	Investec plc	Investec Bank plc – a subsidiary of Investec plc
FITCH		
Long-term rating		BBB
Short-term rating		F2
Viability rating		bbb
Support rating		5
MOODY'S		
Long-term rating	Baa1	A2
Short-term rating	Prime-2	Prime-1
Baseline Credit Assessment (BCA) and adjusted BCA		baa2
GLOBAL CREDIT RATINGS		
Long-term rating		BBB+
Short-term rating		A2

As a result of the regulatory responsibilities arising from the DLC structure, there are two group Internal Audit departments located in London and Johannesburg, responsible for Investec plc and Investec Limited respectively. Investec Bank plc's (Irish branch) has its own Internal Audit function reporting into Investec plc Internal Audit. In combination, the functions cover all the geographies in which Investec operates. These functions use a global risk-based methodology and cooperate technically and operationally.

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

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

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

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

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

Compliance

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

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

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

Year in review

CONDUCT RISK

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

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

A key enhancement to our conduct framework during the period was the establishment of the Investec plc customer and market conduct committee (CMCC). The CMCC is chaired by the group CEO and is designed to ensure that Investec maintains a client-focused culture and that each business within the group has client outcomes at the centre of their business model. The CMCC is responsible for ensuring that all interactions with the FCA across Investec Asset Management, Investec Bank plc and Investec Wealth & Investment are properly managed and that customer insights and regulatory expectations were shared between the regulated entities in the group and their subsidiaries.

CONSUMER PROTECTION

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

WHOLESALE MARKETS

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

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

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

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

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

COMPETITION

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

SENIOR MANAGERS AND CERTIFIED PERSONS REGIME

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

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

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

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

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

STRUCTURAL BANKING REFORM

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

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

FINANCIAL CRIME

Financial crime continues to be a regulatory focus with regulators globally encouraging firms to adopt a dynamic approach to the management of risk and to increase efforts around systems and controls to combat both money laundering and bribery and corruption. In the past two years, the UK government made significant efforts to ramp up its capacity to enforce the Bribery Act, with notable measures including the publication of the first UK National Anti-Corruption Plan, the introduction of Deferred Prosecution Agreements (DPA) to streamline the resolution of selected corporate bribery cases, and the implementation of harsher sentencing guidelines for fraud, bribery and money laundering offences.

TAX REPORTING

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

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

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

Sound corporate governance is implicit in our values, culture, processes, functions and organisational structure

Chairman's introduction

Dear Shareholder

I am pleased to present the 2016 annual corporate governance report which describes our approach to corporate governance.

Before looking in detail at our governance framework, I would like to make some comments on how the board has delivered against its priorities for the year, the board's composition and how the performance of the board has been evaluated, and about stakeholder engagement that has taken place during the year. In addition, I would like to specifically comment on changes that have taken place to ensure that we have in place the executive leadership essential for the long-term success of our business, and to look forward to our key areas of focus for 2016 and beyond. However, before that, I would like to provide some important context regarding our culture, values and philosophies, which are and will continue to be at the core of everything we do.

OUR CULTURE, VALUES AND PHILOSOPHIES

Sound corporate governance depends upon much more than processes and procedures, it fundamentally depends upon the people and the culture within an organisation. At Investec, sound corporate governance is embedded in our values, culture, processes, functions and organisational structure. Our values require that directors and employees behave with integrity, displaying consistent and uncompromising moral strength in order to promote and maintain trust. The board sets the tone from the top in the manner in which it conducts itself and oversees the structures and the framework for corporate governance. Each business area and every employee of the group is responsible for acting in accordance with our values and philosophies and we conduct our business and measure behaviour and practices against them so as to ensure that we demonstrate the characteristics of good governance.

THE PAST YEAR IN FOCUS

Composition of the board

In 2014, the board, on the recommendation of the nominations and directors' affairs committee (NOMDAC), implemented a structured refreshment programme so as to ensure that we are recruiting new independent non-executive directors and retiring some of our longer serving non-executive directors. A key challenge for the NOMDAC has been to implement this programme in such a manner so as to bring in new and diverse perspectives, while retaining the level of knowledge and experience necessary for the continued success of the group. The retirement and appointments in 2014 and 2015 of non-executive directors have enabled this, bringing a fresh outlook to the board and greater diversity of skills, backgrounds and thought. The retention of some of our longer serving non-executive directors has enabled continuity and stability, and I am grateful for their commitment to Investec. The NOMDAC continues to keep the composition of the board under review and will propose changes, as necessary, in order to retain the optimum attributes.

This year has seen some further change to the board

- In accordance with the structured refreshment programme agreed by the board, Haruko Fukuda did not seek re-election as a director at the 2015 annual general meeting, and accordingly stepped down from the board at the conclusion of the 2015 annual general meeting
- Bradley Fried, who was appointed as a non-executive director on 1 April 2010, stepped down from the board with effect from 1 April 2016.

Board and directors' effectiveness review

The board is committed to regularly evaluating its own effectiveness and that of its committees. In this light, the board undertakes an evaluation of its performance and that of its committees and individual directors annually, with independent external input to the process every third year. The board agreed that the 2016 review of the board's effectiveness would be facilitated by Professor Rob Goffee of the London Business School, an independent third party service provider. The findings of the 2016 review were presented to the board, an action plan developed and updates on progress made against these actions will be provided to the board on a regular basis.

Management succession

Succession planning has remained a key area of focus during the year. Investec announced at the time we presented the group's interim results in November 2015 that, in pursuit of sustained growth across its businesses, the group restructured certain operating responsibilities with the aim of achieving the following broad objectives:

- To maintain differentiated businesses that are integrated and coordinated under the Investec brand, while focused on providing the best solution for the client
- To facilitate the growth of businesses with direct management responsibility and accountability
- To ensure talented future leaders are in place for the long-term success of the group.

Changes included the appointment of Ciaran Whelan and David van der Walt as joint global heads of the Specialist Bank, and the appointment of Richard Wainwright as chief executive officer of Investec Bank Limited in South Africa. Investec has always maintained a policy of growing talent from within, and the majority of the group's leaders have an extensive history with the group and are valued for their institutional knowledge and expertise. The changes implemented have positioned Investec for sustained growth with an enhanced operational focus. Stephen Koseff remains group chief executive officer and Bernard Kantor group managing director. They continue to focus on group strategy, development and growth of the Investec global businesses, and the positioning of the group among all stakeholders.

Shareholder engagement

During the course of 2015, the board embarked on a series of shareholder consultations. The primary focus of the consultation was the revised executive incentive arrangements put to shareholders at the 2015 annual general meeting.

The consultations also provided an opportunity to discuss governance more broadly with shareholders. From a governance perspective, the dialogue centred on the composition of the board, while on remuneration the discussion related to the appropriate linkage between pay and performance.

PRIORITIES FOR THE NEW YEAR

In broad terms, our priorities for 2016, from a corporate governance perspective, are as follows:

Strategy

The successful implementation and execution of the group's strategic intentions have provided a solid foundation on which to build and deliver returns going forward.

Board effectiveness

As we noted above, it is important to periodically obtain an independent perspective as to whether the board is functioning effectively. Having reviewed the assessment, the directors were satisfied that the board was operating effectively. There are areas where we can improve and we will continue to refine and improve our processes to do so.

Management succession

As noted above, the restructure of certain operating responsibilities was announced on 18 November 2015. Embedding the restructure will be a key area of focus for the group going forward.

Regulatory and governance

The regulatory and governance environment that the group operates within continues to evolve rapidly. In the United Kingdom, we have seen the implementation of the Senior Managers Regime and emerging guidance on principles of good governance applicable to our regulated subsidiaries.

Culture and values

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. Safeguarding our culture to ensure good conduct and ethical practice will promote the delivery of our long-term success and will remain a key focus of the board.

CONCLUSION

The following pages of this report describe in more detail the governance framework, and the structures that are in place to ensure that Investec is able to maintain the highest standards of corporate governance.

Fani Titi
Chairman
15 June 2016

Governance framework

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

The group adopted a risk and governance structure, which allows for the operation of the various committees and forums at group level.

Investec's governance framework is depicted on page 50.

This avoids the necessity of having to duplicate various committees and forums at a subsidiary level. Due to the DLC structure, we have combined board committees of Investec Limited and Investec plc. Full disclosure of the functioning and responsibilities of these board committees can be found in Investec's 2016 integrated annual report.

Regulatory context

The disclosure of our governance practices requires a description of the regulatory context that Investec, as a dual listed company (DLC), operates within.

We operate under a DLC structure, and consider the corporate governance principles and regulations of both the UK and South Africa before adopting the appropriate standard for the group which also complies with requirements in both jurisdictions. All international business units operate in accordance with the above determined corporate governance principles, in addition to those of their jurisdiction, but with clear adherence at all times to group values and culture.

The corporate governance disclosures that follow focus on those applicable to our UK businesses.

The board, management and employees of Investec are committed to complying with the disclosure, transparency and listing rules of the United Kingdom Listing Authority (UKLA) and the UK Corporate Governance Code (the Code) which was issued by the UK's Financial Reporting Council in 2010, revised in September 2012 with the most recent version being published in September 2014 for reporting periods commencing after 1 October 2014.

Therefore, all stakeholders are assured that we are being managed ethically and in compliance with the latest legislation, regulations and best practices.

Statement of compliance

UK CORPORATE GOVERNANCE CODE

The board is of the opinion that, based on the practices disclosed throughout this report, which were in operation during the year under review, the group has complied with the relevant provisions set out in the UK Corporate Governance Code, except as disclosed below:

- D1.1 states that performance-related remuneration schemes for executive directors should include provisions that would enable the company to recover sums paid or withhold the payment of any sum, and specify the circumstances in which it would be appropriate to do so. The current remuneration arrangements for Hendrik du Toit do not include provisions to recover sums that have already been paid or to withhold the payment of any sums. The remuneration of Hendrik du Toit continues to be determined by reference to the remuneration policy of the Investec Asset Management (IAM) business. This is deemed appropriate by the remuneration committee for the following reasons:
  - Hendrik du Toit is the chief executive officer of IAM and is not classified as a material risk taker for the purpose of the PRA regulations applicable to Investec Bank plc
  - The management of IAM, including Hendrik du Toit, undertook a substantial investment in IAM, resulting in alignment with shareholder interests and, as previously disclosed, there will be no deferral of any short-term incentive until such time as the debt taken out by Hendrik du Toit to fund his investment in IAM has been repaid.

The directors' remuneration report on pages 159 to 201 in volume one of Investec's 2016 integrated annual report provides details of the remuneration policy and the implementation of that policy for all directors.

Leadership

Chairman and chief executive officer

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

The chairman is responsible for setting the board agenda, ensuring that there is sufficient time available for discussion of all items, that information received is accurate, timely and clear to enable the directors to perform their duties effectively. In keeping with Investec's culture and values, the chairman encourages open and honest debate between all board directors.

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. There have been no changes to the significant commitments of the chairman during the period under review. The chairman resides in South Africa but spends approximately a week a month in the UK.

The board has not appointed a deputy chairman.

Senior independent director

Perry Crosthwaite is the senior independent director. He is available to address any concerns or questions from shareholders and non-executive directors. In addition, he leads the board in the assessment of the effectiveness of the chairman.

Board of directors

The board is responsible for creating and delivering sustainable shareholder value by providing overall strategic direction within a framework of risk appetite and controls.

The board has adopted a board charter which is reviewed annually and which provides, a framework of how the board operates as well as the type of decisions to be taken by the board and which decisions should be delegated to management.

For more information on the board's objectives, role and responsibilities refer to Investec's 2016 integrated annual report.

Biographical details of the directors are set out on pages 137 and 138, with more information in Investec's 2016 integrated annual report.

The names of the directors at the date of this report, the year of their appointment and their independence status for the year under review are set out below:

	Date of appointment Investec plc	Investec Limited	Independent
EXECUTIVE DIRECTORS			
S Koseff (group chief executive officer)	26 Jun 2002	6 Oct 1986	–
B Kantor (group managing director)	26 Jun 2002	8 Jun 1987	–
GR Burger (group risk and finance director)	3 Jul 2002	3 Jul 2002	–
HJ du Toit	15 Dec 2010	15 Dec 2010	–
NON-EXECUTIVE DIRECTORS			
F Titi (chairman)	30 Jan 2004	30 Jan 2004	On appointment
ZBM Bassa	1 Nov 2014	1 Nov 2014	Yes
LC Bowden	1 Jan 2015	1 Jan 2015	Yes
CA Carolus	18 Mar 2005	18 Mar 2005	Yes
PKO Crosthwaite (senior independent director)	18 Jun 2010	18 Jun 2010	Yes
D Friedland	1 Mar 2013	1 Mar 2013	Yes
CR Jacobs	8 Aug 2014	8 Aug 2014	Yes
IR Kantor	26 Jun 2002	30 Jul 1980	No
Lord Malloch-Brown KCMG	8 Aug 2014	8 Aug 2014	Yes
KL Shuenyane	8 Aug 2014	8 Aug 2014	Yes
PRS Thomas	26 Jun 2002	29 Jun 1981	Yes

INDEPENDENCE

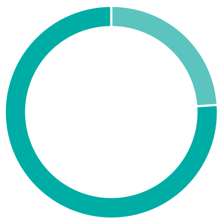
Chairman	1
Executives	4
Non-executives	10

64%

OF BOARD INDEPENDENT

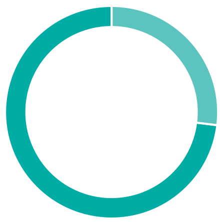
BALANCE OF NON-EXECUTIVE AND EXECUTIVE DIRECTORS:

Pre-2014 AGM



24.0%	Independent
76.0%	Non-independent

Post-2014 AGM



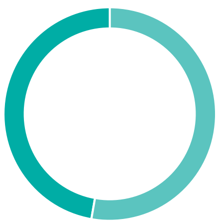
27.0%	Independent
73.0%	Non-independent

DIVERSITY

Aspirational target:

Per the Davies Report: 25% female representation by 2015

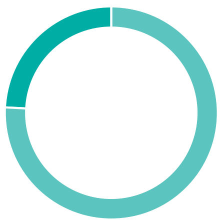
GEOGRAPHICAL MIX



53.0%	South Africa
47.0%	UK including Europe

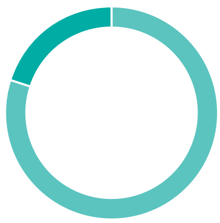
BOARD GENDER BALANCE:

Pre-2014 AGM



76.0%	Male
24.0%	Female

Post-2014 AGM



80.0%	Male
20.0%	Female

TENURE

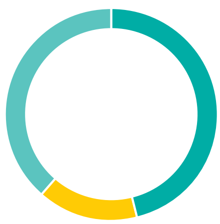
Average length of service:

(Length of service by band) for non-executive directors

UK CORPORATE GOVERNANCE RECOMMENDATION:

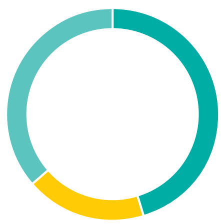
Recommendation that non-executives should not serve longer than nine years from the time of their appointment.

Pre-2014 AGM: 8 years average



6	0 – 3 years
2	3 – 6 years
–	6 – 9 years
5	9 years plus

Post-2014 AGM: 5 years average



5	0 – 3 years
2	3 – 6 years
–	6 – 9 years
4	9 years plus

Composition, structure and process

At the end of the year under review, the board, excluding the chairmen, comprised four executive directors and 12 non-executive directors.

Refer to Investec's 2016 integrated annual report for disclosures on:

- Board changes during the past year
- Board meetings
- Independence of board members and the chairmen
- Terms of appointment
- Independent advice
- Skills, knowledge, experience and attributes of directors
- Board and directors' performance evaluation
- Ongoing training and development
- External directorships
- Dealings in securities
- IT governance.

COMPANY SECRETARY

David Miller is the company secretary of Investec plc. The company secretary is professionally qualified and has experience gained over a number of years. His services are evaluated by board members during the annual board evaluation process. He is responsible for the flow of information to the board and its committees and for ensuring compliance with board procedures. All directors have access to the advice and services of the company secretary whose appointment and removal are a board matter.

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

In addition, the board confirms that for the period 1 April 2015 to 31 March 2016 the company secretary did not serve as a director on the board nor did he take part in board deliberations and only advised on matters of governance, form or procedure.

BOARD COMMITTEES

In exercising control of the group, 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.

The full terms of reference are available on our website. The reports of the chairmen of the board committees are provided in Investec's 2016 integrated annual report.

For ease of reference, the report by the chairman of the Investec plc audit committee is included on pages 132 to 136.

Management and succession planning

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

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

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

The NOMDAC receives a detailed presentation from the executive regarding senior management succession and the NOMDAC is satisfied that there is a formal management succession plan in place.

The NOMDAC will continue to focus on ensuring that the management succession plan remains up to date.

Senior management succession plans are also presented annually to the banking regulators.

Accountability

FINANCIAL REPORTING AND GOING CONCERN

The directors have confirmed that they are satisfied that the group, as well as Investec plc and Investec Limited individually, have 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 results by the board and these include:

- Budgeting and forecasts
- Profitability
- Capital
- Liquidity
- Solvency.

The board is of the opinion, based on its knowledge of the group, key processes in operation and enquiries, that there are adequate resources to support the group as a going concern for the foreseeable future.

Further information on our liquidity and capital position is provided on pages 89 to 97 and pages 104 to 118.

Furthermore, the board is of the opinion that the group's risk management processes and the systems of internal control operate effectively.

The directors are responsible for monitoring and reviewing the preparation, integrity and reliability of the Investec plc consolidated financial statements, accounting policies and the information contained in the integrated annual report, and to ensure that the annual financial statements are fair, balanced and understandable.

In undertaking this responsibility, the directors are supported by an ongoing process for identifying, evaluating and managing the key risks Investec faces in preparing the financial and other information contained in this integrated annual report.

This process was in place for the year under review and up to the date of approval of this integrated annual report and annual financial statements. The process is implemented by management and independently monitored for effectiveness by the audit, risk and other sub-committees of the board.

Our annual financial statements are prepared on a going concern basis.

VIABILITY STATEMENT

In addition to providing a going concern statement, the board is required, in terms of the UK Corporate Governance Code, to make a statement with respect to the group's viability (i.e. its ability to continue in operation and meet its liabilities) taking into account the current position of the group, the board's assessment of the group's prospects and the principal risks it faces. Following confirmation by the BRCC (comprising a majority of non-executive directors, which includes members of the audit committees) the audit committees recommended the viability statement for board approval.

The board has identified the principal and emerging risks facing the group and these are highlighted on pages 20 to 28.

Through its various sub-committees, notably the audit committees, the group risk and capital committee (GRCC), the BRCC and the capital committees, the board regularly carries out a robust assessment of these risks, and their potential impact on the performance, liquidity and solvency of the group. The activities of these board sub-committees and the issues considered by them are described in this governance section of this report.

Taking these risks into account, together with the group's strategic objectives and the prevailing market environment, the board approved 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 considers that prudential risk management is paramount in all it does. Protection of depositors, customers' interests, capital adequacy and shareholder returns are key drivers. To manage the group's risk appetite there are a number of detailed policy statements and governance structures in place. The board ensures that there are appropriate resources in place to manage the risks arising from running our business by having independent risk management, compliance, and financial control functions. These are supplemented by an Internal Audit function that reports independently to a non-executive audit committee chairman.

The board believes that the risk management systems and processes we have in place are adequate to support the group's strategy and allow the group to operate within its risk appetite framework. A review of the group's performance/measurement against its risk appetite framework is provided at each BRCC meeting and at the main board meetings.

In terms of the UK Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) requirements, the group is also required to meet regulatory standards with respect to capital and liquidity. In terms of these requirements, the group is required to stress its capital and liquidity positions under a number of severe stress conditions.

Investec's stress testing framework is well embedded in its operations and is designed to identify and regularly test the group's key 'vulnerabilities under stress'.

Scenario modelling and rigorous daily liquidity stress tests are performed to measure and manage the group's respective banking entities' liquidity positions such that payment obligations can be met under a wide range of company-specific and market-driven stress scenarios. The objective is to have sufficient liquidity, in an acute stress scenario, to continue to operate for a minimum period as detailed in the board-approved risk appetite and as required by the regulators. The group's risk appetite also requires each banking entity to maintain a minimum cash to customer deposit ratio of 25%, and ensure that the respective banking entities are not reliant on wholesale funding to fund core asset growth. Each banking entity is required to be fully self-funded. Our banking business exceeds the regulatory requirements for the net stable funding ratio and liquidity coverage ratio. Investec plc currently has £5.1 billion in cash and near cash assets, representing 47.0% of customer deposits.

The group develops annual capital plans that look forward over a three-year period. These plans are designed to assess the capital adequacy of the group's respective banking entities under a range of economic and internal conditions, with the impact on earnings, asset growth, risk appetite and liquidity considered. The output of capital planning allows senior management and the board to make decisions to ensure that the group continues to hold sufficient capital to meet internal and regulatory capital targets over the medium term (i.e. three years).

The group targets a minimum capital adequacy ratio of 14% to 17%, a common equity tier 1 ratio in excess of 10% and a leverage ratio in excess of 6% for each of its banking entities.

The parameters used in the capital and liquidity stresses are reviewed regularly, taking into account changes in the business environments and inputs from business units. A detailed 'bottom-up' analysis is performed in designing Investec's specific stress scenarios. The group also incorporates the Bank of England (BOE) 'anchor stresses' into its capital and liquidity processes. As the group's banking entities are regulated separately and ring-fenced from one another, different stress scenarios apply across the respective banking entities and jurisdictions.

Investec plc runs a number of stress scenarios, some of which are briefly highlighted below:

- The BOE 'Anchor Scenario': this scenario incorporates a UK slowdown in GDP growth, a slump in Pounds Sterling, a significant increase in inflation and interest rates in the UK
- A scenario where there is an oil price shock with prices increasing substantially. This would result in a significant deterioration in global risk sentiment. UK inflation rises and spirals to a CPI peak of 5%. The UK economy undergoes a severe recession with GDP falling from peak to trough by over 4%. National house prices fall over 20% (and in London by over 45%), and the FTSE falls close to 30%
- A scenario where global growth disappoints and there is a collapse in the oil price which pushes down inflation and leads to a deflationary mindset. There is a period of stagnation which moderately impacts UK GDP. UK interest rates are cut into negative territory. National house prices in the UK are negatively impacted as is the FTSE.

In addition, during the year, the group incorporated a number of new stress scenarios into its liquidity and capital plans, including for example, a 'Brexit' scenario. We also carry out 'reverse stress tests', i.e. those scenarios that would cause the group to breach its capital and liquidity requirements. These scenarios are considered highly unlikely, given the group's strong liquidity position and sound capital and leverage parameters.

Furthermore, the group is required to have a recovery and resolution plan for both Investec Limited and Investec plc. The purpose of the recovery plans are to document how the board and senior management will ensure that the group recovers from extreme financial stress to avoid liquidity and capital difficulties in its separately regulated companies.

The capital and liquidity plans, stress scenarios, recovery and resolution plans and the risk appetite statement are reviewed at least annually. In addition, senior management hosts an annual three-day risk appetite process at which the group's risk appetite framework is reviewed and modified to take into account risk experience and changes in the environment. Furthermore, strategic budget processes which focus on, amongst other things, the business and competitive landscape; opportunities and challenges; financial projections – take place within each business division at least annually. A summary of these divisional budgets, together with a consolidated group budget, is presented to the board during its strategic review process early in the year.

In assessing the group's viability, the board has taken all of the abovementioned factors, documents and processes into consideration. The directors can confirm that they have a reasonable expectation that Investec will continue to operate and meet its liabilities as they fall due over the next three years. The board has used a three-year assessment period as this is aligned to the group's medium-term capital plans which incorporate profitability, liquidity, leverage and capital adequacy projections and include impact assessments from a number of stress scenarios. The board has assessed the group's viability in its 'base case' and 'down case' scenarios. Detailed management information therefore exists to provide senior management and the board sufficient and realistic visibility of the group's viability over the next three years to 31 March 2019 under these various scenarios.

In assessing the group's viability, a number of assumptions are built into its capital and liquidity plans. In the 'down case' scenario these include, for example, dividend payments being reduced and asset growth being curtailed.

The viability statement should be read in conjunction with the following sections in the annual report, all of which have informed the board's assessment of the group's viability:

- Pages 3 to 11 which show a strategic and financial overview of the business
- Pages 20 to 28 which provide detail on the principal and emerging risks the group faces
- Page 49 which highlights information on the group's risk appetite framework
- Pages 45 to 47 which provide an overview of the group's approach to risk management, and the processes in place to assist the group in mitigating its principal risks
- Pages 53, 80, 86, 89, 107 and 108 which highlight information on the group's various stress testing processes
- Pages 89 to 94 which specifically focus on the group's philosophy and approach to liquidity management
- Pages 104 to 108 which explain the group's capital management framework.

This forward-looking viability statement made by the board is based on information and knowledge of the group at 15 June 2016. There could be a number of risks and uncertainties arising from (but not limited to) domestic and global economic and business conditions beyond the group's control that could cause the group's actual results, performance or achievements in the markets in which it operates to differ from those anticipated.

RISK MANAGEMENT AND INTERNAL CONTROL

Risks and controls are reviewed and monitored regularly for relevance and effectiveness. The BRCC, GRCC and audit committees assist the board in this regard.

Sound risk management practices are promoted by the group risk management function, which is independent of operational management. The board recognises its responsibility for the overall risk and control framework and for reviewing its effectiveness. In accordance with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, the board, with the assistance of the risk management functions and committees, continuously monitors the group's system of internal control and risk management, and annually reviews its effectiveness.

Internal control is designed to mitigate, not eliminate, significant risks faced. It is recognised that such a system provides reasonable, but not absolute, assurance against material error, omission, misstatement or loss. This is achieved within the group through a combination of risk identification, evaluation and monitoring processes, appropriate decision as well as oversight forums, and assurance and control functions such as Group Risk Management, Internal Audit and Compliance.

The board identifies the principal risks facing the group, and carries out a robust assessment of those risks, their potential impact on the business, and how they can be mitigated.

Internal Audit reports any control recommendations to senior management, Group Risk Management and the relevant audit committee. Appropriate processes, including review by the audit committees' support structures, ensure that timely corrective action is taken on matters raised by Internal Audit.

Significant risks are regularly considered by the executive risk review forum (ERRF) and by the GRCC and 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.

Risk management, including information on the principal risks facing the group and how they are managed is described in more detail in section three of this annual report. A statement on how the board has assessed the longer term prospects of the group, with regard to the group's current position and these risks, are set out in the group's viability statement.

INTERNAL FINANCIAL CONTROLS

Internal financial controls are based on established policies and procedures. Management is responsible for implementing internal financial controls, ensuring that personnel are suitably qualified, that appropriate segregation exists between duties, and that there is suitable independent review. These areas are monitored by the board through the audit committees and are independently assessed by Internal Audit and Compliance. Processes are in place to monitor internal control effectiveness, identify and report material breakdowns, and ensure that timely and appropriate corrective action is taken. Group Finance and Investor

Relations coordinate, review and comment on the monthly financial and regulatory reports, and facilitate the interim and annual financial reporting process, including the external audit process.

INTERNAL AUDIT

Each significant jurisdiction has an internal audit presence that is appropriate for the size, nature and extent of business conducted. Smaller geographies are supported by the Internal Audit teams of the Investec plc and Investec Limited groups.

A risk-based audit approach is followed and the audit committee approves annual audit plans.

For further details on Internal Audit, refer to page 121.

EXTERNAL AUDIT

Investec plc's external auditors are Ernst & Young LLP. The independence of the external auditors is reviewed by the audit committees each year.

The audit committees meet with the external auditors to review the scope of the external audit, budgets, the extent of non-audit services rendered and all other audit matters. The external auditors are invited to attend audit committee meetings and have access to the chairman of each audit committee.

Recommendations on the rotation of auditors, as laid out in the UK Auditing Practices Board Ethical Standard 3 as well as Directive 6/2008 of the South African Banks Act, were adhered to during the year under review.

Non-audit services are dealt with in terms of an agreed policy which states that:

- External audit firms will have internal standards and processes to monitor and maintain their independence and these must be presented to the audit committees on an annual basis. These will be considered based on the explicit exclusions contained in existing rules and guidelines
- Safeguards must be in place to ensure that there is no threat to the objectivity and independence in the conduct of the audit, resulting from the provision of non-audit services by the external auditors.

For further details on non-audit services see note 6 on page 171.

COMPLIANCE

The compliance function ensures that Investec continuously complies with existing and emerging regulation impacting on its operations. We recognise our responsibility to conduct business in accordance with the laws and regulations in the countries and areas in which we operate. The compliance function is managed by Group Compliance and supported by the compliance officers in the business units.

For further details on the compliance function, refer to pages 122 and 123.

REGULATION AND SUPERVISION

Investec is subject to external regulation and supervision by various supervisory authorities in each of the jurisdictions in which we operate, the main ones being the UK PRA and the FCA (the UK regulators), and the Australian Securities and Investment Commission.

We strive to establish and maintain open and active dialogue with regulators and supervisors. Processes are in place to respond proactively and pragmatically to emerging issues and we report regularly to the regulators and supervisory bodies. Where appropriate, we participate in industry committees and discussion groups to maintain and enhance the regulatory environment in which we operate.

CONFLICT OF INTEREST

Certain statutory duties with respect to directors' conflicts of interest are in force under the UK Companies Act 2006. In accordance with the Act and the Articles of Association (Articles) of Investec plc, 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.

DIRECTORS' DEALINGS

The remuneration report in Investec's 2016 integrated annual report contains details of Investec shares held by directors.

Directors' dealings in the securities of Investec plc and Investec Limited are subject to a policy based on the Disclosure and Transparency Rules of the UKLA and the JSE Listings Requirements.

All directors' and company secretaries' dealings require the prior approval of the Compliance division and the chairman, the senior independent director or the chairman of the audit committees.

All dealings of persons discharging management responsibilities require approval by line management, the Compliance division and the chairman.

VALUES AND CODE OF CONDUCT

We have a strong organisational culture of entrenched values, which forms the cornerstone of our behaviour towards all stakeholders. These values are embodied in a written statement of values, which serves as our code of ethics and is continually reinforced.

We view all employees as the custodians of ethical behaviour, which is reinforced through internal processes, policies and procedures. As such all new employees are invited, and are strongly encouraged, to attend an induction process at which our philosophies, values, culture, risk management and compliance procedures are explained and discussed.

Our organisational development team plays an important role in facilitating the understanding and ongoing practice of our values, philosophies and culture. In addition to our values, acceptable business practices are communicated through the human resources practices manual, available on the intranet.

Audit committees

INTRODUCTION

The audit committees are an essential part of the group's governance framework to which the board has delegated oversight of the group's financial reporting, risk management, compliance, internal and external audit.

This report provides an overview of the work of the committees and details how it has discharged its duties over the year.

Following the annual cycle of work of the committees, we concluded that sound risk management and internal controls have been maintained during the year. The committees were satisfied that the integrated annual report presents fairly and provides a fair, balanced and understandable assessment of the group's financial position as at 31 March 2016, and the results of its operations for the year then ended.

BACKGROUND

In terms of Investec's DLC structure, the board has mandated authority to the Investec plc and Investec Bank plc audit committee and the Investec Limited and Investec Bank Limited audit committee to be the audit committees for those respective companies and their subsidiaries with each having their own regulatory requirements to meet. A DLC audit committee – which is the combined audit committee of Investec plc and Investec Bank plc and Investec Limited and Investec Bank Limited – has responsibility to the board for matters common to both Investec plc and Investec Limited and, in particular, the combined group annual financial statements and results.

The audit committees comply with all legal and regulatory requirements as necessary under both UK and South African legislation and listings rules, and apply the corporate governance principles for audit committees as required by the UK Disclosure and Transparency Rules (7.1.3R), the UK Corporate Governance Code and King III.

The board recognises the important role of the audit committees as part of the risk management and corporate governance processes and procedures of the Investec group. In this regard, the audit committees have oversight of and monitor:

- Financial reporting process and risks
- Fraud and IT risks as they relate to financial reporting
- The effectiveness of the group's internal controls, internal audit and risk management systems
- The statutory audit and group annual financial statements, the integrated annual report as well as the interim results
- The independence and performance of the statutory and internal auditor, and appropriateness of the statutory auditor's provision of non-audit services.

At each audit committee meeting, the group chief executive officer, group managing director and group risk and finance director provide an in-depth assessment of their current risk-related concerns and the procedures introduced by management to control or mitigate these risks.

Following the completion of all group audit committee meetings, a written report is provided to the next meeting of the board of directors highlighting matters of which the audit committee believes the board should be aware.

All responsibilities are covered in the audit committees' terms of reference.

The board has approved the terms of reference for the audit committees which can be found on our website.

The audit committees approve the annual internal audit plan. The heads of Internal Audit for both Investec plc and Investec Limited have free access to the chairman of the audit committees or any member of the audit committees and they attend all audit committee meetings by invitation.

External auditors from both the UK and South Africa attend audit committee meetings.

MEMBERSHIP AND ATTENDANCE

The audit committees are comprised entirely of independent non-executive directors who must meet predetermined skills, competency and experience requirements.

In aggregate the audit committees meet 12 times per year. The chairman, chief executive officer, managing director, group risk and finance director, heads of Compliance, IT, Operational Risk, Internal Audit, Finance and representatives of the external auditors attend meetings by invitation.

A comprehensive meeting pack is prepared with written reports received from the external auditors and each of the above functions. They present on the significant matters included in their reports.

The chairman of the audit committees regularly meets with the heads of Internal Audit as well as the lead external audit partners outside formal committee meetings and with senior management to gain a better understanding of the group's operations and the risks and challenges it faces.

At the final results audit committee meetings, the external auditors and internal auditors meet separately with the committee members to enable them to have a frank and open debate without the executives being present.

Attendance by members at audit committee meetings during the financial year ended 31 March 2016:

	DLC audit committee		Investec plc and Investec Bank plc audit committee		Investec Limited and Investec Bank Limited audit committee	
Members	Number of meetings	Numbers of meetings attended	Number of meetings	Number of meetings attended	Number of meetings	Number of meetings attended
D Friedland (chairman)	4	4	4	4	4	4
ZBM Bassa	4	4	4	4	4	4
LC Bowden	4	3	4	4	4	4
KL Shuenyane	4	4	4	4	4	4
PRS Thomas	4	2	4	4	4	4

SUMMARY OF CONCLUSIONS REACHED BY THE AUDIT COMMITTEES FOR THE YEAR ENDED 31 MARCH 2016

The audit committees, to the best of our knowledge and belief, are satisfied that:

- The finance functions of both Investec plc and its subsidiaries and Investec Limited and its subsidiaries are adequately skilled, resourced and experienced
- The group risk and finance director, GR Burger, has the appropriate expertise and experience to meet the responsibilities of the position
- The group's internal financial controls are effective and all identified weaknesses in financial control are being addressed
- The external auditors of both Investec plc and Investec Limited are, and remain, independent
- The external auditors perform their functions with the appropriate expertise, competence and experience.

In fulfilling our duties, the audit committees have:

- Considered whether the integrated annual report taken as a whole was fair, balanced and understandable and provided the information necessary for stakeholders to assess the group's performance
- Reviewed, challenged and discussed with both management and the external auditors material areas in which significant judgements were applied
- Reviewed the Internal Audit function including the process for evaluating the control environment, approved the internal audit plan and considered internal audit reports
- Reviewed and considered representations by management on the going concern statement for the group
- Based on liquidity levels, capital adequacy, capital plan and the 2017 budget, recommended the adoption of the going concern concept to the board
- Discussed with management the process used to identify, measure and oversee tax risks
- Reviewed the risk assessment process and the manner in which significant business risks are managed
- Recommended to the board the reappointment of our external auditors (see external auditors below)
- Focused on information security due to the ever increasing threat posed by cybercrime and risks associated with mobile technology and social media
- Confirmed the absence of any indicators of fraud with regard to financial reporting.

The audit committees recommended the adoption of the integrated annual report to the board.

In this regard the audit committees:

- Considered facts and risks that may impact on the integrity of the integrated annual report
- Reviewed and requested that changes be made to disclosures to the annual financial statements included in the integrated annual report
- Reviewed the disclosure of sustainability issues in the integrated annual report to ensure they are reliable and do not conflict with the financial information
- Obtained confirmation from the chief executive officer and group risk and finance director that they considered the disclosures to be fair, reasonable and balanced
- On the basis of the committees' membership of the BRCC, meetings with senior management, attending board and strategy meetings and the audit committee process, the committee concluded that the integrated annual report taken as a whole, is fair, reasonable and balanced and provides the information necessary for shareholders and other stakeholders to assess the group's performance, business model and strategy
- As in prior years, engaged Grant Thornton to verify all the environmental data included in the report. None of the audit firms engaged in the group's external audit were considered for the project.

A viability statement is required to be made for the first time.

Following confirmation by the BRCC (comprising a majority of non-executive directors, which includes members of the audit committees), the audit committees recommended the viability statement for board approval.

The board subsequently approved the integrated annual report, including the annual financial statements, which will be tabled for approval at the forthcoming annual general meeting.

EXTERNAL AUDITORS

Appointment and independence

The committee considers the reappointment of the external auditors each year before making a recommendation to the board and shareholders. It assesses the independence of the external auditors on an ongoing basis. The external auditors are required to rotate the lead audit partner every five years and other senior audit staff every seven years. Partners and senior staff associated with the Investec audit may only be employed by the group after a cooling off period. The lead partner commenced his five-year rotation last year.

Although Ernst & Young has been the group's auditors since listing on the London Stock Exchange in 2002, we continue to believe that partner rotation, limitations on non-audit services and the confirmation of the independence of both Ernst & Young and the audit team are adequate safeguards to ensure that the audit process is both objective and effective. In terms of the partner rotation process, Ernst & Young's designated auditor in respect of Investec Limited will change effective 2017 from Ernest van Rooyen to Farouk Mohideen.

The committees evaluated the effectiveness of the auditors through completion of a questionnaire which, inter alia, assessed the audit partners, audit team and audit approach (planning and execution), during their presentations at audit committee meetings and ad hoc meetings held with the auditors throughout the year. Senior finance function executives also provided feedback to the committees.

Non-audit services

The committees have adopted a policy on the engagement of the external auditors to provide non-audit services. This policy, designed to safeguard auditor objectivity and independence, includes guidelines on permitted and non-permitted services and on services requiring specific approval by the committees.

The committees review whether the level of non-audit fees could impact the independence of the auditors. This is monitored by reference to the level of fees paid for services, excluding services which are required to be provided by the external auditors due to their office, against the fees paid for the audit of the group.

For further details on non-audit services refer to Investec's 2016 integrated annual report.

INTERNAL AUDIT

The committees are responsible for monitoring and reviewing the scope and the effectiveness of the Internal Audit function. Both the Investec Limited and Investec plc heads of Internal Audit have a direct reporting line to the chairman of the audit committees and regularly meet with him to discuss progress with the audit plans, resourcing and setting their annual objectives. Internal Audit was subject to a 'quality assurance review' in 2014, with the next review scheduled for 2019.

RISKS ADDRESSED DURING THE YEAR UNDER REVIEW

Detailed below are significant audit risks the committees focused on:

- Monitoring of credit quality and the appropriateness of the allowance for credit losses

  We discussed with management and the auditors the specific and collective loan provision process, and considered the reasonableness of the allowance relative to the quality of the book and related collateral
- Valuation of financial instruments and unlisted investments. Unlisted investments often require a large degree of subjectivity surrounding the various inputs to their valuations

  We met with management and the external auditors to discuss and challenge, inter alia, the discount rates, credit spreads and price earnings ratios assumptions used in the valuations of unlisted investments, including embedded derivatives
- Accounting and financial reporting of large or complex transactions

  Discussions were held with management and the external auditors with regard to large and complex transactions to ensure compliance with accounting standards
- Taxation
  We examined and challenged management's estimates of levels of taxation expected to be payable in respect of transactions currently being challenged by the Revenue Authorities, including review of correspondence by our external adviser.

The internal and external auditors provided detailed reporting in respect of these key areas.

In addition, the audit committees considered the following themes:

- **Cybercrime**
  The group continues to experience an escalation in attempted IT fraud and other forms of cybercrime. Considerable effort and time have been devoted by management to ensure that IT controls are robust and appropriate solutions are deployed to protect the group from increased threat levels.

  In the latter part of 2015, we engaged an independent specialist company to conduct a simulated cyberattack against the group. While certain technical weaknesses were identified, the conclusion of the testers was that our ability to detect and respond to a targeted attack is above average, compared against our peers.

  Remedial steps are being taken to address the weaknesses and our security controls are continually enhanced, in response to the evolving threat landscape. Another simulated attack is scheduled for later this year.
- **Liquidity risk**
  The adequacy and appropriateness of liquidity management throughout the group's operations.
- **Compliance with laws and regulations**
  Adherence to key regulatory issues facing the group.
- **Control weaknesses**
  Assessing the internal control weaknesses identified by the assurance providers and ensuring appropriate steps are taken within prescribed and specified time limits to mitigate and remedy such weaknesses.

IFRS 9 FINANCIAL INSTRUMENTS

The new standard includes revised guidance on classification and measurement of financial assets including a new expected credit loss model for calculating impairments.

The group has established an IFRS 9 steering committee comprising executive representation and key management from Risk, Finance, Analytics and IT. The committee is accountable for IFRS 9 implementation and is supported by working groups responsible for different workstreams. The committee provides updates on the status of the project to the appropriate board committees.

The group continues to evaluate the overall effect of IFRS 9, but it is not practicable to quantify the effect as at the date of the publication of these financial statements.

The audit committees will use the lead time to challenge management's assessment of the standard's effect and remain abreast of its implementation plans.

Audit committees' structure

The table below depicts the Investec group audit committees' structure and ambit of activities.

AUDIT COMMITTEES OF INVESTEC PLC AND INVESTEC BANK PLC AND INVESTEC LIMITED AND INVESTEC BANK LIMITED

External auditors
- Planning/budget
- Conflict/audit independence confirmations
- Non-attest services and fees
- Reports to regulators
- Management letter
- Quality of earnings (audit differences schedule)
- Appointment/reappointment

Compliance
- Planning
- Resources
- High level reporting of possible compliance breaches
- Monitoring of special projects
- Regulatory matters

Tax
- High level only
- Tax sub-committee

Prudential audit and conduct committee
- Distil only major issues to the Investec plc audit committee

Audit sub-committees
- Distil only major issues to audit committees
- High level reports

Audit compliance implementations forum (ACIF)
- Reviews higher rated findings from all assurance providers
- Monitors mitigation of above risks

Information technology
- Status
- Major risks, including cybercrime
- Change control
- Capacity management
- Security and fraud awareness
- Staffing
- Projects
- Governance
- Disaster recovery

Current risk review
- Chief executive officer
- Managing director
- Financial director

Internal auditors
- Annual audit plan
- Adequacy of staffing complement
- Succession planning
- Internal audit charter
- Status of audit work plan
- Report of findings and monitoring of outstanding issues
- Special ad hoc work
- Review of high level reports
- Internal controls
- Sustainability report

Operational risk
- Fundamental internal controls
- Fraud and loss statistics
- Insurance coverage

- Corporate governance (South African Banks Act requirements)
- Disaster recovery and business continuity
- Key staff issues

Finance
- Accounting policies
- Annual financial statements
  - Half-year results
  - Year-end results
- Production of audited annual financial statements of companies and subsidiaries
- Accounting for one-off transactions
- Accounting updates and conventions – IFRS
- Basel
- Reconciliations
- Regulatory reports
- Representation letters

SUPPORT STRUCTURES

Audit sub-committees for Investec plc and Investec Limited regulated subsidiaries, have been established. Reports on the risk and control environment of all business units and principal operating subsidiaries are made to one of the audit sub-committees, with significant issues being escalated to the audit committees.

These allow senior managers of the business units, who do not attend the main Investec plc and Investec Limited audit committee meetings, to meet with the risk and control functions and to provide input on the risk and control environment of their business units. Members of the Investec plc and Investec Limited audit committees are entitled to attend these meetings and, as a general rule, at least one non-executive director attends these meetings.

The forums are key to enhancing risk and control consciousness and the associated control environment of the group.

The forums support and provide important insight to the audit committees. Essentially, the forums act as a filter, enabling the audit committees to concentrate their efforts on matters of appropriate materiality.

AUDIT TENDERING

In June 2014, European Union (EU) audit legislation came into force. Among other provisions, it imposes mandatory audit firm rotation for public interest entities (PIE). The legislation will take effect in June 2016. Special transition arrangements apply to the provisions on mandatory firm rotation.

The new legislation will require a PIE either to rotate its auditor or put the audit out to tender after a maximum 10-year period with a further 10 years allowed if a tender results in the current auditor retaining the audit. Transitional arrangements in place mean that Investec falls into the category of having current tenure of its current auditors in place for 11 to 20 years and therefore a tender process would be required to enable change in audit firms for the March 2025 year end.

Auditors of PIEs will be subject to a maximum cap on non-audit fees. The cap equals 70% of audit fees based on a three-year rolling average. In addition there is a new list of prohibited activities for PIE audits which are broadly similar types of activities to those covered in current independence requirements, but with a wider scope and fewer exceptions.

The committees will continue to monitor these developments and consider the impact of these regimes on Investec's external audit arrangements as the UK implementation rules become clearer.

David Friedland
Chairman, audit committees

15 June 2016

REMUNERATION

The board believes that a properly constituted and effective remuneration committee is key to maintaining the link between pay and performance. Our remuneration 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 group.

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 group's short-, medium- and long-term success. In summary, we recognise that financial institutions have to divide 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 group-wide remuneration philosophy seeks to maintain an appropriate balance between the interests of these stakeholders, and is closely aligned to our core values and philosophies which include risk consciousness, meritocracy, material employee ownership and an unselfish contribution to colleagues, clients and society. Further information regarding our remuneration philosophy and processes and directors' remuneration is provided in Investec's 2016 integrated annual report.

PRA AND FCA REMUNERATION CODE DISCLOSURES

In terms of the PRA's Chapter on Disclosure Requirements (BIPRU 11.5.18) the bank in the UK is required to make certain quantitative and qualitative remuneration disclosures on an annual basis with respect to Material Risk Takers.

Material Risk Takers are defined as those employees (including directors) whose professional activities could have a material impact on the bank's risk profile.

These disclosures can be found in Investec's 2016 integrated annual report.

Executive directors

(details as at 30 June 2016)

STEPHEN KOSEFF (64)

Chief executive officer
BCom, CA(SA), H Dip BDP, MBA

Board committees: DLC board risk and capital, DLC capital and DLC social and ethics

Appointed to the board in October 1986.

Stephen joined Investec in 1980. He has had diverse experience within Investec as chief accounting officer and general manager of banking, treasury and merchant banking.

Other directorships include: Investec Bank Limited, Investec Bank plc and a number of Investec subsidiaries.

BERNARD KANTOR (66)

Managing director
CTA

Board committees: DLC board risk and capital, DLC capital and DLC social and ethics

Appointed to the board in June 1987.

Bernard joined Investec in 1980. He has had varied experience within Investec as a manager of the trading division, marketing manager and chief operating officer.

Other directorships include: Phumelela Gaming and Leisure Limited, Investec Bank Limited, Investec Bank plc and a number of Investec subsidiaries.

GLYNN R BURGER (59)

Group risk and finance director
BAcc, CA(SA), H Dip BDP, MBL

Board committees: DLC board risk and capital and DLC capital

Appointed to the board in July 2002.

Glynn joined Investec in 1980. His positions within Investec have included chief accounting officer, group risk manager and joint managing director for South Africa.

Other directorships include: Investec Bank Limited and a number of Investec subsidiaries.

HENDRIK J DU TOIT (54)

Investec Asset Management chief executive officer
BCom Law, BCom (Hons) (cum laude), MCom (cum laude), MPhil (Cambridge)

Appointed to the board in December 2010.

After lecturing economics at the University of Stellenbosch, Hendrik joined the Investment division of Old Mutual from where he moved to Investec in 1991 as portfolio manager and later chief executive officer of Investec Asset Management.

Other directorships include: Investec Asset Management Holdings (Pty) Ltd, Investec Asset Management Limited as well as their subsidiaries and Naspers Limited.

Non-executive directors

(details as at 30 June 2016)

FANI TITI (54)

Chairman
BSc (Hons), MA, MBA

Board committees: DLC remuneration, DLC board risk and capital, DLC nominations and directors' affairs and DLC social and ethics

Appointed to the board in January 2004.

Fani is chairman of Investec Bank Limited, Investec Bank plc and former chairman of Tiso Group Limited and former deputy chairman of the Bidvest Group.

Other directorships include: Investec Bank Limited (chairman), Investec Bank plc (chairman), Investec Employee Benefits Limited and Investec Asset Management Holdings (Pty) Ltd, Investec Asset Management Limited, Kumba Iron Ore Limited (chairman) and MRC Media (Pty) Ltd.

ZARINA BM BASSA (52)

BAcc, DipAcc, CA(SA)

Board committees: DLC audit, Investec plc and Investec Bank plc audit, Investec Limited and Investec Bank Limited audit, DLC board risk and capital and DLC remuneration

Appointed to the board in November 2014.

Zarina is the executive chairman of Songhai Capital. A former partner of Ernst & Young Inc., she joined the Absa Group in 2002 and was an executive director and a member of the bank's executive committee, with accountability for private banking. She has previously chaired the Public Accountants' and Auditors' Board, the Auditing Standards Board and the Accounting Standards Board and has been a member of the JSE GAAP Monitoring Panel.

Other directorships include: Financial Services Board, Investec Bank Limited, Kumba Iron Ore Limited, Oceana Group Limited, Sun International Limited, and Woolworths Holdings Limited.

LAUREL C BOWDEN (51)

National Higher Diploma Engineering, BSc, MBA

Board committees: DLC audit, Investec plc and Investec Bank plc audit, Investec Limited and Investec Bank Limited audit

Appointed to the board in January 2015.

Laurel is a partner at 83 North, where her areas of focus include internet, enterprise software and fintech. Laurel has over 15 years' investment experience and was previously a director at GE Capital in London, where she was responsible for acquisitions in consumer and transport finance in Europe.

Other directorships include: Bluevine Capital Inc., Ebury Partners Limited, 83 North, G&T Ventures Limited, iZettle AB, Notonthehighstreet Enterprises Limited and Wonga Group Limited.

CHERYL A CAROLUS (58)

BA (Law), BEd, Honorary doctorate in Law

Board committees: DLC social and ethics

Appointed to the board in March 2005.

Cheryl acted as the South African High Commissioner to London between 1998 and 2001 and was chief executive officer of South African Tourism.

Other directorships include: De Beers Consolidated Mines Limited, Gold Fields Limited, Mercedes-Benz South Africa (Pty) Ltd, WWF South Africa and International, IQ Business (Pty) Ltd, Ponahalo Capital (Pty) Ltd, executive chairperson of Peotona Group Holdings (Pty) Ltd, director of a number of the Peotona group companies and International Crisis Group.

PERRY KO CROSTHWAITE (67)

Senior independent director
MA (Hons) in modern languages

Board committees: DLC remuneration and DLC nominations and directors' affairs

Appointed to the board in June 2010.

Perry is a former chairman of Investec Investment Banking and Securities and director of Investec Bank plc.

Other directorships include: Investec Bank plc, Melrose Industries plc, Investec Holdings (Ireland) Limited and Investec Capital and Investments (Ireland) Limited.

DAVID FRIEDLAND (63)

BCom, CA(SA)

Board committees: DLC audit, Investec plc and Investec Bank plc audit, Investec Limited and Investec Bank Limited audit, DLC board risk and capital, DLC capital and DLC nominations and directors' affairs

Appointed to the board in March 2013.

David is a former partner of both Arthur Andersen and KPMG Inc. where he also served as head of audit and risk in KPMG, Cape Town.

Other directorships include: Investec Bank Limited, Investec Bank plc, The Foschini Group Limited, Pick n Pay Stores Limited and Pres Les (Pty) Ltd.

CHARLES R JACOBS (49)

LLB

Board committees: DLC remuneration

Appointed to the board in August 2014.

Charles is a partner of Linklaters LLP specialising in public and private M&A, capital raisings and initial public offerings, joint ventures, corporate governance and other corporate work.

Charles has been a solicitor at Linklaters for over 24 years and has been a partner since 1999.

Other directorships include: Fresnillo plc (non-executive director, senior independent director and chairman of the remuneration committee).

IAN R KANTOR (69)

BSc (Eng), MBA

Appointed to the board in July 1980.

Ian is a co-founder of Investec, served as the chief executive of Investec Bank Limited until 1985 and was the former chairman of Investec Holdings Limited.

Other directorships include: IdB Holdings SA (in which Investec Limited indirectly holds an 8.3% interest), Bank Insinger de Beaufort NV (where he is chairman of the management board), Investec Asset Management Holdings (Pty) Ltd and Investec Asset Management Limited.

LORD MALLOCH-BROWN KCMG (62)

BA (Hons) History, MA (Political Science)

Board committees: DLC social and ethics

Appointed to the board in August 2014.

Lord Malloch-Brown is a former chairman of Europe, Middle East and Africa at FTI Consulting.

From 2007 to 2009, Lord Malloch-Brown was a UK government minister. Lord Malloch-Brown was formerly the deputy secretary-general of the United Nations as well as development specialist at the World Bank and United Nations and a communications consultant and journalist with wide ranging experience of boards.

Other directorships include: Gadco Cooperatief U.A., Seplat Petroleum Development Company plc and Smartmatic Limited.

KHUMO L SHUENYANE (45)

Associate CA (Member of the Institute of Chartered Accountants in England and Wales), Bachelor in Social Science (International studies with Economics)

Board committees: DLC audit, Investec plc and Investec Bank plc audit, Investec Limited and Investec Bank Limited audit and DLC board risk and capital

Appointed to the board in August 2014.

Khumo is a chartered accountant (England and Wales), BEcon and International Studies and was previously group chief officer (Mergers and Acquisitions and International Business Development) of MTN Group Limited. Until 2007, Khumo was head of Principal Investments at Investec Bank Limited.

Other directorships include: Investec Bank Limited, Investec Employee Benefits Limited and Investec Property Fund Limited.

PETER RS THOMAS (71)

CA(SA)

Board committees: DLC audit, Investec plc and Investec Bank plc audit, Investec Limited and Investec Bank Limited audit, DLC board risk and capital, DLC nominations and directors' affairs and DLC social and ethics

Appointed to the board in June 1981.

Peter was the former managing director of The Unisec Group Limited.

Other directorships include: Investec Bank Limited, various Investec subsidiaries, JCI Limited and various unlisted companies.

Footnotes
- *Bradley Fried resigned as a director with effect from 1 April 2016.*
- *Haruko Fukuda OBE resigned as a director with effect from 6 August 2015.*

Details of the Investec committees can be found in Investec's 2016 integrated annual report.

Details of the board members of our major subsidiaries are available on our website.

Investec ordinary shares

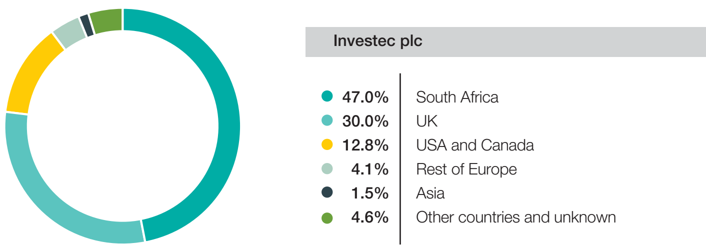
As at 31 March 2016 Investec plc had 617.4 million ordinary shares in issue.

SPREAD OF ORDINARY SHAREHOLDERS AS AT 31 MARCH 2016

Investec plc ordinary shares in issue

Number of shareholders	Holdings	% of total shareholders	Number of shares in issue	% of issued share capital
15 391	1 – 500	54.0%	2 831 046	0.4%
4 666	501 – 1 000	16.4%	3 579 883	0.6%
5 445	1 001 – 5 000	19.1%	12 289 439	2.0%
995	5 001 – 10 000	3.5%	7 249 498	1.2%
1 146	10 001 – 50 000	4.0%	27 647 593	4.5%
309	50 001 – 100 000	1.1%	21 977 520	3.5%
554	100 001 and over	1.9%	541 843 885	87.8%
28 506		**100.0%**	**617 418 864**	**100.0%**

GEOGRAPHICAL HOLDING BY BENEFICIAL ORDINARY SHARE OWNER AS AT 31 MARCH 2016



Largest ordinary shareholders as at 31 March 2016

In accordance with the terms provided for in section 793 of the UK Companies Act, 2006, the group has conducted investigations into the registered holders of its ordinary shares (including nominee and asset management companies) and the results are as discussed below.

INVESTEC PLC

Shareholder analysis by manager group	Number of shares	% holding
1. Public Investment Corporation (ZA)	47 208 864	7.6%
2. BlackRock Inc (UK & US)	31 339 094	5.1%
3. Allan Gray (ZA)	31 199 907	5.1%
4. Old Mutual (ZA)	25 291 526	4.1%
5. Prudential Group (ZA)	22 287 014	3.6%
6. T Rowe Price Associates (UK)	21 301 483	3.5%
7. Royal London Mutual Assurance Society (UK)	17 606 939	2.9%
8. Investec Staff Share Schemes (UK)	16 141 177	2.6%
9. State Street Corporation (UK and US)	15 671 161	2.5%
10. Legal & General Investment Mgt (UK)	15 555 721	2.5%
	243 602 886	**39.5%**

The top 10 shareholders account for 39.5% of the total shareholding in Investec plc. This information is based on a threshold of 20 000 shares. Some major fund managers hold additional shares below this, which may cause the above figures to be marginally understated.

Shareholder classification as at 31 March 2016

	Number of Investec plc shares	% holding
Public*	588 209 422	95.3%
Non-public	29 209 442	4.7%
Non-executive directors of Investec plc	3 645 183	0.6%
Executive directors of Investec plc	9 423 082	1.5%
Investec staff share schemes	16 141 177	2.6%
Total	**617 418 864**	**100.0%**

* *As per the JSE Listings Requirements.*

Share statistics

INVESTEC PLC

For the year ended	31 March 2016	31 March 2015	31 March 2014	31 March 2013	31 March 2012	31 March 2011	31 March 2010
Closing market price per share (Pounds Sterling)							
– year ended	5.13	5.61	4.85	4.59	3.82	4.78	5.39
– highest	6.47	6.06	5.08	5.14	5.22	5.50	5.62
– lowest	4.03	4.91	3.66	3.10	3.18	4.29	2.87
Number of ordinary shares in issue (million)[1]	617.4	613.6	608.8	605.2	598.3	537.2	471.1
Market capitalisation (£'million)[1]	3 167	3 442	2 953	2 778	2 286	2 568	2 539
Daily average volumes of share traded ('000)	1 474	2 170	1 985	1 305	1 683	1 634	1 933
Price earnings ratio[2]	12.4	14.2	12.8	12.7	12.0	11.1	12.0
Dividend cover (times)[2]	2.0	2.0	2.0	2.0	1.9	2.5	2.8
Dividend yield (%)[2]	4.1	3.5	3.9	3.9	4.5	3.6	3.0
Earnings yield (%)[2]	8.1	7.0	7.8	7.9	8.3	9.0	8.4

[1] *The LSE only includes the shares in issue for Investec plc, i.e. currently 617.4 million, in calculating market capitalisation, as Investec Limited is not incorporated in the UK.*

[2] *Calculations are based on the group's consolidated earnings per share before goodwill, acquired intangibles and non-operating items; and dividends per share as prepared in accordance with IFRS and denominated in Pounds Sterling.*

Investec perpetual preference shares

Investec plc has issued perpetual preference shares.

SPREAD OF PERPETUAL PREFERENCE SHAREHOLDERS AS AT 31 MARCH 2016

Investec plc perpetual preference shareholders

Number of shareholders	Holdings	% of total shareholders	Number of preference shares in issue	% of issued preference share capital
110	1 – 500	11.3%	29 252	0.2%
144	501 – 1 000	14.7%	118 700	0.8%
478	1 001 – 5 000	48.9%	1 016 526	6.7%
80	5 001 – 10 000	8.2%	610 432	4.0%
106	10 001 – 50 000	10.8%	2 306 340	15.3%
29	50 001 – 100 000	3.0%	1 969 828	13.1%
30	100 001 and over	3.1%	9 030 071	59.9%
977		**100.0%**	**15 081 149**	**100.0%**

Investec plc (Rand denominated) perpetual preference shareholders

Number of shareholders	Holdings	% of total shareholders	Number of preference shares in issue	% of issued preference share capital
90	1 – 500	21.5%	25 015	1.1%
81	501 – 1 000	19.4%	63 148	2.8%
169	1 001 – 5 000	40.4%	383 494	16.8%
33	5 001 – 10 000	7.9%	253 326	11.1%
37	10 001 – 50 000	8.8%	747 193	32.8%
4	50 001 – 100 000	1.0%	237 910	10.5%
4	100 001 and over	1.0%	565 854	24.9%
418		**100.0%**	**2 275 940**	**100.0%**

LARGEST PERPETUAL PREFERENCE SHAREHOLDERS AS AT 31 MARCH 2016

Shareholders holding beneficial interests in excess of 5% of the issued preference shares are as follows:

Investec plc perpetual preference shares
Pershing Nominees Limited (6.1%)
Chase Nominees Limited (Artemis) (6.6%)

Investec plc (Rand denominated) perpetual preference shares
NES Investments (Pty) Ltd (5.3%)
Regent Insurance Company Limited (6.6%)
Old Mutual Foundation Trust (8.1%)

Building trust and credibility among our stakeholders is vital to good business

The board recognises that effective communication is integral in building stakeholder value and is committed to providing meaningful, transparent, timely and accurate financial and non-financial information to primary stakeholders as defined below. The purpose is to help these stakeholders make meaningful assessments and informed investment decisions about the group.

We endeavour to present a balanced and understandable assessment of our position by addressing material matters of significant interest and concern. We seek to highlight the key risks to which we consider ourselves exposed and our responses to minimise the impact of these risks. Another objective is to show a balance between the positive and negative aspects of our activities in order to achieve a comprehensive and fair account of our performance.

As a requirement of our DLC structure, we comply with the disclosure obligations contained in the applicable listing rules of the UK Listing Authority (UKLA) and Johannesburg Stock Exchange (JSE) and other exchanges on which our shares are listed, and with any public disclosure obligations as required by the UK regulators and the South African Reserve Bank (SARB). We also recognise that from time to time we may be required to adhere to public disclosure obligations in other countries where we have operations.

The investor relations division has a day-to-day responsibility for ensuring appropriate communication with stakeholders and, together with the Company Secretarial and Finance divisions ensures that we meet our public disclosure obligations.

We have a board-approved policy statement in place to ensure that we comply with all relevant public disclosure obligations and uphold the board's communication and disclosure philosophy.

In 2014, we embarked on a robust process of engagement with internal and external stakeholders. This process went beyond our day-to-day engagement with stakeholders and involved an interview process of the Investec board of directors, executive, heads of business and employees and also external stakeholders such as industry associations, rating agencies, clients, investment analysts and NGOs. This process has allowed us to confirm the core sustainability issues for our stakeholders and ultimately guides our sustainability strategy.

Due to the nature of Investec's business the material aspects identified are considered unlikely to change in the short to medium term. As a result, Investec only repeats this comprehensive process every three to four years.

STAKEHOLDERS

Employees

- Communication policy
- Quarterly magazine (*Impact*)
- Staff updates hosted by executive management
- Group and subsidiary factsheets
- Tailored internal investor relations training
- Induction training for new employees

Investors and shareholders

- Annual general meeting
- Four investor presentations
- Stock exchange announcements
- Comprehensive investor relations website
- Shareholder roadshows and presentations
- Regular meetings with investor relations team and executive management
- Regular email and telephonic communication
- Annual and interim reports

Government and regulatory bodies

- Active participation in policy forums
- Response and engagement on regulatory matters
- Industry consultative bodies

Clients

- Four investor presentations
- Regular email and telephonic communication
- Comprehensive investor relations website
- Regular meetings with investor relations team and executive management
- Tailored client presentations
- Annual and interim reports
- Client relationship managers within the business

Suppliers

- Centralised negotiation process
- Ad hoc procurement questionnaires requesting information on suppliers environmental, social and ethical policies

Rating agencies

- Four investor presentations
- Regular email and telephonic communication
- Comprehensive investor relations website
- Regular meetings with investor relations team, group risk management and executive management
- Tailored presentations
- Tailored rating agency booklet
- Annual and interim reports

Media

- Regular email and telephonic communication
- Stock exchange announcements
- Comprehensive investor relations website
- Regular meetings with investor relations team and executive management

Equity and debt analysts

- Four investor presentations
- Stock exchange announcements
- Comprehensive investor relations website
- Regular meetings with investor relations team and executive management
- Regular email and telephonic communication
- Annual and interim reports

SUSTAINABILITY business practices

OUR SUSTAINABILITY PHILOSOPHY

Guided by our purpose to create sustained long-term wealth, we seek to be a positive influence in all our core businesses and in each of the societies in which we operate. We do this by empowering communities through entrepreneurship and education, and leveraging the value in our diversity. We recognise the challenges that climate change presents to the global economy and we will consider supporting any meaningful activity that either reduces the negative impact on or prolongs the life of our planet.

Investec as a responsible corporate

At Investec we recognise that while our shareholders remain at the forefront, our purpose ultimately is not only about driving profits. We strive to be a distinctive specialist bank and asset manager, demonstrating cast-iron integrity, moral strength and behaviour which promotes trust. Our core values include unselfishly contributing to society, valuing diversity and respecting others. Outstanding and empowered talent, entrepreneurial spirit and regard for the planet are other qualities that align with the culture of our organisation and our approach to responsible business.

Our culture and values demonstrate our belief that as an organisation we can and must have a positive impact on the success and well-being of communities local to our offices, the environment, and on overall macro-economic stability.

Our philosophy seeks to align the interests of shareholders and stakeholders over time, and provides the individual business units and regions with a basis from which to determine their own approach. The group's philosophy is not intended to be mutually exclusive or exhaustive, but allows us to concentrate, for now, on key focus areas. Deliberately not driven on a top-down basis, the executive maintains responsibility for oversight, direction, coordination and integration of our sustainability efforts while the individual business units provide the key drivers behind our activities, in a manner that best makes sense to each.

__Please refer to the website for Investec's full corporate citizenship statement.__

Sustainability at Investec

Investec's sustainability focus encompasses endurance and the interdependence of the three key areas of profit, people and planet:

PROFIT

FINANCIAL STRENGTH AND RESILIENCE

- Balanced and resilient business model.

RISK MANAGEMENT AND COMPLIANCE

- Strong risk consciousness
- Responsible banking practices
- Responsible lending and investing.

GOVERNANCE

- Strong culture and values to underpin our processes, functions and structures.

PEOPLE

SUPPORTING OUR EMPLOYEES

- Strong, diverse and capable workforce
- Provide a progressive work environment
- Respect and uphold human rights.

SUPPORTING OUR COMMUNITIES

- Education
- Entrepreneurship
- Environment.

PLANET

DIRECT IMPACT

- Reduce the operational impacts of our physical business.

INDIRECT IMPACT

- Embed environmental considerations into business activities
- Responsible financing and investing
- Funding renewable energy projects and green developments.

Sustainability at Investec is about:

- Building a sustainable business model to position the group for the long term so that Investec can make a valuable contribution to society and to macro-economic stability
- Attracting and developing a strong, diverse and capable workforce
- Unselfishly contributing to society and to the well-being of our communities, largely through education and entrepreneurship
- Understanding and managing our environmental footprint so we can make a positive impact through our operations and business activities
- Growing and preserving clients' and stakeholders' wealth based on relationships of trust.

__Our approach to sustainability is documented throughout this integrated annual report with further detail in a more extensive sustainability report on our website.__

Four

Annual financial
statements

The following statement, which should be read in conjunction with the auditor's report set out on page 152, is made with a view to distinguishing for stakeholders the respective responsibilities of the directors and of the auditors in relation to the special purpose consolidated annual financial statements.

The directors are responsible for the preparation, integrity and objectivity of the special purpose consolidated annual financial statements that fairly present the state of affairs of the company and the group at the end of the financial year and the net income and cash flows for the year, and other information contained in this 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 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 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 group 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) are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group's financial position and financial performance.

The special purpose consolidated annual financial statements have been prepared in accordance with accounting policies set out on pages 158 to 166.

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 annual financial statements have been prepared on that basis.

It is the responsibility of the independent auditors to report on the special purpose consolidated annual financial statements. Their report to the members of the company is set out on page 152 of this 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.

Approval of annual financial statements

The directors' report which appears on pages 145 to 148 was approved by the board of directors on 15 June 2016. The annual financial statements of the company, which are set out on pages 237 to 245, were approved by the board of directors on 9 June 2016. The special purpose consolidated annual financial statements of the group on pages 153 to 236 were approved by the board of directors on 15 June 2016.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the companies' website. Legislation in the United Kingdom governing the preparation and dissemination of the annual financial statements may differ from legislation in other jurisdictions.

Signed on behalf of the board

Stephen Koseff
Chief executive officer

Bernard Kantor
Managing director

15 June 2016

Strategic report

The strategic report for the year ended 31 March 2016 was approved by the board of directors on 15 June 2016. 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 operational and strategic report on pages 22 to 25 of volume one in Investec's 2016 integrated annual 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.

Extended business review

We are an international specialist bank and asset manager that provides a diverse range of financial products and services to a select client base in three principal markets, the United Kingdom, South Africa and Australia as well as certain other countries. Investec focuses on delivering distinctive profitable solutions for its clients in three core areas of activity namely, Asset Management, Wealth & Investment and Specialist Banking.

The information on pages 22 to 47 in volume one of Investec's 2016 integrated annual report provides an overview of our strategic position, performance during the financial year and outlook for the business.

Authorised and issued share capital

Details of the share capital are set out in note 41 to the annual financial statements.

During the year, the following shares were issued:

- 3 308 387 ordinary shares on 25 June 2015 at 599.00 pence per share
- 2 222 356 special converting shares on 25 June 2015 of £0.0002 each at par
- 3 392 727 special converting shares on 26 June 2015 of £0.0002 each at par
- 500 835 ordinary shares on 14 August 2015 at 599.00 pence per share.

Investec plc did not repurchase any of its ordinary shares during the financial year ended 31 March 2016.

Financial results

The combined results of Investec plc are set out in the annual financial statements and accompanying notes for the year ended 31 March 2016. The preparation of these combined results was supervised by the group risk and finance director, Glynn Burger.

Ordinary dividends

An interim dividend was declared to shareholders as follows:

- 9.5 pence per ordinary share to non-South African resident shareholders and South African resident shareholders (2014: 8.5 pence) registered on 11 December 2015 and was paid on 23 December 2015.

The directors have proposed a final dividend to shareholders registered on 29 July 2016 of 11.5 pence (2015: 11.5 pence) per ordinary share, which is subject to the approval of the members of Investec plc at the annual general meeting which is scheduled to take place on 4 August 2016 and, if approved, will be paid on 10 August 2016, as follows:

- 11.5 pence per ordinary share to non-South African resident shareholders (2015: 11.5 pence) registered on 29 July 2016
- To South African resident shareholders registered on 29 July 2016, through a dividend paid by Investec Limited on the SA DAS share, of 9.5 pence per ordinary share and 2.0 pence per ordinary share paid by Investec plc.

Preference dividends

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

Preference dividend number 19 for the period 1 April 2015 to 30 September 2015, amounting to 7.52055 pence per share, was declared to members holding preference shares registered on 4 December 2015 and was paid on 14 December 2015.

Preference dividend number 20 for the period 1 October 2015 to 31 March 2016, amounting to 7.52055 pence per share, was declared to members holding preference shares registered on 10 June 2016 and will be paid on 20 June 2016.

Rand-denominated non-redeemable, non-cumulative, non-participating preference shares

Preference dividend number 9 for the period 1 April 2015 to 30 September 2015, amounting to 445.06849 cents per share, was declared to members holding Rand-denominated non-redeemable, non-cumulative, non-participating preference shares registered on 4 December 2015 and was paid on 14 December 2015.

Preference dividend number 10 for the period 1 October 2015 to 31 March 2016, amounting to 470.25000 cents per share, was declared to members holding preference shares registered on 10 June 2016 and will be paid on 20 June 2016.

Directors and secretaries

Details of directors and secretaries of Investec plc are reflected on pages 126 to 128.

In accordance with the UK Corporate Governance Code, the entire board will offer itself for re-election at the 2016 annual general meeting.

H Fukuda, OBE did not offer herself for re-election at the annual general meeting held on 6 August 2015.

B Fried resigned from the board with effect from 1 April 2016.

The company secretary of Investec plc is David Miller.

Directors and their interests

Directors' shareholdings and options to acquire shares are set out in Investec's 2016 integrated annual report.

The register of directors' interests contains full details of directors' shareholdings and options to acquire shares.

Corporate governance

The group's corporate governance board statement and governance framework are set out on pages 110 to 133 in volume one of Investec's 2016 integrated annual report.

Share incentives

Details regarding options granted during the year are set out on page 179 in volume one of Investec's 2016 integrated annual report.

Audit committees

The audit committees comprising independent non-executive directors meet regularly with senior management, the external auditors, Operational Risk, Internal Audit, Compliance and the Finance division, to consider the nature and scope of the audit reviews and the effectiveness of our risk and control systems.

The report to shareholders by the chairman of the audit committees can be found in Investec's 2016 integrated annual report.

Auditors

Ernst & Young LLP have indicated their willingness to continue in office as auditors of Investec plc.

A resolution to reappoint them as auditors will be proposed at the annual general meeting scheduled to take place on 4 August 2016.

Contracts

Refer to Investec's 2016 integrated annual report for details of contracts with directors.

Subsidiary and associated companies

Details of principal subsidiary and associated companies are reflected on pages 228 to 231.

Major shareholders

The largest shareholders of Investec plc are reflected on page 139.

Special resolutions

At the annual general meeting held on 6 August 2015, special resolutions were passed in terms of which:

- A renewable authority was granted to Investec plc to acquire its own ordinary shares in accordance with the terms of section 701 of the Companies Act 2006
- A renewable authority was granted to Investec plc to acquire its own preference shares in accordance with the terms of section 701 of the Companies Act 2006.

Accounting policies and disclosure

Accounting policies are set having regard to commercial practice and comply with applicable United Kingdom law and International Financial Reporting Standards.

The parent company accounts of Investec plc are prepared under IFRS 101.

These policies are set out on pages 158 to 166 and 239 to 240 respectively.

Financial instruments

Detailed information on the group's risk management process and policy can be found in the risk management report on pages 45 to 119.

Information on the group's hedge accounting policy and the use of derivatives and hedges can be found on page 162 and 163 and in note 51 on page 225 and note 23 on page 199.

Employees

Our 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. Our policy is to adopt an open management style, thereby encouraging informal consultation at all levels about aspects of our operations, and motivating staff involvement in our performance by means of employee share schemes.

We are committed to ensuring the health, safety and welfare of our employees and to providing and maintaining safe working conditions. We have health and safety policies in all regions of operation that cover all legislated requirements and additional benefits are provided for staff where possible. We constantly seek to improve both policies and the execution of health and safety standards in all our offices.

This takes the form of staff education, regular fire drills and maintenance of an open door policy with regard to dialogue on the issue. Where appropriate, the appointment of individuals responsible for various areas of health and safety is made.

Further information is provided in Investec's 2016 integrated annual report.

Political donations and expenditure

Investec plc did not make any donations for political purposes in the UK or the rest of the EU, nor did it make any political donations to political parties or other political organisations, or to any independent election candidates, or incur any political expenditure during the year.

Environment, including greenhouse gas emissions

We are committed to pursuing sound environmental policies in all aspects of our business and seek to encourage and promote good environmental practice among our employees and within the community in which we operate.

Further information can be found in Investec's 2016 integrated annual report.

Going concern

Refer to page 128 for the directors' statement in relation to going concern.

Research and development

In the ordinary course of business, Investec plc develops new products and services in each of its business divisions.

Viability statement

Refer to pages 129 and 130 for the directors' viability statement.

Risk management policies

The group's policies for managing the financial risk to which it is exposed and exposure to price, credit, liquidity and cash flow risk are set out in the risk management section on pages 45 to 119.

Additional information for shareholders

Schedule A to the directors' report is a summary of certain provisions of Investec plc's current Articles of Association and applicable English law concerning companies (the UK Companies Act 2006).

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

On behalf of the board of Investec plc

Fani Titi
Chairman

Stephen Koseff
Chief executive officer

15 June 2016

Additional information for shareholders

Set out below is a summary of certain provisions of Investec plc's current Articles of Association (the Articles) and applicable English law concerning companies (the UK Companies Act 2006). This is a summary only and the relevant provisions of the Articles or the Companies Act 2006 should be consulted if further information is required.

Share capital

The issued share capital of Investec plc at 31 March 2016 consists of 617 418 864 ordinary shares of £0.0002 each, 15 081 149 non-redeemable, non-cumulative, non-participating preference shares of £0.01 each, 2 275 940 ZAR non-redeemable, non-cumulative, non-participating preference shares of R0.001 each, 285 748 623 special converting shares of £0.0002 each, the special voting share of £0.001, the UK DAN share of £0.001 and the UK DAS share of £0.001 (each class as defined in the Articles).

Purchase of own shares

Subject to the provisions of the Articles, the Companies Act 2006, the uncertificated securities regulations 2001 and every other statute for the time being in force concerning companies and affecting Investec plc, the approval of shareholders as provided in the Investec plc Articles, and without prejudice to any relevant special rights attached to any class of shares, Investec plc may purchase, or may enter into a contract under which it will or may purchase, any of its own shares of any class, including without limitation any redeemable shares, in any way and at any price (whether at par or above or below par).

Dividends and distributions

Subject to the provisions of the Companies Act 2006, Investec plc may by ordinary resolution from time to time declare dividends not exceeding the amount recommended by the board. The board may pay interim dividends whenever the financial position of Investec plc, in the opinion of the board, justifies such payment.

The board may withhold payment of all or any part of any dividends or other monies payable in respect of Investec plc's shares from a person with a 0.25% or more interest in nominal value of the issued shares if such a person has been served with a notice after failure to provide Investec plc with information concerning interests in those shares required to be provided under the Companies Act 2006.

Voting rights

Subject to any special rights or restrictions attaching to any class of shares, at a general meeting, every member present in person has, upon a show of hands, one vote and on a poll every member who is present in person or by proxy has one vote for each share. In the case of joint holders of a share, the vote of the senior who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the share. Under the Companies Act 2006 members are entitled to appoint a proxy, who need not be a member of Investec plc, to exercise all or any of their rights to attend and vote on their behalf at a general meeting or class meeting. A member may appoint more than one proxy in relation to a general meeting or class meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A member that is a corporation may appoint an individual to act on its behalf at a general meeting or class meeting as a corporate representative. The person so authorised shall be entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual member of Investec plc.

Restrictions on voting

No member shall be entitled to vote either in person or by proxy at any general meeting or class meeting in respect of any shares held by him if any call or other sum then payable by him in respect of that share remains unpaid. In addition, no member shall be entitled to vote if he has been served with a notice after failure to provide Investec plc with information concerning interests in those shares required to be provided under the Companies Act.

Deadlines for exercising voting rights

Votes are exercisable at a general meeting of Investec plc in respect of which the business being voted upon is being heard. Votes may be exercised in person, by proxy, or in relation to corporate members, by corporate representatives. The Articles provide a deadline for submission of proxy forms of not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting.

Variation of rights

Subject to the Companies Act 2006, the Articles specify that rights attached to any class of shares may be varied with the written consent of the holders of not less than three-fourths in nominal value of the issued shares of that class, or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of those shares. At every such separate general meeting the quorum shall be two persons or, if there is only one holder, that holder at least holding or representing by proxy at least one-third in nominal value of the issued shares of the class (calculated excluding any shares held as treasury shares). The rights conferred upon the holders of any shares shall not, unless otherwise expressly provided in the rights attaching to those shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with them. Where, under the company's share incentive plan, participants are the beneficial owners of the shares, but not the registered owners, the participants are not entitled to exercise any voting rights until the shares are released to the participants. Under the company's employee trust, the trustee does not vote in respect of unallocated shares.

Transfer of shares

All transfers of shares may be effected by transfer in writing in any usual or common form or in any other form acceptable to the directors. The instrument of transfer shall be signed by or on behalf of the transferor and (except in the case of fully paid shares) by or on behalf of the transferee. Transfers of shares which are in uncertificated form are effected by means of the CREST system.

The directors may, in the case of shares in certificated form, in their absolute discretion and without assigning any reason, refuse to register any transfer of shares (not being fully paid shares), provided that such discretion may not be exercised in such a way as to prevent dealings in the shares of that class from taking place on an open and proper basis. The directors may also refuse to register an allotment or transfer of shares (whether fully paid or not) in favour of more than four persons jointly. If the directors refuse to register an allotment or transfer they shall within two months after the date on which the letter of allotment or transfer was lodged with Investec plc send to the allottee or transferee a notice of the refusal.

The directors may decline to recognise any instrument of transfer unless the instrument of transfer is in respect of only one class of share and, when submitted for registration, is accompanied by the relevant share certificates and such other evidence as the directors may reasonably require. Subject to the Companies Act and regulations and applicable CREST rules, the directors may determine that any class of shares may be held in uncertificated form and that title to such shares may be transferred by means of the CREST system or that shares of any class should cease to be so held and transferred.

A number of the company's employee share plans include restrictions on transfer of shares while the shares are subject to the plans, in particular, the share incentive plan.

Plc preference shares

The following are the rights and privileges which attach to the plc preference shares:

- On a return of capital, whether or not on a winding up (but not on a redemption or purchase of any shares by Investec plc) or otherwise, the plc preference shares will rank, *pari passu in terse* and with the most senior ranking preference shares of Investec plc in issue (if any) from time to time and with any other shares of Investec plc that are expressed to rank *pari passu* therewith as regards participation in the capital, and otherwise in priority to any other class of shares of Investec plc
- Investec plc may, at its option, redeem all or any of the plc preference shares for the time being issued and outstanding on the first call date or any dividend payment date thereafter
- Holders of plc preference shares will not be entitled to attend and vote at general meetings of Investec plc. Holders will be entitled to attend and vote at a class meeting of holders of plc preference shares.

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

The following are the rights and privileges which attach to the perpetual preference shares:

- Each perpetual preference share will rank as regards dividends and a repayment of capital on the winding up of Investec plc prior to the ordinary shares, the plc special converting shares, the UK DAN share, the UK DAS share, but *pari passu* with the plc preference shares. The perpetual preference shares shall confer on the holders, on a per perpetual preference shares and equal basis, the right on a return of capital on the winding-up of Investec plc of an amount equal to the aggregate of the nominal value and premiums in respect of perpetual preference shares issued, divided by the number of perpetual preference shares in issue
- Each perpetual preference share may confer upon the holder thereof the right to receive out of the profits of Investec plc which it shall determine to distribute, in priority to the ordinary shares, the plc special converting shares, the UK DAN share and the UK DAS share, but *pari passu* with the plc preference shares, the preference dividend calculated in accordance with the Articles
- The holders of the perpetual preference shares shall be entitled to receive notice of and be present but not to vote, either in person or by proxy, at any meeting of Investec plc, by virtue of or in respect of the perpetual preference shares, unless either or both of the following circumstances prevail at the date of the meeting:
  - The preference dividend or any part thereof remains in arrears and unpaid as determined in accordance with Article 150.2(e)ii) after six months from the due date thereof; and/or
  - A resolution of Investec plc is proposed which resolution directly affects the rights attached to the perpetual preference shares or the interests of the holders thereof, or a resolution of Investec plc is proposed to wind up or in relation to the winding-up of Investec plc or for the reduction of its capital, in which event the preference shareholders shall be entitled to vote only on such resolution.

Rand-denominated non-redeemable, non-cumulative, non-participating perpetual preference shares (the ZAR perpetual preference shares)

The ZAR perpetual preference shares are subject to substantially similar terms and conditions as the existing Pounds Sterling non-redeemable, non-cumulative, non-participating preference shares, as outlined above, save that they are denominated in South African Rand.

Shares required for the DLC structure

Investec SSC (UK) Limited, a UK trust company, specially formed for the purpose of the DLC structure, holds the plc special voting share, the plc special converting shares, the UK DAN share and the UK DAS share. These shares can only be transferred to another UK trust company, in limited circumstances.

The plc special voting shares are specially created shares so that shareholders of both Investec plc and Investec Limited effectively vote together as a single decision-making body on matters affecting shareholders of both companies in similar ways, as set out in the Articles.

Prior to a change of control, approval of termination of the sharing agreement (which regulates the DLC), liquidation or insolvency of Investec plc, the plc special converting shares have no voting rights, except in relation to a resolution proposing the: (i) variation of the rights attaching to the shares or (ii) winding-up, and they have no rights to dividends. The special converting shares are held on trust for the Investec Limited ordinary shareholders. Investec plc and Investec Limited have established dividend access trust arrangements as part of the DLC.

Investec plc has issued two dividend access shares, the UK DAS share and UK DAN share which enables Investec plc to pay dividends to the shareholders of Investec Limited. This facility may be used by the board to address imbalances in the distributable reserves of Investec plc and Investec Limited and/or to address the effects of South African exchange controls and/or if they otherwise consider it necessary or desirable.

Appointment and replacement of directors

Directors shall be no less than four and no more than 20 in number. A director is not required to hold any shares of Investec plc by way of qualification. Investec plc may by special resolution increase or reduce the maximum or minimum number of directors.

Powers of directors

Subject to the Articles, the Companies Act 2006, the CREST regulations and every other statute for the time being in force concerning companies and affecting Investec plc, and any directions given by ordinary or special resolution, the business of Investec plc will be managed by the board who may exercise all the powers of Investec plc.

The board may exercise all the powers of Investec plc to borrow money and to mortgage or charge any of its undertaking, property, assets and uncalled capital and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of Investec plc or of any third party.

Significant agreements: change of control

The Articles of Association of both Investec plc and the Memorandum of Incorporation of Investec Limited ensure that a person cannot make an offer for one company without having made an equivalent offer to the shareholders of both companies on equivalent terms.

Pursuant to the terms of the agreements establishing the DLC structure, if either Investec plc or Investec Limited serves written notice on the other at any time after either party becomes a subsidiary of the other party or after both Investec plc and Investec Limited become subsidiaries of a third party the agreements establishing the DLC structure will terminate.

All of Investec plc's share plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control and, where applicable, subject to the satisfaction of any performance conditions at that time.

Independent auditor's report to the members of Investec plc

We have audited the accompanying special purpose annual financial statements of Investec plc for the year ended 31 March 2016 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity, and notes 1 to 57. The special purpose financial statements have been prepared by the directors in accordance with the accounting policies set out on pages 158 to 166.

Under the contractual arrangements implementing the dual listed companies structure, Investec plc and Investec Limited effectively form a single economic enterprise, in which the economic and voting rights of shareholders are equalised. In accordance with this structure the appropriate presentation under International Financial Reporting Standards is achieved by combining the results and the financial position of both companies using merger accounting principles. Those combined consolidated annual financial statements are prepared separately so as to show a true and fair view in accordance with International Financial Reporting Standards.

As explained in the accounting policies, these special purpose annual financial statements have been prepared to present the financial position, results and cash flows of Investec plc and its subsidiaries. For the avoidance of doubt, they exclude Investec Limited and its subsidiaries.

Directors' responsibility for the annual financial statements

The directors are responsible for the preparation of these annual financial statements in accordance with the accounting policies, and for such internal control as the directors determine is necessary to enable the preparation of the special purpose financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the special purpose financial statements of Investec plc for the year ended 31 March 2016 are prepared, in all material respects, in accordance with the accounting policies.

Basis of accounting and restriction on use

Without modifying our opinion, we draw attention to the accounting policies, which describes the basis of accounting. The special purpose financial statements are prepared to present the financial position and results of Investec plc and its directly owned subsidiaries as if the contractual arrangements which create the DLC structure did not exist. As a result, the special purpose financial statements may not be suitable for another purpose. Our auditor's report is intended solely for the board of Investec plc and should not be used by parties other than the board of Investec plc.

Other matter

Investec plc has prepared a separate set of statutory financial statements for the year ended 31 March 2016 in accordance with both International Financial Reporting Standards as adopted by the European Union and International Financial Reporting Standards as issued by the International Accounting Standards Board and Companies Act 2006 on which we issued a separate auditor's report to the shareholders of Investec plc dated 9 June 2016.

Ernst & Young LLP

Ernst & Young LLP
London

15 June 2016

Notes:
1. *The maintenance and integrity of the Investec 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 annual financial statements since they were initially presented on the website.*
2. *Legislation in the United Kingdom governing the preparation and dissemination of annual financial statements may differ from legislation in other jurisdictions.*

Consolidated income statement

For the year to 31 March £'000	Notes	2016	2015
Interest income	2	549 092	669 466
Interest expense	2	(288 147)	(341 984)
Net interest income		**260 945**	**327 482**
Fee and commission income	3	813 744	844 505
Fee and commission expense	3	(103 986)	(113 408)
Investment income	4	62 120	(2 210)
Trading income arising from:			
– customer flow		92 681	88 259
– balance sheet management and other trading activities		(7 983)	(28 186)
Other operating income	5	10 853	10 639
Total operating income before impairment losses on loans and advances		**1 128 374**	**1 127 081**
Impairment losses on loans and advances	26	(84 217)	(102 707)
Operating income		**1 044 157**	**1 024 374**
Operating costs	6	(863 648)	(895 586)
Depreciation on operating leased assets	31	(2 149)	(1 535)
Operating profit before goodwill and acquired intangibles		**178 360**	**127 253**
Impairment of goodwill	33	–	(4 376)
Amortisation of acquired intangibles	34	(14 477)	(14 497)
Operating profit		**163 883**	**108 380**
Net (loss) on disposal of subsidiaries	35	(4 805)	(93 060)
Profit before taxation		**159 078**	**15 320**
Taxation on operating profit before goodwill and acquired intangibles	8	(35 335)	(28 362)
Taxation on acquired intangibles and acquisition/disposal/integration of subsidiaries	8	4 701	(17 574)
Profit/(loss) after taxation		**128 444**	**(30 616)**
Profit attributable to Asset Management non-controlling interests		(10 263)	(10 053)
Loss attributable to other non-controlling interests		4 503	16 856
Earnings attributable to shareholders		**122 684**	**(23 813)**

Consolidated statement of comprehensive income

For the year to 31 March £'000	Notes	2016	2015
Profit/(loss) after taxation		**128 444**	**(30 616)**
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	–	1 040
(Gains)/losses on realisation of available-for-sale assets recycled through the income statement*	8	(1 298)	1 935
Fair value movements on available-for-sale assets taken directly to other comprehensive income*	8	(20 268)	(4 216)
Foreign currency adjustments on translating foreign operations		5 304	(51 484)
Items that will never be reclassified to the income statement			
Remeasurement of net defined benefit pension asset	8	4 738	6 340
Total comprehensive income/(loss)		**116 920**	**(77 001)**
Total comprehensive income/(loss) attributable to non-controlling interests		5 652	(6 807)
Total comprehensive income/(loss) attributable to ordinary shareholders		98 009	(84 722)
Total comprehensive income attributable to perpetual preferred securities		13 259	14 528
Total comprehensive income/(loss)		**116 920**	**(77 001)**

* *Net of taxation.*

Consolidated balance sheet

At 31 March £'000	Notes	2016	2015
Assets			
Cash and balances at central banks	17	2 638 069	2 181 242
Loans and advances to banks	18	1 112 441	1 053 932
Reverse repurchase agreements and cash collateral on securities borrowed	19	557 025	1 448 205
Sovereign debt securities	20	1 252 991	1 212 910
Bank debt securities	21	188 397	226 273
Other debt securities	22	393 652	222 485
Derivative financial instruments	23	837 558	775 021
Securities arising from trading activities	24	524 344	670 298
Investment portfolio	25	451 000	400 941
Loans and advances to customers	26	7 803 602	7 061 117
Other loans and advances	26	417 205	554 912
Other securitised assets	27	150 565	411 983
Interests in associated undertakings	28	23 587	21 931
Deferred taxation assets	29	85 050	73 618
Other assets	30	1 705 203	1 335 580
Property and equipment	31	56 374	63 069
Investment properties	32	79 051	65 736
Goodwill	33	356 994	356 090
Intangible assets	34	123 480	136 655
		18 756 588	**18 271 998**
Liabilities			
Deposits by banks		544 210	221 666
Derivative financial instruments	23	964 362	953 391
Other trading liabilities	36	226 598	251 879
Repurchase agreements and cash collateral on securities lent	37	281 260	597 259
Customer accounts (deposits)	19	10 808 980	10 306 331
Debt securities in issue		1 828 819	1 352 314
Liabilities arising on securitisation of other assets	27	120 617	330 526
Current taxation liabilities		140 959	104 605
Deferred taxation liabilities	29	33 834	45 403
Other liabilities	38	1 328 832	1 437 628
		16 278 471	**15 601 002**
Subordinated liabilities	40	597 309	596 923
		16 875 780	**16 197 925**
Equity			
Ordinary share capital	41	182	180
Perpetual preference share capital	42	151	151
Share premium	43	1 194 257	1 171 441
Treasury shares	44	(81 309)	(37 960)
Other reserves		(66 757)	1 782
Retained income		820 967	778 023
Shareholders' equity excluding non-controlling interests		**1 867 491**	**1 913 617**
Non-controlling interests	45	13 317	160 456
– Perpetual preferred securities issued by subsidiaries		–	144 598
– Non-controlling interests in partially held subsidiaries		13 317	15 858
Total equity		**1 880 808**	**2 074 073**
Total liabilities and equity		**18 756 588**	**18 271 998**

Consolidated cash flow statement

For the year to 31 March £'000	Notes	2016	2015
Profit before taxation adjusted for non-cash items	47	298 288	280 929
Taxation paid		(88 893)	(4 323)
Increase in operating assets	47	(207 739)	(119 790)
Increase in operating liabilities	47	710 217	171 050
Net cash inflow from operating activities		**711 873**	**327 866**
Cash flow on acquisition of subsidiaries	35	–	(6 503)
Cash flow on disposal of group operations and subsidiaries	35	–	226 291
Cash flow on net disposal of non-controlling interests		25	39
Cash flow on net (acquisition)/disposal of associates		(969)	131
Cash flow on acquisition of property, equipment and intangible assets		(16 969)	(29 937)
Cash flow on disposal of property, equipment and intangible assets		10 498	16 834
Net cash (outflow)/inflow from investing activities		**(7 415)**	**206 855**
Dividends paid to ordinary shareholders		(103 791)	(97 068)
Dividends paid to other equity holders		(23 939)	(24 015)
Proceeds on issue of shares, net of related costs		(119 316)	24 895
Cash flow on acquisition of treasury shares, net of related costs		(90 868)	(54 997)
Repayment of subordinated debt		–	(33 793)
Net cash outflow from financing activities		**(337 914)**	**(184 978)**
Effects of exchange rates on cash and cash equivalents		**19 571**	**12 434**
Net increase in cash and cash equivalents		**386 115**	**362 177**
Cash and cash equivalents at the beginning of the year		3 103 607	2 741 430
Cash and cash equivalents at the end of the year		**3 489 722**	**3 103 607**
Cash and cash equivalents is defined as including:			
Cash and balances at central banks		2 638 069	2 181 242
On demand loans and advances to banks		851 653	922 365
Cash and cash equivalents at the end of the year		**3 489 722**	**3 103 607**

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

Consolidated statement of changes in equity

FOUR

£'000	Ordinary share capital	Perpetual preference share capital	Share premium	Treasury shares
Balance at 1 March 2014	**178**	**151**	**1 146 548**	**(56 997)**
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	–	–	–	–
Remeasurement of net defined pension asset	–	–	–	–
Total comprehensive loss for the year	**–**	**–**	**–**	**–**
Share-based payments adjustments	–	–	–	–
Dividends paid to ordinary shareholders	–	–	–	–
Dividends declared to perpetual preference shareholders	–	–	–	–
Dividends paid to non-controlling interests	–	–	–	–
Issue of ordinary shares	2	–	24 893	–
Gain on transfer of non-controlling interests	–	–	–	–
Movement of treasury shares	–	–	–	19 037
Transfer to capital reserve account	–	–	–	–
Transfer to regulatory general risk reserve	–	–	–	–
At 31 March 2015	**180**	**151**	**1 171 441**	**(37 960)**
Movement in reserves 1 April 2015 – 31 March 2016				
Profit after taxation	–	–	–	–
Gains on realisation of available-for-sale assets recycled through the income statement	–	–	–	–
Fair value movements on available-for-sale assets	–	–	–	–
Foreign currency adjustments on translating foreign operations	–	–	–	–
Remeasurement of net defined pension asset	–	–	–	–
Total comprehensive income for the year	**–**	**–**	**–**	**–**
Share-based payments adjustments	–	–	–	–
Dividends paid to ordinary shareholders	–	–	–	–
Dividends declared to perpetual preference shareholders	–	–	–	–
Dividends paid to non-controlling interests	–	–	–	–
Issue of ordinary shares	2	–	22 816	–
Redemption of non-controlling interests	–	–	–	–
Movement of treasury shares	–	–	–	(43 349)
Transfer to capital reserve account	–	–	–	–
Transfer to retained income reserve	–	–	–	–
At 31 March 2016	**182**	**151**	**1 194 257**	**(81 309)**

	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
260 851	**3 564**	**14 845**	**(7 091)**	**40 717**	**689 116**	**2 091 882**	**176 711**	**2 268 593**
–	–	–	–	–	(23 813)	(23 813)	(6 803)	(30 616)
–	–	–	1 040	–	–	1 040	–	1 040
–	1 935	–	–	–	–	1 935	–	1 935
–	(4 216)	–	–	–	–	(4 216)	–	(4 216)
–	–	(138)	62	(51 404)	–	(51 480)	(4)	(51 484)
–	–	–	–	–	6 340	6 340	–	6 340
–	**(2 281)**	**(138)**	**1 102**	**(51 404)**	**(17 473)**	**(70 194)**	**(6 807)**	**(77 001)**
–	–	–	–	–	35 050	35 050	–	35 050
–	–	–	–	–	(97 068)	(97 068)	–	(97 068)
–	–	–	–	–	(14 528)	(14 528)	–	(14 528)
–	–	–	–	–	–	–	(9 487)	(9 487)
–	–	–	–	–	–	24 895	–	24 895
–	–	–	–	–	(1 423)	(1 423)	39	(1 384)
(74 034)	–	–	–	–	–	(54 997)	–	(54 997)
(175 631)	–	–	–	–	175 631	–	–	–
–	–	(14 707)	5 989	–	8 718	–	–	–
11 186	**1 283**	**–**	**–**	**(10 687)**	**778 023**	**1 913 617**	**160 456**	**2 074 073**
–	–	–	–	–	122 684	122 684	5 760	128 444
–	(1 298)	–	–	–	–	(1 298)	–	(1 298)
–	(20 268)	–	–	–	–	(20 268)	–	(20 268)
–	–	–	–	5 412	–	5 412	(108)	5 304
–	–	–	–	–	4 738	4 738	–	4 738
–	**(21 566)**	**–**	**–**	**5 412**	**127 422**	**111 268**	**5 652**	**116 920**
–	–	–	–	–	27 706	27 706	–	27 706
–	–	–	–	–	(103 791)	(103 791)	–	(103 791)
–	–	–	–	–	(13 259)	(13 259)	–	(13 259)
–	–	–	–	–	–	–	(10 680)	(10 680)
–	–	–	–	–	–	22 818	–	22 818
–	–	–	–	–	–	–	(142 111)	(142 111)
(47 519)	–	–	–	–	–	(90 868)	–	(90 868)
455	–	–	–	–	(455)	–	–	–
–	–	–	–	(5 321)	5 321	–	–	–
(35 878)	**(20 283)**	**–**	**–**	**(10 596)**	**820 967**	**1 867 491**	**13 317**	**1 880 808**

ANNUAL FINANCIAL STATEMENTS

Basis of presentation

These annual financial statements have been prepared to present the financial position and results of Investec plc and its subsidiaries as if the contractual arrangements which create the dual listed company (DLC) structure did not exist and, with this exception and the exclusion of certain other remuneration and related party disclosures, are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). For an understanding of the financial position, results and cash flows of the Investec DLC group, the user is referred to Investec's integrated annual report.

Investec DLC group consists of two separate legal entities, being Investec plc and Investec Limited, that operate under a DLC structure. The effect of the DLC structure is that Investec plc and its subsidiaries and Investec Limited and its subsidiaries operate together as a single economic entity, with neither assuming a dominant role, and accordingly are reported as a single reporting entity under IFRS.

These group annual financial statements are prepared in accordance with IFRS, as adopted by the EU which comply with IFRSs as issued by the International Accounting Standards Board (IASB). At 31 March 2016, 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, and liabilities for pension fund surpluses and deficits that have been measured at fair value.

The accounting policies adopted by the group are consistent with the prior year.

Standards which became effective during the year did not have an impact on the group.

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 45 to 119.

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

Basis of consolidation

As discussed above, these annual financial statements have been prepared to present the financial position and results of Investec plc and its subsidiaries as if the contractual arrangements which create the DLC structure did not exist.

All subsidiaries or structured entities are consolidated when the group controls an investee. The group controls an investee if it is exposed to, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial results of subsidiaries are included in the consolidated annual financial statements of the group from the date on which control is obtained until the date the group can no longer demonstrate control.

The group performs a reassessment of control whenever there is a change in the substance of the relationship between Investec and an investee. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. Investec also holds investments, for example private equity investments, which give rise to significant, but not majority, voting rights. Assessing these voting rights and whether Investec controls these entities requires judgement that affects the date at which subsidiaries are consolidated or deconsolidated.

Entities, other than subsidiary undertakings, in which the group exercises significant influence over operating and financial policies, are treated as interests in associated undertakings. Interests in associated undertakings are accounted for using the equity method from the date that significant influence commences until the date that significant influence ceases. In circumstances where interests in associated undertakings or joint venture holdings arise in which the group has no strategic intention, these investments are classified as 'venture capital' holdings and are designated as held at fair value through profit or loss.

For equity accounted associates, the consolidated annual financial statements include the attributable share of the results and reserves of associated undertakings. The group's interests in associated undertakings are included in the consolidated balance sheet at cost plus the post-acquisition changes in the group's share of the net assets of the associate.

The consolidated balance sheet reflects the associated undertakings net of accumulated impairment losses.

All intergroup balances, transactions and unrealised gains or 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 three principal business divisions, namely, Asset Management, Wealth & Investment and Specialist Banking.

Group costs that are disclosed separately largely relate to group brand and marketing costs and a portion of executive and support functions which are associated with group-led activities. These costs are not incurred by the operating divisions and are necessary to support the operational functioning of the group.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at the acquisition date fair value and the amount of any prior non-controlling interest in the acquiree. For each business combination, the group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed immediately in the income statement.

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and the designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the group's previously held equity interest in the acquiree is remeasured to fair value at each acquisition date through the income statement.

Any contingent consideration to be transferred by the group will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in the income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration and amount recognised for non-controlling interest is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the income statement as a gain in the year of acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. The group tests goodwill acquired in a business combination for impairment annually, irrespective of whether an indication of impairment exists and in accordance with IAS 36.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash generating units that are expected to benefit from the combination.

Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the cash-generating units retained.

Share-based payments to employees

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

Foreign operations are subsidiaries, interests in associated undertakings or branches of the group, the activities of which are based in a functional currency other than that of the reporting entity. The functional currency of group entities is determined based on the primary economic environment in which the entity operates.

Foreign currency transactions are translated into the functional currency of the entity in which the transactions arise based on rates of exchange ruling at the date of the transactions.

At each balance sheet date foreign currency items are translated as follows:

- Monetary items (other than monetary items that form part of the net investment in a foreign operation) are translated using closing rates, with gains or losses recognised in the income statement
- Exchange differences arising on monetary items that form part of the net investment in a foreign operation are determined using closing rates and recognised as a separate component of equity (foreign currency translation reserve) upon consolidation and is reclassified to the income statement upon disposal of the net investment
- Non-monetary items that are measured at historical costs are translated using the exchange rates ruling at the date of the transaction.

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

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

Revenue recognition

Revenue consists of interest income, fee and commission income, investment income, trading income arising from customer flow, trading income arising from balance sheet management and other trading activities and other operating income.

Revenue is recognised when it can be reliably measured and it is probable that the economic benefits will flow to the entity. Revenue related to provision of services is recognised when the related services are performed. Revenue is measured at the fair value of the consideration received or receivable.

Interest income is recognised in the income statement using the effective interest rate method. Fees charged on lending transactions are included in the effective yield calculation to the extent that they form an integral part of the effective interest rate yield, but exclude those fees earned for a separately identifiable significant act, which are recognised upon completion of the act. Fees and commissions charged *in lieu* of interest are recognised as income as part of the effective interest rate on the underlying loan.

The effective interest rate method is based on the estimated life of the underlying instrument and where this estimate is not readily available, the contractual life.

Fee and commission income includes fees earned from providing advisory services as well as portfolio management and includes rental income from investment properties. Investment advisory and management fees are accrued over the period to which the income relates. Performance fees are recognised when they become receivable. No revenue is recognised if there are significant uncertainties regarding 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 or losses arising from balance sheet management.

Trading profit includes the unrealised profit on trading portfolios, which are marked-to-market daily. Equity investments received *in lieu* of corporate finance fees are included in investment portfolio and valued accordingly.

Dividend income is recognised when the group's right to receive payment is established.

Included in other operating income is incidental rental income, gains on realisation of properties (other than investment properties which is included in investment income), operating lease income, income from interests in associated undertakings and revenue from consolidated private equity investments. Operating costs associated with these investments are included in operating costs in the income statement.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the group measures the fair value of an instrument using the quoted price in an active market for that instrument.

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The group classifies disclosed fair values according to a hierarchy that reflects the significance of observable market inputs.

A transfer is made between the hierarchy levels when the inputs have changed or there has been a change in valuation method. Transfers are deemed to occur at the end of each semi-annual reporting period.

Financial instruments

Financial instruments are initially recognised at their fair value. For financial assets or financial liabilities not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities are included in the initial measurement. All other transaction costs are recorded in the income statement immediately.

Regular way purchase and sales transactions in respect of financial assets that require delivery of a financial instrument within the 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 initially recorded at fair value on the balance sheet with changes in fair value subsequently recognised in the income statement. Financial instruments are classified as trading when they are held with the intention of short-term disposal, held with the intention of generating short-term profit, or are derivatives which are not designated as part of effective hedges. Financial instruments designated as held at fair value through profit or loss are designated as such on initial recognition of the instrument and remain in this classification until derecognition.

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

- they eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; 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 rate method, less impairment losses.

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

LOANS AND RECEIVABLES

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

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

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

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

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

SECURITISATION/CREDIT INVESTMENT AND TRADING ACTIVITIES EXPOSURES

The group makes use of securitisation vehicles as a source of finance, as a means of risk transfer and to leverage returns through the retention of equity tranches in low default rate portfolios. The group predominantly focuses on the securitisation of 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 has the ability to affect those returns through its power over the investee.

Loans and advances that are originated are transferred to structured entities, and the structured entities issue debt securities to external investors to fund the purchase of the securitised assets. When the group consolidates the structured entity, the group recognises the assets and liabilities on a gross basis. When the group does not consolidate the structured entity, the 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 or 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 in the income statement as interest income using the effective interest rate. Dividends earned while holding available-for-sale financial assets are recognised in the income statement when the right to payment has been established.

If an available-for-sale instrument is determined to be impaired, the respective cumulative unrealised losses previously recognised in other comprehensive income are included in the income statement in the period in which the impairment is identified.

Impairments on available-for-sale equity instruments are not reversed once recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed, limited to the impairment value previously recognised in the income statement.

FINANCIAL LIABILITIES

Financial liabilities are classified as non-trading, held-for-trading or designated as held at fair value through profit or loss.

Non-trading liabilities are recorded at amortised cost applying the effective interest rate method.

Held-for-trading liabilities or liabilities designated as held at fair value through profit or loss are measured at fair value.

All changes in fair value of financial liabilities are recognised in the income statement.

DAY-ONE PROFIT OR LOSS

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

In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised or over the life of the transaction.

IMPAIRMENTS OF FINANCIAL ASSETS HELD AT AMORTISED COST

Financial assets carried at amortised cost are impaired if there is objective evidence that the group would not receive cash flows according to the original contractual terms. Financial assets are assessed for impairment at each balance sheet date and when an indicator of impairment is identified.

The test for impairment is based either on specific financial assets or collectively on a portfolio of similar homogeneous assets. Over and above individual collective impairments raised at specific portfolio levels, the group recognises a collective impairment allowance at a central level (within the Specialist Banking business segment) that takes into account macroeconomic factors, mainly driven by data related to the prevailing credit markets and which indicate incurred but not specifically identified losses across the loan portfolios (that is, exposures in all business segments). Assets specifically identified as impaired are excluded from the collective assessment.

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

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

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

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

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

A financial asset, or a portion thereof, is derecognised when the group's rights to cash flows have expired or when the group has transferred its rights to cash flows relating to the financial assets and either (a) the group has transferred substantially all the risks and rewards associated with the financial assets or (b) the group has neither transferred nor retained substantially all the risks and rewards associated with the financial assets but has transferred control of the assets.

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

RECLASSIFICATION OF FINANCIAL INSTRUMENTS

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

DERIVATIVE INSTRUMENTS

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

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

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

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

HEDGE ACCOUNTING

The group applies either fair value or 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 the income statement
- 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 standalone derivative if and only if:

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

OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

ISSUED DEBT AND EQUITY FINANCIAL INSTRUMENTS

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

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

Equity instruments issued by subsidiaries of Investec plc are recorded as non-controlling interests on the balance sheet.

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

Treasury shares represent Investec plc shares repurchased by the group which has not been cancelled. Treasury shares are deducted from shareholders' equity and represent the purchase consideration, including directly attributable costs. Where treasury shares are subsequently sold or reissued, net proceeds received are included in shareholders' equity.

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 plc shareholders.

SALE AND REPURCHASE AGREEMENTS (INCLUDING SECURITIES BORROWING AND LENDING)

Securities sold subject to a commitment to repurchase, at a fixed price or a selling price plus a lender's return, 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 on the balance sheet. Securities lending and borrowing transactions which are cash collateralised are accounted for in the same manner as securities sold or purchased subject to repurchase commitments.

FINANCIAL GUARANTEES

Financial guarantee contracts issued by the group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due, in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at fair value, adjusted for the transaction costs that are directly attributable to the issuance of the guarantee.

Subsequent to initial recognition, the liability under each guarantee is measured at the higher of the amount recognised less cumulative amortisation and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Subsequent to initial measurement, all changes in the balance sheet carrying value are recognised in the income statement.

INSTALMENT CREDIT, LEASES AND RENTAL AGREEMENTS

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset/assets, even if that right is not explicitly specified in an arrangement.

A finance lease is a lease that transfers substantially all of the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

Where classified as a finance lease, amounts outstanding on these contracts, net of unearned finance charges, are included in loans and advances where the 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 the income statement in proportion to the capital balances outstanding at the rate implicit in the agreement.

Where classified as operating leases, rentals payable/receivable are charged/credited in the income statement on a straight-line basis over the lease term. Contingent rentals are accrued to the income statement when incurred.

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and impairments.

Cost is the cash equivalent paid or the fair value of the consideration given to acquire an asset and includes other expenditures that are directly attributable to the acquisition of the asset.

Depreciation is provided on the depreciable amount of each component on a straight-line basis over the expected useful life of the asset.

The depreciable amount related to each asset is determined as the difference between the cost and the residual value of the asset. The residual value is the estimated amount, net of disposal costs, that the group would currently obtain from the disposal of an asset in similar age and condition as expected at the end of its useful life.

The current and comparative annual depreciation rates for each class of property and equipment is as follows:

- Computer and related equipment 20% to 33%
- Motor vehicles 20% to 25%
- Furniture and fittings 10% to 20%
- Freehold buildings 2%
- Leasehold property and improvements*

* *Leasehold improvements depreciation rates are determined by reference to the appropriate useful life of its separate components, limited to the period of the lease. Leasehold property depreciation rates are determined by reference to the period of the lease.*

No depreciation is provided on freehold land. However, similar to other property-related assets, it is subject to impairment testing when an indication of impairment exists.

Routine maintenance and service costs for group assets are expensed as incurred. Subsequent expenditure is only capitalised if it is probable that future economic benefits associated with the item will flow to the group.

Investment properties

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

Fair value of investment 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. Intangible assets with a finite life, are amortised over the useful economic life (currently three to twenty years) on a straight line basis. The depreciable amount related to each intangible asset is determined as the difference between the cost and the residual value of the asset.

Impairment of non-financial assets

At each balance sheet date, the group reviews the carrying value of non-financial assets, other than investment 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 amount.

Impairment losses are recognised as an expense in the income statement in the period in which they are identified. Reversals of impairment losses are recognised in income in the period in which the reversals are identified, to the extent that the carrying value of the asset does not exceed the amount that would have been calculated without impairment.

Trust and fiduciary activities

The group acts as a trustee or in other fiduciary capacities that result in the holding, placing or managing of assets for the account of and at the risk of clients.

As these are not assets of the group, they are not recognised on the balance sheet but are included at market value as part of assets under administration.

Taxation and deferred taxation

Current taxation payable is provided for based on the amount expected to be payable on taxable profit at rates that are enacted or substantively enacted and applicable to the relevant period.

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

- The initial recognition of goodwill
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction has no effect on the income statement or taxable profit
- In respect of temporary differences associated with the investments in

subsidiaries and interests in associated undertakings, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred taxation 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 and two closed defined benefit schemes.

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

The assets of the defined benefit schemes are measured at their market value at the balance sheet date and the liabilities of the schemes are measured using the projected unit credit method. The discount rate used to measure the schemes' liabilities is the current rate of return on an AA corporate bond at the balance sheet date of equivalent term and currency to the liabilities. The extent to which the schemes' assets exceed or fall short of the schemes' liabilities is shown as a surplus (to the extent that it is considered recoverable) or deficit in the balance sheet.

Actuarial gains and losses related to the defined benefit asset or liability are recognised immediately directly in other comprehensive income.

The group has no liabilities for other postretirement benefits.

Borrowing costs

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

Provisions, contingent liabilities and contingent assets

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

Standards and interpretations issued but not yet effective

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

IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 Financial Instruments was issued in July 2014 and will replace certain key elements of IAS 39. The mandatory effective date for IFRS 9 is for annual periods beginning on or after 1 January 2018 with early adoption permitted. IFRS 9 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 or losses on assets held at fair value are recognised in the income statement unless the entity has elected to recognise gains or losses on non-trading equity investments directly through comprehensive income. With reference to financial liabilities held at fair value, the standard proposes that changes to fair value attributable to credit risk are recognised directly in other comprehensive income without recycling through the income statement;
- impairment methodology: the key change is related to a shift from an incurred loss to an expected loss impairment methodology. At initial recognition an allowance (or provision in the case of commitments and guarantees) is required for expected credit losses (ECL) resulting from default events that are possible within the next 12 months (12-month ECL). In the event of a significant increase in credit risk since initial recognition, IFRS 9 requires the recognition of lifetime expected credit losses. Impairment measurement will involve increased complexity and significant judgements on areas such as the estimation of probabilities of default, loss given default, unbiased future economic scenarios, estimation of expected lives, estimation of exposures at default and assessing whether a significant increase in credit risk has occurred.

IFRS 9 also includes guidance on hedge accounting. The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. The standard does not address macro hedge accounting strategies, which are being considered in a separate project. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge accounting requirements, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting. The group intends to continue applying IAS 39's hedge accounting requirements until this section of IFRS 9 has been finalised.

The group has established an IFRS 9 steering committee comprising of executive representation and key management from Risk, Finance, Analytics and IT. The committee is accountable for IFRS 9 implementation and is supported by working groups responsible for different work streams. The committee provides updates on the status of the project to the appropriate board committees.

Current assessment of classification and measurement.

The group expects that generally:

- loans and advances to banks and to customers and non-trading reverse repurchase agreements that are classified as loans and receivables under IAS 39 will be measured at amortised cost under IFRS 9, with the exception of current investments for which embedded derivatives are recognised separately unless a separate derivative instrument can be recognised, the entire loan would be recognised at fair value;
- financial assets designated at fair value through profit or loss (FVTPL) under IAS 39 will be measured at FVTPL under IFRS 9;
- certain debt securities held within the group's credit portfolio may be reclassified from available for sale to amortised cost. The remaining debt securities classified as available for sale will be measured at fair value through other comprehensive income (FVOCI) under IFRS 9; and
- equity instruments securities classified as available-for-sale or FVTPL will be measured at FVTPL under IFRS 9.

The group continues to assess the impact of this standard, but expects that the recognition and measurement basis of the majority of the group's financial assets will be largely unchanged on application of IFRS 9.

Current assessment of impairments

As noted, the group would also shift its impairment methodology from the current incurred loss basis to expected loss. We are in the process of developing models to determine expected credit losses for exposures subject to credit risk that are not carried at fair value through profit or loss.

We are also reviewing key definitions such as significant deterioration in credit quality and default against our current asset quality classifications. This process includes participation in industry/regulatory discussions and workshops.

We will incorporate IFRS 9 requirements into our group credit risk classification and provisioning policy.

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's current measurement and recognition principles are aligned to the standard and we do not anticipate an impact to measurement principles currently applied. The impact of the disclosure requirements of the standard is currently being assessed.

IFRS 16 LEASES

In January 2016, the IASB issued IFRS 16 Leases. The standard is effective for annual periods beginning on or after 1 January 2019. Earlier adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 Leases. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the period of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17. The group is currently assessing the impact of this standard but it is not practicable to quantify the effect as at the date of the publication of these financial statements.

All other standards and interpretations issued but not yet effective are not expected to have a material impact on the group.

Key management assumptions

In preparation of the annual financial statements, the group makes estimations and applies judgement that could affect the reported amount of assets and liabilities within the next financial year. Key areas in which judgement is applied include:

- Valuation of unlisted investments 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
- 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 group's income tax charge and balance sheet provision are judgemental in nature. This arises from certain transactions for which the ultimate tax treatment can only be determined by final resolution with the relevant local tax authorities. The group has recognised in its current tax provision certain amounts in respect of taxation that involve a degree of estimation and uncertainty where the tax treatment cannot finally be determined until a resolution has been reached by the relevant tax authority. The carrying amount of this provision is sensitive to the resolution of issues, which is often dependent on the timetable and progress of discussion and negotiations with the relevant tax authorities, arbitration process and legal proceedings in the relevant tax jurisdictions in which the group operates. Issues can take many years to resolve and assumptions on the likely outcome would therefore have to be made by the group.
- The nature of any assumptions made, when calculating the carrying amounts relating to any estimated tax which could be payable as a result of decisions by tax authorities in respect of any such transactions and events whose treatment for tax purposes, is uncertain. In making any estimates, management's judgement would be based on various factors, including any such transactions and events whose treatment for tax purposes is uncertain. In making any estimates, management's judgement has been based on various factors, including:
  - the current status of tax audits and enquiries;
  - the current status of discussions and negotiations with the relevant tax authorities;
  - the results of any previous claims; and
  - any changes to the relevant tax environments.

  Where appropriate the group has utilised expert external advice as well as experience of similar situations elsewhere in making any such provisions.

  - Determination of interest income and interest expense using the effective interest rate method involves judgement in determining the timing and extent of future cash flows.

For the year to 31 March £'000	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Total group
1. Consolidated segmental analysis					
2016					
Segmental business analysis – income statement					
Net interest income	290	4 064	256 591	–	260 945
Fee and commission income	375 312	246 202	192 230	–	813 744
Fee and commission expense	(100 060)	(1 209)	(2 717)	–	(103 986)
Investment income	–	5 817	56 303	–	62 120
Trading income arising from					
– customer flow	–	333	92 348	–	92 681
– balance sheet management and other trading activities	1 656	236	(9 875)	–	(7 983)
Other operating income	(1 135)	1 191	10 797	–	10 853
Total operating income before impairment on loans and advances	**276 063**	**256 634**	**595 677**	**–**	**1 128 374**
Impairment losses on loans and advances	–	–	(84 217)	–	(84 217)
Operating income	**276 063**	**256 634**	**511 460**	**–**	**1 044 157**
Operating costs	(199 210)	(193 507)	(435 771)	(35 160)	(863 648)
Depreciation on operating leased assets	–	–	(2 149)	–	(2 149)
Operating profit/(loss) before goodwill and acquired intangibles	**76 853**	**63 127**	**73 540**	**(35 160)**	**178 360**
Operating loss attributable to other non-controlling interests	–	–	4 503	–	4 503
Operating profit/(loss) before goodwill, acquired intangibles and after other non-controlling interests	**76 853**	**63 127**	**78 043**	**(35 160)**	**182 863**
Operating profit attributable to Asset Management non-controlling interests	(10 263)	–	–	–	(10 263)
Operating profit/(loss) before goodwill, acquired intangibles and after non-controlling interests	**66 590**	**63 127**	**78 043**	**(35 160)**	**172 600**
Selected returns and key statistics					
Cost to income ratio	72.2%	75.4%	73.4%	> 100%	76.7%
Total assets (£'million)	371	1 026	17 360	–	18 757
2015					
Segmental business analysis – income statement					
Net interest income	300	6 209	320 973	–	327 482
Fee and commission income	360 032	239 584	244 889	–	844 505
Fee and commission expense	(92 921)	(923)	(19 564)	–	(113 408)
Investment income	–	3 486	(5 696)	–	(2 210)
Trading income arising from					
– customer flow	–	895	87 364	–	88 259
– balance sheet management and other trading activities	1 501	356	(30 043)	–	(28 186)
Other operating income	136	1 276	9 227	–	10 639
Total operating income before impairment losses on loans and advances	**269 048**	**250 883**	**607 150**	**–**	**1 127 081**
Impairment losses on loans and advances	–	–	(102 707)	–	(102 707)
Operating income	**269 048**	**250 883**	**504 443**	**–**	**1 024 374**
Operating costs	(193 557)	(194 012)	(477 969)	(30 048)	(895 586)
Depreciation on operating leased assets	–	–	(1 535)	–	(1 535)
Operating profit/(loss) before goodwill and acquired intangibles	**75 491**	**56 871**	**24 939**	**(30 048)**	**127 253**
Operating loss attributable to other non-controlling interests	–	–	16 856	–	16 856
Operating profit/(loss) before goodwill, acquired intangibles and after other non-controlling interests	**75 491**	**56 871**	**41 795**	**(30 048)**	**144 109**
Operating profit attributable to Asset Management non-controlling interests	(10 053)	–	–	–	(10 053)
Operating profit/(loss) before goodwill, acquired intangibles and after non-controlling interests	**65 438**	**56 871**	**41 795**	**(30 048)**	**134 056**
Selected returns and key statistics					
Cost to income ratio	71.9%	77.3%	78.9%	> 100%	79.6%
Total assets (£'million)	329	897	17 046	–	18 272

No geographical segmental analysis is provided as the group operates in a single significant geography.

For the year to 31 March 2016 £'000	Notes	Balance sheet value	Interest received
2. Net interest income			
Cash, near cash and bank debt and sovereign debt securities	1	5 748 923	47 481
Core loans and advances	2	7 803 602	427 601
Private client		3 510 327	150 060
Corporate, institutional and other clients		4 293 275	277 541
Other debt securities and other loans and advances		810 857	74 010
Other interest-earning assets	3	–	–
Total interest-earning assets		**14 363 382**	**549 092**

For the year to 31 March 2016 £'000	Notes	Balance sheet value	Interest paid
Deposits by banks and other debt-related securities	4	2 654 289	106 707
Customer accounts		10 808 980	124 569
Other interest-bearing liabilities	5	–	–
Subordinated liabilities		597 309	56 871
Total interest-bearing liabilities		**14 060 578**	**288 147**
Net interest income			**260 945**

For the year to 31 March 2015 £'000	Notes	Balance sheet value	Interest received
Cash, near cash and bank debt and sovereign debt securities	1	6 122 562	50 150
Core loans and advances	2	7 061 117	424 071
Private client		3 341 861	169 272
Corporate, institutional and other clients		3 719 256	254 799
Other debt securities and other loans and advances		777 397	102 066
Other interest-earning assets	3	411 983	93 179
Total interest-earning assets		**14 373 059**	**669 466**

For the year to 31 March 2015 £'000	Notes	Balance sheet value	Interest paid
Deposits by banks and other debt-related securities	4	2 171 239	51 286
Customer accounts		10 306 331	163 388
Other interest-bearing liabilities	5	330 526	67 429
Subordinated liabilities		596 923	59 881
Total interest-bearing liabilities		**13 405 019**	**341 984**
Net interest income			**327 482**

1. *Comprises (as per the balance sheet) cash and balances at central banks; loans and advances to banks; reverse repurchase agreements and cash collateral on securities borrowed; sovereign debt securities; and bank debt securities.*
2. *Comprises (as per the balance sheet) loans and advances to customers.*
3. *Comprises in the prior year (as per the balance sheet) other securitised assets. In the current year no securitised assets are held at amortised cost.*
4. *Comprises (as per the balance sheet) deposits by banks; debt securities in issue; and repurchase agreements and cash collateral on securities lent.*
5. *Comprises in the prior year (as per the balance sheet) liabilities arising on securitisation of other assets. In the current year no liabilities arising on securitisation are held at amortised cost.*

For the year to 31 March £'000	2016	2015
3. Net fee and commission income		
Asset management and wealth management businesses net fee and commission income	**520 245**	**505 772**
Fund management fees/fees for assets under management	567 257	540 050
Private Client transactional fees	54 257	59 566
Fee and commission expense	(101 269)	(93 844)
Specialist Banking net fee and commission income	**189 513**	**225 325**
Corporate and institutional transactional and advisory services	164 088	219 870
Private client transactional fees	28 142	25 019
Fee and commission expense	(2 717)	(19 564)
Net fee and commission income	**709 758**	**731 097**
Annuity fees (net of fees payable)	542 128	541 327
Deal fees	167 630	189 770

For the year to 31 March £'000	2016	2015
4. Investment income		
Realised	44 135	80 014
Unrealised	(2 311)	(90 296)
Dividend income	15 419	5 878
Funding and other net related income	4 877	2 194
	62 120	**(2 210)**

4. Investment income
(continued)

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
2016					
Realised	10 319	31 143	–	2 673	44 135
Unrealised	15 562	(7 468)	1 282	(11 687)	(2 311)
Dividend income	15 419	–	–	–	15 419
Funding and other net related income	–	–	–	4 877	4 877
Total investment income	**41 300**	**23 675**	**1 282**	**(4 137)**	**62 120**
2015					
Realised	63 395	8 494	–	8 125	80 014
Unrealised	(76 850)	(23 175)	8 726	1 003	(90 296)
Dividend income	5 878	–	–	–	5 878
Funding and other net related income	–	–	–	2 194	2 194
Total investment income	**(7 577)**	**(14 681)**	**8 726**	**11 322**	**(2 210)**

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

5. Other operating income

For the year to 31 March £'000	2016	2015
Rental income from properties	5 725	5 642
Gains on realisation of properties	–	66
Unrealised gains on other investments	619	817
Income from operating leases	2 188	2 181
Operating income from associates	2 321	1 933
	10 853	**10 639**

For the year to 31 March £'000	2016	2015
6. Operating costs		
Staff costs	618 475	633 208
– Salaries and wages (including directors' remuneration)	523 250	532 383
– Training and other costs	10 829	10 734
– Share-based payment expense	22 989	27 649
– Social security costs	38 828	39 015
– Pensions and provident fund contributions	22 579	23 427
Premises expenses (excluding depreciation)	35 998	38 039
Equipment expenses (excluding depreciation)	31 328	30 545
Business expenses*	128 769	142 689
Marketing expenses	38 012	36 336
Depreciation, amortisation and impairment on property, equipment and intangibles	11 066	14 769
	863 648	895 586
Depreciation on operating leased assets	2 149	1 535
	865 797	**897 121**
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	290	445
Fees payable to the company's auditors and its associates for other services:		
– Audit of the company's subsidiaries pursuant to legislation	2 684	4 113
– Audit-related assurance services	424	551
– Tax compliance services	99	110
– Tax advisory services	422	621
– Other assurance services	96	1 225
	4 015	**7 065**
KPMG fees		
Fees payable to the company's auditors for the audit of the company's accounts	–	122
Fees payable to the company's auditors and its associates for other services:		
– Audit of the company's subsidiaries pursuant to legislation	677	550
– Audit-related assurance services	64	433
– Tax compliance service	139	–
– Tax advisory services	179	1 262
– Services related to corporate finance transactions	–	9
– Other assurance services	6	161
	1 065	**2 537**
Total	**5 080**	**9 602**

* *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 in the remuneration report included in Investec's 2016 integrated annual report and on our website.

For the year to 31 March £'000	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Total group
Share-based payments expense					
2016					
Equity-settled	1 186	6 501	14 120	1 182	22 989
Total income statement charge	**1 186**	**6 501**	**14 120**	**1 182**	**22 989**
Equity-settled – accelerated charges included in the income statement in operating costs arising from integration restructuring and disposal of subsidiaries	–	–	–	–	–
	1 186	**6 501**	**14 120**	**1 182**	**22 989**
2015					
Equity-settled	1 665	5 617	19 135	1 232	27 649
Total income statement charge	**1 665**	**5 617**	**19 135**	**1 232**	**27 649**
Equity-settled – accelerated charges included in the income statement in operating costs arising from integration restructuring and disposal of subsidiaries	–	–	3 873	–	3 873
	1 665	**5 617**	**23 008**	**1 232**	**31 522**

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 £0.02 million (2015: £0.01 million).

For the year to 31 March £'000	2016	2015
Weighted average fair value of options granted in the year		
UK schemes	29 344	24 943

	UK schemes			
	2016		2015	
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	32 430 764	0.06	42 877 067	0.04
Granted during the year	6 810 928	0.12	6 721 210	0.16
Exercised during the year^	(9 203 122)	0.01	(15 562 258)	0.02
Options forfeited during the year	(1 278 091)	0.44	(1 605 255)	0.28
Outstanding at the end of the year	**28 760 479**	**0.07**	**32 430 764**	**0.06**
Exercisable at the end of the year	**70 987**	**–**	**137 197**	**–**

^ *The weighted average share price during the year was £5.34 (2015: £5.41).*

7. Share-based payments *(continued)*

	2016	2015
Additional information relating to options		
Options with strike prices		
Exercise price range	£3.29 – £6.00	£3.20 – £5.72
Weighted average remaining contractual life	2.09 years	2.07 years
Long-term incentive grants with no strike price		
Exercise price range	£nil	£nil
Weighted average remaining contractual life	1.77 years	1.80 years
Weighted average fair value of options and long-term grants at measurement date	£4.31	£3.71
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	£5.68 – £6.00	£5.16 – £5.72
– Exercise price	£nil, £5.68 – £6.00	£nil, £5.16 – £5.72
– Expected volatility	30%	25.24% – 30%
– Option life	3 – 5.5 years	4.5 – 5.25 years
– Expected dividend yields	4.50% – 4.67%	4.86% – 5.04%
– Risk-free rate	1.28% – 1.31%	1.36% – 1.70%

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	2016	2015
8. Taxation		
Income statement tax charge		
Current taxation		
UK		
Current tax on income for the year	40 497	19 457
Adjustments in respect of prior years	4 420	6 309
Corporation tax before double tax relief	44 917	25 766
– Double tax relief	(217)	(425)
	44 700	**25 341**
Europe	2 694	2 272
Australia	1 117	211
Other	3 866	1 626
	7 677	4 109
Total current taxation	**52 377**	**29 450**
Deferred taxation		
UK	(9 389)	(22 814)
Europe	(9 746)	5 097
Australia	1 081	34 199
Other	(3 689)	4
Total deferred taxation	**(21 743)**	**16 486**
Total taxation charge for the year	**30 634**	**45 936**
Total taxation charge for the year comprises:		
Taxation on operating profit before goodwill	35 335	28 362
Taxation on acquired intangibles and acquisition/disposal/integration of subsidiaries	(4 701)	17 574
	30 634	**45 936**
Deferred taxation comprises:		
Origination and reversal of temporary differences	(13 779)	21 116
Changes in tax rates	(8 394)	274
Adjustment in respect of prior years	430	(4 904)
	(21 743)	**16 486**

For the year to 31 March

£'000	2016	2015
8. Taxation *(continued)*		
The rates of corporation tax for the relevant years are:	**%**	**%**
UK	20	21
Europe (average)	10	10
Australia	30	30
Profit before taxation	**159 078**	**15 320**
Taxation on profit before taxation	**30 634**	**45 936**
Effective tax rate	**19.3%**	**299.8%**
The taxation charge on activities for the year is different from the standard rate as detailed below:		
Taxation on profit on ordinary activities before taxation at UK rate of 20% (2015: 21%)	31 815	3 217
Taxation adjustments relating to foreign earnings	(8 341)	(16 270)
Taxation relating to prior years	4 849	1 405
Goodwill and non-operating items	1 062	40 995
Share options accounting expense	6 924	9 328
Share options exercised during the year	(9 918)	(11 032)
Unexpired share options future tax deduction	2 778	256
Non-taxable income	222	(3 165)
Net other permanent differences	12 723	17 079
Unrealised capital (gains)/losses	(3 086)	776
Movement in brought forward trading losses	–	3 071
Change in tax rate	(8 394)	276
Total taxation charge as per income statement	**30 634**	**45 936**
Other comprehensive income taxation effects		
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	1 040
Pre-taxation	–	1 040
Taxation effect	–	–
Gains on realisation of available-for-sale assets recycled through the income statement	(1 298)	1 935
Pre-taxation	(1 399)	1 628
Taxation effect	101	307
Fair value movements on available-for-sale assets taken directly to other comprehensive income	(20 268)	(4 217)
Pre-taxation	(25 140)	(5 344)
Taxation effect	4 872	1 127
Remeasurement of net defined pension asset	4 738	6 340
Pre-taxation	5 695	5 247
Taxation effect	(957)	1 093
Statement of changes in equity taxation effects		
Share-based payment IFRS 2 adjustment	27 706	35 050
Pre-taxation	23 010	30 890
Taxation effect	4 696	4 160

For the year to 31 March £'000	2016 Pence per share	2016 Total	2015 Pence per share	2015 Total
9. Dividends				
Ordinary dividend				
Final dividend for prior year	11.5	46 367	11.0	45 836
Interim dividend for current year	9.5	57 424	8.5	51 232
Total dividend attributable to ordinary shareholders recognised in current financial year	**21.0**	**103 791**	**19.5**	**97 068**

The directors have proposed a final dividend in respect of the financial year ended 31 March 2016 of 11.5 pence per ordinary share (31 March 2015: 11.5 pence).

This will be paid as follows:

- For Investec plc non-South African shareholders, through a dividend paid by Investec plc of 11.5 pence per ordinary share
- For Investec plc South African shareholders, through a dividend payment by Investec plc of 2.0 pence per ordinary share and through a dividend payment on the SA DAS share of 9.5 pence per ordinary share.

The final dividend will be payable on 10 August 2016 to shareholders on the register at the close of business on 29 July 2016 subject to shareholder approval at the annual general meeting on 4 August 2016.

For the year to 31 March £'000	2016 Pence per share	2016 Cents per share	2016 Total	2015 Pence per share	2015 Cents per share	2015 Total
Perpetual preference dividend						
Final dividend for prior year	7.48	445.07	1 648	7.48	410.58	1 641
Interim dividend for current year	7.52	470.25	1 555	7.52	433.55	1 674
Total dividend attributable to perpetual preference shareholders recognised in current financial year	**15.00**	**915.32**	**3 203**	**15.00**	**844.13**	**3 315**

The directors have declared a final dividend in respect of the financial year ended 31 March 2016 of 7.52055 pence (Investec plc shares traded on the JSE Limited) and 7.52055 pence (Investec plc shares traded on the Channel Island Stock Exchange), and 470.25 cents per perpetual preference share subject to shareholder approval at the annual general meeting on 4 August 2016. The final dividend will be payable to shareholders on the register at the close of business on Monday, 20 June 2016.

For the year to 31 March £'000	2016	2015
Dividend attributable to perpetual preferred securities	**10 056**	**11 213**

The €200 000 000 fixed/floating rate guaranteed, non-voting, non-cumulative perpetual preferred securities paid dividends of 7.075% in both years as set out in note 45.

For the year to 31 March £'000	2016	2015
10. Operating lease income and expenses		
Operating lease expenses recognised in operating costs expenses:		
Minimum lease payments	21 442	20 111
Sub-lease income	(3 115)	–
	18 327	**20 111**
Operating lease income recognised in income:		
Minimum lease payments	2 250	5 830
Sub-lease payments	(48)	–
	2 202	**5 830**

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' and 'fee and commission income' respectively.

11. Analysis of income and impairments by category of financial instrument

For the year to 31 March £'000	At fair value through profit or loss	
	Trading	Designated at inception
2016		
Net interest income	(12 978)	320
Fee and commission income	56 030	19
Fee and commission expense	50	(4)
Investment income	1 593	22 375
Trading income arising from		
– customer flow	89 623	554
– balance sheet management and other trading activities	(8 506)	(1 534)
Other operating income	–	(1 135)
Total operating income before impairment losses on loans and advances	125 812	20 595
Impairment losses on loans and advances	–	–
Operating income	**125 812**	**20 595**
2015		
Net interest income	(23 349)	2 086
Fee and commission income	54 821	1 507
Fee and commission expense	(971)	–
Investment income	1 211	(3 262)
Trading income arising from		
– customer flow	78 657	8 547
– balance sheet management and other trading activities	(25 999)	(3 274)
Other operating income	–	136
Total operating income before impairment losses on loans and advances	84 370	5 740
Impairment losses on loans and advances	–	–
Operating income	**84 370**	**5 740**

Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non-financial instruments	Other fee income	Total
–	494 699	21 439	(246 238)	965	2 738	260 945
–	60 423	–	2 851	13 035	681 386	813 744
–	3 947	–	(2 189)	(1 513)	(104 277)	(103 986)
–	34 815	2 891	–	436	10	62 120
–	–	–	2 201	–	303	92 681
–	2 397	(558)	109	–	109	(7 983)
–	–	–	1 678	10 310	–	10 853
–	596 281	23 772	(241 588)	23 233	580 269	1 128 374
–	(84 217)	–	–	–	–	(84 217)
–	**512 064**	**23 772**	**(241 588)**	**23 233**	**580 269**	**1 044 157**
567	590 307	24 357	(272 048)	–	5 562	327 482
–	96 150	147	2 945	21 297	667 638	844 505
–	(8 445)	–	(5 633)	(3 185)	(95 174)	(113 408)
–	(11 408)	463	–	10 786	–	(2 210)
–	–	–	1 055	–	–	88 259
–	1 271	(103)	(81)	–	–	(28 186)
–	–	–	–	10 503	–	10 639
567	667 875	24 864	(273 762)	39 401	578 026	1 127 081
–	(98 768)	(3 939)	–	–	–	(102 707)
567	**569 107**	**20 925**	**(273 762)**	**39 401**	**578 026**	**1 024 374**

12. Analysis of financial assets and liabilities by category of financial instrument

At 31 March 2016 £'000	At fair value through profit or loss: Trading	At fair value through profit or loss: Designated at inception	Available-for-sale	Total instruments at fair value
Assets				
Cash and balances at central banks	1 123	–	–	1 123
Loans and advances to banks	–	106 426	–	106 426
Reverse repurchase agreements and cash collateral on securities borrowed	157 565	–	–	157 565
Sovereign debt securities	–	–	1 252 991	1 252 991
Bank debt securities	–	–	12 076	12 076
Other debt securities	–	118 536	65 809	184 345
Derivative financial instruments*	837 558	–	–	837 558
Securities arising from trading activities	321 251	203 093	–	524 344
Investment portfolio	–	395 430	55 570	451 000
Loans and advances to customers	–	87 270	–	87 270
Other loans and advances	–	–	–	–
Other securitised assets	–	147 590	–	147 590
Interests in associated undertakings	–	–	–	–
Deferred taxation assets	–	–	–	–
Other assets	301 426	37 231	–	338 657
Property and equipment	–	–	–	–
Investment properties	–	–	–	–
Goodwill	–	–	–	–
Intangible assets	–	–	–	–
	1 618 923	**1 095 576**	**1 386 446**	**4 100 945**
Liabilities				
Deposits by banks	–	–	–	–
Derivative financial instruments*	964 362	–	–	964 362
Other trading liabilities	226 598	–	–	226 598
Repurchase agreements and cash collateral on securities lent	154 142	–	–	154 142
Customer accounts (deposits)	–	–	–	–
Debt securities in issue	–	358 548	–	358 548
Liabilities arising on securitisation of other assets	–	120 617	–	120 617
Current taxation liabilities	–	–	–	–
Deferred taxation liabilities	–	–	–	–
Other liabilities	–	–	–	–
	1 345 102	**479 165**	**–**	**1 824 267**
Subordinated liabilities	–	–	–	–
	1 345 102	**479 165**	**–**	**1 824 267**

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*

Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
2 636 946	–	2 636 946	–	2 638 069
1 006 015	–	1 006 015	–	1 112 441
399 460	–	399 460	–	557 025
–	–	–	–	1 252 991
176 321	–	176 321	–	188 397
209 307	–	209 307	–	393 652
–	–	–	–	837 558
–	–	–	–	524 344
–	–	–	–	451 000
7 716 332	–	7 716 332	–	7 803 602
417 205	–	417 205	–	417 205
2 975	–	2 975	–	150 565
–	–	–	23 587	23 587
–	–	–	85 050	85 050
1 042 328	–	1 042 328	324 218	1 705 203
–	–	–	56 374	56 374
–	–	–	79 051	79 051
–	–	–	356 994	356 994
–	–	–	123 480	123 480
13 606 889	**–**	**13 606 889**	**1 048 754**	**18 756 588**
–	544 210	544 210	–	544 210
–	–	–	–	964 362
–	–	–	–	226 598
–	127 118	127 118	–	281 260
–	10 808 980	10 808 980	–	10 808 980
–	1 470 271	1 470 271	–	1 828 819
–	–	–	–	120 617
–	–	–	140 959	140 959
–	–	–	33 834	33 834
–	1 013 545	1 013 545	315 287	1 328 832
–	**13 964 124**	**13 964 124**	**490 080**	**16 278 471**
–	597 309	597 309	–	597 309
–	**14 561 433**	**14 561 433**	**490 080**	**16 875 780**

12. Analysis of financial assets and liabilities by category of financial instrument *(continued)*

At 31 March 2015 £'000	At fair value through profit or loss – Trading	At fair value through profit or loss – Designated at inception	Available-for-sale	Total instruments at fair value
Assets				
Cash and balances at central banks	1 302	–	–	1 302
Loans and advances to banks	–	124 694	–	124 694
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	19 553
Other debt securities	–	20 535	91 216	111 751
Derivative financial instruments*	775 021	–	–	775 021
Securities arising from trading activities	450 959	219 339	–	670 298
Investment portfolio	–	348 368	52 573	400 941
Loans and advances to customers	–	37 847	–	37 847
Other loans and advances	–	–	–	–
Other securitised assets	–	401 375	–	401 375
Interests in associated undertakings	–	–	–	–
Deferred taxation assets	–	–	–	–
Other assets	33 200	21 697	–	54 897
Property and equipment	–	–	–	–
Investment properties	–	–	–	–
Goodwill	–	–	–	–
Intangible assets	–	–	–	–
	1 658 204	**1 173 855**	**1 376 252**	**4 208 311**
Liabilities				
Deposits by banks	–	–	–	–
Derivative financial instruments*	953 391	–	–	953 391
Other trading liabilities	251 879	–	–	251 879
Repurchase agreements and cash collateral on securities lent	489 822	–	–	489 822
Customer accounts (deposits)	–	–	–	–
Debt securities in issue	–	292 682	–	292 682
Liabilities arising on securitisation of other assets	–	330 526	–	330 526
Current taxation liabilities	–	–	–	–
Deferred taxation liabilities	–	–	–	–
Other liabilities	–	21 697	–	21 697
	1 695 092	**644 905**	**–**	**2 339 997**
Subordinated liabilities	–	–	–	–
	1 695 092	**644 905**	**–**	**2 339 997**

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*

Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments	Total
2 179 940	–	2 179 940	–	2 181 242
929 238	–	929 238	–	1 053 932
1 050 483	–	1 050 483	–	1 448 205
–	–	–	–	1 212 910
206 720	–	206 720	–	226 273
110 734	–	110 734	–	222 485
–	–	–	–	775 021
–	–	–	–	670 298
–	–	–	–	400 941
7 023 270	–	7 023 270	–	7 061 117
554 912	–	554 912	–	554 912
10 608	–	10 608	–	411 983
–	–	–	21 931	21 931
–	–	–	73 618	73 618
1 034 255	–	1 034 255	246 428	1 335 580
–	–	–	63 069	63 069
–	–	–	65 736	65 736
–	–	–	356 090	356 090
–	–	–	136 655	136 655
13 100 160	**–**	**13 100 160**	**963 527**	**18 271 998**
–	221 666	221 666	–	221 666
–	–	–	–	953 391
–	–	–	–	251 879
–	107 437	107 437	–	597 259
–	10 306 331	10 306 331	–	10 306 331
–	1 059 632	1 059 632	–	1 352 314
–	–	–	–	330 526
–	–	–	104 605	104 605
–	–	–	45 403	45 403
–	1 109 398	1 109 398	306 533	1 437 628
–	**12 804 464**	**12 804 464**	**456 541**	**15 601 002**
–	596 923	596 923	–	596 923
–	**13 401 387**	**13 401 387**	**456 541**	**16 197 925**

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 and in the prior year.

The following table shows carrying values and fair values of the assets reclassified:

	2016		2015	
At 31 March £'000	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Trading assets reclassified to loans and receivables	9 278	5 852	21 244	21 071
	9 278	**5 852**	**21 244**	**21 071**

If the reclassifications had not been made, the group's income before tax in 2016 would have increased by £3.3 million (2015: increase of £15.1 million).

In the current year the reclassified assets have contributed a £210 000 loss through the margin line and a gain of £22.3 million through impairments before taxation. In the prior year, after reclassification, the assets contributed a £182 000 loss to through the margin line and a gain of £353 000 through impairments before taxation.

14. Fair value hierarchy

The following table 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 206.

		Fair value category		
At 31 March £'000	**Total instruments at fair value**	**Level 1**	**Level 2**	**Level 3**
2016				
Assets				
Cash and balances at central banks	1 123	1 123	–	–
Loans and advances to banks	106 426	106 426	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	157 565	–	157 565	–
Sovereign debt securities	1 252 991	1 252 991	–	–
Bank debt securities	12 076	5 044	7 032	–
Other debt securities	184 345	2 122	171 293	10 930
Derivative financial instruments	837 558	1 399	786 474	49 685
Securities arising from trading activities	524 344	493 654	23 234	7 456
Investment portfolio	451 000	47 789	25 631	377 580
Loans and advances to customers	87 270	–	–	87 270
Other securitised assets	147 590	–	–	147 590
Other assets	338 657	338 657	–	–
	4 100 945	**2 249 205**	**1 171 229**	**680 511**
Liabilities				
Derivative financial instruments	964 362	–	963 007	1 355
Other trading liabilities	226 598	226 598	–	–
Repurchase agreements and cash collateral on securities lent	154 142	–	154 142	–
Debt securities in issue	358 548	–	358 548	–
Liabilities arising on securitisation of other assets	120 617	–	–	120 617
	1 824 267	**226 598**	**1 475 697**	**121 972**
Net financial assets/(liabilities) at fair value	**2 276 678**	**2 022 607**	**(304 468)**	**558 539**

14. Fair value hierarchy *(continued)*

At 31 March £'000	Total instruments at fair value	Fair value category Level 1	Level 2	Level 3
2015				
Assets				
Cash and balances at central banks	1 302	1 302	–	–
Loans and advances to banks	124 694	124 694	–	–
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	775 021	204 686	513 194	57 141
Securities arising from trading activities	670 298	667 905	2 393	–
Investment portfolio	400 941	67 417	57 652	275 872
Loans and advances to customers	37 847	–	1 847	36 000
Other securitised assets	401 375	–	–	401 375
Other assets	54 897	54 897	–	–
	4 208 311	**2 348 516**	**1 070 774**	**789 021**
Liabilities				
Derivative financial instruments	953 391	328 224	622 501	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
Other liabilities	21 697	21 697	–	–
	2 339 997	**601 800**	**1 405 005**	**333 192**
Net financial assets/(liabilities) at fair value	**1 868 314**	**1 746 716**	**(334 231)**	**455 829**

The group transfers between levels within the fair value hierarchy when the observability of inputs change or if the valuation methods change.

TRANSFERS BETWEEN LEVEL 1 AND LEVEL 2

During the year derivative financial assets and liabilities to the value of £116.9 million and £210.3 million respectively were transferred from level 1 to level 2 to reflect the level of modelling which is now being used to arrive at the fair value. There were no significant transfers between level 1 and level 2 in the prior year.

14. Fair value hierarchy *(continued)*

The following table is a reconciliation of the opening balances to the closing balances for fair value measurements in level 3 of the fair value hierarchy:

	Total level 3 financial instruments	Fair value profit and loss instruments	Available-for-sale instruments
Balance as at 1 April 2014	**500 982**	**475 837**	**25 145**
Total gains	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	(251 078)	(213 875)	(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	19 007	13 589	5 418
Balance as at 31 March 2015	**455 829**	**405 059**	**50 770**
Total gains or (losses)	(3 032)	(6 197)	3 165
In the income statement	(2 760)	(6 197)	3 437
In the statement of comprehensive income	(272)	–	(272)
Purchases	148 576	139 632	8 944
Sales	(240 479)	(238 022)	(2 457)
Issues	79	79	–
Settlements	166 458	177 321	(10 863)
Transfers into level 3	26 344	23 608	2 736
Transfers out of level 3	(4 607)	(4 607)	–
Foreign exchange adjustments	9 371	6 147	3 224
Balance as at 31 March 2016	**558 539**	**503 020**	**55 519**

The group transfers between levels within the fair value hierachy when the observability of inputs change or if the valuation methods change.

For the year ended 31 March 2016, £4.6 million of assets were transferred from level 3 into level 2 (31 March 2015 liabilities of £2.4 million). In the current and prior year 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 £26.3 million (31 March 2015: £62.7 million) because the significance of the unobservable inputs used to determine the fair value increased significantly to warrant a transfer.

14. Fair value hierarchy *(continued)*

The following table quantifies the gains or (losses) included in the income statement and other comprehensive income recognised on level 3 financial instruments:

For the year to 31 March £'000	Total	Realised	Unrealised
2016			
Total gains/(losses) included in the income statement for the year			
Net interest income	238	238	–
Fee and commission income	4 938	4 938	–
Investment income	2 322	(8 118)	10 440
Trading income arising from customer flow	(10 258)	(10 962)	704
	(2 760)	**(13 904)**	**11 144**
Total gains/(losses) included in other comprehensive income for the year			
Gains on realisation of available-for-sale assets recycled through the income statement	3 437	3 437	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	(272)	–	(272)
	3 165	**3 437**	**(272)**
2015			
Total gains/(losses) included in the income statement for the year			
Fee and commission income/(expense)	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	**1 401**	**426**

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 2016 used in determining the fair value of its financial assets and financial liabilities that are classified within level 2 of the fair value hierarchy.

	Valuation basis/techniques	Main assumptions
ASSETS		
Reverse repurchase agreements and cash collateral on securities borrowed	Discounted cash flow model, Hermite interpolation, Black-Scholes	Discount rates
Bank debt securities	Black-Scholes Discounted cash flow model	Volatilities Discount rates, swap curves and NCD curves
Other debt securities	Discounted cash flow model	Discount rates, swap curves and NCD curves, external prices, broker quotes
Derivative financial instruments	Discounted cash flow model, Hermite interpolation, industry standard derivative pricing models including Black-Scholes	Discount rate, risk-free rate, volatilities, forex forward points and spot rates, interest rate swap curves and credit curves
Securities arising from trading activities	Standard industry derivative pricing model	Interest rate curves, implied bond spreads, equity volatilities
Investment portfolio	Discounted cash flow model, net asset, value model Comparable quoted inputs	Discount rate and fund unit price Net assets
LIABILITIES		
Derivative financial instruments	Discounted cash flow model, Hermite interpolation, industry standard derivative pricing models including Black-Scholes	Discount rate, risk-free rate, volatilities, forex forward points and spot rates, interest rate swap curves and credit curves
Repurchase agreements and cash collateral on securities lent	Discounted cash flow model, Hermite interpolation	Discount rates
Debt securities in issue	Discounted cash flow model	Discount rates

14. Fair value hierarchy *(continued)*

SENSITIVITY OF FAIR VALUES TO REASONABLY POSSIBLE ALTERNATIVE ASSUMPTIONS BY LEVEL 3 INSTRUMENT TYPE

The fair value of financial instruments in level 3 are measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable market data. The following table shows the sensitivity of these fair values to reasonably possible alternative assumptions, determined at a transactional level:

				Reflected in income statement £'000	
At 31 March 2016	**Balance sheet value £'000**	**Significant unobservable input changed**	**Range which unobservable input has been stressed**	**Favourable changes**	**Unfavourable changes**
Assets					
Other debt securities	10 930			**525**	**(796)**
		Cash flow adjustments	(1%) – 1%	525	(472)
		Other	(5%) – 5%	–	(324)
Derivative financial instruments	49 685			**8 258**	**(5 454)**
		Volatilities	(2%) – 2%	2 471	(1 015)
		Cash flow adjustments	(1%) – 1%	834	(1 701)
		Other	(10%) – 10%	4 953	(2 738)
Securities arising from trading activities	7 456	Cash flow adjustments	(1%) – 1%	1 380	(1 050)
Investment portfolio	345 964			**44 963**	**(28 612)**
		Price earnings multiple	(10%) – 10%	232	(355)
		EBITDA	(10%) – 10%	3 971	(3 917)
		Other^	^	40 760	(24 340)
Loans and advances to customers	87 270			**1 550**	**(9 400)**
		Discount rates	(5%) – 5%	1 550	(987)
		Other	(5%) – 5%	–	(8 413)
Other securitised assets*	147 590			**2 825**	**(2 876)**
		Cash flow adjustments	(1%) – 1%	1 569	(1 727)
		Other	(1%) – 1%	1 256	(1 149)
Liabilities					
Derivative financial instruments	1 355			**1 667**	**(797)**
		Cash flow adjustments	(1%) – 1%	1 661	(790)
		Volatilities	(2%) – 2%	6	(7)
Liabilities arising on securitisation of other assets*	120 617	Cash flow adjustments	(1%) – 1%	1 356	(1 254)
Net level 3 fair value through profit or loss assets	526 922			62 524	(50 239)

				Reflected in other comprehensive income £'000	
At 31 March 2016	**Balance sheet value £'000**	**Significant unobservable input changed**	**Range which unobservable input has been stressed**	**Favourable changes**	**Unfavourable changes**
Assets				**5 668**	**(2 300)**
Investment portfolio	31 616	EBITDA	(10%) – 10%	2 418	(1 340)
		Other^	^	3 250	(960)
Total net level 3 assets	558 539				

* *The sensitivity of the fair value of liabilities arising on securitisation of other assets has been considered together with other securitised assets.*

^ *Other – The valuation sensitivity for the private equity and embedded derivatives (profit share) portfolios has been assessed by adjusting various inputs such as expected cash flows, discount rates, earnings multiples rather than a single input. It is deemed appropriate to reflect the outcome on a portfolio basis for the purposes of this analysis as the sensitivity of the investments cannot be determined through the adjustment of a single input.*

14. Fair value hierarchy *(continued)*

At 31 March 2015	Balance sheet value £'000	Significant unobservable input changed	Range which unobservable input has been stressed	Reflected in income statement £'000 Favourable changes	Unfavourable changes
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	1 517	(1 210)
		EBITDA	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)
Net level 3 fair value through profit or loss assets	**416 887**			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 £'000 Favourable changes	Unfavourable changes
Assets					
Investment portfolio	38 942	EBITDA	(10%) – 10% or 5x EBITDA	2 658	(2 058)
Total net level 3 assets	**455 829**				

* *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 require judgement. Cash flows are input into a discounted cash flow valuation.

PRICE EARNINGS MULTIPLE

The price-to-earnings ratio is an equity valuation multiple used in the adjustment and underlying market prices. It is a key driver in the valuation of unlisted investments.

EBITDA

Earnings before interest, taxes, depreciation and amortisation. This is the main input into a price earnings multiple valuation method.

15. Fair value of financial instruments at amortised cost

At 31 March £'000	Carrying amount	Fair value	Level within the fair value hierarchy Level 1	Level 2	Level 3
2016					
Assets					
Cash and balances at central banks	2 636 946	2 636 946	^	^	^
Loans and advances to banks	1 006 015	1 006 006	996 266	9 740	–
Reverse repurchase agreements and cash collateral on securities borrowed	399 460	399 460	^	^	^
Bank debt securities	176 321	192 775	53 123	139 652	–
Other debt securities	209 307	195 201	–	138 385	56 816
Loans and advances to customers	7 716 332	7 738 359	763 819	200 936	6 773 604
Other loans and advances	417 205	393 199	10 403	241 946	140 850
Other securitised assets	2 975	2 975	2 975	–	–
Other assets	1 042 328	1 042 099	713 526	318 393	10 180
	13 606 889	**13 607 020**			
Liabilities					
Deposits by banks	544 210	551 273	431 346	21 748	98 179
Repurchase agreements and cash collateral on securities lent	127 118	127 118	^	^	^
Customer accounts (deposits)	10 808 980	10 823 145	7 114 534	3 708 611	–
Debt securities in issue	1 470 271	1 439 975	287 120	1 085 321	67 534
Other liabilities	1 013 545	1 013 354	649 483	323 541	40 330
Subordinated liabilities	597 309	689 074	689 074	–	–
	14 561 433	**14 643 939**			

^ **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 which are included in customer accounts (deposits) and variable rate instruments.

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.

15. Fair value of financial instruments at amortised cost *(continued)*

At 31 March £'000	Carrying amount	Fair value	Level within the fair value hierarchy Level 1	Level 2	Level 3
2015					
Assets					
Cash and balances at central banks	2 179 940	2 179 940	^	^	^
Loans and advances to banks	929 238	929 238	834 868	94 370	–
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	7 023 270	7 066 995	667 321	393 102	6 006 572
Other loans and advances	554 912	600 651	27 040	10 854	562 758
Other securitised assets	10 608	10 608	10 608	–	–
Other assets	1 034 255	1 034 130	822 276	155 378	56 476
	13 100 160	**13 201 641**			
Liabilities					
Deposits by banks	221 666	221 666	140 272	8 577	72 817
Repurchase agreements and cash collateral on securities lent	107 437	107 437	^	^	^
Customer accounts (deposits)	10 306 331	10 285 033	5 862 178	4 422 855	–
Debt securities in issue	1 059 632	1 167 608	30 600	787 766	349 242
Other liabilities	1 109 398	1 107 301	856 392	206 833	44 076
Subordinated liabilities	596 923	591 185	591 185	–	–
	13 401 387	**13 480 230**			

15. Fair value of financial instruments at amortised cost *(continued)*

The following table sets out the group's principal valuation techniques used in determining the fair value of its financial assets and financial liabilities:

Loans and advances to banks	Calculation of the present value of cash flows, discounted as appropriate.
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.
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.
Other assets	Calculation of the present value of future cash flows, discounted as appropriate.
Deposits by banks	Calculation of fair value using appropriate funding rates.
Customer accounts (deposits)	Where the deposits are short term in nature, carrying amounts are assumed to approximate fair value. Where deposits are of longer-term maturities, they are valued using a cash flow model discounted as appropriate.
Debt securities in issue	Where the debt securities are fully collateralised, fair value is equal to the carrying value. Other debt securities are valued using a cash flow model discounted as appropriate to the securities for funding and interest rates.
Other liabilities	Where the other liabilities are short term in nature, carrying amounts are assumed to approximate fair value.
Subordinated liabilities	Valued with reference to market prices.

At 31 March £'000	Carrying 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

At 31 March £'000	Carrying value	Fair value adjustment		Change in fair value attributable to credit risk		Maximum exposure to credit risk
		Year to date	Cumulative	Year to date	Cumulative	
2016						
Loans and advances to customers	87 270	(2 752)	(30 284)	–	–	33 804
Other securitised assets	138 909	(13 541)	(29 938)	(13 541)	(29 938)	138 909
	226 179	**(16 293)**	**(60 222)**	**(13 541)**	**(29 938)**	**172 713**
2015						
Loans and advances to customers	37 847	(665)	1 197	–	–	36 039
Other securitised assets	401 375	(38 703)	(20 293)	(38 703)	(22 461)	399 207
	439 222	**(39 368)**	**(19 096)**	**(38 703)**	**(22 461)**	**435 246**

Financial liabilities designated at fair value through profit or loss

At 31 March £'000	Carrying value	Remaining contractual amount to be repaid at maturity	Fair value adjustment		Change in fair value attributable to credit risk	
			Year to date	Cumulative	Year to date	Cumulative
2016						
Debt securities in issue	358 548	366 400	(7 416)	21 143	(7 406)	(3 632)
Liabilities arising on securitisation of other assets	120 617	139 851	(6 019)	(19 549)	(6 019)	(19 549)
	479 165	**506 251**	**(13 435)**	**1 594**	**(13 425)**	**(23 181)**
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)
Other liabilities	21 697	21 697	–	–	–	–
	644 905	**672 018**	**21 438**	**(27 112)**	**27 289**	**(42 445)**

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	2016	2015
17. Cash and balances at central banks		
The country risk of cash and balances at central banks lies in the following geographies:		
United Kingdom	2 589 087	2 146 946
Europe (excluding UK)	48 982	34 296
Total	**2 638 069**	**2 181 242**

At 31 March £'000	2016	2015
18. Loans and advances to banks		
The country risk of loans and advances to banks lies in the following geographies:		
South Africa	9 783	4 110
United Kingdom	629 487	651 100
Europe (excluding UK)	259 863	140 080
Australia	67 958	92 766
United States of America	116 797	133 282
Other	28 553	32 594
Total	**1 112 441**	**1 053 932**

At 31 March £'000	2016	2015
19. Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent		
Assets		
Reverse repurchase agreements	476 308	1 360 696
Cash collateral on securities borrowed	80 717	87 509
	557 025	**1 448 205**
As part of the reverse repurchase and securities borrowing agreements, the group has received securities that it is allowed to sell or repledge. £228.3 million (2015: £480.6 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	154 142	489 822
Cash collateral on securities lent	127 118	107 437
	281 260	**597 259**

The assets transferred and not derecognised in the above repurchase agreements are fair valued at £283.9 million (2015: £366.6 million). They are pledged as security for the term of the underlying repurchase agreement.

At 31 March £'000	2016	2015
20. Sovereign debt securities		
Floating rate notes	5	–
Government securities	643 352	613 272
Treasury bills	609 634	599 638
	1 252 991	**1 212 910**
The country risk of the sovereign debt securities lies in the following geographies:		
United Kingdom	1 235 317	1 196 877
Europe (excluding UK)*	17 674	16 033
	1 252 991	**1 212 910**

* *Where Europe (excluding UK) includes securities held largely in The Netherlands, Germany, Belgium and France.*

At 31 March £'000	2016	2015
21. Bank debt securities		
Bonds	57 164	95 431
Floating rate notes	131 233	130 842
	188 397	**226 273**
The country risk of bank debt securities lies in the following geographies:		
South Africa	7 033	6 931
United Kingdom	82 520	120 757
Europe (excluding UK)	98 844	98 585
Total	**188 397**	**226 273**

At 31 March £'000	2016	2015
22. Other debt securities		
Bonds	303 687	119 618
Commercial paper	22 100	–
Floating rate notes	–	12 994
Asset-based securities	65 743	87 790
Other investments	2 122	2 083
	393 652	**222 485**
The country risk of other debt securities lies in the following geographies:		
United Kingdom	150 376	126 031
Europe (excluding UK)	146 405	61 357
Australia	–	192
United States of America	58 804	17 014
Other	38 067	17 891
Total	**393 652**	**222 485**

23. Derivative financial instruments

The group enters into various contracts for derivatives both as principal for trading purposes and as customer for hedging foreign exchange and interest rate exposures. These include financial futures, options, swaps and forward rate agreements. The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations.

In the tables that follow, notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair value of a derivative financial instrument represents the positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out by the group in an orderly market transaction at the balance sheet date.

	2016			2015		
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	13 249 208	187 454	218 032	9 754 855	146 952	187 175
Currency swaps	721 710	55 372	60 032	397 942	17 442	17 304
OTC options bought and sold	3 263 811	64 499	40 630	5 036 568	103 811	96 178
Other foreign exchange contracts	16 413	230	–	–	6	1 826
OTC derivatives	**17 251 142**	**307 555**	**318 694**	**15 189 365**	**268 211**	**302 483**
Interest rate derivatives						
Caps and floors	2 929 163	39 655	7 972	1 265 153	29 667	1 592
Swaps	14 720 572	161 825	170 649	11 862 050	127 615	171 511
Forward rate agreements	–	–	–	26 192	21	–
OTC derivatives	**17 649 735**	**201 480**	**178 621**	**13 153 395**	**157 303**	**173 103**
Equity and stock index derivatives						
OTC options bought and sold	2 274 481	68 223	66 917	1 756 450	66 772	145 219
Equity swaps and forwards	16 071	–	–	28 428	–	11
OTC derivatives	**2 290 552**	**68 223**	**66 917**	**1 784 878**	**66 772**	**145 230**
Exchange traded futures	295 222	1 834	1 271	1 023 132	4 368	4 076
Exchange traded options	5 763 502	169 628	352 743	6 063 785	177 251	289 916
Warrants	321	321	–	965	965	–
	8 349 597	**240 006**	**420 931**	**8 872 760**	**249 356**	**439 222**
Commodity derivatives						
OTC options bought and sold	13 309	673	673	15 701	483	483
Commodity swaps and forwards	636 104	39 929	35 363	1 109 951	49 318	33 846
OTC derivatives	**649 413**	**40 602**	**36 036**	**1 125 652**	**49 801**	**34 329**
Credit derivatives	**592 204**	**15 334**	**10 080**	**423 062**	**15 204**	**4 254**
Embedded derivatives*		**32 581**	**–**		**35 146**	**–**
Derivatives per balance sheet		**837 558**	**964 362**		**775 021**	**953 391**

* *Mainly includes profit shares received as part of lending transactions.*

24. Securities arising from trading activities

At 31 March £'000	2016	2015
Bonds	194 485	138 885
Government securities	198 181	380 274
Listed equities	130 013	148 746
Unlisted equities	329	–
Other investments	1 336	2 393
	524 344	**670 298**

25. Investment portfolio

At 31 March £'000	2016	2015
Listed equities	87 940	113 120
Unlisted equities*	363 060	287 821
	451 000	**400 941**

* *Unlisted equities includes loan instruments that are convertible into equity.*

26. Loans and advances to customers and other loans and advances

At 31 March £'000	2016	2015
Gross loans and advances to customers	7 946 793	7 249 561
Impairments of loans and advances to customers	(143 191)	(188 444)
Net loans and advances to customers	**7 803 602**	**7 061 117**
Gross other loans and advances	424 090	584 904
Impairments of other loans and advances	(6 885)	(29 992)
Net other loans and advances	**417 205**	**554 912**

For further analysis on loans and advances refer to pages 67 to 75 in the risk management section.

At 31 March £'000	2016	2015
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	154 262	176 589
Charge to the income statement	102 748	79 503
Reversals and recoveries recognised in the income statement	(3 963)	(7 870)
Utilised	(137 058)	(83 341)
Disposals	–	(1 432)
Exchange adjustment	5 802	(9 187)
Balance at the end of the year	**121 791**	**154 262**
Portfolio impairment		
Balance at the beginning of the year	34 182	16 098
Charge to the income statement	(12 831)	19 240
Disposals	–	(1 127)
Exchange adjustment	49	(29)
Balance at the end of the year	**21 400**	**34 182**
Other loans and advances		
Specific impairment		
Balance at the beginning of the year	29 160	85 974
Charge to the income statement	(1 675)	11 158
Utilised	(21 650)	(8 314)
Disposals	–	(56 653)
Exchange adjustment	277	(3 005)
Balance at the end of the year	**6 112**	**29 160**
Portfolio impairment		
Balance at the beginning of the year	832	116 954
Charge to the income statement	(62)	4 703
Disposals	–	(120 826)
Exchange adjustment	3	1
Balance at the end of the year	**773**	**832**
Total specific impairments	127 902	183 422
Total portfolio impairments	22 173	35 014
Total impairments	**150 075**	**218 436**
Interest income recognised on loans that have been impaired	**3 514**	**6 480**
Reconciliation of income statement charge:		
Loans and advances to customers	**85 954**	**90 873**
Specific impairment charged to income statement	98 785	71 633
Portfolio impairment charged to income statement	(12 831)	19 240
Securitised assets (refer to note 27)	**–**	**(4 027)**
Specific impairment charged to income statement	–	3 860
Portfolio impairment charged to income statement	–	(7 887)
Other loans and advances	**(1 737)**	**15 861**
Specific impairment charged to income statement	(1 675)	11 158
Portfolio impairment charged to income statement	(62)	4 703
Total income statement charge	**84 217**	**102 707**

27. Securitised assets and liabilities arising on securitisation

At 31 March £'000	2016	2015
Other securitised assets are made up of the following categories of assets:		
Cash and cash equivalents	2 975	10 608
Loans and advances to customers	138 910	401 375
Other debt securities	8 680	–
Total other securitised assets	**150 565**	**411 983**
The associated liabilities are recorded on balance sheet in the following line items:		
Liabilities arising on securitisation of other assets	120 617	330 526
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	–	(3 380)
Charge to the income statement	–	3 941
Utilised	–	(5 215)
Recoveries	–	(81)
Disposals	–	4 735
Balance at the end of the year	**–**	**–**
Portfolio impairment		
Balance at the beginning of the year	–	30 543
Charge to the income statement	–	(7 887)
Disposals	–	(22 631)
Exchange adjustment	–	(25)
Balance at the end of the year	**–**	**–**
Total portfolio and specific impairments on balance sheet	**–**	**–**

At 31 March £'000	2016	2015
28. Interests in associated undertakings		
Interests in associated undertakings consist of:		
Net asset value	16 564	14 897
Goodwill	7 023	7 034
Investment in associated undertakings	**23 587**	**21 931**
Associated undertakings comprise unlisted investments.		
Analysis of the movement in our share of net assets:		
At the beginning of the year	14 897	14 300
Exchange adjustments	294	343
Disposals	–	(255)
Acquisitions	–	124
Increase in investment	969	–
Operating income from associates (included in other operating income)	2 321	1 933
Dividends received	(1 917)	(1 548)
At the end of the year	**16 564**	**14 897**
Analysis of the movement in goodwill:		
At the beginning of the year	7 034	7 066
Exchange adjustments	(11)	(32)
At the end of the year	**7 023**	**7 034**

At 31 March £'000	2016	2015

29. Deferred taxation

Deferred taxation assets	85 050	73 618
Deferred taxation liabilities	(33 834)	(45 403)
Net deferred taxation assets	**51 216**	**28 215**
The net deferred taxation assets arise from:		
Deferred capital allowances	34 827	30 540
Income and expenditure accruals	11 356	(92)
Asset in respect of unexpired options	26 766	23 052
Unrealised fair value adjustments on financial instruments	(1 288)	(1 072)
Losses carried forward	9 754	8 153
Liability in respect of pensions surplus	(8 365)	(6 553)
Asset in respect of pension contributions	–	–
Deferred tax on acquired intangibles	(20 987)	(25 617)
Debt buyback	–	(170)
Other temporary differences	(847)	(26)
Net deferred taxation assets	**51 216**	**28 215**
Reconciliation of net deferred taxation assets:		
At the beginning of the year	28 215	35 853
Charge to income statement – current year taxation	21 743	(16 486)
Charge directly in other comprehensive income	1 007	5 241
Other	(171)	2 975
Exchange adjustments	422	632
At the end of the year	**51 216**	**28 215**

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 £189.4 million (2015: £105.9 million), capital losses carried forward of £27.4 million (2015: £32.1 million) and excess management expenses of £11.4 million (2015: £11.4 million) on which deferred tax assets have not been recognised due to uncertainty regarding future profits against which these losses can be utilised.

The Finance Act 2015 reduced the main rate of corporate taxation to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. In addition, the bank corporation tax surcharge of 8% effective from 1 January 2016 was enacted in November 2015. The effect of these legislative changes is reflected in the above calculation of the deferred taxation as the rate was substantively enacted before 31 March 2016.

On 16 March 2016, the Chancellor of the Exchequer announced a further reduction of the corporation tax rate to 17% effective from 1 April 2020. This change has not yet been substantively enacted and is therefore not reflected in the above deferred tax asset. The maximum effect on deferred tax of the reduction in the UK corporation tax rate to 17% is expected to be £1.6 million.

At 31 March £'000	2016	2015

30. Other assets

Settlement debtors	911 395	887 883
Dealing properties	104 021	125 763
Prepayments and accruals	109 153	43 096
Pension assets	46 472	35 900
Trading initial margin	301 426	33 200
Other	232 736	209 738
	1 705 203	**1 335 580**

31. Property and equipment

At 31 March £'000	Freehold properties	Leasehold improvements	Furniture and vehicles	Equipment	Operating leases*	Total
2016						
Cost						
At the beginning of the year	2 755	73 668	5 886	33 687	25 935	141 931
Exchange adjustments	–	1 369	2	301	–	1 672
Additions	–	6 125	558	4 738	2 360	13 781
Disposals	–	(5 574)	(18)	(2 094)	(19 075)	(26 761)
At the end of the year	**2 755**	**75 588**	**6 428**	**36 632**	**9 220**	**130 623**
Accumulated depreciation						
At the beginning of the year	(219)	(29 221)	(5 537)	(25 858)	(18 027)	(78 862)
Exchange adjustments	–	(302)	–	(230)	–	(532)
Disposals	–	–	8	1 354	14 902	16 264
Depreciation charge for year	(47)	(5 406)	(181)	(3 336)	(2 149)	(11 119)
At the end of the year	**(266)**	**(34 929)**	**(5 710)**	**(28 070)**	**(5 274)**	**(74 249)**
Net carrying value	**2 489**	**40 659**	**718**	**8 562**	**3 946**	**56 374**
2015						
Cost						
At the beginning of the year	2 665	69 842	11 388	28 477	32 832	145 204
Exchange adjustments	207	(1 135)	27	(6)	(3)	(910)
Disposal of subsidiary undertakings	–	–	(552)	(336)	–	(888)
Additions	–	13 152	83	7 435	9 508	30 178
Disposals	(117)	(8 191)	(5 060)	(1 883)	(16 402)	(31 653)
At the end of the year	**2 755**	**73 668**	**5 886**	**33 687**	**25 935**	**141 931**
Accumulated depreciation						
At the beginning of the year	(419)	(26 197)	(8 137)	(21 970)	(22 558)	(79 281)
Exchange adjustments	247	251	(10)	89	2	579
Disposals	–	1 836	2 445	1 418	6 064	11 762
Disposal of subsidiary undertakings	–	–	536	306	–	842
Depreciation charge for year	(47)	(5 111)	(371)	(5 701)	(1 535)	(12 765)
At the end of the year	**(219)**	**(29 221)**	**(5 537)**	**(25 858)**	**(18 027)**	**(78 862)**
Net carrying value	**2 536**	**44 447**	**349**	**7 829**	**7 908**	**63 069**

* *These are assets held by the group, in circumstances where the group is the 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 of these operating leased assets has been shown separately on the face of the income statement.

At 31 March £'000	2016	2015
32. Investment properties		
At the beginning of the year	65 736	61 715
Additions	8 951	–
Fair value movement	1 282	8 726
Exchange adjustment	3 082	(4 705)
At the end of the year	**79 051**	**65 736**

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 cash flow 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	2016	2015
33. Goodwill		
Cost		
At the beginning of the year	381 890	528 665
Acquisition of subsidiaries	–	180
Disposals of subsidiaries	–	(145 688)
Exchange adjustments	904	(1 267)
At the end of the year	**382 794**	**381 890**
Accumulated impairments		
At the beginning of the year	(25 800)	(101 654)
Income statement amount	–	(4 375)
Disposals of subsidiaries	–	80 229
At the end of the year	**(25 800)**	**(25 800)**
Net carrying value	**356 994**	**356 090**
Analysis of goodwill by line of business		
Asset Management	88 045	88 045
Wealth & Investment	242 673	242 126
Specialist Banking	26 276	25 919
	356 994	**356 090**

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 Asset Management and Investec Wealth & Investment (IWI) which now includes the business of Williams de Broë (acquired in 2012 as part of the Evolution Group) which was merged with IWI in August 2012.

For Investec Wealth & Investment, goodwill of £236.3 million has been tested for impairment on the basis of the cash flow projections for the next three years discounted at 8.9% (2015: 9.9%) which incorporate an expected revenue growth rate of 2% in perpetuity (2015: 2%). The valuation is based on value in use of the business.

Sensitivity analysis has been carried out and it has been concluded that no reasonably possible change in the key assumptions would cause an impairment to be recognised.

For Investec Asset Management, goodwill of £88.0 million has been tested for impairment on the basis of a valuation of the business based on 3% of funds under management. The valuation is based on management's assessment of appropriate external benchmarks to estimate the fair value less cost to sell business. Valuing an asset management business as a percentage of funds under management, taking into account asset mix, is in line with market practice and the percentage used by management reflects external transactions that are comparable to Investec Asset Management. The valuation would be level 3 in the fair value hierarchy.

Sensitivity analysis has been carried out and it has been concluded that no reasonably possible change in the key assumptions would cause an impairment to be recognised.

33. Goodwill *(continued)*

MOVEMENT IN GOODWILL

2016

There are no significant movements in goodwill during the year.

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) Limited and the Kensington Group in 2015 (as detailed in note 35).

34. Intangible assets

At 31 March £'000	Acquired software	Internally generated software	Intellectual property	Management contracts	Client relationships	Total
2016						
Cost						
At the beginning of the year	35 159	61	–	727	187 931	223 878
Exchange adjustments	120	–	–	69	295	484
Additions	2 667	521	–	–	–	3 188
Disposals	(200)	–	–	(276)	–	(476)
At the end of the year	**37 746**	**582**	**–**	**520**	**188 226**	**227 074**
Accumulated amortisation and impairments						
At the beginning of the year	(31 150)	–	–	(313)	(55 760)	(87 223)
Exchange adjustments	(110)	–	–	(30)	(135)	(275)
Disposals	200	–	–	276	–	476
Amortisation	(2 095)	–	–	(129)	(14 348)	(16 572)
At the end of the year	**(33 155)**	**–**	**–**	**(196)**	**(70 243)**	**(103 594)**
Net carrying value	**4 591**	**582**	**–**	**324**	**117 983**	**123 480**
2015						
Cost						
At the beginning of the year	47 301	–	2 034	916	185 084	235 335
Exchange adjustments	(1 047)	–	–	(104)	(569)	(1 720)
Acquisition of a subsidiary undertaking	–	–	–	–	3 416	3 416
Additions	2 180	61	–	–	–	2 241
Disposals	(13 275)	–	(2 034)	(85)	–	(15 394)
At the end of the year	**35 159**	**61**	**–**	**727**	**187 931**	**223 878**
Accumulated amortisation and impairments						
At the beginning of the year	(39 827)	–	(378)	(216)	(41 566)	(81 987)
Exchange adjustments	576	–	–	(19)	186	743
Disposals	11 640	–	378	39	–	12 057
Amortisation	(3 539)	–	–	(117)	(14 380)	(18 036)
At the end of the year	**(31 150)**	**–**	**–**	**(313)**	**(55 760)**	**(87 223)**
Net carrying value	**4 009**	**61**	**–**	**414**	**132 171**	**136 655**

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

2016

Acquisitions

There were no significant acquisitions of subsidiaries during the year ended 31 March 2016.

Acquisitions

There were no significant disposals of subsidiaries during the year ended 31 March 2016.

2015

Acquisitions

In April 2014 the group acquired the entire share capital of Robert Smith Group (Automotive) Limited (the parent of Mann Island Finance Group) (MIF).

	Book value of assets and liabilities	Fair value of assets and liabilities
£'000	**Total**	**Total**
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
		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 £27.5 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 loss on sale of subsidiaries of £93 million in the income statement arises from the sale of Investec Bank (Australia) Limited and the sale of the Start Mortgage Holdings and Kensington Group plc companies and subsidiaries as described below. The net cash inflow on these items amount to £226 million. Cash and cash equivalents in the subsidiaries disposed of was £75 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 the group's Irish intermediated mortgage business, Start Mortgage 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 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.

This has resulted in the derecognition of approximately £4.1 billion of assets and approximately £2 billion of external liabilities associated with these businesses.

35. Acquisitions and disposals *(continued)*

The breakdown of the significant balance sheet line items derecognised are shown below:

	Book value of assets and liabilities		
£'000	**IBAL**	**Kensington**	**Total**
Loans and advances to banks	–	47 540	47 540
Debt securities	299 904	42 141	342 045
Derivatives	–	95 565	95 565
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	–	1 185 465	1 185 465
Other securitised assets	–	1 981 729	1 981 729
Combined other asset lines	44 377	7 087	51 464
Total assets	**1 725 574**	**4 114 797**	**5 840 371**
Deposits by banks	–	311 660	311 660
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	(128 979)	238 552
Liabilities arising on securitisation of other assets	–	1 616 003	1 616 003
Subordinated debt	42 291	71 173	113 464
Combined other liability lines	4 343	171 435	175 778
Total liabilities	**1 695 120**	**2 041 292**	**3 736 412**
Net assets and liabilities sold			2 103 959
Cash received in settlement of pre-existing relationships*			1 914 167
Proceeds on sale of subsidiary			226 291
Goodwill and other adjustments on sale			(129 559)
Loss on disposal of subsidiaries			(93 060)

* *Reflected as movements in operating assets and operating liabilities within the cash flow (note 47).*

At 31 March £'000	2016	2015
36. Other trading liabilities		
Short positions		
– Equities	64 657	88 920
– Gilts	161 941	162 959
	226 598	**251 879**

At 31 March £'000	2016	2015
37. Debt securities in issue		
Bonds and medium-term notes repayable:		
Less than three months	35 001	38 535
Three months to one year	116 680	111 387
One to five years	873 712	662 047
Greater than five years	803 426	540 345
	1 828 819	**1 352 314**

At 31 March £'000	2016	2015
38. Other liabilities		
Settlement liabilities	849 025	935 815
Other creditors and accruals	372 924	374 398
Other non-interest-bearing liabilities	106 883	127 415
	1 328 832	**1 437 628**

At 31 March £'000	2016	2015
39. Pension commitments		
Income statement charge		
Defined benefit obligations net (income) included in net interest income	(1 208)	(1 219)
Defined benefit net costs included in administration costs	647	442
Cost of defined contribution schemes included in staff costs	22 579	23 427
Net income statement charge in respect of pensions	**22 018**	**22 650**

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 plans are subject to UK regulations, which require the trustees to agree a funding strategy and contribution schedule for the plans. 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 2016 by qualified independent actuaries in accordance with IAS 19. There were no unpaid contributions in relation to the defined contribution schemes outstanding at year end.

At 31 March £'000	2016	2015
39. Pension commitments *(continued)*		
The major assumptions used were:		
Discount rate	3.40%	3.20%
Rate of increase in salaries	2.90%	3.00%
Rate of increase in pensions in payment	1.80% – 3.00%	1.80% – 3.00%
Inflation (RPI)	2.90%	3.00%
Inflation (CPI)	1.90%	2.00%

Demographic assumptions

One of the most significant demographic assumptions underlying the valuation is mortality. The specific mortality rates used are based on the S1PA base tables with allowance for future improvements in line with CMI 2014 core projections and a long-term improvement of 1.25% per annum. The life expectancies underlying the valuation are as follows:

	Years	Years
Male aged 65	88.3	87.8
Female aged 65	90.9	89.8
Male aged 45	90.1	89.7
Female aged 45	92.8	91.2

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 £5 429 000 (increase by £5 798 000) if all the other assumptions remained unchanged.

If the inflation assumption was 0.25% higher (lower), the scheme liabilities would increase by approximately £2 173 000 (decrease by £2 530 000). In this calculation all assumptions related to the inflation assumption have been appropriately adjusted, that is the salary, deferred pension and pension in payment increases. The other assumptions remain unchanged.

If the salary increase assumption was 0.25% higher (lower), the scheme liabilities would increase by approximately £209 000 (decrease by £205 000) if all the other assumptions remained unchanged.

If the deferred revaluation assumption was 0.25% higher (lower) the scheme liabilities would increase by £778 000 (decrease by £761 000), if all the other assumptions remained unchanged.

If the pension increases assumptions were 0.25% higher (lower), the scheme liabilities would increase by approximately £1 813 000 (decrease by £1 721 000) if all the other assumptions remained unchanged.

If life expectancies were to increase (decrease) by one year, the scheme liabilities would increase by approximately £4 317 000 (decrease by £3 822 000) if all the other assumptions remained unchanged.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. The sensitivity analysis has been performed on the basis that the relevant assumption would occur in isolation, holding other assumptions constant.

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the same methodology that applied in calculating the defined benefit obligation liability recognised in the balance sheet.

RISK EXPOSURES

A description of the risks which the pension schemes expose Investec can be found in the risk management report on page 103.

The group ultimately underwrites the risks relating to the defined benefit plans. If the contributions currently agreed are insufficient to pay the benefits due, the group will need to make further contributions to the plans.

At 31 March £'000	2016	2015
39. Pension commitments *(continued)*		
GM scheme		
Gilts	168 451	165 729
Cash	2 792	2 600
Total market value of assets	**171 243**	**168 329**
IAM scheme		
Managed funds	21 887	24 442
Cash	84	49
Total market value of assets	**21 971**	**24 491**

There are no assets which are unquoted.

None of the group's own assets or properties occupied or used by the group is held within the assets of the scheme.

The investment strategy in place for the GM scheme is to switch to gilts over the period to 31 March 2021. At 31 March 2016, the allocation of the GM scheme's invested assets was 100% to gilts and cash. 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 trustees' current investment strategy is to strike a balance between maximising the returns on the scheme's assets and minimising the risks associated with lower than expected returns.

At 31 March £'000	2016			2015		
	GM	IAM	Total	GM	IAM	Total
Recognised in the balance sheet						
Fair value of fund assets	171 243	21 971	193 214	168 329	24 491	192 820
Present value of obligations	(129 467)	(17 275)	(146 742)	(137 947)	(18 973)	(156 920)
Net asset (recognised in other assets)	**41 776**	**4 696**	**46 472**	**30 382**	**5 518**	**35 900**
Recognised in the income statement						
Net interest income	1 033	175	1 208	947	272	1 219
Administration costs	(535)	(112)	(647)	(377)	(65)	(442)
Net amount recognised in the income statement	**498**	**63**	**561**	**570**	**207**	**777**
Recognised in the statement of comprehensive income						
Return on plan assets (excluding amounts in net interest income)	339	2 169	2 508	(28 219)	(1 982)	(30 201)
Actuarial (gain)/loss arising from changes in financial assumptions	(5 317)	(814)	(6 131)	22 106	2 956	25 062
Actuarial loss arising from changes in demographic assumptions	2 393	243	2 636	–	–	–
Actuarial (gain) arising from experience adjustments	(3 995)	(713)	(4 708)	(33)	(75)	(108)
Remeasurement of defined benefit/asset	(6 580)	885	(5 695)	(6 146)	899	(5 247)
Deferred tax	1 222	(265)	957	(1 229)	136	(1 093)
Remeasurement of net defined benefit liability	**(5 358)**	**620**	**(4 738)**	**(7 375)**	**1 035**	**(6 340)**

At 31 March £'000	GM	IAM	Total
39. Pension commitments *(continued)*			
Changes in the net asset/(liabilities) recognised in the balance sheet			
Opening balance sheet asset at 1 April 2014	**19 350**	**6 210**	**25 560**
Expenses 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
Opening balance sheet asset at 1 April 2015	**30 382**	**5 518**	**35 900**
Expenses charged to the income statement	498	63	561
Amount recognised in other comprehensive income	6 580	(885)	5 695
Contributions paid	4 316	–	4 316
Closing balance sheet asset at 31 March 2016	**41 776**	**4 696**	**46 472**
Changes in the present value of defined benefit obligations			
Opening 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)
Opening defined benefit obligation at 1 April 2015	**137 947**	**18 973**	**156 920**
Interest expense	4 320	588	4 908
Remeasurement gains and losses:			
– Actuarial gain arising from demographic assumptions	2 393	243	2 636
– Actuarial (loss) arising from changes in financial assumptions	(5 317)	(814)	(6 131)
– Actuarial (loss) arising from experience adjustments	(3 995)	(713)	(4 708)
Past service cost	–	–	–
Gains/(losses) arising from settlements	–	–	–
Benefits and expenses paid	(5 881)	(1 002)	(6 883)
Closing defined benefit obligation at 31 March 2016	**129 467**	**17 275**	**146 742**
Changes in the fair value of plan assets			
Opening fair value of plan assets at 1 April 2014	**135 433**	**22 314**	**157 747**
Interest income	5 940	965	6 905
Remeasurement (loss)/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)
Opening fair value of plan assets at 1 April 2015	**168 329**	**24 491**	**192 820**
Interest income	5 353	763	6 116
Remeasurement gain/loss:			
– Return on plan assets (excluding amounts in net interest income)	(339)	(2 169)	(2 508)
Contributions by the employer	4 316	–	4 316
Benefits and expenses paid	(5 881)	(1 002)	(6 883)
Administration expenses	(535)	(112)	(647)
Closing fair value of plan assets at 31 March 2016	**171 243**	**21 971**	**193 214**

There is no restriction on the pension surpluses as Investec has an unconditional right to a refund of the surpluses assuming the gradual settlement of the plan over time until all members have left the scheme.

The triennial funding valuation of the schemes was carried out as at 31 March 2015. Contributions requirements, including any deficit recovery plans, were agreed between the group and the trustees in March 2013 and March 2016 to address the scheme deficit. Under the agreed contribution plan deficit contributions of £4.3 million were paid into the GM scheme in the year to March 2016 and the group expects to make £4.3 million of contributions to the defined benefit schemes in the 2016/17 financial year, with the total agreed contributions for the years ending March 2017 to March 2021 totalling £10.8 million. The IAM scheme is fully funded.

The weighted average duration of the GM scheme's liabilities at 31 March 2015 is 17 years (31 March 2015: 19 years). This includes average duration of active members of 21 years, average duration of deferred pensioners of 22 years and average duration of pensioners in payment of 12 years. The weighted average duration of the IAM scheme's liabilities at 31 March 2016 is 18 years (31 March 2015: 19 years). This includes average duration of deferred pensioners of 20.4 years and average duration of pensioners in payment of 12.8 years.

At 31 March £'000	2016	2015
40. Subordinated liabilities		
Issued by Investec Finance plc		
Guaranteed undated subordinated callable step-up notes	18 272	18 510
Issued by Investec Bank plc		
Subordinated fixed rate medium-term notes	579 037	578 413
	597 309	**596 923**
Remaining maturity:		
In one year or less, or on demand*	18 272	–
In more than one year, but not more than two years	–	18 510
In more than two years, but not more than five years	–	–
In more than five years	579 037	578 413
	597 309	**596 923**

* *Where notes are undated the maturity has been taken as the first potential call date.*

The only event of default in relation to the subordinated debt is the non-payment of principal or interest. The only remedy available to the holders of the subordinated debt in the event of default is to petition for the winding up of the issuing entity. In a winding up no amount will be paid in respect of the subordinated debt until all other creditors have been paid in full.

GUARANTEED UNDATED SUBORDINATED CALLABLE STEP-UP NOTES

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 in 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 in 2022 at a premium (2022 Notes) (to be consolidated and form a single series, and to be fungible, with the £500 000 000 2022 Notes issued on 17 February 2011).

At 31 March £'000	2016	2015
41. Ordinary share capital		
Investec plc		
Issued, allotted and fully paid		
Number of ordinary shares	**Number**	**Number**
At the beginning of the year	613 609 642	608 756 343
Issued during the year	3 809 222	4 853 299
At the end of the year	**617 418 864**	**613 609 642**
Nominal value of ordinary shares	**£'000**	**£'000**
At the beginning of the year	123	122
Issued during the year	1	1
At the end of the year	**124**	**123**
Number of special converting shares	**Number**	**Number**
At the beginning of the year	285 748 623	282 934 529
Issued during the year	5 615 083	2 814 094
At the end of the year	**291 363 706**	**285 748 623**
Nominal value of special converting shares	**£'000**	**£'000**
At the beginning of the year	57	56
Issued during the year	1	1
At the end of the year	**58**	**57**
Number of UK DAN shares	**Number**	**Number**
At the beginning and end of the year	1	1
Nominal value of UK DAN share	**£'000**	**£'000**
At the beginning and end of the year	*	*
Number of UK DAS shares	**Number**	**Number**
At the beginning and end of the year	1	1
Nominal value of UK DAS share	**£'000**	**£'000**
At the beginning and end of the year	*	*
Number of special voting shares	**Number**	**Number**
At the beginning and end of the year	1	1
Nominal value of special voting share	**£'000**	**£'000**
At the beginning and end of the year	*	*

* *Less than £1 000.*

41. Ordinary share capital *(continued)*

STAFF SHARE SCHEME

The group operates a share option and a share purchase scheme for employees. The number of ordinary shares conditionally allocated to employees are disclosed in note 7.

Movements in the number of share options issued to (each option is in respect of one share) employees are as follows:

For the year to 31 March	Number 2016	Number 2015
Opening balance	32 430 764	42 877 067
Issued during the year	6 810 928	6 721 210
Exercised	(9 203 122)	(15 562 258)
Lapsed	(1 278 091)	(1 605 255)
Closing balance	**28 760 479**	**32 430 764**

The purpose of the Staff Share scheme 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.

The group makes awards available to staff members via the underlying share trusts. The particular instrument used varies from time to time, depending on taxation legislation and factors affecting the group structure. Nevertheless, whatever the instrument chosen, its underlying value depends solely on the performance of the group's share price.

At present, the practice of the group is to grant all permanent staff members a share allocation, based on their annual package, after completing six months of employment. In line with the objective of providing a long-term incentive for staff, these share awards vest over periods varying from four to five years.

After the initial allocation referred to above, additional allocations are made to staff members at the discretion of group management and depending on the individual performance and contribution made by the respective staff members.

At 31 March £'000	2016	2015
42. Perpetual preference shares of holding company		
Perpetual preference share capital	151	151
Perpetual preference share premium (refer to note 43)	149 449	149 449
	149 600	**149 600**
Issued by Investec plc		
9 381 149 (2015: 9 381 149) non-redeemable, non-cumulative, non-participating preference shares of £0.01 each, issued at a premium of £8.58 per share.		
– Preference share capital	94	94
– Preference share premium	79 490	79 490
5 700 000 (2015: 5 700 000) non-redeemable, non-cumulative, non-participating preference shares of £0.01 each, issued at a premium of £8.86 per share.		
– Preference share capital	57	57
– Preference share premium	49 917	49 917
Preference shareholders will receive an annual dividend, if declared, based on the coupon rate (being equivalent to the base rate plus 1%) multiplied by the deemed value on a daily basis and payable in two semi-annual instalments.		
An ordinary dividend will not be declared by Investec plc unless the preference dividend has been declared.		
If declared, preference dividends are payable semi-annually at least seven business days prior to the date on which Investec plc pays its ordinary dividends, if any, but shall be payable no later than 120 business days after 31 March and 30 September, respectively.		
Issued by Investec plc – Rand-denominated		
1 859 900 (2015: 1 859 900) non-redeemable, non-cumulative, non-participating perpetual preference shares of ZAR0.001 each, issued at a premium of ZAR99.999 per share on 29 June 2011.		
– Preference share capital	*	*
– Preference share premium	16 601	16 601
416 040 (2015: 416 040) non-redeemable, non-cumulative, non-participating perpetual preference shares of ZAR0.001 each, issued at a premium of ZAR99.999 per share on 11 August 2011.		
– Preference share capital	*	*
– Preference share premium	3 441	3 441
Rand-denominated preference shareholders will receive a dividend, if declared, based on the coupon rate (being equivalent to South African prime rate multiplied by 95%) multiplied by the deemed value on a daily basis and payable in two semi-annual instalments.		
An ordinary dividend will not be declared by Investec plc unless the Rand preference dividend has been declared.		
If declared, Rand preference dividends are payable semi-annually at least seven business days prior to the date on which Investec pays its ordinary dividends, if any, but shall be payable no later than 120 business days after 31 March and 30 September, respectively.		

At 31 March £'000	2016	2015
43. Share premium		
Share premium account – Investec plc	1 044 808	1 021 992
Perpetual preference share premium	149 449	149 449
	1 194 257	**1 171 441**

At 31 March £'000	2016	2015
44. Treasury shares	**£'000**	**£'000**
Treasury shares held by subsidiaries of Investec plc	**81 309**	37 960
	Number	**Number**
Investec plc ordinary shares held by subsidiaries	**16 141 177**	8 325 971
Reconciliation of treasury shares	**Number**	**Number**
At the beginning of the year	8 325 971	12 539 920
Purchase of own shares by subsidiary companies	17 994 897	12 556 847
Shares disposed of by subsidiaries	(10 179 691)	(16 770 796)
At the end of the year	**16 141 177**	**8 325 971**
Market value of treasury shares	**£'000**	**£'000**
Investec plc	82 724	46 709
	82 724	**46 709**

At 31 March £'000	2016	2015
45. Non-controlling interests		
Perpetual preferred securities issued by subsidiaries	–	144 598
Non-controlling interests in partially held subsidiaries	13 317	15 858
	13 317	**160 456**
Perpetual preferred securities issued by subsidiaries		
Issued by Investec plc subsidiaries	–	144 598
€nil (2015: €200 000 000) fixed/floating rate guaranteed non-voting non-cumulative perpetual preferred securities (preferred securities) were issued by Investec Tier 1 (UK) LP (a limited partnership organised under the laws of England and Wales) on 24 June 2005. The preferred securities, which were guaranteed by Investec plc, were callable at the option of the issuer, subject to the approval of the UK Regulator on the tenth anniversary of the issue and if not called, were subject to a step-up in coupon of one and a half times the initial credit spread above the three-month Eurozone interbank offered rate. Until the tenth anniversary of the issue, the dividend on the preferred securities was at 7.075%.		
These notes were redeemed in full by the issuer on 24 June 2015.		
	–	**144 598**

At 31 March £'000	Investec Asset Management 2016	2015
45. Non-controlling interests *(continued)*		
The following table summarises the information relating to the group's subsidiary that has material non-controlling interests.		
Non-controlling interests (NCI) (%)	15.0	15.0
Summarised financial information	**£'000**	**£'000**
Total assets	380 891	411 419
Total liabilities	(283 817)	(309 501)
Revenue	276 063	269 048
Profit	66 015	68 210
Carrying amount of NCI	14 763	15 180
Profit allocated to NCI	10 263	10 053

At 31 March £'000	2016 Total future minimum payments	2016 Present value	2015 Total future minimum payments	2015 Present value
46. Finance lease disclosures				
Finance lease receivables included in loans and advances to customers				
Lease receivables due in:				
Less than one year	209 268	165 542	201 556	159 545
One to five years	338 891	294 898	311 830	270 249
Later than five years	5 488	5 244	4 510	4 289
	553 647	465 684	517 896	434 083
Unearned finance income	87 963		83 813	

At 31 March 2016, unguaranteed residual values accruing to the benefit of Investec were £2.4 million (2015: £2.7 million). Finance leases in the group mainly relate to leases on property, equipment and motor vehicles.

For the year to 31 March £'000	2016	2015
47. Notes to cash flow statement		
Profit before taxation adjusted for non-cash items is derived as follows:		
Profit before taxation	159 078	15 320
Adjustment for non-cash items included in net income before taxation:		
Impairment of goodwill	–	4 376
Amortisation of intangible assets	14 477	14 497
Net loss on disposal of subsidiaries	–	93 060
Depreciation of operating lease assets	2 149	1 535
Depreciation and impairment of property, equipment and intangibles	11 064	14 769
Impairment of loans and advances	84 217	102 707
Operating (income) from associates	(2 321)	(1 933)
Dividends received from associates	1 917	1 548
Share-based payment charges	27 707	35 050
Profit before taxation adjusted for non-cash items	**298 288**	**280 929**
Increase in operating assets		
Loans and advances to banks	(129 221)	(1 548)
Reverse repurchase agreements and cash collateral on securities borrowed	891 180	(232 705)
Sovereign debt securities	(40 081)	(114 409)
Bank debt securities	37 876	(14 030)
Other debt securities	(171 167)	8 443
Derivative financial instruments	(62 537)	67 422
Securities arising from trading activities	145 954	(83 592)
Investment portfolio	(76 598)	(61 284)
Loans and advances to customers	(828 439)	(393 816)
Other loans and advances	139 444	–
Securitised assets	261 418	871 705
Other assets	(364 885)	(157 252)
Investment properties	(10 683)	(8 726)
	(207 739)	**(119 792)**
Increase in operating liabilities		
Deposits by banks	322 544	(918 276)
Derivative financial instruments	10 971	293 262
Other trading liabilities	(25 281)	(139 771)
Repurchase agreements and cash collateral on securities lent	(315 999)	(17 474)
Customer accounts	502 649	562 662
Debt securities in issue	476 505	51 534
Securitised liabilities	(209 909)	(660 080)
Other liabilities	(51 263)	999 324
	710 217	**171 181**

At 31 March £'000	2016	2015
48. Commitments		
Undrawn facilities	1 141 530	812 364
Other commitments	104 016	38 226
	1 245 546	**850 590**
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		
Further minimum lease payments under non-cancellable operating leases:		
Less than one year	27 494	24 878
One to five years	115 013	79 711
Later than five years	108 602	59 555
	251 109	**164 144**
Operating lease receivables		
Further minimum lease payments under non-cancellable operating leases:		
Less than one year	4 499	5 791
One to five years	10 150	3 706
Later than five years	749	–
	15 398	**9 497**

Investec leases assets to third parties under operating and finance lease arrangements including transport assets, machinery and property. The term of the leases range between three and five years with no annual escalation clauses. The majority of the leases have renewal options.

	Carrying amount of pledged assets		Related liability	
At 31 March £'000	**2016**	**2015**	**2016**	**2015**
Pledged assets				
Loans and advances to customers	374 394	–	176 479	–
Other loans and advances	6 731	25 253	5 246	25 253
Loans and advances to banks	174 353	210 061	157 752	164 661
Sovereign debt securities	183 881	151 841	169 587	139 202
Bank debt securities	33 564	59 516	30 955	54 562
Securities arising from trading activities	452 520	580 156	447 717	530 660
	1 225 443	**1 026 827**	**987 736**	**914 338**

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	2016	2015
49. Contingent liabilities		
Guarantees and assets pledged as collateral security:		
– Guarantees and irrevocable letters of credit	136 257	53 137
	136 257	**53 137**

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 plc and its subsidiaries on behalf of third parties and other group companies. The guarantees are issued as part of the banking business.

FINANCIAL SERVICES COMPENSATION SCHEME

The Financial Services Compensation Scheme (FSCS), the UK's statutory fund of last resort, provides compensation to customers of UK authorised financial institutions in the event that an institution which is a participating member of the FSCS is unable, or is likely to be unable, to pay claims against it.

The FSCS raises annual levies from participating members based on their level of participation (in the case of deposits, the proportion that their protected deposits represent to 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 amount or timing of amount that may ultimately become payable, nor the effect that such levies may have upon operating results in any particular financial period.

LEGAL PROCEEDINGS

Investec operates in a legal and regulatory environment that exposes it to litigation risks. As a result, Investec is involved in disputes and legal proceedings which arise in the ordinary course of business. Investec does not expect the ultimate resolution of any of the proceedings to which Investec is party to have a significant adverse effect on the financial position of the group. These claims, if any, cannot be reasonably estimated at this time.

Specifically, a claim has been made in the Royal Court of Guernsey against ITG Limited, a subsidiary of Investec plc, for breach of equitable duty for skill and care with a related claim for liability for the debts of a client trust. These claims are currently the subject of appeals before the Judicial Committee of the Privy Council. The outcome of these claims cannot reasonably be estimated at this time but Investec does not expect the ultimate resolution of the proceedings to have a material adverse effect on the financial position of the group.

For the year to 31 March £'000	2016	2015

50. Related party transactions

Transactions, arrangements and agreements involving directors and others:

Transactions, arrangements and agreements involving directors with directors and connected persons and companies controlled by them, and with officers of the company, were as follows:

Directors, key management and connected persons and companies controlled by them

For the year to 31 March £'000	2016	2015
Loans		
At the beginning of the year	37 215	33 472
Increase in loans	3 870	14 461
Repayment of loans	(6 775)	(10 024)
Exchange adjustments	(248)	(694)
At the end of the year	**34 062**	**37 215**
Guarantees		
At the beginning of the year	8 512	4 409
Additional guarantees granted	3 748	6 062
Guarantees cancelled	(449)	(1 876)
Exchange adjustments	(481)	(83)
At the end of the year	**11 330**	**8 512**
Deposits		
At the beginning of the year	(35 537)	(27 668)
Increase in deposits	(12 189)	(27 261)
Decrease in deposits	21 317	19 245
Exchange adjustments	698	147
At the end of the year	**(25 711)**	**(35 537)**

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.

	Investec Limited and subsidiaries	
For the year to 31 March £'000	**2016**	**2015**
Transactions with other related parties		
Assets		
Loans and advances to banks	9 243	3 520
Reverse repurchase agreement	110 071	233 256
Bank debt securities	7 032	6 931
Derivative financial instruments	6 263	38 724
Other loans and advances	–	1 746
Other assets	21 913	18 188
Liabilities		
Deposits by banks	(42 951)	(13 703)
Derivative financial instruments	(16 861)	(99 144)
Customer accounts	(8 312)	(7 838)
Debt securities in issue	(126 721)	(160 328)
Other liabilities	(10 687)	(25 901)

During the year to March 2016, interest of £6.6 million (2015: £15.0 million) was paid to entities in the Investec Limited Group. Interest of £2.8 million (2015: £1.4 million) was received from Investec Limited Group.

In the normal course of business, services are rendered between Investec plc and Investec Limited entities. In the year to 31 March 2016, this resulted in a net payment to Investec Limited of £16 million (2015: £21.5 million).

During the year to March 2016, Investec Wealth and Investment Limited was charged £21 000 (2015: £nil) for research service provided by Grovepoint (UK) Limited. Bradley Fried is a former non-executive director of Investec Wealth and Investment Limited and director of Grovepoint (UK) Limited.

50. Related party transactions *(continued)*

During the year to 31 March 2016 Investec Bank (Channel Islands) issued guarantees of £2.2 million (2015: £2.4million) to Investec Bank Limited.

During the year the group made an investment in a private equity vehicle in which Bradley Fried an Investec director, has significant influence. Bradley Fried resigned from the board on 31 March 2016. The group made an investment of £30.5 million during the year and has committed further funding of £69.5 million to the vehicle. The terms and conditions of the transaction were no more favourable than those available, or which might be expected to be available, on similar transactions to non-related entities on an arm's length basis.

	2016	2015
Amounts due from associates	8 401	9 069
Interest income from loans to associates	1 024	1 218
Fees and commission income from associates	262	202

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.

51. 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
2016						
Assets	Interest rate swap	(136 927)	(136 927)	(33 458)	123 413	32 182
Liabilities	Interest rate swap	11 088	11 088	2 812	(11 003)	(2 841)
		(125 839)	**(125 839)**	**(30 646)**	**112 410**	**29 341**
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**

52. 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
2016								
Liabilities								
Deposits by banks	107 407	53 221	1 936	14 031	4 428	291 483	96 399	568 905
Derivative financial instruments	72 101	51 003	94 140	31 344	21 589	829 155	49 749	1 149 081
Derivative financial instruments – held for trading	63 928	–	–	–	–	–	–	63 928
Derivative financial instruments – held for hedging risk	8 173	51 003	94 140	31 344	21 589	829 155	49 749	1 085 153
Other trading liabilities	222 921	–	–	–	–	–	–	222 921
Repurchase agreements and cash collateral on securities lent	281 260	–	–	–	–	–	–	281 260
Customer accounts (deposits)	2 580 974	1 845 861	1 382 791	1 948 037	987 058	2 122 643	45 014	10 912 378
Debt securities in issue	89	8 598	81 482	123 328	264 455	1 016 751	575 648	2 070 351
Liabilities arising on securitisation of other assets	–	–	3 688	4 727	10 557	73 141	97 580	189 693
Other liabilities	159 802	815 064	184 265	21 494	11 434	129 486	7 649	1 329 194
Subordinated liabilities	–	–	–	561	73 767	221 375	630 344	926 047
Total on balance sheet liabilities	**3 424 554**	**2 773 747**	**1 748 302**	**2 143 522**	**1 373 288**	**4 684 034**	**1 502 383**	**17 649 830**
Contingent liabilities	35 046	20 902	2 353	77	29 440	43 246	5 193	136 257
Commitments	105 741	25 706	57 883	44 546	198 886	680 879	131 905	1 245 546
Total liabilities	**3 565 341**	**2 820 355**	**1 808 538**	**2 188 145**	**1 601 614**	**5 408 159**	**1 639 481**	**19 031 633**

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 92 and 93.

52. 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
2015								
Liabilities								
Deposits by banks	86 550	48 801	5 008	–	–	–	107 025	247 384
Derivative financial instruments	193 619	24 557	107 903	47 158	68 183	270 830	253 138	965 388
Derivative financial instruments – held for trading	192 878	–	–	–	–	–	–	192 878
Derivative financial instruments – held for hedging risk	741	24 557	107 903	47 158	68 183	270 830	253 138	772 510
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)	2 494 331	1 256 623	1 656 016	2 555 973	799 230	1 465 096	135 752	10 363 021
Debt securities in issue	–	31 332	75 309	79 976	199 671	773 067	408 712	1 568 067
Liabilities arising on securitisation of other assets	–	5 726	2 194	7 688	14 835	116 944	238 262	385 649
Other liabilities	257 656	966 932	229 516	22 794	12 704	64 951	15 251	1 569 804
Subordinated liabilities	–	–	–	558	55 902	240 345	685 688	982 493
Total on balance sheet liabilities	**3 789 195**	**2 333 971**	**2 075 946**	**2 714 147**	**1 150 525**	**2 943 158**	**1 940 089**	**16 947 031**
Contingent liabilities	31 592	1 087	4 327	674	3 384	11 767	305	53 136
Commitments	310 298	2 230	22 054	42 773	123 180	345 054	5 001	850 590
Total liabilities	**4 131 085**	**2 337 288**	**2 102 327**	**2 757 594**	**1 277 089**	**3 299 979**	**1 945 395**	**17 850 757**

53. Principal subsidiaries and associated companies – Investec plc

At 31 March	Principal activity	Country of incorporation	Interest % 2016	Interest % 2015
Direct subsidiaries of Investec plc				
Investec 1 Limited	Investment holding	England and Wales	100.0%	100.0%
Investec Holding Company Limited	Investment holding	England and Wales	100.0%	100.0%
Indirect subsidiaries of Investec plc				
Investec Asset Finance plc	Leasing company	England and Wales	100.0%	100.0%
Investec Asset Management Limited	Asset management	England and Wales	85.0%	85.0%
Investec Bank plc	Banking institution	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 Capital & Investments (Ireland) Limited	Financial services	Ireland	100.0%	100.0%
Investec Finance plc	Debt issuer	England and Wales	100.0%	100.0%
Investec Group (UK) plc	Holding company	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%
Investec Ireland Limited	Financial services	Ireland	100.0%	100.0%
Investec Securities (US) LLC	Financial services	USA	100.0%	100.0%
Investec Trust Holdings AG	Investment holding	Switzerland	100.0%	100.0%
Investec Wealth & Investment Limited	Investment management services	England and Wales	100.0%	100.0%
Reichmans Geneva SA	Trade finance	Switzerland	100.0%	100.0%
Rensburg Sheppards plc	Holding company	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.

The subsidiaries listed above are only in relation to subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the financial statements.

A complete list of subsidiary and associated undertakings as required by the Companies Act 2006 is included in note i to the Investec plc company accounts on page 241.

53. Principal subsidiaries and associated companies – Investec plc *(continued)*

At 31 March	Principal activity	Country of incorporation	Interest % 2016	Interest % 2015
Principal associated companies				
Hargreave Hale Limited	Stockbroking and portfolio management	England and Wales	35.0%	35.0%

For more details on associated companies refer to note 28.

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
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 81.

53. Principal subsidiaries and associated companies – Investec plc *(continued)*

The key assumptions for the main types of structured entities which the group consolidates are summarised below:

SECURITISED RESIDENTIAL MORTGAGES

The group has securitised residential mortgages in order to provide investors with exposure to residential mortgage risk and to raise funding. These structured entities are consolidated due to the group's holdings of equity notes combined with its control over servicing activities. The group is not required to fund any losses above those incurred on the notes it has retained; such losses are reflected in any impairment of securitised mortgages as those assets have not been derecognised.

STRUCTURED DEBT AND LOAN PORTFOLIOS

The group has structured debt and loan portfolios for the purpose of issuing asset-backed securities. These structured entities are consolidated due to the group's retention of equity notes and because it continues to act as the collateral manager. The group is not required to fund any losses above those incurred on the notes it has retained.

STRUCTURED COMMERCIAL REAL ESTATE LOAN ASSETS

The group has securitised a number of commercial real estate loan assets. These structured entities are consolidated as the group has retained all of the notes issued. The group continues to recognise the commercial real estate loan assets on its balance sheet. The group is not required to fund any losses above those incurred on the notes it has retained.

SECURITISED RECEIVABLES

The group has securitised portfolios 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 £231.1 million (2015: £169.1 million).

SIGNIFICANT RESTRICTIONS

As is typical for a large group of companies, there are restrictions on the ability of the group to obtain distributions of capital, access the assets or repay the liabilities of members of the group due to the statutory, regulatory and contractual requirements of its subsidiaries. These are considered below:

REGULATORY REQUIREMENTS

Subsidiary companies are subject to prudential regulation and regulatory capital requirements in the countries in which they are regulated. These require entities to maintain minimum capital, leverage and exposure ratios restricting the ability of these entities to make distributions of cash or other assets to the parent company. Regulated subsidiaries of the group are required to maintain liquidity pools to meet PRA and local regulatory requirements. The main subsidiaries affected are: Investec Bank 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 page 104.

53. Principal subsidiaries and associated companies – Investec plc *(continued)*

STATUTORY REQUIREMENTS

The group's subsidiaries are subject to statutory requirements not to make distributions of capital and unrealised profits and generally maintain solvency. These requirements restrict the ability of subsidiaries to remit dividends, except in the case of a legal capital reduction or liquidation.

CONTRACTUAL REQUIREMENTS

Asset encumbrance – the group uses its financial assets to raise finance in the form of securitisations and through the liquidity schemes of central banks. Once encumbered, the assets are not available for transfer around the group. The assets typically affected are disclosed in notes 19 and 56.

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	Investments in units issued by the fund
	These vehicles are financed through the issue of units to investors	Management fees

The table below sets out an analysis of the carrying amounts of interests held by the group in structured associate entities.

31 March 2016 £'000	Line on the balance sheet	Carrying value £'000	Maximum exposure to loss	Income earned from structured entity	£'000
Aircraft investment funds	Investment portfolio	68 904	Limited to the carrying value	Investment income	4 308

31 March 2015 £'000	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

54. Unconsolidated structured entities

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 158.

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	Investments in units issued by the fund
	These vehicles are financed through the issue of units to investors	Management fees
Residential mortgage securitisations	To generate a return for investors through providing exposure to residential mortgage risk	Investments in notes
	These vehicles are financed through the issue of notes to investors	

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 2016	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	5 245	Limited to the carrying value	185 724	Investment loss	1
Residential mortgage securitisations	Other debt securities	9 734	Limited to the carrying value	105 258	Investment income	113
					Net interest income	94
	Other loans and advances	15 490	Limited to the carrying value	343 604	Net interest income	(75)
					Investment income	20

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	260
					Net interest income	120
	Other loans and advances	77 628	Limited to the carrying value	1 642 784	Net interest income	9 057

Financial support provided to the unconsolidated structured entities

There are no contractual agreements which require the group to provide any additional financial or non-financial support to these structured entities.

During the year, the group has not provided any such support and does not have any current intentions to do so in the future.

54. Unconsolidated structured entities *(continued)*

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

	2016 **Structured CDO and CLO securitisations**	**2015** **Structured CDO and CLO 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 returns do not follow the shareholding.	This is a CDO and CLO securitisation where Investec has no continuing interest as the notes previously held have been redeemed or fully written off. The entity is considered structured as the vehicle was set up so that the variable returns do not follow the shareholding.
Income amount and type	Nil	Nil
Carrying amount of all assets transferred	£222 million of CDO and CLO assets	£222 million of CDO and CLO assets

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 82.

55. Offsetting

At 31 March £'000	Amounts subject to enforceable netting arrangements: Effects of offsetting on balance sheet			Amounts subject to enforceable netting arrangements: Related amounts not offset		
	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Cash collateral	Net amount
2016						
Assets						
Cash and balances at central banks	2 638 069	–	**2 638 069**	–	–	2 638 069
Loans and advances to banks	1 112 441	–	**1 112 441**	–	(159 775)	952 666
Reverse repurchase agreements and cash collateral on securities borrowed	557 110	(85)	**557 025**	(221 151)	(849)	335 025
Sovereign debt securities	1 252 991	–	**1 252 991**	(183 881)	–	1 069 110
Bank debt securities	188 397	–	**188 397**	(33 564)	–	154 833
Other debt securities	393 652	–	**393 652**	–	–	393 652
Derivative financial instruments	837 558	–	**837 558**	(247 749)	(267 660)	322 149
Securities arising from trading activities	524 344	–	**524 344**	(449 383)	–	74 961
Investment portfolio	451 000	–	**451 000**	–	–	451 000
Loans and advances to customers	7 844 602	(41 000)	**7 803 602**	–	–	7 803 602
Other loans and advances	417 205	–	**417 205**	–	(7 933)	409 272
Other securitised assets	150 565	–	**150 565**	–	–	150 565
Other assets	1 705 319	(116)	**1 705 203**	–	(183 115)	1 522 088
	18 073 253	**(41 201)**	**18 032 052**	**(1 135 728)**	**(619 332)**	**16 276 992**
Liabilities						
Deposits by banks	544 210	–	**544 210**	–	(69 276)	474 934
Derivative financial instruments	964 362		**964 362**	(247 749)	(518 932)	197 681
Other trading liabilities	226 598	–	**226 598**	(221 151)	–	5 447
Repurchase agreements and cash collateral on securities lent	281 260	–	**281 260**	(280 806)	(454)	–
Customer accounts (deposits)	10 849 980	(41 000)	**10 808 980**	–	(16 118)	10 792 862
Debt securities in issue	1 828 819	–	**1 828 819**	(386 022)	(1 057)	1 441 740
Liabilities arising on securitisation of other assets	120 617	–	**120 617**	–	–	120 617
Other liabilities	1 329 033	(201)	**1 328 832**	–	–	1 328 832
Subordinated liabilities	597 309	–	**597 309**	–	–	597 309
	16 742 188	**(41 201)**	**16 700 987**	**(1 135 728)**	**(605 837)**	**14 959 422**

55. Offsetting *(continued)*

At 31 March £'000	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Cash collateral	Net amount
	Amounts subject to enforceable netting arrangements					
	Effects of offsetting on balance sheet			Related amounts not offset		
2015						
Assets						
Cash and balances at central banks	2 181 242	–	**2 181 242**	–	–	2 181 242
Loans and advances to banks	1 053 932	–	**1 053 932**	–	(185 581)	868 351
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	8 718 191	(7 943 170)	**775 021**	(285 518)	(81 087)	408 416
Securities arising from trading activities	670 298	–	**670 298**	(562 139)	–	108 159
Investment portfolio	400 941	–	**400 941**	–	–	400 941
Loans and advances to customers	7 069 592	(8 475)	**7 061 117**	–	–	7 061 117
Other loans and advances	554 912	–	**554 912**	–	(25 253)	529 659
Other securitised assets	411 983	–	**411 983**	–	–	411 983
Other assets	18 802 022	(17 466 442)	**1 335 580**	–	–	1 335 580
	42 978 399	**(25 423 500)**	**17 554 899**	**(1 539 661)**	**(295 578)**	**15 719 660**
Liabilities						
Deposits by banks	230 141	(8 475)	**221 666**	–	(46 431)	175 235
Derivative financial instruments	1 835 308	(881 917)	**953 391**	(386 671)	(203 056)	363 664
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)	10 306 331	–	**10 306 331**	–	(18 094)	10 288 237
Debt securities in issue	1 352 314	–	**1 352 314**	(312 416)	(7 777)	1 032 121
Liabilities arising on securitisation of other assets	330 526	–	**330 526**	–	–	330 526
Other liabilities	1 869 639	(432 011)	**1 437 628**	–	–	1 437 628
Subordinated liabilities	596 923	–	**596 923**	–	–	596 923
	41 471 417	**(25 423 500)**	**16 047 917**	**(1 539 661)**	**(275 358)**	**14 232 898**

56. Derecognition

TRANSFER OF FINANCIAL ASSETS THAT DO NOT RESULT IN DERECOGNITION

The group has been party to securitisation transactions whereby assets continue to be recognised on balance sheet (either fully or partially) although they have been subject to legal transfer to another entity. Securitisations may, depending on the individual arrangement, result in continued recognition of the securitised assets and the recognition of the debt securities issued in the transaction.

At 31 March £'000	2016 Carrying amount of assets that are continued to be recognised	2016 Carrying amount of associated liabilities	2015 Carrying amount of assets that are continued to be recognised	2015 Carrying amount of associated liabilities
No derecognition achieved				
Loans and advances to customers	657 947	(42 748)	542 057	(110 067)
Other loans and advances	153 551	–	172 582	–
Other securitised assets	–	–	231 979	(197 208)
	811 498	**(42 748)**	**946 618**	**(307 275)**

For transfer of assets in relation to repurchase agreements see note 19.

57. Post balance sheet events

Investec plc issued 30 870 000 new ordinary shares at a price of £4.48 per share issued, raising gross proceeds of approximately £138.3 million. It is the intention of the group to utilise the proceeds raised to fund a tender offer for the perpetual preference shares issued by Investec plc (refer to note 42).

Balance sheet

At 31 March £'000	Notes	2016	2015
Assets			
Fixed assets			
Investments in subsidiary undertakings	b	1 817 840	1 817 840
Current assets			
Amounts owed by group undertakings		481 494	473 982
Taxation		15 433	20 207
Other debtors		–	23
Prepayments and accrued income		75	259
Cash at bank and in hand			
– with subsidiary undertakings		35 414	–
– balances with other banks		469	563
		532 885	495 034
Current liabilities			
Creditors: amounts falling due within one year			
Bank loans			
– with subsidiary undertaking		–	66 710
Derivative financial instruments		15	104
Amounts owed to group undertakings		478 316	630 817
Other liabilities		992	721
Accruals and deferred income		6 326	4 539
Net current assets/(liabilities)		**47 236**	**(207 857)**
Creditors: amounts falling due after one year			
Debt securities in issue	c	329 544	18 078
Net assets		**1 535 532**	**1 591 905**
Capital and reserves			
Called-up share capital	d	182	180
Perpetual preference shares	d	151	151
Share premium account	d	1 194 257	1 171 441
Capital reserve	d	180 483	180 483
Retained income	d	160 459	239 650
Total capital and reserves		**1 535 532**	**1 591 905**

The notes on pages 240 and 243 form an integral part of the financial statements.

Approved and authorised for issue by the board of directors on 9 June 2016 and signed on its behalf by:

Stephen Koseff
Chief executive officer

9 June 2016

Statement of changes in shareholders' equity

£'000	Share capital	Perpetual preference shares	Share premium	Capital reserve	Profit and loss account	Total shareholders' equity
Balance at 31 March 2014	178	151	1 146 548	356 292	2 828	1 505 997
Issue of ordinary shares	2	–	24 893	–	–	24 895
Release of capital reserve to profit and loss	–	–	–	(175 809)	175 809	–
Total comprehensive income	–	–	–	–	161 330	161 330
Dividends paid to preference shareholders	–	–	–	–	(3 315)	(3 315)
Dividends paid to ordinary shareholders	–	–	–	–	(97 002)	(97 002)
At 31 March 2015	**180**	**151**	**1 171 441**	**180 483**	**239 650**	**1 591 905**
Issue of ordinary shares	2	–	22 816	–	–	22 818
Total comprehensive income	–	–	–	–	27 803	27 803
Dividends paid to preference shareholders	–	–	–	–	(3 203)	(3 203)
Dividends paid to ordinary shareholders	–	–	–	–	(103 791)	(103 791)
At 31 March 2016	**182**	**151**	**1 194 257**	**180 483**	**160 459**	**1 535 532**

a Basis of preparation

The parent accounts of Investec plc are prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards. The company is incorporated and domiciled in England and Wales and the company's accounts are presented in Pounds Sterling and all values are rounded to the nearest thousand (£'000) except where otherwise indicated.

The accounts have been prepared on the historical cost basis. The principal accounting policies adopted are set out below.

The company has taken advantage of the following disclosure exemptions under FRS 101 where applicable to the company:

- The requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share-based Payment
- The requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations. Equivalent disclosures are included in the consolidated financial statements of Investec plc in which the entity is consolidated
- The requirements of paragraph 33(c) of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- The requirements of IFRS 7 Financial Instruments: Disclosures
- The requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- The requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of: (i) paragraph 79(a)(iv) of IAS 1, (ii) paragraph 73(e) of IAS 16 Property Plant and Equipment (iii) paragraph 118(e) of IAS 38 Intangibles Assets, (iv) paragraphs 76 and 79(d) of IAS 40 Investment Property and (v) paragraph 50 of IAS 41 Agriculture
- The requirements of paragraphs 10(d), 10(f), 16, 38A to 38D, 40A to 40D,111 and 134-136 of IAS 1 Presentation of Financial Statements
- The requirements of IAS 7 Statement of Cash Flows
- The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- The requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of a cash flow statement, presentation of comparative information in respect of certain assets, standards not yet effective, impairment of assets, business combinations, discontinued operations and related party transactions.

Where required, equivalent disclosures are given in consolidated financial statements of the group.

For all periods up to and including the year ended 31 March 2015 the company prepared its financial statements in accordance with previously extant United Kingdom generally accepted accounting practice (UK GAAP). These financial statements, for the year ended 31 March 2016, are the first the company has prepared in accordance with FRS 101. Accordingly, the company has prepared individual financial statements which comply with FRS 101 applicable for periods beginning on or after 1 April 2014 and the significant accounting policies meeting those requirements are described in the relevant notes. In preparing these financial statements, the company has started from an opening balance sheet as at 1 April 2014 the company's date of transition to FRS101, and made those changes in accounting policies and other restatements required for the first-time adoption of FRS 101.

This transition is not considered to have had a material effect on the financial statements and hence no adjustment has been made to the balance sheet at 1 April 2014.

On transition to FRS 101, the company has applied the requirements of paragraphs 6-33 of IFRS 1 First time adoption of International Financial Reporting Standards.

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into Pounds Sterling at exchange rates ruling at the balance sheet date. All foreign currency transactions are translated into Pounds Sterling at the exchange rate ruling at the time of the transaction. Forward foreign exchange contracts are revalued at the market rates ruling at the date applicable to their respective maturities. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the income statement.

Investments

Investments in subsidiaries and interests in associated undertakings are stated at cost less any accumulated impairment in value.

Income

Dividends from subsidiaries are recognised when received. Interest is recognised on an accrual basis.

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.

Company's own profit and loss account

The company has taken advantage of the exemption in section 408 of the Companies Act 2006 to not present its own profit and loss account.

Financial assets

Financial assets are recorded at amortised cost applying the effective interest rate method where they are classified as loans and receivables or fair value through profit and loss.

Financial liabilities

Financial liabilities are recorded at amortised cost applying the effective interest rate method.

b Investments in subsidiary undertakings

£000	2016	2015
At the beginning and end of the year	1 817 840	1 817 840

c Debt securities in issue

On 5 May 2015, the company issued £300 million 4.50% Senior Unsecured Notes from its European Medium-Term Note programme (EMTN).

The notes mature on 5 May 2022 and pay interest at a fixed rate annually in arrears.

The company also has in issue a Euro-denominated note of €25 million issued on 14 February 2014. The notes mature on 29 September 2017 and pays interest at a fixed rate of 3.48% semi-annually in arrears.

d Parent company profit and loss account

The company's profit for the year, determined in accordance with the Companies Act 2006, was £27 803 000 (2015: £161 330 000).

e Audit fees

Details of the company's audit fees are set out in note 6 of the group financial statements.

f Dividends

Details of the company's dividends are set out in note 9 of the group financial statements.

g Share capital

Details of the company's ordinary share capital are set out in note 41 of the group financial statements. Details of the perpetual preference shares are set out in note 42 of the group financial statements.

h Audit opinion

The audit opinion on the financial statements of the Investec plc parent company is included within the independent auditor's report to the members of Investec plc within the combined consolidated Investec annual financial statements of Investec plc and Investec Limited for the year ended 31 March 2016.

i Subsidiaries

At 31 March 2016	Principal activity	Country of incorporation	Interest held
Investec 1 Limited	Investment holding	England and Wales	100%
Investec Finance (Jersey) Ltd	Share trust	Jersey	100%
Investec Holding Company Limited	Investment holding	England and Wales	100%
Curacao Investec Finance NV	Dormant	Curacao	100%
Investec Finance SARL	Dormant	Luxembourg	100%
TML Financial Solutions Ltd	Holding company	Ireland	100%
TML Financial Solutions (Two) Ltd	Holding company	Ireland	100%
The Mortgage Lender Ltd	Holding company	Ireland	100%
Investec Investments Limited	Investment holding	England and Wales	100%
Investec (UK) Limited	Holding company	England and Wales	100%
Investec Asset Management Limited	Investment management services	England and Wales	85%
Investec Asset Management Luxembourg S.A.	Management company	Luxembourg	100%
Investec Asset Management Guernsey Limited	Management company and global distributor	Guernsey	100%
Guinness Flight (Guernsey Nominees) Limited	Nominee company	Guernsey	100%
Investec Africa Frontier Private Equity Fund GP Limited	General partner to funds	Guernsey	100%
Investec Asset Management Australia Pty Limited	Sales and distribution	Australia	100%
Investec Asset Management Hong Kong Limited	Sales and distribution	Hong Kong	100%
Investec Asset Management Singapore Pte. Limited	Sales and distribution	Singapore	100%
Investec Asset Management Taiwan Limited	Sales and distribution	Taiwan	100%
Investec Africa Private Equity Fund 2 GP Limited	General partner to funds	Guernsey	100%
Growthpoint Investec African Property Management Limited	Dormant	Guernsey	100%
Investec Asset Management North America, Inc.	Sales and distribution	USA	100%
Investec Asset Management Switzerland GmbH	Sales and distribution	Switzerland	100%
Investec Fund Managers Limited	Management company	England and Wales	100%
Investec Captive Insurance Limited	Captive insurance company	Guernsey	100%
Reichmans Geneva SA	Investment holding	Switzerland	100%
Investec Group (UK) Plc	Holding company	England and Wales	100%
Guinness Mahon Group Ltd	Holding company	England and Wales	100%
Guinness Mahon Group Services Ltd	Holding company	England and Wales	100%
Investec Property Investments (South East) Ltd	Dormant property company	England and Wales	100%
Investec Property Investments (Yorkshire) Ltd	Dormant property company	England and Wales	100%
Guinness Mahon Pension Fund Trustees Ltd	Pension fund trustee	England and Wales	100%
Guinness Mahon Holdings Ltd	Holding company	England and Wales	100%
Investec USA Holdings Corporation Inc	Holding company	USA	100%
Investec Inc	Investment holding	USA	100%
Fuel Cell IP 1 LLC	Investment holding	USA	100%
Fuel Cell IP 2 LLC	Investment holding	USA	100%
Investec Securities (US) LLC	Financial services	USA	100%
Investec Bank plc	Banking institution	England and Wales	100%
Rensburg Sheppards Plc	Holding company	England and Wales	100%
Investec Wealth & Investment Limited	Investment management services	England and Wales	100%
Anston Trustees Limited	Non-trading	England and Wales	100%
Bell Nominees Limited	Non-trading	England and Wales	100%
Carr Investment Services Nominees Limited	Non-trading	England and Wales	100%
Carr PEP Nominees Limited	Non-trading	England and Wales	100%
CFC Partners Limited	Venture fund advice	England and Wales	100%
Click Nominees Limited	Non-trading	England and Wales	100%
Ferlim Nominees Limited	Nominee services	England and Wales	100%
Hero Nominees Limited	Nominee services	Guernsey	100%
Investec Wealth & Investment (Channel Islands) Limited	Investment management services	Guernsey	100%
Investec Click & Invest Limited	Non-trading	England and Wales	100%
Investec Wealth & Investment Trustees Limited	Trustee services	England and Wales	100%
Investment Administration Nominees Limited	Non-trading	England and Wales	100%

i Subsidiaries *(continued)*

At 31 March 2016	Principal activity	Country of incorporation	Interest held
IWI Fund Management Limited	Non-trading	England and Wales	100%
PEP Services (Nominees) Limited	Non-trading	England and Wales	100%
R & R Nominees Limited	Non-trading	England and Wales	100%
R S Trustees Limited	Non-trading	England and Wales	100%
Rensburg Client Nominees Limited	Nominee services	England and Wales	100%
Scarwood Nominees Limited	Non-trading	England and Wales	100%
Spring Nominees Limited	Non-trading	England and Wales	100%
Torch Nominees Limited	Nominee services	Guernsey	100%
Tudor Nominees Limited	Non-trading	England and Wales	100%
Williams De Broë Limited	Non-trading	England and Wales	100%
Rensburg Investment Management Limited	Non-trading	England and Wales	100%
Investec Australia Property Holdings Pty Ltd	Holding company	Australia	100%
Investec Propco Pty Ltd	Property fund trustee	Australia	100%
Investec Property Ltd	Property fund trustee	Australia	100%
Investec Property Management Pty Ltd	Property fund manager	Australia	100%
Investec Wentworth Pty Limited	Security trustee	Australia	100%
Investec Holdings Australia Limited	Holding company	Australia	100%
Investec Australia Property Investments Pty Ltd	Investment company	Australia	100%
Investec Australia Finance Pty Limited	Lending company	Australia	100%
Investec Australia Limited	Financial services	Australia	100%
Bowden (Lot 32) Holdings Pty Ltd	Holding company	Australia	100%
Bowden (Lot 32) Pty Ltd	Development company	Australia	100%
Investec Australia Direct Investment Pty Limited	Investment company	Australia	100%
Investec CWFIH Pty Limited	Dormant	Australia	100%
Mannum Powerco Pty Limited	Dormant	Australia	100%
Tungkillo Powerco Pty Limited	Dormant	Australia	100%
Investec Australia Financial Markets Pty Limited	Dormant	Australia	100%
Investec Australia Funds Management Limited	Aviation trustee company	Australia	100%
Investec (Australia) Investment Management Pty Limited	Aviation fund company	Australia	100%
Investec Wentworth Private Equity Pty Limited	Inactive private equity	Australia	100%
IWPE Nominees Pty Limited	Custodian	Australia	100%
Wentworth Associates Pty Limited	Dormant	Australia	100%
Sure Park Investments Pty Limited	Holding company	Australia	100%
Sure Park Private Pty Limited	Infrastructure company	Australia	100%
Sure Park Pty Limited	Infrastructure company	Australia	100%
Aksala Limited	Property company	Ireland	100%
Investec Holdings (Ireland) Ltd	Holding company	Ireland	100%
Investec Financial Management Ltd	Financial services	Ireland	100%
Investec Ireland Ltd	Financial services	Ireland	100%
Investec International Ltd	Aircraft leasing	Ireland	100%
Neontar Limited	Holding company	Ireland	100%
Investec Securities Holdings Ireland Ltd	Holding company	Ireland	100%
Investec Capital & Investments (Ireland) Ltd	Wealth management and investment services	Ireland	100%
Aurum Nominees Ltd	Nominee company	Ireland	100%
Investec (Airtricity) Nominees Ireland Ltd	Nominee company	Ireland	100%
Investec (CapVest) Ireland Ltd	Nominee company	Ireland	100%
Investec (Development) Nominees Ireland Ltd	Nominee company	Ireland	100%
Investec (Placings) Ireland Ltd	Nominee company	Ireland	100%
Investec (Thomas Street) Nominees No 2 Ltd	Nominee company	Ireland	100%
Investec Broking Nominees Ireland Ltd	Nominee company	Ireland	100%
Investec Corporate Finance (Ireland) Limited	Corporate finance (inactive)	Ireland	100%
Investec Ventures Ireland Limited	Venture capital	Ireland	100%
Venture Fund Principals Limited	Special partner	Ireland	100%
Investec Personal Portfolio Ireland Limited	Investment services	Ireland	100%
Nua HomeLoans Ltd	Mortgage services (inactive)	Ireland	100%
Nua Mortgages Ltd	Mortgage origination (inactive)	Ireland	100%
Beeson Gregory Index Nominees Limited	Dormant nominee company	England and Wales	100%
CF Corporate Finance Limited	Leasing company	England and Wales	100%
EVO Nominees Limited	Dormant nominee company	England and Wales	100%
Evolution Securities Nominees Limited	Dormant nominee company	England and Wales	100%
Investec Asia Limited	Investment banking	Hong Kong	100%

i Subsidiaries *(continued)*

At 31 March 2016	Principal activity	Country of incorporation	Interest held
Investec (Beijing) Limited	Investment banking	People's Republic of China	100%
Investec Asset Finance (Capital No. 3) Limited	Leasing company	England and Wales	100%
Investec Asset Finance (Management) Limited	Leasing company	England and Wales	100%
Investec Asset Finance Plc	Leasing company	England and Wales	100%
Mann Island Finance Limited	Leasing company	England and Wales	100%
MI Vehicle Finance Limited	Leasing company	England and Wales	100%
The Leasing Acquisition General Partnership	Leasing partnership	England and Wales	N/A
Investec Bank (Channel Islands) Limited	Banking institution	Guernsey	100%
Investec Bank (Channel Islands) Nominees Limited	Nominee company	Guernsey	100%
Investec Bank (Nominees) Limited	Nominee company	England and Wales	100%
Investec Bank (Switzerland) AG	Banking institution	Switzerland	100%
Investec Capital Asia Limited	Investment banking	Hong Kong	100%
Investec Capital Markets Limited	Investment banking	Hong Kong	100%
Investec Finance plc	Debt issuance	England and Wales	100%
Investec Group Investments (UK) Limited	Investment holding company	England and Wales	100%
ICF Investments Limited	Investment holding company	England and Wales	100%
Investec GP (Jersey) Limited	Investment holding company	Jersey	100%
Investec Trust Holdings AG	Investment holding company	Switzerland	100%
GFT Holdings Limited	Holding company	England and Wales	100%
Bayeux Trustees Limited	Corporate trustee	Guernsey	100%
Finistere Directors Limited	Corporate director	British Virgin Islands	100%
Finistere Limited	Corporate nominee	Guernsey	100%
Finistere Nominees Limited	Corporate nominee	Guernsey	100%
Finistere Secretaries Limited	Corporate secretary	Guernsey	100%
GFT Directors Limited	Corporate director	British Virgin Islands	100%
ITG Limited	Trust and company admin	Guernsey	100%
Investec Investment Trust Plc	Debt issuer	England and Wales	100%
Investec Investments (UK) Limited	Investment holding company	England and Wales	100%
Evolution Capital Investments Limited	Investment holding company	Jersey	100%
Canada Water (Developments) Limited	Property company	England and Wales	100%
Curlew Investments Limited	Investment holding company	British Virgin Islands	100%
Curlew Group Holdings Limited	Investment holding company	Canada	42.50%
Investec Securities Limited	Investment holding company	England and Wales	100%
Guinness Mahon Leasing Limited	Leasing company	England and Wales	100%
HEV Guernsey Limited	Investment holding company	Guernsey	100%
Investec Capital Services (India) Private Limited	Trading company	India	75%
Investec Pallinghurst (Cayman) LP	Investment holding partnership	Cayman Islands	58.30%
Investec North America Limited	Trading company	Canada	100%
Investec Property Developments Limited	Dormant company	England and Wales	100%
PEA Leasing Limited	Leasing company	England and Wales	100%
Quantum Funding Limited	Leasing company	England and Wales	100%
Quay Nominees Limited	Nominee company	England and Wales	100%
Technology Nominees Limited	Nominee	England and Wales	100%
Torteval LM Limited	Investment holding company	England and Wales	100%
Torteval Funding LLP	Financing company	England and Wales	100%
Tudor Tree Properties Limited	Property company	England and Wales	100%
Willbrow Nominees Limited	Nominee company	England and Wales	100%
Associates			
Gerber Finance Inc	Trade Finance	USA	50%
Hargreave Hale Limited	Stockbroking and portfolio Management	England and Wales	35%
Virtual Lease Services	Lease services provider	England and Wales	49%
imarkets (Holdings) Limited	Online trading platform	Hong Kong	33%
Investec GLL Global Special Opportunities Real Estate Fund	Property development	Luxembourg	5%
Trust Project No 9 unit Trust	Property development	Australia	50%

Contact details

AUSTRALIA, BRISBANE

Level 36 Riparian Plaza
71 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

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

GUERNSEY

Glategny Court
Glategny Esplanade, GY1 1WR
Channel Islands
Telephone +(44) 1481 723 506
Facsimile +(44) 1481 741 147
e-mail enquiries@investec-ci.com

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 2602 – 06 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, CORK

One Albert Quay
Cork
Ireland
Telephone (353 21) 237 3800
e-mail corkinfo@investec.ie

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

JERSEY

One The Esplanade, St Helier
Jersey
JE2 3QA Channel Islands
Telephone (44) 1534 512 650
Facsimile (44) 1534 285 174
e-mail enquiries@investec-ci.com

LUXEMBOURG

32/36 Boulevard d'Avranche
L-1160
Luxembourg
Telephone (352 264) 979 8000
Facsimile (352 264) 979 8888

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

SINGAPORE

25 Duxton Hill #03-01
Singapore 089608
Telephone (65) 6653 5550
Facsimile (65) 6653 5551
e-mail investec.sg@investecmail.com

SWITZERLAND, GENEVA

3 Place des Bergues
Geneva 1201 Switzerland
Telephone (41) 22 807 2000
Facsimile (41) 22 807 2005
e-mail enquiries@investectrust.ch

TAIWAN

Unit B 20F Taipei 101 Tower
7 Xin Yi Rd Sec 5 Taipei 110 Taiwan
Telephone (886 2) 8101 0800
Facsimile (886 2) 8101 0900

UNITED KINGDOM, BATH

Royal Mead, Railway Place
Bath, BA1 1SR, UK
Telephone (44122) 534 1580
Facsimile (44122) 534 1581

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
Facsimile (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, LEEDS

Quayside House, Canal Wharf
Leeds, LS11 5PU, UK
Telephone (44113) 245 4488
Facsimile (44113) 245 1188

UNITED KINGDOM, LIVERPOOL

100 Old Hall Street Liverpool
L3 9AB, UK
Telephone (44 151) 227 2030
Facsimile (44 151) 227 2444

UNITED KINGDOM, LONDON

2 Gresham Street, London
EC2V 7QP, UK
Telephone (44 207) 597 4000
Facsimile (44 207) 597 4070

30 Gresham Street, London
EC2V 7QN, UK
Telephone (44 207) 597 1234
Facsimile (44 207) 597 1000

25 Basinghall Street, London
EC2V 5HA, UK
Telephone (44 207) 597 1900
Facsimile (44 207) 597 1919

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
United States of America
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. 3633621

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 pages 137 and 138.

For contact details for Investec offices refer to pages 244 and 245.

For queries regarding information in this document

INVESTOR RELATIONS

Telephone (44) 20 7597 5546/(44) 20 7597 4493
e-mail: Investorrelations@investec.com
Internet address:
www.investec.com/en_za/#home/investor_relations.html