

# 2016

**INVESTEC PLC**  
(excluding the results  
of Investec Limited)

Unaudited consolidated financial  
information for the year ended  
31 March 2016

**IFRS – Pounds Sterling**

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*Out of the Ordinary®*

 **Investec**





## Overview of results

<b>For the year to 31 March</b>	<b>2016</b>	<b>2015</b>	<b>% change</b>
Total operating income before impairment losses on loans and advances (£'000)	1 128 374	1 127 081	0.1%
Operating costs (£'000)	863 648	895 586	(3.6%)
Operating profit before goodwill, acquired intangibles, non-operating items, taxation and after other non-controlling interests (£'000)	182 863	144 109	26.9%
Earnings attributable to ordinary shareholders (£'000)	122 684	(23 813)	>100%
Cost to income ratio	76.7%	79.6%	
Total capital resources (including subordinated liabilities) (£'000)	2 478 117	2 670 996	(7.2%)
Total shareholders' equity (£'000)	1 880 808	2 074 073	(9.3%)
Total assets (£'000)	18 756 588	18 271 998	2.7%
Net core loans and advances (£'000)	7 803 602	7 061 117	10.5%
Customer accounts (deposits) (£'000)	10 808 980	10 306 331	4.9%
Cash and near cash balances (£'000)	5 050 457	5 039 361	0.2%
Funds under management (£'million)	81 180	80 460	0.9%
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%	
Leverage ratio – “fully loaded”	6.1%	6.3%	
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 (i.e. income statement impairment charge as a % of average core loans and advances)	1.13%	1.16%	
Total gearing (i.e. total assets to total equity)	9.8x	8.8x	
Loans and advances to customers: customer accounts (deposits)	72.2%	68.5%	

# Consolidated income statement



## For the year to 31 March

£'000	2016	2015
Interest income	549 092	669 466
Interest expense	(288 147)	(341 984)
<b>Net interest income</b>	<b>260 945</b>	<b>327 482</b>
Fee and commission income	813 744	844 505
Fee and commission expense	(103 986)	(113 408)
Investment income	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	10 853	10 639
<b>Total operating income before impairment losses on loans and advances</b>	<b>1 128 374</b>	<b>1 127 081</b>
Impairment losses on loans and advances	(84 217)	(102 707)
<b>Operating income</b>	<b>1 044 157</b>	<b>1 024 374</b>
Operating costs	(863 648)	(895 586)
Depreciation on operating leased assets	(2 149)	(1 535)
<b>Operating profit before goodwill and acquired intangibles</b>	<b>178 360</b>	<b>127 253</b>
Impairment of goodwill	–	(4 376)
Amortisation of acquired intangibles	(14 477)	(14 497)
<b>Operating profit</b>	<b>163 883</b>	<b>108 380</b>
Net loss on disposal of subsidiaries	(4 805)	(93 060)
<b>Profit before taxation</b>	<b>159 078</b>	<b>15 320</b>
Taxation on operating profit before goodwill	(35 335)	(28 362)
Taxation on acquired intangibles and acquisition/disposal/integration of subsidiaries	4 701	(17 574)
<b>Profit/(loss) after taxation</b>	<b>128 444</b>	<b>(30 616)</b>
Profit attributable to Asset Management non-controlling interests	(10 263)	(10 053)
Loss attributable to other non-controlling interests	4 503	16 856
<b>Earnings attributable to shareholders</b>	<b>122 684</b>	<b>(23 813)</b>



## Consolidated statement of total comprehensive income

For the year to 31 March

£'000	2016	2015
<b>Profit/(loss) after taxation</b>	<b>128 444</b>	<b>(30 616)</b>
<b>Other comprehensive income/(loss):</b>		
<b>Items that may be reclassified to the income statement:</b>		
Fair value movements on cash flow hedges taken directly to other comprehensive income*	–	1 040
(Gains)/losses on available-for-sale assets recycled through the income statement*	(1 298)	1 935
Fair value movements on available-for-sale assets taken directly to other comprehensive income*	(20 268)	(4 216)
Foreign currency adjustments on translating foreign operations	5 304	(51 484)
<b>Items that will never be reclassified to the income statement:</b>		
Remeasurement of net defined benefit pension asset	4 738	6 340
<b>Total comprehensive income/(loss)</b>	<b>116 920</b>	<b>(77 001)</b>
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
<b>Total comprehensive income/(loss)</b>	<b>116 920</b>	<b>(77 001)</b>

\* Net of taxation.

## Consolidated balance sheet



At 31 March

£'000	2016	2015
<b>Assets</b>		
Cash and balances at central banks	2 638 069	2 181 242
Loans and advances to banks	1 112 441	1 053 932
Reverse repurchase agreements and cash collateral on securities borrowed	557 025	1 448 205
Sovereign debt securities	1 252 991	1 212 910
Bank debt securities	188 397	226 273
Other debt securities	393 652	222 485
Derivative financial instruments	837 558	775 021
Securities arising from trading activities	524 344	670 298
Investment portfolio	451 000	400 941
Loans and advances to customers	7 803 602	7 061 117
Other loans and advances	417 205	554 912
Other securitised assets	150 565	411 983
Interests in associated undertakings	23 587	21 931
Deferred taxation assets	85 050	73 618
Other assets	1 705 203	1 335 580
Property and equipment	56 374	63 069
Investment property	79 051	65 736
Goodwill	356 994	356 090
Intangible assets	123 480	136 655
	<b>18 756 588</b>	<b>18 271 998</b>
<b>Liabilities</b>		
Deposits by banks	544 210	221 666
Derivative financial instruments	964 362	953 391
Other trading liabilities	226 598	251 879
Repurchase agreements and cash collateral on securities lent	281 260	597 259
Customer accounts (deposits)	10 808 980	10 306 331
Debt securities in issue	1 828 819	1 352 314
Liabilities arising on securitisation of other assets	120 617	330 526
Current taxation liabilities	140 959	104 605
Deferred taxation liabilities	33 834	45 403
Other liabilities	1 328 832	1 437 628
	<b>16 278 471</b>	<b>15 601 002</b>
Subordinated liabilities	597 309	596 923
	<b>16 875 780</b>	<b>16 197 925</b>
<b>Equity</b>		
Ordinary share capital	182	180
Perpetual preference share capital	151	151
Share premium	1 194 257	1 171 441
Treasury shares	(81 309)	(37 960)
Other reserves	(66 757)	1 782
Retained income	820 967	778 023
<b>Shareholders' equity excluding non-controlling interests</b>	<b>1 867 491</b>	<b>1 913 617</b>
Non-controlling interests	13 317	160 456
– Perpetual preferred securities issued by subsidiaries	–	144 598
– Non-controlling interests in partially held subsidiaries	13 317	15 858
<b>Total equity</b>	<b>1 880 808</b>	<b>2 074 073</b>
<b>Total liabilities and equity</b>	<b>18 756 588</b>	<b>18 271 998</b>



## Statement of changes in equity

£'000	2016	2015
<b>Balance at the beginning of the year</b>	<b>2 074 073</b>	<b>2 268 593</b>
Profit/(loss) after taxation	128 444	(30 616)
Fair value movements on cash flow hedges taken directly to other comprehensive income*	–	1 040
(Gains)/losses on available-for-sale assets recycled through the income statement*	(1 298)	1 935
Fair value movements on available-for-sale assets taken directly to other comprehensive income*	(20 268)	(4 216)
Foreign currency adjustments on translating foreign operations	5 304	(51 484)
Remeasurement of net defined benefit pension liability	4 738	6 340
<b>Total comprehensive income/(loss) for the year</b>	<b>116 920</b>	<b>(77 001)</b>
Share-based payments adjustments	27 706	35 050
Dividends paid to ordinary shareholders	(103 791)	(97 068)
Dividends declared to perpetual preference shareholders	(13 259)	(14 528)
Dividends paid to non-controlling interests	(10 680)	(9 487)
Issue of ordinary shares	22 818	24 895
Gain on transfer of non-controlling interests	–	(1 384)
Redemption of non-controlling interests	(142 111)	–
Movement of treasury shares	(90 868)	(54 997)
<b>Balance at the end of the year</b>	<b>1 880 808</b>	<b>2 074 073</b>

\* Net of taxation.

## Segmental business analysis – income statement



For the year to 31 March 2016 £'000	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Total group
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
<b>Total operating income before impairment losses on loans and advances</b>	<b>276 063</b>	<b>256 634</b>	<b>595 677</b>	<b>–</b>	<b>1 128 374</b>
Impairment losses on loans and advances	–	–	(84 217)	–	(84 217)
<b>Operating income</b>	<b>276 063</b>	<b>256 634</b>	<b>511 460</b>	<b>–</b>	<b>1 044 157</b>
Operating costs	(199 210)	(193 507)	(435 771)	(35 160)	(863 648)
Depreciation on operating leased assets	–	–	(2 149)	–	(2 149)
<b>Operating profit/(loss) before goodwill and acquired intangibles</b>	<b>76 853</b>	<b>63 127</b>	<b>73 540</b>	<b>(35 160)</b>	<b>178 360</b>
Operating loss attributable to other non-controlling interests	–	–	4 503	–	4 503
<b>Operating profit/(loss) before goodwill, acquired intangibles and after other non-controlling interests</b>	<b>76 853</b>	<b>63 127</b>	<b>78 043</b>	<b>(35 160)</b>	<b>182 863</b>
Operating profit attributable to Asset Management non-controlling interests	(10 263)	–	–	–	(10 263)
<b>Operating profit/(loss) before goodwill, acquired intangibles and after non-controlling interests</b>	<b>66 590</b>	<b>63 127</b>	<b>78 043</b>	<b>(35 160)</b>	<b>172 600</b>
<b>Cost to income ratio</b>	<b>72.2%</b>	<b>75.4%</b>	<b>73.4%</b>	<b>&gt;100%</b>	<b>76.7%</b>
<b>Total assets (£'million)</b>	<b>371</b>	<b>1 026</b>	<b>17 360</b>	<b>–</b>	<b>18 757</b>
<b>For the year to 31 March 2015 £'000</b>	<b>Asset Management</b>	<b>Wealth &amp; Investment</b>	<b>Specialist Banking</b>	<b>Group costs</b>	<b>Total group</b>
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
<b>Total operating income before impairment losses on loans and advances</b>	<b>269 048</b>	<b>250 883</b>	<b>607 150</b>	<b>–</b>	<b>1 127 081</b>
Impairment losses on loans and advances	–	–	(102 707)	–	(102 707)
<b>Operating income</b>	<b>269 048</b>	<b>250 883</b>	<b>504 443</b>	<b>–</b>	<b>1 024 374</b>
Operating costs	(193 557)	(194 012)	(477 969)	(30 048)	(895 586)
Depreciation on operating leased assets	–	–	(1 535)	–	(1 535)
<b>Operating profit/(loss) before goodwill and acquired intangibles</b>	<b>75 491</b>	<b>56 871</b>	<b>24 939</b>	<b>(30 048)</b>	<b>127 253</b>
Operating loss attributable to other non-controlling interests	–	–	16 856	–	16 856
<b>Operating profit/(loss) before goodwill, acquired intangibles and after other non-controlling interests</b>	<b>75 491</b>	<b>56 871</b>	<b>41 795</b>	<b>(30 048)</b>	<b>144 109</b>
Operating profit attributable to Asset Management non-controlling interests	(10 053)	–	–	–	(10 053)
<b>Operating profit/(loss) before goodwill, acquired intangibles and after non-controlling interests</b>	<b>65 438</b>	<b>56 871</b>	<b>41 795</b>	<b>(30 048)</b>	<b>134 056</b>
<b>Cost to income ratio</b>	<b>71.9%</b>	<b>77.3%</b>	<b>78.9%</b>	<b>&gt; 100%</b>	<b>79.6%</b>
<b>Total assets (£'million)</b>	<b>329</b>	<b>897</b>	<b>17 046</b>	<b>–</b>	<b>18 272</b>



## Additional income statement note disclosures

### Net interest income

		2016		2015	
For the year to 31 March £'000	Notes	Balance sheet value	Interest income	Balance sheet value	Interest income
Cash, near cash and bank debt and sovereign debt securities	1	5 748 923	47 481	6 122 562	50 150
Core loans and advances	2	7 803 602	427 601	7 061 117	424 071
Private client		3 510 327	150 060	3 341 861	169 272
Corporate, institutional and other clients		4 293 275	277 541	3 719 256	254 799
Other debt securities and other loans and advances		810 857	74 010	777 397	102 066
Other interest-earning assets	3	–	–	411 983	93 179
<b>Total interest-earning assets</b>		<b>14 363 382</b>	<b>549 092</b>	<b>14 373 059</b>	<b>669 466</b>

		2016		2015	
For the year to 31 March £'000	Notes	Balance sheet value	Interest expense	Balance sheet value	Interest expense
Deposits by banks and other debt-related securities	4	2 654 289	106 707	2 171 239	51 286
Customer accounts (deposits)		10 808 980	124 569	10 306 331	163 388
Other interest-bearing liabilities	5	–	–	330 526	67 429
Subordinated liabilities		597 309	56 871	596 923	59 881
<b>Total interest-bearing liabilities</b>		<b>14 060 578</b>	<b>288 147</b>	<b>13 405 019</b>	<b>341 984</b>
<b>Net interest income</b>			<b>260 945</b>		<b>327 482</b>

Notes:

1. Comprises (as per the balance sheet) cash and balances at central banks; loans and advances to banks; reverse repurchase agreements and cash collateral on securities borrowed; sovereign debt securities; and bank debt securities.
2. Comprises (as per the balance sheet) loans and advances to customers.
3. Comprises 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.



## Additional income statement note disclosures



(continued)

### Net fee and commission income

For the year to 31 March

£'000

	2016	2015
<b>Asset management and wealth management businesses net fee and commission income</b>	<b>520 245</b>	<b>505 772</b>
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)
<b>Specialist Banking net fee and commission income</b>	<b>189 513</b>	<b>225 325</b>
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)
<b>Net fee and commission income</b>	<b>709 758</b>	<b>731 097</b>
Annuity fees (net of fees payable)	542 128	541 327
Deal fees	167 630	189 770

### Investment income

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
<b>2016</b>					
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
	<b>41 300</b>	<b>23 675</b>	<b>1 282</b>	<b>(4 137)</b>	<b>62 120</b>
<b>2015</b>					
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
	<b>(7 577)</b>	<b>(14 681)</b>	<b>8 726</b>	<b>11 322</b>	<b>(2 210)</b>

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



## Additional IAS 34 disclosures

### Analysis of financial assets and liabilities by category of financial instrument

At 31 March £'000	Total instruments at fair value	Total instruments at amortised cost	Non-financial instruments	Total
<b>2016</b>				
<b>Assets</b>				
Cash and balances at central banks	1 123	2 636 946	–	2 638 069
Loans and advances to banks	106 426	1 006 015	–	1 112 441
Reverse repurchase agreements and cash collateral on securities borrowed	157 565	399 460	–	557 025
Sovereign debt securities	1 252 991	–	–	1 252 991
Bank debt securities	12 076	176 321	–	188 397
Other debt securities	184 345	209 307	–	393 652
Derivative financial instruments*	837 558	–	–	837 558
Securities arising from trading activities	524 344	–	–	524 344
Investment portfolio	451 000	–	–	451 000
Loans and advances to customers	87 270	7 716 332	–	7 803 602
Other loans and advances	–	417 205	–	417 205
Other securitised assets	147 590	2 975	–	150 565
Interests in associated undertakings	–	–	23 587	23 587
Deferred taxation assets	–	–	85 050	85 050
Other assets	338 657	1 042 328	324 218	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
	<b>4 100 945</b>	<b>13 606 889</b>	<b>1 048 754</b>	<b>18 756 588</b>
<b>Liabilities</b>				
Deposits by banks	–	544 210	–	544 210
Derivative financial instruments*	964 362	–	–	964 362
Other trading liabilities	226 598	–	–	226 598
Repurchase agreements and cash collateral on securities lent	154 142	127 118	–	281 260
Customer accounts (deposits)	–	10 808 980	–	10 808 980
Debt securities in issue	358 548	1 470 271	–	1 828 819
Liabilities arising on securitisation of other assets	120 617	–	–	120 617
Current taxation liabilities	–	–	140 959	140 959
Deferred taxation liabilities	–	–	33 834	33 834
Other liabilities	37 231	1 013 545	278 056	1 328 832
	<b>1 861 498</b>	<b>13 964 124</b>	<b>452 849</b>	<b>16 278 471</b>
Subordinated liabilities	–	597 309	–	597 309
	<b>1 861 498</b>	<b>14 561 433</b>	<b>452 849</b>	<b>16 875 780</b>

\* Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.

### Fair value hierarchy

The table below analyses recurring fair value measurements for financial assets and financial liabilities. These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to the valuation technique used. The different levels are identified as follows:

Level 1 – quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## Additional IAS 34 disclosures



(continued)

At 31 March £'000	Total instruments at fair value	Valuation technique applied		
		Level 1	Level 2	Level 3
<b>2016</b>				
<b>Assets</b>				
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	–	–
	<b>4 100 945</b>	<b>2 249 205</b>	<b>1 171 229</b>	<b>680 511</b>
<b>Liabilities</b>				
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
Other liabilities	37 231	37 231	–	–
	<b>1 861 498</b>	<b>263 829</b>	<b>1 475 697</b>	<b>121 972</b>
<b>Net assets</b>	<b>2 239 447</b>	<b>1 985 376</b>	<b>(304 468)</b>	<b>558 539</b>

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 period 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.



## Additional IAS 34 disclosures

(continued)

### Fair value hierarchy (continued)

	Total level 3 financial instruments	Fair value through income statement	Available- for-sale instruments
<b>Balance as at 1 April 2015</b>	<b>455 829</b>	<b>405 059</b>	<b>50 770</b>
Total gains/(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
<b>Balance as at 31 March 2016</b>	<b>558 539</b>	<b>503 020</b>	<b>55 519</b>

The group transfers between levels within the fair value hierarchy when the observability of inputs change or if the valuation methods change.

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
<b>2016</b>			
<b>Total gains or (losses) included in the income statement for the year</b>			
Net interest income	238	238	–
Fee and commission income	4 938	4 938	–
Investment income/(expense)	2 322	(8 118)	10 440
Trading income arising from customer flow	(10 258)	(10 962)	704
	<b>(2 760)</b>	<b>(13 904)</b>	<b>11 144</b>
<b>Total gains or (losses) included in other comprehensive income for the year</b>			
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)
	<b>3 165</b>	<b>3 437</b>	<b>(272)</b>

For the period 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.

## Additional IAS 34 disclosures



(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
<b>ASSETS</b>		
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
<b>LIABILITIES</b>		
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



## Additional IAS 34 disclosures

(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	Un-favourable changes
<b>Assets</b>					
Other debt securities	10 930			<b>525</b>	<b>(796)</b>
		Cash flow adjustments	(1%) – 1%	525	(472)
		Other	(5%) – 5%	–	(324)
Derivative financial instruments	49 685			<b>8 258</b>	<b>(5 454)</b>
		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			<b>44 963</b>	<b>(28 612)</b>
		Price earnings multiple	(10%) – 10%	232	(355)
		EBITDA	(10%) – 10%	3 971	(3 917)
		Other <sup>^</sup>	<sup>^</sup>	40 760	(24 340)
Loans and advances to customers	87 270			<b>1 550</b>	<b>(9 400)</b>
		Discount rates	(5%) – 5%	1 550	(987)
		Other	(5%) – 5%	–	(8 413)
Other securitised assets*	147 590			<b>2 825</b>	<b>(2 876)</b>
		Cash flow adjustments	(1%) – 1%	1 569	(1 727)
		Other	(1%) – 1%	1 256	(1 149)
<b>Liabilities</b>					
Derivative financial instruments	1 355			<b>1 667</b>	<b>(797)</b>
		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)
				<b>62 524</b>	<b>(50 239)</b>

				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	Un-favourable changes
<b>Assets</b>					
Investment portfolio	31 616	EBITDA	(10%) – 10%	<b>5 668</b>	<b>(2 300)</b>
		Other <sup>^</sup>	<sup>^</sup>	2 418	(1 340)
				3 250	(960)

\* The sensitivity of the fair value of liabilities arising on securitisation of other assets has been considered together with other securitised assets.

<sup>^</sup> 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.

## Additional IAS 34 disclosures



(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.

### 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.

### Cash flows

Cash flows relate to the future cash flows which can be expected from the instrument and requires judgement.

### Price earnings multiple

The price-to-earnings ratio is an equity valuation multiple used in the adjustment of underlying market prices. It is a key driver in the valuation of unlisted investments.

### EBITDA

A company's earnings before interest, taxes, depreciation and amortisation. This is the main input into a price earnings multiple valuation method.

## Fair value of financial instruments at amortised cost

At 31 March £'000	Carrying amount	Fair value
<b>2016</b>		
<b>Assets</b>		
Cash and balances at central banks	2 636 946	2 636 946
Loans and advances to banks	1 006 015	1 006 006
Reverse repurchase agreements and cash collateral on securities borrowed	399 460	399 460
Bank debt securities	176 321	192 775
Other debt securities	209 307	195 201
Loans and advances to customers	7 716 332	7 738 359
Other loans and advances	417 205	393 199
Other securitised assets	2 975	2 975
Other assets	1 042 328	1 042 099
	<b>13 606 889</b>	<b>13 607 020</b>
<b>Liabilities</b>		
Deposits by banks	544 210	551 273
Repurchase agreements and cash collateral on securities lent	127 118	127 118
Customer accounts (deposits)	10 808 980	10 823 145
Debt securities in issue	1 470 271	1 439 975
Other liabilities	1 013 545	1 013 354
Subordinated liabilities	597 309	689 074
	<b>14 561 433</b>	<b>14 643 939</b>



## *Understanding Investec plc's results*

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### **Sale of businesses**

During the year ended 31 March 2015 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**

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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. The group continues to have a presence in Australia, focusing on its core activities of Specialised Finance, Corporate Advisory, Property Fund Management and Asset Management.

The remaining business 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**

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On 9 September 2014 Investec plc announced the sale of its 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 Investec plc announced the sale of its Irish intermediated mortgage business Start Mortgage Holdings Limited (Start) together with certain other Irish mortgage assets to an affiliate of Lone Star Funds. This transaction became effective on 4 December 2014.

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

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

#### **IMPACT OF THESE SALES ON THE GROUP'S OPERATIONAL PERFORMANCE**

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The sales of these businesses have had a significant effect on the comparability of the group's financial statutory position and results. As a result, comparison on a statutory basis of the results for year ended 31 March 2016 with the results for the year ended 31 March 2015 would be less meaningful. In order to present a more meaningful view of the group's performance, additional management information is presented on the group's ongoing businesses. This information is only set out in a separate section. 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.

A reconciliation between the statutory and ongoing income statement is provided. All other information in this document is based on the group's statutory accounts, unless otherwise indicated.



## Understanding Investec plc's results



(continued)

### CONSOLIDATED SUMMARISED ONGOING INCOME STATEMENT

Unaudited £'000	For the year to 31 March 2016	For the year to 31 March 2015	Variance	% change
Net interest income	259 105	231 546	27 559	11.9%
Net fee and commission income	706 473	732 489	(26 016)	(3.6%)
Investment income	61 627	21 304	40 323	189.3%
Trading income arising from				
– 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 income	10 853	10 591	262	2.5%
<b>Total operating income before impairment losses on loans and advances</b>	<b>1 123 648</b>	<b>1 056 661</b>	<b>66 987</b>	<b>6.3%</b>
Impairment losses on loans and advances	(16 069)	(13 678)	(2 391)	17.5%
<b>Operating income</b>	<b>1 107 579</b>	<b>1 042 983</b>	<b>64 596</b>	<b>6.2%</b>
Operating costs	(848 735)	(826 890)	(21 845)	2.6%
Depreciation on operating leased assets	(2 149)	(1 294)	(855)	66.1%
<b>Operating profit before goodwill, acquired intangibles and non-operating items</b>	<b>256 695</b>	<b>214 799</b>	<b>41 896</b>	<b>19.5%</b>
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%
<b>Operating profit before taxation</b>	<b>250 935</b>	<b>221 602</b>	<b>29 333</b>	<b>13.2%</b>
Taxation	(51 394)	(47 885)	(3 509)	7.3%
<b>Adjusted earnings before goodwill, acquired intangibles and non-operating items</b>	<b>199 541</b>	<b>173 717</b>	<b>25 824</b>	<b>14.9%</b>



## Understanding Investec plc's results

(continued)

### RECONCILIATION FROM STATUTORY SUMMARISED INCOME STATEMENT TO ONGOING SUMMARISED INCOME STATEMENT

For the year to 31 March 2016 £'000	Statutory as disclosed	Removal of**		Ongoing business	
		UK legacy business excluding sale assets	Sale assets UK		Sale assets Australia
Net interest income	260 945	1 840	–	–	259 105
Net fee and commission income	709 758	3 285	–	–	706 473
Investment income	62 120	493	–	–	61 627
Trading 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
<b>Total operating income before impairment losses on loans and advances</b>	<b>1 128 374</b>	<b>4 726</b>	<b>–</b>	<b>–</b>	<b>1 123 648</b>
Impairment losses on loans and advances	(84 217)	(68 148)	–	–	(16 069)
<b>Operating income</b>	<b>1 044 157</b>	<b>(63 422)</b>	<b>–</b>	<b>–</b>	<b>1 107 579</b>
Operating costs	(863 648)	(14 913)	–	–	(848 735)
Depreciation on operating leased assets	(2 149)	–	–	–	(2 149)
<b>Operating profit/(loss) before goodwill, acquired intangibles and non-operating items</b>	<b>178 360</b>	<b>(78 335)</b>	<b>–</b>	<b>–</b>	<b>256 695</b>
Loss attributable to other non-controlling interests	4 503	–	–	–	4 503
Profit attributable to Asset Management non-controlling interests	(10 263)	–	–	–	(10 263)
<b>Operating profit/(loss) before taxation</b>	<b>172 600</b>	<b>(78 335)</b>	<b>–</b>	<b>–</b>	<b>250 935</b>
Taxation*	(35 335)	16 059	–	–	(51 394)
<b>Adjusted earnings before goodwill, acquired intangibles and non-operating items</b>	<b>137 265</b>	<b>(62 276)</b>	<b>–</b>	<b>–</b>	<b>199 541</b>
Cost to income ratio	76.7%				75.7%

\* Applying the group's effective statutory taxation rate of 20.5%.

\*\* Where:

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

## Understanding Investec plc's results



(continued)

### RECONCILIATION FROM STATUTORY SUMMARISED INCOME STATEMENT TO ONGOING SUMMARISED INCOME STATEMENT

For the year to 31 March 2015 £'000	Removal of**			Ongoing business	
	Statutory as disclosed	UK legacy business excluding sale assets	Sale assets UK		Sale assets Australia
Net interest income	327 482	12 526	71 143	12 267	231 546
Net fee 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
<b>Total operating income before impairment losses on loans and advances</b>	<b>1 127 081</b>	<b>(2 553)</b>	<b>60 161</b>	<b>12 812</b>	<b>1 056 661</b>
Impairment losses on loans and advances	(102 707)	(83 468)	(4 085)	(1 476)	(13 678)
<b>Operating income</b>	<b>1 024 374</b>	<b>(86 021)</b>	<b>56 076</b>	<b>11 336</b>	<b>1 042 983</b>
Operating costs	(895 586)	(21 648)	(34 245)	(12 803)	(826 890)
Depreciation on operating leased assets	(1 535)	–	(241)	–	(1 294)
<b>Operating profit/(loss) before goodwill, acquired intangibles and non-operating items</b>	<b>127 253</b>	<b>(107 669)</b>	<b>21 590</b>	<b>(1 467)</b>	<b>214 799</b>
Loss attributable to other non-controlling interests	16 856	–	–	–	16 856
Profit attributable to Asset Management non-controlling interests	(10 053)	–	–	–	(10 053)
<b>Operating profit/(loss) before taxation</b>	<b>134 056</b>	<b>(107 669)</b>	<b>21 590</b>	<b>(1 467)</b>	<b>221 602</b>
Taxation*	(28 362)	24 010	(4 815)	327	(47 885)
<b>Adjusted earnings before goodwill, acquired intangibles and non-operating items</b>	<b>105 694</b>	<b>(83 659)</b>	<b>16 775</b>	<b>(1 140)</b>	<b>173 717</b>
Cost to income ratio	79.6%				78.4%

\* Applying the group's effective statutory taxation rate of 22.3%.

\*\* Where:

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



## Understanding Investec plc's results

(continued)

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

For the year to 31 March 2016 £'000	Statutory as disclosed	Removal of**		Ongoing business	
		UK legacy business excluding sale assets	Sale assets UK		Sale assets Australia
Net interest income	256 591	1 840	–	–	254 751
Net fee 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 income	10 797	–	–	–	10 797
<b>Total operating income before impairment losses on loans and advances</b>	<b>595 677</b>	<b>4 726</b>	<b>–</b>	<b>–</b>	<b>590 951</b>
Impairment losses on loans and advances	(84 217)	(68 148)	–	–	(16 069)
<b>Operating income</b>	<b>511 460</b>	<b>(63 422)</b>	<b>–</b>	<b>–</b>	<b>574 882</b>
Operating costs	(435 771)	(14 913)	–	–	(420 858)
Depreciation on operating leased assets	(2 149)	–	–	–	(2 149)
<b>Operating profit/(loss) before goodwill, acquired intangibles and non-operating items</b>	<b>73 540</b>	<b>(78 335)</b>	<b>–</b>	<b>–</b>	<b>151 875</b>
Loss attributable to other non-controlling interests	4 503	–	–	–	4 503
<b>Operating profit/(loss) before taxation</b>	<b>78 043</b>	<b>(78 335)</b>	<b>–</b>	<b>–</b>	<b>156 378</b>

\*\* Where:

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

## Understanding Investec plc's results



(continued)

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

For the year to 31 March 2015 £'000	Removal of**				Specialist Banking
	Statutory as disclosed	UK legacy business excluding sale assets	Sale assets UK	Sale assets Australia	
Net interest income	320 973	12 526	71 143	12 267	225 037
Net fee 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
<b>Total operating income before impairment losses on loans and advances</b>	<b>607 150</b>	<b>(2 553)</b>	<b>60 161</b>	<b>12 812</b>	<b>536 730</b>
Impairment losses on loans and advances	(102 707)	(83 468)	(4 085)	(1 476)	(13 678)
<b>Operating income</b>	<b>504 443</b>	<b>(86 021)</b>	<b>56 076</b>	<b>11 336</b>	<b>523 052</b>
Operating costs	(477 969)	(21 648)	(34 245)	(12 803)	(409 273)
Depreciation on operating leased assets	(1 535)	–	(241)	–	(1 294)
<b>Operating profit/(loss) before goodwill, acquired intangibles and non-operating items</b>	<b>24 939</b>	<b>(107 669)</b>	<b>21 590</b>	<b>(1 467)</b>	<b>112 485</b>
Profit attributable to other non-controlling interests	16 856	–	–	–	16 856
<b>Operating profit/(loss) before taxation</b>	<b>41 795</b>	<b>(107 669)</b>	<b>21 590</b>	<b>(1 467)</b>	<b>129 341</b>

\*\* Where:

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



## Understanding Investec plc's results

(continued)

### SEGMENTAL AND BUSINESS ANALYSIS OF OPERATING PROFIT BEFORE GOODWILL, ACQUIRED INTANGIBLES, NON-OPERATING ITEMS, TAXATION AND AFTER OTHER NON-CONTROLLING INTERESTS – ONGOING BUSINESS

<b>For the year to 31 March</b>			
<b>£'000</b>	<b>2016</b>	<b>2015</b>	<b>% change</b>
Asset Management	76 853	75 491	1.8%
Wealth & Investment	63 127	56 871	11.0%
Specialist Banking	156 378	129 341	20.9%
	296 358	261 703	13.2%
Group costs	(35 160)	(30 048)	17.0%
<b>Total group</b>	<b>261 198</b>	<b>231 655</b>	<b>12.8%</b>
<b>A reconciliation of Specialist Banking's operating profit: ongoing vs statutory basis</b>			
<b>For the year to 31 March</b>			
<b>£'000</b>	<b>2016</b>	<b>2015</b>	<b>% change</b>
Total ongoing Specialist Banking per above	156 378	129 341	20.9%
UK legacy remaining	(78 335)	(107 669)	(27.2%)
UK sale assets	–	21 590	
Australian sale assets	–	(1 467)	
<b>Total Specialist Banking per statutory accounts</b>	<b>78 043</b>	<b>41 795</b>	<b>86.7%</b>

## Understanding Investec plc's results



(continued)

### ONGOING SEGMENTAL BUSINESS ANALYSIS – SUMMARISED INCOME STATEMENT

#### Unaudited

For the year to 31 March 2016  
£'000

	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Total group
Net interest income	290	4 064	254 751	–	259 105
Net fee 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 income	(1 135)	1 191	10 797	–	10 853
<b>Total operating income before impairment losses on loans and advances</b>	<b>276 063</b>	<b>256 634</b>	<b>590 951</b>	<b>–</b>	<b>1 123 648</b>
Impairment losses on loans and advances	–	–	(16 069)	–	(16 069)
<b>Operating income</b>	<b>276 063</b>	<b>256 634</b>	<b>574 882</b>	<b>–</b>	<b>1 107 579</b>
Operating costs	(199 210)	(193 507)	(420 858)	(35 160)	(848 735)
Depreciation on operating leased assets	–	–	(2 149)	–	(2 149)
<b>Operating profit before goodwill, acquired intangibles and non-operating items</b>	<b>76 853</b>	<b>63 127</b>	<b>151 875</b>	<b>(35 160)</b>	<b>256 695</b>
Loss attributable to other non-controlling interests	–	–	4 503	–	4 503
<b>Operating profit before goodwill, acquired intangibles and non-operating items and after other non-controlling interests</b>	<b>76 853</b>	<b>63 127</b>	<b>156 378</b>	<b>(35 160)</b>	<b>261 198</b>
Profit attributable to Asset Management non-controlling interests	(10 263)	–	–	–	(10 263)
<b>Operating profit before goodwill, acquired intangibles and non-operating items and after non-controlling interests</b>	<b>66 590</b>	<b>63 127</b>	<b>156 378</b>	<b>(35 160)</b>	<b>250 935</b>
Cost to income ratio	72.2%	75.4%	71.5%		75.7%



## Understanding Investec plc's results

(continued)

### ONGOING SEGMENTAL BUSINESS ANALYSIS – SUMMARISED INCOME STATEMENT

#### Unaudited

For the year to 31 March 2015  
£'000

	Asset Management	Wealth & Investment	Specialist Banking	Group costs	Total group
Net interest income	300	6 209	225 037	–	231 546
Net fee 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 income	136	1 276	9 179	–	10 591
<b>Total operating income before impairment losses on loans and advances</b>	<b>269 048</b>	<b>250 883</b>	<b>536 730</b>	<b>–</b>	<b>1 056 661</b>
Impairment losses on loans and advances	–	–	(13 678)	–	(13 678)
<b>Operating income</b>	<b>269 048</b>	<b>250 883</b>	<b>523 052</b>	<b>–</b>	<b>1 042 983</b>
Operating costs	(193 557)	(194 012)	(409 273)	(30 048)	(826 890)
Depreciation on operating leased assets	–	–	(1 294)	–	(1 294)
<b>Operating profit before goodwill, acquired intangibles and non-operating items</b>	<b>75 491</b>	<b>56 871</b>	<b>112 485</b>	<b>(30 048)</b>	<b>214 799</b>
Loss attributable to other non-controlling interests	–	–	16 856	–	16 856
<b>Operating profit before goodwill, acquired intangibles and non-operating items and after other non-controlling interests</b>	<b>75 491</b>	<b>56 871</b>	<b>129 341</b>	<b>(30 048)</b>	<b>231 655</b>
Profit attributable to Asset Management non-controlling interests	(10 053)	–	–	–	(10 053)
<b>Operating profit before goodwill, acquired intangibles and non-operating items and after non-controlling interests</b>	<b>65 438</b>	<b>56 871</b>	<b>129 341</b>	<b>(30 048)</b>	<b>221 602</b>
Cost to income ratio	71.9%	77.3%	76.4%		78.4%



## Understanding Investec plc's results



(continued)

### LEGACY BUSINESS IN THE UK SPECIALIST BANK

#### Unaudited

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

The total legacy business over the period 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. The book has declined significantly over the past few years as a result of strategic sales, redemptions and write-offs. Management believes that the remaining legacy book will still take two to four years to clear. Total net defaults in the legacy book amount to £143 million.

### AN ANALYSIS OF ASSETS WITHIN THE LEGACY BUSINESS

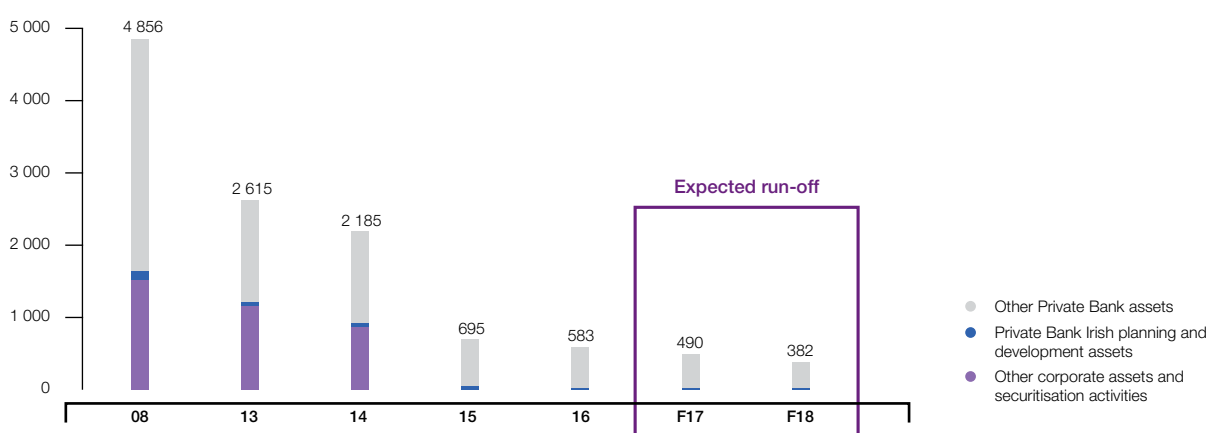
For the year to 31 March £'million	Total net assets (after impairments) 2016	Total balance sheet impairment 2016	Total net assets (after impairments) 2015	Total balance sheet impairment 2015
Private Bank Irish planning and development assets	23	14	47	50
Other Private Bank Assets	560	107	649	126
<b>Total other legacy assets</b>	<b>583</b>	<b>121</b>	<b>696</b>	<b>176</b>
Performing	440	–	511	–
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

#### Total remaining UK legacy assets

£'million





## Risk management

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

<b>31 March</b>		
<b>£'000</b>	<b>2016</b>	<b>2015</b>
<b>Gross core loans and advances to customers</b>	<b>7 946 793</b>	<b>7 249 561</b>
<b>Total impairments</b>	<b>(143 191)</b>	<b>(188 444)</b>
Specific impairments	(121 791)	(154 262)
Portfolio impairments	(21 400)	(34 182)
<b>Net core loans and advances to customers</b>	<b>7 803 602</b>	<b>7 061 117</b>
<b>Average gross core loans and advances to customers</b>	<b>7 598 177</b>	<b>7 832 564</b>
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
<b>Gross core loans and advances to customers</b>	<b>7 946 793</b>	<b>7 249 561</b>
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
<b>Gross core loans and advances to customers</b>	<b>7 946 793</b>	<b>7 249 561</b>
<b>Total income statement charge for impairments on core loans and advances</b>	<b>(85 954)</b>	<b>(90 709)</b>
Gross default loans and advances to customers	313 934	400 114
Specific impairments	(121 791)	(154 262)
Portfolio impairments	(21 400)	(34 182)
<b>Defaults net of impairments</b>	<b>170 743</b>	<b>211 670</b>
Aggregate collateral and other credit enhancements on defaults	202 524	280 697
<b>Net default loans and advances to customers (limited to zero)</b>	<b>–</b>	<b>–</b>
<b>Ratios:</b>		
Total impairments as a % of gross core loans and advances to customers	1.80%	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%

## Risk management



(continued)

### 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 <sup>^</sup>
<b>Lending collateralised by property</b>	<b>2 179 999</b>	<b>264 283</b>	<b>168 722</b>	<b>(101 064)</b>	<b>(75 732)</b>
<b>Commercial real estate</b>	<b>1 314 745</b>	<b>108 746</b>	<b>64 068</b>	<b>(45 030)</b>	<b>(32 441)</b>
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)
<b>Residential real estate</b>	<b>865 254</b>	<b>155 537</b>	<b>104 654</b>	<b>(56 034)</b>	<b>(43 291)</b>
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)
<b>High net worth and other private client lending</b>	<b>1 458 552</b>	<b>19 532</b>	<b>18 650</b>	<b>(5 760)</b>	<b>(8 194)</b>
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)
<b>Corporate and other lending</b>	<b>4 308 242</b>	<b>30 119</b>	<b>15 152</b>	<b>(14 967)</b>	<b>(14 810)</b>
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)
<b>Portfolio impairments</b>				<b>(21 400)</b>	<b>12 782</b>
<b>Total</b>	<b>7 946 793</b>	<b>313 934</b>	<b>202 524</b>	<b>(143 191)</b>	<b>(85 954)</b>

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



## Risk management

(continued)

### 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 <sup>^</sup>
<b>Lending collateralised by property</b>	<b>2 318 053</b>	<b>343 229</b>	<b>233 676</b>	<b>(134 451)</b>	<b>(49 179)</b>
<b>Commercial real estate</b>	<b>1 510 506</b>	<b>122 886</b>	<b>79 588</b>	<b>(51 517)</b>	<b>(25 358)</b>
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)
<b>Residential real estate</b>	<b>807 547</b>	<b>220 343</b>	<b>154 088</b>	<b>(82 934)</b>	<b>(23 821)</b>
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)
<b>High net worth and other private client lending</b>	<b>1 203 489</b>	<b>30 113</b>	<b>29 012</b>	<b>(11 048)</b>	<b>(10 529)</b>
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)
<b>Corporate and other lending</b>	<b>3 728 019</b>	<b>26 772</b>	<b>18 009</b>	<b>(8 763)</b>	<b>(11 821)</b>
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)
<b>Asset finance</b>	<b>1 119 165</b>	<b>8 346</b>	<b>3 642</b>	<b>(4 704)</b>	<b>(5 068)</b>
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)
<b>Portfolio impairments</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(34 182)</b>	<b>(19 180)</b>
<b>Total</b>	<b>7 249 561</b>	<b>400 114</b>	<b>280 697</b>	<b>(188 444)</b>	<b>(90 709)</b>

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



## CAPITAL STRUCTURE AND CAPITAL ADEQUACY

£'million	31 March 2016	31 March 2015
<b>Tier 1 capital</b>		
Shareholders' equity	1 652	1 642
Shareholders' equity per balance sheet	1 867	1 914
Foreseeable dividends	(46)	(57)
Perpetual preference share capital and share premium	(150)	(150)
Deconsolidation of special purpose entities	(19)	(65)
<b>Non-controlling interests</b>	<b>10</b>	<b>9</b>
Non-controlling interests per balance sheet	13	160
Non-controlling interests transferred to tier 1	-	(144)
Surplus non-controlling interest disallowed in common equity tier 1	(3)	(7)
<b>Regulatory adjustments to the accounting basis</b>	<b>(43)</b>	<b>(44)</b>
Defined benefit pension fund adjustment	(37)	(29)
Additional value adjustments	(6)	(15)
<b>Deductions</b>	<b>(478)</b>	<b>(485)</b>
Goodwill and intangible assets net of deferred taxation	(466)	(473)
Deferred taxation assets that rely on future profitability excluding those arising from temporary differences	(8)	(8)
Securitisation positions	(4)	(4)
<b>Common equity tier 1 capital</b>	<b>1 141</b>	<b>1 122</b>
<b>Additional tier 1 capital</b>	<b>130</b>	<b>205</b>
Additional tier 1 instruments	130	274
Phase out of non-qualifying additional tier 1 instruments	-	(69)
<b>Total tier 1 capital</b>	<b>1 271</b>	<b>1 327</b>
<b>Tier 2 capital</b>	<b>535</b>	<b>556</b>
Tier 2 instruments	610	610
Non-qualifying surplus capital attributable to non-controlling interests	(75)	(54)
<b>Total regulatory capital</b>	<b>1 806</b>	<b>1 883</b>
<b>Risk-weighted assets</b>	<b>12 297</b>	<b>11 608</b>
<b>Capital ratios</b>		
Common equity tier 1 ratio	9.3%	9.7%
Tier 1 ratio	10.3%	11.4%
Total capital ratio	14.7%	16.2%



## Capital adequacy

(continued)

### CAPITAL REQUIREMENTS

£'million	31 March 2016	31 March 2015
<b>Capital requirements</b>	<b>984</b>	<b>929</b>
Credit risk – prescribed standardised exposure classes	711	649
Corporates	341	287
Secured on real estate property	150	133
Retail	44	36
Institutions	32	36
Other exposure classes	135	146
Securitisation exposures	9	11
Equity risk – standardised approach	8	11
Listed equities	3	4
Unlisted equities	5	7
Counterparty credit risk	41	35
Credit valuation adjustment risk	5	3
Market risk	76	74
Interest rate	27	26
Foreign exchange	23	20
Equities	16	23
Options	10	5
Operational risk – standardised approach	143	157
<b>Risk-weighted assets (banking and trading)</b>	<b>12 297</b>	<b>11 608</b>
Credit risk – prescribed standardised exposure classes	8 883	8 111
Corporates	4 260	3 588
Secured on real estate property	1 876	1 657
Retail	550	453
Institutions	397	450
Other exposure classes	1 693	1 822
Securitisation exposures	107	141
Equity risk – standardised approach	103	140
Listed equities	43	52
Unlisted equities	60	88
Counterparty credit risk	515	436
Credit valuation adjustment risk	57	42
Market risk	955	922
Interest rate	332	328
Foreign Exchange	292	246
Equities	201	291
Options	130	57
Operational risk – standardised approach	1 784	1 957

## Capital adequacy



(continued)

### LEVERAGE

	31 March 2016	31 March 2015
Tier 1 Capital	1 271	1 327
Total exposure	18 831	17 943
Leverage ratio	6.7%	7.4%

### A SUMMARY OF CAPITAL ADEQUACY AND LEVERAGE RATIOS

	31 March 2016*	31 March 2015*
Common equity tier 1 (as reported)	9.3%	9.7%
Common equity tier 1 ("fully loaded")^^	9.3%	9.7%
Tier 1 (as reported)	10.3%	11.4%
Total capital adequacy ratio (as reported)	14.7%	16.2%
Leverage ratio** – permanent capital	6.7%	7.8%
Leverage ratio** – current	6.7%	7.4%
Leverage ratio** – ("fully loaded")^^	6.1%	6.3%

\* The capital adequacy disclosures for Investec plc include the deduction of foreseeable dividends when calculating common equity tier 1 (CET1) capital as now required under the Capital Requirements Regulation (CRR) and EBA technical standards. These disclosures are different to the capital disclosures included in the Interim Report, which follows our normal basis of presentation and do not include the deduction for foreseeable dividends when calculating CET1 capital. Investec plc's CET1 ratio would be 40bps (31 March 2015; 50bps) higher on this basis.

^^ Based on the group's understanding of current regulations, "fully loaded" is based on CRR requirements as fully phased in by 2022.

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

The full set of annual financial statements will be available on 30 June 2016.