

INVESTEC BANK (AUSTRALIA) LIMITED

**APS 330 remuneration disclosure
as at 31 March 2014**



Annual remuneration disclosure as at 31 March 2014

This remuneration disclosure has been prepared to meet requirements specified by the Australian Prudential Regulatory Authority (APRA) in prudential standard APS 330 Public Disclosure (APS 330). It has been endorsed by the Board Remuneration Committee and approved by the Board.

This disclosure details remuneration practices of Investec Bank (Australia) Limited (IBAL or Investec). It includes qualitative information applicable to all IBAL employees (sections 1-6), and quantitative information relating to IBAL's senior managers and material risk takers (section 7).

1. Remuneration governance

The Board Remuneration Committee (BRC) is the main body which oversees remuneration governance for IBAL. The BRC's primary function is to assist the IBAL Board, as a sub-committee of the Board, in fulfilling its oversight responsibility to shareholders by ensuring that IBAL has coherent remuneration policies and practices which adhere to the global remuneration framework where possible.

Specifically, the BRC's role is to:

- review and make recommendations to the Board in relation to the IBAL Remuneration Policy (including remuneration structure) specifically covering responsible persons; risk and financial control personnel, and all other employees who earn significant variable remuneration and whose activities, either individually or collectively, may affect the Company's financial soundness
- make recommendations to the Board in relation to the individual remuneration levels of the CEO, direct reports and other persons that may affect the financial soundness of IBAL; the remuneration of Non-Executive Directors, and any other person the Board determines
- review and make recommendations to the Board on corporate goals and objectives relevant to the remuneration of the Chief Executive Officer, and the performance of the Chief Executive Officer in light of these objectives
- oversee and approve general remuneration practices, including incentive plans for all employees of IBAL
- review and make recommendations to the Board in relation to approving any and all equity based plans
- review and make recommendations to the Board regarding the size of incentive pools.

The BRC is made up of no less than three Non-Executive Directors of IBAL and meets at least four times per year. The BRC consists of Chairman and three members which currently includes:

- David Gonski (Chairman)
- Stephen Koseff
- Robert Mansfield
- Richard Longes.

The BRC met five times during the 2014 financial year. The fees paid to each of the members for their work on this BRC are set out below:

	Position	Fees \$
Board Remuneration Committee	Chairman	The Chairman of the Committee receives a fixed director's fee. No additional fees are paid for serving on the Board Remuneration Committee."
	Member	Members of the Committee receive a fixed director's fee. No additional fees are paid

for serving on Board
Remuneration Committee."

The BRC may engage independent remuneration consultants to provide input on specific remuneration issues. While the BRC may note input from independent remuneration consultants, it is solely responsible for making decisions within the terms of its Charter. The BRC did not engage a remuneration consultant during the 2014 financial year.

IBAL has a Board approved remuneration policy ('the Policy'), which outlines remuneration principles and practices, as well as mandatory regulatory requirements that are reflected in the design and management of all reward and remuneration arrangements across IBAL. The Policy applies to all employees of IBAL and makes specific reference to three categories of employees being:

- a. Responsible persons
- b. Risk and financial control personnel
- c. Employees who have the potential to earn a significant portion of total remuneration as performance based remuneration and whose activities, individually or collectively, may affect the financial soundness of IBAL.

The Policy also covers those who are not directly employed by Investec but who provide services to Investec and who may, individually or collectively, be able to affect the financial soundness of the institution.

The BRC has reviewed IBAL's risk and remuneration structures and identified the following types of roles as senior managers and material risk takers of IBAL for the 2014 financial year. This approach is aligned to the definitions provided in paragraph 17 of APS 330.

	Number of individuals	Description
Senior managers	11	All responsible persons as per APRA prudential standard CPS 520 (Fit & Proper), including the CEO, Deputy CEO, Business Unit Heads, Head of Risk, Head of Governance, Head of Finance, Strategy & Investments, Head of Internal Audit
Material risk takers	11	People with earning capacity of >25% of base salary and who individually or as a group have the potential to materially affect the financial soundness of IBAL (excluding "Senior managers" as defined above). This includes Head of Financial Markets and Financial Markets traders.

2. Remuneration design and structure

The Policy sets out the remuneration:

- objectives and principles
- framework that delivers on IBAL's remuneration objectives
- governance processes to balance the interests of multiple stakeholders
- risk management framework.

The key objectives of the Policy are to:

- Be in line with the business strategy, objectives, values and long-term interests of Investec
- Be consistent with, and promote, sound and effective risk management, and not encourage risk taking that exceeds the level of tolerated risk of Investec

- Ensure that payment of variable remuneration does not limit Investec's ability to maintain or strengthen its capital base
- Target gross remuneration (base salary and benefits including pension) at median market levels to contain fixed costs
- Ensure that variable remuneration is largely economic value added (EVA)-based and underpinned by our pre-determined risk appetite and capital allocation
- Facilitate alignment with shareholders through deferral of a portion of short-term incentives into shares and long-term incentive share awards
- Target total compensation (base salary, benefits and incentives) to the relevant competitive market at upper quartile levels for superior performance.

The BRC reviews the Policy at least annually. During the 2014 financial year, the BRC conducted the annual review in October 2013, making updates to reflect regulatory and legislative changes.

2.1 Remuneration structure

The structure of the remuneration arrangements for all employees consists of the following components:

- 1) Fixed remuneration: base salary, superannuation, and benefits
- 2) Performance-based remuneration:
 - a. Short-term incentives: bonuses and commission payments
 - b. Long-term incentives.

2.1.1 Fixed remuneration

Fixed remuneration includes:

- Salary
- Superannuation Guarantee Contributions
- Salary sacrifice available for certain benefits.

Fixed remuneration is inclusive of all entitlements such as leave loading, overtime and allowances.

Fixed remuneration is reviewed annually to ensure that it continues to reflect the relative skills, experience, and the contribution made by the individual, as well as being market competitive. The annual remuneration review is approved by the BRC, and the Board in the case of the executive team and specified individuals who are considered to be able to individually impact the financial soundness of IBAL.

2.1.2 Performance-based remuneration

Performance based remuneration includes both short-term incentives and long-term incentives, and is determined using a number of qualitative and quantitative factors.

Short-term Incentives

Short-Term Incentives (STIs) are principally used to reward individuals who achieve and/or exceed their performance objectives and demonstrate IBAL's values, in the context of the business unit and group performance.

All employees are eligible for some form of STI e.g. corporate STI plan or sales incentive plan.

Long-term incentives

A Long-Term Incentive (LTI) is principally used to reward sustainable business performance and to align the interests of executives and employees with those of shareholders and long-term organisational interests. LTI awards also aim to support employee retention, contributing to future performance.

IBAL Management submits recommendations for LTIP awards for employees (in consultation with the IBAL BRC) to the Investec Group BRC for approval. The Investec Group BRC will revert to the IBAL BRC in cases where there is any disagreement. It is acknowledged that ultimately the decision is for the Board of IBAL with the assistance of its BRC.

Further details on the link to performance are provided in section 4, and details on the forms of variable remuneration are provided in section 6.

2.2 Risk and financial control personnel

The majority of IBAL's risk and financial control personnel sit in the centralised shared services team. However, some risk and financial control personnel are aligned to specific business units.

The salaries and proposed bonuses for employees responsible for risk, internal audit and compliance are not linked to a specific performance based on a formula but on overall financial performance of the firm, against objectives based on their function and compliance with the various non-financial aspects, and are independent of any revenues or profits generated by the business units where they work.

3. Accounting for risk in remuneration design

IBAL's remuneration arrangements support its Risk Management Framework and protect its long-term financial soundness. This is achieved through linking the design of performance-based remuneration to key risk areas, so that prudent risk taking is encouraged.

IBAL's Risk Management Framework has three key risk areas: financial risks (e.g. market risk, credit risk, liquidity risk); process risk (e.g. conflict risk at origination, execution risk, post execution risk); and strategic risk (e.g. reputational risk). These risks are integrated into IBAL's key remuneration outcomes:

- **Funding of the IBAL variable reward pool:** funding decisions include an assessment of strategic and financial risks (including EVA modelling which factors the cost of capital)
- **Allocating reward pools to business units:** consistent with the IBAL variable reward pool, strategic and financial risks (including EVA modelling) are included in the allocation process
- **Determining individual reward outcomes:** individuals have performance metrics that factor financial, process and strategic risk (where applicable), and are assessed against IBAL's values
- **Applying STI deferral:** for employees with significant variable remuneration a portion of STI is deferred to allow for clawback where appropriate (e.g. recovering unpaid EVA).

Risk management is also embedded in the organisational culture, from the initiation of transactional activity through to monitoring of adherence to mandates and limits.

Additionally to effectively add to the management of risk and its linkage to remuneration outcomes, IBAL introduced an explicit requirement for risk/compliance consciousness component into the performance development review process for the year ended 31 March 2014. This requires an assessment of the extent to which a person/team is able to evidence the process undertaken by team members to understand, identify and manage risk within their part of the business.

4. Linking performance and remuneration

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

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

Factors considered for IBAL and business unit remuneration include:

- Financial measures of performance
 - Risk-adjusted EVA model
 - Affordability.
- Non-financial measures of performance of:
 - Market context

- Specific input from the group risk and compliance functions.

Factors considered to determine total compensation for each individual include:

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

5. Remuneration adjustments

IBAL applies its STI deferral scheme to bonuses in excess of \$250,000. This threshold has been set with the intention of capturing those with the more material STI and may be varied for future years. 40% of the portion above the threshold is delivered immediately as cash, and the remaining 60% is delivered as deferred shares. The deferred shares vest over three years in three equal tranches: the first tranche vests after 1 year, the second tranche vests after 2 years and the third after 3 years.

The deferred share awards are subject to clawback of unpaid EVA. The assessment of whether any clawback should be made to an individual’s unvested award will be undertaken within the following framework:

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

6. Variable remuneration

6.1 Short-term Incentive

STIs are predominantly delivered as cash, however under the STI deferral scheme, a portion of the STI may be delivered as deferred shares.

For the corporate STI plan, STI payouts are predominantly discretionary with no target STI expressed. Investec operates a fully flexible incentive policy which includes the payment of no performance bonuses should the performance of the business or individual employees require this. For sales incentive plans, the incentive payout is more formulaic, typically linked to the achievement of sales targets together with consideration of risk compliance behaviours.

Staff who provide advice to retail clients on financial products other than basic banking products are not eligible for short term incentives linked to sales volumes or other targets that may conflict with their obligations to provide their clients with independent advice. Targets may be designed in consultation with Compliance only where they can be demonstrated not to present a risk of conflict.

STI payouts are annual for the corporate STI plan, and typically monthly or quarterly for the sales incentive plans

6.2 Group long-term incentive plan

The Group LTI plan is delivered in the form of zero priced share options (rights). All employees are eligible for some quantum of LTI. LTI allocations are made biannually. No right or expectation of grants exist. New starters receive an allocation on a formulaic basis. Additional discretionary awards are made for exceptional performance.

The award vests in two tranches: 75% vests after four years; 25% vests after 5 years.

The award is subject to compliance with regulatory requirements which means that, among other things, the number of shares that a person has been awarded and that remain unvested, may be adjusted downwards or forfeited before they vest, at the discretion of the Board and BRC, if either:

- a. there is reasonable evidence of misbehaviour or material error
- b. IBAL or your relevant business unit suffers a material downturn in its financial performance
- c. IBAL or your relevant business unit suffers a material failure of risk management.

Total and individual equity allocations are approved by the CEO, Deputy CEO, BRC and the board of Investec plc.

6.3 Funds Management Business LTI Plan

A local LTI plan operates in the funds management business to ensure interests are appropriately aligned to the business unit objectives. Eligibility is ad hoc, and is typically limited to the person responsible for each fund.

6.4 Remuneration Mix

The balance between fixed and variable remuneration varies by role and is approved by the BRC, based upon recommendations by management. The BRC monitors the compensation ratio, reflecting a key emphasis on balancing risks, rewards and incentives between the various stakeholders in line with its remuneration philosophy.

Prudent consideration is given to the remuneration mix for the three categories of employees specifically covered by the Policy:

- a. Responsible persons – variable pay is based on both the overall performance of the organisation and the performance of the individuals against set goals and objectives.
- b. Risk and financial control personnel – variable pay is based on the quality of work of the individuals, not entirely on the overall performance of the organisation.
- c. Employees who have the potential to earn a significant portion of total remuneration as performance based remuneration and whose activities, individually or collectively, may affect the financial soundness of IBAL - variable pay is based on the overall performance of the organisation, the performance of the relevant business unit and the performance of the individuals against set goals and objectives.

IBAL aims to position fixed remuneration at the market median and total remuneration at upper quartile levels for superior performance.

7. Senior Managers' and material risk taker's quantitative remuneration for year ended 31 March 2014

The following tables have been prepared in accordance with the quantitative requirements outlined in APS 330. Table (a) provides a breakdown of the value of fixed and variable remuneration for material risk takers and senior managers for the year ended 31 March 2014. Table (b) provides a summary of deferred cash and equity-based remuneration, including total amount of outstanding awards, and those that have vested during the 2014 financial year, including any deductions due to ex post explicit and implicit adjustments.

a) Total value of remuneration awards for material risk takers and senior managers for the 2014 financial year

Name	Material risk takers \$'000	Senior managers \$'000
Fixed remuneration		
Cash-based (non-deferred) ¹	3,290	4,737
Other (non-deferred) ²	730	1,535
Variable remuneration		
Cash-based (non-deferred)	1,308	2,302
Cash-based (deferred)	405	1,368
Shares and share-linked instruments (deferred) ³	1,258	2,042
Other		

b) Summary of deferred remuneration (awards outstanding, vested and any downward adjustments)

Name	Material risk takers \$'000	Senior managers \$'000
Outstanding remuneration		
Cash-based awards	575	1,828
Shares and share-linked instruments ³	3,114	12,051
Total outstanding remuneration (deferred)	3,689	13,879
Total amount of deferred remuneration vested during 2014 financial year	268	1,541
Total amount of reductions during 2014 financial year due to explicit adjustments	0	0
Total amount of reductions during 2014 financial year due to implicit adjustments	0	0

¹ Represents actual fixed remuneration including salary sacrificed benefits and employer superannuation.

² Includes annual leave and long service leave accruals, parking costs and other benefits. Also included are concessional staff loans.

³ Information based on the IFRS 2 accounting change that has been expensed by the company in its income statement during the financial year.

Note: A severance payment of \$146,000 was paid to one Senior Manager. No guaranteed or sign-on bonuses were made during the financial year.