Annual Report

2017

Investec Bank Limited
group and company
annual financial statements

Out of the Ordinary®

Investec

Corporate information

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Registration number

Reg. No. 1969/004763/06

Auditors

KPMG Inc.
Ernst & Young Inc.

Transfer secretaries

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Rosebank 2196
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Directorate

Refer to page 94

For contact details for Investec offices refer to page 204.

For queries regarding information in this document

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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

Contents

01

Investec Bank Limited
in perspective

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

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

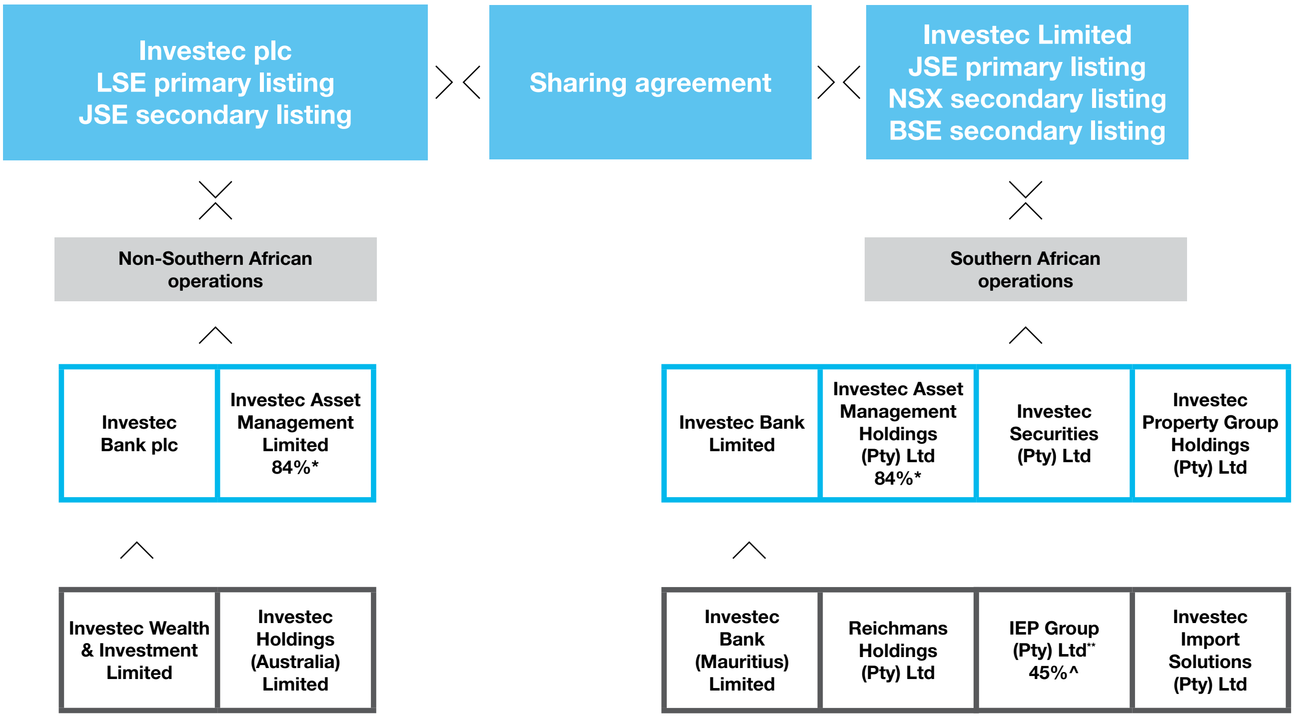
Operating structure

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

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

In terms of the DLC structure, Investec Limited is the controlling company of our businesses in Southern Africa and Mauritius and Investec plc is the controlling company of our non-Southern African businesses. Investec Limited is listed on the JSE Limited South Africa and Investec plc is listed on the London Stock Exchange. Investec Bank Limited (referred to in this report as the bank) is a subsidiary of Investec Limited.

Our DLC structure and main operating subsidiaries as at 31 March 2017



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

* *16% held by senior management in the company (31 March 2016:15%).*
** *Previously Investec Equity Partners (Pty) Ltd.*
^ *55% held by third party investors in the company together with senior management of the business.*

Salient features of the DLC structure

- Investec plc and Investec Limited are separate legal entities and listings, but are bound together by contractual agreements and mechanisms
- Investec operates as if it is a single unified economic enterprise
- Shareholders have common economic and voting interests as if Investec plc and Investec Limited were a single company
- Creditors, however, are ring-fenced to either Investec plc or Investec Limited as there are no cross-guarantees between the companies.

Overview of the activities of Investec Bank Limited

Specialist Banking

The bank operates as a specialist bank within Southern Africa 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

Principal Investments

Our Principal Investments division seeks to invest largely in unlisted companies. 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.

A material portion of the bank's principal investments have been transferred to the IEP Group (IEP). The bank holds a 45% stake in IEP alongside other strategic investors who hold the remaining 55% in IEP.

Furthermore, our Central Funding division is the custodian of certain equity and property investments.

Corporate and Institutional Banking activities

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

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

Our institutional stockbroking activities are conducted outside of the bank in Investec Securities (Pty) Ltd.

Private Banking activities

Transactional banking and foreign exchange
Lending
Deposits
Investments

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

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

Natural linkages between the private client and corporate business

Specialist expertise delivered with dedication and energy

Business leader: **RICHARD WAINWRIGHT**

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

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

Our value proposition

- High-quality specialist banking solutions to corporate and private clients with leading positions in selected areas
- Provide high touch personalised service – supported by high tech and 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.

Where we operate

South Africa

Strong brand and positioning

Fifth largest bank

Leading position in corporate institutional and private client banking activities

Mauritius

Established 1997

Focus on corporate institutional and private client banking activities

01 Highlights

Investec Bank Limited in perspective

A diversified business model continues to support a large recurring revenue base, totalling 81.0% of operating income.

We have a strong franchise that supports a solid revenue base.

Total operating income increased 3.5% to R10 754 million (2016: R10 388 million).

Financial performance

2017 R4 159mn | **2016** R4 295mn

Investec Bank Limited recorded a 3.2% decrease in profit before taxation as a result of the accounting treatment related to the IEP Group transaction

2017 54.7% | **2016** 53.3%

Cost to income ratio

2017 0.29% | **2016** 0.26%

Credit loss ratio

2017 R117.6bn | **2016** R124.9bn

Cash and near cash balances decreased 5.9% as we managed down levels of surplus liquidity

2017 R233.4bn | **2016** R215.2bn

Core loans and advances increased 8.5%

2017 R303.4bn | **2016** R279.7bn

Customer deposits increased 8.5%

2017 74.4% | **2016** 74.1%

Ratio of loans and advances to deposits remains strong

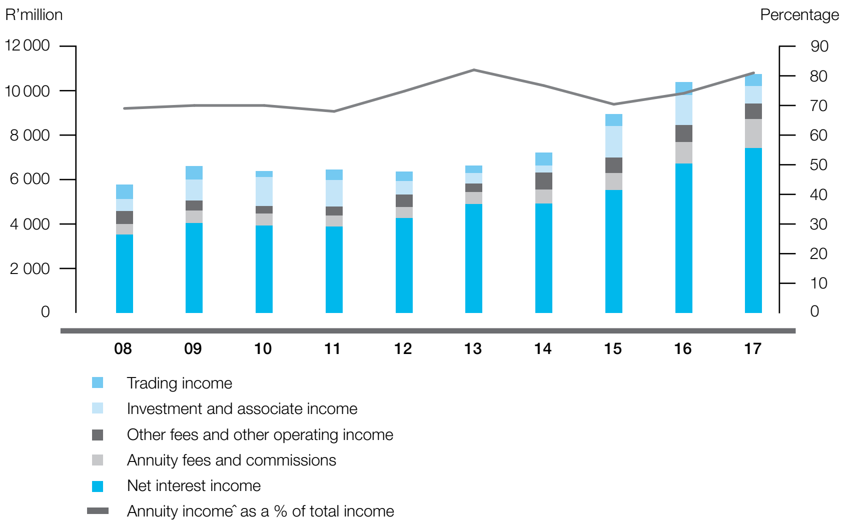
2017 11.6 times | **2016** 12.6 times

Low gearing ratios

Other financial features

R'million	31 March 2017	31 March 2016	% change
Headline earnings	3 069	3 449	(11.0%)
Total capital resources (including subordinated liabilities)	48 345	42 597	13.5%
Total shareholders' equity	35 165	31 865	10.4%
Total assets	425 687	411 980	3.3%

Total operating and annuity income^



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

Impairment levels have increased, however, the credit loss ratio remains at the lower end of its long-term average trend

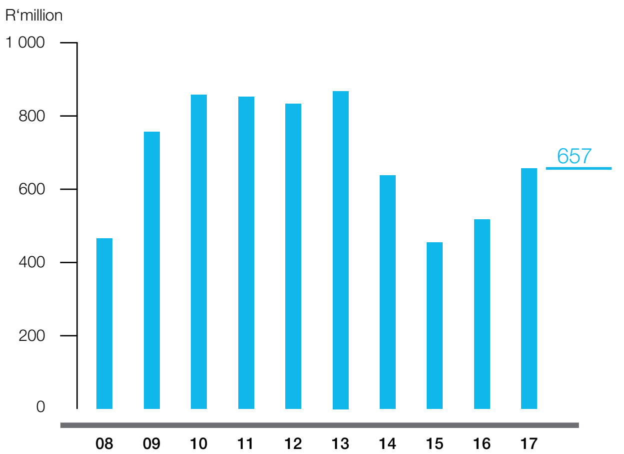
Core loans and advances increased by 8.5% to R233.4 billion

Default loans (net of impairments) as a percentage of core loans and advances decreased from 1.06% to 1.03%

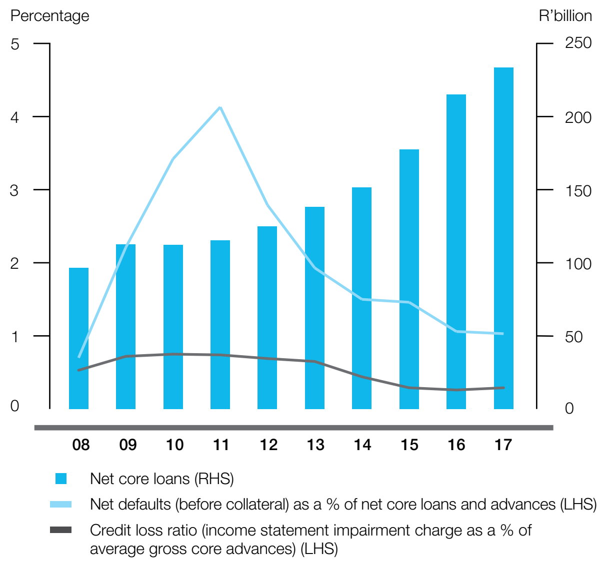
The credit loss ratio amounted to 0.29% (2016: 0.26%)

Net defaults (after impairments) remain adequately collateralised.

Impairments



Default and core loans



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%, with the year-end ratio at 38.8%
- Diversifying funding sources
- Maintaining an appropriate mix of term funding
- Limiting concentration risk
- Reduced reliance on wholesale funding.

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

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

Investec has maintained a stable capital base

A well-established liquidity management philosophy remains in place

Continued to benefit from a growing retail deposit franchise and recorded an increase in customer deposits

Advances as a percentage of customer deposits is at 74.4% (2016: 74.1%)

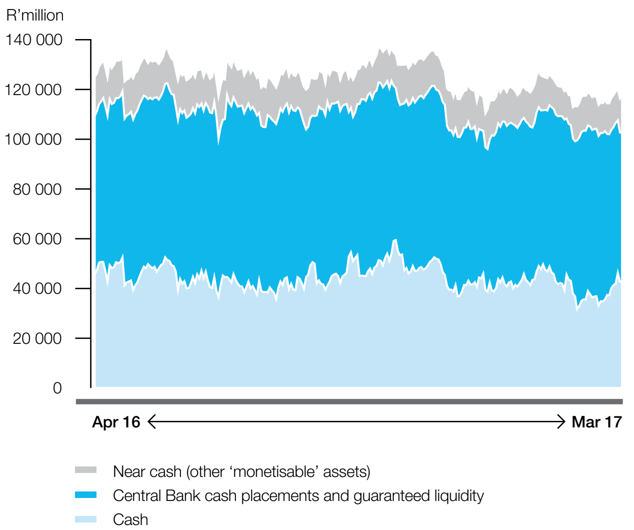
We ended the year with the three-month average of Investec Bank Limited's (solo basis) liquidity coverage ratio at 130.0% (2016: 117.3%) which is well ahead of the minimum regulatory requirements.

Capital adequacy and tier 1 ratios

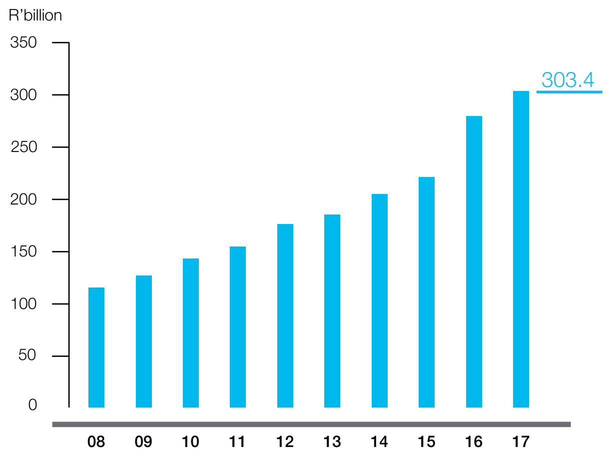
	31 March 2017 (Basel III)			31 March 2016 (Basel III)		
	Capital adequacy ratio	Tier 1 ratio	Common equity tier 1 ratio	Capital adequacy ratio	Tier 1 ratio	Common equity tier 1 ratio
Investec Bank Limited	15.4%	11.1%	10.8%	14.6%	11.0%	10.6%
Investec Limited	14.1%	10.7%	9.9%	14.0%	10.7%	9.6%

Continued to grow our retail deposit franchise

Cash and near cash trend



Customer accounts (deposits)



02

Financial review

An overview of the operating environment impacting our business

South Africa

Our views

The mild acceleration in global economic growth evidenced over 2016, as key advanced and emerging market economies improved somewhat, along with some strained low-income economies, has been positive for South Africa. The downward trend in domestic growth since 2010 likely bottomed last year, at 0.3% year-on-year, and 2017 is expected to see global growth gain traction modestly, with South Africa's economic performance expected to lift towards 1.0% year-on-year.

0.3%	1.3%
2016/17 Economic growth	2015/16 Economic growth

2017	2016
R55 827	R56 449

GDP per capita has fallen

The commodity cycle too is expected to have troughed in 2016, which along with positive sentiment towards emerging market assets, has strengthened the Rand. The severe drought has largely come to an end, and in combination with Rand strength, is expected to moderate inflation somewhat going forward. However, a cabinet reshuffle at the end of the financial year saw a new Finance Minister appointed, with downgrades on South Africa's hard currency debt ratings to sub-investment grade, from Standard and Poor's and Fitch, following on.

On a fundamental basis, South Africa revealed its institutional soundness over the past year in the ratings from the World Economic Forum's (WEF) Global Competitiveness Survey, particularly in its financial market development, where it is ranked eleventh in the world. The soundness of its banks and ability of its financial services to meet business needs are ranked second globally, the regulation of its securities exchanges third. Institutionally, South Africa has a ranking of fortieth out of the one hundred and thirty eight countries surveyed, first on both the strength of auditing and reporting standards and the protection of minority shareholders interests, and third on the efficacy of its corporate boards. The efficiency of South Africa's legal system in settling disputes and challenging regulations is respectively ninth and tenth in the world, while the strength of investor protection is fourteenth. However, the WEF's global survey shows that the perceived high cost of the wastefulness of government spending and diversion of public funds, favouritism in decisions of government officials and public distrust in politicians, along with the burden of government regulation and cost to business of crime and violence, hold South Africa back from a better institutional ranking.

Fiscal consolidation is key, and South Africa will need to ensure this, particularly a stabilisation in public sector debt as a percentage of GDP, to avoid further local currency credit rating downgrades to sub-investment grade. Such fiscal sustainability is vital; not least to ensure the sustainability of the social grant and broader social welfare system for the majority of South Africans, as well as ensuring lower borrowing costs, and the avoidance of a debt trap.

Despite notable progress in some areas, structural constraints continue to limit the productivity needed for sustained, fast economic growth domestically.

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

Global stock markets

Our views

Global equity markets faced a number of key risk events over the year, with the UK's referendum on leaving the EU and the US election of particular note. Despite these events and some intervening volatility at times, global equity markets enjoyed a buoyant year.

Amongst the highlights, the S&P500 gained 14.7% over the fiscal year reaching an all-time record of 2 396 in February, meanwhile the MSCI world index added 12.5% and the Euro Stoxx 50 rose by 16.5%.

The UK electorate's vote to leave the European Union on 23 June 2016 initially shocked markets, with UK and global equity indices witnessing significant falls the morning following the referendum. However, equity market weakness proved short-lived as UK listed entities' earnings benefited from currency translation effects due to the sharp fall in the Pound, whilst risk sentiment globally improved.

However, global equity markets and risk assets more broadly witnessed the largest gains in the second half of the year, following the US election. Republican nominee Donald Trump's win in November propelled equity markets and commodity prices higher as investors focused on the fiscally stimulative impact of Mr Trump's policy promises including big ticket tax cuts and increased infrastructure spending. The S&P 500 gained 11.5% across the remainder of the financial year following the election, whilst major commodity benchmarks such as iron ore and copper gained 25% and 15% on the expectation of infrastructure related demand.

Emerging market equity indices underperformed their developed market peers following the US election as the MSCI Emerging market index notched up gains of 7%. South African equities themselves ended March 2017 flat on the year relative to March 2016. However, this masks a fairly volatile year and wide divergences across sectors. The continuing rally in commodity prices saw resource shares rally 13% over the year. But concerns about the South African political environment and the knock on effects of higher interest rates and slower growth saw financials down 8% for the year. Meanwhile industrials ended the year roughly flat. Looking forward, continuing political uncertainty is likely to be the major theme until the end of 2017 when the governing party, the ANC meets for its next elective conference.

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 2017	Year ended 31 March 2016	% change	Average over the year 1 April 2016 to 31 March 2017
Market indicators				
FTSE All share	3 990	3 395	17.5%	3 699
JSE All share	52 056	52 250	(0.4%)	52 017
S&P	2 363	2 060	14.7%	2 186
Nikkei	18 909	16 759	12.8%	17 516
Dow Jones	20 663	17 685	16.8%	18 846
Rates				
UK overnight	0.17%	0.41%		0.30%
UK 10 year	1.07%	1.42%		1.18%
UK clearing banks base rate	0.25%	0.50%		0.33%
LIBOR – three-month	0.34%	0.59%		0.44%
SA R186	8.84%	9.10%		8.85%
Rand overnight	6.86%	6.92%		7.28%
SA prime overdraft rate	10.50%	10.50%		10.50%
JIBAR – three-month	7.36%	7.23%		7.34%
US 10 year	2.40%	1.79%		1.97%
Commodities				
Gold	US$1 247/oz	US$1 233/oz	1.1%	US$1 258/oz
Oil	US$58/bbl	US$40/bbl	45.0%	US$50/bbl
Platinum	US$940/oz	US$976/oz	(3.7%)	US$1 003/oz
Macro-economic				
South Africa GDP (% change over the period)	0.3%	1.3%		
South Africa per capita GDP (real value in Rands, historical revised)	55 827	56 449	(1.1%)	

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

Key income drivers

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

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

Risks relating to our operations

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

These risks are summarised briefly in the table below with further detail provided in the risk management section of this report.

For additional information pertaining to the management and monitoring of these risks, see the page references provided.

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.

12 – 14

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

12 – 14

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

27 – 28

We may be exposed to **country risk** i.e. the risk inherent in sovereign exposure and events in other countries.

27 – 50

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

28

Unintended **environmental, social and economic risks** could arise in our lending and investment activities.

51 – 52

We may be exposed to **investment risk** largely in our unlisted investment portfolio.

55 – 58

Market risk arising in our trading book could affect our operational performance.

59 – 66

Liquidity risk may impair our ability to fund our operations.

66 – 68

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

71 – 75

Operational risk (including financial crime, cyber crime and process failure) may disrupt our business or result in regulatory action.

71 – 75

We may be **vulnerable to the failure of our systems** and breaches of our security systems (including cyber and information security).

71 – 75

Employee misconduct could cause harm that is difficult to detect.

75

Reputational, strategic and **business risk** could impact our operational performance.

75 – 76

Compliance, legal and regulatory risks may have an impact on our business.

76

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

76 – 82

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

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

See Investec's 2017 integrated annual report on our website.

Overview

The bank posted a decrease in headline earnings attributable to ordinary shareholders of 11.0% to R3 069 million (2016: R3 449 million). Operating fundamentals were supported by sound levels of corporate and private client activity. Results were impacted by the change in accounting treatment from fair value to equity accounting for the assets transferred to the IEP Group (previously Investec Equity Partners) in the prior year (refer to page 175). Excluding the impact of this transaction, operating profit was considerably ahead of the prior period. The balance sheet remains sound with a capital adequacy ratio of 15.4% (31 March 2016: 14.6%).

Unless the context indicates otherwise, all income statement comparatives in the review below relate to the results for the year ended 31 March 2016.

Income statement analysis

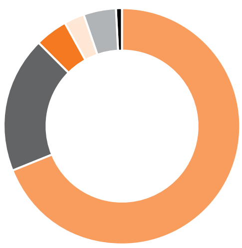
The overview that follows will highlight the main reasons for the variance in the major category line items on the face of the income statement during the year under review.

Total operating income

Total operating income before impairment losses on loans and advances increased by 3.5% to R10 754 million (2016: R10 388 million). The various components of total operating income are analysed below.

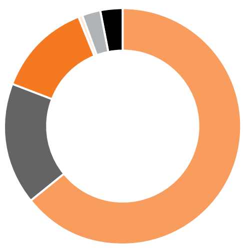
R'million	31 March 2017	% of total income	31 March 2016	% of total income	% change
Net interest income	7 419	69.0%	6 712	64.6%	10.5%
Net fee and commission income	1 999	18.6%	1 738	16.7%	15.0%
Investment income	472	4.4%	1 356	13.1%	(65.2%)
Share of post taxation operating profit/(loss) of associates	306	2.9%	(11)	(0.1%)	>100.0%
Trading income arising from					
– customer flow	486	4.5%	293	2.8%	65.9%
– balance sheet management and other trading activities	70	0.6%	298	2.9%	(76.5%)
Other operating income	2	–	2	–	–
Total operating income before impairment losses on loans and advances	**10 754**	**100.0%**	**10 388**	**100.0%**	**3.5%**

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



31 March 2017
R10 754 million total operating income before impairment losses on loans and advances

Net interest income	69.0%
Net fee and commission income	18.6%
Investment income	4.4%
Share of post taxation operating profit/(loss) of associates	2.9%
Trading income arising from customer flow	4.5%
Trading income arising from balance sheet management and other trading activities	0.6%



31 March 2016
R10 388 million total operating income before impairment losses on loans and advances

Net interest income	64.6%
Net fee and commission income	16.7%
Investment income	13.1%
Share of post taxation operating profit/(loss) of associates	(0.1%)
Trading income arising from customer flow	2.8%
Trading income arising from balance sheet management and other trading activities	2.9%

Net interest income

Net interest income increased 10.5% to R7 419 million (2016: R6 712 million) driven by sound levels of lending activity.

For a further analysis of interest income and interest expense refer to page 134.

Net fee and commission income

Net fee and commission income increased 15.0% to R1 999 million (2016: R1 738 million) as a result of a sound performance from the private banking, corporate lending, corporate treasury and import solutions businesses.

For a further analysis of net fee and commission income refer to page 135.

Investment income

Investment income decreased significantly to R472 million (2016: R1 356 million) impacted by the change in accounting treatment from fair value to equity accounting for the assets transferred to the IEP Group.

For a further analysis of investment income refer to pages 135 and 136.

Share of post taxation operating profit of associates

Share of post taxation operating profit of associates of R306 million in the current period largely reflects earnings in relation to the group's investment in the IEP Group.

Trading income

Total trading income decreased 5.9% to R556 million (2016: R591 million) largely due to foreign currency translation impacts, while corporate customer flow trading income increased supported by client activity levels and market volatility.

Impairment losses on loans and advances

Impairments on loans and advances increased from R517 million to R657 million, with the credit loss ratio on average core loans and advances amounting to 0.29% (31 March 2016: 0.26%), remaining at the lower end of its long-term average trend. The percentage of default loans (net of impairments but before taking collateral into account) to core loans and advances amounts to 1.03% (2016: 1.06%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 1.81 times (2016: 1.61 times).

For further information on asset quality refer to pages 42 to 50.

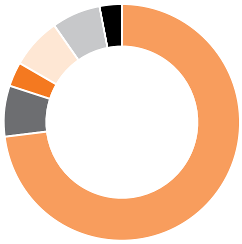
Total operating costs

The ratio of total operating costs to total operating income amounts to 54.7% (2016: 53.3%). Total operating expenses at R5 887 million were 6.3% higher than the prior year (2016: R5 537 million) reflecting higher headcount across the business to support increased activity and growth initiatives; partially offset by costs incurred with respect to the IEP Group transaction not repeated in the current year.

The various components of total operating costs are analysed below.

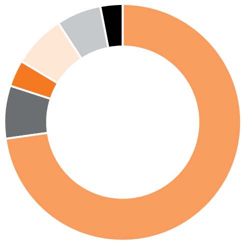
R'million	31 March 2017	% of total operating costs	31 March 2016	% of total operating costs	% change
Staff costs (including directors' remuneration)	(4 301)	73.1%	(4 033)	72.8%	6.6%
Business expenses	(417)	7.1%	(406)	7.4%	2.7%
Equipment expenses (excluding depreciation)	(189)	3.2%	(202)	3.6%	(6.4%)
Premises expenses (excluding depreciation)	(406)	6.9%	(394)	7.1%	3.0%
Marketing expenses	(403)	6.8%	(348)	6.3%	15.8%
Depreciation	(171)	2.9%	(154)	2.8%	11.0%
Total operating costs	**(5 887)**	**100.0%**	**(5 537)**	**100.0%**	**6.3%**

% of total operating costs



31 March 2017
R5 887 million total operating costs

Staff costs	73.1%
Business expenses	7.1%
Equipment	3.2%
Premises	6.9%
Marketing	6.8%
Depreciation	2.9%



31 March 2016
R5 537 million total operating costs

Staff costs	72.8%
Business expenses	7.4%
Equipment	3.6%
Premises	7.1%
Marketing	6.3%
Depreciation	2.8%

Balance sheet analysis

Since 31 March 2016:

- Total shareholders' equity increased by 10.4% to R35.2 billion (2016: R31.9 billion), largely as a result of retained earnings
- Total assets increased by 3.3% to R425.7 billion (2016: R412.0 billion), largely as a result of an increase in core loans and advances.

Questions and answers

Richard Wainwright

Business leader

Q. How has the operating environment in which you have operated impacted your business over the last financial year?

The year ended 31 March 2017 was unpredictable for global financial markets. The 2016/17 year was marked by volatility and political upheaval, an oil price recovery and a global stock market recovery on signs of improving US economic growth. In South Africa a cabinet reshuffle towards the end of the financial year and related downgrades has affected the economic outlook. Notwithstanding the slowdown in the economy, our clients have remained reasonably active and our international offering in our client segments is a strategic advantage.

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

Excluding the negative impact of the accounting treatment related to the IEP Group transaction, the Specialist Bank in South Africa reported results well ahead of the prior period. This is reflective of our increasing client focus and coordination across all divisions with enhanced strategies to penetrate our existing client base and grow our market share.

We have made good progress with our digitisation strategy which focuses on ensuring that we create a client experience that is both 'Out of the Ordinary' and 'high tech and high touch'. This is part of our strategy to deepen our strong relationships with our core client base, and offer them a broad spectrum of services and products.

We were recognised by the FT in London as the best Private Bank and Wealth Manager in South Africa for the fourth year running. This is testament to our continued efforts to offer our private clients an international, streamlined offering.

Q. What are your strategic objectives in the coming financial year?

We continue to build our franchise in our core client segments. Building and developing our client franchises remains integral to the growth and development of our organisation and we are committed to optimising the client experience, ensuring our target clients do more with us as an organisation.

Our strategic focus in South Africa remains the following:

- Grow market share in our niche businesses
- Identify new sources of revenue across our existing client base
- Management of our liquidity ratios with an emphasis on retail funding initiatives
- Management of our capital to optimise returns
- Investment in our technology platforms, including digitalisation of products and services.

Q. What is your outlook for the coming financial year?

Political events are likely to continue to impact financial markets. That said client activity across lending and treasury products is expected to remain reasonable.

03

Risk management and corporate governance

Group Risk Management objectives are to:

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

Overview of disclosure requirements

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

On pages 23 to 83 with further disclosures provided within the annual financial statements section on pages 117 to 124.

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

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

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

Investec Bank Limited also publishes additional Pillar III and other risk information. This information is contained in a separate Pillar III report which can be found on our website.

Philosophy and approach to risk management

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

Risk awareness, control and compliance are embedded in all our day-to-day activities. As fundamental to our values, we have a strong and embedded risk and capital management culture.

We monitor and control risk exposure through independent credit, market, liquidity, operational, legal risk, internal audit and compliance teams. This approach is core to assuming a tolerable risk and reward profile, helping us to pursue controlled growth across our business.

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

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

We believe that the risk management systems and processes we have in place are adequate to support our strategy and allow the group to operate within its risk appetite tolerance.

Overall summary of the year in review from a risk perspective

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

Although the operating environment continues to present challenges and political uncertainty, the bank was able to maintain sound asset performance and risk metrics throughout the year in review. We remained within of our risk appetite limits/targets across various risk disciplines, with with only a few exceptions that were noted and approved by the board.

Our risk appetite framework as set out on page 25 continues to be assessed in light of prevailing market conditions and group strategy.

Credit risk

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 3%, high net worth and private client lending 49% and corporate lending 34% (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 8.5% to R233 billion at 31 March 2017 with residential owner-occupied, private client lending and corporate portfolios representing the majority of the growth for the financial year in review.

We reported an increase in the level of impairments taken, but remain comfortable with the overall performance of the book, as the credit loss ratio amounts to 0.29%. We reported a moderate increase in defaults which was attributable to a few clients who experienced financial difficulty. We did not however, experience 'stress' across the portfolio as these defaults were in unrelated sectors. Increases in interest rates over the past two years have had little impact on the performance of our book, as our target market is less sensitive to the moderate interest rate moves incurred to date. The group has minimal exposure to the agriculture sector in South Africa, and our overall on and off-balance sheet exposure to mining and resources amounts to 3% of our credit and counterparty exposures. Given the weaker growth outlook in South Africa, it is likely that defaults could increase further, although we would still expect our credit loss ratio to remain within our long-term average trend of 30bps to 40bps.

Investment risk

With the backing of external strategic investors, we believe that the IEP Group is better positioned to deliver value and grow. Overall, we remain comfortable with the performance of the major portion of our equity investment portfolios which comprise 3.2% of total assets.

Traded market risk

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 0.1% of total operating income.

We continue to manage a very low level of market risk with 95% one-day VaR at R4.1 million at 31 March 2017. Investec remains focused on facilitating the near-term demand of our clients and the trading desks benefited from the volatility in the markets during the year. All trading areas have kept market risk exposures at low levels throughout the year.

Balance sheet and liquidity risk

We maintained a strong liquidity position and continued to hold high levels of surplus liquid assets. During the past financial year the liquidity risk profile of the balance sheet has improved. Our total customer deposits grew by 8.5% from R280 billion to R303 billion at 31 March 2017. Our Private Bank and Cash Investments fund raising channels grew deposits grew by 13% to R124 billion over the financial year. Over the same period the wholesale channels remained flat at R179 billion. This included several successful senior unsecured bond issues totalling R4.6 billion. As a result we decreased our reliance on wholesale funding from 60.7% to 59.1% over the financial year.

The impact on our liquidity ratios was positive. The three month average LCR for Investec Bank Limited solo increased from 117.3% to 130.0% which is well above the minimum level of 80% required. By January 2019 the LCR minimum requirement moves to 100% and we remain confident of our ability to comfortably meet and exceed this requirement whilst continuing to meet planned asset growth targets. The NSFR will also have to exceed 100% by January 2018. We are well positioned to meet this regulatory liquidity measure as currently our ratios exceed this requirement.

Capital management

Investec has continued to maintain a sound balance sheet with a low gearing ratio of 11.6 times and a core loans to equity ratio of 6.6 times. Our current leverage ratio is 7.6%.

We have always held capital well in excess of regulatory requirements and we intend to perpetuate this philosophy. We meet our current internal targets for total capital adequacy and for our common equity tier 1 ratio to be in excess of 10%. 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 have applied to the SARB for approval of our advanced internal ratings approach (AIRB). Subject to the SARB approval we expect to implement AIRB in 2018 for the purpose of calculating credit risk regulatory capital.

Through the preparation process for the application, Investec has enhanced a number of rating systems and risk quantification models. Since AIRB was operationalised, we have seen significant benefits from using these rating systems in the management of credit risk and the quantification of internal capital. In addition, we are expecting a positive impact on capital ratios in applying this approach.

We believe that a common equity tier 1 ratio in excess of 10% is appropriate for our business, given our sound leverage ratios and we will continue to build our business in a manner that maintains this target.

Conduct, operational and reputational risk

We continue to spend much time and effort focusing on operational, reputational, conduct, recovery and resolution risks. Our customer and market conduct committee continues to ensure 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 bank'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.

Eighteen banks, including Investec Limited, have been cited on allegations of collusion in relation to foreign exchange. Despite seeking further details of what the precise allegations are against us, we have not yet received the relevant information. The Competition Commission's case against Investec Limited is confined to the alleged conduct of a single trader. This particular trader dealt with interbank clients. Revenue from forex trading activities has averaged below 1% of the South African bank's total revenues over the past 10 years. At Investec, sound corporate governance is embedded in our values, culture, processes, functions and organisational structure. Our values require, *inter alia*, that employees behave with integrity and treat customers fairly. Investec does not tolerate any behaviour in contravention of its value system, the law or regulatory requirements including the Competition Act, the FX Market Code of Conduct or the applicable internal Investec policies. Investec actively monitors compliance with these requirements including compliance with the relevant South African Reserve Bank Code of Conduct with respect to, *inter alia*, conducting over-the-counter and FX transactions.

Following the recent South African government cabinet reshuffle and change of Finance Minister, S&P downgraded South Africa's sovereign foreign currency credit rating by two notches to BB+ with a negative outlook and the local currency rating was lowered by one notch to BBB- with a negative outlook. Fitch downgraded South Africa's foreign currency and local currency ratings to BB+ with a stable outlook. Moody's announced that South Africa had been placed on review for a downgrade and they are still in a window period to announce a decision. Following the sovereign downgrade, the larger local banks together with Investec Bank Limited's long term foreign currency ratings were also downgraded and are now Baa2 from Moody's and BB+ from Fitch and S&P.

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

Salient features

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

Year to 31 March	2017	2016
Total assets (R'million)	425 687	411 980^
Total risk-weighted assets (R'million)	313 010	295 752
Total equity (R'million)	35 165	31 865
Net core loans and advances (R'million)	233 445	215 239
Cash and near cash (R'million)	117 586	124 907
Customer accounts (deposits) (R'million)	303 397	279 736
Gross defaults as a % of gross core loans and advances	1.54%	1.48%
Defaults (net of impairments) as a % of net core loans and advances	1.03%	1.06%
Net defaults (after collateral and impairments) as a % of net core loans and advances	–	–
Credit loss ratio*	0.29%	0.26%
Structured credit as a % of total assets	0.43%	0.19%
Banking book investment and equity risk exposures as a % of total assets	3.19%	2.87%
Level 3 (fair value assets) as a % of total assets	0.81%	0.63%
Traded market risk: one-day value at risk (R'million)	4.1	4.2
Core loans to equity ratio	6.6x	6.8x
Total gearing ratio**	11.6x	12.6x
Loans and advances to customers to customer deposits	74.4%	74.1%
Capital adequacy ratio	15.4%	14.6%
Tier 1 ratio	11.1%	11.0%
Common equity tier 1 ratio	10.8%	10.6%
Leverage ratio	7.6%	7.2%
Return on average assets#	0.78%	0.93%
Return on average risk-weighted assets#	1.03%	1.22%

* *Income statement impairment charge on core loans as a percentage of average gross core loans and advances.*
** *Total assets excluding intergroup loans to total equity.*
# *Where return represents earnings attributable to shareholders after deduction of preference dividends but before amortisation of acquired intangibles. Average balances are calculated on a straight-line average and total assets exclude intergroup loans.*
^ *Total assets were restated. For more details see page 181.*

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 and the board.

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

Risk appetite and tolerance metrics	Positioning at 31 March 2017
• 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 for Investec Limited contributed 48% to total operating income and capital intensive activities contributed 52%
• 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 81.0% of total operating income. Refer to page 8 for further information
• We seek to maintain strict control over fixed costs and target a cost to income ratio of below 55%	The cost to income ratio amounted to 54.7%. Refer to page 8 for further information
• 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 81 for further information
• We intend to maintain a sufficient level of capital to satisfy regulatory requirements and our internal target ratios. We target a capital adequacy ratio range of between 14% and 17% and we target a minimum tier 1 ratio of 11.0% and a common equity tier 1 ratio above 10.0%	We meet our capital targets; refer to page 81 for further information
• We target a diversified loan portfolio, lending to clients we know and understand. We limit our exposure to a single/connected individual or company to 5% of tier 1 capital (up to 10% if approved by the relevant board committee). We also have a number of risk tolerance limits and targets for specific asset classes	We maintained this risk tolerance level in place throughout the year
• There is a preference for primary exposure in the bank's main operating geographies (i.e. South Africa and Mauritius). The bank 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 27 for further information
• We target a credit loss charge on core loans of less than 0.5% of average core advances (less than 1.25% under a weak economic environment/ stressed scenario), and we target defaults net of impairments less than 1.5% of total core loans (less than 4% under a weak economic environment/ stressed scenario)	The credit loss charge on core loans amounted to 0.29% and defaults net of impairments amounted to 1.03% of total core loans. Refer to page 42 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 R118 billion representing 38.8% of customer deposits. Refer to page 62 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 one-day 95% VaR of less than R15 million	We meet these internal limits; refer to page 56 for further information
• We have moderate appetite for investment risk, and set a risk tolerance of less than 12.5% of tier 1 capital for our unlisted principal investment portfolio (excluding the IEP Group)	Our unlisted investment portfolio is R3 573 million, representing 10.3% of total tier 1 capital. Refer to 52 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 71 to 75 for further information
• We have a number of policies and practices in place to mitigate reputational, legal and conduct risks	Refer to pages 75 and 76 for further information

An overview of our principal risks

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

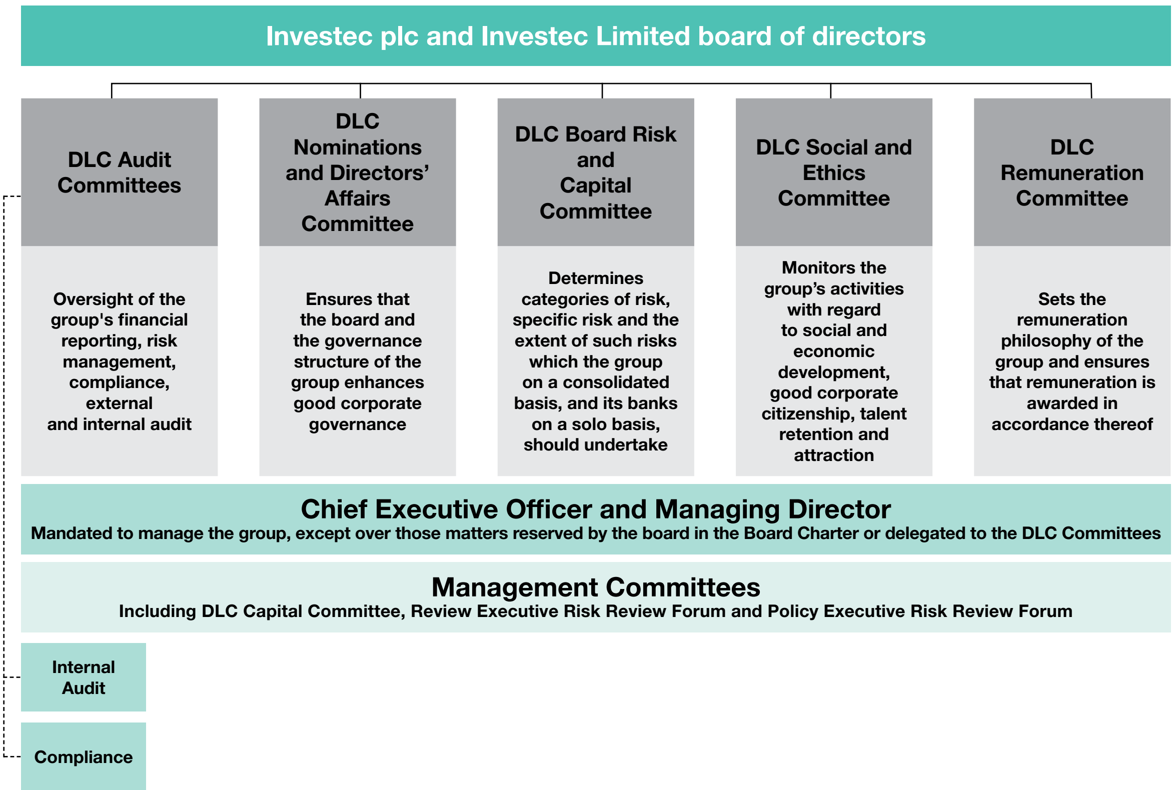
These principal risks have been highlighted on page 16.

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.

Risk management framework, committees and forums

A number of committees and forums identify and manage risk at group level. These committees and forums operate together with Group Risk Management and are mandated by the board. Our governance framework is highlighted below.



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

ALCO	Asset and liability committee	FCA	Financial Conduct Authority
BCBS	Basel Committee of Banking Supervision	GRCC	Group risk and capital committee
BIS	Bank for International Settlements	PERRF	Policy executive risk review forum
BOM	Bank of Mauritius	RERRF	Review executive risk review forum
BRCC	Board risk and capital committee	SARB	South African Reserve Bank

Credit and counterparty risk management

Credit and counterparty risk description

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

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

- Lending transactions through loans and advances to clients and counterparties creates the risk that an obligor will be unable or unwilling to repay capital and/or interest on loans and advances granted to them. This category includes bank placements, where we have placed funds with other financial institutions
- Issuer risk on financial instruments where payments due from the issuer of a financial instrument may 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, with one party effecting required settlements as they fall due but not receiving the performance to which they are entitled
  - Replacement risk is the risk following defaults by the original counterparty resulting in the contract holder having to enter into a replacement contract with a second counterparty in order to fulfil the transaction.

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.

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 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 or idiosyncratic financial distress
- 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 bank's main operating geography (i.e. South Africa). The bank will accept exposures where we have a branch or local banking subsidiary and tolerate exposures to other countries where we have a developed and local understanding and capability or we are facilitating a transaction for a client who requires facilities in a foreign geography.

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

We have little appetite for unsecured debt and require good quality collateral in support of obligations (refer to page 50 for further information).

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

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

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

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. 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 target 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 relevant credit committees as well as investment committees and PERRF will consider, analyse and assess the appropriate limits to be recorded when required, to assume exposure to foreign jurisdictions.

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 are agreed.

Corporate responsibility considerations

Investec has a holistic approach to corporate responsibility, 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, corporate responsibility risk considerations are considered by the business 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 corporate responsibility considerations:

- Environmental considerations (including animal welfare and climate – related impacts)
- Social considerations (including Human Rights)
- Macro-economic considerations.

Refer to our corporate responsibility 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.

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, in the respective geographies in which the group operates.

Exposures are classified to reflect the bank's risk appetite and strategy. In our Pilliar 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).

S&P, Moody's and Global Credit Ratings have been nominated as eligible External Credit Assessment institutions (ECAIs) for the purposes of determining external credit ratings. The following elections have been made:

- In relation to sovereigns and securitisations, Moody's, S&P and Global Credit Ratings have been selected by Investec as eligible ECAIs
- In relation to banks, corporates and debt securities, 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.

Internal credit rating models continue to be developed to cover all material asset classes. The advanced internal ratings approach (AIRB) is subject to supervisory approval to adopt the approach for our credit portfolio. Application for approval was submitted to the SARB in August 2016. Subject to formal approval from the SARB it is expected that the bank will implement AIRB by 2018 in the calculation of credit risk regulatory capital.

Through the preparation process for the application Investec has enhanced a number of it's rating systems and risk quantification models. Since AIRB was operationalised we have seen significant benefits from using these rating systems in the quantification, management of credit risk and usage for internal capital. In addition we are expecting a positive impact on capital ratios.

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'.

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. 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.

Credit and counterparty risk – nature of 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 48 to 49.

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 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
- **Portfolio Lending** provides loans to high net worth clients against their investment portfolio, typically managed by Investec Wealth & Investment.

An analysis of the private client loan portfolio and asset quality information is provided on pages 48 to 49.

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, its business model and market positioning, 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 as well as shares in the 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 serviceability based upon robust cash generation of the business based on both historical and forecast information. We typically act as transaction lead or arranger, and have a close relationship with management and sponsors
- **Corporate Debt Securities:** these are tradable corporate debt instruments, based on acceptable credit fundamentals typically with a medium-term hold strategy where the underlying risk is to South African 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 and sponsors, running small to mid-cap sized companies. Credit risk is assessed against debt serviceability based upon robust cash generation of the business based on both historical and forecast information. This will be based on historic and forecast information. We typically lend on a bilateral basis and benefit from a close relationship with management and sponsors
- **Asset Based Lending:** provides working capital and secured corporate loans to mid-caps. These loans are secured by the assets of the business, for example, the accounts receivable, inventory and, plant and machinery. In common with our corporate lending activities, strong emphasis is placed on supporting companies with scale and relevance in their industry, stability of cash flow, and experienced management
- **Fund Finance:** provides debt facilities to asset managers and fund vehicles, principally in private equity. The geographical focus is in South Africa where the bank 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, the managers' investment stake in their own funds and when required managers' personal guarantees
- **Small Ticket Asset Finance:** provides funding to small and medium-sized corporates to support asset purchases and other business requirements. The portfolio is highly diversified by industry and number of clients and is secured against the asset being financed and is 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 and traditional power projects as well as transportation assets, against contracted future cash flows of the project(s) from well established and financially sound off-take counterparties. There is a requirement for a strong upfront equity contribution from an experienced sponsor
- **Resource finance:** provides structured hedging solutions mainly within the mining sectors. The underlying commodities are mainly precious and base metals and coal. Our clients in this sector are established mining companies which are typically domiciled and publicly listed in South Africa as well as other countries where we are facilitating a transaction for a client who requires facilities in a foreign geography. All facilities are secured by the borrower's assets and repaid from mining cash flows. We have reduced our appetite in this sector, particularly for small to mid-cap mining companies
- **Structured Credit:** these are bonds secured against a pool of assets, mainly UK and European residential mortgages. The bonds are typically 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 mainly investment grade rated entities that occupy dominant and systemic positions in their domestic banking markets and internationally
- **Customer trading activities to facilitate client lending and hedging:** our customer trading portfolio consists of derivative contracts in interest rates, foreign exchange, commodities, credit derivatives and equities that are entered into, to facilitate a client's hedging requirements. The counterparties to such transactions are typically corporates, in particular where they have an 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 48 to 49.

Asset quality analysis – credit risk classification and provisioning policy

It is a policy requirement overseen by Credit Risk 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.

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 charge over assets, 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 and ultimately allowing Investec to recover any outstanding exposures.

An analysis of collateral is provided on page 50.

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 term 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.

In addition, the relevant credit committee normally requires a suretyship or guarantee in support of a transaction in our private client business. Other common forms of collateral in the retail asset class are motor vehicles, cash and share portfolios. Primary collateral in private client lending transactions can also include a high net worth individual's share/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 market and trading counterparties in over-the-counter (OTC) derivatives, a Credit Support Annex (CSA) ensures that 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.

Further information on credit derivatives is provided on page 58.

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.

Credit and counterparty risk year in review

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

Further information is provided in the financial review on pages 12 to 20.

The current macro-economic environment remains challenging and volatile with competitive pressure on margins. We have maintained a conservative lending approach. Our lending appetite is based on a client-centric approach with a strong focus on client cash flows underpinned by tangible collateral.

Core loans and advances grew by 8.5% to R233 billion with residential owner-occupied, private client lending and corporate portfolios representing the majority of the growth for the financial year in review.

Default loans (net of impairments) as a percentage of core loans and advances amounted to 1.03% with absolute levels of defaults increasing moderately over the year in relation to a few clients who experienced financial difficulty.

The credit loss ratio increased to 0.29% from 0.26% as a result of an increase in the impairment charge.

Lending collateralised by property

The majority of the property assets are commercial investment properties and are located in South Africa. This portfolio decreased by 1% during the year. Loans to value remain conservative and transactions are generally supported by strong cash flows. We follow a client-centric approach, backing counterparties with strong balance sheets and requisite expertise.

Private client activities

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

Our high net worth client portfolio and residential mortgage book growth in particular has been encouraging with a total increase of 13.1% over the year. Growth in both of these areas has been achieved with strong adherence to our conservative lending appetite.

Corporate client activities

We grew our corporate book by 7.3% as a result of increased lending activity by our mid-to-large corporate clients across a number of sectors. Our book remains well diversified across sectors.

Credit and counterparty risk information

Pages 22 to 34 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

Gross credit and counterparty exposures increased by 2.4% to R456 billion largely due to growth in loans and advances to customers, partially offset by a managed reduction in cash and near cash balances. Cash and near cash balances amount to R118 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, non-sovereign and non-bank cash placements and sovereign debt securities.

R'million **At 31 March**	**2017**	**2016**	**% change**	**Average***
Cash and balances at central banks	8 353	7 801	7.1%	8 077
Loans and advances to banks	31 937	26 779	19.3%	29 358
Non-sovereign and non-bank cash placements	8 993	9 858	(8.8%)	9 425
Reverse repurchase agreements and cash collateral on securities borrowed	26 627	38 912	(31.6%)	32 769
Sovereign debt securities	47 822	41 325	15.7%	44 574
Bank debt securities	7 758	13 968	(44.5%)	10 862
Other debt securities	11 945	12 761	(6.4%)	12 353
Derivative financial instruments	6 364	10 756	(40.8%)	8 560
Securities arising from trading activities	463	539	(14.1%)	501
Loans and advances to customers (gross)	226 873	208 182	9.0%	217 528
Own originated loans and advances to customers securitised (gross)	7 782	7 973	(2.4%)	7 878
Other loans and advances (gross)	336	398	(15.6%)	367
Other assets	2 757	2 169	27.1%	2 463
Total on-balance sheet exposures	**388 010**	**381 421**	**1.7%**	**384 716**
Guarantees^	15 750	17 767	(11.4%)	16 759
Contingent liabilities, committed facilities and other	52 089	46 159	12.8%	49 124
Total off-balance sheet exposures	**67 839**	**63 926**	**6.1%**	**65 883**
Total gross credit and counterparty exposures pre-collateral other credit enhancements	**455 849**	**445 347**	**2.4%**	**450 598**

* *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.

R'million	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note reference	Total balance sheet
At 31 March 2017				
Cash and balances at central banks	8 353	–		8 353
Loans and advances to banks	31 937	–		31 937
Non-sovereign and non-bank cash placements	8 993	–		8 993
Reverse repurchase agreements and cash collateral on securities borrowed	26 627	–		26 627
Sovereign debt securities	47 822	–		47 822
Bank debt securities	7 758	–		7 758
Other debt securities	11 945	–		11 945
Derivative financial instruments	6 364	3 492		9 856
Securities arising from trading activities	463	190		653
Investment portfolio	–	7 204	1	7 204
Loans and advances to customers	226 873	(1 204)	2	225 669
Own originated loans and advances to customers securitised	7 782	(6)	2	7 776
Other loans and advances	336	(26)	2	310
Other securitised assets	–	100	3	100
Interest in associated undertakings	–	5 514	1	5 514
Deferred taxation assets	–	388		388
Other assets	2 757	2 509	4	5 266
Property and equipment	–	274		274
Investment properties	–	1		1
Goodwill	–	171		171
Intangible assets	–	508		508
Loans to group companies	–	18 106		18 106
Non-current assets classified as held for sale	–	456	1	456
Total on-balance sheet exposures	**388 010**	**37 677**		**425 687**

1. *Largely relates to exposures that are classified as investment risk in the banking book.*
2. *Largely relates to impairments.*
3. *Largely cash in the securitised vehicles.*
4. *Other assets include settlement debtors where 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

R'million	Total credit and counterparty exposure	Assets that we deem to have no legal credit exposure	Note refer-ence	Total balance sheet
At 31 March 2016				
Cash and balances at central banks	7 801	–		7 801
Loans and advances to banks	26 779	–		26 779
Non-sovereign and non-bank cash placements	9 858	–		9 858
Reverse repurchase agreements and cash collateral on securities borrowed	38 912	–		38 912
Sovereign debt securities	41 325	–		41 325
Bank debt securities	13 968	–		13 968
Other debt securities	12 761	–		12 761
Derivative financial instruments	10 756	5 087		15 843
Securities arising from trading activities	539	453		992
Investment portfolio	–	6 360	1	6 360
Loans and advances to customers	208 182	(910)	2	207 272
Own originated loans and advances to customers securitised	7 973	(6)	2	7 967
Other loans and advances	398	(31)	2	367
Other securitised assets	–	115	3	115
Interest in associated undertakings	–	5 145	1	5 145
Deferred taxation assets	–	116		116
Other assets	2 169	1 487	4	3 656
Property and equipment	–	236		236
Investment properties	–	1		1
Goodwill	–	171		171
Intangible assets	–	524		524
Loans to group companies	–	11 811		11 811
Total on-balance sheet exposures	**381 421**	**30 559**		**411 980**

1. *Largely relates to exposures that are classified as investment risk in the banking book.*
2. *Largely relates to impairments.*
3. *Largely cash in the securitised vehicles.*
4. *Other assets include settlement debtors where we deem to have no credit risk exposure as they are settled on a delivery against payment basis.*

Detailed analysis of gross credit and counterparty exposures by industry

R'million	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
At 31 March 2017						
Cash and balances at central banks	–	–	–	–	8 353	–
Loans and advances to banks	–	–	–	–	–	–
Non-sovereign and non-bank cash placements	–	–	1	–	67	635
Reverse repurchase agreements and cash collateral on securities borrowed	586	–	–	–	–	164
Sovereign debt securities	–	–	–	–	47 822	–
Bank debt securities	–	–	–	–	–	–
Other debt securities	–	–	–	–	1 700	–
Derivative financial instruments	–	–	5	422	–	71
Securities arising from trading activities	–	–	–	1	320	–
Loans and advances to customers (gross)	107 447	40 546	2 895	5 364	5 900	8 523
Own originated loans and advances to customers securitised (gross)	7 782	–	–	–	–	–
Other loans and advances (gross)	–	–	–	–	–	–
Other assets	–	–	–	–	–	62
Total on-balance sheet exposures	**115 815**	**40 546**	**2 901**	**5 787**	**64 162**	**9 455**
Guarantees^	3 478	1 104	179	648	1 744	689
Contingent liabilities, committed facilities and other	31 165	6 132	301	2 137	609	559
Total off-balance sheet exposures	**34 643**	**7 236**	**480**	**2 785**	**2 353**	**1 248**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**150 458**	**47 782**	**3 381**	**8 572**	**66 515**	**10 703**
At 31 March 2016						
Cash and balances at central banks	–	–	–	–	7 801	–
Loans and advances to banks	–	–	–	–	–	–
Non-sovereign and non-bank cash placements	–	–	–	–	102	562
Reverse repurchase agreements and cash collateral on securities borrowed	623	–	–	–	–	151
Sovereign debt securities	–	–	–	–	41 325	–
Bank debt securities	–	–	–	–	–	–
Other debt securities	–	–	–	98	2 686	–
Derivative financial instruments	–	–	36	205	–	156
Securities arising from trading activities	–	–	–	7	330	–
Loans and advances to customers (gross)	93 596	41 077	2 256	4 809	6 377	8 908
Own originated loans and advances to customers securitised (gross)	7 973	–	–	–	–	–
Other loans and advances (gross)	–	–	–	–	–	–
Other assets	–	–	1	–	–	2
Total on-balance sheet exposures	**102 192**	**41 077**	**2 293**	**5 119**	**58 621**	**9 779**
Guarantees^	3 536	842	–	990	1 917	30
Contingent liabilities, committed facilities and other	24 845	2 265	432	814	309	782
Total off-balance sheet exposures	**28 381**	**3 107**	**432**	**1 804**	**2 226**	**812**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**130 573**	**44 184**	**2 725**	**6 923**	**60 847**	**10 591**

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

Finance and insurance	Retailers and whole-salers	Manufac-turing and commerce	Construc-tion	Corporate commer-cial real estate	Other residential mortgages	Mining and resources	Leisure, entertain-ment and tourism	Transport	Communi-cation	Total
–	–	–	–	–	–	–	–	–	–	8 353
31 937	–	–	–	–	–	–	–	–	–	31 937
2 130	1 561	2 504	247	201	–	758	–	553	336	8 993
25 051	–	785	–	–	–	–	–	–	41	26 627
–	–	–	–	–	–	–	–	–	–	47 822
7 758	–	–	–	–	–	–	–	–	–	7 758
3 162	–	1 555	–	708	–	2 383	–	–	2 437	11 945
5 065	128	123	3	323	–	138	37	14	35	6 364
–	38	–	–	–	–	–	33	–	71	463
17 640	2 814	11 457	3 953	5 760	–	3 249	1 512	4 010	5 803	226 873
–	–	–	–	–	–	–	–	–	–	7 782
–	–	–	–	–	336	–	–	–	–	336
673	1 470	236	268	–	–	–	40	–	8	2 757
93 416	**6 011**	**16 660**	**4 471**	**6 992**	**336**	**6 528**	**1 622**	**4 577**	**8 731**	**388 010**
3 769	989	985	94	86	–	1 702	125	64	94	15 750
2 984	1 810	858	538	303	–	3 088	68	1 117	420	52 089
6 753	**2 799**	**1 843**	**632**	**389**	**–**	**4 790**	**193**	**1 181**	**514**	**67 839**
100 169	**8 810**	**18 503**	**5 103**	**7 381**	**336**	**11 318**	**1 815**	**5 758**	**9 245**	**455 849**
–	–	–	–	–	–	–	–	–	–	7 801
26 779	–	–	–	–	–	–	–	–	–	26 779
3 337	1 781	1 469	211	–	–	1 581	–	312	503	9 858
37 389	–	675	–	–	–	–	–	74	–	38 912
–	–	–	–	–	–	–	–	–	–	41 325
13 968	–	–	–	–	–	–	–	–	–	13 968
3 137	–	658	–	–	–	2 509	–	–	3 673	12 761
8 876	252	203	–	676	–	159	21	83	89	10 756
83	–	16	–	–	–	–	–	103	–	539
11 977	2 378	10 128	3 424	6 251	–	4 682	1 819	4 071	6 429	208 182
–	–	–	–	–	–	–	–	–	–	7 973
–	–	–	–	–	398	–	–	–	–	398
484	1 556	92	3	–	–	–	20	–	11	2 169
106 030	**5 967**	**13 241**	**3 638**	**6 927**	**398**	**8 931**	**1 860**	**4 643**	**10 705**	**381 421**
8 168	62	136	–	11	–	1 822	–	65	188	17 767
5 924	1 664	1 142	222	100	–	4 514	3	2 208	935	46 159
14 092	**1 726**	**1 278**	**222**	**111**	**–**	**6 336**	**3**	**2 273**	**1 123**	**63 926**
120 122	**7 693**	**14 519**	**3 860**	**7 038**	**398**	**15 267**	**1 863**	**6 916**	**11 828**	**445 347**

Private client loans account for 66.4% of total gross core loans and advances, as represented by the industry classification 'high net worth and professional individuals and lending collateralised by property'

Summary analysis of gross credit and counterparty exposures by industry

A description of the type of private client lending and lending collateralised by property we undertake is provided on page 29, and a more detailed analysis of these loan portfolios are provided on pages 48 and 49.

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

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

A description of the type of corporate client lending we undertake is provided on pages 29 and 30, and a more detailed analysis of the corporate client loan portfolio is provided on pages 48 and 49.

An analysis of gross credit and counterparty exposures by industry

R'million At 31 March	Gross core loans and advances 2017	2016	Other credit and counterparty exposures 2017	2016	Total 2017	2016
High net worth and professional individuals	115 229	101 569	35 229	29 004	150 458	130 573
Lending collateralised by property – largely to private clients	40 546	41 077	7 236	3 107	47 782	44 184
Agriculture	2 895	2 256	486	469	3 381	2 725
Electricity, gas and water (utility services)	5 364	4 809	3 208	2 114	8 572	6 923
Public and non–business services	5 900	6 377	60 615	54 470	66 515	60 847
Business services	8 523	8 908	2 180	1 683	10 703	10 591
Finance and insurance	17 640	11 977	82 529	108 145	100 169	120 122
Retailers and wholesalers	2 814	2 378	5 996	5 315	8 810	7 693
Manufacturing and commerce	11 457	10 128	7 046	4 391	18 503	14 519
Construction	3 953	3 424	1 150	436	5 103	3 860
Corporate commercial real estate	5 760	6 251	1 621	787	7 381	7 038
Other residential mortgages	–	–	336	398	336	398
Mining and resources	3 249	4 682	8 069	10 585	11 318	15 267
Leisure, entertainment and tourism	1 512	1 819	303	44	1 815	1 863
Transport	4 010	4 071	1 748	2 845	5 758	6 916
Communication	5 803	6 429	3 442	5 399	9 245	11 828
Total	**234 655**	**216 155**	**221 194**	**229 192**	**455 849**	**445 347**

Gross credit counterparty exposures by residual contractual maturity at 31 March 2017

R'million	Up to three months	Three to six months	Six months to one year	One to five years	Five to 10 years	> 10 years	Total
Cash and balances at central banks	8 353	–	–	–	–	–	8 353
Loans and advances to banks	30 266	36	201	1 421	13	–	31 937
Non-sovereign and non-bank cash placements	8 993	–	–	–	–	–	8 993
Reverse repurchase agreements and cash collateral on securities borrowed	21 519	204	425	3 676	803	–	26 627
Sovereign debt securities	10 884	12 230	6 767	7 793	3 348	6 800	47 822
Bank debt securities	301	–	865	4 030	2 462	100	7 758
Other debt securities	299	825	200	4 641	4 168	1 812	11 945
Derivative financial instruments	1 992	507	419	3 209	218	19	6 364
Securities arising from trading activities	72	4	3	384	–	–	463
Loans and advances to customers (gross)	20 699	7 958	14 338	117 001	18 622	48 255	226 873
Own originated loans and advances to customers securitised (gross)	–	3	1	38	439	7 301	7 782
Other loans and advances (gross)	–	–	–	336	–	–	336
Other assets	2 757	–	–	–	–	–	2 757
Total on-balance sheet exposures	**106 135**	**21 767**	**23 219**	**142 529**	**30 073**	**64 287**	**388 010**
Guarantees^	3 513	909	783	9 055	493	997	15 750
Contingent liabilities, committed facilities and other	12 958	2 069	3 081	14 939	2 611	16 431	52 089
Total off-balance sheet exposures	**16 471**	**2 978**	**3 864**	**23 994**	**3 104**	**17 428**	**67 839**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**122 606**	**24 745**	**27 083**	**166 523**	**33 177**	**81 715**	**455 849**

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

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

Core loans and advances comprise:

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

R'million At 31 March	2017	2016
Loans and advances to customers as per the balance sheet	225 669	207 272
Add: own originated loans and advances to customers securitised as per the balance sheet	7 776	7 967
Net core loans and advances to customers	**233 445**	**215 239**

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

An overview of developments during the financial year is provided on page 34.

R'million At 31 March	2017	2016
Gross core loans and advances to customers	**234 655**	**216 155**
Total impairments	**(1 210)**	**(916)**
Specific impairments	(884)	(681)
Portfolio impairments	(326)	(235)
Net core loans and advances to customers	**233 445**	**215 239**
Average gross core loans and advances to customers	**225 405**	**197 412**
Current loans and advances to customers	230 131	211 807
Past due loans and advances to customers (1 – 60 days)	670	726
Special mention loans and advances to customers	242	415
Default loans and advances to customers	3 612	3 207
Gross core loans and advances to customers	**234 655**	**216 155**
Current loans and advances to customers	230 131	211 807
Default loans that are current and not impaired	132	867
Gross core loans and advances to customers that are past due but not impaired	1 927	1 653
Gross core loans and advances to customers that are impaired	2 465	1 828
Gross core loans and advances to customers	**234 655**	**216 155**
Total income statement charge for impairments on core loans and advances	**(659)**	**(523)**
Gross default loans and advances to customers	3 612	3 207
Specific impairments	(884)	(681)
Portfolio impairments	(326)	(235)
Defaults net of impairments	**2 402**	**2 291**
Aggregate collateral and other credit enhancements on defaults	4 339	3 690
Net default loans and advances to customers (limited to zero)	**–**	**–**
Ratios		
Total impairments as a % of gross core loans and advances to customers	0.52%	0.42%
Total impairments as a % of gross default loans	33.50%	28.56%
Gross defaults as a % of gross core loans and advances to customers	1.54%	1.48%
Defaults (net of impairments) as a % of net core loans and advances to customers	1.03%	1.06%
Net defaults as a % of net core loans and advances to customers	–	–
Credit loss ratio (i.e. income statement impairment charge as a % of average gross loans and advances)	0.29%	0.26%

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

R'million At 31 March	2017	2016
Default loans that are current	1 254	1 921
1 – 60 days	1 470	1 273
61 – 90 days	182	94
91 – 180 days	473	301
181 – 365 days	717	110
> 365 days	428	649
Past due and default core loans and advances to customers (actual capital exposure)	**4 524**	**4 348**
1 – 60 days	256	258
61 – 90 days	23	12
91 – 180 days	66	125
181 – 365 days	476	30
> 365 days	177	337
Past due and default core loans and advances to customers (actual amount in arrears)	**998**	**762**

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

R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
At 31 March 2017							
Watchlist loans neither past due nor impaired							
Total capital exposure	132	–	–	–	–	–	132
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	1 113	150	121	460	83	1 927
Amount in arrears	–	205	18	27	439	53	742
Gross core loans and advances to customers that are impaired							
Total capital exposure	1 122	357	32	352	257	345	2 465
Amount in arrears	–	51	5	39	37	124	256
At 31 March 2016							
Watchlist loans neither past due nor impaired							
Total capital exposure	867	–	–	–	–	–	867
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	1 117	70	213	68	185	1 653
Amount in arrears	–	254	6	104	14	140	518
Gross core loans and advances to customers that are impaired							
Total capital exposure	1 054	156	24	88	42	464	1 828
Amount in arrears	–	4	6	21	16	197	244

An age analysis of past due and default core loans and advances to customers at 31 March 2017 (based on total capital exposure)

R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	**–**	**670**	**–**	**–**	**–**	**–**	**670**
Special mention	**–**	**151**	**87**	**1**	**–**	**3**	**242**
Special mention (1 – 90 days)	–	151	–	1*	–	3*	155
Special mention (61 – 90 days and item well secured)	–	–	87	–	–	–	87
Default	**1 254**	**649**	**95**	**472**	**717**	**425**	**3 612**
Sub-standard	132	292	63	120	460	80	1 147
Doubtful	1 122	357	32	352	257	345	2 465
Total	**1 254**	**1 470**	**182**	**473**	**717**	**428**	**4 524**

An age analysis of past due and default core loans and advances to customers at 31 March 2017 (based on actual amount in arrears)

R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	**–**	**140**	**–**	**–**	**–**	**–**	**140**
Special mention	**–**	**8**	**13**	**–**	**–**	**–**	**21**
Special mention (1 – 90 days)	–	8	–	–	–	–	8
Special mention (61 – 90 days and item well secured)	–	–	13	–	–	–	13
Default	**–**	**108**	**10**	**66**	**476**	**177**	**837**
Sub-standard	–	57	5	27	439	53	581
Doubtful	–	51	5	39	37	124	256
Total	**–**	**256**	**23**	**66**	**476**	**177**	**998**

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

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

R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	**–**	**726**	**–**	**–**	**–**	**–**	**726**
Special mention	**–**	**323**	**64**	**14**	**10**	**4**	**415**
Special mention (1 – 90 days)	–	323	9	14*	10*	4*	360
Special mention (61 – 90 days and item well secured)	–	–	55	–	–	–	55
Default	**1 921**	**224**	**30**	**287**	**100**	**645**	**3 207**
Sub-standard	868	66	6	200	58	181	1 379
Doubtful	1 053	158	24	87	42	464	1 828
Total	**1 921**	**1 273**	**94**	**301**	**110**	**649**	**4 348**

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

R'million	Current watchlist loans	1 – 60 days	61 – 90 days	91 – 180 days	181 – 365 days	> 365 days	Total
Past due (1 – 60 days)	**–**	**59**	**–**	**–**	**–**	**–**	**59**
Special mention	**–**	**157**	**5**	**1**	**1**	**1**	**165**
Special mention (1 – 90 days)	–	157	–	1*	1*	1*	160
Special mention (61 – 90 days and item well secured)	–	–	5	–	–	–	5
Default	**–**	**42**	**7**	**124**	**29**	**336**	**538**
Sub-standard	–	38	–	103	13	139	293
Doubtful	–	4	7	21	16	197	245
Total	**–**	**258**	**12**	**125**	**30**	**337**	**762**

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

An analysis of core loans and advances to customers

R'million	Gross core loans and advances 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 2017								
Current core loans and advances	**230 131**	**–**	**–**	**230 131**	**–**	**(319)**	**229 812**	**–**
Past due (1 – 60 days)	**–**	**670**	**–**	**670**	**–**	**(2)**	**668**	**140**
Special mention	**–**	**242**	**–**	**242**	**–**	**(1)**	**241**	**21**
Special mention (1 – 90 days)	–	155	–	155	–	(1)	154	8
Special mention (61 – 90 days and item well secured)	–	87	–	87	–	–	87	13
Default	**132**	**1 015**	**2 465**	**3 612**	**(884)**	**(4)**	**2 724**	**837**
Sub-standard	132	1 015	–	1 147	–	(4)	1 143	581
Doubtful	–	–	2 465	2 465	(884)	–	1 581	256
Total	**230 263**	**1 927**	**2 465**	**234 655**	**(884)**	**(326)**	**233 445**	**998**
At 31 March 2016								
Current core loans and advances	**211 807**	**–**	**–**	**211 807**	**–**	**(231)**	**211 576**	**–**
Past due (1 – 60 days)	**–**	**726**	**–**	**726**	**–**	**(3)**	**723**	**59**
Special mention	**–**	**415**	**–**	**415**	**–**	**(1)**	**414**	**165**
Special mention (1 – 90 days)	–	360	–	360	–	(1)	359	160
Special mention (61 – 90 days and item well secured)	–	55	–	55	–	–	55	5
Default	**867**	**512**	**1 828**	**3 207**	**(681)**	**–**	**2 526**	**538**
Sub-standard	867	512	–	1 379	–	–	1 379	293
Doubtful	–	–	1 828	1 828	(681)	–	1 147	245
Total	**212 674**	**1 653**	**1 828**	**216 155**	**(681)**	**(235)**	**215 239**	**762**

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

R'million	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 2017						
Current core loans and advances	**152 507**	**48 581**	**17 604**	**5 765**	**5 674**	**230 131**
Past due (1 – 60 days)	**600**	**7**	**–**	**–**	**63**	**670**
Special mention	**158**	**79**	**–**	**–**	**5**	**242**
Special mention (1 – 90 days)	76	79	–	–	–	155
Special mention (61 – 90 days and item well secured)	82	–	–	–	5	87
Default	**2 510**	**755**	**36**	**135**	**176**	**3 612**
Sub-standard	995	114	36	–	2	1 147
Doubtful	1 515	641	–	135	174	2 465
Total gross core loans and advances to customers	**155 775**	**49 422**	**17 640**	**5 900**	**5 918**	**234 655**
Total impairments	**(581)**	**(401)**	**(18)**	**(62)**	**(148)**	**(1 210)**
Specific impairments	(360)	(316)	–	(60)	(148)	(884)
Portfolio impairments	(221)	(85)	(18)	(2)	–	(326)
Net core loans and advances to customers	**155 194**	**49 021**	**17 622**	**5 838**	**5 770**	**233 445**
At 31 March 2016						
Current core loans and advances	**139 227**	**49 350**	**11 925**	**6 363**	**4 942**	**211 807**
Past due (1 – 60 days)	**546**	**100**	**–**	**–**	**80**	**726**
Special mention	**402**	**–**	**–**	**–**	**13**	**415**
Special mention (1 – 90 days)	360	–	–	–	–	360
Special mention (61 – 90 days and item well secured)	42	–	–	–	13	55
Default	**2 471**	**505**	**52**	**14**	**165**	**3 207**
Sub-standard	1 310	–	52	14	3	1 379
Doubtful	1 161	505	–	–	162	1 828
Total gross core loans and advances to customers	**142 646**	**49 955**	**11 977**	**6 377**	**5 200**	**216 155**
Total impairments	**(495)**	**(270)**	**(4)**	**(4)**	**(143)**	**(916)**
Specific impairments	(306)	(232)	–	–	(143)	(681)
Portfolio impairments	(189)	(38)	(4)	(4)	–	(235)
Net core loans and advances to customers	**142 151**	**49 685**	**11 973**	**6 373**	**5 057**	**215 239**

An analysis of core loans and advances by risk category at 31 March 2017

R'million	Gross core loans	Gross defaults	Aggregate collateral and other credit enhance-ments on defaults	Balance sheet impairments	Income statement impairments^
Lending collateralised by property	**40 546**	**990**	**1 158**	**(214)**	**(93)**
Commercial real estate	**36 526**	**615**	**781**	**(151)**	**(53)**
Commercial real estate – investment	33 654	546	653	(133)	(74)
Commercial real estate – development	1 868	–	1	–	11
Commercial vacant land and planning	1 004	69	127	(18)	10
Residential real estate	**4 020**	**375**	**377**	**(63)**	**(40)**
Residential real estate – development	2 661	310	313	(42)	(42)
Residential vacant land and planning	1 359	65	64	(21)	2
High net worth and other private client lending	**115 229**	**1 520**	**2 227**	**(146)**	**(282)**
Mortgages	60 493	723	994	(60)	(22)
High net worth and specialised lending	54 736	797	1 233	(86)	(260)
Corporate and other lending	**78 880**	**1 102**	**954**	**(524)**	**(182)**
Acquisition finance	13 357	582	534	(132)	(55)
Asset-based lending	5 936	176	285	(148)	(41)
Fund finance	5 548	–	–	–	4
Other corporate and financial institutions and governments	43 866	139	135	(72)	(32)
Asset finance	2 697	26	–	–	(9)
Small ticket asset finance	2 142	–	–	–	(9)
Large ticket asset finance	555	26	–	–	–
Project finance	6 414	–	–	–	1
Resource finance	1 062	179	–	(172)	(50)
Portfolio impairments	**–**	**–**	**–**	**(326)**	**(102)**
Total	**234 655**	**3 612**	**4 339**	**(1 210)**	**(659)**

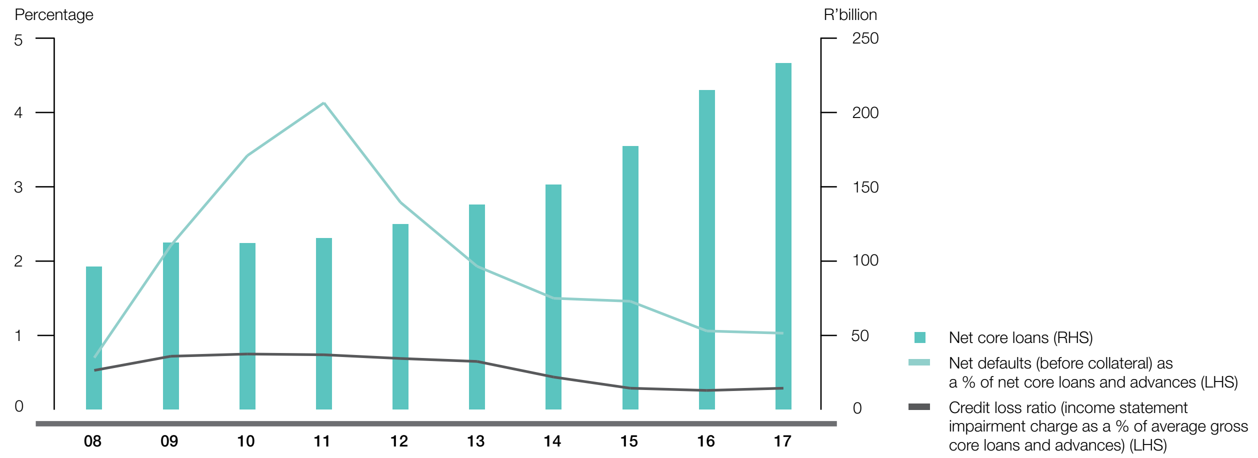
^ *Where a positive number represents a recovery.*

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

R'million	Gross core loans	Gross defaults	Aggregate collateral and other credit enhancements on defaults	Balance sheet impairments	Income statement impairments^
Lending collateralised by property	**41 077**	**971**	**1 156**	**(135)**	**(85)**
Commercial real estate	**37 677**	**501**	**666**	**(93)**	**(91)**
Commercial real estate – investment	34 179	366	482	(63)	(68)
Commercial real estate – development	2 385	31	24	(10)	–
Commercial vacant land and planning	1 113	104	160	(20)	(23)
Residential real estate	**3 400**	**470**	**490**	**(42)**	**6**
Residential real estate – development	1 668	194	217	(2)	(61)
Residential vacant land and planning	1 732	276	273	(40)	67
High net worth and other private client lending	**101 569**	**1 500**	**2 167**	**(171)**	**(222)**
Mortgages	54 493	495	839	(40)	(33)
High net worth and specialised lending	47 076	1 005	1 328	(131)	(189)
Corporate and other lending	**73 509**	**736**	**367**	**(375)**	**(147)**
Acquisition finance	14 664	329	286	(70)	(69)
Asset-based lending	5 211	165	56	(143)	(51)
Fund finance	3 668	–	–	–	–
Other corporate and financial institutions and governments	38 141	26	25	(13)	–
Asset finance	4 081	–	–	–	–
Small ticket asset finance	1 421	–	–	–	–
Large ticket asset finance	2 660	–	–	–	–
Project finance	6 424	–	–	–	123
Resource finance	1 320	216	–	(149)	(150)
Portfolio impairments	**–**	**–**	**–**	**(235)**	**(69)**
Total	**216 155**	**3 207**	**3 690**	**(916)**	**(523)**

^ *Where a positive number represents a recovery.*

Asset quality trends



Collateral

A summary of total collateral is provided in the table below

R'million	Collateral held against: Core loans and advances	Collateral held against: Other credit and counterparty exposures*	Total
At 31 March 2017			
Eligible financial collateral	**42 823**	**25 020**	**67 843**
Listed shares	41 271	15 674	56 945
Cash	1 552	14	1 566
Debt securities issued by sovereigns	–	9 332	9 332
Property charge	**326 783**	**586**	**327 369**
Residential property	169 842	436	170 278
Commercial property developments	14 055	150	14 205
Commercial property investments	142 886	–	142 886
Other collateral	**66 497**	**854**	**67 351**
Unlisted shares	7 553	22	7 575
Charges other than property	14 435	–	14 435
Debtors, stock and other corporate assets	6 117	–	6 117
Guarantees	26 148	–	26 148
Other	12 244	832	13 076
Total collateral	**436 103**	**26 460**	**462 563**
At 31 March 2016			
Eligible financial collateral	**33 841**	**24 555**	**58 396**
Listed shares	32 862	7 905	40 767
Cash	979	22	1 001
Debt securities issued by sovereigns	–	16 628	16 628
Property charge	**281 274**	**587**	**281 861**
Residential property	141 202	482	141 684
Commercial property developments	12 078	105	12 183
Commercial property investments	127 994	–	127 994
Other collateral	**54 733**	**1 354**	**56 087**
Unlisted shares	8 093	–	8 093
Charges other than property	10 940	–	10 940
Debtors, stock and other corporate assets	5 703	–	5 703
Guarantees	20 737	35	20 772
Other	9 260	1 319	10 579
Total collateral	**369 848**	**26 496**	**396 344**

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

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 the opportunity to stimulate corporate activity. Investec Bank Limited holds a 45% stake alongside other strategic investors who hold the remaining 55% in the IEP Group. The investment in the IEP Group is reflected as an investment in an associate. We continue to pursue opportunities to help create and grow black-owned and controlled companies
- **Lending transactions:** The manner in which we structure certain transactions results in equity, warrant and profit shares being held, predominantly within unlisted companies
- **Property activities:** We source development, investment and trading opportunities to create value and trade for profit within agreed risk parameters
- **Central Funding:** Central Funding is the custodian of certain equity and property investments.

Management of investment risk

As investment risk arises from a variety of activities conducted by the group, the monitoring and measurement thereof varies across transactions and/or type of activity. Independent credit and investment committees exist in each geography where we assume investment risk.

Nature of investment risk	Management of risk
Listed equities	Investment committee, market risk management, BRCC and GRCC
Investment Banking principal investments	Investment committee, BRCC and GRCC
Embedded derivatives, profit shares and investments arising from lending transactions	Credit risk management committees, BRCC and GRCC
Investment and trading properties	Investment committee, Investec Property group investment committee in South Africa, BRCC and GRCC
The IEP Group	A number of our executive are on the board of the IEP Group, BRCC and GRCC
Central Funding investments	Investment committee, BRCC and GRCC

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 BRCC and GRCC. As a matter of course, concentration risk is avoided and investments are well spread across geographies and industries.

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

For the year to 31 March R'million	Income/(loss) (pre-funding costs) Unrealised**	Realised**	Dividends	Other	Total	Fair value through equity
2017						
Unlisted investments	(126)	100	243	–	217	(2)
Listed equities	(117)	(9)	223	–	97	(47)
Investment and trading properties	(208)	29	–	–	(179)	–
Warrants, profit shares and other embedded derivatives	(18)	263	–	–	245	–
The IEP Group	–	–	–	303	303	–
Total	**(469)**	**383**	**466**	**303**	**683**	**(49)**
2016						
Unlisted investments	(2 699)	3 597	185	–	1 083	(2)
Listed equities	91	(2)	200	–	289	207
Investments and trading properties	(60)	75	–	–	15	–
Warrants, profit shares and other embedded derivatives	(56)	274	–	–	218	–
Total	**(2 724)**	**3 944**	**385**	**–**	**1 605**	**205**

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

All realised and unrealised gains and losses are included in the capital base.

Summary of investments held and stress testing analyses

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

R'million	On-balance sheet value of investments 2017	Valuation change stress test 2017*	On-balance sheet value of investments 2016	Valuation change stress test 2016*
Unlisted investments^	3 573	536	2 803	420
Listed equities^	4 087	1 022	3 557	889
Investment and trading properties	294	59	177	35
Warrants, profit shares and other embedded derivatives	221	77	237	83
The IEP group^^	5 413	812	5 086	763
Total	**13 588**	**2 506**	**11 860**	**2 190**

^ *Includes the investment portfolio and non-current assets classified as held for sale as per the balance sheet.*
^^ *As explained on page 51.*
* *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 and the IEP Group	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 2017, as reflected above, we could have a R2.5 billion reversal in revenue (which assumes a year in which there is a 'severe stress scenario' simultaneously across all asset classes). This would not cause the group to report a loss, but could have a significantly negative impact on earnings for that period. The probability of all these asset classes 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 Basel III capital requirements for Investec Bank Limited, unlisted and listed equities within the banking book are represented under the category of 'equity risk' and investment properties, profit shares and embedded derivatives are considered in the calculation of capital required for credit risk.

Refer to page 80 for further detail.

Valuation and accounting methodologies

For a description of our valuation principles and methodologies refer to pages 146 and 162 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 0.77% of total assets (excluding assurance assets).

Refer to page 154 for further information.

Additional information

An analysis of the investment portfolio, warrants, profit shares and other embedded derivatives by industry of exposure (excluding investment and trading properties and the IEP group)

31 March 2017
R7 881 million

Real estate	47.4%
Mining and resources	17.1%
Manufacturing and commerce	13.9%
Communication	8.3%
Finance and insurance	5.8%
Other	4.9%
Electricity, gas and water (Utility services)	2.6%

Securitisation/ structured credit activities exposures

Overview

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

Refer to page 36 for the balance sheet and credit risk classification.

Investec Bank Limited engages in transactions that involve the use of both special purpose entities and asset securitisation structures. Securitisation represents a relatively modest proportion of our current funding profile, but provides additional flexibility and a source of liquidity. Investec Bank Limited does not depend on special purpose vehicles for funding in its normal course of business. These entities form part of the consolidated group balance sheet as reported.

We have securitised assets originated by our Private Client business. The primary motivations for the securitisation of these assets are to:

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

Total assets that have been originated and securitised by the Private Client division amount to R7.8 billion at 31 March 2017 (31 March 2016: R8.0 billion) and consist of residential mortgages (R7.8 billion). Within these securitisation vehicles loans greater than 90 days in arrears amounted to R11.9 million.

Further details of the various securitisation vehicles are highlighted below:

- Fox Street 2: R0.9 billion notes of the original R1.5 billion are still in issue. R247 million of the notes are held internally
- Fox Street 3: R1.4 billion notes of the original R2.0 billion are still in issue. All notes are held internally
- Fox Street 4: R2.6 billion notes of the original R3.7 billion are still in issue. All notes are held internally
- Fox Street 5: R2.6 billion notes of the original R2.9 billion are still in issue. All notes are held internally.

There is a clean-up call option than can be exercised at 10% of original notes issued. The margin on the notes increases at pre-specified intervals and coincides with the originator call option dates.

We have also sought out select opportunities in the credit/debt markets and traded in and purchased structured credit. These have largely been rated UK and European residential mortgage-backed securities (RMBS), totalling R0.9 billion at 31 March 2017 (31 March 2016: R0.8 billion) and unrated South African RMBS, totalling R0.9 billion at 31 March 2017 (31 March 2016: nil).

We determine regulatory capital requirements for securitised credit exposures based on specific regulatory rule sets which, at maximum, carry a risk weight of 1 250%. This is capped to the capital requirement had the bank been exposed to the entire portfolio. The group has no resecuritisation exposures.

Accounting policies

Refer to page 127 and 128.

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

In addition, securitisations of Investec own originated assets are assessed in terms of the credit risk management philosophies and principles as set out on page 22.

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.

Assets that have been securitised by our Private Client division are reflected as part of our core lending exposures and not our securitisation/structured credit exposures as we believe this reflects the true nature and intent of these exposures and activities.

Securitisation/structured credit activities exposures

At 31 March Nature of exposure/activity	Exposure 2017 R'million	Exposure 2016 R'million	Balance sheet and credit risk classification	Asset quality – relevant comments
Structured credit (gross exposure)*	1 812	772	Other debt securities	
Rated	863	772		
Unrated	949	–		
Loans and advances to customers and third party intermediary platforms (mortgage loans)) (net exposure)	310	367	Other loans and advances	
Private Client division assets – which have been securitised	7 782	7 973	Own originated loans and advances to customers securitised	Analysed as part of the group's overall asset quality on core loans and advances
Liquidity facilities provided to third party corporate securitisation vehicles	–	15	Off-balance sheet credit exposure as these facilities were undrawn and reflected a contingent liability on the bank	

* Analysis of rated and unrated structured credit

At 31 March R'million	2017 Rated**	2017 Unrated	2017 Total	2016 Rated**	2016 Unrated	2016 Total
UK and European RMBS	773	–	773	646	–	646
Australian RMBS	90	–	90	126	–	126
South African RMBS	–	949	949	–	–	–
Total	**863**	**949**	**1 812**	**772**	**–**	**772**

** A further analysis of rated structured credit investments

R'million	AAA	AA	A	BBB	BB	B	C and below	Total
UK and European RMBS	72	301	253	–	147	–	–	773
Australian RMBS	–	90	–	–	–	–	–	90
Total at 31 March 2017	**72**	**391**	**253**	**–**	**147**	**–**	**–**	**863**
Total at 31 March 2016	**–**	**126**	**458**	**–**	**–**	**188**	**–**	**772**

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 RERRF 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 shortfall (ES) 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. ESs 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. Scenario analysis is done at least once a week and is included in the data presented to RERRF.

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.

We have internal model approval from the SARB for general market risk for all trading desks with the exception of credit trading and therefore trading capital is calculated as a function of the 99% 10-day VaR as well as the 99% 10-day sVaR together with standardised specific risk capital for issuer risk. Backtesting results and a detailed stress-testing pack are submitted to the regulator on a monthly basis.

The table on the following page 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.

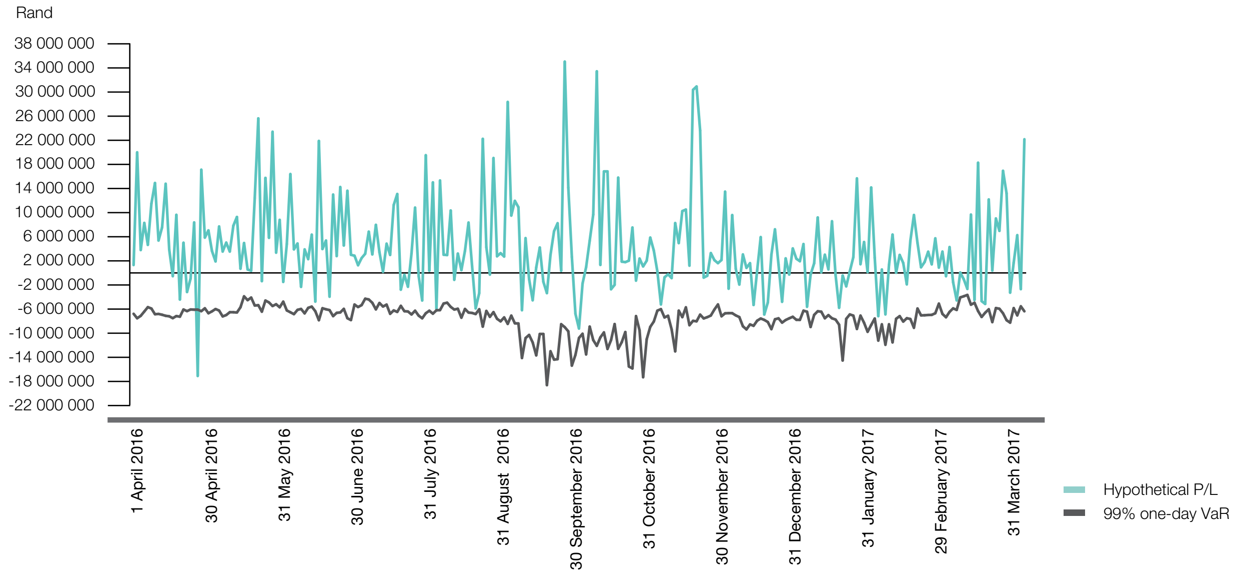
VaR

	31 March 2017				31 March 2016			
R'million	**Year end**	**Average**	**High**	**Low**	**Year end**	**Average**	**High**	**Low**
95% (one-day)								
Commodities	0.1	0.1	0.5	–	0.1	0.1	0.2	–
Equities	1.6	2.5	7.8	1.2	2.1	2.1	4.5	1.2
Foreign exchange	3.7	1.7	5.3	0.9	3.0	2.6	6.4	1.2
Interest rates	0.8	1.6	3.2	0.6	1.1	1.2	3.0	0.5
Consolidated*	**4.1**	**3.4**	**9.1**	**1.5**	**4.2**	**3.8**	**8.4**	**2.0**

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

Average VaR for the year ended March 2017 in the South African trading book was slightly lower than the previous year primarily due to a decrease in VaR utilisation on the foreign exchange desk over the year. The trading desks have made prudent use of their risk limits for the year, keeping overnight exposures to a minimum. Using hypothetical (clean) profit and loss data for backtesting resulted in one exception (as shown in the graph below), which is below the expected number of two to three exceptions that a 99% VaR implies. The exception was due to normal trading losses.

99% one-day VaR backtesting



Expected shortfall

The table below contains the 95% one-day expected shortfall (ES) figures. The 95% one-day ES is the average loss given that the 95% one-day VaR level has been exceeded.

R'million For the year to 31 March	2017	2016
Commodities	0.1	0.2
Equities	3.5	5.0
Foreign exchange	4.6	4.5
Interest rates	1.5	1.8
Consolidated*	**5.3**	**7.6**

* The consolidated ES for each desk is lower than the sum of the individual ESs. 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 modelling the tail of the distribution using a parametric form suitable for extreme moves. In South Africa, average EVT numbers for the year were higher than the previous year due to increased volatility observed during the year.

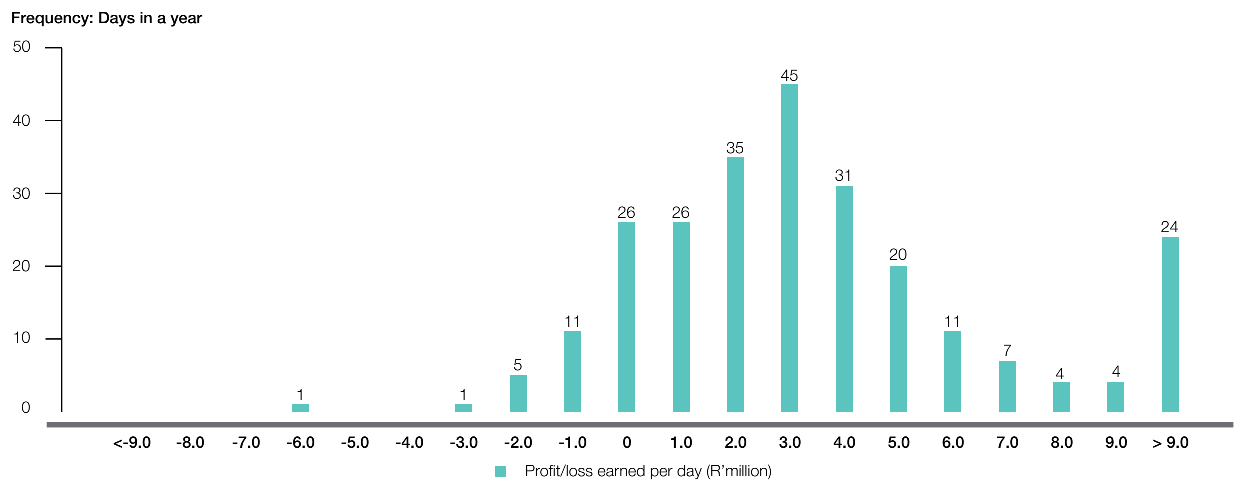
	31 March 2017				31 March 2016
R'million	Year end	Average	High	Low	Year end
99% (using 99% EVT)					
Commodities	0.2	0.3	2.2	0.1	0.4
Equities	24.9	29.3	71.7	16.4	30.9
Foreign exchange	8.1	7.3	22.5	3.3	11.7
Interest rates	7.7	11.2	22.3	3.7	7.6
Consolidated**	**15.7**	**32.9**	**74.4**	**13.2**	**39.3**

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

Profit and loss histograms

The histogram below illustrates the distribution of daily revenue during the financial year for our trading businesses. The distribution is skewed to the profit side and the graph shows that positive trading revenue was realised on 207 days out of a total of 251 days in the trading business. The average daily trading revenue generated for the year to 31 March 2017 was R3.3 million (2016: R2.1 million).

Profit and loss



Traded market risk mitigation

The market risk management team has a reporting line that is separate from the trading function, thereby ensuring independent oversight. The risk management software 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 ES. 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 on at least a monthly basis. Stressed VaR is calculated in the same way based on a one-year historical period of extreme volatility. The current sVaR period used is mid-2008 to mid-2009, which relates to high levels of volatility experienced during the financial crisis in all markets in which the business holds trading positions.

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.

Risk software is fully integrated with trading systems, while independence is maintained through independent validation of all models and market data used for valuation.

Traded market risk year in review

Trading conditions have been volatile. The increased volatility has also been impacted by unusual local factors, in particular, political policy uncertainty. The trading desks have benefited from this volatility. All trading areas have kept market risk exposures at low levels throughout the year, with minimal overnight risk taken.

Market risk – derivatives

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

Information showing our derivative trading portfolio over the reporting period on the basis of the notional principal and the fair value of all derivatives can be found on pages 170 and 171.

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, encumbrance and non-trading interest rate risk.

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 risk and non-trading 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 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 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 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) 'International framework for liquidity risk measurement, standards and monitoring' and is compliant with the 'principles for sound liquidity risk management and supervision' as well as 'principles for management and supervision 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.

The group operates an industry-recognised third party risk modelling system in addition to custom-built management information systems designed to measure 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.

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, RERRF, GRCC, BRCC as well as board summarised reports for board meetings.

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

Liquidity risk

Liquidity risk description

Liquidity risk refers to the possibility 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: this 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: this 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
- Our liquidity management processes encompass principles set out by the regulatory authorities in each jurisdiction, namely the SARB and BOM
- 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
- 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
- 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 maintenance of sustainable prudent liquidity resources takes precedence over profitability
- 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 scenarios 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
- 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. Customer deposits have continued to grow during the year and our customers display a strong 'stickiness' and willingness to reinvest in our suite of savings, 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.

We hold a liquidity buffer in the form of cash, unencumbered 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 2016 to 31 March 2017 average cash and near cash balances over the period amounted to R125 billion.

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 both 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
- supplementary information requirements required to manage liquidity during such an event.

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

Asset encumbrance

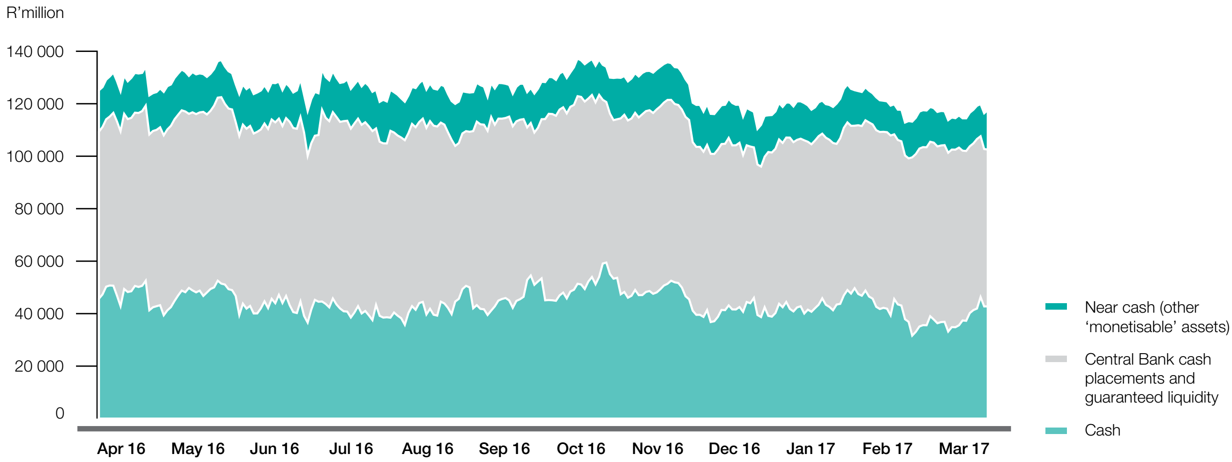
An asset is defined as encumbered if it has been pledged as collateral against an existing liability and, as a result, is no longer available to the group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. An asset is therefore categorised as unencumbered if it has not been pledged against an existing liability.

The bank 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.

The bank 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 167. Related liabilities are also reported.

On page 167 we disclose further details of assets that have been received as collateral under reverse repurchase agreements and securities borrowing transactions where the assets are allowed to be resold or pledged.

Cash and near cash trend



An analysis of cash and near cash at 31 March 2017

R117 586 million

Cash	36.4%
Central Bank cash placements and guaranteed liquidity	50.8%
Near cash (other 'monetisable' assets)	12.8%

Bank and non-bank depositor concentration by type at 31 March 2017

R335 775 million

Other financials	42.5%
Non-financial corporates	19.2%
Individuals	17.0%
Banks	9.6%
Public sector	5.9%
Small business	5.8%

The liquidity position of the bank remained sound with total cash and near cash balances amounting to R118 billion

Liquidity mismatch

The table that follows show our contractual liquidity mismatch across our business.

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

The tables reflect that loans and advances to customers are 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 the assets in the liquidity buffer is of little consequence, as practically the bank 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 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 undefined 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 2017

R'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	> Five years	Total
Cash and short-term funds – banks	34 328	2 623	1 736	–	201	1 402	–	40 290
Cash and short-term funds – non-banks	8 855	3	115	20	–	–	–	8 993
Investment/trading assets and statutory liquids	44 517	15 756	5 146	2 005	1 134	19 423	29 855	117 836
Securitised assets	59	8	42	81	141	1 409	6 136	7 876
Advances	5 709	7 776	9 670	12 970	19 788	113 265	56 801	225 979
Other assets	2 982	7 481	367	–	747	648	6 546	18 771
Assets	**96 450**	**33 647**	**17 076**	**15 076**	**22 011**	**136 147**	**99 338**	**419 745**
Deposits – banks	(1 987)	–	(1 437)	(5 261)	(2 354)	(21 339)	–	(32 378)
Deposits – non-banks	(140 303)^	(27 784)	(52 396)	(26 298)	(26 671)	(27 750)	(2 195)	(303 397)
Negotiable paper	(15)	(15)	(48)	(220)	(4 406)	(1 119)	–	(5 823)
Securitised liabilities	–	–	–	–	–	–	(673)	(673)
Investment/trading liabilities	(908)	(1 069)	(756)	(2 201)	(3 471)	(13 190)	(453)	(22 048)
Subordinated liabilities	(638)	–	–	–	–	(3 923)	(8 619)	(13 180)
Other liabilities	(987)	(78)	(49)	(376)	(128)	(95)	(5 368)	(7 081)
Liabilities	**(144 838)**	**(28 946)**	**(54 686)**	**(34 356)**	**(37 030)**	**(67 416)**	**(17 308)**	**(384 580)**
Shareholders' funds	**–**	**–**	**–**	**–**	**–**	**–**	**(35 165)**	**(35 165)**
Contractual liquidity gap	**(48 388)**	**4 701**	**(37 610)**	**(19 280)**	**(15 019)**	**68 731**	**46 865**	**–**
Cumulative liquidity gap	(48 388)	(43 687)	(81 297)	(100 577)	(115 596)	(46 865)	–	–

^ *Includes call deposits of R132 billion and the balance reflects term deposits which have finally reached/are reaching contractual maturity.*

Behavioural liquidity

As discussed on page 63.

R'million	Demand	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	> Five years	Total
Behavioural liquidity gap	**48 205**	**11 669**	**2 960**	**(7 671)**	**(8 324)**	**(148 290)**	**101 451**	**–**
Cumulative	48 205	59 874	62 834	55 163	46 839	(101 451)	–	–

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

Balance sheet risk year in review

- Investec maintained 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.

During the past financial year the liquidity risk profile of the balance sheet has improved. Investec grew its total customer deposits by 8.5% from R280 billion to R303 billion at 31 March 2017. Our Private Bank and Cash Investments fund raising channels grew deposits by 13% to R124 billion over the financial year. Over the same period the wholesale channels remained flat at R179 billion. This included several successful senior unsecured bond issues totalling R4.6 billion. As a result Investec decreased its reliance on wholesale funding from 60.7% to 59.1% over the financial year.

The impact on our liquidity ratios was positive. The three month average LCR for Investec Bank solo increased from 117.3% to 130.0% which is well above the minimum level of 80% required. By January 2019 the LCR minimum requirement moves to 100% and we remain confident of our ability to comfortably exceed this requirement whilst continuing to meet planned asset growth targets. The NSFR will also have to exceed 100% by January 2018. We are well positioned to meet this regulatory liquidity measure as currently our ratios exceed this requirement.

Three and five year term foreign currency loan deals totalling US$835 million were concluded this financial year. Our USD funding augments our cash and near cash balances, with core loans remaining fully funded by domestic deposits.

In order to improve our return on assets, lower yielding cash and near cash balances have been deliberately paired back ending the financial year at R118 billion.

In conclusion we remain well positioned to meet the challenges that heightened political instability may bring in the new financial year.

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 document on the NSFR in October 2014. The NSFR is expected to be introduced in 2018.

Investec already exceeds minimum requirements of these standards (see LCR shown above) as a result of efforts to reshape our liquidity and funding profile where deemed necessary.

South Africa, a member of the G20, has adopted the published BCBS guidelines for 'liquidity risk measurement standards and monitoring'.

However, there are certain shortcomings and constraints in the South African environment and the banking sector in South Africa is characterised by certain structural features such as:

- A low discretionary savings rate and a higher degree of contractual savings that are captured by institutions such as pension funds, provident funds and providers of asset management services
- There is currently no 'deposit protection scheme' in South Africa. However, the regulators plan to incorporate a deposit protection scheme within the broader amendments to the recovery and resolution framework
- South Africa has an insufficient supply of level 1 assets in domestic currency to meet the aggregate demand.

Nevertheless, there are various regulatory and economic barriers that prevent liquidity from flowing out of the domestic economy. Namely, South Africa has exchange control that limits capital flows, along with prudential requirements on financial corporates.

A positive consequence of the above is that the Rand funding that the South African banks use is contained within the financial system and therefore the Rand is unlikely to be drained by currency withdrawal from off-shore sources, or placements in offshore accounts.

To address this systemic challenge, the SARB exercised national discretion and has announced:

- The introduction of a committed liquidity facility (CLF) whereby South African banks can apply to the Reserve Bank for the CLF against eligible collateral for a prescribed commitment fee. The CLF is limited to 40% of net outflows under the LCR. Investec Bank Limited used the CLF offered by the SARB, as a buffer, to augment the LCR by approximately 10% until December 2016, and 5% to the end of the financial year. Investec Bank Limited exceeds the minimum requirement for the LCR in March 2017
- A change to available stable funding factor as applied to less than six months term deposits from the financial sector. The change recognises 35% of less than six months financial sector deposits which has the impact of reducing the amount of greater than six months term deposits required by local banks to meet the NSFR.

Notwithstanding the above constraints, the bank is fully compliant with the LCR and, NSFR liquidity ratios, having embedded these ratios into our processes.

Non-trading interest rate risk description

Non-trading interest rate risk, otherwise known as interest rate risk in the banking book, arises from the impact on net interest earnings and economic value of equity of adverse movements in interest rates.

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:** arises from optional elements embedded in items where the bank or its customers can alter the level and timing of their cash flows
- **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 importance, and our core non-trading interest rate risk philosophy is reflected in day-to-day practices.

The aim of non-trading interest rate risk management is to protect and enhance net interest income and economic value of equity in accordance with the board-approved risk appetite, and to ensure a high degree of stability of the net interest margin over an interest rate cycle. 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:

- Income metrics capture the change in accruals expected over a specified time horizon in response to a change in interest rates
- Economic value metrics capture all future cash flows in order to calculate the bank's net worth and therefore can highlight risks beyond the short term earnings time horizon.

These metrics are used to assess and to communicate to senior management the financial impact of possible future interest rate scenarios, covering (i) interest rate expectations and perceived risks to the central view (ii) standard shocks to levels and shapes of interest rates and yield curves (iii) historically-based yield curve changes.

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. Economic value measures have the advantage that all future cash flows are considered and therefore can highlight risk beyond the earnings horizon.

Each geographic entity has its own board-approved non-trading interest rate risk policy and risk appetite, which is clearly defined in relation to both income risk and economic value risk. The policy dictates that long-term (>1 year) non-trading interest rate risk is materially eliminated. Where natural hedges between banking book items do not suffice to reduce the exposure within defined limits, interest rate swaps are used to transform fixed rate assets and liabilities into variable rate items.

Operationally, daily management of interest rate risk is centralised within the Central Treasury of each geographic entity and is subject to local independent risk and ALCO review. Non-trading interest rate risk is transferred within predefined guidelines from the originating business to the Central Treasury function and aggregated or netted providing Central Treasury with a holistic view of the residual 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 Central 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.

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.

Balance Sheet Risk Management independently monitors various interest rate risk metrics to changes in interest rate risk factors, detailing the sources of interest rate exposure.

We are exposed to automatic optionality risk for those lending products where the bank applies a minimum lending rate. This is an income protection mechanism allowing for upward potential and no downside risk. We are not materially exposed to behavioural embedded option risk, as contract breakage penalties on fixed-rate items specifically cover this risk, while early termination of variable rate contracts has negligible impact on interest rate risk.

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 group complies with the BCBS framework which is currently in force for assessing banking book (non-trading) interest rate risk, and is in the process of enhancing its existing framework to adhere to the new BCBS principles which come into effect in 2018.

Internal capital is allocated for non-trading interest rate risk.

Interest rate sensitivity gap

The table below shows our non-trading interest rate mismatch at 31 March 2017. These exposures affect the interest rate margin realised between lending income and borrowing costs assuming no management intervention.

R'million	Not > three months	> Three months but < six months	> Six months but < one year	> One year but < five years	> Five years	Non-rate	Total non-trading
Cash and short-term funds – banks	30 474	–	185	–	–	8 170	38 829
Cash and short-term funds – non-banks	8 973	20	–	–	–	–	8 993
Investment/trading assets and statutory liquids	32 163	25 802	6 827	8 827	6 338	18 516	98 473
Securitised assets	7 876	–	–	–	–	–	7 876
Advances	201 547	4 297	1 678	14 382	2 341	1 734	225 979
Other assets	1	–	–	–	–	4 859	4 860
Assets	**281 034**	**30 119**	**8 690**	**23 209**	**8 679**	**33 279**	**385 010**
Deposits – banks	(30 447)	(5 031)	3 100	–	–	–	(32 378)
Deposits – non-banks	(252 359)	(19 123)	(20 296)	(8 477)	(1 975)	(1 167)	(303 397)
Negotiable paper	(931)	(100)	(4 406)	(386)	–	–	(5 823)
Securitised liabilities	(673)	–	–	–	–	–	(673)
Investment/trading liabilities	6 049	–	(47)	–	(100)	(7 874)	(1 972)
Subordinated liabilities	(10 949)	(1 865)	–	(366)	–	–	(13 180)
Other liabilities	(96)	(6)	–	(19)	–	(5 348)	(5 469)
Liabilities	**(289 406)**	**(26 125)**	**(21 649)**	**(9 248)**	**(2 075)**	**(14 389)**	**(362 892)**
Intercompany loans	**16 245**	**4 934**	**(1 683)**	**(4 303)**	**124**	**595**	**15 912**
Shareholders' funds	**(1 121)**	**–**	**–**	**–**	**(386)**	**(33 658)**	**(35 165)**
Balance sheet	**6 752**	**8 928**	**(14 642)**	**9 658**	**6 342**	**(14 173)**	**2 865**
Off-balance sheet	**(5 186)**	**(44)**	**13 597**	**(5 552)**	**(5 631)**	**66**	**(2 750)**
Repricing gap	**1 566**	**8 884**	**(1 045)**	**4 106**	**711**	**(14 107)**	**115**
Cumulative repricing gap	1 566	10 450	9 405	13 511	14 222	115	–

Economic value sensitivity at 31 March 2017

For the reasons outlined above, our preference for monitoring and measuring non-trading interest rate risk is economic value sensitivity. The table below reflects our economic value sensitivity to a 2% parallel shift in interest rates assuming no management intervention. The numbers represent the change to the value of the interest rate sensitive portfolios should such a hypothetical scenario arise. This sensitivity effect does not have a significant direct impact on our equity.

	Sensitivity to the following interest rates (expressed in original currencies)						
'million	ZAR	GBP	USD	EUR	AUD	Other (ZAR)	All (ZAR)
200bps down	488.6	2.8	2.3	3.4	(2.5)	1.6	**590.9**
200bps up	(364.5)	(3.1)	(4.9)	(2.8)	0.7	(1.7)	**(516.8)**

Liquidity coverage ratio (LCR)

The objective of the liquidity coverage ratio (LCR) is to promote the short-term resilience of the liquidity risk profile of banks by ensuring that they have sufficient high quality liquid assets to survive a significant stress scenario lasting 30 calendar days.

In accordance with the provisions of section 6(6) of the South African Banks Act 1990 (Act No. 94 of 1990), banks are directed to comply with the relevant LCR disclosure requirements, as set out in Directive 6/2014 and Directive 11/2014. This disclosure is in accordance with Pillar III of the Basel III liquidity accord.

The values in the table are calculated as the simple average of calendar daily values over the period 1 January 2017 to 31 March 2017 for Investec Bank Limited bank solo. All 63 business day observations were used. Investec Bank Limited consolidated group values use daily values for Investec Bank Limited bank solo, while those for other group entities use the average of January, February, March 2017 month-end values.

The minimum LCR requirement is 80% for 2017, increasing by 10% each year to 100% on 1 January 2019. This applies to both IBL bank solo and Investec Bank Limited consolidated group. The bank of Mauritius has published a LCR consultation paper for comment, and has given the banks operating in the jurisdiction notice of the intention of the industry to meet the LCR standard in due course.

Investec Bank Limited bank solo:

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

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

The composition of HQLA:

- The HQLA comprises primarily South African sovereign and central bank Rand-denominated securities and debt instruments, all of which are eligible for SARB repo
- On average, level 2 assets made up 4% of total HQLA and the SARB's committed liquidity facility (CLF) contributed 4% to total HQLA
- Some foreign-denominated government securities are included in the HQLA, subject to regulatory limitations.

Changes since December 2016 quarter year-end:

The average LCR remains fully compliant with regulatory requirements and within the target range as set by the board.

Investec Bank Limited consolidated group:

Our two banks, Investec Bank Limited (IBL) and Investec Bank (Mauritius) Limited (IBM), contributed over 99% of the group's combined HQLA and stressed cash inflows and outflows. IBM's average stressed cash outflows of R5 billion are primarily to non-financial corporates, while their average stressed inflows of R9 billion are largely from banks. There is no restriction on the contribution of IBM's cash inflows to the group. Consolidated group LCR is better than IBL solo's, mainly due to IBM'S surplus cash inflows.

At 31 March 2017 R'million	Investec Bank Limited Bank Solo Total unweighted value	 Total weighted value	Investec Bank Limited Consolidated Group Total unweighted value	 Total weighted value
High-quality liquid assets				
Total high-quality liquid assets		**70 015**		**70 083**
Cash outflows				
Retail deposits and deposits from small business customers, of which:	**58 907**	**5 891**	**61 853**	**6 185**
Stable deposits	–	–	–	–
Less stable deposits	58 907	5 891	61 853	6 185
Unsecured wholesale funding, of which:	**98 197**	**72 226**	**107 928**	**76 978**
Operational deposits (all counterparties) and deposits in institutional networks of cooperative banks	–	–	–	–
Non-operational deposits (all counterparties)	97 322	71 351	107 035	76 085
Unsecured debt	875	875	893	893
Secured wholesale funding	–	705	–	705
Additional requirements, of which:	**53 809**	**9 684**	**55 952**	**9 893**
Outflows related to derivatives exposures and other collateral requirements	10 782	4 967	10 782	4 967
Outflows related to loss of funding on debt products	35	35	35	35
(Undrawn committed) credit and liquidity facilities	42 992	4 682	45 135	4 891
Other contractual funding obligations	359	359	674	674
Other contingent funding obligations	78 148	3 967	77 915	3 951
Total cash outflows	**–**	**92 833**	**–**	**98 072**
Cash inflows				
Secured lending (e.g. reverse repos)	15 471	4 365	15 471	4 365
Inflows from fully performing exposures	35 030	31 481	46 550	42 056
Other cash inflows	3 798	2 506	3 815	2 523
Total cash inflows	**54 299**	**38 352**	**65 836**	**48 944**

		Total adjusted value		Total adjusted value
Total high-quality liquid assets		70 015		70 083
Total net cash outflows		54 481		49 128
Liquidity coverage ratio (%)		**130.0**		**144.0**

Operational risk

Operational risk definition

Operational risk is defined as the potential or actual impact to the group as a result of failures relating to internal processes, people and 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 fit for purpose.

Operational risk management framework

The group applies the standardised approach (TSA) for regulatory capital purposes in the assessment of operational risk.

The changing regulatory landscape includes The Basel Committee on Banking Supervision ('BCBS') proposing reforms on how banks calculate operational risk capital. The group continues to work closely with regulators and industry bodies to remain cognisant of reforms.

The framework 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.

The operational risk management framework is supported by practices and processes which facilitate 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 performed on key business processes, are used to identify, manage and monitor operational risks and controls	Internal risk events are analysed to enable business to identify trends in risk events and address control weaknesses	An external data service is used to analyse operational risk events from other organisations. This provides insight into possible emerging risks and input into scenarios analysis	Metrics are used to monitor risk exposures against identified thresholds. The output assists in predictive capability and assessing the risk profile of the business	Extreme yet plausible scenarios are used to analyse and manage significant operational risk. In addition, the output of this evaluation is used to determine internal operational risk capital requirements	Ongoing monitoring and reporting of the operational risk profile supports decision-making

Governance

The governance structure adopted to manage operational risk within the bank operates in terms of a levels of defence model and includes principles relating to combined assurance.

The levels of defence model is applied as follows:

- Level 1 – Business line management: responsible for identifying and managing risks inherent in the products, activities, processes and systems for which it is accountable
- Level 2 – Independent operational risk function: key function is to challenge the business lines' inputs to, and outputs from, the bank's risk management, risk measurement and reporting systems
- Level 3 – Independent review and challenge: required to review and challenge the bank's operational risk management controls, processes and systems.

Risk tolerance

The Operational Risk Tolerance policy defines the amount of operational risk exposure, or potential adverse impact of a risk event, that the bank is willing to accept. 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.

All exceptions and breaches of thresholds are reported to the relevant operational risk governance forums and to the GRCC who are responsible for escalation to the BRCC as appropriate.

Risk management

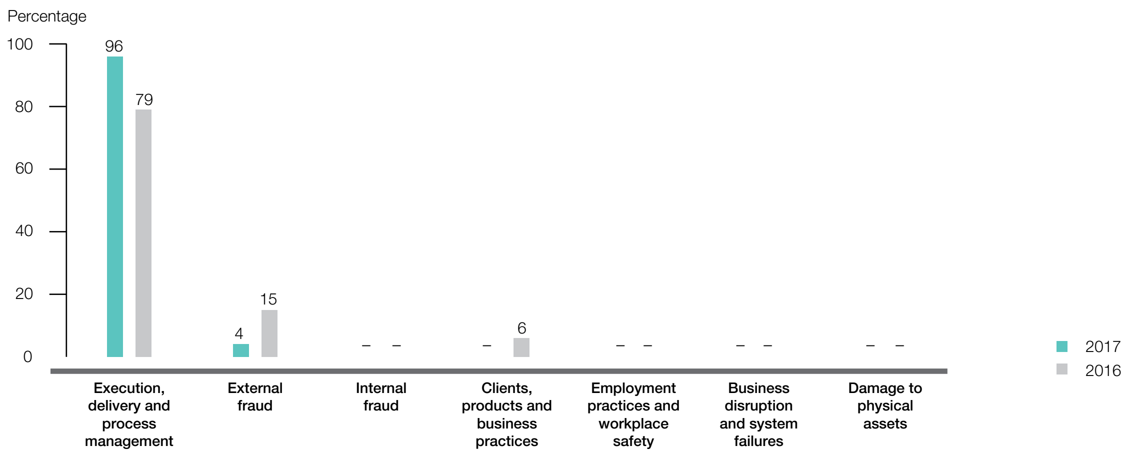
(continued)

Operational risk year under review

The risk event experience as depicted by the graphs and the figures below represent the distribution of the value and number of risk events across the Basel risk event categories for the period 1 April 2016 to 31 March 2017 with comparative values:

Operational risk events by risk category — % of total value of risk events

Operational risk events by risk category — % of total number of risk events



Notes to graphs above:

- Overall risk events and losses are managed within appetite.
- The majority of risk events occurred primarily in the External Fraud category, largely as a result of credit card fraud which is in line with industry trends. The value and number of risk events has reduced when compared to the prior year despite an increase in the number of cards in issue.
- The increase in the count and value of risk events in the Execution, Delivery and Process Management category, when compared to the prior year, is in line with continued growth and expansion in the business. Losses in this category are largely as a result of process failure.
- Furthermore, a single large loss was incurred in this category during the 2017 financial year. An administrative sanction of R20 million was levied against Investec Bank Limited following a review by the SARB in 2015, relating to Anti-Money Laundering and Combating the Financing of Terrorism practices and processes. Focus has been on further strengthening the control environment, in order to enhance the current systems, processes and resources.
- Group initiatives undertaken during the year have resulted in a decrease in the number of Business, Disruption and System Failure risk events. These initiatives include an improvement initiative driven across the business to enhance the stability of the IT operating environment and a number of significant technical refreshes at an infrastructure level, which includes storage, database hardware and networks, as well as at an application level. Technical enhancements were also delivered to improve technical resilience.

Looking forward

Key operational risk considerations for the year ahead

Definition of risk	Mitigation approach and priority for 2017/2018
Business continuity	
Risk associated with disruptive incidents which can impact premises, staff, equipment, systems, and key business processes	• Enhance the global business continuity management capability through a team of dedicated resources and a thorough governance process • Respond to disruptions to maintain continuity by relocating impacted business to alternate processing sites and the use of high availability technology solutions • Incorporate resilience into business operations to lessen the impact of disruptions • Conduct ongoing verification of recovery strategies to ensure they are effective and appropriate • Participate in industry-wide discussions to keep abreast of regulatory developments and collaboratively minimise systemic continuity risks
Cybersecurity	
Risk associated with cyberattacks which can result in fraud, data theft, cyber terrorism, espionage, or disrupt client-facing services	• Maintain a risk-based and adaptive cybersecurity strategy to ensure the group is adequately protected against advanced cyberattacks • Continuous improvement of prediction, prevention, detection and response capabilities • Security testing of IT systems to ensure they are secure both by design and as they evolve • Establish an effective and globally coordinated security incident response process • Build robust cyber resilience to be able to anticipate, withstand, and recover from cyber events
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	• Targeted training for specific risk roles, regular campaigns to all employees to raise awareness of financial crime risk and associated policies and 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 of all financial crime types which includes business and client risk assessments • Continuous monitoring of adherence to financial crime prevention policies and embedding of practices which comply with regulations, industry guidance and best practice • Research and review of external and industry events through engagement with relevant industry bodies and external partners
Information security	
Risk associated with the protection of information assets against unauthorised access, use, disclosure, modification or destruction	• Identify high-value information assets based on confidentiality and business criticality • Implement strong security controls to protect information against compromise • Manage access to systems and data in support of least-privilege and segregation of duty principles • Establish effective security monitoring to identify and swiftly respond to suspicious activity • Align practices and controls with the rapidly changing legal and regulatory privacy requirements

Risk management

(continued)

Definition of risk	Mitigation approach and priority for 2017/2018
Outsourcing	
Risk associated with the use of a service provider to perform on a continuing basis a business activity which could be undertaken by the group	• Governance structures are in place to approve outsource arrangements • Framework and policies support ongoing management and monitoring of outsource providers • Outsource arrangements are managed in accordance with regulatory requirements which includes the suitability of the outsource provider to perform services • Continuous assessment of the strategic decision to outsource including the appropriateness of the outsource provider
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 assessment relating to new products and projects to implement adequate and effective controls including the management of change • Continuous automation of processes • Segregation of incompatible duties and appropriate authorisation controls • Causal analysis 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 application of controls
Regulatory and compliance	
Risk associated with identification, implementation and monitoring of compliance with regulations	• Align regulatory and compliance approach to reflect new regulatory landscapes particularly change of regulatory structures • Manage business impact and implementation challenges as a result of significant volumes of statutory and regulatory changes and developments • Ensuring existing monitoring remains focused appropriately as areas of conduct and regulatory risk develop • Group Compliance and Group Legal assist in the management of regulatory and compliance risk • Identification and adherence to legal and regulatory requirements
Technology	
Risk associated with the reliance on technology to support business processes and client services	• Align architecture across the group to reduce technical complexity and leverage common functions and processes • Enhance operational processes to better control IT changes and manage IT incidents, in order to minimise business impact • Drive automation and proactive monitoring of the technology environment to reduce human error whilst enhancing visibility • Implement infrastructure upgrades and legacy application replacements to improve technology capacity, scalability and resilience • Perform continuous risk management to proactively address control gaps in IT people, processes or systems • Maintain and test IT recovery capabilities to withstand system failures and safeguard against service disruptions

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.

Recovery and resolution planning

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

The recovery plan for Investec Limited:

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

Financial Stability Board member countries are required to have recovery and resolution plans in place for all systemically significant financial institutions. The SARB has adopted this requirement and has to date required South African domestically significant banking institutions to develop recovery plans. Guidance issued by the Financial Stability Board and the SARB has been incorporated into Investec's recovery plan.

The SARB has continued to focus on finalising the recovery plans for the local banks and together with the South African Treasury are considering legislation to adopt a resolution framework. We will be subject to this legislation once it is adopted.

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 values 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 potential 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.

Legal risk management

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

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

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

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

The legal risk policy is implemented through:

- Identification and ongoing review of areas where legal risk is found to be present
- Allocation of responsibility for the development of procedures for management and mitigation of these risks
- Installation of appropriate segregation of duties, so that legal documentation is reviewed and executed with the appropriate level of independence from the persons involved in proposing or promoting the transaction
- Ongoing examination of the inter-relationship between legal risk and other areas of risk management, so as to ensure that there are no 'gaps' in the risk management process
- Establishing minimum standards for mitigating and controlling each risk. This is the nature and extent of work to be undertaken by our internal and external legal resources

- Establishing procedures to monitor compliance, taking into account the required minimum standards
- Establishing legal risk forums (bringing together the various legal risk managers) to ensure we keep abreast of developments and changes in the nature and extent of our activities, and to benchmark our processes against best practice.

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

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

Conduct risk

The South African financial sector regulatory landscape has been under review for the last few years. A new regulatory structure is developing, and existing legislation is also being amended. Although the conduct of financial institutions is currently regulated under various pieces of legislation, and by various regulators, this will change under the new regulatory structure. The resultant strategic and operational impact is expected to last for at least the next five years.

Capital management and allocation

Regulatory capital – Investec Bank Limited

Current regulatory framework

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

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

Investec Bank Limited currently uses the standardised approach to calculate its credit and counterparty credit risk and operational risk capital requirements. Capital requirements for equity risk is calculated using the internal ratings-based (IRB) approach by applying the simple risk-weight method. The market risk capital requirement is measured using an internal risk management model, approved by the SARB.

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

Capital targets

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

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

Management of leverage

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

Leverage ratio target

Investec is currently targeting a leverage ratio above 6%.

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.

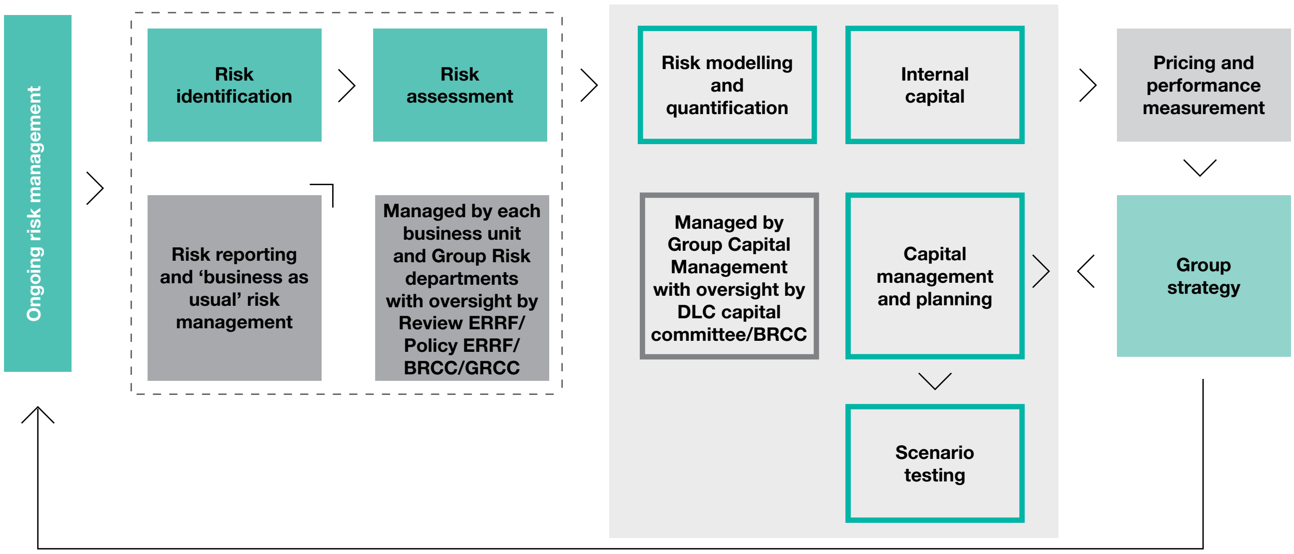
The determination of target capital is driven by our risk profile, strategy and risk appetite, taking into account regulatory and market factors applicable to the group. At the most fundamental level, we seek to balance our capital consumption between prudent capitalisation in the context of the group's risk profile and optimisation of shareholder returns.

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

The internal capital framework is based on the group's risk identification, review and assessment processes and is used to provide a risk-based approach to capital

Risk management framework

The (simplified) integration of risk and capital management



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.

Risk modelling and quantification (internal capital)

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

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

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

Capital planning and stress/ scenario testing

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

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

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

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

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

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

Pricing and performance measurement

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

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

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

Regulatory capital and requirements

Regulatory capital is divided into three main categories, namely common equity tier 1, tier 1 and tier 2 capital as follows:

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

Capital disclosures

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

Capital management and allocation

Capital structure and capital adequacy

Summary information on the terms and conditions of the main features of all capital instruments is provided on pages 184 to 189.

At 31 March R'million	2017^	2016
Tier 1 capital		
Shareholders' equity	33 631	30 331
Shareholders' equity per balance sheet	35 165	31 865
Perpetual preference share capital and share premium	(1 534)	(1 534)
Regulatory adjustments to the accounting basis	896	1 839
Cash flow hedging reserve	896	1 839
Deductions	(679)	(695)
Goodwill and intangible assets net of deferred tax	(679)	(695)
Common equity tier 1 capital	**33 848**	**31 475**
Additional tier 1 capital before deductions	**767**	**920**
Additional tier 1 instruments	1 534	1 534
Phase out of non-qualifying additional tier 1 instruments	(767)	(614)
Tier 1 capital	**34 615**	**32 395**
Tier 2 capital	**13 501**	**10 726**
Collective impairment allowances	321	229
Tier 2 instruments	13 180	10 732
Phase out of non-qualifying tier 2 instruments	–	(235)
Total regulatory capital	**48 116**	**43 121**
Risk-weighted assets	**313 010**	**295 752**
Capital ratios		
Common equity tier 1 ratio	10.8%	10.6%
Tier 1 ratio	11.1%	11.0%
Total capital adequacy ratio	15.4%	14.6%

^ *Investec Bank Limited's capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, Investec Bank Limited's common equity tier 1 ratio would be 13bps lower.*

Capital management and allocation *(continued)*

Capital requirements

At 31 March R'million	2017	2016
Capital requirements	**33 649**	**30 684**
Credit risk – prescribed standardised exposure classes	25 529	23 603
Corporates	12 678	13 278
Secured on real estate property	3 102	2 943
Short-term claims on institutions and corporates	7 850	4 876
Retail	566	483
Institutions	623	813
Other exposure classes	482	806
Securitisation exposures	228	404
Equity risk	4 730	4 005
Listed equities	500	305
Unlisted equities	4 230	3 700
Counterparty credit risk	574	569
Credit valuation adjustment risk	199	185
Market risk	413	475
Interest rate	99	66
Foreign exchange	103	212
Commodities	3	4
Equities	208	193
Operational risk – standardised approach	2 204	1 847

Risk-weighted assets

At 31 March R'million	2017	2016
Risk-weighted assets	**313 010**	**295 752**
Credit risk – prescribed standardised exposure classes	237 474	227 504
Corporates	117 944	127 985
Secured on real estate property	28 856	28 361
Short-term claims on institutions and corporates	73 019	47 001
Retail	5 261	4 660
Institutions	5 792	7 838
Other exposure classes	4 483	7 766
Securitisation exposures	2 119	3 893
Equity risk	44 007	38 603
Listed equities	4 654	2 937
Unlisted equities	39 353	35 666
Counterparty credit risk	5 335	5 486
Credit valuation adjustment risk	1 848	1 783
Market risk	3 847	4 578
Interest rate	924	636
Foreign exchange	955	2 039
Commodities	29	46
Equities	1 939	1 857
Operational risk – standardised approach	20 499	17 798

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

At 31 March R'million	2017	2016
Opening common equity tier 1 capital	**31 475**	**28 315**
Dividends	(1 031)	(120)
Profit after taxation	3 229	3 475
Movement in other comprehensive income	1 104	(389)
Goodwill and intangible assets (deduction net of related tax liability)	16	(505)
Other, including regulatory adjustments and transitional arrangements	(945)	699
Closing common equity tier 1 capital	**33 848**	**31 475**
Opening additional tier 1 capital	**920**	**1 073**
Other, including regulatory adjustments and transitional arrangements	(153)	(153)
Closing additional tier 1 capital	**767**	**920**
Closing tier 1 capital	**34 615**	**32 395**
Opening tier 2 capital	**10 726**	**10 319**
New tier 2 capital issues	4 870	1 360
Redeemed capital	(2 519)	(1 283)
Collective impairment allowances	92	60
Other, including regulatory adjustments and transitional arrangements	332	270
Closing tier 2 capital	**13 501**	**10 726**
Closing total regulatory capital	**48 116**	**43 121**

A summary of capital adequacy and leverage ratios

As at 31 March	2017^	2016
Common equity tier 1 (as reported)	10.8%	10.6%
Common equity tier 1 ('fully loaded')^^	10.8%	10.6%
Tier 1 (as reported)	11.1%	11.0%
Total capital adequacy ratio (as reported)	15.4%	14.6%
Leverage ratio* – permanent capital	7.7%#	7.4%#
Leverage ratio* – current	7.6%#	7.2%#
Leverage ratio* – 'fully loaded'^^	7.4%#	7.0%#

\# *Based on revised BIS rules.*
^^ *Based on the group's understanding of current and draft regulations 'fully loaded' is based on Basel III capital requirements as fully phased in by 2022.*
* *The leverage ratios are calculated on an end-quarter basis.*
^ *Investec Bank Limited's capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, Investec Bank Limited's common equity tier 1 ratio would be 13bps lower.*

Reconciliation of leverage ratios

At 31 March
R'million

	2017^	2016
Total assets per accounting balance sheet	**425 687**	**411 980**
Deconsolidation of non-financial/other entities	–	–
Consolidation of banking associates	–	–
Total assets per regulatory balance sheet	**425 687**	**411 980**
Reversal of accounting values:		
Derivatives	(9 856)	(15 843)
Securities financing transaction	(26 627)	–
Regulatory adjustments:	67 826	51 085
Derivatives market value	6 735	9 673
Derivative add-on amounts per the mark-to-market method	3 471	3 197
Securities financing transaction add-on for counterparty credit risk	24 045	389
Off-balance sheet items	34 255	38 521
Add-on for written credit derivatives	–	–
Exclusion of items already deducted from the capital measure	(680)	(695)
Exposure measure	**457 030**	**447 222**
Tier 1 capital	34 615	32 395
Leverage ratio – current**	**7.6%#**	**7.2%#**
Tier 1 capital 'fully loaded'	33 848	31 475
Leverage ratio – 'fully loaded'^^**	**7.4%#**	**7.0%#**

^^ *Based on the group's understanding of current and draft regulations, 'fully loaded' is based on Basel III capital requirements as fully phased in by 2022.*
** *The leverage ratios are calculated on an end-quarter basis.*
# *Based on revised BIS rules.*
^ *Investec Bank Limited's capital information includes unappropriated profits. If unappropriated profits are excluded from capital information, Investec Bank Limited's common equity tier 1 ratio would be 13bps lower.*

Credit ratings

In terms of our dual listed companies structure, creditors are ring-fenced to either Investec Limited or Investec plc as there are no cross-guarantees between the companies. Capital and liquidity are prohibited from flowing between the two entities and thus capital and liquidity are not fungible. 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 for Investec Bank Limited and Investec Limited at 9 June 2017 are as follows:

Rating agency	Investec Limited	Investec Bank Limited – a subsidiary of Investec Limited
Fitch		
Long-term ratings		
Foreign currency	BB+^	BB+^
National		AA(zaf)
Short-term ratings		
Foreign currency	B^	B^
National		F1+(zaf)
Viability rating	bb+^	bb+^
Support rating	5	3
Moody's		
Long-term ratings		
Foreign currency		Baa2
National		Aa1.za
Short-term ratings		
Foreign currency		P-2
National		P-1(za)
Baseline Credit Assessment (BCA) and adjusted BCA		baa2
S&P		
Long-term ratings		
Foreign currency		BB+^
National		za.A
Short-term ratings		
Foreign currency		B^
National		za.A-1
Global Credit Ratings		
Local currency		
Long-term rating		AA(za)
Short-term rating		A1+(za)

^ *Negatively impacted by the downgrade of the South African Sovereign rating to non-investment grade.*

Internal Audit and compliance

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

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. 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. Investec Bank Limited is served by the Investec Limited Internal Audit department.

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 the 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 Sector*. The results were communicated to the audit committees in March 2014 and to the respective regulators. A QAR follow-up review was completed and results issued to the audit committees in January 2015 as well as to the respective regulators.

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

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

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

Compliance

Regulatory change continues to be a key challenge in the financial sector with global political events adding to uncertainty as to the shape of financial services regulation going forward.

Global regulators remain focused on countering market abuse with heightened scrutiny and regulatory attention in this area.

This year, global regulators have continued to focus on promoting stability and resilience in financial markets, with sustained 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 in relation to regulatory requirements and integrity in each of our jurisdictions. Our culture is central to our compliance framework and is supported by robust policies, processes and talented professionals who ensure that the interests of our customers and shareholders remain at the forefront of everything we do.

Year in review

Changes to the regulatory landscape in South Africa

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

Conduct risk and consumer protection

The draft Financial Sector Regulation Bill (Twin Peaks) is at an advanced stage of the Parliamentary process. The National Assembly voted in favour of the Bill at the end of March 2017, before referring the Bill back to the National Assembly. The Bill is expected to be promulgated before the end of the second quarter of 2017, and will result in affected business areas being regulated by the Prudential Authority and the Financial Sector Conduct Authority. The next phase of the regulatory reform will encompass the drafting of the Conduct of Financial Institutions Act (CoFI) and the related conduct standards, which will eventually replace existing consumer protection legislation within the jurisdiction of the Financial Services Board (FSB).

The Financial Advisory and Intermediary Services Act (FAIS) continues to be enforced, with added emphasis on Treating Customers Fairly. This includes the Retail Distribution Review and proposed amendments to FAIS Fit and Proper requirements and Compliance reporting. The Customer and Market Conduct Committee (CMCC) established for Investec Limited as part of the conduct risk framework and chaired by the group CEO, continues to ensure that Investec Limited maintains a client-focused and fair outcomes-based culture. Conduct risk forums across affected legal entities ensure that identified gaps are addressed and business readiness for implementation of new regulatory requirements is assured. Substantial progress has been made in this regard, and the work is ongoing and will remain a focus area.

The SARB conducted an industry-wide review of Foreign Exchange Trading Operations in 2015. The review focused predominantly on market conduct and related governance and controls in respect of Foreign Exchange Trading activity. Post the review and the interrogation of electronic communications of traders for a specific period in 2012, there were no adverse findings reported to the business by the SARB. The FX review conducted by the SARB was an industry initiative which culminated into the SARB Code of Conduct for the South African OTC Markets. Investec Corporate and Institutional Banking has subsequently implemented a Financial Markets Code of Conduct and Bloomberg Vault as a comprehensive tool for the monitoring of traders' chat rooms or communications.

The members of the Information Regulator have been appointed by the President on recommendation of the National Assembly with effect from 1 December 2016 for a period of five years. The Information Regulator held its inaugural meeting on 1 December 2016 to commence with its duties and functions including to monitor and enforce compliance with the Protection of Personal Information Act (PoPI) as well as the Promotion of Access to Information Act (PAIA). The Regulator has confirmed that a number of committees have been established for the proper performance of its functions and it is in the process of drafting the Regulations. While only sections relating to the establishment of the Information Regulator and drafting of the regulations are effective, the remaining sections of the Act will be effective once the Regulator is fully operational. Work continues internally in order to meet our obligations in terms of data protection and information management.

Financial crime

Financial crime continues to be a regulatory focus with amendments to governing legislation proposed for promulgation in early 2017. The South African Treasury Department is under pressure to correct and implement deficiencies in the countries AML CFT regime, identified by the Financial Action Task Force (FATF) during their mutual evaluation review in 2014.

These amendments will change the Anti-Money Laundering and Combatting of Financing of Terrorism (AML CFT) regulatory framework from a rules-based to a risk-based approach, allowing accountable institutions to determine their own risk appetite in relation to client identification and verification. Further changes include the identification and verification of Ultimate Beneficial Ownership structures (UBO), widening the current Political Exposed Person's definition and extending the reporting obligations to all cross border transactions in or out of the Republic of South Africa. Additionally the Financial Action Task Force Recommendation 16 requires all banks to screen full originator and beneficiary details effective June 2017. These changes are aimed at aligning both FATF global standards to country specific requirements which are a key focus area for South Africa in 2017.

The South African Electronic Funds Transfer (EFT) Clearing system currently does not make provision for capturing of full originator and beneficiary information which necessitated two industry initiatives namely the Modernisation of Credits and SADC EFT Projects to align payment platforms on an industry-wide basis. Investec is participating as a member bank to ensure that compliance requirements can be met in the shortest possible timeframe.

In response to the 2015 SARB Anti-Money Laundering review and sanction, Investec has subsequently focused on further strengthening the control environment, in order to enhance the current systems, processes and resources, to ensure the complete capturing of customer and related party information and to meet the regulatory reporting obligations.

Regulatory scrutiny continues and Investec is applying ongoing focus to ensure that adequate systems processes and human capital is available to continually strengthen its control environment in order to meet its regulatory obligations.

Tax reporting (FATCA/CRS)

South Africa and Mauritius have intergovernmental agreements in place with the USA and each have enacted local law/regulation to implement FATCA locally. This allows South Africa and Mauritius to be treated as participating countries. This means that financial institutions in these countries report information annually on US clients (or non-compliant clients) to the South African Revenue Services and the local Mauritian authority respectively. These authorities in turn exchange information with the USA which reciprocates with similar information (on South African and Mauritian tax residents respectively who hold financial accounts in the US). Both South Africa and Mauritius are in the process of preparing their 3rd annual FATCA reports.

With South Africa being an 'early adopter' of the OECD's Common Reporting Standard (CRS), (the global version of FATCA), these requirements became effective in South Africa on 1 March 2016. South Africa has also opted for the wider approach' which means all South African reporting financial institutions are required to collect tax-related information on all clients, rather than only in respect of the 55 countries which have currently opted into CRS. Consistent with the FATCA reporting regime, CRS reportable information is submitted to SARS annually. SARS then exchanges this information with relevant countries in return for reciprocal information on South Africans with financial accounts in those countries. South Africa is in the process of preparing its 1st annual CRS report.

Mauritius has indicated that it will opt into CRS reporting from 2018.

Chairman's introduction

I am pleased to present the annual corporate governance report for the year ended 31 March 2017, which describes our approach to corporate governance.

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

Investec Bank Limited is a major subsidiary of Investec Limited and due to the DLC operational structure, compliance with many of the specific corporate governance requirements is at the group DLC level. We encourage stakeholders to read the Investec group corporate governance report which provides a more detailed review including reports from the various board committee chairs who in turn provide an explanation of how those committees discharge their duties in respect of both the group and Investec Bank Limited.

Before looking into the detail of our governance framework, I would like to make some comments on where the board's attention has been focused over the past year, how it has delivered against its priorities and where attention will be placed in the year ahead.

The past year in focus

In an uncertain and volatile world, Investec's culture and values continue to support the organisation in achieving its strategic objectives. Our client focus and entrepreneurial spirit have continued to be front of mind over the past year with Investec remaining committed to its South African businesses, despite the uncertain economic environment including the downgrade of the South African Sovereign rating to non-investment grade by Fitch and Standard & Poor's. The board and management have sought to develop a strategy for the group which is balanced in terms of managing the risks presented in these uncertain times and positioning for future opportunities as they arise.

Investec Bank Limited continues to cooperate with the competition commission authorities in South Africa with respect to their investigation into alleged collusion to fix Rand-Dollar trades. The bank has requested further information from the authorities.

A hint at new governance

A key area of focus for the board, working together with the nominations and directors' affairs committee (nomdac) and the group, has been to review the bank's current committee structure within the context of a fast-changing regulatory environment.

A capital committee was established for Investec Bank Limited and Investec Limited with a focus of targeting capital demand and supply. This committee fed into the Investec DLC capital committee and set capital targets for Investec Bank solo.

Another key area of focus for the board is the implementation of King IV, as part of its corporate governance structure. King IV sets out the philosophy, principles, practices and outcomes which serves as the benchmark for corporate governance in South Africa. Corporate governance, for purposes of King IV, is defined as the exercise of the ethical and effective leadership by the board towards the achievement of the following governance outcomes:

- Ethical culture
- Good performance
- Effective control
- Legitimacy

Board composition

To be effective, the board needs the right people and, in particular, it needs to have the right balance and diversity of skills, experience and perspectives. It is important that the composition of the board brings to bear a broad range of social perspectives and talent on decision-making and that the board is able to connect with the demographics of Investec's clients and employees. During the year under review, Richard Wainwright seamlessly transitioned into his position as chief executive officer of Investec Bank Limited.

The board, on the recommendation of the nomdac, agreed to the appointment of Nishlan Samujh as an executive director with effect from 10 August 2016. Nishlan is a Chartered Accountant and has been with Investec since 2000.

Strategic objectives

The board has continued to exercise leadership, integrity and judgement in pursuit of the bank's strategic goals and objectives.

In terms of positioning for future opportunities, a particular focus has been the Private Bank's continued investment in infrastructure necessary to deliver an out of the ordinary client experience and the incorporation of new technologies into our core strategic planning.

This strategic initiative was discussed and debated at the board's annual strategy session, which was held in February 2017 and is an ongoing area of discussion at board meetings.

Board effectiveness

The board continues to be committed to regularly evaluating its own effectiveness and that of its committees. In this light, the board undertakes an annual evaluation of its performance and that of its committees and individual directors, with independent external input into the process every third year. Given the 2016 effectiveness review was conducted by an independent external facilitator, Professor Rob Goffee from the London Business School, this year the board effectiveness review was internally facilitated. No material issues were identified in this process, however, the findings of Professor Goffee's report continued to provide a useful benchmark for assessing the development of the board in terms of the areas that were identified for improvement.

Priorities for the past year

Succession planning has remained a key area of focus during the year.

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

In order to assist with recommendations made to nomdac, consultants were appointed to source additional independent non-executive directors.

Zarina Bassa was furthermore appointed as chair of the audit committee. Sam Abrahams will step down from the board at the 2018 annual general meeting.

Board composition

In broad terms, our priorities for 2017 from a corporate governance perspective are as follows:

Board effectiveness

As indicated above, an independent review of the effectiveness of the board was undertaken during 2016. In broad terms, the board was satisfied that it was operating effectively. The board has agreed on an action plan to address areas identified for improvement, and will monitor progress against this plan.

Governance framework

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

A diagram of the group's governance framework as well as reports on the various board committees can be found in the corporate governance report of Investec's 2017 integrated annual report.

Board committees

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

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

The DLC (combined) board committees of Investec Limited and Investec plc act as the board committees of Investec Bank Limited as well. The reports by the chairmen of these committees can be found in the corporate governance report of Investec's 2017 integrated annual report.

- **Audit committee:**

  In terms of King III and the Companies Act, No 71 of 2008, as amended (the Companies Act), the chairman of the audit committee should report to shareholders on its statutory duties. The Investec Limited and Investec Bank Limited audit committee performs the necessary functions required on behalf of Investec Bank Limited.

- **Social and ethics committee**

  In terms of the Companies Act, the chairman of the social and ethics committee should report to shareholders on matters within its mandate. The DLC social and ethics committee performs the necessary functions on behalf of Investec Bank Limited.

- The **DLC nomdac** acts as the nomdac for the group (including Investec Bank Limited).

- The **DLC remuneration committee** acts as the remuneration committee for the group (including Investec Bank Limited). The report from the remuneration committee, explaining the group's policies and processes, as well as required disclosures can be found on pages 96 to 107.

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

Priorities for the year ahead

We approach the year ahead with confidence in our leadership and strategy. The delivering on the strategic objectives agreed will be a key focus for the bank.

Additional key focus areas for the year ahead is management succession planning, continued board refreshment and cybercrime.

Our culture, values and philosophy

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 live throughout the organisation makes Investec distinct.

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

Sound corporate governance depends upon much more than processes and procedures, it fundamentally depends upon the people and the culture within the 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 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.

Conclusion

The governance framework and structures that are in place ensure that the company is able to maintain the highest standards of corporate governance. Some key aspects of the framework are described below, and in greater detail in the corporate governance report of Investec's 2017 integrated annual report.

Fani Titi
Chairman

9 June 2017

Board statement

The composition of the board of Investec Bank is set out on page 89.

The board seeks to exercise leadership, integrity and judgement in pursuit of strategic goals and objectives, to achieve long-term sustainability, growth and prosperity. The board is accountable for the performance and affairs of Investec Bank Limited. It provides leadership for the bank within a framework of prudent and effective controls which allows risks to be assessed and managed. The board meets its objectives by reviewing and guiding corporate strategy, setting the bank's values and standards, promoting high standards of corporate governance, approving key policies and objectives, ensuring that obligations to its stakeholders are understood and met, understanding the key risks we face, determining our risk tolerance and approving and reviewing the processes in operation to mitigate risk from materialising, including the approval of the terms of reference of key supporting board committees.

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

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

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

King III

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

The board will ensure the implementation and compliance with King IV, by 1 April 2018.

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

Financial reporting and going concern

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

- Budgeting and forecasts
- Profitability
- Capital
- Liquidity

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

Our financial statements are prepared on a going concern basis. The board is of the opinion, based on its knowledge of the bank, key processes in operation and specific enquiries, that there are adequate resources to support Investec Bank Limited as a going concern for the foreseeable future. Further information on our liquidity and capital position is provided on pages 59 to 64, pages 69 to 71 and pages 76 to 81.

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

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.

In 2017, the nomdac received a detailed presentation from the executive regarding senior management succession and was satisfied that there is a formal management succession plan in place.

The above initiatives have helped to position the bank to meet the challenges of the future.

Risk management

The board is accountable for the total process of risk management and the systems of internal control. A number of group committees and forums assist in this regard. Senior management is responsible for identifying risks and implementing appropriate mitigation processes and controls within their businesses.

The independent group risk management functions, accountable to group boards, are responsible for establishing, reviewing and monitoring the process of risk management. Group risk management reports regularly to the BRCC, group risk and capital committee (GRCC), the review executive risk review forum (Review ERRF) as well as the policy executive risk review forum (Policy ERRF).

More information on risk management can be found on pages 22 to 82.

Internal control

Risks and controls are reviewed and monitored regularly for relevance and effectiveness. The BRCC and 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 accountability for the overall risk and control framework and for reviewing its effectiveness.

Internal control is designed to mitigate, not eliminate, significant risks faced. It is recognised that such a system provides reasonable, but not absolute, assurance against material error, omission, misstatement or loss. The group achieves this through a combination of risk identification, evaluation and monitoring processes, appropriate decision and oversight forums, and assurance and control functions such as group risk management, internal audit and compliance. These ongoing processes, were in place throughout the year under review and up to date after approval of the integrated annual report and accounts.

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

Conflict of interests

Certain statutory duties with respect to director's conflicts of interest are in force under the Companies Act. In accordance with the Companies Act and the Memorandum of Incorporation (MOI) of Investec Bank Limited, the board may authorise any matter that otherwise may involve the directors breaching their duty to avoid conflicts of interest. The board has adopted a procedure, as set out in the MOI, that includes a requirement for directors to submit, in writing, disclosures detailing any actual or potential conflict for consideration and, if considered appropriate, approval.

Internal financial controls

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

The audit committee receives a written opinion from internal audit on the risk management framework, internal controls, and internal financial controls.

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

To fulfil this responsibility, the audit committee received a written opinion form internal audit on the risk management framework, internal controls and internal financial controls.

Board of directors

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

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

For further detail of the functions of the board of Investec Bank Limited, as included with the functions of the boards of Investec plc and Investec Limited, performed directly or through board committees, refer to Investec's 2017 integrated annual report.

Membership

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

As set out below, the board concluded that the majority of the non-executive directors are independent in terms of King III.

All directors are subject to election at the first general meeting following their appointment.

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

	Date of appointment	Independent
Executive directors		
RJ Wainwright (chief executive officer)	1 February 2016	
B Kantor (group managing director)	30 June 1990	
S Koseff (group chief executive officer)	30 June 1990	
GR Burger (group risk and finance director)	30 June 1990	
NA Samujh (chief financial officer)	10 August 2016	
B Tapnack	1 July 1997	
Non-executive directors		
F Titi (chairman)	3 July 2002	Yes
DM Lawrence (deputy chairman)	1 July 1997	No
SE Abrahams	1 July 1997	Yes
ZBM Bassa	1 November 2014	Yes
D Friedland	1 March 2013	Yes
KL Shuenyane	8 August 2014	Yes
PRS Thomas	1 July 1997	Yes

Independence

At 31 March 2017, the board is compliant with Chapter 2, Principle 2.18 of King III in that the majority of non-executive directors are independent. A summary of the factors the board uses to determine the independence of non-executive directors are detailed below.

Tenure

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

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

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

Attendance at credit meetings

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

Board meetings

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

Details of directors' attendance at board meetings:

	(6 meetings in a year)	
	Eligible to attend	Meeting attendance
Executive directors		
RJ Wainwright (chief executive officer)	6	6
B Kantor (group managing director)	6	6
S Koseff (group chief executive director)	6	5
GR Burger (group risk and finance director)	6	6
NA Samujh* (chief financial officer)	4	4
B Tapnack	6	6
Non-executive directors		
F Titi (chairman)	6	5
DM Lawrence (deputy chairman)	6	6
SE Abrahams	6	6
ZBM Bassa	6	6
D Friedland	6	6
KL Shuenyane	6	6
PRS Thomas	6	6

* *NA Samujh was appointed to the board with effect from 10 August 2016, and was therefore only eligible to attend meetings held after 10 August 2016.*

Skills, knowledge, experience and attributes of directors

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

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

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

Board and directors' performance evaluation

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

This year the board effectiveness review was internally facilitated. The directors each completed a questionnaire and met with the chairman in order to identify challenges, strengths and to provide suggestions as to how the board could function more effectively. Findings were collated and presented at the January 2017 board meeting.

Strengths of the board were recognised as levels of governance, leadership and robust risk management and internal controls. The committee structure was regarded as appropriate and the committees were seen to function well.

Terms of appointment

On appointment, non-executive directors are provided with a letter of appointment. The letter sets out, among other things, duties, responsibilities and expected time commitments, details of our policy on obtaining independent advice and, where appropriate, details of the board committees of which the non-executive director is a member. We have an insurance policy that insures directors against liabilities they may incur in carrying out their duties.

On the recommendation of the nomdac, non-executive directors will be appointed for an expected term of nine years (three times three-year terms) from the date of their first appointment to the board.

Ongoing training and development

On appointment, directors are provided with an induction pack and participate in an induction programme tailored to their needs, including meeting with business unit and central services heads to ensure they become familiar with business operations, senior management, our business environment and internal controls, policies, processes and systems for managing risk.

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

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

Following the board's and directors' performance evaluation process, any training needs are communicated to the company secretary who ensures these needs are addressed. During the period under review there were a number of director workshops arranged outside of board meetings. Topics covered include:

- Global sustainability challenges and what they mean for business
- Specialist Bank IT update and strategy
- Remuneration overview: practices and policies
- Basel principles for effective risk data aggregation and risk reporting
- En-novate/Young Entrepreneurs
- IEP business update
- Limited recovery and resolution plan
- Cybersecurity and resilience.

Independent advice

Through the chairman or the company secretary, individual directors are entitled to seek professional independent advice on matters related to the exercise of their duties and responsibilities at the expense of Investec. No such advice was sought during the 2017 financial year.

Remuneration

Details of the directors' remuneration and remuneration process are set out on pages 96 to 107, and the annual financial statements.

Chairman and chief executive officer

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

The chairman leads the board and is responsible for ensuring that the board receives accurate, timely and clear information to ensure that directors can perform their duties effectively.

Details of the chairman's external directorships are set out in Investec's 2017 integrated annual report.

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

The Deputy Chairman is David Lawrence.

Company secretary

Niki van Wyk is the company secretary of Investec Bank Limited. Niki is professionally qualified and has experience gained over a number of years. The company secretary's services are evaluated by board members during the annual board evaluation process. The company secretary is responsible for the flow of information to the board and its committees and for ensuring compliance with board procedures. All directors have access to the advice and services of the company secretary, whose appointment and removal are a board matter.

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

In addition, the board confirms that for the period 1 April 2016 to 31 March 2017 Niki did not serve as a director on the board of Investec Bank Limited, nor did she take part in board deliberations and only advised on matters of governance, form and procedure.

Further disclosures

Refer to Investec's 2017 integrated annual report for more information regarding:

- Remuneration
- Directors' dealings
- Internal Audit
- Compliance
- Regulation and supervision
- Values and code of conduct
- Sustainability
- IT governance
- Board committees – including the report prepared by the chairmen of the board committees.

Audit committee report

Financial reporting

Process

In terms of the DLC structure, the board has mandated authority to the Investec Limited and Investec Bank Limited audit committee (The audit committee) to be the audit committee of the respective companies and their subsidiaries.

The chairman of the audit committee is pleased to present the report for the financial year ended 31 March 2017 as required by the Companies Act 2008, as amended (the Companies Act).

The audit committee complied with all legal and regulatory requirements as necessary under South African legislation and executed its duties during the last financial year in accordance with its Terms of Reference, the Companies Act and King III and where applicable, the JSE Listings Requirements.

Functions of the audit committee

The audit committee is part of the risk management and corporate governance processes and procedures of the Investec group which provides oversight and monitoring of the:

- financial reporting process and risk management
- fraud and IT risks as they relate to financial reporting
- the effectiveness of the Investec 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, and
- 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 financial 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 the audit committee and the group audit sub-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 of.

The external auditors attend the audit committee and the group audit sub-committee meetings.

The chairman of the audit committee regularly meets with the heads of internal audit as well as the lead external audit partners outside meetings without management being present and with senior management to gain a better understanding of the Investec group's operations and the risks and challenges it faces.

The audit committee is mandated and has the power to appoint sub-committees in specific areas of business to assist the audit committee in the performance of its duties. Such sub-committees shall report their findings to the audit committee.

The Investec Specialist Bank audit sub-committee (audit sub-committee) was established as a sub-committee of the audit fommittee to assist the audit committee in discharging its responsibilities and audit committee functions, by overseeing that the business area addressed risks and controls relating to:

- financial reporting
- internal financial controls
- fraud risk as it relates to financial reporting
- information technology
- regulatory compliance
- operational risk, and
- conduct risk (where appropriate).

The audit committee is satisfied that it carried out its audit committee functions in an appropriate and satisfactory manner.

External audit

The audit committee has responsibility for reviewing the relationship with the external auditors, including considering audit fees, non-audit services and the independence and objectivity of the external auditors.

Auditor appointment

KPMG Inc. and Ernst & Young Inc. are the appointed external auditors of Investec Bank Limited. The audit committee has recommended the re-election of KPMG Inc. and Ernst & Young Inc. as the external audit firms for the 2018 financial year.

Independence and objectivity

The audit committee has satisfied itself that the external auditors are independent of Investec Bank Limited, as set out in the provisions of section 94(8) of the Companies Act. The audit committee considers the reappointment of the external auditors each year before making a recommendation to shareholders and 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. In terms of the rotation process, the current joint lead audit partners for Investec Bank Limited are Peter MacDonald of KPMG Inc. and Farouk Mohideen of Ernst & Young Inc. The audit committee has recommended their reappointment for the 2018 financial year.

Working with the External Auditors

The audit committee meets with the external auditors to review the scope of the external audit plan, 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 audit committee chairman.

The audit committee may also evaluate the effectiveness of the auditors to assess the audit partners, audit team and audit approach during their presentation at audit committee meetings and *ad hoc* meetings held with the auditors throughout the year.

Non-audit services

The audit committee adopted a policy on the engagement of external auditors to provide non-audit services. This policy, designed to safeguard auditor objectivity and independence, includes guidelines on the permitted and non-permitted services and on services requiring specific approval. The audit committee review whether the level of non-audit fees could impact the independence of the auditors. The nature and extent of non-audit services that the external auditor may provide in terms of the policy is monitored by the audit committee.

Financial statements, accounting practices and internal financial controls

The audit committee was satisfied that the financial statements for Investec Bank Limited was prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act. The audit committee has examined and reviewed the financial statements to ensure that they fairly represent the financial position at the end of the financial year and the results of the operations and cash flows for the 2017 financial year.

Combined assurance

The audit committee has satisfied itself that a combined assurance model is applied which incorporates and optimises the various occurrence, services and practices so that, taken as a whole, these support the objectives for assurance.

The audit committee assesses the output of the bank's combined assurance with objectivity and professional scepticism, and applies an enquiring mind, forms their own opinion on the integrity of the information and reports, and the degree to which the effective control environment has been achieved.

Key focus areas included:

- IT risk and cybersecurity
- Business continuity
- Implementation of IFRS 9.

Internal controls

The audit committee has responsibility for assessing the adequacy of internal controls. The audit committee was satisfied that internal financial controls were effective. To fulfil this responsibility, the audit committee received a written opinion from internal audit on the risk management framework, internal controls and internal financial controls.

Internal audit

The audit committee also reviewed the internal audit function (including the process for evaluating the control environment), approved the internal audit plan and considered the internal audit reports. The audit committee established processes to allow for the review and appropriate handling of any concerns and complaints relating to reporting and other practices of the company. No matters of significance were raised in the past financial year.

David Friedland
Former chairman, Investec Bank Limited audit committee

9 June 2017

Zarina Bassa
Chairman, Investec Bank Limited audit committee

9 June 2017

Directorate

Investec Bank Limited

(details as at 9 June 2017)

Fani Titi (55)
Non-executive chairman
BSc (Hons), MA, MBA

David M Lawrence (66)
Deputy chairman
BA (Econ) (Hons), MCom

Samuel E Abrahams (78)
FCA, CA(SA)

Zarina BM Bassa (53)
BAcc, DipAcc, CA(SA)

Glynn R Burger (60)
BAcc, CA(SA), H Dip BDP, MBL

David Friedland (64)
BCom, CA(SA)

Bernard Kantor (67)
CTA

Stephen Koseff (65)
BCom, CA(SA), H Dip BDP, MBA

Nishlan A Samujh (43)
BAcc, CA(SA), Dip (Tax)

Khumo L Shuenyane (46)
BEcon, CA(England & Wales)

Bradley Tapnack (70)
BCom, CA(SA)

Peter RS Thomas (72)
CA(SA)

Richard J Wainwright (54)
Chief executive officer
BCom, CTA, CA(SA)

04

Remuneration report

Remuneration report

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

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

Remuneration philosophy

Our philosophy, which remains unchanged from prior years, is to employ the highest calibre individuals who are characterised by integrity, intellect and innovation and who adhere and subscribe to our culture, values and philosophies. We strive to inspire entrepreneurship by providing a working environment that stimulates extraordinary performance so that executive directors and employees may be positive contributors to our clients, their communities and the bank.

We reward employees generally for their contribution through:

- An annual gross remuneration package (base salary and benefits) providing an industry competitive package
- A variable short-term incentive related to performance (annual bonus)
- A long-term incentive (share awards) providing long-term equity participation.

We consider the aggregate of the above as the overall remuneration package designed to attract, retain, incentivise and drive the behaviour of our employees over the short, medium and longer term in a risk conscious manner. Overall, rewards are considered as important as our core values of work content (greater responsibility, variety of work and high level of challenge) and work affiliation (entrepreneurial feel to the company and unique culture) in the attraction, retention and motivation of employees.

We have a strong entrepreneurial, merit and values-based culture, characterised by passion, energy and stamina. The ability to live and perpetuate our culture and values in the pursuit of excellence in a regulated industry and within an effective risk management environment is considered paramount in determining overall reward levels.

The type of people the organisation attracts, and the culture and environment within which they work, remain crucial in determining our success and long-term progress. Our reward programmes are clear and transparent, designed and administered to align directors' and employees' interests with those of all stakeholders and ensure the bank's short-, medium- and long-term success.

In summary, we recognise that financial institutions have to distribute the return from their enterprises between the suppliers of capital and labour and the societies in which they do business, the latter through taxation and corporate social responsibility activities. Our remuneration philosophy seeks to maintain an appropriate balance between the interests of these stakeholders, and is closely aligned to our culture and values which include risk consciousness, meritocracy, material employee ownership and an unselfish contribution to colleagues, clients and society.

Remuneration principles

Remuneration policies, procedures and practices, collectively referred to as the 'remuneration policy', are designed, in normal market conditions, to:

- Be in line with the business strategy, objectives, values and long-term interests of the bank
- Be consistent with and promote sound and effective risk management, and not encourage risk taking that exceeds the level of tolerated risk of the bank
- Ensure that payment of variable remuneration does not limit the bank's ability to maintain or strengthen its capital base
- Target gross fixed remuneration (base salary and benefits including pension) at median market levels to contain fixed costs
- Ensure that variable remuneration is largely economic value added (EVA)-based and underpinned by our predetermined risk appetite and capital allocation
- Facilitate alignment with shareholders through deferral of a portion of short-term incentives into shares and long-term incentive share awards
- Target total compensation (base salary, benefits and incentives) to the relevant competitive market at upper quartile levels for superior performance.

Given our stance on maintaining a low fixed cost component of remuneration, our commitment to inspiring an entrepreneurial culture, and our risk-adjusted return on capital approach to EVA, we do not apply an upper limit on variable rewards.

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

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

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

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

Remuneration policy

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

Our policy with respect to remuneration of employees has remained unchanged during the 2017 financial year.

Determination of remuneration levels

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

Factors considered for overall levels of remuneration at the level of the Investec group include:

- **Financial measures of performance:**
  - Risk-adjusted EVA model
  - Affordability.
- **Non-financial measures of performance:**
  - Market context
  - Specific input from the risk and compliance functions.

Factors considered to determine total compensation for each individual include:

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

Remuneration levels are targeted to be commercially competitive, on the following basis:

- The most relevant competitive reference points for remuneration levels are based on the scope of responsibility and individual contributions made
- The committee recognises that we operate an international business and compete with both local and international competitors in each of our markets
- Appropriate benchmark, industry and comparable organisations' remuneration practices are reviewed regularly
- For employees generally, the JSE Financial 15 has offered the most appropriate benchmark
- In order to avoid disproportionate packages across areas of the bank and between executives, adjustments may be made at any extremes to ensure broad internal consistency. Adjustments may also be made to the competitive positioning of remuneration components for individuals, in cases where a higher level of investment is needed in order to build or grow or sustain either a business unit or our capability in a geography.

The following section outlines our remuneration policy in more detail for each element of total compensation as it applies to employees. Our remuneration arrangements for S Koseff, B Kantor and GR Burger can be found in Investec's 2017 integrated annual report.

Gross remuneration: base salary and benefits

Salaries and benefits are reviewed annually and reflect the relative skills and experience of, and contribution made by, the individual. It is the bank's policy to seek to set base salaries and benefits (together known as gross remuneration) at median market levels when compared like-for-like with peer group companies.

The Human Resources division provides guidelines to business units on recommended salary levels for all employees within the organisation to facilitate the review. These guidelines include a strategic message on how to set salary levels that will aid Investec in meeting its objectives while remaining true to corporate values, and incorporate guidance on increasing levels to take account of the change in the cost of living over the year to ensure that salary levels always allow employees to afford a reasonable standard of living and do not encourage a reliance on variable remuneration.

Advisers are often engaged by either the Human Resources division or the business units to obtain general benchmark information or to benchmark specific positions to ensure that gross remuneration levels are market-driven and competitive so that levels of remuneration do not inhibit our ability to recruit the people we need to develop our business.

Benefits are targeted at competitive levels and are delivered through flexible and tailored packages. Benefits include pension schemes; life, disability and personal accident insurance; medical cover; and other benefits, as dictated by competitive local market practices. Only salaries, not annual bonuses, are pensionable.

Variable short-term incentive: annual bonus

All employees are eligible to be considered for a discretionary annual bonus, subject *inter alia* to the factors set out above in the section dealing with the determination of remuneration levels.

Risk-weighted returns form basis for variable remuneration levels

In our ordinary course of business we face a number of risks that could affect our business operations, as highlighted on page 16.

Risk Management is independent from the business units and monitors, manages and reports on the bank's risk to ensure it is within the stated risk appetite as mandated by the board of directors through the board risk and capital committee (BRCC). The bank monitors and controls risk exposure through credit, market, liquidity, operational and legal risk divisions/forums/committees.

Risk consciousness and management is embedded in the organisational culture from the initiation of transactional activity through to the monitoring of adherence to mandates and limits and throughout everything we do.

The BRCC (comprising both executive and non-executive directors) sets the overall risk appetite for the bank and determines the categories of risk, the specific types of risks and the extent of such risks which the bank should undertake, as well as the mitigation of risks and overall capital management and allocation process. Senior members of the bank's risk management teams, who provide information for the meeting packs and present and contribute to the committee's discussions, attend these meetings.

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

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

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

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

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

EVA model: allocation of performance-related bonus pool

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

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

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

Our EVA model has been consistently applied for a period of about 18 years and encompasses the following elements:

- The profitability of each operating business unit is determined as if they are a stand-alone business. Gross revenue is determined based on the activity of the business, with arm's length pricing applicable to intersegment activity. Profits are determined as follows:
  - Realised gross revenue (net margin and other income)

- *Less*: Funding costs
- *Less*: Impairments for bad debts
  - *Add back:* Debt coupon or preference share dividends paid out of the business (where applicable)
  - *Less:* Direct operating costs (personnel, systems, etc.)
  - *Less:* Allocated costs and residual charges (certain independent group functions are provided on a centralised basis, with an allocation model applied to charge out costs incurred to business units. Costs allocated are based on the full operational costs for the particular central service area, inclusive of the variable remuneration cost of the central service. Allocation methodologies generally use cost drivers as the basis of allocation)
  - *Less:* Profits earned on retained earnings and statutory held capital
  - *Add:* Notional profit paid by centre on internal allocated capital
  - *Equals:* Net profits.
- Capital allocated is a function of both regulatory and internal capital requirements, the risk assumed within the business and our overall business strategy
- The bank has always held capital in excess of minimum regulatory requirements, and this principle is perpetuated in our internal capital allocation process. This process ensures that risk and capital discipline is embedded at the level of deal initiation and incorporates independent approval (outside of the business unit) of transactions by the various risk and credit committees

A detailed explanation of our capital management and allocation process is provided on pages 76 to 82.

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

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

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

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

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

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

recommendations for each team member taking into consideration qualitative and quantitative criteria (as mentioned above)

- Bonus recommendations are then subject to an extensive geographic review involving human resources, local management and local remuneration committees
- Thereafter, these recommendations are subject to a global review by executive management before the remuneration committee's review and approval process.

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

Deferral of annual bonus awards

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

Long-term incentive: share awards

We have a number of share option and long-term share incentive plans that are designed to align the interests of employees with those of shareholders and long-term organisational interests, and to build material share ownership over the long term through share awards. These share option and incentive plans are also used in appropriate circumstances as a mechanism for retaining the skills of key talent.

Awards are made in the form of forfeitable share awards other than for countries where the taxation of such awards is penal. In these cases awards are made in the form of conditional awards or market strike options.

In principle all employees are eligible for long-term incentives. Awards are considered by the remuneration committee and made only in the 42-day period following the release of our interim or final financial results in accordance with the Investment Association principles of remuneration. These awards comprise three elements, namely:

- 'New starter' awards are made based on a *de facto* non-discretionary basis using an allocation table linked to salary levels
- 'General allocation' awards are also *de facto* non-discretionary awards of the same quantum as new starter awards and are made to employees who have not had any other share award in a three-year period
- 'Top up' awards are made at the discretion of line management primarily to ensure multi-year performance and long-term value generation.

All proposed long-term incentive awards are recommended by business unit management, approved by the staff share executive committee and then the remuneration committee before being awarded.

Forfeitable shares are subject to one third vesting at the end of the third, fourth and fifth year, which we believe is appropriate for our business requirements. The awards are forfeited on termination, but 'good leaver' discretion is applied in exceptional circumstances.

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

For further information on the share option and long-term share incentive plans in operation and in which the directors are eligible to participate, refer to Investec's 2017 integrated annual report.

Non-executive directors' remuneration

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

Governance

Compliance and governance statement

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

Scope of our remuneration policy

The bank aims to apply remuneration policies to executive directors and employees that are largely consistent across the bank, but recognises that certain parts of the bank are governed by local regulations that may contain more onerous requirements in certain respects. In those cases, the higher requirements are applied to that part of the bank. Additionally, where any aspect of our remuneration policy contravenes local laws or regulations, the local laws or regulations shall prevail.

Audited information

Directors' annual remuneration

	Salaries, directors' fees and other remuneration 2017 R	Annual bonus 2017* R	Total remuneration expense 2017 R	Salaries, directors' fees and other remuneration 2016 R	Annual bonus 2016* R	Total remuneration expense 2016 R
Executive directors						
RJ Wainwright (chief executive officer)#	3 866 667	24 500 000	28 366 667	517 778	3 200 000	3 717 778
S Koseff (group chief executive officer)#	2 668 752	6 404 569	9 073 321	2 992 548	5 238 431	8 230 979
B Kantor (group managing director)	2 426 138	6 404 569	8 830 707	1 978 544	5 238 431	7 216 975
DM Lawrence (deputy chairman)	1 841 666	3 060 000	4 901 666	1 560 000	2 880 000	4 440 000
GR Burger (group risk and finance director)	2 250 000	15 469 969	17 719 969	2 250 000	12 653 213	14 903 213
NA Samujh (chief financial officer)^	2 466 667	12 000 000	14 466 667	–	–	–
B Tapnack	2 225 000	3 300 000	5 525 000	2 080 000	3 000 000	5 080 000
Total in Rands	**17 744 890**	**71 139 107**	**88 883 997**	**11 378 870**	**32 210 075**	**43 588 945**
Non-executive directors						
F Titi (chairman)	3 915 319	–	3 915 319	3 861 194	–	3 861 194
SE Abrahams	2 694 424	–	2 694 424	1 979 076	–	1 979 076
ZBM Bassa	305 000	–	305 000	290 000	–	290 000
D Friedland	1 305 000	–	1 305 000	2 255 509	–	2 255 509
KL Shuenyane	305 000	–	305 000	290 000	–	290 000
KXT Socikwa^^	–	–	–	212 083	–	212 083
PRS Thomas	1 873 640	–	1 873 640	2 033 420	–	2 033 420
Total in Rands	**10 398 383**	**–**	**10 398 383**	**10 921 282**	**–**	**10 921 282**
Total in Rands	**28 143 273**	**71 139 107**	**99 282 380**	**22 300 152**	**32 210 075**	**54 510 227**

* *As discussed on page 100, a portion of the bonus is received in cash and a portion is deferred with reference to the value of a predetermined number of Investec Limited shares over a three-year period.*

\# *S Koseff stepped down as CEO of Investec Bank Limited and R Wainwright was appointed as CEO of Investec Bank Limited on 1 February 2016.*

^ *NA Samujh was appointed to the board on 10 August 2016.*

^^ *KXT Socikwa did not offer himself for re-election at the annual general meeting held on 6 August 2015.*

Directors' shareholdings in Investec plc and Investec Limited shares at 31 March 2017

	Beneficial and non-beneficial interest		% of shares in issue[1]	Beneficial and non-beneficial interest		% of shares in issue[1]
	Investec plc[2]		Investec plc	Investec Limited[3]		Investec Limited
	31 March 2017	1 April 2016	31 March 2017	31 March 2017	1 April 2016	31 March 2017
Executive directors						
RJ Wainwright (chief executive officer)#	–	–	–	486 065	458 298	0.2%
S Koseff (group chief executive officer)#	5 295 775	5 274 035	0.8%	1 234 399	1 234 399	0.4%
B Kantor (group managing director)	1 164 359	832 657	0.2%	2 300 500	2 800 500	0.8%
DM Lawrence (deputy chairman)	749 410	749 410	–	100 590	100 590	–
GR Burger (group risk and finance director)	3 488 675	3 316 390	0.5%	327 076	327 076	0.1%
NA Samujh (chief financial officer)^^	625	625	–	17 261	1 139	–
B Tapnack	–	75 595	–	–	40 000	–
Total number	**10 698 844**	**10 248 712**	**1.5%**	**4 465 891**	**4 962 002**	**1.5%**
Non-executive directors						
F Titi (chairman)	–	–	–	–	–	–
SE Abrahams	–	–	–	–	–	–
ZBM Bassa	–	–	–	–	–	–
D Friedland	–	–	–	–	–	–
KL Shuenyane	19 900	19 900	–	–	–	–
PRS Thomas	–	–	–	–	–	–
Total number	**19 900**	**19 900**	**–**	**–**	**–**	**–**
Total number	**10 718 744**	**10 268 612**	**1.5%**	**4 465 891**	**4 962 002**	**1.5%**

The table above reflects holdings of shares by current directors.

1 *The issued share capital of Investec plc and Investec Limited at 31 March 2017 was 657.1 million and 301.2 million shares, respectively.*

2 *The market price of an Investec plc share at 31 March 2017 was £5.44 (2016: £5.13), ranging from a low of £4.19 to a high of £6.19 during the financial year.*

3 *The market price of an Investec Limited share as at 31 March 2017 was R91.46 (2016: R109.91), ranging from a low of R81.46 to a high of R112.11 during the financial year.*

\# *S Koseff stepped down as CEO of Investec Bank Limited and RJ Wainwright was appointed as CEO of Investec Bank Limited on 1 February 2016.*

^^ *NA Samujh was appointed to the board on 10 August 2016.*

Directors' interest in preference shares at 31 March 2017

	Investec Bank Limited		Investec Limited		Investec plc	
	31 March 2017	1 April 2016	31 March 2017	1 April 2016	31 March 2017	1 April 2016
Executive directors						
S Koseff	4 000	4 000	3 000	3 000	12 139	101 198
DM Lawrence	5 116	4 000	12 659	5 400	–	–
B Tapnack	2 000	2 000	8 620	8 620	–	9 058
RJ Wainwright	–	–	–	–	–	18 119

- *S Koseff disposed of holdings in his Investec plc preference shares on 27 July 2016. 80 000 Investec plc preference shares were tendered at £5.75 per share and a further 9 059 Investec plc preference shares were traded at R103.38 per share.*
- *B Tapnack disposed of holdings in his Investec plc preference shares on 27 July 2016. 9 058 Investec plc preference shares were tendered at R103.38 per share.*
- *RJ Wainwright disposed of holdings in his Investec plc preference shares on 27 July 2016. 18 119 Investec plc preference shares were tendered at R103.38 per share.*
- *The market price of an Investec Limited preference share at 31 March 2017 was R75.00 (2016: R73.20).*
- *The market price of an Investec Bank Limited preference share at 31 March 2017 was R82.00 (2016: R79.00).*

Directors' interest in options at 31 March 2017

Investec plc shares

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

Investec Limited shares

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

Directors' interest in long-term incentive plans at 31 March 2017

Investec Limited shares

Name	Date of grant	Exercise price	Number of Investec Limited shares at 1 April 2016	Exercised during the year	Options granted/ lapsed during the year	Balance at 31 March 2017	Market price at date of exercise	Gross gains made on date of exercise	Period exercisable
B Tapnack	23 December 2011	Nil	25 000	(25 000)	–	–	R89.87	R2 246 845	
	13 June 2013	Nil	50 000	–	–	50 000			75% is exercisable on 13 June 2017 and 25% on 13 June 2018
RJ Wainwright	11 December 2012	Nil	150 000	(112 500)	–	37 500	R92.22	R10 374 357	75% was exercisable on 11 December 2016 and 25% on 11 December 2017
	4 June 2013	Nil	150 000	–	–	150 000			75% is exercisable on 4 June 2017 and 25% on 4 June 2018
	27 May 2014	Nil	175 000	–	–	175 000			75% is exercisable on 27 May 2018 and 25% on 27 May 2019
	1 June 2015	Nil	125 000	–	–	125 000			75% is exercisable on 1 June 2019 and 25% on 1 June 2020
	2 June 2016	Nil	–	–	150 000	150 000			One third of the conditional award is exercisable on 2 June 2019; one third on 2 June 2020 and the final third on 2 June 2021
NA Samujh	11 December 2012	Nil	100 000	(75 000)	–	25 000	R91.96	R6 897 615	75% was exercisable on 11 December 2016 and 25% on 11 December 2017
	4 June 2013	Nil	75 000	–	–	75 000			75% is exercisable on 4 June 2017 and 25% on 4 June 2018
	27 May 2014	Nil	75 000	–	–	75 000			75% is exercisable on 27 May 2018 and 25% on 27 May 2019
	1 June 2015	Nil	80 000	–	–	80 000			75% is exercisable on 1 June 2019 and 25% on 1 June 2020
	2 June 2016	Nil	–	–	100 000	100 000			One third of the conditional award is exercisable on 2 June 2019; one third on 2 June 2020 and the final third on 2 June 2021

These options are not subject to performance conditions.

Directors' interests in the Investec plc Executive Incentive Plan 2013 at 31 March 2017

Long-term share awards made in respect of the financial year ending 31 March 2013

Name	Number of Investec plc shares awarded on 16 September 2013	Exercise price	Performance period	Performance conditions met (Y/N)	Additional shares awarded for performance conditions being met	Balance at 31 March 2017	Period exercisable	Retention period
S Koseff	600 000	Nil	1 April 2013 to 31 March 2016	Yes	204 617	804 617	Seventy five percent is exercisable on 16 September 2017; and	16 September 2017 to 16 March 2018
							Twenty five percent on 16 September 2018, subject to performance criteria being met	16 September 2018 to 16 March 2019
B Kantor	600 000	Nil	1 April 2013 to 31 March 2016	Yes	204 617	804 617	Seventy five percent is exercisable on 16 September 2017; and	16 September 2017 to 16 March 2018
							Twenty five percent on 16 September 2018, subject to performance criteria being met	16 September 2018 to 16 March 2019
GR Burger	600 000	Nil	1 April 2013 to 31 March 2016	Yes	204 617	804 617	Seventy five percent is exercisable on 16 September 2017; and	16 September 2017 to 16 March 2018
							Twenty five percent on 16 September 2018, subject to performance criteria being met	16 September 2018 to 16 March 2019

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

The performance criteria in respect of these awards were met and detailed in Investec's 2016 integrated annual report. These awards have now vested subject to the retention periods reflected above.

Directors' interests in the Investec plc Executive Incentive Plan 2013 at 31 March 2017

Long-term share awards granted in respect of the 2016 financial year

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2016	Conditional awards made during the year	Balance at 31 March 2017	Performance period	Period exercisable	Retention period
S Koseff	2 June 2016	Nil	–	314 225	314 225	1 April 2016 to 31 March 2019	One third is exercisable on 2 June 2019; one third on 2 June 2020 and the final third on 2 June 2021 subject to performance criteria being met	A further six-month retention after vesting date
B Kantor	2 June 2016	Nil	–	314 225	314 225	1 April 2016 to 31 March 2019	One third is exercisable on 2 June 2019; one third on 2 June 2020 and the final third on 2 June 2021 subject to performance criteria being met	A further six-month retention after vesting date
GR Burger	2 June 2016	Nil	–	277 801	277 801	1 April 2016 to 31 March 2019	One third is exercisable on 2 June 2019; one third on 2 June 2020 and the final third on 2 June 2021 subject to performance criteria being met	A further six-month retention after vesting date

The Executive Incentive Plan and the awards made thereunder were approved at the August 2015 annual general meeting.
On 2 June 2016, 314 225 conditional awards were awarded to S Koseff and B Kantor, and 277 801 to GR Burger. These awards formed part of their variable remuneration in respect of the financial year ending 31 March 2016. The performance criteria in respect of these awards are detailed in Investec's 2017 integrated annual report. These awards have not yet vested. The face value at grant for these awards amounted to £1 480 000 for S Koseff and B Kantor, and £1 308 000 for GR Burger based on the share price for Investec plc at the time of grant.

Long-term share awards granted in respect of the 2017 financial year

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2017	Conditional awards made during the year	Performance period	Period exercisable	Retention period
S Koseff	8 June 2017	Nil	–	252 130	1 April 2017 to 31 March 2020	Twenty per cent is exercisable on 8 June each year, commencing on 8 June 2020 until 8 June 2024 subject to performance criteria being met	A further six-month retention after vesting date
B Kantor	8 June 2017	Nil	–	252 130	1 April 2017 to 31 March 2020	Twenty per cent is exercisable on 8 June each year, commencing on 8 June 2020 until 8 June 2024 subject to performance criteria being met	A further six-month retention after vesting date
GR Burger	8 June 2017	Nil	–	227 651	1 April 2017 to 31 March 2020	Twenty per cent is exercisable on 8 June each year, commencing on 8 June 2020 until 8 June 2024 subject to performance criteria being met	A further six-month retention after vesting date

The Executive Incentive Plan and the awards made thereunder were approved at the August 2015 annual general meeting.
On 8 June 2017, 252 130 conditional awards were awarded to S Koseff and B Kantor, and 227 651 to GR Burger. These awards formed part of their variable remuneration in respect of the financial year ending 31 March 2017. The performance criteria in respect of these awards are detailed in Investec's 2017 integrated annual report. These awards have not yet vested. The face value at grant for these awards amounted to £1 480 000 for S Koseff and B Kantor, and £1 336 309 for GR Burger based on the average of the closing share price for Investec plc from 2 June 2017 to 7 June 2017.

Additional remuneration disclosures (unaudited)

Pillar III remuneration disclosures

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

The bank's qualitative remuneration disclosures are provided on pages 96 to 100 and further information is provided in Investec's 2017 integrated annual report.

The information contained in the tables below sets out the bank's quantitative disclosures for the year ended 31 March 2017.

Aggregate remuneration by remuneration type

R'million	Senior management^	Risk takers^	Financial and risk control staff^	Total
Fixed remuneration	**42.6**	**56.2**	**138.5**	**237.3**
Variable remuneration*				
– Cash	82.3	88.6	59.0	229.9
– Deferred shares	38.6	47.4	1.5	87.5
– Deferred cash	28.0	–	–	28.0
– Deferred shares – long-term incentive awards**	60.2	43.1	38.3	141.6
Total aggregate remuneration and deferred incentives	**251.7**	**235.3**	**237.3**	**724.3**

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

* *Total number of employees receiving variable remuneration was 240.*

** *Value represents the number of shares awarded multiplied by the applicable share price. These awards were made during the period but have not yet vested. These awards are subject to vesting of one third at the end of years three, four and five.*

Additional disclosure on deferred remuneration

R'million	Senior management^	Risk takers^	Financial and risk control staff^	Total
Deferred unvested remuneration outstanding at the beginning of the year	483.7	353.0	224.9	1 061.6
Deferred unvested remuneration adjustment – employees that are no longer employed by the bank and reclassifications	(80.9)	32.2	(44.6)	(93.3)
Deferred remuneration awarded in year	126.8	90.5	39.8	257.1
Deferred remuneration reduced in year through performance adjustments	–	–	–	–
Deferred remuneration vested in year	(67.6)	(50.8)	(20.2)	(138.6)
Deferred unvested remuneration outstanding at the end of the year	**462.0**	**424.9**	**199.9**	**1 086.6**

R'million	Senior management^	Risk takers^	Financial and risk control staff^	Total
Deferred unvested remuneration outstanding at the end of the year				
– Equity	394.7	424.9	199.9	1 019.5
– Cash	67.3	–	–	67.3
– Other	–	–	–	–
	462.0	**424.9**	**199.9**	**1 086.8**

R'million	Senior management^	Risk takers^	Financial and risk control staff^	Total
Deferred remuneration vested in year				
– For awards made in the 2015 financial year	18.4	16.7	1.0	36.1
– For awards made in the 2014 financial year	14.1	13.0	0.7	27.8
– For awards made in the 2013 financial year	35.1	21.1	18.5	74.7
	67.6	**50.8**	**20.2**	**138.6**

Other remuneration disclosures

R'million	Senior management^	Risk takers^	Financial and risk control staff^	Total
Sign-on payments				
Made during the year (R'million)	–	6.0	0.7	6.7
Number of beneficiaries	–	2	2	4
Severance payments				
Made during the year (R'million)	–	–	–	–
Number of beneficiaries	–	–	–	–
Guaranteed bonuses				
Made during the year (R'million)	–	–	–	–
Number of beneficiaries	–	–	–	–

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

05

Annual financial statements

Directors' responsibility statement

The directors are responsible for the preparation and fair presentation of the group annual financial statements and the annual financial statements of Investec Bank Limited, comprising the balance sheets at 31 March 2017, and the income statements and statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the annual financial statements, accounting policies, and the directors' report, in accordance with International Financial Reporting Standards (IFRS), South African Institute of Charted Accounts (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Standards Council, and in the manner required by the Companies Act, No 71 of 2008, as amended.

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

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

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

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

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

The Investec Bank Limited group and company annual financial statements, as identified in the first paragraph, were approved by the board of directors on 9 June 2017 and signed on its behalf by:

Fani Titi
Chairman

Richard Wainwright
Chief executive officer

9 June 2017

Declaration by the company secretary

In terms of section 88(2)(e) of the South African Companies Act, No 71 of 2008, as amended (the Act), I hereby certify that, to the best of my knowledge and belief, Investec Bank Limited has lodged with the Companies and Intellectual Property Commission, for the financial year ended 31 March 2017, all such returns as are required in terms of the Act and that all such returns are true, correct and up to date.

Niki van Wyk
Company secretary, Investec Bank Limited

9 June 2017

Directors' report

Nature of business

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

Financial results

The group and company financial results of Investec Bank Limited are set out in the annual financial statements and accompanying notes for the year ended 31 March 2017.

A review of the operations for the year can be found on pages 12 to 20.

The preparation of the group and company annual financial statements was supervised by the chief financial officer, Nishlan Samujh.

Authorised and issued share capital

Details of the share capital are set out in notes 39 and 40 of the annual financial statements.

Ordinary dividends

The following dividend was declared and paid during the year:

- R900 000 000 was declared and paid on 29 September 2016

Preference dividends

Non-redeemable non-cumulative non-participating preference shares

Preference dividend number 27 for the six months ended 30 September 2016, amounting to 438.68108 cents per share, was declared to members holding preference shares registered on 02 December 2016 and was paid on 12 December 2016.

Preference dividend number 28 for the six months ended 31 March 2017 amounting to 436.28392 cents per share, was declared to members holding preference shares registered on 09 June 2017 and will be paid on 19 June 2017.

Directors

Details of the directors are reflected on pages 89 to 90.

Directors' shareholdings

No director holds any ordinary shares in Investec Bank Limited.

Directors' shareholdings in Investec Limited and Investec plc and in Investec Bank Limited's preference shares are set out on pages 102 and 105.

Directors' remuneration

Directors' remuneration is disclosed on pages 18, 96 – 107, 137.

Company secretary and registered office

The company secretary is Niki van Wyk. The registered office is c/o Company Secretarial, Investec Limited, 100 Grayston Drive, Sandown, Sandton 2196.

Audit committee

The auditors' report is disclosed on pages 112 to 116.

Social and ethics committee

As allowed under the Companies Act, No 71 of 2008, as amended, the social and ethics committee of Investec Limited performs the necessary functions required on behalf of Investec Bank Limited. Further details on the role and responsibilities of the social and ethics committee are set out in Investec's 2017 integrated annual report.

Auditors

KPMG Inc. and Ernst & Young Inc. have expressed their willingness to continue in office as joint auditors. A resolution to reappoint KPMG Inc. and Ernst & Young Inc. as joint auditors will be proposed at the annual general meeting taking place on 10 August 2017.

Holding company

The bank's holding company is Investec Limited.

Major shareholders

Investec Limited owns 100% of the issued ordinary shares.

Subsidiary and associated companies

Details of principal subsidiary companies are reflected on page 182 and the associate companies on page 175.

The interest of the company in the aggregate profits after taxation of its subsidiary companies is R682.0 million (2016: R795.0 million) and its share in aggregate losses is R1.0 million (2016: R8.0 million).

Special resolutions

At the annual general meeting of members held on 4 August 2016, the following special resolutions were passed in terms of which:

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

Accounting policies and disclosure

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

These policies are set out on pages 125 to 133.

Employees

The group's policy is to recruit and promote on the basis of aptitude and ability, without discrimination of any kind. Applications for employment by disabled people are always considered, bearing in mind the qualifications and abilities of the applicants. In the event of employees becoming disabled, every effort is made to ensure their continued employment. The group's policy is to adopt an open management style, thereby encouraging informal consultation at all levels about aspects of the group's operations, and motivating staff involvement in the group's performance by means of employee share schemes.

Further information is provided in Investec's 2017 integrated annual report.

Political donations and expenditure

Invested Bank Limited made political donations totalling R3.5 million in 2017 (2016: R1.5 million).

Empowerment and transformation

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

Environment

Investec Bank Limited is committed to pursuing sound environmental policies in all aspects of its business, and seeks to encourage and promote good environmental practice among its employees and within the communities in which it operates.

Further information is provided in Investec's 2017 integrated annual report.

Subsequent events

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

Going concern

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

Fani Titi
Chairman

Richard Wainwright
Chief executive officer

9 June 2017

Independent auditors' report

To the shareholder of Investec Bank Limited

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of Investec Bank Limited (the group and company), which comprise the balance sheets as at 31 March 2017, and the income statements, the statements of comprehensive income, the statements of changes in equity and the cash flow statements for the year then ended, and notes to the financial statements, including a summary of significant accounting policies set out on pages 117 to 203 and the specified disclosures within the Risk management and corporate governance report and Remuneration report that are marked as audited.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Investec Bank Limited as at 31 March 2017, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the consolidated and separate financial statements section of our report. We are independent of the group and company in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements of Investec Bank Limited. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits of Investec Bank Limited. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the matter
Monitoring of credit quality and the appropriateness of the allowance for credit losses, including the risk of management override	
Loans and advances to customers and the associated impairment of loans and advances to customers are significant. The appropriateness of the allowance for credit losses is subjective due to the high degree of judgement applied by management in determining the timing of recognition and estimation in size of any allowance for credit losses at the balance sheet date. Given the inherent subjectivity in the valuation, as well as the material nature of the allowance for credit losses, we have classified the appropriateness of the allowance for credit losses as a key audit matter in our audit of the consolidated and separate financial statements. Collective impairments on portfolios of similar, homogenous assets are determined using sophisticated modelling techniques. The models used to determine credit impairments are complex, and certain inputs used are not fully observable. Significant judgements are applied to the modelling design and inputs. Specific impairment allowances are determined on specific financial assets. Significant estimates, judgements and assumptions have been made by management to estimate recoverability, including evaluating the adequacy and accessibility of collateral and determining the expected timing and amount of future cash flows. Refer to the accounting policies (page 133); and note 24 of the consolidated and separate financial statements (page 172).	We evaluated the appropriateness of accounting policies and assessed the loan impairment methodologies applied, and compared these to the requirements of IAS 39 Financial instruments: Recognition and Measurement. We documented and tested management's processes and controls for credit origination and monitoring, as well as for assessing, calculating and accounting for the allowance for credit losses, including the governance over the impairment process and the identification of impairment events. In particular we focused on the controls over the monitoring of loans with higher risk of default, annual loan credit file reviews and assessment and approval of impairment provisions including the valuation of collateral held for impaired exposures. For impairments determined on specific assets, our audit procedures included the following: • We selected a sample of loans and advances that had been assessed and impaired, including those on the watch list after performing a risk assessment on the portfolio, to understand the latest developments which influence performance and recoverability. We independently assessed the valuation of the allowance for credit losses including developing our own expectation of the allowance amount • We performed additional scenario and sensitivity analyses on the expected performance of certain exposures which are affected by the current macroeconomic environment. We based this on our own independent judgement and market available information to form an independent view of the appropriateness of management's loan loss allowance assessments • We also applied our judgement in selecting additional loans that were not impaired to test whether the assessment by management was appropriate. We formed our own independent view on the appropriateness of the conclusions reached based on our own knowledge and external evidence to support our conclusions • We assessed management's assumptions about future cash flow projections and the valuation of and rights to collateral held, against legal contracts and other supporting documents, against our previous experience and available market information. For collective impairments determined on a model basis, our audit procedures included the following, performed in conjunction with our risk specialists: • We critically assessed the appropriateness of the methodologies and assumptions underlying the provisioning models; • We tested the information used in the models back to source systems and input data; and • We performed a reasonableness assessment by comparing the collective impairments against an independent model estimate calculated using our independent challenger models applied to the entity's historical data.

Independent auditors' report

(continued)

Valuation of complex/illiquid financial instruments, unlisted investments and embedded derivatives, including the risk of management override	
There are portfolios of financial assets that are required to be fair valued under the requirements of IAS 39. The valuation of complex/illiquid financial instruments, unlisted investments and embedded derivatives is complex, requiring a high level of judgement in applying appropriate valuation techniques, unobservable valuation inputs and assumptions. Financial instruments have an element of estimation uncertainty inherent in their balance sheet values. The estimation uncertainty is higher for the valuation of level 3 financial instruments, such as unlisted equity investments, which include significant unobservable inputs and for which there is necessarily a large degree of subjectivity surrounding the various inputs. With volatility in the global financial markets and the lack of observable liquid market inputs, determining appropriate valuations continues to be difficult and highly judgemental. This may result in subjective fair value movements which are material. Accordingly the valuation of complex/illiquid financial instruments, unlisted investments and embedded derivatives is a key audit matter in our audit of the consolidated and separate financial statements. Refer to the accounting policies (page 133); and note 12 of the consolidated financial statements (page 154).	We tested the design and operating effectiveness of controls for the valuation of financial instruments. Together with our valuations specialists, we performed a detailed examination of management's valuation methodologies and models and assessed the appropriateness of these against market practice and our prior experience. We assessed the appropriateness and consistency of model inputs and key assumptions for a sample of positions against our understanding of the positions and, where possible, against market observable information. Where such inputs and assumptions were not observable in the market our valuation specialists critically assessed whether they fell within an acceptable range based on relevant knowledge and experience of the market. For certain unlisted investments, management applies a portfolio valuation adjustment to account for estimation and macroeconomic risks that are not included in the model valuations. Together with our valuations specialists, we have formed independent estimates for acceptable valuation ranges of these investments and compared these to management's estimate in assessing the appropriateness of the portfolio valuation adjustment.

Other information

The directors are responsible for the other information. The other information comprises the directors' report, the declaration by the company secretary, the audit committee report as required by the Companies Act of South Africa and all other information included in the annual report that is not marked as audited. Other information does not include the consolidated and separate financial statements and our auditors' report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

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

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and/or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 group's and the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group and / or the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Ernst & Young Inc. and KPMG Inc. have been the auditors of Investec Bank Limited for 23 and 48 years respectively.

Ernst & Young Inc.

Ernst &Young Inc.
Registered Auditor

Per Farouk Mohideen
Chartered Accountant (SA)
Registered Auditor
Director

EY
102 Rivonia Road
Sandton
Sandton 2196
Johannesburg

9 June 2017

KPMG Inc.

KPMG Inc.
Registered Auditor

Per Peter MacDonald
Chartered Accountant (SA)
Registered Auditor
Director

KPMG Crescent
85 Empire Road
Parktown 2193
Johannesburg

9 June 2017

Income statements

For the year to 31 March R'million	Notes	Group 2017	Group 2016	Company 2017	Company 2016
Interest income	1	29 716	23 515	28 898	22 613
Interest expense	1	(22 297)	(16 803)	(22 588)	(16 978)
Net interest income		**7 419**	**6 712**	**6 310**	**5 635**
Fee and commission income	2	2 235	1 945	1 839	1 647
Fee and commission expense	2	(236)	(207)	(201)	(165)
Investment income	3	472	1 356	997	2 284
Share of post taxation operating profit/(loss) of associates	26	306	(11)*	303	–
Trading income arising from					
– customer flow		486	293	486	302
– balance sheet management and other trading activities		70	298	70	345
Other operating income	4	2	2*	–	1
Total operating income before impairment losses on loans and advances		**10 754**	**10 388**	**9 804**	**10 049**
Impairment losses on loans and advances	24	(657)	(517)	(572)	(496)
Operating income		**10 097**	**9 871**	**9 232**	**9 553**
Operating costs	5	(5 887)	(5 537)	(5 330)	(5 086)
Operating profit before acquired intangibles		**4 210**	**4 334**	**3 902**	**4 467**
Amortisation of acquired intangibles	31	(51)	(39)	–	–
Profit before taxation		**4 159**	**4 295**	**3 902**	**4 467**
Taxation on operating profit before acquired intangibles	7	(944)	(831)	(681)	(766)
Taxation on acquired intangibles	7	14	11	–	–
Profit after taxation		**3 229**	**3 475**	**3 221**	**3 701**

* *Share of post taxation operation profit/(loss) of associates has been disclosed separately from other operating income in the prior year.*

Statements of comprehensive income

For the year to 31 March R'million	Notes	Group 2017	Group 2016	Company 2017	Company 2016
Profit after taxation		3 229	3 475	3 221	3 701
Other comprehensive income:					
Items that may be reclassified to the income statement					
Fair value movements on cash flow hedges taken directly to other comprehensive income	7	943	(699)	879	(645)
Fair value movements on available-for-sale assets taken directly to other comprehensive income	7	701	(717)	669	(683)
Gain on realisation of available-for-sale assets recycled through the income statement	7	(61)	(13)	(61)	(13)
Foreign currency adjustments on translating foreign operations		(479)	1 040	–	–
Total comprehensive income		**4 333**	**3 086**	**4 708**	**2 360**
Total comprehensive income attributable to ordinary shareholders		4 202	2 966	4 577	2 240
Total comprehensive income attributable to perpetual preference shareholders		131	120	131	120
Total comprehensive income		**4 333**	**3 086**	**4 708**	**2 360**

As at 31 March R'million	Notes	Group 2017	Group 2016	Company 2017	Company 2016
Assets					
Cash and balances at central banks	15	8 353	7 801	8 169	7 654
Loans and advances to banks	16	31 937	26 779	21 118	21 385
Non-sovereign and non-bank cash placements		8 993	9 858	9 044	9 982
Reverse repurchase agreements and cash collateral on securities borrowed	17	26 627	38 912	26 627	38 912
Sovereign debt securities	18	47 822	41 325	47 524	41 325
Bank debt securities	19	7 758	13 968	6 305	12 317
Other debt securities	20	11 945	12 761	10 602	11 354
Derivative financial instruments	21	9 856	15 843	9 667	15 616
Securities arising from trading activities	22	653	992	653	992
Investment portfolio	23	7 204	6 360	6 868	5 923
Loans and advances to customers	24	225 669	207 272	213 259	194 578
Own originated loans and advances to customers securitised	25	7 776	7 967	–	–
Other loans and advances	24	310	367	318	373
Other securitised assets	25	100	115	–	–
Interest in associated undertakings	26	5 514	5 145	5 413	5 086
Deferred taxation assets	27	388	116	260	–
Other assets	28	5 266	3 656	2 792	1 734
Property and equipment	29	274	236	235	198
Investment properties	30	1	1	1	1
Goodwill	32	171	171	–	–
Intangible assets	31	508	524	166	133
Loans to group companies*	33	18 106	11 811	12 870	7 740
Investment in subsidiaries*	34	–	–	13 362	7 824
Non-current assets held for sale		456	–	456	–
		425 687	**411 980**	**395 709**	**383 127**
Liabilities					
Deposits by banks		32 378	37 242	32 378	37 108
Derivative financial instruments	21	12 556	13 424	12 556	13 424
Other trading liabilities	35	1 667	1 405	1 667	1 405
Repurchase agreements and cash collateral on securities lent	17	7 825	16 916	6 462	15 325
Customer accounts (deposits)		303 397	279 736	287 174	263 778
Debt securities in issue	36	5 823	7 665	4 778	6 670
Liabilities arising on securitisation of own originated loans and advances	25	673	809	–	–
Current taxation liabilities		977	671	991	950
Deferred taxation liabilities	27	109	122	–	–
Other liabilities	37	5 995	5 042	4 850	4 037
Loans from group companies and subsidiaries*	33	5 942	6 351	1 907	3 609
		377 342	**369 383**	**352 763**	**346 306**
Subordinated liabilities	38	13 180	10 732	13 180	10 732
		390 522	**380 115**	**365 943**	**357 038**
Equity					
Ordinary share capital	39	32	32	32	32
Share premium	41	14 885	14 885	14 885	14 885
Other reserves		1 662	566	(763)	(2 250)
Retained income		18 586	16 382	15 612	13 422
Total equity		**35 165**	**31 865**	**29 766**	**26 089**
Total liabilities and equity		**425 687**	**411 980**	**395 709**	**383 127**

* *Restated, refer to note 'loans to group companies and loans from group companies and subsidiaries' on page 181.*

Statements of changes in equity

R'million	Ordinary share capital	Share premium
Group		
At 1 April 2015	**32**	**14 885**
Movement in reserves 1 April 2015 – 31 March 2016		
Profit after taxation	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–
Gain on realisation of available-for-sale assets recycled through the income statement	–	–
Foreign currency adjustments on translating foreign operations	–	–
Total comprehensive income	**–**	**–**
Dividends paid to perpetual preference shareholders	–	–
Transfer to regulatory general risk reserve	–	–
At 31 March 2016	**32**	**14 885**
Movement in reserves 1 April 2016 – 31 March 2017		
Profit after taxation	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–
Gain on realisation of available-for-sale assets recycled through the income statement	–	–
Foreign currency adjustments on translating foreign operations	–	–
Total comprehensive income	**–**	**–**
Dividends paid to ordinary shareholders	–	–
Dividends paid to perpetual preference shareholders	–	–
Other equity movements	–	–
At 31 March 2017	**32**	**14 885**

Statements of changes in equity

(continued)

Other reserves					
Available for-sale reserve	**Regulatory general risk reserve**	**Cash flow hedge reserve**	**Foreign currency reserve**	**Retained income**	**Total equity**
218	**482**	**(1 140)**	**1 204**	**13 218**	**28 899**
–	–	–	–	3 475	3 475
–	–	(699)	–	–	(699)
(717)	–	–	–	–	(717)
(13)	–	–	–	–	(13)
–	–	–	1 040	–	1 040
(730)	**–**	**(699)**	**1 040**	**3 475**	**3 086**
–	–	–	–	(120)	(120)
–	191	–	–	(191)	–
(512)	**673**	**(1 839)**	**2 244**	**16 382**	**31 865**
–	–	–	–	3 229	3 229
–	–	943	–	–	943
701	–	–	–	–	701
(61)	–	–	–	–	(61)
–	–	–	(479)	–	(479)
640	**–**	**943**	**(479)**	**3 229**	**4 333**
–	–	–	–	(900)	(900)
–	–	–	–	(131)	(131)
–	(8)	–	–	6	(2)
128	**665**	**(896)**	**1 765**	**18 586**	**35 165**

Statements of changes in equity

(continued)

R'million	Ordinary share capital	Share premium
Company		
At 1 April 2015	**32**	**14 885**
Movement in reserves 1 April 2015 – 31 March 2016		
Profit after taxation	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–
Gain on realisation of available-for-sale assets recycled through the income statement	–	–
Total comprehensive income	**–**	**–**
Dividends paid to perpetual preference shareholders	–	–
At 31 March 2016	**32**	**14 885**
Movement in reserves 1 April 2016 – 31 March 2017		
Profit after taxation	–	–
Fair value movements on cash flow hedges taken directly to other comprehensive income	–	–
Fair value movements on available-for-sale assets taken directly to other comprehensive income	–	–
Gain on realisation of available-for-sale assets recycled through the income statement	–	–
Total comprehensive income	**–**	**–**
Dividends paid to ordinary shareholders	–	–
Dividends paid to perpetual preference shareholders	–	–
At 31 March 2017	**32**	**14 885**

Statements of changes in equity

(continued)

Other reserves				
Available-for-sale reserve	Cash flow hedge reserve	Foreign currency reserve	Retained income	Total equity
221	**(1 133)**	**3**	**9 841**	**23 849**
–	–	–	3 701	3 701
–	(645)	–	–	(645)
(683)	–	–	–	(683)
(13)	–	–	–	(13)
(696)	**(645)**	**–**	**3 701**	**2 360**
–	–	–	(120)	(120)
(475)	**(1 778)**	**3**	**13 422**	**26 089**
–	–	–	3 221	3 221
–	879	–	–	879
669	–	–	–	669
(61)	–	–	–	(61)
608	**879**	**–**	**3 221**	**4 708**
–	–	–	(900)	(900)
–	–	–	(131)	(131)
133	**(899)**	**3**	**15 612**	**29 766**

Cash flow statements

For the year to 31 March R'million	Notes	Group 2017	Group 2016	Company 2017	Company 2016
Cash flows from operating activities					
Profit before taxation adjusted for non-cash items	43	4 712	5 133	4 308	5 224
Taxation paid		(502)	(1 943)	(494)	(1 657)
Increase in operating assets*	43	(10 324)	(66 888)	(13 316)	(62 960)
Increase in operating liabilities*	43	9 335	66 167	6 416	60 079
Net cash inflow from operating activities		**3 221**	**2 469**	**(3 086)**	**686**
Cash flows from investing activities					
Cash flow on acquisition of property, equipment and intangible assets		(274)	(149)	(258)	(127)
Cash flow on disposal of property, equipment and intangible assets		30	17	31	17
Net increase in investment in subsidiaries*		–	(367)	–	–
Net cash outflow from investing activities		**(244)**	**(499)**	**(227)**	**(110)**
Cash flows from financing activities					
Dividends paid to ordinary shareholders		(900)	–	(900)	–
Dividends paid to perpetual preference shareholders		(131)	(120)	(131)	(120)
Proceeds from subordinated debt raised		4 870	1 360	4 870	1 360
Repayment of subordinated debt		(2 519)	(1 283)	(2 519)	(1 283)
Net cash inflow/(outflow) from financing activities		**1 320**	**(43)**	**1 320**	**(43)**
Effects of exchange rates on cash and cash equivalents		**(756)**	**773**	**–**	**–**
Net increase/(decrease) in cash and cash equivalents		**3 541**	**2 700**	**(1 993)**	**533**
Cash and cash equivalents at the beginning of the year		26 483	23 783	21 066	20 533
Cash and cash equivalents at the end of the year		**30 024**	**26 483**	**19 073**	**21 066**
Cash and cash equivalents is defined as including:					
Cash and balances at central banks		8 353	7 801	8 169	7 654
On demand loans and advances to banks		12 678	8 824	1 860	3 430
Non-sovereign and non-bank cash placements		8 993	9 858	9 044	9 982
Cash and cash equivalents at the end of the year		**30 024**	**26 483**	**19 073**	**21 066**

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

* *Restated, refer to note 'loans to group companies and loans from group companies and subsidiaries' on page 181.*

Basis of presentation

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

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

'Group' refers to group and company in the accounting policies that follow unless specifically stated otherwise.

Accounting policies applied are consistent with those of 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 22 to 82.

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 2017 integrated annual report.

Basis of consolidation

All subsidiaries or structured entities are consolidated when the group controls an investee. The group controls an investee if it is exposed to, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial results of subsidiaries are included in the consolidated annual financial statements of the group from the date on which control is obtained until the date the group can no longer demonstrate control. The group performs a reassessment of control whenever there is a change in the substance of the relationship between Investec and an entity. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. The group also holds investments for example, in private equity investments which give rise to significant, but not majority, voting rights. Assessing these voting rights and whether Investec controls these entities requires judgement that affects the date at which subsidiaries are consolidated or deconsolidated.

Entities, other than subsidiary undertakings, in which the group exercises significant influence over operating and financial policies are treated as interests in associated undertakings. Interests in associated undertakings are accounted for using the equity method from the date that significant influence commences until the date that significant influence ceases. In circumstances where interests in associated undertakings or joint venture holdings arise in which the group has no strategic intention, these investments are classified as 'venture capital' holdings and are designated as held at fair value through profit or loss.

For equity accounted associates, the financial statements include the attributable share of the results and reserves of associated undertakings. The group's interests in associated undertakings are included in the balance sheet at cost plus the post-acquisition changes in the group's share of the net assets of the associate.

The group balance sheet reflects the associated undertakings net of accumulated impairment losses.

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

All intergroup balances, transactions and unrealised gains or losses within the group 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. This includes revenues and expenses that relate to transactions with any of the group's other components. The operating results of the operating segment are reviewed regularly by chief operating decision-makers which include members of the board and for which discrete financial information is available.

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

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition date fair value and the amount of any prior non-controlling interest in the acquiree. For each business combination, the group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed immediately in the income statement.

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and the designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the group's previously held equity interest in the acquiree is remeasured to fair value at each acquisition date through the income statement.

Any contingent consideration to be transferred by the group will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 in the income statement. If the contingent consideration is classified as equity, it will not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration and amount recognised for non-controlling interest is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the income statement as a gain in the year of acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. The group tests goodwill acquired in a business combination for impairment annually, irrespective of whether an indication of impairment exists and in accordance with IAS 36.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash generating units that are expected to benefit from the combination.

Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in 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.

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

Fair value measurements are based on option pricing models, taking into account the risk-free interest rate, volatility of the underlying equity instrument, expected dividends and current share prices.

Where the terms of an equity-settled award are modified, the minimum expense recognised in staff costs is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Foreign currency transactions and foreign operations

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

Foreign operations are subsidiaries, interests in associated undertakings or branches of the group, the activities of which are based in a functional currency other than that of the reporting entity. The functional currency of group entities is determined based on the primary economic environment in which the entity operates.

Foreign currency transactions are translated into the functional currency of the entity in which the 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 cost 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 reclassified 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 excludes those fees earned for a separately identifiable significant act, which are recognised upon completion of the act. Fees and commissions charged *in lieu* of interest are recognised as income as part of the effective interest rate on the underlying loan.

The effective interest 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 is shown net of the funding costs of the underlying positions and includes the unrealised profits on trading portfolios, which are marked to market daily. Equity investments received *in lieu* of corporate finance fees are included in investment portfolio and valued accordingly.

Dividend income is recognised when the group's right to receive payment is established.

Included in other operating income is incidental rental income, gains on realisation of properties (other than investment properties which is included in investment income), operating lease income and income from interests in associated undertakings.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the group measures the fair value of an instrument using the quoted price in an active market for that instrument.

A market is regarded as active if transactions for the asset or liability 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 the valuation method. Transfers are deemed to occur at the end of each semi-annual reporting period.

Financial instruments

Financial instruments are initially recognised at their fair value. For financial assets or financial liabilities not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities are included in the initial 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 timeframe established by market convention are recorded at settlement date.

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

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

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

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

- it eliminates or significantly reduces an inconsistent measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy and information about the group is provided internally on that basis to the group's key management personnel; and
- 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 as at fair value through profit or loss
- Those that the group designates as available-for-sale
- Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which is accounted for as available-for-sale instruments.

Subsequent to initial recognition, loans and receivables are measured at amortised cost, using the effective interest rate method, less impairment losses. The effective interest rate represents the rate that exactly discounts future projected cash flows 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 predominately focuses on the securitisation of residential and commercial mortgages. The group also trades in structured credit investments.

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

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

Available-for-sale financial assets

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

Financial assets classified as available-for-sale are measured at fair value, with unrealised gains 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 reclassified to 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 1 profit or loss

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

In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, when the instrument is rerecognised or over the life of the transaction.

Impairments of financial assets held at amortised cost

Financial assets carried at amortised cost are impaired if there is objective evidence that the group would not receive cash flows according to the original contractual terms. Financial assets are assessed for impairment at each balance sheet date and when an indicator of impairment is identified.

The test for impairment is based either on specific financial assets or collectively on a portfolio of similar, homogeneous assets. Over and above individual collective impairments raised at specific portfolio levels, the group recognises a collective impairment allowance at a central level that takes into account macro-economic factors, mainly driven by data related to the prevailing credit markets and which indicate incurred but not specifically identified losses across the loan portfolios (i.e. exposures in all business segments). Assets specifically identified as impaired are excluded from the collective assessment.

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

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

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

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

Derecognition of financial assets and liabilities

A financial asset, or a portion thereof, is derecognised when the group's rights to cash flows have expired or when the group has transferred its rights to cash flows relating to the financial assets and either (a) the group has transferred substantially all the 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, i.e. when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced or modified with substantially different terms, such a replacement or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

Reclassification of financial instruments

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

Derivative instruments

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

Derivative positions are entered into either for trading purposes or as part of the group's asset and liability management activities to manage exposures to interest rate and foreign currency risks. Both realised and unrealised profits 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 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 largely for trading purposes. Credit derivatives are initially recognised at their fair values, being the transaction price of the derivative. Subsequently the derivatives are carried at fair value, with movements in fair value through profit or loss, based on the remeasured price. The counterparty risk from derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit value adjustment (CVA).

Hedge accounting

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

- At inception of the hedge, the group formally documents the relationship between the hedging instrument(s) and hedged item(s) including the risk management objectives and the strategy in undertaking the hedge transaction. Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%
- For cash flow hedges, a forecasted transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect 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 are initially recognised in other comprehensive income and is reclassified 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 is 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 hedge item matures or is sold or repaid; when a forecasted transaction is no longer deemed highly probable, or when the designation as a hedge is revoked.

Embedded derivatives

To the extent that a derivative may be embedded in a hybrid contract and the hybrid contract is not carried at fair value with changes in fair value recorded in the income statement, the embedded derivative is separated from the host contract and accounted for as a standalone derivative if and only if:

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

Where the instrument does not meet the definition of a derivative due to its value being dependent on non-financial variables, it is accounted for as an executory contract.

Offsetting of financial assets and liabilities

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

Issued debt and equity financial instruments

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

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

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

Sale and repurchase agreements (including securities borrowing and lending)

Securities sold subject to a commitment to repurchase them, 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 the balance sheet under 'repurchase agreements and cash collateral on securities lent'. Securities that are purchased under a commitment to resell the securities at a future date are not recognised on the balance sheet. The consideration paid is recognised as an asset under 'reverse repurchase agreements and cash collateral on securities borrowed'.

The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method.

Securities borrowing transactions that are not cash collateralised are not included 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.

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

Financial guarantees

Financial guarantee contracts issued by the group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due, in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at fair value, adjusted for the transaction costs that are directly attributable to the issuance of the guarantee.

Subsequent to initial recognition, the liability under each guarantee is measured at the higher of the amount recognised, less cumulative amortisation and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Subsequent to initial measurement, all changes in the balance sheet carrying value are recognised in the income statement.

Instalment credit, leases and rental agreements

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 (if any) are accrued to the income statement when incurred.

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and impairments.

Cost is the cash equivalent paid or the fair value of the consideration given to acquire an asset and includes other expenditures that are directly attributable to the acquisition of the asset.

Depreciation is provided on the depreciable amount of each component on a straight-line basis over the expected useful life of the asset. The depreciable amount related to each asset is determined as the difference between the cost and the residual value of the asset. The residual value is the estimated amount, net of disposal costs, that the group would currently obtain from the disposal of an asset in similar age and condition as expected at the end of its useful life. The current and comparative annual depreciation rates for each class of property and equipment is as follows:

- Computer and related equipment 20% – 33%
- Motor Vehicles 20% – 25%
- Furniture and fittings 10% – 20%
- Leasehold 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.*

The useful lives, depreciation methods and residual values are assessed annually. Routine maintenance and service costs of assets are expensed as incurred. Subsequent expenditure is only capitalised if it is probable that future economic benefits associated with the item will flow to the group.

Investment properties

Properties held for capital appreciation or rental yield are classified as investment properties.

Investment properties are initially measured at cost plus transaction costs and subsequently 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 finite lives, are amortised over the useful economic life (currently three to eight 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 value.

Impairment losses are recognised as an expense in the income statement in the period in which they are identified. Reversal of impairment losses are recognised in income in the period in which the reversal is identified, to the extent that the carrying value of the asset does not exceed the amount that would have been calculated without impairment.

Taxation and deferred taxation

Current taxation payable is provided for based on the amount expected to be payable on taxable profits at rates that are enacted or substantively enacted and applicable to the relevant period.

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

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

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

Borrowing costs

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

Provisions, contingent liabilities and contingent assets

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

Non-current assets held for sale

Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

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.

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 through profit or loss, fair value through other comprehensive income 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. Financial assets which are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (and whose contractual cash flows represent solely payments of principal and interest will be measured at fair value through other comprehensive income. 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 other comprehensive income. With reference to financial liabilities held at fair value, the standard requires that changes to fair value attributable to own 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, although it will implement the amended IFRS 7 hedge accounting disclosure requirements, until the macro hedge accounting project has been completed.

The regulatory capital impact of IFRS 9 could be affected by changes to the regulatory rules. The Basel Committee on Banking Supervision is considering amending the capital rules of IFRS 9, with discussions being held on transitional impacts and longer-term changes It is not clear whether any transitional capital arrangements will be in place for 1 January 2018.

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 continues to progress with documentation of the group's accounting policy and governance framework and the development of ECL models and operating and system target operating models. The committee provides updates of the status of the project to appropriate board committees. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The group does not intend to restate comparatives.

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.

The group is monitoring the IASB's project to amend IFRS 9 to the effect that basic lending arrangements with symmetrical break clauses continue to qualify for amortised cost accounting. These clauses are common features in fixed rate loans due to market practice and may result in compensation for early termination being paid by either the borrower or the group. The IASB has issued an exposure draft in April 2017 which will be, effective 1 January 2018 in line with IFRS 9's effective date. Based on these anticipated amendments, we expect that we can continue to measure the impacted loans at amortised cost.

Current assessment of impairments

As noted, the group would also shift its impairment methodology from the current incurred loss basis to expected loss. Credit risk methodologies have been defined and model build and approval is underway and nearing completion. The group intends to perform a parallel run during 2017 and in doing so models and credit risk processes will be tested during this period to embed the changes and help improve the understanding of the new impairment models.

The group has reviewed key definitions such as significant deterioration in credit quality and default against our current asset quality classifications. A framework is being established that incorporates both quantitative and qualitative measures. Any decisions in relation to credit deterioration will be management decisions subject to approval by governing bodies.

The group will incorporate IFRS 9 requirements into our group credit risk classification and provisioning policy.

It will not be practical to disclose reliable financial impact estimates until the implementation programme and validation and testing is further advanced. The group intends to disclose this in the 2018 annual financial statements.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. The standard is effective for annual periods beginning on or after 1 January 2018 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 expect 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. 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 primarily in the private equity and direct investments portfolios and embedded derivatives. Key valuation inputs are based on the most relevant observable market inputs, adjusted where necessary for factors that specifically apply to the individual investments and recognising market volatility

Details of unlisted investments can be found in note 23 with further risk analysis contained in the risk management section on pages 51 to 52.

- The determination of impairments against assets that are carried at amortised cost and impairments relating to available-for-sale financial assets involves the assessment of future cash flows which is judgemental in nature

Refer to pages 42 to 50 of the risk management section for further analysis on impairments.

- The group's income tax charge and balance sheet provision are judgemental in nature. This arises from certain transactions for which the ultimate tax treatment can only be determined by final resolution with the relevant local tax authorities. The group 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 often dependent on the timetable and progress of discussions and negotiations with the relevant tax authorities, arbitration processes 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
- 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;
  - any changes to the relevant tax environments; and
  - 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 involved judgement in determining the timing and extent of future cash flows.

For the year to 31 March R'million	Notes	Group 2017 Balance sheet value	Group 2017 Interest income	Group 2016 Balance sheet value	Group 2016 Interest income	Company 2017 Balance sheet value	Company 2017 Interest income	Company 2016 Balance sheet value	Company 2016 Interest income
1. Net interest income									
Cash, near cash and bank debt and sovereign debt securities	1	131 490	7 060	138 643	5 787	118 787	6 943	131 575	5 705
Core loans and advances	2	233 445	21 359	215 239	16 860	213 259	19 071	194 578	14 806
Private client		155 194	14 262	142 151	11 118	148 423	13 238	134 501	10 274
Corporate, institutional and other clients		78 251	7 097	73 088	5 742	64 836	5 833	60 077	4 532
Other debt securities and other loans and advances		12 255	1 060	13 128	610	10 920	1 015	11 727	564
Other interest-earning assets	3	18 206	237	11 926	258	12 870	1 869	7 740	1 538
Total interest-earning assets		**395 396**	**29 716**	**378 936**	**23 515**	**355 836**	**28 898**	**345 620**	**22 613**

For the year to 31 March R'million	Notes	Group 2017 Balance sheet value	Group 2017 Interest expense	Group 2016 Balance sheet value	Group 2016 Interest expense	Company 2017 Balance sheet value	Company 2017 Interest expense	Company 2016 Balance sheet value	Company 2016 Interest expense
Deposits by banks and other debt-related securities	4	46 026	(1 576)	61 823	(1 351)	43 618	(1 495)	59 103	(1 268)
Customer accounts (deposits)		303 397	(19 799)	279 736	(14 565)	287 174	(19 702)	263 778	(14 519)
Other interest-bearing liabilities	5	6 615	58	6 351	(98)	1 907	(411)	–	(402)
Subordinated liabilities		13 180	(980)	10 732	(789)	13 180	(980)	10 732	(789)
Total interest-bearing liabilities		**369 218**	**(22 297)**	**358 642**	**(16 803)**	**345 879**	**(22 588)**	**333 613**	**(16 978)**
Net interest income			**7 419**		**6 712**		**6 310**		**5 635**
Net interest margin			**1.92%**		**1.95%**		**1.86%**		**1.80%**

Notes:

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

For the year to 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
2. Net fee and commission income				
Corporate and institutional transactional and advisory services	1 556	1 305	1 225	1 073
Private client transactional fees	679	640	614	574
Fee and commission income	2 235	1 945	1 839	1 647
Fee and commission expense	(236)	(207)	(201)	(165)
Net fee and commission income	**1 999**	**1 738**	**1 638**	**1 482**
Annuity fees (net of fees payable)	1 296	986	1 031	805
Deal fees	703	752	607	677

For the year to 31 March R'million	Investment portfolio (listed and unlisted equities)*	Debt securities (sovereign, bank and other)	Investment properties	Other asset categories	Total
3. Investment income					
The following table analyses investment income generated by the asset portfolio shown on the balance sheet:					
Group					
2017					
Realised	354	127	–	42	523
Unrealised^	(261)	–	–	(208)	(469)
Dividend income	466	–	–	–	466
Funding and other net related costs	(43)	–	–	(5)	(48)
	516	**127**	**–**	**(171)**	**472**
2016					
Realised	3 869	63	60	19	4 011
Unrealised^	(2 664)	–	(60)	1	(2 723)
Dividend income	385	–	–	–	385
Funding and other net related costs	(316)	–	–	(1)	(317)
	1 274	**63**	**–**	**19**	**1 356**

* *Including embedded derivatives (warrants and profit shares).*
^ *In a year of realisation, any prior period mark-to-market gains/(losses) recognised are reversed in the unrealised line.*

For the year to 31 March R'million	Investment portfolio (listed and unlisted equities)*	Debt securities (sovereign, bank and other)	Investment properties	Other asset categories	Total
3. Investment income *(continued)*					
The following table analyses investment income generated by the asset portfolio shown on the balance sheet:					
Company					
2017					
Realised	364	127	–	25	516
Unrealised^	(194)	–	–	(208)	(402)
Dividend income**	466	–	–	465	931
Funding cost and other net related costs	(43)	–	–	(5)	(48)
	593	**127**	**–**	**277**	**997**
2016					
Realised	3 869	18	60	(1)	3 946
Unrealised^	(2 630)	–	(60)	1	(2 689)
Dividend income**	384	–	–	960	1 344
Funding cost and other net related costs	(316)	–	–	(1)	(317)
	1 307	**18**	**–**	**959**	**2 284**

* *Including embedded derivatives (warrants and profit shares).*
** *Dividend income from investment in subsidiaries.*
^ *In a year of realisation, any prior period mark-to-market gains/(losses) recognised are reversed in the unrealised line.*

For the year to 31 March R'million	Group 2017	 2016	Company 2017	 2016
4. Other operating income				
Rental income from properties	2	1	–	–
Gain on realisation of fixed assets	–	1	–	1
	2	**2**	**–**	**1**

For the year to 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
5. Operating costs				
Staff costs	4 301	4 033	3 957	3 759
– Salaries and wages (including directors' remuneration*)	3 381	3 080	3 073	2 839
– Training and other costs	125	107	121	103
– Share-based payments expense	568	652	541	628
– Social security costs	52	40	51	39
– Pensions and provident fund contributions	175	154	171	150
Premises expenses (excluding depreciation)	406	394	360	353
Equipment expenses (excluding depreciation)	189	202	134	153
Business expenses**	417	406	332	341
Marketing expenses	403	348	390	336
Depreciation, amortisation and impairment of property, equipment and intangibles	171	154	157	144
	5 887	**5 537**	**5 330**	**5 086**
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 companies' auditors for the audit of the companies' accounts	13	18	8	6
Fees payable to the companies' auditors and its associates for other services:				
– Audit of the company's subsidiaries pursuant to legislation	4	20	–	–
– Other services	3	–	1	1
	20	**38**	**9**	**7**
KPMG fees:				
Fees payable to the companies' auditors for the audit of the companies' accounts	22	21	18	17
Fees payable to the companies' auditors and its associates for other services:				
– Audit of the company's subsidiaries pursuant to legislation	3	3	–	–
– Other services	2	2	2	2
	27	**26**	**20**	**19**
Total	**47**	**64**	**29**	**26**
Minimum operating lease payments recognised in operating costs	**455**	**325**	**445**	**316**

* *Details of the directors' emoluments, pensions and their interests are disclosed in the remuneration report on pages 96 to 107.*
** *Business expenses mainly comprise insurance costs, consulting and professional fees, travel expenses and subscriptions.*

For the year to 31 March R'million	Group 2017	 2016	Company 2017	 2016
6. Share-based payments				
The group operates share option and long-term share incentive plans for employees which are on an equity-settled basis. The purpose of the staff share schemes is to promote an *esprit de corps* within the organisation, create an awareness of the Investec group's performance and provide an incentive to maximise individual and group performance by allowing all staff to share in the risks and rewards of the group.				
Further information on the group share options and long-term incentive plans are provided in the remuneration report and on our website.				
Equity-settled share-based payment expense	**568**	**652**	**541**	**628**
Fair value of options at grant date	**574**	**522**	**524**	**494**
Details of options outstanding during the year				
Outstanding at the beginning of the year	28 901 680	31 551 754	27 584 297	30 362 808
Relocation of employees during the year	(18 357)	277 528	(50 398)	133 778
Granted during the year	5 827 474	6 139 400	5 294 484	5 817 487
Exercised during the year^	(5 916 012)	(7 985 662)	(5 675 150)	(7 676 562)
Lapsed during the year	(768 418)	(1 081 340)	(731 418)	(1 053 214)
Outstanding at the end of the year	**28 026 367**	**28 901 680**	**26 421 815**	**27 584 297**
Vested and exercisable at the end of the year	**6 163**	**10 065**	**6 163**	**10 065**

^ *The weighted average share price and weighted average exercise price during the year were R94.43 (2016: R108.32) and Rnil (2016: Rnil) respectively.*

For the year to 31 March	Group 2017	 2016	Company 2017	 2016
The exercise price range and weighted average remaining contractual life for the options outstanding were as follows:				
Long-term incentive grants with no strike price				
Exercise price	Rnil	Rnil	Rnil	Rnil
Weighted average remaining contractual life	1.82 years	2.03 years	1.80 years	2.03 years
Weighted average fair value of options and long-term grants at measurement date	R98.47	R84.98	R98.93	R84.91
The fair values of options granted were calculated using a Black-Scholes option pricing model. For options granted during the year, the inputs into the model were as follows:				
– Share price at date of grants	R89.97 – R105.30	R109.98 – R120.88	R89.97 – R105.30	R109.98 – R120.88
– Exercise price	Rnil	Rnil	Rnil	Rnil
– Expected volatility	n/a	30%	n/a	30%
– Option life	4.5 – 5.0 years	4.0 – 5.0 years	4.5 – 5.0 years	4.0 – 5.0 years
– Expected dividend yields	n/a	4.02% – 4.19%	n/a	4.02% – 4.19%
– Risk-free rate	n/a	7.49% – 7.66%	n/a	7.49% – 7.66%

Expected volatility was determined based on the implied volatility levels quoted by the equity derivatives' trading desk. The expected volatility is based on the respective share price movement over the last six months, but also includes an element of forward expectation. The expected attrition rates used were determined based on historical group data with an adjustment to actual attrition on final vesting.

For information on the share options granted to directors, refer to the remuneration report on pages 102 to 105.

For the year to 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
7. Taxation				
Income statement taxation charge				
Taxation on income				
South Africa	903	790	681	766
– Current taxation	1 244	815	998	731
In respect of the current year	1 370	815	1 124	731
In respect of prior year adjustments	(126)	–	(126)	–
– Deferred taxation	(341)	(25)	(317)	35
Foreign taxation – Mauritius	27	30	–	–
Total taxation charge as per income statement	**930**	**820**	**681**	**766**
Total taxation charge for the year comprises:				
Taxation on operating profit before acquired intangibles	944	831	681	766
Taxation on acquired intangibles	(14)	(11)	–	–
	930	**820**	**681**	**766**
Tax rate reconciliation:				
Profit before taxation as per income statement	4 159	4 295	3 902	4 467
Total taxation charge as per income statement	930	820	681	766
Effective rate of taxation	**22.4%**	**19.1%**	**17.5%**	**17.1%**
The standard rate of South African normal taxation has been affected by:				
Dividend income	5.4%	7.0%	12.4%	11.9%
Foreign earnings*	1.9%	2.9%	–	–
Prior year tax adjustments	3.0%	–	3.2%	–
Profits of capital nature	–	7.1%	–	6.8%
Other non-taxable/non-deductible differences	(4.7%)	(8.1%)	(5.1%)	(7.8%)
	28.0%	**28.0%**	**28.0%**	**28.0%**

* *Includes the effect of cumulative tax losses and other permanent differences relating to foreign subsidiaries.*

For the year to 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
7. Taxation *(continued)*				
Other comprehensive income taxation effects				
Fair value movements on cash flow hedges taken directly to other comprehensive income	943	(699)	879	(645)
– Pre-taxation	1 268	(1 138)	1 204	(1 084)
– Current taxation	(325)	439	(325)	439
Fair value movements on available-for-sale assets taken directly to other comprehensive income	701	(717)	669	(683)
– Pre-taxation	782	(788)	750	(754)
– Deferred taxation	(81)	71	(81)	71
Gain on realisation of available-for-sale assets recycled through the income statement	(61)	(13)	(61)	(13)
– Pre-taxation	(85)	(18)	(85)	(18)
– Taxation effect	24	5	24	5

For the year to 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
8. Headline earnings				
Profit after taxation	3 229	3 475	3 221	3 701
Preference dividends paid	(131)	(120)	(131)	(120)
Earnings attributable to ordinary shareholders	**3 098**	**3 355**	**3 090**	**3 581**
Headline adjustments, net of taxation*	(29)	94	(29)	94
Gain on realisation of available-for-sale assets recycled through the income statement	(61)	(13)	(61)	(13)
Loss on non-current assets held for sale	32	107	32	107
Headline earnings attributable to ordinary shareholders	**3 069**	**3 449**	**3 061**	**3 675**

* *These amounts are net of taxation of R14.6 million (2016: R19.3 million) for both group and company.*

For the year to 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016

9. Dividends

	Group 2017	Group 2016	Company 2017	Company 2016
Perpetual preference dividend				
Final dividend in prior year	64	59	64	59
Interim dividend for current year	67	61	67	61
Total dividend attributable to perpetual preference shareholders recognised in current financial year	**131**	**120**	**131**	**120**

The directors have declared a final dividend in respect of the financial year ended 31 March 2017 of 436.28392 cents (2016: 412.48350 cents) per perpetual preference share.

An ordinary dividend of R900 million was declared and paid to Investec Limited during the year (2016: Rnil).

10. Analysis of income and impairments by category of financial instrument

For the year to 31 March R'million	At fair value through profit or loss Trading	 Designated at inception
Group		
2017		
Net interest income	849	1 378
Fee and commission income	248	(11)
Fee and commission expense	–	(7)
Investment income	–	403
Share of post taxation operating profit of associates	–	–
Trading income arising from		
– customer flow	507	(15)
– balance sheet management and other trading activities	382	(290)
Other operating income	–	–
Total operating income before impairment losses on loans and advances	**1 986**	**1 458**
Impairment losses on loans and advances	–	–
Operating income	**1 986**	**1 458**
2016		
Net interest income	225	786
Fee and commission income	28	2
Fee and commission expense	–	–
Investment income	–	108
Share of post taxation operating loss of associates	–	–
Trading income arising from		
– customer flow	286	7
– balance sheet management and other trading activities	(46)	237
Other operating income	–	–
Total operating income before impairment losses on loans and advances	**493**	**1 140**
Impairment losses on loans and advances	–	–
Operating income	**493**	**1 140**

Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non-financial instruments	Other fee income	Total
663	21 919	2 124	(19 515)	1	–	7 419
–	1 170	–	1	184	643	2 235
–	(119)	–	–	(34)	(76)	(236)
–	–	255	–	(186)	–	472
–	–	–	–	306	–	306
–	–	–	(6)	–	–	486
–	30	(1)	(51)	–	–	70
–	–	–	–	2	–	2
663	**23 000**	**2 378**	**(19 571)**	**273**	**567**	**10 754**
–	(657)	–	–	–	–	(657)
663	**22 343**	**2 378**	**(19 571)**	**273**	**567**	**10 097**
613	18 022	1 644	(14 580)	2	–	6 712
–	1 112	3	25	138	637	1 945
–	(120)	(36)	(6)	(45)	–	(207)
–	20	1 189	–	39	–	1 356
–	–	–	–	(11)	–	(11)
–	–	–	–	–	–	293
–	88	71	(52)	–	–	298
–	–	–	–	2	–	2
613	**19 122**	**2 871**	**(14 613)**	**125**	**637**	**10 388**
–	(517)	–	–	–	–	(517)
613	**18 605**	**2 871**	**(14 613)**	**125**	**637**	**9 871**

10. Analysis of income and impairments by category of financial instrument *(continued)*

For the year to 31 March R'million	At fair value through profit or loss Trading	Designated at inception
Company		
2017		
Net interest income	873	1 375
Fee and commission income	–	(14)
Fee and commission expense	–	(7)
Investment income	–	480
Share of post tax operating profit of associates	–	–
Trading income arising from		
– customer flow	507	(15)
– balance sheet management and other trading activities	373	(290)
Total operating income before impairment losses on loans and advances	**1 753**	**1 529**
Impairment losses on loans and advances	–	–
Operating income	**1 753**	**1 529**
2016		
Net interest income	294	783
Fee and commission income	9	2
Fee and commission expense	–	–
Investment income	–	92
Trading income arising from		
– customer flow	294	8
– balance sheet management and other trading activities	(54)	281
Other operating income	–	–
Total operating income before impairment losses on loans and advances	**543**	**1 166**
Impairment losses on loans and advances	–	–
Operating income	**543**	**1 166**

Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non-financial instruments	Other fee income	Total
570	21 294	2 086	(19 889)	1	–	6 310
–	1 026	–	1	184	642	1 839
–	(78)	–	–	(34)	(82)	(201)
–	–	255	–	262	–	997
–	–	–	–	303	–	303
–	–	–	(6)	–	–	486
–	38	–	(51)	–	–	70
570	**22 280**	**2 341**	**(19 945)**	**716**	**560**	**9 804**
–	(572)	–	–	–	–	(572)
570	**21 708**	**2 341**	**(19 945)**	**716**	**560**	**9 232**
529	16 785	1 609	(14 368)	3	–	5 635
–	858	3	1	138	636	1 647
–	(79)	(36)	(5)	(45)	–	(165)
–	20	1 189	–	983	–	2 284
–	–	–	–	–	–	302
–	99	71	(52)	–	–	346
–	–	–	–	1	–	1
529	**17 683**	**2 836**	**(14 424)**	**1 080**	**636**	**10 049**
–	(496)	–	–	–	–	(496)
529	**17 187**	**2 836**	**(14 424)**	**1 080**	**636**	**9 553**

At 31 March R'million	At fair value through profit or loss Trading	Designated at inception
11. Analysis of financial assets and liabilities by measurement basis		
Group		
2017		
Assets		
Cash and balances at central banks	–	–
Loans and advances to banks	–	–
Non-sovereign and non-bank cash placements	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	15 429	–
Sovereign debt securities	–	38 542
Bank debt securities	–	–
Other debt securities	–	298
Derivative financial instruments*	9 856	–
Securities arising from trading activities	653	–
Investment portfolio	–	4 430
Loans and advances to customers	–	14 011
Own originated loans and advances to customers securitised	–	–
Other loans and advances	–	–
Other securitised assets	–	–
Interests in associated undertakings	–	–
Deferred taxation assets	–	–
Other assets	730	–
Property and equipment	–	–
Investment properties	–	–
Goodwill	–	–
Intangible assets	–	–
Loans to group companies	78	–
Non-current assets held for sale^	–	456
	26 746	**57 737**
Liabilities		
Deposits by banks	–	–
Derivative financial instruments*	12 556	–
Other trading liabilities	1 667	–
Repurchase agreements and cash collateral on securities lent	1 018	–
Customer accounts (deposits)	–	34 316
Debt securities in issue	–	3 707
Liabilities arising on securitisation of own originated loans and advances	–	–
Current taxation liabilities	–	–
Deferred taxation liabilities	–	–
Other liabilities	735	–
Loans from group companies and subsidiaries	–	–
	15 976	**38 023**
Subordinated liabilities	–	–
	15 976	**38 023**

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

^ *Non-current assets held for sale relates to a non-controlling interest in an entity. Management have entered into negotiations to dispose of this interest.*

Available-for-sale	Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments or scoped out of IAS 39	Total
–	–	–	8 353	–	8 353	–	8 353
–	–	–	31 937	–	31 937	–	31 937
–	–	–	8 993	–	8 993	–	8 993
–	15 429	–	11 198	–	11 198	–	26 627
5 949	44 491	3 331	–	–	3 331	–	47 822
5 498	5 498	1 754	506	–	2 260	–	7 758
9 603	9 901	232	1 812	–	2 044	–	11 945
–	9 856	–	–	–	–	–	9 856
–	653	–	–	–	–	–	653
2 774	7 204	–	–	–	–	–	7 204
–	14 011	–	211 658	–	211 658	–	225 669
–	–	–	7 776	–	7 776	–	7 776
–	–	–	310	–	310	–	310
–	–	–	100	–	100	–	100
–	–	–	–	–	–	5 514	5 514
–	–	–	–	–	–	388	388
–	730	–	2 793	–	2 793	1 743	5 266
–	–	–	–	–	–	274	274
–	–	–	–	–	–	1	1
–	–	–	–	–	–	171	171
–	–	–	–	–	–	508	508
–	78	–	18 028	–	18 028	–	18 106
–	456	–	–	–	–	–	456
23 824	**108 307**	**5 317**	**303 464**	**–**	**308 781**	**8 599**	**425 687**
–	–	–	–	32 378	32 378	–	32 378
–	12 556	–	–	–	–	–	12 556
–	1 667	–	–	–	–	–	1 667
–	1 018	–	–	6 807	6 807	–	7 825
–	34 316	–	–	269 081	269 081	–	303 397
–	3 707	–	–	2 116	2 116	–	5 823
–	–	–	–	673	673	–	673
–	–	–	–	–	–	977	977
–	–	–	–	–	–	109	109
–	735	–	–	1 998	1 998	3 262	5 995
–	–	–	–	5 942	5 942	–	5 942
–	**53 999**	**–**	**–**	**318 995**	**318 995**	**4 348**	**377 342**
–	–	–	–	13 180	13 180	–	13 180
–	**53 999**	**–**	**–**	**332 175**	**332 175**	**4 348**	**390 522**

At 31 March R'million	At fair value through profit or loss Trading	 Designated at inception
11. Analysis of financial assets and liabilities by measurement basis *(continued)*		
Group		
2016		
Assets		
Cash and balances at central banks	–	–
Loans and advances to banks	–	–
Non-sovereign and non-bank cash placements	3	–
Reverse repurchase agreements and cash collateral on securities borrowed	24 155	–
Sovereign debt securities	–	28 920
Bank debt securities	–	1 114
Other debt securities	–	298
Derivative financial instruments*	15 843	–
Securities arising from trading activities	992	–
Investment portfolio	–	3 796
Loans and advances to customers	–	12 241
Own originated loans and advances to customers securitised	–	–
Other loans and advances	–	–
Other securitised assets	–	–
Interests in associated undertakings	–	–
Deferred taxation assets	–	–
Other assets	324	–
Property and equipment	–	–
Investment properties	–	–
Goodwill	–	–
Intangible assets	–	–
Loans to group companies**	–	–
	41 317	**46 369**
Liabilities		
Deposits by banks	–	–
Derivative financial instruments*	13 424	–
Other trading liabilities	1 405	–
Repurchase agreements and cash collateral on securities lent	2 509	–
Customer accounts (deposits)	–	12 059
Debt securities in issue	–	5 080
Liabilities arising on securitisation of own originated loans and advances	–	–
Current taxation liabilities	–	–
Deferred taxation liabilities	–	–
Other liabilities	680	–
Loans from group companies and subsidiaries**	101	–
	18 119	**17 139**
Subordinated liabilities	–	–
	18 119	**17 139**

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

** *Restated, refer to note 'loans to group companies and loans from group companies and subsidiaries' on page 181.*

Available-for-sale	Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments or scoped out of IAS 39	Total
–	–	–	7 801	–	7 801	–	7 801
–	–	–	26 779	–	26 779	–	26 779
–	3	–	9 855	–	9 855	–	9 858
–	24 155	–	14 757	–	14 757	–	38 912
8 687	37 607	3 718	–	–	3 718	–	41 325
4 990	6 104	6 272	1 592	–	7 864	–	13 968
10 234	10 532	1 374	855	–	2 229	–	12 761
–	15 843	–	–	–	–	–	15 843
–	992	–	–	–	–	–	992
2 564	6 360	–	–	–	–	–	6 360
–	12 241	–	195 031	–	195 031	–	207 272
–	–	–	7 967	–	7 967	–	7 967
–	–	–	367	–	367	–	367
–	–	–	115	–	115	–	115
–	–	–	–	–	–	5 145	5 145
–	–	–	–	–	–	116	116
–	324	–	2 500	–	2 500	832	3 656
–	–	–	–	–	–	236	236
–	–	–	–	–	–	1	1
–	–	–	–	–	–	171	171
–	–	–	–	–	–	524	524
–	–	–	11 811	–	11 811	–	11 811
26 475	**114 161**	**11 364**	**279 430**	**–**	**290 794**	**7 025**	**411 980**
–	–	–	–	37 242	37 242	–	37 242
–	13 424	–	–	–	–	–	13 424
–	1 405	–	–	–	–	–	1 405
–	2 509	–	–	14 407	14 407	–	16 916
–	12 059	–	–	267 677	267 677	–	279 736
–	5 080	–	–	2 585	2 585	–	7 665
–	–	–	–	809	809	–	809
–	–	–	–	–	–	671	671
–	–	–	–	–	–	122	122
–	680	–	–	1 233	1 233	3 129	5 042
–	101	–	–	6 250	6 250	–	6 351
–	**35 258**	**–**	**–**	**330 203**	**330 203**	**3 922**	**369 383**
–	–	–	–	10 732	10 732	–	10 732
–	**35 258**	**–**	**–**	**340 935**	**340 935**	**3 922**	**380 115**

11. Analysis of financial assets and liabilities by measurement basis *(continued)*

At 31 March R'million	At fair value through profit or loss: Trading	At fair value through profit or loss: Designated at inception
Company		
2017		
Assets		
Cash and balances at central banks	–	–
Loans and advances to banks	–	–
Non-sovereign and non-bank cash placements	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	15 429	–
Sovereign debt securities	–	38 542
Bank debt securities	–	–
Other debt securities	–	298
Derivative financial instruments*	9 667	–
Securities arising from trading activities	653	–
Investment portfolio	–	4 094
Loans and advances to customers	–	14 011
Other loans and advances	–	–
Interests in associated undertakings	–	–
Deferred taxation assets	–	–
Other assets	730	–
Property and equipment	–	–
Investment properties	–	–
Intangible assets	–	–
Loans to group companies	140	–
Investment in subsidiaries	–	–
Non-current assets held for sale	–	456
	26 619	**57 401**
Liabilities		
Deposits by banks	–	–
Derivative financial instruments*	12 556	–
Other trading liabilities	1 667	–
Repurchase agreements and cash collateral on securities lent	1 018	–
Customer accounts (deposits)	–	34 316
Debt securities in issue	–	3 707
Current taxation liabilities	–	–
Other liabilities	735	–
Loans from group companies and subsidiaries	–	–
	15 976	**38 023**
Subordinated liabilities	–	–
	15 976	**38 023**

* *Derivative financial instruments have been classified as held-for-trading and include derivatives held as hedges.*
^ *Non-current assets held for sale relates to a non-controlling interest in an entity. Management have entered into negotiations to dispose of this interest.*

Available-for-sale	Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments or scoped out of IAS 39	Total
–	–	–	8 169	–	8 169	–	8 169
–	–	–	21 118	–	21 118	–	21 118
–	–	–	9 044	–	9 044	–	9 044
–	15 429	–	11 198	–	11 198	–	26 627
5 651	44 193	3 331	–	–	3 331	–	47 524
5 499	5 499	300	506	–	806	–	6 305
8 488	8 786	93	1 723	–	1 816	–	10 602
–	9 667	–	–	–	–	–	9 667
–	653	–	–	–	–	–	653
2 774	6 868	–	–	–	–	–	6 868
–	14 011	–	199 248	–	199 248	–	213 259
–	–	–	318	–	318	–	318
–	–	–	–	–	–	5 413	5 413
–	–	–	–	–	–	260	260
–	730	–	817	–	817	1 245	2 792
–	–	–	–	–	–	235	235
–	–	–	–	–	–	1	1
–	–	–	–	–	–	166	166
–	140	–	12 730	–	12 730	–	12 870
–	–	–	11 708	–	11 708	1 654	13 362
–	456	–	–	–	–	–	456
22 412	**106 432**	**3 724**	**276 579**	**–**	**280 303**	**8 974**	**395 709**
–	–	–	–	32 378	32 378	–	32 378
–	12 556	–	–	–	–	–	12 556
–	1 667	–	–	–	–	–	1 667
–	1 018	–	–	5 444	5 444	–	6 462
–	34 316	–	–	252 858	252 858	–	287 174
–	3 707	–	–	1 071	1 071	–	4 778
–	–	–	–	–	–	991	991
–	735	–	–	1 187	1 187	2 928	4 850
–	–	–	–	1 907	1 907	–	1 907
–	**53 999**	**–**	**–**	**294 845**	**294 845**	**3 919**	**352 763**
–	–	–	–	13 180	13 180	–	13 180
–	**53 999**	**–**	**–**	**308 025**	**308 025**	**3 919**	**365 943**

11. Analysis of financial assets and liabilities by measurement basis *(continued)*

At 31 March R'million	At fair value through profit or loss – Trading	At fair value through profit or loss – Designated at inception
Company		
2016		
Assets		
Cash and balances at central banks	–	–
Loans and advances to banks	–	–
Non-sovereign and non-bank cash placements	3	–
Reverse repurchase agreements and cash collateral on securities borrowed	24 155	–
Sovereign debt securities	–	28 920
Bank debt securities	–	1 114
Other debt securities	–	298
Derivative financial instruments*	15 616	–
Securities arising from trading activities	992	–
Investment portfolio	–	3 403
Loans and advances to customers	–	12 241
Other loans and advances	–	–
Interests in associated undertakings	–	–
Other assets	324	–
Property and equipment	–	–
Investment properties	–	–
Intangible assets	–	–
Loans to group companies**	–	–
Investment in subsidiaries**	–	–
	41 090	**45 976**
Liabilities		
Deposits by banks	–	–
Derivative financial instruments*	13 424	–
Other trading liabilities	1 405	–
Repurchase agreements and cash collateral on securities lent	2 509	–
Customer accounts (deposits)	–	12 059
Debt securities in issue	–	5 080
Current taxation liabilities	–	–
Other liabilities	680	–
Loans from group companies and subsidiaries**	–	–
	18 018	**17 139**
Subordinated liabilities	–	–
	18 018	**17 139**

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

** *Restated, refer to note 'loans to group companies and loans from group companies and subsidiaries' on page 181.*

	Available-for-sale	Total instruments at fair value	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Total instruments at amortised cost	Non-financial instruments or scoped out of IAS 39	Total
	–	–	–	7 654	–	7 654	–	7 654
	–	–	–	21 385	–	21 385	–	21 385
	–	3	–	9 979	–	9 979	–	9 982
	–	24 155	–	14 757	–	14 757	–	38 912
	8 687	37 607	3 718	–	–	3 718	–	41 325
	4 990	6 104	4 621	1 592	–	6 213	–	12 317
	9 142	9 440	1 184	730	–	1 914	–	11 354
	–	15 616	–	–	–	–	–	15 616
	–	992	–	–	–	–	–	992
	2 520	5 923	–	–	–	–	–	5 923
	–	12 241	–	182 337	–	182 337	–	194 578
	–	–	–	373	–	373	–	373
	–	–	–	–	–	–	5 086	5 086
	–	324	–	987	–	987	423	1 734
	–	–	–	–	–	–	198	198
	–	–	–	–	–	–	1	1
	–	–	–	–	–	–	133	133
	–	–	–	7 740	–	7 740	–	7 740
	–	–	–	6 171	–	6 171	1 653	7 824
	25 339	**112 405**	**9 523**	**253 705**	**–**	**263 228**	**7 494**	**383 127**
	–	–	–	–	37 108	37 108	–	37 108
	–	13 424	–	–	–	–	–	13 424
	–	1 405	–	–	–	–	–	1 405
	–	2 509	–	–	12 816	12 816	–	15 325
	–	12 059	–	–	251 719	251 719	–	263 778
	–	5 080	–	–	1 590	1 590	–	6 670
	–	–	–	–	–	–	950	950
	–	680	–	–	860	860	2 497	4 037
	–	–	–	–	3 609	3 609	–	3 609
	–	**35 157**	**–**	**–**	**307 702**	**307 702**	**3 447**	**346 306**
	–	–	–	–	10 732	10 732	–	10 732
	–	**35 157**	**–**	**–**	**318 434**	**318 434**	**3 447**	**357 038**

12. Financial instruments at fair value

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

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

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

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

Fair value disclosures on investment properties are included in the investment properties note 30 on page 178.

		Fair value category		
For the year to 31 March R'million	**Total instruments at fair value**	**Level 1**	**Level 2**	**Level 3**
Group				
2017				
Assets				
Reverse repurchase agreements and cash collateral on securities borrowed	15 429	–	15 429	–
Sovereign debt securities	44 491	44 491	–	–
Bank debt securities	5 498	4 108	1 390	–
Other debt securities	9 901	6 436	3 465	–
Derivative financial instruments	9 856	–	9 846	10
Securities arising from trading activities	653	578	75	–
Investment portfolio	7 204	3 876	499	2 829
Loans and advances to customers	14 011	–	14 011	–
Other assets	730	730	–	–
Loans to group companies	78	–	78	–
Non-current assets held for sale	456	–	–	456
	108 307	**60 219**	**44 793**	**3 295**
Liabilities				
Derivative financial instruments	12 556	–	12 556	–
Other trading liabilities	1 667	350	1 317	–
Repurchase agreements and cash collateral on securities lent	1 018	–	1 018	–
Customer accounts (deposits)	34 316	–	34 316	–
Debt securities in issue	3 707	–	3 707	–
Other liabilities	735	–	735	–
	53 999	**350**	**53 649**	**–**
Net financial assets/(liabilities) at fair value	**54 308**	**59 869**	**(8 856)**	**3 295**

12. Financial instruments at fair value *(continued)*

For the year to 31 March R'million	Total instruments at fair value	Fair value category Level 1	Level 2	Level 3
Group				
2016				
Assets				
Non-sovereign and non-bank cash placements	3	–	3	–
Reverse repurchase agreements and cash collateral on securities borrowed	24 155	–	24 155	–
Sovereign debt securities	37 607	37 607	–	–
Bank debt securities	6 104	4 429	1 675	–
Other debt securities	10 532	10 532	–	–
Derivative financial instruments	15 843	–	15 833	10
Securities arising from trading activities	992	992	–	–
Investment portfolio	6 360	3 287	503	2 570
Loans and advances to customers	12 241	–	12 241	–
Other assets	324	324	–	–
	114 161	**57 171**	**54 410**	**2 580**
Liabilities				
Derivative financial instruments	13 424	–	13 424	–
Other trading liabilities	1 405	576	829	–
Repurchase agreements and cash collateral on securities lent	2 509	–	2 509	–
Customer accounts (deposits)	12 059	–	12 059	–
Debt securities in issue	5 080	–	5 080	–
Other liabilities	680	–	680	–
Loans from group companies and subsidiaries	101	–	101	–
	35 258	**576**	**34 682**	**–**
Net financial assets at fair value	**78 903**	**56 595**	**19 728**	**2 580**

For the year to 31 March R'million	Total instruments at fair value	Fair value category Level 1	Level 2	Level 3
12. Financial instruments at fair value *(continued)*				
Company				
2017				
Assets				
Reverse repurchase agreements and cash collateral on securities borrowed	15 429	–	15 429	–
Sovereign debt securities	44 193	44 193	–	–
Bank debt securities	5 499	4 109	1 390	–
Other debt securities	8 786	5 321	3 465	–
Derivative financial instruments	9 667	–	9 657	10
Securities arising from trading activities	653	578	75	–
Investment portfolio	6 868	3 876	305	2 687
Loans and advances to customers	14 011	–	14 011	–
Other assets	730	730	–	–
Loans to group companies	140	–	140	–
Non-current assets held for sale	456	–	–	456
	106 432	**58 807**	**44 472**	**3 153**
Liabilities				
Derivative financial instruments	12 556	–	12 556	–
Other trading liabilities	1 667	350	1 317	–
Repurchase agreements and cash collateral on securities lent	1 018	–	1 018	–
Customer accounts (deposits)	34 316	–	34 316	–
Debt securities in issue	3 707	–	3 707	–
Other liabilities	735	–	735	–
	53 999	**350**	**53 649**	**–**
Net financial assets/(liabilities) at fair value	**52 433**	**58 457**	**(9 177)**	**3 153**

12. Financial instruments at fair value *(continued)*

For the year to 31 March R'million	Total instruments at fair value	Fair value category Level 1	Level 2	Level 3
Company				
2016				
Assets				
Non-sovereign and non-bank cash placements	3	–	3	–
Reverse repurchase agreements and cash collateral on securities borrowed	24 155	–	24 155	–
Sovereign debt securities	37 607	37 607	–	–
Bank debt securities	6 104	4 429	1 675	–
Other debt securities	9 440	9 440	–	–
Derivative financial instruments	15 616	–	15 606	10
Securities arising from trading activities	992	992	–	–
Investment portfolio	5 923	3 287	209	2 427
Loans and advances to customers	12 241	–	12 241	–
Other assets	324	324	–	–
	112 405	**56 079**	**53 889**	**2 437**
Liabilities				
Derivative financial instruments	13 424	–	13 424	–
Other trading liabilities	1 405	576	829	–
Repurchase agreements and cash collateral on securities lent	2 509	–	2 509	–
Customer accounts (deposits)	12 059	–	12 059	–
Debt securities in issue	5 080	–	5 080	–
Other liabilities	680	–	680	–
	35 157	**576**	**34 581**	**–**
Net financial assets at fair value	**77 248**	**55 503**	**19 308**	**2 437**

12. Financial instruments at fair value *(continued)*

Transfers between level 1 and level 2

There were no transfers between level 1 and level 2 in the current and prior year.

Level 3 instruments

The following table is a reconciliation of the opening balances to the closing balances for level 3 financial instruments. All instruments are at fair value through profit or loss.

For the year to 31 March **R'million**	**Group**	**Company**
Balance as at 1 April 2015	**6 509**	**6 331**
Total gains recognised in the income statement	761	735
Purchases	483	483
Sales	(5 379)	(5 291)
Issues	70	70
Settlements	(397)	(397)
Transfers into level 3	103	103
Transfers out of level 3	332	332
Foreign exchange adjustments	98	71
Balance as at 31 March 2016	**2 580**	**2 437**
Total losses recognised in the income statement	(65)	(65)
Purchases	1 226	1 226
Sales	(144)	(144)
Transfers into level 3	4	4
Transfers out of level 3	(298)	(298)
Foreign exchange adjustments	(8)	(7)
Balance as at 31 March 2017	**3 295**	**3 153**

During the year a level 3 investment of R298 million has been transferred to level 2 due to the nature of the asset changing, resulting in a change in valuation method.

For the year ended 31 March 2016, R103.3 million has been transferred into level 3 from level 2 as a result of the inputs to the valuation methods becoming unobservable in the market. R331.9 million related to instruments transferred from level 3 to level 2 as a result of inputs to the valuation methods becoming observable.

12. Financial instruments at fair value *(continued)*

The following table quantifies the gains or (losses) included in the income statement recognised on level 3 financial instruments:

For the year to 31 March R'million	Total	Realised	Unrealised
Group			
2017			
Total gains/(losses) included in the income statement for the year			
Investment loss	(65)	9	(74)
	(65)	**9**	**(74)**
2016			
Total gains/(losses) included in the income statement for the year			
Investment income	739	3 450	(2 711)
Trading income arising from customer flow	22	22	–
	761	**3 472**	**(2 711)**

For the year to 31 March R'million	Total	Realised	Unrealised
Company			
2017			
Total gains/(losses) recognised in the income statement for the year			
Investment loss	(65)	9	(74)
	(65)	**9**	**(74)**
2016			
Total gains/(losses) included in the income statement for the year			
Investment income	713	3 424	(2 711)
Trading income arising from customer flow	22	22	–
	735	**3 446**	**(2 711)**

12. Financial instruments at fair value *(continued)*

Measurement of financial assets and liabilities at level 2

The table below sets out information about the valuation techniques used at the end of the reporting year in measuring financial instruments categorised as level 2 in the fair value hierarchy:

	Valuation basis/techniques	Main inputs
Assets		
Non-sovereign and non-bank cash placements	Discounted cash flow model	Yield curve
Reverse repurchase agreements and cash collateral on securities borrowed	Discounted cash flow model Black-Scholes	Yield curve Volatilities
Bank debt securities	Discounted cash flow model	Yield curve
Other debt securities	Discounted cash flow model	Yield curve
Derivative financial instruments	Discounted cash flow model Black-Scholes	Yield curve Volatilities
Securities arising from trading activities	Adjusted quoted price	Liquidity adjustment
Investment portfolio	Adjusted quoted price	Liquidity adjustment
Loans and advances to customers	Discounted cash flow model	Yield curve
Loans to group companies	Discounted cash flow model	Yield curve
Liabilities		
Derivative financial instruments	Discounted cash flow model Black-Scholes	Yield curve Volatilities
Other trading liabilities	Discounted cash flow model	Yield curve
Repurchase agreements and cash collateral on securities lent	Discounted cash flow model	Yield curve
Customer accounts (deposits)	Discounted cash flow model	Yield curve
Debt securities in issue	Discounted cash flow model	Yield curve
Other liabilities	Discounted cash flow model	Yield curve
Loans from group companies	Discounted cash flow model	Yield curve

12. Financial instruments at fair value *(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 reasonable possible alternative assumptions, determined at a transactional level:

At 31 March 2017	Level 3 balance sheet value R'million	Valuation method	Significant unobservable input changed	Range which unobservable input has been changed	Effect on the income statement: Favourable changes R'million	Effect on the income statement: Unfavourable changes R'million
Group						
Assets						
Derivative financial instruments	10	Comparable sales	Property value	(10%)/10%	1	(1)
Investment portfolio	2 829				623	(608)
		Price earnings	EBITDA	*	335	(279)
		Discounted cash flow	Precious and industrial metals prices	(10%)/10%	231	(264)
		Other	Various	**	57	(65)
Non-current assets held for sale	456	Price earnings	Price earnings multiple	(10%)/10%	65	(58)
Total	**3 295**				**689**	**(667)**

At 31 March 2016	Level 3 balance sheet value R'million	Valuation method	Significant unobservable input changed	Range which unobservable input has been changed	Effect on the income statement: Favourable changes R'million	Effect on the income statement: Unfavourable changes R'million
Group						
Assets						
Derivative financial instruments	10	Price multiple	Net asset value	(10%)/10%	1	(1)
Investment portfolio	2 570				399	(327)
		Price-earnings	Price earnings multiple	***	102	(79)
		Other	Various	^	297	(248)
Total	**2 580**				**400**	**(328)**

* *The EBITDA has been stressed on an investment-by-investment basis in order to obtain favourable and unfavourable valuations.*

** *The valuation sensitivity for certain equity investments 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 purpose of this analysis as the sensitivity of the investments cannot be determined through the adjustment of a single input.*

*** *The price-earnings multiple has been stressed on an investment-by-investment basis in order to obtain favourable and unfavourable valuations.*

^ *Other – The valuation sensitivity for the private equity and embedded derivatives (profit share portfolios) has been assessed by adjusting various inputs such as expected cash flows, discount rates and earnings multiples. It is deemed appropriate to reflect the outcome on a portfolio basis for the purposes of this analysis as the sensitivity of the investments cannot be determined through the adjustment of a single input.*

12. Financial instruments at fair value *(continued)*

Sensitivity of fair values to reasonably possible alternative assumptions by level 3 instrument type *(continued)*

At 31 March 2017	Level 3 balance sheet value R'million	Valuation method	Significant unobservable input changed	Range which unobservable input has been changed	Effect on the income statement: Favourable changes R'million	Effect on the income statement: Unfavourable changes R'million
Company						
Assets						
Derivative financial instruments	10	Comparable sales	Property value	(10%)/10%	1	(1)
Investment portfolio	2 687				583	(568)
		Price earnings	EBITDA	*	295	(239)
		Discounted cash flow	Precious and industrial metals prices	(10%)/10%	231	(264)
		Other	Various	**	57	(65)
Non-current assets held for sale	456	Price earnings	Price earnings multiple	(10%)/10%	65	(58)
Total	**3 153**				**649**	**(627)**

At 31 March 2016	Level 3 balance sheet value R'million	Valuation method	Significant unobservable input changed	Range which unobservable input has been changed	Effect on the income statement: Favourable changes R'million	Effect on the income statement: Unfavourable changes R'million
Company						
Assets						
Derivative financial instruments	10	Price multiple	Net asset value	(10%)/10%	1	(1)
Investment portfolio	2 427				389	(319)
		Price-earnings	Price-earnings multiple	***	102	(79)
		Other	Various	^	287	(240)
Total	**2 437**				**390**	**(320)**

* *The EBITDA has been stressed on an investment-by-investment basis in order to obtain favourable and unfavourable valuations.*

** *The valuation sensitivity for certain equity investments 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 purpose of this analysis as the sensitivity of the investments cannot be determined through the adjustment of a single input.*

*** *The price-earnings multiple has been stressed on an investment-by-investment basis in order to obtain favourable and unfavourable valuations.*

^ *Other – The valuation sensitivity for the private equity and embedded derivatives (profit share portfolios) has been assessed by adjusting various inputs such as expected cash flows, discount rates and earnings multiples. It is deemed appropriate to reflect the outcome on a portfolio basis for the purposes of this analysis as the sensitivity of the investments cannot be determined through the adjustment of a single input.*

In determining the value of level 3 financial instruments, the following are the principal inputs that can require judgement:

Price-earnings multiple

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

EBITDA

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

Property value, precious and industrial metals

The price of property and precious and industrial metals is a key driver of future cash flows on these investments.

13. Fair value of financial instruments at amortised cost

At 31 March R'million	Carrying amount	Fair value	Fair value category Level 1	Level 2	Level 3
Group					
2017					
Assets					
Sovereign debt securities	3 331	3 248	3 248	–	–
Bank debt securities	2 260	2 301	1 795	506	–
Other debt securities	2 044	2 054	67	1 987	–
Loans and advances to customers	211 658	211 777	5 104	187 605	19 068
Liabilities					
Deposits by banks	32 378	32 736	224	32 512	–
Repurchase agreements and cash collateral on securities lent	6 807	6 843	4 250	2 593	–
Customer accounts (deposits)	269 081	269 901	125 294	144 607	–
Debt securities in issue	2 116	2 119	–	2 119	–
Subordinated liabilities	13 180	13 917	13 917	–	–

At 31 March R'million	Carrying amount	Fair value	Fair value category Level 1	Level 2	Level 3
Group					
2016					
Assets					
Sovereign debt securities	3 718	3 798	3 798	–	–
Bank debt securities	7 864	8 778	7 178	1 600	–
Other debt securities	2 229	2 247	69	2 178	–
Loans and advances to customers	195 031	195 157	2 100	173 522	19 535
Liabilities					
Deposits by banks	37 242	37 399	811	36 588	–
Repurchase agreements and cash collateral on securities lent	14 407	14 452	–	14 452	–
Customer accounts (deposits)	267 677	268 191	137 475	130 716	–
Debt securities in issue	2 585	2 587	–	2 587	–
Subordinated liabilities	10 732	11 692	11 692	–	–

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 therefore no additional disclosures are made. This assumption also applies to demand deposits and savings accounts without a specific maturity included in customer accounts (deposits) and variable rate financial instruments.

13. Fair value of financial instruments at amortised cost *(continued)*

At 31 March R'million	Carrying amount	Fair value	Fair value category Level 1	Level 2	Level 3
Company					
2017					
Assets					
Sovereign debt securities	3 331	3 248	3 248	–	–
Bank debt securities	806	793	287	506	–
Loans and advances to customers	199 248	199 250	5 104	193 235	911
Liabilities					
Deposits by banks	32 378	32 736	224	32 512	–
Repurchase agreements and cash collateral on securities lent	5 444	5 480	4 249	1 231	–
Customer accounts (deposits)	252 858	253 671	125 294	128 377	–
Debt securities in issue	1 071	1 074	–	1 074	–
Subordinated liabilities	13 180	13 917	13 917	–	–

At 31 March R'million	Carrying amount	Fair value	Fair value category Level 1	Level 2	Level 3
Company					
2016					
Assets					
Sovereign debt securities	3 718	3 798	3 798	–	–
Bank debt securities	6 213	6 217	4 617	1 600	–
Loans and advances to customers	182 337	182 337	2 100	178 994	1 243
Liabilities					
Deposits by banks	37 108	37 265	811	36 454	–
Repurchase agreements and cash collateral on securities lent	12 816	12 860	–	12 860	–
Customer accounts (deposits)	251 719	252 225	137 475	114 750	–
Debt securities in issue	1 590	1 592	–	1 592	–
Subordinated liabilities	10 732	11 692	11 692	–	–

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 therefore no additional disclosures are made. This assumption also applies to demand deposits and savings accounts without a specific maturity included in customer accounts (deposits) and variable rate financial instruments.

The table below sets out information about the valuation techniques used at the end of the reporting period in measuring level 2 and level 3 financial instruments not held at fair value:

	Valuation basis/technique	Main inputs
Assets		
Bank debt securities	Discounted cash flow model	Yield curve
Other debt securities	Discounted cash flow model	Yield curve
Loans and advances to customers	Discounted cash flow model	Yield curve
Liabilities		
Deposits by banks	Discounted cash flow model	Yield curve
Repurchase agreements and cash collateral on securities lent	Discounted cash flow model	Yield curve
Customer accounts (deposits)	Discounted cash flow model	Yield curve
Debt securities in issue	Discounted cash flow model	Yield curve

At 31 March R'million	Carrying value	Fair value adjustment Year to date	Cumulative	Maximum exposure to credit risk

14. Designated at fair value: loans and receivables and financial liabilities

At 31 March R'million	Carrying value	Fair value adjustment Year to date	Cumulative	Maximum exposure to credit risk
Group				
Loans and receivables				
2017				
Loans and advances to customers	14 011	(96)	211	13 882
	14 011	**(96)**	**211**	**13 882**
2016				
Loans and advances to customers	12 241	(284)	(17)	12 027
	12 241	**(284)**	**(17)**	**12 027**

Year to date and cumulative fair value adjustments to loans and receivables attributable to credit risk were both Rnil (2016: Rnil).

At 31 March R'million	Carrying value	Remaining contractual amount to be repaid at maturity	Fair value adjustment Year to date	Cumulative
Group				
Financial liabilities designated at fair value through profit and loss				
2017				
Customer accounts (deposits)	34 316	34 227	252	89
Debt securities in issue	3 707	3 716	(3)	–
	38 023	**37 943**	**249**	**89**
2016				
Customer accounts (deposits)	12 059	12 222	(56)	(163)
Debt securities in issue	5 080	5 090	7	3
	17 139	**17 312**	**(49)**	**(160)**

Changes in fair value due to credit risk are determined as the change in the fair value of the financial instrument that is not attributable to changes in other market inputs.

Year to date and cumulative changes in fair value of financial liabilities attributable to credit risk were both Rnil (2016: Rnil).

14. Designated at fair value: loans and receivables and financial liabilities

(continued)

At 31 March R'million	Carrying value	Fair value adjustment Year to date	Fair value adjustment Cumulative	Maximum exposure to credit risk
Company				
Loans and receivables				
2017				
Loans and advances to customers	14 011	(96)	211	13 882
	14 011	**(96)**	**211**	**13 882**
2016				
Loans and advances to customers	12 241	(284)	(17)	12 027
	12 241	**(284)**	**(17)**	**12 027**

Year to date and cumulative fair value adjustments to loans and receivables attributable to credit risk were both Rnil (2016: Rnil).

At 31 March R'million	Carrying value	Remaining contractual amount to be repaid at maturity	Fair value adjustment Year to date	Fair value adjustment Cumulative
Company				
Financial liabilities designated at fair value through profit or loss				
2017				
Customer accounts (deposits)	34 316	34 227	252	89
Debt securities in issue	3 707	3 716	(3)	–
	38 023	**37 943**	**249**	**89**
2016				
Customer accounts (deposits)	12 059	12 222	(56)	(163)
Debt securities in issue	5 080	5 090	7	3
	17 139	**17 312**	**(49)**	**(160)**

Changes in fair value due to credit risk are determined as the change in the fair value of the financial instrument that is not attributable to changes in other market inputs.

Year to date and cumulative changes in fair value of financial liabilities attributable to credit risk were both Rnil (2016: Rnil).

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
15. Cash and balances at central banks				
The country risk of cash and balances at central banks lies in the following geographies:				
South Africa	8 169	7 655	8 169	7 654
Other	184	146	–	–
	8 353	**7 801**	**8 169**	**7 654**

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
16. Loans and advances to banks				
The country risk of loans and advances to banks lies in the following geographies:				
South Africa	13 141	14 509	13 002	14 221
United Kingdom	4 734	1 531	2 991	132
Europe (excluding UK)	3 742	3 132	2 573	2 581
Australia	190	172	137	144
United States of America	6 297	4 769	1 003	2 766
Asia	983	1 839	980	1 018
Other	2 850	827	432	523
	31 937	**26 779**	**21 118**	**21 385**

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
17. Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent				
Assets				
Reverse repurchase agreements	21 508	33 444	21 508	33 444
Cash collateral on securities borrowed	5 119	5 468	5 119	5 468
	26 627	**38 912**	**26 627**	**38 912**
As part of the reverse repurchase and securities borrowing agreements, the group has received securities that it is allowed to sell or repledge. R6.4 billion (2016: R13.1 billion) 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	7 825	16 916	6 462	15 325
	7 825	**16 916**	**6 462**	**15 325**
In the group, the assets transferred and not derecognised in the above repurchase agreements are fair valued at R5.8 billion (2016: R16.1 billion). They are pledged as security for the term of the underlying repurchase agreement.				

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
18. Sovereign debt securities				
Bonds	17 404	21 212	17 106	21 212
Government securities	538	626	538	626
Treasury bills	29 880	19 487	29 880	19 487
	47 822	**41 325**	**47 524**	**41 325**
The country risk of the sovereign debt securities lies in the following geographies:				
South Africa	47 382	40 699	47 084	40 699
Other	440	626	440	626
	47 822	**41 325**	**47 524**	**41 325**

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
19. Bank debt securities				
Bonds	5 180	10 239	3 727	8 588
Asset-based securities	506	–	506	–
Floating rate notes	2 072	3 729	2 072	3 729
	7 758	**13 968**	**6 305**	**12 317**
The country risk of the bank debt securities lies in the following geographies:				
South Africa	4 344	5 440	4 344	5 440
United Kingdom	2 202	5 012	1 504	4 234
United States of America	1 056	3 360	300	2 486
Other	156	156	157	157
	7 758	**13 968**	**6 305**	**12 317**

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
20. Other debt securities				
Bonds	7 276	11 150	6 023	9 869
Commercial paper	–	84	–	84
Floating rate notes	2 533	1 103	2 533	1 103
Liquid asset bills	298	298	298	298
Asset-based securities	1 748	–	1 748	–
Other investments	90	126	–	–
	11 945	**12 761**	**10 602**	**11 354**
The country risk of the other debt securities lies in the following geographies:				
South Africa	6 777	7 797	6 091	7 022
United Kingdom	1 234	1 148	986	789
Europe (excluding UK)	2 722	2 655	2 618	2 509
Australia	90	210	–	84
United States of America	215	–	–	–
Other	907	951	907	950
	11 945	**12 761**	**10 602**	**11 354**

21. Derivative financial instruments

The group enters into various contracts for derivatives both as principal for trading purposes and as customer for hedging foreign exchange and interest rate exposures. These include financial futures, options, swaps and forward rate agreements.

The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations.

In the tables that follow, notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair value of a derivative financial instrument represents the present value of future positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out by the group in an orderly market transaction at balance sheet date.

	2017			2016		
At 31 March R'million	**Notional principal amounts**	**Positive fair value**	**Negative fair value**	**Notional principal amounts**	**Positive fair value**	**Negative fair value**
Group						
Foreign exchange derivatives						
Forward foreign exchange contracts	124 866	2 288	1 782	171 801	5 616	6 711
Currency swaps	12 948	2 134	4 474	35 137	3 524	9 973
OTC options bought and sold	219 118	454	416	52 367	403	315
Other foreign exchange contracts	1	3	3	–	–	–
	356 933	**4 879**	**6 675**	**259 305**	**9 543**	**16 999**
Interest rate derivatives						
Caps and floors	2 612	4	9	1 058	9	21
Swaps	207 132	1 293	2 318	238 643	2 172	3 737
Forward rate agreements	1 300	16	20	9 931	74	73
OTC options bought and sold	^	24	23	100	19	15
Other interest rate contracts	6 265	451	34	130	115	30
	217 309	**1 788**	**2 404**	**249 862**	**2 389**	**3 876**
Equity and stock index derivatives						
OTC options bought and sold	311 919	3 203	1 961	44 464	4 669	703
Equity swaps and forwards	33 615	347	961	31 723	399	721
OTC derivatives	345 534	3 550	2 922	76 187	5 068	1 424
Exchange traded futures	138	1	–	1 473	1	–
Exchange traded options	27 021	8	–	7 006	3	–
Warrants	2 890	–	5 124	4 210	–	4 151
	375 583	**3 559**	**8 046**	**88 876**	**5 072**	**5 575**
Commodity derivatives						
OTC options bought and sold	1	1	1	4	^	^
Commodity swaps and forwards	111	22	24	997	101	132
	112	**23**	**25**	**1 001**	**101**	**132**
Credit derivatives	**7 692**	**29**	**61**	**8 472**	**39**	**211**
Embedded derivatives*		**221**	**–**		**237**	**–**
Cash collateral		**(643)**	**(4 655)**		**(1 538)**	**(13 369)**
Derivatives per balance sheet		**9 856**	**12 556**		**15 843**	**13 424**

* *Mainly includes profit shares received as part of lending transactions.*
^ *Less than R1 million.*

21. Derivative financial instruments *(continued)*

At 31 March R'million	2017 Notional principal amounts	2017 Positive fair value	2017 Negative fair value	2016 Notional principal amounts	2016 Positive fair value	2016 Negative fair value
Company						
Foreign exchange derivatives						
Forward foreign exchange contracts	124 866	2 288	1 782	171 801	5 616	6 711
Currency swaps	12 948	2 134	4 474	35 137	3 524	9 973
OTC options bought and sold	219 118	454	416	52 367	403	315
Other foreign exchange contracts	1	3	3	–	–	–
	356 933	**4 879**	**6 675**	**259 305**	**9 543**	**16 999**
Interest rate derivatives						
Caps and floors	2 612	4	9	1 058	9	21
Swaps	207 132	1 293	2 318	238 643	2 172	3 737
Forward rate agreements	1 300	16	20	9 931	74	73
OTC options bought and sold	^	24	23	100	19	15
Other interest rate contracts	6 265	451	34	130	115	30
	217 309	**1 788**	**2 404**	**249 862**	**2 389**	**3 876**
Equity and stock index derivatives						
OTC options bought and sold	311 919	3 203	1 961	44 464	4 669	703
Equity swaps and forwards	33 615	347	961	31 723	399	721
OTC derivatives	345 534	3 550	2 922	76 187	5 068	1 424
Exchange traded futures	138	1	–	1 473	1	–
Exchange traded options	27 021	8	–	7 006	3	–
Warrants	2 890	–	5 124	4 210	–	4 151
	375 583	**3 559**	**8 046**	**88 876**	**5 072**	**5 575**
Commodity derivatives						
OTC options bought and sold	1	1	1	4	^	^
Commodity swaps and forwards	111	22	24	997	101	132
	112	**23**	**25**	**1 001**	**101**	**132**
Credit derivatives	**7 692**	**29**	**61**	**8 472**	**39**	**211**
Embedded derivatives*		**32**	**–**		**10**	**–**
Cash collateral		**(643)**	**(4 655)**		**(1 538)**	**(13 369)**
Derivatives per balance sheet		**9 667**	**12 556**		**15 616**	**13 424**

* *Mainly includes profit shares received as part of lending transactions.*
^ *Less than R1 million.*

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
22. Securities arising from trading activities				
Bonds	457	595	457	595
Floating rate notes	6	–	6	–
Listed equities	115	397	115	397
Unlisted equities	75	–	75	–
	653	**992**	**653**	**992**

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
23. Investment portfolio				
Listed equities	4 087	3 557	3 893	3 307
Unlisted equities*	3 117	2 803	2 975	2 616
	7 204	**6 360**	**6 868**	**5 923**

* *Unlisted equities include loan instruments that are convertible into equity. Refer to note 26 for unlisted equities now shown as interests in associated undertakings.*

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
24. Loans and advances to customers and other loans and advances				
Gross loans and advances to customers	226 873	208 182	214 214	195 250
Impairments of loans and advances to customers	(1 204)	(910)	(955)	(672)
Net loans and advances to customers	**225 669**	**207 272**	**213 259**	**194 578**
Gross other loans and advances	336	398	397	452
Impairments of other loans and advances	(26)	(31)	(79)	(79)
Net other loans and advances	**310**	**367**	**318**	**373**

For further analysis on loans and advances refer to pages 42 to 50 in the risk management section.

24. Loans and advances to customers and other loans and advances

(continued)

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
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	680	970	532	853
Charge to the income statement	718	832	642	782
Reversals and recoveries recognised in the income statement	(164)	(378)	(164)	(363)
Utilised	(358)	(744)	(289)	(740)
Transfers	7	–	–	–
Balance at the end of the year	**883**	**680**	**721**	**532**
Portfolio impairment				
Balance at the beginning of the year	230	169	140	90
Charge to the income statement	102	65	94	69
Transfers	(4)	(19)	–	(19)
Exchange adjustment	(7)	15	–	–
Balance at the end of the year	**321**	**230**	**234**	**140**
Other loans and advances				
Specific impairment				
Balance at the beginning of the year	11	17	60	52
(Release)/charge to the income statement	(2)	(6)	–	8
Balance at the end of the year	**9**	**11**	**60**	**60**
Portfolio impairment				
Balance at the beginning of the year	20	1	19	–
Transfers	(3)	19	–	19
Balance at the end of the year	**17**	**20**	**19**	**19**
Total specific impairments	892	691	781	592
Total portfolio impairments	338	250	253	159
Total impairments	**1 230**	**941**	**1 034**	**751**
Reconciliation of income statement charge:				
Loans and advances to customers	**656**	**519**	**572**	**488**
Specific impairment charge to income statement	554	454	478	419
Portfolio impairment charge to income statement	102	65	94	69
Securitised assets (refer to note 25)	**3**	**4**	**–**	**–**
Specific impairment charge to the income statement	3	–	–	–
Portfolio impairment charge to income statement	–	4	–	–
Other loans and advances	**(2)**	**(6)**	**–**	**8**
Specific impairment charge to income statement	(2)	(6)	–	8
Total income statement charge	**657**	**517**	**572**	**496**

At 31 March R'million	Group 2017	 2016
25. Securitised assets and liabilities arising on securitisation		
Gross own originated loans and advances to customers securitised	7 782	7 973
Impairments of own originated loans and advances to customers securitised	(6)	(6)
Net own originated loans and advances to customers securitised	**7 776**	**7 967**
Other securitised assets are made up of the following categories of assets:		
Cash and cash equivalents	100	115
Total other securitised assets	**100**	**115**
The associated liabilities are recorded on balance sheet in the following line items:		
Liabilities arising on securitisation of own originated loans and advances	**673**	**809**
Specific and portfolio impairments		
Reconciliation of movements in group-specific and portfolio impairments of assets that have been securitised:		
Specific impairment		
Balance at the beginning of the year	1	1
Charge to the income statement	3	–
Utilised	(3)	–
Balance at the end of the year	**1**	**1**
Portfolio impairment		
Balance at the beginning of the year	5	1
Charge to the income statement	–	4
Balance at the end of the year	**5**	**5**
Total portfolio and specific impairments on balance sheet	**6**	**6**

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016

26. Interest in associated undertakings

Associated undertakings comprise unlisted investments.				
Analysis of the movement in our share of net assets:				
At the beginning of the year	5 145	60	5 086	–
Acquisitions*	–	5 090	–	5 086
Transfers from investment portfolio	69	–	24	–
Share of post taxation operating profit/(loss) of associates	306	(11)	303	–
Exchange adjustments	(6)	6	–	–
At the end of the year	**5 514**	**5 145**	**5 413**	**5 086**

* *Investec Bank Limited sold R5.8 billion of its unlisted equity portfolio to an investment vehicle, IEP Group (Pty) Ltd (IEP) on 11 January 2016 for R0.7 billion in cash and a 45% stake in IEP to the value of R5.1 billion. Investec Bank holds 45% of the voting rights and representation on the board which does not constitute control over the entity. As a result IEP has been accounted for as an equity accounted associate.*

Details of material associated companies	2017
IEP Group (Pty) Ltd	
Carrying value of interest – equity method (R'million)	5 413
Net asset value	4 732
Goodwill	681
Effective interest in issued share capital	45%
Summarised financial information (R'million)	
Revenue	5 711
Profit after taxation	675
Total comprehensive income	675
Asset and liabilities (R'million)	
Non-current assets	19 912
Current assets	5 288
Non-current liabilities	7 695
Current liabilities	5 084
Net asset value	12 421
Non-controlling interest	1 905
Shareholders' equity	10 516

For the year ended 31 March 2016, summarised financial information of IEP is not available, as the company was only incorporated during 2016.

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
27. Deferred taxation				
Deferred taxation assets	388	116	260	–
Deferred taxation liabilities	(109)	(122)	–	–
Net deferred taxation assets/(liabilities)	**279**	**(6)**	**260**	**–**
The net deferred taxation assets arise from:				
Deferred capital allowances	(7)	(6)	–	–
Income and expenditure accruals	215	24	203	–
Unrealised fair value adjustments on financial instruments	46	–	46	–
Tax relief from assessed losses	–	1	–	–
Deferred taxation on acquired intangibles	(90)	(104)	–	–
Impairment of loans and advances to customers	51	13	11	–
Finance lease accounting	64	56	–	–
Other temporary differences	–	10	–	–
Net deferred taxation assets/(liabilities)	**279**	**(6)**	**260**	**–**
Reconciliation of net deferred taxation (liabilities)/assets:				
At the beginning of the year	(6)	12	–	(36)
Reversal/(charge) to income statement	341	25	317	(35)
(Charge)/reversal directly in other comprehensive income	(57)	71	(57)	71
Acquisitions	–	(115)	–	–
Prior year tax adjustments	–	1	–	–
Exchange adjustments	1	–	–	–
At year end	**279**	**(6)**	**260**	**–**

Deferred taxation assets are recognised to the extent it is likely that profits will be available in future periods. The assessment of the likelihood of future profits is based on past performance and current projections. Deferred taxation assets are not recognised in respect of capital losses as crystallisation of capital gains and the eligibility of potential losses is uncertain.

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
28. Other assets				
Settlement debtors	774	521	774	521
Trading properties	293	176	210	41
Prepayments and accruals	835	316	761	246
Trading initial margins	341	324	341	324
Investec Import Solutions debtors	1 862	1 456	–	–
Fee debtors	13	17	13	17
Corporate tax assets	115	–	–	–
Other	1 033	846	693	585
	5 266	**3 656**	**2 792**	**1 734**

At 31 March R'million	Leasehold improvements	Furniture and vehicles	Equipment	Total
29. Property and equipment				
Group				
2017				
Cost				
At the beginning of the year	36	163	681	880
Additions	8	12	142	162
Disposals	–	(12)	(71)	(83)
At the end of the year	**44**	**163**	**752**	**959**
Accumulated depreciation				
At the beginning of the year	(24)	(118)	(502)	(644)
Disposals	–	9	47	56
Depreciation	(4)	(11)	(82)	(97)
At the end of the year	**(28)**	**(120)**	**(537)**	**(685)**
Net carrying value	**16**	**43**	**215**	**274**
2016				
Cost				
At the beginning of the year	34	160	618	812
Acquisition of subsidiary undertaking	–	1	24	25
Additions	2	6	107	115
Disposals	–	(4)	(68)	(72)
At the end of the year	**36**	**163**	**681**	**880**
Accumulated depreciation				
At the beginning of the year	(21)	(113)	(486)	(620)
Disposals	–	3	54	57
Depreciation	(3)	(8)	(70)	(81)
At the end of the year	**(24)**	**(118)**	**(502)**	**(644)**
Net carrying value	**12**	**45**	**179**	**236**

At 31 March R'million	Leasehold improvements	Furniture and vehicles	Equipment	Total
29. Property and equipment *(continued)*				
Company				
2017				
Cost				
At the beginning of the year	36	148	649	833
Additions	8	11	134	153
Disposals	–	(12)	(71)	(83)
At the end of the year	**44**	**147**	**712**	**903**
Accumulated depreciation				
At the beginning of the year	(25)	(118)	(492)	(635)
Disposals	–	9	46	55
Depreciation	(4)	(10)	(74)	(88)
At the end of the year	**(29)**	**(119)**	**(520)**	**(668)**
Net carrying value	**15**	**28**	**192**	**235**
2016				
Cost				
At the beginning of the year	34	147	621	802
Additions	2	5	95	102
Disposals	–	(4)	(67)	(71)
At the end of the year	**36**	**148**	**649**	**833**
Accumulated depreciation				
At the beginning of the year	(22)	(113)	(480)	(615)
Disposals	–	2	53	55
Depreciation	(3)	(7)	(65)	(75)
At the end of the year	**(25)**	**(118)**	**(492)**	**(635)**
Net carrying value	**11**	**30**	**157**	**198**

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
30. Investment properties				
At the beginning of the year	1	80	1	80
Disposals	–	(79)	–	(79)
At the end of the year	**1**	**1**	**1**	**1**

Investment properties are carried at fair value and are classified as level 3.

Revaluations are recognised in investment income on the income statement and are unrealised.

The group values its investment properties twice annually. The properties are valued by directors. The valuation is performed by capitalising the annual net income of a property at a market-related yield applicable at the time.

31. Intangible assets

At 31 March R'million	Group Acquired software	Group Internally generated software	Group Client relation-ships	Group Total	Company Acquired software	Company Internally generated software	Company Total
2017							
Cost							
At the beginning of the year	585	120	412	1 117	577	99	676
Additions	104	8	–	112	105	–	105
Disposals	(10)	(1)	–	(11)	(10)	–	(10)
At the end of the year	**679**	**127**	**412**	**1 218**	**672**	**99**	**771**
Accumulated amortisation and impairments							
At the beginning of the year	(452)	(102)	(39)	(593)	(445)	(98)	(543)
Disposals	7	1	–	8	7	–	7
Amortisation	(69)	(5)	(51)	(125)	(69)	–	(69)
At the end of the year	**(514)**	**(106)**	**(90)**	**(710)**	**(507)**	**(98)**	**(605)**
Net carrying value	**165**	**21**	**322**	**508**	**165**	**1**	**166**
2016							
Cost							
At the beginning of the year	559	112	–	671	552	99	651
Acquisitions of a subsidiary undertaking	–	–	412	412	–	–	–
Additions	26	8	–	34	25	–	25
At the end of the year	**585**	**120**	**412**	**1 117**	**577**	**99**	**676**
Accumulated amortisation and impairments							
At the beginning of the year	(384)	(97)	–	(481)	(377)	(97)	(474)
Amortisation	(68)	(5)	(39)	(112)	(68)	(1)	(69)
At the end of the year	**(452)**	**(102)**	**(39)**	**(593)**	**(445)**	**(98)**	**(543)**
Net carrying value	**133**	**18**	**373**	**524**	**132**	**1**	**133**

32. Acquisitions

2017

There were no significant acquisitions of subsidiaries during the year ended 31 March 2017.

Goodwill relates to Investec Import Solutions group. The goodwill has been tested for impairment taking into account profitability, being the current year profits and budgeted profits. The valuation is based on managements assessment of the appropriate profit forecast and a discount rate to estimate the fair value less cost to sell the business. The discount rate applied of 12.36% is determined using the South African risk-free rate adjusted for the risk related to the cash-generating unit. The valuation would be level 3 in the fair value hierarchy.

2016

On 1 July 2015, Investec Bank Limited concluded transaction agreements with the management and shareholders of the Investec Import Solutions group, previously Blue Strata group, for the acquisition of the remaining 51.5% of the Blue Strata group, not already owned by it. Investec and Blue Strata have had a fruitful partnership over the past 13 years since Blue Strata's founding in 2002.

The assets and liabilities at the date of acquisition, goodwill arising and total consideration paid are shown below:

R'million	Fair value of assets and liabilities
Loans and advances to banks	70
Investment portfolio	43
Deferred taxation assets	6
Other assets	1 437
Property and equipment	25
Intangible assets	412
Assets	**1 993**
Deferred taxation liabilities	121
Other liabilities	256
Liabilities	**377**
Net fair value of assets acquired	**1 616**
Fair value of existing 48.5% equity interest held in Investec Import Solutions	370
Cash consideration	367
Loan eliminated on consolidation	1 050
Fair value of consideration	**1 787**
Goodwill	**171**

For the post acquisition period 1 July 2015 to 31 March 2016, the operating income of Investec Import Solutions was R204.9 million and the profit before taxation amounted to R68.2 million. If the acquisition of Investec Import Solutions had occurred at the beginning of the current year, the increase in operating income and profit before taxation of the group would be R269.5 million and R93.1 million respectively.

As at 31 March 2017 goodwill has not been impaired.

At 31 March R'million	Group		Company	
	2017	2016	2017	2016

33. Loans to group companies and loans from group companies and subsidiaries

	Group 2017	Group 2016	Company 2017	Company 2016
Loans to group companies				
Loans to fellow subsidiaries	11 722	7 694	11 679	6 653
Preference share investment in Investec Limited	319	319	–	–
Preference share investment in fellow subsidiaries	5 987	3 798	1 051	1 087
Intergroup derivative financial instruments	78	–	140	–
	18 106	**11 811**	**12 870**	**7 740**
Loans from group companies and subsidiaries				
Loans from subsidiaries	–	–	914	2 192
Investec Bank (Mauritius) Limited	–	–	–	1 270
Sechold Finance Services (Pty) Ltd	–	–	122	519
KWJ Investments (Pty) Ltd	–	–	–	403
Other subsidiaries	–	–	792	–
Loan from holding company – Investec Limited	864	523	863	523
Loans from fellow subsidiaries	148	864	130	894
Preference shares issued to fellow subsidiaries	4 930	4 863	–	–
Intergroup derivative financial instruments	–	101	–	–
	5 942	**6 351**	**1 907**	**3 609**

R10.7 billion (2016: R6.2 billion) is unsecured interest-bearing, with no fixed terms of repayment.

There were no subordinated loan amounts included in the loans to group companies. Loans from group companies are unsecured, interest-bearing, with no fixed terms of repayment.

Restatements

The group had erroneously included loans from group companies as a component of 'Loans to group companies' and 'Investment in subsidiaries' included in assets. The presentation has been amended to separately disclose 'Loans from group companies and subsidiaries' in liabilities. In prior years' annual financial statements, separation of loans to and from group companies and subsidiaries was provided in the 'Loans to group companies' and 'Investment in subsidiaries' note of the annual financial statements.

The restatement to the balance sheet line items are noted below:

At 31 March R'million	Group 2016	Group 2015	Company 2016	Company 2015
Restated				
Loans to group companies	11 811	10 754	7 740	8 884
Loans from group companies and subsidiaries	6 351	7 486	3 609	6 448
Investment in subsidiaries	n/a	n/a	7 824	6 819
Total assets	411 980	340 192	383 127	320 980
Total liabilities	380 115	311 293	357 038	297 131
As previously reported				
Loans to group companies	5 460	3 268	6 323	2 825
Loans from group companies	n/a	n/a	n/a	n/a
Investment in subsidiaries	n/a	n/a	5 632	6 430
Total assets	405 629	332 706	379 518	314 532
Total liabilities	373 764	303 807	353 429	290 683
Change to previously reported				
Loans to group companies	6 351	7 486	1 417	6 059
Loans from group companies	6 351	7 486	3 609	6 448
Investment in subsidiaries	n/a	n/a	2 192	389
Total assets	6 351	7 486	3 609	6 448
Total liabilities	6 351	7 486	3 609	6 448

The above changes have no impact on the income statement, net assets or the net cash flows.

At 31 March	Nature of business	Holding %	Shares at book value 2017 R'million	Shares at book value 2016 R'million	Loan advances to subsidiaries 2017 R'million	Loan advances to subsidiaries 2016** R'million

34. Investment in subsidiaries

Material direct subsidiaries of Investec Bank Limited

At 31 March	Nature of business	Holding %	Shares at book value 2017 R'million	Shares at book value 2016 R'million	Loan advances to subsidiaries 2017 R'million	Loan advances to subsidiaries 2016** R'million
Investec Bank (Mauritius) Limited^	Banking	100	534	534	3 172	–
Reichmans Holdings (Pty) Ltd	Trade and asset financing	100	112	112	5 490	4 296
Sechold Finance Services (Pty) Ltd	Investment holding	100	*	*	–	–
KWJ Investments (Pty) Ltd	Investment holding	100	*	*	60	–
AEL Investment Holdings (Pty) Ltd	Investment holding	100	*	*	786	7
Investpref Limited	Investment holding	100	*	*	158	23
Copperleaf Country Estate (Pty) Ltd	Property developer	100	11	11	123	180
Investec Import Solutions (Pty) Ltd	Import logistics and trade finance	100	737	737	1 919	1 464
Other			260	259	–	201
			1 654	**1 653**	**11 708**	**6 171**

Details of subsidiary and associated companies which are not material to the financial position of the group are not reflected above.

Loans to group companies are unsecured interest-bearing, with no fixed terms of repayment.

^ *Mauritius.*
* *Less than R1 million.*
** *Restated, refer to note 'loans to group companies and loans from group companies and subsidiaries' on page 181.*

Consolidated structured entities

Investec Bank Limited has no subordinated investment interest in the following structured entities which are consolidated. Typically a structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. The judgements to assess whether the group has control over these structures include assessing the purpose and design of the entity, considering whether the group or another involved party with power over the relevant activities is acting as a principal in its own right or as an agent on behalf of others.

Name of principal structured entity	Type of structured entity
Fox Street 2 (RF) Limited	Securitised residential mortgages
Fox Street 3 (RF) Limited	Securitised residential mortgages
Fox Street 4 (RF) Limited	Securitised residential mortgages
Fox Street 5 (RF) Limited	Securitised residential mortgages
Integer Home Loans (Pty) Ltd	Securitised third party originated residential mortgages

Private Mortgages 1 (RF) (Pty) Ltd, Private Residential Mortgages (RF) Limited have been wound up.

For additional detail on the assets and liabilities arising on securitisation refer to note 25. For details of the risks to which the group is exposed through all of its securitisations are included in the risk management report on pages 53 and 54.

The key assumptions for the main types of structured entities which the group consolidates are summarised below:

Securitised residential mortgages

The group has securitised residential mortgages in order to provide investors with exposure to residential mortgage risk and to raise funding. These structured entities are consolidated due to the group's holdings of subordinated notes. The group is not required to fund any losses above those incurred on the notes it has retained, such losses are reflected in any impairment of securitised mortgages as those assets have not been derecognised.

Securitised third party originated residential mortgages

The group has a senior and subordinated investment in a third party originated structured entity. The structured entity is consolidated due to the group's exposure to residual economic benefits. The group is not required to fund any losses above those incurred on the investments made.

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
35. Other trading liabilities				
Deposits	1 317	829	1 317	829
Short positions – gilts	350	576	350	576
	1 667	**1 405**	**1 667**	**1 405**

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
36. Debt securities in issue				
Repayable in:				
Less than three months	52	2 267	52	2 167
Three months to one year	4 309	170	4 294	170
One to five years	1 462	5 228	432	4 333
	5 823	**7 665**	**4 778**	**6 670**

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
37. Other liabilities				
Settlement liabilities	1 547	1 021	801	683
Other creditors and accruals	3 193	2 730	3 020	2 575
Other non-interest-bearing liabilities	1 255	1 291	1 029	779
	5 995	**5 042**	**4 850**	**4 037**

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
38. Subordinated liabilities				
Issued by Investec Bank Limited				
IV08 13.735% subordinated unsecured callable upper tier 2 bonds	200	200	200	200
IV09 variable rate subordinated unsecured callable upper tier 2 bonds	200	200	200	200
IV015 variable rate subordinated unsecured callable bonds	601	601	601	601
IV016 variable rate subordinated unsecured callable bonds	–	325	–	325
IV017 indexed rate subordinated unsecured callable bonds	–	2 194	–	2 194
IV019 indexed rate subordinated unsecured callable bonds	103	92	103	92
IV019A indexed rate subordinated unsecured callable bonds	364	339	364	339
IV022 variable rate subordinated unsecured callable bonds	638	638	638	638
IV023 variable rate subordinated unsecured callable bonds	860	860	860	860
IV024 variable rate subordinated unsecured callable bonds	106	106	106	106
IV025 variable rate subordinated unsecured callable bonds	1 000	1 000	1 000	1 000
IV026 variable rate subordinated unsecured callable bonds	750	750	750	750
IV030 indexed rate subordinated unsecured callable bonds	398	365	398	365
IV030A indexed rate subordinated unsecured callable bonds	420	392	420	392
IV031 variable rate subordinated unsecured callable bonds	500	500	500	500
IV032 variable rate subordinated unsecured callable bonds	810	810	810	810
IV033 variable rate subordinated unsecured callable bonds	159	159	159	159
IV034 variable rate subordinated unsecured callable bonds	101	101	101	101
IV035 variable rate subordinated unsecured callable bonds	1 468	1 100	1 468	1 100
IV036 variable rate subordinated unsecured callable bonds	32	–	32	–
IV037 variable rate subordinated unsecured callable bonds	1 255	–	1 255	–
IV038 variable rate subordinated unsecured callable bonds	350	–	350	–
IV039 indexed rate subordinated unsecured callable bonds	154	–	154	–
IV040 variable rate subordinated unsecured callable bonds	589	–	589	–
IV041 fixed rate subordinated unsecured callable bonds	190	–	190	–
IV042 variable rate subordinated unsecured callable bonds	50	–	50	–
IV043 fixed rate subordinated unsecured callable bonds	150	–	150	–
IV044 fixed rate subordinated unsecured callable bonds	240	–	240	–
IV045 indexed rate subordinated unsecured callable bonds	1 492	–	1 492	–
	13 180	**10 732**	**13 180**	**10 732**
All subordinated debt issued by Investec Bank Limited and its subsidiaries is denominated in South African Rand.				
Remaining maturity:				
In one year or less, or on demand	2 205	–	2 205	–
In more than one year, but not more than two years	400	–	400	–
In more than two years, but not more than five years	7 012	400	7 012	400
In more than five years	3 563	10 332	3 563	10 332
	13 180	**10 732**	**13 180**	**10 732**

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.

38. Subordinated liabilities *(continued)*

IV08 13.735% subordinated unsecured callable upper tier 2 bonds

R200 million Investec Bank Limited IV08 locally registered subordinated unsecured callable bonds without a maturity date. Interest is paid six-monthly in arrears on 31 October and 30 April at a rate of 13.735% per annum until 30 April 2018. The company has the option to call the bonds from 30 April 2013 or on any interest payment date falling after 30 April 2018. If not called by 30 April 2018, the bonds will pay interest of 5.625% above JIBAR payable quarterly in arrears until called.

IV09 variable rate subordinated unsecured callable upper tier 2 bonds

R200 million Investec Bank Limited IV09 locally registered subordinated unsecured callable bonds without a maturity date. Interest is paid quarterly in arrears on 31 July, 31 October, 31 January and 30 April at a rate equal to three-month JIBAR plus 3.75% until 30 April 2018. The company has the option to call the bonds from 30 April 2013 or on any interest payment date falling after 30 April 2018. If not called by 30 April 2018, the bonds will pay interest of 5.625% above JIBAR payable quarterly in arrears until called.

IV015 variable rate subordinated unsecured callable bonds

R601 million Investec Bank Limited IV015 locally registered subordinated unsecured callable bonds are due in September 2022. Interest is payable quarterly in arrears on 20 December, 20 March, 20 June and 20 September at a rate equal to three-month JIBAR plus 2.65% basis points until 20 September 2017. From and including 20 September 2017, up to and excluding 20 September 2022 interest is paid at a rate equal to three-month JIBAR plus 4.00%. The maturity date is 20 September 2022, but the company has the option to call the bonds upon regulatory capital disqualification or from 20 September 2017.

IV016 variable rate subordinated unsecured callable bonds

Rnil (2016: R325 million) Investec Bank Limited IV016 locally registered subordinated unsecured callable bonds are due in December 2021. Interest is payable quarterly in arrears on 6 December, 6 March, 6 June and 6 September at a rate equal to three-month JIBAR plus 2.75%, up to and excluding 6 December 2021. The maturity date is 6 December 2021, but the company has the option to call the bonds upon regulatory disqualification or from 6 December 2016. The bonds were called on 6 December 2016.

IV017 indexed rate subordinated unsecured callable bonds

Rnil (2016: R2 194 million) Investec Bank Limited IV017 locally registered subordinated unsecured callable bonds are due in January 2022. Interest on these inflation-linked bonds is payable semi-annually on 31 January and 31 July at a rate of 2.75%. The IV017 is a replica of the R212 South African government bond. The maturity date is 31 January 2022, but the company has the option to call the bonds upon regulatory capital disqualification or from 31 January 2017. The bonds were called on 31 January 2017.

IV019 indexed rate subordinated unsecured callable bonds

R103 million (2016: R92 million) Investec Bank Limited IV019 locally registered subordinated unsecured callable bonds are due in March 2028. Interest on these inflation-linked bonds is payable semi-annually on 31 March and 30 September at a rate of 2.60%. The IV019 is a replica of the R210 South African government bond. The maturity date is 31 March 2028, but the company has the option to call the bonds upon regulatory capital disqualification or from 3 April 2023.

IV019A indexed rate subordinated unsecured callable bonds

R364 million (2016: R339 million) Investec Bank Limited IV019A locally registered subordinated unsecured callable bonds are due in March 2028. Interest on these inflation-linked bonds is payable semi-annually on 31 March and 30 September at a rate of 2.60%. The IV019A is a replica of the R210 South African government bond. The maturity date is 31 March 2028, but the company has the option to call the bonds upon regulatory capital disqualification or from 3 April 2023.

IV022 variable rate subordinated unsecured callable bonds

R638 million Investec Bank Limited IV022 locally registered subordinated unsecured callable bonds are due in April 2022. Interest is payable quarterly on 2 January, 2 April, 2 July and 2 October at a rate equal to the three-month JIBAR plus 2.50% up to and excluding 2 April 2022. The maturity date is 2 April 2022, but the company has the option to call the bonds upon regulatory capital disqualification or from 2 April 2017.

IV023 variable rate subordinated unsecured callable bonds

R860 million Investec Bank Limited IV023 locally registered subordinated unsecured callable bonds are due in July 2022. Interest is payable quarterly on 11 January, 11 April, 11 July and 11 October at a rate equal to the three-month JIBAR plus 2.50% up to and excluding 11 July 2022. The maturity date is 11 July 2022, but the company has the option to call the bonds upon regulatory capital disqualification or from 11 July 2017.

38. Subordinated liabilities *(continued)*

IV024 variable rate subordinated unsecured callable bonds

R106 million Investec Bank Limited IV024 locally registered subordinated unsecured callable bonds are due in July 2022. Interest is payable quarterly on 27 January, 27 April, 27 July and 27 October at a rate equal to the three-month JIBAR plus 2.70% up to and excluding 27 July 2022. The maturity date is 27 July 2022, but the company has the option to call the bonds upon regulatory capital disqualification or from 27 July 2017.

IV025 variable rate subordinated unsecured callable bonds

R1 000 million Investec Bank Limited IV025 locally registered subordinated unsecured callable bonds are due in September 2024. Interest is payable quarterly on 12 December, 12 March, 12 June and 12 September at a rate equal to the three-month JIBAR plus 2.50% up to and excluding 12 September 2024. The maturity date is 12 September 2024, but the company has the option to call the bonds upon regulatory capital disqualification or from 12 September 2019.

IV026 variable rate subordinated unsecured callable bonds

R750 million Investec Bank Limited IV026 locally registered subordinated unsecured callable bonds are due in September 2024. Interest is payable quarterly on 27 December, 27 March, 27 June and 27 September at a rate equal to the three-month JIBAR plus 2.45% up to and excluding 27 September 2024. The maturity date is 27 September 2024, but the company has the option to call the bonds upon regulatory capital disqualification or from 27 September 2019.

IV030 indexed rate subordinated unsecured callable bonds

R398 million (2016: R365 million) Investec Bank Limited IV030 locally registered subordinated unsecured callable bonds are due in January 2025. Interest on these inflation-linked bonds is payable semi-annually on 31 January and 31 July at a rate of 2.00%. The IV030 is a replica of the I2025 South African government bond. The maturity date is 31 January 2025, but the company has the option to call the bonds upon regulatory capital disqualification or from 31 January 2020.

IV030A indexed rate subordinated unsecured callable bonds

R420 million (2016: R392 million) Investec Bank Limited IV030A locally registered subordinated unsecured callable bonds are due in January 2025. Interest on these inflation-linked bonds is payable semi-annually on 31 January and 31 July at a rate of 2.00%. The IV030A is a replica of the I2025 South African government bond. The maturity date is 31 January 2025, but the company has the option to call the bonds upon regulatory capital disqualification or from 31 January 2020.

IV031 variable rate subordinated unsecured callable bonds

R500 million Investec Bank Limited IV031 locally registered subordinated unsecured callable bonds are due in March 2025. Interest is payable quarterly on 11 December, 11 March, 11 June and 11 September at a rate equal to the three-month JIBAR plus 2.95% up to and excluding 11 March 2025. The maturity date is 11 March 2025, but the company has the option to call the bonds upon regulatory capital disqualification or from 11 March 2020.

IV032 variable rate subordinated unsecured callable bonds

R810 million Investec Bank Limited IV032 locally registered subordinated unsecured callable bonds are due in August 2023. Interest is payable quarterly on 14 November, 14 February, 14 May, 14 August at a rate equal to the three-month JIBAR plus 2.95%. The maturity date is 14 August 2023, but the company has the option to call the bonds upon regulatory capital disqualification or from 14 August 2018.

IV033 variable rate subordinated unsecured callable bonds

R159 million Investec Bank Limited IV033 locally registered subordinated unsecured callable bonds are due in February 2026. Interest is payable quarterly on 11 May, 11 August, 11 November and 11 February at a rate equal to the three-month JIBAR plus 4.25% up to and excluding 11 February 2026. The maturity date is 11 February 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 11 February 2021.

IV034 fixed rate subordinated unsecured callable bonds

R101 million Investec Bank Limited IV034 locally registered subordinated unsecured callable bonds are due in February 2026. Interest is payable semi-annually on 11 February and 11 August at a rate equal to 12.47% up to and excluding 11 February 2026. The maturity date is 11 February 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 11 February 2021.

IV035 variable rate subordinated unsecured callable bonds

R1 468 million (2016: R1 100 million) Investec Bank Limited IV035 locally registered subordinated unsecured callable bonds are due in April 2027. Interest is payable quarterly on 7 April, 7 July, 7 October and 7 January at a rate equal to the three-month JIBAR plus 4.65% up to and excluding 7 April 2027. The maturity date is 7 April 2027, but the company has the option to call the bonds upon regulatory capital disqualification or from 7 April 2022.

38. Subordinated liabilities *(continued)*

IV036 variable rate subordinated unsecured callable bonds

R32 million (2016: Rnil) Investec Bank Limited IV036 locally registered subordinated unsecured callable bonds are due in April 2026. Interest is payable quarterly on 22 April, 22 July, 22 October and 22 January at a rate equal to the three-month JIBAR plus 4.25% up to and excluding 22 July 2026. The maturity date is 22 July 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 22 July 2021.

IV037 variable rate subordinated unsecured callable bonds

$125 million (2016: $nil) Investec Bank Limited IV037 locally registered subordinated unsecured tier 2 callable bonds are due in October 2026 and were issued at an issue price of $91 million. The notes will automatically convert from zero coupon notes to floating rate notes on the first optional redemption date, being the 19 October 2021. The implied zero coupon yield is 6.29961713% nacq (ACT/360) up until the 19 October 2021. If the Issuer does not exercise the option to redeem the notes on 19 October 2021, then interest on the floating rate notes shall commence on 19 October 2021 and is payable quarterly on 19 January, 19 July, 19 April and 19 October at a rate equal to the three-month USD LIBOR plus 5.5% up to and excluding 19 October 2026. The maturity date is 19 October 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 19 October 2021.

IV038 variable rate subordinated unsecured callable bonds

R350 million (2016: Rnil) Investec Bank Limited IV038 locally registered subordinated unsecured callable bonds are due in September 2026. Interest is payable quarterly on 23 March, 23 June, 23 September and 23 December at a rate equal to the three-month JIBAR plus 4.25% up to and excluding 23 September 2026. The maturity date is 23 September 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 23 September 2021.

IV039 indexed rate subordinated unsecured callable bonds

R154 million (2016: Rnil) Investec Bank Limited IV039 locally registered subordinated unsecured callable bonds are due in January 2027. Interest on these inflation-linked bonds is payable quarterly on 31 January, 30 April, 31 July and 31 October at a rate of 2.75%. The IV039 is a replica of the R212 South African government bond. The maturity date is 31 January 2027, but the company has the option to call the bonds upon regulatory capital disqualification or from 31 January 2022.

IV040 variable rate subordinated unsecured callable bonds

R589 million (2016: Rnil) Investec Bank Limited IV040 locally registered subordinated unsecured callable bonds are due in September 2026. Interest is payable quarterly on 29 March, 29 June, 29 September and 29 December at a rate equal to the three-month JIBAR plus 4.25% up to and excluding 29 September 2026. The maturity date is 29 September 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 29 September 2021.

IV041 fixed rate subordinated unsecured callable bonds

R190 million (2016: Rnil) Investec Bank Limited IV040 locally registered subordinated unsecured callable bonds are due in September 2026. Interest is payable quarterly on 29 March, 29 June, 29 September and 29 December at a rate of 11.97% up to and excluding 29 September 2026. The maturity date is 29 September 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 29 September 2021.

IV042 variable rate subordinated unsecured callable bonds

R50 million (2016: Rnil) Investec Bank Limited IV042 locally registered subordinated unsecured callable bonds are due in November 2026. Interest is payable quarterly on 18 February, 18 May, 18 August and 18 November at a rate equal to the three-month JIBAR plus 4.25% up to and excluding 18 November 2026. The maturity date is 18 November 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 18 November 2021.

IV043 fixed rate subordinated unsecured callable bonds

R150 million (2016: Rnil) Investec Bank Limited IV042 locally registered subordinated unsecured callable bonds are due in November 2026. Interest is payable quarterly on 21 February, 21 May, 21 August and 21 November at a rate of 12.50% up to and excluding 21 November 2026. The maturity date is 21 November 2026, but the company has the option to call the bonds upon regulatory capital disqualification or from 21 November 2021.

IV044 variable rate subordinated unsecured callable bonds

R240 million (2016: Rnil) Investec Bank Limited IV044 locally registered subordinated unsecured callable bonds are due in January 2027. Interest is payable quarterly on 31 January, 30 April, 31 July and 31 October at a rate equal to the three-month JIBAR plus 4.15% up to and excluding 31 January 2027. The maturity date is 31 January 2027, but the company has the option to call the bonds upon regulatory capital disqualification or from 31 January 2022.

IV045 indexed rate subordinated unsecured callable bonds

R1492 million (2016: Rnil) Investec Bank Limited IV045 locally registered subordinated unsecured callable bonds are due in January 2027. Interest on these inflation-linked bonds is payable quarterly on 31 January, 30 April, 31 July and 31 October at a rate of 2.75%. The IV045 is a replica of the R212 South African government bond. The maturity date is 31 January 2027, but the company has the option to call the bonds upon regulatory capital disqualification or from 31 January 2022.

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
39. Ordinary share capital				
Authorised				
105 000 000 (2016: 105 000 000) ordinary shares of 50 cents each				
Issued				
63 019 022 (2016: 63 019 022) ordinary shares of 50 cents each, fully paid	32	32	32	32

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
40. Perpetual preference shares				
Authorised				
70 000 000 (2016: 70 000 000) non-redeemable, non-cumulative, non-participating preference shares of one cent each (perpetual preference shares)				
20 000 000 (2016: 20 000 000) non-redeemable, non-cumulative, non-participating preference shares with a par value of one cent each (non-redeemable programme preference shares)				
49 000 000 (2016: 50 000 000) redeemable, non-participating preference shares with a par value of one cent each (redeemable programme preference shares)				
1 000 000 (2016: nil) class IBRP1 redeemable, non-participating preference shares with a par value of one cent each				
Issued				
15 447 630 (2016: 15 447 630) non-redeemable, non-cumulative non-participating preference shares of one cent each, issued at a premium of between R96.46 and R99.99 per share.	1 534	1 534	1 534	1 534
– Perpetual preference share capital	*	*	*	*
– Perpetual preference share premium	1 534	1 534	1 534	1 534

* *Less than R1 million.*

Share premium on perpetual preference shares is included in the line item share premium on the balance sheet. Refer to note 41.

Preference shareholders will be entitled to receive dividends, if declared, at a rate limited to 83.33% of the South African prime interest rate on R100 being the deemed value of the issue price of the preference share held.

Preference shareholders receive dividends in priority to any payment of dividends to the holder of any other class of shares in the capital of the company not ranking prior or pari passu with the preference shares.

An ordinary dividend will not be declared by Investec Bank Limited unless the preference dividend has been declared. If declared, preference dividends are payable semi-annually at least seven business days prior to the date on which Investec Bank Limited pays its ordinary dividends, if any, but shall be payable no later than 120 business days after 31 March and 30 September, respectively.

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
41. Share premium				
Share premium on ordinary shares*	13 351	13 351	13 351	13 351
Share premium on perpetual preference shares (refer to note 40)	1 534	1 534	1 534	1 534
	14 885	**14 885**	**14 885**	**14 885**

* *'Share issue expenses written off' of R15 million have now been included in 'share premium on ordinary shares'.*

At 31 March R'million	Group 2017 Total future minimum payments	Group 2017 Present value	Group 2016 Total future minimum payments	Group 2016 Present value
42. Finance lease disclosures				
Finance lease receivables included in loans and advances to customers				
Lease receivables due in:				
Less than one year	974	803	731	590
One to five years	925	795	717	616
Later than five year	76	65	–	–
	1 975	**1 663**	**1 448**	**1 206**
Unearned finance income	**312**		**242**	

At 31 March 2017 and 31 March 2016, there were no unguaranteed residual values.

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
43. Notes to cash flow statement				
Profit before taxation adjusted for non-cash items is derived as follows:				
Profit before taxation	4 159	4 295	3 902	4 467
Adjustments for non-cash items included in net income before taxation:				
Amortisation of acquired intangible assets	51	39	–	–
Depreciation, amortisation and impairment of property, equipment and intangibles	171	154	157	144
Impairment of loans and advances	657	517	572	496
Operating (profit)/loss from associates	(306)	11	(303)	–
Loss on non-current assets held for sale	41	131	41	131
Gain on realisation of fixed assets	–	(1)	–	(1)
Gain on realisation of available-for-sale assets recycled through the income statement	(61)	(13)	(61)	(13)
Profit before taxation adjusted for non-cash items	**4 712**	**5 133**	**4 308**	**5 224**
Increase in operating assets				
Loans and advances to banks	(1 262)	8 499	(1 261)	8 428
Reverse repurchase agreements and cash collateral on securities borrowed	12 285	(28 794)	12 285	(28 986)
Sovereign debt securities	(6 452)	(10 000)	(6 140)	(10 023)
Bank debt securities	6 789	3 251	6 734	3 261
Other debt securities	722	180	753	2 034
Derivative financial instruments	6 201	(460)	6 117	(505)
Securities arising from trading activities	339	297	339	297
Investment portfolio	(760)	(2 067)	(796)	(1 740)
Loans and advances to customers	(20 147)	(32 395)	(19 179)	(36 045)
Own originated loans and advances to customers securitised	191	(3 432)	–	–
Other loans and advances	57	105	55	103
Other securitised assets	15	503	–	137
Other assets	(1 615)	(949)	(1 058)	(740)
Investment properties	–	79	–	79
Loans to group companies	(6 190)	(2 306)	(10 668)	139
Non-current assets held for sale	(497)	601	(497)	601
	(10 324)	**(66 888)**	**(13 316)**	**(62 960)**
Increase in operating liabilities				
Deposits by banks	(4 864)	7 450	(4 730)	7 456
Derivative financial instruments	(868)	1 023	(868)	1 023
Other trading liabilities	262	(218)	262	(218)
Repurchase agreements and cash collateral on securities lent	(8 955)	77	(8 863)	100
Customer accounts (deposits)	25 137	56 105	23 396	51 864
Debt securities in issue	(1 842)	2 148	(1 892)	2 148
Liabilities arising on securitisation of own originated loans and advances	(136)	(280)	–	–
Other liabilities	1 010	997	813	545
Loans from group companies	(409)	(1 135)	(1 702)	(2 839)
	9 335	**66 167**	**6 416**	**60 079**

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
44. Commitments				
Undrawn facilities	44 070	44 533	41 965	42 855
	44 070	**44 533**	**41 965**	**42 855**
The group has entered into forward foreign exchange contracts and loan commitments in the normal course of its banking business for which the fair value is recorded on balance sheet.				
Operating lease commitments				
Future minimum lease payments under non-cancellable operating leases:				
Less than one year	398	373	384	369
One to five years	2 058	1 883	2 012	1 880
Greater than five years	361	749	360	749
	2 817	**3 005**	**2 756**	**2 998**

At 31 March 2017, Investec was obligated under a number of operating leases for properties, computer equipment and office equipment for which the future minimum lease payments extend over a number of years. The annual escalation clauses range between 7.0% and 10.0% per annum. The majority of the leases have renewal options. Contingent rent represents payments made to landlords for operating, tax and other escalation expenses.

At 31 March R'million	2017 Carrying amount of pledged asset	2017 Carrying value of related liability repurchase agreements and cash collateral on securities lent	2016 Carrying amount of pledged asset	2016 Carrying value of related liability repurchase agreements and cash collateral on securities lent
Group and company				
Pledged assets				
Sovereign debt securities	4 393	4 350	–	–
Bank debt securities	561	450	6 947	6 317
Other debt securities	805	644	9 178	7 455
Securities arising from trading activities	108	108	49	1 553
	5 867	**5 552**	**16 174**	**15 325**

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 repurchase agreements and cash collateral on securities borrowed.

At 31 March R'million	Group 2017	Group 2016	Company 2017	Company 2016
45. Contingent liabilities				
Guarantees and assets pledged as collateral security:				
– Guarantees and irrevocable letters of credit	21 167	21 905	21 969	22 602
	21 167	**21 905**	**21 969**	**22 602**

The amounts shown above are intended only to provide an indication of the volume of business outstanding at the balance sheet date.

Guarantees are issued by Investec Bank Limited on behalf of third parties and other group companies. The guarantees are issued as part of the banking business.

Legal proceedings

Investec operates in a legal and regulatory environment that exposes it to litigation risks. As a result, Investec is involved in disputes and legal proceedings which arise in the ordinary course of business. Investec does not expect the ultimate resolution of any of the proceedings to which Investec is a party to have a significant adverse effect on the financial position of the group. These claims, if any, cannot be reasonably estimated at this time.

For the year to 31 March R'million	Group and company 2017	Group and company 2016
46. Related party transactions		
Transactions, arrangements and agreements involving directors and others:		
Transactions, arrangements and agreements involving directors with directors and connected persons and companies controlled by them, and with officers of the company, were as follows:		
Directors, key management and connected persons and companies controlled by them:		
Loans		
At the beginning of the year	667	614
Increase in loans	117	96
Repayment of loans	(137)	(140)
Exchange adjustment	(195)	97
At the end of the year	**452**	**667**
Guarantees		
At the beginning of the year	129	75
Additional guarantees granted	1	78
Guarantees cancelled	(23)	(26)
Exchange adjustments	(5)	2
At the end of the year	**102**	**129**
Deposits		
At the beginning of the year	(508)	(621)
Increase in deposits	(378)	(265)
Decrease in deposits	183	461
Exchange adjustment	99	(83)
At the end of the year	**(604)**	**(508)**

The above transactions were made in the ordinary course of business and on the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment. None of these loans have been impaired.

46. Related party transactions *(continued)*

For the year to 31 March R'million	Transactions with Investec plc and its subsidiaries 2017	2016	Transactions with Investec Bank (Mauritius) Limited and its subsidiaries 2017	2016
Transactions with fellow subsidiaries				
Assets				
Loans and advances to banks	1 134	907	–	–
Loans and advances to customers	–	8	–	–
Other debt securities	1 578	2 677	3 350	3 399
Derivative financial instruments	592	356	60	80
Liabilities				
Deposits from banks	480	195	211	4 488
Customer accounts (deposits)	–	–	–	–
Repurchase agreements and cash collateral on securities lent	–	2 326	–	–
Derivative financial instruments	87	132	40	128
Debt securities in issue	135	149	–	–
Other liabilities	63	59	–	–
Income statement				
Interest income	71	136	92	89
Interest expense	23	59	13	18
Fee and commission income	–	332	5	5
Fee and commission expense	–	–	2	–
Off balance sheet				
Guarantees issued	–	–	91	878

The above outstanding balances arose from the ordinary course of business and are on the same terms, including interest rates and security, as for comparable transactions with third party counterparties.

In the normal course of business, services are rendered between Investec plc and Investec Bank Limited entities. In the year to 31 March 2017, this resulted in a net payment by Investec plc group of R410.7 million (2016: R331.6 million).

	2017	2016
Transactions with other related parties		
Loan from Investec Bank (Mauritius) Limited to Forty Two Point Two	**552**	**676**
The loan arises from Investec's portion of funding in relation to the 15% acquisition of Investec Asset Management by senior management of the business		
Transactions with associates		
Amounts due from associates and its subsidiaries	**4 597**	**–**
Interest income from loans to associates	**89**	**–**

The above outstanding balances arose from the ordinary course of business and are on the same terms, including interest rates and security, as for comparable transactions with third party counterparties.

Refer to page 5 for related party relationships.

Refer to pages 96 to 107 in the directors' remuneration report for other transactions relating to directors.

Refer to note 33 for loans to group companies and loans from group companies and subsidiaries and note 34 for loan advances to subsidiaries.

47. Liquidity analysis of financial liabilities based on undiscounted cash flows

The balances in the below 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 page 64.

At 31 March R'million	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	> Five years	Total
Group								
2017								
Liabilities								
Deposits by banks	516	3 326	1 817	1 396	6 664	18 982	–	32 701
Derivative financial instruments	12 556	–	–	–	–	–	–	12 556
– held-for-trading	12 512	–						12 512
– held for hedging risk	44	–	–	–	–	–	–	44
Other trading liabilities	1 667	–	–	–	–	–	–	1 667
Repurchase agreements and cash collateral on securities lent	1 018	4 251	3	142	964	1 389	100	7 867
Customer accounts (deposits)	127 768	37 317	53 821	25 396	28 892	28 494	4 439	306 127
Debt securities in issue	–	–	52	3 995	369	1 464	–	5 880
Liabilities arising on securitisation of own originated loans and advances	–	–	6	–	–	–	667	673
Other liabilities	2 487	1 074	1 020	139	161	631	495	6 007
Loans from group companies	5 942	–	–	–	–	–	–	5 942
Subordinated liabilities	–	750	134	1 820	406	9 824	3 800	16 734
Total on balance sheet liabilities	**151 954**	**46 718**	**56 853**	**32 888**	**37 456**	**60 784**	**9 501**	**396 154**
Contingent liabilities	1 213	6	6 685	1 728	783	10 184	1 492	22 091
Commitments	5 958	11	6 192	1 089	2 058	11 526	17 236	44 070
Total liabilities	**159 125**	**46 735**	**69 730**	**35 705**	**40 297**	**82 494**	**28 229**	**462 315**

47. Liquidity analysis of financial liabilities based on undiscounted cash flows *(continued)*

At 31 March R'million	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	> Five years	Total
Group								
2016								
Liabilities								
Deposits by banks	736	5 550	1 886	2 331	9 167	17 779	–	37 449
Derivative financial instruments	13 110	–	1	3	1	92	218	13 425
– held for trading	12 899	–	1	3	1	92	218	13 214
– held for hedging risk	211	–	–	–	–	–	–	211
Other trading liabilities	1 405	–	–	–	–	–	–	1 405
Repurchase agreements and cash collateral on securities lent	1 553	3 316	1 256	4	6 135	4 791	–	17 055
Customer accounts (deposits)	120 833	31 022	53 092	21 879	24 027	29 500	2 617	282 970
Debt securities in issue	–	1 302	965	–	172	5 395	–	7 834
Liabilities arising on securitisation of own originated loans and advances	–	7	16	17	33	327	802	1 202
Other liabilities	2 203	154	1 494	64	132	416	582	5 045
Loans from group companies	6 351	–	–	–	–	–	–	6 351
Subordinated liabilities	–	87	98	216	1 256	10 169	1 130	12 956
Total on balance sheet liabilities	**146 191**	**41 438**	**58 808**	**24 514**	**40 923**	**68 469**	**5 349**	**385 692**
Contingent liabilities	1 210	156	6 799	252	1 228	11 816	1 947	23 408
Commitments	6 217	750	5 494	1 815	4 209	10 129	16 076	44 690
Total liabilities	**153 618**	**42 344**	**71 101**	**26 581**	**46 360**	**90 414**	**23 372**	**453 790**

47. Liquidity analysis of financial liabilities based on undiscounted cash flows *(continued)*

At 31 March R'million	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	> Five years	Total
Company								
2017								
Liabilities								
Deposits by banks	516	3 326	1 817	1 396	6 664	18 982	–	32 701
Derivative financial instruments	12 556	–	–	–	–	–	–	12 556
– held-for-trading	12 512	–	–	–	–	–	–	12 512
– held for hedging risk	44	–	–	–	–	–	–	44
Other trading liabilities	1 667	–	–	–	–	–	–	1 667
Repurchase agreements and cash collateral on securities lent	1 018	4 250	–	138	956	–	100	6 462
Customer accounts (deposits)	115 523	36 036	52 417	25 116	27 942	28 412	4 439	289 885
Debt securities in issue	–	–	52	3 980	369	434	–	4 835
Other liabilities	1 721	929	839	136	152	594	490	4 861
Loans from group companies and subsidiaries	1 907	–	–	–	–	–	–	1 907
Subordinated liabilities	–	750	134	1 820	406	9 824	3 800	16 734
Total on balance sheet liabilities	**134 908**	**45 291**	**55 259**	**32 586**	**36 489**	**58 246**	**8 829**	**371 608**
Contingent liabilities	1 213	–	6 641	1 674	782	10 167	1 492	21 969
Commitments	5 958	–	6 192	795	1 660	10 123	17 237	41 965
Total liabilities	**142 079**	**45 291**	**68 092**	**35 055**	**38 931**	**78 536**	**27 558**	**435 542**

47. Liquidity analysis of financial liabilities based on undiscounted cash flows *(continued)*

At 31 March R'million	Demand	Up to one month	One month to three months	Three months to six months	Six months to one year	One year to five years	> Five years	Total
Company								
2016								
Liabilities								
Deposits by banks	602	5 550	1 886	2 331	9 167	17 779	–	37 315
Derivative financial instruments	13 109	–	1	3	1	92	218	13 424
– held for trading	12 898	–	1	3	1	92	218	13 213
– held for hedging risk	211	–	–	–	–	–	–	211
Other trading liabilities	1 405	–	–	–	–	–	–	1 405
Repurchase agreements and cash collateral on securities lent	1 553	3 316	1 254	–	6 128	3 184	–	15 435
Customer accounts (deposits)	107 553	30 495	51 889	21 734	23 548	29 154	2 617	266 990
Debt securities in issue	–	1 202	965	–	172	4 362	–	6 701
Other liabilities	1 846	(145)	1 265	61	50	381	582	4 040
Loans from group companies and subsidiaries	3 609	–	–	–	–	–	–	3 609
Subordinated liabilities	–	87	98	216	1 256	10 169	1 130	12 956
Total on balance sheet liabilities	**129 677**	**40 505**	**57 358**	**24 345**	**40 322**	**65 121**	**4 547**	**361 875**
Contingent liabilities	1 210	137	6 648	165	1 100	11 723	1 947	22 930
Commitments	6 217	749	5 312	1 672	3 713	9 537	15 812	43 012
Total liabilities	**137 104**	**41 391**	**69 318**	**26 182**	**45 135**	**86 381**	**22 306**	**427 817**

48. Hedges

The group uses derivatives for the management of financial risks relating to its asset and liability portfolios, mainly associated with non-trading interest rate risks and exposures to foreign currency risk. Most non-trading interest rate risk is transferred from the originating business to the Central Treasury in the Specialist Bank. Once aggregated and netted Central Treasury, as the sole interface to the wholesale market for cash and derivative transactions, actively manages the liquidity mismatch and non-trading interest rate risk from our asset and liability portfolios. In this regard, Treasury is required to exercise tight control of funding, liquidity, concentration and non-trading interest rate risk within defined parameters.

The accounting treatment of accounting hedges is dependant on the classification between fair value hedges and cash flow hedges and in particular accounting hedges require the identification of a direct relationship between a hedged item and hedging instrument.

This relationship is established in limited circumstances based on the manner in which the group manages its risk exposure. On the following page is a description of each category of accounting hedges achieved by the group.

48. Hedges *(continued)*

Fair value hedges

Fair value hedges are entered into mainly to hedge the exposure of changes in fair value of fixed-rate financial instruments attributable to interest rates.

At 31 March R'million	Description of financial instrument being hedged	Fair value of hedging instrument	Cumulative 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
Group						
2017						
Interest rate swap	Bonds	(364)	(203)	7	127	35
2016						
Interest rate swap	Bonds	(831)	(459)	(266)	405	206
Company						
2017						
Interest rate swap	Bonds	(353)	(192)	18	138	46
2016						
Interest rate swap	Bonds	(817)	(445)	(253)	419	219

At year end the hedges were both retrospectively and prospectively effective.

Cash flow hedges

The group is exposed to variability in cash flows on future liabilities arising from changes in base interest rates. The aggregate expected cash flows are hedged based on cash flow forecasts with reference to terms and conditions present in the affected contractual arrangements. Changes in fair value are initially recognised in other comprehensive income and reclassified to the income statement when the cash flow affects the income statement.

At 31 March R'million	Description of financial instrument being hedged	Fair value of hedging instrument	Period cash flows are expected to occur and affect income statement
Group and company			
2017			
Cross-currency swaps	Bonds	(1 189)	Three months
2016			
Cross-currency swaps	Bonds	4 997	Three months

There are cash flow hedges during the year to mitigate interest rate and currency risk. A reconciliation of the cash flow hedge reserve can be found in the statement of changes in equity. There was no ineffective portion recognised in the income statement.

Releases to the income statement for cash flow hedges of R3 210 million (2016: R231 million) are included in net interest income.

Hedges of net investments in foreign operations

Investec Bank Limited has entered into foreign exchange contracts to hedge its balance sheet exposure to its net investment, in US Dollars, in Investec Bank (Mauritius) Limited.

At 31 March R'million	Hedging instrument fair value
Group	
2017	(149)
2016	(958)

There was no ineffective portion recognised in the income statement in the current and prior year.

At 31 March R'million	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Net amount
	Amounts subject to enforceable netting arrangements				
	Effects of offsetting on balance sheet			Related amounts not offset	
49. Offsetting					
2017					
Group					
Assets					
Cash and balances at central banks	8 353	–	8 353	–	8 353
Loans and advances to banks	36 592	(4 655)	31 937	–	31 937
Non-sovereign and non-bank cash placements	8 993	–	8 993	–	8 993
Reverse repurchase agreements and cash collateral on securities borrowed	26 627	–	26 627	–	26 627
Sovereign debt securities	47 822	–	47 822	(4 393)	43 429
Bank debt securities	7 758	–	7 758	(561)	7 197
Other debt securities	11 945	–	11 945	(805)	11 140
Derivative financial instruments	13 140	(3 284)	9 856	(3 495)	6 361
Securities arising from trading activities	653	–	653	(108)	545
Investment portfolio	7 204	–	7 204	–	7 204
Loans and advances to customers	227 357	(1 688)	225 669	–	225 669
Own originated loans and advances to customers securitised	7 776	–	7 776	–	7 776
Other loans and advances	310	–	310	–	310
Other securitised assets	100	–	100	–	100
Other assets	5 266	–	5 266	–	5 266
	409 896	**(9 627)**	**400 269**	**(9 362)**	**390 907**
Liabilities					
Deposits by banks	33 021	(643)	32 378	–	32 378
Derivative financial instruments	19 852	(7 296)	12 556	(3 495)	9 061
Other trading liabilities	1 667	–	1 667	–	1 667
Repurchase agreements and cash collateral on securities lent	7 825	–	7 825	(5 552)	2 273
Customer accounts (deposits)	305 085	(1 688)	303 397	–	303 397
Debt securities in issue	5 823	–	5 823	–	5 823
Liabilities arising on securitisation of own originated loans and advances	673	–	673	–	673
Liabilities arising on securitisation of other assets	–	–	–	–	–
Other liabilities	5 995	–	5 995	–	5 995
Subordinated liabilities	13 180	–	13 180	–	13 180
	393 121	**(9 627)**	**383 494**	**(9 047)**	**374 447**

49. Offsetting *(continued)*

At 31 March R'million	Amounts subject to enforceable netting arrangements				
	Effects of offsetting on balance sheet			Related amounts not offset	
	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Net amount
2016					
Group					
Assets					
Cash and balances at central banks	7 801	–	7 801	–	7 801
Loans and advances to banks	40 148	(13 369)	26 779	–	26 779
Non-sovereign and non-bank cash placements	9 858	–	9 858	–	9 858
Reverse repurchase agreements and cash collateral on securities borrowed	38 912	–	38 912	–	38 912
Sovereign debt securities	41 325	–	41 325	–	41 325
Bank debt securities	13 968	–	13 968	(6 947)	7 021
Other debt securities	12 761	–	12 761	(9 178)	3 583
Derivative financial instruments	19 647	(3 804)	15 843	(7 540)	8 303
Securities arising from trading activities	992	–	992	(49)	943
Investment portfolio	6 360	–	6 360	–	6 360
Loans and advances to customers	208 679	(1 407)	207 272	–	207 272
Own originated loans and advances to customers securitised	7 967	–	7 967	–	7 967
Other loans and advances	367	–	367	–	367
Other securitised assets	115	–	115	–	115
Other assets	3 656	–	3 656	–	3 656
	412 556	**(18 580)**	**393 976**	**(23 714)**	**370 262**
Liabilities					
Deposits by banks	38 780	(1 538)	37 242	–	37 242
Derivative financial instruments	29 059	(15 635)	13 424	(7 540)	5 884
Other trading liabilities	1 405	–	1 405	–	1 405
Repurchase agreements and cash collateral on securities lent	16 916	–	16 916	(15 325)	1 591
Customer accounts (deposits)	281 143	(1 407)	279 736	–	279 736
Debt securities in issue	7 665	–	7 665	–	7 665
Liabilities arising on securitisation of own originated loans and advances	809	–	809	–	809
Other liabilities	5 042	–	5 042	–	5 042
Subordinated liabilities	10 732	–	10 732	–	10 732
	391 551	**(18 580)**	**372 971**	**(22 865)**	**350 106**

At 31 March R'million	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Net amount
	Amounts subject to enforceable netting arrangements				
	Effects of offsetting on balance sheet			Related amounts not offset	
49. Offsetting *(continued)*					
2017					
Company					
Assets					
Cash and balances at central banks	8 169	–	8 169	–	8 169
Loans and advances to banks	25 773	(4 655)	21 118	–	21 118
Non-sovereign and non-bank cash placements	9 044	–	9 044	–	9 044
Reverse repurchase agreements and cash collateral on securities borrowed	26 627	–	26 627	–	26 627
Sovereign debt securities	47 524	–	47 524	(4 393)	43 131
Bank debt securities	6 305	–	6 305	(561)	5 744
Other debt securities	10 602	–	10 602	(805)	9 797
Derivative financial instruments	12 951	(3 284)	9 667	(3 495)	6 172
Securities arising from trading activities	653	–	653	(108)	545
Investment portfolio	6 868	–	6 868	–	6 868
Loans and advances to customers	214 947	(1 688)	213 259	–	213 259
Own originated loans and advances to customers securitised	–	–	–	–	–
Other loans and advances	318	–	318	–	318
Other securitised assets	–	–	–	–	–
Other assets	2 792	–	2 792	–	2 792
	372 573	**(9 627)**	**362 946**	**(9 362)**	**353 584**
Liabilities					
Deposits by banks	33 021	(643)	32 378	–	32 378
Derivative financial instruments	19 852	(7 296)	12 556	(3 495)	9 061
Other trading liabilities	1 667	–	1 667	–	1 667
Repurchase agreements and cash collateral on securities lent	6 462	–	6 462	(5 552)	910
Customer accounts (deposits)	288 862	(1 688)	287 174	–	287 174
Debt securities in issue	4 778	–	4 778	–	4 778
Liabilities arising on securitisation of own originated loans and advances	–	–	–	–	–
Liabilities arising on securitisation of other assets	–	–	–	–	–
Other liabilities	4 850	–	4 850	–	4 850
Subordinated liabilities	13 180	–	13 180	–	13 180
	372 672	**(9 627)**	**363 045**	**(9 047)**	**353 998**

At 31 March R'million	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Net amount
	Amounts subject to enforceable netting arrangements				
	Effects of offsetting on balance sheet			Related amounts not offset	
49. Offsetting *(continued)*					
2016					
Company					
Assets					
Cash and balances at central banks	7 654	–	7 654	–	7 654
Loans and advances to banks	34 754	(13 369)	21 385	–	21 385
Non-sovereign and non-bank cash placements	9 982	–	9 982	–	9 982
Reverse repurchase agreements and cash collateral on securities borrowed	38 912	–	38 912	–	38 912
Sovereign debt securities	41 325	–	41 325	–	41 325
Bank debt securities	12 317	–	12 317	(6 947)	5 370
Other debt securities	11 354	–	11 354	(9 178)	2 176
Derivative financial instruments	19 420	(3 804)	15 616	(7 540)	8 076
Securities arising from trading activities	992	–	992	(49)	943
Investment portfolio	5 923	–	5 923	–	5 923
Loans and advances to customers	195 985	(1 407)	194 578	–	194 578
Other loans and advances	373	–	373	–	373
Other assets	1 734	–	1 734	–	1 734
	380 725	**(18 580)**	**362 145**	**(23 714)**	**338 431**
Liabilities					
Deposits by banks	38 646	(1 538)	37 108	–	37 108
Derivative financial instruments	29 059	(15 635)	13 424	(7 540)	5 884
Other trading liabilities	1 405	–	1 405	–	1 405
Repurchase agreements and cash collateral on securities lent	15 325	–	15 325	(15 325)	–
Customer accounts (deposits)	265 185	(1 407)	263 778	–	263 778
Debt securities in issue	6 670	–	6 670	–	6 670
Other liabilities	4 037	–	4 037	–	4 037
Subordinated liabilities	10 732	–	10 732	–	10 732
	371 059	**(18 580)**	**352 479**	**(22 865)**	**329 614**

50. Derecognition

Transfer of financial assets that do not result in derecognition

Investec Bank Limited has been party to securitisation transactions whereby assets continue to be recognised on balance sheet (either fully or partially) although they have been subject to legal transfer to another entity. Securitisations may, depending on the individual arrangement, result in continued recognition of the securitised assets and the recognition of the debt securities issued in the transaction.

R'million	2017 Carrying amount of assets that continue to be recognised	2017 Carrying amount of associated liabilities	2016 Carrying amount of assets that continue to be recognised	2016 Carrying amount of associated liabilities
Company				
No derecognition achieved				
Loans and advances to customers	7 776	7 776	7 841	7 841
	7 776	**7 776**	**7 841**	**7 841**

All the above derecognised assets in the company relate to Fox Street 2 (RF) Limited, Fox Street 3 (RF) Limited, Fox Street 4 (RF) Limited and Fox Street 5 (RF) Limited for the year ended 31 March 2017 and 31 March 2016. For additional information refer to page 53 in the risk management report.

For transfer of assets in relation to repurchase agreements see note 44.

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