Out of the Ordinary

Investec

Annual Report

Investec Bank Limited group and company annual financial statements

2018

Corporate information

Secretary and registered office

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Sandown Sandton 2196
PO Box 785700 Sandton 2146
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Internet address

www.investec.com

Registration number

Registration number 1969/004763/06

Auditors

KPMG Inc.
Ernst & Young Inc.

Sponsors

Investec Bank Limited
100 Grayston Drive
Sandown Sandton 2196
PO Box 785700 Sandton 2146

Transfer secretaries

Computershare Investor Services Proprietary Limited
Rosebank Towers
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Rosebank 2196
PO Box 61051
Marshalltown 2107
Telephone (27) 11 370 5000

Directorate

Refer to page 106.

Contact details

For contact details for Investec Bank Limited offices refer to page 218.

For queries regarding information in this document

Investor Relations

Telephone (27) 11 286 7070
e-mail: investorrelations@investec.com
Internet address: www.investec.com/en_za/welcome-to-investec/about-us/investor-relations.html

Cross reference tools

1

Audited information

Denotes information in the risk and remuneration reports that forms part of the bank'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

Corporate responsibility

Refers readers to further information in our corporate responsibility report available on our website: www.investec.com

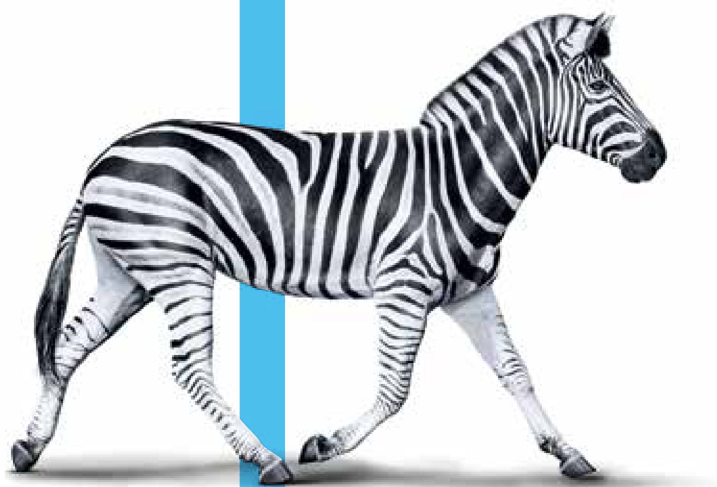
5

Reporting standard

Denotes our consideration of a reporting standard

Contents

Investec Bank Limited in perspective



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

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

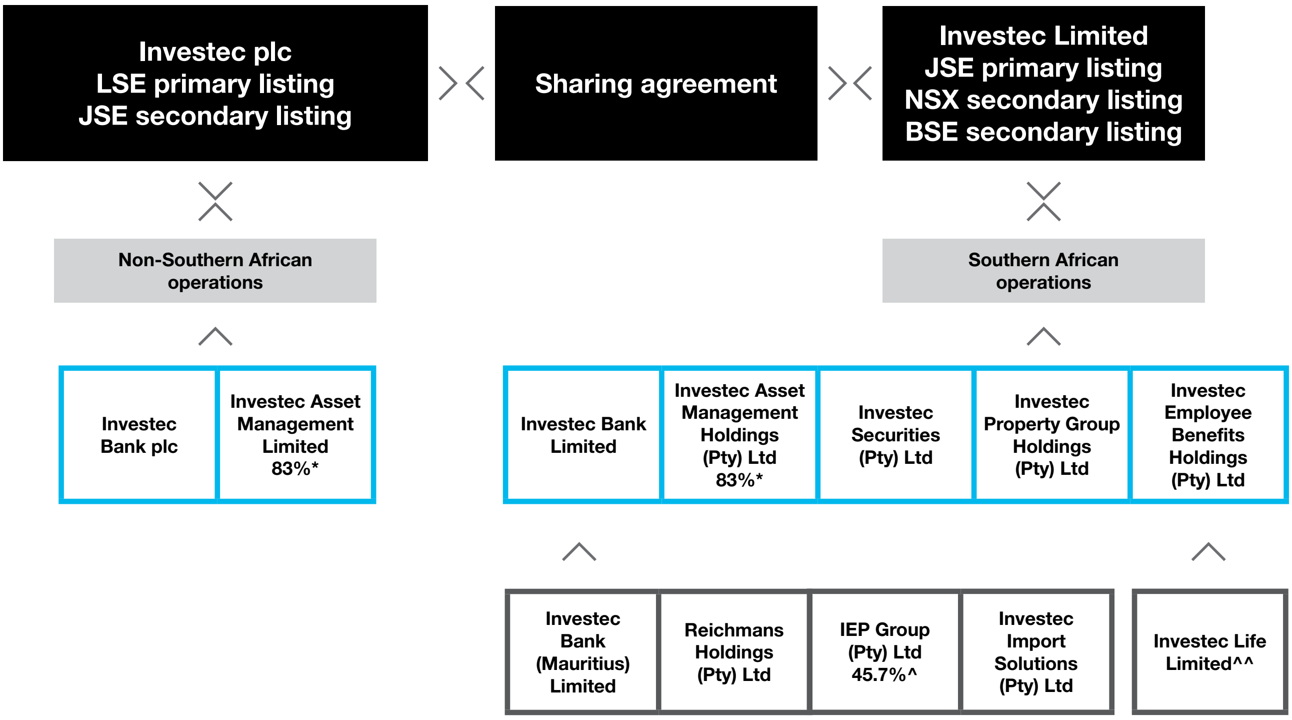
Operating structure

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 (LSE).

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 holding company of our businesses in Southern Africa and Mauritius and Investec plc is the holding company of our non-Southern African businesses. Investec Limited is listed on the Johannesburg Stock Exchange (JSE) (since 1986) and Investec plc is listed on the LSE (since 2002). 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 2018



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

* *17% held by senior management in the company (31 March 2017: 16%).*
^ *54.3% held by third party investors in the company together with senior management of the business (31 March 2017: 55.0%).*
^^ *Previously Investec Employee Benefits Limited.*

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: Corporate and Institutional Banking, Investment 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

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 the bank'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 Proprietary Limited.

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 Proprietary Limited (IEP Group). The bank holds a 45.7% stake in the IEP Group alongside other strategic investors who hold the remaining 54.3%.

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

Private Banking activities

- Transactional banking and foreign exchange
- Lending
- Deposits
- Investments

Our Private Banking division positions itself as an '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

CEO: Richard Wainwright

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

Our specialist teams are well positioned to provide services for both personal and business needs across Corporate and Institutional Banking, Investment 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

Our diversified business model continues to support a large recurring revenue base, totalling 80.2% of operating income.

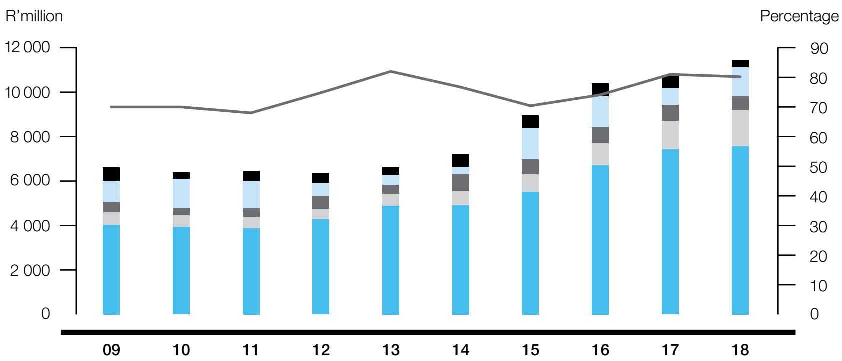
We have a strong franchise that supports a solid revenue base.

Total operating income increased 6.4% to R11 446 million (2017: R10 754 million).

Other financial features

R'million	31 March 2018	31 March 2017	% change
Headline earnings	4 446	3 069	44.9%
Total capital resources (including subordinated liabilities)	51 789	48 345	7.1%
Total equity	38 415	35 165	9.2%
Total assets	444 072	425 687	4.3%

Total operating and annuity income^



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

Financial performance

2018	2017
R4 475mn	R4 159mn

Investec Bank Limited recorded a 7.6% increase in profit before taxation

2018	2017
53.3%	54.7%

Cost to income ratio improved

2018	2017
0.28%	0.29%

Credit loss ratio remains at the lower end of its long-term average trend

2018	2017
R116.5bn	R117.6bn

Maintained high levels of cash and near cash balances

2018	2017
R254.3bn	R233.4bn

Core loans and advances increased 8.9%

2018	2017
R321.9bn	R303.4bn

Customer deposits increased 6.1%

2018	2017
76.9%	74.4%

Ratio of loans and advances to customers as a percentage of customer deposits remains strong

2018	2017
11.2 times	11.6 times

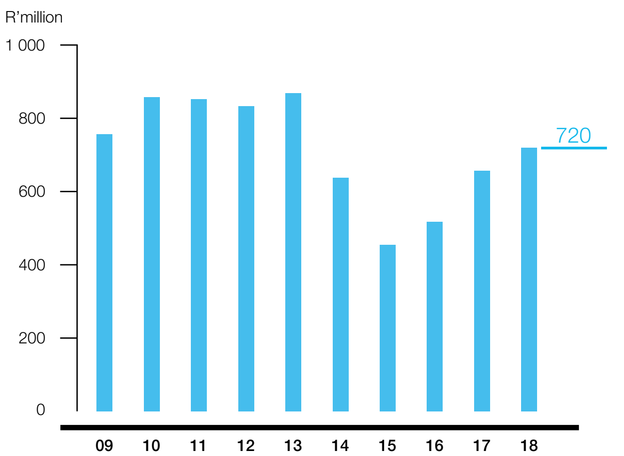
Gearing ratios remain low

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

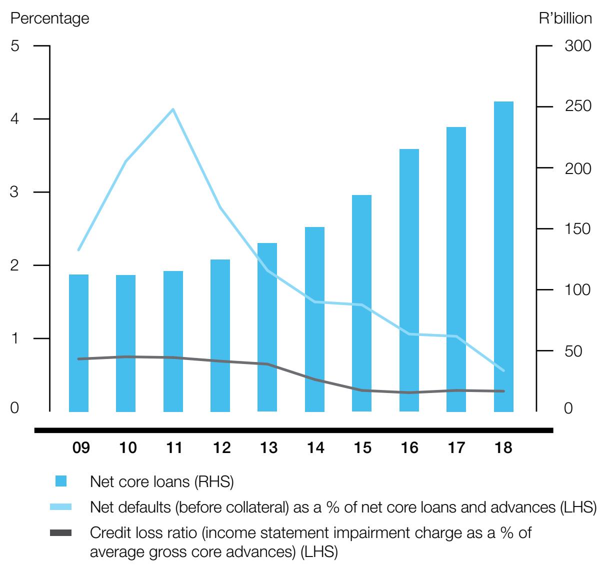
Since 31 March 2017:

- Core loans and advances increased by 8.9% to R254.3 billion
- Default loans (net of impairments) as a percentage of core loans and advances decreased from 1.03% to 0.56%
- The credit loss ratio amounted to 0.28% (2017: 0.29%)
- Net defaults (after impairments) remain adequately collateralised.

Impairments



Default and core loans



Highlights

(continued)

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 36.2%
- 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

The bank 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 amounted to 76.9% (31 March 2017: 74.4%)

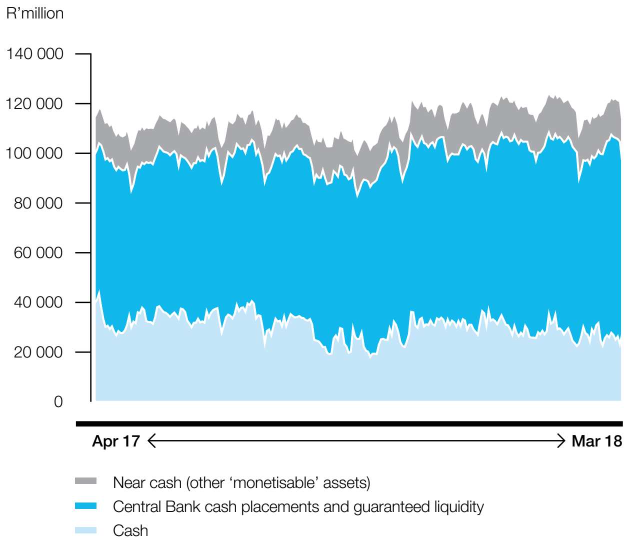
We ended the year with the three-month average of Investec Bank Limited (solo basis) liquidity coverage ratio at 133.9% (31 March 2017: 130.0%) and net stable funding ratio at 108.4%, comfortably ahead of the minimum regulatory requirements.

Capital adequacy and tier 1 ratios

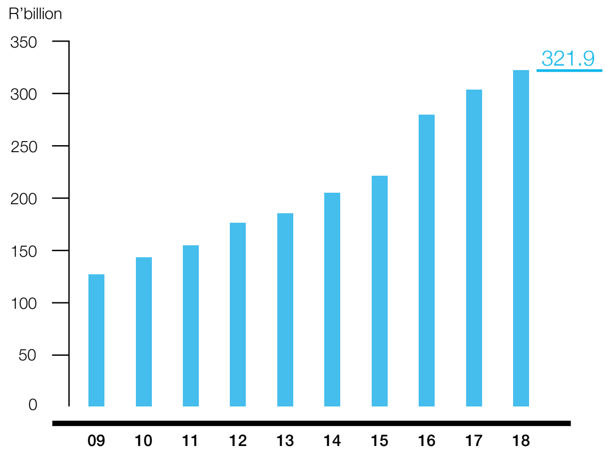
	31 March 2018 (Basel III)			31 March 2017 (Basel III)		
	Capital adequacy ratio	Tier 1 ratio	Common equity tier 1 ratio	Capital adequacy ratio	Tier 1 ratio	Common equity tier 1 ratio
Investec Bank Limited	15.5%	11.2%	10.9%	15.4%	11.1%	10.8%
Investec Limited	14.6%	11.0%	10.2%	14.1%	10.7%	9.9%

Continued to grow our retail deposit franchise

Cash and near cash trend



Customer accounts (deposits)



Financial Review

An overview of the operating environment impacting our business

South Africa

Our views

South Africa's GDP improved in 2017, assisted by a strengthening in global demand and a recovery from severe drought conditions in the northern provinces.

Calendar year 2017	Calendar year 2016
1.3% Economic growth	**0.6%** Economic growth
R56 020 GDP per capita	**R56 054** GDP per capita

The global economy continued to strengthen meaningfully on a broad basis as trade lifted, along with industrial production and confidence, while global lending conditions were favourable. This saw South Africa's gross domestic product (GDP) growth reach 1.3% year-on-year in calendar year 2017 from 0.6% year-on-year in calendar year 2016 as global demand strengthened, while recovery from severe drought conditions also assisted notably. Interest rates remained accommodative in many economies, with South Africa experiencing its first interest rate cut since 2012. The upturn in the commodity cycle persisted, a key driver of the lift in South Africa's 2017 GDP growth, with equity markets reaching new highs globally as the world's economic outlook brightened. Global risk-on remained a feature, and the lengthy bull market saw emerging markets experience strong foreign portfolio inflows, benefiting the Rand, while low bond yields in advanced economies and low volatility supported bourses globally.

However, the lengthy low volatility period in financial markets was broken early in 2018, with a correction that reflected sudden global risk-off as a steeper than previously anticipated rise in future US interest rates was factored into the markets on Federal Open Market Committee (FOMC) commentary. Subsequently, stock markets have recovered some lost ground, as the correction has proved welcome in an environment that was becoming overblown, where fears even of a financial crisis were building. The Rand saw substantial strength from the end of December 2017 on the election of Cyril Ramaphosa as leader of the African National Congress (ANC) and then as South African President, with a reduction of over R2.00/USD of the risk premium inherent in the domestic currency.

South Africa has lost ground on an institutional basis over the past 10 years, resulting in weaker economic growth and intense pressure on government finances. Indeed, the World Economic Forum's (WEF) Global Competitiveness Survey, shows South Africa's institutional ranking has dropped to 76th, from 39th in 2007/08. Major slippages occurred particularly in perceptions of auditing and reporting standards, efficacy of corporate boards, perceptions of minority shareholder rights, efficacy of the legal framework and in judicial independence. Additionally, irregular payments and bribes and favouritism in decisions of government officials were seen to have risen substantially, and public trust in politicians declined as the corruption and state capture infesting the country came to a head.

Key among the new President's goals is to eradicate corruption and state capture, repair the financial health of the State Owned Entities (SOEs) and fiscal consolidation. President Ramaphosa's cabinet reshuffle in early 2018 saw the key appointments of Nhlanhla Nene and Pravin Gordhan (as Finance and Public Enterprises Ministers respectively).

The closer working relationship between government, labour and business continues to bear fruit, with President Ramaphosa quick to point out the necessity of repairing investor confidence and business sentiment, in order to quicken economic growth via increased private sector fixed investment and job creation. Rapid, sustained, private sector led economic growth of 5% to 7% plus remains the key to reducing unemployment and inequality, and eliminating poverty in South Africa.

Global stock markets

Our views

Global equity markets enjoyed a positive 2017 overall

The MSCI World index ended 2017 20% up on year opening levels with the index continuing to climb right through to late January 2018. From that point a reappraisal of risk sentiment, amidst fears over the pace of central bank policy tightening, particularly at the Federal Reserve, saw a period of increased volatility. In addition, from early March, trade war worries increasingly became a concern. The MSCI World index closed the first quarter of 2018 8.1% off its January 2018 high. On Wall Street, the S&P500 was off to a similar extent.

European equity markets saw a more tentative and somewhat choppier path through 2017, ending the year 6% up on year opening levels after much intervening volatility, not helped by a string of high stake elections in the likes of France, Germany and the Netherlands and with an independence referendum (deemed illegal by the Spanish authorities) in Catalonia, Spain. At the start of 2018 European equity markets rose robustly amidst hopes of a more buoyant growth backdrop. The Eurostoxx 50 index rose 5% over the first three weeks of the year, but then turned sharply lower amidst the hit to the global risk backdrop that followed at the end of January.

The back end of 2017 saw a rally in South African domestic shares as the election of Cyril Ramaphosa as leader of the ANC led to renewed enthusiasm about the growth prospects for South Africa. There has so far been little hard evidence of a turnaround on the ground but longer-term growth forecasts have been revised up. While business confidence lifted in early 2018, it is not yet at levels that indicate a faster pace of business activity.

Financial review

(continued)

Operating environment

The table below provides an overview of some key statistics that should be considered when reviewing our operational performance

	As at 31 March 2018	As at 31 March 2017	% change	Average over the year 1 April 2017 to 31 March 2018
Market indicators				
FTSE All share	3 894	3 990	(2.4%)	4 062
JSE All share	55 475	52 056	6.6%	56 405
S&P	2 641	2 363	11.8%	2 550
Nikkei	21 454	18 909	13.5%	20 977
Dow Jones	24 103	20 663	16.6%	22 923
Rates				
SA R186	7.99%	8.84%		8.63%
Rand overnight	6.76%	6.97%		6.81%
SA prime overdraft rate	10.00%	10.50%		10.32%
JIBAR – three-month	6.87%	7.36%		7.16%
US 10 year	2.74%	2.39%		2.41%
Commodities				
Gold	US$1 324/oz	US$1 245/oz	6.3%	US$1 285/oz
Brent Crude Oil	US$70/bbl	US$53/bbl	32.1%	US$58/bbl
Platinum	US$936/oz	US$940/oz	(0.4%)	US$948/oz
Macro-economic				
South Africa GDP (% change over the period)	1.3%	0.6%		
South Africa per capita GDP (calendar year, historical revised, real value in Rands at constant 2010 prices)	56 020	56 054	(0.1%)	

Sources: Bureau For Economic Research, Bloomberg, IRESS, Johannesburg Stock Exchange, SARB Quarterly Bulletin, World Economic Forum.

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 – Funding requirements – 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 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.

Page reference	Risk
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.
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** in our unlisted and listed investment portfolios.
55 – 59	**Market risk** arising in our trading book could affect our operational performance.
59 – 64	**Liquidity risk** may impair our ability to fund our operations.
65 – 66	Our net interest earnings and net asset value may be adversely affected by **interest rate risk.**
69 – 72	**Operational risk** (including financial crime and process failure) may disrupt our business or result in regulatory action.
69 – 72	We may be **vulnerable to the failure of our systems** and breaches of our security systems (including cyber and information security).
69 – 72	**Employee misconduct** could cause harm that is difficult to detect.
72	**Reputational, strategic** and **business risk** could impact our operational performance.
72 – 74	**Compliance, legal and regulatory risks** may have an impact on our business.
73	**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.
73 – 78	**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 2018 integrated annual report on our website.*

Overview

The bank posted an increase in headline earnings attributable to ordinary shareholders of 44.9% to R4 446 million (2017: R3 069 million). The balance sheet remains sound with a capital adequacy ratio of 15.5% (31 March 2017: 15.4%).

Unless the context indicates otherwise, all income statement comparatives in the review below relate to the results for the year ended 31 March 2017.

Income statement analysis

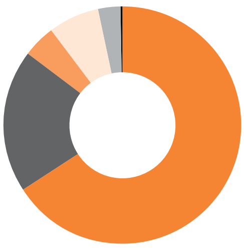
The overview that follows will highlight the main reasons for the variance in the major category line items on the face of the income statement during the year under review.

Total operating income

Total operating income before impairment losses on loans and advances increased by 6.4% to R11 446 million (2017: R10 754 million). The various components of operating income are analysed further below.

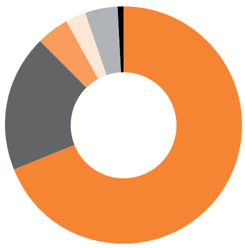
R'million	31 March 2018	% of total income	31 March 2017	% of total income	% change
Net interest income	7 562	66.1%	7 419	69.0%	1.9%
Net fee and commission income	2 245	19.6%	1 999	18.6%	12.3%
Investment income	530	4.6%	472	4.4%	12.3%
Share of post taxation profit of associates	777	6.8%	306	2.8%	>100.0%
Trading income arising from					
– customer flow	356	3.1%	486	4.5%	(26.7%)
– balance sheet management and other trading activities	(26)	(0.2%)	70	0.7%	(>100.0%)
Other operating income	2	–	2	–	–
Total operating income before impairment losses on loans and advances	**11 446**	**100.0%**	**10 754**	**100.0%**	**6.4%**

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



31 March 2018
R11 446 million total operating income before impairment losses on loans and advances

Net interest income	66.1%
Net fee and commission income	19.6%
Investment income	4.6%
Share of post taxation profit of associates	6.8%
Trading income arising from customer flow	3.1%
Trading income arising from balance sheet management and other trading activities	(0.2%)



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 profit of associates	2.8%
Trading income arising from customer flow	4.5%
Trading income arising from balance sheet management and other trading activities	0.7%

Net interest income

Net interest income increased by 1.9% to R7 562 million (2017: R7 419 million) benefiting from sound levels of lending activity across the banking businesses. This was somewhat offset by the roll off of higher yielding debt securities and increased subordinated debt.

For a further analysis of interest income and interest expense refer to page 150.

Net fee and commission income

Net fee and commission income increased 12.3% to R2 245 million (2017: R1 999 million) supported by continued growth and activity levels in the private banking client base as well as a good performance from the corporate businesses.

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

Investment income

Investment income increased by 12.3% to R530 million (2017: R472 million) supported by a sound performance from the bank's client-driven private equity portfolio.

For a further analysis of investment income refer to pages 151 and 152.

Share of post taxation profit of associates

Share of post taxation profit of associates of R777 million (2017: R306 million) primarily reflects earnings in relation to the bank's investment in the IEP Group.

Trading income

Trading income arising from customer flow decreased by 26.7% to R356 million (2017: R486 million) as a consequence of losses incurred on Steinhoff (refer to page 24 for additional information). Trading income from other trading activities reflected a loss of R26 million (2017: R70 million income) predominantly impacted by foreign currency translation.

Impairment losses on loans and advances

Impairments on loans and advances increased from R657 million to R720 million, however, the credit loss ratio reduced to 0.28% (2017: 0.29%), 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 amounted to 0.56% (31 March 2017: 1.03%). The ratio of collateral to default loans (net of impairments) remains satisfactory at 2.49 times (2017: 1.81 times).

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

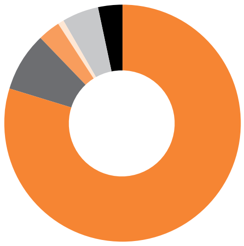
Total operating costs

The ratio of total operating costs to total operating income amounted to 53.3% (2017: 54.7%). Total operating costs at R6 100 million were 3.6% higher than the prior year (2017: R5 887 million) reflecting continued investment into IT and digital initiatives and higher headcount to support increased activity and growth strategies; partly offset by the pending acquisition of the head office building and the related rental provision no longer required.

The various components of total operating costs are analysed below.

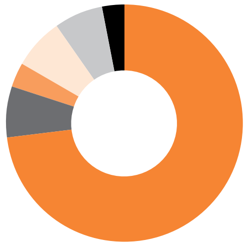
R'million	31 March 2018	% of total operating costs	31 March 2017	% of total operating costs	% change
Staff costs (including directors' remuneration)	(4 866)	79.8%	(4 301)	73.1%	13.1%
Business expenses	(488)	8.0%	(417)	7.1%	17.0%
Equipment expenses (excluding depreciation)	(201)	3.3%	(189)	3.2%	6.3%
Premises expenses (excluding depreciation)	(46)	0.8%	(406)	6.9%	(88.7%)
Marketing expenses	(308)	5.0%	(403)	6.8%	(23.6%)
Depreciation	(191)	3.1%	(171)	2.9%	11.7%
Total operating costs	**(6 100)**	**100.0%**	**(5 887)**	**100.0%**	**3.6%**

% of total operating costs



31 March 2018
R6 100 million total operating costs

Staff costs	79.8%
Business expenses	8.0%
Equipment	3.3%
Premises	0.8%
Marketing	5.0%
Depreciation	3.1%



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%

Taxation

Taxation declined significantly during the year following the release of tax provisions no longer required.

Operating profit

As a result of the foregoing factors, operating profit before acquired intangibles increased by 9.9% to R4 626 million (2017: R4 210 million) and profit after taxation increased by 44.7% to R4 673 million (2017: R3 229 million).

Balance sheet analysis

Since 31 March 2017:

- Total equity increased by 9.2% to R38.4 billion (31 March 2017: R35.2 billion), largely as a result of retained earnings
- Total assets increased by 4.3% to R444.1 billion (31 March 2017: R425.7 billion), largely as a result of an increase in core loans and advances.

Questions and answers

Richard Wainwright

CEO of Investec Bank Limited

Q. How has the operating environment impacted your business over the past financial year?

The global economy saw positive momentum during the course of the year, whilst the South African environment remained volatile and uncertain particularly leading up to December 2017. Our clients, however, have remained active and our international offering in our client segments remains a strategic advantage.

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

The bank reported results ahead of the prior period. This reflects our continued client focus and co-ordination across divisions and implementation of enhanced strategies to penetrate our existing client base and grow our market share. This together with the combined book growth of 8.9% has resulted in a strong increase in our net interest and annuity income.

Investment in our digital and technology platforms continues as we remain competitive in our client facing digital platform, while simultaneously focusing on efficiencies in our core infrastructure. We moved up from fourteenth to second place ranking for our mobile app as ranked by MyPrivateBanking Research, and were recently awarded 'Best Digital bank in South Africa' by Global Finance publication.

We were recognised by the Financial Times of London as the best Private Bank and Wealth Manager in South Africa for the fifth 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?

Building and developing our client franchises remains integral to the growth and development of our organisation. We are committed to optimising the client experience as part of our strategy to deepen our relationships with our core client base and offer them a broad spectrum of services and products.

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
- Manage our liquidity ratios with an emphasis on retail funding initiatives
- Manage our capital to optimise returns
- Invest in our technology platforms, including in increased digitalisation of products and services
- Launch Investec for Business which is designed to deliver an integrated service offering to mid-market corporates.

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

We remain cautiously optimistic in light of the past year's challenging political environment. Our strategy to identify new sources of revenue in order to remain relevant, together with our sustainable level of recurring income and the uplift in business confidence, should continue to support momentum and reasonable levels of client activity in the bank.

Risk management and corporate governance

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 bank 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 bank and ensure they are implemented and adhered to consistently
- Aggregate and monitor our exposure across risk classes
- Coordinate risk management activities across the organisation, covering all legal entities and jurisdictions
- Give the boards reasonable assurance that the risks we are exposed to are identified and appropriately managed and controlled
- Run appropriate risk committees, as mandated by the board.

Overview of disclosure requirements

Risk disclosures provided in line with the requirements of International Financial Reporting Standard 7 Financial Instruments: Disclosures (IFRS 7) and disclosures on capital required by International Accounting Standard 1 Presentation of Financial Statements (IAS 1) are included within this section of the annual report on pages 23 to 83 with further disclosures provided in the annual financial statements section on pages 133 to 140.

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

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

Investec Bank Limited also publishes separate Pillar III disclosures 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.

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

Our executive management are integrally involved in ensuring stringent management of risk, liquidity, capital and conduct. The primary aim is to achieve a suitable balance between risk and reward in our business, particularly in the context of prevailing market conditions and group strategy.

Although the macro-environment continues to present challenges, the group was able to maintain sound asset performance and risk metrics throughout the year in review. We remained within our risk appetite limits/targets across various risk disciplines, 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 13% of the book, other lending collateralised by property 3%, high net worth and private client lending 51% and corporate lending 33% (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 8.9% to R254 billion (31 March 2017: R233 billion) with high net worth and specialised 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 improved from 1.03% to 0.56% with absolute levels of defaults decreasing year on year due to asset write-offs mainly in the corporate portfolio. We reported an increase in the level of impairments taken, however, the credit loss ratio reduced to 0.28% (2017: 0.29%), remaining at the lower end of its long-term average trend. The bank has minimal exposure to the agriculture and construction sectors in South Africa, and our overall on and off-balance sheet exposure to mining and resources amounts to 2% of our credit and counterparty exposures.

Investment risk

We believe that the IEP Group is well positioned to deliver value and grow. Overall, we remain comfortable with the performance of the majority of our equity investment portfolios, which comprise 3.3% of total assets.

Traded market risk

The local markets were impacted by various local factors, in particular, political policy uncertainty prior to the ANC elective conference in December 2017. The primary focus of the trading desks remains to facilitate the demand of our clients, with limited proprietary risk taken. This is reflected by the low levels of market risk exposures as well as VaR throughout the year. The 95% one-day VaR ended the year at R3.2 million, down R0.9 million from the previous year. Market risk exposures across all trading desks remained low 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 bank responded to external political uncertainty by concluding its $600 million long-term foreign currency funding programme in September 2017. It raised a further $550 million using a combination of repos, sub-debt issuances and long-term cross currency swaps. The majority of our foreign currency funding is used to augment our already strong cash balances.

The bank grew its total customer deposits by 6.1% from R303 billion to R322 billion as at 31 March 2018. Cash and near cash amounted to R116.5 billion (31 March 2017: R117.6 billion). Investec Bank Limited (solo basis) ended the financial year with the three-month average of its LCR at 133.9%, which is well ahead of the minimum regulatory level of 90% required. The NSFR has become a regulatory requirement as of January 2018. The NSFR for Investec Bank Limited (solo basis) amounted to 108.4% as at 31 March 2018, comfortably above the 100% regulatory minimum.

Capital management

The bank has continued to maintain a sound balance sheet with a low gearing ratio of 11.2 times and a core loans to equity ratio of 6.6 times. Our current leverage ratio is 7.7%.

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 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.

We have applied to the South African Prudential Authority (previously known as the Banking Supervision Division of the South African Reserve Bank) for approval to implement the Foundation Internal Ratings-Based (FIRB) approach for certain wholesale portfolios, a transitional step to implementing the Advanced Internal Ratings-Based (AIRB) approach. Subject to the approval from the South African Prudential Authority, we expect to implement FIRB in 2019 in the calculation of credit risk regulatory capital. Through the preparation process for the application the bank has enhanced a number of rating systems and risk quantification models. Once approved, we are expecting a positive impact on capital ratios in applying this approach.

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 the bank maintains a client-focused and fair outcomes-based culture.

Financial and cyber crime remain high priorities, and the bank continually aims to strengthen its systems and controls in order to manage cyber risk. We are also focused on combating money laundering, as well as preventing bribery and corruption in order to ensure the safety of our clients' wealth and to meet our regulatory obligations.

The bank'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 bank'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.

On 11 December 2017 the group released an announcement on the Johannesburg Stock Exchange in relation to its exposures to Steinhoff International Holdings NV (Steinhoff), its subsidiaries and related entities. Trading and investment losses incurred in respect of these exposures amounted to R210 million in the current financial year, less than the estimate referred to in the December announcement. As noted in that announcement, Investec has credit exposures largely to Steinhoff Africa Holdings Proprietary Limited subsidiaries and Steinhoff Africa Retail Limited, which represent a small portion of the group's balance sheet. Based on the information currently available to the group, Investec is not expecting to suffer any losses on these exposures.

IFRS 9 is effective 1 April 2018. IFRS 9 replaces IAS 39 and sets out the new requirements for the recognition and measurement of financial instruments. These requirements focus primarily on the classification and measurement of financial instruments and measurement of impairment losses based on an expected credit loss (ECL) model. The bank confirmed to the South African Prudential Authority that we will use the transitional arrangements to absorb the full impact permissible of IFRS 9 in regulatory capital calculations. Further information on the impact of IFRS 9 is given in the accounting policies section on page 148. In addition, the group has published its detailed transitional disclosures on 29 June 2018 separately from its annual report and these can be found on the group's website.

The economy faced major headwinds throughout 2017 driven by escalating political risks which had negative effects on the real economy. Concerns over the South African economy persisted throughout the year and peaked ahead of the ANC National Elective Conference in December 2017. Subsequent to that, Cyril Ramaphosa was elected President of the ANC, the ruling party. The announcement of a change of leadership within the ruling party was favourably received by investors. In response to these developments, Moody's left South Africa's international long-term credit ratings unchanged at investment grade (Baa3), upgrading the sovereign's outlook from negative to stable, ending the review for downgrade that started in November 2017.

Investec Bank Limited's ratings continued to track rating adjustments to the South African sovereign rating during the course of the year. The bank's national long-term ratings remain sound at Aa1.za from Moody's, AA(zaf) from Fitch and za.AA- from Standard & Poor's.

The board, through the group's various risk and capital committees, continued to assess the impact of its principal risks and a number of 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	2018	2017
Total assets (R'million)	444 072	425 687
Total risk-weighted assets (R'million)	320 607	313 010
Total equity (R'million)	38 415	35 165
Net core loans and advances (R'million)	254 304	233 445
Cash and near cash (R'million)	116 533	117 586
Customer accounts (deposits) (R'million)	321 893	303 397
Gross defaults as a % of gross core loans and advances	1.12%	1.54%
Defaults (net of impairments) as a % of net core loans and advances	0.56%	1.03%
Net defaults (after collateral and impairments) as a % of net core loans and advances	–	–
Credit loss ratio*	0.28%	0.29%
Structured credit as a % of total assets	0.26%	0.43%
Banking book investment and equity risk exposures as a % of total assets	3.29%	3.19%
Level 3 (fair value assets) as a % of total assets	0.46%	0.81%
Traded market risk: one-day value at risk (R'million)	3.2	4.1
Core loans to equity ratio	6.6x	6.6x
Total gearing ratio**	11.2x	11.6x
Loans and advances to customers to customer deposits	76.9%	74.4%
Capital adequacy ratio	15.5%	15.4%
Tier 1 ratio	11.2%	11.1%
Common equity tier 1 ratio	10.9%	10.8%
Leverage ratio	7.7%	7.6%
Return on average assets#	1.12%	0.78%
Return on average risk-weighted assets#	1.48%	1.03%

* *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.*

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 2018
• We seek to maintain an appropriate balance between revenue earned from capital light and capital intensive activities. Ideally the split in revenue should exceed 50% of total operating income, 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 annuity income base supported by diversified revenue streams, and target an annuity income ratio in excess of 65%	Annuity income amounted to 80.2% 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 53.3%. 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 78 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% and a common equity tier 1 ratio above 10%	We meet our capital targets; refer to page 78 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 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 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 28 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 ratio on core loans amounted to 0.28% and defaults net of impairments amounted to 0.56% 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 R116.5 billion at year end representing 36.2% of customer deposits. Refer to page 61 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 169 million, representing 8.9% of total tier 1 capital. Refer to page 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 69 to 72 for further information
• We have a number of policies and practices in place to mitigate reputational, legal and conduct risks	Refer to pages 72 and 73 for further information

Risk management

(continued)

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.

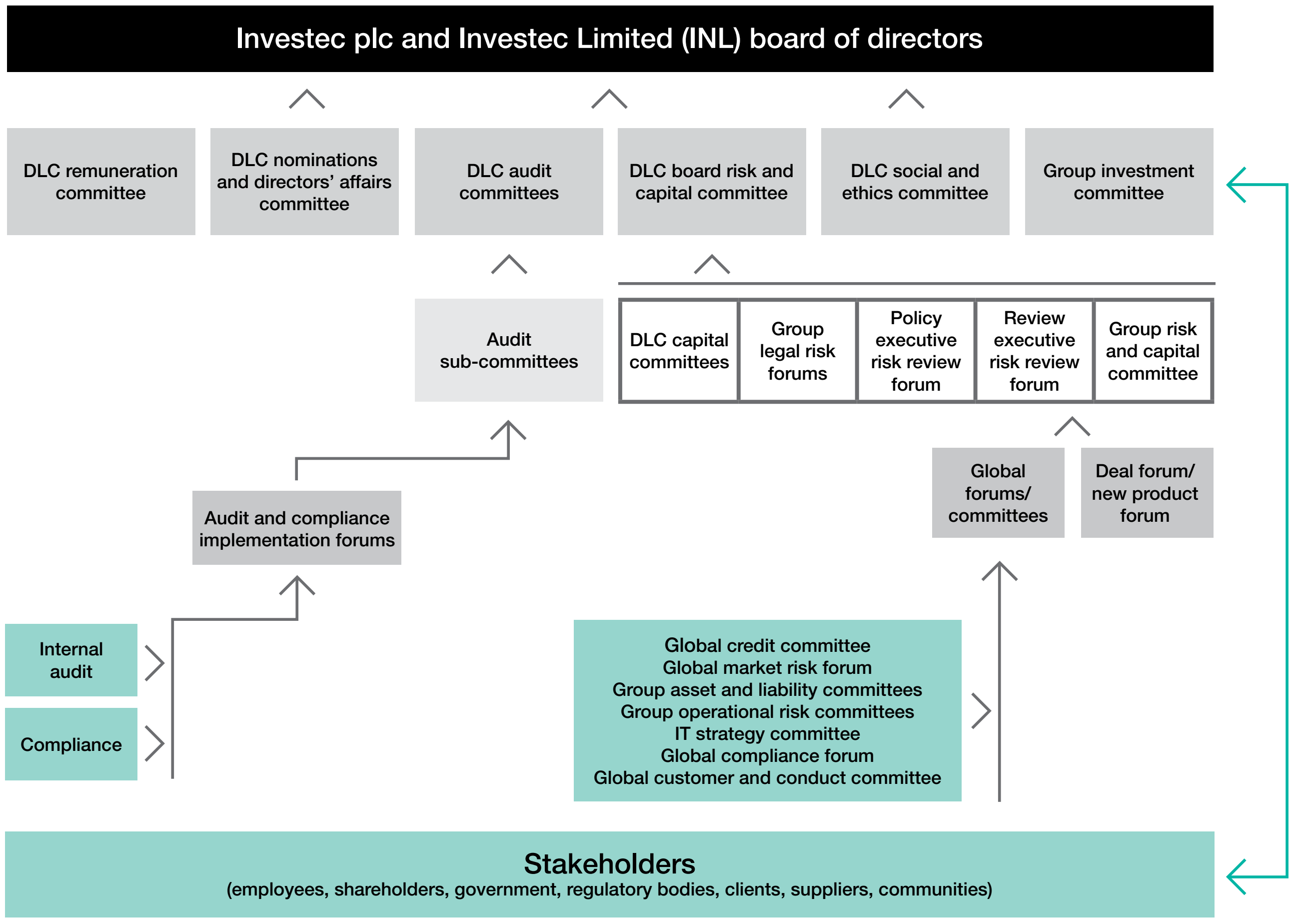
These principal risks have been highlighted on page 16.

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 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	Policy ERRF	Policy executive risk review forum
BOM	Bank of Mauritius	Review ERRF	Review executive risk review forum
BRCC	Board risk and capital committee	South African Prudential Authority	South African Prudential Authority (previously known as the Banking Supervision Division of the 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 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 depending on the size and complexity of the deal. 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 credit committees, 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
- Credit 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 forums specifically reviews and manages distressed loans and potentially distressed loans for private clients and corporates. This forum also reviews and monitors counterparties who have been granted forbearance measures.

Credit and counterparty 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, BRCC and the board on a regular basis. Should there be any breaches to limits, or where exposures are nearing limits, these exceptions are specifically highlighted for attention, and any remedial actions agreed.

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 (as explained on the following page) and tolerate exposures to other countries where we have developed a local understanding and capability or we are facilitating a transaction for a client who requires facilities in a foreign geography.

Our assessment of our clients and counterparties includes consideration of their character, 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.

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.

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 geography. 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 Policy ERRF will consider, analyse and assess the appropriate limits to be recorded when required, to assume exposure to foreign jurisdictions.

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 lending 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 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 including climate-related impact considerations. In particular the following factors are taken into account when assessing a transaction 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.

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.

A large proportion of the bank's portfolios are 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.

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

Internal credit rating models have been developed to cover all material asset classes.

Internal credit rating models continue to be developed to cover all material asset classes. We have applied to the South African Prudential Authority for approval of the FIRB approach, a transitional step to implementing the AIRB approach. Subject to the South African Prudential Authority approval, we expect to implement FIRB in the calculation of credit risk regulatory capital. Through the preparation process for the application, the bank has enhanced a number of rating systems and risk quantification models. Once approved, we are expecting a positive impact on capital ratios in applying this approach.

Stress testing and portfolio management

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

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

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

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

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

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

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.

The bank 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. 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:** debt arranging and underwriting together with structured hedging solutions mainly within the mining sectors. The underlying commodities are mainly precious and base metals and coal. Our clients in this sector are established mining companies which are typically domiciled and publicly listed in 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
- **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 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)*

<table>
<tr><th>Regulatory and economic capital classification</th><th>IFRS impairment treatment</th><th>Arrears, default and recoveries classification category</th><th>Description</th></tr>
<tr><td rowspan="3">Assets in default (non-performing assets)</td><td rowspan="3">Specific impairments are evaluated on a case-by-case basis where objective evidence of impairment has arisen. In determining specific impairments, the following factors are considered:
• Capability of the client to generate sufficient cash flow to service debt obligations and the ongoing viability of the client's business
• Likely dividend or amount recoverable on liquidation or bankruptcy or business rescue
• Nature and extent of claims by other creditors
• Amount and timing of expected cash flows
• Realisable value of security held (or other credit mitigants)
• Ability of the client to make payments in the foreign currency, for foreign currency denominated accounts.</td><td>Sub-standard</td><td>The counterparty is placed in sub-standard when the credit exposure reflects an underlying, well defined weakness that may lead to probable loss if not corrected:
• The risk that such credit exposure may become an impaired asset is probable,
• The bank is relying, to a large extent, on available collateral, or
• The primary sources of repayment are insufficient to service the remaining contractual principal and interest amounts, and the bank has to rely on secondary sources for repayment. These secondary sources may include collateral, the sale of a fixed asset, refinancing and further capital.
Credit exposures overdue for more than 90 days will at a minimum be included in 'sub-standard' (or a lower quality category).</td></tr>
<tr><td>Doubtful</td><td>The counterparty is placed in doubtful when the credit exposure is considered to be impaired, but not yet considered a final loss due to some pending factors such as a merger, new financing or capital injection which may strengthen the quality of the relevant exposure.</td></tr>
<tr><td>Loss</td><td>A counterparty is placed in the loss category when:
• The credit exposure is considered to be uncollectible once all efforts, such as realisation of collateral and institution of legal proceedings, have been exhausted, or
• Assets in this category are expected to be written off in the short-term since the likelihood of future economic benefits resulting from such assets are remote.</td></tr>
</table>

Credit risk mitigation

Credit risk mitigation techniques can be defined as all methods by which Investec seeks to decrease the credit risk associated with an exposure. Investec considers credit risk mitigation techniques as part of the credit assessment of a potential client or business proposal and not as a separate consideration of mitigation of risk. Credit risk mitigants can include any collateral item over which the bank has a 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 the bank 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 59.

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 the bank 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.

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.

Growth in the core loan book was moderate and grew by 8.9% to R254 billion (31 March 2017: R233 billion) with high net worth and specialised 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 improved from 1.03% to 0.56%, with absolute levels of defaults decreasing year on year due to asset write-offs mainly in the corporate portfolio.

We reported an increase in the level of impairments taken, however, the credit loss ratio reduced to 0.28% (2017: 0.29%), remaining at the lower end of its long-term average trend.

Lending collateralised by property

The majority of the property assets are commercial investment properties and are located in South Africa. This portfolio decreased by 2% during the year. Loan 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 our business strategy to increase 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 13.3% 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 6.6% 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 and our State Owned Entities (SOEs) exposure is predominantly backed by government support.

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 3.1% to R470 billion largely due to growth in loans and advances to customers, partially offset by a managed reduction in reverse purchase agreements and guarantees. Cash and near cash balances amount to R116.5 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	2018	2017	% change	Average*
Cash and balances at central banks	9 165	8 353	9.7%	8 758
Loans and advances to banks	17 265	31 937	(45.9%)	24 600
Non-sovereign and non-bank cash placements	9 993	8 993	11.1%	9 492
Reverse repurchase agreements and cash collateral on securities borrowed	20 480	26 627	(23.1%)	23 554
Sovereign debt securities	62 403	47 822	30.5%	55 113
Bank debt securities	8 051	7 758	3.8%	7 905
Other debt securities	10 342	11 945	(13.4%)	11 144
Derivative financial instruments	6 858	6 364	7.8%	6 611
Securities arising from trading activities	698	463	50.8%	581
Loans and advances to customers (gross)	248 902	226 873	9.7%	237 888
Own originated loans and advances to customers securitised (gross)	6 836	7 782	(12.2%)	7 309
Other loans and advances (gross)	290	336	(13.7%)	313
Other assets	3 363	2 757	22.0%	3 060
Total on-balance sheet exposures	**404 646**	**388 010**	**4.3%**	**396 328**
Guarantees^	10 589	15 750	(32.8%)	13 170
Contingent liabilities, committed facilities and other	54 604	52 089	4.8%	53 347
Total off-balance sheet exposures	**65 193**	**67 839**	**(3.9%)**	**66 516**
Total gross credit and counterparty exposures pre-collateral other credit enhancements	**469 839**	**455 849**	**3.1%**	**462 844**

* *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 2018				
Cash and balances at central banks	9 165	22		9 187
Loans and advances to banks	17 265	–		17 265
Non-sovereign and non-bank cash placements	9 993	–		9 993
Reverse repurchase agreements and cash collateral on securities borrowed	20 480	–		20 480
Sovereign debt securities	62 403	–		62 403
Bank debt securities	8 051	–		8 051
Other debt securities	10 342	–		10 342
Derivative financial instruments	6 858	5 728		12 586
Securities arising from trading activities	698	177		875
Investment portfolio	–	7 943	1	7 943
Loans and advances to customers	248 902	(1 428)	2	247 474
Own originated loans and advances to customers securitised	6 836	(6)	2	6 830
Other loans and advances	290	(25)	2	265
Other securitised assets	–	241	3	241
Interest in associated undertakings	–	6 288	1	6 288
Deferred taxation assets	–	586		586
Other assets	3 363	3 323	4	6 686
Property and equipment	–	2 494		2 494
Investment properties	–	1		1
Goodwill	–	171		171
Intangible assets	–	412		412
Loans to group companies	–	13 499		13 499
Total on-balance sheet exposures	**404 646**	**39 426**		**444 072**

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 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 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.*

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 2018						
Cash and balances at central banks	–	–	–	–	9 165	–
Loans and advances to banks	–	–	–	–	–	–
Non-sovereign and non-bank cash placements	–	–	18	–	–	1 843
Reverse repurchase agreements and cash collateral on securities borrowed	658	–	–	–	–	89
Sovereign debt securities	–	–	–	–	62 403	–
Bank debt securities	–	–	–	–	–	–
Other debt securities	–	–	–	–	1 312	–
Derivative financial instruments	–	–	16	1 121	–	28
Securities arising from trading activities	–	–	–	–	586	–
Loans and advances to customers (gross)	124 415	40 616	2 926	6 301	5 839	11 875
Own originated loans and advances to customers securitised (gross)	6 836	–	–	–	–	–
Other loans and advances (gross)	–	–	–	–	–	–
Other assets	–	–	–	–	–	9
Total on-balance sheet exposures	**131 909**	**40 616**	**2 960**	**7 422**	**79 305**	**13 844**
Guarantees^	4 431	937	–	946	1	1 117
Contingent liabilities, committed facilities and other	33 627	4 308	788	569	1 025	787
Total off-balance sheet exposures	**38 058**	**5 245**	**788**	**1 515**	**1 026**	**1 904**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**169 967**	**45 861**	**3 748**	**8 937**	**80 331**	**15 748**
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**

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

Finance and insurance	Retailers and wholesalers	Manufacturing and commerce	Construction	Corporate commercial real estate	Other residential mortgages	Mining and resources	Leisure, entertainment and tourism	Transport	Communication	Total
–	–	–	–	–	–	–	–	–	–	9 165
17 265	–	–	–	–	–	–	–	–	–	17 265
2 203	1 728	2 048	504	201	–	396	30	155	867	9 993
18 765	–	934	–	–	–	–	–	34	–	20 480
–	–	–	–	–	–	–	–	–	–	62 403
8 051	–	–	–	–	–	–	–	–	–	8 051
3 151	–	1 993	–	955	–	1 917	–	–	1 014	10 342
4 722	198	123	–	387	–	135	42	59	27	6 858
–	–	–	–	–	–	–	–	–	112	698
18 221	4 879	9 205	1 855	6 812	–	2 815	3 017	4 552	5 574	248 902
–	–	–	–	–	–	–	–	–	–	6 836
–	–	–	–	–	290	–	–	–	–	290
384	2 004	456	136	–	–	8	72	1	293	3 363
72 762	**8 809**	**14 759**	**2 495**	**8 355**	**290**	**5 271**	**3 161**	**4 801**	**7 887**	**404 646**
149	81	1 059	128	466	–	1 016	145	52	61	10 589
3 902	1 344	950	313	176	–	2 251	55	1 545	2 964	54 604
4 051	**1 425**	**2 009**	**441**	**642**	**–**	**3 267**	**200**	**1 597**	**3 025**	**65 193**
76 813	**10 234**	**16 768**	**2 936**	**8 997**	**290**	**8 538**	**3 361**	**6 398**	**10 912**	**469 839**
–	–	–	–	–	–	–	–	–	–	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**

Private client loans account for 67.2% 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

	Gross core loans and advances		Other credit and counterparty exposures		Total	
R'million At 31 March	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
High net worth and professional individuals	131 251	115 229	38 716	35 229	169 967	150 458
Lending collateralised by property – largely to private clients	40 616	40 546	5 245	7 236	45 861	47 782
Agriculture	2 926	2 895	822	486	3 748	3 381
Electricity, gas and water (utility services)	6 301	5 364	2 636	3 208	8 937	8 572
Public and non-business services	5 839	5 900	74 492	60 615	80 331	66 515
Business services	11 875	8 523	3 873	2 180	15 748	10 703
Finance and insurance	18 221	17 640	58 592	82 529	76 813	100 169
Retailers and wholesalers	4 879	2 814	5 355	5 996	10 234	8 810
Manufacturing and commerce	9 205	11 457	7 563	7 046	16 768	18 503
Construction	1 855	3 953	1 081	1 150	2 936	5 103
Corporate commercial real estate	6 812	5 760	2 185	1 621	8 997	7 381
Other residential mortgages	–	–	290	336	290	336
Mining and resources	2 815	3 249	5 723	8 069	8 538	11 318
Leisure, entertainment and tourism	3 017	1 512	344	303	3 361	1 815
Transport	4 552	4 010	1 846	1 748	6 398	5 758
Communication	5 574	5 803	5 338	3 442	10 912	9 245
Total	**255 738**	**234 655**	**214 101**	**221 194**	**469 839**	**455 849**

Gross credit counterparty exposures by residual contractual maturity at 31 March 2018

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	9 165	–	–	–	–	–	9 165
Loans and advances to banks	16 317	178	234	536	–	–	17 265
Non-sovereign and non-bank cash placements	9 993	–	–	–	–	–	9 993
Reverse repurchase agreements and cash collateral on securities borrowed	15 227	1 085	778	2 422	916	52	20 480
Sovereign debt securities	13 393	15 095	15 587	5 167	6 012	7 149	62 403
Bank debt securities	225	–	59	4 724	2 530	513	8 051
Other debt securities	–	82	816	6 922	1 343	1 179	10 342
Derivative financial instruments	2 758	1 294	632	1 741	433	–	6 858
Securities arising from trading activities	–	–	2	696	–	–	698
Loans and advances to customers (gross)	23 514	14 744	20 829	129 253	31 082	29 480	248 902
Own originated loans and advances to customers securitised (gross)	–	3	10	28	531	6 264	6 836
Other loans and advances (gross)	–	–	290	–	–	–	290
Other assets	3 363	–	–	–	–	–	3 363
Total on-balance sheet exposures	**93 955**	**32 481**	**39 237**	**151 489**	**42 847**	**44 637**	**404 646**
Guarantees^	5 656	1 091	1 680	1 666	267	229	10 589
Contingent liabilities, committed facilities and other	11 838	2 141	3 474	15 944	3 021	18 186	54 604
Total off-balance sheet exposures	**17 494**	**3 232**	**5 154**	**17 610**	**3 288**	**18 415**	**65 193**
Total gross credit and counterparty exposures pre-collateral or other credit enhancements	**111 449**	**35 713**	**44 391**	**169 099**	**46 135**	**63 052**	**469 839**

^ *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	2018	2017
Loans and advances to customers as per the balance sheet	247 474	225 669
Add: own originated loans and advances to customers securitised as per the balance sheet	6 830	7 776
Net core loans and advances to customers	**254 304**	**233 445**

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	2018	2017
Gross core loans and advances to customers	**255 738**	**234 655**
Total impairments	**(1 434)**	**(1 210)**
Specific impairments	(795)	(884)
Portfolio impairments	(639)	(326)
Net core loans and advances to customers	**254 304**	**233 445**
Average gross core loans and advances to customers	**245 197**	**225 405**
Current loans and advances to customers	251 474	230 131
Past due loans and advances to customers (1 – 60 days)	1 040	670
Special mention loans and advances to customers (1 – 90 days)	367	242
Default loans and advances to customers	2 857	3 612
Gross core loans and advances to customers	**255 738**	**234 655**
Current loans and advances to customers	251 474	230 131
Default loans that are current and not impaired	214	132
Gross core loans and advances to customers that are past due but not impaired	2 181	1 927
Gross core loans and advances to customers that are impaired	1 869	2 465
Gross core loans and advances to customers	**255 738**	**234 655**
Total income statement charge for impairments on core loans and advances	**(692)**	**(659)**
Gross default loans and advances to customers	2 857	3 612
Specific impairments	(795)	(884)
Portfolio impairments	(639)	(326)
Defaults net of impairments	**1 423**	**2 402**
Aggregate collateral and other credit enhancements on defaults	3 547	4 339
Net default loans and advances to customers (limited to zero)	**–**	**–**
Ratios		
Total impairments as a % of gross core loans and advances to customers	0.56%	0.52%
Total impairments as a % of gross default loans	50.19%	33.50%
Gross defaults as a % of gross core loans and advances to customers	1.12%	1.54%
Defaults (net of impairments) as a % of net core loans and advances to customers	0.56%	1.03%
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)	0.28%	0.29%

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

R'million At 31 March	2018	2017
Default loans that are current	583	1 254
1 – 60 days	1 579	1 470
61 – 90 days	158	182
91 – 180 days	234	473
181 – 365 days	425	717
> 365 days	1 285	428
Past due and default core loans and advances to customers (actual capital exposure)	**4 264**	**4 524**
1 – 60 days	446	256
61 – 90 days	22	23
91 – 180 days	34	66
181 – 365 days	134	476
> 365 days	1 035	177
Past due and default core loans and advances to customers (actual amount in arrears)	**1 671**	**998**

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 2018							
Watchlist loans neither past due nor impaired							
Total capital exposure	214	–	–	–	–	–	214
Gross core loans and advances to customers that are past due but not impaired							
Total capital exposure	–	1 451	108	76	131	415	2 181
Amount in arrears	–	444	21	6	94	409	974
Gross core loans and advances to customers that are impaired							
Total capital exposure	369	128	50	158	294	870	1 869
Amount in arrears	–	2	1	28	40	626	697
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

An age analysis of past due and default core loans and advances to customers at 31 March 2018 (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)	**–**	**1 040**	**–**	**–**	**–**	**–**	**1 040**
Special mention	**–**	**282**	**85**	**–**	**–**	**–**	**367**
Special mention (1 – 90 days)	–	282	2	–	–	–	284
Special mention (61 – 90 days and item well secured)	–	–	83	–	–	–	83
Default	**583**	**257**	**73**	**234**	**425**	**1 285**	**2 857**
Sub-standard	214	129	23	76	131	415	988
Doubtful	369	128	50	158	294	870	1 869
Total	**583**	**1 579**	**158**	**234**	**425**	**1 285**	**4 264**

An age analysis of past due and default core loans and advances to customers at 31 March 2018 (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)	**–**	**417**	**–**	**–**	**–**	**–**	**417**
Special mention	**–**	**10**	**20**	**–**	**–**	**–**	**30**
Special mention (1 – 90 days)	–	10	–	–	–	–	10
Special mention (61 – 90 days and item well secured)	–	–	20	–	–	–	20
Default	**–**	**19**	**2**	**34**	**134**	**1 035**	**1 224**
Sub-standard	–	17	1	6	94	409	527
Doubtful	–	2	1	28	40	626	697
Total	**–**	**446**	**22**	**34**	**134**	**1 035**	**1 671**

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 is outside of Investec's control, 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 2018								
Current core loans and advances	**251 474**	**–**	**–**	**251 474**	**–**	**(630)**	**250 844**	**–**
Past due (1 – 60 days)	**–**	**1 040**	**–**	**1 040**	**–**	**(4)**	**1 036**	**417**
Special mention	**–**	**367**	**–**	**367**	**–**	**(2)**	**365**	**30**
Special mention (1 – 90 days)	–	284	–	284	–	(2)	282	10
Special mention (61 – 90 days and item well secured)	–	83	–	83	–	–	83	20
Default	**214**	**774**	**1 869**	**2 857**	**(795)**	**(3)**	**2 059**	**1 224**
Sub-standard	214	774	–	988	–	(3)	985	527
Doubtful	–	–	1 869	1 869	(795)	–	1 074	697
Total	**251 688**	**2 181**	**1 869**	**255 738**	**(795)**	**(639)**	**254 304**	**1 671**
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**

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 2018						
Current core loans and advances	**168 577**	**52 121**	**18 221**	**5 720**	**6 835**	**251 474**
Past due (1 – 60 days)	**870**	**51**	**–**	**–**	**119**	**1 040**
Special mention	**191**	**170**	**–**	**–**	**6**	**367**
Special mention (1 – 90 days)	114	170	–	–	–	284
Special mention (61 – 90 days and item well secured)	77	–	–	–	6	83
Default	**2 229**	**273**	**–**	**119**	**236**	**2 857**
Sub-standard	868	120	–	–	–	988
Doubtful	1 361	153	–	119	236	1 869
Total gross core loans and advances to customers	**171 867**	**52 615**	**18 221**	**5 839**	**7 196**	**255 738**
Total impairments	**(723)**	**(480)**	**(19)**	**(63)**	**(149)**	**(1 434)**
Specific impairments	(487)	(99)	–	(60)	(149)	(795)
Portfolio impairments	(236)	(381)	(19)	(3)	–	(639)
Net core loans and advances to customers	**171 144**	**52 135**	**18 202**	**5 776**	**7 047**	**254 304**
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**

An analysis of core loans and advances by risk category at 31 March 2018

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	**40 616**	**865**	**926**	**(319)**	**(221)**
Commercial real estate	**36 772**	**695**	**659**	**(260)**	**(106)**
Commercial real estate – investment	32 940	673	636	(246)	(96)
Commercial real estate – development	3 043	8	11	–	(3)
Commercial vacant land and planning	789	14	12	(14)	(7)
Residential real estate	**3 844**	**170**	**267**	**(59)**	**(115)**
Residential real estate – development	3 035	146	255	(40)	(133)
Residential vacant land and planning	809	24	12	(19)	18
High net worth and other private client lending	**131 251**	**1 364**	**1 924**	**(168)**	**(18)**
Mortgages	67 269	874	1 075	(102)	(75)
High net worth and specialised lending	63 982	490	849	(66)	57
Corporate and other lending	**83 871**	**628**	**697**	**(308)**	**(129)**
Acquisition finance	13 984	117	119	(2)	(68)
Asset-based lending	7 206	236	390	(149)	(9)
Fund finance	4 909	–	–	–	(6)
Other corporate and financial institutions and governments	47 709	160	153	(68)	21
Asset finance	2 678	–	–	–	–
Small ticket asset finance	2 225	–	–	–	–
Large ticket asset finance	453	–	–	–	–
Project finance	6 641	–	–	–	(2)
Resource finance	744	115	35	(89)	(65)
Portfolio impairments				**(639)**	**(324)**
Total	**255 738**	**2 857**	**3 547**	**(1 434)**	**(692)**

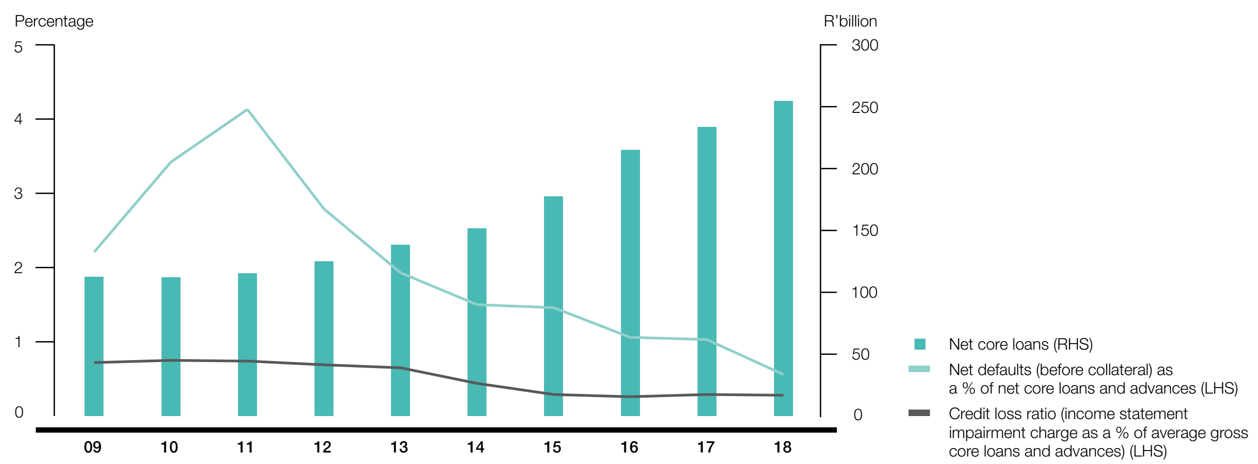
^ *Where a positive number represents a recovery.*

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 enhancements 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.*

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 2018			
Eligible financial collateral	**41 704**	**19 863**	**61 567**
Listed shares	40 657	17 558	58 215
Cash	1 047	23	1 070
Debt securities issued by sovereigns	–	2 282	2 282
Property charge	**350 443**	**49**	**350 492**
Residential property	188 238	–	188 238
Commercial property developments	6 932	49	6 981
Commercial property investments	155 273	–	155 273
Other collateral	**50 799**	**827**	**51 626**
Unlisted shares^	5 240	–	5 240
Charges other than property	9 321	–	9 321
Debtors, stock and other corporate assets	6 128	–	6 128
Guarantees	20 517	–	20 517
Other	9 593	827	10 420
Total collateral	**442 946**	**20 739**	**463 685**
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**

* *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.*

^ *Unlisted shares taken as collateral can include shares in companies in which the group also has an equity investment. Refer to page 51 for additional information on the unlisted equity investments held at fair value.*

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:** Principal investments are normally undertaken in support of a client requiring equity to grow and develop an existing business, or the acquisition of a business from third parties. 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, or sale 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
- **IEP Group:** Investec Bank Limited holds a 45.7% stake alongside third party investors and senior management of the business who hold the remaining 54.3%. The investment in the IEP Group is reflected as an investment in an associate
- **Lending transactions:** The manner in which we structure certain transactions results in equity, warrant and profit shares being held, predominantly within unlisted companies
- **Property activities:** We source development, investment and trading opportunities to create value and trade for profit within agreed risk parameters.

Management of investment risk

As investment risk arises from a variety of activities conducted by 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
Principal Investments	Investment committee, BRCC and GRCC
Listed equities	Investment committee, market risk management, 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
IEP Group	A number of our executive are on the board of the IEP Group, 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 GRCC and BRCC. 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
2018						
Unlisted investments	(413)	427	109	–	123	(2)
Listed equities	(208)	10	321	–	123	(369)
Investment and trading properties	–	8	–	–	8	–
Warrants, profit shares and other embedded derivatives	(9)	218	–	–	209	–
The IEP Group	–	–	–	766	766	–
Total	**(630)**	**663**	**430**	**766**	**1 229**	**(371)**
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)**

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

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 2018	Valuation change stress test 2018*	On-balance sheet value of investments 2017	Valuation change stress test 2017*
Unlisted investments^	3 169	475	3 573	536
Listed equities^	4 774	1 194	4 087	1 022
Investment and trading properties	267	53	294	59
Warrants, profit shares and other embedded derivatives	213	74	221	77
The IEP group^^	6 180	927	5 413	812
Total	**14 603**	**2 723**	**13 588**	**2 506**

^ *Includes the investment portfolio.*
^^ *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 2018, as reflected above, we could have a R2.7 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 77 for further detail.

Valuation and accounting methodologies

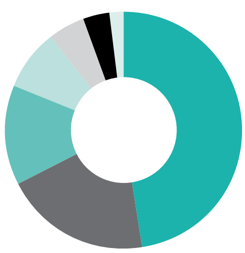
For a description of our valuation principles and methodologies refer to pages 162 and 177 for factors taken into consideration in determining fair value.

We have a low level of assets exposed to the volatility of IFRS fair value accounting with level 3 assets amounting to 0.46% of total assets (excluding assurance assets).

Refer to page 170 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 2018
R8 156 million

Real estate	47.6%
Mining and resources	19.9%
Manufacturing and commerce	13.7%
Communication	8.3%
Other	5.0%
Electricity, gas and water (Utility services)	3.6%
Finance and insurance	1.9%

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.

The bank applies the standardised approach in the assessment of regulatory capital for securitisation.

The bank engages in transactions that involve the use of both special purpose entities and asset securitisation structures. Securitisation represents a small 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 the 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
- Continue to create marketable instruments through self-securitisation.

Total assets that have been originated and securitised by the Private Client division amount to R6.8 billion at 31 March 2018 (31 March 2017: R7.8 billion) and consist of residential mortgages. Within these securitisation vehicles loans greater than 90 days in arrears amounted to R34.4 million.

Further details of the various securitisation vehicles are highlighted below:

- Fox Street 2: R0.8 billion notes of the original R1.5 billion are still in issue. R246 million of the notes are held internally
- Fox Street 3: R1.2 billion notes of the original R2.0 billion are still in issue. 209 of the notes are held internally
- Fox Street 4: R2.3 billion notes of the original R3.7 billion are still in issue. All notes are held internally
- Fox Street 5: R2.3 billion notes of the original R2.9 billion are still in issue. All notes are held internally.

There is a clean-up call option that 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 R0.2 billion at 31 March 2018 (31 March 2017: R0.9 billion) and unrated South African RMBS, totalling R1.0 billion at 31 March 2018 (31 March 2017: R0.9 billion).

Accounting policies

Refer to page 143 and 144.

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 2018 R'million	Exposure 2017 R'million	Balance sheet and credit risk classification	Asset quality – relevant comments
Structured credit (gross exposure)*	1 145	1 812	Other debt securities	
Rated	165	863		
Unrated	980	949		
Loans and advances to customers and third party intermediary platforms (mortgage loans) – (net exposure)	265	310	Other loans and advances	
Private Client division assets – which have been securitised	6 836	7 782	Own originated loans and advances to customers securitised	Analysed as part of the group's overall asset quality on core loans and advances

* Analysis of rated and unrated structured credit

	2018			2017		
At 31 March R'million	Rated**	Unrated	Total	Rated**	Unrated	Total
UK and European RMBS	129	–	129	773	–	773
Australian RMBS	36	–	36	90	–	90
South African RMBS	–	980	980	–	949	949
Total	**165**	**980**	**1 145**	**863**	**949**	**1 812**

** A further analysis of rated structured credit investments

R'million	AAA	AA	A	BBB	BB	B	C and below	Total
UK and European RMBS	–	–	–	–	129	–	–	129
Australian RMBS	–	36	–	–	–	–	–	36
Total at 31 March 2018	**–**	**36**	**–**	**–**	**129**	**–**	**–**	**165**
Total at 31 March 2017	**72**	**391**	**253**	**–**	**147**	**–**	**–**	**863**

Market risk in the trading book

Traded market risk description

Traded market risk is the risk of potential changes in the value of the trading book as a result of changes in market risk factors such as interest rates, equity prices, exchange rates, commodity prices, credit spreads and their underlying volatilities where derivatives are traded. The trading book is defined as positions in financial instruments and commodities, including derivative products and other off-balance-sheet instruments that are held within the trading businesses.

Traded market risk profile

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 client flow. Within our trading activities, we act as principal with clients or the market. Market risk exists where we have taken on principal positions resulting from market making, underwriting and facilitation of client business in the foreign exchange, interest rate, equity, credit and commodity markets.

Traded market risk governance structure

Traded market risk is governed by policies that cover the management, identification, measurement and monitoring of market risk. We have independent market risk teams in each jurisdiction where we assume market risk to identify, measure, monitor and manage market risk. All limits are approved, managed and monitored centrally by group risk.

The market risk teams have reporting lines that are separate from the trading function, thereby ensuring independent oversight. A Global Market Risk Forum, mandated by the BRCC, manages market risk in accordance with approved principles, policies and risk appetite. Risk limits across all trading desks are reviewed by the global market risk forum and recommended for approval at Review ERRF in accordance with the risk appetite defined by the board. Limit reviews approved at Review ERRF are noted at Policy ERRF with significant changes to limits presented to Policy ERRF for review and approval. The appropriateness of limits is continually re-assessed, with limits reviewed at least annually, in the event of a significant market event or at the discretion of senior management.

Measurement of traded market risk

A number of quantitative measures are used to monitor and limit exposure to traded market risk. These measures include:

- Value at Risk (VaR) and Expected Shortfall (ES) as portfolio measures of market risk exposure
- scenario analysis, stress tests and tools based on extreme value theory (EVT) that measure the potential impact on portfolio values of extreme moves in markets
- sensitivity analysis that measures the impact of individual market risk factor movements on specific instruments or portfolios, including interest rates, foreign exchange rates, equity prices, credit spreads and commodity prices, such as the effect of a one basis point change in interest rates. We use sensitivity measures to monitor and limit exposure across portfolios, products and risk types.

Stress and scenario analyses are used to add insight into the possible outcomes under severe market disruptions. The stress-testing methodology assumes that all market factors move adversely at the same time and that no actions are taken during the stress events to mitigate risk. Stress scenarios based on historical experience as well as hypothetical scenarios are considered and are reviewed regularly for relevance in ever-changing market environments. Stress scenarios are run daily with analysis presented weekly to Review ERRF or more often depending on market conditions.

Traded market risk management, monitoring and control

Market risk limits are set according to guidelines set out in our risk appetite policy. Limits are set at trading desk level with aggregate risk across all desks also monitored against overall market risk appetite limits. Current market conditions as well as stressed market conditions are taken into account when setting and reviewing these limits.

Market risk teams review the market risks in the trading book with detailed risk reports produced daily for each trading desk and for the aggregate risk of the trading book. The material risks identified are summarised in daily reports that are distributed to, and discussed with senior management. The production of risk reports allows for the monitoring of all positions in the trading book against prescribed limits. Documented policies and procedures are in place to ensure there is a formal process for recognition and authorisation for risk excesses incurred.

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 by market risk ensuring models used for valuation and risk are validated independently of the front office.

Value at Risk

VaR is a technique that estimates the potential losses as a result of movements in market rates and prices over a specified time horizon at a given level of confidence. The VaR model derives future scenarios from past time series of market rates and prices, taking into account inter-relationships between the different markets such as interest rates and foreign exchange rates. The VaR model used is based on full revaluation historical simulation and incorporates the following features:

- two-year historical period based on an unweighted time series
- daily movements in each risk factor e.g. foreign exchange rates, interest rates, equity prices, credit spreads and associated volatilities are simulated with reference to historical market rates and prices, with proxies only used when no or limited historical market data is available, and the resultant one-day VaR is scaled up using the square root of time for regulatory purposes
- risk factor movements are based on both absolute and relative returns as appropriate for the different types of risk factors.

VaR numbers using a one-day holding period are monitored daily at the 95% and 99% confidence intervals, with limits set at the 95% confidence interval. Expected Shortfalls are also monitored daily at the 95% and 99% levels as is the worst case loss in the VaR distribution.

The table below contains the 95% one-day VaR figures for the trading businesses.

	31 March 2018				31 March 2017			
R'million	**Year end**	**Average**	**High**	**Low**	**Year end**	**Average**	**High**	**Low**
95% (one-day)								
Commodities	–	0.1	1.5	–	0.1	0.1	0.5	–
Equities	3.9	3.1	7.4	1.4	1.6	2.5	7.8	1.2
Foreign exchange	1.7	2.9	9.1	0.9	3.7	1.7	5.3	0.9
Interest rates	2.4	2.2	4.7	0.3	0.8	1.6	3.2	0.6
Consolidated*	**3.2**	**4.6**	**13.3**	**2.1**	**4.1**	**3.4**	**9.1**	**1.5**

* *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).*

Expected shortfall

The ES measure overcomes some of VaR's shortcomings. ES seeks to quantify losses encountered in the tail beyond the VaR level. The 95% one-day ES is the average loss given that the 95% one-day VaR level has been exceeded. The table below contains the 95% one-day ES figures.

R'million For the year to 31 March	**2018**	**2017**
Commodities	0.1	0.1
Equities	7.2	3.5
Foreign exchange	3.7	4.6
Interest rates	4.1	1.5
Consolidated*	**8.7**	**5.3**

* *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).*

Stressed VaR

Stressed VaR (sVaR) is calculated using the VaR model but based on a one year period through which the relevant market factors experienced stress. The information in the table below contains the 99% one-day sVaR as at 31 March 2018.

R'million	31 March 2018 Year end	31 March 2017 Year end
99% 1-day sVaR	12.0	9.7

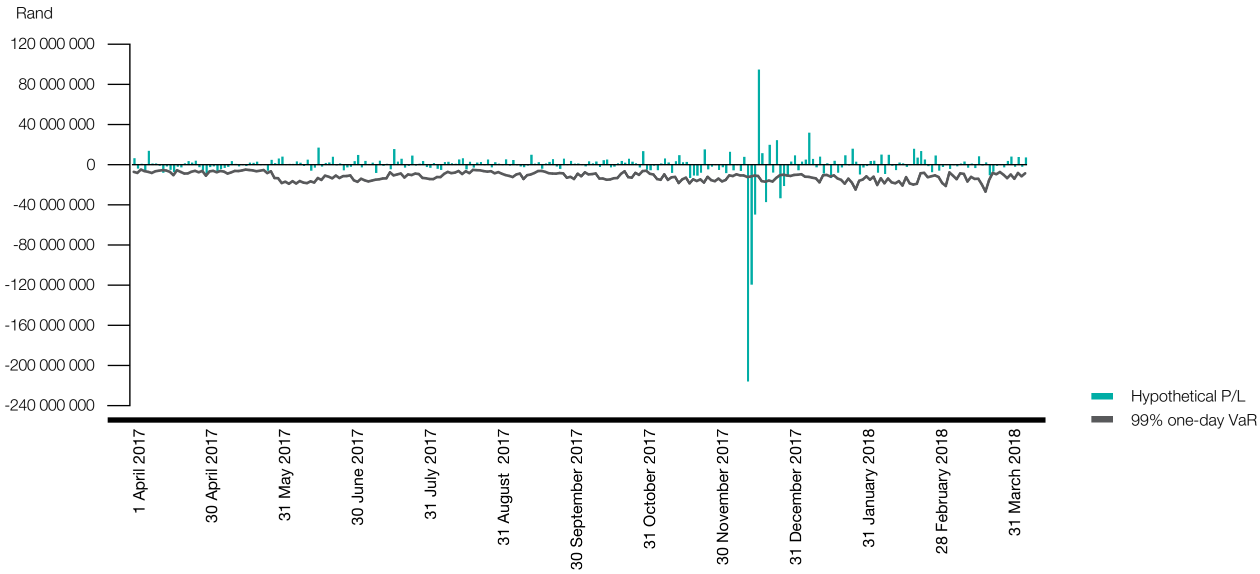
Backtesting

The performance of the VaR model is regularly monitored through backtesting. This is done by comparing daily hypothetical profit and loss against one-day VaR based on a 99% confidence level. Hypothetical profit and loss excludes items such as fees, commissions, valuation adjustments, provisions, recoveries and intra-day transactions. If a loss 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. This is conducted at an aggregate and desk level on a daily basis.

The graphs that follow show the result of backtesting the total daily 99% one-day VaR against the hypothetical 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.

Average VaR for the year ended March 2018 was higher than the previous year, primarily due to higher VaR utilisation on the foreign exchange and interest rate trading desks. The graph below is for the consolidated South African trading book and is based on hypothetical profit and loss, which excludes items such as fees, commissions, valuation adjustments, provisions, recoveries and intra-day transactions. The nine exceptions were primarily as a result of the Steinhoff share price collapse in December 2017 (refer to page 24 for additional information).

99% one-day VaR backtesting



Stress testing

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

	31 March 2018				
R'million	Year end	Average	High	Low	31 March 2017 Year end
99% (using 99% EVT)					
Commodities	0.2	0.4	4.8	0.1	0.2
Equities	13.6	20.0	70.4	7.1	24.9
Foreign exchange	20.1	18.7	43.0	2.5	8.1
Interest rates	13.5	18.5	70.8	1.7	7.7
Consolidated**	**29.3**	**32.6**	**83.2**	**8.6**	**15.7**

** *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).*

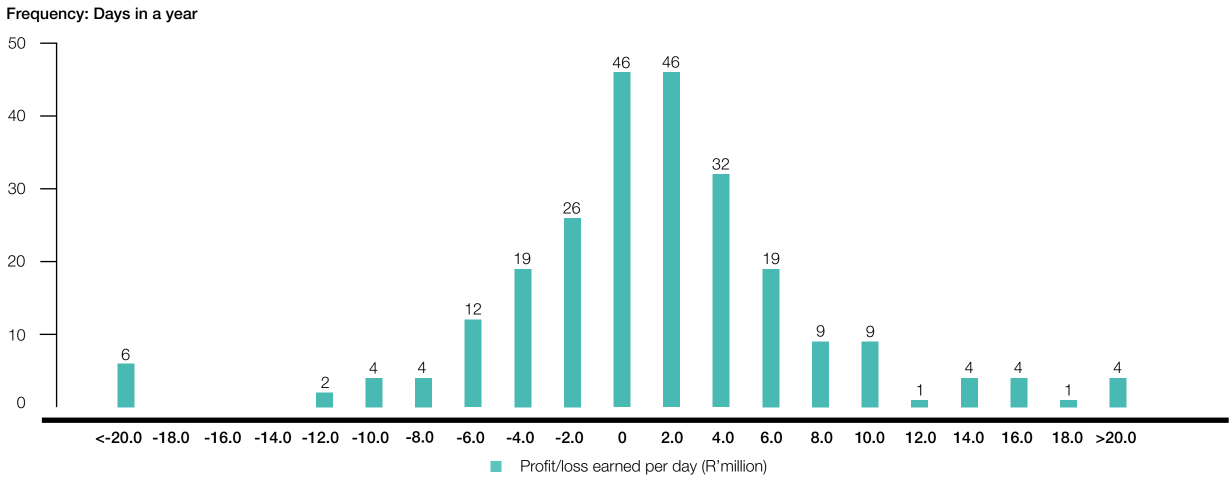
Capital

We have internal model approval from the South African Prudential Authority for general market risk for all trading desks 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.

Profit and loss histograms

The histogram below illustrates the distribution of hypothetical profit and loss 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 129 days out of a total of 248 days in the trading business. The average daily trading revenue generated for the year to 31 March 2018 was – R0.7 million (2017: R4.5 million) due to a higher number of tail losses at the end of 2017.

Profit and loss



Traded market risk year in review

In South Africa, during the year the markets were impacted by local factors, in particular, political policy uncertainty prior to the ANC elective conference in December. The primary focus of the bank's trading desks remains to facilitate the demand of our clients with limited proprietary risk taken. This is reflected by the low levels of market risk exposures as well as VaR throughout the year. The 95% one-day VaR ended the year at R3.2 million, down R0.9 million from the previous year. Market risk exposures across all trading desks remained low throughout the year.

Market risk – derivatives

We enter into various derivatives contracts, largely on the back of customer flow for hedging foreign exchange, commodity, equity and interest rate exposures and to a small extent as principal for trading purposes. These include financial futures, options, swaps and forward rate agreements.

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 185 and 186.

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 liquidity, funding, concentration, encumbrance and non-trading interest rate risk.

Balance sheet risk governance structure and risk mitigation

Under delegated authority of the boards, the group has established Asset and Liability 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 the risk appetite.

ALCOs meet on at least a monthly basis to review the exposures that lie within the balance sheet together with market conditions, and decide on strategies to mitigate any undesirable liquidity and interest rate risk. The 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 Treasury function within each jurisdiction is required to exercise tight control of liquidity, funding, concentration, encumbrance and non-trading interest rate risk within the board-approved risk appetite limits. Non-trading interest rate risk and asset funding requirements are transferred from the originating business to the Treasury function.

The Treasury function directs pricing for all deposit products, establishes and maintains access to stable wholesale funds with the appropriate tenor and pricing characteristics, and manages liquid securities and collateral, thus providing prudential management and a flexible response to volatile market conditions. The Treasury function is the sole interface to the wholesale money 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 thereby ensuring that price of liquidity is integrated into business level decision-making and drives the appropriate mix of sources and uses of funds.

Balance sheet risk management teams are based within Group risk management in their respective geographies, and are responsible for independently identifying, quantifying and monitoring risks; providing daily independent governance and oversight of the treasury activities and the execution of the bank's policies.

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

Daily, weekly and monthly reports are independently produced highlighting bank activity, exposures and key measures against thresholds and limits and are distributed to management, ALCO, Treasury, Review ERRF, GRCC and BRCC as well as summarised reports for meetings.

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 in normal and stressed conditions. This includes repaying depositors or maturing wholesale debt. This risk arises from mismatches in the timing of cash-flows, and 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 flows 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.

Management and measurement of liquidity risk

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:

- Our liquidity management processes encompass requirements set out within Basel Committee on Banking Supervision (BCBS) guidelines and by the regulatory authorities in each jurisdiction, namely the South African Prudential Authority 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 regulatory 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 varied 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 asset and liability 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 market disruptions
- 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.

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

- Internal 'survival horizon' metric which models how many days it takes before the bank's cash position turns negative under an internally defined worst-case liquidity stress;
- Regulatory metrics for liquidity measurement:
  - Liquidity Coverage Ratio (LCR)
  - Net Stable Funding Ratio (NSFR)
- Modelling a 'business as usual' environment where we apply rollover and reinvestment assumptions under benign market conditions;
- An array of further liquidity stress tests, based on a range of scenarios and using historical analysis, documented experience and prudent judgement to model the impact on the bank's balance sheet;
- Contractual run-off based actual cash flows with no modelling adjustments;
- Additional internally defined funding and balance sheet ratios; and
- Any other local regulatory requirements.

This suite of metrics 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 a range of liquidity stresses or market disruptions.

The parameters used in stress scenarios are reviewed at least annually, 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 on cash flow, liquidity, profitability and solvency position, so as to maintain sufficient liquidity and 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 bank has calculated the severity of stress required to breach the liquidity requirements. This scenario is considered highly unlikely given the bank'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 the bank's liquidity position.

The bank 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 audited by Internal Audit thereby ensuring integrity of the process.

Funding strategy

We maintain a funding structure of 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. As a result, we are able to generate funding from a broad range of sources in each geographic location, which ensures a varied overall funding mix to support loan growth.

We acknowledge the importance of our retail deposit client base as the principal source of stable and well diversified funding. We continue to develop products to attract and service the investment needs of our client base.

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.

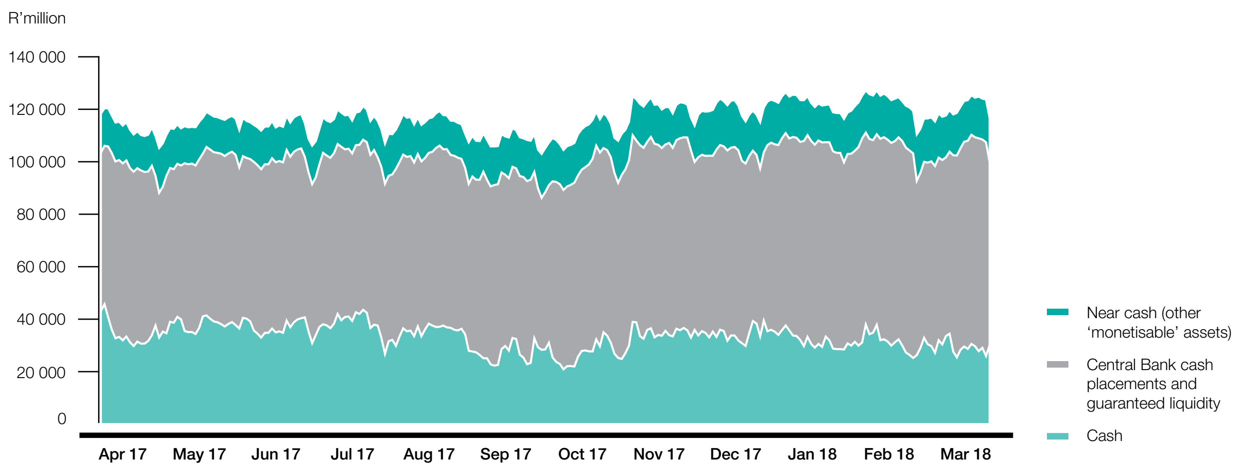
The group's ability to access funding at cost-effective levels is influenced by maintaining or improving the entity's credit rating. A reduction in these ratings could have an adverse effect on the group's funding costs, and access to wholesale term funding. Credit ratings are dependent on multiple factors,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

We remain confident in our ability to raise funding appropriate to our needs.

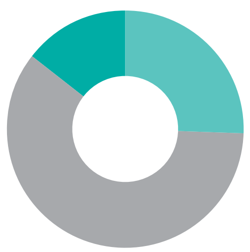
Liquidity buffer

To protect against potential shocks, 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 regulatory requirements as protection against disruptions in cash flows. These portfolios are managed within board-approved targets, and as well as providing 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 overnight interbank deposits to fund term lending.

Investec Bank Limited cash and near cash trend



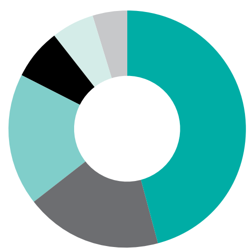
An analysis of cash and near cash at 31 March 2018



R116 533 million

Cash	25.8%
Central Bank cash placements and guaranteed liquidity	59.9%
Near cash (other 'monetisable' assets)	14.3%

Bank and non-bank depositor concentration by type at 31 March 2018



R346 500 million

Other financials	45.9%
Non-financial corporates	18.8%
Individuals	17.8%
Banks	7.1%
Small business	5.9%
Public sector	4.5%

The liquidity position of the bank remained sound with total cash and near cash balances amounting to R116.5 billion at year end

Contingency planning

The group maintains contingency funding plans which detail the course of actions that can be taken in the event of a liquidity stress. The plans help 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. The plans include:

- Details on the required daily monitoring of the liquidity position;
- Description of the early warning indicators to be monitored, and process of escalation if required;
- Liquidity stress scenarios to be modelled for Contingency Funding Plan (CFP) purposes (over and above daily stress testing scenarios);
- Funding and management actions available for use in a stress situation;
- Roles and responsibilities;
- Details of specific escalation bodies and key contacts; and
- Internal and external communication plans.

Liquidity mismatch

The tables that follow show the liquidity mismatch across our business.

The table will not agree directly to the balances disclosed in the balance sheet due to the inclusion of loans to group companies in the other asset line.

With respect to the contractual liquidity table below, we record all assets and liabilities with the underlying contractual maturity as determined by the cash flow profile for each deal.

With respect to the behavioural liquidity gap, we adjust the contractual profile of certain assets and liabilities:

- *Liquidity buffer:* 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 highly liquid securities. Consequently, for the liquidity buffer:
  - The time horizon to monetise our regulatory liquid assets which are guaranteed by the central bank has been adjusted to 'on demand'; and
  - The time horizon for the cash and near cash portfolio of 'available-for-sale' discretionary treasury assets has been set to one month where there are deep secondary markets for this elective asset class.
- *Customer deposits:* the contractual repayments of many deposits are on demand, or at notice, but in reality withdrawals vary significantly from this. Historical observations of the products are used to model the behavioural lives, and this analysis has identified significant additional sources of structural liquidity in the form of core deposits that exhibit stable behaviour.

Contractual liquidity at 31 March 2018

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	21 369	3 487	940	–	165	491	–	26 452
Cash and short-term funds – non-banks	9 418	304	271	–	–	–	–	9 993
Investment/trading assets and statutory liquids	63 695	11 701	4 372	3 127	2 307	19 245	24 522	128 969
Securitised assets	53	8	43	91	147	1 548	5 181	7 071
Advances	7 200	5 257	11 779	15 676	25 543	121 239	61 045	247 739
Other assets	(2 234)	9 440	1 959	(105)	(197)	1 180	6 798	16 841
Assets	**99 501**	**30 197**	**19 364**	**18 789**	**27 965**	**143 703**	**97 546**	**437 065**
Deposits – banks	(868)	(1 140)	(2 196)	(396)	(6 869)	(13 138)	–	(24 607)
Deposits – non-banks	(136 031)	(21 961)	(65 423)	(24 505)	(37 762)	(33 810)	(2 401)	(321 893)
Negotiable paper	–	(3)	(79)	(358)	(2 494)	(539)	–	(3 473)
Securitised liabilities	–	–	–	–	–	–	(1 551)	(1 551)
Investment/trading liabilities	(838)	(4 153)	(1 418)	(1 825)	(4 765)	(12 753)	(855)	(26 607)
Subordinated liabilities	–	(858)	(17)	(9)	–	(3 057)	(9 433)	(13 374)
Other liabilities	(603)	(46)	–	(76)	–	(84)	(6 336)	(7 145)
Liabilities	**(138 340)**	**(28 161)**	**(69 133)**	**(27 169)**	**(51 890)**	**(63 381)**	**(20 576)**	**(398 650)**
Total equity	–	–	–	–	–	–	(38 415)	(38 415)
Contractual liquidity gap	**(38 839)**	**2 036**	**(49 769)**	**(8 380)**	**(23 925)**	**80 322**	**38 555**	**–**
Cumulative liquidity gap	(38 839)	(36 803)	(86 572)	(94 952)	(118 877)	(38 555)	–	

^ *Includes call deposits of R126 billion and the balance reflects term deposits which have finally reached/are reaching contractual maturity.*

Behavioural liquidity

As discussed on page 62.

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	**54 749**	**6 422**	**5 149**	**(669)**	**(6 358)**	**(162 870)**	**103 577**	**–**
Cumulative	54 749	61 171	66 321	65 652	59 293	(103 577)	–	

Regulatory requirements

In response to the global financial crisis, the BCBS introduced a series of reforms designed to both strengthen and harmonise global liquidity standards to ensure strong financial risk management and a safer global economy.

Two minimum standards for funding liquidity were introduced:

- The liquidity coverage ratio (LCR) is designed to ensure that banks have sufficient high quality liquid assets to meet their liquidity needs throughout a 30-calendar day severe stress
- 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.

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

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.

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 offshore sources, or placements in offshore accounts.

To address this systemic challenge, the South African Prudential Authority 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. The bank does not make use of the Committed Liquidity Facility offered by the South African Prudential Authority.
- A change to the 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, and will therefore mitigate any increases in the overall cost of funds.

Despite the above constraints, Investec Bank Limited comfortably exceeds the LCR and NSFR liquidity ratio requirements, having embedded these ratio into our processes.

Balance sheet risk year in review

- The bank maintained its strong liquidity position and continued to hold high levels of surplus liquid assets.
- Our liquidity risk management process remains robust and comprehensive.

The economy faced major headwinds throughout 2017 driven by escalating political risks which had negative effects on the real economy. Certain ratings agencies responded to these risks by downgrading South Africa's local and foreign currency credit ratings to junk status. Concerns over the South African economy persisted throughout the year and peaked ahead of the ANC National Elective Conference in December 2017. Subsequent to that, Cyril Ramaphosa was elected President of the ANC, the ruling party. The announcement of a change of leadership within the ruling party was favourably received by investors. In response to these developments, Moody's left South Africa's key credit ratings at investment grade (Baa3) upgrading the sovereign's outlook from negative to stable.

Investec Bank Limited responded to these external challenges by concluding its $600 million long-term foreign currency funding programme in September 2017. It raised a further $550 million using a combination of repos, sub-debt issuances and long-term cross currency swaps. The majority of our foreign currency funding is used to augment our already strong cash balances. The bank grew its total customer deposits by 6.1% from R303 billion to R322 billion as at 31 March 2018. Our Private Bank and Cash Investments fundraising channels grew deposits by 6.5% to R132 billion over the financial year. Over the same period the wholesale ZAR only channels increased funding from R179 billion to R190 billion.

Our liquidity position is sound. Its health is evidenced by strong liquidity ratios which are monitored daily and managed to levels well above the regulatory requirement. The three-month average LCR for Investec Bank solo ended the financial year at 133.9% which is well above the current minimum level of 90% required. The NSFR has become a regulatory requirement as of January 2018. The NSFR for Investec Bank Solo amounted to 108.4% as of 31 March 2018, comfortably above the 100% regulatory minimum. We are confident of our ability to meet and exceed both of these ratios whilst continuing to meet planned asset growth targets.

We foresee a period of improved market sentiment in the 2018/19 financial year. We are well positioned to take advantage of a positive political and investment climate which will likely drive asset growth in our geography. We have worked hard to build a robust retail and wholesale funding structure which is well diversified and sufficiently malleable to meet potential challenges which may test our view over the course of the new financial year.

Non-trading interest rate risk

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 of adverse movements in interest rates on both net interest earnings and economic value of equity.

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 earnings and the economic value of equity.

Measurement and management of non-trading interest rate risk

Non-trading interest rate risk is an inherent consequence of conducting banking activities, and arises from the provision of retail and wholesale (non-trading) banking products and services. The group considers the management of banking margin of vital importance, and our non-trading interest rate risk philosophy is reflected in our 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 simple representation of the balance sheet, with the sensitivity of fair values and earnings to changes to interest rates calculated off the repricing gap. This also allows for the detection of interest rate risk concentration in specific 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 macroeconomic 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 Treasury of each geographic entity and is subject to local independent risk and ALCO review. Treasury mitigates any residual undesirable risk where possible, by changing the duration of the banking group's discretionary liquid asset portfolio, or through derivative transactions. The Treasury mandate allows for a tactical response to market volatility which may arise during changing interest rate cycles, in order to hedge residual exposures. Any resultant interest rate position is managed under the market risk limits. Balance sheet risk management independently monitors a broad range of 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.

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

The group complies with the BCBS108 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 BCBS368 principles which come into effect in 2020.

Interest rate sensitivity gap

The table below shows our non-trading interest rate mismatch at 31 March 2018. 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	16 875	–	159	–	–	8 240	25 274
Cash and short-term funds – non-banks	9 785	–	–	–	–	208	9 993
Investment/trading assets and statutory liquids	33 289	27 818	16 566	6 258	5 959	14 003	103 893
Securitised assets	7 071	–	–	–	–	–	7 071
Advances	221 058	4 791	1 745	15 217	2 302	2 626	247 739
Other assets	–	–	–	–	–	8 205	8 205
Assets	**287 078**	**32 609**	**18 470**	**21 475**	**8 261**	**33 282**	**402 175**
Deposits – banks	(24 242)	(355)	–	(10)	–	–	(24 607)
Deposits – non-banks	(269 594)	(16 383)	(23 583)	(9 163)	(2 180)	(924)	(321 827)
Negotiable paper	(2 531)	(321)	(518)	(103)	–	–	(3 473)
Securitised liabilities	(1 551)	–	–	–	–	–	(1 551)
Investment/trading liabilities	(1 752)	–	–	(197)	(686)	(824)	(3 459)
Subordinated liabilities	(10 464)	(1 943)	–	(441)	–	(526)	(13 374)
Other liabilities	–	–	–	(57)	(27)	(6 304)	(6 388)
Liabilities	**(310 134)**	**(19 002)**	**(24 101)**	**(9 971)**	**(2 893)**	**(8 578)**	**(374 679)**
Intercompany loans	19 026	(602)	(3 378)	(2 768)	(177)	235	12 336
Total equity	–	–	–	–	(1 544)	(36 871)	(38 415)
Balance sheet	**(3 030)**	**13 005**	**(9 009)**	**8 736**	**3 647**	**(11 844)**	**1 417**
Off-balance sheet	(1 643)	53	9 590	(5 866)	(3 551)	–	(1 417)
Repricing gap	**(4 673)**	**13 058**	**581**	**2 870**	**96**	**(11 932)**	**–**
Cumulative repricing gap	(4 673)	8 385	8 966	11 836	11 932	–	

Economic value sensitivity at 31 March 2018

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	787.9	9.6	2.1	1.1	1.2	(1.8)	**998.3**
200bps up	(525.0)	(9.1)	(2.2)	(1.4)	(0.6)	–	**(728.2)**

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. This disclosure Template LIQ1 is in accordance with Pillar III of the Basel III liquidity accord, as specified by BCBS d400 (2017) and Directive D1/2018.

The values in the table are calculated as the simple average of the 90 calendar daily values over the period 1 January 2018 to 31 March 2018 for Investec Bank Limited (IBL) bank solo. Investec Bank Limited consolidated group values use daily values for IBL bank solo, while those for other group entities use the average of January, February and March 2018 month-end values.

The minimum LCR requirement is 90% for 2018, increasing by 10% each year to 100% on 1 January 2019. This applies to both IBL bank solo and IBL consolidated group.

The Bank of Mauritius requires banks to comply with a combined-currency LCR minimum of 70% from 1 January 2018.

Investec Bank Limited (IBL) 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 both the level and the volatility 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.

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 South African Prudential Authority repo.
- On average, level 2 assets contributed 4% of total HQLA. As of 1 December 2017, we no longer make use of the South African Prudential Authority's committed liquidity facility (CLF).
- Some foreign denominated government securities are included in the HQLA, subject to regulatory limitations.

Changes since December 2017 quarter-end:

The average LCR increased slightly, by 1.5%, and remains fully compliant with regulatory requirements, and within the target range as set by the Board.

Investec Bank Limited consolidated group

Only banking and/or deposit-taking entities are included and the group data represents an aggregation of the relevant individual net cash outflows and the individual HQLA portfolios. 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. The consolidated group LCR is almost on a par with IBL solo's, with the increase being due to IBM adopting the standard in the jurisdiction.

R'million	Investec Bank Limited Bank Solo – Total weighted value	Investec Bank Limited Consolidated group – Total weighted value
High quality liquid assets (HQLA)	79 327	80 106
Net cash outflows	59 272	60 179
Actual LCR (%)	**133.9**	**133.2**
Required LCR (%)	90.0	90.0

Net Stable Funding Ratio (NSFR)

The objective of the Net Stable Funding Ratio (NSFR) is to promote the resilience in the banking sector by requiring banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities on an ongoing structural basis. By ensuring that banks do not embark on excessive maturity transformation that is not sustainable, the NSFR is intended to reduce the likelihood that disruptions to a bank's funding sources would erode its liquidity position, increasing its risk of failure and potentially lead to broader systemic risk.

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 NSFR disclosure requirements. This disclosure Template LIQ2 is in accordance with Pillar III of the Basel III liquidity accord, as specified by Directive 11/2015 and Directive 01/2018.

The values in the table are calculated as at 31 March 2018.

The minimum NSFR requirement is 100%. This applies to both IBL bank solo and Investec Bank Limited consolidated group.

The Bank of Mauritius does not currently require banks to comply with the NSFR.

Investec Bank Limited Bank (IBL) solo

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

- The customer type and residual maturity of deposits are the key drivers of available stable funding, in particular those from either retail and small business customers or with maturity longer than a year. Capital issued is also a significant contributor.
- The customer type and residual maturity of loans, as well as holdings in securities eligible as HQLA, are the key drivers of available stable funding. Lower weightings apply to mortgages, shorter-term loans to non-financial customers and especially HQLA.

Investec Bank Limited consolidated group

Only banking and/or deposit-taking entities are included and the group data represents a consolidation of the relevant individual assets, liabilities and off-balance sheet items. Our two banks, Investec Bank Limited (IBL) and Investec Bank (Mauritius) Limited (IBM), contributed over 96% of the group's combined available and required stable funding. The consolidated group NSFR is slightly higher than IBL solo's with the contribution of IBM's capital to available stable funding.

R'million	Investec Bank Limited Bank Solo – Total weighted value	Investec Bank Limited Consolidated group – Total weighted value
Available stable funding (ASF)	268 129	281 049
Required stable funding (RSF)	247 436	256 344
Actual NSFR (%)	**108.4**	**109.6**
Required NSFR (%)	100.0	100.0

Operational risk

Operational risk description

Operational risk is defined as the potential or actual impact as a result of failures relating to internal processes, people, systems, or from external events. The impacts can be financial as well as non-financial such as customer detriment, reputational or regulatory consequences.

Operational risk is an inherent risk in the ordinary course of business activity. 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.

The bank's approach to manage operational risk operates in terms of a levels of defence model which reinforces accountability by setting roles and responsibilities for managing operational risk.

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: responsible for challenging the business lines' inputs to, and outputs from, the group's risk management, risk measurement and reporting activities
- Level 3 – Independent review and challenge: responsible for reviewing and testing the application and effectiveness of operational risk management procedures and practices.

Risk appetite

Operational risk appetite is defined as the level of risk exposure that is acceptable to the board in order to achieve its business and strategic objectives. The board is responsible for setting and regularly reviewing risk appetite. 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.

Operational risks are managed in accordance with the level of risk appetite. Any breaches of limits are escalated to the GRCC and the BRCC on a regular basis.

Management and measurement of operational risk

Regulatory capital

The group applies the standardised approach (TSA) for the assessment of regulatory capital.

As part of the 2017 Basel III Reforms, The Basel Committee has announced revisions to the calculations of capital requirements for operational risk. A single standardised approach will replace all existing approaches for the calculation of regulatory capital from January 2022.

The group will continue to work closely with regulators and industry bodies on the implementation of the revisions.

Operational risk management framework and governance

The operational risk management framework is embedded at all levels of the group, supported by the risk culture and enhanced on a continual basis in line with regulatory developments. Included in the framework are policies, practices and processes which facilitate the identification, assessment, mitigation, monitoring and reporting of operational risk.

The bank's operational risk profile is reported on a regular basis to various operational risk forums and governance committees responsible for oversight.

Risk reports are used for ongoing monitoring of the operational risk profile which contributes to sound risk management and decision-making by the board and management.

Operational risk practices consist of the following:

	Risk and control assessments	Internal risk events	External risk events	Key risk indicators	Scenario analysis and capital calculation
Description	Forward-looking qualitative assessments performed on key business processes. These assessments allow business units to identify, manage and monitor operational risks and controls	Internal risk events are analysed to enable business to identify and monitor trends in addition to addressing control weaknesses	An external data service is used to provide operational risk events from other organisations. These events are analysed to enhance our control environment. The external risk events also informs operational risk scenarios	Metrics are used to monitor risk exposures against identified thresholds. The output provides predictive capability in assessing the risk profile of the business	Extreme, but plausible scenarios are assessed to identify and manage significant operational risk exposures. The output of this evaluation provides input to determine internal operational risk capital requirements

Operational risk year in review

The group continued to enhance its operational risk framework in line with regulatory developments and sound practices. Regular interaction with regulators promotes an understanding of regulatory expectations and informs the approach to regulatory developments and requirements. The awareness of sound practice is achieved through interaction with industry counterparts at formal industry forums.

Operational risk events

Overall risk events and losses are managed within appetite. The majority of operational risk events occurred in the process failure risk event category. The value of these events is driven by a few events which are significant in value.

The second largest risk event category was external fraud, mainly driven by credit card fraud. These losses remained within risk appetite despite an increase in credit card fraud across the industry.

Mitigation required to minimise the occurrence of these events remains an area of focus.

Looking forward

Key operational risk considerations for the year ahead

Definition of risk	Management, mitigation approach and priorities for 2018/2019
Business continuity	
Risk associated with disruptive incidents which can impact premises, staff, equipment, systems, and key business processes	• Maintain continuity through appropriate resilience strategies that cater for all disruptions, irrespective of the cause. The strategies include, but are not limited to relocating impacted business to alternate processing sites, the application of high availability technology solutions and ensuring physical solutions for critical infrastructure components • Enhance the group's global resilience capability through a team of dedicated resources and robust governance processes • Incorporate resilience into business operations to lessen the impact of disruptions • Conduct ongoing validation of recovery strategies to ensure they remain effective and appropriate • Participate in regulatory and financial industry resilience activities to collaboratively minimise national systemic continuity risks
Cyber security	
Risk associated with cyber attacks which can interrupt client services or business processes, or result in financial losses	• Maintain a risk-based cyber security strategy to ensure the group is adequately protected against advanced and targeted cyber attacks • Manage an adaptive cyber security architecture, supported by relevant policies and ongoing staff awareness • Continue to expand visibility, coverage, and proactive reporting of cyber controls to ensure they are effective and consistent • Improve and mature evolving cyber security prediction, prevention, detection and response capabilities • Establish secure IT system development and testing practices to ensure they are secure both by design and in operation • Enhance cyber resilience through effective, coordinated security incident response, aligned to disaster recovery and business continuity processes
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	**Anti-Money Laundering (AML), Terrorist Financing and Sanctions** • Enhancement of AML and Sanctions control systems across the group • Policies, procedures and minimum standards are reviewed regularly to ensure they remain relevant, robust and current to prevent and detect AML related activities • Continuous monitoring of adherence to AML policies and legislative requirements • AML awareness remains a key component of the control environment. The awareness is supported by mandatory training for all staff and specialist training for AML roles • Participate at industry bodies to manage legislative requirements through engagements with regulators **Fraud** • Enhance the group's global approach to fraud management through a holistic framework and consistent policies, standards and methodologies • Maintain the Integrity Line to ensure staff is able to report regulatory breaches, allegations of bribery, fraud and corruption, and non-compliance with policies • Proactive monitoring of adherence to fraud prevention policies and embedding of practices which comply with regulations, industry guidance and best practice • Continue to focus on training staff and clients on fraud prevention and detection • Participate in industry working groups to gain an understanding of current trends in order to enhance the control environment

Definition of risk	Management, mitigation approach and priorities for 2018/2019
Information security	
Risk associated with the compromise of information assets which can impact their confidentiality, integrity, or availability	• Identify high-value information assets based on confidentiality and business criticality • Implement strong security controls to protect information against unauthorised access or disclosure from both internal and external threats • Manage role-based access to systems and data in support of least-privilege and segregation of duty principles • Develop mechanisms to monitor for, identify, and guard against data loss • Establish effective security monitoring to proactively identify and swiftly respond to suspicious activity • Align practices and controls to ensure compliance with the rapidly changing legal and regulatory privacy requirements • Safeguard and monitor information flows to enhance visibility and to ensure that data remains accurate, relevant, and protected
Outsourcing and third party	
Risk associated with the reliance on, and use of a service provider to provide services to the group	• Governance structures are in place to approve outsource and third party arrangements • Policies and practices include adequate guidance over the assessment, selection, suitability and oversight of the outsource and third party providers • Continue to strengthen governance processes and relevant policies relating to how we identify, assess, mitigate and manage risks across the range of outsource and third party providers
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 • Address human errors through training and 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 compliance	
Risk associated with identification, implementation and monitoring of compliance with regulations	• Group Compliance and Group Legal assist in the management of regulatory and compliance risk which includes the identification and adherence to legal and regulatory requirements • Align regulatory and compliance approach to reflect new regulatory landscapes particularly the change of regulatory structures • Manage business impact and implementation challenges as a result of significant volumes of statutory and regulatory changes and developments (Refer to the Compliance section page 81) • Monitoring remains focused appropriately as areas of conduct and regulatory risk develop
Technology	
Risk associated with the disruptions to the IT systems which underpin our critical 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 in order to minimise business impact and recurrence • Drive automation and proactive monitoring of the technology environment to reduce human error whilst enhancing efficiency • Implement strategic infrastructure and application roadmaps to improve technology capacity, scalability and resilience • Maintain and test IT recovery capabilities to withstand system failures and safeguard against service disruptions • Establish effective technology and operational monitoring for oversight of the adequacy and effectiveness of IT systems and processes

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 plans are 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 plans for Investec Limited:

- Integrate with existing contingency planning
- Analyse the potential for severe stress in the group
- Identify roles and responsibilities
- Identify early warning indicators and trigger levels
- Analyse how the group could be affected by the stresses under various scenarios
- Include potential recovery actions available to the board and management to respond to the situation, including immediate, intermediate and strategic actions
- Assess 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 South African Prudential Authority 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 South African Prudential Authority has been incorporated into Investec's recovery plan.

The South African Prudential Authority 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 and also arises as a result of other risks manifesting and not being appropriately 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, among other things, 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.

Conduct risk

The South African financial sector regulatory landscape has been under review for the last few years. The new Twin Peaks regulatory structure came into effect on 1 April 2018, with the South African Prudential Authority being dedicated to prudential supervision and the Financial Sector Conduct Authority (FSCA), previously the Financial Services Board, being the dedicated conduct regulator for all financial institutions. Although the conduct of financial institutions is currently regulated under various pieces of legislation, this will change under the new regulatory structure. The resultant strategic and operational impact is expected to last for the next few years.

Capital management and allocation

Regulatory capital – Investec Bank Limited

Current regulatory framework

Investec Limited is regulated by the South African Prudential Authority in South Africa.

Investec Limited calculates capital resources and requirements using the Basel III framework, as implemented in Southern Africa by the South African Prudential Authority in accordance with the Regulations relating to Banks, Gazette No. 35950, 12 December 2012 – (The Regulations), Banks Act, 1990 (Act No. 94 of 1990) – (The Act) and relevant published Banks Act Circulars, Guidance notes and Directives. In view of the implementation of the Basel III framework on 1 January 2013, the South African capital framework was legislated in Banks Act Directive 6 of 2016 that stipulates the various capital Tiers, together with various related elements specified in the Regulations and in the Basel III framework, including the systemic risk capital requirements (Pillar IIA), the bank-specific individual capital requirement (ICR, also known as Pillar IIB), and the phasing in of the related minimum requirements from 2016 up to 2019 and thereafter. The higher loss absorbency (HLA) requirement for domestic systemically important banks (D-SIB) is regarded as an extension of the capital conservation buffer (CCB) of which the first 50%, up to a maximum of 1% of risk weighted exposures (RWE), must be fully met by CET 1 capital. The South African Prudential Authority continuously assess Investec Limited's ICR as part of its Supervisory Review and Evaluation Process (SREP) of which ICR may be based on the levels of economic capital Investec Limited holds to cover risks not regarded as Pillar 1 risks, as observed in the internal capital adequacy and process supervisory review (ICAAP). In terms of the Regulations, Investec Limited is required to maintain an additional discretionary capital buffer above the specified minimum requirements to ensure that the execution of internal business objectives or the occurrence of adverse external environmental factors do not prevent the Group from operating above the relevant minima. In line with Banks Act Circular 6 of 2016, banks in South Africa should not disclose to the public their ICR or D-SIB requirements as these are bank-specific requirements that are based on a combination of various qualitative and quantitative factors that are not directly comparable across banks.

South Africa has not announced any CCyB buffer requirements. The institution specific CCyB requirement is calculated based on private sector non-bank exposures held in BCBS member jurisdictions in which a buffer rate has been set. As at 31 March 2018 Investec Limited is holding an institution specific CCyB of 0.016% of RWE. Investec Limited continues to hold capital in excess of relevant capital minima's and capital buffer requirements.

Investec 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 South African Prudential Authority.

Various subsidiaries of Investec 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 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 above minimum requirements at all times.

Regulatory considerations

Banks Act Directive 5 of 2017 directs South African banks regarding the classification of impairments as either general (GP) or specific (SP) under IFRS 9 during the interim approach, the transitional arrangements of the ECL accounting provisions for regulatory capital purposes, the disclosure requirements relating to such transitional arrangements as well as requirements regarding the auditing of the balances and adjustments that shall be implemented once IFRS 9 becomes effective. Banks that opt for a transition period shall follow a static approach (a once off calculation of the impact) and apply a three year transition period, amortised on a straight-line basis as specified in the Directive. Investec Limited will be applying the IFRS 9 transitional arrangements on regulatory capital from 1April 2018. In addition, the South African Prudential Authority issued Banks Act Guidance note 3 of 2018 that specifies the proposed implementation dates of BCBS regulatory reforms relevant to Banks in South Africa. The Prudential Authority has agreed to preliminary implementation dates for each regulatory reform, based on industry comments, quantitative impact studies, global considerations and implementation complexity. Reforms that will impact Investec Limited in the short- to medium-term include: capital requirements for equity investments in funds, revisions to the securitisation framework, standardised approach for measuring counterparty credit risk and the new large exposures framework. The remainder of the regulatory reforms are likely to be implemented in Southern Africa in line with BCBS timelines on 1 January 2022. Investec Limited continues to assess and monitor the impact of new Regulations and regulatory reforms through participation of industry Quantitative Impact Studies (QIS) submissions to the Prudential Authority and presenting updates and impacts of the reforms to senior executives at the DLC Capital Committee and the Board.

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 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 Limited calculates and reports its leverage ratio based on the latest South African Prudential Authority 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 South African Prudential Authority, 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 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.

Capital planning and stress/ scenario testing

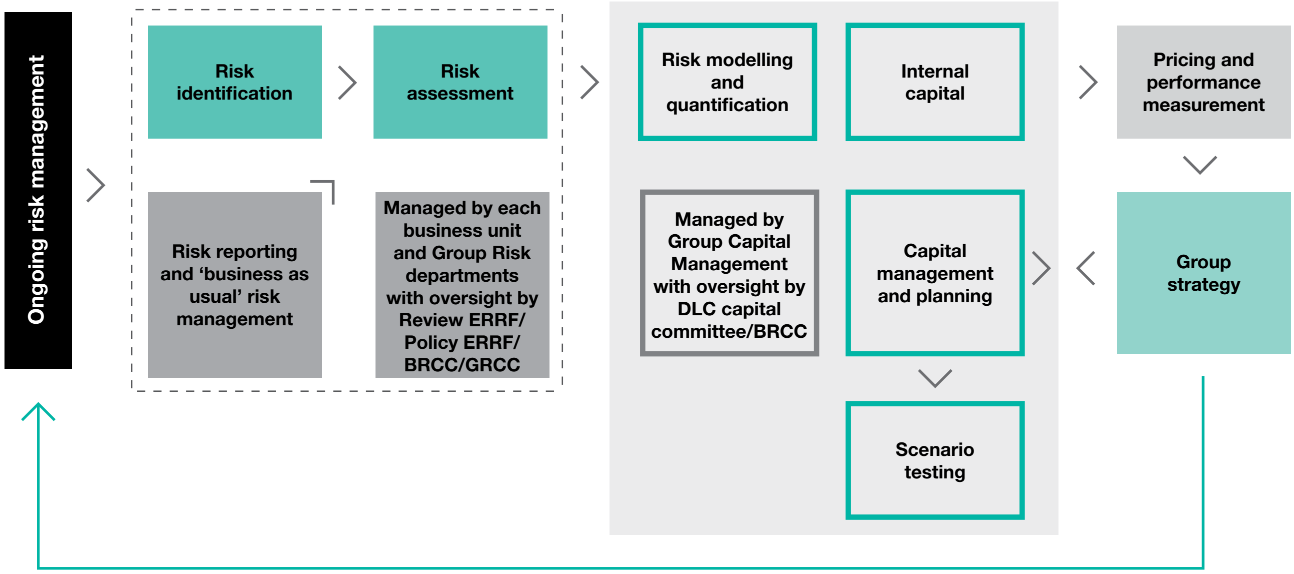
A group capital plan is prepared and maintained to facilitate discussion of the impact of business strategy and market conditions on capital adequacy. This plan is designed to assess capital adequacy under a range of economic and internal conditions over the medium-term (three years), with the impact 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.

Risk management framework

The (simplified) integration of risk and capital management



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.

Pillar 3 disclosure requirements

The Basel III framework is structured around three 'pillars' namely Pillar I minimum capital requirements, Pillar II supervisory review process and Pillar III market discipline. Pillar III aims to complement the other two pillars, by developing a set of disclosure requirements which will allow market participants to gauge the capital adequacy of a firm. The Pillar III disclosures for the 'silo' entity holding companies and its significant banking subsidiaries on a consolidated basis, will be available on the Investec group website.

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 198 to 203.

At 31 March R'million	2018^	2017^
Tier 1 capital		
Shareholders' equity	36 531	33 631
Shareholders' equity per balance sheet	38 065	35 165
Perpetual preference share capital and share premium	(1 534)	(1 534)
Regulatory adjustments to the accounting basis	994	896
Cash flow hedging reserve	994	896
Deductions	(2 696)	(679)
Goodwill and intangible assets net of deferred tax	(583)	(679)
Investment in financial entity	(2 113)	–
Common equity tier 1 capital	**34 829**	**33 848**
Additional tier 1 capital before deductions	**963**	**767**
Additional tier 1 instruments	1 884	1 534
Phase out of non-qualifying additional tier 1 instruments	(921)	(767)
Tier 1 capital	**35 792**	**34 615**
Tier 2 capital	**14 009**	**13 501**
Collective impairment allowances	635	321
Tier 2 instruments	13 374	13 180
Total regulatory capital	**49 801**	**48 116**
Risk-weighted assets	**320 607**	**313 010**
Capital ratios		
Common equity tier 1 ratio	10.9%	10.8%
Tier 1 ratio	11.2%	11.1%
Total capital adequacy ratio	15.5%	15.4%

^ *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 (31 March 2017: 13bps lower).*

Capital management and allocation *(continued)*

Capital requirements

At 31 March R'million	2018	2017
Capital requirements	**35 668**	**33 649**
Credit risk	28 870	25 529
Equity risk	2 521	4 730
Counterparty credit risk	655	574
Credit valuation adjustment risk	697	199
Market risk	502	413
Operational risk – standardised approach	2 423	2 204

Risk-weighted assets

At 31 March R'million	2018	2017
Risk-weighted assets	**320 607**	**313 010**
Credit risk	259 494	237 474
Equity risk	22 663	44 007
Counterparty credit risk	5 887	5 335
Credit valuation adjustment risk	6 269	1 848
Market risk	4 515	3 847
Operational risk – standardised approach	21 779	20 499

Leverage ratios

At 31 March R'million	2018^	2017^
Exposure measure	**466 846**	**457 030**
Tier 1 capital	35 792	34 615
Leverage ratio – current**	**7.7%#**	**7.6%#**
Tier 1 capital 'fully loaded'	35 179	33 848
Leverage ratio – 'fully loaded'^^**	**7.5%#**	**7.4%#**

** *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 (31 March 2017: 13bps lower).*
^^ *The key difference between the 'reported' basis at 31 March 2018 and the 'fully loaded' basis is primarily relating to capital instruments that previously qualified as regular capital, but do not fully qualify under South African Prudential Authority regulations. These instruments continue to be registered on a reducing basis in the 'reported' figures until 2022.*

Movement in total regulatory capital

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

Total regulatory capital flow statement

At 31 March R'million	2018	2017
Opening common equity tier 1 capital	**33 848**	**31 475**
Dividends	(1 437)	(1 031)
Profit after taxation	4 673	3 229
Movement in other comprehensive income	(336)	1 104
Goodwill and intangible assets (deduction net of related tax liability)	96	16
Investment in financial entity	(2 113)	–
Other, including regulatory adjustments and transitional arrangements	98	(945)
Closing common equity tier 1 capital	**34 829**	**33 848**
Opening additional tier 1 capital	**767**	**920**
New additional tier 1 capital issues	350	–
Other, including regulatory adjustments and transitional arrangements	(154)	(153)
Closing additional tier 1 capital	**963**	**767**
Closing tier 1 capital	**35 792**	**34 615**
Opening tier 2 capital	**13 501**	**10 726**
New tier 2 capital issues	2 273	4 870
Redeemed capital	(2 205)	(2 519)
Collective impairment allowances	314	92
Other, including regulatory adjustments and transitional arrangements	126	332
Closing tier 2 capital	**14 009**	**13 501**
Closing total regulatory capital	**49 801**	**48 116**

A summary of capital adequacy and leverage ratios

As at 31 March	2018^	2017^
Common equity tier 1 (as reported)	10.9%	10.8%
Common equity tier 1 ('fully loaded')^^	10.9%	10.8%
Tier 1 (as reported)	11.2%	11.1%
Total capital adequacy ratio (as reported)	15.5%	15.4%
Leverage ratio* – current	7.7%#	7.6%#
Leverage ratio* – 'fully loaded'^^	7.5%#	7.4%#

\# *Based on revised BIS rules.*

* *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 (31 March 2018: 13bps lower).*

^^ *The key difference between the 'reported' basis at 31 March 2018 and the 'fully loaded' basis is primarily relating to capital instruments that previously qualified as regular capital, but do not fully qualify under South African Prudential Authority regulations. These instruments continue to be registered on a reducing basis in the 'reported' figures until 2022.*

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 12 June 2018 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		Baa3
National		Aa1.za
Short-term ratings		
Foreign currency		P-3
National		P-1(za)
Baseline Credit Assessment (BCA) and adjusted BCA		baa3
S&P		
Long-term ratings		
Foreign currency		BB^
National		za.AA-
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

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.

Regulatory change continues to be a key challenge in the financial sector with global political events adding to its 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, including sustained focus on the EU's strengthened Market Abuse Regime.

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 maintaining 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 developments are ongoing with some of the new regulatory structures expected to become effective from April 2018. Existing legislation continues to be applied in tandem with the review of pending legislation and regulatory requirements.

Conduct risk and consumer protection

The Financial Sector Regulation Act (FSRA), which introduces the Twin Peaks regulatory framework was signed into law in August 2017. The consequential amendments contained in the FSRA, become effective in staggered phases during 2018. Draft Regulations to the FSRA were published for public comment in December 2017. The draft Conduct of Financial Institutions Bill (CoFI) is expected to be published for public comment in 2018.

The Financial Advisory and Intermediary Services Act (FAIS) and subordinate legislation is also being amended. In particular, amendments to the Fit and Proper requirements became effective from April 2018. Draft amendments to the FAIS General Code of Conduct were published for comment in November 2017. The amendments to the Insurance Policyholder Protection Rules (PPR) became effective from January 2018. Internal controls established to ensure compliance continue to be implemented.

The Information Regulator established in terms of the Protection of Personal Information Act (PoPIA) has gazetted its draft Regulations in terms of PoPIA. Comments on the Regulations have been submitted. The draft Regulations was tabled at Parliament in the first quarter of 2018, and the anticipated date for publication of the final Regulations is the second quarter of 2018. Once the final Regulations are published in the Government Gazette and the Information Regulator is fully operational, the remaining sections of PoPIA will become effective.

The General Data Protection Regulation (GDPR) applies to organisations in the European Union (EU). The GDPR will also apply to organisations located outside the EU in the context of selling goods or services to or monitoring the behaviour of individuals residing in the EU. Investec Limited will be impacted to the extent that it processes personal data belonging to individuals who reside in the EU. There is an ongoing effort to meet our obligations in terms of data protection and information management.

Financial crime

Financial crime continues to be a regulatory focus for 2018 and beyond. The South African Treasury Department in conjunction with the Financial Intelligence Centre promulgated the FIC amendment Act during May 2017 with a phased implementation period from 2 October 2017 to the 30 April 2019. Strict adherence to the set timeframes has been called for in preparation for the 2019 Financial Action Task Force's (FATF) Mutual evaluation. The South African Treasury Department remains under pressure to ensure that country deficiencies identified during the 2014 FATF country visit are corrected through implementation of the new legislative provisions. Meeting these key requirements will ensure continuation of South Africa's status as a FATF member country, dedicating efforts to combat money laundering and terrorist financing in its financial system.

These amendments require substantial changes in the Anti-Money Laundering and Combatting of Financing of Terrorism (AML CFT) regulatory framework with a key focus for Accountable Institutions to define their risk management and control programmes (RMCP). The RMCP requires Investec to understand and articulate its enterprise-wide risk-based approach, allowing the institution to determine its own risk appetite and tolerance levels 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, removal of all exemptions previously applied to reduce documentary requirements for certain classes of clients posing a lesser degree of risk 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 2019. This date has been postponed from June 2018 due to the National Payment industry initiative aimed at modernising the South African payment systems to support required changes. These changes will align both FATF global standards to country specific requirements which are a key focus areas for South Africa during 2018/19.

Tax reporting (FATCA/CRS)

From an Investec Limited perspective, in relation to FATCA 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 fourth annual FATCA reports.

The CRS became effective in South Africa on 1 March 2016. South Africa 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 102 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 second annual CRS report.

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

Former chairman's introduction

I would like to present the annual corporate governance report for the year ended 31 March 2018, which describes our approach to corporate governance. This is my final report as chairman of the Investec Bank Limited board, having taken on a new role as an executive.

This change was premised on Investec Bank Limited's commitment and ongoing focus on succession planning, both at an executive and non-executive level. Khumo Shuenyane has taken over as chairman of the Investec Bank Limited board. He is a long-standing independent non-executive director of the Investec plc and Investec Limited boards and therefore has a firm understanding of our values and overall strategy. He will ensure that Investec Bank Limited remains firm in the execution of its mandate and its delivery to key stakeholders.

Investec Bank Limited is a major subsidiary of Investec Limited and, due to the dual listed company (DLC) operational structure, compliance with many of the specific corporate governance requirements is at the group DLC level. Stakeholders are encouraged to read the Investec group corporate governance report, which provides a more detailed review and reports of the various board committees' chairmen. Additionally, this report outlines the duties and roles of the said committees and the manner in which the regulatory and statutory duties are discharged.

Before going into the details of our governance, I would like to reflect on the board's achievements, the challenges encountered and key focus areas over the past year.

The past year in focus

Investec Bank Limited's commitment to deliver on its strategic objectives, amidst several changes that negatively impacted the economy, remained solid. Notwithstanding the persistent macro uncertainty, the South African political climate and weak economic conditions, Investec's client-centred approach and entrepreneurial spirit have continued to anchor the business over the past year. The board and management's strategy for the bank remains balanced in terms of managing the risks presented in these uncertain times, positioning for future opportunities as they arise, as well as recognising opportunities within the risk framework.

Management succession

The board, working closely with the nominations and director affairs committee (nomdac), continues to drive and monitor succession planning. The board seeks to embark on a structured and orderly change and will therefore proceed with its work to review the succession at board level following the successful implementation of the changes at group level, the details of which can be found on page 122 of the DLC report. In considering succession, the board is cognisant of diversity within the bank and therefore will continue to consider this issue whenever any recommendations are made for the board.

Diversity

At Investec, we are committed to attracting, developing and retaining a diverse team of talented people. A diverse workforce is vital to our ability to be an innovative organisation that is able to adapt and prosper in a fast changing world. Our recruitment strategies prioritise previously disadvantaged, female and disabled candidates where possible. We have various processes to encourage debate and dialogue around promoting diversity and we are focused on improving our position in this regard.

Having a diverse board and workplace is and remains important to the group bringing as it does the clear benefits of distinct and different outlooks, alternative viewpoints, and challenging mindsets.

Strategic initiatives

The board remains focused on pursuing the bank's strategic goals and objectives. In this regard, over the past year, we:

- remained responsive to the needs of our clients
- established Investec Specialist Investments to raise external money
- focused on improving the bank's return on equity (ROE)
- partnered with employees to address all aspects of transformation in South Africa
- focused on building our talent pool
- grew market share in our niche businesses
- managed our liquidity ratios with an emphasis on retail funding initiatives
- invested in our technology platforms, including digitalisation of products and services.

Board effectiveness

The board continues to be committed to regularly reviewing its own effectiveness and that of its committees. 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 that an independent external facilitator conducted the 2015 effectiveness review, this year the board effectiveness review was internally facilitated and was carried out in November 2017. The responses showed that the board is satisfied with the various aspects of board and committee governance and functioning. Following on from the leadership succession, the board will continue with its work on reviewing board composition, board refreshment, and ensuring that the board is sufficiently diverse.

Governance

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

- ethical culture
- good performance
- effective control
- legitimacy

The board and management of Investec Bank Limited are in full support of, and are committed to complying with the applicable regulatory requirements and King IV.

A summary of our King IV application, demonstrating how we apply good governance, is set out on pages 94 to 97 below.

Conclusion

We wish to express gratitude to the outgoing leaders, Stephen Koseff, Bernard Kantor and Glynn Burger for their commitment, service and dedication to the bank.

We are certain that the new chairman will continue to steer this bank to achieving its strategic objectives, while ensuring good governance and entrenching our culture.

We would also like to take this opportunity to thank Sam Abrahams, who will not seek re-election at the annual general meeting in August 2018 and Bradley Tapnack who resigned from the board, for their dedication and commitment to Investec.

The newly appointed chairman will provide an overview of the future outlook for the bank.

Fani Titi
Former chairman
12 June 2018

Chairman's introduction

Dear Shareholder

As the newly appointed chairman I present below an overview of the key focus of the bank in the year ahead.

The year ahead

Having implemented the King IV governance principles during the course of the past year, the year ahead will see these principles being embedded in our daily engagements and business practices. Our focus for the year to 31 March 2019 will be to remain committed to the needs of our clients and our target market and to leverage our international capabilities for corporate and private clients.

Our mid-market client strategy will be a priority for the coming months as we continue to leverage off our existing platforms. Focus on improving the ROE also remains a key priority for the board.

Another focus area following on from the leadership succession will be to enhance and further bolster our independent governance framework as is evident in the separation of the roles of chairmen of Investec Bank Limited and Investec Limited and Investec plc.

We remain committed to ensuring compliance with relevant legislative and regulatory requirements and are geared to adapt rapidly and proactively to the ever-changing legislative environment. Investec Bank Limited's approach to changes in legislation is tightly managed and actively monitored through the various legal, compliance and audit forums within the organisation.

The recent changes in the political landscape have been well received and viewed as positive change in the country. The signals have been encouraging for the economy.

The bank's strategy involves robust and in-depth management of capital and lending practices to ensure sustainability and tenacity of the business.

Investec Bank Limited's commitment to transformation remains firm. Investec's employment equity plan, which is being monitored by the transformation and social and ethics committees, is intended to address key transformation issues within the organisation.

One of the key projects undertaken by the bank was our involvement in the Youth Employment Service (YES) programme, launched by President Cyril Ramaphosa. The initiative, which is a joint effort by government and businesses, aims to offer one million young people between the ages of 18 and 34, paid work experience over the next three years. We are proud to form part of this nation-building project, which will see the youth working in various businesses, including Investec.

Conclusion

On behalf of the board, I would like to thank Fani Titi for leading and guiding the board over the past seven years. I look forward to our continued engagement on issues impacting the group.

Over the following pages, you will find more detail on Investec Bank Limited's governance framework, including who the board and management are, how they make decisions and what they have done over the past year in terms of their leadership, strategic direction, and oversight of the organisation. We trust that this report, together with the 2018 integrated report and financial statements, will provide you with an overview of how the bank is managed and how stakeholder interests are protected.

Khumo Shuenyane
Chairman

12 June 2018

Within this report you will find:

Who we are

What we did

Who we are

Governance framework

Investec Bank Limited is a wholly owned subsidiary of Investec Limited. Investec operates under a DLC structure and considers the corporate governance principles and regulations of both the UK and South Africa before adopting the appropriate standard for the group, which also complies with requirements in both jurisdictions.

From a legal perspective, the DLC is comprised of:

- Investec plc – a public company incorporated in the UK and listed on the London Stock Exchange with a secondary listing on the Johannesburg Stock Exchange; and
- Investec Limited – a public company incorporated in South Africa and listed on the Johannesburg Stock Exchange (JSE), with secondary listings on the Namibia Stock Exchange and the Botswana Stock Exchange.

Management and board succession

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

Further to the Investec group succession changes announced on 6 February 2018, Fani Titi stood down as chairman of the board with effect from 15 May 2018 and Khumo Shuenyane was appointed as chairman of the board with effect from 15 May 2018.

Board roles

The key governance roles and responsibilities of the board are outlined below:

Chairman	Chief executive officer	Group risk and finance director	Investec Bank Limited chief financial officer
Fani Titi / Khumo Shuenyane with effect from 15 May 2018	*Richard Wainwright*	*Glynn Burger*	*Nishlan Samujh*
• Responsible for setting the board agenda, ensuring that there is sufficient time available for discussion of all items • Encourage open and honest dialogue between all board directors • Lead and manage the dynamics of the board, providing direction and focus • Ensure that the board sets the strategy of the bank and assists in monitoring progress towards achieving the strategy • Perform director evaluations • Serve as the primary interface with regulators and other stakeholders on behalf of the board	• Lead and manage the bank within the authorities delegated by the board • Execution of the bank's strategy • Ensuring the bank's unique culture is embedded and perpetuated • Development and growth of all the bank's businesses	• Ensure that the bank's risk management processes are effective	• Lead and manages the bank's finance function • Provide the board with updates on the bank's financial performance, management reporting, regulatory reporting, central creditors and finance IT
Non-executive directors	**Group executive directors**	**Company secretary**	
Zarina Bassa David Friedland* Sam Abrahams* Peter Thomas* David Lawrence *(Independent)*	*Bernard Kantor Stephen Koseff Glynn Burger Bradley Tapnack** **Bradley Tapnack resigned from the board on 15 May 2018*	*Niki van Wyk*	
• Bring unique perspectives to the boardroom to facilitate constructive dialogue on proposals • Constructively challenge and contribute to assist in developing the group's strategy • Monitor the performance of management against their agreed strategic goals • Address any concerns or questions from shareholders and non-executive directors • Ensures the effectiveness of internal controls and the integrity of financial reporting • Benefit the bank's and board's effectiveness through outside contacts and opinions • Succession planning • Risk management oversight	• Ensure a clear division of responsibility to ensure a balance of power • Constructively challenge and contribute to assist in developing the bank's strategy • Ensure that the board has more than one point of direct interaction with management	• Maintain the flow of information to the board and its committees and ensure compliance with board procedures • Minute all board and committee meetings to record the deliberations and decisions taken therein • Ensure that the board complies with relevant legislation and regulation, including JSE Listings Requirements • Maintaining the company's statutory registers • Ensure good corporate governance is implemented and advise the chairman and board in that regard.	

Director biographies as at 31 March 2018

Biographies of our directors are outlined below, including their relevant skills and experience, other principal appointments and any appointments to Investec's DLC committees for the year under review:

Samuel E Abrahams, independent non-executive director

Age: 79

Qualifications: *FCA CA(SA)*

Relevant skills and experience

Sam commenced his accounting career as an Articled Clerk as Wolperty and Abrahams in Durban in 1956, where he thereafter served as partner, and subsequently Country Manager Partner, of the successors in the practice, Arthur Andersen & Co until 1996, when he retired. His second career comprised several appointments to listed companies both in South Africa and in the UK. These included Investec plc and Investec Limited until his retirement from those groups in 2012. He served as chairman of the audit committee of most of the companies in which he acted as non-executive director

Other principal appointments

The Foschini Group Limited, Victor Daitz Foundation and Investec Securities Proprietary Limited

Committees

DLC board risk and capital, DLC large exposures (chairman), group risk and capital, Investec Wealth & Investment audit, Investec Limited combined share scheme and Specialist bank sub-audit

Date of appointment

1 July 1997

Zarina BM Bassa, independent non-executive director

Age: 54

Qualifications: *BAcc, DipAcc, CA(SA)*

Relevant skills and experience

Zarina is a former partner of Ernst & Young Inc. She joined the Absa Group in 2002 and was an executive director and a member of the group's executive committee, with accountability for private banking. She has previously chaired the South African Public Accountants' and Auditors' Board and the South African Auditing Standards Board, has been a member of the JSE GAAP Monitoring Panel and the Financial Service Board. Zarina has previously served as a non-executive director of Kumba Iron Ore Limited and Sun International Limited amongst others

Other principal appointments

The Financial Services Board, Oceana Group Limited, Yebo Yethu Limited, Vodacom Proprietary Limited and Woolworths Holdings Limited, Investec plc, Investec Limited and various Investec subsidiaries including Investec Bank Limited, Investec Bank plc, Investec Life Limited

Zarina has been appointed as the senior independent director (SID) of Investec plc and Investec Limited effective from 1 April 2018

Committees

DLC audit (chairman), Investec plc audit (chairman), Investec Limited and Investec Bank Limited audit (chairman), Investec Bank plc audit, DLC remuneration, DLC nominations and directors affairs and DLC board risk and capital

Date of appointment

1 November 2014

Glynn R Burger, group risk and finance director

Age: 61

Qualifications: BAcc, CA(SA), HDip BDP, MBL

Relevant skills and experience

Glynn joined Investec in 1980. His positions within Investec have included chief accounting officer, group risk manager and joint managing director for South Africa

Other principal appointments

Investec plc, Investec Limited and a number of Investec subsidiaries

Committees

DLC board risk and capital and DLC capital

Date of appointment

30 June 1990

Corporate governance

(continued)

David Friedland, independent non-executive director

Age: 65

Qualifications: *BCom, CA(SA)*

Relevant skills and experience

David is a former partner of both Arthur Andersen and KPMG Inc. where he also served as head of audit and risk in the KPMG Inc., Cape Town office before leaving in March 2013

Other principal appointments

Investec plc, Investec Limited, Investec Bank plc, the Foschini Group Limited, Pick n Pay Stores Limited and Pres Les Proprietary Limited

Committees

DLC board risk and capital (chairman), DLC capital and DLC nominations and directors' affairs

Date of appointment

1 March 2013

Bernard Kantor, group managing director

Age: 68

Qualifications: CTA

Relevant skills and experience

Bernard joined Investec in 1980. He has had varied experience within Investec as a manager of the trading division, marketing manager and chief operating officer

Other principal appointments

Investec plc, Investec Limited, Phumelela Gaming and Leisure Limited (chairman), Investec Bank plc, a number of Investec subsidiaries and IEP Group Proprietary Limited

Committees

DLC board risk and capital, DLC social and ethics and DLC capital

Date of appointment

30 June 1990

Stephen Koseff, group chief executive officer

Age: 66

Qualifications: *BCom, CA(SA), HDip BDP, MBA*

Relevant skills and experience

Stephen joined Investec in 1980. He has diverse experience within Investec as chief accounting officer and general manager of banking, treasury and merchant banking

Other principal appointments

Investec plc, Investec Limited, Bid Corporation Limited, (chairman) 2018, Investec Bank plc, a number of Investec subsidiaries and IEP Group Proprietary Limited

Committees

DLC board risk and capital, DLC social and ethics and DLC capital (chairman)

Date of appointment

30 June 1990

David M Lawrence, non-executive director

Age: 67

Qualifications: *BA (Econ) (Hons) MCom*

Relevant skills and experience

David's early career was spent as an Economist at the Chamber of Mines (South Africa), subsequently working for the office of the Economic Advisor to the Prime Minister. He joined CitiBank (South Africa) in 1977 eventually becoming chairman and managing director. In 1987, First National Bank acquired CitiBank's business and it became FirstCorp Merchant Bank where David held the position of managing director. David joined Investec in 1996 as managing director, Corporate and Investment Banking

Other principal appointments

Investec Bank (Mauritius) Limited and a number of outside companies including JSE Limited

Committees

White card holder for DLC board risk and capital, group risk and capital and other Investec committees

Date of appointment

1 July 1997

Nishlan A Samujh, chief financial officer

Age: 44

Qualifications: *BAcc, PGD Acc, HDip (Taxation), PLD, CA(SA)*

Relevant skills and experience

Nishlan has been the chief financial officer of Investec Bank Limited since 2010

He started his career in 1996 at KPMG Inc. where he spent three years, serving his CA(SA) articles. In 1999, he proceeded to join Sasol Chemical Industries for a short period before joining Investec in January 2000.

Date of appointment

10 August 2016

Khumo L Shuenyane, independent non-executive director, chairman effective from 15 May 2018

Age: 47

Qualifications: *BEcon, CA (England and Wales)*

Relevant skills and experience

Khumo serves on the boards of a number of companies in the Investec group. He is also a partner at Delta Partners, an advisory firm headquartered in Dubai focused on the telecoms, technology and digital sectors across emerging markets. Between 2007 and 2013 Khumo served as group chief mergers and acquisitions officer for MTN Group Limited and was a member of its group executive committee. Khumo was previously head of Principal Investments at Investec and was a member of Investec's Corporate Finance division for a total of nine years. Prior to joining Investec in 1998, Khumo worked for Arthur Andersen in Birmingham (UK) and Johannesburg for six years from 1992. He qualified as a member of the Institute of Chartered Accountants in England and Wales in 1995.

Other principal appointments

Investec plc, Investec Limited, Investec Life Limited, Investec Specialist Investments (RF) Limited, Investec Asset Management Holdings Proprietary Limited and Investec Asset Management Limited

Committees

DLC audit, Investec plc audit and Investec Limited and Investec Bank Limited audit and DLC board risk and capital, DLC nominations and directors' affairs

Date of appointment

8 August 2014

Bradley Tapnack*, executive director

Age: 71

Qualifications: *BCom CA(SA)*

Relevant skills and experience

Bradley is the Global Head of Corporate Governance and Compliance for the Investec group

Bradley's career commenced as an article clerk at Price Waterhouse, where he also spent approximately seven years as a partner. He subsequently spent four years as the Group Operations Director of the largest Advertising and Marketing Group in South Africa at that time, Grey Holdings Limited. He joined I. Kuper and Company as a shareholder and director which business was sold to Investec in 1989. Through his career in auditing and within the group he has over 40 years' experience in financial institutions

Other principal appointments

Investec Asset Management Holdings Limited, Investec Life Limited, Investec Assurance Limited and Investec Securities Proprietary Limited

Committees

Specialist bank and centralised services sub-audit, audit and compliance, group investment, group risk and capital, Global ops risk, Investec Wealth & Investment audit, Investec Bank Limited investment, Investec Life Limited audit risk, Investec limited audit and compliance and implementation forum, global review executive risk review forum, executive risk policy review forum, and various Investec committees

Date of appointment

1 July 1997

** Resigned from Investec Limited Bank board on 15 May 2018*

Fani Titi, chairman to 15 May 2018

Age: 56

Qualifications: *BSc (cum laude), BSc Hons (cum laude) in Mathematics, MA in Mathematics, MBA*

Relevant skills and experience

Fani has been a member of the boards of Investec Limited and Investec plc since January 2004 and has been non-executive chairman of Investec Limited and Investec plc from November 2011. He has also been a member of the Investec Bank Limited board from July 2002, and has chaired its board from June 2007. He has been a member of the Investec Bank plc board from August 2011, and its chairman from August 2014. He has served on the board of Investec Asset Management from November 2013. Fani was a founding member of the private investment group Kagiso Trust Investments Limited (now Kagiso Tiso Holdings), and later co-founded and led the public offering of Kagiso Media Limited on the JSE Limited as its CEO. Fani was subsequently the founding executive chairman of the private investment firm the Tiso Group, which subsequently merged with Kagiso Trust Investments to form Kagiso Tiso Holdings. Fani stepped down from the Tiso Group in 2008 to concentrate his time on his duties at the Investec group, while also looking after his private investment portfolio. Fani has over two decades of investment banking experience, and has served on the boards of different investee companies and JSE listed companies

Other principal appointments

Investec plc, Investec Limited, Investec Bank plc, IEP Group Proprietary Limited, Investec Asset Management Holdings Proprietary Limited, Investec Asset Management Limited and a number of Investec subsidiaries

Committees

DLC remuneration*, DLC board risk and capital, DLC nominations and directors' affairs (chairman)** and DLC social and ethics (chairman)**

Date of appointment

3 July 2002

** Resigned from the DLC remuneration committee as at 23 February 2018*

***Resigned as chairman of the DLC nominations and directors' affairs committee and social and ethics committee*

Peter RS Thomas, independent non-executive director

Age: 73

Qualifications: *CA(SA)*

Relevant skills and experience

Peter served as the managing director of The Unisec Group Limited. Peter has broad experience in finance and has been a director of numerous industrial companies. He also has an extensive background in commercial accounting.

Other principal appointments

Investec Bank (Australia) Limited, Investec Bank (Mauritius) Limited, Investec USA Holdings Company, Investec Securities (US) LLC, Boschendal Proprietary Limited (chairman), Boschendal Investment Company Proprietary Limited, JCI Limited and various unlisted companies

Committees

Investec Bank Limited Audit, Investec Bank (Australia) Limited Audit (chairman), Investec Bank (Mauritius) Limited Audit (chairman), Investec USA Holdings Company Audit, Investec Securities (US) LLC Audit, DLC nominations and directors' affairs and DLC social and ethics committee

Date of appointment

1 July 1997

Richard J Wainwright, chief executive officer

Age: 55

Qualifications: *BCom (Honours: Fin Man), CTA, CA(SA)*

Relevant skills and experience

Richard has been the CEO of Investec Bank Limited since 2016

He started his career in 1965 at Price Waterhouse where he spent seven years, with two of those years in the Philadelphia USA office. In 1992, he proceeded to join NDH Bank and stayed for a year. Together with other management members from NDH Bank he commenced Circle Risk Management Limited in 1993 and remained there until 1995 when he joined Investec Bank Limited

Date of appointment

1 February 2016

Corporate governance

(continued)

Board composition

Membership

At the end of the year under review, the board comprised six executive directors and seven non-executive directors. The balance of executive and non-executive directors is such that there is a clear division of responsibility to ensure a balance of power ensuring that no single individual or group can dominate or have unfettered powers of decision-making. The board will continue in its endeavour to strengthen the composition of the board with additional independent non-executive directors.

Sam Abrahams will not seek re-election at the annual general meeting and Fani Titi ceased to be the chairman of the board when he assumed an executive role for the Investec group.

Bradley Tapnack resigned from the board on 15 May 2018.

The names of the directors are set out in the table on page 86.

Independence

The independence of the board is determined in accordance with the requirements of King IV. Based on the guidelines set out in King IV, the board is of the view that non-executive directors are independent of management and focus on promoting the interest of stakeholders.

David Lawrence, previously an executive director of Investec Bank Limited, was appointed as a non-executive director in 2017. Accordingly the board concluded that David could not be considered independent due to his previous role.

Relationships and associations

Prior to joining the board on 1 March 2013, David Friedland was a partner of KPMG Inc. KPMG Inc. along with Ernst & Young Inc., are joint auditors of Investec Limited. The board concluded that, notwithstanding his previous association with KPMG Inc., David retains independence of judgement given he was never Investec Limited's designated auditor or relationship partner and was not involved with its Investec accounts.

Tenure

The board follows a thorough process of assessing independence on an annual basis for each director whose tenure exceeds nine years. All directors are subject to election at the first general meeting following their appointment. 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.

Attendance at credit meetings

David Friedland regularly attends, by invitation, certain credit committees of the group, while Sam Abrahams attends on request.

The board considers their attendance at these committees to be desirable as it affords them the opportunity to develop an understanding of the day-to-day issues facing the business.

Balance of non-executive and executive directors

Non-independent non-executives	1
Independent non-executives including chairman	6
Executives	6

46% of board independent as at 31 March 2018

Non-executive	54%
Executive	46%

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 Investec's policy on obtaining independent advice and, where appropriate, details of the board committees of which the non-executive director will be a member. Investec has 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.

Company secretary

Niki van Wyk is the company secretary of Investec Bank Limited. The company secretary is professionally qualified and has gained experience over a number of years. Her services are evaluated by board members during the annual board evaluation process. She 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 is a board matter.

In compliance with the King IV Code and the JSE Listings Requirements, the board has considered and is satisfied that the company secretary is competent, has the relevant qualifications and experience and maintains an arm's length relationship with the board. In evaluating these qualities, the board has considered the prescribed role and duties pursuant to the requirements codified in the South African Banks Act of 1990, as amended, the South African Companies Act, No 71 of 2008, as amended and the listings and governance requirements as applicable.

In addition, the board confirms that for the period 1 April 2017 to 31 March 2018 the company secretary did not serve as a director on the board nor did she take part in board deliberations and only advised on matters of governance, form or procedure.

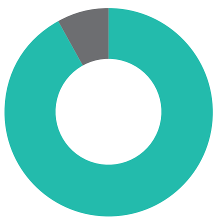
Diversity as at 31 March 2018

Age

40 – 50	15%
51 – 60	23%
61 and above	62%

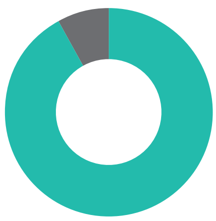
Aspirational target: Per the Hampton-Alexander Review: Our target of 33% female representation by 2020 continues to be a priority.

Geographical mix:



South Africa	92%
UK	8%

Board gender balance:



Male	92%
Female	8%

Tenure

Average tenure:

0 — 3 years	2
3 — 6 years	3
6 — 9 years	0
9 years plus – executive	4
9 years plus – non-executive	4

What we did

Board report

Role

The board seeks to exercise ethical leadership, integrity and effective control 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 that 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 as set out in King IV. As a result of our listed non-redeemable, non-cumulative, non-participating preference shares, we are also committed to comply with the JSE Listings 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 CEO, without abdicating its own responsibilities.

King IV

A gap analysis between King III and King IV was concluded. The board is satisfied that based on the outcome of the gap analysis performed that King IV has complied with.

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 IV principles as per below.

King IV principles	
Leadership, ethics and corporate citizen	
Principle 1 • The governing body should lead ethically and effectively	• The board is the governing body of Investec and committed to the good corporate governance principles as set out in King IV, the South African Companies Act, the JSE Listings Requirements, the South African Banks Act. Investec's values of commitment, integrity and responsibility, guide the behaviour in the fulfilment of daily responsibilities and duties
Principle 2 • The governing body should oversee the ethics of the organisation in a way that supports the establishment of an ethical culture	• The board sets the tone from the top in the manner in which it conducts itself and oversees the governance framework and structures. Investec considers the corporate governance principles and regulations of South Africa prior to adopting the appropriate standard for the group • Investec's code of ethics and business conduct guides the ethical behaviour of Investec employees and directors. The code is published on the Investec intranet, and incorporated by reference in employee contracts, employee induction, and training programmes
Principle 3 • The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen	• The DLC social and ethics committee (SEC) has been tasked with the responsibility for monitoring the overall responsible corporate citizenship performance of Investec • The board approves the strategy and priorities of Investec in accordance with its role of overseeing Investec's conduct as a responsible corporate citizen. The board oversees and monitors how operations and activities of Investec affect its status as a responsible corporate citizen. This is measured against agreed performance targets, which contain both financial and non-financial measures, so that Investec's core purpose and values, strategy and conduct are congruent with it being a responsible corporate citizen
Strategy, performance and reporting	
Principle 4 • The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process	• The board is responsible for setting the strategy of the organisation. Strategy is discussed in depth at the annual board offsite. Senior management and Investec Bank Limited executives present strategies to the board which the board in turn challenges and interrogates • A review of performance against strategic objectives is included in the board pack for each meeting

King IV principles *continued*	
Strategy, performance and reporting	
Principle 5 • The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance and its short-, medium- and long-term prospects	• Investec's integrated annual report is published annually and is available online and in printed form • The board ensures that there are processes in place enabling complete, timely, relevant, accurate, and accessible disclosures to stakeholders and monitors Investec's communication with all stakeholders and disclosures made to ensure transparent and effective communication • The audit committee is tasked with the specific duty of considering whether the integrated annual report taken as a whole was fair, balanced, and comprehensive and provided the information necessary for stakeholders to assess the group's performance. Corporate governance disclosures in terms of South African governance codes, the integrated annual report as well as annual financial statements are published on Investec's website
Governing structures and delegation	
Principle 6 • The governing body should serve as the focal point and custodian of corporate governance in the organisation	• The board sets the tone from the top in the manner in which it conducts itself and oversees the governance framework and structures. The board charter details the board's role, matters specifically reserved for the board, delegation to the CEO, membership requirements, and procedural conduct at board meetings, amongst other things
Principle 7 • The governing body should comprise the appropriate balance of knowledge, skills experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively	• The board, with the assistance of nomdac, considers on an annual basis its composition in terms of balance of knowledge, skills, experience, diversity and independence and whether this enables it to effectively discharge its governance role and responsibilities objectively and effectively. The balance of executive and non-executive directors are such that there is a clear division of responsibility to ensure a balance of power, The board has more than one point of direct interaction with management • Directors are required to submit, in writing, disclosures detailing any actual or potential conflict for consideration
Principle 8 • The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties	• The board has retained specific matters for decision-making by the board, as per the board charter. To achieve its objectives, the board, in terms of defined terms of reference, has delegated certain of its duties and functions to various committees, group forums and the CEO. Membership of the committees are as recommended in King IV
Principle 9 • The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness	• The board continues to be committed to regularly evaluating its own effectiveness and that of its committees. The board undertakes an annual evaluation of its performance and that of its committees and directors, with independent external input into the process every third year • The company secretary's performance is evaluated annually to ensure that there is an arm's length relationship with the board. The board is satisfied that the company secretary and the function that she oversees is performing well

King IV principles *continued*	
Governing structures and delegation *continued*	
Principle 10 • The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities	• The board appoints the CEO who has the necessary powers and mandate to manage the group and conduct the affairs of the group in his discretion and as he deems fit, save for matters specifically reserved for the board, as per the board charter or agreed by the board from time to time, dealt with and provided for in the formally adopted terms of reference of a board committee or other recognised group forum. The CEO is a regular invitee at nomdac. Any professional positions are discussed with the chair and nomdac
Governance functional areas	
Principle 11 • The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives	• Risk management is embedded into day-to-day operations and culture. The Investec DLC BRCC is tasked by the board to ensure that all decisions of the board on risk management policies and procedures are implemented and monitored throughout Investec • Independent risk management, compliance, financial control functions supplemented by internal audit, report independently to the audit committee, ensure the management of risk. Business strategy, risk appetite and effective capital utilisation underpin the economic value added (EVA) annual bonus allocation model
Principle 12 • The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives	• The board delegates responsibility to management and monitors progress through the IT strategy committee, which is a sub-committee of the Investec plc and Investec Limited boards and enables the setting of technology and information direction. The information and technology management charter and the IT governance framework define the structures to govern and manage IT. A set of IT and information risk policies are defined for the group and approved by the IT strategy committee
Principle 13 • The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being an ethical and good corporate citizen	• There were no material or repeated regulatory penalties, sanctions or fines for contraventions of, or non-compliance with, statutory obligations imposed on Investec or the board during the year under review
Principle 14 • The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short-, medium- and long-term	• The DLC remuneration committee (remco) assumes responsibility for the governance of remuneration and sets the direction for how remuneration should be approached. Investec's overarching remuneration philosophy remains focused on employing and retaining the highest calibre individuals through the payment of industry competitive packages and long-term share awards, which ensure alignment with key stakeholders in Investec's business • Refer to page 110.

King IV principles *continued*	
Governance functional areas *continued*	
Principle 15 • The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports	• Attendance from external audit, internal audit compliance and operational risk on the audit committee enables an effective internal control environment to support the integrity of information used for internal decision-making. A combined assurance framework includes both coverage of significant risks and reporting of any issues raised relating to these risks • An internal audit plan is presented annually for approval to the audit committee. The internal audit charter is reviewed every year. This charter defines the role and associated responsibilities and authority of internal audit, including addressing its role within combined assurance and the internal audit standards to be adopted.
Stakeholders' relations	
Principle 16 • In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time	• Investec continually seeks to achieve an appropriate balance between risk and reward in our business, taking cognisance of all stakeholders' interests • The SEC has been tasked by the board to ensure a stakeholder-inclusive approach is followed • The independence of appointed non-executive directors promote the interest of stakeholders. Investec's reward programmes are administered to align directors' and employees' interests with those of all stakeholders and ensure the bank's short-, medium- and long-term success. Our EVA 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. 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

Corporate governance

(continued)

The board

Board activities	
Areas of focus	**What we did**
Strategy	The board: • agreed strategy and monitored the implementation of its strategy • provided constructive challenge to management • monitored progress made with regard to agreed strategic initiatives
Group compliance, risk and corporate governance and audit	The board: • received and reviewed compliance reports in order to confirm that the bank meets all internal and regulatory requirements • reviewed and considered reports as received from BRCC • adopted the bank's Anti-Money Laundering (AML) and Counter Terrorism Financing (CFT) policy • received reports on the bank's operational and technology capability, including specific updates on cyber risk capability and the strategy for technology and infrastructure services • received reports in respect of specific risks monitored within the bank including updates in respect of GDPR, Advanced Internal Rating Based (AIRB), Foundation Internal Rating Based (FIRB) and IFRS 9 • considered and approved capital plans • considered the impact of King IV and the JSE Listings Requirements • approved the Recovery and Resolution Plan for South Africa • approved the risk appetite for the bank • confirmed the independence of directors of Investec Bank Limited • reviewed of the corporate governance structure of the bank • ensured the implementation of King IV • considered auditor independence, appointment and monitoring of audit quality • reviews and has oversight of the provisions for related party transactions
Leadership	The board: • considered regular updates by the various committees including remco, nomdac, the audit committee, SEC and BRCC • ensured that policies and behaviours set at board level are effectively communicated and implemented across the bank
Effectiveness	The board: • considered the process for the 2018 board effectiveness review which took the form of a self-assessment followed by one-on-one meetings between the chairman and directors • amended/added questions to the board effectiveness self-assessment regarding risk and audit, the presentation of projects to the boards, IT and succession planning • noted that the 2018 effectiveness review showed good progress on those issues identified in the independently facilitated 2015 effectiveness review • in light of the outcome of the board effectiveness review, finalised topics for directors' development sessions

Board activities *(continued)*	
Areas of focus	**What we did**
Remuneration	The board: • received a report from the DLC remco chair at each meeting which covered a variety of topics including: – regulatory developments pertaining to remuneration
Relations with stakeholders	The board, in order to ensure satisfactory dialogue with shareholders, and to foster strong and open relationships with regulators, noted and discussed the key areas of feedback from these stakeholders including feedback relating to: • board refreshment and succession • succession planning for the group CEO, group managing director and senior management • regular meetings and open dialogue with regulators • improving returns across the bank's businesses
Corporate citizenship	The board discussed and monitored the various elements of good corporate citizenship including: • the promotion of equality, the prevention of unfair discrimination and the reduction of corruption • consideration of sponsorships, donations and charitable giving • environmental, health and public safety, including the impact of the group's activities and of its products and services • consumer relationships including the bank's advertising, public relations and compliance with consumer protection laws • labour and employment – the bank's standing in terms of the international labour organisation protocol on decent work and working conditions, employment relationships and its contribution towards the educational development of its employees The board: • satisfied itself that the bank's standing and commitment to the various elements of good corporate citizenship remained in place and was actively enforced • promoted the role Investec Bank Limited played in society
Financial results, liquidity and solvency and viability statement	The board: • considered, reviewed and approved the financial results for the year ended March 2018 for Investec Bank Limited • considered, reviewed and approved the financial results • appointed a sub-committee to finalise the announcement of financial results • confirmed that the bank was liquid and that the solvency and liquidity test has been satisfied (i.e. a company satisfies the solvency and liquidity test at a particular time if, considering all reasonably foreseeable financial circumstances at that time: the assets of the company, as fairly valued, equal or exceed the liabilities of the company, as fairly valued; and it appears that the company will be able to pay its debts as they become due in the ordinary course of business for a period of: – 12 months after date on which the test is considered; or – In the case of a dividend, 12 months following the distribution • confirmed that adequate resources existed to support the bank on a going concern basis and accordingly adopted the going concern concept

Corporate governance

(continued)

Board meetings

The board of Investec Bank Limited met seven times during the financial year.

The chairman is responsible for setting the agenda for each meeting, in consultation with the CEO and the company secretary. Comprehensive information packs on matters to be considered by the board are provided to directors in advance.

Composition and meeting attendance

			Investec Bank Limited (seven meetings in the year)	
Members	Independence	Date of appointment	Eligible to attend	Attended
RJ Wainwright (chief executive officer)		1 Feb 2016	7	7
B Kantor (group managing director)		30 Jun 1990	7	7
S Koseff (group chief executive officer)		30 Jun 1990	7	7
GR Burger (group risk and finance director)		30 Jun 1990	7	7
NA Samujh (chief financial officer)		10 Aug 2016	7	7
B Tapnack (Global Head of Corporate Governance and Compliance)*		1 Jul 1997	7	7
Non-executive directors			7	7
F Titi (chairman)**	Yes	3 Jul 2002	7	7
DM Lawrence (deputy chairman)****	No	1 Jul 1997	7	7
SE Abrahams	Yes	1 Jul 1997	7	7
ZBM Bassa	Yes	1 Nov 2014	7	7
D Friedland	Yes	1 Mar 2013	7	7
KL Shuenyane***	Yes	8 Aug 2014	7	7
PRS Thomas	Yes	1 Jul 1997	7	6

* *Bradley Tapnack resigned from the board on 15 May 2018.*
** *Fani Titi resigned as chairman of the board on 15 May 2018.*
*** *Khumo Shuenyane was appointed as chairman of the board on 15 May 2018.*
**** *David Lawrence was previously an executive director of the board. He was appointed as a non-executive director on 23 June 2017.*

Other regular attendees

- Head of risk
- Chief operating officer
- Head of company secretarial and share schemes
- Heads of key business units

Board committees

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 2018 integrated annual report.

Social and ethics committee

In terms of the South African Companies Act, the chairman of the social and ethics committee should report to shareholders on the matters within its mandate. The DLC social and ethics committee performs the necessary functions required on behalf of Investec Bank Limited. For further details on the role of the committee refer to pages 146 to 150 of Investec's 2018 integrated annual report.

Nominations and directors' affairs committee

The DLC nomdac currently acts as the nomdac for the group (including Investec Bank Limited). The nomdac also undertakes the duties of a Directors' Affairs Committee as required by the South African Bank's Act 94 of 1990, as amended. The details of this committee's role can be found on pages 140 to 145 of Investec's 2018 integrated annual report.

Remuneration committee

The DLC remuneration committee currently acts as the remuneration committee for the group (including Investec Bank Limited) and the report from the remuneration committee, explaining the group's policies and processes, as well as required disclosures can be found on page 161.

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.

Board risk and capital committee

The DLC BRCC currently acts as the board risk and capital committee for Investec Bank Limited as per the requirements of the South African Banks Act 94 of 1990, as amended, and in line with other regulatory requirements.

Audit committee

Composition and meeting attendance

Members during the year	Committee member since	IBL (four meetings in the year) Eligible to attend	Attended
ZBM Bassa	1 Nov 2014	4	4
PRS Thomas	13 Feb 1997	4	4
KL Shuenyane	8 Aug 2014	4	4
PA Hourquebie*	14 Aug 2017	2	2
LC Bowden**	1 Jan 2015	2	2

* *Appointed 14 August 2017.*
** *Resigned 16 August 2017.*

Other regular attendees

- Chief executive officer of the group
- Managing director of the group
- Group risk and finance director of the group
- Head of compliance
- Head of IT
- Head of operational risk
- Head of internal audit
- Chief financial officer of the bank
- External auditors
- Head of company secretarial and staff share schemes
- Head of legal
- Head of tax
- Investec Bank Limited chief operations officer (COO)
- Investec Bank Limited chief executive officer (CEO)
- Group head of corporate governance

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 2018 as required by the South African Companies Act 2008, as amended.

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 South African Companies Act, the South African Bank's Act and King IV 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 and 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 bank's internal controls, internal financial and risk management systems
- the statutory audit and bank annual financial statements, the integrated annual report as well as the interim results
- the independence and performance of the external auditors and appropriateness of the statutory auditor's provision of non-audit services
- review of external audit and quality of external audit work performed
- review compliance
- consideration of representations, internal governance process, tenure, changes to management during the period of service and mitigation of attendant risk of familiarity between external auditor and management of the bank.

At each audit committee meeting, the group CEO, group managing director and group risk and finance director provide an in-depth assessment of their current risk-related concerns and the procedures introduced by management to control or mitigate these risks.

Following 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 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.

Separate discussions, without management present are held at least annually between the audit committee, internal and external audit.

The chairman of the audit committee regularly meets with the head of internal audit, compliance, legal, tax, operational and IT risk, credit, risk finance, group head of corporate governance, the COO with the external audit partners and with senior management to gain a better understanding of the Investec bank'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 committee 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, the quality of the audit performed and the independence and objectivity of the external auditors. In line with the conditions set out in section 94(8) of the South African Companies Act, and based on its assessment, using the criteria set out by King IV, the audit committee confirms its satisfaction with the performance and quality of external audit, the external auditors and lead partners.

Auditor appointment

In evaluating and selecting the company's independent registered public accounting firm, the audit committee considers, among other things, historical and recent performance of the current independent audit firm, an analysis of known significant legal or regulatory proceedings related to the firm, external data on audit quality and performance, industry experience, audit fee revenues, firm capabilities and audit approach, and the independence and tenure of the audit firm. KPMG Inc. and Ernst & Young Inc. are the appointed joint 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 2019 financial year. See further information below.

Auditor 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 South African 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.

A specific policy is in place in relation to the type of allowable non-audit services and the quantum of non-audit service fees that will be appropriate in the context (see further information below).

The auditors have confirmed their independence and were requested to review and confirm the level of their staff transactions with Investec, if any, in order to ensure that all auditors on the Investec audit meet the independence criteria.

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 Tracy Middlemiss of KPMG Inc. and Gail Moshoeshoe of Ernst & Young Inc. The audit committee has recommended their reappointment for the 2019 financial year.

Non-audit services

The audit committee has 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 reviews 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.

Total non-audit fees for each of the auditing firms were approved by the audit committee at least quarterly. Ernst & Young non-audit service fees were pre-approved by the chairman of the audit committee in line with Ernst & Young policy.

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 on an ongoing basis formally before each audit committee meeting.

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.

Partner accreditation and audit quality

In terms of the amended JSE Listings Requirements, external audit Partner Accreditation, which was previously done by the Independent Regulatory Board for Auditors (IRBA), is now the responsibility of the audit committee, together with a specific responsibility around audit quality. In this regard separate meetings were held by the audit committee with both Ernst & Young and KPMG. The following was covered:

- transparency reports and reviews by each of the two firms covering their client base, client acceptance and continuance processes, and the approach to clients, if any, that did not meet the client continuance criteria;
- the independence processes of the firm, including partner reward and remuneration criteria;
- interrogation of international and local firm audit quality control processes;
- detailed profiles of all partners and managers on the Investec assignment, including their relevant audit experience, were reviewed;
- each firm was requested to provide details of their respective succession plans to provide the audit committee with assurance as to the partner rotation, transition and continuity process;
- the results of the last firm-wide reviews carried out by regulatory bodies, both IRBA in South Africa as well as international bodies such as the Public Company Accounting Oversight Board (PCAOB);
- the results of the last individual partner quality reviews carried out by the regulator; internal firm-wide quality control reviews carried out in respect of each partner; and
- an audit quality questionnaire was also completed by each member of the audit committee and management, the results of which were that a robust audit is in place.

Regarding the challenges experienced by KPMG Inc. in South Africa, in the context of the SARS report and the resultant external independent investigation by SAICA (Ntsebeza Enquiry), a number of processes were initiated to ensure and confirm audit quality, both actual and perceived:

- separate audit committees and board meetings were held to consider and conclude on the group's approach to these matters;
- a number of meetings were held with KPMG leadership, both KPMG Inc. and KPMG International covering client acceptance and continuance, risk management, talent retention and continuity as well as our expectations of the international firm; and
- notwithstanding that the audit committee has been satisfied with the caliber and capability of the specific team engaged on Investec, KPMG was requested to put additional KPMG International file and technical reviews into place both for the interim and final audits.

The subsequent developments around KPMG and the VBS audit resulted in the audit committee requirement for the abovementioned additional procedures being reconfirmed to KPMG Inc. and KPMG International, together with a request for independence reviews and confirmations in respect of all staff on the Investec engagement. Individual sessions with management, the internal auditors and each of the external auditors were undertaken as part of the year-end audit committee meeting:

- international partners from both Ernst & Young LLP and KPMG International attended the meeting to outline the enhanced and additional cross-reviews that had been undertaken and the results thereof, which had also been considered and reviewed by Ernst & Young Inc, the joint auditors and by Ernst & Young LLP, the DLC auditors;
- confirmations on independence by both firms were received; and
- assurance was received from KPMG Inc. and KPMG International that they were comfortable to sign off on the financial statements.

The committee concluded that it was satisfied that a robust audit process had been in place with deep levels of enhanced cross reviews by KPMG Inc., Ernst & Young Inc., KPMG International and Ernst & Young LLP.

Re-election of auditors

The board and audit committee is recommending the re-election of Ernst & Young Inc. and KPMG Inc. as joint auditors of Investec Bank Limited and Investec Limited at its annual general meeting in August 2018.

Our decision to retain KPMG Inc. as one of our joint auditors in South Africa was not taken lightly. The board is concerned about the failures of KPMG's internal controls and procedures as acknowledged by them. Of greater concern is the significant negative impact this has had on the country's audit profession, individual lives and the South African economy. Investec is a company that is strongly committed to its core values which require Investec employees, clients, suppliers and service providers to uphold the highest standards of ethical behaviour. We expect KPMG International to hold individuals and KPMG Inc. accountable for involvement in the abovementioned events in South Africa.

In making the recommendation for re-election of Investec Bank Limited's auditors, the board and audit committee have taken into consideration the South African Companies Act and the South African Prudential Authority requirements with respect to joint auditors and mandatory firm rotation. In addition, the need to ensure stability within the South African financial system and the audit profession at a time of uncertainty and volatility in the country as a whole is important. The board expects KPMG International to support KPMG Inc. and restore and rebuild confidence in KPMG South Africa.

The board will continue to monitor the situation closely and demand that the quality of work performed by KPMG for the group is of a high standard.

Financial statements, accounting practices and internal financial controls

The audit committee was satisfied that the financial statements for Investec Bank Limited were prepared in accordance with IFRS and in the manner required by the South African 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 2018 financial year.

Combined assurance

The audit committee has satisfied itself that a combined assurance model is applied which incorporates the various risks 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, applies an enquiring mind, forms its 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 cyber security
- business continuity
- implementation of IFRS 9.
- conduct
- audit quality
- auditor independence
- monitoring and closing of audit findings
- related party – processes and disclosures

Internal controls

The audit committee is responsible 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.

Zarina Bassa
Chairman, Investec Bank Limited audit committee

12 June 2018

Related parties

Investec has processes and policies in place to govern the review, approval and disclosure of related party transactions entered into with directors, management and staff. Nomdac reviewed key related party transactions during the year and ensured that the appropriate policies had been complied with.

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; and
- 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 the bank's liquidity and capital position is provided on pages 24 to 72.

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

Risk management

The board is accountable for the total process of risk and opportunity 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 21 to 78.

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. A defined risk strategy with a clear outline of the organisation's risk appetite ensures that while opportunities are seized to foster growth, these are managed within the confines of the risk appetite.

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 bank 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 are 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.

Further disclosures

Refer to Investec's 2018 integrated annual report for more information regarding:

- directors' dealings
- internal audit
- compliance
- regulation and supervision
- values and code of conduct
- corporate responsibility
- IT governance
- information governance
- board committees – including the report prepared by the chairmen of the board committees.

Directorate

Investec Bank Limited

(details as at 12 June 2018)

Khumo L Shuenyane (47)

Non-executive chairman
BEcon, CA (England & Wales)

David M Lawrence (67)

Non-executive deputy chairman
BA (Econ) (Hons), MCom

Samuel E Abrahams (79)

FCA, CA(SA)

Zarina BM Bassa (54)

BAcc, DipAcc, CA(SA)

Glynn R Burger (61)

BAcc, CA(SA), H Dip BDP, MBL

David Friedland (65)

BCom, CA(SA)

Bernard Kantor (68)

CTA

Stephen Koseff (66)

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

Nishlan A Samujh (44)

BAcc, CA(SA), H Dip (Tax)

Peter RS Thomas (72)

CA(SA)

Fani Titi (56)

BSc (Hons), MA, MBA

Richard J Wainwright (55)

Chief executive officer
BCom, CTA, CA(SA)

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. Our reward programmes also recognise potential in our people.

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 2018 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 2018 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) with reference to the middle quartiles of the market levels when compared like for like with peer group companies.

Human Resources 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 human resources to obtain general benchmark information or to benchmark specific positions to ensure that gross remuneration

Remuneration report

(continued)

levels are appropriate when compared against the market 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 the 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 executive 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 19 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 73 to 75.

- 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 the bank's finance function and subject to audit as part of the year-end audit process
- Once the annual audit is complete, line managers in each business unit will make discretionary bonus recommendations for each team member taking into consideration qualitative and quantitative criteria (as mentioned above)
- Bonus recommendations are then subject to an extensive geographic

review involving human resources, local management and local remuneration committees
- Thereafter, these recommendations are subject to a global review by executive management before the remuneration committee'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 after approximately three, four and five years, 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 2018 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 IV Code of Corporate Practice and Conduct, the South African Companies Act 2008, the JSE Limited Listings Requirements, the South African Notice on the Governance and Risk Management Framework for Insurers, 2014, and the South African Prudential Authority (previously known as the Banking Supervision Division of the South African Reserve Bank) Basel Pillar III disclosure requirements.

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 2018 R	Annual bonus 2018[1] R	Total remuneration expense 2018 R	Salaries, directors' fees and other remuneration 2017 R	Annual bonus 2017[1] R	Total remuneration expense 2017 R
Executive directors						
RJ Wainwright (chief executive officer)	4 266 667	24 500 000	28 766 667	3 866 667	24 500 000	28 366 667
S Koseff (group chief executive officer)	2 522 769	6 268 012	8 790 781	2 668 752	6 404 569	9 073 321
B Kantor (group managing director)	2 293 426	6 268 012	8 561 438	2 426 138	6 404 569	8 830 707
GR Burger (group risk and finance director)	2 250 000	15 140 124	17 390 124	2 250 000	15 469 969	17 719 969
NA Samujh (chief financial officer)	2 708 333	12 000 000	14 708 333	2 466 667	12 000 000	14 466 667
B Tapnack[2]	2 375 000	3 300 000	5 675 000	2 225 000	3 300 000	5 525 000
Total in Rands	**16 416 195**	**67 476 148**	**83 892 343**	**15 903 224**	**68 079 107**	**83 982 331**
Non-executive directors						
KL Shuenyane (chairman)[3]	320 000	–	320 000	305 000	–	305 000
DM Lawrence (deputy chairman)[4]	2 685 000	–	2 685 000	1 841 666	3 060 000	4 901 666
SE Abrahams	2 430 167	–	2 430 167	2 694 424	–	2 694 424
ZBM Bassa	320 000	–	320 000	305 000	–	305 000
D Friedland	1 320 000	–	1 320 000	1 305 000	–	1 305 000
PRS Thomas	1 873 600	–	1 873 600	1 873 640	–	1 873 640
F Titi[3]	3 743 049	–	3 743 049	3 915 319	–	3 915 319
Total in Rands	**12 691 816**	**–**	**12 691 816**	**12 240 049**	**3 060 000**	**15 300 049**
Total in Rands	**29 108 011**	**67 476 148**	**96 584 159**	**28 143 273**	**71 139 107**	**99 282 380**

1 *As discussed on page 112 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.*

2 *B Tapnack resigned from the board on 15 May 2018.*

3 *F Titi resigned as chairman of the board on 15 May 2018 and KL Shuenyane was appointed as chairman of the board on 15 May 2018.*

4 *DM Lawrence was previously an executive director of the board, he became a non-executive director on 23 June 2017.*

Directors' shareholdings in Investec plc and Investec Limited shares at 31 March 2018

	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 2018	1 April 2017	31 March 2018	31 March 2018	1 April 2017	31 March 2018
Executive directors						
RJ Wainwright (chief executive officer)	–	–	–	486 065	486 065	0.2%
S Koseff (group chief executive officer)[4]	5 936 212	5 295 775	0.9%	962 841	1 234 399	0.3%
B Kantor (group managing director)[4/5]	1 507 271	1 164 359	0.2%	1 600 500	2 300 500	0.5%
GR Burger (group risk and finance director)[4]	3 208 064	3 488 675	0.5%	327 076	327 076	0.1%
NA Samujh (chief financial officer)	625	625	–	58 115	17 261	–
B Tapnack[6]	20 550	–	–	104 779	–	–
Total number	**10 672 722**	**9 949 434**	**1.6%**	**3 539 376**	**4 365 301**	**1.1%**
Non-executive directors						
KL Shuenyane (chairman)[7]	19 900	19 900	–	–	–	–
DM Lawrence (deputy chairman)[8]	749 410	749 410	0.1%	100 590	100 590	–
SE Abrahams	–	–	–	–	–	–
ZBM Bassa	–	–	–	–	–	–
D Friedland	–	–	–	–	–	–
PRS Thomas	–	–	–	–	–	–
F Titi[7]	–	–	–	–	–	–
Total number	**769 310**	**769 310**	**0.1%**	**100 590**	**100 590**	**–**
Total number	**11 442 032**	**10 718 744**	**1.7%**	**3 639 966**	**4 465 891**	**1.1%**

1 *The issued share capital of Investec plc and Investec Limited at 31 March 2018 was 669.8 million and 310.7 million shares, respectively.*
2 *The market price of an Investec plc share at 31 March 2018 was £5.50 (2017: £5.44), ranging from a low of £4.61 to a high of £6.49 during the financial year.*
3 *The market price of an Investec Limited share as at 31 March 2018 was R92.28 (2017: R91.46), ranging from a low of R85.00 to a high of R105.62 during the financial year.*
4 *The beneficial and non-beneficial holdings of S Koseff, B Kantor and GR Burger, include 170 358 Investec plc shares which relate to the awards to each of the directors of shares in respect of a £1 million fixed allowance on 8 June 2017 (as explained in Investec's 2018 integrated annual report). These shares are, however, subject to a retention period in terms of which 20% of shares will be free from retention restrictions each year over a period of five years.*
5 *Bernard Kantor entered into a zero premium/cost option arrangement and purchased put options over 600 000 Investec Limited ordinary shares at a strike price of R100.00 per share and a call option over 600 000 Investec Limited ordinary shares at a strike price of R120.00 per share. 600 000 Investec Limited ordinary shares have been pledged as security with the writer of those options.*
6 *B Tapnack resigned from the board on 15 May 2018.*
7 *F Titi resigned as chairman of the board on 15 May 2018 and KL Shuenyane was appointed as chairman of the board on 15 May 2018.*
8 *DM Lawrence was previously an executive director of the board, he became a non-executive director on 23 June 2017.*

Directors' interest in preference shares at 31 March 2018

	Investec Bank Limited		Investec Limited		Investec plc	
	31 March 2018	**1 April 2017**	**31 March 2018**	**1 April 2017**	**31 March 2018**	**1 April 2017**
Executive directors						
S Koseff	4 000	4 000	3 000	3 000	12 139	12 139
B Tapnack	2 000	2 000	8 620	8 620	–	–
Non-executive directors						
DM Lawrence	5 116	5 116	12 659	12 659	–	–

- *The market price of an Investec Bank Limited preference share at 31 March 2018 was R71.56 (2017: R82.00).*
- *The market price of an Investec Limited preference share at 31 March 2018 was R67.50 (2017: R75.00).*
- *The market price of an Investec plc preference share at 31 March 2018 was R88.00 (2017: R81.00).*

Directors' interest in options at 31 March 2018

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 2018

Investec Limited shares

Name	Date of grant	Exercise price	Number of Investec Limited shares at 1 April 2017	Exercised during the year	Options granted/ lapsed during the year	Balance at 31 March 2018	Market price at date of exercise	Gross gains made on date of exercise	Period exercisable
B Tapnack	13 June 2013	Nil	50 000	(50 000)	–	**–**	R95.67	R4 783 250	
RJ Wainwright	11 Dec 2012	Nil	37 500	(37 500)	–	**–**	R101.51	R3 806 543	
	4 June 2013	Nil	150 000	(150 000)	–	**–**	R100.96	R15 144 706	
	27 May 2014	Nil	175 000	(131 250)	–	**43 750**	R104.00	R13 650 144	The remaining shares are exercisable on 10 August 2018
	1 June 2015	Nil	125 000	–	–	**125 000**			37.5% is exercisable on 5 February 2019, 37.5% on 5 March 2019 and the remaining 25% is exercisable on 12 August 2019
	2 June 2016	Nil	150 000	–	–	**150 000**			One third of the conditional award is exercisable on 19 February 2019; one third on 5 March 2020 and the final third on 5 March 2021
	8 June 2017	Nil	–	–	125 000	**125 000**			One third of the conditional award is exercisable on 6 February 2020; one third on 6 February 2021 and the final third on 10 March 2022
NA Samujh	11 Dec 2012	Nil	25 000	(25 000)	–	**–**	R103.36	R2 584 000	
	4 June 2013	Nil	75 000	(75 000)	–	**–**	R98.58	R7 393 643	
	27 May 2014	Nil	75 000	(56 250)	–	**18 750**	R98.39	R5 534 156	The remaining shares are exercisable on 10 August 2018

Name	Date of grant	Exercise price	Number of Investec Limited shares at 1 April 2017	Exercised during the year	Options granted/ lapsed during the year	Balance at 31 March 2018	Market price at date of exercise	Gross gains made on date of exercise	Period exercisable
NA Samujh *(continued)*	1 June 2015	Nil	80 000	–	–	**80 000**			37.5% is exercisable on 5 February 2019; 37.5% on 5 March 2019 and the remaining 25% is exercisable on 12 August 2019
	2 June 2016	Nil	100 000	–	–	**100 000**			One third of the conditional award is exercisable on 19 February 2019; one third on 5 March 2020 and the final third on 5 March 2021
	8 June 2017	Nil	–	–	75 000	**75 000**			One third of the conditional award is exercisable on 6 February 2020; one third on 6 February 2021 and the final third on 10 March 2022

These options are not subject to performance conditions.

Directors' interests in the Investec plc Executive Incentive Plan 2013 at 31 March 2018

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

Name	Number of Investec plc shares awarded on 16 Sept 2013	Exercise price	Performance period	Perform-ance conditions met (Y/N)	Additional shares awarded for performance conditions being met	Shares exercised during the year to 31 March 2018	Balance at 31 March 2018	Period exercisable	Retention period
S Koseff	600 000	Nil	1 April 2013 to 31 March 2016	Yes	204 617	603 462	**201 155**	75% was exercisable on 16 September 2017; and	A further six months after vesting date
								25% is exercisable on 16 September 2018	A further six months after vesting date
B Kantor	600 000	Nil	1 April 2013 to 31 March 2016	Yes	204 617	603 462	**201 155**	75% was exercisable on 16 September 2017; and	A further six months after vesting date
								25% is exercisable on 16 September 2018	A further six months after vesting date
GR Burger	600 000	Nil	1 April 2013 to 31 March 2016	Yes	204 617	603 462	**201 155**	75% was exercisable on 16 September 2017; and	A further six months after vesting date
								25% is exercisable on 16 September 2018	A further six months after vesting date

The Executive Incentive Plan 2013 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. These awards formed part of their variable remuneration in respect of the financial year ending 31 March 2013.

Remuneration report

(continued)

Directors' interests in the Investec plc Executive Incentive Plan 2013 at 31 March 2018 *(continued)*

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 2017	Conditional awards made during the year	Balance at 31 March 2018	Performance period	Period exercisable	Retention period	Treatment on termination of employment
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	Will be pro-rated based on service over the performance period, relative to the performance period of the award
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	Will be pro-rated based on service over the performance period, relative to the performance period of the award
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	Will be pro-rated based on service over the performance period, relative to the performance period of the award

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 2018 integrated annual report. These awards have not yet vested. Vesting starts at 0% for threshold performance. The face value at grant for these awards was equivalent to 100% of fixed remuneration, and 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.

Directors' interests in the Investec plc Executive Incentive Plan 2013 at 31 March 2018 *(continued)*

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	Balance at 31 March 2018	Performance period	Period exercisable	Retention period	Treatment on termination of employment
S Koseff	8 June 2017	Nil	–	252 130	**252 130**	1 April 2017 to 31 March 2020	20% 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	Will be pro-rated based on service over the performance period, relative to the performance period of the award, and accordingly one third will be forfeited
B Kantor	8 June 2017	Nil	–	252 130	**252 130**	1 April 2017 to 31 March 2020	20% 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	Will be pro-rated based on service over the performance period, relative to the performance period of the award, and accordingly one third will be forfeited
GR Burger	8 June 2017	Nil	–	277 651	**277 651**	1 April 2017 to 31 March 2020	20% 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	Will be pro-rated based on service over the performance period, relative to the performance period of the award, and accordingly one third will be forfeited

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 2018 integrated annual report. These awards have not yet vested. Vesting starts at 0% for threshold performance. The face value at grant for these awards was equivalent to 100% of fixed remuneration, and 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.

Directors' interests in the Investec plc Executive Incentive Plan 2013 at 31 March 2018 *(continued)*

Long-term share awards granted in respect of the 2018 financial year

Name	Date of grant	Exercise price	Number of Investec plc shares at 1 April 2017	Conditional awards made during the year	Balance at 31 March 2018	Performance period	Period exercisable	Retention period	Treatment on termination of employment
S Koseff	31 May 2018	Nil	–	264 759	**264 759**	1 April 2018 to 31 March 2021	20% is exercisable on 31 May each year, commencing on 31 May 2021 until 31 May 2025, subject to performance criteria being met	A further six-month retention after vesting date	Will be pro-rated based on service over the performance period, relative to the performance period of the award, and accordingly two thirds will be forfeited
B Kantor	31 May 2018	Nil	–	264 759	**264 759**	1 April 2018 to 31 March 2021	20% is exercisable on 31 May each year, commencing on 31 May 2021 until 31 May 2025, subject to performance criteria being met	A further six-month retention after vesting date	Will be pro-rated based on service over the performance period, relative to the performance period of the award, and accordingly two thirds will be forfeited
GR Burger	31 May 2018	Nil	–	239 066	**239 066**	1 April 2018 to 31 March 2021	20% is exercisable on 31 May each year, commencing 31 May 2021 until 31 May 2025, subject to performance criteria being met	A further six-month retention after vesting date	Will be pro-rated based on service over the performance period, relative to the performance period of the award, and accordingly two thirds will be forfeited

The Executive Incentive Plan and the awards made thereunder were approved at the August 2015 annual general meeting. On 31 May 2018, 264 759 conditional awards were awarded to S Koseff and B Kantor, and 239 066 to GR Burger. These awards formed part of their variable remuneration in respect of the financial year ending 31 March 2018. The performance criteria in respect of these awards are detailed in Investec's 2018 integrated annual report. These awards have not yet vested. Vesting starts at 0% for threshold performance. The face value at grant for these awards was equivalent to 100% of fixed remuneration, and amounted to £1 480 000 for S Koseff and B Kantor, and £1 336 375 for GR Burger based on the share price for Investec plc at the time of grant.

The number of shares in issue and share prices for Investec plc and Investec Limited are provided below:

Summary: Investec plc and Investec Limited share statistics

	31 March 2018	31 March 2017	High over the year	Low over the year
Investec plc share price	£5.50	£5.44	£6.49	£4.61
Investec Limited share price	R92.28	R91.46	R105.62	R85.00
Number of Investec plc shares in issue (million)	669.8	657.1		
Number of Investec Limited shares in issue (million)	310.7	301.2		

Pillar III remuneration disclosures

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

The bank's qualitative remuneration disclosures are provided on pages 108 to 112.

The information contained in the tables below sets out the bank's quantitative disclosures for the year ended 31 March 2018.

In the tables below senior management are defined as members of our South African general management forum, excluding executive directors. Material risk takers are defined as 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. Furthermore, financial and risk control staff are defined as everyone in central group finance and central group risk as well as employees responsible for Risk and Finance functions within the operating business units.

Aggregate remuneration by remuneration type awarded during the financial year

	Senior management	Material risk takers	Financial and risk control staff	Total
Fixed remuneration (all cash based and no portion is deferred)	50.6	50.8	198.3	299.7
Variable remuneration*	266.1	203.4	187.0	656.5
– Cash	94.1	85.6	101.6	281.3
– Deferred shares	59.7	52.2	10.0	121.9
– Deferred cash	25.2	–	–	25.2
– Deferred shares – long-term incentive awards**	87.1	65.6	75.4	228.1
Total aggregate remuneration and deferred incentives (R'million)	**316.7**	**254.2**	**385.3**	**956.2**
Number of employees	19	21	242	282
Ratio of fixed and variable pay	0.19	0.25	1.1	0.46

* *Total number of employees receiving variable remuneration was 274.*

** *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 vest one third at the end of years three, four and five.*

Additional disclosure on deferred remuneration

R'million	Senior management	Material risk takers	Financial and risk control staff	Total
Deferred unvested remuneration outstanding at the beginning of the year	462.0	424.9	199.9	1 086.8
Deferred unvested remuneration adjustment – employees that are no longer employed by the bank and reclassifications	77.0	(94.5)	118.8	101.3
Deferred remuneration awarded in year	172.0	117.8	85.4	375.2
Deferred remuneration reduced in year through performance adjustments	–	–	–	–
Deferred remuneration reduced in year through malus adjustments	–	–	–	–
Deferred remuneration vested in year	(200.9)	(123.2)	(117.4)	(441.5)
Deferred unvested remuneration outstanding at the end of the year	**510.1**	**325.0**	**286.7**	**1 121.8**

R'million	Senior management	Material risk takers	Financial and risk control staff	Total
Deferred unvested remuneration outstanding at the end of the year				
– Equity	433.1	325.0	286.7	1 044.8
– Cash	77.0	–	–	77.0
	510.1	**325.0**	**286.7**	**1 121.8**

R'million	Senior management	Material risk takers	Financial and risk control staff	Total
Deferred remuneration vested in year				
– For awards made in 2017 financial year	23.4	14.7	1.5	39.6
– For awards made in 2016 financial year	22.2	15.7	2.7	40.6
– For awards made in 2015 financial year	67.3	45.4	30.6	143.3
– For awards made in 2014 financial year	79.3	43.7	75.2	198.2
– For awards made in 2013 financial year	8.7	3.7	7.4	19.8
	200.9	**123.2**	**117.4**	**441.5**

Other remuneration disclosures: special payments

R'million	Senior management	Material risk takers	Financial and risk control staff	Total
Sign-on payments				
Made during the year (R'million)	–	2.7	–	2.7
Number of beneficiaries	–	1	–	1
Severance payments				
Made during the year (R'million)	3.2	1.9	–	5.1
Number of beneficiaries	1	1	–	2
Guaranteed bonuses				
Made during the year (R'million)	–	2.7	–	2.7
Number of beneficiaries	–	1	–	1

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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 2018, 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 IFRS, South African Institute of Chartered Accounts (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Standards Council, and in the manner required by the South African 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 12 June 2018 and signed on its behalf by:

Fani Titi
Former chairman
12 June 2018

Khumo Shuenyane
Chairman

Richard Wainwright
Chief executive officer

Declaration by the company secretary

In terms of section 88(2)(e) of the South African Companies 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 2018, 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
12 June 2018

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 2018.

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 dividends were declared and paid during the year:

- R654 000 000 was declared and paid on 7 August 2017
- R650 000 000 was declared and paid on 8 February 2018

Preference dividends

Non-redeemable non-cumulative non-participating preference shares

Preference dividend number 29 for the six months ended 30 September 2017, amounting to 434.57166 cents per share, was declared to members holding preference shares registered on 8 December 2017 and was paid on 11 December 2017.

Preference dividend number 30 for the six months ended 31 March 2018, amounting to 425.72498 cents per share, was declared to members holding preference shares registered on 8 June 2018 and will be paid on 18 June 2018.

Class IBRP1 redeemable non-cumulative non-participating preference shares

IBRP1 preference dividend number 1 for the period 22 March 2017 to 30 June 2017, amounting to 1620.19994 cents per share, was declared to members holding IBRP1 preference shares registered on 21 July 2017 and was paid on 24 July 2017.

IBRP1 preference dividend number 2 for the period 1 July 2017 to 30 September 2017, amounting to 1448.90208 cents per share, was declared to members holding IBRP1 preference shares registered on 20 October 2017 and was paid on 23 October 2017.

IBRP1 preference dividend number 3 for the period 1 October 2017 to 31 December 2017, amounting to 1441.42330 cents per share, was declared to members holding IBRP1 preference shares registered on 19 January 2018 and was paid on 22 January 2018.

IBRP1 preference dividend number 4 for the period 01 January 2018 to 31 March 2018, amounting to 1408.96502 cents per share, was declared to members holding IBRP1 preference shares registered on 20 April 2018 and was paid on 23 April 2018.

Directors

Details of the directors are reflected on pages 86 to 91.

Directors' shareholdings

No director holds any ordinary shares in Investec Bank Limited.

Directors' shareholdings in Investec plc and Investec Limited and in Investec Bank Limited's preference shares are set out on pages 114 to 115.

Directors' remuneration

Directors' remuneration is disclosed on page 113.

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 audit committee report is disclosed on pages 102 to 105.

Social and ethics committee

As provided for under the South African Companies Act, No 71 of 2008, as amended, the social and ethics committee (SEC) 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 2018 integrated annual report.

Nominations and directors' affairs committee

The board of Investec Bank Limited has delegated the duties of the directors' affairs committee as set out in the Banks Act, No 64 of 1990 (as amended) to the Investec DLC nominations and directors' affairs committee (nomdac). The details of the role and responsibilities of the nomdac are set in Investec's 2018 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 8 August 2018.

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 196 and the associate companies on page 190. The interest of the company in the aggregate profits after taxation of its subsidiary companies is R749.1 million (2017: R682.0 million) and its share in aggregate losses is R1.0 million (2017: R1.0 million).

Special resolutions

At the annual general meeting of members held on 10 August 2017, 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 IFRS, SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Standards Council, as well as the requirements of the South African Companies Act, No 71 of 2008, as amended. *These policies are set out on pages 141 to 149.*

Employees

The group's approach is to recruit and promote on the basis of aptitude and attitude, with the deliberate intent to build a diverse workforce and promote an inclusive workplace, appropriately and fully representative of the jurisdiction's population. 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 2018 integrated annual report.

Political donations and expenditure

Investec Bank Limited made no political donations in 2018 (2017: R3.5 million).

Empowerment and transformation

The group's approach is to recruit and promote on the basis of aptitude and attitude, with the deliberate intent to build a diverse workforce and promote an inclusive workplace, appropriately and fully representative of the jurisdiction's population. We endeavour to prevent and/or eliminate any form of discrimination based on gender, race, ethnicity, religion, age, disability, nationality and sexual preference. People with disabilities are an essential part of a diverse talent pool and are always considered, with every effort made to accommodate and facilitate an accessible environment. In the event of employees becoming disabled while in our employ, we are committed to ensuring their continued employment. We have various processes to encourage debate and dialogue around valuing diversity and difference. Emerging and established leaders are invited to participate in discussions with the executive leadership around all issues related to talent management and diversity.

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 2018 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
Former chairman
12 June 2018

Khumo Shuenyane
Chairman

Richard Wainwright
Chief executive officer

Diversity

At Investec, we are committed to attracting, developing and retaining a diverse team of people. A diverse workforce is vital to our ability to be an innovative organisation that is able to adapt and prosper in a fast changing world. Our recruitment strategies prioritise previously disadvantaged, female and disabled candidates where possible. We have various processes to encourage debate and dialogue around promoting diversity and we are focused on improving our position in this regard.

Independent auditors' report

To the Shareholders of Investec Bank Limited

Report on 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 at 31 March 2018, 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 the accounting policies and the notes to the financial statements, as set out on pages 133 to 217 and the specified disclosures within the risk management and corporate governance report and the 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 at 31 March 2018, 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 in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. 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	
The determination of the allowance for credit losses is subject to a high degree of judgement applied by management in determining the loan impairment provisions at the balance sheet date. Collective impairments on portfolios of similar, homogenous assets are determined using sophisticated modelling techniques, which takes into account past events. 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. These impairments are only calculated for credit exposures for assets where a loss trigger event has occurred. Specific impairment allowances are determined on a case by case basis for specific financial assets. Significant estimates, judgements and assumptions have been applied by management in their assessment of the factors, identified indicative of objective evidence that an impairment has arisen, to estimate recoverability, including evaluating the adequacy and accessibility of collateral and determining the expected timing and amount of future cash flows. Due to the significant judgement applied by management, this was considered a key audit matter. Refer to the 'Impairments of financial assets held at amortised cost' accounting policy on page 144; notes 10 and 24 of the financial statements (pages 158 and 187); note 'Assets quality analysis – credit risk classification and provisioning policy' (pages 31 and 32) and note 'An analysis of our core loans and advances, asset quality and impairments' (pages 42 to 47).	Our audit included the following audit procedures: 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 evaluated and tested management's processes and key controls for credit origination and monitoring, as well as their process and controls over the evaluation, calculation and recording of the allowance for credit losses. This included an assessment of their oversight and monitoring of the impairment process and the identification of impairment indicators. In particular we focused our assessment on the key 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. For impairments determined on specific assets our audit procedures included the following: – We selected a sample of loans and advances that had been assessed as impaired and independently evaluated the valuation of the allowance for credit losses by developing our own expectation of the allowance amount. – We performed sensitivity analyses on the expected performance of certain exposures which are affected by the current macro-economic environment. We based this on our own independent judgement and market available information including considering the impact of continued low commodity prices, including the impact on connected industries and state-owned entities. – We selected additional loans that were not impaired to test whether the assessment by management was appropriate, based on our own knowledge and external evidence to support our conclusions. – We evaluated management's assumptions about future cash flow projections and the valuation of collateral held, against our previous experience and available market information. – For loans where the recovery was dependent on collateral and there were no recent external valuations or where market data was not readily available, we used our valuation specialists to test the collateral valuations supporting the recovery of the loans, in particular in relation to lending collateralised by property and assets connected to commodities. For portfolios where model provisions are calculated, our audit procedures included the following, performed in conjunction with our risk specialists: – We tested 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. – We performed an independent assessment of the model estimate by applying our independent model to the entity's historical data.

Independent auditors' report

(continued)

Key audit matter	How our audit addressed the matter
Monitoring of credit quality and the appropriateness of the allowance for credit losses *(continued)*	
	For portfolios where model provisions are calculated, our audit procedures included the following, performed in conjunction with our risk specialists: • We tested 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 • We performed a reasonableness assessment by comparing the impairments against an independent model estimate calculated using our independent challenger models applied to the entity's historical data
Valuation of level 3 complex/illiquid financial instruments, unlisted investments and embedded derivatives	
There are portfolios of financial assets which include complex/illiquid financial instruments, unlisted investments and embedded derivatives that are required to be fair valued under the requirements of IAS 39. The valuation of these level 3 and unlisted investment financial assets requires a high level of judgement in applying appropriate valuation techniques, unobservable valuation inputs and assumptions. We also consider the existence of collateral in the determination of impairment provisions, if applicable. 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 to profit and loss which are material and therefore was considered a key audit matter. Refer to the 'Financial Instruments' accounting policies on pages 143 to 149; note 3 of the financial statements (page 151) as well as note 12 (page 170).	Our audit included the following audit procedures, amongst others: We tested the design, implementation and operating effectiveness of key controls identified in management's process for determining the valuation of financial instruments. We performed a detailed examination of management's valuation methodologies and evaluated the appropriateness and consistency of model inputs, key assumptions and underlying contracts. We involved the auditors' valuation specialists in the performance of this examination. Where such inputs and assumptions were not observable in the market we engaged the auditors' valuation specialists to critically assess whether these inputs and assumptions fell within an acceptable range based on relevant knowledge and experience of the market. For certain assets with collateral exposure to commodity markets, additional procedures were performed in addition to those noted above, including: – performing a site visit to key assets; – engaging our business valuations specialists to build an independent valuation model in addition to assessing the key inputs and assumptions. As part of this they also considered alternative inputs and assumptions; sensitivity analysis was performed on the most material inputs; and – verifying via external legal confirmations the enforceability of the collateral held. For certain unlisted investments, management applies a portfolio valuation adjustment to account for estimation and macro-economic risks that are not included in the model valuations. Together with our valuation 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 declaration by the company secretary, the directors' report and the audit committee's report, included in the corporate governance report, as required by the Companies Act of South Africa and all information included in the annual report. 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 the 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 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 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 and 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 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 43 and 24 years respectively.

Ernst & Young Inc.

Ernst & Young Inc.

Per Gail Moshoeshoe
Director
Registered Auditor
Chartered Accountant South Africa
Registered Auditor

12 June 2018

KPMG Inc

KPMG Inc.

Per Tracy Middlemiss
Director
Registered Auditor
Chartered Accountant South Africa
Registered Auditor

12 June 2018

Income statements

For the year to 31 March R'million	Notes	Group 2018	Group 2017	Company 2018	Company 2017
Interest income	1	31 687	29 716	30 764	28 898
Interest expense	1	(24 125)	(22 297)	(24 297)	(22 588)
Net interest income		**7 562**	**7 419**	**6 467**	**6 310**
Fee and commission income	2	2 458	2 235	2 003	1 839
Fee and commission expense	2	(213)	(236)	(185)	(201)
Investment income	3	530	472	1 122	997
Share of post taxation profit of associates	26	777	306	766	303
Trading income/(loss) arising from					
– customer flow		356	486	361	486
– balance sheet management and other trading activities		(26)	70	(65)	70
Other operating income	4	2	2	–	–
Total operating income before impairment losses on loans and advances		**11 446**	**10 754**	**10 469**	**9 804**
Impairment losses on loans and advances	24	(720)	(657)	(641)	(572)
Operating income		**10 726**	**10 097**	**9 828**	**9 232**
Operating costs	5	(6 100)	(5 887)	(5 515)	(5 330)
Operating profit before acquired intangibles		**4 626**	**4 210**	**4 313**	**3 902**
Amortisation of acquired intangibles	31	(51)	(51)	–	–
Operating profit		**4 575**	**4 159**	**4 313**	**3 902**
Additional costs on acquisition of subsidiary	32	(100)	–	–	–
Profit before taxation		**4 475**	**4 159**	**4 313**	**3 902**
Taxation on operating profit before acquired intangibles	7	184	(944)	305	(681)
Taxation on acquired intangibles	7	14	14	–	–
Profit after taxation		**4 673**	**3 229**	**4 618**	**3 221**

Statements of comprehensive income

For the year to 31 March R'million	Notes	Group 2018	Group 2017	Company 2018	Company 2017
Profit after taxation		4 673	3 229	4 618	3 221
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	(99)	943	(93)	879
Fair value movements on available-for-sale assets taken directly to other comprehensive income	7	494	701	482	669
Gain on realisation of available-for-sale assets recycled through the income statement	7	(94)	(61)	(81)	(61)
Foreign currency adjustments on translating foreign operations		(637)	(479)	–	–
Total comprehensive income		**4 337**	**4 333**	**4 926**	**4 708**
Total comprehensive income attributable to ordinary shareholders		4 204	4 202	4 793	4 577
Total comprehensive income attributable to perpetual preference shareholders		133	131	133	131
Total comprehensive income		**4 337**	**4 333**	**4 926**	**4 708**

Balance sheets

At 31 March R'million	Notes	Group 2018	Group 2017	Company 2018	Company 2017
Assets					
Cash and balances at central banks	15	9 187	8 353	8 989	8 169
Loans and advances to banks	16	17 265	31 937	11 857	21 118
Non-sovereign and non-bank cash placements		9 993	8 993	9 993	9 044
Reverse repurchase agreements and cash collateral on securities borrowed	17	20 480	26 627	19 886	26 627
Sovereign debt securities	18	62 403	47 822	62 403	47 524
Bank debt securities	19	8 051	7 758	6 421	6 305
Other debt securities	20	10 342	11 945	9 984	10 602
Derivative financial instruments	21	12 586	9 856	12 395	9 667
Securities arising from trading activities	22	875	653	875	653
Investment portfolio	23	7 943	7 204	7 647	6 868
Loans and advances to customers	24	247 474	225 669	234 146	213 259
Own originated loans and advances to customers securitised	25	6 830	7 776	–	–
Other loans and advances	24	265	310	278	318
Other securitised assets	25	241	100	–	–
Interest in associated undertakings	26	6 288	5 514	6 180	5 413
Deferred taxation assets	27	586	388	434	260
Other assets	28	6 686	5 266	3 307	2 792
Property and equipment	29	2 494	274	2 430	235
Investment properties		1	1	1	1
Goodwill	30	171	171	–	–
Intangible assets	31	412	508	127	166
Loans to group companies	33	13 499	18 106	8 269	12 870
Investment in subsidiaries	34	–	–	15 358	13 362
Non-current assets held for sale		–	456	–	456
		444 072	**425 687**	**420 980**	**395 709**
Liabilities					
Deposits by banks		24 607	32 378	24 607	32 378
Derivative financial instruments	21	15 907	12 556	15 907	12 556
Other trading liabilities	35	2 305	1 667	2 305	1 667
Repurchase agreements and cash collateral on securities lent	17	8 395	7 825	7 187	6 462
Customer accounts (deposits)		321 893	303 397	311 107	287 174
Debt securities in issue	36	3 473	5 823	2 443	4 778
Liabilities arising on securitisation of own originated loans and advances	25	1 551	673	–	–
Current taxation liabilities		202	977	188	991
Deferred taxation liabilities	27	99	109	–	–
Other liabilities	37	6 844	5 995	6 405	4 850
Loans from group companies and subsidiaries	33	7 007	5 942	3 852	1 907
		392 283	**377 342**	**374 001**	**352 763**
Subordinated liabilities	38	13 374	13 180	13 374	13 180
		405 657	**390 522**	**387 375**	**365 943**
Equity					
Ordinary share capital	39	32	32	32	32
Share premium	41	14 885	14 885	14 885	14 885
Other reserves		1 293	1 662	(455)	(763)
Retained income		21 855	18 586	18 793	15 612
Shareholders' equity excluding non-controlling interests		**38 065**	**35 165**	**33 255**	**29 766**
Other Additional Tier 1 securities in issue	42	350	–	350	–
Total equity		**38 415**	**35 165**	**33 605**	**29 766**
Total liabilities and equity		**444 072**	**425 687**	**420 980**	**395 709**

Statements of changes in equity

R'million	Ordinary share capital	Share premium
Group		
At 1 April 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**
Movement in reserves 1 April 2017 – 31 March 2018		
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	–	–
Issue of other Additional Tier 1 security instruments	–	–
Other equity movements	–	–
At 31 March 2018	**32**	**14 885**

Other reserves							
Available-for-sale reserve	**Regulatory general risk reserve**	**Cash flow hedge reserve**	**Foreign currency reserve**	**Retained income**	**Shareholders' equity excluding non-controlling interests**	**Other Additional Tier 1 securities in issue**	**Total equity**
(512)	**673**	**(1 839)**	**2 244**	**16 382**	**31 865**	**–**	**31 865**
–	–	–	–	3 229	3 229	–	3 229
–	–	943	–	–	943	–	943
701	–	–	–	–	701	–	701
(61)	–	–	–	–	(61)	–	(61)
–	–	–	(479)	–	(479)	–	(479)
640	**–**	**943**	**(479)**	**3 229**	**4 333**	**–**	**4 333**
–	–	–	–	(900)	(900)	–	(900)
–	–	–	–	(131)	(131)	–	(131)
–	(8)	–	–	6	(2)	–	(2)
128	**665**	**(896)**	**1 765**	**18 586**	**35 165**	**–**	**35 165**
–	–	–	–	4 673	4 673	–	4 673
–	–	(99)	–	–	(99)	–	(99)
494	–	–	–	–	494	–	494
(94)	–	–	–	–	(94)	–	(94)
–	–	–	(637)	–	(637)	–	(637)
400	**–**	**(99)**	**(637)**	**4 673**	**4 337**	**–**	**4 337**
–	–	–	–	(1 304)	(1 304)	–	(1 304)
–	–	–	–	(133)	(133)	–	(133)
–	–	–	–	–	–	350	350
–	(33)	–	–	33	–	–	–
528	**632**	**(995)**	**1 128**	**21 855**	**38 065**	**350**	**38 415**

Statements of changes in equity

(continued)

R'million	Ordinary share capital	Share premium
Company		
At 1 April 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**
Movement in reserves 1 April 2017 – 31 March 2018		
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	–	–
Issue of other Additional Tier 1 security instruments	–	–
At 31 March 2018	**32**	**14 885**

Statements of changes in equity

(continued)

Other reserves						
Available-for-sale reserve	**Cash flow hedge reserve**	**Foreign currency reserve**	**Retained income**	**Shareholders' equity excluding non-controlling interests**	**Other Additional Tier 1 securities in issue**	**Total equity**
(475)	**(1 778)**	**3**	**13 422**	**26 089**	**–**	**26 089**
–	–	–	3 221	3 221	–	3 221
–	879	–	–	879	–	879
669	–	–	–	669	–	669
(61)	–	–	–	(61)	–	(61)
608	**879**	**–**	**3 221**	**4 708**	**–**	**4 708**
–	–	–	(900)	(900)	–	(900)
–	–	–	(131)	(131)	–	(131)
133	**(899)**	**3**	**15 612**	**29 766**	**–**	**29 766**
–	–	–	4 618	4 618	–	4 618
–	(93)	–	–	(93)	–	(93)
482	–	–	–	482	–	482
(81)	–	–	–	(81)	–	(81)
401	**(93)**	**–**	**4 618**	**4 926**	**–**	**4 926**
–	–	–	(1 304)	(1 304)	–	(1 304)
–	–	–	(133)	(133)	–	(133)
–	–	–	–	–	350	350
534	**(992)**	**3**	**18 793**	**33 255**	**350**	**33 605**

Cash flow statements

		Group		Company	
For the year to 31 March R'million	**Notes**	**2018**	**2017**	**2018**	**2017**
Cash flows from operating activities					
Operating profit adjusted for non-cash items	44	4 666	4 712	4 279	4 308
Taxation paid		(481)	(502)	(374)	(494)
Increase in operating assets	44	(21 277)	(10 324)	(21 252)	(13 316)
Increase in operating liabilities	44	15 244	9 335	19 841	6 416
Net cash (outflow)/inflow from operating activities		**(1 848)**	**3 221**	**2 494**	**(3 086)**
Cash flows from investing activities					
Cash flow on acquisition of property, equipment and intangible assets		(191)	(274)	(152)	(258)
Cash flow on disposal of property, equipment and intangible assets		24	30	24	31
Cash flow on acquisition of subsidiary	32	(100)	–	–	–
Net cash outflow from investing activities		**(267)**	**(244)**	**(128)**	**(227)**
Cash flows from financing activities					
Dividends paid to ordinary shareholders	9	(1 304)	(900)	(1 304)	(900)
Dividends paid to perpetual preference shareholders	9	(133)	(131)	(133)	(131)
Proceeds from subordinated debt raised	38	2 273	4 870	2 273	4 870
Repayment of subordinated debt	38	(2 205)	(2 519)	(2 205)	(2 519)
Proceeds on issue of other Additional Tier 1 securities in issue	42	350	–	350	–
Net cash (outflow)/inflow from financing activities		**(1 019)**	**1 320**	**(1 019)**	**1 320**
Effects of exchange rates on cash and cash equivalents		**(864)**	**(756)**	**–**	**–**
Net (decrease)/increase in cash and cash equivalents		**(3 998)**	**3 541**	**1 347**	**(1 993)**
Cash and cash equivalents at the beginning of the year		30 024	26 483	19 073	21 066
Cash and cash equivalents at the end of the year		**26 026**	**30 024**	**20 420**	**19 073**
Cash and cash equivalents is defined as including:					
Cash and balances at central banks		9 187	8 353	8 989	8 169
On demand loans and advances to banks		6 846	12 678	1 438	1 860
Non-sovereign and non-bank cash placements		9 993	8 993	9 993	9 044
Cash and cash equivalents at the end of the year		**26 026**	**30 024**	**20 420**	**19 073**

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

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 78.

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 2018 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. Non-monetary items that are measured at fair value are translated using the exchange rate at the date of the valuation, with movement due to changes in foreign currency being presented in terms of the accounting policy for changes in the fair value movement of the respective item.

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; or
- 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 financial 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:

- Equipment 10% – 33%
- Furniture and vehicles 10% – 25%
- Leasehold 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 accounting profit or tax profit
- In respect of temporary differences associated with the investments in subsidiaries and interests in associated undertakings, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred taxation assets or liabilities are measured using the tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred taxation asset can be utilised. Items recognised directly in other comprehensive income are net of related current and deferred taxation.

Employee benefits

The group operates various defined contribution schemes. 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.

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

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.

On 12 October 2017, the IASB published an amendment to IFRS 9, relating to prepayment features with negative compensation; this amendment is effective from 1 January 2019 with early application permitted, however has yet to be endorsed by the EU. This amendment allows financial assets with such features to be measured at amortised cost or fair value through other comprehensive income provided the SPPI (solely payments of principal and interest) criteria in IFRS 9 are otherwise met. In addition the amendment to IFRS 9 clarifies that a financial asset passes the SPPI criterion regardless of the event or circumstance that cause the early termination of the contract, and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The group's loans with such prepayment features are present in some fixed rate loans, and are considered to meet the criteria for amortised cost under IFRS 9. This is because the prepayment features within these loans are consistent with the solely payments of principal and interest criteria if the prepayment feature substantially represents unpaid amounts of principal and interest and reasonable compensation for early termination of the contract.

Transitional impact

IFRS 9 is effective and will be implemented by the group from 1 April 2018. The group will provide its detailed transitional disclosures when it publishes its annual report for the year ended 31 March 2018 on 29 June 2018.

The adoption of IFRS 9, by applying the accounting policies and ECL measurement methodologies outlined in this document has resulted in a decrease of shareholders' equity of R894 million at 1 April 2018.

Balance sheet impairment allowance and provisions

Total balance sheet impairment allowance and provisions increased by R653 million from R1.5 billion as at 31 March 2018 to R2.2 billion as at 1 April 2018. This is driven by an increase in stage 1, stage 2, and stage 3 impairments of R807 million, partially offset by a reduction of R154 million as a result of the changes in classification and measurement of certain of the group's financial assets to fair value. The increase in impairment allowance and provisions reduced the CET 1 ratio by 15bps on a fully loaded basis, or 4bps on a day one impact transitional basis.

Changes in classification and measurement of certain financial assets

Changes in classification and measurement of certain of the group's other financial assets resulted in a decrease to equity of R423 million (post taxation), with a 13bps impact on the CET 1 ratio. Taken together, the adoption of IFRS 9 resulted in a decrease in Investec Bank Limited's transitional CET 1 ratio of 17bps from 10.9% to 10.7%, in line with the group's target and in excess of minimum regulatory requirements. Investec Bank Limited confirmed to the South African Prudential Authority (previously known as the Banking Supervision Division of the South African Reserve Bank) that it will use the transitional arrangements to absorb the full impact permissible of IFRS 9 in regulatory capital calculations.

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. Although 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 there is no impact to measurement principles currently applied. The impact of the disclosure requirements of the standard is currently being finalised, however, no significant effect is expected.

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.

IFRS 17 Insurance contracts

IFRS 17 'Insurance contracts' was issued in May 2017, and sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. It applies to all types of insurance contracts, regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The IFRS 17 is effective from 1 January 2021, and the group is considering its impact.

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 2018 Balance sheet value	Group 2018 Interest income	Group 2017 Balance sheet value	Group 2017 Interest income	Company 2018 Balance sheet value	Company 2018 Interest income	Company 2017 Balance sheet value	Company 2017 Interest income
1. Net interest income									
Cash, near cash and bank debt and sovereign debt securities	1	127 379	7 029	131 490	7 060	119 549	6 888	118 787	6 943
Core loans and advances	2	254 304	23 200	233 445	21 359	234 146	21 164	213 259	19 071
Private client		171 144	15 476	155 194	14 262	165 406	14 816	148 423	13 238
Corporate, institutional and other clients		83 160	7 724	78 251	7 097	68 740	6 348	64 836	5 833
Other debt securities and other loans and advances		10 607	753	12 255	1 060	10 262	714	10 920	1 015
Other interest-earning assets	3	13 740	705	18 206	237	8 269	1 998	12 870	1 869
Total interest-earning assets		**406 030**	**31 687**	**395 396**	**29 716**	**372 226**	**30 764**	**355 836**	**28 898**

For the year to 31 March R'million	Notes	Group 2018 Balance sheet value	Group 2018 Interest expense	Group 2017 Balance sheet value	Group 2017 Interest expense	Company 2018 Balance sheet value	Company 2018 Interest expense	Company 2017 Balance sheet value	Company 2017 Interest expense
Deposits by banks and other debt-related securities	4	36 475	(1 564)	46 026	(1 576)	34 237	(1 478)	43 618	(1 495)
Customer accounts (deposits)		321 893	(21 388)	303 397	(19 799)	311 107	(21 295)	287 174	(19 702)
Other interest-bearing liabilities	5	8 558	–	6 615	58	3 852	(351)	1 907	(411)
Subordinated liabilities		13 374	(1 173)	13 180	(980)	13 374	(1 173)	13 180	(980)
Total interest-bearing liabilities		**380 300**	**(24 125)**	**369 218**	**(22 297)**	**362 570**	**(24 297)**	**345 879**	**(22 588)**
Net interest income			**7 562**		**7 419**		**6 467**		**6 310**
Net interest margin			**1.89%**		**1.92%**		**1.78%**		**1.86%**

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 2018	Group 2017	Company 2018	Company 2017
2. Net fee and commission income				
Corporate and institutional transactional and advisory services	1 656	1 556	1 298	1 225
Private client transactional fees	802	679	705	614
Fee and commission income	2 458	2 235	2 003	1 839
Fee and commission expense	(213)	(236)	(185)	(201)
Net fee and commission income	**2 245**	**1 999**	**1 818**	**1 638**
Annuity fees (net of fees payable)	1 616	1 296	1 301	1 031
Deal fees	629	703	517	607

For the year to 31 March R'million	Investment portfolio (listed and unlisted equities)*	Debt securities (sovereign, bank and other)	Other asset categories	Total
3. Investment income				
The following table analyses investment income generated by the asset portfolio shown on the balance sheet:				
Group				
2018				
Realised	655	128	5	788
Unrealised^	(630)	–	(3)	(633)
Dividend income	430	–	–	430
Funding and other net related costs	(55)	–	–	(55)
	400	**128**	**2**	**530**
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**

* *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.*

Notes to the financial statements

(continued)

For the year to 31 March R'million	Investment portfolio (listed and unlisted equities)*	Debt securities (sovereign, bank and other)	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				
2018				
Realised	685	110	(3)	792
Unrealised^	(621)	–	(3)	(624)
Dividend income**	430	–	579	1 009
Funding cost and other net related costs	(55)	–	–	(55)
	439	**110**	**573**	**1 122**
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**

* *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.*

	Group		Company	
For the year to 31 March R'million	**2018**	**2017**	**2018**	**2017**
4. Other operating income				
Rental income from properties	2	2	–	–
	2	**2**	**–**	**–**

For the year to 31 March R'million	Group 2018	Group 2017	Company 2018	Company 2017
5. Operating costs				
Staff compensation costs	4 720	4 176	4 372	3 836
– Salaries and wages (including directors' remuneration*)	3 850	3 381	3 532	3 073
– Share-based payments expense	606	568	581	541
– Social security costs	62	52	61	51
– Pensions and provident fund contributions	202	175	198	171
Training and other costs	146	125	139	121
Staff costs	4 866	4 301	4 511	3 957
Premises expenses (excluding depreciation)	46	406	(2)	360
Equipment expenses (excluding depreciation)	201	189	136	134
Business expenses**	488	417	401	332
Marketing expenses	308	403	297	390
Depreciation, amortisation and impairment of property, equipment and intangibles	191	171	172	157
	6 100	**5 887**	**5 515**	**5 330**
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	21	13	21	8
Fees payable to the companies' auditors and its associates for other services:				
– Audit of the company's subsidiaries pursuant to legislation	2	4	–	–
– Other services	–	3	–	1
	23	**20**	**21**	**9**
KPMG fees:				
Fees payable to the companies' auditors for the audit of the companies' accounts	37	22	17	18
Fees payable to the companies' auditors and its associates for other services:				
– Audit of the company's subsidiaries pursuant to legislation	3	3	3	–
– Other services	–	2	–	2
	40	**27**	**20**	**20**
Total	**63**	**47**	**41**	**29**
Minimum operating lease payments recognised in operating costs	**210**	**455**	**198**	**445**

* *Details of the directors' emoluments, pensions and their interests are disclosed in the remuneration report on pages 108 to 123.*
** *Business expenses mainly comprise insurance costs, consulting and professional fees, travel expenses and subscriptions.*

For the year to 31 March R'million	Group 2018	Group 2017	Company 2018	Company 2017
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 share incentive plans are provided in the remuneration report and on our website.				
Equity-settled share-based payment expense	**606**	**568**	**581**	**541**
Fair value of options and shares at grant date	**582**	**574**	**554**	**524**
Details of options and shares outstanding during the year				
Outstanding at the beginning of the year	28 026 367	28 901 680	26 421 815	27 584 297
Relocation of employees during the year	(200 466)	(18 357)	(322 146)	(50 398)
Granted during the year	6 021 010	5 827 474	5 734 795	5 294 484
Exercised during the year^	(10 923 511)	(5 916 012)	(10 487 501)	(5 675 150)
Lapsed during the year	(1 124 359)	(768 418)	(1 026 284)	(731 418)
Outstanding at the end of the year	**21 799 041**	**28 026 367**	**20 320 679**	**26 421 815**
Vested and exercisable at the end of the year	**248 641**	**6 163**	**237 768**	**6 163**

^ *The weighted average share price and weighted average exercise price during the year were R96.49 (2017: R94.43) and Rnil (2017: Rnil) respectively.*

For the year to 31 March R'million	Group 2018	Group 2017	Company 2018	Company 2017
The exercise price range and weighted average remaining contractual life for the options and shares outstanding were as follows:				
Long-term incentive options and long term shares with no strike price				
Exercise price range	Rnil	Rnil	Rnil	Rnil
Weighted average remaining contractual life	1.90 years	1.82 years	1.88 years	1.80 years
Weighted average fair value of options and long-term grants at measurement date	R96.67	R98.47	R96.66	R98.93
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	R94.94 – R97.45	R89.97 – R105.30	R94.94 – R97.45	R89.97 – R105.30
– Exercise price	Rnil	Rnil	Rnil	Rnil
– Expected volatility	n/a	n/a	n/a	n/a
– Option life	4.75 Years	4.5 – 5.0 years	4.75 Years	4.5 – 5.0 years
– Expected dividend yields	n/a	n/a	n/a	n/a
– Risk-free rate	n/a	n/a	n/a	n/a

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 114 to 120.

For the year to 31 March R'million	Group 2018	Group 2017	Company 2018	Company 2017
7. Taxation				
Income statement taxation charge				
Taxation on income				
South Africa	(223)	903	(305)	681
– Current taxation	106	1 244	(9)	998
In respect of the current year	903	1 370	788	1 124
In respect of release of tax provisions no longer required	(797)	–	(797)	–
In respect of prior year adjustments	–	(126)	–	(126)
– Deferred taxation	(329)	(341)	(296)	(317)
Foreign taxation – Mauritius	25	27	–	–
Total taxation (credit)/charge as per income statement	**(198)**	**930**	**(305)**	**681**
Total taxation (credit)/charge for the year comprises:				
Taxation on operating profit before acquired intangibles	(184)	944	(305)	681
Taxation on acquired intangibles	(14)	(14)	–	–
	(198)	**930**	**(305)**	**681**
Tax rate reconciliation:				
Profit before taxation as per income statement	4 475	4 159	4 313	3 902
Total taxation (credit)/charge as per income statement	(198)	930	(305)	681
Effective rate of taxation	**(4.4%)**	**22.4%**	**(7.1%)**	**17.5%**
The standard rate of South African normal taxation has been affected by:				
Dividend income	7.3%	5.4%	11.0%	12.4%
Foreign earnings*	2.2%	1.9%	–	–
Release of tax provisions no longer required	17.8%	–	18.5%	–
Prior year tax adjustments	–	3.0%	–	3.2%
Other non-taxable/non-deductible differences^	5.1%	(4.7%)	5.6%	(5.1%)
	28.0%	**28.0%**	**28.0%**	**28.0%**

* *Includes the effect of cumulative tax losses and other permanent differences relating to foreign subsidiaries.*

^ *Included in other non-taxable/non-deductible differences is an amount of which impacts the effective rate of taxation by 5.0% in the company and 4.8% in the group and is related to equity accounted earnings of associates.*

Notes to the financial statements

(continued)

For the year to 31 March R'million	Group 2018	Group 2017	Company 2018	Company 2017
7. Taxation *(continued)*				
Other comprehensive income taxation effects				
Fair value movements on cash flow hedges taken directly to other comprehensive income	(99)	943	(93)	879
– Pre-taxation	45	1 268	51	1 204
– Current taxation	(144)	(325)	(144)	(325)
Fair value movements on available-for-sale assets taken directly to other comprehensive income	494	701	482	669
– Pre-taxation	653	782	636	750
– Deferred taxation	(159)	(81)	(154)	(81)
Gain on realisation of available-for-sale assets recycled through the income statement	(94)	(61)	(81)	(61)
– Pre-taxation	(131)	(85)	(113)	(85)
– Taxation effect	37	24	32	24

For the year to 31 March R'million	Group 2018	Group 2017
8. Headline earnings		
Profit after taxation	4 673	3 229
Preference dividends paid	(133)	(131)
Earnings attributable to ordinary shareholders	**4 540**	**3 098**
Headline adjustments, net of taxation*	(94)	(29)
Gain on realisation of available-for-sale assets recycled through the income statement	(94)	(61)
Loss on non-current assets held for sale	–	32
Headline earnings attributable to ordinary shareholders	**4 446**	**3 069**

* *These amounts are net of taxation of R36.6 million (2017: R14.6 million).*

For the year to 31 March R'million	Group 2018	Group 2017	Company 2018	Company 2017
9. Dividends				
Perpetual preference dividend				
Final dividend in prior year	67	64	67	64
Interim dividend for current year	66	67	66	67
Total dividend attributable to perpetual preference shareholders recognised in current financial year	**133**	**131**	**133**	**131**

The directors have declared a final dividend in respect of the financial year ended 31 March 2018 of 425.72498 cents (2017: 436.28392 cents) per perpetual preference share.

An ordinary dividend of R1 304 million was declared and paid to Investec Limited during the year (2017: R900 million).

For the year to 31 March R'million	At fair value through profit or loss Trading	 Designated at inception
10. Analysis of income and impairments by category of financial instrument		
Group		
2018		
Net interest income	624	3 269
Fee and commission income	294	114
Fee and commission expense	–	(1)
Investment income	–	176
Share of post taxation profit of associates	–	–
Trading income/(loss) arising from		
– customer flow	212	9
– balance sheet management and other trading activities	72	(48)
Other operating income	–	–
Total operating income before impairment losses on loans and advances	**1 202**	**3 519**
Impairment losses on loans and advances	–	–
Operating income	**1 202**	**3 519**
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 profit of associates	–	–
Trading income/(loss) 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**

	Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non-financial instruments	Other fee income	Total
	129	24 766	1 815	(23 042)	1	–	7 562
	–	1 159	–	1	213	677	2 458
	–	(93)	–	(18)	(11)	(90)	(213)
	–	(13)	354	–	13	–	530
	–	–	–	–	777	–	777
	–	(5)	–	140	–	–	356
	–	(49)	(1)	–	–	–	(26)
	–	–	–	–	2	–	2
	129	**25 765**	**2 168**	**(22 919)**	**995**	**587**	**11 446**
	–	(720)	–	–	–	–	(720)
	129	**25 045**	**2 168**	**(22 919)**	**995**	**587**	**10 726**
	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**

For the year to 31 March R'million	At fair value through profit or loss: Trading	At fair value through profit or loss: Designated at inception
10. Analysis of income and impairments by category of financial instrument *(continued)*		
Company		
2018		
Net interest income	572	3 269
Fee and commission income	–	106
Fee and commission expense	–	(1)
Investment income	–	214
Share of post taxation profit of associates	–	–
Trading income/(loss) arising from		
– customer flow	212	9
– balance sheet management and other trading activities	29	(49)
Total operating income before impairment losses on loans and advances	**813**	**3 548**
Impairment losses on loans and advances	–	–
Operating income	**813**	**3 548**
2017		
Net interest income	873	1 375
Fee and commission income	–	(14)
Fee and commission expense	–	(7)
Investment income	–	480
Share of post taxation profit of associates	–	–
Trading income/(loss) 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**

	Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities at amortised cost	Non-financial instruments	Other fee income	Total
	61	23 500	1 764	(22 700)	1	–	6 467
	–	1 005	–	1	213	678	2 003
	–	(57)	–	(18)	(11)	(98)	(185)
	–	–	337	–	571	–	1 122
	–	–	–	–	766	–	766
	–	–	–	140	–	–	361
	–	(45)	–	–	–	–	(65)
	61	**24 403**	**2 101**	**(22 577)**	**1 540**	**580**	**10 469**
	–	(641)	–	–	–		(641)
	61	**23 762**	**2 101**	**(22 577)**	**1 540**	**580**	**9 828**
	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**

11. Analysis of financial assets and liabilities by measurement basis

At 31 March R'million	At fair value through profit or loss: Trading	At fair value through profit or loss: Designated at inception
Group		
2018		
Assets		
Cash and balances at central banks	–	–
Loans and advances to banks	–	–
Non-sovereign and non-bank cash placements	574	–
Reverse repurchase agreements and cash collateral on securities borrowed	9 205	–
Sovereign debt securities	–	41 050
Bank debt securities	–	–
Other debt securities	–	–
Derivative financial instruments*	12 586	–
Securities arising from trading activities	875	–
Investment portfolio	–	4 847
Loans and advances to customers	–	17 250
Own originated loans and advances to customers securitised	–	–
Other loans and advances	–	–
Other securitised assets	–	–
Interests in associated undertakings	–	–
Deferred taxation assets	–	–
Other assets	625	–
Property and equipment	–	–
Investment properties	–	–
Goodwill	–	–
Intangible assets	–	–
Loans to group companies	45	–
	23 910	**63 147**
Liabilities		
Deposits by banks	–	–
Derivative financial instruments*	15 907	–
Other trading liabilities	2 305	–
Repurchase agreements and cash collateral on securities lent	917	–
Customer accounts (deposits)	–	39 485
Debt securities in issue	–	–
Liabilities arising on securitisation of own originated loans and advances	–	–
Current taxation liabilities	–	–
Deferred taxation liabilities	–	–
Other liabilities	291	–
Loans from group companies	–	–
	19 420	39 485
Subordinated liabilities	–	–
	19 420	**39 485**

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

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
–	–	–	9 187	–	9 187	–	9 187
–	–	–	17 265	–	17 265	–	17 265
–	574	–	9 419	–	9 419	–	9 993
–	9 205	–	11 275	–	11 275	–	20 480
17 890	58 940	3 463	–	–	3 463	–	62 403
6 135	6 135	1 333	583	–	1 916	–	8 051
9 053	9 053	84	1 205	–	1 289	–	10 342
–	12 586	–	–	–	–	–	12 586
–	875	–	–	–	–	–	875
3 096	7 943	–	–	–	–	–	7 943
–	17 250	–	230 224	–	230 224	–	247 474
–	–	–	6 830	–	6 830	–	6 830
–	–	–	265	–	265	–	265
–	–	–	241	–	241	–	241
–	–	–	–	–	–	6 288	6 288
–	–	–	–	–	–	586	586
–	625	–	4 090	–	4 090	1 971	6 686
–	–	–	–	–	–	2 494	2 494
–	–	–	–	–	–	1	1
–	–	–	–	–	–	171	171
–	–	–	–	–	–	412	412
–	45	–	13 454	–	13 454	–	13 499
36 174	**123 231**	**4 880**	**304 038**	**–**	**308 918**	**11 923**	**444 072**
–	–	–	–	24 607	24 607	–	24 607
–	15 907	–	–	–	–	–	15 907
–	2 305	–	–	–	–	–	2 305
–	917	–	–	7 478	7 478	–	8 395
–	39 485	–	–	282 408	282 408	–	321 893
–	–	–	–	3 473	3 473	–	3 473
–	–	–	–	1 551	1 551	–	1 551
–	–	–	–	–	–	202	202
–	–	–	–	–	–	99	99
–	291	–	–	3 377	3 377	3 176	6 844
–	–	–	–	7 007	7 007	–	7 007
–	**58 905**	**–**	**–**	**329 901**	**329 901**	**3 477**	**392 283**
–	–	–	–	13 374	13 374	–	13 374
–	**58 905**	**–**	**–**	**343 275**	**343 275**	**3 477**	**405 657**

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		
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	–	–
	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 entered into negotiations to dispose of this interest in the 2017 year.*

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**

11. Analysis of financial assets and liabilities by measurement basis *(continued)*

At 31 March R'million	At fair value through profit or loss	
	Trading	Designated at inception
Company		
2018		
Assets		
Cash and balances at central banks	–	–
Loans and advances to banks	–	–
Non-sovereign and non-bank cash placements	574	–
Reverse repurchase agreements and cash collateral on securities borrowed	9 205	–
Sovereign debt securities	–	41 050
Bank debt securities	–	–
Other debt securities	–	–
Derivative financial instruments*	12 395	–
Securities arising from trading activities	875	–
Investment portfolio	–	4 551
Loans and advances to customers	–	17 250
Other loans and advances	–	–
Interests in associated undertakings	–	–
Deferred taxation assets	–	–
Other assets	625	–
Property and equipment	–	–
Investment properties	–	–
Intangible assets	–	–
Loans to group companies	80	–
Investment in subsidiaries	–	–
	23 754	**62 851**
Liabilities		
Deposits by banks	–	–
Derivative financial instruments*	15 907	–
Other trading liabilities	2 305	–
Repurchase agreements and cash collateral on securities lent	917	–
Customer accounts (deposits)	–	39 485
Debt securities in issue	–	–
Current taxation liabilities	–	–
Other liabilities	291	–
Loans from group companies and subsidiaries	–	–
	19 420	**39 485**
Subordinated liabilities	–	–
	19 420	**39 485**

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

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
–	–	–	8 989	–	8 989	–	8 989
–	–	–	11 857	–	11 857	–	11 857
–	574	–	9 419	–	9 419	–	9 993
–	9 205	–	10 681	–	10 681	–	19 886
17 890	58 940	3 463	–	–	3 463	–	62 403
5 838	5 838	–	583	–	583	–	6 421
8 815	8 815	–	1 169	–	1 169	–	9 984
–	12 395	–	–	–	–	–	12 395
–	875	–	–	–	–	–	875
3 096	7 647	–	–	–	–	–	7 647
–	17 250	–	216 896	–	216 896	–	234 146
–	–	–	278	–	278	–	278
–	–	–	–	–	–	6 180	6 180
–	–	–	–	–	–	434	434
–	625	–	1 109	–	1 109	1 573	3 307
–	–	–	–	–	–	2 430	2 430
–	–	–	–	–	–	1	1
–	–	–	–	–	–	127	127
–	80	–	8 189	–	8 189	–	8 269
–	–	–	13 785	–	13 785	1 573	15 358
35 639	**122 244**	**3 463**	**282 955**	**–**	**286 418**	**12 318**	**420 980**
–	–	–	–	24 607	24 607	–	24 607
–	15 907	–	–	–	–	–	15 907
–	2 305	–	–	–	–	–	2 305
–	917	–	–	6 270	6 270	–	7 187
–	39 485	–	–	271 622	271 622	–	311 107
–	–	–	–	2 443	2 443	–	2 443
–	–	–	–	–	–	188	188
–	291	–	–	3 306	3 306	2 808	6 405
–	–	–	–	3 852	3 852	–	3 852
–	**58 905**	**–**	**–**	**312 100**	**312 100**	**2 996**	**374 001**
–	–	–	–	13 374	13 374	–	13 374
–	**58 905**	**–**	**–**	**325 474**	**325 474**	**2 996**	**387 375**

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)*		
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 entered into negotiations to dispose of this interest in the 2017 year.*

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**

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 category		
At 31 March R'million	**Total instruments at fair value**	**Level 1**	**Level 2**	**Level 3**
Group				
2018				
Assets				
Non-sovereign and non-bank cash placements	574	–	574	–
Reverse repurchase agreements and cash collateral on securities borrowed	9 205	–	9 205	–
Sovereign debt securities	58 940	58 940	–	–
Bank debt securities	6 135	4 883	1 252	–
Other debt securities	9 053	4 146	4 907	–
Derivative financial instruments	12 586	–	12 564	22
Securities arising from trading activities	875	791	84	–
Investment portfolio	7 943	4 419	1 563	1 961
Loans and advances to customers	17 250	–	17 250	–
Other assets	625	625	–	–
Loans to group companies	45	–	45	–
	123 231	**73 804**	**47 444**	**1 983**
Liabilities				
Derivative financial instruments	15 907	–	15 907	–
Other trading liabilities	2 305	692	1 613	–
Repurchase agreements and cash collateral on securities lent	917	–	917	–
Customer accounts (deposits)	39 485	–	39 485	–
Other liabilities	291	–	291	–
	58 905	**692**	**58 213**	**–**
Net financial assets/(liabilities) at fair value	**64 326**	**73 112**	**(10 769)**	**1 983**

12. Financial instruments at fair value *(continued)*

At 31 March R'million	Total instruments at fair value	Fair value category 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**

At 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				
2018				
Assets				
Non-sovereign and non-bank cash placements	574	–	574	–
Reverse repurchase agreements and cash collateral on securities borrowed	9 205	–	9 205	–
Sovereign debt securities	58 940	58 940	–	–
Bank debt securities	5 838	4 586	1 252	–
Other debt securities	8 815	3 908	4 907	–
Derivative financial instruments	12 395	–	12 373	22
Securities arising from trading activities	875	791	84	–
Investment portfolio	7 647	4 419	1 409	1 819
Loans and advances to customers	17 250	–	17 250	–
Other assets	625	625	–	–
Loans to group companies	80	–	80	–
	122 244	**73 269**	**47 134**	**1 841**
Liabilities				
Derivative financial instruments	15 907	–	15 907	–
Other trading liabilities	2 305	692	1 613	–
Repurchase agreements and cash collateral on securities lent	917	–	917	–
Customer accounts (deposits)	39 485	–	39 485	–
Other liabilities	291	–	291	–
	58 905	**692**	**58 213**	**–**
Net financial assets/(liabilities) at fair value	**63 339**	**72 577**	**(11 079)**	**1 841**

At 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)*

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 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**
Total losses recognised in the income statement	(135)	(135)
Purchases	542	542
Sales	(649)	(649)
Settlement	(95)	(95)
Transfers out of level 3	(950)	(950)
Foreign exchange adjustments	(25)	(25)
Balance as at 31 March 2018	**1 983**	**1 841**

R950 million has been transferred out of level 3 into level 2 due to a listed share price input to the valuation model becoming available.

For the year ended 31 March 2017, 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.

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

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			
2018			
Total gains/(losses) included in the income statement for the year			
Investment (loss)/income	(135)	399	(534)
	(135)	**399**	**(534)**
2017			
Total gains/(losses) included in the income statement for the year			
Investment (loss)/income	(65)	9	(74)
	(65)	**9**	**(74)**

For the year to 31 March R'million	Total	Realised	Unrealised
Company			
2018			
Total gains/(losses) recognised in the income statement for the year			
Investment (loss)/income	(135)	399	(534)
	(135)	**399**	**(534)**
2017			
Total gains/(losses) recognised in the income statement for the year			
Investment (loss)/income	(65)	9	(74)
	(65)	**9**	**(74)**

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 2018	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	22	Price earnings	EDITDA	(10%)/10%	2	(2)
Investment portfolio	1 961				942	(974)
		Price earnings	EBITDA	*	805	(734)
		Discounted cash flow	Precious and industrial metals prices	(10%)/6%	40	(68)
		Discounted cash flow	Cash flow	*	10	(30)
		Other	Various	**	87	(142)
Total	**1 983**				**944**	**(976)**

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)**

* *The EBITDA and cash flows have 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.*

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 2018	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	22	Price earnings	EBITDA	(10%)/10%	2	(2)
Investment portfolio	1 819				902	(934)
		Price earnings	EBITDA	*	765	(694)
		Discounted cash flow	Precious and industrial metals prices	(10%)/6%	40	(68)
		Discounted cash flow	Cash flows	*	10	(30)
		Other	Various	**	87	(142)
Total	**1 841**				**904**	**(936)**

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)**

* *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.*

In determining the value of level 3 financial instruments, the following are the principal inputs that can require judgement:

Price earnings multiple

The price 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.

Price of property and 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					
2018					
Assets					
The following table sets out the fair value of financial instruments held at amortised cost when the carrying value is not a reasonable approximation of fair value:					
Sovereign debt securities	3 463	3 458	3 458	–	–
Bank debt securities	1 916	1 951	1 368	583	–
Other debt securities	1 289	1 292	–	1 292	–
Loans and advances to customers	230 224	230 234	6 499	204 425	19 310
Liabilities					
Deposits by banks	24 607	24 813	211	24 602	–
Repurchase agreements and cash collateral on securities lent	7 478	7 475	4 090	3 385	–
Customer accounts (deposits)	282 408	283 334	132 178	151 156	–
Debt securities in issue	3 473	3 479	–	3 479	–
Subordinated liabilities	13 374	14 725	14 725	–	–

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	–	–

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.

At 31 March R'million	Carrying amount	Fair value	Fair value category Level 1	Level 2	Level 3
13. Fair value of financial instruments at amortised cost *(continued)*					
Company					
2018					
Assets					
Sovereign debt securities	3 463	3 458	3 458	–	–
Liabilities					
Deposits by banks	24 607	24 813	211	24 602	–
Repurchase agreements and cash collateral on securities lent	6 270	6 268	4 090	2 178	–
Customer accounts (deposits)	271 622	272 547	132 222	140 325	–
Debt securities in issue	2 443	2 449	–	2 449	–
Subordinated liabilities	13 374	14 725	14 725	–	–

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	–	–

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)*

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

		Fair value adjustment		
At 31 March R'million	Carrying value	Year to date	Cumulative	Maximum exposure to credit risk
14. Designated at fair value: loans and receivables and financial liabilities				
Group and company				
Loans and receivables				
2018				
Loans and advances to customers	17 250	265	394	16 990
	17 250	**265**	**394**	**16 990**
2017				
Loans and advances to customers	14 011	(96)	211	13 882
	14 011	**(96)**	**211**	**13 882**

Year to date and cumulative fair value adjustments to loans and receivables attributable to credit risk were both Rnil (2017: Rnil).

			Fair value adjustment	
At 31 March R'million	Carrying value	Remaining contractual amount to be repaid at maturity	Year to date	Cumulative
Group and company				
Financial liabilities designated at fair value through profit and loss				
2018				
Customer accounts (deposits)	39 485	39 235	161	250
	39 485	**39 235**	**161**	**250**
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**

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 (2017: Rnil).

At 31 March R'million	Group 2018	Group 2017	Company 2018	Company 2017
15. Cash and balances at central banks				
The country risk of cash and balances at central banks lies in the following geographies:				
South Africa	8 989	8 169	8 989	8 169
Other	198	184	–	–
	9 187	**8 353**	**8 989**	**8 169**

At 31 March R'million	Group 2018	Group 2017	Company 2018	Company 2017
16. Loans and advances to banks				
The country risk of loans and advances to banks lies in the following geographies:				
South Africa	8 005	13 141	7 852	13 002
United Kingdom	2 486	4 734	1 216	2 991
Europe (excluding UK)	1 563	3 742	1 445	2 573
Australia	208	190	90	137
United States of America	3 474	6 297	1 038	1 003
Asia	609	983	15	980
Other	920	2 850	201	432
	17 265	**31 937**	**11 857**	**21 118**

At 31 March R'million	Group 2018	Group 2017	Company 2018	Company 2017
17. Reverse repurchase agreements and cash collateral on securities borrowed and repurchase agreements and cash collateral on securities lent				
Assets				
Reverse repurchase agreements	15 079	21 508	14 485	21 508
Cash collateral on securities borrowed	5 401	5 119	5 401	5 119
	20 480	**26 627**	**19 886**	**26 627**
As part of the reverse repurchase and securities borrowing agreements, the group and company have received securities that they are allowed to sell or repledge. R1.5 billion (2017: R6.4 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	8 395	7 825	7 187	6 462
	8 395	**7 825**	**7 187**	**6 462**
The assets transferred and not derecognised in the group is R8.5 billion (2017: R5.8 billion) and R7.1 billion (2017: R5.8 billion) in the company. They are pledged as security for the term of the underlying repurchase agreement. Refer to note 45.				

At 31 March R'million	Group 2018	Group 2017	Company 2018	Company 2017
18. Sovereign debt securities				
Bonds	17 153	17 404	17 153	17 106
Government securities	1 144	538	1 144	538
Treasury bills	44 106	29 880	44 106	29 880
	62 403	**47 822**	**62 403**	**47 524**
The country risk of the sovereign debt securities lies in the following geographies:				
South Africa	62 403	47 382	62 403	47 084
Other	–	440	–	440
	62 403	**47 822**	**62 403**	**47 524**

At 31 March R'million	Group 2018	Group 2017	Company 2018	Company 2017
19. Bank debt securities				
Bonds	5 028	5 180	3 398	3 727
Asset-based securities	583	506	583	506
Floating rate notes	2 440	2 072	2 440	2 072
	8 051	**7 758**	**6 421**	**6 305**
The country risk of the bank debt securities lies in the following geographies:				
South Africa	4 856	4 344	4 856	4 344
United Kingdom	2 066	2 202	1 459	1 504
United States of America	1 023	1 056	–	300
Other	106	156	106	157
	8 051	**7 758**	**6 421**	**6 305**

At 31 March R'million	Group 2018	Group 2017	Company 2018	Company 2017
20. Other debt securities				
Bonds	6 337	7 276	6 015	6 023
Commercial paper	60	–	60	–
Floating rate notes	2 800	2 533	2 800	2 533
Liquid asset bills	–	298	–	298
Asset-based securities	1 109	1 748	1 109	1 748
Other investments	36	90	–	–
	10 342	**11 945**	**9 984**	**10 602**
The country risk of the other debt securities lies in the following geographies:				
South Africa	5 309	6 777	5 309	6 091
United Kingdom	163	1 234	129	986
Europe (excluding UK)	3 791	2 722	3 503	2 618
Australia	96	90	60	–
United States of America	169	215	169	–
Other	814	907	814	907
	10 342	**11 945**	**9 984**	**10 602**

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.

	2018			2017		
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	126 140	3 349	2 240	124 866	2 288	1 782
Currency swaps	35 187	2 046	3 002	12 948	2 134	4 474
OTC options bought and sold	36 304	899	1 036	219 118	454	416
Other foreign exchange contracts	2	^	^	1	3	3
	197 633	**6 294**	**6 278**	**356 933**	**4 879**	**6 675**
Interest rate derivatives						
Caps and floors	2 114	8	5	2 612	4	9
Swaps	283 476	2 357	3 228	207 132	1 293	2 318
Forward rate agreements	1 600	52	14	1 300	16	20
OTC options bought and sold	1 000	31	31	^	24	23
Other interest rate contracts	6 604	^	396	6 265	451	34
	294 794	**2 448**	**3 674**	**217 309**	**1 788**	**2 404**
Equity and stock index derivatives						
OTC options bought and sold	41 004	4 703	3 097	311 919	3 203	1 961
Equity swaps and forwards	59 104	1 044	1 437	33 615	347	961
OTC derivatives	100 108	5 747	4 534	345 534	3 550	2 922
Exchange traded futures	1 828	(21)	–	138	1	–
Exchange traded options	5 131	(1)	–	27 021	8	–
Warrants	2 188	–	5 904	2 890	–	5 124
	109 255	**5 725**	**10 438**	**375 583**	**3 559**	**8 046**
Commodity derivatives						
OTC options bought and sold	10	9	9	1	1	1
Commodity swaps and forwards	816	62	30	111	22	24
	826	**71**	**39**	**112**	**23**	**25**
Credit derivatives	**9 106**	**10**	**56**	**7 692**	**29**	**61**
Embedded derivatives*		**213**	**–**		**221**	**–**
Cash collateral		**(2 175)**	**(4 578)**		**(643)**	**(4 655)**
Derivatives per balance sheet		**12 586**	**15 907**		**9 856**	**12 556**

* *Mainly includes profit shares received as part of lending transactions.*

^ *Less than R1 million.*

21. Derivative financial instruments *(continued)*

At 31 March R'million	2018 Notional principal amounts	2018 Positive fair value	2018 Negative fair value	2017 Notional principal amounts	2017 Positive fair value	2017 Negative fair value
Company						
Foreign exchange derivatives						
Forward foreign exchange contracts	126 140	3 349	2 240	124 866	2 288	1 782
Currency swaps	35 187	2 046	3 002	12 948	2 134	4 474
OTC options bought and sold	36 304	899	1 036	219 118	454	416
Other foreign exchange contracts	2	^	^	1	3	3
	197 633	**6 294**	**6 278**	**356 933**	**4 879**	**6 675**
Interest rate derivatives						
Caps and floors	2 114	8	5	2 612	4	9
Swaps	283 476	2 357	3 228	207 132	1 293	2 318
Forward rate agreements	1 600	52	14	1 300	16	20
OTC options bought and sold	1 000	31	31	^	24	23
Other interest rate contracts	6 604	^	396	6 265	451	34
	294 794	**2 448**	**3 674**	**217 309**	**1 788**	**2 404**
Equity and stock index derivatives						
OTC options bought and sold	41 004	4 703	3 097	311 919	3 203	1 961
Equity swaps and forwards	59 104	1 044	1 437	33 615	347	961
OTC derivatives	100 108	5 747	4 534	345 534	3 550	2 922
Exchange traded futures	1 828	(21)	–	138	1	–
Exchange traded options	5 131	(1)	–	27 021	8	–
Warrants	2 188	–	5 904	2 890	–	5 124
	109 255	**5 725**	**10 438**	**375 583**	**3 559**	**8 046**
Commodity derivatives						
OTC options bought and sold	10	9	9	1	1	1
Commodity swaps and forwards	816	62	30	111	22	24
	826	**71**	**39**	**112**	**23**	**25**
Credit derivatives	**8 856**	**10**	**56**	**7 692**	**29**	**61**
Embedded derivatives*		**213**	**–**		**32**	**–**
Cash collateral		**(2 175)**	**(4 578)**		**(643)**	**(4 655)**
Derivatives per balance sheet		**12 586**	**15 907**		**9 667**	**12 556**

* *Mainly includes profit shares received as part of lending transactions.*
^ *Less than R1 million.*

	Group		Company	
At 31 March R'million	**2018**	**2017**	**2018**	**2017**
22. Securities arising from trading activities				
Bonds	698	457	698	457
Floating rate notes	–	6	–	6
Listed equities	93	115	93	115
Unlisted equities	84	75	84	75
	875	**653**	**875**	**653**

	Group		Company	
At 31 March R'million	**2018**	**2017**	**2018**	**2017**
23. Investment portfolio				
Listed equities	4 774	4 087	4 620	3 893
Unlisted equities*	3 169	3 117	3 027	2 975
	7 943	**7 204**	**7 647**	**6 868**

* *Unlisted equities include loan instruments that are convertible into equity.*

	Group		Company	
At 31 March R'million	**2018**	**2017**	**2018**	**2017**
24. Loans and advances to customers and other loans and advances				
Gross loans and advances to customers	248 902	226 873	235 286	214 214
Impairments of loans and advances to customers	(1 428)	(1 204)	(1 140)	(955)
Net loans and advances to customers	**247 474**	**225 669**	**234 146**	**213 259**
Gross other loans and advances	290	336	357	397
Impairments of other loans and advances	(25)	(26)	(79)	(79)
Net other loans and advances	**265**	**310**	**278**	**318**

For further analysis on loans and advances refer to pages 42 to 50 in the risk management section.

At 31 March R'million	Group 2018	Group 2017	Company 2018	Company 2017
24. Loans and advances to customers and other loans and advances *(continued)*				
Specific and portfolio impairments				
Reconciliation of movements in specific and portfolio impairments:				
Loans and advances to customers				
Specific impairment				
Balance at the beginning of the year	883	680	721	532
Charge to the income statement	670	718	619	642
Reversals and recoveries recognised in the income statement	(302)	(164)	(302)	(164)
Utilised	(447)	(358)	(456)	(289)
Transfers	(5)	7	–	–
Exchange adjustment	(6)	–	–	–
Balance at the end of the year	**793**	**883**	**582**	**721**
Portfolio impairment				
Balance at the beginning of the year	321	230	234	140
Charge to the income statement	324	102	324	94
Transfers	5	(4)	–	–
Exchange adjustment	(15)	(7)	–	–
Balance at the end of the year	**635**	**321**	**558**	**234**
Other loans and advances				
Specific impairment				
Balance at the beginning of the year	9	11	60	60
Charge/(release) to the income statement	1	(2)	–	–
Utilised	(2)	–	–	–
Transfers	(1)	–	–	–
Balance at the end of the year	**7**	**9**	**60**	**60**
Portfolio impairment				
Balance at the beginning of the year	17	20	19	19
Transfers	1	(3)	–	–
Balance at the end of the year	**18**	**17**	**19**	**19**
Total specific impairments	800	892	642	781
Total portfolio impairments	653	338	577	253
Total impairments	**1 453**	**1 230**	**1 219**	**1 034**
Reconciliation of income statement charge:				
Loans and advances to customers	**692**	**656**	**641**	**572**
Specific impairment charge to income statement	368	554	317	478
Portfolio impairment charge to income statement	324	102	324	94
Securitised assets (refer to note 25)	**–**	**3**	**–**	**–**
Specific impairment charge to the income statement	1	3	–	–
Portfolio impairment release to income statement	(1)	–	–	–
Other loans and advances	**1**	**(2)**	**–**	**–**
Specific impairment charge/(release) to income statement	1	(2)	–	–
Other assets	**27**	**–**	**–**	**–**
Specific impairment charge to income statement	27	–	–	–
Total income statement charge	**720**	**657**	**641**	**572**

At 31 March R'million	Group 2018	Group 2017
25. Securitised assets and liabilities arising on securitisation		
Gross own originated loans and advances to customers securitised	6 836	7 782
Impairments of own originated loans and advances to customers securitised	(6)	(6)
Net own originated loans and advances to customers securitised	**6 830**	**7 776**
Other securitised assets are made up of the following categories of assets:		
Cash and cash equivalents	241	100
Total other securitised assets	**241**	**100**
The associated liabilities are recorded on balance sheet in the following line items:		
Liabilities arising on securitisation of own originated loans and advances	**1 551**	**673**
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	1	3
Utilised	–	(3)
Balance at the end of the year	**2**	**1**
Portfolio impairment		
Balance at the beginning of the year	5	5
Release to the income statement	(1)	–
Balance at the end of the year	**4**	**5**
Total portfolio and specific impairments on balance sheet	**6**	**6**

At 31 March R'million	Group 2018	Group 2017	Company 2018	Company 2017
26. Interest in associated undertakings				
Analysis of the movement in interests in associated undertakings:				
At the beginning of the year	5 514	5 145	5 413	5 086
Transfers from investment portfolio	–	69	–	24
Share of post taxation profit of associates	777	306	766	303
Exchange adjustments	(3)	(6)	–	–
Other	–	–	1	–
At the end of the year	**6 288**	**5 514**	**6 180**	**5 413**

R'million	2018	2017
Details of material associated companies		
IEP Group Proprietary Limited		
Summarised financial information (R'million):		
For the year to 31 March		
Revenue	11 698	5 711
Profit after taxation	1 927	675
Total comprehensive income	1 903	675
At 31 March		
Assets		
Non-current assets	20 862	19 912
Current assets	6 184	5 288
Liabilities		
Non-current liabilities	9 603	7 695
Current liabilities	3 073	5 084
Net asset value	**14 370**	**12 421**
Non-controlling interest	2 342	1 905
Shareholders' equity	12 028	10 516
Effective interest in issued share capital	45.7%	45.0%
Net asset value	5 499	4 732
Goodwill	681	681
Carrying value of interest – equity method	**6 180**	**5 413**

At 31 March R'million	Group 2018	Group 2017	Company 2018	Company 2017
27. Deferred taxation				
Deferred taxation assets	586	388	434	260
Deferred taxation liabilities	(99)	(109)	–	–
Net deferred taxation assets	**487**	**279**	**434**	**260**
The net deferred taxation assets arise from:				
Deferred capital allowances	13	(7)	–	–
Income and expenditure accruals	345	215	335	203
Unrealised fair value adjustments on financial instruments	85	46	85	46
Deferred taxation on acquired intangibles	(76)	(90)	–	–
Impairment of loans and advances to customers	51	51	14	11
Finance lease accounting	69	64	–	–
Net deferred taxation assets	**487**	**279**	**434**	**260**
Reconciliation of net deferred taxation assets:				
At the beginning of the year	279	(6)	260	–
Reversal/charge to income statement	329	341	296	317
Charge directly in other comprehensive income	(122)	(57)	(122)	(57)
Exchange adjustments	1	1	–	–
At year end	**487**	**279**	**434**	**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 2018	Group 2017	Company 2018	Company 2017
28. Other assets				
Settlement debtors	959	774	790	774
Trading properties	265	293	210	210
Prepayments and accruals	1 172	835	1 106	761
Trading initial margins	337	341	337	341
Investec Import Solutions debtors	2 819	1 862	–	–
Fee debtors	30	13	30	13
Corporate tax assets	55	115	–	–
Other	1 049	1 033	834	693
	6 686	**5 266**	**3 307**	**2 792**

29. Property and equipment

At 31 March R'million	Freehold properties	Leasehold improvements	Furniture and vehicles	Equipment	Total
Group					
2018					
Cost					
At the beginning of the year	–	44	163	752	959
Additions	2 200	19	40	83	2 342
Disposals	–	–	(10)	(38)	(48)
Reclassifications	–	–	5	50	55
At the end of the year	**2 200**	**63**	**198**	**847**	**3 308**
Accumulated depreciation					
At the beginning of the year	–	(28)	(120)	(537)	(685)
Disposals	–	–	6	30	36
Depreciation	–	(6)	(13)	(91)	(110)
Reclassifications	–	–	(5)	(50)	(55)
At the end of the year	**–**	**(34)**	**(132)**	**(648)**	**(814)**
Net carrying value	**2 200**	**29**	**66**	**199**	**2 494**
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**

At 31 March R'million	Freehold properties	Leasehold improvements	Furniture and vehicles	Equipment	Total
29. Property and equipment *(continued)*					
Company					
2018					
Cost					
At the beginning of the year	–	44	147	712	903
Additions	2 200	5	40	58	2 303
Disposals	–	–	(2)	(27)	(29)
At the end of the year	**2 200**	**49**	**185**	**743**	**3 177**
Accumulated depreciation					
At the beginning of the year	–	(29)	(119)	(520)	(668)
Disposals	–	–	–	18	18
Depreciation	–	(5)	(11)	(81)	(97)
At the end of the year	**–**	**(34)**	**(130)**	**(583)**	**(747)**
Net carrying value	**2 200**	**15**	**55**	**160**	**2 430**
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**

At 31 March R'million	Group 2018	Group 2017
30. Goodwill		
Cost		
At beginning and end of the year	171	171
Net carrying value	**171**	**171**

Goodwill is tested annually for impairment, or more frequently if evidence exists that goodwill might be impaired, by comparing the carrying value to its recoverable amount.

The recoverable amount of goodwill is determined based on expected cash flows within the cash-generating units of the group to which the goodwill is allocated. Key assumptions within the calculation include discount rates, growth rates in revenue and related expenditure and loan impairment rates.

Discount rates are based on pre-tax rates that reflect current market conditions, adjusted for the specific risks associated with the cash-generating unit. Growth rates are based on industry growth forecasts. Cash flow forecasts are based on the most recent financial budgets for the next financial year and are extrapolated for a period of three to five years, adjusted for expected future events.

Goodwill relates particularly to the businesses from Import Solutions (IIS) acquisition which has been identified as a separate cash-generating unit. The goodwill relating to IIS has been tested for impairment, taking into account profitability, being the budgeted profits and the future profit growth for the next 5 years. The valuation is based on management's assessment of appropriate profit forecast and discount rate to estimate the fair value. The discount rate applied of 6.90% is determined using the South African Inter-bank lending rate, adjusted for business specific risk.

Notes to the financial statements

(continued)

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
31. Intangible assets							
2018							
Cost							
At the beginning of the year	679	127	412	1 218	672	99	771
Additions	49	–	–	49	49	–	49
Disposals	(13)	(99)	–	(112)	(13)	(99)	(112)
At the end of the year	**715**	**28**	**412**	**1 155**	**708**	**–**	**708**
Accumulated amortisation and impairments							
At the beginning of the year	(514)	(106)	(90)	(710)	(507)	(98)	(605)
Disposals	1	98	–	99	1	98	99
Amortisation	(75)	(6)	(51)	(132)	(75)	–	(75)
At the end of the year	**(588)**	**(14)**	**(141)**	**(743)**	**(581)**	**–**	**(581)**
Net carrying value	**127**	**14**	**271**	**412**	**127**	**–**	**127**
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**

32. Acquisitions

2018

A deferred consideration of R100 million which was based on profitability criteria, was paid in the current year relating to the acquisition of the Investec Import Solutions group, previously Blue Strata group. This was recognised as an expense in the income statement.

There were no significant acquisitions or disposals of subsidiaries during the current and prior year.

	Group		Company	
At 31 March R'million	**2018**	**2017**	**2018**	**2017**
33. Loans to group companies and loans from group companies and subsidiaries				
Loans to group companies				
Loans to fellow subsidiaries	8 198	11 722	8 189	11 679
Preference share investment in Investec Limited	319	319	–	–
Preference share investment in fellow subsidiaries	4 937	5 987	–	1 051
Intergroup derivative financial instruments	45	78	80	140
	13 499	**18 106**	**8 269**	**12 870**
Loans from group companies and subsidiaries				
Loans from subsidiaries	–	–	1 845	914
Sechold Finance Services Proprietary Limited	–	–	122	122
KWJ Investments Proprietary Limited	–	–	119	–
Other subsidiaries	–	–	1 604	792
Loan from holding company – Investec Limited	522	864	522	863
Loans from fellow subsidiaries	1 554	148	1 485	130
Preference shares issued to fellow subsidiaries	4 931	4 930	–	–
	7 007	**5 942**	**3 852**	**1 907**

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.

34. Investment in subsidiaries

At 31 March	Nature of business	Holding %	Shares at book value 2018 R'million	Shares at book value 2017 R'million	Loan advances to subsidiaries 2018 R'million	Loan advances to subsidiaries 2017 R'million
Company						
Material direct subsidiaries of Investec Bank Limited						
Investec Bank (Mauritius) Limited^	Banking	100	534	534	2 890	3 172
Reichmans Holdings Proprietary Limited	Trade and asset financing	100	112	112	6 893	5 490
Sechold Finance Services Proprietary Limited	Investment holding	100	*	*	–	–
KWJ Investments Proprietary Limited	Investment holding	100	*	*	–	60
AEL Investment Holdings Proprietary Limited	Investment holding	100	*	*	356	786
Investpref Limited	Investment holding	100	*	*	150	158
Copperleaf Country Estate Proprietary Limited	Property developer	100	11	11	99	123
Investec Import Solutions Proprietary Limited	Import logistics and trade finance	100	737	737	2 867	1 919
Other			179	260	530	–
			1 573	**1 654**	**13 785**	**11 708**

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.*

Consolidated structured entities

Investec Bank Limited has 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 Proprietary Limited	Securitised third party originated residential mortgages

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 2018	Group 2017	Company 2018	Company 2017
35. Other trading liabilities				
Deposits	1 613	1 317	1 613	1 317
Short positions – gilts	692	350	692	350
	2 305	**1 667**	**2 305**	**1 667**

At 31 March R'million	Group 2018	Group 2017	Company 2018	Company 2017
36. Debt securities in issue				
Repayable in:				
Less than three months	86	52	86	52
Three months to one year	2 500	4 309	1 670	4 294
One to five years	887	1 462	687	432
	3 473	**5 823**	**2 443**	**4 778**

At 31 March R'million	Group 2018	Group 2017	Company 2018	Company 2017
37. Other liabilities				
Settlement liabilities	473	1 547	457	801
Other creditors and accruals	3 284	3 193	3 113	3 020
Other non-interest-bearing liabilities	3 087	1 255	2 835	1 029
	6 844	**5 995**	**6 405**	**4 850**

At 31 March R'million	Group 2018	Group 2017	Company 2018	Company 2017
38. Subordinated liabilities				
Issued by Investec Bank Limited				
IV08 fixed rate 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
IV019 indexed rate subordinated unsecured callable bonds	129	103	129	103
IV019A indexed rate subordinated unsecured callable bonds	368	364	368	364
IV022 variable rate subordinated unsecured callable bonds	–	638	–	638
IV023 variable rate subordinated unsecured callable bonds	–	860	–	860
IV024 variable rate subordinated unsecured callable bonds	–	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	444	398	444	398
IV030A indexed rate subordinated unsecured callable bonds	420	420	420	420
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 fixed rate subordinated unsecured callable bonds	101	101	101	101
IV035 variable rate subordinated unsecured callable bonds	1 468	1 468	1 468	1 468
IV036 variable rate subordinated unsecured callable bonds	32	32	32	32
IV037 variable rate subordinated unsecured callable bonds	1 182	1 255	1 182	1 255
IV038 variable rate subordinated unsecured callable bonds	350	350	350	350
IV039 indexed rate subordinated unsecured callable bonds	166	154	166	154
IV040 variable rate subordinated unsecured callable bonds	589	589	589	589
IV041 fixed rate subordinated unsecured callable bonds	190	190	190	190
IV042 variable rate subordinated unsecured callable bonds	50	50	50	50
IV043 fixed rate subordinated unsecured callable bonds	150	150	150	150
IV044 variable rate subordinated unsecured callable bonds	240	240	240	240
IV045 indexed rate subordinated unsecured callable bonds	1 603	1 492	1 603	1 492
IV046 variable rate subordinated unsecured callable bonds	1 200	–	1 200	–
IV047 variable rate subordinated unsecured callable bonds	1 073	–	1 073	–
	13 374	**13 180**	**13 374**	**13 180**
Remaining maturity:				
In one year or less, or on demand	1 210	2 205	1 210	2 205
In more than one year, but not more than two years	3 114	400	3 114	400
In more than two years, but not more than five years	8 553	7 012	8 553	7 012
In more than five years	497	3 563	497	3 563
	13 374	**13 180**	**13 374**	**13 180**
Reconciliation from opening balance to closing balance:				
Opening balance	13 180	10 732	13 180	10 732
Subordinated debt raised	2 273	4 870	2 273	4 870
Repayment of subordinated debt	(2 205)	(2 519)	(2 205)	(2 519)
Consumer price index adjustment	126	97	126	97
Closing balance	**13 374**	**13 180**	**13 374**	**13 180**

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 fixed rate 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. The bonds were called on 30 April 2018.

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. The bonds were called on 30 April 2018.

IV015 variable rate subordinated unsecured callable bonds

Rnil (2017: 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.

IV019 indexed rate subordinated unsecured callable bonds

R129 million (2017: R103 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

R368 million (2017: R364 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

Rnil (2017: 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

Rnil (2017: 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.

IV024 variable rate subordinated unsecured callable bonds

Rnil (2017: 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.

38. Subordinated liabilities *(continued)*

IV030 indexed rate subordinated unsecured callable bonds

R444 million (2017: R398 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 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 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.

IV036 variable rate subordinated unsecured callable bonds

R32 million 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 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 19 October 2021. The implied zero coupon yield is 6.29961713% nacq (ACT/360) up until 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.

38. Subordinated liabilities *(continued)*

IV038 variable rate subordinated unsecured callable bonds

R350 million 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

R166 million 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 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 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 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 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 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

R1 603 million (2017: R1 492 million) 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.

IV046 variable rate subordinated unsecured callable bonds

R1 200 million (2017: Rnil) Investec Bank Limited IV046 locally registered subordinated unsecured callable bonds are due in June 2027. Interest is payable quarterly on 21 September, 21 December, 21 March and 21 June at a rate equal to the three-month Jibar plus 3.90%. The maturity date is 21 June 2027, but the company has the option to call the bonds upon regulatory capital disqualification or from 21 June 2022.

IV047 variable rate subordinated unsecured callable bonds

$116 million (2017: Rnil) Investec Bank Limited IV047 locally registered subordinated unsecured Tier II callable bonds are due in June 2027 and were issued at an issue price of $86 million. The notes will automatically convert from zero coupon notes to floating rate notes on the first optional redemption date, being 30 June 2022. The implied zero coupon yield is 5.915966% nacq (ACT/360) up until; the 30 June 2022. If the issuer does not exercise the option to redeem the notes on 30 June 2022, then interest on the floating rate notes shall commence on 30 June 2022 and is payable quarterly on 30 September, 30 December, 30 June at a rate equal to the three-month USD Libor plus 4.5% up to and excluding 30 June 2027. The maturity date is 30 June 2027, but the company has the option to call the bonds upon regulatory capital disqualification or from 30 June 2022.

At 31 March R'million	Group 2018	Group 2017	Company 2018	Company 2017
39. Ordinary share capital				
Authorised				
105 000 000 (2017: 105 000 000) ordinary shares of 50 cents each				
Issued				
63 019 022 (2017: 63 019 022) ordinary shares of 50 cents each, fully paid	32	32	32	32

At 31 March R'million	Group 2018	Group 2017	Company 2018	Company 2017
40. Perpetual preference shares				
Authorised				
70 000 000 (2017: 70 000 000) non-redeemable, non-cumulative, non-participating preference shares of one cent each (perpetual preference shares)				
20 000 000 (2017: 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 (2017: 49 000 000) redeemable, non-participating preference shares with a par value of one cent each (redeemable programme preference shares)				
1 000 000 (2017: 1 000 000) class IBRP1 redeemable, non-participating preference shares with a par value of one cent each				
Issued				
15 447 630 (2017: 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 2018	Group 2017	Company 2018	Company 2017
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**

As at 31 March R'million	Group 2018	Group 2017	Company 2018	Company 2017
42. Other Additional Tier 1 securities in issue				
IV048 variable rate subordinated unsecured callable bonds	**350**	**–**	**350**	**–**

Investec Bank Limited issued R350 million other Additional Tier 1 floating rate notes on 22 March 2018. Interest is payable quarterly on 22 June, 22 September, 22 December and 22 March at a rate equal to the three-month JIBAR plus 5.15%. There is no maturity date but the issuer has the option to redeem on 22 March 2023 and on every interest payment date thereafter. The interest is payable at the option of the issuer.

	Group			
	2018		2017	
At 31 March R'million	Total future minimum payments	Present value	Total future minimum payments	Present value
43. Finance lease disclosures				
Finance lease receivables included in loans and advances to customers				
Lease receivables due in:				
Less than one year	1 274	1 051	974	803
One to five years	1 190	1 040	925	795
Later than five years	–	–	76	65
	2 464	**2 091**	**1 975**	**1 663**
Unearned finance income	**373**		**312**	

At 31 March 2018 and 31 March 2017, there were no unguaranteed residual values.

	Group		Company	
At 31 March R'million	**2018**	**2017**	**2018**	**2017**
44. Notes to cash flow statement				
Profit before taxation adjusted for non-cash items is derived as follows:				
Profit before taxation	4 475	4 159	4 313	3 902
Adjustments for non-cash items included in net income before taxation:				
Amortisation of acquired intangible assets	51	51	–	–
Depreciation, amortisation and impairment of property, equipment and intangibles	191	171	172	157
Impairment of loans and advances	720	657	641	572
Share of post taxation profit of associates	(777)	(306)	(766)	(303)
Loss on non-current assets held for sale	–	41	–	41
Gain on realisation of available-for-sale assets recycled through the income statement	(94)	(61)	(81)	(61)
Additional costs on acquisition of subsidiary	100	–	–	–
Profit before taxation adjusted for non-cash items	**4 666**	**4 712**	**4 279**	**4 308**
Increase in operating assets				
Loans and advances to banks	8 805	(1 262)	8 804	(1 261)
Reverse repurchase agreements and cash collateral on securities borrowed	6 090	12 285	6 741	12 285
Sovereign debt securities	(14 489)	(6 452)	(14 778)	(6 140)
Bank debt securities	(487)	6 789	(107)	6 734
Other debt securities	1 642	722	721	753
Derivative financial instruments	(2 950)	6 201	(2 919)	6 117
Securities arising from trading activities	(222)	339	(222)	339
Investment portfolio	(597)	(760)	(611)	(796)
Loans and advances to customers	(23 937)	(20 147)	(21 467)	(19 179)
Own originated loans and advances to customers securitised	946	191	–	–
Other loans and advances	45	57	40	55
Other securitised assets	(141)	15	–	–
Other assets	(1 430)	(1 615)	(515)	(1 058)
Investment properties	–	–	–	–
Loans to group companies	4 992	(6 190)	2 605	(10 668)
Non-current assets held for sale	456	(497)	456	(497)
	(21 277)	**(10 324)**	**(21 252)**	**(13 316)**
Increase in operating liabilities				
Deposits by banks	(7 771)	(4 864)	(7 771)	(4 730)
Derivative financial instruments	3 351	(868)	3 351	(868)
Other trading liabilities	638	262	638	262
Repurchase agreements and cash collateral on securities lent	729	(8 955)	725	(8 863)
Customer accounts (deposits)	20 021	25 137	23 933	23 396
Debt securities in issue	(2 350)	(1 842)	(2 335)	(1 892)
Liabilities arising on securitisation of own originated loans and advances	878	(136)	–	–
Other liabilities	(1 317)	1 010	(645)	813
Loans from group companies	1 065	(409)	1 945	(1 702)
	15 244	**9 335**	**19 841**	**6 416**

At 31 March R'million	Group 2018	Group 2017	Company 2018	Company 2017
45. Commitments				
Undrawn facilities	47 531	44 070	45 421	41 965
	47 531	**44 070**	**45 421**	**41 965**
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	209	398	196	384
One to five years	524	2 058	470	2 012
Greater than five years	68	361	–	360
	801	**2 817**	**666**	**2 756**

At 31 March 2018, 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	2018 Carrying amount of pledged asset	2018 Carrying value of related liability repurchase agreements and cash collateral on securities lent	2017 Carrying amount of pledged asset	2017 Carrying value of related liability repurchase agreements and cash collateral on securities lent
Group				
Pledged assets				
Sovereign debt securities	5 239	4 977	4 393	4 350
Bank debt securities	2 275	1 803	561	450
Other debt securities	855	645	805	644
Securities arising from trading activities	94	94	108	108
	8 463	**7 519**	**5 867**	**5 552**
Company				
Pledged assets				
Sovereign debt securities	5 239	4 977	4 393	4 350
Bank debt securities	942	596	561	450
Other debt securities	855	645	805	644
Securities arising from trading activities	94	94	108	108
	7 130	**6 312**	**5 867**	**5 552**

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 2018	Group 2017	Company 2018	Company 2017
46. Contingent liabilities				
Guarantees and assets pledged as collateral security:				
– Guarantees and irrevocable letters of credit	16 843	21 167	17 682	21 969
	16 843	**21 167**	**17 682**	**21 969**

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 2018	Group and company 2017
47. 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	452	667
Increase in loans	193	117
Repayment of loans	(88)	(137)
Exchange adjustment	(6)	(195)
At the end of the year	**551**	**452**
Guarantees		
At the beginning of the year	102	129
Additional guarantees granted	5	1
Guarantees cancelled	(103)	(23)
Exchange adjustments	3	(5)
At the end of the year	**7**	**102**
Deposits		
At the beginning of the year	(604)	(508)
Increase in deposits	(152)	(378)
Decrease in deposits	324	183
Exchange adjustment	–	99
At the end of the year	**(432)**	**(604)**

The above transactions were made in the ordinary course of business and on the same terms, including interest rates and security, as for arm's length 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.

Where related parties have investment products (that may be included in funds under management) offered to clients on terms and conditions in the ordinary course of business, these have not been included above as the group does not carry any exposure relating to these transactions (they are at client risk).

For the year to 31 March R'million	Transactions with Investec plc and its subsidiaries 2018	Transactions with Investec plc and its subsidiaries 2017	Transactions with Investec Bank (Mauritius) Limited and its subsidiaries 2018	Transactions with Investec Bank (Mauritius) Limited and its subsidiaries 2017
47. Related party transactions *(continued)*				
Transactions with fellow subsidiaries				
Assets				
Loans and advances to banks	817	1 134	–	–
Reverse repurchase agreements and cash collateral on securities borrowed	297	–	–	–
Loans and advances to customers	85	–	–	–
Other debt securities	633	1 578	3 063	3 350
Derivative financial instruments	350	592	42	60
Other assets	222	–	–	–
Liabilities				
Deposits from banks	311	480	187	211
Customer accounts (deposits)	–	–	–	–
Repurchase agreements and cash collateral on securities lent	–	–	–	–
Derivative financial instruments	49	87	206	40
Debt securities in issue	–	135	–	–
Other liabilities	42	63	–	–
Income statement				
Interest income	42	71	107	92
Interest expense	9	23	10	13
Fee and commission income	–	–	14	5
Fee and commission expense	–	–	1	2
Off balance sheet				
Guarantees issued	–	–	22	91

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 2018, this resulted in a net payment by Investec plc group of R494.04 million (2017: R410.7 million).

	2018	2017
Transactions with other related parties		
Loan from Investec Bank (Mauritius) Limited to Forty Two Point Two	**–**	**552**
The loan arises from Investec's portion of funding in relation to the original 15% acquisition of Investec Asset Management by senior management of the business		
Transactions with associates		
Amounts due from associates and their subsidiaries	**3 197**	**4 597**
Interest income from loans to associates	**204**	**89**
Interest expense from loans from associates	**22**	**–**

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 108 to 123 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.

48. 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 63.

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								
2018								
Liabilities								
Deposits by banks	423	7 076	2 261	544	6 985	7 488	–	24 777
Derivative financial instruments	15 907	–	–	–	–	–	–	15 907
– held-for-trading	15 851	–	–	–	–	–	–	15 851
– held for hedging risk	56	–	–	–	–	–	–	56
Other trading liabilities	2 305	–	–	–	–	–	–	2 305
Repurchase agreements and cash collateral on securities lent	917	4 737	4	5	606	1 385	741	8 395
Customer accounts (deposits)	118 981	35 102	67 560	25 142	39 906	36 207	2 243	325 141
Debt securities in issue	–	–	86	342	2 190	895	–	3 513
Liabilities arising on securitisation of own originated loans and advances	–	–	64	80	83	1 437	518	2 182
Other liabilities	1 861	442	1 266	2 292	288	582	117	6 848
Loans from group companies	7 007	–	–	–	–	–	–	7 007
Subordinated liabilities	–	469	149	249	449	12 089	851	14 256
Total on balance sheet liabilities	**147 401**	**47 826**	**71 390**	**28 654**	**50 507**	**60 083**	**4 470**	**410 331**
Contingent liabilities	2 797	–	8 194	1 145	2 668	1 792	1 449	18 045
Commitments	5 473	392	5 791	1 750	2 256	12 368	19 501	47 531
Total liabilities	**155 671**	**48 218**	**85 375**	**31 549**	**55 431**	**74 243**	**25 420**	**475 907**

48. 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								
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**

48. 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								
2018								
Liabilities								
Deposits by banks	423	7 076	2 261	544	6 985	7 488	–	24 777
Derivative financial instruments	15 907	–	–	–	–	–	–	15 907
– held-for-trading	15 851	–	–	–	–	–	–	15 851
– held for hedging risk	56	–	–	–	–	–	–	56
Other trading liabilities	2 305	–	–	–	–	–	–	2 305
Repurchase agreements and cash collateral on securities lent	917	4 736	–	–	596	199	741	7 189
Customer accounts (deposits)	111 571	34 265	66 660	24 591	39 116	35 910	2 243	314 356
Debt securities in issue	–	–	86	342	1 360	695	–	2 483
Other liabilities	1 826	281	1 123	2 272	245	570	90	6 407
Loans from group companies and subsidiaries	3 852	–	–	–	–	–	–	3 852
Subordinated liabilities	–	469	149	249	449	12 089	851	14 256
Total on balance sheet liabilities	**136 801**	**46 827**	**70 279**	**27 998**	**48 751**	**56 951**	**3 925**	**391 532**
Contingent liabilities	2 797	–	7 973	1 078	2 629	1 756	1 449	17 682
Commitments	5 473	–	5 610	1 310	1 981	11 550	19 497	45 421
Total liabilities	**145 071**	**46 827**	**83 862**	**30 386**	**53 361**	**70 257**	**24 871**	**454 635**

48. 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**

49. 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.

Notes to the financial statements

(continued)

49. 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						
2018						
Interest rate swap	**Bonds**	**75**	**(210)**	**33**	**268**	**183**
2017						
Interest rate swap	Bonds	(364)	(203)	7	127	35
Company						
2018						
Interest rate swap	**Bonds**	**75**	**(210)**	**33**	**268**	**183**
2017						
Interest rate swap	Bonds	(353)	(192)	18	138	46

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			
2018			
Cross-currency swaps	**Bonds**	**(518)**	**Three months**
Forward exchange contracts	**Dividends**	**78**	**Three months**
2017			
Cross-currency swaps	Bonds	(1 189)	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 R1 195 million (2017: R3 210 million) are included in net interest income.

Hedges of net investments in foreign operations

Investec Bank Limited entered into foreign exchange contracts to hedge its balance sheet exposure to its net investment, in US Dollars, in Investec Bank (Mauritius) Limited, these were closed out in the current financial year.

At 31 March R'million	Hedging instrument fair value
Group	
2018	**–**
2017	(149)

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	

50. Offsetting

At 31 March R'million	Gross amounts	Amounts offset	Net amounts reported on the balance sheet	Financial instruments (including non-cash collateral)	Net amount
2018					
Group					
Assets					
Cash and balances at central banks	9 187	–	9 187	–	9 187
Loans and advances to banks	21 843	(4 578)	17 265	–	17 265
Non-sovereign and non-bank cash placements	9 993	–	9 993	–	9 993
Reverse repurchase agreements and cash collateral on securities borrowed	20 480	–	20 480	–	20 480
Sovereign debt securities	62 403	–	62 403	(5 239)	57 164
Bank debt securities	8 051	–	8 051	(2 275)	5 776
Other debt securities	10 342	–	10 342	(855)	9 487
Derivative financial instruments	18 089	(5 503)	12 586	(4 837)	7 749
Securities arising from trading activities	875	–	875	(94)	781
Investment portfolio	7 943	–	7 943	–	7 943
Loans and advances to customers	249 431	(1 957)	247 474	–	247 474
Own originated loans and advances to customers securitised	6 830	–	6 830	–	6 830
Other loans and advances	265	–	265	–	265
Other securitised assets	241	–	241	–	241
Other assets	6 686	–	6 686	–	6 686
	432 659	**(12 038)**	**420 621**	**(13 300)**	**407 321**
Liabilities					
Deposits by banks	26 782	(2 175)	24 607	–	24 607
Derivative financial instruments	23 813	(7 906)	15 907	(4 837)	11 070
Other trading liabilities	2 305	–	2 305	–	2 305
Repurchase agreements and cash collateral on securities lent	8 395	–	8 395	(5 105)	3 290
Customer accounts (deposits)	323 850	(1 957)	321 893	–	321 893
Debt securities in issue	3 473	–	3 473	–	3 473
Liabilities arising on securitisation of own originated loans and advances	1 551	–	1 551	–	1 551
Other liabilities	6 844	–	6 844	–	6 844
Subordinated liabilities	13 374	–	13 374	–	13 374
	410 387	**(12 038)**	**398 349**	**(9 942)**	**388 407**

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	
50. Offsetting *(continued)*					
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
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**

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	
50. Offsetting *(continued)*					
2018					
Company					
Assets					
Cash and balances at central banks	8 989	–	8 989	–	8 989
Loans and advances to banks	16 435	(4 578)	11 857	–	11 857
Non-sovereign and non-bank cash placements	9 993	–	9 993	–	9 993
Reverse repurchase agreements and cash collateral on securities borrowed	19 886	–	19 886	–	19 886
Sovereign debt securities	62 403	–	62 403	(5 239)	57 164
Bank debt securities	6 421	–	6 421	(942)	5 479
Other debt securities	9 984	–	9 984	(855)	9 129
Derivative financial instruments	17 898	(5 503)	12 395	(4 837)	7 558
Securities arising from trading activities	875	–	875	(94)	781
Investment portfolio	7 647	–	7 647	–	7 647
Loans and advances to customers	236 103	(1 957)	234 146	–	234 146
Other loans and advances	278	–	278	–	278
Other assets	3 307	–	3 307	–	3 307
	400 219	**(12 038)**	**388 181**	**(11 967)**	**376 214**
Liabilities					
Deposits by banks	26 782	(2 175)	24 607	–	24 607
Derivative financial instruments	23 813	(7 906)	15 907	(4 837)	11 070
Other trading liabilities	2 305	–	2 305	–	2 305
Repurchase agreements and cash collateral on securities lent	7 187	–	7 187	(6 312)	875
Customer accounts (deposits)	313 064	(1 957)	311 107	–	311 107
Debt securities in issue	2 443	–	2 443	–	2 443
Other liabilities	6 405	–	6 405	–	6 405
Subordinated liabilities	13 374	–	13 374	–	13 374
	395 373	**(12 038)**	**383 335**	**(11 149)**	**372 186**

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	
50. 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
Other loans and advances	318	–	318	–	318
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
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**

51. 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.

	2018		2017	
R'million	Carrying amount of assets that continue to be recognised	Carrying amount of associated liabilities	Carrying amount of assets that continue to be recognised	Carrying amount of associated liabilities
Company				
No derecognition achieved				
Loans and advances to customers	6 830	6 830	7 776	7 776
	6 830	**6 830**	**7 776**	**7 776**

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 2018 and 31 March 2017. For additional information refer to page 53 in risk management report.

For transfer of assets in relation to repurchase agreements see note 45.

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